

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 June 30, 2016)**

Case No. 2016-00336

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. My primary responsibility is to support the Company’s regulatory activities. Part of
17 this responsibility is to manage the Company’s periodic regulatory filings, including the

1 monthly Environmental Surcharge reports, filed with the Kentucky Public Service
2 Commission (“Commission”).

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

5 A. Yes. I testified before the Commission in two six-month reviews of the Company’s
6 fuel adjustment clause, Case No. 2013-00261 and Case No. 2013-00444. I also
7 testified in Case No. 2014-00396, a combined general rate case and request for an
8 amendment to the Company’s environmental compliance plan. Additionally, I filed
9 testimony in the Company’s past five periodic reviews of the Environmental Surcharge:
10 Case No. 2014-00052, Case No. 2014-00322, Case No. 2015-00113, Case No. 2015-
11 00280, and Case No. 2016-00109.

III. PURPOSE OF YOUR TESTIMONY

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

13 A. The purpose of my testimony is to describe the operation of the Company’s
14 environmental surcharge during the review period. I also propose two adjustments.
15 First, I propose an adjustment to the environmental compliance rate base return
16 collected during the review period. Second, I propose an adjustment to the allocation
17 of environmental costs between residential and non-residential customers during the
18 review period. Finally, I testify that, with the two adjustments, the monthly
19 environmental surcharge factors during the review period were calculated in conformity
20 with the Company’s Commission-approved Tariff E.S. and the applicable Commission
21 Orders, and that the resulting rates were fair, just, and reasonable.

IV. OPERATION OF THE ENVIRONMENTAL SURCHARGE
DURING THE REVIEW PERIOD

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

4 A. During the review period, the Company utilized the Tariff E.S. that was approved by
5 the Commission in Case No. 2014-00396 for service rendered on or after June 22,
6 2015. This is the same Tariff E.S. that was in effect during the six-month billing period
7 ending December 31, 2015 that was the subject of Case No. 2016-00109. However,
8 unlike the period reviewed in Case No. 2016-00109, there was no proration during this
9 six-month review period between the rates set forth in the current Tariff E.S. and the
10 rates contained in the prior Tariff E.S.

11 **Q. IS THE COMPANY PROPOSING AN ADJUSTMENT FOR ANY UNDER- OR**
12 **OVER-RECOVERY FOR THE BILLING PERIOD FROM JANUARY 1, 2016**
13 **THROUGH JUNE 30, 2016?**

14 A. Yes. The Company is proposing to adjust the environmental compliance rate base for
15 both the Rockport and the Mitchell Plants and hence the amount recovered through its
16 environmental surcharge during the six-month review period.

17 **Q. IS KENTUCKY POWER PROPOSING TO MAKE ANY OTHER**
18 **ADJUSTMENTS TO ITS ENVIRONMENTAL SURCHARGE**
19 **CALCULATIONS FOR THE REVIEW PERIOD?**

20 A. Yes. The Company also proposes to adjust the allocation of the amounts collected
21 through the environmental surcharge during the review period between residential and
22 non-residential customers.

1 **Q. ARE FURTHER ADJUSTMENTS NEEDED FOR PERIODS OUTSIDE OF THE**
2 **CURRENT SIX-MONTH REVIEW PERIOD?**

3 A. Yes. The circumstances giving rise to both adjustments began with the June 2015
4 expense month and continued until after the end of the current review period.
5 Accordingly, adjustments to the application of the environmental surcharge outside of
6 the review period are necessary.

V. PROPOSED REVENUE REQUIREMENT ADJUSTMENT

7 **Q. PLEASE EXPLAIN THE REVENUE REQUIREMENT ADJUSTMENT THAT**
8 **THE COMPANY IS REQUESTING.**

9 A. The Company is requesting to adjust the amount of the environmental compliance rate
10 base for both the Mitchell and Rockport Plants during each of the six months in the
11 review period.

12 **Q. WHY IS THIS ADJUSTMENT NECESSARY?**

13 A. Prior to July 1, 2015, the environmental compliance rate base for approved
14 environmental projects was adjusted annually to reflect additions and retirements of
15 environmental equipment during the preceding 12-month period and the consequent
16 change in the environmental compliance rate base. After the Commission's June 22,
17 2015 Order in Case No. 2014-00396, the update to the environmental compliance rate
18 base for additions and retirements at Rockport and Mitchell was made on a monthly,
19 instead of an annual, basis. The Company, however, inadvertently failed to reflect the
20 monthly retirement of environmental compliance equipment at Rockport and Mitchell
21 in its monthly calculation of the environmental surcharge factor. As a result, the
22 monthly revenue requirement was overstated by a total of \$120,356 during the review

1 period. A summary of the overstatement is provided as Attachment 2 to the
2 Company's response to Commission Staff Request 1-1 in this case.

3 **Q. DID THE ERROR IN NOT REFLECTING ON A MONTHLY BASIS THE**
4 **RETIREMENT OF ENVIRONMENTAL COMPLIANCE EQUIPMENT**
5 **AFFECT THE ENTIRE REVIEW PERIOD?**

6 A. Yes. In addition, Kentucky Power did not reflect on a monthly basis the retirements of
7 environmental compliance equipment beginning July 1, 2015 when the adjustment
8 changed from an annual to a monthly basis. Prior to July 2015, when the
9 environmental compliance rate base was updated annually, the Company properly
10 reflected the retirement of environmental compliance equipment in its calculation of the
11 environmental surcharge.

12 For the entire sixteen-month period of the miscalculation, between the June
13 2015 and September 2016 expense months, the monthly revenue requirement was
14 overstated by a total of \$453,735.

15 **Q. IS THE PROPOSED REVENUE REQUIREMENT ADJUSTMENT**
16 **APPLICABLE TO BOTH RETAIL ENVIRONMENTAL COSTS AND NON-**
17 **ASSOCIATED ENVIRONMENTAL COSTS?**

18 A. Yes. The Company is proposing to adjust the system sales revenues to account for the
19 change in revenue requirement.

20 **Q. HOW IS THE COMPANY PROPOSING TO IMPLEMENT THE REVENUE**
21 **REQUIREMENT ADJUSTMENTS?**

22 A. Because the error began before the review period and continued briefly after the review
23 period through the September 2016 expense month, the Company is proposing to

1 implement, consistent with the Commission's practice in other Kentucky Power six-
2 month environmental surcharge review proceedings, the adjustments as follows:

- 3 • For the current review period, the Company proposes to refund the amount of
4 the over-recovery during the review period, \$120,356, in the first month after
5 the Order is issued in this case. This refund amount includes the amount over-
6 recovered through the environmental surcharge and the system sales clause.
- 7 • For the period following the current review period, the Company will include an
8 adjustment of \$225,754 in its next filing of the environmental surcharge and an
9 adjustment of \$18,700 in its system sales clause filing.
- 10 • For the period prior to the current review period, the Company will, consistent
11 with past Commission precedent, wait for the Commission to address the error
12 during its two-year review of the environmental surcharge. The amount over-
13 recovered (through the environmental surcharge and the system sales clause)
14 during the period prior to the current review period is \$88,925.

VI. PROPOSED ALLOCATION ADJUSTMENT

15 **Q. PLEASE DESCRIBE HOW THE ENVIRONMENTAL SURCHARGE FACTOR**
16 **IS CALCULATED FOR NON-RESIDENTIAL CUSTOMERS.**

17 A. As required by the Commission-approved Stipulation and Settlement Agreement in
18 Case No. 2012-00578 and the Commission's Order in the Company's most recent base
19 rate case, Case No. 2014-00396, the Company changed the method by which it
20 calculated the Environmental Surcharge Factor for non-residential customers.
21 Beginning with the May 2015 expense month, the Company calculated the non-

1 residential environmental surcharge factor as a function of non-fuel revenues and not
2 total revenues.

3 To calculate the non-residential factor, the Company first subtracts the monthly
4 residential revenue from total revenue to determine the total retail revenue from non-
5 residential customer classes. The Company next determines the fuel revenues for
6 residential customers and subtracts that amount from the total fuel revenues to
7 determine the fuel revenues for non-residential customer classes. Next, the Company
8 subtracts the non-residential fuel revenue from the non-residential total revenue to
9 determine the non-residential, non-fuel revenue amount. This amount is used as the
10 denominator in calculating the environmental surcharge factor for the non-residential
11 customer classes.

12 The Company's as-filed methodology for calculating non-fuel revenues for the
13 non-residential customer classes is shown on Form ES 3.32. For reference, a copy of
14 the April 2016 Form ES 3.32 is included as EXHIBIT AJE-1.

15 **Q. WHY IS THE COMPANY SEEKING TO ADJUST THE ALLOCATION OF**
16 **THE ENVIRONMENTAL SURCHARGE REVENUE REQUIREMENT**
17 **BETWEEN THE RESIDENTIAL AND NON-RESIDENTIAL CUSTOMER**
18 **CLASSES?**

19 A. The calculation methodology embedded in Form ES 3.32 overstates the non-residential
20 total revenue amount and consequently the non-residential, non-fuel revenue amount.
21 Because the non-residential, non-fuel revenue amount is the denominator used in
22 calculating the non-residential class environmental surcharge factor, the overstated non-

1 residential, non-fuel revenue amount produces a surcharge factor for the non-residential
2 classes that was lower than it should have been.

3 **Q. WHAT WAS THE ERROR IN THE FORMULA THAT PRODUCED THE**
4 **OVERSTATED NON-RESIDENTIAL NON-FUEL REVENUE VALUE?**

5 A. On Form ES 3.32, the Company used Total Current Month Residential Revenues (Line
6 8) in Line 10 to calculate Non-Residential Retail Revenues (Line 15). Total Current
7 Month Residential Revenues (Line 8) is calculated by subtracting the four percentage-
8 of-revenues rider amounts (Lines 4-7) from Current Month Residential Retail Revenue
9 (Line 3). However, Current Month Residential Retail Revenue (Line 3) and not Total
10 Current Month Residential Revenues (Line 8) should have been used in Line 10 to
11 calculate Non-residential Retail Revenue.

12 **Q. WHY IS IT APPROPRIATE TO USE THE CURRENT MONTH RESIDENTIAL**
13 **RETAIL REVENUE VALUE (LINE 3) AND NOT THE TOTAL CURRENT**
14 **MONTH RESIDENTIAL REVENUE VALUE (LINE 8) ON LINE 10 IN**
15 **CALCULATING NON-RESIDENTIAL RETAIL REVENUES?**

16 A. Non-residential revenues, by arithmetical definition, are equal to the difference between
17 total retail revenues and total residential revenues. Use of Total Current Month
18 Residential Revenues (Line 8), which is net of the percentage-of-revenue riders and
19 thus a subset of total residential revenues, is inconsistent with the definition of non-
20 residential revenues. It is the mathematical equivalent of calculating the difference
21 between 10 and 5 by subtracting 4 (5-1) from ten instead of subtracting 5.

22 **Q. WAS THIS ERROR LIMITED TO THE REVIEW PERIOD?**

1 A. No. The same error existed in Form ES 3.32 used in the Company's June 2015
2 through August 2016 filings.

3 **Q. HAS THE COMPANY CALCULATED THE AMOUNT OF REVENUE THAT**
4 **THIS FORMULAIC ERROR CAUSED?**

5 A. Yes. Please refer to Attachment 3 to the Company's response to Commission Staff
6 Request 1-1. During the review period, this formulaic error produced an under-
7 recovery of \$898,635 from non-residential customer classes and an equal,
8 corresponding over-recovery from residential customers.

9 **Q. PLEASE EXPLAIN HOW THE COMPANY CALCULATED THE**
10 **MISALLOCATION DEMONSTRATED IN ATTACHMENT 3 TO THE**
11 **COMPANY'S RESPONSE TO COMMISSION STAFF REQUEST 1-1.**

12 A. The Company recalculated the environmental surcharge factors for the review period
13 by utilizing Current Month Residential Retail Revenues (Line 3 on Form ES 3.32) and
14 not Total Current Month Residential Revenues (Line 8 on Form ES 3.32) to determine
15 non-residential revenues. This resulted in the correct non-residential revenue amount
16 which, in turn, was used to calculate the correct non-residential, non-fuel revenue
17 amount. This corrected non-residential, non-fuel revenue amount was then used to
18 calculate the correct the non-residential environmental surcharge factor.

19 **Q. HOW IS THE COMPANY PROPOSING TO CORRECT THIS ERROR AND**
20 **CORRESPONDING MISALLOCATION?**

21 A. Because the Company's use of the incorrect formula began before the current review
22 period and continued through the August 2016 expense month, the Company is
23 proposing to implement, consistent with the Commission's practice in other Kentucky

1 Power six-month environmental surcharge review proceedings, the adjustments as
2 follows:

- 3 • For the current review period, the Company is proposing to reduce the
4 residential environmental revenue requirement by \$149,773 for each of the six
5 months after the order is issued in this case. Likewise, the non-residential
6 environmental revenue requirement will be increased by the same amount for
7 the same six-month period.
- 8 • For the period following the current review period, the Company will similarly
9 make an adjustment to the residential and non-residential environmental
10 revenue requirement after the computation of October revenues is finalized.
- 11 • For the period prior to the current review period, the Company will, consistent
12 with past Commission precedent, wait for the Commission to address the
13 formulaic error during its two-year review of the environmental surcharge.

VII. CONCLUSION

14 **Q. WITH THE PROPOSED ADJUSTMENTS, WERE THE RATES CHARGED**
15 **THROUGH THE ENVIRONMENTAL SURCHARGE DURING THE REVIEW**
16 **PERIOD IN ACCORDANCE WITH TARIFF E.S. AND THE APPLICABLE**
17 **COMMISSION ORDERS?**

18 **A.** Yes. As a result, the environmental surcharge rates, adjusted as described above, were
19 fair, just, and reasonable.