

**BEFORE THE
ARKANSAS PUBLIC SERVICE COMMISSION**

**IN THE MATTER OF SOUTHWESTERN)
ELECTRIC POWER COMPANY'S PETITION)
FOR A DECLARATORY ORDER THAT) Docket No. 12-008-U
INSTALLATION OF ENVIRONMENTAL)
CONTROLS AT THE FLINT CREEK POWER)
PLANT IS IN THE PUBLIC INTEREST)**

**DIRECT TESTIMONY OF WILLIAM N. D'ONOFRIO
on behalf of
THE ATTORNEY GENERAL**

March 14, 2013

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DOCKET NO. 12-008-U

DIRECT TESTIMONY OF WILLIAM N. D'ONOFRIO

1 **I. INTRODUCTION**

2 **Q. Please state your name, business affiliation, and address.**

3 A. William N. D'Onofrio. I am the principal consultant and founder of D'Onofrio &
4 Associates, LLC, a regulatory consulting firm. My address is 3457 Royal Palm Drive,
5 North Port, Florida 34288.

6 **Q. Please state your qualifications.**

7 A. I have been involved in the electric utility industry since 1972, first as an employee of the
8 American Electric Power ("AEP") System and since 1995 as an independent consultant.

9 While employed by AEP I served in a wide variety of roles, both at the staff and
10 executive levels. Much of my career was spent in the area of rate regulation. When I
11 retired from AEP in 1995 I formed a rate regulatory consulting firm dedicated to
12 providing consulting services largely to state consumer counsels.

13 I have been an elected trustee of Union Rural Electric Cooperative, Inc., an electric
14 distribution cooperative headquartered in Marysville, Ohio since 2007. I am presently
15 the Secretary/Treasurer of that organization.

16 I hold a Bachelor of Science degree in Accounting and a Master of Business
17 Administration degree in Controllorship, both from St. John's University. I have been a
18 certified public accountant since 1973 and presently hold a practicing permit in the state
19 of Ohio.

20 I am a Credentialed Cooperative Director and also earned a Board Leadership Certificate,
21 both issued by the National Rural Electric Cooperative Association based on course work
22 completed.

23 A detailed resume of my work experience and education is attached as Exhibit WND-1.

24 **Q. Have you previously filed testimony with the Arkansas Public Service Commission?**

1 A. Yes. I filed testimony in Docket Nos. 05-116-U and 06-055-U regarding Entergy
2 Arkansas, Inc.

3 **Q. Have you also filed testimony before other rate regulatory commissions?**

4 A. Yes. I have testified on numerous occasions in the states of Indiana, Kentucky, Maryland,
5 Michigan, Ohio, Tennessee, Texas, West Virginia and before the Federal Energy
6 Regulatory Commission. I have also testified before the Public Utilities Committee of
7 the Ohio House of Representatives.

8 A list of the cases I have filed testimony in is attached as Exhibit WND-2.

9 **Q. On whose behalf are you appearing in this docket?**

10 A. I am appearing on behalf of the Arkansas Attorney General (“the AG”).

11 **Q. Given the fact that you are a former employee of the AEP System companies what
12 effect does that have on your ability to provide objective and unbiased testimony in
13 this proceeding?**

14 A. It has no effect. Aside from receiving post-employment benefits from my former
15 employer that cannot be affected by any position I may take in a regulatory proceeding, I
16 have no continuing financial or other ties to AEP that would influence my testimony one
17 way or another.

18 To that point, since my retirement I have been employed by the Indiana Office of Utility
19 Consumer Counselor to assist that agency in their opposition to a rate increase request by
20 Indiana Michigan Power Company, an AEP System operating company, and am
21 currently under contract with the Ohio Consumers’ Counsel assisting that agency in their
22 intervention in several regulatory proceedings involving Ohio Power Company, another
23 AEP System operating company.

24 As a certified public accountant I am also bound by my professional code of ethics to
25 offer objective and unbiased opinions and advice to my clients, not only in audit
26 assignments but also in consulting engagements. In fact I made this caveat clear to
27 representatives of the AG before accepting my assignment with the AG.

28

1 **II. TESTIMONY PURPOSE**

2 **Q. What is the purpose of your testimony?**

3 A. I was asked by the AG to review the testimony filed by Southwestern Electric Power
4 Company (“SWEPCO” or “the company”) and Arkansas Electric Cooperative
5 Corporation (“AECC”) in response to Commission Order #10 dated January 2, 2013.
6 More specifically, I was asked to consider testimony regarding: 1) SWEPCO witness
7 McCellon-Allen’s direct testimony re: the local economic impacts of shutting down the
8 Flint Creek Power Plant and Stranded Cost Recovery as it relates to retiring Flint Creek;
9 2) SWEPCO witness Malone’s direct testimony and exhibit re: the economic
10 development and community impacts that would result from shutting down Flint Creek;
11 3) AECC witness Highley’s testimony as to the impact on AECC and its members if Flint
12 Creek is shutdown; and 4) to offer any other insights to the Commission, based on my
13 past experience in dealing with the public policy issues that have been raised in this
14 proceeding, that can help the Commission arrive at a decision in the instant docket.

15 **Q. Were you asked to review the various options for retrofitting Flint Creek with**
16 **scrubbers or other alternatives studied by SWEPCO or the other parties to this**
17 **proceeding?**

18 A. Only to the extent that I needed to become familiar with the various positions the parties
19 were presenting to the Commission to put the issues I was asked to review into context. I
20 am not testifying on the legitimacy of one option versus another from a pure cost
21 standpoint. While cost is certainly a factor, it is not the only factor that the Commission
22 should consider.

23 **III. PREPARATION**

24 **Q. How did you prepare to write your direct testimony?**

25 A. I reviewed SWEPCO’s Petition for Declaratory Order filed on February 8, 2012,
26 Commission Orders #1 through #10, the transcripts in the docket and the direct testimony
27 filed by witnesses McCellon-Allen, Malone and Highley on January 11, 2013. I also

1 reviewed discovery responses, the existing docketed proceedings, and regulatory
2 precedent in Arkansas.

3 In reviewing the transcript I did so with the goal of getting a sense for the broad issues
4 being raised in the docket by each of the parties.

5
6 **IV. GENERAL COMMENTS FOR THE COMMISSION'S**
7 **CONSIDERATION**

8 **Q. Do you have any general comments regarding the current status of this proceeding?**

9 A. Yes, I do. In its February 8, 2012 Petition, SWEPCO asked the Commission for a finding
10 that the addition of environmental controls to the Flint Creek Plant is “in the public
11 interest” before it commences construction.

12 The Petition also states at paragraph 22:

13 “In each case considered by SWEPCO, retrofitting Flint Creek with
14 controls was determined to be the least cost alternative as compared to the
15 natural gas alternatives . . .”.

16 It appears that the broad issues of: 1) what action regarding Flint Creek is “in the public
17 interest” and 2) the use of forecasting to estimate which option is “least cost” have
18 dominated the testimony that the Commission has been offered. I have been asked by the
19 AG to offer my thoughts on those general topics.

20 **Q. Please first discuss your thoughts on the topic of SWEPCO's request for a finding**
21 **that the proposed new environmental controls are in the public interest.**

22 A. First, let me start with some background. As with most major plant additions, be they the
23 addition of environmental controls to an existing generating unit, a new transmission line
24 or the construction of a new generating plant, regulatory Commissions are increasingly
25 being asked to make a finding that proposed additions to utility plant are in the public
26 interest before the fact rather than the utility getting the necessary construction permits,

1 constructing the facilities, and then seeking a public interest finding at the time regulatory
2 relief is sought.

3 **Q. Why do you think this is significant?**

4 A. Simply put, electric utilities are no longer willing to gamble with their shareholders'
5 money that facilities costing hundreds of millions or even billions of dollars will not be
6 second guessed once they are completed and rate relief is sought. The old adage of once
7 burned twice shy comes to mind as to why this has increasingly become the trend in
8 utility regulation. I vividly recall the claims made by intervenors in cases in which I was
9 the policy witness, that new base load generating units represented "excess capacity" and
10 should not be allowed rate base recovery. Given the divergence of opinion that has been
11 expressed by the intervening parties in this proceeding, one can clearly see why utilities
12 are taking this more conservative approach.

13 Cooperative utilities find themselves in the same situation. AECC witness Highley states
14 this plainly at page 3, lines 16-18 of his testimony:

15 "AECC cannot risk a future denial of rate recovery for an investment of
16 such magnitude. A lack of rate recovery for expenses associated with
17 the retrofit would be **ruinous** to AECC and its members: . . ."
18 (Emphasis added).

19 It would be reckless and irresponsible on AECC's part to make an investment in new
20 facilities without seeking to mitigate the risks to itself and its members as much as
21 possible.

22 **Q. Does asking for a finding that the environmental controls are in the public interest**
23 **before the facilities are even started put all of the monetary risk on the backs of**
24 **SWEPCO's rate payers and AECC's members, or is there still an element of risk on**
25 **the part of these entities?**

26 A. In my view, because SWEPCO and AECC have not asked for rate relief for the new
27 environmental controls and have only asked for a finding that adding the controls is in the
28 public interest, there is an element of risk on the part of both entities. Clearly SWEPCO
29 will need to come back to this Commission and seek to recover the capital and operating

1 costs of the new facilities once they are completed. SWEPCO makes this point at
2 paragraph 25 of the Petition:

3 “25. In this filing SWEPCO **is not** seeking a determination of value for
4 ratemaking purposes, nor is SWEPCO requesting in this filing the
5 recovery of costs incurred in connection installation of environmental
6 controls at Flint Creek.” (Emphasis added).

7 Thus the construction and operating costs of the new environmental controls can be
8 scrutinized by the parties to that proceeding to ensure they are prudent. What should not
9 be in question at some later date is if the addition of the environmental controls, rather
10 than some other course of action, was prudent.

11 As to AECC, I think it is important for the Commission to keep in mind that as a
12 cooperative AECC’s “customers” are also AECC’s “shareowners”. I will say more about
13 this nuance later in my testimony.

14 **Q. Please discuss what factors you believe the Commission should consider in**
15 **determining if retrofitting Flint Creek with scrubbers is in the public interest?**

16 A. To answer that question I started with a question of my own. What exactly being “in the
17 public interest” means in Arkansas regulatory matters besides perhaps the standard
18 definition of “the welfare of the general public?” I asked the AG if there was a specific
19 definition of the term in Arkansas regulatory law and found that there is none. I do not
20 find that unusual given that participants in the regulatory process have debated the
21 meaning of the term for decades and there is still not universal agreement as to what
22 specifically the term means or what should be the determinants. So the Commission is
23 left with the task of reaching its own definition based on all of the evidence it ultimately
24 has placed before it.

25 I find this point to be significant since the Commission has been presented with a wide
26 variety of evidence on projected costs, environmental impacts and economic
27 consequences of installing scrubbers at Flint Creek or shutting Flint Creek down. Up
28 until the January 11, 2013 filing made by SWEPCO and AECC, most of the evidence
29 presented by the parties seemed to focus only on projected costs. I think the additional
30 evidence the Commission now has before with respect to the significant economic

1 benefits the plant brings to Northwest Arkansas will allow for a much more informed
2 decision.

3 In any event, in arriving at a public interest finding I think it would be reasonable for the
4 Commission to consider:

- 5 1. What members of the “public” are affected by its decision and how are they
6 affected?
- 7 2. The likely cost of the scrubbers vs. other reasonable options that have been
8 presented by both SWEPCO and AECC, the staff and the intervenors using
9 the best available information to determine “cost.”
- 10 3. The likelihood that each of the options presented can in fact be achieved and
11 meet the needs of SWEPCO’s customers and AECC’s member-owners.
- 12 4. The necessity of addressing the “load pocket” issue raised by the company
13 and AECC and the economic impacts on Northwestern Arkansas and the state
14 as a whole of keeping the Flint Creek Plant in operation versus a plant closure.

15 **Q. What points would you like to make regarding the topic of “least cost?”**

16 A. Perhaps even more elusive than a universal definition of the term “in the public interest”
17 is a determination of what alternative presented by SWEPCO/AECC or Commission staff
18 or the intervenors is the least cost alternative.

19 **Q. Shouldn’t this be a relatively easy determination to make?**

20 A. Given the breadth of expertise represented in this docket one would think so, but clearly
21 it is not.

22 **Q. Why in your opinion is determining “least cost” not a simple calculation to make?**

23 A. There are a variety of reasons, but perhaps the most significant is that the parties are
24 trying to determine in 2012/2013 what is the least cost of various options that will take 30
25 or more years to play out. Perhaps the simplest example of this is the natural gas price
26 estimates that have been presented to the Commission. The Commission had had no

1 fewer than seven (7) experts¹ present evidence as to what they believe natural gas prices
2 will be decades into the future. While one of these estimates may prove out to be close to
3 what may ultimately occur, how can this Commission or any regulatory commission
4 know with any certainty which one of these estimates will be the closest to what will
5 actually occur? They cannot.

6 Moreover, besides what the future may hold for the factors comprising the least cost
7 equation there is the problem of determining which alternatives are in fact viable options.
8 Without naming any one option that has been presented since that was not my
9 assignment, I would offer the opinion that it is easier to divine an option than to actually
10 make the option viable in the real world of managing a utility system to provide safe,
11 reliable electricity at reasonable cost. In addition, different parties can have different
12 agendas that they wish to promote. Less I be misunderstood, let me be clear that I am not
13 supporting coal vs. natural gas vs. wind vs. any other form of generation. But my
14 experience has taught me that parties to regulatory proceeding will at times support a
15 position based on considerations other than pure economic cost.

16 And finally, there is the question of what elements should be part of “cost equation”?
17 Should “least cost” only include capital and operating costs or should other societal
18 impacts such as the impact on the environment or the impact on the local and state
19 economy also be considered? I would argue that a broader definition of “least cost” is
20 preferable to a narrow definition since it allows the Commission to hear all of the
21 arguments supporting an option rather than constraining it to make a decision based on
22 only some of the facts and factors.

23 **Q. While determining least cost may have its problem, what other alternative might a**
24 **regulatory commission such as the Arkansas Commission have to make a finding?**

25 A. I believe a viable alternative to making a finding on purely least cost is to determine
26 whether a proposal is “reasonable” given the circumstances.

¹ Those witnesses are Scott Weaver, Judah Rose, Andrew Lachowsky, Kevin Woodruff, Richard Hahn, Paul Chernick, and Karl Bletzacker.

1 In the instant docket we know with certainty that given air quality standards that are now
2 in place, unless Flint Creek is retrofitted with a scrubber the plant will need to stop
3 operating not later than January 1, 2016.² We also know that adding scrubbers will meet
4 current Federal and state environmental requirements. We know that absent a finding by
5 the Commission that the proposed environmental controls are in the public interest
6 SWEPCO and AECC will close the plant; the company and AECC have been crystal
7 clear on that point. It seems like the major unanswered question, at least for the
8 intervenors, is if the SWEPCO/AECC proposal is the least cost option. So the question
9 can then be asked: Given what we know at the present time is the SWEPCO/AECC
10 proposal “reasonable?”

11 Given what appears to be unanimous agreement that there is not agreement on what
12 option supports a least cost alternative, and that certainty on this point is impossible,
13 perhaps using a “reasonableness standard” is not an unreasonable way to reach a solution
14 to the problems this docket presents? That is, has the company made a showing that the
15 option it recommends, that is, the addition of scrubbers to Flint Creek, is reasonable
16 based on the facts as we know them today? For example, given that we know with
17 certainty the current price of coal and gas, that there appears to be a load pocket in
18 Northeastern Arkansas, that the permitting new transmission lines is a time consuming
19 task and in any event new transmission might not address the load pocket issue, and that
20 the plant provides documented economic benefits to Northwestern Arkansas, is the
21 scrubber option reasonable under the circumstances?

22 **Q. Do you have any final preliminary comments?**

23 A. As a former “company witness” I was usually in attendance on the first day of
24 evidentiary hearings. As the “policy witness” in a number of cases I not only attended
25 nearly every day of evidentiary hearings, but also made it a point to attend all of the field
26 hearings that were held around the service territory of the operating company I worked
27 for. I felt it was important to hear what the public had to say since their views carry
28 weight with the finders of fact and they are the people ultimately paying the bills.

² I want to acknowledge here that some delay in implementation may be allowed, but this does not change the point that shutdown will occur at some point if more is not done.

1 Very often local and state officials would make statements at these hearings. Frankly I
2 cannot remember one instance in which a public official stood up and supported a rate
3 increase that my former employer was seeking. In fact, the opposite was true.

4 Given my past experience in regulatory matters I was struck by the statements made in
5 support of SWEPCO's Petition by the public officials during the "Public Comments"
6 portion of the October 9, 2012 hearing in this docket. While a finding in the company's
7 favor will not immediately result in an increase in rates, these officials likely understand
8 that the addition of environmental controls costing hundreds of millions of dollars will
9 ultimately have that affect. Yet they were willing to publically support the company's
10 proposal. I found that significant.

11
12 **V. SPECIFIC COMMENTS ON SWEPCO'S/AECC'S PREFILED**
13 **TESTIMONY**

14 **Q. Turning to the direct testimony filed by SWEPCO on January 8, 2013, with respect**
15 **to witness McCellon-Allen's direct testimony, what is your reaction regarding her**
16 **testimony starting at page 27, line 10 re: Economic Impact of the Flint Creek Power**
17 **Plant?**

18 A. When I was first asked by the AG to consult on the testimony that SWEPCO would be
19 filing in response to Commission Order #10, I started to review in my own mind my
20 experience with the types of economic benefits large generating units provided to the
21 geographic area in which they are located. I was not surprised to see in her testimony a
22 list of benefits consistent with my own list of economic benefits.

23 It was my experience at AEP that the System's power plants provided important
24 economic benefits to the communities in which they were located as well as surrounding
25 communities. Electric generating plants are often located in rural areas and thus are often
26 a major employer and major contributor to the local tax base. Given the rural nature of
27 power plants any plant closure is likely to have a significant adverse affect on the local
28 economy. Thus it came as no surprise to me to read Ms. McCellon-Allen's testimony

1 that shutting down Flint Creek would have a major negative impact on the economy of
2 Northwest Arkansas.

3 I am also not surprised by the economic development aspects of the plant. During the
4 course of my career with AEP I was involved in many discussions with businesses
5 looking to locate or expand production facilities to our service territory. The
6 conversations always centered on the security of generation supply and rates, usually in
7 that order. Low rates are of no benefit to a manufacturer if the power supply it is relying
8 upon is insecure. While there are many other aspects as to why a manufacturer will or
9 will not locate in a particular area, often electric supply is a major driver.

10 **Q. Can you comment on witness McCellon-Allen's "stranded cost" testimony starting**
11 **on line 1 of page 28?**

12 A. First, with all due respect to Ms. McCellon-Allen, I think the use of the term "stranded
13 costs" is somewhat misplaced as it may ultimately apply to Flint Creek. That term has
14 largely been used in electric industry restructuring cases to refer to redundant investments
15 that become uneconomic in a competitive environment and thus may be misleading as to
16 the issue the Commission might ultimately need to deal with. From an accounting
17 standpoint, if Flint Creek is forced to shut down the result will be an "abandonment loss."

18 But regardless of what we call it, I believe the argument she is making as to capital costs
19 associated with Flint Creek that may remain unrecovered at the time the plant is shut
20 down as well as any decommissioning costs, deserves serious consideration by the
21 Commission. While the decision to allow recovery of an abandonment should be made
22 after considering the relevant facts and subject to a prudence test, based on my
23 experience it would not be unusual for such losses to be recoverable in rates.

24 **Q. Why should the potential of an abandonment loss be of concern in this proceeding?**

25 A. If the Flint Creek Plant is shut down because it fails to meet federal and or state
26 environmental standards, and an abandonment loss is included in rates, the rate impact of
27 the loss will be additive to any "replacement solution" for the lost capacity. Effectively
28 rate payers would continue to pay for capacity they are no longer receiving.

29 **Q. Can you comment on AECC witness Highley's stranded cost testimony?**

1 A. AECC witness Highley discusses stranded costs in his testimony at page 5, lines 19-22:

2 Also, at the time of the abandonment AECC must record any remaining
3 net plant value as a loss on its income statement. If Flint Creek were
4 abandoned today, the loss would be more than \$25 million. The loss will
5 result in either a decrease in AECC's member cooperative's *[sic]* equity
6 or will have to be recovered in future increased rates.

7 First, to repeat what I said earlier, if Flint Creek is abandoned it is likely that members'
8 rates will include a cost for a generating facility that is not productive and such cost will
9 be additive to the cost of any replacement solution for the generation that has been
10 abandoned.

11 Second, and equally important, is that even if the abandonment is written off to equity it
12 will have a negative effect on AECC's member cooperatives.

13 **Q. Why would a write off to equity have a negative effect on AECC's member**
14 **cooperatives?**

15 A. A write off against equity would have a negative effect on AECC's member cooperatives
16 because the "rate payers" in a cooperative system are also its "shareowners." While
17 cooperative electric companies are "not for profit" entities, members of a cooperative
18 system still contribute an amount in excess of pure cost to fund the "patronage capital" or
19 "equity" of the cooperative; in cooperative-speak that additional amount is referred to as
20 "margin" as opposed to "profit". Margin is what ultimately comprises a cooperative's
21 equity (patronage capital).

22 Moreover, in most cooperative systems accumulated margin is ultimately returned to the
23 membership through patronage capital refunds. If the Flint Creek plant is shut down and
24 the unamortized cost of the plant is written off against equity it will mean that future
25 returns of patronage capital would be reduced.

26 Lenders also generally require that a cooperative maintain a minimum level of equity to
27 support new borrowings. And in some cases a reduced level of equity can result in
28 default on debt that has already been issued.

29 The point here is that a write off to equity is not an inconsequential event; it can have
30 serious negative consequences.

1 **Q. While on the subject of the difference between a not for profit cooperative utility**
2 **such as AECC and a for profit utility such as SWEPCO are there any other points**
3 **that need to be considered?**

4 A. Yes, I think there is one other point I would ask the Commission to keep in mind as it
5 makes its deliberations.

6 A “for profit” utility, such as SWEPCO, earns a profit or return on its invested capital. It
7 does not as a matter of course earn a profit on its operating costs. Thus one might
8 conclude from that fact that given a choice between a capital intensive solution versus a
9 higher operating cost solution to providing generation, there would be a bias in favor of
10 the capital intensive solution. While no witness in this proceeding has made that claim
11 directly, this undercurrent came through to me when reading the intervenors’ testimony
12 in opposition to the scrubber solution recommended by the company’s witnesses.

13 However, even if we made the assumption that SWEPCO would favor the scrubber
14 solution due to its capital intensity, thus resulting in higher profits for shareholders verses
15 a less capital intensive solution, there is absolutely no reason why a cooperative like
16 AECC would make a similar choice given that the owners and the rate payers of the
17 cooperative are ultimately the same individuals. As a cooperative AECC should have no
18 bias towards a capital intensive solution versus an operating cost intensive solution.

19 **Q. Putting aside what may be AECC’s indifference to a “capital cost” versus an**
20 **“operating cost” solution, are you suggesting that you believe that SWEPCO has**
21 **been biased in making its decision to add scrubbers?**

22 A. No. I have absolutely no reason to reach that conclusion or believe it is true.

23 **Q. Do you have any comments on witness Malone’s testimony and exhibit?**

24 A. Yes, I do. Like the “economic impact” testimony offered by witness McCellon-Allen, it
25 is my opinion that witness Malone, whose job is to improve “education, infrastructure,
26 community vitality and economic opportunity for people who live and work in Northwest
27 Arkansas” makes a strong case for why Flint Creek Plant should not be shutdown, but
28 rather should be kept in service.

1 In particular he points out at page 6 and 7 of his direct testimony that the total economic
2 impact of the plant is \$28.2 million; that labor income is \$5 million; and that 106 jobs are
3 associated with the ongoing operation of the plant. He also points out that state and local
4 taxes due to the economic activity created by the plant is \$3 million annually. Moreover,
5 he discusses the number of construction jobs that will be created by the retrofit and the
6 addition of 20 additional plant employees over time.

7 Finally, he points out that the University of Arkansas study estimates that the retrofit will
8 create nearly \$224 million of economic output. The study also estimates about \$80
9 million of labor income and \$8.5 million of additional tax spending will be created by the
10 retrofit.

11 Given these statistics, like the McCellon-Allen testimony on this topic, witness Malone
12 provides additional important input to the decision that the Commission has been asked
13 to make in this proceeding.

14 **Q. During your career were you acquainted with organizations similar to the**
15 **Northwest Arkansas Council?**

16 A. Yes I was. In fact, the cooperative that I am a trustee of participates in a similar
17 organization named the Union County-Marysville Economic Development Partnership.
18 These organizations generally focus on economic development, community vitality and
19 business development with the goal of improving the quality of life of the constituencies
20 they serve. I have found the work of these organizations to be “fact based” and apolitical
21 in nature. Their mission, broadly speaking, is to improve the quality of life for the
22 constituency they represent.

23 **Q. Did you also review the exhibit witness Malone is sponsoring?**

24 A. Yes, I did. In my opinion this report presents an unbiased view of the economic
25 significance of the Flint Creek Plant to the region in which it located. While I have not
26 attempted to independently verify the data in the report, both the data and the report’s
27 conclusions appear reasonable to me.

28

1 **VI. SUMMARY AND CONCLUSION**

2 **Q. Please summarize your testimony.**

3 A. I believe the company and AECC have presented important additional information
4 regarding the economic impacts of the Flint Creek Plant, as well as the potential rate
5 consequences of shutting down the plant. In my opinion they have demonstrated that the
6 plant provides important economic benefits to Northwestern Arkansas and that absent the
7 continued operation of the plant that region will be adversely affected.

8 I have no formal opinion on the information discussed in Mr. Nickell's testimony, but I
9 agree that the issues contained therein are worthy of consideration. All this information
10 should be given consideration by the Commission, along with all of the other evidence it
11 has before it, in reaching a final decision in this matter.

12 After reviewing the record to date, and in light of the uncertainties involved with
13 estimating future costs, I have reached the conclusion that proceeding with the Flint
14 Creek retrofit is a reasonable course of action and is more likely than not to be in the
15 public interest.

16 **Q. Does this conclude your testimony at this time?**

17 A. Yes.

**Qualifications of
William N. D’Onofrio**

Work Experience:

D’Onofrio & Associates, LLC

Founder and Principal Consultant

10/2005 - Present

A rate regulatory consulting firm specializing in electric utility regulatory issues.

American Electric Power Service Corporation (Services company subsidiary of American Electric Power (“AEP”) Co., Inc.)

Vice President – Utility Business Services

2004 – 9/2005

Responsible for strategy, planning, budgeting, cost control, associated business development and other revenue collection for an 11 state utility holding company system.

Vice President – Strategy (Shared Services)

2000 – 2003

Responsible for the development and functioning of a Shared Services organization including IT, HR, General Services, Supply Chain, and Telecommunication. Developed service level agreements, product catalogues and a billing system to promote efficiency, transparency and appropriate distribution of costs.

Vice President – Regulatory Services/Policy

1998 – 1999

Responsible for rate regulatory matters for a seven state electric utility holding company system. Company’s chief spokesman on industry restructuring matters.

Director – Distribution Regions

1996 – 1997

Responsible for the operation and maintenance of six electric Distribution regions serving more than 1 million customers over a four state service area.

EXHIBIT WND-1
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Indiana Michigan Power Company (Operating company subsidiary of AEP)

Vice President and Director – Administration/Operations 1984 – 1995
(Member of IMPCO’s Board of Directors)

Officer in charge of rate regulatory, accounting, budgeting and major customer relationships for an operating utility company with operations in two states and FERC over an approximate 10 year period. Lead policy witness in numerous base rate cases before state commissions and the FERC. Also responsible for annual and or quarterly energy cost filings.

Responsible for transmission and distribution and division operating and customer service matters for an approximate two year period.

American Electric Power Service Corporation

Assistant Treasurer & Director Treasury of the Staff 1977 - 1983

Leadership of a staff of in-house CPAs responsible for determining appropriate accounting policies and procedures for a seven state registered holding company system. Accounting liaison with the regulatory function. Testified in numerous base rate cases on accounting and tax issues.

Assistant to SVP Regulation 1975 – 1977

Staff member of the corporate regulatory department, responsible for providing strategy, accounting and tax support for several electric utility operating company rate departments.

Assistant to EVP & Chief Accounting Officer 1972 – 1975

Responsible for researching and recommending regulatory accounting policies and procedures, reporting on monthly earnings trends and interfacing with corporate and operating company rate functions.

Price Waterhouse & Co.

Audit Staff 1969 – 1972

Franklin University

Adjunct Professor of Accounting 2003 – 2009

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Capital University

Adjunct Professor of Accounting

2003

Union Rural Electric Cooperative

Trustee and Secretary/Treasurer

2007 - Present

Education:

Darden Graduate School of Business	The Executive Program	1987
St. John's University	M.B.A., Controllership	1973
St. John's University	B.S., Accounting	1969

I have also completed numerous continuing professional education (CPE) courses as a requirement of maintaining my CPA certification.

Certification / Affiliations:

Certified Public Accountant – New York (1973); Indiana (1985); Ohio (2005)*

* Practicing Permit in effect.

American Institute of Certified Public Accountants	1973 – Present
Ohio Society of Certified Public Accountants	2005 – Present
Credentialed Cooperative Director – National Rural Electric Cooperative Association	2008
Board Leadership Certificate - National Rural Electric Cooperative Association	2012

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Testimony Presented by William N. D'Onofrio, CPA
Beginning in 1975 to the Present
In Chronological Order

Case No.	Regulatory Body	Subject of Testimony
U-5281	Michigan Public Service Commission (MPSC)	Deferred federal income tax theory; alternative methods of financing new plant investments.
8907	West Virginia Public Service Commission (WVPSC)	Alternative methods of financing new plant investments.
35251	Indiana Utility Regulatory Commission (IURC)	Federal income tax accounting; deferred Federal income tax theory; appropriate use of effective tax rates.
9091	WVPSC	Consolidated federal income tax savings.
7164	Kentucky Public Service Commission (KPSC)	Alternative methods of financing new plant investments.
6595	Tennessee Public Service Commission (TPSC)	Deferred federal income tax theory; consolidated federal income tax savings.
78-676-EL-AIR	Public Utilities Commission of Ohio (PUCO)	Deferred federal income tax theory; Federal income tax accounting.
ER-78-3792 et al.	Federal Energy Regulatory Commission (FERC)	Deferred federal income tax theory.
U-6148	MPSC	Deferred federal income tax theory; Federal income tax accounting; regulatory treatment of test facilities; earnings erosion allowance; alternative methods of financing new plant investments.
7489	KPSC	Interest synchronization; accounting for new office building.
34588 (R)	IURC	Federal income tax accounting.

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Case No.	Regulatory Body	Subject of Testimony
36150	IURC	Federal income tax accounting; deferred Federal income tax theory.
7900	KPSC	Federal income tax accounting; interest synchronization.
I&MECO v. Pounds	Indiana	Condemnation of property for construction of utility plant.
8058; 8058 (R)	KPSC	Recovery of deferred fuel expenses.
80-367-EL-AIR	PUCO	Federal income tax accounting; tax loss carry-forwards.
ER-79-332 et al.	FERC	Deferred federal income tax theory.
U-6927	MPSC	Economic Recovery Tax Act of 1981
81-1058-EL-AIR	PUCO	Federal income tax accounting; deferred Federal income tax theory.
81-782-EL-AIR	PUCO	Federal income tax accounting; deferred Federal income tax theory.
8429	KPSC	Economic Recovery Tax Act of 1981; Federal income tax accounting.
34588 (R)	IURC	Federal income tax accounting.
35251 (R)	IURC	Federal income tax accounting.
U-7117	MPSC	Economic Recovery Tax Act of 1981; Federal income tax accounting.
36760	IURC	Economic Recovery Tax Act of 1981.
U-7112	MPSC	Economic Recovery Tax Act of 1981.
U-82-7116	TPSC	Economic Recovery Tax Act of 1981; Federal income tax accounting.

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Case No.	Regulatory Body	Subject of Testimony
82-162-E-42T	WVPSC	Economic Recovery Tax Act of 1981; Federal income tax accounting.
82-334-E-42T	WVPSC	Economic Recovery Tax Act of 1981; Federal income tax accounting.
8734	KPSC	Federal income tax accounting; alternative methods of financing new plant investments.
83-314_EL-AIR	PUCO	Federal income tax accounting.
U-7791	MPSC	Lead policy witness re: increase in electric rates for new base load generation and other cost increases.
37251	IURC	Lead policy witness re: increase in electric rates for new base load generation and other cost increases.
37457	IURC	Lead policy witness re: increase in electric rates.
ER-84-587 et al.	FERC	Lead policy witness re: increase in electric rates for new base load generation and other cost increases.
U-8041	MPSC	Request to normalize fuel expenses for fossil fired generation plant.
37470	IURC	Request to normalize fuel expenses for fossil fired generation plant.
38063 38063-S1	IURC	Lead policy witness; FASB requirements re: phase-in plan for new utility plant; Tax Reform Act of 1986
U-8685	MPSC	Tax Reform Act of 1986
ER-88-30 et al.	FERC	Lead policy witness re: increase in electric rates for new base load generation and other cost increases..
U-9656	MPSC	Lead policy witness re: increase in electric rates for new base load generation and other cost increases..
38728	IURC	Lead policy witness re: increase in electric rates for new base load generation and other cost increases..
ER-90-269 et al.	FERC	Lead policy witness re: general increase in electric rates.

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39314	IURC	Lead policy witness re: general increase in electric rates.
98-0452-E-GI	WVPSC	Open access to the electric supply markets and development of a plan to deregulate electricity.
28840	PUCT	Regulatory treatment of affiliated costs of IT, HR, Supply Chain and General Services.
05-116-U 06-055-U	Arkansas Public Service Commission	Fuel and purchased power costs; coal inventory policies; rail contract issue re: prudence review of energy cost recovery rate filing.
9173	Maryland PSC	Tax effects of sale of nuclear assets.
4311 IGCC S1	Indiana	Ex parte communications by company officials with the IURC chair.
Senate Bill 3	Ohio Senate & House Sub-committees	Electric utility industry restructuring.

CERTIFICATE OF SERVICE

I, Emon O. Mahony, do hereby certify that on this 14th day of March, 2013, I provided a copy of the above and foregoing Direct Testimony to all parties of record by electronic mail or by first class mail, postage prepaid,

/s/ Emon O. Mahony
Emon O. Mahony