

COMMONWEALTH OF KENTUCKY
BEFORE THE
PUBLIC SERVICE COMMISSION OF KENTUCKY

IN THE MATTER OF

AN EXAMINATION OF THE APPLICATION)
OF THE FUEL ADJUSTMENT CLAUSE OF)
KENTUCKY POWER COMPANY FROM) CASE NO. 2012-00550
NOVEMBER 1, 2010 THROUGH OCTOBER 31, 2012)

DIRECT TESTIMONY OF

LILA P. MUNSEY

March 1, 2013

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
Lila P. Munsey

COMMONWEALTH OF KENTUCKY)
) CASE NO. 2012-00550
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 18th day of March 2013.

Judy K. Rogquist 481393
Notary Public

My Commission Expires: *January 23, 2017*

**DIRECT TESTIMONY OF
LILA P. MUNSEY, ON BEHALF OF
KENTUCKY POWER COMPANY
BEFORE THE PUBLIC SERVICE COMMISSION OF KENTUCKY
CASE NO. 2012-00550**

I. INTRODUCTION

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

2 A. My name is Lila P. Munsey. I am Manager of Regulatory Services for Kentucky Power
3 Company (“Kentucky Power, KPCO or Company”). My business address is 101 A
4 Enterprise Drive, Frankfort, Kentucky 40601.

5 **Q. WHAT ARE YOUR PRINCIPAL AREAS OF RESPONSIBILITY WITH**
6 **KPCO?**

7 A. I manage Regulatory Services which has the responsibility for rate and regulatory
8 matters affecting Kentucky Power. This includes the preparation of and coordination
9 of the Company’s exhibits and testimony in rate cases and any other formal filings
10 before state and federal regulatory bodies. Another responsibility is assuring the proper
11 application of the Company’s rates to all classifications of business.

II. BACKGROUND

12 **Q. PLEASE DESCRIBE YOUR EDUCATIONAL AND PROFESSIONAL**
13 **BACKGROUND.**

14 A. I received a Bachelor of Science in Civil Engineering degree from Purdue University,
15 West Lafayette, Indiana in May 1978 and began my career with Appalachian Power
16 Company (“APCo”) as a Civil Engineer in the Hydroelectric Department. In August
17 1983, I was promoted to the position of Cost Allocation Analyst for APCo where I
18 supported retail rate filings and regulatory interactions with the Virginia and West

1 Virginia regulatory commissions. In November 1985, I was transferred to the rate
2 Department of American Electric Power Company, Inc. (“AEP”), in Columbus, Ohio,
3 as an Associate Rate Analyst where I developed and supported operating company
4 retail rate filings within AEP’s seven eastern states. I was promoted to Rate Analyst in
5 November 1989 where I developed, supported, and testified in retail filings concerning
6 cost-of-service issues.

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

1 Q. HAVE YOU PREVIOUSLY TESTIFIED BEFORE ANY REGULATORY
2 COMMISSIONS?

3 A. Yes. I have provided testimony in the Commission's periodic reviews of the
4 Company's Fuel Adjustment Clause and Environmental Surcharge filings. I testified
5 concerning certain environmental surcharge matters in Kentucky Case No. 2011-00401,
6 which involved an application by Kentucky Power to retrofit Big Sandy Unit 2 with a
7 Dry Flue Gas Desulfurization system. Prior to joining Kentucky Power, I testified
8 before this Commission in Case No. 91-066, a proceeding to adjust the Company's
9 base rates. I have also presented testimony for Wheeling Power Company before the
10 Public Service Commission of West Virginia, and for Appalachian Power Company
11 before the Virginia State Corporation Commission.

12 Q. ARE YOU SPONSORING ANY EXHIBITS?

13 A. Yes, I am sponsoring Exhibits LPM-1 and LPM-2. Exhibit LPM-1 is a graphical
14 representation of the actual monthly fuel costs over the 24 months of the review period.
15 Exhibit LPM-2 compares the base fuel rate to the 2011 and 2012 yearly averages of the
16 historical monthly fuel costs and the annual average fuel costs projected for 2013 and
17 2014.

III. PURPOSE

18 Q. WHAT IS THE PURPOSE OF YOUR DIRECT TESTIMONY?

19 A. I testify in support of the Company's decision to request no change to the fuel amount
20 that is built into base rates. I will also address the Commission's questions regarding
21 the wholesale electric power market.

22 Q. WHAT BASE FUEL AMOUNT IS BEING PROPOSED BY THE COMPANY?

1 A. As demonstrated in the Company's March 1, 2013 response to the Commission's data
 2 request Item Nos. 1, 2, 3, and 4, the Company is proposing no change in the fuel
 3 amount (2.840 cents per kWh) built into base rates.

4 **Q. HOW DID THE COMPANY DETERMINE THERE WAS NO NEED TO**
 5 **CHANGE THE FUEL AMOUNT THAT IS BUILT INTO BASE RATES?**

6 A. First, the Company looked at the historical monthly cost of fuel during the 24 months
 7 of the review period (November 2010 – October 2012). During that two year period, as
 8 shown in Table 1 below, the fuel costs ranged from a low of 2.209 cents per kWh in
 9 February 2012 to a high of 3.289 cents per kWh in July 2011.

TABLE 1

Month & Year	Monthly fuel rate in cents per kWh	Cents per kWh above (or below) base fuel rate
November 2010	2.743	(0.97)
December 2010	2.778	(0.62)
January 2011	2.770	(0.70)
February 2011	2.769	(0.71)
March 2011	2.940	1.00
April 2011	2.957	1.17
May 2011	2.908	0.68
June 2011	3.093	2.53
July 2011	3.289	4.49
August 2011	2.743	(0.97)
September 2011	3.122	2.82
October 2011	3.021	1.81
November 2011	2.551	(2.89)
December 2011	2.792	(0.48)
January 2012	2.405	(4.35)
February 2012	2.209	(6.31)
March 2012	2.726	(1.14)
April 2012	2.968	1.28
May 2012	2.394	(4.46)

June 2012	3.093	2.53
July 2012	3.245	4.05
August 2012	3.105	2.65
September 2012	2.320	(5.20)
October 2012	2.221	(6.19)
Nov 2010 - Oct 2011 Average	2.928	0.09
Nov 2011 - Oct 2012 Average	2.669	(0.17)
Two Year Median	2.785	(0.55)
Two Year Average	2.798	(0.42)

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2 The average fuel cost during the two year review period was 2.798 cents per kWh, or
3 1.5% lower than the current base fuel rate of 2.840 cents per kWh. The median fuel
4 cost during the two year review period was 2.785 cents per kWh, or approximately 2%
5 less than the current base fuel rate.

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8 Second, a further review shows that during 11 of the 24 months of the review
9 period, the monthly fuel rate was higher than the base fuel rate, while during the other
10 13 months it was lower than the base fuel rate. Thus, the pattern of fuel costs does not
11 appear to be skewed in either direction from the base fuel rate. To illustrate, I have
12 attached Exhibit LPM-1, a graph comparing the 24 actual monthly fuel cost values to
13 the base fuel rate.

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17 Third, the Company looked at its forecasted cost of fuel for the calendar years
18 2013 and 2014 as shown in Table 2 below. The Company's projected fuel costs and
19 kWh sales for the calendar years of 2013 and 2014 yield average fuel rates of 2.703
20 cents per kWh and 2.936 cents per kWh, respectively. As shown in Table 2 below, the
21 average of the two annual forecasts, 2.820 cents per kWh, is 0.020 cents per kWh, or

TABLE 2

Year of Projection	Projected Fuel Cost	Projected kWh Sales	Projected Fuel Cost in cents/kWh	Fuel Cost in Base Rates in cents/kWh	Difference in Fuel Cost in cents/kWh
2013	\$187,291,090	6,930,097,301	2.703	2.840	(0.137)
2014	\$204,068,160	6,949,661,669	2.936	2.840	0.096
Total	\$391,359,250	13,879,758,970	2.820	2.840	(0.020)
Average			2.820	2.840	(0.020)

1 about 0.7%, below the current base fuel rate.

2 Finally, the Company further examined past and future trends. Exhibit LPM-2
3 illustrates the relationship between the average historical fuel costs in 2011 and 2012,
4 the average projected fuel costs for 2013 and 2014, and compares those to the base fuel
5 rate of 2.840 cents per kWh. The current base fuel rate almost evenly bi-sects the
6 curve of the four-year plot of actual 2011 and 2012 (November 2010 to October 2012)
7 average annual prices and 2013 and 2014 projected average annual fuel prices. Thus,
8 even though monthly fuel costs varied over the past two-year period, the central trend
9 line remained relatively stable. The Company believes the base cost of fuel currently
10 used in the Company's fuel adjustment clause is reasonable, represents the cost per
11 kWh the Company can reasonably expect to incur during the next two-year period, and
12 thus should not be changed for the upcoming two-year period. Accordingly, the
13 Company proposes the present base fuel rate of 2.840 cents per kWh remain in effect.

IV. WHOLESALE ELECTRIC POWER MARKET

14 **Q. HAVE THERE BEEN ANY CHANGES IN THE WHOLESALE ELECTRIC**
15 **POWER MARKET THAT OCCURRED DURING THE REVIEW PERIOD**
16 **THAT SIGNIFICANTLY AFFECTED KENTUCKY POWER'S ELECTRIC**
17 **POWER PROCUREMENT PRACTICES?**

1 A. No. Kentucky Power has not experienced or observed a significant change in the
2 wholesale electric market that affected Kentucky Power's electric power procurement
3 practices during the review period.

4 **Q. DOES KENTUCKY POWER FORESEE CHANGES IN THE WHOLESALE**
5 **ELECTRIC MARKET IN THE NEXT TWO YEARS THAT WILL AFFECT**
6 **KENTUCKY POWER'S ELECTRIC POWER PROCUREMENT PRACTICES?**

7 A. Yes. On December 31, 2013, the FERC-approved, AEP East System Interconnection
8 Agreement ("Pool Agreement") will terminate. Beginning 2014, KPCO will not be
9 purchasing from affiliates due to the elimination of the pool. Consequently, KPCO has
10 proposed the transfer of 50% of the Mitchell plant to replace these pool purchases. In
11 the event that Kentucky Power must obtain additional energy, it will obtain that energy
12 as a stand-alone company, from available market resources within the PJM
13 Interconnection.

14 **Q. ARE THERE ANY CHANGES IN THE INFORMATION BEING PRESENTED**
15 **BY THE COMPANY IN THIS CASE AS COMPARED TO PRIOR CASES?**

16 A. Yes. In Case No. 2012-00578, the Company is seeking approval for the transfer to
17 Kentucky Power of an undivided 50% interest in the Mitchell Generating Station. As a
18 result of the anticipated transfer, the Company is presenting forecasted 2014 fuel costs
19 for the Mitchell Generating Station.

20 **Q. ARE THE MITCHELL GENERATING FUEL COSTS DIFFERENT FROM**
21 **THOSE PROJECTED FOR THE BIG SANDY GENERATING PLANT ON A**
22 **CENTS PER KWH BASIS?**

1 A. Yes. The Mitchell generating station is equipped with a wet flue gas desulfurization
2 (WFGD) system. The WFGD allows the Mitchell units to burn a coal mixture that
3 includes lower-cost, higher-sulfur coal. As a result, the projected fuel cost for the
4 Mitchell Generating Station on a cents per kWh basis is lower than the projected fuel
5 cost for the Big Sandy Generating Station.

6 **Q. WHAT ARE THE PROJECTED 2014 FUEL COSTS, ON A CENTS PER KWH**
7 **BASIS, FOR THE MITCHELL AND BIG SANDY GENERATING STATIONS?**

8 A. The projected 2014 fuel cost, excluding line losses, for the Mitchell Generating Station
9 is 2.71 cents per kWh. The projected 2014 fuel cost, excluding line losses, for the Big
10 Sandy Generating Station is 3.16 cents per kWh.

11 **Q. DOES THIS CONCLUDE YOUR DIRECT TESTIMONY?**

12 A. Yes, it does.

Monthly Fuel Cost Review for period Nov. 2010 - Oct. 2012



