

**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 )  
the Two-Year Billing Period Ending )  
June 30, 2019. )

Case No. 2020-00133

**DIRECT TESTIMONY OF**  
**LERAH M. SCOTT**  
**ON BEHALF OF KENTUCKY POWER COMPANY**

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**I. INTRODUCTION AND BACKGROUND**

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

2 A. My name is Lerah M. Scott. My business address is 1645 Winchester Avenue,  
3 Ashland, Kentucky 41101. My position is Regulatory Consultant, Kentucky Power  
4 Company (“Kentucky Power” or the “Company”).

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

7 A. In 2009, I earned a Bachelor of Arts degree in History from the University of  
8 Guelph in Guelph, Ontario, Canada. Additionally, in 2010 I received a Paralegal  
9 diploma from Algonquin Careers Academy in Mississauga, Ontario, Canada.

10 From 2013 through 2018 I worked at Sogefi Group Inc., a global supplier  
11 for the automotive industry, as a material planner and accounting specialist. I  
12 accepted my current position with Kentucky Power Company in July 2018.

13 **Q. WHAT ARE YOUR PRINCIPAL AREAS OF RESPONSIBILITY WITH**  
14 **KENTUCKY POWER?**

15 A. My primary responsibility is to support the Company’s regulatory activities. As  
16 part of this responsibility, I supervise the day-to-day implementation of Kentucky  
17 Power’s environmental surcharge and prepare the environmental surcharge filings  
18 utilized by the Company to implement the surcharge. Additionally, I assist with

1 the Company's other periodic regulatory filings with the Public Service  
2 Commission of Kentucky ("Commission").

3 **II. PURPOSE OF TESTIMONY**

4 **Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY?**

5 A. My testimony supports the Company's monthly environmental surcharge filings  
6 during the two-year review period. My testimony also reflects that currently there  
7 is no need for a roll-in of environmental costs to base rates and proposes a return  
8 on equity of 9.70 percent as approved in Case No. 2017-00179.

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

9 **Q. PLEASE DESCRIBE THE OPERATION AND CALCULATION OF THE**  
10 **ENVIRONMENTAL SURCHARGE DURING THE REVIEW PERIOD.**

11 A. The review period includes periods subject to the Commission's orders in Case  
12 No. 2014-00396 (for service rendered through January 17, 2018) and Case No.  
13 2017-00179 (for service rendered on or after January 18, 2018). The Company  
14 operated its environmental surcharge in accordance with its Tariff E.S. as  
15 approved by the Commission's June 22, 2015 Order in Case No. 2014-00396 and  
16 the Commission's January 18, 2018 Order in Case No. 2017-00179 during each  
17 relevant period, the Company pro-rated between the applicable environmental  
18 surcharge rates between old rates and the new rates. The Company's approach in  
19 this regard was consistent with its approach in other circumstances where the  
20 Commission authorized changes in tariff rates for services rendered after certain  
21 dates.

1 **Q. WERE THERE ANY PERTINENT CHANGES TO THE**  
2 **ENVIRONMENTAL SURCHARGE DURING THE REVIEW PERIOD?**

3 A. Yes. On February 14, 2019, FERC issued an Order in Docket No. ER19-717-000  
4 approving new depreciation rates for the two Rockport Units. Rockport Unit 1  
5 changed from a composite depreciation rate of 3.52% to 2.95%. Rockport Unit 2  
6 changed from a composite depreciation rate of 3.52% to 28.48%. This change was  
7 effective January 1, 2019.

8 **Q. DOES KENTUCKY POWER OWN ROCKPORT UNIT 1 AND 2?**

9 A. No. Kentucky Power is a party to a FERC-approved unit power agreement  
10 (“UPA”) with AEP Generating Company. Under the UPA, Kentucky Power  
11 receives 30% of AEP Generating Company’s 50% share of the generation output  
12 from Rockport Units 1 and 2 and is responsible for 30% of AEP Generating  
13 Company’s Rockport Unit 1 and 2 costs. Kentucky Power’s share equates to 15%  
14 of each Rockport Unit.

15 **Q. WHAT NECESSITATED THE CHANGE IN THE ROCKPORT**  
16 **DEPRECIATION RATES?**

17 A. The change in depreciation rates was required to align with Unit 1’s expected  
18 December 2028 retirement and Unit 2’s December 2022 lease expiration and to  
19 permit the full depreciation of the remaining plant investment, including  
20 environmental projects required by federal, state, and local environmental  
21 regulations, over the remaining life of Unit 1 and term of the Unit 2 lease.

22 Furthermore the change in depreciation rates facilitates a smoother  
23 recovery of the Rockport projects than would otherwise have been required.

1 Maintaining the lower Rockport Unit 2 depreciation rate would have resulted in  
2 unrecovered costs upon the lease expiration.

3 **Q. WHAT IMPACT DID THE CHANGE IN ROCKPORT DEPRECIATION**  
4 **RATES HAVE ON THE ENVIRONMENTAL SURCHARGE?**

5 A. The change from a composite rate required three changes to the environmental  
6 surcharge:

- 7 • Form 3.20, Line 1 was broken out to identify the Utility Plant at Original  
8 Cost by unit.
- 9 • Form 3.20, Line 21 was broken out to identify the Monthly Depreciation  
10 Expense by unit.
- 11 • Form 3.22: Rockport section was broken out to identify the approved  
12 environmental projects by unit.

13 **Q. DID THE COMPANY NOTIFY THE COMMISSION OF THE CHANGE**  
14 **IN DEPRECIATION RATES?**

15 A. Yes. The change was addressed in the Company's March 19, 2019 environmental  
16 surcharge letter (for the month of February to be billed in April).

17 **Q. WHY WAS THE CHANGE REFLECTED IN THE COMPANY'S MARCH**  
18 **FILING WHEN THE CHANGE WAS EFFECTIVE JANUARY 1, 2019?**

19 A. Utility Plant at Original Cost reported on Form 3.22 reflects values from two  
20 months prior (January 2019). Implementing the change in March's filing ensured  
21 that the change aligned with the correct month.

22 **Q. HAS THE COMPANY IDENTIFIED ANY ADJUSTMENTS TO BE**  
23 **ADDRESSED FOR THE CURRENT REVIEW PERIOD?**

24 A. No. The Company is not proposing any adjustments in connection with this  
25 proceeding.

**IV. PROPOSED RETURN ON EQUITY**

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

2 A. The Company is proposing a 9.70 percent return on equity for all non-Rockport  
3 environmental projects.

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

5 A. It is required by multiple Commission Orders. At page 66 of its January 18, 2018  
6 Order in Case No. 2017-00179 the Commission directed that “The WACC and  
7 GRFCF shall remain constant until the Commission sets base rates in Kentucky  
8 Power’s next base rate case proceeding.” The WACC (6.44 percent) and GRFCF  
9 (1.352116) established in Case No. 2017-00179 both employ a 9.70 percent return  
10 on equity for non-Rockport environmental projects. Consistent with the  
11 Commission’s order in Case No. 2017-00179, Kentucky Power proposes to  
12 maintain its WACC and GRFCF, and constituent 9.70 percent return on equity on  
13 non-Rockport environmental projects, at their current levels until the Commission  
14 issues an order in the Company’s next base rate case proceeding.

15 The Commission reiterated this requirement in each of the Company’s  
16 environmental surcharge reviews occurring subsequent to the Commission’s order  
17 in Case No. 2017-00179.<sup>1</sup>

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<sup>1</sup> 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, 2018* (Case No. 2019-00140) at 2-3 (Ky. PSC, October 7, 2019); 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 June 30, 2018* (Case No. 2018-00307) at 2-3 (Ky. PSC, January 16, 2019); 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, 2017* (Case No. 2018-00076) at 2-3 (Ky. PSC, July 24, 2018); 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, 2017* (Case No. 2017-00327) at 5-6 (Ky. PSC, February 22, 2018).

**V. ROLL-IN OF ENVIRONMENTAL COSTS TO BASE RATES**

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

4 **A.** No. This approach is consistent with the approach advocated by the Company in  
5 prior two-year review proceedings.

**VI. CONCLUSION**

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

10 **A.** Yes. The environmental surcharge rates, adjusted as described above, were fair,  
11 just, and reasonable.

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

13 **A.** Yes.



VERIFICATION

The undersigned, Lerah M. Scott, being duly sworn, deposes and says she is Regulatory Consultant for Kentucky Power, that she has personal knowledge of the matters set forth in the foregoing testimony and the information contained therein is true and correct to the best of her information, knowledge, and belief.

*Lerah M. Scott*

Lerah M. Scott

Commonwealth of Kentucky )  
 )  
County of Boyd )

Case No. 2020-00133

Subscribed and sworn to before me, a Notary Public in and before said County and State, by Lerah M. Scott this 29 day of May, 2020.

*Trisha Nance*  
Notary Public

My Commission Expires 9-26-2023

