

**COMMONWEALTH OF KENTUCKY**  
**BEFORE THE PUBLIC SERVICE COMMISSION**

**In the Matter of:**

<b>An Electronic Examination By The</b>	)	
<b>Public Service Commission Of The</b>	)	
<b>Environmental Surcharge Mechanism</b>	)	
<b>of Kentucky Power Company for</b>	)	<b>Case No. 2018-00307</b>
<b>the Six-Month Billing Period Ended</b>	)	
<b>June 30, 2018.</b>	)	

**DIRECT TESTIMONY OF**  
**MATTHEW A. HORELED**  
**ON BEHALF OF KENTUCKY POWER COMPANY**

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**CASE NO. 2018-00307**

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**I. INTRODUCTION**

1 **Q. PLEASE STATE YOUR NAME, BUSINESS ADDRESS, AND TITLE.**

2 A. My name is Matthew A. Horeled. My position is Director of Regulatory Services,  
3 Kentucky Power Company (“Kentucky Power” or the “Company”). My business  
4 address is 855 Central Avenue, Suite 200, Ashland, Kentucky 41101.

**II. BACKGROUND**

5 **Q. PLEASE DESCRIBE YOUR EDUCATIONAL AND PROFESSIONAL**  
6 **BACKGROUND.**

7 A. I received a Bachelor of Arts, Honors degree in History from Loyola University  
8 Chicago in May 2001, and a Master of Business Administration degree with a  
9 concentration in Finance from Loyola University Chicago in August 2004. I was  
10 awarded a Juris Doctor from Valparaiso University School of Law in May 2005.

11 I began my utility industry career with American Electric Power Service  
12 Corporation in September 2007 as a Risk & Insurance Management Analyst with  
13 responsibility for managing numerous insurance programs. I transferred to the  
14 Corporate Planning and Budgeting Department in April 2010 as a Financial  
15 Analyst with emphasis on operating company forecasts. In April 2014, I was  
16 promoted to Financial Analyst Principal. In March 2015, I transferred to Indiana

1 Michigan Power (“I&M”) as Regulatory Analysis and Case Manager for I&M. In  
2 February 2017, I transferred and was promoted to Director of Business Operations  
3 Support for Kentucky Power. In April 2018, I assumed my current position as  
4 Director of Regulatory Services for Kentucky Power.

5 **Q. WHAT ARE YOUR PRINCIPAL AREAS OF RESPONSIBILITY WITH**  
6 **KENTUCKY POWER?**

7 A. I am responsible for the supervision and direction of Kentucky Power's  
8 Regulatory Services Department, which has responsibility for all rate and  
9 regulatory matters, including the Company's periodic regulatory filings made  
10 with the Kentucky Public Service Commission (“Commission”).

11 **Q. HAVE YOU PREVIOUSLY TESTIFIED BEFORE ANY REGULATORY**  
12 **COMMISSIONS?**

13 A. Yes. Most recently, I submitted testimony in Case No. 2018-00311 on behalf of  
14 the Company in support of the joint application to expand and modify Kentucky  
15 Power's home energy assistance program and to create a voluntary energy  
16 assistance fund. I also submitted testimony in Case No. 2018-00035 on behalf of  
17 the Company in support of the settlement agreement with Kentucky Industrial  
18 Utility Customers, Inc. and testified in Case No. 2018-00216 in support of the  
19 operation of the Company's fuel adjustment clause from November 1, 2017  
20 through April 30, 2018. Finally, I have previously submitted testimony before the  
21 Indiana Utility Regulatory Commission in Cause No. 38702-FAC72, Cause No.  
22 38702-FAC73, Cause No. 38702-FAC74, Cause No. 43775 OSS-6, and Cause  
23 No. 44511-SPR1.

**III. PURPOSE OF YOUR TESTIMONY**

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

2 A. My testimony supports the Company's monthly environmental surcharge filings  
3 during the six-month review period. My testimony also addresses the return on  
4 equity ("ROE") during the review period and going forward.

**IV. OPERATION OF THE ENVIRONMENTAL SURCHARGE  
DURING THE REVIEW PERIOD**

5 **Q. PLEASE DESCRIBE THE OPERATION AND CALCULATION OF THE**  
6 **ENVIRONMENTAL SURCHARGE DURING THE REVIEW PERIOD.**

7 A. The Company operated its environmental surcharge in accordance with its Tariff  
8 E.S. approved by the Commission's June 22, 2015 Order in Case No. 2014-00396  
9 and January 18, 2018 Order in Case No. 2017-00179, as well as pursuant to the  
10 Commission's February 22, 2018 Order in Case No. 2017-00327. Because the  
11 Commission's Order in Case No. 2017-00179 authorized the Company's revised  
12 Tariff E.S. for service rendered on and after January 18, 2018, the Company pro-  
13 rated recovery through the environmental surcharge between the rates established  
14 on that date and those in place before January 18, 2018. Prior to January 18,  
15 2018, the Company recovered costs through the environmental surcharge in  
16 accordance with the environmental compliance plan approved by the  
17 Commission's June 22, 2015 Order in Case No. 2014-00396. The Company's  
18 approach with respect to the changes to Tariff E.S. was consistent with its  
19 approach in other circumstances where the Commission authorized changes in the  
20 tariff for services rendered after certain dates.

1 **Q. DID THE OPERATION OF THE ENVIRONMENTAL SURCHARGE**  
2 **DURING THE REVIEW PERIOD REFLECT ANY OTHER**  
3 **COMMISSION-ORDERED CHANGES?**

4 A. Yes. In Case No. 2017-00327, the Commission reviewed the Company's  
5 environmental surcharge for the two-year period from July 1, 2015 to June 30,  
6 2017. In its February 22, 2018 Order in that case, the Commission approved  
7 Kentucky Power's determinations that the Company had a net over-recovery of  
8 \$127,538 and a misallocation between the residential and non-residential  
9 customer classes of \$173,686 for the period under review. The order directed the  
10 Company to refund the over-recovery and correct the misallocation in the first  
11 month after the Order's entry.<sup>1</sup> Kentucky Power complied with that direction and  
12 operated the environmental surcharge in accordance with the Commission's  
13 February 22, 2018 Order in Case No. 2017-00327.

14 **Q. IS THE COMPANY PROPOSING ANY POST-REVIEW PERIOD**  
15 **ADJUSTMENTS?**

16 A. No.

#### V. RETURN ON EQUITY

17 **Q. WHAT ROE DID THE COMPANY USE DURING THE REVIEW**  
18 **PERIOD, AND WHAT WAS THE BASIS FOR USING THAT ROE?**

19 A. The Company's current Tariff E.S. includes an authorized ROE of 9.7%, in  
20 accordance with the Commission's January 18, 2018 Order in Case No. 2017-  
21 00179. Furthermore, the January 18, 2018 Order establishes a Gross Revenue  
22 Conversion Factor (GRCF) of 1.352116 and Weighted Average Cost of Capital

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<sup>1</sup> Case No. 2017-00327, February 22, 2018 Order at page 4.

1 (WACC) of 7.88 and requires that they “remain constant until the Commission  
2 sets base rates in Kentucky Power’s next base rate case proceeding”.<sup>2</sup> The  
3 WACC employs a 9.7% ROE. Kentucky Power used the 9.7% ROE in its  
4 monthly environmental surcharge calculation since the Commission’s January 18,  
5 2018 order. During the portion of the review period prior to January 18, 2018, the  
6 Company used a 10.25% ROE in accordance with the Commission’s June 22,  
7 2015 Order in Case No. 2014-00396.

## VI. CONCLUSION

8 **Q. WERE THE RATES CHARGED THROUGH THE ENVIRONMENTAL**  
9 **SURCHARGE DURING THE TWO-YEAR REVIEW PERIOD IN**  
10 **ACCORDANCE WITH TARIFF E.S. AND APPLICABLE COMMISSION**  
11 **ORDERS?**

12 A. Yes. The environmental surcharge rates billed during the review period were fair,  
13 just, and reasonable.

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

15 A. Yes.

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<sup>2</sup> Case No. 2017-00179, January 18, 2018 Order at page 66. The GRCF and WACC reflect the reduction of the federal corporate income tax rate, effective January 1, 2018, from 35% to 21% in the Tax Cuts and Jobs Act of 2017, signed December 22, 2017. *Id.*

VERIFICATION

The undersigned, Matthew A. Horeled, being duly sworn, deposes and states he is the Director of Regulatory Services for Kentucky Power Company, that he has personal knowledge of the matters set forth in the foregoing testimony, and that the information contained therein is true correct to the best of his information, knowledge, and belief after a reasonable investigation.

*Matthew A. Horeled*  
\_\_\_\_\_  
Matthew A. Horeled

Commonwealth of Kentucky        )  
                                                          )  
County of Boyd                            )        Case No. 2018-00307

Subscribed and sworn before me, a Notary Public, by Matthew A. Horeled this 17<sup>th</sup> day of October, 2018

*Trisha M. Young Blum*  
\_\_\_\_\_  
Notary Public

My Commission Expires: 3-18-19

