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October 7, 2010

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**HAND DELIVERED**

Jeff R. Derouen  
Executive Director  
Public Service Commission  
211 Sower Boulevard  
P.O. Box 615  
Frankfort, KY 40602-0615

**RECEIVED**

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**PUBLIC SERVICE  
COMMISSION**

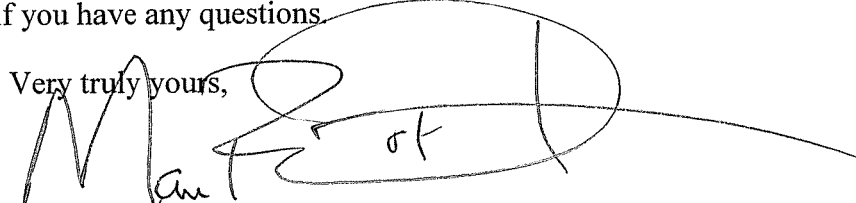
RE: P.S.C. Case No. 2010-318

Dear Mr. Derouen:

Enclosed please find and accept for filing the original and ten copies of the testimony of Lila P. Munsey in this proceeding. Copies have been served on the individuals indicated below.

Please do not hesitate to contact me if you have any questions.

Very truly yours,

  
Mark R. Overstreet

MRO

cc: Dennis Howard II  
Michael L. Kurtz

**COMMONWEALTH OF KENTUCKY**  
**BEFORE THE**  
**PUBLIC SERVICE COMMISSION OF KENTUCKY**

**IN THE MATTER OF**

**AN EXAMINATION BY THE PUBLIC SERVICE )  
COMMISSION ON THE ENVIRONMENTAL )  
SURCHARGE MECHANISM OF KENTUCKY ) CASE NO. 2010-00318  
POWER COMPANY FOR THE SIX-MONTH )  
BILLING PERIOD ENDING JUNE 30, 2010 )**

**DIRECT TESTIMONY OF**  
**LILA P MUNSEY**  
**ON BEHALF OF KENTUCKY POWER COMPANY**

**October 7, 2010**





**DIRECT TESTIMONY OF  
LILA P. MUNSEY, ON BEHALF OF  
KENTUCKY POWER COMPANY  
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**CASE NO. 2010-00318**

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**DIRECT TESTIMONY OF  
LILA P. MUNSEY, ON BEHALF OF  
KENTUCKY POWER COMPANY  
BEFORE THE PUBLIC SERVICE COMMISSION OF KENTUCKY**

**I. Introduction**

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

2 A: My name is Lila P. Munsey. My position is Manager of Regulatory Services,  
3 Kentucky Power Company (“Kentucky Power, KPCo or Company”). My business  
4 address is 101 A Enterprise Drive, Frankfort, Kentucky 40602.

**II. Background**

5 **Q: PLEASE SUMMARIZE YOUR EDUCATIONAL BACKGROUND AND**  
6 **BUSINESS EXPERIENCE.**

7 A: I received a Bachelor of Science in Civil Engineering degree from Purdue  
8 University, West Lafayette, Indiana in May 1978 and began my career with  
9 Appalachian Power Company (“APCo”) as a Civil Engineer in the Hydroelectric  
10 Department. In August 1983, I was promoted to the position of Cost Allocation  
11 Analyst for APCo where I conducted numerous studies to support retail rate filings  
12 and regulatory interactions with the West Virginia and Virginia regulatory  
13 commissions. In November 1985, I was transferred to the Rate Department in  
14 American Electric Power Service Corporation, a subsidiary of American Electric  
15 Power Company, Inc. (“AEP”), in Columbus, Ohio, as an Associate Rate Analyst  
16 where I developed and supported operating company retail rate filings within AEP’s

1 seven eastern states. I was promoted to Rate Analyst in November 1989 where I  
2 developed, supported, and testified in retail filings concerning cost of service issues.

3 In January 1998, I moved to the newly formed transmission pricing group  
4 as a Transmission Contracts & Regulatory Specialist for AEP. In this capacity, I  
5 prepared AEP's FERC transmission rate filings, including transmission cost-of-  
6 service studies, rate design, and tariff development in support of the Regional  
7 Transmission Organization (RTO) developmental filings and negotiations for the  
8 Alliance TransCo and ultimately AEP's entrance into PJM's RTO on October 1,  
9 2004. I also prepared long-term reservation contracts with other utilities and  
10 developed a contract management tracking system, provided expertise on AEP's  
11 Open Access Transmission Tariff and tariff revisions as necessary, and developed  
12 the merger-related FERC filings required for AEP's merger of the operating  
13 companies in the seven eastern states with those in the four western states  
14 previously known as Central & Southwest (CSW). In June of 2000, I was  
15 promoted to Senior Regulatory Consultant in the Transmission & Interconnections  
16 department, which became part of the Regulated Tariffs department in 2005. In  
17 September 2010, I transferred from AEP to Kentucky Power where I assumed my  
18 current responsibilities and position.

19 **Q: WHAT ARE YOUR RESPONSIBILITIES AS MANAGER OF**  
20 **REGULATORY SERVICES?**

21 A: I supervise and direct the Regulatory Services of the Company, which has the  
22 responsibility for rate and regulatory matters affecting Kentucky Power. This  
23 includes the preparation of and coordination of the Company's exhibits and  
24 testimony in rate cases and any other formal filings before state and federal

1 regulatory bodies. Another responsibility is assuring the proper application of the  
2 Company's rates to all classifications of business.

3 **Q: TO WHOM DO YOU REPORT?**

4 A: I report to the Managing Director Regulatory and Finance of Kentucky Power, Mr.  
5 Ranie K. Wohnhas, who is also located in Frankfort, Kentucky.

6 **Q. DO YOU HOLD ANY PROFESSIONAL LICENSES?**

7 A. Yes, I am registered as a Professional Engineer in the State of Ohio and in the  
8 Commonwealth of Virginia.

9 **Q: HAVE YOU PREVIOUSLY TESTIFIED IN ANY REGULATORY**  
10 **PROCEEDINGS?**

11 A: Yes. I testified before this Commission in Kentucky Power Case No. 91-066, a  
12 regulatory proceeding involving the adjustment in electric base rates for Kentucky  
13 Power. I have also presented testimony for Wheeling Power Company before the  
14 West Virginia Public Service Commission and for Appalachian Power Company  
15 before the Commonwealth of Virginia State Corporation Commission.

16 **III. Purpose of Testimony**

17 **Q: WHAT IS THE PURPOSE OF YOUR TESTIMONY IN THIS**  
18 **PROCEEDING?**

19 A: My testimony has two purposes. The first is to support the Company's request to  
20 refund the total net over-collection during the expense months of May 2009 through  
21 April 2010 of environmental costs in the amount of \$69,860. The second purpose is  
22 to demonstrate the reasonableness of the application of the Company's monthly  
23 environmental surcharge during the six month period ended June 30, 2010.



1 **A. Proposed Adjustment For Over-Recovery**

2 **Q. WHAT WAS THE ENDING DATE FOR THE COMPANY'S LAST TWO-**  
3 **YEAR REVIEW PERIOD?**

4 A. June 30, 2009. On January 20, 2010, the Commission entered its Order in Case No.  
5 2009-00316 accepting Kentucky Power's proposed adjustment for the two-year  
6 period ended June 30, 2009 and closing the proceeding.

7 **Q. WERE THE EXPENSES GIVING RISE TO THE PROPOSED**  
8 **ADJUSTMENT INCURRED SUBSEQUENT TO THE END OF THE**  
9 **COMPANY'S LAST TWO-YEAR REVIEW PERIOD?**

10 A. Yes. The expenses at issue were incurred between and including May, 2009 and  
11 April, 2010. Because Kentucky Power's surcharge is billed on a two-month delay,  
12 these expenses were not reflected in the Company's filings during the two-year  
13 period at issue in Case No. 2009-00316.

14 **Q: HOW DID THE COMPANY DISCOVER ITS OVER COLLECTION OF**  
15 **TOTAL NET ENVIRONMENTAL COSTS OF \$69,860.**

16 A: During Kentucky Power's review of its monthly environmental filings for the six  
17 month period under review in this proceeding, the Company discovered that it had  
18 inaccurately reported the expenses associated with its approved environmental  
19 projects for Cardinal Unit 1. More specifically, the erroneously reported expenses  
20 were associated with Cardinal Unit 1 SCR and Scrubber FGD maintenance costs.

21 **Q. YOU STATE THAT THE NET RESULT OF THE ERRONEOUSLY-**  
22 **REPORTED CARDINAL UNIT 1 EXPENSES WAS AN OVER-RECOVERY**  
23 **OF \$69,860 DURING THE TWELVE-MONTH PERIOD SINCE THE**  
24 **COMPANY'S LAST TWO-YEAR REVIEW. WAS THERE AN OVER**  
25 **COLLECTION EACH MONTH?**

26 A. No. It varied from month to month. For the billing period January 1, 2010 through  
27 June 30, 2010 (November 1, 2009 through April 30, 2010 expense months) the

1 Company over-collected \$94,518. For the preceding six month period July 1, 2009  
 2 through December 31, 2009 (May 1, 2009 through October 31, 2009 expense  
 3 months) Kentucky Power under-collected \$24,658. Netting the two six-month  
 4 totals yields the \$69,860 over-recovery the Company proposes to refund.

5 **Q: WOULD YOU PLEASE DESCRIBE THE OVER-STATEMENT OF**  
 6 **CARDINAL UNIT 1 SCR AND SCRUBBER (FGD) MAINTENANCE**  
 7 **EXPENSE?**

8 A: Yes. Some of the Cardinal Unit 1 SCR and Scrubber (FGD) properly includable  
 9 maintenance expenses (including negative expenses) were not included in the totals  
 10 reported during the monthly filings.

11 **Q: HAS THE COMPANY RE-CALCULATED ITS ENVIRONMENTAL**  
 12 **SURCHARGE FILINGS TO EXCLUDE THE OVERSTATEMENTS?**

13 A: Yes. When ES Form 3.13, Lines 10 and 11 are revised and the results are carried  
 14 forward to the other affected forms, i.e. ES Form 1.00, Line 1, the monthly results  
 15 as found on ES Form 1.00, Line 7 are as follows for each of the six month periods:

SCR & Scrubber (FGD) Expense Month/Year	As Filed on ES Form 1.00, Line 7	Revised on ES Form 1.00, Line 7	Over (Under) Recovery	Co's Response to Staff's Item No.1 Reference Page
November 2009	\$1,021,249	\$1,031,205	(\$9,956)	Page 4 of 57
December 2009	\$2,491,341	\$2,491,341	\$0	Page 13 of 57
January 2010	\$1,148,441	\$1,071,532	\$76,909	Page 22 of 57
February 2010	\$699,695	\$672,134	\$27,561	Page 31 of 57
March 2010	\$1,060,013	\$1,060,009	\$4	Page 40 of 57
April 2010	\$1,789,088	\$1,789,088	\$0	Page 49 of 57
Total	\$8,209,827	\$8,115,309	\$94,518	

SCR & Scrubber (FGD) Expense Month/Year	As Filed on ES Form 1.00, Line 7	Revised on ES Form 1.00, Line 7	Over (Under) Recovery
May 2009	\$2,000,050	\$1,999,718	\$332
June 2009	\$1,267,370	\$1,267,367	\$3
July 2009	\$678,646	\$678,649	(\$3)
August 2009	\$939,165	\$948,166	(\$9,001)
September 2009	\$847,505	\$856,982	(\$9,477)
October 2009	\$450,443	\$456,955	(\$6,512)
Total	\$6,183,179	\$6,207,837	(\$24,658)

1 **Q: WHAT IS THE FINAL RESULT?**

2 A: The final result is the net of the \$24,658 under-recovery and the \$94,518 over-  
3 recovery, or an over-recovery of \$69,860.

4 **Q. WHY DOES THE COMPANY BELIEVE IT IS APPROPRIATE TO NET**  
5 **THE OVER-RECOVERY DURING THE PERIOD UNDER REVIEW**  
6 **AGAINST THE UNDER-RECOVERY DURING THE PRIOR SIX MONTH**  
7 **PERIOD?**

8 A. The environmental surcharge is a cost-recovery mechanism. As such, the costs of  
9 providing service that are recovered through the surcharge should be borne by the  
10 customers who received the service resulting from the expenditures to be recovered.  
11 The sooner an adjustment is made for an over-recovery or under-recovery, the  
12 greater the likelihood the costs recovered through the surcharge are being borne  
13 only by the persons who received the service resulting from the expenditures. With  
14 the passage of time (perhaps an additional year until the Company's next two-year  
15 review) the greater the number of customers likely to leave the system (hence avoid  
16 payment of the costs) or join the system (and hence be required to pay costs that  
17 were not incurred with respect to service they received.)

18 **Q. IS THE COMPANY'S PROPOSED ADJUSTMENT FAIR AND**  
19 **REASONABLE?**

1 A. Yes. The proposed adjustment reconciles the costs properly recoverable through  
2 the surcharge to the rates collected.

3 **B. Reasonableness Of Operation Of The Environmental Surcharge**  
4 **During The Review Period**

5 **Q: HAS THE COMPANY RESPONDED TO THE COMMISSION STAFF'S**  
6 **THIRTEEN DATA REQUESTS, INCLUDING SUB-PARTS, PROPOUNDED**  
7 **IN APPENDIX B OF THE SEPTEMBER 7, 2010 ORDER IN THIS CASE?**

8 A: Yes, the responses were filed on September 30, 2010.

9 **Q. DOES THE COMPANY HAVE ANY ADDITIONAL ADJUSTMENTS TO**  
10 **PROPOSE?**

11 A. No.

12 **Q. AS ADJUSTED, WERE THE RATES CHARGED THROUGH THE**  
13 **ENVIRONMENTAL SURCHARGE DURING THE REVIEW PERIOD**  
14 **FAIR, JUST AND REASONABLE.**

15 A. Yes. With the proposed adjustment, the Company's customers will have paid  
16 through the review period ended June 30, 2010 the full costs – but no more – that  
17 are recoverable through the environmental surcharge.

**IV. Conclusion**

18 **Q: WHAT ACTION IS THE COMPANY REQUESTING THE COMMISSION**  
19 **TAKE IN THIS PROCEEDING?**

20 A: Kentucky Power Company respectfully requests the Commission issue an Order  
21 permitting the Company to refund the total net over collection of environmental  
22 costs in the amount of \$69,860.

1 **Q: HOW DOES THE COMPANY PROPOSE TO REFUND THE TOTAL NET**  
2 **OVER COLLECTION?**

3 A: Due to the relatively small amount of the total net over collection, the Company  
4 proposes a one time adjustment to the Company's first monthly environmental  
5 surcharge filing following the Commission's Order in this proceeding. The  
6 Company suggests inserting a line between lines 5 and 6 on ES Form 1.00 in which  
7 the \$69,860 over collection amount would be subtracted from line 5.

8 **Q: DOES THAT CONCLUDE YOUR PRE-FILED DIRECT TESTIMONY?**

9 A: Yes.