

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 Six-Month)
Billing Period Ending December 31, 2015)

Case No. 2016-00109

DIRECT TESTIMONY OF
AMY J. ELLIOTT
ON BEHALF OF KENTUCKY POWER COMPANY

VERIFICATION

The undersigned, Amy J. Elliott, being duly sworn, deposes and says she is a Regulatory Consultant Sr. in Regulatory Services for Kentucky Power, that she has personal knowledge of the matters set forth in the forgoing testimony and that the information contained therein is true and correct to the best of her information, knowledge, and belief

Amy J. Elliott

Amy J. Elliott

COMMONWEALTH OF KENTUCKY)
) Case No. 2016-00109
COUNTY OF FRANKLIN)

Subscribed and sworn to before me, a Notary Public in and before said County and State, by Amy J. Elliott, this 31st day of March, 2016.

Judy K. Rasquist 481393

Notary Public

My Commission Expires: *January 23, 2017*

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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 support, 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, and have
7 provided testimony in the Company's past four periodic reviews of the Environmental
8 Surcharge, Case No. 2014-00052, Case No. 2014-00322, Case No. 2015-00113, and
9 Case No. 2015-00280.

III. PURPOSE OF YOUR TESTIMONY

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

11 **A.** My testimony supports the reasonableness of the operation of the Company's
12 environmental surcharge during the review period. I also demonstrate the Company
13 adhered to the terms of the Commission's June 22, 2015 Order in Case No. 2014-00396
14 regarding the environmental surcharge. Finally, my testimony supports a requested
15 change in manner in which the Company's monthly environmental surcharge factor is
16 calculated.

IV. OPERATION OF THE ENVIRONMENTAL SURCHARGE DURING THE REVIEW PERIOD

17 **Q. WERE THERE ANY CHANGES IN THE OPERATION AND CALCULATION**
18 **OF THE COMPANY'S ENVIRONMENTAL SURCHARGE AS COMPARED**
19 **TO THE PRIOR REVIEW PERIOD?**

20 **A.** Yes. The July 2, 2013 Settlement and Stipulation Agreement in Case No. 2012-00578
21 required the Company to set its environmental surcharge factor at zero until base rates

1 were established in the Company's next general rate case. That case was Case No.
2 2014-00396. The Commission's June 22, 2015 Order in Case No. 2014-00396
3 established new base rates and approved the Company's 2015 environmental
4 compliance plan. As a result, the Company resumed use of a non-zero environmental
5 surcharge factor in July 2015 for the May 2015 expense month.

6 **Q. OTHER THAN THE RESUMPTION OF A NON-ZERO ENVIRONMENTAL**
7 **SURCHARGE FACTOR, HAVE THERE BEEN ANY OTHER CHANGES TO**
8 **THE COMPANY'S ENVIRONMENTAL SURCHARGE SINCE THE LAST**
9 **REVIEW PERIOD?**

10 A. There were three additional changes to the Company's environmental surcharge. First,
11 the Company's revised Tariff ES, approved by the Commission's June 22, 2015 Order
12 in Case No. 2014-00396, updated the list of environmental projects at the Mitchell and
13 Rockport Plants recoverable through the environmental surcharge. Second, the revised
14 Tariff ES removed Big Sandy Plant and AEP-East System Pool projects from the
15 environmental surcharge calculation. Finally, the Company's environmental surcharge
16 revenue requirement is allocated separately between residential and other customers.
17 The result is two environmental surcharge factors rather than one factor that is applied
18 to all customers' bills.

19 **Q. HOW DID THE COMPANY IMPLEMENT ITS REVISED TARIFF ES?**

20 A. Because the Commission's Order in Case No. 2014-00396 authorized the
21 Commission's revised Tariff ES for service rendered after June 22, 2015, the Company
22 prorated recovery through the environmental surcharge between old rates and the new
23 rates. The Company's approach in regard to the changes in Tariff ES was consistent

1 with its approach in other circumstances where the Commission authorized changes in
2 tariff rates for services rendered after certain dates. The proration is described in more
3 detail in the Company's response to Item No. 10 of the Commission's First Set of Data
4 Requests in this case.

5 **Q. WAS THE COMPANY'S METHOD FOR PRO-RATING THE NEW TARIFF**
6 **ES THE SAME USED IN CONNECTION WITH COMMISSION'S ORDER IN**
7 **CASE NO. 2009-00459?**

8 A. Yes. The Company followed the same proration methodology.

9 **Q. IS THE COMPANY PROPOSING AN ADJUSTMENT FOR ANY UNDER OR**
10 **OVER RECOVERY FOR THE BILLING PERIOD FROM JULY 2015**
11 **THROUGH DECEMBER 2015?**

12 A. No.

13 **V. PROPOSED CHANGE TO THE MONTHLY ENVIRONMENTAL**
14 **SURCHARGE CALCULATION**

13 **Q. IS THE COMPANY PROPOSING ANY CHANGES TO MANNER IN WHICH**
14 **ITS MONTHLY ENVIRONMENTAL SURCHARGE IS CALCULATED?**

15 A. Yes. The Company proposes to adopt the method currently used by Big Rivers Electric
16 Corporation, East Kentucky Power Cooperative, Inc., Kentucky Utilities, Louisville
17 Gas and Electric to determine the revenues to be used in calculating the monthly
18 environmental surcharge factor. Currently, the Company uses the actual revenue from
19 the expense month as the divisor. Under the proposed change, the Company will use
20 an average of the prior twelve month period inclusive of the most recent expense
21 month. The proposed change affects ES Form 3.32 and the values utilized in Line 11

1 of ES Form 1.00. The Company proposes to implement this change in the first month
2 following a Commission order in this case approving the change.

3 **Q. WHY IS THE COMPANY PROPOSING THIS CHANGE?**

4 A. The Company is proposing this change as a means of better limiting month-to-month
5 fluctuations in surcharge factors. Because actual monthly revenue amounts can vary
6 significantly from month to month, the current methodology can result in widely
7 varying environmental surcharge factors. Using an average monthly revenue value in
8 the calculation will decrease month to month variations in the calculation of surcharge
9 factors.

10 **Q. HOW DOES THE PROPOSED CHANGE MINIMIZE THE ECONOMIC**
11 **BURDEN FOR KENTUCKY POWER CUSTOMERS?**

12 A. The proposed change reduces the effect that a surcharge factor calculated during a
13 lower revenue month would have when applied two months later during a higher
14 revenue month.

15 For example, in calculating the environmental surcharge factor to be applied to
16 January bills, the Company's current calculation methodology uses the actual revenues
17 from November to determine the January factor. Because the November revenues are
18 typically much lower than the January revenues to which the factor is actually applied,
19 there is generally an over-collection in January. The residential environmental
20 surcharge factor that was applied in January 2016 was 16.0761%. The over-recovery in
21 January was approximately \$1.1 million.

22 The over-recovery in January was included in the March 2016 environmental
23 surcharge factor calculation. That produced a March 2016 residential environmental

1 surcharge factor of 6.4448%, a factor that was sixty percent lower than the January
 2 2016 factor. The change proposed by the Company will minimize the month to month
 3 variance in the environmental surcharge factor and the amounts over- or under-
 4 collected through the environmental surcharge.

5 **Q. WHAT WOULD THE ENVIRONMENTAL SURCHARGE FACTOR FOR**
 6 **JANUARY 2016 HAVE BEEN HAD THE COMPANY CALCULATED IT**
 7 **USING THE PROPOSED METHODOLOGY?**

8 A. Utilizing the average monthly revenue over the prior twelve months instead of the
 9 November 2015 actual revenue, the environmental surcharge factor for the January
 10 2016 billing month would have been 11.1288% for residential customers. This change
 11 in environmental surcharge calculation would have reduced the average customer’s bill
 12 by \$6.47. Table 1 below shows the as-billed environmental surcharge factors and the
 13 environmental surcharge factors that would have been billed had the Company used an
 14 average of the most recent twelve-months of revenue in the calculations.

Billing Month	Surcharge Factor As Billed (Calculated Using Actual Expense Month Revenues)	Surcharge Factor Calculated Using 12 Month Average Residential Revenues
January 2016	16.0761%	11.1288%
February 2016	9.0404%	9.4793%
March 2016	6.4448%	8.2841%

16
 17 **Q. IS THE COMPANY PROPOSING ANY CHANGE TO THE REVENUE**
 18 **REQUIREMENT THAT WILL BE RECOVERED THROUGH THE**
 19 **ENVIRONMENTAL SURCHARGE?**

1 A. No. The revenue requirement will not change. The Company's proposed change
2 affects only the timing of recovery of the revenue requirement by reducing month to
3 month variations in the environmental surcharge factor and limiting the amount that is
4 over- or under-recovered through the surcharge factor.

5 **Q. WILL THE COMPANY'S PROPOSED CHANGE REQUIRE ANY CHANGES**
6 **TO KENTUCKY POWER'S ENVIRONMENTAL SURCHARGE FORMS?**

7 A. Yes. The Company's proposed change requires a change in its ES Form 3.32. A copy
8 of the proposed ES Form 3.32 is included as **EXHIBIT AJE-1**.

VII. CONCLUSION

9 **Q. WERE THE RATES CHARGED THROUGH THE ENVIRONMENTAL**
10 **SURCHARGE DURING THE REVIEW PERIOD IN ACCORDANCE WITH**
11 **BOTH THE FORMER AND CURRENT TARIFF ES?**

12 A. Yes.

13