

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. 2015-00113
POWER COMPANY FOR THE SIX-MONTH)
BILLING PERIODS ENDING DECEMBER 31, 2014)**

**KENTUCKY POWER COMPANY FILES
DIRECT TESTIMONY OF AMY J ELLIOTT
AND RESPONSES TO COMMISSION STAFF'S FIRST DATA REQUESTS**

May 22, 2015

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Commission of The Environmental)
Surcharge Mechanism of Kentucky)
Power Company for the Six-Month)
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DIRECT TESTIMONY OF
AMY J. ELLIOTT
ON BEHALF OF KENTUCKY POWER COMPANY

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TABLE OF CONTENTS

I.	INTRODUCTION.....	1
II.	BACKGROUND	1
III.	PURPOSE OF TESTIMONY	2
IV.	OPERATION OF THE ENVIRONMENTAL SURCHARGE DURING THE REVIEW PERIOD.....	2
V.	PROPOSED CHANGES TO THE COMPANY’S ENVIRONMENTAL SURCHARGE.....	5
VI.	CONCLUSION.....	8

**DIRECT TESTIMONY OF
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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” or “Company”) and my business address is 101 A Enterprise Drive,
4 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 **KENTUCKY POWER?**

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

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

6 Yes, I testified in front of the Kentucky Public Service Commission in two six-month
7 reviews of the Company’s FAC, Case No. 2013-00261 and Case No. 2013-00444. I
8 also testified in Case No. 2014-00396, a combined general rate case and request for an
9 amendment to the Company’s environmental compliance plan. I have also provided
10 testimony in the previous two six-month reviews of the Environmental Surcharge, Case
11 No. 2014-00052 and Case No. 2014-00322.

III. PURPOSE OF YOUR TESTIMONY

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

13 A. My testimony supports the Company’s monthly environmental surcharge filings during
14 the review period and demonstrates that the Company has adhered to the terms of
15 Stipulation and Settlement Agreement in Case No. 2012-00578 regarding the
16 environmental surcharge. In addition, I discuss certain aspects of the Company’s 2014
17 Environmental Compliance Plan and the Company’s upcoming return to a non-zero
18 environmental surcharge factor.

IV. OPERATION OF THE ENVIRONMENTAL SURCHARGE **DURING THE REVIEW PERIOD**

19 **Q. PLEASE DESCRIBE THE CHANGES IN GENERATION AVAILABLE TO**
20 **KENTUCKY POWER BEGINNING JANUARY 1, 2014.**

1 A. On December 31, 2013, Kentucky Power acquired an undivided 50% interest (780
2 MW) in the Mitchell generating station. In addition, the AEP-East Pool Agreement
3 terminated on January 1, 2014.

4 **Q. DID THESE DEVELOPMENTS AFFECT THE AMOUNT OF**
5 **ENVIRONMENTAL EXPENSES INCURRED BY KENTUCKY POWER**
6 **BEGINNING JANUARY 1, 2014?**

7 A. Yes. Although some of the Mitchell-related environmental projects were part of the
8 Company's current (2007) environmental compliance plan, Kentucky Power was
9 responsible only for its member load ratio portion of environmental expenditures
10 associated with generation owned by its surplus affiliate companies. With the Mitchell
11 Transfer, Kentucky Power assumed responsibility for a 50% undivided share of the
12 Mitchell-related expenses. In addition, with the termination of the AEP-East Pool
13 Agreement, Kentucky Power was no longer responsible for its member load ratio
14 portion of the environmental expenses associated with generation owned by its surplus
15 affiliate companies.

16 **Q. HOW DID THE STIPULATION AND SETTLEMENT AGREEMENT IN CASE**
17 **NO. 2012-00578 AFFECT THE OPERATION OF THE ENVIRONMENTAL**
18 **SURCHARGE DURING THE REVIEW PERIOD?**

19 A. As discussed in my testimony in Case No. 2014-00322, the Commission-approved
20 July 2, 2013 Stipulation and Settlement Agreement in Case No. 2012-00578¹ provided
21 that:

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;*

1 Effective January 1, 2014, the monthly environmental surcharge
2 factor (Tariff E.S.) will be fixed and maintained at 0.00% until new
3 base rates are set by the Commission.
4

5 The effect of the provision was to “zero-out” the environmental surcharge factor until
6 new base rates are to be established in the Company’s currently pending base rate case,
7 Case No. 2014-00396.

8 **Q. HAS THE COMPANY CONTINUED TO TRACK AND REPORT TO THE**
9 **COMMISSION ITS ENVIRONMENTAL EXPENSES?**

10 A. Yes. Even with the zeroing-out of the Company’s environmental surcharge factor
11 during this interim period, Kentucky Power continued to track all of the Company’s
12 environmental expenses, including its share of the Mitchell generating station-related
13 environmental costs. So that the Commission will have a full picture of the Company’s
14 Mitchell-related environmental costs, the Company has included in its monthly reports
15 all Mitchell-related environmental costs even if the projects giving rise to those costs
16 were placed in service following approval of the Company’s current environmental
17 compliance plan.

18 In addition, Kentucky Power has continued to report those Big Sandy and
19 Rockport environmental costs that are a part of the Company’s environmental
20 compliance plan. Finally, because the AEP-East Pool Agreement terminated on
21 January 1, 2014, the Company removed all AEP-East Pool-related environmental
22 expenses from its monthly filings.

(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).

V. PROPOSED CHANGES TO THE COMPANY'S ENVIRONMENTAL SURCHARGE

1 **Q. EVEN IF NOT PART OF THIS REVIEW PROCEEDING, DOES THE**
2 **COMPANY HAVE PENDING BEFORE THE COMMISSION ANY CHANGES**
3 **TO ITS ENVIRONMENTAL COMPLIANCE PLAN?**

4 A. Yes. During the review period, the Company filed as part of Case No. 2014-00396 its
5 2014 Environmental Compliance Plan ("2014 Plan").

6 **Q. PLEASE EXPLAIN THE MAJOR FEATURES OF THE COMPANY'S 2014**
7 **ENVIRONMENTAL COMPLIANCE PLAN.**

8 A. The Company's 2014 Environmental Compliance Plan updates the current plan in the
9 following ways:

- 10 • Removes all environmental projects included only as result of the Company's
11 participation in the now-terminated AEP-East Pool;
- 12 • Removes all environmental projects at the Big Sandy Plant, with the exception
13 of certain air emission allowances;
- 14 • Adds projects at the Mitchell generation station not included in the current plan,
15 including necessary consumables, and clarifies that as a result of the Mitchell
16 Transfer approved in Case No. 2012-00578 Kentucky Power is responsible for
17 its full share of the costs associated with the Mitchell environmental projects;
18 and
- 19 • Adds projects at the Rockport Power Plant not included in the current plan,
20 including necessary consumables.

21 **Q. HOW WILL THE COMPANY'S 2014 ENVIRONMENTAL COMPLIANCE**
22 **PLAN AFFECT THE CALCULATION OF THE ENVIRONMENTAL**
23 **SURCHARGE?**

24 A. Once the Commission sets new base rates in Case No. 2014-00396, the Company will
25 cease using a zero environmental surcharge factor. If the Company's proposed Tariff
26 E.S. is approved, Kentucky Power will also include the environmental costs associated

1 with projects listed in its 2014 Environmental Compliance Plan. Finally, the Company
2 has proposed recovering the costs associated with the Mitchell flue gas desulfurization
3 units exclusively through the environmental surcharge and, accordingly, those costs
4 have not been included the environmental base amount proposed in Case No. 2014-
5 00396.

6 **Q. WILL THERE BE ANY OTHER CHANGES TO THE COMPANY'S**
7 **RECOVERY OF COSTS THROUGH THE ENVIRONMENTAL**
8 **SURCHARGE?**

9 A. Yes. If revised Tariff E.S. is approved in Case No. 2014-00396, the Company will
10 calculate the monthly environmental surcharge factor for non-residential retail
11 customers as a function of non-fuel revenues. The Company will continue to calculate
12 the monthly environmental surcharge factor for residential customers as a function of
13 total revenues. This proposed change conforms to Paragraph 6 of the Stipulation and
14 Settlement Agreement in Case No. 2012-00578.

15 To avoid compounding and circular calculations, the Company will exclude from the
16 total revenues utilized in the calculation of the environmental surcharge factor those
17 revenues received from other riders that are also based on a percentage of revenue. This
18 will result in the Company's using the same total revenue level to compute all riders
19 that are based on a percentage of revenues.

20 **Q. PLEASE EXPLAIN WHY THE COMPANY IS NOT PROPOSING TO**
21 **RECOVER BIG SANDY ENVIRONMENTAL EXPENSES THROUGH ITS**
22 **ENVIRONMENTAL SURCHARGE?**

1 A. In accordance with the Stipulation and Settlement Agreement in Case No. 2012-00578,
2 the Company in Case No. 2014-00396 is proposing to remove all coal-related costs
3 associated with the Big Sandy Plant from base rates and instead to recover them
4 through one of two mechanisms. First, all costs associated with Big Sandy Unit 2,
5 which is scheduled to retire at the end of May 2015, and other coal-related retirement
6 costs will be recovered via the Big Sandy Retirement Rider. Second, all operating costs
7 associated with Big Sandy Unit 1 and the capital costs of converting Big Sandy Unit 1
8 to natural gas will be recovered via the Big Sandy 1 Operation Rider (“BS1OR”). The
9 BS1OR is necessitated by the unit’s continued operation as a coal-fired unit through
10 late 2015 and the requirement of the Mitchell Stipulation and Settlement that all coal-
11 related costs be removed from the base rates to be established, effective the end of June
12 2015, in Case No. 2014-00396. It is an interim measure until the Company’s next base
13 rate case, at which time the costs to be recovered through the BS1OR will be “rolled
14 into” base rates. Any Big Sandy Unit 1 environmental costs that would have been
15 recovered through the environmental surcharge will be recovered through the BS1OR
16 during its operation.

17 **Q. WILL THE COMPANY CONTINUE TO REPORT ITS BIG SANDY**
18 **ENVIRONMENTAL EXPENSES?**

19 A. The Company is proposing to report all Big Sandy operating expenses, including
20 environmental expenses, consistent with the reporting requirements established by the
21 Commission for the BS1OR in Case No. 2014-00396. As a result, and because the
22 costs will not be recovered through Kentucky Power’s environmental surcharge, the

1 Company will not report Big Sandy Unit 1 environmental expenses in its monthly
2 environmental surcharge filings.

3 **Q. HAS THE COMPANY UPDATED ITS MONTHLY ENVIRONMENTAL**
4 **SURCHARGE FORMS WITHIN THE CONTEXT OF CASE NO. 2014-00396?**

5 A. Yes, the Company has filed its revised forms within Case No. 2014-00396. The
6 revised forms are also attached to my testimony as Exhibit 1.

VI. CONCLUSION

7 **Q. WERE THE RATES CHARGED THROUGH THE ENVIRONMENTAL**
8 **SURCHARGE DURING THE REVIEW PERIOD IN ACCORDANCE WITH**
9 **THE STIPULATION AND SETTLEMENT AGREEMENT IN CASE NO. 2012-**
10 **00578??**

11 A. Yes.

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

A. Yes.

Kentucky Power Company

REQUEST

Provide a summary schedule showing the calculation of E(m) and the surcharge factor for the expense months covered by the billing periods under review. Use ES Form 1.00 as a model for this summary. Include the two expense months subsequent to the billing periods in order to show the over- and under-recovery adjustments for the months included in the billing period under review. Include a calculation of any additional over- or under-recovery amount Kentucky Power believes needs to be recognized for the six-month review. Include all supporting calculations and documentation for any such additional over- or under-recovery.

RESPONSE

In accordance with the Stipulation and Settlement Agreement in Case No. 2012-00578, the Company's environmental surcharge was set at zero for the entirety of the review period. The requested information is provided as KPSC_1_1_Attachment1.xls.

WITNESS: Amy J Elliott

Kentucky Power Company

REQUEST

The net gain or loss from sulfur dioxide and nitrogen oxide emission allowance sales are reported on ES Form 3.00, Calculation of Current Period Revenue Requirement, Third Component. For each expense month covered by the billing period under review, provide an explanation of how the gain or loss reported in the expense month was calculated and describe the transaction (s) that was/were the source of the gain or loss.

RESPONSE

There were no gains or losses on sales of allowances during the review period.

WITNESS: Amy J Elliott

Kentucky Power Company

REQUEST

Provide the following information as of October 31, 2014. In addition to the electronic filing, provide the information in Excel spreadsheet format with the formulas intact and unprotected.

- a. The outstanding balances for long-term debt, short-term debt, accounts receivable financing, and common equity.
- b. The blended interest rates for long-term debt, short-term debt, and accounts receivable financing. Include all supporting calculations showing how these blended interest rates were determined.
- c. Kentucky Power's calculation of its weighted average cost of capital for environmental surcharge purposes.
- d. The weighted average cost of capital reflecting the application of the income tax gross-up factor. Include all calculations and assumptions used in determining the information.

RESPONSE

a-d. Please see attachment KPSC_1_3_Attachment1.

WITNESS: Amy J Elliott

Kentucky Power Company

REQUEST

Refer to ES Form 3.10, Costs Associated with Big Sandy, Line 16, Monthly 2003 Plan Non-Fuel O&M Expenses, from ES Form 3.13. For the May 2014 through October 2014 expense months, explain the reason(s) for any change in the expense levels from month to month if that change is greater than plus or minus 10 percent.

RESPONSE

Please refer to KPSC_1_4_Attachment1 for the calculation of the variance. There was a fluctuation of more than plus or minus ten percent in the expense levels for several months during the review period.

Urea expenses form the majority of the Monthly 2003 Plan Non-Fuel Expenses, from ES Form 3.13. Urea expenses vary depending upon the generation from the plant in a given month, which in turn is affected by outages. A schedule of outages is provided as KPSC_1_4_Attachment2 for reference.

More particularly:

- (1) May 2014-- O&M expenses were low due to scheduled outage at BS1 and BS2.
- (2) The June 2014 Non-Fuel O & M expenses increased from the May 2014 amount reflecting the plants greater operation in June. With both units returning to operation in June, June urea expenses returned to a higher level.
- (3) September & October 2014--Outages during these months reduced the urea expense level.

WITNESS: Amy J Elliott

Kentucky Power Company

REQUEST

Refer to ES Form 3.10, Costs Associated with Big Sandy, Line 17, Monthly SO₂ Emission Allowance Consumption. For the May 2014 through October 2014 expense months, explain the reason(s) for any change in the expense levels from month to month if that change is greater than plus or minus 10 percent.

RESPONSE

Please refer to KPSC_1_5_Attachment1.xls.

WITNESS: Amy J Elliott

Kentucky Power Company

REQUEST

Reference ES Form 3.11 for the months in this review period.

- a. For each month in the six-month review period, provide the calculation that supports the total cost of allowances consumed that is then carried to ES Form 3.10.
- b. Provide an explanation and the reasons for the fluctuations in the monthly average cost of allowances determined in 7.a.

RESPONSE

- a. Please see KPSC_1_6_Attachment1.xlsx.
- b. There were no fluctuations in the monthly average cost of allowances as determined in 6.a. The Company assumes that the intended reference is 6.a.

WITNESS: Amy J Elliott

Kentucky Power Company

REQUEST

Provide the 12-month average residential customer's monthly usage as of October 31, 2014. Based on this usage amount, provide the dollar impact any over- or under-recovery will have on the average residential customer's bill for the requested recovery period. Provide all calculations in electronic spreadsheet format with all formulas intact and unprotected and all rows and columns accessible.

RESPONSE

The 12-month average residential customer's usage as of October 31, 2014 is 1,421 kWh. There was no over or under-recovery during the period.

WITNESS: Amy J Elliott

Kentucky Power Company

REQUEST

If the response to Item 1 proposes additional adjustments to environmental costs for the review period, explain whether the adjustments impact the environmental costs assigned to non-associated utilities under the System Sales Clause. Provide a detailed analysis of any necessary adjustments to the environmental costs assigned to non-associated utilities resulting from the adjustments proposed in Item 1.

RESPONSE

The Company is not proposing any adjustments to the environmental costs or to the environmental costs assigned to non-associated utilities.

WITNESS: Amy J Elliott