

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

ELECTRONIC APPLICATION OF KENTUCKY)	
POWER COMPANY FOR APPROVAL OF)	CASE NO.
AFFILIATE AGREEMENTS RELATED TO THE)	2021-00421
MITCHELL GENERATING STATION)	

NOTICE OF FILING

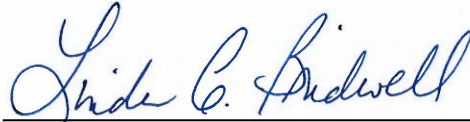
Notice is given to all parties that the following materials have been filed into the record of this proceeding:

- The digital video recording of the evidentiary hearing conducted on March 1, 2022 in this proceeding;
- Certification of the accuracy and correctness of the digital video recording;
- All exhibits introduced at the evidentiary hearing conducted on March 1, 2022 in this proceeding;
- A written log listing, inter alia, the date and time of where each witness' testimony begins and ends on the digital video recording of the evidentiary hearing conducted on March 1, 2022.

A copy of this Notice, the certification of the digital video record, and hearing log have been served upon all persons listed at the end of this Notice. Parties desiring to view the digital video recording of the hearing may do so at <https://youtu.be/7AWJOpuyjXA>.

Parties wishing an annotated digital video recording may submit a written request by electronic mail to pscfilings@ky.gov. A minimal fee will be assessed for a copy of this recording.

Done at Frankfort, Kentucky, this 28th day of March 2022.



Linda C. Bridwell
Executive Director
Public Service Commission of Kentucky

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

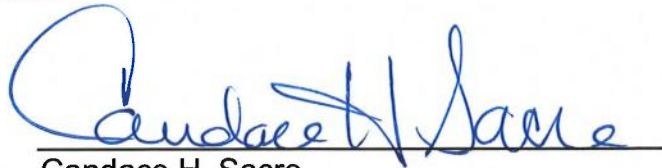
ELECTRONIC APPLICATION OF KENTUCKY)	
POWER COMPANY FOR APPROVAL OF)	CASE NO.
AFFILIATE AGREEMENTS RELATED TO THE)	2021-00421
MITCHELL GENERATING STATION)	

CERTIFICATION

I, Candace H. Sacre, hereby certify that:

1. The attached flash drive contains a digital recording of the Formal Hearing conducted in the above-styled proceeding on March 1, 2022. The Formal Hearing Log, Exhibits, and Exhibit List are included with the recording on March 1, 2022;
2. I am responsible for the preparation of the digital recording;
3. The digital recording accurately and correctly depicts the Formal Hearing of March 1, 2022; and
4. The Formal Hearing Log attached to this Certificate accurately and correctly states the events that occurred at the Formal Hearing of March 1, 2022, and the time at which each occurred.

Signed this 25th day of March, 2022.



Candace H. Sacre
Administrative Specialist III



Stephanie Schweighardt
Notary Public State at Large
Commission Expires: January 14, 2023
ID# 614400



Date:	Type:	Location:	Department:
3/1/2022	Public Hearing\Public Comments	Hearing Room 1	Hearing Room 1 (HR 1)

Witness: Jason Cash; Stephan Haynes; Allyson Keaton; Timothy Kerns; Lane Kollen; Brett Mattison; Alex Vaughan; Brian K. West
 Judge: Kent Chandler; Amy Cubbage
 Clerk: Candace Sacre

Event Time	Log Event	
9:20:27 AM	Session Started	
9:20:37 AM	Chairman Chandler Note: Sacre, Candace	Good morning. We are on the record in Case No. 2021-00421, Electronic Application of Kentucky Power Company for Approval of Affiliate Agreements Related to the Mitchell Generating Station.
9:20:47 AM	Chairman Chandler Note: Sacre, Candace	My name is Kent Chandler. I am Chairman of the Kentucky Public Service Commission, and I will be presiding today.
9:20:50 AM	Chairman Chandler Note: Sacre, Candace	With me today is Vice Chair Amy Cubbage.
9:20:54 AM	Chairman Chandler Note: Sacre, Candace	COVID and videoconferencing recommendations. (Click on link for further comments.)
9:21:24 AM	Chairman Chandler Note: Sacre, Candace	The hearing today is for the purpose of taking evidence on the proposed Mitchell Ownership Agreement and Mitchell Operating and Maintenance Agreement.
9:21:31 AM	Chairman Chandler Note: Sacre, Candace	Entry of appearance of counsel.
9:21:35 AM	Atty Glass Kentucky Power Note: Sacre, Candace	Katie Glass and Mark Overstreet, also Christen Blend, Hector Garcia Santana, and John Crespo.
9:22:09 AM	Asst Atty General West Note: Sacre, Candace	Mike West, John Horne present as well, have Larry Cook on virtually; witness Lane Kollen is present as well.
9:22:20 AM	Atty Kurtz KIUC Note: Sacre, Candace	Mike Kurtz and Jody Kyler Cohn.
9:22:31 AM	Gen Counsel Vinsel PSC Note: Sacre, Candace	Nancy Vinsel, with me today John Rogness and Mary Whitaker.
9:22:39 AM	Chairman Chandler Note: Sacre, Candace	Public notice. (Click on link for further comments.)
9:22:58 AM	Chairman Chandler Note: Sacre, Candace	Outstanding petitions, any other motions outstanding? (Click on link for further comments.)
9:23:10 AM	Chairman Chandler Note: Sacre, Candace	Anything take up before we begin?
9:23:19 AM	Atty Glass Kentucky Power Note: Sacre, Candace	Kentucky Power filed Supplemental Response KPSC 2-3 along with a supplemental spreadsheet correcting error. (Click on link for further comments.)

9:23:47 AM	Chairman Chandler Note: Sacre, Candace	Public comments. (Click on link for further comments.)
9:24:55 AM	Chairman Chandler Note: Sacre, Candace	First witness?
9:25:00 AM	Atty Glass Kentucky Power Note: Sacre, Candace	Timothy C. Kerns.
9:25:17 AM	Chairman Chandler Note: Sacre, Candace	Witness is sworn.
9:25:24 AM	Chairman Chandler - witness Kerns Note: Sacre, Candace	Examination. Name and address?
9:25:38 AM	Atty Glass Kentucky Power - witness Kerns Note: Sacre, Candace	Direct Examination. Employer?
9:25:50 AM	Atty Glass Kentucky Power - witness Kerns Note: Sacre, Candace	Position?
9:25:59 AM	Atty Glass Kentucky Power - witness Kerns Note: Sacre, Candace	Cause to be filed testimony and responses?
9:26:06 AM	Atty Glass Kentucky Power - witness Kerns Note: Sacre, Candace	Changes or updates?
9:26:39 AM	Atty Glass Kentucky Power - witness Kerns Note: Sacre, Candace	Other changes or updates?
9:26:43 AM	Atty Glass Kentucky Power - witness Kerns Note: Sacre, Candace	Same questions, same answers?
9:26:57 AM	Chairman Chandler Note: Sacre, Candace	Did, understand no objection to amended process of cross examination? (Click on link for further comments.)
9:27:22 AM	Gen Counsel Vinsel PSC - witness Kerns Note: Sacre, Candace	Cross Examination. Response provided list of permits transferred from Kentucky Power to Wheeling Power, any permits transferred to Wheeling Power yet?
9:28:02 AM	Gen Counsel Vinsel PSC Note: Sacre, Candace	Passing out Response, Commission First, Item 8, introduce as Staff Exhibit 1.
9:29:02 AM	Gen Counsel Vinsel PSC - witness Kerns Note: Sacre, Candace	ELG upgrade capital expenditures, read through Response and let know when done?
9:29:30 AM	Gen Counsel Vinsel PSC - witness Kerns Note: Sacre, Candace	Last sentence, reading (click on link for further comments), expand upon that explain what mean there?
9:30:31 AM	Gen Counsel Vinsel PSC - witness Kerns Note: Sacre, Candace	July 15, 2021, Order 2021-00004, Commission declined approve CPCN for ELG but did for CCR, under what circumstances Kentucky Power allocated ELG upgrade O&M costs?
9:31:16 AM	Gen Counsel Vinsel PSC - witness Kerns Note: Sacre, Candace	Not for any capital expense or any O&M expense?
9:31:33 AM	Chairman Chandler Note: Sacre, Candace	Questions?
9:31:39 AM	Atty Kurtz KIUC - witness Kerns Note: Sacre, Candace	Cross Examination. In charge of Mitchell generating unit, maintenance and running of plant?
9:31:54 AM	Atty Kurtz KIUC - witness Kerns Note: Sacre, Candace	Generally familiar with alternative buyout proposal where Wheeling take one Mitchell unit and Kentucky Power take other unit?
9:32:20 AM	Atty Kurtz KIUC - witness Kerns Note: Sacre, Candace	Look at exhibit, aware every year, company files Mitchell report with Commission about prior year's operation?

9:32:44 AM	Chairman Chandler Note: Sacre, Candace	Choice on this, difference between intervening and participating jointly verse jointly sponsoring single witness' testimony. (Click on link for further comments.)
9:33:15 AM	Chairman Chandler Note: Sacre, Candace	Mark as KIUC Hearing Exhibit 1.
9:34:02 AM	Atty Kurtz KIUC Note: Sacre, Candace	This be marked as KIUC Hearing Exhibit 1.
9:34:07 AM	Atty Kurtz KIUC - witness Kerns Note: Sacre, Candace	Recognize as part of package company files with Commission?
9:34:47 AM	Atty Kurtz KIUC - witness Kerns Note: Sacre, Candace	Forced outage rate, percent of hours/month/year unit not able to operate because of unplanned forced outage?
9:35:17 AM	Atty Kurtz KIUC - witness Kerns Note: Sacre, Candace	As opposed to planned outage or maintenance which is planned?
9:35:25 AM	Atty Kurtz KIUC - witness Kerns Note: Sacre, Candace	The second column, equivalent forced outage rate, derivative of forced outage rate?
9:35:34 AM	Atty Kurtz KIUC - witness Kerns Note: Sacre, Candace	Equivalent availability factor is percent of hours of month or year unit available?
9:35:43 AM	Atty Kurtz KIUC - witness Kerns Note: Sacre, Candace	Net capacity factor actual percent hours of year produced electricity?
9:36:01 AM	Atty Kurtz KIUC - witness Kerns Note: Sacre, Candace	Heat rate is efficiency at which unit converts coal to electricity?
9:36:11 AM	Atty Kurtz KIUC - witness Kerns Note: Sacre, Candace	Lower the better?
9:36:13 AM	Atty Kurtz KIUC - witness Kerns Note: Sacre, Candace	Top of document, Mitchell 1, Jan through Dec totals, forced out 43.9 percent hours per year 2021?
9:36:38 AM	Atty Kurtz KIUC - witness Kerns Note: Sacre, Candace	Unit 2 forced outage rate 6.91 percent 2021?
9:36:52 AM	Atty Kurtz KIUC - witness Kerns Note: Sacre, Candace	Fair say Unit 2 more reliable 2021 than Unit 1?
9:37:50 AM	Atty Glass Kentucky Power Note: Sacre, Candace	Not seeing identifying information on first sheet? (Click on link for further comments.)
9:38:27 AM	Atty Kurtz KIUC - witness Kerns Note: Sacre, Candace	For 2021 Unit 1 forced out 43.9 percent of hours of year versus Unit 2 6.91 percent?
9:38:42 AM	Atty Kurtz KIUC - witness Kerns Note: Sacre, Candace	Capacity factor for Unit 1 26.39 percent versus 43.19 percent for Unit 2?
9:38:55 AM	Atty Kurtz KIUC - witness Kerns Note: Sacre, Candace	Unit 2 better heat rate in 2021, meaning more efficient?
9:39:08 AM	Atty Kurtz KIUC - witness Kerns Note: Sacre, Candace	2020 data, Mitchell 1 had 16.66 percent forced outage rate versus 9.89 percent for Unit 2?
9:39:28 AM	Atty Kurtz KIUC - witness Kerns Note: Sacre, Candace	Capacity factor for Unit 1 was 22.43 percent versus 30.2 percent Unit 2?
9:39:40 AM	Atty Kurtz KIUC - witness Kerns Note: Sacre, Candace	Heat rate in 2020 Unit 2 better than Unit 1?
9:39:53 AM	Atty Kurtz KIUC - witness Kerns Note: Sacre, Candace	2019 data, forced outage Unit 1 12.14 percent?

9:40:06 AM	Atty Kurtz KIUC - witness Kerns Note: Sacre, Candace	Unit 2 2.81 percent forced outage rate which means forced out very few hours in 2019?
9:40:22 AM	Atty Kurtz KIUC - witness Kerns Note: Sacre, Candace	Capacity factor close in 2019, see the heat rate in February for Unit 1, how could heat rate be 5,235?
9:41:38 AM	Atty Kurtz KIUC - witness Kerns Note: Sacre, Candace	Heat rate for Unit 1 2019 better than Unit 2, 9700 versus 10,176?
9:41:55 AM	Atty Kurtz KIUC - witness Kerns Note: Sacre, Candace	2018, forced outage rate Unit 1 three times higher than Unit 2?
9:42:09 AM	Atty Kurtz KIUC - witness Kerns Note: Sacre, Candace	Capacity factor Unit 1 slightly worse than Unit 2?
9:42:16 AM	Atty Kurtz KIUC - witness Kerns Note: Sacre, Candace	Heat rates equivalent in 2018?
9:42:25 AM	Atty Kurtz KIUC - witness Kerns Note: Sacre, Candace	Final page, forced outage rate 2017 Unit 1 23.85 percent?
9:42:37 AM	Atty Kurtz KIUC - witness Kerns Note: Sacre, Candace	Unit 2 1.96 percent?
9:42:41 AM	Atty Kurtz KIUC - witness Kerns Note: Sacre, Candace	Fairly considerable difference?
9:43:11 AM	Atty Kurtz KIUC - witness Kerns Note: Sacre, Candace	PJM capacity performance event one of units down subject to capacity performance penalties?
9:43:35 AM	Atty Kurtz KIUC - witness Kerns Note: Sacre, Candace	Agree most recent five years forced outage rate Unit 1 consistently higher than Unit 2?
9:43:56 AM	Atty Kurtz KIUC - witness Kerns Note: Sacre, Candace	If unit is forced out quite often versus unit forced out rarely, higher maintenance cost unit forced out?
9:44:39 AM	Atty Kurtz KIUC - witness Kerns Note: Sacre, Candace	If choosing, which of these Mitchell units, which one would you choose?
9:45:57 AM	Atty Kurtz KIUC - witness Kerns Note: Sacre, Candace	Why heat rate on Unit 2 consistently better than Unit 1?
9:46:50 AM	Atty Kurtz KIUC - witness Kerns Note: Sacre, Candace	Riskier have all eggs in one basket, one unit versus diversified portfolio, exposure higher than multiple units?
9:47:47 AM	Chairman Chandler Note: Sacre, Candace	Questions?
9:47:53 AM	Vice Chairman Cabbage - witness Kerns Note: Sacre, Candace	Examination. CCR rates commenced on both units?
9:48:13 AM	Vice Chairman Cabbage - witness Kerns Note: Sacre, Candace	Would support both units?
9:48:31 AM	Vice Chairman Cabbage - witness Kerns Note: Sacre, Candace	Same for ELG?
9:48:48 AM	Chairman Chandler - witness Kerns Note: Sacre, Candace	Examination. How many generators you oversee?
9:49:07 AM	Chairman Chandler - witness Kerns Note: Sacre, Candace	Rockport, both?
9:49:14 AM	Chairman Chandler - witness Kerns Note: Sacre, Candace	Big Sandy 1?
9:49:17 AM	Chairman Chandler - witness Kerns Note: Sacre, Candace	Mitchell 1 and 2?

9:49:19 AM	Chairman Chandler - witness Kerns Note: Sacre, Candace	Oversee other units owned by other affiliates of AEPSC?
9:49:30 AM	Chairman Chandler - witness Kerns Note: Sacre, Candace	Thermal units, Rockport 1 and 2, Mitchell 1 and 2, and Big Sandy 2 it?
9:49:40 AM	Chairman Chandler - witness Kerns Note: Sacre, Candace	Previously supervision over Big Sandy 2?
9:49:48 AM	Chairman Chandler - witness Kerns Note: Sacre, Candace	Any have equivalent forced outage rates as Mitchell Unit 1?
9:50:15 AM	Chairman Chandler - witness Kerns Note: Sacre, Candace	Last couple years, last few years, forced outage rates in neighborhood of Mitchell 1?
9:50:38 AM	Chairman Chandler - witness Kerns Note: Sacre, Candace	Equivalent forced outage rate synonymous with E-4D, technical term?
9:51:04 AM	Chairman Chandler - witness Kerns Note: Sacre, Candace	Kurtz asking performance assessment intervals and penalty, not your wheelhouse, UCAP is?
9:51:21 AM	Chairman Chandler - witness Kerns Note: Sacre, Candace	When AEP coming up with FRR plan, amount of capacity on UCAP basis for PJM purposes?
9:51:34 AM	Chairman Chandler - witness Kerns Note: Sacre, Candace	If more generation than Kentucky Power ability to monetize that generation in excess what needed FRR plan?
9:51:55 AM	Chairman Chandler - witness Kerns Note: Sacre, Candace	Higher forced outage rate, higher E-4D be, lower UCAP calculation is?
9:52:08 AM	Chairman Chandler Note: Sacre, Candace	Redirect?
9:52:12 AM	Chairman Chandler Note: Sacre, Candace	Witness excused.
9:52:18 AM	Gen Counsel Vinsel PSC Note: Sacre, Candace	Move into record Staff Hearing Exhibit 1.
9:52:23 AM	Chairman Chandler Note: Sacre, Candace	Objection?
9:52:24 AM	STAFF HEARING EXHIBIT 1 Note: Sacre, Candace Note: Sacre, Candace	GEN COUNSEL VINSEL PSC - WITNESS KERNS WITNESS KERNS RESPONSE STAFF FIRST ITEM 8 DECEMBER 9 2021
9:52:30 AM	Atty Kurtz KIUC Note: Sacre, Candace	Move for admission KIUC Hearing Exhibit 1.
9:52:35 AM	Chairman Chandler Note: Sacre, Candace	Objection?
9:52:36 AM	KIUC HEARING EXHIBIT 1 Note: Sacre, Candace Note: Sacre, Candace	ATTY KURTZ KIUC - WITNESS KERNS MITCHELL GENERATING PLANT PERFORMANCE DATA 2017-2021
9:52:45 AM	Chairman Chandler Note: Sacre, Candace	Next witness?
9:52:48 AM	Atty Glass Kentucky Power Note: Sacre, Candace	Brett Mattison.
9:53:20 AM	Chairman Chandler Note: Sacre, Candace	Witness is sworn.
9:53:28 AM	Chairman Chandler - witness Mattison Note: Sacre, Candace	Examination. Name and address?

9:54:04 AM Atty Blend Kentucky Power - witness Mattison
Note: Sacre, Candace Direct Examination. By whom employed, what position?

9:54:13 AM Atty Blend Kentucky Power - witness Mattison
Note: Sacre, Candace Cause direct testimony and responses filed?

9:54:20 AM Atty Blend Kentucky Power - witness Mattison
Note: Sacre, Candace Changes or corrections?

9:54:26 AM Atty Blend Kentucky Power - witness Mattison
Note: Sacre, Candace Same questions, same answers?

9:54:40 AM Gen Counsel Vinsel PSC - witness Mattison
Note: Sacre, Candace Cross Examination. Copy of proposed ownership agreement?

9:54:58 AM Gen Counsel Vinsel PSC - witness Mattison
Note: Sacre, Candace For reference, filed as Exhibit 3 to direct?

9:55:13 AM Gen Counsel Vinsel PSC - witness Mattison
Note: Sacre, Candace Article 9.6B, page 18 of 34, Exhibit 3, appraisal process, appraisers been determined or appointed?

9:56:08 AM Gen Counsel Vinsel PSC - witness Mattison
Note: Sacre, Candace Last sentence, read to yourself, let me know when there?

9:56:38 AM Gen Counsel Vinsel PSC - witness Mattison
Note: Sacre, Candace Reading (click on link for further comments), it appears the outlier appraisal if exist excluded only if higher than?

9:57:40 AM Gen Counsel Vinsel PSC - witness Mattison
Note: Sacre, Candace Intent that outlier higher than or lower than by twice the amount?

9:57:50 AM Gen Counsel Vinsel PSC - witness Mattison
Note: Sacre, Candace Agree language be revised to reflect higher or lower?

9:58:26 AM Gen Counsel Vinsel PSC - witness Mattison
Note: Sacre, Candace Article 9.6C, decommissioning costs, similar language seems to imply only higher outlier excluded, confirm intent here was be higher or lower?

9:59:17 AM Gen Counsel Vinsel PSC - witness Mattison
Note: Sacre, Candace Article 12.2, proposed ownership agreement, addresses dispute resolution, submitted to senior executive officers with authority to resolve, confirm Mitchell Operating Committee three members, president Kentucky Power, president Wheeling Power, and Kerns nonvoting member representing AEPSC?

10:00:28 AM Gen Counsel Vinsel PSC - witness Mattison
Note: Sacre, Candace In one of data responses, Kentucky Power was asked who senior executives were, recall answer turned over to you and president of Wheeling, if dispute is the dispute submitted to president Kentucky Power and president of Wheeling?

10:01:08 AM Gen Counsel Vinsel PSC - witness Mattison
Note: Sacre, Candace If operating committee members have dispute cannot resolve, turned over to senior executives, who are those senior executives?

10:01:43 AM Gen Counsel Vinsel PSC - witness Mattison
Note: Sacre, Candace Of Kentucky Power?

10:01:51 AM Gen Counsel Vinsel PSC - witness Mattison
Note: Sacre, Candace Unclear who officers might be, as someone who participated in negotiating agreement, who did you envision senior executives be?

10:02:43 AM Gen Counsel Vinsel PSC - witness Mattison
Note: Sacre, Candace Dispute resolution between operating committee?

10:03:16 AM Gen Counsel Vinsel PSC - witness Mattison
Note: Sacre, Candace In response to AG/KIUC First, Item 19, sponsored, discussed using fair market value for buyout price, created neutral benchmark to establish valuation, any consideration given to putting Kentucky Power interest in Mitchell up for sale and allowing Wheeling and other buyers put in bid?

10:05:08 AM	Gen Counsel Vinsel PSC - witness Note: Sacre, Candace	Mattison Does valuation process for buyout price give credit to Kentucky Power for share of CCR compliance project approved in 2021-00004?
10:05:47 AM	Gen Counsel Vinsel PSC - witness Note: Sacre, Candace	Mattison Response indicate could be negative valuation for CCR, recall that?
10:06:16 AM	Gen Counsel Vinsel PSC - witness Note: Sacre, Candace	Mattison Decommissioning costs, at time of sale, what actions Wheeling take to fund its share of costs?
10:07:07 AM	Gen Counsel Vinsel PSC - witness Note: Sacre, Candace	Mattison Agree as defined in ownership agreement CapEx includes ELG costs as adjustment?
10:07:43 AM	Gen Counsel Vinsel PSC - witness Note: Sacre, Candace	Mattison Response, Staff First, Item 16, filed Dec 22 2021, KPCO 1-16, Attachment 1, have access, Excel file?
10:09:19 AM	Gen Counsel Vinsel PSC - witness Note: Sacre, Candace	Mattison In Excel file, part of data response sponsored, includes account for ELG compliance between Kentucky Power and Wheeling Power, two tables, column A, row 3, column B, MLUO ELG compliance, when look at Row 10, Column H, total of ELG compliance allocated to Kentucky Power \$1.458 million, see that?
10:12:06 AM	Gen Counsel Vinsel PSC - witness Note: Sacre, Candace	Mattison This is on line that says Kentucky Power Company JENE Total, line where \$1,458,283.36, tell us what ELG costs for?
10:13:16 AM	Gen Counsel Vinsel PSC - witness Note: Sacre, Candace	Mattison Costs continue be allocated to Kentucky Power through Nov 2021, Kentucky Power continue be allocated costs for ELG project?
10:13:47 AM	Gen Counsel Vinsel PSC - witness Note: Sacre, Candace	Mattison Any witnesses describe what costs consist of?
10:14:18 AM	Gen Counsel Vinsel PSC Note: Sacre, Candace	Permissible recall Kerns to get answer? (Click on link for further comments.)
10:14:47 AM	Gen Counsel Vinsel PSC - witness Note: Sacre, Candace	Mattison Issuing post-hearing data request, written after hearing, AEPSC Mitchell specific costs allocated to Kentucky Power no longer be allocated if Commission approves Liberty Utilities request to acquire Kentucky Power. (Click on link for further comments.)
10:14:48 AM	POST-HEARING DATA REQUEST Note: Sacre, Candace	AEPSC MITCHELL SPECIFIC COSTS ALLOCATED TO KENTUCKY POWER THAT NO LONGER BE ALLOCATED IF COMMISSION APPROVES LIBERTY UTILITIES REQUEST
	Note: Sacre, Candace	GEN COUNSEL VINSEL PSC - WITNESS MATTISON
10:15:45 AM	Chairman Chandler Note: Sacre, Candace	Questions?
10:16:08 AM	Asst Atty General West - witness Note: Sacre, Candace	Mattison Cross Examination. Have testimony available?
10:16:19 AM	Asst Atty General West - witness Note: Sacre, Candace	Mattison Turn to page 8, excerpt portion of Order from Oct 8 2021?
10:16:30 AM	Asst Atty General West - witness Note: Sacre, Candace	Mattison Read for us?
10:17:15 AM	Asst Atty General West - witness Note: Sacre, Candace	Mattison Identify anywhere Commission required Kentucky Power create ownership agreement?

10:17:43 AM	Asst Atty General West - witness Mattison Note: Sacre, Candace	Talking about ownership agreement governs how Kentucky Power interest in Mitchell transferred, any requirement Kentucky Power make amendment to that effect?
10:18:07 AM	Asst Atty General West - witness Mattison Note: Sacre, Candace	Explain how inherent to you?
10:18:41 AM	Asst Atty General West - witness Mattison Note: Sacre, Candace	Inference on the part of Kentucky Power as opposed to explicit statement in Order?
10:18:54 AM	Asst Atty General West - witness Mattison Note: Sacre, Candace	Where is specific statement?
10:18:59 AM	Asst Atty General West - witness Mattison Note: Sacre, Candace	Somewhere else in order from Oct 8th?
10:19:04 AM	Asst Atty General West - witness Mattison Note: Sacre, Candace	In a different order?
10:19:06 AM	Asst Atty General West - witness Mattison Note: Sacre, Candace	Where is it?
10:19:11 AM	Asst Atty General West - witness Mattison Note: Sacre, Candace	Thought you said expressed somewhere?
10:19:20 AM	Asst Atty General West - witness Mattison Note: Sacre, Candace	AEP requested approval Kentucky Power be transferred to Liberty in 2021-00481?
10:19:32 AM	Asst Atty General West - witness Mattison Note: Sacre, Candace	Given proposed transfer, what incentive AEP have ensure Kentucky Power treated fairly by operation of proposed agreements?
10:20:29 AM	Asst Atty General West - witness Mattison Note: Sacre, Candace	Reasonable assume AEP have greater incentive protect long-term health of company plans own long term to detriment of financial health of company not plan to own long term?
10:20:50 AM	Asst Atty General West - witness Mattison Note: Sacre, Candace	To do that, meaning to do what?
10:21:01 AM	Asst Atty General West - witness Mattison Note: Sacre, Candace	On behalf of Wheeling or on behalf of Kentucky Power?
10:21:24 AM	Asst Atty General West - witness Mattison Note: Sacre, Candace	Reasonable assume AEP shareholder prefer prioritize asset plans to hold on to over one plans to transfer?
10:22:11 AM	Asst Atty General West - witness Mattison Note: Sacre, Candace	Given bargaining power of Kentucky Power and Wheeling Power unequal in AEP system, why Commission approve any request on behalf AEP through Kentucky Power approve/reject proposed agreements?
10:22:32 AM	Asst Atty General West - witness Mattison Note: Sacre, Candace	Explain reasoning?
10:22:46 AM	Asst Atty General West - witness Mattison Note: Sacre, Candace	Under proposed transfer, not be the case next year if transfer approved?
10:22:58 AM	Asst Atty General West - witness Mattison Note: Sacre, Candace	In what way disagree?
10:23:15 AM	Vice Chairman Cabbage - witness Mattison Note: Sacre, Candace	Examination. Step back, explain how two agreements being asked to approve how came to be, how negotiated?
10:24:00 AM	Vice Chairman Cabbage - witness Mattison Note: Sacre, Candace	Who mean by we?
10:25:07 AM	Vice Chairman Cabbage - witness Mattison Note: Sacre, Candace	Fair to say, three of you principal architects of terms in front of us?

10:25:21 AM	Vice Chairman Cabbage - witness Mattison Note: Sacre, Candace	Who else involved?
10:25:44 AM	Vice Chairman Cabbage - witness Mattison Note: Sacre, Candace	Where did sale provision come from?
10:26:37 AM	Vice Chairman Cabbage - witness Mattison Note: Sacre, Candace	Did committee consider other ways to handle that, let be decided in future?
10:27:10 AM	Vice Chairman Cabbage - witness Mattison Note: Sacre, Candace	That is viable, not necessary component of transaction?
10:27:17 AM	Vice Chairman Cabbage - witness Mattison Note: Sacre, Candace	Transfer Kentucky Power to Wheeling?
10:27:28 AM	Vice Chairman Cabbage - witness Mattison Note: Sacre, Candace	Buyout provision not vital to documents?
10:27:57 AM	Vice Chairman Cabbage - witness Mattison Note: Sacre, Candace	Since bring up Liberty, discussion about involvement in documents, what has been Liberty involvement?
10:28:40 AM	Chairman Chandler Note: Sacre, Candace	Recess.
10:28:52 AM	Session Paused	
10:49:04 AM	Session Resumed	
10:49:08 AM	Chairman Chandler Note: Sacre, Candace	Mr. Overstreet?
10:49:10 AM	Atty Overstreet Kentucky Power Note: Sacre, Candace	Attachment to data request 1-16, Kerns not have that information, post-hearing data request. (Click on link for further comments.)
10:49:54 AM	Camera Lock Deactivated	
10:50:07 AM	COMMENT BY MR. MATTISON Note: Sacre, Candace	Comment by Mr. Mattison. (Click on link for further comments.)
10:51:10 AM	Vice Chairman Cabbage - witness Mattison Note: Sacre, Candace	Examination. Could not capital investments be negotiated like now under current agreement?
10:51:29 AM	Vice Chairman Cabbage - witness Mattison Note: Sacre, Candace	Not have to be what is in new agreement?
10:52:02 AM	Chairman Chandler - witness Mattison Note: Sacre, Candace	Examination. Asked about how changes came about, your testimony in data response how changes came about, remember responding, have your Response, Staff First, Item 1-14, Subpart L, explain Liberty Utilities any role in Mitchell Plant ownership agreement, see that?
10:53:38 AM	Chairman Chandler - witness Mattison Note: Sacre, Candace	Response, starts "between August and October 2021," very last one, subpart L, Response L begins "between August and October 2021?"
10:54:17 AM	Chairman Chandler - witness Mattison Note: Sacre, Candace	Take a second to read that, supposed to take this as operating agreement and ownership agreement negotiated between August and October 2021?
10:55:12 AM	Chairman Chandler - witness Mattison Note: Sacre, Candace	Talk about documents, discussion about need as relates to sale and Liberty and Kentucky Power and everyone involved, involvement and negotiations done between August and October 2021, new Mitchell agreements filed on November 19 2021?
10:55:48 AM	Chairman Chandler - witness Mattison Note: Sacre, Candace	Know if ownership of Mitchell was part of conversations?

10:56:06 AM	Chairman Chandler - witness Mattison Note: Sacre, Candace	What direct knowledge you have, reading (click on link for further comments), mean specific ideas new Mitchell agreement part of discussions August and October?
10:57:17 AM	Chairman Chandler - witness Mattison Note: Sacre, Candace	I will ask Haynes more detailed questions, based off your responses, direct testimony West asking about, thrown off by response, page 8 of testimony, line 5-17, response and quote from previous order?
10:58:36 AM	Chairman Chandler - witness Mattison Note: Sacre, Candace	Understood inherent takeaway also needed come up with ownership agreement?
10:59:27 AM	Chairman Chandler - witness Mattison Note: Sacre, Candace	Trying to understand, if discussions with Liberty between August and October, change in agreement inherent in October 8 order, how explain mismatch in timing?
11:00:18 AM	Chairman Chandler - witness Mattison Note: Sacre, Candace	Appreciate Haynes and detail, how did you know to provide response how know that be your response, direct knowledge of discussions between August and October or conveyed to you?
11:00:46 AM	Chairman Chandler - witness Mattison Note: Sacre, Candace	Person conveyed that to you Haynes or other witness?
11:00:55 AM	Chairman Chandler - witness Mattison Note: Sacre, Candace	Agree not language inherent from October 8 order that led companies to discuss change in ownership agreement, discussions occurred prior to decision?
11:01:18 AM	Chairman Chandler - witness Mattison Note: Sacre, Candace	Different question, his question where read specific requirement, aware discussions or drafting around creation/need for ownership agreement before Commission Oct 8 order?
11:01:53 AM	Chairman Chandler - witness Mattison Note: Sacre, Candace	Something had to be done, difference changing operating agreement and creation of ownership agreement, have direct knowledge discussions creating ownership agreement prior to October 8 order?
11:02:27 AM	Chairman Chandler - witness Mattison Note: Sacre, Candace	Before Commission October 8 Order unaware of discussions regarding ownership agreement ownership of Mitchell post-December 31 2028?
11:03:02 AM	Chairman Chandler - witness Mattison Note: Sacre, Candace	Direct Kentucky Power negotiate and enter into ownership agreement?
11:03:17 AM	Chairman Chandler - witness Mattison Note: Sacre, Candace	Made aware of it, ownership agreement for asset Kentucky Power owns 50 percent interest, did you not direct somebody at Kentucky Power to draft ownership agreement?
11:03:52 AM	Chairman Chandler - witness Mattison Note: Sacre, Candace	Haynes not work for Kentucky Power?
11:03:57 AM	Chairman Chandler - witness Mattison Note: Sacre, Candace	You work for Kentucky Power?
11:04:01 AM	Chairman Chandler - witness Mattison Note: Sacre, Candace	Given ownership agreement to review before directed anybody do it, draft it or negotiate agreement on Kentucky Power behalf?
11:04:20 AM	Chairman Chandler - witness Mattison Note: Sacre, Candace	Done at your request?

11:04:39 AM	Chairman Chandler - witness Mattison Note: Sacre, Candace	Beyond Liberty, asking if Kentucky Power entered into/intends to enter into and has drafted for Commission review an ownership agreement regarding Mitchell, initiate impetus for, was that at your direction or provided that by AEPSC?
11:05:31 AM	Chairman Chandler - witness Mattison Note: Sacre, Candace	Minutes of operating committee, minutes kept of meetings?
11:05:45 AM	Chairman Chandler - witness Mattison Note: Sacre, Candace	Ask post-hearing data request copy of operating committee minutes?
11:05:46 AM	POST-HEARING DATA REQUEST Note: Sacre, Candace Note: Sacre, Candace	PROVIDE COPIES OF OPERATING COMMITTEE MINUTES CHAIRMAN CHANDLER - WITNESS MATTISON
11:05:52 AM	Chairman Chandler - witness Mattison Note: Sacre, Candace	Who on behalf Kentucky Power worked to create ownership agreement?
11:06:06 AM	Chairman Chandler - witness Mattison Note: Sacre, Candace	Any other employees or counsel involved?
11:06:56 AM	Chairman Chandler - witness Mattison Note: Sacre, Candace	Your understanding rates have today recover return of and return on net book value of Kentucky Power interest in Mitchell?
11:07:14 AM	Chairman Chandler - witness Mattison Note: Sacre, Candace	Aware of depreciable assets recover return on/of those assets fair market value?
11:07:32 AM	Chairman Chandler Note: Sacre, Candace	Redirect?
11:07:42 AM	Atty Blend Kentucky Power - witness Mattison Note: Sacre, Candace	Redirect Examination. Recall discussion page 8 and Commission order 2021-00371 entered Oct 8 2021?
11:08:01 AM	Atty Blend Kentucky Power - witness Mattison Note: Sacre, Candace	Referred to having identified need to enter into or change Mitchell operating agreement after Commission ruling on ELG proposals?
11:08:28 AM	Atty Blend Kentucky Power - witness Mattison Note: Sacre, Candace	Are CCR and ELG case different case than investigation case?
11:08:37 AM	Atty Blend Kentucky Power - witness Mattison Note: Sacre, Candace	Case No. 2021-00004?
11:08:46 AM	Atty Blend Kentucky Power - witness Mattison Note: Sacre, Candace	Recall Commission issued order in 2021-00004 before or after issuing Oct 8 2021 order in investigation?
11:09:11 AM	Atty Blend Kentucky Power - witness Mattison Note: Sacre, Candace	Represent it was in fact July 15 2021 as recall, become aware need change agreements between when July 15 order entered and October 8 order entered or after Oct 8 order?
11:09:47 AM	Atty Blend Kentucky Power - witness Mattison Note: Sacre, Candace	Vinsel asked about operating committee members, recall?
11:09:58 AM	Atty Blend Kentucky Power - witness Mattison Note: Sacre, Candace	Testified members are president of Kentucky Power or delegate, president of Wheeling Power or delegate, and Kerns on behalf of AEPSC?
11:10:10 AM	Atty Blend Kentucky Power - witness Mattison Note: Sacre, Candace	Is operating committee composition same in proposed ownership agreement included as Exhibit DBM-3 to direct?

11:10:38 AM	Chairman Chandler - witness Mattison Note: Sacre, Candace	Examination. I can appreciate known need to amend operating agreement, even West Virginia Commission orders in relation to CPCN talked about operating agreement, your understanding?
11:11:09 AM	Chairman Chandler - witness Mattison Note: Sacre, Candace	Still have testimony up?
11:11:20 AM	Chairman Chandler - witness Mattison Note: Sacre, Candace	Page 6, why company replace current Mitchell agreement to new agreements, provide response, line 13, describe Kentucky and West Virginia proceedings led to filing, see that?
11:11:57 AM	Chairman Chandler - witness Mattison Note: Sacre, Candace	Talk about history, no issue with description cases and what different commission decisions are, lines 3-6 talk about West Virginia PSC authorizing CCR and ELG page 7, (click on link for further comments), see that?
11:12:46 AM	Chairman Chandler - witness Mattison Note: Sacre, Candace	Next part quotes West Virginia Commission order specifically notes changes in operating agreement necessary, see that?
11:12:56 AM	Chairman Chandler - witness Mattison Note: Sacre, Candace	Next page, other Commission orders relevant, what talking to West about you read inherent in that needed to be done something around ownership, is this October 8 order when you read into it a need to change ownership portions, before Oct 8 you knew you needed to change, or before order already determined necessary change/create ownership agreement related to Mitchell?
11:14:46 AM	Chairman Chandler - witness Mattison Note: Sacre, Candace	Changes, but proposing to change operating agreement?
11:14:53 AM	Chairman Chandler - witness Mattison Note: Sacre, Candace	Not proposing to change ownership agreement because not exist currently?
11:15:03 AM	Chairman Chandler - witness Mattison Note: Sacre, Candace	When say changes, changes to operating agreement and new scheme how Kentucky Power will sell Mitchell?
11:15:21 AM	Chairman Chandler - witness Mattison Note: Sacre, Candace	Ownership agreement something Kentucky Power doing on Kentucky Power behalf for Kentucky Power customers, or have more do with Liberty transfer?
11:15:50 AM	Chairman Chandler Note: Sacre, Candace	Additional redirect?
11:15:58 AM	Chairman Chandler Note: Sacre, Candace	Witness to remain in hearing.
11:16:13 AM	Chairman Chandler Note: Sacre, Candace	Know document in record, handed Kentucky Power counsel, identify as Staff Hearing Exhibit 2?
11:16:39 AM	Gen Counsel Vinsel PSC Note: Sacre, Candace	Move entered into record.
11:16:42 AM	Chairman Chandler Note: Sacre, Candace	Objection?
11:16:43 AM	STAFF HEARING EXHIBIT 2 Note: Sacre, Candace	RESPONSE STAFF FIRST ITEM 16 FILED DEC 22 2021 KPCo 1-16 ATTACHMENT 1 EXCEL FILE GEN COUNSEL VINSEL PSC - WITNESS MATTISON
11:17:10 AM	Chairman Chandler Note: Sacre, Candace	Next witness?

11:17:14 AM	Atty Glass Kentucky Power Note: Sacre, Candace	Steve Haynes.
11:17:30 AM	Chairman Chandler Note: Sacre, Candace	Witness is sworn.
11:17:39 AM	Chairman Chandler - witness Haynes Note: Sacre, Candace	Examination. Name and address?
11:17:57 AM	Atty Crespo Kentucky Power - witness Haynes Note: Sacre, Candace	Direct Examination. Business title and address?
11:18:14 AM	Atty Crespo Kentucky Power - witness Haynes Note: Sacre, Candace	Cause testimony and rebuttal to be filed?
11:18:24 AM	Atty Crespo Kentucky Power - witness Haynes Note: Sacre, Candace	Data requests, recent correction?
11:19:12 AM	Atty Crespo Kentucky Power Note: Sacre, Candace	Corrected marked as an exhibit in this matter.
11:19:40 AM	Chairman Chandler Note: Sacre, Candace	Mark as Kentucky Power Hearing Exhibit 1.
11:19:53 AM	Atty Crespo Kentucky Power - witness Haynes Note: Sacre, Candace	Same questions, same answers?
11:20:17 AM	Gen Counsel Vinsel PSC - witness Haynes Note: Sacre, Candace	Cross Examination. Under ownership agreement, evaluation process give credit to Kentucky Power for share of CCR compliance project approved in Case No. 2021-00004?
11:21:41 AM	Gen Counsel Vinsel PSC - witness Haynes Note: Sacre, Candace	Know at time of sale what actions Wheeling take to fund its share of decommissioning costs?
11:22:00 AM	Gen Counsel Vinsel PSC - witness Haynes Note: Sacre, Candace	Under ownership agreement, decommissioning costs be developed by engineering or consultant experts in decommissioning, methodology for Kentucky Power share, what about Wheeling Power share costs determined at that time, steps taken by Wheeling to fund its portions of costs?
11:23:33 AM	Gen Counsel Vinsel PSC - witness Haynes Note: Sacre, Candace	Have copy of proposed ownership agreement, Article 14, definition for CapEx adjustment, on page 27 of 34, Exhibit DBM-3, take a moment to read definition?
11:24:26 AM	Gen Counsel Vinsel PSC - witness Haynes Note: Sacre, Candace	Agree under CapEx adjustment include ELG costs?
11:25:15 AM	Gen Counsel Vinsel PSC - witness Haynes Note: Sacre, Candace	Any amount in excess of 50 percent attributed to Wheeling Power then attributed to Kentucky Power?
11:25:49 AM	Atty Kurtz KIUC - witness Haynes Note: Sacre, Candace	Cross Examination. Fair market value defined term Article 14 proposed ownership agreement?
11:26:05 AM	Atty Kurtz KIUC - witness Haynes Note: Sacre, Candace	Transaction between willing buyer and willing seller to determine price?
11:26:26 AM	Atty Kurtz KIUC - witness Haynes Note: Sacre, Candace	Process for buyout price, Kentucky Power and Wheeling try to negotiate fair market value price beginning no later June 30 2026?
11:26:46 AM	Atty Kurtz KIUC - witness Haynes Note: Sacre, Candace	If can agree on fair market value price, has to be approved by both commissions?
11:27:04 AM	Atty Kurtz KIUC - witness Haynes Note: Sacre, Candace	If not agree or approve, mandatory three appraisal process?

11:27:31 AM	Atty Kurtz KIUC - witness Haynes Note: Sacre, Candace	If Wheeling not elect retire early, utilities have to get agreement on fair market value, two commissions have to approve, that is transfer price, if that not happen goes to mandatory appraisal process?
11:28:06 AM	Atty Kurtz KIUC - witness Haynes Note: Sacre, Candace	If goes to appraisal process, decision of three appraisers or blended cost binding on both commissions and utilities?
11:28:41 AM	Atty Kurtz KIUC - witness Haynes Note: Sacre, Candace	Says shall be binding and conclusive on owners, what role this Commission have at that point?
11:29:11 AM	Atty Kurtz KIUC - witness Haynes Note: Sacre, Candace	Under draft of ownership agreement, appraisal process binding and conclusive pricing part of FERC rate schedule?
11:29:52 AM	Atty Kurtz KIUC - witness Haynes Note: Sacre, Candace	Under doctrine of federal preemption, what role Commission have to say we not like determination, think something else be price, or have any role?
11:30:46 AM	Atty Kurtz KIUC - witness Haynes Note: Sacre, Candace	Assume in 2026 timeframe, when Kentucky Power and Wheeling negotiating fair market value before mandatory appraisal, Kentucky Power say \$32.5 million of payroll Mitchell provides to West Virginia 225 full-time jobs \$144,000 average we think that be considered Wheeling value to West Virginia be included in price?
11:31:35 AM	Atty Crespo Kentucky Power Note: Sacre, Candace	Object, not laid foundation. (Click on link for further comments.)
11:31:44 AM	Atty Kurtz KIUC Note: Sacre, Candace	Kollen testimony, page 12, CCR-ELG case data responses, number of jobs, taxes, coal.
11:32:02 AM	Chairman Chandler Note: Sacre, Candace	Continue objection?
11:32:05 AM	Atty Crespo Kentucky Power Note: Sacre, Candace	Continue objection. (Click on link for further comments.)
11:32:24 AM	Chairman Chandler Note: Sacre, Candace	Overrule.
11:32:31 AM	Atty Kurtz KIUC - witness Haynes Note: Sacre, Candace	Cross Examination (cont'd). Representing Kentucky Power, say to West Virginia need to take into account jobs/payroll in determining price, relevant factor in fair market value?
11:33:08 AM	Atty Kurtz KIUC - witness Haynes Note: Sacre, Candace	If West Virginia said not consider that, if not like take to three appraisers, three appraisers not consider jobs in West Virginia?
11:33:25 AM	Atty Kurtz KIUC - witness Haynes Note: Sacre, Candace	If say to WV, what about \$10 million state and local taxes, WV not consider that because three appraisers not consider that, WV be correct?
11:33:55 AM	Atty Kurtz KIUC - witness Haynes Note: Sacre, Candace	If said what about 1.2 million tons coal, WV supplies Mitchell?
11:34:16 AM	Atty Kurtz KIUC - witness Haynes Note: Sacre, Candace	Dedicated mine serve Mitchell with dedicated conveyor that moves it in?
11:34:31 AM	Atty Kurtz KIUC - witness Haynes Note: Sacre, Candace	If say to West Virginia what about coal and if WV said three appraisers not take into account so we are not, would be correct?

11:35:00 AM	Atty Kurtz KIUC - witness Haynes Note: Sacre, Candace	Mitchell ownership agreement condition closing of Liberty transaction?
11:35:04 AM	Atty Kurtz KIUC - witness Haynes Note: Sacre, Candace	Instrumental in Liberty negotiations, aware of that deal?
11:35:19 AM	Atty Kurtz KIUC - witness Haynes Note: Sacre, Candace	AEP receiving premium of \$625 million on equity investment from Liberty in that transaction?
11:35:39 AM	Atty Kurtz KIUC - witness Haynes Note: Sacre, Candace	Kentucky Power has a billion of equity expected mid-year 2022 when deal expected to close?
11:35:53 AM	Atty Kurtz KIUC - witness Haynes Note: Sacre, Candace	Liberty paying \$1.625 billion for that equity, indicate \$625 million premium?
11:36:14 AM	Atty Kurtz KIUC - witness Haynes Note: Sacre, Candace	If Mitchell resolution condition of Liberty closing, if Liberty closes, AEP gets equity premium?
11:36:34 AM	Atty Kurtz KIUC - witness Haynes Note: Sacre, Candace	Right now, zero sum game West Virginia and Kentucky, one gets more, one gets less?
11:36:46 AM	Atty Kurtz KIUC - witness Haynes Note: Sacre, Candace	In transfer pricing, if Kentucky pays more, West Virginia receives more?
11:37:07 AM	Atty Kurtz KIUC - witness Haynes Note: Sacre, Candace	If Wheeling pays Kentucky more, then West Virginia pays more, still zero sum game just between two jurisdictions whatever dollar amount is established?
11:37:29 AM	Atty Kurtz KIUC - witness Haynes Note: Sacre, Candace	Point is, if deal closes, Mitchell closes, and Liberty closes, AEP gets \$625 million, Mitchell between West Virginia and Kentucky, has AEP considered making shareholder contribution to get deal done?
11:37:56 AM	Atty Crespo Kentucky Power Note: Sacre, Candace	Object, not relevant to this case. (Click on link for further comments.)
11:38:30 AM	Chairman Chandler Note: Sacre, Candace	Sustain the objection. (Click on link for further comments.)
11:38:40 AM	Chairman Chandler Note: Sacre, Candace	Questions?
11:38:50 AM	Vice Chairman Cabbage - witness Haynes Note: Sacre, Candace	Examination. Exhibit 1, apportionment of costs under Article 6, or bottom part allocation of CapEx adjustment under 9.6?
11:39:45 AM	Vice Chairman Cabbage - witness Haynes Note: Sacre, Candace	Focused on what Mattison testified to, said previously 9.6 buyout be left out but needed cost allocation, talking about Article 6 allocation or saying do need part of 9.6 buyout transaction?
11:41:42 AM	Vice Chairman Cabbage - witness Haynes Note: Sacre, Candace	Not understand, if got Article 6 and 7, why CapEx adjustment be vital?
11:43:02 AM	Vice Chairman Cabbage - witness Haynes Note: Sacre, Candace	Understand why like certainty of buyout provision, 6 and 7 how be allocating until 2028 anyway, CapEx adjustment not kick in unless negotiations fail?

11:43:42 AM Vice Chairman Cabbage - witness Haynes
Note: Sacre, Candace Kurtz asking about going to default provision, if cost come back to commissions, your intent default price also come to commissions for approval?

11:44:50 AM Vice Chairman Cabbage - witness Haynes
Note: Sacre, Candace Liberty purchase Kentucky Power, 2028, still acting on behalf AEP, have no objection to buyout price coming back to Commission if gone to default?

11:45:14 AM Vice Chairman Cabbage - witness Haynes
Note: Sacre, Candace And making that explicit in agreement?

11:45:23 AM Chairman Chandler - witness Haynes
Note: Sacre, Candace Examination. How long with AEP?

11:45:31 AM Chairman Chandler - witness Haynes
Note: Sacre, Candace Exclusively employed at AEPSC, AEP AP Generating Company, which AEP companies employed by in 37 years?

11:45:47 AM Chairman Chandler - witness Haynes
Note: Sacre, Candace AEP Service Corporation provides assistance and services to each of Kentucky Power operating companies?

11:46:06 AM Chairman Chandler - witness Haynes
Note: Sacre, Candace Have number and distribution of operating companies at AEP changed?

11:46:41 AM Chairman Chandler - witness Haynes
Note: Sacre, Candace Aware AEP divested any regulated operations?

11:47:00 AM Chairman Chandler - witness Haynes
Note: Sacre, Candace Have had divestiture of nonregulated affiliates?

11:47:10 AM Chairman Chandler - witness Haynes
Note: Sacre, Candace Ohio deregulated?

11:47:16 AM Chairman Chandler - witness Haynes
Note: Sacre, Candace Ohio Power Company is Kentucky Power affiliate and affiliate of AEPSC?

11:47:22 AM Chairman Chandler - witness Haynes
Note: Sacre, Candace Ohio Power used to own Mitchell?

11:47:27 AM Chairman Chandler - witness Haynes
Note: Sacre, Candace Ohio Power sold interest to Mitchell to Wheeling and Kentucky Power?

11:47:48 AM Chairman Chandler - witness Haynes
Note: Sacre, Candace May be other way around?

11:47:55 AM Chairman Chandler - witness Haynes
Note: Sacre, Candace Involved in divestiture, proceeding Ohio Commission, sound right to you?

11:48:35 AM Chairman Chandler - witness Haynes
Note: Sacre, Candace At what cost Kentucky Power bought interest in Mitchell?

11:48:49 AM Chairman Chandler - witness Haynes
Note: Sacre, Candace Reviewed record or understanding of process?

11:48:55 AM Chairman Chandler - witness Haynes
Note: Sacre, Candace Looked at three appraisals to determine fair market value in that proceeding?

11:49:03 AM Chairman Chandler - witness Haynes
Note: Sacre, Candace Be surprised were not three appraisals?

11:49:17 AM Chairman Chandler - witness Haynes
Note: Sacre, Candace Determination fair market value with appraisals seems be something new, where pulled this out of thin air to do three appraisals and get rid of high ones?

11:50:17 AM	Chairman Chandler - witness Haynes Note: Sacre, Candace	Involved in process determining fallback position, anyone review process leading to Kentucky Power purchase in Mitchell determine how they proposed fair market value?
11:50:59 AM	Chairman Chandler - witness Haynes Note: Sacre, Candace	Why ignored or different determination chosen?
11:51:37 AM	Chairman Chandler - witness Haynes Note: Sacre, Candace	Agree Commission statutes discuss affiliate transactions?
11:51:53 AM	Chairman Chandler - witness Haynes Note: Sacre, Candace	Agree not necessarily in captain's seat on determination of sales price?
11:52:19 AM	Chairman Chandler - witness Haynes Note: Sacre, Candace	Already been transaction proposed, why proposed deviate from determination of market price in addition to net book value?
11:53:38 AM	Chairman Chandler - witness Haynes Note: Sacre, Candace	Cited statute states for affiliate transactions lesser of market and net book value?
11:53:53 AM	Chairman Chandler - witness Haynes Note: Sacre, Candace	Kentucky Power and Wheeling are affiliates?
11:54:08 AM	Chairman Chandler - witness Haynes Note: Sacre, Candace	Know if Wheeling recovers terminal net salvage value in depreciation rates for Mitchell?
11:54:34 AM	Chairman Chandler - witness Haynes Note: Sacre, Candace	Aware Kentucky Power used to recover terminal net salvage value in depreciation rates Mitchell?
11:54:53 AM	Chairman Chandler - witness Haynes Note: Sacre, Candace	Thought addressed in rebuttal you and Cash together discussed Kollen testimony regarding terminal net salvage value, not correct?
11:55:26 AM	Chairman Chandler - witness Haynes Note: Sacre, Candace	How somebody appraising something how their appraisal of market value take into account what amount of cost decommissioning an entity already recovered in depreciation expenses for asset, how appraisal take into account?
11:56:26 AM	Chairman Chandler - witness Haynes Note: Sacre, Candace	When come into account?
11:56:50 AM	Chairman Chandler - witness Haynes Note: Sacre, Candace	Comes after determination of fair market value and credited/debited from that amount?
11:57:33 AM	Chairman Chandler - witness Haynes Note: Sacre, Candace	Timing, questions to Mattison?
11:57:47 AM	Chairman Chandler - witness Haynes Note: Sacre, Candace	Whose idea it was to create ownership agreement?
11:59:48 AM	Chairman Chandler - witness Haynes Note: Sacre, Candace	AEP determined they were needed, both of Mitchell agreements?
12:00:00 PM	Chairman Chandler - witness Haynes Note: Sacre, Candace	What basis for determination both needed?
12:01:41 PM	Chairman Chandler - witness Haynes Note: Sacre, Candace	Agree changes to operating agreement need to be made, asking about ownership agreement, impetus or timing of ownership agreement, unrelated to sale to Liberty?
12:03:22 PM	Chairman Chandler - witness Haynes Note: Sacre, Candace	That can be addressed with operating agreement?

12:03:35 PM	Chairman Chandler - witness Haynes Note: Sacre, Candace	Operating agreement already had provisions pre-amendments discussed if differing opinions investments between one party and other?
12:04:14 PM	Chairman Chandler - witness Haynes Note: Sacre, Candace	March 1 2022, beginning Jan 1 2029, understanding assets necessary to operate owned by Wheeling?
12:05:10 PM	Chairman Chandler - witness Haynes Note: Sacre, Candace	Other than sale of Kentucky Power interest, anything speak to that cost talking about cost Kentucky Power have option receive energy/capacity from Mitchell beginning Jan 1 2029, anything else proposed either Mitchell agreements discuss that situation ?
12:06:24 PM	Chairman Chandler - witness Haynes Note: Sacre, Candace	Wheeling CPCN to do ELG for both units or for entire station at Mitchell?
12:06:57 PM	Chairman Chandler - witness Haynes Note: Sacre, Candace	Somebody's idea to create ownership agreement?
12:08:02 PM	Chairman Chandler - witness Haynes Note: Sacre, Candace	Unit swap approach, your plan to give Kentucky Power Mitchell Unit 1?
12:08:20 PM	Chairman Chandler - witness Haynes Note: Sacre, Candace	Not a characterization of units, what keep one state getting asset worse performing?
12:08:57 PM	Chairman Chandler - witness Haynes Note: Sacre, Candace	On your updated response, Kentucky Power Hearing Exhibit 1, explain to me what this amends, what CapEx adjustment apply to?
12:10:06 PM	Chairman Chandler - witness Haynes Note: Sacre, Candace	Applicable to net book value transaction?
12:10:16 PM	Chairman Chandler - witness Haynes Note: Sacre, Candace	Why not something like this, adjustments made to net book value calculation to remove those concerns making investments up to and beyond 2028?
12:10:48 PM	Chairman Chandler - witness Haynes Note: Sacre, Candace	Wondering why this only brought up as context to backstop instead of applying concern, why go out and do different methodology for valuation?
12:11:40 PM	Chairman Chandler - witness Haynes Note: Sacre, Candace	Net book value objective amount?
12:11:51 PM	Chairman Chandler - witness Haynes Note: Sacre, Candace	Depreciated original cost?
12:12:06 PM	Chairman Chandler - witness Haynes Note: Sacre, Candace	Clarify understanding, net book value is original cost less depreciation, your understanding?
12:12:14 PM	Chairman Chandler - witness Haynes Note: Sacre, Candace	Agree on net book value, agree sale amount should be net book value?
12:12:35 PM	Chairman Chandler - witness Haynes Note: Sacre, Candace	Original cost less depreciation, take it or leave it, not preclude ability of adjusted net book value valuation?
12:13:02 PM	Chairman Chandler Note: Sacre, Candace	Mr. Crespo?
12:13:06 PM	Atty Crespo Kentucky Power - witness Haynes Note: Sacre, Candace	Redirect Examination. Regarding potential unit split, number of different ways in future to value unit split if difference in value?

12:13:35 PM	Atty Crespo Kentucky Power - witness Haynes Note: Sacre, Candace	Will be determined whether or not happens in 2025?
12:13:54 PM	Atty Crespo Kentucky Power - witness Haynes Note: Sacre, Candace	One of benefits from unit split knowing what occur three years in advance when units need be split in 2028?
12:14:24 PM	Atty Crespo Kentucky Power - witness Haynes Note: Sacre, Candace	Knowing answer what be disposition of units in advance, be aid owners making decisions future CapEx investments in units?
12:14:55 PM	Atty Crespo Kentucky Power - witness Haynes Note: Sacre, Candace	Been testimony about condition of units today, which might be better than other, recall?
12:15:12 PM	Atty Crespo Kentucky Power - witness Haynes Note: Sacre, Candace	Not predetermined which unit be better unit in 2028?
12:15:42 PM	Atty Crespo Kentucky Power - witness Haynes Note: Sacre, Candace	With advance knowledge, parties make better investment decisions?
12:16:24 PM	Atty Crespo Kentucky Power - witness Haynes Note: Sacre, Candace	Split option, recall questions from Kurtz regarding where coal sourced and those sorts of questions?
12:16:42 PM	Atty Crespo Kentucky Power - witness Haynes Note: Sacre, Candace	If units split, Kentucky Power have oportunity to operate unit?
12:17:18 PM	Atty Crespo Kentucky Power - witness Haynes Note: Sacre, Candace	Even with single operator, Kentucky Power more control over its unit than Wheeling Power unit?
12:17:39 PM	Atty Crespo Kentucky Power - witness Haynes Note: Sacre, Candace	Give more control over decisions such as where coal be sourced?
12:17:49 PM	Atty Crespo Kentucky Power - witness Haynes Note: Sacre, Candace	Overall, agree or comment on philosophy determining fair market value is value unit historically or value going concern in future?
12:18:34 PM	Atty Crespo Kentucky Power - witness Haynes Note: Sacre, Candace	Asked questions whether Kentucky Power paying for ELG costs, recall?
12:18:53 PM	Atty Crespo Kentucky Power - witness Haynes Note: Sacre, Candace	Kentucky Power actually be paying ELG costs or part of valuing unit?
12:19:40 PM	Atty Crespo Kentucky Power - witness Haynes Note: Sacre, Candace	Decommissioning costs what Wheeling responsibility be, when Wheeling paying?
12:20:00 PM	Atty Crespo Kentucky Power - witness Haynes Note: Sacre, Candace	Agree after sale through buyout, Wheeling Power operating plant in future?
12:20:16 PM	Atty Crespo Kentucky Power - witness Haynes Note: Sacre, Candace	It be fully responsible in future for all costs, Kentucky Power not be?
12:20:43 PM	Atty Crespo Kentucky Power - witness Haynes Note: Sacre, Candace	At that point, Kentucky Power fully responsible for risks and liabilities with future decommissioning?
12:20:56 PM	Atty Crespo Kentucky Power - witness Haynes Note: Sacre, Candace	Also responsible whatever deduction was from price not sufficient cover cost?
12:21:25 PM	Atty Crespo Kentucky Power - witness Haynes Note: Sacre, Candace	May have misspoken, meant Wheeling Power be responsible?
12:21:42 PM	Vice Chairman Cubbage - witness Haynes Note: Sacre, Candace	Examination. Follow up unit split/swap, comment current drafting, all seen is testimony, AEP putting proposal to paper for what might look like?
12:22:29 PM	Chairman Chandler Note: Sacre, Candace	Anything further?

12:22:35 PM	Chairman Chandler Note: Sacre, Candace	Recess for lunch till 1:25.
12:22:56 PM	Session Paused	
1:33:05 PM	Session Resumed	
1:33:13 PM	Chairman Chandler Note: Sacre, Candace	Back on the record in Case No. 2021-00421.
1:33:17 PM	Camera Lock Deactivated	
1:33:23 PM	Chairman Chandler Note: Sacre, Candace	Still under oath.
1:33:36 PM	Chairman Chandler - witness Haynes Note: Sacre, Candace	Examination. Discussions in earlier cases about difference in economics between CCR and ELG, difference between expected retirement date in 2028 verse expected retirement in 2040, aware general difference between planning on retiring verse continuing to operate past certain date, make different investment decisions?
1:34:38 PM	Chairman Chandler - witness Haynes Note: Sacre, Candace	CapEx adjustment intended accommodate those differences in decisions?
1:35:56 PM	Chairman Chandler - witness Haynes Note: Sacre, Candace	Hypothetical, EPA proposes other environmental compliance requirement, make investment now and continue operate and choose make investment and retire by X, if only CCR compliance approved for both utilities, not make sense do investment no expected operation past Dec 31 2028; compare to counter-factual, expected operate through retirement date 2040, would make sense make that investment, under Kentucky Commission orders, under operating agreement, is it that Kentucky Power not pay any of cost and those costs recovered by Wheeling?
1:38:57 PM	Chairman Chandler - witness Haynes Note: Sacre, Candace	Why that make sense in reality Kentucky Commission only approved CCR, difference between CCR and ELG and CCR, no investment occurred, why Kentucky Power allocated portion costs in contravention of Commission order?
1:40:29 PM	Chairman Chandler - witness Haynes Note: Sacre, Candace	Aware of economics about these capital expenses not incurred in expectation of wind-down or retirement?
1:40:51 PM	Chairman Chandler - witness Haynes Note: Sacre, Candace	If expectation both units continue to operate, not have expectation those decisions made with respect to Mitchell?
1:41:13 PM	Chairman Chandler - witness Haynes Note: Sacre, Candace	How propose to ensure Kentucky Power economic reality reflects that Case 2 just for CCR investment?
1:41:49 PM	Chairman Chandler - witness Haynes Note: Sacre, Candace	Only discusses ELG, asking for economic decisions different Case 1 and Case 2, given your point, fix instead of replacing?
1:42:36 PM	Chairman Chandler - witness Haynes Note: Sacre, Candace	Trying to ask, noted different economic consequence, fixing something opposed to selling it, 2021-00004 was premised on retirement Dec 31 2028, if decisions made more expensive exclusively to allow Wheeling to operate facility past Dec 31 2028, think some acknowledgement of that in these agreements so Kentucky Power held harmless?
1:44:11 PM	Chairman Chandler - witness Haynes Note: Sacre, Candace	Benefit of particular investments?

1:44:17 PM	Chairman Chandler - witness Haynes Note: Sacre, Candace	Been different investment if expected retirement date was Dec 31 2028?
1:44:36 PM	Chairman Chandler - witness Haynes Note: Sacre, Candace	Forget allocation of what decision made, provision either agreement that takes into account there been different decisions if only CCR upgrades done at Mitchell and retirement date of Dec 312028?
1:45:08 PM	Chairman Chandler - witness Haynes Note: Sacre, Candace	Does allocation of capital have provision allows for consideration of what investment would have been or different allocation what investment actually was?
1:45:33 PM	Chairman Chandler - witness Haynes Note: Sacre, Candace	Replacement of boiler instead of fixing boiler, going to allocate new boiler this way, not say allocate Kentucky Power what been their share of fixing boiler?
1:46:03 PM	Chairman Chandler - witness Haynes Note: Sacre, Candace	Agree Commission when made decision between Case 1 and Case 2 did not take this into account?
1:46:28 PM	Chairman Chandler - witness Haynes Note: Sacre, Candace	Withdraw question, economic analysis company proposed either premised on 2028 retirement date or operation until 2040, difference between Case 1 and Case 2?
1:46:41 PM	Chairman Chandler Note: Sacre, Candace	Additional questions?
1:46:44 PM	Chairman Chandler Note: Sacre, Candace	Redirect?
1:46:51 PM	Atty Crespo Kentucky Power - witness Haynes Note: Sacre, Candace	Redirect Examination. Questions focused on Article 6, apportionment of station costs, ask how Article 7 impact same thing, operating committee?
1:47:20 PM	Atty Crespo Kentucky Power - witness Haynes Note: Sacre, Candace	Operating committee responsibility approve things related to operation of the plan?
1:47:33 PM	Atty Crespo Kentucky Power - witness Haynes Note: Sacre, Candace	Among those capital budgets?
1:47:38 PM	Atty Crespo Kentucky Power - witness Haynes Note: Sacre, Candace	For capital dollars be spent improvements of plan, agree current agreement capital improvements be approved by Kentucky Power and Wheeling Power?
1:47:54 PM	Atty Crespo Kentucky Power - witness Haynes Note: Sacre, Candace	Potential capital improvement not ELG, investment need be made improve efficiency of boiler, Kentucky Power and Wheeling have to approve?
1:48:21 PM	Atty Crespo Kentucky Power - witness Haynes Note: Sacre, Candace	Not only approve the improvement, but what type improvement it be, replacement or smaller fix?
1:48:36 PM	Atty Crespo Kentucky Power - witness Haynes Note: Sacre, Candace	Decision of Kentucky Power assume reviewable in future decisions by Commission?
1:48:52 PM	Atty Crespo Kentucky Power - witness Haynes Note: Sacre, Candace	Assume improvement into operation after 2028, who pay then?
1:49:18 PM	Atty Crespo Kentucky Power - witness Haynes Note: Sacre, Candace	Went into operation before 2028, who pays?
1:49:28 PM	Atty Crespo Kentucky Power - witness Haynes Note: Sacre, Candace	Combination both Wheeling and Kentucky Power?

1:49:34 PM	Atty Crespo Kentucky Power - witness Haynes Note: Sacre, Candace	Kentucky Power pays only its proportional share of spend precedes 2028?
1:49:43 PM	Atty Crespo Kentucky Power - witness Haynes Note: Sacre, Candace	Heat rate improved, Kentucky Power benefit before 2028?
1:50:08 PM	Atty Crespo Kentucky Power - witness Haynes Note: Sacre, Candace	If was be bio-transaction in future, that taken into account whatever price arrived at?
1:50:39 PM	Chairman Chandler Note: Sacre, Candace	Clarification, current operating agreement in effect filed as tariff with FERC, aware, rate schedule? (Click on link for further comments.)
1:51:42 PM	Chairman Chandler Note: Sacre, Candace	Next witness?
1:51:48 PM	Atty Glass Kentucky Power Note: Sacre, Candace	Jason Cash.
1:52:00 PM	Chairman Chandler Note: Sacre, Candace	Witness is sworn.
1:52:06 PM	Chairman Chandler - witness Cash Note: Sacre, Candace	Examination. Name and address?
1:52:25 PM	Atty Garcia Santana Kentucky Power - witness Cash Note: Sacre, Candace	Direct Examination. Name and employment?
1:52:40 PM	Atty Garcia Santana Kentucky Power - witness Cash Note: Sacre, Candace	Business address?
1:52:47 PM	Atty Garcia Santana Kentucky Power - witness Cash Note: Sacre, Candace	Submit rebuttal and discovery answers?
1:52:55 PM	Atty Garcia Santana Kentucky Power - witness Cash Note: Sacre, Candace	Prepared by you?
1:52:59 PM	Atty Garcia Santana Kentucky Power - witness Cash Note: Sacre, Candace	Changes or updates?
1:53:07 PM	Atty Garcia Santana Kentucky Power - witness Cash Note: Sacre, Candace	Same questions, same answers?
1:53:20 PM	Chairman Chandler Note: Sacre, Candace	Questions?
1:53:25 PM	Atty Kurtz KIUC - witness Cash Note: Sacre, Candace	Cross Examination. Any place in record estimate of decommissioning costs two Mitchell unit under definition of ownership agreement?
1:53:59 PM	Atty Kurtz KIUC - witness Cash Note: Sacre, Candace	Recall total cost?
1:54:05 PM	Atty Kurtz KIUC - witness Cash Note: Sacre, Candace	If were to ask post-hearing data request, could provide?
1:54:06 PM	POST-HEARING DATA REQUEST Note: Sacre, Candace Note: Sacre, Candace	ATTY KURTZ KIUC - WITNESS CASH TOTAL ESTIMATE OF COSTS FOR DECOMMISSIONING TWO MITCHELL UNITS
1:54:12 PM	Chairman Chandler Note: Sacre, Candace	Questions?
1:54:21 PM	Chairman Chandler - witness Cash Note: Sacre, Candace	Examination. Have supported testimony in front of Commission?
1:54:29 PM	Chairman Chandler - witness Cash Note: Sacre, Candace	In 2017 rate case?
1:54:36 PM	Chairman Chandler - witness Cash Note: Sacre, Candace	Testimony in 2017 rate case depreciation rates Big Sandy Unit 1 and Mitchell?

1:54:59 PM	Chairman Chandler - witness Cash Note: Sacre, Candace	Did address Big Sandy 1 depreciation rates and Kollen proposals around Mitchell depreciation rates?
1:55:12 PM	Chairman Chandler - witness Cash Note: Sacre, Candace	Aware before that case Kentucky Power through depreciation rates recovered terminal and interim net salvage values for Mitchell?
1:55:28 PM	Chairman Chandler - witness Cash Note: Sacre, Candace	Result of settlement adopted, modifications, Mitchell depreciation rates no longer recover terminal net salvage?
1:55:47 PM	Chairman Chandler - witness Cash Note: Sacre, Candace	Starting in Jan 2018 rates for Mitchell changed, removed terminal, kept interim?
1:55:57 PM	Chairman Chandler - witness Cash Note: Sacre, Candace	Terminal net salvage value way recover through depreciation rates expected decommissioning costs of facility net of salvage value any of items decommissioned?
1:56:30 PM	Chairman Chandler - witness Cash Note: Sacre, Candace	AROs asset retirement obligations?
1:56:37 PM	Chairman Chandler - witness Cash Note: Sacre, Candace	For ash ponds, AROs similar what do for nuclear facilities, significant risk in future trying to recover cost of throughout life of asset?
1:57:09 PM	Chairman Chandler - witness Cash Note: Sacre, Candace	Had depreciation rates attempted recover decommissioning Mitchell over years, up to Jan 2018, what agreed to?
1:57:33 PM	Chairman Chandler - witness Cash Note: Sacre, Candace	Couple proposals in case, first reduce depreciation expense removing terminal net salvage value Big Sandy 1, direct supporting increasing depreciation rates start recovering negative terminal salvage value reflect in depreciation rates?
1:58:31 PM	Chairman Chandler - witness Cash Note: Sacre, Candace	Depreciation rates already had net terminal salvage value for Mitchell, your memory Kollen proposed also removing those?
1:59:31 PM	Chairman Chandler - witness Cash Note: Sacre, Candace	Kollen table on page 5, calculates revenue requirement impact of adjustments, have that?
1:59:50 PM	Chairman Chandler - witness Cash Note: Sacre, Candace	That is his testimony handed you 2017-00179 on behalf KIUC, noted what revenue adjustment would be for removing terminal net salvage for Mitchell, see that?
2:00:16 PM	Chairman Chandler - witness Cash Note: Sacre, Candace	In this record, have amount of accumulated depreciation as result of terminal net salvage value recovered for Mitchell?
2:00:51 PM	Chairman Chandler - witness Cash Note: Sacre, Candace	When say both, distinction interim net salvage and terminal net salvage?
2:00:59 PM	Chairman Chandler - witness Cash Note: Sacre, Candace	Know what those amounts are each relative each other each year for ratemaking purposes?
2:02:08 PM	Chairman Chandler - witness Cash Note: Sacre, Candace	Kentucky Power customers already paid money to decommission Mitchell power plant?
2:02:55 PM	Chairman Chandler - witness Cash Note: Sacre, Candace	If Kentucky Power does sell Mitchell, appropriate to account for amount customers paid for that?

2:04:02 PM	Chairman Chandler - witness Cash Note: Sacre, Candace	If transferred to net book value, wiped to zero at that point?
2:04:13 PM	Chairman Chandler - witness Cash Note: Sacre, Candace	If sold and sold at net book value, no remaining undepreciated value on Kentucky Power books?
2:04:29 PM	Chairman Chandler - witness Cash Note: Sacre, Candace	If sold at net book value, that is case?
2:04:40 PM	Chairman Chandler - witness Cash Note: Sacre, Candace	And if sold in excess of net book value?
2:04:52 PM	Chairman Chandler - witness Cash Note: Sacre, Candace	Seems Kentucky Power, AEPSC only considering taking into account paid for decommissioning only in event fair market value backstop occurs?
2:05:17 PM	Chairman Chandler - witness Cash Note: Sacre, Candace	Company asked you to pull out what amount customers paid for terminal net salvage value been since Mitchell approved for transfer to Kentucky Power?
2:05:43 PM	Chairman Chandler - witness Cash Note: Sacre, Candace	What have to do to try to estimate that amount?
2:05:47 PM	Chairman Chandler - witness Cash Note: Sacre, Candace	And that'd be neighborhood of adjustment Kollen calculated correctly what be amount be in rates and trying back out of total salvage value, what kind of saying?
2:06:34 PM	Chairman Chandler - witness Cash Note: Sacre, Candace	Take revenue requirement difference reflected in settlement remove net salvage value at Mitchell, take that and back it out of annual depreciation expense related net salvage get in neighborhood of terminal net salvage was relation to interim net salvage?
2:07:10 PM	Chairman Chandler - witness Cash Note: Sacre, Candace	Would appear best person to do that, person could do it, one who has books available to do that?
2:07:33 PM	Chairman Chandler - witness Cash Note: Sacre, Candace	If ask post-hearing data request, something could turn around couple of weeks or additional time?
2:07:48 PM	POST-HEARING DATA REQUEST Note: Sacre, Candace	AMOUNT OF TERMINAL ON SALVAGE REALIZED BY COMPANY AND ALSO RECOVER FROM CUSTOMERS
	Note: Sacre, Candace	CHAIRMAN CHANDLER - WITNESS CASH
2:08:24 PM	Chairman Chandler - witness Cash Note: Sacre, Candace	Kentucky Power purchased 50 percent of undivided interest in Mitchell at net book value, heard that?
2:08:34 PM	Chairman Chandler - witness Cash Note: Sacre, Candace	Know when asset of Ohio Power whether company recovered terminal net salvage value for Mitchell units?
2:08:51 PM	Chairman Chandler - witness Cash Note: Sacre, Candace	How that taken into account?
2:08:59 PM	Chairman Chandler - witness Cash Note: Sacre, Candace	Think should be taken into account?
2:09:07 PM	Chairman Chandler - witness Cash Note: Sacre, Candace	Just fact part of accumulated depreciation as offset to original?
2:09:34 PM	Atty Kurtz KIUC - witness Cash Note: Sacre, Candace	Recross Examination. Understand say definition of decommissioning not include ARO ash pond remediation requirement?

2:10:06 PM	Atty Kurtz KIUC - witness Cash Note: Sacre, Candace	Definition of decommissioning, reading (click on link for further comments), that would include ash pond remediation in definition?
2:10:51 PM	Chairman Chandler Note: Sacre, Candace	Redirect?
2:10:54 PM	Atty Garcia Santana Kentucky Power - witness Cash Note: Sacre, Candace	Redirect Examination. Clarify, in a fair market value transaction Kentucky Power sells interest in Mitchell to Wheeling under proposed ownership agreement, that transaction would extinguish all liabilities and costs Kentucky Power be responsible at time Mitchell retired?
2:11:38 PM	Atty Garcia Santana Kentucky Power - witness Cash Note: Sacre, Candace	Questions about 2017 rate case, how are depreciation rates calculated for regulatory purposes?
2:12:18 PM	Atty Garcia Santana Kentucky Power - witness Cash Note: Sacre, Candace	Remaining life, what is that under ruling from Commission as to CRE and ELG projects in which determined Kentucky Power only engage in construction of CCR equipment and not ELG, what be date?
2:12:46 PM	Atty Garcia Santana Kentucky Power - witness Cash Note: Sacre, Candace	Remaining life of interest in Kentucky Power would be up to 2028 and then net book value depreciated from whatever is today to zero?
2:13:18 PM	Atty Garcia Santana Kentucky Power - witness Cash Note: Sacre, Candace	Aware of situations in which through ratemaking processes a mechanism set off in situation where unit needs retired sooner than depreciation rates calculated for, some mechanism alleviate pressure on rates necessitated by depreciating remaining book value over life of asset?
2:14:04 PM	Atty Garcia Santana Kentucky Power - witness Cash Note: Sacre, Candace	Aware of being the case with net book value of Big Sandy 2 when it was retired?
2:14:26 PM	Atty Garcia Santana Kentucky Power - witness Cash Note: Sacre, Candace	The Pirkey plant?
2:15:09 PM	Chairman Chandler Note: Sacre, Candace	Witness is excused.
2:15:14 PM	Gen Counsel Vinsel PSC Note: Sacre, Candace	Move to admit Staff Exhibit 3 into record, Kollen testimony, Case No. 2017-00179.
2:15:15 PM	STAFF HEARING EXHIBIT 3 Note: Sacre, Candace	CASE NO. 2017-00179 DIRECT TESTIMONY AND EXHIBITS LANE KOLLEN ON BEHALF OF KIUC OCT 2017
	Note: Sacre, Candace	CHAIRMAN CHANDLER - WITNESS CASH
2:15:24 PM	Chairman Chandler Note: Sacre, Candace	Before end of hearing, provide electronic copy of testimony, objection to introduction? (Click on link for further comments.)
2:16:22 PM	Atty Garcia Santana Kentucky Power Note: Sacre, Candace	Kentucky Power Exhibit 2.
2:17:23 PM	Chairman Chandler Note: Sacre, Candace	Additional witnesses?
2:17:26 PM	Atty Glass Kentucky Power Note: Sacre, Candace	Allyson Keaton.
2:17:32 PM	Chairman Chandler Note: Sacre, Candace	Witness is sworn.
2:17:44 PM	Chairman Chandler - witness Keaton Note: Sacre, Candace	Examination. Name and address?

2:17:57 PM	Atty Garcia Santana Kentucky Power - witness Keaton Note: Sacre, Candace	Direct Examination. By whom employed?
2:18:03 PM	Atty Garcia Santana Kentucky Power - witness Keaton Note: Sacre, Candace	In what capacity?
2:18:10 PM	Atty Garcia Santana Kentucky Power - witness Keaton Note: Sacre, Candace	Provide rebuttal testimony and discovery?
2:18:17 PM	Atty Garcia Santana Kentucky Power - witness Keaton Note: Sacre, Candace	Corrections or updates?
2:18:23 PM	Atty Garcia Santana Kentucky Power - witness Keaton Note: Sacre, Candace	Same questions, same answers?
2:18:37 PM	Atty Garcia Santana Kentucky Power - witness Keaton Note: Sacre, Candace	Prepared by you or under your supervision?
2:18:44 PM	Chairman Chandler Note: Sacre, Candace	Questions?
2:19:06 PM	Chairman Chandler - witness Keaton Note: Sacre, Candace	Examination. Participated in 2021-00004 case, request for CPCN for CCR and ELG?
2:19:24 PM	Chairman Chandler - witness Keaton Note: Sacre, Candace	Looked at testimony at all Kollen tax impairment of retirement of Mitchell, tax consequences of retirement?
2:19:45 PM	Chairman Chandler - witness Keaton Note: Sacre, Candace	Reviewed that testimony about abandonment loss?
2:19:51 PM	Chairman Chandler - witness Keaton Note: Sacre, Candace	Abandonment loss available as benefit, offset to rates, available if Kentucky Power maintains ownership at time of retirement?
2:21:05 PM	Chairman Chandler - witness Keaton Note: Sacre, Candace	Distinction making in response, Commission had a decision here, CCR/ELG 2028 estimated 2040, abandonment loss on table, deduction available retirement occurred in 2028?
2:21:40 PM	Chairman Chandler - witness Keaton Note: Sacre, Candace	Fact Wheeling intends operating facility through 2040 and investing in CCR and ELG, approving CCR only off table because intend operating through 2040?
2:22:02 PM	Chairman Chandler Note: Sacre, Candace	Redirect?
2:22:09 PM	Atty Overstreet Kentucky Power Note: Sacre, Candace	Kentucky Power request take administrative notice of rebuttal. (Click on link for further comments.)
2:22:32 PM	Chairman Chandler Note: Sacre, Candace	Objection?
2:22:36 PM	Chairman Chandler Note: Sacre, Candace	Prefer add as an exhibit to this case, mark as Kentucky Power Hearing Exhibit No. 2.
2:23:11 PM	Atty Overstreet Kentucky Power Note: Sacre, Candace	Move its admission?
2:23:12 PM	KENTUCKY POWER HEARING EXHIBIT 2 Note: Sacre, Candace Note: Sacre, Candace	CHAIRMAN CHANDLER - WITNESS CASH CASE NO. 2017-00179 REBUTTAL TESTIMONY JASON A. CASH ON BEHALF OF KENTUCKY POWER COMPANY
2:25:23 PM	Chairman Chandler Note: Sacre, Candace	Next witness?
2:25:24 PM	Atty Glass Kentucky Power Note: Sacre, Candace	Brian West.
2:25:52 PM	Chairman Chandler Note: Sacre, Candace	Witness is sworn.

2:25:59 PM Chairman Chandler - witness West
Note: Sacre, Candace Examination. Name and address?

2:26:20 PM Atty Glass Kentucky Power - witness West
Note: Sacre, Candace Direct Examination. Employer and position?

2:26:31 PM Atty Glass Kentucky Power - witness West
Note: Sacre, Candace Cause to be filed responses?

2:26:37 PM Atty Glass Kentucky Power - witness West
Note: Sacre, Candace Changes or updates?

2:26:42 PM Atty Glass Kentucky Power - witness West
Note: Sacre, Candace Same questions, same answers?

2:26:48 PM Atty Glass Kentucky Power - witness West
Note: Sacre, Candace Confirm did not file testimony in this case?

2:27:02 PM Chairman Chandler
Note: Sacre, Candace Questions?

2:27:09 PM Chairman Chandler - witness West
Note: Sacre, Candace Examination. In hearing room for questions and responses?

2:27:37 PM Chairman Chandler - witness West
Note: Sacre, Candace Explain input, what role was in coming up with idea of Mitchell ownership agreement?

2:28:16 PM Chairman Chandler - witness West
Note: Sacre, Candace While filling role as alternate, take part in discussions that led to ownership agreement?

2:28:48 PM Chairman Chandler
Note: Sacre, Candace Additional witness?

2:28:52 PM Atty Glass Kentucky Power
Note: Sacre, Candace Alex Vaughan, appearing remotely.

2:28:55 PM TECHNICAL DIFFICULTIES.

2:30:41 PM Chairman Chandler
Note: Sacre, Candace Had this happen before, if camera not work, not appear on camera, after hearing, have Vaughan file affidavit stating him that appeared by video today.

2:31:38 PM Chairman Chandler
Note: Sacre, Candace Witness is sworn.

2:32:03 PM Chairman Chandler - witness Vaughan
Note: Sacre, Candace Examination. Name and address?

2:32:18 PM Atty Blend Kentucky Power - witness Vaughan
Note: Sacre, Candace Direct Examination. Employer and position?

2:32:33 PM Atty Blend Kentucky Power - witness Vaughan
Note: Sacre, Candace Cause responses to data requests filed?

2:32:41 PM Atty Blend Kentucky Power - witness Vaughan
Note: Sacre, Candace Corrections or changes?

2:32:46 PM Atty Blend Kentucky Power - witness Vaughan
Note: Sacre, Candace Ask questions today, answers be same?

2:33:03 PM Chairman Chandler - witness Vaughan
Note: Sacre, Candace Examination. Questions asked Kerns, able hear responses?

2:33:22 PM Chairman Chandler - witness Vaughan
Note: Sacre, Candace Hear Kurtz' questions to Kerns about forced outage E4 equivalent forced outage equivalent availability factor net capacity factor and net heat rates of Mitchell 1 and 2 from 2017 through 2021?

2:33:47 PM Chairman Chandler - witness Vaughan
Note: Sacre, Candace Heard Kerns answer questions about was equivalent forced outage rate in excess of zero?

2:34:15 PM	Chairman Chandler - witness Vaughan Note: Sacre, Candace	Mitchell units included in FRR plan Kentucky Power participates in PJM under?
2:34:26 PM	Chairman Chandler - witness Vaughan Note: Sacre, Candace	Understanding in event FRR plan Kentucky Power operates under in event self-supply utility/group of utilities capacity in excess what required UCAP basis able to monetize excess capacity?
2:35:09 PM	Chairman Chandler - witness Vaughan Note: Sacre, Candace	When you say limitations, one of those limitations like a long/short test?
2:35:44 PM	Chairman Chandler - witness Vaughan Note: Sacre, Candace	FRR plan met its maximum amount long capacity, to point not monetize capacity in BRAs?
2:36:00 PM	Chairman Chandler - witness Vaughan Note: Sacre, Candace	In event equivalent forced outage rate continues lower UCAP, if had adequate capacity, for every megawatt of UCAP forced outage rate reduces unit D-rate value, one less megawatt that be monetized?
2:36:54 PM	Chairman Chandler - witness Vaughan Note: Sacre, Candace	In addition to equivalent forced outage interaction with ability monetize unit anticipation in capacity markets, at least BRAs in PJM, agree self-supply utility in wholesale market marginal cost own generation, assuming available, hedge on higher market prices?
2:37:40 PM	Chairman Chandler - witness Vaughan Note: Sacre, Candace	Thermal generating unit has marginal cost of producing electricity?
2:38:04 PM	Chairman Chandler - witness Vaughan Note: Sacre, Candace	Assuming unit turned over RTO for dispatch, when costs start to rise and meets unit marginal cost, RTO dispatches unit as next available economic unit?
2:38:47 PM	Chairman Chandler - witness Vaughan Note: Sacre, Candace	Assuming self-supply entity owns generation adequate to serve own needs, cost of revenues higher than all units marginal costs, offset to point utility not pay more in aggregate than its own generating unit marginal cost of electricity?
2:40:13 PM	Chairman Chandler - witness Vaughan Note: Sacre, Candace	How equivalent forced outage/availability rate plays into that, agree two units identical self-supply, one unit available half the time, same marginal cost, one more effective hedge in event more effective unit available hedge more often?
2:41:05 PM	Chairman Chandler - witness Vaughan Note: Sacre, Candace	What effect of having self-supply entity generation not available during high market price time periods?
2:42:44 PM	Chairman Chandler - witness Vaughan Note: Sacre, Candace	How wholesale settlement recovered from customers?
2:43:41 PM	Chairman Chandler Note: Sacre, Candace	Redirect?
2:43:47 PM	Chairman Chandler Note: Sacre, Candace	You may be excused.
2:43:51 PM	Chairman Chandler Note: Sacre, Candace	Additional witnesses?
2:43:56 PM	Chairman Chandler Note: Sacre, Candace	Anything else?
2:44:02 PM	Atty Glass Kentucky Power Note: Sacre, Candace	Move for admission Kentucky Power Exhibit 1.
2:44:08 PM	Chairman Chandler Note: Sacre, Candace	Any objection?

2:44:12 PM	Chairman Chandler Note: Sacre, Candace	Admit Kentucky Power Hearing Exhibit 1, corrected response Haynes.
2:44:13 PM	KENTUCKY POWER EXHIBIT 1 Note: Sacre, Candace Note: Sacre, Candace	GEN COUNSEL VINSEL PSC - WITNESS MATTISON RESPONSES TO 11b INPUTS/CORRECTION KPCo CAPITAL EXPENDITURE ALLOCATION CALCULATION EXAMPLE
2:44:29 PM	Chairman Chandler Note: Sacre, Candace	Haynes and Mattison stay, all other witnesses excused.
2:44:59 PM	Chairman Chandler Note: Sacre, Candace	Call your witness.
2:45:03 PM	Atty Kurtz KIUC Note: Sacre, Candace	Lane Kollen.
2:45:21 PM	Chairman Chandler Note: Sacre, Candace	Witness is sworn.
2:45:30 PM	Chairman Chandler - witness Kollen Note: Sacre, Candace	Examination. Name and address?
2:45:52 PM	Atty Kurtz KIUC - witness Kollen Note: Sacre, Candace	Direct Examination. Testifying on behalf of whom?
2:46:04 PM	Atty Kurtz KIUC - witness Kollen Note: Sacre, Candace	Have in front of you document titled Direct Testimony and Exhibits of Lane Kollen?
2:46:11 PM	Atty Kurtz KIUC - witness Kollen Note: Sacre, Candace	Prepared by you or under direct supervision?
2:46:15 PM	Atty Kurtz KIUC - witness Kollen Note: Sacre, Candace	Ask same questions, answers be same?
2:46:29 PM	Atty Kurtz KIUC - witness Kollen Note: Sacre, Candace	Go over that real quick, the errata?
2:47:16 PM	Atty Kurtz KIUC - witness Kollen Note: Sacre, Candace	What are changes?
2:47:45 PM	Atty Kurtz KIUC - witness Kollen Note: Sacre, Candace	Extent of corrections?
2:48:11 PM	Chairman Chandler Note: Sacre, Candace	Corrections filed in record? (Click on link for further comments.)
2:48:29 PM	Chairman Chandler Note: Sacre, Candace	Questions?
2:48:34 PM	Gen Counsel Vinsel PSC - witness Kollen Note: Sacre, Candace	Cross Examination. Confirm if buyout price based on net book value, excluding ELG cost, Wheeling ELG investment not be included in purchase price?
2:49:35 PM	Gen Counsel Vinsel PSC - witness Kollen Note: Sacre, Candace	If Commission approve fair market value, removing net book value of ELG from fair market value of Mitchell, mixes methodologies for the valuation?
2:50:13 PM	Chairman Chandler Note: Sacre, Candace	Questions?
2:50:24 PM	Atty Overstreet Kentucky Power - witness Kollen Note: Sacre, Candace	Cross Examination. Have in front of you Response to Staff 3-1?
2:51:08 PM	Atty Overstreet Kentucky Power - witness Kollen Note: Sacre, Candace	In data request, asked by Staff, reading (click on link for further comments), read that correctly?
2:51:54 PM	Atty Overstreet Kentucky Power - witness Kollen Note: Sacre, Candace	In response, provided Commission with discussion of three Commission decisions?

2:52:08 PM Atty Overstreet Kentucky Power - witness Kollen
Note: Sacre, Candace First one, Kentucky Power grid assurance decision?

2:52:16 PM Atty Overstreet Kentucky Power - witness Kollen
Note: Sacre, Candace Second one, 2008 Duke Energy case decision?

2:52:24 PM Atty Overstreet Kentucky Power - witness Kollen
Note: Sacre, Candace Third one, Frontier Gas alternative rate adjustment case decision?

2:52:33 PM Atty Overstreet Kentucky Power - witness Kollen
Note: Sacre, Candace Would agree none of those cases involved sale or transfer of electric generating station?

2:53:51 PM Atty Overstreet Kentucky Power - witness Kollen
Note: Sacre, Candace Had opportunity today to refresh memory of decision?

2:54:08 PM Atty Overstreet Kentucky Power - witness Kollen
Note: Sacre, Candace Remember how question came up in Frontier Gas decision applicability of the affiliate transaction statute?

2:54:34 PM Atty Overstreet Kentucky Power - witness Kollen
Note: Sacre, Candace Agree grew out of rate case filed by Frontier?

2:54:53 PM Atty Overstreet Kentucky Power - witness Kollen
Note: Sacre, Candace AG's Office had concerns owners/potential owners selling services, Frontier Gas selling services to Frontier Gas, remember?

2:55:18 PM Atty Overstreet Kentucky Power - witness Kollen
Note: Sacre, Candace On page 3, top, first sentence, says IGS owned by Robert Oxford?

2:55:46 PM Atty Overstreet Kentucky Power - witness Kollen
Note: Sacre, Candace Read remainder that paragraph, please?

2:56:37 PM Atty Overstreet Kentucky Power - witness Kollen
Note: Sacre, Candace Aware joint application pending 2021-00481 for transfer of Kentucky Power to Liberty?

2:56:52 PM Atty Overstreet Kentucky Power - witness Kollen
Note: Sacre, Candace Agree if Commission grant application, AEP and Wheeling no longer be affiliate of Kentucky Power?

2:58:30 PM Chairman Chandler
Note: Sacre, Candace Questions?

2:58:48 PM Chairman Chandler - witness Kollen
Note: Sacre, Candace Examination. Participated as witness CPCN case 2012-00578, original transfer Mitchell to Kentucky Power?

2:59:04 PM Chairman Chandler - witness Kollen
Note: Sacre, Candace Remember taking issue with fair market value calculation used by Kentucky Power in that case?

2:59:31 PM Chairman Chandler - witness Kollen
Note: Sacre, Candace Remember taking issue with market determination?

2:59:48 PM Chairman Chandler - witness Kollen
Note: Sacre, Candace Remember if determination market value used proposal here?

3:00:23 PM Chairman Chandler - witness Kollen
Note: Sacre, Candace Remember whether Ohio Power offered anyone Mitchell plant other than Kentucky Power, offered for sale publicly, or RFP?

3:00:42 PM Chairman Chandler - witness Kollen
Note: Sacre, Candace Heard Keaton testimony abandonment loss?

3:00:46 PM Chairman Chandler - witness Kollen
Note: Sacre, Candace New information to you or understood be case once conflicting decisions between West Virginia and Kentucky Commission?

3:03:16 PM Chairman Chandler - witness Kollen
Note: Sacre, Candace Because think Wheeling if retire facilities prior to 2040 have abandonment loss available, or sale occurring/retirement not occurring economic detriment to Kentucky Power customers?

3:05:15 PM	Chairman Chandler - witness Kollen Note: Sacre, Candace	Remember in 2021-00004 CPCN case Becker had bar chart showed Case 1 verse Case 2, base case with carbon, base case no carbon, low no carbon, differences by year between 2021 and 2040 two scenarios, remember?
3:05:57 PM	Chairman Chandler - witness Kollen Note: Sacre, Candace	Remember bar chart indicated 2021 and 2028 cost went down prior to 2028?
3:06:12 PM	Chairman Chandler - witness Kollen Note: Sacre, Candace	Questions earlier Haynes difference way make investments in unit expect operate through 2040 verse unit expect operate to 2028?
3:06:26 PM	Chairman Chandler - witness Kollen Note: Sacre, Candace	Understanding what reduction in bar chart intended reflect?
3:06:39 PM	Chairman Chandler - witness Kollen Note: Sacre, Candace	Part of economic analysis?
3:06:42 PM	Chairman Chandler - witness Kollen Note: Sacre, Candace	Aware anything in provisions or any recommendations reflect differences expected between economics Case 1 and Case 2 regards two Mitchell agreements?
3:07:57 PM	Chairman Chandler - witness Kollen Note: Sacre, Candace	Effectively assume bars not go down between 2021 and 2028?
3:08:22 PM	Chairman Chandler - witness Kollen Note: Sacre, Candace	Decommissioning costs, transferred at net book value concern about what Kentucky Power customers paid/not paid terminal net salvage up to now reflected as deduction/reduction?
3:11:02 PM	Chairman Chandler - witness Kollen Note: Sacre, Candace	Saying reflected in net investment rate base or capitalization that would cost customers amount plus weighted average cost of capital average escalated and reflected in present value, offset to rate base for Wheeling Power, thus weighted average cost of capital reduction to rates?
3:15:02 PM	Chairman Chandler Note: Sacre, Candace	Redirect?
3:15:11 PM	Atty Kurtz KIUC - witness Kollen Note: Sacre, Candace	Redirect Examination. On abandonment loss issue, what estimate of value to Kentucky Power retire rather than selling at zero fair market value?
3:16:08 PM	Atty Kurtz KIUC - witness Kollen Note: Sacre, Candace	Eight million dollars abandonment loss value?
3:16:20 PM	Atty Kurtz KIUC - witness Kollen Note: Sacre, Candace	Under ownership agreement, Kentucky Power required to sell at fair market value?
3:17:15 PM	Atty Kurtz KIUC - witness Kollen Note: Sacre, Candace	Two aspects of decommissioning, if Kentucky Power pays that in 2028 to Wheeling, not able to deduct for income tax purposes?
3:17:31 PM	Atty Kurtz KIUC - witness Kollen Note: Sacre, Candace	How much of a loss would that be?
3:17:42 PM	Atty Kurtz KIUC - witness Kollen Note: Sacre, Candace	Because federal income tax rate 21 percent?
3:17:49 PM	Atty Kurtz KIUC - witness Kollen Note: Sacre, Candace	Is there state income tax effect also?
3:17:56 PM	Atty Kurtz KIUC - witness Kollen Note: Sacre, Candace	What percent should be thinking about?
3:18:09 PM	Atty Kurtz KIUC - witness Kollen Note: Sacre, Candace	Other element negative arbitrage?

3:18:48 PM	Atty Kurtz KIUC - witness Kollen Note: Sacre, Candace	Only way not negative arbitrage if Kentucky Power weighted average cost of capital, about nine percent?
3:19:01 PM	Atty Kurtz KIUC - witness Kollen Note: Sacre, Candace	If its weighted average cost of capital lower than projected escalation cost of decommissioning?
3:19:25 PM	Atty Kurtz KIUC - witness Kollen Note: Sacre, Candace	Fair market value to third party arm's length purchaser, asked questions about that, recall?
3:19:36 PM	Atty Kurtz KIUC - witness Kollen Note: Sacre, Candace	Chairman asked about Becker testimony, recall that?
3:19:44 PM	Atty Kurtz KIUC - witness Kollen Note: Sacre, Candace	Referring to the glide path to retirement factor included as explicit calculation in financial exhibits of Becker, believe about \$30 million a year, \$30 million total?
3:20:03 PM	Atty Kurtz KIUC - witness Kollen Note: Sacre, Candace	Back to fair market value, third party buyer not take into account jobs and taxes were positive benefit to West Virginia?
3:20:31 PM	Atty Overstreet Kentucky Power Note: Sacre, Candace	Object. (Click on link for further comments.)
3:20:49 PM	Chairman Chandler Note: Sacre, Candace	Sustain.
3:20:54 PM	Atty Kurtz KIUC - witness Kollen Note: Sacre, Candace	Recall testimony about physical hedge value of power plant?
3:21:07 PM	Atty Kurtz KIUC - witness Kollen Note: Sacre, Candace	Would Wheeling get physical hedge value that a third party buyer would not?
3:21:54 PM	Atty Kurtz KIUC - witness Kollen Note: Sacre, Candace	You meant PJM?
3:21:58 PM	Atty Kurtz KIUC - witness Kollen Note: Sacre, Candace	When a utility owns a power plant, they get energy at lower cost to market?
3:22:12 PM	Chairman Chandler Note: Sacre, Candace	Additional questions?
3:22:14 PM	Atty Overstreet Kentucky Power - witness Kollen Note: Sacre, Candace	Redirect Examination. Under ownership agreement Exhibit 3 Mattison testimony and the rewrite of Section 9.6 Haynes discussed, three options transfer Kentucky Power to Wheeling take place, first option be negotiated price?
3:22:46 PM	Atty Overstreet Kentucky Power - witness Kollen Note: Sacre, Candace	But possibility?
3:22:55 PM	Atty Overstreet Kentucky Power - witness Kollen Note: Sacre, Candace	Second option be option to split two units?
3:23:06 PM	Atty Overstreet Kentucky Power - witness Kollen Note: Sacre, Candace	A second option be split two units between two companies?
3:23:35 PM	Atty Overstreet Kentucky Power - witness Kollen Note: Sacre, Candace	Third option be fair market value as calculated by three appraisers?
3:24:08 PM	Atty Overstreet Kentucky Power - witness Kollen Note: Sacre, Candace	However transaction structured would come back before this Commission?
3:26:44 PM	Atty Overstreet Kentucky Power - witness Kollen Note: Sacre, Candace	Agree Kentucky Power not strip this Commission of its jurisdiction by means of contract?

3:27:27 PM	Atty Overstreet Kentucky Power - witness Kollen Note: Sacre, Candace	Commission if approve agreement make explicit that language did not bind Commission?
3:27:58 PM	Atty Overstreet Kentucky Power - witness Kollen Note: Sacre, Candace	If Wheeling and Kentucky Power under revised Section 9.6 elect separate two units, then Kentucky Power would have ability to retire June 2028 and take abandonment loss, true?
3:29:21 PM	Atty Overstreet Kentucky Power - witness Kollen Note: Sacre, Candace	Again, if were transaction, Commission would weigh in under 278.218?
3:30:23 PM	Chairman Chandler - witness Kollen Note: Sacre, Candace	Examination. Abandonment loss being available to the split, whether option not seen language, when talk about legal triggers in Section 165 Internal Revenue Code, same factors available in event units split and Kentucky Power owned one and retired Dec 31 2028, same triggers be available?
3:32:06 PM	Chairman Chandler Note: Sacre, Candace	More of a statement, have more questions on alternative proposal splitting units, received CPCN for ELG entirety Mitchell, anticipation be company build ELG both units and between now and Dec 31 2028 change ownership to sale of one and one, Kentucky Power have power to buy ELG assets without CPCN from Commission, cannot ask Kollen, not fair ask any of witnesses these questions, conversations still occurring. (Click on link for further comments.)
3:34:18 PM	Chairman Chandler Note: Sacre, Candace	Redirect?
3:34:21 PM	Chairman Chandler Note: Sacre, Candace	Witness is excused.
3:34:26 PM	Chairman Chandler Note: Sacre, Candace	Additional witnesses?
3:34:28 PM	Chairman Chandler Note: Sacre, Candace	Anything else?
3:34:34 PM	Chairman Chandler Note: Sacre, Candace	Application in front of us proposed changes to operating agreement and proposal to seek approval of ownership agreement, otherwise seek approval Mitchell agreement, both agreements in front of this Commission, both agreements in front of West Virginia Commission, alternative discussed splitting units in rebuttal testimony, selling Kentucky Power half to Wheeling Power, expectation when Kentucky Power have proposal, expected be in writing prior to hearing in West Virginia case in April? (Click on link for further comments.)
3:40:13 PM	Chairman Chandler Note: Sacre, Candace	Have filed requesting three weeks heads up for hearing, if want Commission consider alternative proposal need a little more leeway, if something interested in, entertain motion/petition not do public notice additional hearing on legal documents. (Click on link for further comments.)
3:41:58 PM	Chairman Chandler Note: Sacre, Candace	Procedural discussion. (Click on link for further comments.)
3:43:30 PM	Chairman Chandler Note: Sacre, Candace	Briefs. (Click on link for further comments.)
3:44:51 PM	Chairman Chandler Note: Sacre, Candace	Post-hearing data requests. (Click on link for further comments.)
3:46:28 PM	Chairman Chandler Note: Sacre, Candace	Recess until 3:55.
3:46:51 PM	Session Paused	

4:01:50 PM	Session Resumed	
4:02:04 PM	Chairman Chandler	
	Note: Sacre, Candace	Back on the record in 2021-00421.
4:02:10 PM	Chairman Chandler	
	Note: Sacre, Candace	Post-hearing data requests, continued. (Click on link for further comments.)
4:02:46 PM	Chairman Chandler	
	Note: Sacre, Candace	Briefing schedule, end of discovery foreclose opportunity by company to tender amendment to application, third way of splitting interest between units, anything on that front? (Click on link for further comments.)
4:04:13 PM	Chairman Chandler	
	Note: Sacre, Candace	Briefing schedule. (Click on link for further comments.)
4:12:22 PM	Chairman Chandler	
	Note: Sacre, Candace	Anything else?
4:14:00 PM	Chairman Chandler	
	Note: Sacre, Candace	Hearing adjourned.
4:14:12 PM	Session Ended	



Exhibit List Report

2021-00421 01Mar2022

**Kentucky Power Company
(Kentucky Power)**

Witness: Jason Cash; Stephan Haynes; Allyson Keaton; Timothy Kerns; Lane Kollen; Brett Mattison; Alex Vaughan; Brian K. West

Judge: Kent Chandler; Amy Cubbage

Clerk: Candace Sacre

Name:	Description:
KENTUCKY POWER HEARING EXHIBIT 1	RESPONSES TO 11b INPUTS/CORRECTION KPCo CAPITAL EXPENDITURE ALLOCATION CALCULATION EXAMPLE
KENTUCKY POWER HEARING EXHIBIT 2	CASE NO. 2017-00179 REBUTTAL TESTIMONY JASON A. CASH ON BEHALF OF KENTUCKY POWER
KIUC HEARING EXHIBIT 1	MITCHELL GENERATING PLANT PERFORMANCE DATA 2017-2021
STAFF HEARING EXHIBIT 1	WITNESS KERNS RESPONSE STAFF FIRST ITEM 8 DECEMBER 9 2021
STAFF HEARING EXHIBIT 2	RESPONSE STAFF FIRST ITEM 16 FILED DEC 22 2021 KPCo 1-6 ATTACHMENT 1 EXCEL FILE
STAFF HEARING EXHIBIT 3	CASE NO. 2017-00179 DIRECT TESTIMONY AND EXHIBITS LANE KOLLEN ON BEHALF OF KIUC OCT 2017

Legend

Responses to 11b
Inputs
Correction

KPCo Capital Expenditure Allocation Calculation Example

Explanation / Formula

KPCo Ownership %	50%	Stated Percentage
WC Ownership %	50%	= 100% - KPCo Ownership %
Total Capital Investment (\$)	\$100.00	Nominal Capital Invested
Mitchell Investment Date	12/31/2022	Date of Proposed Investment
Mitchell Transfer Date	12/31/2028	Date Mitchell Transfers ownership from KPCo
Mitchell Retirement Date	12/31/2040	Current Date of Mitchell Retirement
KPCo Ownership Tenure (Months)	72	= Transfer Date - Investment Date
Depreciable Life (Months)	216	= Retirement Date - Investment Date
Depreciable Life (Years)	18	= Depreciable Life (Months)/12
Annual Straight line Depreciation	5.56%	= 100%/Depreciable Life (Years)
KPCo Capital Investment (%)	16.67%	= (Ownership Tenure / Depreciable Life) * KPCo Ownership %
KPCo Capital Investment (\$)	\$16.67	= Initial Investment % * Capital Investment \$
Remaining Capital Investment (\$)	\$33.33	= 50% of Total Capital Investment \$ - KPCo Capital Investment
WPCo Straight line Depreciation (\$)	\$2.78	= Total Capital Investment * WPCo Ownership % * Straight line Depreciation

WPCo WACC on investment

WPCo Stated WACC	7.18%	Stated Percentage as of 9/30/21 compounded semiannually
2023	\$2.39	= WPCo CapEx Adjustment * WPCo WACC
2024	\$2.19	= WPCo CapEx Adjustment * WPCo WACC
2025	\$1.99	= WPCo CapEx Adjustment * WPCo WACC
2026	\$1.79	= WPCo CapEx Adjustment * WPCo WACC
2027	\$1.60	= WPCo CapEx Adjustment * WPCo WACC
2028	\$1.40	= WPCo CapEx Adjustment * WPCo WACC
Total WACC	\$11.37	Summation of annual WACC Interest
CapEx Adjustment	\$44.70	= WPCo Capital Expenditure Adjustment + Total WACC

WPCo Annual Depreciation Schedule

Beginning Asset Base	Depreciation	Ending Asset Base
\$33.33	\$2.78	\$30.56
\$30.56	\$2.78	\$27.78
\$27.78	\$2.78	\$25.00
\$25.00	\$2.78	\$22.22
\$22.22	\$2.78	\$19.44
\$19.44	\$2.78	\$16.67

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) Case No. 2017-00179
Plan; (3) An Order Approving Its Tariffs And)
Riders; And (4) An Order Granting All Other)
Required Approvals And Relief)

REBUTTAL TESTIMONY OF

JASON A. CASH

ON BEHALF OF KENTUCKY POWER COMPANY

VERIFICATION

The undersigned, Jason A Cash, being duly sworn, deposes and says he is employed by American Electric Power as Accountant Policy and Research Staff that he has personal knowledge of the matters set forth in the forgoing testimony and the information contained therein is true and correct to the best of his information, knowledge and belief



Jason A Cash

STATE OF OHIO


)

) 2017-00179

COUNTY OF FRANKLIN

)

Subscribed and sworn to before me, a Notary Public in and before said County and State, by (Insert Name), this the 2nd day of November 2017.


Notary Public

Notary ID Number: NA



Amanda E. Owen, Attorney At Law
NOTARY PUBLIC - STATE OF OHIO
My commission has no expiration date
Sec. 147.03 R.C.

My Commission Expires: Never

**REBUTTAL TESTIMONY OF
JASON A. CASH
ON BEHALF OF
KENTUCKY POWER COMPANY
BEFORE THE PUBLIC SERVICE COMMISSION OF KENTUCKY**

CASE NO. 2017-00179

TABLE OF CONTENTS

<u>SUBJECT</u>	<u>PAGE</u>
I. Introduction	R1
II. Purpose Of Rebuttal Testimony ..	R1
III. Terminal Net Salvage	R2
IV. Summary and Conclusion	R10

**REBUTTAL TESTIMONY OF
JASON A. CASH ON BEHALF OF
KENTUCKY POWER COMPANY
BEFORE THE PUBLIC SERVICE COMMISSION OF KENTUCKY**

I. INTRODUCTION

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

2 A. My name is Jason A. Cash. My business address is 1 Riverside Plaza, Columbus, Ohio
3 43215. My position is Staff Accountant in Accounting Policy and Research for
4 American Electric Power Service Corporation (“AEPSC”), a wholly owned subsidiary of
5 American Electric Power Company, Inc. (“AEP”).

6 **Q. ARE YOU THE SAME JASON A. CASH WHO PREVIOUSLY FILED DIRECT
7 TESTIMONY IN THIS PROCEEDING ON BEHALF OF KENTUCKY POWER
8 COMPANY?**

9 A. Yes, I am.

II. PURPOSE OF REBUTTAL TESTIMONY

10 **Q. WHAT IS THE PURPOSE OF YOUR REBUTTAL TESTIMONY IN THIS
11 PROCEEDING?**

12 A. My rebuttal testimony responds to depreciation related recommendations made by Lane
13 Kollen on behalf of the Kentucky Industrial Utility Customers, Inc.

14 **Q. PLEASE SUMMARIZE THE ACTIONS YOU PROPOSE THE COMMISSION
15 TAKE IN CONNECTION WITH THE RECOMMENDATIONS,
16 SUGGESTIONS AND PROPOSALS MADE BY INTERVENOR WITNESS
17 KOLLEN?**

1 A. For the reasons I discuss in more detail in this rebuttal testimony, I recommend the
2 Commission:

3 1. Reject Mr. Kollen's proposal to eliminate terminal net salvage amount when
4 calculating depreciation rates for both Big Sandy Unit 1 and the Company's
5 ownership share of the Mitchell Plant. The Commission should accept the Big
6 Sandy Unit 1 depreciation rates as filed by the Company in this case, and
7 continue to use the deprecation rates approved in Case No. 2014-00396 for the
8 Mitchell Plant for reasons explained in Section III, below.
9

10 2. Reject Mr. Kollen's further recommendation to eliminate an inflation rate factor
11 in connection with the calculation of the terminal net salvage amounts used for
12 determining depreciation rates for Big Sandy Unit 1. The Commission should
13 accept the Big Sandy Unit 1 depreciation rates as filed by the Company in this
14 case for reasons explained in Section III, below.
15

16 **Q. WHAT IS THE TOTAL EFFECT ON DEPRECIATION EXPENSE OF MR.**
17 **KOLLEN'S PROPOSAL FOR CALCULATING THE BIG SANDY UNIT 1 AND**
18 **MITCHELL PLANT TERMINAL NET SALVAGE AMOUNTS?**

19 A. Mr. Kollen's adjustment to remove terminal net salvage from depreciation rates reduces
20 depreciation expense by \$0.370 million for Big Sandy Unit 1 and \$0.567 million for the
21 Mitchell Plant. Mr. Kollen references this depreciation expense change on page 35, lines
22 4 thru 6 of his testimony and provides a detailed calculation of the adjustment in his
23 Exhibit ___(LK-14).

III. TERMINAL NET SALVAGE

24 **Q. WHAT IS NET SALVAGE AND HOW DOES IT AFFECT DEPRECIATION**
25 **RATES AND DEPRECIATION EXPENSE?**

26 A. Salvage includes amounts received for depreciable property retired due to sale,
27 reimbursement or reuse of the property. Removal cost is the expenditure incurred in

1 connection with retiring, removing or disposing of property. Net salvage is the
2 difference between salvage and removal cost.

3 Positive net salvage occurs when salvage exceeds removal cost. Positive net
4 salvage decreases depreciation rates and hence depreciation expense. Negative net
5 salvage occurs when removal cost exceeds salvage. Negative net salvage increases
6 depreciation rates and hence depreciation expense.

7 **Q. WHAT TYPES OF NET SALVAGE ARE TYPICALLY CONSIDERED FOR**
8 **PRODUCTION PLANT TYPE PROPERTY IN A DEPRECIATION STUDY?**

9 A. A depreciation study for production plant type property typically considers both terminal
10 and interim net salvage.

11 **Q. HOW DOES TERMINAL NET SALVAGE DIFFER FROM INTERIM NET**
12 **SALVAGE?**

13 A. Terminal net salvage includes the final cost to retire the plant at the end of its useful life
14 less any salvage received from the property retired (net salvage). Interim net salvage
15 represents amounts received (salvage) net of removal cost incurred from retirements
16 from the time a plant is placed in service until its final retirement. Net salvage is
17 included in a depreciation study to recognize that there will be a cost and/or potential
18 salvage value associated with those retirements that needs to be included in the
19 depreciation calculation.

20 **Q. DOES MR. KOLLEN TAKE EXCEPTION TO THE INCLUSION OF**
21 **TERMINAL OR INTERIM NET SALVAGE IN THE CALCULATION OF BIG**
22 **SANDY UNIT 1'S AND MITCHELL PLANTS DEPRECIATION RATES AND**
23 **EXPENSES?**

1 A. Yes. Mr. Kollen takes exception to the inclusion of terminal net salvage in the
2 calculation of Big Sandy Unit 1's and Mitchell Plant's depreciation rates and expenses.
3 In addition, Mr. Kollen takes exception to escalating the terminal net salvage amounts of
4 Big Sandy Unit 1 when calculating its depreciation rates. Mr. Kollen does not take
5 exception to the inclusion of interim net salvage in the calculation of Big Sandy Unit 1's
6 and Mitchell Plant's depreciation rates and expenses.

7 **Q. IS THE COMPANY PROPOSING TO REVISE THE DEPRECIATION RATES**
8 **FOR ITS SHARE OF THE MITCHELL PLANT DURING THIS**
9 **PROCEEDING?**

10 A. No. As stated in my direct testimony, Kentucky Power intends to continue to use the
11 depreciation rates for its ownership share of the Mitchell Plant as approved by the
12 Commission in Case No. 2014-00396.

13 **Q. WHAT REASONS DOES MR. KOLLEN GIVE FOR EXCLUDING TERMINAL**
14 **NET SALVAGE FROM THE CALCULATION OF DEPRECIATION RATES**
15 **FOR BIG SANDY UNIT 1 AND THE MITCHELL PLANT?**

16 A. Mr. Kollen's explanation is set forth at pages 32 to 34 of his testimony and is premised
17 upon his contention that:

- 18 1. The Commission should not attempt to forecast today the scope of any future
19 dismantling activities and site restoration necessary or reasonable when the
20 Company's generating units are retired decades in the future.
21
- 22 2. Including terminal net salvage in the calculation of depreciation rates for Big
23 Sandy Unit 1 will result in double recovery, once in the base revenue
24 requirement and again in the proposed renamed Decommissioning Rider.
25

1 **Q. DO YOU AGREE WITH MR. KOLLEN THAT THE COMMISSION SHOULD**
2 **NOT ATTEMPT TO FORECAST ANY FUTURE DISMANTLING ACTIVITIES**
3 **AND SITE RESTORATION PLANS?**

4 A. No. Mr. Kollen's recommendation to wait until the Company's production plants are
5 retired or are close to retirement, before including the dismantling costs in rates is
6 contrary to generational equity. It forces future ratepayers to pay for the dismantling
7 costs of retired plants in which they receive no benefit. Including terminal net salvage in
8 current depreciation rates allows for current ratepayers to pay for the cost of the
9 production plant for which they receive service.

10 **Q. DO YOU AGREE WITH MR. KOLLEN THAT INCLUDING TERMINAL NET**
11 **SALVAGE IN CALCULATION OF DEPRECIATION RATES FOR BIG SANDY**
12 **UNIT 1 WILL RESULT IN DOUBLE RECOVERY?**

13 A. No. The Company is only including costs related to the decommissioning of the coal
14 related assets at Big Sandy in the proposed Decommissioning Rider. The net salvage
15 amount used to calculate depreciation rates for Big Sandy Unit 1 only includes the
16 estimated cost to demolish Big Sandy Unit 1. When the Company retires Big Sandy
17 Unit 1 and begins demolition of the plant a portion will be applied to the
18 Decommissioning Rider and a portion will be applied to the accumulated depreciation
19 accrual for Big Sandy Unit 1. Applying a portion of the cost to each eliminates any type
20 of double recovery.

1 **Q. DOES MR. KOLLEN ALSO CHALLENGE THE MANNER IN WHICH**
2 **KENTUCKY POWER CALCULATED THE TERMINAL NET SALVAGE**
3 **AMOUNT?**

4 A. Yes. Mr. Kollen argues at page 34 of his testimony that Kentucky Power erred by
5 including an escalation factor in the calculation of Big Sandy Unit 1's terminal net
6 salvage amount on page 34 of his testimony. His reasons for excluding an escalation
7 factor are:

- 8 1. The escalation methodology "front-loads" recovery of an uncertain estimate of
9 future costs in future dollars, which is also uncertain.
- 10
11 2. There will be no changes in the physical dismantling and site restoration
12 approach assumed by Sargent & Lundy, no efficiencies from technology,
13 equipment and disposal advances, and no improvements in productivity, any of
14 which could offset future inflation costs.
- 15
16 3. Use of 2031 dollars for 2017 ratemaking purposes is an inherent mismatch and
17 forces today's customers to subsidize future customers. If the cost estimate
18 escalates in future years, then if the increased cost is reasonable and prudent,
19 those increases can be reflected in future depreciation rates.
- 20

21

22 **Q. HOW DO YOU RESPOND TO MR. KOLLEN'S CRITICISM OF THE**
23 **COMPANY'S INCLUSION OF AN ESCALATION RATE IN THE**
24 **CALCULATION OF DEPRECIATION RATES FOR BIG SANDY UNIT 1?**

25 A. Since the terminal net salvage amount represents the net salvage the Company expects to
26 incur when the plant retires and the demolition study used to determine the terminal net
27 salvage was performed in 2013, it is necessary to inflate the 2013 demolition cost
28 estimates to the 2031 estimated retirement date to obtain an accurate estimate of the final
29 demolition cost.

1 Doing so is consistent with standard and accepted depreciation practices. For
2 example, NARUC's "Public Utility Depreciation Practices" (August 1996), at page 18,
3 lines 9-13 indicates that net salvage positive or negative is to be calculated as of the date
4 of the retirement and not as of the date of the depreciation study:

5 Net salvage is expressed as a percentage of plant retired by dividing the dollars
6 of net salvage by the dollars of original cost of plant retired. The goal of
7 accounting for net salvage is to allocate the net cost of an asset to accounting
8 periods, making due allowance for the net salvage positive or negative, **that will**
9 **be obtained when the asset is retired.** (emphasis added)

10
11 The amount that will be obtained when the asset is retired will be the inflated 2031
12 amount.

13 In states where other American Electric Power Company, Inc. companies
14 operate, utility commissions have adopted depreciation calculations based on production
15 plant demolition studies comparable to the ones sponsored by KPCo in this proceeding,
16 and have accepted the practice of escalating generating unit retirement costs to the date
17 of retirement. For example, the Indiana Utility Regulatory Commission ruled in a case
18 involving non-AEP affiliate Public Service Company of Indiana, Cause No. 42359
19 (Order dated May 18, 2004, page 71), that escalation (inflation) should be factored into
20 dismantlement costs. The Indiana commission addressed a depreciation study sponsored
21 by Mr. John Spanos for the utility stating:

22 We find Mr. Spanos' approach to be realistic and consistent with past
23 experience. Inflation has been a fact of life in the American economy for
24 many years. Not factoring inflation into dismantlement costs to be
25 incurred in the future would understate those costs, with the result being
26 that future customers would have to pay costs arising from facilities that
27 are not serving them. This result flies in the face of matching rates with
28 costs incurred for service, as sound ratemaking principle followed by this
29 Commission. Moreover, current customers receive a benefit by factoring
30 in inflation, as it may appropriately allow for a reduction in rate base

1 because of the increased accumulated reserve for depreciation.
2 **Accordingly, this Commission finds that accounting for inflation in**
3 **determining the dismantlement estimates to be used as part of PSI's**
4 **depreciation rates is reasonable.** (emphasis added)

5

6 **Q. HOW DO YOU RESPOND TO MR. KOLLEN'S CRITICISM THAT**
7 **INCLUSION OF AN ESCALATION RATE "FRONT-LOADS" RECOVERY OF**
8 **AN UNCERTAIN ESTIMATE OF FUTURE COSTS?**

9 A. Mr. Kollen implies that that the Company will not dismantle Big Sandy Unit 1 after the
10 plant is no longer in use. Based on its historical record, AEP has demonstrated that it
11 demolishes retired generating plants. Since 1955, Appalachian Power Company which
12 is a wholly owned subsidiary of AEP has retired five steam generating plants including
13 Kingsport, Roanoke, Kenova, Logan and Cabin Creek Plants. All five of these plants
14 have been demolished. AEP affiliate Indiana Michigan Power Company ("I&M")
15 completed the demolition of its Breed generating plant in 2006. In 2016, I&M
16 completed the sale of its retired Tanners Creek generating plant site at a cost to I&M.
17 The sale of the Tanners Creek plant site included demolition of the plant and the
18 associated liabilities at the plant site.

19 The cost associated with dismantling the plant is a cost that the Company will
20 incur after the plant is no longer in use. Straight-line depreciation calculations are
21 designed to produce equal annual depreciation amounts by calculating depreciation rates
22 that allocate the remaining cost of a utility's investment, including net salvage, over the
23 remaining life of the investment. Adding an escalation rate does not "front-load" future

1 costs. It evenly spreads the final cost to dismantle the plant at retirement evenly over the
2 remaining life of the plant.

3 **Q. IS THE COMPANY'S ESTIMATE OF THE FINAL COST TO DISMANTLE**
4 **THE PLANT REASONABLE?**

5 A. Yes. The company contracted with an independent engineering firm, Sargent & Lundy,
6 to provide an estimate of the cost to dismantle the Big Sandy Plant. That estimate
7 provides a basis for the final costs that will be incurred at the plant site. Mr. Kollen does
8 not provide a different estimate.

9 **Q. HOW DO YOU RESPOND TO MR. KOLLEN'S ASSERTION THAT S&L**
10 **FAILS TO FACTOR INTO ITS ESTIMATE FUTURE EFFICIENCIES WHICH**
11 **COULD OFFSET FUTURE INFLATION COSTS?**

12 A. Mr. Kollen similarly fails to provide any examples of the type of efficiencies that can be
13 obtained in the future and the effect those efficiencies could have on the estimate
14 provided by Sargent & Lundy.

15 **Q. IS MR. KOLLEN ACCURATE WHEN HE INDICATES THAT USE OF 2031**
16 **DOLLARS FOR 2017 RATEMAKING PURPOSES IS AN INHERENT**
17 **MISMATCH AND FORCES TODAY'S CUSTOMERS TO SUBSIDIZE**
18 **FUTURE CUSTOMERS?**

19 A. No, in fact the opposite is correct. A central tenant of regulatory practice is generational
20 equity where the cost of electric service is borne by the customers who benefit from that
21 service. Using an escalated 2031 terminal demolition cost for Big Sandy Unit 1 creates a
22 level amount of depreciation expense to be included in rates for current and future

1 customers. Failure to incorporate escalation in the terminal demolition cost estimate
2 would cause future customers to pay continually increasing amounts. The lack of an
3 escalation would also be contrary to straight line depreciation principles.

IV. SUMMARY AND CONCLUSION

4 **Q. PLEASE SUMMARIZE YOUR CONCLUSIONS REGARDING MR. KOLLEN'S**
5 **RECOMMENDATION TO ELIMINATE THE TERMINAL NET SALVAGE**
6 **AMOUNTS FOR BOTH BIG SANDY UNIT 1 AND THE MITCHELL PLANT**
7 **FROM THE CALCULATION OF DEPRECIATION RATES.**

8 A. Mr. Kollen is incorrect in his assumption that terminal net salvage should be excluded
9 when calculating depreciation rates for both Big Sandy Unit 1 and the Mitchell Plant.
10 The Commission should accept the Big Sandy Unit 1 depreciation rates as filed by the
11 Company in this case and continue to use the deprecation rates approved in Case No.
12 2014-00396 for the Mitchell Plant.

13 **Q. DO YOU HAVE ANY FURTHER COMMENTS REGARDING MR. KOLLEN'S**
14 **RECOMMENDATIONS AROUND TERMINAL NET SALVAGE?**

15 Yes. Mr. Kollen is also incorrect in his assumption that no escalation should be applied
16 to calculate Big Sandy Unit 1's terminal net salvage cost. As previously mentioned, the
17 Commission should accept the Big Sandy Unit 1 depreciation rates as filed by the
18 Company in this case.

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

20 A. Yes.

**Mitchell Generating Plant
Performance Data
2021**

Unit	Year	Month	Forced Outage Rate [%]	Equivalent Forced Outage Rate [%]	Equivalent Availability Factor [%]	Net Capacity Factor [%]	Net Heat Rate [Btu/kWh]
Mitchell 1	2021	Jan	0.00	11.88	62.33	41.38	10875.00
Mitchell 1	2021	Feb	37.97	39.12	52.69	36.53	11142
Mitchell 1	2021	Mar	64.70	65.11	27.15	12.93	11691
Mitchell 1	2021	Apr	70.49	70.49	29.22	15.18	10628
Mitchell 1	2021	May	100.00	100.00	0.00	0.00	0
Mitchell 1	2021	Jun	19.38	25.68	72.38	55.90	10659
Mitchell 1	2021	Jul	0.00	11.01	61.89	54.13	11111
Mitchell 1	2021	Aug	42.67	46.94	51.99	45.20	10766
Mitchell 1	2021	Sep	37.00	47.07	53.62	47.19	10292
Mitchell 1	2021	Oct	38.69	38.69	14.54	9.64	11027
Mitchell 1	2021	Nov	0.00	0.00	0.00	0.00	0
Mitchell 1	2021	Dec	0.00	0.00	42.25	0.00	0
Mitchell 1	2021	Jan-Dec	43.90	48.50	38.89	26.39	10838

Unit	Year	Month	Forced Outage Rate [%]	Equivalent Forced Outage Rate [%]	Equivalent Availability Factor [%]	Net Capacity Factor [%]	Net Heat Rate [Btu/kWh]
Mitchell 2	2021	Jan	0.00	0.00	78.36	0.00	0
Mitchell 2	2021	Feb	42.53	44.09	59.04	38.74	10850
Mitchell 2	2021	Mar	0.00	1.79	16.49	9.10	10769
Mitchell 2	2021	Apr	0.00	7.23	15.15	10.72	10346
Mitchell 2	2021	May	0.00	1.34	98.36	65.03	10433
Mitchell 2	2021	Jun	0.00	0.83	74.69	51.02	10348
Mitchell 2	2021	Jul	0.00	8.59	81.77	71.11	9949
Mitchell 2	2021	Aug	0.00	18.01	81.05	77.10	10062
Mitchell 2	2021	Sep	0.00	12.37	57.57	55.23	9987
Mitchell 2	2021	Oct	0.00	12.36	57.65	45.54	10057
Mitchell 2	2021	Nov	13.02	15.91	71.27	29.93	10783
Mitchell 2	2021	Dec	9.67	16.70	79.76	63.42	10669
Mitchell 2	2021	Jan-Dec	6.91	14.16	64.42	43.19	10306

**Mitchell Generating Plant
 Performance Data
 2020**

Unit	Year	Month	Forced Outage Rate [%]	Equivalent Forced Outage Rate [%]	Equivalent Availability Factor [%]	Net Capacity Factor [%]	Net Heat Rate [Btu/kWh]
Mitchell 1	2020	Jan	11.35	24.31	30.87	11.36	11195
Mitchell 1	2020	Feb	0.00	1.11	98.47	47.79	10676
Mitchell 1	2020	Mar	23.46	23.48	61.45	30.48	10458
Mitchell 1	2020	Apr	49.69	49.99	34.05	15.34	11046
Mitchell 1	2020	May	0.00	0.71	91.96	43.73	10654
Mitchell 1	2020	Jun	2.33	4.45	64.49	26.67	10693
Mitchell 1	2020	Jul	26.95	27.13	69.71	40.98	10607
Mitchell 1	2020	Aug	71.97	71.97	54.00	5.00	11005
Mitchell 1	2020	Sep	0.00	15.67	86.22	27.58	11597
Mitchell 1	2020	Oct	0.00	0.00	4.61	4.25	11132
Mitchell 1	2020	Nov	0.00	0.00	17.11	0.00	0
Mitchell 1	2020	Dec	4.30	5.43	67.11	17.01	10476
Mitchell 1	2020	Jan-Dec	16.66	19.16	56.51	22.43	10775

Unit	Year	Month	Forced Outage Rate [%]	Equivalent Forced Outage Rate [%]	Equivalent Availability Factor [%]	Net Capacity Factor [%]	Net Heat Rate [Btu/kWh]
Mitchell 2	2020	Jan	0.00	7.48	82.02	29.88	10645
Mitchell 2	2020	Feb	0.00	5.54	92.45	55.07	10362
Mitchell 2	2020	Mar	0.00	4.22	60.34	33.68	10156
Mitchell 2	2020	Apr	0.00	0.00	80.00	0.00	0
Mitchell 2	2020	May	0.00	3.51	14.05	9.50	10311
Mitchell 2	2020	Jun	58.38	58.38	31.86	16.01	10284
Mitchell 2	2020	Jul	0.00	2.16	96.91	52.64	10167
Mitchell 2	2020	Aug	28.42	30.05	67.96	42.15	10400
Mitchell 2	2020	Sep	0.00	0.00	67.31	0.00	0
Mitchell 2	2020	Oct	0.00	1.32	97.19	26.33	10587
Mitchell 2	2020	Nov	0.00	14.78	84.84	53.11	10846
Mitchell 2	2020	Dec	0.00	0.22	97.11	43.99	10346
Mitchell 2	2020	Jan-Dec	9.89	14.40	72.64	30.20	10422

Mitchell Generating Plant
Performance Data
2019

KPSC Case No. 2012-00578
 March 1, 2020
 Attachment 1
 Page 1 of 1

Mitchell Unit 1

Net Max Capacity: 770

Month	Forced Outage Rate (%)	Equiv Forced Outage Rate (%)	Equiv. Avail. Factor (%)	Net Cap. Factor (%)	Heat Rate Actual (BTU/KWH)
Jan	0.00	0.60	99.27	73.08	10,490
Feb	11.26	12.00	87.41	61.63	5,235
Mar	13.53	13.53	22.12	16.36	11,164
Apr	0.00	0.00	0.00	0.00	0
May	0.00	0.00	0.00	0.00	0
Jun	4.65	5.35	58.00	34.69	10,507
Jul	0.57	1.06	76.22	53.32	10,809
Aug	0.00	0.15	69.97	49.54	8,892
Sep	47.26	49.11	64.29	24.35	12,442
Oct	0.00	2.61	95.85	67.79	10,383
Nov	27.55	27.94	71.60	52.33	10,107
Dec	100.00	100.00	27.38	0.00	0
YTD Totals	12.14	13.07	55.84	35.97	9,757

Mitchell Unit 2

Net Max Capacity: 790

Month	Forced Outage Rate (%)	Equiv Forced Outage Rate (%)	Equiv. Avail. Factor (%)	Net Cap. Factor (%)	Heat Rate Actual (BTU/KWH)
Jan	2.67	3.58	94.24	46.04	10,837
Feb	21.49	23.37	51.74	30.01	7,432
Mar	0.00	5.19	93.72	67.98	10,144
Apr	1.19	18.05	42.70	31.53	9,011
May	0.00	2.67	97.02	63.31	10,963
Jun	0.00	14.05	46.42	32.32	11,697
Jul	4.43	18.09	66.64	48.54	11,033
Aug	0.00	1.15	77.07	48.05	7,839
Sep	0.00	15.34	83.33	65.02	10,476
Oct	0.00	26.63	6.72	5.93	12,558
Nov	0.00	0.00	4.28	0.00	0
Dec	13.26	29.55	79.46	13.28	11,817
YTD Totals	2.81	11.10	62.21	37.78	10,176

**Mitchell Generating Plant
Performance Data
2018**

KPSC Case No. 2012-00578
March 1, 2019
Attachment 1
Page 1 of 1

Mitchell Unit 1

Net Max Capacity: 770

Month	Forced Outage Rate (%)	Equiv Forced Outage Rate (%)	Equiv. Avail. Factor (%)	Net Cap. Factor (%)	Heat Rate Actual (BTU/KWH)
Jan-18	0.53	5.06	55.03	44.80	10,413
Feb-18	12.79	13.27	87.89	24.26	9,685
Mar-18	0.00	0.00	0.00	0.00	0
Apr-18	16.38	19.46	6.75	5.41	11,986
May-18	6.68	7.57	91.29	71.10	10,431
Jun-18	86.96	87.39	15.74	8.60	10,948
Jul-18	21.87	28.06	71.94	54.12	10,176
Aug-18	2.03	16.37	78.11	61.69	10,784
Sep-18	17.70	21.16	64.62	48.57	11,037
Oct-18	7.85	11.87	75.72	44.21	11,808
Nov-18	0.00	0.94	97.44	51.09	11,342
Dec-18	13.64	14.43	78.01	40.93	7,663
YTD Total	17.99	21.72	60.15	38.12	10,485

Mitchell Unit 2

Net Max Capacity: 790

Month	Forced Outage Rate (%)	Equiv Forced Outage Rate (%)	Equiv. Avail. Factor (%)	Net Cap. Factor (%)	Heat Rate Actual (BTU/KWH)
Jan-18	0.00	2.12	95.76	81.81	9,692
Feb-18	0.00	2.21	96.53	67.96	9,231
Mar-18	0.00	0.39	5.71	4.52	10,153
Apr-18	0.00	0.00	0.00	0.00	0
May-18	30.55	41.58	52.92	43.55	10,303
Jun-18	0.00	19.58	70.69	54.31	11,788
Jul-18	0.00	8.95	88.71	72.60	11,171
Aug-18	0.00	12.37	85.72	73.88	11,788
Sep-18	0.00	12.39	41.30	33.71	11,262
Oct-18	16.64	17.37	60.83	37.12	11,370
Nov-18	66.16	66.16	62.42	1.74	13,654
Dec-18	0.00	0.93	76.46	37.13	6,013
YTD Total	6.10	13.84	61.33	42.37	10,410

**Mitchell Generating Plant
Performance Data
2017**

KPSC Case No. 2012-00578
March 1, 2018
Attachment 1
Page 1 of 1

Mitchell Unit 1

Net Max Capacity: 770

Month	Forced Outage Rate (%)	Equiv Forced Outage Rate (%)	Equiv. Avail. Factor (%)	Net Cap. Factor (%)	Heat Rate Actual (BTU/KWH)
Jan 17	89.55	89.98	8.32	7.48	10,504
Feb 17	100.00	100.00	0.00	0.00	0
Mar 17	100.00	100.00	0.00	0.00	0
Apr 17	0.00	0.00	43.99	34.36	10,001
May 17	0.00	0.21	99.20	77.76	10,042
Jun 17	3.53	5.05	94.63	66.00	10,351
Jul 17	0.00	8.64	89.15	71.45	10,967
Aug 17	0.00	11.93	87.23	67.31	10,654
Sep 17	26.01	26.33	55.23	36.79	10,563
Oct 17	22.72	22.96	78.28	51.22	10,375
Nov 17	0.00	0.00	99.38	68.90	10,337
Dec 17	0.00	0.07	99.32	72.75	9,943
YTD TOTAL	23.85	26.15	63.31	46.50	10,382

Mitchell Unit 2

Net Max Capacity: 790

Month	Forced Outage Rate (%)	Equiv Forced Outage Rate (%)	Equiv. Avail. Factor (%)	Net Cap. Factor (%)	Heat Rate Actual (BTU/KWH)
Jan 17	13.31	14.59	83.32	69.31	9,878
Feb 17	0.00	2.34	96.23	70.06	10,125
Mar 17	0.00	4.63	95.08	83.09	9,806
Apr 17	0.00	11.86	40.31	37.53	9,702
May 17	11.85	13.61	50.79	39.72	9,443
Jun 17	0.00	1.56	81.39	61.95	8,612
Jul 17	0.00	1.96	97.72	77.89	10,121
Aug 17	0.00	0.46	98.40	74.03	10,073
Sep 17	0.00	0.17	98.41	71.45	10,022
Oct 17	0.00	0.59	97.02	75.10	9,024
Nov 17	0.00	0.03	99.09	72.00	9,439
Dec 17	0.00	2.02	79.99	56.92	9,754
YTD TOTAL	1.96	3.91	84.77	65.77	9,686

Kentucky Power Company
KPSC Case No. 2021-00421
Commission Staff's First Set of Data Requests
Dated December 9, 2021

DATA REQUEST

KPSC 1-08 Refer to the Mattison Testimony, Exhibit DBM-3, Article 6.4(d). Confirm that the ownership agreement defines ELG Upgrade capital expenditures but does not set out a procedure for determining whether any operations and maintenance expense is related to the ELG equipment, despite setting out that Wheeling Power is solely responsible for these costs, regardless of FERC account designation. If this cannot be confirmed, explain. If confirmed, explain how ELG operations and maintenance expenses will be segregated.

RESPONSE

It is confirmed that the Ownership Agreement defines ELG Upgrade capital expenditures in Article 14 (page 14). Articles 6.4(d) clearly defines that “any operations and maintenance or other expenses to the extent attributable to any ELG Upgrade (regardless of the FERC Account to which it is charged) shall be allocated exclusively to and paid by WPCo.” The Ownership Agreement clearly states in Article 2 that the Operator will employ Prudent Operation and Maintenance Practices and defines this term. Those practices in place today in Kentucky Power plants, and that will continue under Wheeling Power at Mitchell Plant, include procedures to charge time, materials, and other expenses to work orders that are assigned to specific equipment or systems. Thus the determination of the amount of ELG Upgrade operations, maintenance, and other expenses will be based on a review of accounting records whose work orders list ELG Upgrade equipment.

Witness: Timothy C. Kerns

GLBU	Project	Work	Work Order	Budget Category	2019	2020	2021	Grand Total	
					Total Year	Total Year	YTD (11) Nov		
117 Kentucky Power Co - Gene	000020310 ML U0 ELG Compliance	CCR	E10164546001 ML New Wastewater Ponds Inst	Capital	\$0.00	\$183,020.50	\$1,546,383.56	\$1,729,404.06	
			E10164546002 ML New Wastewater Ponds Rmvl	Removal	\$0.00	\$0.00	\$293.25	\$293.25	
		CCR Total				\$0.00	\$183,020.50	\$1,546,676.81	\$1,729,697.31
		ELG	E10075764001 Bottom Ash Pond CCR Compliance	Capital	\$170,487.51	\$1,363,865.62	(\$95,639.90)	\$1,438,713.23	
			E10075764002 ML Dry Ash Hndling Conv Rmvl	Removal	\$0.00	\$0.00	\$0.00	\$0.00	
			E10164593001 ML FGD Wstewater Trtmnt Inst	Capital	\$0.00	\$1,038.67	\$7,246.45	\$8,285.12	
		ELG Total			\$170,487.51	\$1,364,904.29	(\$88,393.45)	\$1,446,998.35	
117 Kentucky Power Co - Gene Total					\$170,487.51	\$1,547,924.79	\$1,458,283.36	\$3,176,695.66	
413 Wheeling Power Co - Generation	000026166 ML U0 ELG.CCR Compliance - WP	CCR	E10164546ML001 ML New Wastewater Ponds Inst	Capital	\$0.00	\$182,464.67	\$1,514,941.00	\$1,697,405.67	
			E10164546ML002 ML New Wastewater Ponds Rmvl	Removal	\$0.00	\$0.00	\$293.25	\$293.25	
		CCR Total			\$0.00	\$182,464.67	\$1,515,234.25	\$1,697,698.92	
		ELG	E10075764ML001 Bottom Ash Pond CCR Compliance	Capital	\$170,495.59	\$1,340,937.28	\$1,697,773.82	\$3,209,206.69	
			E10075764ML002 ML Dry Ash Hndling Conv Rmvl	Removal	\$0.00	\$576.62	\$307.74	\$884.36	
			E10164593ML001 ML FGD Wstewater Trtmnt Inst	Capital	\$0.00	\$1,027.00	\$24,359.46	\$25,386.46	
		ELG Total			\$170,495.59	\$1,342,540.90	\$1,722,441.02	\$3,235,477.51	
413 Wheeling Power Co - Generation Total					\$170,495.59	\$1,525,005.57	\$3,237,675.27	\$4,933,176.43	

Mitchell Work Orders (000020310)

CCR	Description
E10164592001	ML Bottom Ash Removal - Fuel
E10164546001	ML New Wastewater Ponds - Install
E10164546002	ML New Wastewater Ponds - Removal
	ML New Wastewater Ponds - ARO (WO not created yet)
ELG	Description
E10075764001	Bottom Ash Pond CCR Compliance (ML Dry Ash Handling Conversion - Install)
E10075764002	ML Dry Ash Handling Conversion - Removal
E10164593001	ML FGD Wastewater Treatment - Install

Mitchell WPCo Shadow Work Orders (000026166)

CCR	Description
	ML Bottom Ash Removal - Fuel
E10164546ML001	ML New Wastewater Ponds - Install
E10164546ML002	ML New Wastewater Ponds - Removal
	ML New Wastewater Ponds - ARO (WO not created yet)
ELG	Description
E10075764ML001	Bottom Ash Pond CCR Compliance (ML Dry Ash Handling Conversion - Install)
E10075764ML002	ML Dry Ash Handling Conversion - Removal
E10164593ML001	ML FGD Wastewater Treatment - Install

KPCO_R_KPSC_RH_2_1_Supplemental_Attachment1
 Mitchell Plant ELG Project Cost Components
 Case No. 2021-00004

Line No.	Cost Component Description	Cost Component	(A)	(B)	(C)	(D)	(E)
			2019	2020	June 2021 YTD	AJE ³	Total
Kentucky Power Company Mitchell Plant ELG Project Cost¹ Incurred Through June 2021 FERC Account 107 - Construction Work in Progress (CWIP)							
1	Construction/Retirement Ovhd	020	29,686.96	290,056.60	95,416.69	(33,387.76)	381,772.49
2	AFUDC Debt	023	142.73	23,074.14	9,499.56	-	32,716.43
3	AFUDC Equity	024	7.94	25,719.41	16,910.07	-	42,637.42
4	Capitalized Interest	025				-	-
5	Exempt Labor	11E		7,024.41	4,678.50	(778.98)	10,923.93
6	Non Exempt Labor	11N		223.25		-	223.25
7	Labor Fringes (Straight-time)	120		2,887.67	2,512.75	(288.23)	5,112.19
8	Labor Fringes (Incentv Accr)	122		30.88	108.65	(1.24)	138.29
9	Labor Fringes -Other NTL Pymt	123		0.03		-	0.03
10	Payroll Dist Nonproductive	125		1,498.87	970.22	(147.37)	2,321.72
11	Incentive Accrual Dept Level	141		40.77	950.07	-	990.84
12	Other Lump Sum Payments	143		0.25		-	0.25
13	Stock-based Compensation	145		8.16		-	8.16
14	Generation Incentives	149		228.43	11.65	(10.98)	229.10
15	Stock-Based Compensation Units	153		16.44	101.39	(2.43)	115.40
16	Restricted Stock Incentives	154		5.23	0.74	(0.58)	5.39
17	Contract Labor (General)	210	33,862.17	1,301.35	1,982.73	(33,862.17)	3,284.08
18	Professional Svcs Exp Gen	260	95,226.19	401,332.53	20,712.83	(169,842.83)	347,428.72
19	Legal Services And Expenses	262			34,817.25	-	34,817.25
20	Fleet Clearing	413		0.51	376.75	-	377.26
21	Busin Exp 100% Deduct Gen	510		1,311.63	95.33	(177.52)	1,229.44
22	Business Exp Part Deduct Gen	520		206.02		-	206.02
23	Overheads	620		13.65	1,673.75	-	1,687.40
24	SS Fleet Prod/Svcs	738		55.35	35.79	(6.74)	84.40
25	AEPSC Bill	780	11,561.52	530,669.66	187,140.74	(155,744.32)	573,627.60
26	Capitalized Property Taxes	932		709.72	6,421.09	(113.55)	7,017.26
27	Cell Phone and Pager Expense	935		25.33	20.87	(2.66)	43.54
28	PPE/Safety Equipment Expense	936			0.49	-	0.49
29	Accounts Payable Accruals	9AA		751,769.15	568,963.82	-	1,320,732.97
30	Accts Payable Accrual Reversal	9AB		(673,305.15)	(586,513.07)	-	(1,259,818.22)
31	Total		170,487.51	1,364,904.29	366,888.66	(394,367.36)	1,507,913.10

32 Requested Regulatory Asset Line Nos. 1 - 28 1,446,998.35

33 ¹ Work Orders E10075764001 Bottom Ash Pond CCR Compliance and E10164593001 ML FGD Wstewater Trtmnt Inst

34 ² Work Orders E10075764ML001 Bottom Ash Pond CCR Compliance and E10164593ML001 ML FGD Wstewater Trtmnt Inst

35 ³ A review of costs, initiated prior to July 2021, identified costs charged to the ELG work order which more properly applied to the CCR project. An adjusting journal entry (AJE) was posted in the September 2021 accounting close process to reclassify these costs accordingly, as presented columns (D), (I), and (N) above.

(F) (G) (H) (I) (J)

Wheeling Power Company Mitchell Plant ELG Project Cost² Incurred Through June 2021 FERC Account 107 - Construction Work in Progress (CWIP)				
2019	2020	June 2021 YTD	AJE ³	Total
29,686.96	290,056.66	95,416.76	(33,387.77)	381,772.61
117.17	25,400.61	2,616.93	-	28,134.71
	451.59		-	451.59
41.56			-	41.56
	7,024.56	4,678.54	(778.99)	10,924.11
	223.25		-	223.25
	2,887.76	2,512.80	(288.24)	5,112.32
	30.97	108.70	(1.24)	138.43
	0.03		-	0.03
	1,498.99	970.23	(147.38)	2,321.84
	40.77	950.09	-	990.86
	0.26		-	0.26
	8.17		-	8.17
	228.54	11.65	(10.97)	229.22
	16.52	101.44	(2.43)	115.53
	5.26	0.75	(0.58)	5.43
33,862.18	1,301.36	1,982.77	(33,862.18)	3,284.13
95,226.20	401,332.56	20,712.87	(169,842.84)	347,428.79
		34,817.26	-	34,817.26
	0.52	376.75	-	377.27
	1,311.65	95.34	(177.56)	1,229.43
	206.02		-	206.02
	13.66	1,673.78	-	1,687.44
	55.43	35.84	(6.74)	84.53
11,561.52	530,670.01	187,140.98	(155,744.33)	573,628.18
	709.73	6,421.10	(113.56)	7,017.27
	25.40	20.90	(2.67)	43.63
		0.50	-	0.50
	751,769.16	568,963.88	-	1,320,733.04
	(673,305.16)	(586,513.13)	-	(1,259,818.29)
170,495.59	1,341,964.28	343,096.73	(394,367.48)	1,461,189.12

(K)	(L)	(M)	(N)	(O)
Total				
Mitchell Plant ELG Project Cost				
Incurred Through June 2021				
FERC Account 107 - Construction Work in Progress (CWIP)				
2019	2020	June 2021 YTD	AJE³	Total
59,373.92	580,113.26	190,833.45	(66,775.53)	763,545.10
259.90	48,474.75	12,116.49	-	60,851.14
7.94	26,171.00	16,910.07	-	43,089.01
41.56	-	-	-	41.56
-	14,048.97	9,357.04	(1,557.97)	21,848.04
-	446.50	-	-	446.50
-	5,775.43	5,025.55	(576.47)	10,224.51
-	61.85	217.35	(2.48)	276.72
-	0.06	-	-	0.06
-	2,997.86	1,940.45	(294.75)	4,643.56
-	81.54	1,900.16	-	1,981.70
-	0.51	-	-	0.51
-	16.33	-	-	16.33
-	456.97	23.30	(21.95)	458.32
-	32.96	202.83	(4.86)	230.93
-	10.49	1.49	(1.16)	10.82
67,724.35	2,602.71	3,965.50	(67,724.35)	6,568.21
190,452.39	802,665.09	41,425.70	(339,685.67)	694,857.51
-	-	69,634.51	-	69,634.51
-	1.03	753.50	-	754.53
-	2,623.28	190.67	(355.08)	2,458.87
-	412.04	-	-	412.04
-	27.31	3,347.53	-	3,374.84
-	110.78	71.63	(13.48)	168.93
23,123.04	1,061,339.67	374,281.72	(311,488.65)	1,147,255.78
-	1,419.45	12,842.19	(227.11)	14,034.53
-	50.73	41.77	(5.33)	87.17
-	-	0.99	-	0.99
-	1,503,538.31	1,137,927.70	-	2,641,466.01
-	(1,346,610.31)	(1,173,026.20)	-	(2,519,636.51)
340,983.10	2,706,868.57	709,985.39	(788,734.84)	2,969,102.22

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

DIRECT TESTIMONY

AND EXHIBITS

OF

LANE KOLLEN

ON BEHALF OF THE

KENTUCKY INDUSTRIAL UTILITY CUSTOMERS, INC.

**J. KENNEDY AND ASSOCIATES, INC.
ROSWELL, GEORGIA**

OCTOBER 2017

STAFF HEARING EXHIBIT 3

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

TABLE OF CONTENTS

I. QUALIFICATIONS AND SUMMARY..... 1

II. THE INCREASES IN THIS PROCEEDING WILL COMPOUND THE NEGATIVE EFFECTS OF PRIOR SIGNIFICANT INCREASES IN CUSTOMER RATES..... 5

III. OPERATING INCOME ISSUES 7

 Defer Rockport 2 Lease Expense 7

 Increase Revenues to Reflect Weather Normalization of Commercial Sales.....15

 Reduce O&M Expense Adjustments Related to Revenue Adjustments.....17

 Disallow Incentive Compensation Expense Tied to Financial Performance.....19

 Reject Post Test Year Merit and Related Overtime Wage and Salary Increases.....23

 Reject Expense for Proposed Increases in Staffing24

 Reduce Amortization Expense to Properly Calibrate Storm Damage Amortization.....26

 Reduce Depreciation Rates and Expense to Reflect Converted Big Sandy 1 Remaining Service Life to 30 Years.....28

 Eliminate Terminal Net Salvage in Big Sandy 1 and Mitchell Plant Depreciation Rates.....31

 Include §199 Tax Deduction in Gross-Up Factor Used for Income Tax Expense35

IV. CAPITALIZATION ISSUES40

 Correct Capitalization So that It Reflects Adjustments to Remove Non-Utility and Surcharge Investments.....40

 Reduce Coal Inventory to Reflect Lower of Actual or Target42

V. COST OF CAPITAL ISSUES.....44

 Effect of Short-Term Debt In Capitalization.....44

 Effect of Return on Common Equity Recommended by KIUC.....46

VI. POTENTIAL FEDERAL INCOME TAX RATE REDUCTION48

**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

DIRECT TESTIMONY OF LANE KOLLEN

I. QUALIFICATIONS AND SUMMARY

1 **Q. Please state your name and business address.**

2 A. My name is Lane Kollen. My business address is J. Kennedy and Associates, Inc.
3 ("Kennedy and Associates"), 570 Colonial Park Drive, Suite 305, Roswell, Georgia
4 30075.

5

6 **Q. What is your occupation and by whom are you employed?**

7 A. I am a utility rate and planning consultant holding the position of Vice President and
8 Principal with the firm of Kennedy and Associates.

9

10 **Q. Please describe your education and professional experience.**

11 A. I earned a Bachelor of Business Administration ("BBA") degree in accounting and a
12 Master of Business Administration ("MBA") degree from the University of Toledo.

1 I also earned a Master of Arts (“MA”) degree in theology from Luther Rice
2 University. I am a Certified Public Accountant (“CPA”), with a practice license,
3 Certified Management Accountant (“CMA”), and Chartered Global Management
4 Accountant (“CGMA”). I am a member of numerous professional organizations.

5 I have been an active participant in the utility industry for more than thirty
6 years, initially as an employee of The Toledo Edison Company from 1976 to 1983
7 and thereafter as a consultant in the industry since 1983. I have testified as an expert
8 witness on planning, ratemaking, accounting, finance, and tax issues in proceedings
9 before regulatory commissions and courts at the federal and state levels on hundreds
10 of occasions.

11 I have testified before the Kentucky Public Service Commission on numerous
12 occasions, including Kentucky Power Company (“KPC” or “Company”) base rate
13 proceedings, Case Nos. 2014-00396, 2009-00459, and 2005-00341; Mitchell
14 acquisition proceeding, Case No. 2012-00578; allocation of fuel costs to off-system
15 sales proceeding, Case No. 2014-00255; ecoPower biomass purchased power
16 agreement (“PPA”) proceeding, Case No. 2013-00144; Big Sandy 2 environmental
17 retrofit proceeding, Case No. 2011-00401; wind power PPA proceeding, Case No.
18 2009-00545; various Company Environmental Surcharge (“ES”) proceedings and
19 Fuel Adjustment Clause (“FAC”) proceedings; numerous Louisville Gas and Electric
20 Company (“LG&E”) and Kentucky Utilities Company (“KU”) base rate
21 proceedings; numerous LG&E and KU ES and FAC proceedings; and other

1 proceedings involving Big Rivers Electric Corporation and East Kentucky Power
2 Cooperative, Inc.¹

3
4 **Q. On whose behalf are you testifying?**

5 A. I am testifying on behalf of the Kentucky Industrial Utility Customers, Inc.
6 (“KIUC”), a group of large customers taking electric service on the KPC system.
7 KIUC has been an active participant in all significant KPC rate and certification
8 proceedings for more than thirty years.

9
10 **Q. What is the purpose of your testimony?**

11 A. The purpose of my testimony is to: 1) summarize the KIUC revenue requirement
12 recommendations, 2) address specific issues that affect the Company’s revenue
13 requirement, 3) quantify the effect on the revenue requirement of the cost of capital
14 recommendations, including return on equity, provided by KIUC witness Mr.
15 Richard Baudino, and 4) address the ratemaking implications of a potential federal
16 income tax rate reduction.

17
18 **Q. Please summarize your testimony.**

19 A. The Commission should carefully scrutinize the Company’s requests and consider
20 KIUC’s recommendations in this proceeding in order to limit the additional increases
21 to just and reasonable amounts and to mitigate the effects on customers. The
22 Company’s rates charged to customers already have increased 71% over the last ten

¹ My qualifications and regulatory appearances are further detailed in my Exhibit___(LK-1).

1 years and 141% over the last fifteen years. The requests in this proceeding seek
2 additional increases of more than 11% compared to present rates.

3 I recommend that the Commission increase the Company's base rates by no
4 more than \$13.385 million compared to the Company's revised proposed base
5 increase of \$60.397 million.² In the following table, I provide a summary of the
6 KIUC recommendations compared to the Company's request for a base rate increase.
7 The KIUC recommendations regarding the cost of capital will also reduce the
8 Environmental Surcharge and Decommissioning Rider³ revenue requirements,
9 although I do not show the quantification of these amounts in the table.

Summary of KIUC Recommendations
Case No. 2017-00179
For the Test Year Ended February 28, 2017
(\$ Millions)

Base Rate Increase Requested by Company	
Requested Base Increase As Modified by Aug 7, 2017 Suppl Filing	60.397
Operating Income Issues	
Defer Rockport Unit 2 Lease Expense	(20.307)
Increase Revenues to Apply Weather Normalization to Commercial Sales Net of Variable O&M	(0.400)
Reduce Variable O&M Expense Adjustments Due to Revenue Adjustments	(0.172)
Remove Incentive Compensation Expense Tied to Financial Performance	(3.153)
Reject Post Test Year Merit and Related Overtime Increases Projected in 2017	(0.981)
Reject Increases in Staffing	(0.174)
Reduce Amortization Expense to Recalibrate Storm Damage Amortization	(1.221)
Reduce Depreciation Expense by Extending Rem Service Life of BS1 to 30 Years	(4.764)
Reduce Depreciation Expense by Removing Terminal Net Salvage for BS1	(0.372)
Reduce Depreciation Expense by Removing Terminal Net Salvage for Mitchell Plant	(0.570)
Include Section 199 Deduction in Gross Revenue Conversion Factor	(1.320)
Capitalization Issues	
Remove Net DSM, Other Surcharge, and Non-Utility Costs from Capitalization	(0.912)
Reduce Low Sulfur Coal Inventory to Reflect Actual	(0.117)
Cost of Capital Issues	
Increase Short Term Debt to 2% of Capital Structure and Set Debt Rate at 1.25%	(0.712)
Reduce Return on Equity from 10.31% to 8.85%	(11.838)
Total KIUC Adjustments to KPCo Request	(47.012)
Increase After KIUC Adjustments	13.385

²The Company filed a supplemental on August 28, 2017.

³ The Company has proposed renaming the present Big Sandy Retirement Rider to the Decommissioning Rider ("DR"). Hereafter, I refer to this surcharge mechanism as the Decommissioning Rider or DR.

1 In addition to the issues shown on the preceding table, I address the effects of
2 potential federal income tax rate reductions and recommend that the Commission
3 direct the Company to defer any reductions in income tax expense until the savings
4 can be reflected in rates.

5 The remainder of my testimony is structured to address each of the issues on
6 the preceding table followed by the potential federal income tax rate reduction issue.
7 The amounts that I cite throughout my testimony are Kentucky retail-jurisdictional
8 (“jurisdictional”) unless otherwise indicated as “total Company.”

9
10 **II. THE INCREASES IN THIS PROCEEDING WILL COMPOUND THE**
11 **NEGATIVE EFFECTS OF PRIOR SIGNIFICANT INCREASES IN CUSTOMER**
12 **RATES**
13

14 **Q. Please describe the significant increases in customer rates over the last ten**
15 **years.**

16 A. The Company’s rates have increased significantly compared to the rates that were in
17 effect ten and fifteen years ago. The Company’s rates have increased an average of
18 71% over the last ten years and 141% over the last fifteen years. These rates include
19 all forms of rate recovery, including base rates and all riders, such as the FAC and
20 the ES, among others. And more rate increases are likely. The Company estimates
21 that its transmission costs alone will increase from \$74 million in the test year to
22 \$130.9 million in 2022, an increase of \$56.9 million or 77%.

23
24 **Q. Would the increases in rates that you cite have been greater but for the actions**
25 **of KIUC?**

1 A. Yes. KIUC has saved *all* customers, not only industrial customers, hundreds of
2 millions of dollars through its participation in rate and certification proceedings, all
3 at its own expense. In a recent proceeding, KIUC identified errors in Kentucky
4 Power Company's calculation of the FAC whereby it allocated excessive fuel costs
5 to retail customers that should have been allocated to off-system sales.⁴ In that
6 proceeding, KIUC's actions saved *all* customers tens of millions of dollars, both
7 through FAC refunds and lower FAC recoveries going forward. In another recent
8 proceeding, KIUC opposed the Company's proposed uneconomic purchased power
9 contract with ecoPower and the associated rate recovery.⁵ That case was ultimately
10 resolved by the Kentucky Court of Appeals. KIUC's actions saved *all* customers
11 approximately \$700 million over the 20 year term of the proposed ecoPower PPA.
12

13 **Q. Why is the history of increases in customer rates relevant in this proceeding?**

14 A. The history of increases provides a context for the review of the Company's requests
15 in this proceeding for several reasons. First, the magnitude of the cumulative rate
16 increases harmed residential, business, and government customers, and contributed
17 to the continuing loss of load experienced by the Company. The rate increases and
18 other relief sought in this proceeding will compound the harm from the prior
19 increases and, in turn, will cause greater rate increases in the future even as the
20 Company's load continues to shrink. Rate increases negatively affect the viability
21 and competitiveness of businesses in local, regional, national, and international
22 markets, which is contrary to the Company's economic development efforts.

⁴ KPSC Case No. 2014-00225.

⁵ KPSC Case No. 2013-00144.

1 Second, the magnitude of the cumulative rate increases should lead the
2 Company to search for *greater efficiencies* and implement *cost reductions*, rather
3 than allowing increases or intentionally driving costs upward year after year. The
4 Commission has the ability to influence the Company's behavior in this respect
5 through the ratemaking process and to ensure that rates reflect the least reasonable
6 cost to serve the retail customer load.

7 Third, the Company's history of increases and the negative effects, including
8 the loss of load, in its service territory should lead the Commission to search for
9 opportunities to mitigate the increases sought in this proceeding. These
10 opportunities, include, but are not limited to, minimizing the rate increases in this
11 proceeding through various ratemaking adjustments, such as temporary deferrals of
12 costs that can be recovered by the Company through savings after the costs no longer
13 are incurred, and rejecting the Company's proposed modifications to the FAC and
14 PPA surcharge mechanisms, both of which will result in future automatic and
15 significant rate increases with no further authorization by the Commission.

16
17 **III. OPERATING INCOME ISSUES**
18

19 **Defer \$20.3 Million Rockport 2 Lease Expense**
20

21 **Q. Please describe the Rockport Unit Power Agreement ("UPA") and the related**
22 **purchased power expense.**

23 **A. Kentucky Power purchases 15% of the capacity of and energy generated by the**
24 **Rockport 1 and 2 units. Rockport 1 is owned 50% each by AEP affiliates Indiana**

1 Michigan Power Company (“I&M”) and AEP Generating Company (“AEG”).
2 Rockport 2 is owned by Wilmington Trust Co. I&M and AEG each lease 50% of
3 Rockport 2 from Wilmington Trust Co. Kentucky Power purchases 30% of AEG’s
4 ownership interest in Rockport 1 and 30% of AEG’s leased interest in Rockport 2
5 pursuant to the Unit Power Agreement (“UPA”).

6 The UPA expires December 7, 2022.⁶ Similarly, the Rockport 2 lease
7 terminates in December 2022. Kentucky Power has no right or obligation to
8 purchase the capacity or energy of Rockport 1 or Rockport 2 after that date.
9 Whether Kentucky Power will seek authority from the Commission to extend the
10 UPA Rockport 1 is not known. However, we know that the Company will not seek
11 such authority from the Commission for Rockport 2. On July 21, 2017, the
12 Company and certain of its affiliates filed a motion in U.S. District Court seeking to
13 modify a Consent Decree that was entered into with the U.S. Department of Justice.
14 In that Motion, they stated that “*AEP does not currently plan on extending the term*
15 *of the Lease, which will terminate in 2022.*”⁷ Thus, Kentucky Power will no longer
16 purchase Rockport 2 after December 7, 2022.

17
18 **Q. What was the Rockport 2 purchased power expense and lease expense during**
19 **the test year?**

20 A. The Company incurred \$59.936 million (total Company) in Rockport 2 purchased
21 power expense in the test year, consisting of \$20.485 million (total Company) in

⁶ Company’s response to AG 1-2(e). I have attached a copy of the response to AG 1-2 as my Exhibit__(LK-2).

⁷ Company’s response to AG 1-2(l), a copy of which is included in my Exhibit__(LK-2).

1 lease expense, \$12.015 million in other non-fuel operation and maintenance
2 (“O&M”) expense, and \$27.437 million in fuel expense.⁸ The retail portion of the
3 Rockport 2 lease expense was \$20.198 million and the associated revenue
4 requirement was \$20.307 million after gross-up for PSC assessment fees and bad
5 debt.

6 The Company recovers various components of the Rockport 2 purchased
7 power expense through base rates, the fuel adjustment clause surcharge, and the
8 environmental surcharge. In addition, the Company recovers another \$6.4 million in
9 revenues for Rockport 1 and Rockport 2 through the Capacity Charge (“CC”) tariff
10 as an incentive authorized in Case No. 2004-00420. That incentive is treated “below
11 the line,” meaning that it is not used to offset revenue requirements in a rate case. It
12 is an “equity kicker.” That \$6.4 million incentive also ends on December 7, 2022.

13 There will be rate reductions of \$38.9 million after the Rockport 2 purchase
14 terminates in December, 2022. The Company no longer will incur any Rockport 2
15 purchased power or the lease expense and no longer will recover the incentive
16 through the CC surcharge after December, 2022.

17
18 **Q. Is it likely that the Company will seek to replace the Rockport 2 capacity when**
19 **the purchase and lease expire in December 2022?**

20 **A.** No. The Company presently has capacity well in excess of its load and PJM reserve
21 requirements, and it projects that this excess will continue to grow through the date

⁸ Company’s response to KIUC 1-43, which included Attachments with copies of the monthly Rockport UPA invoices and support. The Rockport 2 lease expense shown in account 507 Rents on the monthly supporting schedule entitled “Rockport Operation & Maintenance Expenses Unit 2.” I have attached a copy of the relevant pages from this response as my Exhibit____(LK-4).

1 when the Rockport purchase and Rockport 2 lease terminate in December 2022. The
2 Company projects a UCAP reserve margin of 33.6%, including the Rockport 2
3 capacity, in the PJM 2017/2018 plan year, and projects that this will increase to
4 48.1% in the PJM 2021/2022 plan year as its load continues to decline. The
5 following chart demonstrates that the Rockport 2 capacity is excess.⁹
6

KENTUCKY POWER COMPANY PROJECTED RESERVE MARGINS WITH AND WITHOUT ROCKPORT 2 CAPACITY							
Planning Year	MW Available Capacity (UCAP)	MW Obligation to PJM (UCAP)	KPCo Reserve Margin	Planning (Installed) Reserve Margin	MW Excess Capacity	MW Rockport 2 (UCAP)	MW Excess Capacity w/o Rockport 2
2017/18	1,282	960	33.58%	16.6%	163	176	(13)
2018/19	1,317	953	38.22%	16.6%	206	176	30
2019/20	1,317	957	37.6%	16.6%	201	176	25
2020/21	1,322	955	38.5%	16.6%	209	176	33
2021/22	1,322	893	48.06%	16.6%	281	176	105

7
8
9 **Q. Does the termination of the Rockport 2 lease in 2022 provide an opportunity to**
10 **reduce the revenue requirement now in this proceeding?**

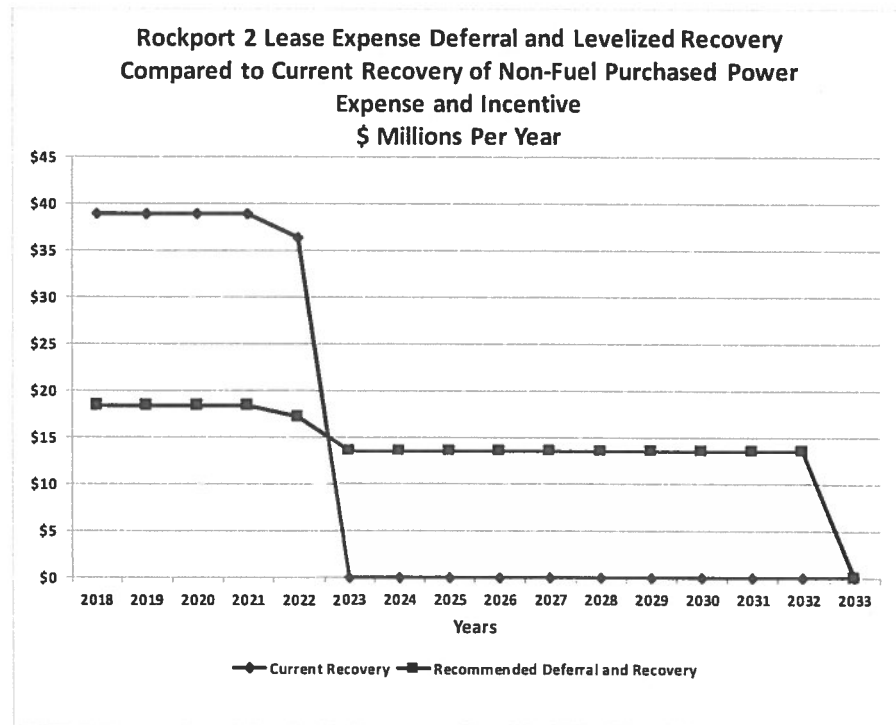
11 A. Yes. The Company's purchased power rate recoveries should decline by \$38.9
12 million (total Company) annually starting in December 2022, \$20.3 million (KY
13 retail) of which is the recovery for the Rockport 2 lease expense.

14 The 2022 termination of the Rockport purchase and Rockport 2 lease
15 provides the Commission with the opportunity to reduce the revenue requirement
16 now, while still providing the Company recovery of the entirety of its Rockport 2
17 expenses, albeit over an extended recovery period. More specifically, the

⁹ Company's response to KIUC 1-5 Attachment 1. A copy of this response is attached as my Exhibit__(LK-5).

1 Commission could direct that the Company temporarily defer the \$20.3 million
2 Rockport 2 lease expense from the date when rates are reset in this proceeding
3 through December 2022 when the Rockport 2 lease is terminated. This would
4 reduce the Company's revenue requirement in this proceeding by \$20.3¹⁰ million.
5 Beginning December 2022, the deferrals would be amortized to expense and
6 recovered over the subsequent ten years as a partial offset to the reduction in the
7 expense after the termination of the lease. Instead of a \$39 million rate reduction in
8 2022, consumers would get a \$20.3 million rate reduction now, and another
9 reduction of \$4.7 million in 2022. Taking part of the 2022 rate reduction today is
10 reasonable because of the severely depressed state of the Eastern Kentucky
11 economy. The following graph portrays the Rockport 2 non-fuel purchase power
12 expense compared to KIUC's deferral proposal

¹⁰The reduction of \$20.2 million in expense equates to a reduction of \$20.3 million in the revenue requirement after gross-up for PSC assessment fees and bad debt.



1

2

3 **Q. Why should the Commission authorize a temporary deferral followed by a**
4 **subsequent amortization and recovery?**

5 A. There are several reasons. First, it constructively resolves the cost recovery related
6 to the Company's excess capacity problem in a manner that balances the Company's
7 recovery of costs with the need to restrain growth in customer rates now because of
8 the depressed Eastern Kentucky economy.

9 Second, it lowers the rate increase in this proceeding by \$20.3 million and
10 provides lower rates for the next five years. It allows recovery over the subsequent
11 ten years as a partial offset to the rate reduction that will occur due to the elimination
12 of the \$39 million Rockport 2 non-fuel purchased power expense. It does this
13 without harming the Company financially because it will fully recover the expenses
14 that are deferred. No Rockport 2 costs would be disallowed. KIUC's deferral

1 recommendation only changes the timing of cost recovery.

2 Third, it mitigates the increases in future proceedings by amortizing and
3 recovering the deferrals over a longer period of time, such as ten years, and on a
4 levelized basis, rather than front-loading the recovery under the traditional revenue
5 requirement cost recovery curve.

6 Fourth, it provides the Company additional time to acquire new customers
7 and incremental load through its economic development activities, including its Coal
8 Plus, Appalachian Sky Initiative activities,¹¹ as well as the new aluminum mill
9 recently announced by Braidy Industries, Inc.¹² To the extent that the Company
10 successfully adds load, the deferral and subsequent amortization of the Rockport 2
11 lease expense will further reduce the cost of the deferrals to all customers on a billing
12 unit basis.

13
14 **Q. Has the Commission previously authorized deferrals of production costs to limit**
15 **a rate increase?**

16 A. Yes. The Commission previously directed Big Rivers Electric Corporation to defer
17 \$26 million per year in depreciation expense related to the Coleman and Wilson
18 power plants. The Commission found that both plants were excess capacity due to
19 the loss of two large aluminum smelter loads and that the deferrals were necessary to
20 avoid rate shock to the remaining customers. Without the smelter loads, the Big
21 Rivers system is roughly half the size of Kentucky Power.

22

¹¹ Satterwhite Direct Testimony at 10-13, 15-16.

¹² Satterwhite Direct Testimony at 5.

1 **Q. Is the temporary deferral of the Rockport 2 lease expense even more**
2 **appropriate than the Wilson and Coleman depreciation deferrals?**

3 A. Yes. With the Rockport 2 lease expense, the deferrals are temporary and there is a
4 plan that will ensure the Company fully recovers its costs, albeit it on a delayed and
5 extended basis.

6 The KIUC plan in this proceeding is different from the Big Rivers deferrals
7 where there is no plan for or certainty of recovery. The Big Rivers deferrals
8 continue to grow because Big Rivers still owns the plants and they still remain
9 excess capacity. But at some point, the deferrals must stop. At that time, the
10 deferral balance (which was \$103 million in August 2017) must either be written off
11 from the excess member equity resulting from the LG&E Unwind or recovered in
12 member rates, or some combination of writeoff and recovery. Importantly, at that
13 time there also may be recovery of ongoing depreciation expense for Wilson, which
14 is still operating (Coleman is effectively retired). That means there could be a double
15 hit on ratepayers—the recovery of all or part of the Wilson and/or Coleman deferral
16 balances plus the recovery of all or part of the ongoing Wilson depreciation expense.

17 The opposite is true with respect to KIUC's recommended Rockport 2 lease
18 expense deferral. The \$20.3 million per year deferral will end in December 2022
19 when the lease expires. At that time, the Company will have a \$39 million per year
20 rate reduction, all else equal. So the repayment of the deferral would be funded
21 through associated rate savings. A deferral of the Rockport 2 lease expense is
22 essentially borrowing against future known rate savings. This is reasonable and
23 necessary now since Kentucky Power's load is shrinking due to a depressed local

1 economy, and recovery of the excess capacity Rockport 2 lease expense in current
2 rates would only make matters worse.

3
4 **Q. What is your recommendation?**

5 A. I recommend that the Commission defer the Rockport 2 lease expense from the
6 effective date when rates are reset in this proceeding through December 2022 when
7 the Rockport 2 lease terminates. I recommend that the Commission allow recovery
8 of the deferred expense starting in December 2022 over ten years on an annuitized
9 (mortgage or levelized) basis through the PPA surcharge mechanism. The Company
10 should earn a carrying charge on the deferral at its weighted average cost of capital.

11
12 **Q. What is the effect of your recommendation on the revenue requirement in this**
13 **proceeding and on the revenue requirement in 2022 after the UPA and lease are**
14 **terminated?**

15 A. This will result in a reduction in the base revenue requirement of \$20.3 million now
16 and another reduction in the revenue requirement of approximately \$4.7 million in
17 December 2022.

18
19 **Increase Revenues to Reflect Weather Normalization of Commercial Sales**
20

21 **Q. Please describe the Company's proposed weather normalization of revenues.**

22 A. The Company proposes an adjustment to increase revenues to reflect "normal"
23 temperatures, but its adjustment applies only to the residential customer sales
24 revenues. It did not propose or apply similar adjustments to the commercial or any

1 other retail sales revenues. It limited the proposed weather normalization ratemaking
2 adjustment to the residential class based only on its assertion that the residential class
3 is the most sensitive to temperature variations.
4

5 **Q. Does temperature also affect commercial sales revenues?**

6 A. Yes. The Company states in response to KIUC discovery that the “weather sensitive
7 classes include the Residential, Commercial, and Wholesale classes. The Industrial
8 and Other Retail class sales are much less responsive to changes in temperature.”¹³
9

10 **Q. Does the Company calculate the effect of normalized temperature on**
11 **commercial sales revenues in addition to residential sales revenues for other**
12 **purposes?**

13 A. Yes. In response to KIUC discovery, the Company confirmed that it calculates the
14 effects of temperature on commercial sales revenues in addition to residential sales
15 revenues for both internal management reporting purposes and external financial
16 reporting purposes.¹⁴
17

18 **Q. What was the effect of normalized temperature on commercial sales revenues in**
19 **the test year?**

20 A. For internal management and financial reporting purposes, the Company calculated
21 that commercial sales revenues would have been \$0.914 million greater at

¹³ Company’s response to KIUC 1-83. I have attached a copy of this response as my Exhibit__(LK-6).

¹⁴ Company’s responses to KIUC 1-83 and 1-84. I have attached a copy of the response to KIUC 1-84 as my Exhibit__(LK-7).

1 normalized temperatures compared to the actual temperatures in the test year.¹⁵

2 The Company also claims that there is a related effect on variable expenses
3 equal to 59.0% of the change in revenues. If this assumption is applied to the
4 increase in commercial sales revenues, then there also would be an increase in
5 variable expenses of \$0.539 million.¹⁶ However, as I subsequently discuss, KIUC
6 recommends that the related effect on variable expenses be reduced to 56.44%.
7 Consequently, I reflect effect on revenues less the related effect on variable expenses
8 at 56.44% on the table in the Summary section of my testimony.

9
10 **Q. What is your recommendation?**

11 A. I recommend that the Commission include the effects of normalized temperatures on
12 commercial sales revenues in addition to residential sales revenues. Temperatures
13 affect the revenues in both classes, not just the residential class. The Company
14 recognizes this fact for its internal management and external financial reporting. The
15 Company offers no valid reason for excluding such an adjustment from the revenue
16 requirement. This reduces the rate increase by \$0.4 million.

17
18 **Reduce O&M Expense Adjustments Related to Revenue Adjustments**

19
20 **Q. Please describe the Company's proposed adjustments to increase or reduce**
21 **variable expenses in conjunction with its adjustments to annualize customer**

¹⁵ Company's response to KIUC 2-16. I have attached a copy of the response, Attachment 1, and my calculation showing the total test year effect of the monthly amounts for the commercial class as my Exhibit (LK-8).

¹⁶ I show an adjustment of \$0.914 million to increase revenues and an adjustment of \$0.516 million to increase expenses on the table in the Summary section of my testimony.

1 **revenues and weather normalize residential sales revenues.**

2 A. The Company proposed an adjustment to reduce variable expenses by \$1.932 million
3 in conjunction with its adjustment to reduce revenues by \$3.274 million for customer
4 annualization (Adjustment 12). The Company also proposed an adjustment to
5 increase variable expenses by \$3.941 million in conjunction with its adjustment to
6 increase residential sales revenues by \$6.679 million for weather normalization
7 (Adjustment 15). In both instances, the Company used a 59% variable expense ratio,
8 which it applied to the change in revenues.

9

10 **Q. Have you reviewed the Company's calculation of the 59% variable expense**
11 **ratio?**

12 A. Yes. It includes both variable expenses that vary directly with energy sales and
13 revenues and fixed expenses that do not vary directly with energy sales and revenues
14 in the test year. The Company provided a schedule in response to KIUC discovery
15 that details the expenses it considers to be variable in the calculation of the 59%
16 ratio.¹⁷ These expenses include fuel expenses, which are variable, as well as
17 expenses such as supervision, advertising, meter reading, and gas reservation fee,
18 which are not variable as a function of sales revenues in the test year.

19

20 **Q. Have you calculated a corrected variable expense ratio that excludes the fixed**
21 **expenses that do not vary directly with energy sales and revenues in the test**
22 **year?**

¹⁷ Company's response to KIUC 1-28.

1 A. Yes. The corrected variable expense ratio is 56.44%.¹⁸

2

3 **Q. What is the effect on the revenue requirement if the corrected variable expense**
4 **ratio is applied to the Company's two revenue adjustments?**

5 A. The effect is a reduction of \$0.172 million in the revenue requirement based on the
6 difference between the corrected variable expense ratio and the Company's proposed
7 variable expense ratio.¹⁹

8

9 **Disallow Incentive Compensation Expense Tied to Financial Performance**

10

11 **Q. Please describe the Company's request for recovery of incentive compensation**
12 **expense tied to AEP's financial performance.**

13 A. The Company included \$3.136 million in incentive compensation expense tied to
14 AEP's financial performance. Of this amount, \$1.727 million was incurred pursuant
15 to the AEP Long Term Incentive Plan ("LTIP")²⁰ and \$1.409 million was incurred
16 pursuant to the AEP Incentive Compensation Plan ("ICP").

17

18 **Q. Please describe the AEP LTIP incentive compensation expense.**

19 A. The AEP LTIP was implemented to incentivize AEP executives and managers to
20 enhance shareholder value. If AEP executives and managers achieve or exceed the

¹⁸ The calculation of the ratio is detailed in my workpapers, which are filed contemporaneously with my testimony.

¹⁹ The calculation of the reduction in expense and the revenue requirement is detailed in my workpapers, which are filed contemporaneously with my testimony.

²⁰ Company's response to KIUC 1-31. The Company provided the incentive compensation expense included in the test year revenue requirement incurred directly by the Company and incurred by AEP Service Corporation and allocated to the Company. I have attached a copy of this response as my Exhibit____(LK-9).

1 LTIP target metrics for total shareholder returns (“TSR”) and earnings per share
2 (“EPS”), they are rewarded with additional compensation.²¹

3 The LTIP incentive compensation consists of performance share incentives
4 (“PSIs”) and restricted stock units (“RSUs”).²² The LTIP PSI incentive
5 compensation is based on target metrics for AEP’s EPS and TSR, both of which are
6 measures of AEP’s financial performance. The LTIP RSU incentive compensation
7 is based on the stock price of AEP at the grant date.²³ The stock price, by definition,
8 is a measure of AEP’s financial performance.

9
10 **Q. Please describe the AEP ICP incentive compensation expense.**

11 A. The AEP ICP was implemented to reward employees for achieving or exceeding
12 targets for AEP’s EPS as well as certain operations and safety metrics, weighted
13 75% to AEP’s EPS and 25% to the other target metrics.²⁴ The Company incurred
14 \$1.879 million in ICP incentive compensation expense in the test year,²⁵ of which
15 \$1.409 million was tied to the achievement of AEP’s EPS.

16
17 **Q. Should the Commission include the AEP LTIP and ICP incentive compensation**
18 **expense tied to AEP’s financial performance in the Company’s revenue**
19 **requirement?**

20 A. No. The Commission historically has disallowed and removed incentive
21 compensation expenses from the revenue requirement that were incurred to

²¹ Company’s response to KIUC 1-30.

²² “Units” are similar to shares of AEP common stock, but have no voting rights.

²³ *Id.*

²⁴ Response to KIUC 1-30, KPCO_R_KIUC_1_30_Attachment1.pdf. I have not attached a copy of this response or the attachment due to the size.

²⁵ Section V-Application Exhibit 2 W32.

1 incentivize the achievement of shareholder goals as measured by financial
2 performance, not incurred to incentivize the achievement of customer and safety
3 goals. That is because the achievement of AEP LTIP and ICP target metrics tied to
4 financial performance benefits shareholders to the detriment of customers in rate
5 proceedings such as this. The entirety of the AEP LTIP and 75% of the ICP
6 incentive compensation expense were incurred to achieve shareholder goals and was
7 not directly tied to the achievement of regulated utility service requirements.

8 In the Company's last base rate proceeding, the Commission specifically
9 disallowed incentive compensation expense incurred to achieve shareholder goals.

10 In its discussion related to the disallowance, the Commission stated:

11 Incentive criteria based on a measure of EPS, with no measure of
12 improvement in areas such as service quality, call-center response, or other
13 customer-focused criteria are clearly shareholder oriented. As noted in Case
14 No. 2013-00148, the Commission has long held that ratepayers receive little,
15 if any, benefit from these types of incentive plans. It has been the
16 Commission's practice to disallow recovery of the cost of employee incentive
17 plans that are tied to EPS or other earnings measures and we find that
18 Kentucky Power's argument to the contrary does nothing to change this
19 holding as it is unpersuasive.

20 Likewise, in its order in Kentucky-American Water Company Case No.
21 2010-00036, the Commission disallowed incentive compensation expense tied to
22 "financial goals that primarily benefited shareholders."²⁶

23 Again, in its order in Atmos Energy Corporation Case No. 2013-00148, the
24 Commission stated "Incentive criteria based on a measure of EPS, with no measure
25 of improvement in areas such as safety, service quality, call-center response, or other
26 customer-focused criteria, are clearly shareholder-oriented. As noted in the hearing
27 customer-focused criteria, are clearly shareholder-oriented. As noted in the hearing

²⁶ Order in Kentucky American Water Company Case No. 2010-00036 at 14.

1 on this matter, the Commission has long held that ratepayers receive little, if any,
2 benefit from these types of incentive plans. . . It has been the Commission's practice
3 to disallow recovery of the cost of employee incentive plans that are tied to EPS or
4 other earnings measures."²⁷ Thus, the LTIP and ICP expense tied to EPS and total
5 shareholder return should be borne by shareholders, not customers.

6 Further, incentive compensation incurred to incentivize AEP financial
7 performance also provides the Company's executives, managers, and employees a
8 direct incentive to seek greater and more frequent rate increases from customers in
9 order to improve AEP's EPS and TSR. The greater the rate increases and revenues,
10 the greater AEP's EPS and TSR and the greater the incentive compensation expense.
11 Thus, there is an inherent conflict between achieving lower rates for customers on
12 the one hand and achieving greater financial performance for shareholders and
13 greater incentive compensation for executives, managers, and other employees on
14 the other hand. Thus, all such expenses should be allocated to shareholders, not to
15 customers.

16 Finally, the Company's request to embed these expenses in the revenue
17 requirement tends to be self-fulfilling. The additional revenues ensure that the
18 expense is covered regardless of the Company's actual performance and regardless
19 of its operational and safety performance. Thus, the expenses should be directly
20 assigned to AEP shareholders, not customers.

21 In summary, the Company's requests for recovery of LTIP and ICP expense
22 tied to EPS and total shareholder return fall clearly within the disallowance

²⁷ Order in Atmos Energy Corporation Case No. 2013-00148 at 9.

1 precedent and should be allocated to shareholders and not recovered from customers.

2

3 **Reject Post Test Year Merit and Related Overtime Wage and Salary Increases**

4

5 **Q. Please describe the Company's request to include post-test year merit and**
6 **related overtime wage and salary increases in the revenue requirement.**

7 A. The Company made two proforma adjustments to increase expense related to post-
8 test year merit and related overtime wage and salary increases. The discussion for the
9 increases are found in the Direct Testimony of Mr. Tyler H. Ross at pages 14-15.
10 The adjustment for the post-test year merit increase increased expenses by \$0.827
11 million.²⁸ The adjustment was made to reflect merit increases for Company and
12 AEPSC employees projected after the end of the test year in April, May, and June of
13 2017. The adjustment for the related overtime increase based on the percentage
14 merit increases increased expenses by \$0.149 million.²⁹

15

16 **Q. Should the Commission allow the Company's proposed ratemaking adjustment**
17 **for these post-test year increases in expense?**

18 A. No. These proposed adjustments are selective single issue adjustments that increase
19 expense and the revenue requirement. The Company has proposed no other post-test
20 year increases to revenues or reductions to expense that could or would offset more,
21 all, or part of the proposed increases in the revenue requirement. The Company had
22 the option to propose a fully forecast test year, but chose to file using a historic test

²⁸ Section V, Exhibit 2, Adjustment W33.

²⁹ Section V, Exhibit 2, Adjustment W34.

1 year. It should not be allowed to use a historic test year for its filing and then
2 selectively superimpose post-test year increases in expenses that it would have
3 included if it chose a forecast test year. This mix and match of historic and forecast
4 test years is unfair to customers and easily manipulated to achieve an increase in the
5 revenue requirement and requested increase.

6 In addition, these adjustments simply assume that the Company will not
7 achieve any offsetting cost reductions through labor productivity improvements,
8 staffing reductions, adoption of more efficient work processes, or otherwise
9 downsizing the Company to match its declining load profile. The Commission can
10 influence the Company's behavior and its costs by denying recovery of these
11 selective post-test year increases, thus requiring the Company to reduce other costs
12 or limit other cost increases so that its costs more closely match its revenues. In
13 other words, the Commission should deny the Company an incentive to increase its
14 costs post-test year rather providing it an incentive to live within its means.

15
16 **Reject Expense for Proposed Increases in Staffing**
17

18 **Q. Please describe the Company's proposed increase in staffing and the related**
19 **increase in expense and revenue requirement.**

20 A. The Company made a proforma adjustment to increase expense related to five post-
21 test year distribution employee increases.³⁰ The adjustment for the post-test year
22 merit increase increased expenses by \$0.173 million.³¹ The adjustment was made to

³⁰ The discussion for the increase is found in the Direct Testimony of Mr. Ranie K. Wohnhas at 19-22.

³¹ Section V, Exhibit 2, Adjustment W52.

1 reflect the actual or expected additions of a Safety Coordinator, two Distribution
2 System Inspectors, and two administrative associates after the end of the test year.

3
4 **Q. Are the increases in staffing and the related expense dependent on including**
5 **these expenses in the revenue requirement?**

6 A. Yes, that appears that to be the case. Normally, the Company does not seek
7 Commission approval to increase staffing or incur expense unless it is discretionary.
8 Instead, it staffs to perform its utility functions in a reasonable and cost-effective
9 manner. The Company has not identified any specific post-test year change in
10 regulations, safety, or other requirements that did not already exist in the test year.
11 In other words, the Company has not justified a post-test year increase in staffing and
12 the related expenses.

13
14 **Q. Is this another selective post-test year adjustment that fails to consider any**
15 **other opportunities for cost reductions or increases in revenues?**

16 A. Yes. Even if the increased staffing and related expenses were justified, the Company
17 has identified no other reductions in costs or increases in revenues that would offset
18 the increase in expense. More specifically, it has identified no reductions in staffing
19 and related expense that could be achieved through attrition or otherwise due to its
20 declining load, reductions in expense due to capital investments that were made to
21 improve productivity, or savings from other initiatives and improvements in
22 efficiency.

23

1 **Reduce Amortization Expense to Properly Calibrate Storm Damage Amortization**
2

3 **Q. Please describe the Company's request for storm damage amortization expense.**

4 A. The Company seeks \$2.429 million in annual amortization expense for storm
5 damage deferrals. This is the amount of amortization expense that was authorized in
6 Case No. 2014-00336. The Company had a remaining unamortized balance of
7 \$8.097 million at February 28, 2017.³² It will continue to amortize and recover the
8 deferrals at the same \$2.429 million until its rates are reset in this proceeding, most
9 likely on or about January 1, 2018. The remaining unamortized balance will be
10 \$6.073 million at that time. The balance will be fully amortized in June 2020 if the
11 amortization expense is not reset in this proceeding. This reflects a 2.5 year effective
12 amortization period.

13
14 **Q. Should the amortization expense be reset in this proceeding?**

15 A. Yes. The Commission should reset the amortization period to five years and
16 calculate the amortization expense using the remaining unamortized balance at
17 January 1, 2018, the date when rates will be reset in this proceeding. This is
18 appropriate for two reasons. First, because the Commission does not know when the
19 Company will file its next base rate case or when the rates from that case will
20 become effective. If rates are not reset in the next case for three years, then the
21 Company will recover \$7.287 million in amortization expense even though the
22 balance remaining is only \$6.087 million at December 31, 2017.

23 Second, the Company will over-recover the return on the deferred storm

³² Company's response to KIUC 2-15, a copy of which is attached as my Exhibit___(LK-10).

1 expense regardless of the amortization period and regardless of whether the
2 remaining unamortized balance is determined at February 28, 2017 or December 31,
3 2017. The only question is the amount of the over-recovery.

4
5 **Q. How does the Company over-recover the return on the deferred storm**
6 **expenses?**

7 A. That occurs because the amount of the remaining unamortized deferral included in
8 capitalization is fixed at the end of the historic test year under the Company's
9 proposal. The revenue requirement includes the return on that amount from the date
10 rates are reset in this proceeding until rates are reset in the next base rate proceeding.
11 Meanwhile, customers continue to pay down the deferral each month, first from
12 March 1, 2017 through December 31, 2017, the day before rates are reset in this
13 proceeding, and then continue to pay down the deferral each month thereafter. These
14 recoveries reduce the Company's capitalization and its financing costs each month.
15 However, even as the Company's financing costs continue to decline, it continues to
16 recover the return on the remaining unamortized deferral as if that balance never
17 declined. Under the Company's proposal, the return will be based on the balance at
18 February 28, 2017 even though customers will have paid down the balance by
19 another \$2.024 million by December 31, 2017. Under the KIUC proposal, the return
20 will be based on the lower balance at December 31, 2017, but the Company still will
21 over-recover until base rates again are reset in the next base rate case.

22

1 **Q. Why is it appropriate to use a five year amortization period and the remaining**
2 **unamortized deferral as of the date when rates are reset in this proceeding?**

3 A. First, it correctly sets the amortization to correspond to the balance at the date when
4 rates are reset. This is the balance that remains to be recovered, which is less than
5 the balance at February 28, 2017. This reduces the amortization expense based on
6 the remaining balance and minimizes the likelihood that the Company will over-
7 recover the deferrals themselves.

8 Second, it sets the amortization expense based on a reasonably short recovery
9 period and one that is consistent with the amortization period approved by the
10 Commission in the last base rate proceeding.

11 Third, the longer amortization period (five years versus the Company's 2.5
12 years) minimizes the Company's over-recovery of the return on the remaining
13 unamortized deferrals.

14

15 **Q. What is the effect of your recommendation?**

16 A. The effect is a reduction of \$1.215 million in amortization expense.

17

18 **Reduce Depreciation Rates and Expense to Reflect Converted Big Sandy 1 Remaining**
19 **Service Life of 30 Years**
20

21 **Q. Please describe the Company's proposed service life for the depreciation rates**
22 **and expense on the converted Big Sandy 1 natural gas-fired generating unit.**

23 A. The Company proposes depreciation rates and expense that reflect a 15 year service
24 life for the converted Big Sandy 1 natural gas-fired generating unit starting from the

1 date of the conversion in June 2016. This proposed service life assumes a probable
2 retirement date of mid-2031.³³ This is the same retirement date the Company
3 assumed for the pre-conversion Big Sandy 1 coal-fired generating unit.

4
5 **Q. Does the Company have any specific plans to retire Big Sandy 1 in mid-2031?**

6 A. No. The Company has no plans to retire Big Sandy 1 in mid-2031. The mid-2031
7 date is not supported by any planning or engineering studies, according to the
8 Company's response to KIUC discovery.³⁴ The mid-2031 date is simply a carryover
9 of the prior assumption for the plant when it was coal-fired and prior to the
10 conversion to a gas-fired generation and the installation of new boiler and the
11 installation and/or refurbishment of certain other balance of plant equipment. As a
12 coal-fired plant, the mid-2031 probable retirement date was based, in large part, on
13 the avoidance of costs necessary to comply with numerous environmental
14 requirements applicable to coal-fired generation.

15 As a newly converted gas-fired plant, the Company will continue to invest in,
16 operate, and maintain Big Sandy 1 indefinitely unless and until there are other more
17 economic alternatives. In the conversion, the Company more than doubled its net
18 plant investment in Big Sandy 1,³⁵ meaning that more than half of the net investment
19 in the plant represents new and refurbished equipment and balance of plant. The
20 Company and its affiliate utilities have a history of continuously extending the

³³ Direct Testimony of Jason Cash at 7.

³⁴ Company's response to KIUC 1-73. I have attached a copy of the response as my Exhibit__(LK-11).

³⁵ Company's response to KIUC 1-41(a). I have attached a copy of the response to KIUC 1-41 as my Exhibit__(LK-12).

1 service lives of their generating units through ongoing investment in plant and
2 effective maintenance practices as long as it remains economic for them to do so.

3 Finally, as a natural gas-fired unit, Big Sandy 1 is no longer subject to the
4 same environmental and premature shutdown and retirement risks that exist for coal-
5 fired units. The historic focus of the U.S. Environmental Protection Agency
6 (“EPA”) has been to reduce emissions and other residuals at coal-fired generating
7 units. This has led to the premature retirement of coal-fired generating units when it
8 was uneconomic to make additional plant investments to comply with these
9 requirements.

10
11 **Q. What remaining service life do you recommend for the depreciation rates on**
12 **Big Sandy 1?**

13 A. I recommend a remaining service life for Big Sandy of 30 years from the Company’s
14 depreciation study date of December 31, 2016 based on a probable retirement date of
15 December 31, 2046. Similar to the depreciation rates on all plant, the Commission
16 can periodically review the status of Big Sandy 1 in the various Integrated Resource
17 Plan (“IRP”) proceedings to determine if it is appropriate to assume that Big Sandy 1
18 will be retired prior to or after December 31, 2046. If there is, then this assumption
19 can be reflected in the Company’s next depreciation study. The Company will
20 recover all prudent and reasonable costs of Big Sandy 1 regardless of the timing of
21 the recovery.

22 I propose the 30 year life based on the relative age of the plant, including the
23 new equipment and balance of plant, the Company’s intent to continue to make plant

1 investments and maintain the plant indefinitely so long as there are no other more
2 economic options, the ability of the Commission to extend or shorten the remaining
3 life in future IRP and rate case proceedings, and the Company's ability to recover the
4 cost of the plant regardless of the actual retirement date.

5
6 **Q. What is the effect of your recommendation?**

7 A. The effect is a reduction in depreciation expense of \$4.738 million.³⁶

8
9 **Eliminate Terminal Net Salvage in Big Sandy 1 and Mitchell Plant Depreciation Rates**
10

11 **Q. Please describe the terminal net salvage reflected in the Company's proposed**
12 **production plant depreciation rates.**

13 A. The Company included terminal net negative salvage of \$11.404 million (net salvage
14 income of \$8.261 million less cost of removal of \$19.665 million), or negative
15 7.32%, in its proposed depreciation rates for Big Sandy 1. The terminal net negative
16 salvage estimate was based on a "conceptual dismantling estimate" in 2013 dollars
17 developed by Sargent & Lundy in 2012 for the entire Big Sandy plant site, which
18 includes both Big Sandy 1 and Big Sandy 2. The Company allocated the Big Sandy
19 plant site estimate to Big Sandy 1 based on the Big Sandy 1 capacity compared to the
20 sum of the Big Sandy 1 and Big Sandy 2 capacity. Finally, the Company escalated
21 the S&L estimate by 2.30% annually to 2031 to calculate the amount included in the
22 proposed Big Sandy 1 depreciation rate.³⁷

³⁶ The calculations are shown on my Exhibit__(LK-13)

³⁷ Direct Testimony of Jason Cash at 7-8.

1 The Company included terminal net salvage of \$21.186 million (net salvage
2 income of \$19.032 less cost of removal of \$40.218 million), or negative 2.37%,
3 based on the calculation of depreciation rates for the Mitchell plant established in the
4 last base rate proceeding using plant at December 31, 2013. The Company proposes
5 no change in the Mitchell depreciation rates in this proceeding.
6

7 **Q. Is the Company's proposed recovery of future terminal net negative salvage for**
8 **Big Sandy 1 and Mitchell appropriate?**

9 A. No. As a threshold matter, the Commission should not attempt to forecast today the
10 scope of any future dismantling activities and site restoration necessary or reasonable
11 when Company's generating units are retired decades in the future. The default
12 assumption should be "retirement in place" unless and until the generating units are
13 retired or near retirement and then changed only after the Company files and the
14 Commission approves a dismantling and site restoration plan, including the
15 estimated cost at that time. The Company would be required to make a filing and
16 demonstrate that the dismantling and site restoration plan was necessary and that the
17 estimated cost was reasonable.

18 If the Commission approves a dismantling and site restoration plan, then the
19 Company would be allowed to defer the actual and prudent costs incurred pursuant
20 to the approved plan and recover those costs prospectively either through base rates
21 or through the Company's "Decommissioning Rider," previously approved by the
22 Commission to recover the actual costs of dismantling and coal-related site
23 remediation for Big Sandy 1 and Big Sandy 2. The Commission authorized recovery

1 of these Big Sandy coal-related costs based on actual costs incurred and on a
2 levelized (annuitized) basis over 25 years.

3
4 **Q. Why is this a better approach?**

5 A. First, this approach establishes a default “retirement in place” rather than assuming
6 dismantlement and site restoration for ratemaking purposes.

7 Second, it requires the Company to demonstrate that dismantling and site
8 restoration, the scope of such activities, and the estimated cost are necessary and
9 reasonable after or near the actual retirement of the generating units.

10 Third, it ensures that costs are incurred only if dismantling and site
11 restoration is necessary and the Commission approves the scope of the activities after
12 or near the retirement date.

13 Fourth, it ensures that only actual costs are recovered from customers after
14 they are incurred. This avoids the guesswork of estimates developed and recovery of
15 these estimates through depreciation rates decades before the generating units are
16 retired, let alone dismantled and the site restored.

17
18 **Q. Is there another reason that the Commission should not allow the terminal net
19 negative salvage for Big Sandy 1?**

20 A. Yes. It would result in double recovering the same costs twice, once in the base
21 revenue requirement and again in the Big Sandy Retirement Rider (or the proposed
22 renamed “Decommissioning Rider”). The S&L conceptual cost estimate is based on

1 dismantlement and site remediation for Big Sandy 1 as a coal-fired facility.³⁸ The
2 Company made no effort to correct the S&L estimate to remove the coal-related
3 costs or to obtain a new S&L study and estimate.

4
5 **Q. If the Commission does not remove the terminal net negative salvage from the**
6 **Big Sandy 1 depreciation rates and expense, do you have another**
7 **recommendation?**

8 A. Yes. The Commission should remove the 2.30% annual escalation on the Big Sandy
9 1 terminal net negative salvage rate. This escalation methodology “front-loads”
10 recovery of an uncertain estimate of future costs in future dollars, which also is
11 uncertain.

12 In addition, the Company’s proposed escalation assumes that there will be no
13 changes in the physical dismantling and site restoration approach assumed by S&L,
14 no efficiencies from technology, equipment and disposal advances, and no
15 improvements in productivity, any of which could offset future inflation in costs.

16 Further, the use of estimated 2031 dollars for 2017 ratemaking purposes is an
17 inherent mismatch and forces today’s customers to subsidize future customers. If the
18 cost estimate or actual cost escalates in future years, then the increases, to the extent
19 they are reasonable and prudent, can be reflected in periodic revisions and updates to
20 depreciation rates and expense.

21

³⁸ Company’s response to KIUC 1-36.

1 **Q. What is the effect of your recommendation to remove the cost of future**
2 **dismantling and site restoration from the depreciation rates and expense on Big**
3 **Sandy 1 and the Mitchell plant?**

4 A. The effect is a reduction of \$0.370 million in depreciation expense on Big Sandy 1
5 and \$0.567 million on the Mitchell plant.³⁹ The reduction in depreciation expense on
6 Big Sandy 1 is in addition to the reduction from extending the remaining service life.

7

8 **Include §199 Tax Deduction in Gross-Up Factor Used for Income Tax Expense**
9

10 **Q. Please describe the §199 deduction.**

11 A. §199 of the Internal Revenue Code (“IRC”) allows a deduction against taxable
12 income for qualified domestic production (manufacturing) activities. The §199
13 deduction is calculated by applying a 9% rate against qualified domestic production
14 income for federal income tax expense and a 6% rate for state income tax expense.
15 This requires an allocation of the Company’s taxable income to production (or
16 generation) activities, not only for the calculation of the §199 deduction in the test
17 year income tax expense, but also for the calculation of the gross revenue conversion
18 factor. Most utilities use a production rate base allocation factor to allocate taxable
19 income for this purpose in their base rate proceedings.

20

21 **Q. Did the Company include a §199 deduction in the calculation of income tax**
22 **expense in this proceeding?**

23 A. No. It assumed that there would be no §199 deduction in the calculation of income

³⁹The calculations are shown on my Exhibit__(LK-14).

1 tax expense for the adjusted test year before any rate increases. The Company also
2 assumed that there would be no §199 deduction in the calculation of the gross
3 revenue conversion factor (“GRCF”) used to determine the income tax expense due
4 to the rate increases. In part, this represents a change from the prior proceeding
5 wherein the Company used a three-year historic average of the §199 deduction in the
6 calculation of income tax expense for the adjusted test year before any rate increases.
7

8 **Q. Is the §199 deduction dependent on taxable income in the test year?**

9 A. Yes. If the Company has positive taxable income from all sources, then it is able to
10 take a §199 deduction, all else equal. As a threshold matter, the ability to take a §199
11 deduction is determined at the entity level, not at the Kentucky retail or retail base
12 rate level. The ability to take any deduction is dependent on the Company’s total
13 taxable income from *all* sources during the year, not only the taxable income due to
14 Kentucky retail rates, including base rates and surcharge mechanisms, but also *all*
15 other taxable income from other sources, including wholesale taxable income. In the
16 test year, the Company had positive taxable income from all sources.⁴⁰

17 If the Company is able to take a §199 deduction, then any increase in taxable
18 income necessarily increases the §199 deduction, after allocation to the production
19 function, all else equal. Consequently, any incremental taxable income due to the
20 rate increases that are authorized in this proceeding and that is allocable to the
21 production function qualifies for the §199 deduction.
22

⁴⁰ Sch 4 tab on KPSCO_SR_KPSC_1_73_SupplementalAttachment3_SectionVSchedules_TYE2-28-2017FINAL.xlsx.

1 **Q. What does that mean in this proceeding?**

2 A. It means that the Company's gross revenue conversion factor ("GRCF") should
3 reflect the §199 deduction for the purpose of grossing up the operating income
4 deficiency.

5

6 **Q. In prior proceedings, the Company has argued against a §199 deduction on the**
7 **basis that the AEP consolidated tax return overrides the Company's ability to**
8 **take the deduction on a standalone basis. Please address this argument.**

9 A. The Commission should reject this argument as a matter of consistency. The
10 Commission has consistently taken the position that income tax expense should be
11 calculated on a utility standalone basis without consideration of parent consolidated
12 income tax benefits even when those benefits are allocated to the utility pursuant to
13 an intercompany tax allocation agreement. For example, in the Company's last base
14 rate proceeding, the Commission rejected the AG's position that the parent company
15 loss adjustment ("PCLA") tax benefit allocated from AEP to the Company be used to
16 reduce income tax expense for ratemaking purposes. In its Order in that proceeding,
17 the Commission stated:

18 The Commission finds that the AG's proposal to include the PCLA in
19 Kentucky Power's federal income tax expense is inappropriate. This
20 recommendation, if adopted, would represent a significant departure from
21 over 25 years of the Commission's established and balanced policy
22 prohibiting affiliate cross-subsidization.⁶³ Therefore, the "stand-alone"
23 approach the Commission has historically used shall be used to allocate
24 income tax liabilities for Kentucky ratemaking purposes. Accordingly, we
25 deny the AG's proposed adjustment for ratemaking purposes.

26

27 Thus, the Commission should reject any argument by the Company that the

1 Commission should not include a §199 deduction based on the lack of such a
2 deduction in prior years due to the parent company's consolidated tax return
3 limitations.

4
5 **Q. What is your recommendation?**

6 A. I recommend that the Commission reflect the §199 deduction in the GRCF. This is
7 appropriate because the Company is able to take a deduction even with no rate
8 increases. Thus, any rate increases authorized in this proceeding mathematically will
9 increase the Company's taxable income and the amount of the deduction, and thus
10 reduce the income tax expense that should be recovered from customers in the
11 revenue requirement.

12 The concept of the GRCF is to allow the Company to recover the incremental
13 income tax expense resulting from the rate increase, not something more. The
14 income tax rates that are used in the GRCF generally assume that the income from
15 the rate increase will be taxed at the Company's maximum incremental income tax
16 rate on a standalone basis. That maximum incremental income tax rate should
17 reflect all deductions that are available. Yet the Company's proposal incorrectly
18 assumes that the §199 deduction does not apply to the additional taxable income,
19 which is not true. Consequently, the Company's proposal overstates the incremental
20 income tax rate and the resulting increase in income tax expense resulting from the
21 rate increase, thus transferring this tax benefit from customers to the Company's
22 shareholder.

1 **Q. How should the GRCF be modified to reflect the §199 deduction applicable to**
2 **the increase in taxable income resulting from any rate increases authorized in**
3 **this proceeding?**

4 A. The GRCF should be modified to capture the effects of the §199 deduction based on
5 the production portion of taxable income (qualified domestic production activities
6 income) in the same manner that the Commission previously adopted and used in
7 prior Kentucky Power, KU, and LG&E base rate and environmental surcharge
8 proceedings. In those prior proceedings, the Commission used the percentage of
9 production plant to total plant included in the base or ES rate base. The Commission
10 then multiplied the resulting production percentage times the 9% rate to determine
11 the weighted §199 deduction percentage for federal income tax expense and times
12 the 6% rate for state income tax expense.

13

14 **Q. What is the effect on the revenue requirement of properly including the §199**
15 **deduction in the GRCF?**

16 A. The first effect is a reduction of \$1.320 million in the Company's base revenue
17 requirement. The second effect is a reduction of \$0.227 million in the ES revenue
18 requirement. I calculated these effects using the methodology that I previously
19 described.⁴¹ I quantified these reductions after all other KIUC adjustments to the
20 capital structure and costs of capital were incorporated into the revenue requirement.
21 I note this because the sequence in which the adjustments are made affects their
22 quantification. To the extent that the Commission does not fully adopt certain of

⁴¹The calculations are detailed in my electronic workpapers filed coincident with my testimony.

1 KIUC's recommendations (for example the Commission authorizes a return on
2 equity above 8.85%), then the reduction in the revenue requirement due to the §199
3 deduction will be more.

4
5 **IV. CAPITALIZATION ISSUES**
6

7 **Correct Capitalization So that It Reflects Adjustments to Remove Non-Utility and**
8 **Surcharge Investments**
9

10 **Q. Is the Commission's historic use of capitalization to calculate the Company's**
11 **"return on" utility investment as a component of the revenue requirement**
12 **generally a reasonable proxy for rate base?**

13 A. Yes. In theory, capitalization (outstanding financing) and rate base should be
14 equivalent. In practice, there may be differences due to financial reporting
15 (capitalization) compared to ratemaking (rate base), timing and/or structure of
16 financing, and other factors. In its administrative filing requirements, the
17 Commission requires that the utility reconcile capitalization and rate base to ensure
18 that there are no significant differences. In base rate filings, the Commission
19 generally requires utilities to reduce total Company capitalization for rate base
20 amounts that are reflected in surcharge mechanisms, such as the ES, non-utility
21 investments, disallowed investments, and non-jurisdictional investments.

22
23 **Q. Has the Company followed this historic approach in this proceeding?**

24 A. Generally, yes. However, there are certain balance sheet assets and liabilities that
25 the Company should have removed from capitalization in the same manner that these

1 amounts would be removed or not included in rate base, but it failed to do so.
2 Consequently, capitalization is overstated, the return on capitalization and the related
3 income tax expense is overstated, and the revenue requirement is overstated.
4

5 **Q. Why should capitalization be adjusted to remove the financing associated**
6 **certain balance sheet assets and liabilities?**

7 A. All assets and liabilities generally affect the capitalization on the Company
8 accounting books. Assets generally must be financed unless they are simply
9 bookkeeping entries, such as an asset retirement obligation. Thus, an increase in
10 assets generally results in an increase in capitalization. On the other hand, liabilities
11 generally allow the utility to avoid financing. Thus, an increase in liabilities
12 generally results in a reduction in capitalization.

13 If the Commission determines that the financing costs of certain assets, such
14 as environmental assets, are to be recovered through a surcharge, such as the ES,
15 then the per books capitalization used for the base revenue requirement should be
16 reduced accordingly. In this case, the Company reduced capitalization for the rate
17 base investment in the Mitchell Plant FGD and consumable inventory, which are
18 included in the Company's ES.⁴²
19

20 **Q. Are there other adjustments to capitalization that are necessary, but that the**
21 **Company did not include?**

⁴² Ratemaking Adjustment 04 shown in Exhibit 2 of the Company's filing.

1 A. Yes. There are numerous costs that should be removed or added to capitalization so
2 that it is consistent with the appropriate ratemaking recovery of the return on these
3 costs. Some are related to non-utility activities and some are related to surcharges
4 and either are or should be included in the costs recovered through those surcharges.
5 Some simply vary from positive to negative amounts over time and are not
6 appropriate to include in base rates under the assumption that they generally will net
7 to zero over time. These costs include the following:

8	Asset Account 175.0001	Curr Unreal Gains NonAffil
9	Asset Account 175.0002	Long-Term Unreal Gns – Non Aff
10	Asset Account 182.3009	DSM Incentives
11	Asset Account 182.3010	Energy Efficiency Recovery
12	Asset Account 182.3011	DSM Lost Revenues
13	Asset Account 182.3012	DSM Program Costs
14	Asset Account 182.3063	Unrecovered Fuel Costs
15	Asset Account 182.3519	Unrecovered Purch Power-PPA
16	Asset Account 182.3520	Deferred Dep – Environmental
17	Asset Account 182.3521	Carrying Charge – Environmental
18	Asset Account 182.3522	CC – Environmental Unrec Equity
19	Asset Account 182.3523	Deferred O&M – Environmental
20	Asset Account 182.3524	Deferred Consumable Exp – Envi
21	Asset Account 182.3525	Deferred Property Tax - Enviro
22		

23 **Q. What is the effect of your recommendation on capitalization and the revenue**
24 **requirement?**

25 A. The effect is a reduction of \$9.569 million to Kentucky adjusted capitalization and a
26 reduction of \$0.912 million in the base revenue requirement.⁴³

27

28 **Reduce Coal Inventory to Reflect Lower of Actual or Target**

29

⁴³ The calculations are detailed in my electronic workpapers filed coincident with my testimony. Refer also to Section II on Exhibit____(LK-15) for the effect on the base rate revenue requirement.

1 **Q. Please describe the Company's proposed adjustment to increase actual low**
2 **sulfur coal inventory to a target inventory level.**

3 A. The Company made a proforma adjustment to reflect capitalization for the Mitchell
4 Plant coal stock based on its target levels of low and high sulfur coal instead of the
5 actual test year levels. The discussion for the adjustment is found in the Direct
6 Testimony of Mr. Wohnhas at pages 10-11 and the calculation is provided in Section
7 V, Workpaper S-3. The Company's target level based adjustment represented a net
8 decrease in capitalization of \$6.709 million. While the Company's adjustment for
9 high sulfur coal to target represented a decrease from test year levels, the low sulfur
10 coal adjustment represented an increase over actual test year levels of \$1.250
11 million.

12

13 **Q. Is this an appropriate adjustment?**

14 A. No. The Commission historically has adjusted capitalization to remove the
15 investment costs of coal inventories that exceed the Company's target days of
16 inventory. This adjustment ensures that the return on the coal inventory investment
17 is not excessive. However, that ratemaking *protection* should not translate into an
18 *entitlement* to include an investment in capitalization that does not exist when the
19 Company's investment in coal inventory is less than the target days.

20

21 **Q. What is your recommendation?**

22 A. I recommend that the Commission reject the Company's proposed adjustment to
23 increase capitalization for inventory that did not exist in the test year.

1 **Q. What is the effect of your recommendation?**

2 A. The effect is a reduction in Kentucky adjusted capitalization of \$1.232 million and a
3 reduction in the revenue requirement of \$0.117 million.⁴⁴

4
5
6

V. COST OF CAPITAL ISSUES

Effect of Short-Term Debt In Capitalization

7
8

9 **Q. Please describe the Company's proposed capital structure.**

10 A. The company proposes capital structure of 0% short-term debt, 54.45% long-term
11 debt, 3.87% receivables, and 41.68% common equity. The actual capital structure at
12 the end of the test year was 0.06% short-term debt, 54.93% long-term debt, 2.96%
13 receivables, and 42.05% common equity. The Company first eliminated short-term
14 debt in conjunction with its ratemaking adjustment to reduce coal inventories.

15

16 **Q. Is 0% short-term debt reasonable?**

17 A. No. The Company routinely utilized short-term debt during the test year in lieu of
18 other forms of financing as do most other utilities.⁴⁵ Short-term debt is the least cost
19 form of financing and is readily available to the Company through the AEP Utility
20 Money Pool. The cost of short-term debt during the test year was a mere 0.80%.
21 This compares to the Company's proposed costs of long-term debt at 4.36%,
22 receivables at 1.95%, and common equity at 16.94%, including the related income
23 tax gross-up.

⁴⁴ The calculations are detailed in my electronic workpapers filed coincident with my testimony. Refer also to Section III on Exhibit___(LK-15) for the effect on the base rate revenue requirement.

⁴⁵ Refer to Company's filing at Section V, Workpaper S-3, page 3 of 4.

1 **Q. Should the Commission reflect short-term debt in the capital structure?**

2 A. Yes. The Company relied on short-term debt during the test year and historically has
3 relied on short-term debt. In my experience, most utilities rely on short-term debt in
4 order to minimize their cost of financing, particularly during construction. The cost
5 of short-term debt is a fraction of the cost of long-term debt and common equity. In
6 addition, there is no other way to recognize this lower cost form of financing since
7 the Company does not use Allowance for Funds Used During Construction
8 (“AFUDC”).⁴⁶

9
10 **Q. How much short-term debt should be reflected in the capital structure for**
11 **ratemaking purposes?**

12 A. I recommend that the Commission reflect 2.0% short-term debt and reduce the long-
13 term debt to 52.52%⁴⁷. The 2.0% is consistent with the Company’s actual use of
14 short-term debt during the test year, although the percentage has been much greater
15 in other years.⁴⁸

16
17 **Q. Does your recommendation change the total debt and common equity**
18 **capitalization proposed by the Company?**

19 A. No. It only modifies the debt component to reflect short-term debt in lieu of a
20 comparable percentage of long-term debt.

⁴⁶ Under the FERC Uniform System of Accounts, all short-term debt is first assigned to construction work in progress as a component of the cost of capital used for calculating AFUDC. If there is no AFUDC, then all short-term debt should be reflected in the revenue requirement in order to accurately reflect the utility’s cost of capital incurred to finance its rate base investment.

⁴⁷ KIUC previously reduced long-term debt rate to 54.43%.

⁴⁸ At some dates during the test year in Case No. 2009-00459, the Company’s short-term debt was nearly 17% of capitalization. Kollen Direct in Case No. 2009-00459 at 39.

1 **Q. Have you quantified the effect on the Company's revenue requirement of**
2 **including short-term debt in the capitalization and applying the debt rate**
3 **recommendation of 1.25% sponsored by KIUC witness Mr. Richard Baudino?**

4 A. Yes. The effects are reductions of \$0.712 million in the base revenue requirement
5 and \$0.123 million in the ES revenue requirement. These reductions are incremental
6 to the reductions for the other cost of capital recommendations that I address.⁴⁹

7

8 **Effect of Return on Common Equity Recommended by KIUC**
9

10 **Q. Have you quantified the effect on the Company's revenue requirement of the**
11 **return on equity recommendation sponsored by KIUC witness Mr. Richard**
12 **Baudino?**

13 A. Yes. The effects are reductions of \$11.838 million in the base revenue requirement
14 and \$2.037 million in the ES revenue requirement. There is an additional effect on
15 the Decommissioning Rider revenue requirement, although I have not quantified this
16 effect. These reductions are incremental to the reductions for the other cost of
17 capital recommendations that I address.⁵⁰

18

19 **Q. What is the effect of each 1.0% return on common equity?**

⁴⁹ Refer to Section IV on Exhibit___(LK-15) for the effect on the base rate revenue requirement. Changes in the grossed up rate of return were applied to the ES total plant of \$203.252 million to determine the effects on the ES revenue requirement. The calculations for ES are detailed in my electronic workpapers filed coincident with my testimony.

⁵⁰ Refer to Section V on Exhibit___(LK-XX) for the effect on the base rate revenue requirement. Changes in the grossed up rate of return were applied to the ES total plant of \$203.252 million to determine the effects on the ES revenue requirement. The calculations for ES are detailed in my electronic workpapers filed coincident with my testimony.

1 A. The effects of each 1.0% return on common equity are \$8.108 million on the base
2 revenue requirement and \$1.395 million on the ES revenue requirement. As I noted
3 previously, there also is an effect on the Decommissioning Rider revenue
4 requirement, but I have not quantified it.

5

6 **Q. What is the pretax return on common equity requested by the Company and**
7 **that recommended by KIUC?**

8 A. The pretax return on common equity requested by the Company is 16.94%. The
9 pretax return recommended by KIUC, excluding any changes related to the §199
10 deduction in the GRCF, is 14.54%. The pretax return is the return on common
11 equity that must be recovered from ratepayers in the revenue requirement. It
12 includes federal and state income taxes that must be recovered in the revenue
13 requirement, but that are expensed by the Company in computing its earned return.
14 For this purpose, I included not only the income tax gross-up to the return on
15 common equity but also a gross-up for uncollectibles expense and the Commission
16 maintenance fee.

17

18 **Q. Please describe why there will be an effect on the ES revenue requirement in**
19 **addition to the effect on the Mitchell FGD ES revenue requirement.**

20 A. The Commission historically has used the return on common equity set in the
21 utility's most recent base rate proceeding in the cost of capital applied in the ES.
22 Thus, the return on equity will apply to all rate base investment in the ES in addition

1 to the Mitchell FGD. However, the quantification will be dependent on the rate base
2 included in the monthly ES filings after the date rates are reset in this proceeding.⁵¹
3

4 **Q. Please explain why there will be an effect on the Decommissioning Rider**
5 **revenue requirement in addition to the effects on the base and ES revenue**
6 **requirements.**

7 A. The DR includes a return on the unamortized deferred costs, but on a levelized basis
8 over 25 years.
9

10 **VI. POTENTIAL FEDERAL INCOME TAX RATE REDUCTION**
11

12 **Q. Do the Company's base and surcharge revenue requirements reflect income tax**
13 **expense and ADIT at the present federal income tax rate of 35%?**

14 A. Yes. The Company's income tax expense and ADIT are calculated based on a
15 federal income tax rate of 35% for base rate and surcharge purposes.
16

17 **Q. If the federal income tax rate is reduced to 20%, as recently proposed by the**
18 **Trump administration, then what will be the effect on the Company's income**
19 **tax expense, ADIT, and base rate and surcharge revenue requirements?**

20 A. There will be significant reductions in the Company's income tax expense and
21 revenue requirements, one due to the reduction in current and deferred income tax
22 expense calculated using the lower federal income tax rate, and another due to an

⁵¹ The Stipulation and Settlement Agreement in Case No. 2012-00578 set the ES rate at 0.00% until base rates are reset in this proceeding.

1 additional reduction in deferred income tax expense from an amortization of the
2 “excess” ADIT resulting from the lower federal income tax rate.

3 The reduction in the federal income tax rate will reduce current and deferred
4 income tax expense included in the base revenue requirement, environmental
5 surcharge revenue requirement and all other surcharge revenue requirements that
6 include income tax expense.

7 In the first instance, current and deferred income tax expense will be reduced
8 by 43% if the federal income tax rate is reduced from 35% to 20%. For the
9 Company, this will result in a reduction in income tax expense of \$12.583 million
10 compared to the income tax expense based on the KIUC capitalization and cost of
11 capital recommendations in this proceeding. I haven’t calculated the reductions in
12 the ES or DR revenue requirements for purposes of this proceeding, but the effects
13 will be significant and in addition to the effects on the base revenue requirement.

14 In addition, 43% of the existing ADIT at 35% will become “excess” at 20%.
15 The ADIT represents the amount of future tax liabilities that have already been
16 collected from ratepayers before these amounts are ultimately be paid to the federal
17 government. The “excess” ADIT no longer will represent a future tax liability to be
18 paid to the federal government and will need to be returned to customers. The ADIT
19 will be amortized as negative income tax expense. This negative deferred income
20 tax amortization expense will further reduce the Company’s base and surcharge
21 revenue requirements.

1 **Q. Can these reductions be calculated using a formula?**

2 A. Yes. The Company's income tax expense is based on the gross-up on the weighted
3 return on common equity applied to the allowed capitalization for ratemaking
4 purposes, all else equal. If the income tax rate is reduced, then the new federal
5 income tax rate would be substituted for the 35% in the calculation of the GRCF.
6 The difference in the GRCF at 35% and at the new rate then is multiplied times the
7 weighted common equity in the capital structure and then multiplied times the
8 allowed capitalization.

9 The reduction in the deferred income tax expense resulting from an
10 amortization of the excess ADIT is calculated by dividing the net ADIT amounts
11 over the average amortization period for each temporary difference.

12 Finally, any change in income tax expense must be multiplied by the new
13 GRCF to determine the effect on the revenue requirement.

14

15 **Q. What is your recommendation?**

16 A. I recommend that the Commission monitor the federal tax legislation developments
17 and act in a timely manner to reduce the Company's revenue requirements
18 coincident with the effective date of the federal income tax rate reduction (which
19 could be effective back to January 1, 2017) through either immediate rate reductions
20 or deferrals followed by subsequent reductions. This will not occur automatically for
21 the base revenue requirement. However, it should be reflected automatically in the
22 ES and DR revenue requirements through the true-up provisions of those surcharges
23 and the calculation of income tax expense going forward.

1 Q. Does this complete your testimony?

2 A. Yes.

*Angela M Goad
Assistant Attorney General
Office of the Attorney General Office of Rate
700 Capitol Avenue
Suite 20
Frankfort, KENTUCKY 40601-8204

*Kentucky Power Company
1645 Winchester Avenue
Ashland, KY 41101

*Christen M Blend
American Electric Power Service Corporation
1 Riverside Plaza, 29th Floor
Post Office Box 16631
Columbus, OHIO 43216

*Katie M Glass
Stites & Harbison
421 West Main Street
P. O. Box 634
Frankfort, KENTUCKY 40602-0634

*Hector Garcia
Kentucky Power Company
1645 Winchester Avenue
Ashland, KY 41101

*Larry Cook
Assistant Attorney General
Office of the Attorney General Office of Rate
700 Capitol Avenue
Suite 20
Frankfort, KENTUCKY 40601-8204

*John C. Crespo

*J. Michael West
Office of the Attorney General Office of Rate
700 Capitol Avenue
Suite 20
Frankfort, KENTUCKY 40601-8204

*Jody M Kyler Cohn
Boehm, Kurtz & Lowry
36 East Seventh Street
Suite 1510
Cincinnati, OHIO 45202

*Honorable Michael L Kurtz
Attorney at Law
Boehm, Kurtz & Lowry
36 East Seventh Street
Suite 1510
Cincinnati, OHIO 45202

*John G Horne, II
Office of the Attorney General Office of Rate
700 Capitol Avenue
Suite 20
Frankfort, KENTUCKY 40601-8204

*Honorable Mark R Overstreet
Attorney at Law
Stites & Harbison
421 West Main Street
P. O. Box 634
Frankfort, KENTUCKY 40602-0634

*Honorable Kurt J Boehm
Attorney at Law
Boehm, Kurtz & Lowry
36 East Seventh Street
Suite 1510
Cincinnati, OHIO 45202

*Tanner Wolfram
American Electric Power Service Corporation
1 Riverside Plaza, 29th Floor
Post Office Box 16631
Columbus, OHIO 43216