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January 31, 2012

HAND DELIVERED

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

RECEIVED

JAN 31 2012

PUBLIC SERVICE
COMMISSION

Mark R. Overstreet
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RE: Case No. 2011-00031

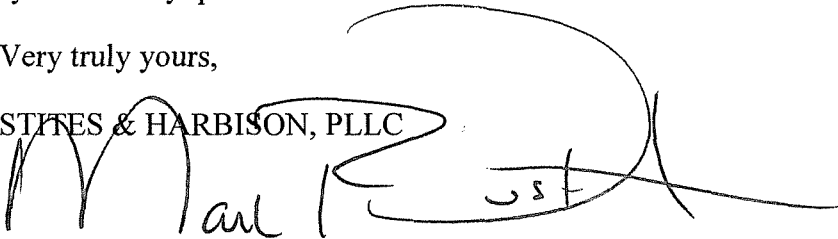
Dear Mr. Derouen:

Enclosed please find and accept for filing the original and ten copies of Ms. Munsey's testimony in accordance with the Commission's order.

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

Very truly yours,

STITES & HARBISON, PLLC


Mark R. Overstreet

MRO

COMMONWEALTH OF KENTUCKY
BEFORE THE
PUBLIC SERVICE COMMISSION OF KENTUCKY

RECEIVED

JAN 31 2012

**PUBLIC SERVICE
COMMISSION**

IN THE MATTER OF

**AN EXAMINATION BY THE PUBLIC SERVICE)
COMMISSION ON THE ENVIRONMENTAL)
SURCHARGE MECHANISM OF KENTUCKY) CASE NO. 2011-00031
POWER COMPANY FOR THE SIX-MONTH)
BILLING PERIOD ENDING DECEMBER 31, 2010)**

**SUPPLEMENTAL TESTIMONY OF LILA P. MUNSEY
FILED ON BEHALF OF KENTUCKY POWER COMPANY**

January 31, 2012

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

CASE NO. 2011-00031

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**SUPPLEMENTAL 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. Purpose of Testimony

6 **Q: WHAT IS THE PURPOSE OF YOUR TESTIMONY IN THIS**
7 **PROCEEDING?**

8 A: My testimony has two purposes. First, I will discuss three adjustments to the
9 Company’s monthly environmental surcharge filings during the review period.
10 Second, I will describe how the Company proposes to refund the amounts over-
11 collected as a result of those monthly environmental surcharge filings.

A. Proposed Adjustments For Over-Recovery

13 **Q. WHAT EXPENSES WERE OVER-COLLECTED BY KENTUCKY POWER**
14 **THROUGH ITS ENVIRONMENTAL SURCHARGE DURING THE**
15 **REVIEW PERIOD?**

16 A: The expenses fall into three categories: (1) costs related to lime hydrate, polymer
17 and steam expenses incurred at various Ohio Power facilities; (2) expenses related
18 to the pool capacity charge paid through the interconnection agreement; and (3)
19 accumulated depreciation expenses in October, 2010.

1 Q: WERE ALL THREE OF THESE OVER-RECOVERIES DISCUSSED AT
2 THE DECEMBER 12, 2011 INFORMAL CONFERENCE IN THIS
3 MATTER?

4 A: No, only the first two. The depreciation expense was discovered following the
5 December, 2012 informal conference.

6 1. Lime Hydrate, Polymer and Steam Expense.

7 Q: PLEASE EXPLAIN THE OVER-RECOVERY OF THE LIME HYDRATE,
8 POLYMER, AND STEAM EXPENSE.

9 A: The environmental surcharge permits the recovery of those expenses incurred in
10 connection with projects that are part of the Company's approved environmental
11 compliance plan *and* that are above the Base Period Revenue Requirement ("BRR")
12 established in the Company's last base rate case. In Kentucky Power's most recent
13 base rate case filing, Case No. 2009-00459, all of the appropriate environmental
14 costs were included and the BRR was adjusted to reflect the monthly amounts in the
15 base rates. That is, the BRR represents the amount of the approved environmental
16 costs that are already included in Kentucky Power's base rates.

17 In each Kentucky Power monthly environmental surcharge filing, the
18 monthly expenses are compared to the specific monthly BRR and if the expenses
19 are greater than the BRR for that specific month, the customers will be billed an
20 additional environmental surcharge amount. However, if the BRR is larger than the
21 monthly environmental expenses, the customers will see a credit to their bill. The
22 monthly BRR amounts, as set in Case No. 2009-00459 dated June 28, 2010, are
23 shown in the Company's Tariff Sheet No. 29-1.

1 Q: DID THE COMPANY INCLUDE IN ITS MONTHLY ENVIRONMENTAL
2 FILINGS THE FULL COST OF LIME HYDRATE, POLYMER, AND
3 STEAM EXPENSE WITHOUT DEDUCTING THE AMOUNT INCLUDED
4 IN BASE RATES?

5 A: Yes. As acknowledged during the informal conference with Staff, test year levels
6 of lime hydrate, polymer, and steam expenses currently are being recovered through
7 the base rates.

8 Q: IS THE COMPANY ENTITLED TO RECOVER LIME HYDRATE,
9 POLYMER, AND STEAM EXPENSE IN EXCESS OF THE AMOUNTS
10 INCLUDED IN BASE RATES?

11 A: Yes. To do so, the amount of these expenses included in base rates would have to
12 be determined. Because these line items were not separately broken out during the
13 review period and the data is not readily available, the Company has elected for the
14 purpose of this review not to make that calculation. This decision is without
15 prejudice to the Company subsequently making the calculation and amending the
16 BRR with respect to future review periods. Before doing so, the Company will
17 notify the Commission and provide it with this calculation.

18 Q: WHAT WAS THE EFFECT OF THE COMPANY INCLUDING LIME
19 HYDRATE, POLYMER AND STEAM EXPENSES IN THE AMOUNTS
20 RECOVERED DURING THE REVIEW PERIOD?

21 A: The recalculation of the 3 months of the review period affected indicates an over-
22 recovery of \$42,069 that was offset by \$3,118 in under-recovery addressed in my
23 direct testimony in this case, for a total over-recovery of \$38,951.

24 2. Pool Capacity Expense.

25 Q: PLEASE EXPLAIN THE REVISIONS REQUIRED WITH RESPECT TO
26 THE POOL CAPACITY CHARGE DURING THE REVIEW PERIOD.

1 A: During the review period, the Company found that the capacity reservation amount
2 that is purchased from the AEP System Pool was not revised in the last three
3 months of the review period, August, September, and October, 2010, to match the
4 amount being purchased.

5 **Q: WHAT IS THE RESULT OF THE REVISION FOR THE POOL**
6 **CAPACITY?**

7 A: The revision for the change in the pool capacity purchased produced an over-
8 recovery of \$586,360 for the three months involved.

9 **3. Depreciation Expense.**

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

12 A. Yes.

13 **Q. WHAT ADDITIONAL ADJUSTMENT DOES THE COMPANY PROPOSE?**

14 A. In reviewing the data for this time period the Company found that the accumulated
15 depreciation value for Big Sandy did not change from September 2010 to October
16 2010.

17 **Q. WHAT IS THE EFFECT OF THAT ADDITIONAL ADJUSTMENT?**

18 A. The accumulated depreciation correction produces an over-recovery of \$4,246 that
19 should be refunded to customers.

20 **Q. IS THIS ADJUSTMENT LIMITED TO THAT ONE MONTH OF THE**
21 **REVIEW PERIOD?**

22 A. Yes, in November, 2010 (which is outside this review period) the Company
23 “doubled up” the depreciation expense. As a result, the depreciation expense for
24 that and subsequent months is in the appropriate amount.

1 **Q: HAS THE COMPANY RE-CALCULATED ITS ENVIRONMENTAL**
2 **SURCHARGE FILINGS?**

3 A: Yes. When ES Form 3.10, Line 2 depreciation is revised, ES Form 3.14, Pages 3,
4 4, 5, and 7 of 11 are revised to delete the additional polymer, lime hydrate, and
5 steam expense, and ES Form 3.14, Page 2 capacity deficit is revised, and the results
6 are carried forward to the other affected forms, i.e. ES Form 1.00, Line 1, ES Form
7 3.00, Line 2, ES Form 3.14, Pages 1 and 2, the monthly results as found on ES
8 Form 1.00, Line 7 are as follows for each of the revised months:

SCR & Scrubber (FGD) Expense Month 2010	As Filed on ES Form 1.00, Line 7	Revised ES Form 1.00, Line 7 for Polymer, etc.	Revised ES Form 1.00, Line 7 for Capacity	Revised ES Form 1.00, Line 7 for Depreciation	Revised on ES Form 1.00, Line 7 Final	(Under-)/ Over- Recovery
May	\$2,646,231	\$2,649,349	\$2,649,349	\$2,649,349	\$2,649,349	(\$3,118)
August	\$1,048,360	\$1,045,476	\$856,349	\$856,349	\$856,349	\$192,011
September	\$504,058	\$485,996	\$290,542	\$290,542	\$290,542	\$213,516
October	\$1,434,416	\$1,413,293	\$1,211,514	\$1,207,268	\$1,207,268	\$227,148
Total	\$5,633,065	\$5,594,114	\$5,007,754	\$5,003,508	\$5,003,508	\$629,557
Change		\$38,951	\$586,360	\$4,246		\$629,557

9 **B. Proposed Plan to Return Over-Recovery to Customers**

10 **Q. HOW DOES THE COMPANY PROPOSE TO RETURN THE TOTAL NET**
11 **OVER COLLECTION TO ITS CUSTOMERS?**

12 A. Due to the relatively small amount of the total net over collection, the Company
13 proposes a one time adjustment to the Company's first monthly environmental
14 surcharge filing following the Commission's Order in this proceeding. The

1 Company suggests inserting a line between lines 5 and 6 on ES Form 1.00 in which
2 the \$629,557 over collection amount would be subtracted from line 5.

III. Conclusion

3 **Q: WHAT ACTION IS THE COMPANY REQUESTING THE COMMISSION**
4 **TAKE IN THIS PROCEEDING?**

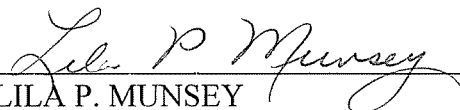
5 A: Kentucky Power Company respectfully requests the Commission issue an Order
6 permitting the Company to return to its customers the total net over collection of its
7 environmental costs in the amount of \$629,557.

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

10 A: Yes.

VERIFICATION

The undersigned, Lila P. Munsey, being duly sworn, deposes and says she is the Manager, Regulatory Services for Kentucky Power Company, that she 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 her information, knowledge, and belief.


LILA P. MUNSEY

COMMONWEALTH OF KENTUCKY)
) CASE NO. 2011-00031
COUNTY OF FRANKLIN)

Subscribed and sworn to before me, a Notary Public in and before said County and State, by, Lila P. Munsey, this the 31st day of January 2012.


Notary Public

My Commission Expires: January 23, 2013