

VERIFICATION

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

Amy J. Elliott

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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 the 21st day of July, 2016.

Judy K Rasquin 481393

Notary Public

My Commission Expires: January 23, 2017

Kentucky Power Company

REQUEST

Please recalculate the Environmental Surcharge factors and retail revenue requirement for the expense months of May, June, and July using a zero factor for the period prior to service rendered on and after June 22, 2015.

RESPONSE

As discussed at the July 12, 2016 informal conference, Kentucky Power recalculated the May, June, and July 2015 expense months utilizing the zero environmental surcharge factor established in the Stipulation and Settlement Agreement in Case No. 2012-00578. As shown in KPCO_R_KPSC_IC_1_Attachment 1, a zero environmental surcharge factor during the May, June, and July 2015 expense months produces an under-recovery by the Company of \$3,556,085¹ during the review period. The Company proposes to collect the under-recovery over a period of six months, beginning with cycle 1 of the first revenue month following the Commission's order approving the recovery.

The impact on the Company's residential customers of the proposed adjustment will vary month to month depending on the Company's revenues and expenses during each expense month. The "Residential Impact" tab of KPCO_R_KPSC_IC_1_Attachment 1 demonstrates that based on the August 2015 expense month (billed in October 2015) the adjustment would have increased the amount of the environmental surcharge on the average residential customer's bill from 9.5035% to 10.7600% or by \$1.66.

Using a zero environmental surcharge factor during the expense months at issue reflects the environmental surcharge factor in effect during the applicable periods. Further, its use is consistent with the text of Tariff E.S. as approved by the Commission by its October 7, 2013 Order in Case No. 2012-00578:

¹ Utilizing a zero environmental surcharge factor for May, June, and July 2015 expense months will revise the Company's responses to Commission Staff Data Requests 1-1 and 1-8 in this case.

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In accordance with the Stipulation and Settlement Agreement approved by the Commission by its Order dated October 7, 2013 in Case No. 2012-00578, the Environmental Surcharge Factor will be fixed and maintained at 0.00% until new base rates are first established by the Commission after the effective date of this tariff without regard to the calculation of the Monthly Environmental Surcharge Factor under paragraphs 1 through 4 below.

The new base rates first established after the effective date of the tariff became effective June 29, 2015.

Utilizing a zero environmental surcharge factor for service rendered prior to June 22, 2015 also is consistent with the Commission's Order in the Company's most recent two-year environmental surcharge review (Case No. 2013-00325). In Case No. 2013-00325, the Commission concluded that a \$3,518,900 under-recovery for September 2013 and October 2013 expense months, and as reflected in the November 2013 and December 2013 bills, could not be collected. The Commission explained that under the Stipulation and Settlement Agreement the Company's environmental surcharge was fixed at 0.00% and that reflecting an over-recovery or under-recovery during the period the environmental surcharge was to be fixed and maintained at 0.00% would be contrary to the terms of the agreement.² The use of an environmental surcharge factor other than zero during the expense months the rate was required by the Stipulation and Settlement Agreement to be maintained at zero similarly would contravene the terms of the agreement.

Finally, in its Response to KPSC 3-53 in Case No. 2014-00396, the Company's first base case following the effective date of Tariff E.S. fixing the environmental surcharge at zero, the Company illustrated its understanding that a zero environmental surcharge would be used for the expense periods prior to the effective date of the new rates. In that data request, Staff asked:

Per paragraphs 5 and 7 of the Stipulation and Settlement Agreement in Case No. 2012-00578, dated July 2, 2013, the Environmental Surcharge ("Tariff E.S.") factor will be fixed and maintained at 0.00% and System Sales Adjustment ("Tariff S.S.C.") factor to 0.0000 mills/kWh until new base rates are set by the Commission.

² Order, *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, 2013*, Case No. 2013-00325 at 8 (Ky. P.S.C. April 29, 2014).

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b. If the proration of Tariff E.S. and Tariff S.S.C. factors are calculated manually for each billing cycle, and the Commission were to issue a final Order on June 22, 2015, explain how the factors would be pro-rated and provide an example.

Kentucky Power responded:

b. The factors would be prorated based on the number of days in the billing cycle. Please see KPSC_3_53_Attachment1.xls for a sample calculation. This calculation would be performed for the SSC factor, the residential ES factor, and the All Other Classification ES factor.

The attachment shows a 0.00% environmental surcharge factor during the expense period prior to the new rates. KPSC_3_53_Attachment1.xls is attached to this response as KPCO_R_KPSC_IC_1_Attachment 2.

WITNESS: Amy J Elliott

Kentucky Power Company

REQUEST

Please provide a revised form for KPSC 2-4.

RESPONSE

Please see KPCO_R_KPSC_IC_2_Attachment2.xls

WITNESS: Amy J Elliott