

**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 )  
SIX-MONTH EXPENSE PERIODS ENDING )  
DECEMBER 31, 2019, JUNE 30, 2020, )  
DECEMBER 31, 2020, DECEMBER 31, 2021, )  
JUNE 30, 2022, AND DECEMBER 31, 2022, AND )  
THE TWO-YEAR EXPENSE PERIODS ENDING )  
JUNE 30, 2021 AND JUNE 30, 2023 )

Case No. 2023-00372

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

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**TABLE OF CONTENTS**

| <b><u>SECTION</u></b>  | <b><u>PAGE</u></b> |
|--|--------------------|
| I. INTRODUCTION .....  | 1                  |
| II. BACKGROUND .....   | 1                  |
| III. PURPOSE OF TESTIMONY .....  | 2                  |
| IV. OPERATION OF THE ENVIRONMENTAL SURCHARGE DURING THE<br>REVIEW PERIOD ..... | 3                  |
| V. ADJUSTMENTS .....   | 7                  |
| VI. RETURN ON EQUITY .....   | 8                  |
| VII. ROLL-IN OF ENVIRONMENTAL COSTS TO BASE RATES .....                        | 9                  |
| VIII. CONCLUSION .....   | 9                  |

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**I. INTRODUCTION**

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

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

**II. BACKGROUND**

5 **Q. PLEASE SUMMARIZE YOUR EDUCATIONAL BACKGROUND AND**  
6 **BUSINESS EXPERIENCES.**

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

10 From 2013 through 2018 I worked at Sogefi Group Inc., a global supplier for  
11 the automotive industry, as a material planner and accounting specialist. I accepted the  
12 position of Regulatory Consultant with Kentucky Power Company in July 2018 and I  
13 was promoted to my current position as Manager, Regulatory Services in February  
14 2023.

1 **Q. WHAT ARE YOUR PRINCIPAL AREAS OF RESPONSIBILITY WITH**  
2 **KENTUCKY POWER?**

3 A. As Manager, Regulatory Services I am responsible for the supervision and direction of  
4 Kentucky Power's Regulatory Services Department, which has responsibility for all  
5 rate and regulatory matters involving the Company.

6 **Q. HAVE YOU PREVIOUSLY TESTIFIED IN ANY REGULATORY**  
7 **PROCEEDINGS?**

8 A. Yes. I have submitted testimony before this Commission in Case No. 2019-00389  
9 (application for approval of the Company's 2019 Environmental Compliance Plan  
10 ("ECP")), Case No. 2020-00133 (Commission's examination of the Company's  
11 Environmental Surcharge mechanism for the two-year billing period ending June 30,  
12 2019), Case No. 2020-00174 (the Company's previous base rate case), Case No. 2021-  
13 00004 (the Company's current ECP), 2022-00387 (application for a special contract),  
14 and Case No. 2023-00159 (the Company's current base rate case).

### **III. PURPOSE OF TESTIMONY**

15 **Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY IN THIS PROCEEDING?**

16 A. My testimony supports the Company's monthly environmental surcharge filings during  
17 the review period (July 2019 through June 2023). In addition, my testimony addresses  
18 the return on equity ("ROE") during the review period and going forward.

19 **Q. ARE YOU SPONSORING ANY EXHIBITS?**

20 A. No.

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

1 **Q. WHAT IS THE REVIEW PERIOD FOR THIS CASE?**

2 A. The review period for this case is expense months July 1, 2019 through June 30, 2023.

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

5 A. The review period includes periods subject to the Commission's orders in Case No.  
6 2017-00179 (base rate case effective for service rendered January 18, 2018 through  
7 January 13, 2021 and 2017 ECP effective for service rendered January 18, 2018  
8 through May 30, 2020), Case No. 2019-00389 (2019 ECP effective for service rendered  
9 May 31, 2020 through September 27, 2021), Case No. 2020-00174 (base rate case  
10 effective for service rendered on and after January 14, 2021), and Case No. 2021-00004  
11 (2021 ECP for service rendered on and after September 28, 2021).

12 The Company operated its environmental surcharge in accordance with its  
13 Tariff Environmental Surcharge ("E.S.") as approved over the course of the review  
14 period, and pro-rated applicable environmental surcharge rates for certain expense  
15 months when new rates were approved as described in my next answer. The Company's  
16 approach in this regard was consistent with its approach in other circumstances where  
17 the Commission authorized changes in tariff rates for services rendered after certain  
18 dates.

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

1 A. Yes. Below provides a summary of the major changes to the environmental surcharge  
2 during the review period.

3 Case No. 2017-00179 (2017 Base Rate Case and 2017 ECP Plan)

4 In its January 18, 2018 Order in Case No. 2017-00179, the Commission approved two  
5 new Projects (Project 19 and 20) in the Company's ECP: Project 19 for the installation  
6 of a Selective Catalytic Reduction system project for Rockport Unit 1 and Project 20  
7 to include a return on inventories for consumables used in conjunction with approved  
8 projects in Tariff E.S. Further, the order:

- 9 • Affirmed the 12.16% ROE for environmental projects at the Rockport Plant as  
10 established by the FERC-approved Rockport Unit Power Agreement;
- 11 • For non-Rockport environmental projects, established a ROE of 9.70%, a  
12 weighted average cost of capital ("WACC") of 6.44%, gross revenue  
13 conversion factor ("GRCF") of 1.352116 and resultant rate of return of 7.88%;
- 14 • Approved the application of a gross-up factor to environmental expenses to  
15 account for uncollectible accounts and the Commission assessment fee with the  
16 factor applied to the incremental change in operating, maintenance, and other  
17 expenses from the base period; and
- 18 • Established new monthly base environmental amounts.

19 The Company appropriately pro-rated the January 2018 expense month for the two  
20 periods of a) January 1 through January 17 and b) January 18 through January 31 to  
21 account for the Commission's Order stating the above changes were to take effect with  
22 service rendered on and after January 18, 2018.

23 Case No. 2019-00389 (2019 ECP)

24 In its May 18, 2020 Order in Case No. 2019-00389, the Commission approved the  
25 Company's proposal to include a new Selective Catalytic Reduction system project  
26 (Project 21) for Rockport Unit 2 in its ECP for services rendered on and after May 31,

1           2020. In the Company’s June 19, 2020 environmental surcharge filing the Company  
2 notified the Commission that it updated its reporting formats commensurate with the  
3 Order. Further, the Company stated that the Rockport U2 SCR went into service in  
4 early June. Accordingly, there was no proration necessary for the incorporation of  
5 these costs into the environmental surcharge.

6           Case No. 2020-00174 (2020 Base Rate Case)

7           In its January 13, 2021 Order and February 22, 2021 rehearing Order in Case No. 2020-  
8 00174, the Commission:

- 9           • Determined cash working capital should be removed from the Tariff E.S. rate;
- 10           • For non-Rockport environmental projects, established a ROE of 9.10%<sup>1</sup>, a  
11 weighted average cost of capital (“WACC”) of 6.11%, gross revenue  
12 conversion factor (“GRCF”) of 1.352731 and resultant rate of return of 7.50%;  
13 and
- 14           • Established new monthly base environmental amounts.

15           The Company appropriately pro-rated the January 2021 expense month for the two  
16 periods of a) January 1 through January 13 and b) January 14 through January 31 to  
17 account for the Commission’s Order stating the above changes were to take effect with  
18 service rendered on and after January 14, 2021.

19           Case No. 2021-00004 (2021 ECP)

20           In its July 15, 2021 Order in Case No. 2021-00004, the Commission approved the  
21 inclusion of Project 22 for the the construction and associated work in connection with

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<sup>1</sup> The February 22, 2021 Order stated at pp. 22 that the Company “will revise its monthly forms to calculate the return on Mitchell Non-FGD plant as of March 31, 2020, with an ROE of 9.3 percent and the return on additional Mitchell Non-FGD plant with an ROE of 9.1 percent.”

1 the wastewater ponds necessary to meet the requirements of Coal Combustion Residual  
2 (“CCR”) rule at the Mitchell Plant. Further, the Order:

- 3 • Affirmed the 9.10% ROE for non-Rockport environmental projects established  
4 in the above (Case No. 2020-00174);
- 5 • Approved the addition of construction work in progress to the environmental  
6 surcharge rate base until new assets are placed in service; and
- 7 • Approved the Company’s request to recover the already incurred costs for the  
8 planning of Project 22 on a levelized basis.

9 In the Company’s September 20, 2021 environmental surcharge filing the Company  
10 notified the Commission that it updated its reporting formats commensurate with the  
11 Order. Further, the Company appropriately pro-rated the September 2021 expense  
12 month for the two periods of a) September 1 through September 27 and b) September  
13 28 through September 30 to account for the Commission’s Order stating the above  
14 changes were to take effect with service rendered on and after September 28, 2021.

15 Additionally, the Commission’s May 3, 2022 Order provided that:

- 16 • A 20 percent depreciation rate should be utilized for the CCR project; and
- 17 • ELG compliance project costs incurred prior to the July 15, 2021 Order totaling  
18 approximately \$1.4 million were prudently incurred preconstruction activities  
19 appropriate for the pursuit of a CPCN and approved the Company’s request to  
20 establish a regulatory asset to be amortized and recovered through Tariff E.S.  
21 over two years.

22 In the Company’s June 20, 2022 environmental surcharge filing the Company notified  
23 the Commission that it updated its reporting formats commensurate with the Order. The  
24 above did not require proration as the amended Tariff E.S. sheets were approved on a  
25 bills rendered basis effective September 29, 2022 (first billing cycle for October 2022).



1        Rockport Unit Power Agreement (“UPA”)

2        Lastly, the Company was previously a party to a FERC-approved unit power agreement  
3        (“UPA”) with AEP Generating Company. Under the UPA, Kentucky Power received  
4        30% of AEP Generating Company’s 50% share of the generation output from Rockport  
5        Units 1 and 2 and was responsible for 30% of AEP Generating Company’s Rockport  
6        Unit 1 and 2 costs. This equated to 15% of each Rockport Unit. Commensurate with  
7        the expiration of the Rockport Unit Power Agreement on December 8, 2022, Form 3.20  
8        prorated the Company’s revenue requirement for its share of environmental costs for  
9        the Rockport units for December 2022 expense month for the two periods of a)  
10       December 1 through December 8 and b) December 9 through December 31.

**V.    ADJUSTMENTS**

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

13    A.    Yes. While preparing responses to the Commission’s second set of data requests dated  
14    March 8, 2024 the Company became aware that the April 2021 (over)/under calculation  
15    inadvertently failed to prorate between the two February 2021 amounts to be recovered,  
16    as well as consider the adjustment reported on Form 1.0, Line 10A within the total  
17    amount to be collected. Exhibit LMK-1, tab “Calculation” provides the variance  
18    between April 2021 as reported and the corrected amount. This inadvertent error  
19    resulted in an under-collection during the billing month of June 2021 in the amount of  
20    \$295,255.

21    **Q.    HOW DOES THE COMPANY PROPOSE TO ADDRESS THE UNDER-**  
22    **RECOVERED AMOUNT?**

1 A. The Company proposes to recover these reasonable and prudently incurred costs from  
2 customers in the amount of \$295,255 through the first environmental surcharge filing  
3 following the Commission’s Order in this case. Exhibit LMK-1, tab “Avg Res Bill”  
4 provides the estimated impact (total bill increase of \$1.17) to an average residential  
5 customer as a result of this adjustment.

6 **Q. IS THE PROPOSED RECOVER OF THESE FUNDS FAIR, JUST, AND**  
7 **REASONABLE?**

8 A. Yes. The Company’s proposal as detailed above is fair, just, and reasonable. The costs  
9 discussed above were otherwise eligible to be recovered from customers through the  
10 environmental surcharge and instead were inadvertently excluded from recovery due  
11 to a simple miscalculation. The miscalculation error was not willful and there is no  
12 reason that the amounts should otherwise not be recovered through the environmental  
13 surcharge. The Company’s proposal to collect these improperly excluded amounts is  
14 appropriate in this proceeding because it falls within the review period of this case.

## VI. RETURN ON EQUITY

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

16 A. The Company is proposing a 9.10 percent return on equity for the environmental  
17 surcharge until the Commission establishes a new rate, for example, in the Company’s  
18 current base rate case (Case No. 2023-00159).

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

20 A. At page 21 of its February 22, 2021 Order in Case No. 2020-00174 the Commission  
21 directed that “...Kentucky Power should use an ROE of 9.10 percent for service

1 rendered on and after January 14, 2021.” Based on the Commission’s order in that case,  
2 Kentucky Power agrees that an ROE of 9.10 percent is reasonable until the Commission  
3 establishes a new rate.

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

4 **Q. IS THE COMPANY PROPOSING TO ROLL ANY ENVIRONMENTAL**  
5 **COSTS INTO ITS BASE RATES AS PART OF THIS REVIEW?**

6 A. No. This approach is consistent with the approach advocated by the Company in prior  
7 two-year reviews.

**VIII. CONCLUSION**

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

11 A. Yes. The environmental surcharge rates were fair, just, and reasonable because the rates  
12 charged complied with the Company’s Commission-approved tariffs and the  
13 Commission’s applicable orders.

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

15 A. Yes.

