

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. 2013-00141
POWER COMPANY FOR THE SIX-MONTH)
BILLING PERIOD ENDING DECEMBER 31, 2012)

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

June 6, 2013

**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, 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”) and my business address is 101 A
4 Enterprise Drive, Frankfort, Kentucky 40601.

II. BACKGROUND

5 **Q. PLEASE DESCRIBE YOUR EDUCATIONAL AND PROFESSIONAL**
6 **BACKGROUND.**

7 A. I received a Bachelor of Science in Civil Engineering degree from Purdue University,
8 West Lafayette, Indiana, in May 1978 and began my career with Appalachian Power
9 Company (“APCo”) as a Civil Engineer in the Hydroelectric Department. In August
10 1983, I was promoted to the position of Cost Allocation Analyst for APCo where I
11 conducted numerous studies to support retail rate filings and regulatory interactions
12 with the West Virginia and Virginia regulatory commissions. In November 1985, I was
13 transferred to the Rate Department of American Electric Power Service Corporation.
14 (“AEPSC”), in Columbus, Ohio, as an Associate Rate Analyst where I developed and
15 supported operating company retail rate filings within AEP’s seven eastern states. I
16 was promoted to Rate Analyst in November 1989 where I developed, supported, and
17 testified in retail filings concerning cost-of-service issues.

18 In January 1998, I moved to the newly-formed transmission pricing group as a
19 Transmission Contracts & Regulatory Specialist for AEP. In this capacity, I prepared

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

14 **Q. WHAT ARE YOUR PRINCIPAL AREAS OF RESPONSIBILITY WITH**
15 **KPCO?**

16 A. I manage Regulatory Services, which has the responsibility for rate and regulatory
17 matters affecting Kentucky Power. This includes the preparation and coordination of
18 the Company's exhibits and testimony in rate cases and any other formal filings before
19 state and federal regulatory bodies. Another responsibility is assuring the proper
20 application of the Company's rates to all classifications of business.

21 **Q. HAVE YOU PREVIOUSLY TESTIFIED BEFORE ANY REGULATORY**
22 **COMMISSIONS?**

1 A. Yes. I provided written testimony and testified concerning certain environmental
2 surcharge matters in Case No. 2011-00401, which involved an application by Kentucky
3 Power to retrofit Big Sandy Unit 2 with a DFGD Scrubber. Also since joining
4 Kentucky Power, I testified in connection with Commission reviews of the Company's
5 Fuel Adjustment Clause and Environmental Surcharge filings. Prior to joining the
6 Company I testified before this Commission in Case No. 91-066, a regulatory
7 proceeding involving the adjustment in electric base rates for KPCo. I have also
8 presented testimony for Wheeling Power Company before the West Virginia Public
9 Service Commission and for Appalachian Power Company before the Commonwealth
10 of Virginia State Corporation Commission.

11 **Q. ARE YOU SPONSORING ANY EXHIBITS?**

12 A. Yes. I am sponsoring Exhibit LPM-1, which was prepared at my direction.

III. PURPOSE OF YOUR TESTIMONY

13 **Q. WHAT IS THE PURPOSE OF YOUR DIRECT TESTIMONY?**

14 A. The purpose of my testimony is to support the Company's monthly environmental
15 surcharge filings and demonstrate the reasonableness of the application of the
16 Company's monthly environmental surcharge during the six-month billing period
17 ended December 31, 2012. Additionally, my testimony supports the Company's
18 request to recover a total net under-collection of environmental costs during the
19 expense months of May 2012 through October 2012 in the amount of \$61,013.

20 **Q. HOW DID THE COMPANY DISCOVER THE UNDER COLLECTION OF**
21 **TOTAL NET ENVIRONMENTAL COSTS OF \$61,013?**

1 A. During Kentucky Power's review of its monthly environmental filings for the two-year
2 period under review in Case No. 2012-00273, the Company discovered the following:

- 3 ▪ the working capital cash component of the filing was understated for the Big Sandy
4 Plant (ES FORM 3.10). For the period covered by this review the understatement
5 produced an under-collection of \$59,255;
- 6 ▪ Kentucky Power's portion of the Indiana Emission Fee at the Rockport Plant (ES
7 FORM 3.13) was omitted from the working capital cash calculation. For the period
8 covered by this review the omission resulted in an under-collection of \$1,758; and
- 9 ▪ the pool percentage of Rockport plant for expense month May 2012 (ES FORM
10 3.14 page 10) was understated by failing to recognize that the Indiana and Michigan
11 Power Company unit power sale ended December 31, 2009. For the period covered
12 by this review, the failure to recognize the end of the Indiana and Michigan Power
13 Company unit power sale had no effect on the total environmental expenses to be
14 recovered.

15 The net impact of these revisions for the six-month period under review during this
16 case is an under-collection of \$61,013 to be collected from customers.

IV. DETAIL OF WORKING CAPITAL CASH ADJUSTMENT

17 **Q. WOULD YOU PLEASE DESCRIBE THE UNDER-STATEMENT OF BIG**
18 **SANDY WORKING CAPITAL CASH?**

19 A. Yes. Under the Commission's orders, the Company is entitled to a 10.5% return on its
20 equity, including its monthly cash working capital. Because of a computational error
21 during the review period, the Company recovered only one-twelfth of that amount
22 during the review period.

1 **Q. PLEASE DESCRIBE THE NATURE OF THE COMPUTATIONAL ERROR.**

2 **A.** The Cash Working Capital Allowance derived on line 13 of ES Form 3.13 is a monthly
3 amount which is then brought over to ES Form 3.10 line 7. This monthly amount was
4 then added to the amounts reported on lines 4 through 6 of ES Form 3.10, which are not
5 monthly amounts, and reported on line 8 of Form 3.10 as the Total Rate Base. The
6 Total Rate Base Amount reported on Line 8 of Form 3.10 is then multiplied by the
7 Monthly Weighted Average Cost Of Capital to calculate the Monthly Return On Rate
8 Base. (The Monthly Weighted Average Cost Of Capital is calculated on line 11 of
9 Form 3.10 by dividing the Weighted Average Cost Of Capital of 10.5% by 12.)
10 Because the Cash Working Capital Allowance derived on Line 13 of Form 3.13 is a
11 *monthly* amount, the effect of multiplying that portion of the Total Rate Base by the
12 *monthly* Weighted Average Cost Of Capital is to provide Kentucky Power with only
13 one-twelfth of its authorized return on Cash Working Capital Allowance.

14 **Q. HOW DOES KENTUCKY POWER PROPOSE TO ADDRESS THIS**
15 **COMPUTATIONAL ERROR?**

16 **A.** There are at least two ways to do so. The Company could multiply by 12 the monthly
17 Cash Working Capital Allowance derived on Line 13 of ES Form 3.13 before reporting
18 it on Line 7 of Form 3.10. This annualized monthly amount could then appropriately
19 be multiplied by the Monthly Weighted Average Cost Of Capital to yield the monthly
20 return on the Company's Big Sandy Cash Working Capital Allowance portion of the
21 rate base. Alternatively, the company could compute and report on Line 13 of Form
22 3.13 the sum of the current month's Big Sandy Cash Working Capital Allowance plus
23 the Cash Working Capital Allowance for the trailing eleven-month period. This

1 annualized amount would then be reported on Line 7 of ES Form 3.10 and, after being
2 added to the amounts reported on lines 4 through 6 of ES Form 3.10 to calculate the
3 Total Rate Base reported on Line 8 of Form ES 3.10, appropriately multiplied by the
4 Monthly Weighted Average Cost Of Capital reported on line 10 of ES Form 3.10.

5 **Q. DOES THE COMPANY HAVE A RECOMMENDATION OF WHICH**
6 **METHOD TO USE?**

7 A. Yes. Kentucky Power recommends that it use the second method described.

8 **Q. WHAT IS THE BASIS FOR THIS RECOMMENDATION?**

9 A. There are three reasons. Using the sum of the current month's Big Sandy Cash
10 Working Capital Allowance plus the Cash Working Capital Allowance for the trailing
11 eleven month period will smooth out monthly variations in the Big Sandy Cash
12 Working Capital Allowance. Second, the second alternative is used by at least three
13 other Kentucky jurisdictional utilities and thus would provide consistency in treatment
14 across the Commonwealth. Finally, this method has been recently approved by this
15 Commission in Case Nos. 2012-00273 and 2012-00504.

16 **Q. HAS THE COMPANY MADE THE SUGGESTED RE-CALCULATIONS?**

17 A. Yes. Please see the Company's response to the Staff's First Set of Data Requests Item
18 No. 1, Attachment 1, for the amended ES Form 1.00, ES Form 3.00, ES Form 3.10, ES
19 Form 3.13, and ES Form 3.14 for the monthly differences resulting from the proposed
20 revisions to the calculation of the return on the Big Sandy Working Capital Cash for the
21 review period.

1 **Q. WHAT WAS THE EFFECT OF THE COMPUTATIONAL ERROR WITH**
2 **RESPECT TO THE MONTHLY RETURN ON THE COMPANY'S BIG SANDY**
3 **CASH WORKING CAPITAL ALLOWANCE?**

4 A. It understated the Return on Equity by \$59,255 during the review period.

5 **Q. PLEASE DESCRIBE THE UNDER-STATEMENT OF KENTUCKY POWER'S**
6 **PORTION OF THE INDIANA AIR EMISSION FEE FOR ROCKPORT?**

7 A. ES Form 3.14, page 10 of 11, line 10, column 3, contains the monthly Indiana Air
8 Emissions Fee operating expense for Rockport Plant. Kentucky Power is responsible
9 for 15% of the operating costs of Rockport plant and through its unit power agreement
10 it receives 15% of the Rockport generation. However, on ES Form 3.13, Kentucky
11 Power's 15% share of the Indiana Air Emission Fee for Rockport of \$2,344 is not
12 included in the Total Monthly O&M Expenses. An additional line, numbered 13,
13 should be added and the amount included in the calculation of the total monthly O&M
14 Expenses on the new line 14, which is divided by 8 to calculate the monthly working
15 capital cash. Please see the Company's response to the Staff's First Set of Data
16 Requests Item No. 1, pages 5, 10, 14, 18, 22, and 26, for the revised Forms ES 3-13.
17 The summary of the monthly differences for the pool Indiana Air Emissions Fee
18 operating expense revision for Rockport Plant are equal to $1/8^{\text{th}}$ of the monthly amount
19 of \$2,344, or \$293 per month over the 6-month period for a total of understatement of
20 \$1,758.

21 **Q. HAS THE COMPANY RE-CALCULATED ITS ENVIRONMENTAL**
22 **SURCHARGE FILINGS WITH THESE CORRECTIONS?**

1 A. Yes. Please see the Company's response to Item No. 1 of the Commission Staff's First
2 Data Request, Attachment 1, for the revised environmental surcharge calculations for
3 the 6 expense months being reviewed, May 2012 through October 2012, reflecting the
4 above revisions.

5 **Q. WHAT IS THE FINAL RESULT?**

6 A. When ES Form 3.10 line 7, ES Form 3.13 line 13 (KPCo's 15% share of the Indiana
7 Air Emission Fee for Rockport), and ES Form 3.13 lines 15 through 27 (Big Sandy
8 cash working capital allowance), and ES Form 3.14 page 10 line 12, are revised and
9 carried forward to the other affected forms, in this case ES Form 1.00 and ES Form
10 3.00, the total net under-collection was \$61,013 for the six-month review period ending
11 December 2012. The calculation by month is provided in Exhibit LPM-1 to this
12 testimony. Also see the Company's response to Commission Staff's First Set of Data
13 Requests Item No. 1, page 1 of Attachment 1, which is a summary of the six-month
14 period.

15 **Q. HAS THE COMPANY RESPONDED TO THE COMMISSION STAFF'S**
16 **TWELVE DATA REQUESTS, INCLUDING SUB-PARTS, PROPOUNDED IN**
17 **APPENDIX B OF THE MAY 14, 2013, ORDER IN THIS CASE?**

18 A. Yes, the responses are being filed in addition to my filed testimony.

19 **Q. DOES THE COMPANY HAVE ANY ADDITIONAL ADJUSTMENTS TO**
20 **PROPOSE?**

21 A. No.

1 Q. AS ADJUSTED, WERE THE RATES CHARGED THROUGH THE
2 ENVIRONMENTAL SURCHARGE DURING THE REVIEW PERIOD FAIR,
3 JUST AND REASONABLE?

4 A. Yes. With the proposed adjustment, the Company's customers will have paid through
5 the review period ended December 31, 2012, for the expense months ended October 31,
6 2012, the full costs that are recoverable through the environmental surcharge, but no
7 more.

V. CONCLUSION

8 Q. WHAT ACTION IS THE COMPANY REQUESTING THE COMMISSION
9 TAKE IN THIS PROCEEDING?

10 A. Kentucky Power Company respectfully requests the Commission issue an Order
11 permitting the Company to recover the total under-collection of environmental costs in
12 the amount of \$61,013.

13 Q. HOW DOES THE COMPANY PROPOSE TO RECOVER THE TOTAL NET
14 UNDER-COLLECTION?

15 A. The Company proposes a one-time adjustment to the Company's first monthly
16 environmental surcharge filing following the Commission's Order in this proceeding.
17 The company suggests inserting a line between lines 5 and 6 on ES Form 1.00 in which
18 the \$61,013 under-collection amount would be added to line 5.

19 Q. DOES THIS CONCLUDE YOUR DIRECT TESTIMONY?

20 A. Yes.

KPSC Case No. 2013-00141
 Kentucky Power Company
 Final Results of Proposed Revisions
 for 6-month Review Period Ended December 31, 2012

Expense Month-Year	ES Form 1.00 Line 7		Working Capital Cash Proposed Difference	KPCo's Response to Staff's Item No. 1 Reference Page No. of 26
	As Originally Filed	As Proposed for Working Capital Cash		
(1)	(2)	(3)	(4)=(3)-(2)	(5)
May-12	(1,553,709)	(1,541,486)	12,223	Page 2 of 26
June-12	(576,490)	(566,552)	9,938	Page 7 of 26
July-12	(114,844)	(106,169)	8,675	Page 11 of 26
August-12	(487,513)	(478,056)	9,457	Page 15 of 26
September-12	(1,118,692)	(1,107,836)	10,856	Page 19 of 26
October-12	(880,490)	(870,626)	9,864	Page 23 of 26
Total Under (Over) Collection			\$ 61,013	