

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

An Electronic Examination By The)	
Public Service Commission Of The)	
Environmental Surcharge Mechanism)	
of Kentucky Power Company for)	Case No. 2017-00327
the Two-Year Billing Period Ending)	
June 30, 2017)	

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, and I am a Regulatory Consultant for Kentucky Power
3 Company (“Kentucky Power” or the “Company”). My business address is 101 A
4 Enterprise Drive, 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 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
12 Power in 2008. In 2012, I received a Master of Business Administration degree
13 from the 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. As
17 part of this responsibility, I manage the Company’s environmental surcharge and

1 prepare the environmental surcharge calculation forms utilized by the Company to
2 implement the surcharge. Additionally, I manage the Company's periodic
3 regulatory filings made with the Kentucky Public Service Commission
4 ("Commission").

5 **Q. HAVE YOU PREVIOUSLY TESTIFIED BEFORE ANY REGULATORY**
6 **COMMISSIONS?**

7 A. Yes. I filed testimony in Case No. 2017-00179, the Company's pending
8 combined general rate case and request for an amendment to the Company's
9 Environmental Compliance Plan. I also testified in Case No. 2014-00396, the
10 Company's prior combined general rate case and request for an amendment to the
11 Company's Environmental Compliance Plan. Additionally, I filed testimony in
12 the Company's past seven periodic reviews of the Environmental Surcharge:
13 Case No. 2014-00052, Case No. 2014-00322, Case No. 2015-00113, Case No.
14 2015-00280, Case No. 2016-00109, Case No. 2016-00336, and Case No. 2017-
15 00072. Finally, I testified before the Commission in two six-month reviews of the
16 Company's fuel adjustment clause, Case No. 2013-00261 and Case No. 2013-
17 00444.

III. PURPOSE OF YOUR TESTIMONY

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

19 A. My testimony supports the Company's monthly environmental surcharge filings
20 during the two-year review. It also addresses three adjustments to filings made
21 during the two-year review. My testimony also reflects that currently there is no

1 need for a roll-in of environmental costs to base rates and proposes a return on
2 equity of 10.25% as approved in Case No. 2014-00396.

IV. OPERATION OF THE ENVIRONMENTAL SURCHARGE
DURING THE REVIEW PERIOD

3 **Q. PLEASE DESCRIBE THE OPERATION AND CALCULATION OF THE**
4 **ENVIRONMENTAL SURCHARGE DURING THE REVIEW PERIOD.**

5 A. The Company operated its environmental surcharge in accordance with its Tariff
6 E.S. approved by the Commission's June 22, 2015 Order in Case No. 2014-
7 00396. Because the Commission's Order in Case No. 2014-00396 authorized the
8 Commission's revised Tariff E.S. for service rendered after June 22, 2015, the
9 Company pro-rated recovery through the environmental surcharge between old
10 rates and the new rates. The Company's approach in regard to the changes in
11 Tariff E.S. was consistent with its approach in other circumstances where the
12 Commission authorized changes in tariff rates for services rendered after certain
13 dates.

14 **Q. DURING THE TWO-YEAR REVIEW PERIOD WERE THERE ANY**
15 **PREVIOUSLY IDENTIFIED ADJUSTMENTS IN THE COMPANY'S**
16 **ENVIRONMENTAL SURCHARGE CALCULATION THAT REMAIN TO**
17 **BE ADDRESSED IN THIS CASE?**

18 A. Yes. I brought to the Commission's attention through my direct testimony two
19 miscalculations the Company made in its administration of Tariff E.S. I would
20 like to describe briefly the miscalculations before addressing the Company's
21 adjustments.

1 First, Kentucky Power over-collected from all customers by not reflecting
2 the monthly retirement of environmental compliance equipment at Rockport and
3 Mitchell in its monthly calculation of the environmental surcharge factor.
4 Second, the Company misallocated the environmental surcharge requirement
5 between the residential and non-residential classes. Following the Company's
6 disclosure, Kentucky Power corrected the over-collection for the review period in
7 Case No. 2016-00336 (the six month billing period ended June 30, 2016) as well
8 as subsequent billing periods by refunding the over-collections. In addition,
9 Kentucky Power corrected the misallocation for the review period in Case No.
10 2016-00336 and subsequent months.

11 **Q. WHAT ADJUSTMENTS REMAIN OPEN?**

12 A. In its April 18, 2017 Order in Case No. 2016-00336 the Commission reserved the
13 issue of the Company's over-recovery of \$81,197 and misallocation of \$173,686
14 for the expense months prior to the review period at issue in Case No. 2016-
15 00336 for this proceeding.

16 **Q. WHAT ADJUSTMENT IS THE COMPANY PROPOSING WITH**
17 **RESPECT TO THE PERIOD PRIOR TO THE REVIEW PERIOD**
18 **EXAMINED IN CASE NO. 2016-00336?**

19 A. The Company is proposing to refund \$81,197 through the environmental
20 surcharge during the first month after the Commission issues an order in this case.
21 In addition, Kentucky Power proposes to refund through Tariff S.S.C. an
22 additional \$7,728 over-collected as non-associated utility cost in the first month
23 after the Commission issues an order in this case.

1 **Q. HOW DOES KENTUCKY POWER PROPOSE TO ADDRESS THE**
2 **\$173,686 MISALLOCATION DURING THE EXPENSE MONTHS PRIOR**
3 **TO THE REVIEW PERIOD EXAMINED IN CASE NO. 2016-00336?**

4 A. Kentucky Power requests authority to reduce the residential environmental
5 surcharge revenue requirement by \$173,686 in the first month after the
6 Commission issues an order in this case. The Company will increase the non-
7 residential environmental revenue requirement by a corresponding amount during
8 the same month.

9 **Q. WILL THAT REFUND AND REALLOCATION REMEDY THE**
10 **MISCALCULATIONS IDENTIFIED BY KENTUCKY POWER IN CASE**
11 **NO. 2016-00336?**

12 A. Yes. Subsequent to the Commission's Order in Case No. 2016-00336, Kentucky
13 Power refunded the over-recovery of \$225,754 and corrected the misallocation of
14 \$537,612 related to the periods subsequent to the expense months ended April 30,
15 2016 (the review period in Case No. 2016-00336).

16 **Q. IS ANY FURTHER ACTION REQUIRED BY THE COMMISSION WITH**
17 **RESPECT TO THE COMPANY'S REFUND AND REALLOCATION OF**
18 **THE AMOUNTS FOR PERIODS SUBSEQUENT TO JUNE 30, 2016?**

19 A. Yes. The Commission indicated in its April 18, 2017 Order in Case No. 2016-
20 00336 that it would review and address in this proceeding the over-recovery and
21 misallocation. Kentucky Power requests that the Commission issue an Order
22 approving the Company's actions in refunding the \$225,754 and reallocating

1 between residential and non-residential customers the \$537,612 for the expense
2 months subsequent to the review period examined in Case No. 2016-00336.

3 **Q. HAS THE COMPANY IDENTIFIED ANY ADJUSTMENTS OTHER**
4 **THAN THOSE PREVIOUSLY IDENTIFIED IN CASE NOS. 2016-00336**
5 **AND 2017-0072?**

6 A. Yes. The weighted average cost of capital (“WACC”) used in connection with
7 the calculation of environmental costs recoverable for the Rockport plant for
8 certain of the months during the review period should be adjusted to correct the
9 Indiana Adjusted Gross Income tax rate on ES Form 3.21. The Company’s
10 environmental surcharge filings during the review period did not accurately
11 reflect a statutory reduction to the tax rate resulting in an over-recovery through
12 the environmental surcharge of \$31,665. In addition, the Company proposes to
13 credit through Tariff S.S.C. an over-recovery of \$1,475 in connection with non-
14 associated utility costs. The Company is proposing to refund both of these over-
15 collections in the first month following the Commission’s order in this case.

16 **Q. WHAT EXPENSE MONTHS WERE AFFECTED BY THE**
17 **RECALCULATION OF THE ROCKPORT WACC?**

18 A. The expense months of May 2015 through March 2016 were affected.

19 **Q. DID THE ADJUSTMENTS YOU IDENTIFY ABOVE, OR ANY OTHER**
20 **ADJUSTMENTS KNOWN TO THE COMPANY, AFFECT THE SIX**
21 **EXPENSE MONTHS ENDED APRIL 2017?**

22 A. No.

V. PROPOSED RETURN ON EQUITY

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

2 A. The Company is proposing a 10.25 percent return on equity.

3 **Q. WHAT IS THE BASIS FOR THAT PROPOSAL?**

4 A. At page 72 of its June 22, 2015 Order in Case No. 2014-00396 the Commission
5 directed that “[t]he WACC and GRCF [gross revenue conversion factor] should
6 remain constant until such time as the Commission sets base rates in Kentucky
7 Power’s next base-rate proceeding.” The WACC and GRCF both employ a 10.25
8 percent return on equity. Consistent with the Commission’s order in Case No.
9 2014-00396, Kentucky Power proposes to maintain its WACC and GRCF, and
10 constituent 10.25 percent return on equity, until the Commission issues an order
11 in Case No. 2017-00179.

12 In addition, the Commission found that these values should be used in all
13 monthly environmental surcharge filings in each of the Company’s six-month
14 reviews occurring subsequent to the Commission’s order in Case No. 2014-
15 00396.¹

16 **Q. KENTUCKY POWER CURRENTLY HAS PENDING BEFORE THE**
17 **COMMISSION IN CASE NO. 2017-00179 AN APPLICATION FOR A**
18 **GENERAL ADJUSTMENT OF ITS RATES AND FOR AMENDMENT OF**
19 **ITS ENVIRONMENTAL COMPLIANCE PLAN AND TARIFF E.S. HAS**
20 **THE COMPANY FILED TESTIMONY IN THAT PROCEEDING THAT**

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 Ending December 31, 2015* (Case No. 2016-00109) at 2-3 (Ky. PSC, September 28, 2016); Order, *In the Matter of: Electronic 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) at 4-5 (Ky. PSC, April 18, 2017); and Order, *In the Matter of: Electronic Examination by the Public Service Commission of the Environmental Surcharge Mechanism of Kentucky Power Company for the Six-Month Billing Period Ending December 31, 2016* (Case No. 2017-00072) at 3-4 (Ky. PSC, July 5, 2017).

1 **IS CONSISTENT WITH THE CONTINUED USE OF A RETURN ON**
2 **EQUITY OF 10.25 PERCENT OR GREATER?**

3 A. Yes. Company Witness McKenzie’s testimony in Case No. 2017-00396
4 recommends a return on equity of 10.31 percent.

VI. ROLL-IN OF ENVIRONMENTAL COSTS TO BASE RATES

5 **Q. IS THE COMPANY PROPOSING TO ROLL ANY ENVIRONMENTAL**
6 **COSTS INTO ITS BASE RATES AS PART OF THIS TWO-YEAR**
7 **REVIEW?**

8 A. No. The Company is not proposing to roll any environmental costs into its base
9 rates in this proceeding. Instead, the Company is proposing to roll certain
10 environmental costs into rate base as part of Case No. 2017-00179.

11 **Q. DOES THE COMPANY’S DECISION TO NOT ROLL ANY**
12 **ENVIRONMENTAL COSTS INTO ITS BASE RATES IN CONNECTION**
13 **WITH THIS PROCEEDING PREJUDICE CUSTOMERS?**

14 A. No. The total revenue requirement remains the same and the allocation of the
15 expenses between customer classes will be addressed in the Company's pending
16 rate case.

VII. CONCLUSION

17 **Q. WITH THE PROPOSED ADJUSTMENTS, WERE THE RATES**
18 **CHARGED THROUGH THE ENVIRONMENTAL SURCHARGE**
19 **DURING THE TWO-YEAR REVIEW PERIOD IN ACCORDANCE WITH**
20 **TARIFF E.S. AND APPLICABLE COMMISSION ORDERS?**

1 A. Yes. The environmental surcharge rates, adjusted as described above, were fair,
2 just, and reasonable.

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

4 A. Yes.