

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 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

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 16th day of May, 2016.

Judy K. Kasquist 481393

Notary Public

My Commission Expires: *January 23, 2017*

Kentucky Power Company

REQUEST

Refer to the Direct Testimony of Amy J . Elliott ("Elliott Testimony"). In the same format as provided on page 6 of the Elliott Testimony, provide an analysis of the environmental surcharge factor for the months in this review period, using Kentucky Power's proposed methodology, compared to the factors actually filed. Provide the comparison for both the Residential and All Other Classification factors utilizing the proposed new ES Form 3.32. Include all supporting calculations and documents in electronic spreadsheet format with all formulas intact and unprotected and all rows and columns accessible.

RESPONSE

Please refer to KPCO_R_KPSC_2_1_Attachment1.xls for the requested comparison and supporting calculations.

WITNESS: Amy J Elliott

Kentucky Power Company

REQUEST

Refer to the response to Commission Staff's First Request for Information ("Staff's First Request"), Item 3. Kentucky Power did not address the change in Monthly 2003 Plan Non-Fuel O&M Expenses from April 2015 to May 2015, which was greater than 10 percent. Explain the reasons for the change in the expense level from April 2015 to May 2015.

RESPONSE

The Company intended to address fully KPSC 1-3. The difference between April 2015 and May 2015 O&M expenses relates primarily to the fact Big Sandy Unit 2 operated for the entire month of April and consumed more Urea than it did in May when it operated for only part of the month.

WITNESS: Amy J Elliott

Kentucky Power Company

REQUEST

Refer to the response to Staff's First Request, Item 4. Kentucky Power did not address the change in Monthly SO₂ Emission Allowances from April 2015 to May 2015, which was greater than 10 percent. Explain the reasons for the change in the expense level from April 2015 to May 2015.

RESPONSE

The Company intended to address fully KPSC 1-4. The difference between April 2015 and May 2015 SO₂ Allowance consumption relates primarily to the fact Big Sandy Unit 2 operated for the entire month of April and consumed more urea than it did in May when it operated for only part of the month

WITNESS: Amy J Elliott

Kentucky Power Company

REQUEST

Refer to the response to Staffs First Request, Item 7, KPCO_R_PSC_1_7 Attachment1.xls ("the Attachment"), and Kentucky Power's monthly environmental surcharge filings for the review period.

- a. On the Attachment, confirm that the column labeled S02 (2010/2011 /2012/2013/2014/2015 vintage) reflects Kentucky Power's total emission allowance inventory that includes future allowances that are not currently available for use by the Big Sandy, Rockport, and Mitchell generating stations.
- b. Explain why emission allowance usage is reported after May 2015 for Big Sandy, given that Big Sandy 2 was retired in May 2015.
- c. Refer to the month of October 2015 in the column labeled CSAPR S02 (2015 & prior). ES Form 3.11 B of the October 2015 monthly environmental surcharge filing shows that Kentucky Power received 30,171 allowances from the Environmental Protection Agency, which is not reflected on the Attachment for October 2015. Explain this discrepancy.
- d. For the months in this review period, explain the differences in the S02 (2010/2011 /2012/2013/2014/2015 vintage) column versus the CSAPR S02 (2015 & prior vintage) column.

RESPONSE

- a. The amounts reported on KPCO_R_PSC_1_7_Attachment1.xls reflect only allowances currently available for consumption.
- b. Kentucky Power is only reporting Big Sandy emission allowance usage with its environmental surcharge filings for reconciliation purposes. The Company is not recovering any costs associated with the consumption of allowances at Big Sandy through the environmental surcharge.

Although Big Sandy Unit 2 retired in May 2015, Big Sandy Unit 1 continued as a coal unit until November 2015.

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c. The 30,171 allowances added in October 2015 are future allowances and, therefore, are not responsive to the question in KPSC 1-7 which asked for information regarding consumed allowances. To better clarify the difference between current and non-current allowances, the Company is proposing to change its reporting on ES Forms 3.11 and 3.12 to report both current and non-current allowances. Current allowances are allowances that the Company can consume during the current compliance year. Non-current allowances are those that can only be consumed in later compliance years. This proposed change will have no effect on the Company's environmental surcharge calculation but will synchronize the reported and recorded average costs.

Please refer to [KPCO_R_PSC_2_4_Attachment1.xls](#) for a sample template that reflects Kentucky Power's proposed allowance reporting.

d. The two types of allowances correspond to two separate regulatory programs. The allowances in the column headed "SO₂" and reported on 3.11A are required under Title IV of the Clean Air Act. The allowances in the column headed "CSAPR SO₂" and reported on 3.11B are required under the Cross State Air Pollution Rule.

WITNESS: Amy J Elliott

Kentucky Power Company

REQUEST

Refer to the response to Staff's First Request, Item 12.

- a. Provide the actual amounts of the under-recovery for each month due to the misstatement.
- b. Explain how the under-recovery would have been collected in a subsequent month, and identify the months in which the under-recovery was collected..

RESPONSE

- a. The amounts were \$3,484 and \$3,038 for September and October, respectively.
- b. Please refer to ES Form 3.30. In each monthly environmental surcharge filing, the Company compares the amount that should have been billed during the prior month to the amount that was actually billed during the prior month. The table below illustrates when the under-recovery would have been billed.

Expense Month	Corresponding Billing Month	Under-Recovery recognized on Monthly Filing	Under-Recovery Billed
September 2015	November 2015	December 2015	January 2016
October 2015	December 2015	January 2016	February 2016

WITNESS: Amy J Elliott

Kentucky Power Company

REQUEST

Refer to the monthly environmental surcharge reports for the review period, ES Form 3.11 B, CSAPR S02 Emissions Allowances Consumed in Current Month at Big Sandy Plant. Explain the basis for which the current month consumption of S02 emission allowances at Big Sandy is recovered through the Big Sandy Unit 1 Operation Rider (B .S.1.0.R.).

RESPONSE

The Big Sandy Unit 1 CSAPR and SO₂ allowances are recovered through the BS1OR in conformity with page 48 of the Commission's Order Dated June 22, 2015 in Case No. 2014-00396. It provides: "The Commission finds the BS1OR to be a reasonable method for recovery of the Big Sandy Unit 1 operating costs removed from the cost of service and will approve this portion of the Settlement...."

WITNESS: Amy J Elliott

Kentucky Power Company

REQUEST

Refer to the monthly environmental surcharge report for the October 2015 expense month, ES Form 3.11 B.

- a. Explain Kentucky Power's reasoning for recording emission allowance consumption at an average cost of \$12.761.
- b. Would Kentucky Power agree that it is more appropriate to reestablish the average unit cost by adding the new EPA Allowances received in October 2015 to the beginning balance, determine a new average unit cost, and then using that average unit cost to record allowances consumed for that month?
- c. Calculate the new average unit cost using the example cited in 7.b. Using this cost, provide revised consumption and ending balance amounts.

RESPONSE

- a. The average cost as *calculated* on ES Form 3.11B is not the same as the average cost used for *recording* purposes. Kentucky Power always *records* its emission allowance consumption expense based on currently available allowances only.
- b. Kentucky Power does not agree that it is more appropriate to re-establish the average unit cost by adding in allowances that are not currently available for consumption.

Instead, Kentucky Power proposes to change the formatting of its ES Forms 3.11 and 3.12 to include a separate column for each current and non-current allowances and to reflect the calculation of average cost based on currently available allowance inventory only. Please see also the response to 4c.

- c. Although it is mathematically possible to make the calculation the result would be meaningless. FERC Order No. 552 dated March 31, 1993, in *Revisions to Uniform Systems of Accounts to Account for Allowances under the Clean Air Act Amendments of 1990 and Regulatory-Created Assets and Liabilities and to Form Nos. 1, 1-F, 2 and 2-A*, Docket No. RM92-1-000, requires that only allowances that may be consumed in the year of the calculation be included in the average cost calculations used to determine consumption expense.

WITNESS: Amy J Elliott