

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

**An Examination by the Public Service)
Commission of The Environmental)
Surcharge Mechanism of Kentucky)
Power Company for the Two-Year)
Billing Period Ending June 30, 2015)**

Case No. 2015-00280

DIRECT TESTIMONY OF

AMY J. ELLIOTT

ON BEHALF OF KENTUCKY POWER COMPANY

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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?**

16 A. In addition to general regulatory duties, I am responsible for compiling the monthly
17 Environmental Surcharge reports and other periodic compliance filings.

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

3 Yes, I have testified before the Kentucky Public Service Commission in two six-month
4 reviews of the Company's fuel adjustment clause, Case No. 2013-00261 and Case No.
5 2013-00444. I also testified in Case No. 2014-00396, a combined general rate case and
6 request for an amendment to the Company's environmental compliance plan. Finally, I
7 have submitted pre-filed testimony in the Company's previous three six-month reviews
8 of the Environmental Surcharge, Case No. 2014-00052, Case No. 2014-00322, and
9 Case No. 2015-00113.

III. PURPOSE OF YOUR TESTIMONY

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

11 **A.** My testimony supports the Company's monthly environmental surcharge filings during
12 the review period and demonstrates that the Company adhered to the terms of
13 Stipulation and Settlement Agreement in Case No. 2012-00578 regarding the
14 environmental surcharge. My testimony also reflects that currently there is no need for
15 a roll-in of environmental costs to base rates and proposes an ROE of 10.25% as
16 recently approved in Case No. 2014-00396. The lack of the need for an over- or under
17 recovery adjustment is also explained.

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

18 **Q. PLEASE DESCRIBE THE OPERATION AND CALCULATION OF THE**
19 **ENVIRONMENTAL SURCHARGE DURING THE REVIEW PERIOD.**

20 **A.** During the first six months of the review period, the environmental surcharge was
21 calculated in accordance with the then-approved Tariff ES. Beginning on January 1,

1 2014, and in accordance with the Settlement terms in Case No. 2012-00578, the
2 Company implemented a zero environmental surcharge factor. My testimony in Case
3 Nos. 2014-00322 and 2015-00113 describes the “zeroing-out” of the environmental
4 surcharge more fully.

5 **Q. TO CLARIFY, WHICH MONTHS IN THE REVIEW PERIOD DID NOT HAVE**
6 **A ZERO ENVIRONMENTAL SURCHARGE FACTOR?**

7 **A.** The environmental expenses incurred during the months of May 2013 through October
8 2013 and billed in the months of June 2013 through December 2013 were calculated in
9 accordance with the then-approved Tariff E.S. and recovered through the
10 environmental surcharge.

11 **Q. PLEASE EXPLAIN WHY THE COMPANY IS NOT PROPOSING TO REFUND**
12 **THE \$14,326 OVER-COLLECTION FOR THE BILLING PERIOD OF JULY 1,**
13 **2103 THROUGH DECEMBER 31, 2013.**

14 **A.** The Company is adhering to the Commission’s Order Dated August 22, 2014 in Case
15 No. 2014-00052. There, the Commission recognized that the terms of the
16 Commission-approved July 2, 2013 Stipulation and Settlement Agreement in Case No.
17 2012-00578 precluded the refund of the \$14,326 over-recovery for the billing period
18 from July 1, 2013 through December 31, 2013.¹

¹ Order, *In the Matter of: An Examination By The Public Service Commission Of The Environmental Surcharge Mechanism Of Kentucky Power Company For The Six Month Billing Period Ended December 31, 2013*, Case No. 2014-00052 at 3 (Ky. P.S.C. August 22, 2014).

1 Q. IS THE COMPANY PROPOSING AN ADJUSTMENT FOR ANY UNDER OR
2 OVER RECOVERY FOR THE BILLING PERIOD FROM NOVEMBER 2014
3 THROUGH APRIL 2015?

4. A. No. Because the environmental surcharge factor was set at zero and the Company did
5 not collect any dollars through the environmental surcharge mechanism during the
6 period from November 2014 through April 2015, there can be no under or over
7 recovery.

8 **V. PROPOSED RETURN ON EQUITY**

9 **Q. Q. WHAT RETURN ON EQUITY IS THE COMPANY PROPOSING?**

10A A. The Company is proposing a 10.25% return on equity.

11Q **Q. PLEASE PROVIDE EVIDENCE AND ANALYSIS SUPPORTING THE 10.25%
12 ROE.**

13A A. In Case No. 2014-00396, the Company most recent base rate case, Kentucky Power
14 proposed an ROE of 10.62% for all purposes. In its June 22, 2015 Order in that case,
15 the Commission noted that an ROE of 10.25% fell within the “range of 9.3 to 10.3
16 percent we also consider to be reasonable.”²

17 The Commission’s June 22, 2015 Order in Case No. 2014-00396 also examined and
18 approved, subject to the Company’s acceptance of certain modifications not relevant
19 here, a settlement agreement among Kentucky Power, Kentucky Industrial Utility
20 Customers, Inc., and the Kentucky School Boards Association. Paragraph 2 of that

² Order, *In the Matter of: The Application of Kentucky Power Company for: (1) A General Adjustment of Its Rates for Electric Service; (2) An Order Approving Its 2014 Environmental Compliance Plan; (3) An Order Approving Its Tariffs and Riders; and (4) An Order Granting All Other Required Approvals and Relief*, Case No. 2014-00396 at 42 (Ky. P.S.C. June 22, 2015).

1 Settlement Agreement provided that Kentucky Power shall be authorized a 10.25%
2 return on equity that will be utilized in Tariff E.S.³

3 The 10.25% ROE proposed by Kentucky Power is consistent with the return on equity
4 provided for in the Settlement Agreement approved by the Commission, and falls
5 within the range of returns on equity determined by the Commission on June 22, 2015
6 to be reasonable. In addition, 10.25% represents a 25 basis points reduction from the
7 ROE previously used by the Company.

VI. ROLL-IN OF ENVIRONMENTAL COSTS TO BASE RATES

8 **Q. IS THE COMPANY PROPOSING TO ROLL-IN ANY ENVIRONMENTAL**
9 **COSTS TO ITS BASE RATES?**

10 A. No, there are a number of reasons that the Company is not proposing to incorporate any
11 additional environmental costs into its base rates through the course of this
12 environmental proceeding. First, incorporation of environmental costs outside of a rate
13 case may differentially affect different classes of customers. Environmental costs
14 include both investment amounts, which typically are reflected in the demand charge,
15 and expenses, which are reflected in the energy charge. By contrast, fuel costs, which
16 periodically are rolled into base rates, include only energy costs. The best time to
17 allocate the expense and investment components of the environmental charges is in the
18 context of a base rate case.

19 Additionally, the Company's base rates were established for service rendered on and
20 after June 30, 2015. Insufficient time has elapsed since then to necessitate the inclusion
21 of any additional environmental costs in base rates.

³ *Id.* at Appendix A, ¶ 2.

1 Lastly, the decision not to incorporate additional environmental costs should have no
2 effect on the ratepayers as a whole, or the Company, because the total revenue
3 requirement remains the same.

VII. CONCLUSION

4 **Q. WERE THE RATES CHARGED THROUGH THE ENVIRONMENTAL**
5 **SURCHARGE DURING THE TWO-YEAR REVIEW PERIOD IN**
6 **ACCORDANCE WITH TARIFFS AND THE STIPULATION AND**
7 **SETTLEMENT AGREEMENT IN CASE NO. 2012-00578??**

8 A. Yes.

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

10 A. Yes.