

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. 2014-00322
POWER COMPANY FOR THE SIX-MONTH)
BILLING PERIODS ENDING JUNE 30, 2014)

DIRECT TESTIMONY OF AMY J ELLIOTT

ON BEHALF OF

KENTUCKY POWER COMPANY

October 17, 2014

**DIRECT TESTIMONY OF
AMY J. ELLIOTT, 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 Amy J. Elliott. I am a Regulatory Consultant for Kentucky Power Company
3 (“Kentucky Power, KPCo or Company”) and my business address is 101 A Enterprise
4 Drive, Frankfort, Kentucky 40601.

II. BACKGROUND

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

7 A. In 2000, I received a Bachelor of Arts degree in Economics from Transylvania
8 University in Lexington, Kentucky. I worked for the Tennessee Department of
9 Commerce and Insurance as an Insurance Examiner from early 2002 through late 2005
10 before moving back to Kentucky and consulting with insurance companies in
11 connection with field audits. I accepted my present position with Kentucky Power in
12 2008. In 2012, I received a Master of Business Administration degree from the
13 University of Massachusetts at Amherst.

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

1 A. In addition to general regulatory duties, I am responsible for compiling the monthly
2 Environmental Surcharge and Fuel Adjustment Clause (“FAC”) reports.

3 **Q. HAVE YOU PREVIOUSLY TESTIFIED BEFORE ANY REGULATORY**
4 **COMMISSIONS?**

5 Yes, I testified in front of the Kentucky Public Service Commission in two six-month
6 reviews of the Company’s FAC, Case No. 2013-00261 and Case No. 2013-00444. I
7 have also filed testimony in a six-month review of the Environmental Surcharge, Case
8 No. 2014-00052.

III. PURPOSE OF YOUR TESTIMONY

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

10 A. My testimony supports the Company’s monthly environmental surcharge filings during
11 the review period, explains any significant changes made to the environmental
12 surcharge filings during this same period, and demonstrates that the Company has
13 adhered to the terms of Stipulation and Settlement Agreement in Case No. 2012-00578
14 regarding the environmental surcharge. In addition, I discuss certain consequences of
15 the Stipulation and Settlement Agreement in Case No. 2012-00578, including the
16 Company’s acquisition of a fifty percent undivided interest in the Mitchell generating
17 station, as well as the termination of the AEP-East Pool Agreement, all of which I
18 discuss below, have, or may have in the future, an impact on the Company’s
19 environmental surcharge.

1 **Q. WERE THERE ANY DEVELOPMENTS DURING THE REVIEW PERIOD**
2 **THAT HAD A MAJOR LONG-TERM EFFECT ON THE OPERATION OF**
3 **THE ENVIRONMENTAL SURCHARGE?**

4 **A.** Yes, there were two. First, effective December 31, 2013 Kentucky Power acquired an
5 undivided fifty percent interest in Unit 1 and Unit 2 of the Mitchell generating station,
6 which is located outside of Moundsville, West Virginia (“Mitchell Transfer.”) Second,
7 effective January 1, 2014 the Interconnection Agreement dated July 6, 1951, as
8 amended, by and between Appalachian Power Company, Kentucky Power, Indiana
9 Michigan Power Company, Ohio Power Company, and American Electric Power
10 Service Corporation, as agent, (“AEP-East Pool Agreement”) terminated.

11 **Q. HOW DID THE MITCHELL TRANSFER AFFECT THE OPERATION OF**
12 **THE ENVIRONMENTAL SURCHARGE DURING THE REVIEW PERIOD?**

13 **A.** In connection with its approval of the Company’s acquisition of an undivided fifty
14 percent interest in Unit 1 and Unit 2 of the Mitchell generating station, the Commission
15 in Case No. 2012-00578¹ also approved the July 2, 2013 Stipulation and Settlement
16 Agreement among Kentucky Power and two intervenors in the case. Paragraph 5 of the
17 Stipulation and Settlement Agreement, as approved by the Commission, provided that:

18 Effective January 1, 2014, the monthly environmental surcharge
19 factor (Tariff E.S.) will be fixed and maintained at 0.00% until new
20 base rates are set by the Commission.

¹ Order, *In the Matter of: Application of Kentucky Power Company for (1) A Certificate of Public Convenience and Necessity Authorizing the Transfer to the Company of an Undivided Fifty Percent Interest in the Mitchell Generating Station and Associated Assets; (2) Approval of the Assumption by Kentucky Power Company of Certain Liabilities in Connection with the Transfer of the Mitchell Generating Station; (3) Declaratory Rulings; (4) Deferral of Costs Incurred in Connection with the Company’s Efforts to Meet Federal Clean Air Act Requirements; and (5) All Other Required Approvals and Relief*, Case No. 2012-00578 (Ky. P.S.C. October 7, 2013).

1 The effect of the provision was thus to “zero-out” the environmental surcharge factor
2 until approximately June 2015 when new base rates are to be established pursuant to a
3 separate provision of the Stipulation and Settlement Agreement.

4 In addition, as a result of Kentucky Power’s acquisition of an undivided interest in the
5 Mitchell generating station the Company became responsible for its *pro rata* share of
6 the Mitchell generating station-related environmental expenses.

7 **Q. HOW WILL THE TERMINATION OF THE AEP-EAST POOL AGREEMENT**
8 **AFFECT THE OPERATION OF THE ENVIRONMENTAL SURCHARGE?**

9 **A.** While the AEP-East Pool Agreement was in effect, Kentucky Power was responsible
10 for its proportionate share (termed Member Load Ratio) of, among other expenses, the
11 environmental expenses associated with the AEP-East Pool Agreement member
12 companies’ generating units. With the termination of the agreement, the Company
13 effective January 1, 2014 was no longer responsible for the environmental expenses of
14 any units other than those it owned or had an interest in through the Rockport Unit
15 Power Agreement. Some, but not all, of these AEP-East Pool Agreement-related
16 expenses related to environmental projects that were a part of the Company’s most
17 recent environmental compliance plan, and thus were recoverable through the
18 Company’s environmental surcharge. As a result, even if the Stipulation and
19 Settlement Agreement had not “zeroed-out” the Company’s environmental surcharge
20 factor, the termination of the AEP-East Pool Agreement would have resulted in the
21 elimination of all AEP-East Pool Agreement-related environmental expenses from the
22 Company’s environmental compliance plan, and hence the Company’s environmental
23 surcharge.

1 **Q. WHAT IMPACT DID THE TERMINATION OF THE AEP-EAST SYSTEM**
2 **POOL HAVE ON THE MONTHLY ENVIRONMENTAL SURCHARGE**
3 **REPORTS?**

4 **A.** With the termination of the AEP-East System Pool on January 1, 2014, the Company
5 removed those pages and lines from the monthly filings that reflected AEP-East Pool
6 Agreement-related environmental costs.

7 **Q. WERE THE ENVIRONMENTAL COSTS ASSOCIATED WITH ALL OF THE**
8 **MITCHELL-RELATED ENVIRONMENTAL PROJECTS BEING**
9 **RECOVERED THROUGH THE ENVIRONMENTAL SURCHARGE PRIOR**
10 **TO THE TERMINATION OF THE AEP-EAST POOL AGREEMENT?**

11 **A.** No. Only the following Mitchell-related environmental costs were being recovered
12 through the environmental surcharge prior to the termination of the AEP-East Pool:

- 13 • Mitchell Unit Nos 1 and 2 Water Injection, Low NOx burners, Low NOx burner
14 Modification, SCR, FGD, Landfill, Coal Blending Facilities and SO3
15 Mitigation
- 16 • Mitchell Plant Common CEMS, Replace Burner Barrier Valves and Gypsum
17 Material Handling Facilities
- 18 • Title V Air Emission Fees

19 **Q. FOLLOWING KENTUCKY POWER'S ACQUISITION OF THE FIFTY**
20 **PERCENT UNDIVIDED INTEREST IN THE MITCHELL GENERATING**
21 **STATION, AND THE TERMINATION OF THE AEP-EAST POOL**
22 **AGREEMENT, HAS THE COMPANY CONTINUED TO TRACK AND**

1 **REPORT TO THE COMMISSION ITS MITCHELL-RELATED**
2 **ENVIRONMENTAL EXPENSES?**

3 **A.** Even with the “zeroing-out of the Company’s environmental surcharge factor during
4 this interim period, Kentucky Power continued to track all of the Company’s
5 environmental expenses, including its Mitchell generating station-related environmental
6 costs. In addition, beginning January 1, 2014, Kentucky Power continued to report
7 those Big Sandy and Rockport environmental costs that are a part of the Company’s
8 environmental compliance plan. Also, as indicated above, beginning January 1, 2014
9 Kentucky Power removed all AEP-East Pool Agreement-related environmental
10 expenses from its monthly filings.

11 **Q. HAS KENTUCKY POWER PREVIOUSLY FILED ITS POST-DECEMBER 31,**
12 **2013 MITCHELL-RELATED ENVIRONMENTAL EXPENSES WITH THE**
13 **COMMISSION**

14 **A.** No. The Company’s response to KPSC 1-9, however, includes Kentucky Power’s
15 monthly Mitchell environmental cost reports. The Company will continue to file these
16 reports with its future monthly environmental surcharge filings. So that the
17 Commission will have a full picture of the Company’s Mitchell-related environmental
18 costs, it is including all Mitchell-related environmental costs even if they were not part
19 of the Company’s existing approved environmental compliance plan.

20 **Q. ARE THERE ANY CHANGES THAT WILL BE NECESSARY TO PROPERLY**
21 **CALCULATE THE ENVIRONMENTAL SURCHARGE AFTER THE**
22 **ENVIRONMENTAL SURCHARGE RETURNS TO A NON-ZERO AMOUNT?**

1 **A.** Yes. The Company plans to file an amended Environmental Compliance Plan by the
2 end of the current year so that the Mitchell environmental costs can be included in the
3 monthly environmental surcharge calculations. The application will seek recognition
4 that the Mitchell-related environmental costs that were part of the Company's
5 previously-approved environmental compliance plan, and that were flowing as costs
6 through the now terminated AEP-East Pool, may continue to be recovered at the
7 appropriate level. In addition, the Company will seek approval to include other
8 Mitchell-related, and non-Mitchell-related environmental costs that were not part of the
9 Company's environmental compliance plan in an amended environmental compliance
10 plan.

V. CONCLUSION

11 **Q.** **WERE THE RATES CHARGED THROUGH THE ENVIRONMENTAL**
12 **SURCHARGE DURING THE REVIEW PERIOD FAIR, JUST AND**
13 **REASONABLE AND IN ACCORDANCE WITH THE STIPULATION AND**
14 **SETTLEMENT AGREEMENT IN CASE NO. 2012-00578?**

15 **A.** Yes.

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

17 **A.** Yes.