

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

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

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TABLE OF CONTENTS

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

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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
- 10 • Determined cash working capital should be removed from the Tariff E.S. rate;
 - 11 • For non-Rockport environmental projects, established a ROE of 9.10%¹, a
12 weighted average cost of capital ("WACC") of 6.11%, gross revenue
13 conversion factor ("GRCF") of 1.352731 and resultant rate of return of 7.50%;
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

¹ 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. No. The Company is not proposing any adjustments in connection with this proceeding.

VI. RETURN ON EQUITY

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

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

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

19 A. At page 21 of its February 22, 2021 Order in Case No. 2020-00174 the Commission
20 directed that “...Kentucky Power should use an ROE of 9.10 percent for service
21 rendered on and after January 14, 2021.” Based on the Commission’s order in that case,

1 Kentucky Power agrees that an ROE of 9.10 percent is reasonable until the Commission
2 establishes a new rate.

VII. ROLL-IN OF ENVIRONMENTAL COSTS TO BASE RATES

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

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

VIII. CONCLUSION

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

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

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

14 A. Yes.

