COMMONWEALTH OF KENTUCKY BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

ELECTRONIC APPLICATION OF KENTUCKY)	
POWER COMPANY FOR (1) A GENERAL)	
ADJUSTMENT OF ITS RATES FOR ELECTRIC)	
SERVICE; (2) APPROVAL OF TARIFFS AND)	
RIDERS; (3) APPROVAL OF ACCOUNTING)	CASE NO.
PRACTICES TO ESTABLISH REGULATORY)	2020-00174
ASSETS AND LIABILITIES; (4) APPROVAL OF)	
A CERTIFICATE OF PUBLIC CONVENIENCE)	
AND NECESSITY; AND (5) ALL OTHER)	
REQUIRED APPROVALS AND RELIEF)	

ORDER

On June 3, 2021, Kentucky Power Company (Kentucky Power) filed a motion, pursuant to KRS 278.400, requesting rehearing of the Commission's May 14, 2021 Order that, among other things, approved successor net metering tariffs, NMS I and NMS II.

The Kentucky Solar Industries Association, Inc. (KYSEIA), Sierra Club, and Mountain Association and Kentuckians for the Commonwealth (Joint Intervenors) filed their respective responses to Kentucky Power's motion for rehearing. The remaining Intervenors, the Attorney General of the Commonwealth of Kentucky, by and through the Office of Rate Intervention (Attorney General); Kentucky Industrial Utility Customers, Inc. (KIUC); Walmart Inc.; and SWVA Kentucky, LLC did not file a response to Kentucky Power's motion for rehearing. Kentucky Power filed a reply to KYSEIA's, Sierra Club's and Joint Intervenors' briefs. This matter now stands submitted for a decision.

KENTUCKY POWER'S MOTION FOR REHEARING

Alleged Violations of the Net Metering Act: Cost Recovery

Kentucky Power asserted that the May 14, 2021 Order was unlawful because it violated the Net Metering Act, KRS 278.465 by depriving Kentucky Power of its legal authority to recover all necessary costs to serve NMS II customers.

Kentucky Power argued that, under the approved rates, it cannot recover all costs to serve eligible customer-generators taking service under NMS II.¹ KRS 278.466(5) provides that electric utilities are "entitled to implement rates to recover from its eligible customer-generators all costs necessary to serve its eligible customer-generators, including but not limited to fixed and demand-based costs." Kentucky Power argued that the evidence of record demonstrates that fixed costs to serve NMS II customers is \$35 and, because the Commission denied a proposal to implement two time-of-use (TOU) netting periods within each billing period under NMS II, Kentucky Power will not recover any costs from NMS II customers in months when the energy export is greater than energy usage. Kentucky Power provided sample calculations that purport to demonstrate how Kentucky Power fails to recover fixed costs because the export credit nets out all or almost all of the monthly customer charge and energy charge.

Kentucky Power also argued that the Commission was inconsistent, and thus was unreasonable, when it rejected the proposed TOU netting periods because they were not based on cost causation, yet used similar periods in calculating avoided energy cost causation.

¹ NMS I customers continue to take service under a one-to-one kWh denominated energy credit.

To remedy the alleged errors, Kentucky Power requests that the Commission grant rehearing to approve the two TOU netting periods and approve Kentucky Power's proposed corrections to the net metering export rate.

Alleged Violations of the Net Metering Act: Legacy Rights for NMS II Customers

Kentucky Power asserted that the May 14, 2021 Order was unlawful because it violated KRS 278.466(6) and the Kentucky Constitution, Sections 27 and 28, by expanding KRS 278.466(6) beyond the express language of the statute and the legislative intent.

Kentucky Power maintained that the express language of KRS 278.466(6) establishes legacy rights for eligible customer-generators who took service prior to May 14, 2021. Kentucky Power claimed that, because there were no customers taking service under NMS II as of May 14, 2021, the Commission violated KRS 278.466(6) by finding that NMS II customers had legacy rights to the two-part rate structure for 25 years. Kentucky Power further claimed that legacy rights for NMS II customers introduces administrative complexity, which the General Assembly sought to avoid by limiting legacy rights to NMS I customers only.

Kentucky Power argued that the Commission violated Constitutional separation of powers provisions and acted outside the Commission's statutory authority by modifying KRS 278.466(6) to expand legacy rights to NMS II customers. Kentucky Power asserted that the Commission, as part of the executive branch, is prohibited from exercising legislative powers that exclusively belong to the legislative branch.

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To remedy the alleged errors, Kentucky Power requested that the Commission grant rehearing to edit the language of the May 14, 2021 Order² or reverse the Commission's decision to deny legacy rights to NMS II customers taking service after May 14, 2021.

Alleged Errors in Avoided Cost Analysis: Unsupported by the Record

Kentucky Power claimed that the avoided cost analysis and subsequent export rates approved in the May 14, 2021 Order are unlawful.

Kentucky Power alleged that the Commission unlawfully deprived Kentucky Power of due process because it was not afforded the opportunity to address avoided cost issues or components that, according to Kentucky Power, were first raised in the May 14, 2021 Order. Kentucky Power contended that the Commission declined to inform Kentucky Power what evidence was required to support Kentucky Power's proposed avoided cost rate. Kentucky Power claimed that the Commission relied upon out-of-record evidence, and that Kentucky Power did not have notice to test or refute the out-of-record evidence. Kentucky Power further claimed that the avoided distribution capacity, carbon, and environmental cost inputs in the avoided cost calculation were new, novel, and unsupported by the record.

To remedy the alleged errors, Kentucky Power requests that the Commission grant rehearing to either approve Kentucky Power's export rate as filed or to allow Kentucky Power to present evidence responding to and demonstrating the inaccuracy of the avoided distribution capacity, carbon, and environmental compliance cost elements.

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² Kentucky Power reported that no customers took service under NMS II prior to May 14, 2021. Thus editing the language of the May 14, 2021 Order to limit legacy rights for NMS II customers to customers taking service under NMS II prior to May 14, 2021, has the practical effect of denying legacy rights to all NMS II customers.

Alleged Errors in Avoided Cost Analysis: Double Compensation

Kentucky Power claimed that the avoided cost analysis and subsequent export rates approved in the May 14, 2021 Order was unreasonable because NMS II customers will receive double compensation for avoided carbon and environmental compliance cost components because NMS II customers can obtain compensation by monetizing renewable energy certificates (RECs) while also receiving compensation for the same costs via the NMS II export rate.

To remedy the alleged errors, Kentucky Power requests that the Commission grant rehearing to remove the avoided carbon and environmental compliance costs from the NMS II export rate or enter an Order requiring NMS II customers to transfer RECs to Kentucky Power.

Alleged Errors in the Avoided Cost Analysis: Mathematical Error

Kentucky Power claimed that the avoided cost analysis and subsequent export rates approves in the May 14, 2021 Order are mathematically incorrect. Kentucky Power alleged that the avoided generation capacity, transmission capacity, and distribution capacity cost components contain mathematical errors that overstate their value in the NMS II export rate. Kentucky Power argued that the Commission failed to make offsetting reductions in calculating the avoided generation capacity. Kentucky Power filed a revised Excel spreadsheet with its proposed corrections to the calculations. Kentucky Power calculated that the residential NMS II export rate should be \$0.06359, instead of the Commission approved rate of \$0.09746, and the commercial NMS II export rate should be \$0.06971 instead of the Commission approved rate of \$0.09657.

To remedy the alleged errors, Kentucky Power requests that the Commission grant rehearing to correct the mathematical error and update NMS II residential export rate to \$0.06359 and commercial export rate to \$0.06971.

Alleged Battery Storage Erroneous Finding

Kentucky Power asserted that the Commission's finding that battery storage does not increase the capacity of an eligible generating facility, and thus does not affect legacy rights of NMS I customers, was unreasonable. Kentucky Power maintained that one of its witnesses testified that adding battery storage adds capacity to an eligible generating facility, and thus is a material change to the facility. Kentucky Power further maintained that no other party refuted Kentucky Power's testimony, and therefore no other evidence of record supports the Commission's finding.

To remedy the alleged errors, Kentucky Power requests that the Commission grant rehearing to find that adding battery storage is a material change to an eligible generating facility, and thus results in an NMS II customer losing its legacy status, and must apply to take service under NMS II.

Request to Quantify Materiality in Capacity

Kentucky Power requested that the Commission clarify the May 14, 2021 Order provision that NMS I customers who make a modification to their eligible generating facility that results in a material increase in capacity are no longer eligible to take service under NMS I, but a NMS I customer who replaces eligible generating facilities in the ordinary course that result in incidental increase in capacity would not impact the NMS I customer's legacy rights. Kentucky Power requested that the Commission quantify what is a material increase in capacity by establishing a threshold for a capacity percentage

increase or a kilowatt increase. Kentucky Power argued that any changes may require Kentucky Power to upgrade its system and that a customer's failure to notify Kentucky Power of changes in the eligible generating facility's capacity may adversely impact Kentucky Power's ability to provide safe, adequate, and reliable service. Kentucky Power provided an example of a customer with a 10 kVA service transformer increasing capacity by 5 kW, which would overload the transformer if the customer is already using 100 percent of the 10 kVA transformer's capacity, and the 5 kW increase pushes the 10 kVA transformer to 15 kVA.

Kentucky Power asserted that customers must notify Kentucky Power of any increase in eligible generating facility capacity and must be required to pay the costs of any additional system impact studies needed to evaluate the system change.

INTERVENORS' ARGUMENTS

Sierra Club

Sierra Club opposed Kentucky Power's motion for rehearing for two reasons. First, Sierra Club asserted that Kentucky Power did not satisfy the legal standard to grant rehearing because Kentucky Power did not identify new evidence that was not readily discoverable during the processing of the case, but instead sought to relitigate arguments for which there is a robust record. Second, Sierra Club asserted that the reasoning and findings in the May 14, 2021 Order are supported by substantial evidence, and that testimony and briefing filed by Intervenors effectively rebutted Kentucky Power's arguments.

KYSEIA's Response

KYSEIA argued that Kentucky Power's motion should be denied, addressing each of Kentucky Power's grounds for rehearing. KYSEIA first addressed Kentucky Power's argument that the Commission-approved export rate violates the net metering act, arguing that KRS 278.466(5) does not include any express language establishing or requiring a utility to use two TOU netting periods or prohibiting the use of monthly netting. KYSEIA further argued that Kentucky Power's assertion that the fixed cost to serve net metering customers is \$35 was contested by Intervenors through cross-examination and presentation of evidence, that the Commission did not make a finding that the monthly fixed cost to serve net metered customers is \$35, and that there is no presumption of accuracy conferred upon Kentucky Power's testimony. Finally, KYSEIA asserted that Kentucky Power erroneously argues that it will not recover costs to serve eligible customer-generators because there will be excess generation every month, and that Kentucky Power used different data than previously presented to create the appearance of excess generation.

KYSEIA next addressed Kentucky Power's argument that KRS 278.466(6) limits legacy rights to NMS I customers, arguing that Kentucky Power failed to identify any error or other applicable grounds for rehearing. Furthermore, KYSEIA argued that, had the General Assembly intended to limit legacy rights, it would have included limiting language to restrict the benefit of legacy rights, which is consistent with a long-standing legal precedent.³

³ KYSEIA Response Brief (filed June 10, 2021) at 3, *citing Public Serv. Comm'n of Ky. v. Commonwealth*, 320 S.W.3d 660, 668 (Ky. 2010) (discussing required language that limits a benefit).

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KYSEIA asserted that Kentucky Power's argument that extending legacy rights to NMS II customers violates Sections 27 and 28 of the Kentucky Constitution is meritless because the Commission has plenary authority to regulate utility rates and service, and that the Commission's determination was within the Kentucky Constitution given the absence of language limiting legacy rights to NMS I customers only. KYSEIA argued that the General Assembly is aware of state court precedent regarding limiting language, and thus would have included limiting language if that was the General Assembly's intent.

KYSEIA next argued that the case record rebutted Kentucky Power's argument that the avoided cost analysis was unsupported by the record and that Kentucky Power was deprived of due process because issues were raised for the first time in the May 14, 2021 Order. KYSEIA argued that the Commission provided notice of the issues through discovery and cross-examination. KYSEIA further noted that, because Kentucky Power had not provided sufficient evidence regarding its proposed avoided cost, the Commission expressly deferred a decision on the net metering tariffs to provide the parties with an additional opportunity to build a robust record on this issue. KYSEIA pointed out the Kentucky Power failed to identify the alleged extra-record information that the Commission used in approving the NMS II export rate or why the unidentified information might be prejudicial. Finally, KYSEIA explained that the Commission as the trier of fact is not limited to considering only Kentucky Power's evidence, but also considers the evidence presented by other parties, which were robustly litigated, and to evidence for which the Commission may take administrative notice.

KYSEIA next argued that Kentucky Power did not provide grounds for rehearing on environmental compliance cost because, due to the forward looking environmental compliance cost, there is no double compensation.

KYSEIA also argued that Kentucky Power's allegation of a mathematical error in the avoided generation capacity, avoided transmission capacity, and avoided distribution capacity cost is meritless, noting that Kentucky Power's argument is based upon a reframing of the same calculation methodology that the Commission rejected.

KYSEIA incorporated the discussion regarding battery storage contained in the response brief it filed on April 21, 2021, which concludes that battery storage is not within the scope of the statutory definition of an eligible electric generating facility, and thus cannot be considered as a material change to an eligible generating facility.

Finally, KYSEIA disputed Kentucky Power's argument that the Commission had to establish a *per se* materiality test regarding increased capacity in order to provide clear limits on NMS I legacy rights regarding existing facilities. KYSEIA discussed other key ratemaking concepts, such as fair, just and reasonable rates, and adequate service, that are fairly adjudicated without a *per se* or bright line test. KYSEIA argued that establishing a uniform threshold test would be inflexible and impracticable, and that Kentucky Power can provide safe, adequate, and reasonable service without divesting NMS I customers' legacy rights.

Joint Intervenors' Response

Joint Intervenors argued that Kentucky Power's motion for rehearing should be denied because Kentucky Power failed to carry its burden of proof, and instead simply rehashes arguments already litigated and decided based upon substantial evidence. Joint Intervenors further argued that Kentucky Power's allegations that the May 14, 2021 Order violated statutory law are not supported by the express language of KRS 278.466. Regarding the argument that the Commission improperly rejected the proposed two TOU netting periods, Joint Intervenors asserted that Kentucky Power's argument is based on an alleged inability to recover cost of service that is not supported by evidence of record and contains logical fallacies that conflate inconsistent concepts.

Next, Joint Intervenors argued that Kentucky Power's allegation that the Commission's finding of legacy rights in rate structure for NMS II customers violates statutory and constitutional law is meritless because the finding is consistent with legislative intent, and legal and ratemaking principles regarding the Commission's authority. Joint Intervenors further argued that the General Assembly granted the Commission plenary authority in regulating utility rates and service, and that the finding of legacy rights for NMS II customers is within the scope of the Commission's regulatory authority. Joint Intervenors also argued that, consistent with judicial review of an agency's interpretation of laws that it enforces, granting legacy rights regarding the rate structure to NMS II customers is a permissible construction of KRS 278.446(6), which was designed to protect reasonable investment-back expectations regarding a long-lived investment.

Joint Intervenors also asserted that Kentucky Power's argument that it was not accorded due process was meritless because, as supported by the case record, Kentucky Power had ample notice and abundant opportunity to address avoided cost components that were raised in testimony and cross-examination and subsequently adopted by the Commission.

Joint Intervenors rejected Kentucky Power's argument that NMS II customers would receive double compensation for avoided carbon and environmental compliance costs in the export rates and in RECs the customers might receive, because RECs reflect the monetization of benefits to all society while the export rate avoided carbon and environmental compliance components reflect forecasted avoided cost of discrete inputs.

Joint Intervenors next argued that Kentucky Power's allegations regarding battery storage were better addressed in the Commission's pending interconnection guidelines case ⁴

KENTUCKY POWER'S REPLY IN SUPPORT OF THE MOTION FOR REHEARING

On June 15, 2021, Kentucky Power filed its reply to the Intervenors' respective responses to Kentucky Power's motion for rehearing. Kentucky Power again argued that the monthly netting period approved by the Commission results in Kentucky Power not recovering all costs necessary to serve NMS II customers, which is required by KRS 278.466(5). Kentucky Power asserted that KRS 278.466(6) is unambiguous that legacy rights are available to a defined group of net metering customers, which do not include NMS II customers, and that the Commission cannot depart from what Kentucky Power viewed as a clear legislative command.

Kentucky Power next argued that Sierra Club, KYSEIA, and Joint Intervenors failed to challenge or refute Kentucky Power's avoided cost rate corrections for avoided generation capacity, avoided transmission capacity, and avoided distribution capacity in their respective responses. Kentucky Power further argued that the Commission calculated the NMS II export rate based on evidence regarding avoided cost principles

⁴ Case No. 2020-00302, *Electronic Investigation of Interconnection and Net Metering Guidelines* (Ky. PSC Sept. 24, 2020).

that exceeded what the Intervenors presented and that the preferences referenced by the Commission were not within the evidentiary record, which is impermissible. Kentucky Power contended that the Intervenors did not file objective evidence, quantifiable evidence, or supporting rate calculations, and that the Commission relied on its own evidence in calculating the avoided cost calculations. Kentucky Power declared that, because the Commission developed its own evidence, Kentucky Power was never afforded the opportunity to address or rebut that evidence, and had to file for rehearing.

Kentucky Power rejected Joint Intervenors' suggestion that the impact of battery storage on facility capacity be addressed in a pending interconnection case, arguing that the issue must be resolved in this proceeding because Kentucky Power must implement its net metering tariffs now.

Finally, Kentucky Power claimed that KYSEIA and Joint Intervenors failed to accurately address Kentucky Power's allegation regarding double counting of benefits in the export rate for avoided carbon and environmental compliance costs, and RECs.

DISCUSSION AND FINDINGS

Legal Standard

KRS 278.400, which establishes the standard of review for motions for rehearing, provides that, upon rehearing, a party may offer additional evidence that could not with reasonable diligence have been offered at the time of the original hearing. Rehearing does not present parties with the opportunity to relitigate a matter fully addressed in the original Order. KRS 278.400 is intended to provide closure to Commission proceedings by limiting rehearing to new evidence not readily discoverable at the time of the original

hearings, or to correct any material errors or omissions, or findings that are unreasonable or unlawful.

Alleged Violations of the Net Metering Act: Cost Recovery

Based upon the motion, responses, and reply, and being otherwise sufficiently advised, the Commission finds that Kentucky Power failed to meet its burden of proof that the May 14, 2021 Order contained a material omission or error, and thus rehearing is denied for Kentucky Power's allegation that the Commission violated the Net Metering Act by denying Kentucky Power's proposed TOU netting periods, which, according to Kentucky Power, prevents it from recovering costs to serve residential NMS II customers.

First, Kentucky Power does recover costs to serve all residential customers, including NMS II residential customers, through the residential customer charge. In fact, as of January 15, 2021, because the Commission approved a 25 percent increase in the customer charge from \$14.00 to \$17.50, fixed cost recovery through a fixed amount increased.⁵ As a result, a larger portion of fixed costs are recovered through the customer charge rather than through the energy charge for all customers, including NMS II customers.

Second, the Commission expressly rejected Kentucky Power's cost of service study methodology for overstating certain costs and never made a finding of fact that the average cost to serve residential customers is \$35.00. We acknowledge that Kentucky Power filed testimony that the cost to serve residential customers was \$38.31, using a minimum system method, or \$35.00, using a marginal cost study.⁶ However, merely filing

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⁵ Order (Ky. PSC Jan. 13, 2021) at 54–55.

⁶ Id. at 54.

testimony into the record does not mean that the utility met its burden of proof. Here, the Commission expressed concerns that Kentucky Power's cost of service methodology "produces a larger customer component" and required Kentucky Power to file a zero-intercept cost of service study in its next base rate case because the Commission has greater confidence in the results of a zero-intercept study.⁷

Third, Kentucky Power misapplied KRS 278.465 and KRS 278.466 in its sample calculations and included the customer charge in the netting calculation so that the residential customer charge and energy charge are both netted against energy exported. KRS 278.465(4) states that:

net metering means the difference between the (a) Dollar value of all electricity generated by an eligible customer generator that is fed back to the electric grid over a billing period and priced as prescribed in KRS 278.466; and (b) Dollar value of **all electricity consumed** by the eligible customer-generator over the same billing period and priced using the applicable tariff of the retail electric supplier. (Emphasis added.)

Because the energy charge, but not the customer charge, is based upon electricity **consumed**, only the energy charge, along with any riders that are based on a per kWh charge, should be netted against energy exported pursuant to KRS 2787.465(4). Thus, Kentucky Power overstated the impact of the export value on the total customer bill in the netting examples.

Because Kentucky Power will recover the entirety of the fixed customer charge from each customer, an amount determined by the Commission to be reflective of the fixed, customer-related expenses, Kentucky Power did not meet its burden of proof and

⁷ *Id.* at 53, 56–57.

is incorrect as to any assertions regarding a purported \$35.00 cost to serve NMS II customers. Kentucky Power's assertion that it receives "virtually no fixed or other cost recovery"8 to serve NMS II customers is also incorrect. Additionally, as it relates to the costs to serve NMS II customers, separate from non-NMS II customers of the same rate class, the Commission reminds Kentucky Power that it explicitly noted the flaws contained in the utility's net metered embedded class cost of service study, finding the study "contained flaws that renders it unreliable and not useful for ratemaking." Simply put, Kentucky Power failed to meet its burden of proof that NMS II customers have a separate cost of service, and the rates approved by the Commission allow for the recovery of all customer-specific costs for both NMS II and non-NMS residential and commercial customers. Further, the Commission weighed the evidence of record and determined that Kentucky Power's proposed two TOU netting periods were not supported by the evidence in the record, and are not reasonable, explaining that the hours of the day with and without sunshine do not necessarily align with system costs, do not match Kentucky Power's Residential Experimental Time of Day tariff, do not match PJM's on- and off-peak periods, and increased the complexity of NMS II rate design without a demonstrated benefit.9 For the above reasons, Kentucky Power failed to meet its burden of proof that the Commission made a material error that denied Kentucky Power's ability to recover costs to serve NMS II customers. Therefore, rehearing is denied for this issue.

⁸ Kentucky Power Motion for Rehearing (filed June 3, 2021) at 5.

⁹ Order (Ky. PSC May 14, 2021) at 24.

Alleged Violations of the Net Metering Act: NMS II Legacy Rights

Based upon the motion, responses, and reply, and being otherwise sufficiently advised, the Commission finds that Kentucky Power failed to meet its burden and, for the reasons set forth below, rehearing should be denied for the alleged violations of the Net Metering Act related to legacy rights for NMS II customers.

Kentucky Power's argument is based upon the cramped view that the Commission has no authority to establish a rate or term of service unless the General Assembly has expressly specified. That view of the Commission's authority is contrary to the Kentucky Supreme Court's finding that the Commission has plenary ratemaking authority that derives from KRS 278.030 and KRS 278.040, which gives the Commission exclusive jurisdiction to regulate utility rates and service, which includes ensuring that a utility charges fair, just and reasonable rates and establishes reasonable rules governing the conditions under which the utility is required to render service. The Court agreed that the Commission's plenary authority includes the implied authority to address ratemaking issues unless specifically limited by statute. In an amicus brief filed in that case, Kentucky Power argued that the Commission has, by statutory and necessarily implied authority, discretion to reach a required end result that rates are fair, just and reasonable. In that brief, Kentucky Power further asserted that, absent statutory limitations, there is no limitation on the discretion conferred upon the Commission.

¹⁰ Public Serv. Comm'n v. Commonwealth ex rel. Conway, 324 S.W.3d 373 (Ky. 2010).

¹¹ *Id.* at 381.

¹²Public Serv. Comm'n v. Commonwealth ex rel. Conway, Amicus Brief of Kentucky Power, et al. (filed Nov. 5, 2009) at 6–7.

¹³ *Id.* at 6.

As the Intervenors noted, KRS 278.466(6) does not include any language that limits legacy rights to customers who take net metering service prior to the date when the Commission approved Kentucky Power's new net metering rates. As the Commission explained in the May 14, 2021 Order, the General Assembly "determined that there should be some allowance for customer expectation of and reliance on existing rate structures when the eligible generating facility was placed in service." Given the 25-year useful expected life of eligible generating facilities, legacy provisions mitigate negative financial impacts which result from changes in rate design. The Commission did not approve legacy rights in rates, but in rate structure, thus balancing Kentucky Power's need to adapt to changing circumstances with the needs of NMS II customers who made a long-term investment in eligible generating facilities, facilities that the Commission found should be treated as system resources.

The issue of whether NMS II customers should have legacy rights to the rate structure approved in this proceeding was fully litigated by the parties, is consistent with the legislative intent, and is within the plenary authority of the Commission to ensure that rates are fair, just and reasonable. Therefore, we find that Kentucky Power failed to meet its burden of proof that the Commission made a material error or omission, and rehearing is denied for this issue.

Alleged Errors in Avoided Cost Analysis: Unsupported by the Record

Based upon the motion, responses, and reply, and being otherwise sufficiently advised, the Commission finds that Kentucky Power failed to meet its burden of proof, and, for the reasons set forth below, thus rehearing should be should be denied for issues

¹⁴ Order (Ky. PSC May 14, 2021) at 43.

raised by Kentucky Power that the avoided cost analysis conducted by the Commission was unsupported by the record.

Kentucky Power alleged that the Commission relied upon extra-record information in considering avoided cost components because the Commission's avoided cost calculations "differed from those supported by the Company" and because no other parties "provided any actual objective evidence or supporting rate calculations." ¹⁵ Kentucky Power alleged that the Commission calculated avoided cost rates for avoided energy cost, avoided generation capacity cost, avoided transmission capacity cost, avoided distribution capacity cost, avoided carbon cost, and environmental compliance cost based upon information outside of this record and after the close of evidence in this case," alleging that the Commission did not make any citations to the record to support the calculations. ¹⁶ Thus, Kentucky Power's assertion appears to be based on two arguments: (1) that the Commission did not accept Kentucky Power's avoided cost calculation; and (2) that the Commission did not cite to the record to support the calculation.

Kentucky Power's arguments are meritless. First, Kentucky Power has been on notice since the January 13, 2021 Order that its avoided cost evidence was insufficient. In that Order, we explained that Kentucky Power's evidence in support of the avoided cost calculations was not persuasive and that we would defer a decision so that the parties could create a robust record upon which the Commission could make a decision.¹⁷

¹⁵ Kentucky Power Reply Brief in Support of Rehearing (filed June 15, 2021) at 11.

¹⁶ *Id*.

¹⁷ Order (Ky. PSC Jan. 13, 2021) at 84–85.

Second, the Commission found:

Kentucky Power's high-level modeling approach to be a reasonable starting point for developing the avoided cost components. However, the Commission finds that numerous adjustments to Kentucky Power's model approach, inputs, and assumptions are necessary to ensure a just and reasonable estimate of avoided generation and transmission capacity, energy, and ancillary service costs. The Commission also finds that intervenors and the record support including additional avoided cost components to customersgenerators through the export rate.¹⁸

The Commission expressly based the NMS II export rate on Kentucky Power's proposed avoided cost that were modified using "only categories of avoided cost either (1) used or proposed to be used by Kentucky Power in this matter, or (2) used or relied upon by Kentucky Power in planning its transmission, distribution or generation systems" in the record of Case No. 2019-00443, which was incorporated into this proceeding. The May 14, 2021 Order is replete with references to the case record for the specific avoided cost components developed through discovery requests and cross-examination that Kentucky Power now claims were developed outside the case record. Further, Appendix B, the spreadsheet with NMS II export rate calculations, includes the source of data for each sheet, all of which came from the case record. However, the Commission will briefly address each of the avoided cost components and the support for each from the case record.

¹⁸ Order (Ky. PSC May 14, 2021) at 25.

¹⁹ *Id.* at 2–3.

²⁰ See Order (Ky. PSC Mar. 31, 2021), incorporating the record of Case No. 2019-00443 into this proceeding; Case No. 2019-00443, *Electronic 2019 Integrated Resource Planning Report of Kentucky Power Company* (filed Dec. 20, 2019).

1. Avoided Distribution Capacity Cost. Although Kentucky Power expressly cited avoided distribution capacity cost as being unsupported by the record, we start with this cost because it best demonstrates that Kentucky Power's allegation itself is contrary to the record.

Kentucky Power did not include an avoided distribution capacity cost in its avoided cost calculation. The Commission determined that, based on Kentucky Power's distribution system planning manual, data requests, and hearing testimony, Kentucky Power was aware that an eligible customer-generator could provide avoided distribution capacity value and had the ability to evaluate the benefit of distributed generation, but had not conducted a study of avoided distribution capacity cost. ²¹ The Commission further concluded that Kentucky Power omitted avoided distribution capacity cost not because there is no value but because Kentucky Power failed to assess the value of avoided distribution capacity cost. ²²

To the extent that the source of the avoided distribution capacity cost scalars cited on page 34 of the May 14, 2021 Order is not clear to Kentucky Power, we refer Kentucky Power to Appendix B to the May 14, 2021 Order, which modified Kentucky Power's Exhibit AEV-R5. Appendix B contains the amounts used to calculate the avoided distribution

²¹ See Order (Ky. PSC May 14, 2021) at 33-34; Kentucky Power's Response to Staff's Eighth Request, Items 11, Attachment 1, 12, Attachments 1–3, 13, 14, Attachment 1, and 15; Kentucky Power's Response to Commission Staff's Post-Hearing Request for Information, Items 1, Attachment 1, 2, Attachment 2, and 3, Attachment 1; Hearing Video Transcript (HVT) of the April 6, 2021 Hearing at 11:04:45–11:08:20, 11:45:23, 11:46:21, 11:47:39, 11:49:22, 2:50:16–2:57:01.

²² See May 14, 2021 Order at 33–34; Kentucky Power's response to Staff's Eighth Request, Item 11, Attachment 1, Item 12, Attachments 1–3, Item 13, Item 14, Attachment 1, and Item 15; Kentucky Power's Response to Commission Staff's Post-Hearing Request for Information, Item 1, Attachment 1, Item 2, Attachment 2, and Item 3, Attachment 1; HVT of the April 6, 2021 Hearing at 11:04:45–11:08:20, 11:45:23, 11:46:21, 11:47:39, 11:49:22, 2:50:16–2:57:01.

capacity cost in the tab labeled "Dist Scalars." These amounts came from Kentucky Power Exhibits JMS-SR1 and JMS-SR2, as we cited at the top of the "Dist Scalars" spreadsheet. Finally, the Commission derived the information underlying the avoided distribution capacity cost discussion from Kentucky Power's response to Staff's Eighth Request, Item 11, Attachment 1, Item 12, Attachments 1–3, Item 13, Item 14, Attachment 1, and Item 15; Kentucky Power's response to Commission Staff's Post-Hearing Request for Information, Item 1, Attachment 1, Item 2, Attachment 2, and Item 3, Attachment 1.

2. Avoided Energy Cost. Commission Staff asked multiple rounds of discovery to obtain the underlying cost support for Kentucky Power's proposed estimated avoided energy cost. Only in Commission Staff's tenth data request did Kentucky Power admit that it based the estimated avoided energy cost on residual aggregate forward pricing contracts between counterparties for which "[t]here is no underlying data or workpaper, it is a quoted price from a counterparty." Finding that Kentucky Power's avoided cost calculation methodology lacked transparency, which is key to the Commission carrying out its statutory duty to evaluate the reasonableness of a rate, the Commission thoroughly identified, with citations to the record, and explained what information in the case record would be applied to determine a reasonable avoided energy cost. For example, the avoided cost was based on available locational marginal prices (LMPs) at the Kentucky Power residual load aggregate pricing node, with certain adjustments, using data obtained from Kentucky Power's response to Commission Staff's fifth and ninth data

²³ See Order (Ky. PSC May 14, 2021) footnote 76 for list of data requests.

²⁴ See Order (Ky. PSC May 14, 2021) at 25–27, footnote 76; Kentucky Power's Response to Commission Staff's Tenth Request for Information (filed Mar. 31, 2021), Item 11.

²⁵ See Order (Ky. PSC May 14, 2021) at 26–28, footnotes 77–89.

requests, Intervenor witness testimony, and Kentucky Power's witness testimony, but also informed by hearing testimony.²⁶ Similarly, the Commission rejected Kentucky Power's estimated line loss adjustments to the avoided energy cost because they were not substantiated with any "necessary supporting quantitative or engineering analysis," and instead employed Kentucky Power's unadjusted primary line losses.²⁷

3. Avoided Generation Capacity Cost. The Commission made four changes to Kentucky Power's proposed avoided generation capacity cost, one that revised avoided generation capacity cost to be consistent with what was approved in the January 13, 2021 Order for a similar tariff; two that corrected Kentucky Power's mathematical errors calculating capacity factor and the \$/kWh of the Full Solar Output Shape Value; and one that aligned how capacity cost are caused by using the summer solar generation profile rather than an average solar generation profile.²⁸ Kentucky Power did not challenge these corrections. While these modifications were based on corrections of

²⁶ Order (Ky. PSC May 14, 2021) at 26–27, footnotes 80–86. For example, the Commission's avoided cost calculations drew upon data obtained from Kentucky Power Response to Commission Staff's Fifth Request, Items 18, Attachment 1, and 18a.; Alex E. Vaughan Rebuttal Testimony, Exhibit AEV-R5, Tab "Typical Install;" Direct Testimony of Adrien M. McKenzie, Exhibits AMM-5 and AMM-6; Rebuttal Testimony of Adrien M. McKenzie, Exhibits AMM-17 and AMM-18and Case No. 2019-00443, Kentucky Power's Response to Commission Staff's First Request for Information, Item 58, Attachment 3. *See also* Kentucky Power's Response to Staff's Ninth Request for Information (Staff's Ninth Request), Item 24; HVT of the Apr. 6, 2021 Hearing at 7:17:52.

²⁷ Order (Ky. PSC May 14, 2021) at 27–28, footnotes 86–87. *See also* Kentucky Power's Response to Commission Staff's Eighth Request for Information (filed Feb. 22, 2021), Item 5; and HVT of the Apr. 6, 2021 Hearing at 6:58:54.

²⁸ Order (Ky. PSC May 14, 2021) at 29–30; Order (Ky. PSC Jan. 13, 2021) at 100 and Appendix C at 9.

errors, the Commission asked Kentucky Power to provide information regarding these issues in Commission Staff's ninth and tenth data requests, and in the April hearing.²⁹

4. Avoided Transmission Capacity Cost. Because Kentucky Power used the same method for estimating avoided transmission capacity cost as it did for avoided generation capacity cost, the avoided transmission capacity cost were adjusted with the same kWh adjustments made to avoided generation capacity cost and for the same reason.³⁰

Avoided Carbon Cost and Avoided Environmental Cost

As we noted in the May 14, 2021 Order, Kentucky Power "considers, weighs and plans" carbon planning and compliance with environmental laws in its generation resource planning, and therefore it is appropriate to include avoided carbon cost and avoided environmental compliance cost in the NMS II export rate calculation.³¹ As we expressly stated in the May 14, 2021 Order, the Commission used inputs and results from modeling runs and financial testimony contained in Kentucky Power's IRP application, which was incorporated into the record of this case without objection by Kentucky Power, to develop the avoided carbon cost.³² Further, we took administrative notice of Case No.

²⁹ Kentucky Power's Response to Staff's Ninth Request for Information, Item 23; Kentucky Power's Response to Staff's Tenth Request for Information, Item 9, Attachment 1 and 2; and HVT of the April 6, 2021 Hearing at 7:15:45.

³⁰ Order (Ky. PSC May 14, 2021) at 31–32.

³¹ See Order (Ky. PSC May 14, 2021) at 35; Kentucky Power's Response to Attorney General/KIUC's First Request for Information (filed Aug. 26, 2020), Item 79, Attachment 6 at 5; Case No. 2019-00443, IRP at 8.

³² See Order (Ky. PSC May 14, 2021) at 36; and Case No. 2019-00443, Case 1 Base Band Commodity Pricing and Allowance Market Pricing Optimal Plan at 216.

2021-00004³³ to develop the environmental compliance cost, which was also informed by Kentucky Power's responses to Commission Staff's tenth data request.³⁴

In conclusion, because the avoided cost calculations were fully litigated and were based entirely on substantial evidence in the case record, most of which was provided by Kentucky Power, Kentucky Power's request for rehearing should be denied as an attempt to relitigate the issue. As Kentucky Power stated in a previous matter, "[r]ehearing is not a vehicle for a party to reargue or relitigate an issue fully addressed by the parties in the proceedings leading to the original order."³⁵

Alleged Errors in Avoided Cost Analysis: Double Compensation

Based upon the motion, responses, and reply, and being otherwise sufficiently advised, the Commission finds that Kentucky Power failed to meet its burden of proof that the May 14, 2021 Order contained a material omission or error, and thus rehearing is denied for Kentucky Power's allegation that the Commission authorized double compensation in the May 14, 2021 Order.

Kentucky Power failed to acknowledge that avoided carbon and environmental costs, which Kentucky Power uses in its own resource planning parameters, is wholly unrelated to and different from RECs, which monetize social and environmental attributes

³³ Case No. 2021-00004, Electronic Application of Kentucky Power Company for Approval of a Certificate of Public Convenience and Necessity for Environmental Project Construction at the Mitchell Generating Station, an Amended Environmental Compliance Plan, and Revised Environmental Surcharge Tariff Sheets (filed Feb. 8, 2021), Direct Testimony of Brian D. Sherrick.

³⁴ Kentucky Power's Response to Commission Staff's Tenth Request (filed Mar. 31, 2021) Item 12, Attachment 1 and 2, and Item 3, Confidential Attachment 1 and 2.

³⁵ Case No. 2017-00179, Electronic Application of Kentucky Power Company for (1) A General Adjustment of Its Rates for Electric Service; (2) An Order Approving Its 2017 Environmental Compliance Plan; (3) an Order Approving Its Tariffs and Riders; (4) an Order Approving Accounting Practices to Establish Regulatory Assets and Liabilities; and (5) an Order Granting All Other Required Approvals and Relief (filed Feb. 7, 2018), Motion for Partial Rehearing at 2.

of the production of renewable energy. RECs do not represent costs; RECs are akin to a form of currency produced as a form of value for generating renewable energy. Comparing avoided carbon and environmental costs and RECs is not a like-for-like comparison.

For the above reasons, the Commission finds that Kentucky Power failed to meet its burden of proof that we made a material error, and therefore rehearing on this issue is denied.

Alleged Errors in the Avoided Cost Analysis: Mathematical Error

Based upon the motion, responses, and reply, and being otherwise sufficiently advised, the Commission finds that Kentucky Power failed to meet its burden of proof that the May 14, 2021 Order contained a material omission or error, and thus rehearing is denied for Kentucky Power's allegation that the May 14, 2021 Order contains mathematical errors in the calculation of generation, transmission, and distribution capacity.

Kentucky Power claimed that the Commission overstated its calculation of generation capacity, transmission capacity, and distribution capacity due to mathematical errors. However, the step that Kentucky Power claims to be erroneous is an adjustment that the Commission made in order to correct errors in Kentucky Power's own original calculations. In its application for rehearing, Kentucky Power did not provide a direct rebuttal of the Commission's reasoning for making the adjustment in the final Order. Because Kentucky Power failed to provide clear reasoning for its disagreement with the Commission's original adjustment, Kentucky Power has not provided any new argument for its own method. Instead, Kentucky Power has repacked its initial error—without

substantiation—in its request for rehearing. Kentucky Power is incorrect in claiming that the Commission erroneously inflated the residential and commercial avoided cost rates.

While Kentucky Power frames the issue as a mathematical one, it is clearly a methodological dispute. As the Commission demonstrated, both in the written Order³⁶ and quantitatively in Appendix B,³⁷ Kentucky Power's methodological error is clear when examining the calculation using an alternative order of mathematical operations of the Company's original proposal. Although the Commission explained its adjustment in the May 14 Order, we will explain it again here.

Kentucky Power calculated its avoided generation capacity cost through two overarching steps:

- 1. Find the full solar output shape value from an example solar plant. This step first identifies the peak reduction potential of solar PV, then the total dollar value of that peak reduction, and finally the dollar-per-kWh value of that reduction.
- 2. Adjust the full solar output value for net metering load shape. This discount is intended to isolate the capacity value specifically related to exported generation and exclude the value related to self-consumed generation.

Even though Kentucky Power's second step discounts the peak reduction from the first step so that it represents only the peak reduction achieved by exported excess generation, Kentucky Power divides the capacity value in the first step by the entire solar PV output, rather than only the exported production that would achieve the calculated peak reduction. Because Kentucky Power is only considering the capacity value caused

³⁶ Order (Ky. PSC May 14, 2021) at 30.

³⁷ Id., Appendix B, tab "Alt Gen Cap calc" (also accessed as page 53 of the May 14, 2021 Order).

by export, it should have divided by only the exported production. Rearranging Kentucky Power's order of operations in Table 1, below, helps to clarify this point, as the Commission demonstrated in its filed calculations.³⁸ In Table 1, Kentucky Power's net metering (NEM) discount is visualized as *part of* the peak reduction calculation, rather than a separate second step.

Table 1: Clarifying the Order of Operations in the Commission's Generation Capacity Calculation

Solar Pk Reduction MW	NEM discount	Export MW	Price	\$ Value	Exported kWh ³⁹	\$/kWh Price
9.55	52.85%	5.05	\$249	\$458,716	16,292	\$0.02816
а	b	a * b = c	D	c * d * 365	f	e/f/1000
				= e		= <i>g</i>

Table 1 calculates the kWh capacity value of exported energy via the following steps. The steps are the same as Kentucky Power's original proposal, only some of the numbers have been changed.

- a) Start with Kentucky Power's estimated solar PV peak reduction.
- b) Identify the NEM discount capacity factor (weighting only summer peak export generation).
- c) Discount the PV peak reduction to represent only the peak reduction from NEM export.
 - d) Identify the price of capacity.
- e) Multiply the export peak reduction by capacity price to find the total capacity value of export.

³⁸ *Id*.

³⁹ Export kWh is derived by multiplying total production by a capacity factor adjustment by an export adjustment. The export adjustment is an energy scalar.

- f) Estimate exported kWh.
- g) Divide the capacity value of export by the number of exported kWh to find the specific capacity value attributable to each exported kWh from a NEM customer.

Kentucky Power confused this order of operations in its motion for rehearing, asserting that the Commission should not have reduced total kWh production to derive exported kWh step (f), above, without also "making corresponding adjustments to the peak reductions that result from those output levels . . . because the higher levels of average peak reductions . . . cannot occur at the lower level of generation." In fact, that is exactly what Kentucky Power's NEM discount already does in step (c), but Kentucky Power's order of operations doesn't make it obvious. Table 1 demonstrates that the Company's NEM discount already reduces the peak reduction to represent export value, and that it should therefore be divided only by exported kWh.41

Kentucky Power claimed that correcting the Commission's methodology requires "reduc[ing] the output level of the solar peak reduction MW by the same adjustments" that the Commission made to total kWh in step (f). Kentucky Power filed an exhibit that it claimed corrects the Commission's error by doing just that: Kentucky Power maintains steps (a)–(g) as described above but adds a second discount step, this time using the factor that the Commission used to isolate exported energy from total PV production.

⁴⁰ Kentucky Power Motion for Rehearing (filed June 3, 2021), Exhibit A at 2.

⁴¹ Part of the confusion stems from Kentucky Power using two types of solar facilities within the calculation. Changing the order of operations demonstrates that the objective is to calculate the value of export. Kentucky Power calculates the value of export, then discounts the value of export by the NEM profile. However, the value of export should be applied directly to exported kWh determined through the net billing process.

⁴² Kentucky Power Motion for Rehearing (filed June 3, 2021) at 15.

Specifically, Kentucky Power's approach would add two steps as shown below in Table 2.

Solar Pk	Capacit	Energy	NEM	Expor	Pric	\$ Value	Exporte	\$/kWh
Reductio	У	Scalar	discoun	t MW	е		d	Price
n MW	Factor		t				kWh ⁴³	
	Adj							
9.55	0.86	49.06	52.85	2.14	\$249	\$194,31	16,292	\$0.0119
		%	%			9		3
а	h	i	b	a*h*i *	d	c * d *	f	e/f/
				b = c		365 = e		1000 =
								g

Table 2 demonstrates that Kentucky Power recommended that the peak reduction be discounted not once, not twice, but three times. Two of the discounts recommended by Kentucky Power, the capacity factor adjustment and energy scalar, are not measures related to peak capacity.

Kentucky Power's adjustments are incorrect for at least two reasons. First, as already explained, the Commission reduced Kentucky Power's original kWh denominator because Kentucky Power's capacity value calculation *already isolated the export related peak reduction*, as demonstrated with the alternative order of operations in Table 1. Kentucky Power is wrong in claiming that dividing by exported kWh requires a new adjustment to isolate only the peak reduction from export. That is exactly what Kentucky Power's NEM discount already does. Kentucky Power's proposal to discount the value of exports three times is inappropriate.

Second, Kentucky Power's reductions to peak capacity reduction are also problematic because Kentucky Power discounts the peak reduction *megawatts* by the

⁴³ Export kWh is derived by multiplying total production by a capacity factor adjustment by an export adjustment. The export adjustment is an energy scalar.

kilowatt-hour, or energy, scalar that the Commission had applied to total PV production in order to isolate exported kWh. It is inappropriate to use an energy scalar on a capacity measurement as Kentucky Power does with variable (i) to arrive at (c). Given that Kentucky Power already discounts the capacity value to account for NEM export, this adjustment is both erroneous and unnecessary. A similar argument is true of the capacity factor adjustment, which is not a direct measure of peak reduction so applying it as a scalar to <u>peak</u> capacity reductions is inappropriate. If the Commission made any additional adjustments to peak reduction, as Kentucky Power suggested, this would understate the value of each exported NEM kWh.

Because the Commission finds no fault in its derivation of generation capacity, the same conclusion can be made for transmission and distribution capacity.

For the reasons set forth above, the Commission finds that Kentucky Power failed to meet its burden of proof that the Commission made a material error, and therefore rehearing on this issue is denied.

Alleged Battery Storage Erroneous Finding

Based upon the motion, responses, and reply, and being otherwise sufficiently advised, the Commission finds that Kentucky Power failed to meet its burden of proof that the May 14, 2021 Order contained a material omission or error, and thus rehearing is denied for Kentucky Power's allegation that the Commission's finding regarding battery storage is erroneous.

Kentucky Power's request for rehearing is predicated upon brief testimony from one of its witnesses that adding battery storage is like adding capacity and the inaccurate assertion that no party refuted Kentucky Power's testimony, and an inaccurate assertion that a party with the burden of proof that provides unrefuted evidence is, in isolation, entitled to the relief requested regardless of weight the Commission provides to the evidence, or the fairness, justness, or reasonableness of the proposal.⁴⁴ First, Kentucky Power's argument, taken on its face, is that filing testimony is the equivalent of meeting Kentucky Power's burden of proof. As the trier of fact, it is the Commission's role to weigh the evidence and make findings of fact. In performing this role, the Commission was not persuaded by Kentucky Power's argument that battery storage added capacity to an eligible generation facility. Kentucky Power cited nothing to persuade us to the contrary.

Next, there is evidence in the record that refutes Kentucky Power's assertion. For example, KYSEIA, through briefing and witness testimony maintained that, while Kentucky Power should be notified of a customer's intent to add battery storage, adding battery storage was not equivalent to adding capacity, but instead allowed an eligible customer-generator to align usage with self-generation.⁴⁵

Here, Kentucky Power seeks to relitigate what has already been litigated and decided. The Commission weighed the evidence and made a finding of fact based upon the evidence in the record that Kentucky Power failed to carry its burden of proof that battery storage adds capacity to an eligible generation facility. Because the issue was fully litigated, the Commission finds that Kentucky Power failed to meet its burden of proof that the Commission made a material error, and therefore rehearing on this issue is denied.

⁴⁴ Kentucky Power's Motion for Rehearing (filed June 3, 2021) at 16.

⁴⁵ Direct Testimony of Benjamin D. Inskeep (filed Oct. 7, 2020) at 24–27; KYSEIA's Response Brief (filed Apr. 21, 2021) at 11–13.

Request to Quantify Materiality in Capacity

Based upon the motion, responses, and reply, and being otherwise sufficiently advised, the Commission finds that Kentucky Power failed to establish any basis that the Commission should quantify the terms "material increase" and "incidental increase" in capacity.

Kentucky Power's argument that these terms are imprecise rest upon its unsupported assertion that "any change in equipment or capacity can require the Company to modify or upgrade its system." Kentucky Power's own hearing testimony asserted that any determination whether a change in equipment was a material change that required Kentucky Power to upgrade its system is made on a case by case basis. 47

Because Kentucky Power failed to meet its burden of proof that the Commission made a material error or omission, the Commission finds that rehearing on this issue is denied.

IT IS THEREFORE ORDERED that:

- 1. Kentucky Power's motion for rehearing is denied.
- This matter is closed and removed from the Commission's docket.

⁴⁶ Kentucky Power Motion for Rehearing (filed June 3, 2021) at 17–18.

⁴⁷ HVT of the April 6, 2021 Hearing at 2:38:32.

By the Commission

ENTERED

JUN 23 2021

KENTUCKY PUBLIC SERVICE COMMISSION

ATTEST:

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