

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

RECEIVED

JUL 02 2013

PUBLIC SERVICE
COMMISSION

**IN THE MATTER OF:
APPLICATION OF KENTUCKY POWER
COMPANY FOR (1) A CERTIFICATE OF
PUBLIC CONVENIENCE AND
NECESSITY AUTHORIZING THE
TRANSFER TO THE COMPANY OF AN
UNDIVIDED FIFTY PERCENT
INTEREST IN THE MITCHELL
GENERATING STATION AND
ASSOCIATED ASSETS; (2) APPROVAL
OF THE ASSUMPTION BY KENTUCKY
POWER COMPANY OF CERTAIN
LIABILITIES IN CONNECTION WITH
THE TRANSFER OF THE MITCHELL
GENERATING STATION; (3)
DECLARATORY RULINGS; (4)
DEFERRAL OF COSTS INCURRED IN
CONNECTION WITH THE COMPANY'S
EFFORTS TO MEET FEDERAL CLEAN
AIR ACT AND RELATED
REQUIREMENTS; AND (5) ALL OTHER
REQUIRED APPROVALS AND RELIEF**

Case No. 2012-00578

SUPPLEMENTAL TESTIMONY

OF RANIE K. WOHNHAS

ON BEHALF OF KENTUCKY POWER COMPANY

IN SUPPORT OF STIPULATION AND SETTLEMENT AGREEMENT

TABLE OF CONTENTS

	<i>Page</i>
Introduction.....	1
The Stipulation And Settlement Agreement.....	3
The Terms of the Stipulation And Settlement Agreement	6
1. The Transfer Of An Undivided Fifty Percent Interest In The Mitchell Generating Station.....	6
2. Other Financial Benefits Provided By the Stipulation And Settlement Agreement	14
3. Mitigation of The Effects Of The Retirement Of Big Sandy Unit 2	15
4. Demand-Side Management, Energy Efficiency, and Generation Resource Diversity	19
5. Rate Certainty	20
6. The Adjustment Of The Company’s Rates In Connection With The May 31, 2015 Retirement Of Big Sandy Unit 2	22
7. Revisions Of Existing Tariffs	26
8. New Tariffs.....	29
(a) The Asset Transfer Rider.....	29
(b) Purchase Power Adjustment.....	32
9. Approval Of The Deferral Of Costs And Creation of Regulatory Asset.....	34
10. Possible Greenhouse Gas Regulation	36
Reasonableness Of The Stipulation And Settlement.....	38
The New And Revised Tariffs Required To Implement	44
The Approvals Required Pursuant To KRS 278.300.....	44
Deviation Pursuant To KRS 278.2207(b).....	46
Conclusion.....	46

BEFORE
THE KENTUCKY PUBLIC SERVICE COMMISSION

TESTIMONY OF RANIE K. WOHNHAS
ON BEHALF OF
KENTUCKY POWER COMPANY

1 IN SUPPORT OF THE STIPULATION AND SETTLEMENT AGREEMENT

2
3
4

Introduction.

5 **Q. PLEASE STATE YOUR NAME AND POSITION WITH KENTUCKY POWER**
6 **COMPANY.**

7 A. Ranie K. Wohnhas. I am Managing Director, Regulatory and Finance, of Kentucky
8 Power Company.

9 **Q. DID YOU PREVIOUSLY FILE TESTIMONY IN THIS PROCEEDING?**

10 A. Yes. I filed both direct testimony and rebuttal testimony. I also am the sponsor of
11 numerous responses to data requests.

12 **Q ARE YOU FAMILIAR THE PARTIES GRANTED INTERVENTION AND THE**
13 **ISSUES THEY RAISED?**

14 A. Yes. Three parties were granted intervention: the Attorney General of the
15 Commonwealth of Kentucky, by and through his Office of Rate Intervention, Kentucky
16 Industrial Utility Customers, Inc. ("KIUC"), and Sierra Club, Alexander Desha, Tom
17 Vierheller, and Beverly May ("Sierra Club.") I have reviewed the testimony submitted

1 by Sierra Club and KIUC (the Attorney General did not file any testimony), and all
2 data request responses filed by the intervening parties.

3 **Q. WAS THE COMPANY ABLE TO REACH A SETTLEMENT WITH ALL OF**
4 **THE INTERVENORS?**

5 A. On May 28, 2013, Kentucky Power, Sierra Club, and KIUC entered into a Memorandum
6 of Understanding Regarding Stipulation and Settlement Agreement. The Memorandum
7 of Understanding set forth the terms of an agreement in principle reached by counsel for
8 the Company, Sierra Club and KIUC. Subsequently, and following further negotiations,
9 the same three parties entered into the July 2, 2013 Stipulation and Settlement Agreement
10 that is being presented for Commission review and approval. The Attorney General
11 participated in the settlement discussions prior to the execution of the May 28, 2013
12 Memorandum of Understanding, but he ultimately elected not to join in the settlement.

13 **Q. DID YOU PARTICIPATE IN THE NEGOTIATIONS WHICH LED TO THE**
14 **STIPULATION AND SETTLEMENT AGREEMENT BEING SUBMITTED FOR**
15 **CONSIDERATION AND APPROVAL BY THE COMMISSION?**

16 A. Yes. I attended multiple settlement conferences held at the offices of the Commission
17 that led to the Memorandum of Understanding. I also participated in the subsequent
18 discussions and drafting of the Stipulation and Settlement Agreement that has been
19 executed by the Kentucky Power and on the one hand, and KIUC and Sierra Club
20 (“Settling Intervenors”) on the other. The Stipulation and Settlement Agreement was
21 filed with the Commission on July 2, 2013. It also is attached as SETTLEMENT EXHIBIT
22 RKW-1 to this testimony.

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

2 In my testimony I explain and support the key terms of the Stipulation and Settlement
3 Agreement, as well as demonstrating why the transfer to Kentucky Power of an
4 undivided 50% interest in the Mitchell Generating Station upon the terms and conditions
5 set forth in the Stipulation and Settlement Agreement is both necessary and advances the
6 public convenience. I also address how the rate-related terms in the agreement result in
7 fair, just and reasonable rates.

8 The Stipulation And Settlement Agreement.

9 **Q. PLEASE DESCRIBE GENERALLY THE AREAS ADDRESSED BY THE**
10 **STIPULATION SETTLEMENT AGREEMENT.**

11 A. The Stipulation and Settlement Agreement addresses seventeen substantive areas:

- 12 (1) The transfer on December 31, 2013 of a fifty percent undivided interest in the
13 Mitchell Generating Station to Kentucky Power at its then net book value is to be
14 approved and all necessary authorizations for the transfer are to be granted. The
15 interest transferred is to be deemed a prudent component of the Company's rate
16 base in future proceedings. (Paragraph 1);
- 17 (2) Mitchell-related fuel costs will be recovered through the Company's Fuel
18 Adjustment Clause, and the units will be included in the economic dispatch of
19 Kentucky Power's generation resources. Because the fuel costs for the Mitchell
20 generating units are expected to lower than those for Big Sandy Unit 1 and Big
21 Sandy Unit 2, the Company estimates, based on 2012 jurisdictional kWh sales of
22 6.7 GWh, the benefit of these reduced fuel costs could total \$16.75 million
23 annually. (Paragraph 2).
- 24 (3) Upon approval of the Stipulation and Settlement Agreement, Kentucky Power
25 will withdraw any pending rate case and maintain, subject to a force
26 majeure provision, its current base rates through at least May 31, 2015.
27 (Paragraph 3);
- 28 (4) Kentucky Power will file a base rate proceeding ("Base Rate Case) no later than
29 December 29, 2014 utilizing a September 30, 2014 test year. (Paragraph 3).

- 1 (5) The Company committed to include in the Base Rate Case certain proposals in the
2 Base Rate Case;
- 3 (6) Three existing tariffs are to be revised:
- 4 (a) Beginning January 1, 2014, Tariff S.S.C. is to be revised to set and
5 maintain the System Sales Factor at \$0.0000 mills/kWh until new base
6 rates are set by the Commission. The Company will retain calendar year
7 off-system sales margins in excess of the \$15,290,363 level in current base
8 rates until new base rates are established. (Paragraph 7);
- 9 (b) Beginning January 1, 2014, Tariff E.S. is to be revised to set and maintain
10 the Environmental Surcharge Factor at 0.00% until new base rates are set
11 by the Commission. (Paragraph 5);
- 12 (c) Effective June 1, 2015, availability of service under Tariff C.S.-I.R.P. is to
13 be increased from 60,000 kW to 75,000 kW. In addition, the tariff will be
14 revised to provide credits of \$3.68.kW/month for interruptible load that
15 qualifies under PJM's rules as capacity for purposes of the Company's
16 FRR obligation. The tariff also will be revised to include certain
17 eligibility limitations. (Paragraph 9);
- 18 (7) During the period between January 1, 2014 and the date the base rates established
19 in the Base Rate Case become effective, an Asset Transfer Rider will be used to
20 recover annually \$44 million of the non-fuel related costs associated with the
21 Mitchell Asset Transfer. The \$44 million represents a significant reduction from
22 the non-fuel cost revenue requirement associated with the transfer of the
23 undivided fifty percent in the Mitchell Generating Station. (Paragraph 4);
- 24 (8) Coincident with the approval of base rates in the Base Rate Case, the Asset
25 Transfer Rider will be modified to eliminate the recovery of the \$44 million in
26 Mitchell non-fuel costs; the non-fuel and non-Flue Gas Desulfurization ("FGD")
27 unit costs associated with the Mitchell generating station instead will be recovered
28 through base rates. At the same time, the Asset Transfer Rider will be further
29 modified to provide for the recovery of coal-related retirement costs related to Big
30 Sandy Unit 1 and the retirement costs associated with Big Sandy Unit 2. Those
31 costs will be recovered over a 25-year period on a levelized basis, including a
32 weighted average cost of capital carrying cost. (Paragraphs 4 and 14);
- 33 (9) Beginning with the retirement of Big Sandy Unit 2, or the date it can no longer be
34 economically operated, the Company will be permitted to recover through a new
35 Purchase Power Adjustment any incremental power costs associated with forced
36 outages of other Kentucky Power generating units that are not otherwise
37 recoverable through the Fuel Adjustment Clause. Beginning on January 1, 2014,
38 no outage associated with Big Sandy Unit 2, including its retirement, is to be
39 treated as a forced outage for purposes of the Fuel Adjustment Clause.
40 (Paragraph 15);

- 1 (10) The retirement of Big Sandy Unit 2 prior to May 31, 2015 is designated as a
2 Force Majeure Event permitting the Company to seek emergency relief in
3 accordance with KRS 278.190(2) and Commission precedent. Any such
4 emergency relief is limited to \$24 million annually. (Paragraph 16);
- 5 (11) Kentucky Power agrees to issue a non-binding Request for Proposals for 100 MW
6 of wind power for the purpose of incorporating the results in the Company's
7 Integrated Resource Plan to be filed in December 2013. (Paragraph 19);
- 8 (12) Kentucky Power agrees to increase its spending on cost-effective demand-side
9 management ("DSM") and energy efficiency measures through Commission-
10 approved DSM programs to \$4 million in 2014, \$5 million in 2015, and \$6
11 million in 2016, 2017, and 2018. The Company also will seek to maintain a
12 minimum spending level of \$6 million on such programs after 2018. (Paragraph
13 12);
- 14 (13) The Company agreed to seek a certificate of public convenience and necessity to
15 convert Big Sandy Unit 1 to natural gas. Following Commission approval of the
16 Stipulation and Settlement Agreement, Kentucky Power will withdraw the March
17 28, 2013 Request for Proposals for 250 MW of capacity. (Paragraph 13);
- 18 (14) Kentucky Power agreed to increase its monthly contribution to the Home Energy
19 Assistance Program from \$0.125 to \$0.15 per residential meter. The \$0.15 per
20 residential meter monthly contribution will not be recovered from customers.
21 (Paragraph 11);
- 22 (15) Kentucky Power agreed to undertake or continue four programs to address
23 possible effects resulting from the retirement of Big Sandy Unit 2. (Paragraphs
24 10, 12, 17, and 18); and
- 25 (16) The Company is to be authorized to establish a regulatory asset in the amount of
26 \$28,113,304. The regulatory asset amount represents the costs incurred from
27 2004 through 2005 in connection with the Company's ongoing efforts to meet
28 Federal Clean Air Act and other environmental requirements with respect to Big
29 Sandy Unit 2. The Stipulation and Settlement Agreement further provides that
30 the Company will be authorized to recover the regulatory asset over a five-year
31 period. A carrying charge equal to the long-term debt rate of 6.48% will be
32 applied to the unamortized balance of the regulatory asset. (Paragraph 8).
- 33 (17) The Company and the Intervenors agreed upon a mechanism to address possible
34 impacts, if any, of the recently announced greenhouse gas initiatives on the
35 continued operation of Mitchell Units 1 and 2 (Paragraph 21).

36 I discuss the key portions of the above areas in more detail below. In addition, the
37 Stipulation and Settlement Agreement contains standard terms regarding its operation,
38 interpretation, and applicability. Chief among these is paragraph 24, which provides that

1 the agreement is void if the Commission does not accept the agreement in its entirety
2 without modification. This same term was part of the Company's Settlement Agreements
3 approved by the Commission in P.S.C. Case Nos. 2005-00341 and 2009-00459.

4 **Q. DID THE PARTIES ACTIVELY LITIGATE THIS CASE PRIOR TO ENTERING**
5 **INTO SETTLEMENT NEGOTIATIONS?**

6 A. Yes. In addition to the more than 100 data requests propounded by the Commission Staff
7 and answered by Kentucky Power, the Company also answered more than 300 data
8 requests propounded by KIUC, the Attorney General, and Sierra Club. The Attorney
9 General, KIUC, and Sierra Club were provided the opportunity to file testimony in
10 response to the Company's case, and the Settling Intervenors filed such testimony.
11 Further discovery was taken regarding the Settling Intervenors' testimony by the
12 Commission Staff and Kentucky Power. As a result, Kentucky Power and the Settling
13 Intervenors were fully informed of each other's respective positions before engaging in
14 settlement negotiations.

15 The Terms of the Stipulation And Settlement Agreement.

16 1. The Transfer Of An Undivided Fifty Percent Interest In The Mitchell Generating
17 Station (Paragraph 1 of the Stipulation and Settlement Agreement).

18 **Q. DOES THE STIPULATION AND SETTLEMENT AGREEMENT PROVIDE FOR**
19 **THE TRANSFER OF A FIFTY PERCENT UNDIVIDED INTEREST IN THE**
20 **MITCHELL GENERATING STATION TO KENTUCKY POWER COMPANY?**

21 A. Yes. In paragraph 1, Kentucky Power and the Settling Intervenors agreed to the transfer
22 to Kentucky Power of a fifty percent interest in Ohio Power Company's Mitchell

1 Generating Station. The transfer will be at the net book value (which is defined in detail
2 in the Stipulation and Settlement Agreement) of the fifty percent interest at the time of
3 the transfer. In addition, the agreement provides that the transfer will be deemed a
4 prudent component of rate base in future proceedings. The steps by which the December
5 31, 2013 transfer will be accomplished are detailed at pages 4-5 of my direct testimony in
6 this case. Kentucky Power and the Settling Intervenors also agreed to the grant,
7 consistent with the terms of the Stipulation and Settlement Agreement, by the
8 Commission of all approvals necessary to effectuate the transaction.

9 **Q. WHAT APPROVALS BY THIS COMMISSION ARE REQUIRED TO**
10 **EFFECTUATE THE TRANSFER?**

11 **A.** As described in the application, Kentucky Power is requesting all necessary Commission
12 approvals to consummate the transfer of an undivided fifty percent interest in the
13 Mitchell generating station to Kentucky Power Company, along the with the associated
14 assets, debt, liabilities, and contracts. The approvals would include: (a) the grant of a
15 Certificate of Public Convenience and Necessity pursuant to KRS 278.020 and 807 KAR
16 5:001, Section 15 approving the transfer of the undivided fifty percent interest; and (b)
17 approval pursuant to KRS 278.300 and 807 KAR 5:001, Section 17 of Kentucky Power
18 Company's assumption of the liabilities and debt associated with the transfer. In
19 addition, and although the Company believes it has established that the net book value of
20 the transferred interest is less than its market value, the Company also requested a
21 deviation pursuant to KRS 278.2207(2) from the affiliated transaction requirements if the
22 Commission concludes the showing has not been made.

1 **Q. DID THE COMPANY REQUEST ANY OTHER RELIEF FROM THIS**
2 **COMMISSION?**

3 A. Yes. The Company also requested a ruling declaring that approval pursuant to KRS
4 278.020(5) and KRS 278.020(6) was not required for the merger of Kentucky Power and
5 NEWCO Kentucky in connection with the transfer of the fifty percent undivided interest.
6 That ruling was provided on February 14, 2013. In addition, Kentucky Power sought
7 authorization to accumulate and defer for recovery the costs incurred from 2004 through
8 2012 in connection with the Company's on-going efforts to meet Federal Clean Air Act
9 and other environmental requirements with respect to Big Sandy Unit 2. The requested
10 regulatory treatment of those costs is part of the Stipulation and Settlement Agreement
11 that I discuss it below.

12 **Q. HAS THE COMPANY REQUESTED AND RECEIVED THE REQUIRED**
13 **APPROVALS FROM THE FEDERAL ENERGY REGULATORY COMMISSION**
14 **("FERC") FOR THE TRANSFER OF THE FIFTY PERCENT UNDIVIDED**
15 **INTEREST IN THE MITCHELL GENERATING STATION TO KENTUCKY**
16 **POWER COMPANY?**

17 A. Yes. FERC granted the Company's Section 203 application by its "Order Authorizing
18 Disposition of Jurisdictional Assets" issued April 29, 2013.

1 **Q. DO KENTUCKY POWER’S CUSTOMERS BENEFIT FROM THE TRANSFER**
2 **OF THE FIFTY PERCENT UNDIVIDED INTEREST IN THE MITCHELL**
3 **GENERATING STATION?**

4 A. Most certainly. With the termination of the AEP Interconnection Agreement effective
5 January 1, 2014, coupled with the retirement of Big Sandy Unit 2 in mid-2015 as a result
6 of federal environmental requirements, Kentucky Power will be both capacity and energy
7 short. For example, without the Mitchell transfer Kentucky Power will drop to a *negative*
8 *66.26%* reserve margin as early as 2015. In addition, the Company will be required to go
9 to market even before then to cover its energy needs without the Mitchell transfer. Doing
10 nothing is not a reasonable option. Moreover, capacity planning must be undertaken with
11 a long-term perspective. Cost-effective capacity additions are inevitably “lumpy,” and it
12 is in no one’s interest to view a long-term need through a short term prism. Certainly, it
13 is my understanding that in the past the Commission has weighed the benefits and costs
14 of acquiring additional capacity over the long-term. Finally, a refusal to authorize the
15 Mitchell transfer only kicks the ball down the road. The Commission and all of the
16 parties to this proceeding will not only be faced with addressing again Kentucky Power’s
17 long-term capacity needs in the very immediate future, there is no guarantee that the
18 available solutions will carry the price and other advantages of the Mitchell transfer.

1 **Q. THE STIPULATION AND SETTLEMENT AGREEMENT SPECIFICALLY**
2 **PROVIDES FOR TRANSFER OF 780 MW OF THE MITCHELL STATION.**
3 **WHY DOES THAT BENEFIT THE COMPANY’S CUSTOMERS MORE THAN**
4 **SOME OTHER “SOLUTION”?**

5 A. First and foremost, the Company believes it has demonstrated the Mitchell Transfer is the
6 least-cost alternative, particularly when coupled with the conversion of Big Sandy Unit 1
7 to natural gas. Certainly, on a relative cumulative present worth basis it is hundreds of
8 millions of dollars less expensive than the retrofit of Big Sandy Unit 2 or any alternative
9 involving market purchases. The rejection of the Mitchell Transfer by this Commission
10 places Kentucky Power’s customers on a one-way path to pay for years to come
11 substantially higher rates than they otherwise would be required to do. With a service
12 territory located in one of the poorest areas of the Commonwealth, that is not a fork in the
13 road that should be lightly taken.

14 **Q. ARE THERE OTHER BENEFITS TO THE MITCHELL TRANSFER?**

15 A. Yes. The “steel in the ground” solution that the Mitchell transfer represents allows the
16 Commission, to the benefit of the customers on whose behalf it operates, to continue to
17 exercise the full range of regulatory authority it has exercised over the past nearly fifty
18 years with respect to the Big Sandy units. Although Company Witness Munczinski
19 addresses in detail the many problems and pitfalls presented by a market-based solution
20 versus an owned asset solution, there can be little doubt that this Commission’s long-
21 standing preference for owned assets has served the citizens of the Commonwealth well.
22 In addition, with a purchase power agreement the Commission will be surrendering a not

1 insignificant amount of its regulatory authority to the Federal Energy Regulatory
2 Commission.

3 **Q. WHAT BENEFITS WILL ACCRUE TO KENTUCKY POWER'S CUSTOMERS**
4 **FROM OWNING THE MITCHELL UNIT IN PARTICULAR?**

5 A. The Company will be acquiring a known and proven asset. The two Mitchell units are of
6 a similar size, design, and capacity to Big Sandy Unit 2, and thus represent technology
7 with which the Company and the Commission are already familiar. In addition, the units
8 have been owned and operated by Kentucky Power's sister company for their entire 40-
9 year operating life. Ohio Power Company's long history with the two Mitchell units
10 (along with Kentucky Power's slightly longer experience with the Big Sandy Unit 2 sister
11 unit) would be lost if the Company were to acquire another asset. Third, the 780 MW of
12 generation to be transferred is appropriately-sized to meet Kentucky Power's needs and
13 to replace Big Sandy Unit 2. Fourth, by splitting the capacity between two units the
14 Company is diversifying its generation from one unit to two units, thereby providing
15 further reliability. Finally, the two Mitchell units are environmentally-controlled and
16 equipped with both FGD and selective catalytic reduction systems. That is not true of a
17 number of the third party-owned units that have been mentioned in these proceedings.

1 **Q. BEYOND THE ADVANTAGES OF ACQUIRING THE FIFTY PERCENT**
2 **UNDIVIDED INTEREST IN THE MITCHELL GENERATING STATION YOU**
3 **JUST DESCRIBED, WHAT BENEFITS DOES THE STIPULATION AND**
4 **SETTLEMENT AGREEMENT PROVIDE IN CONNECTION WITH THE**
5 **TRANSFER OF THE MITCHELL INTEREST?**

6 A. Through the Asset Transfer Rider, Exhibit 1 to the Stipulation and Settlement Agreement,
7 the settlement provides significant economic benefits in connection with the Mitchell
8 transfer that would be unavailable if the settlement is not approved. In particular, during
9 the period following the transfer and prior to the expected retirement of Big Sandy Unit 2
10 in mid-2015, all Kentucky Power customers will pay a fraction of the increase that
11 otherwise would be required if the Mitchell generating station were to be placed in base
12 rates on December 31, 2013. The Company estimates that residential customers, for
13 example, will experience a rate increase of only a small percentage of the increase
14 recently advertised by the Company in connection with its June 28, 2013 base rate case
15 application. Even with the rate mitigation measures proposed as part of the base rate
16 case, the Asset Transfer Rider results in a lower increase than would otherwise be
17 required.

1 **Q. DOES THE STIPULATION AND SETTLEMENT AGREEMENT RECOGNIZE**
2 **OTHER ECONOMIC BENEFITS ACCRUING TO ALL OF KENTUCKY**
3 **POWER'S CUSTOMERS AS A RESULT OF THE TRANSFER OF FIFTY**
4 **PERCENT UNDIVIDED INTEREST IN THE MITCHELL GENERATING**
5 **STATION?**

6 A. Yes. Paragraph 2 of the Stipulation and Settlement Agreement recognizes that the
7 Mitchell units will be included in the economic dispatch of Kentucky Power's generation
8 resources, and that Mitchell-related fuel costs will be included in the calculation of any
9 charges or credits under the Company's fuel adjustment clause. Because Mitchell fuel
10 costs are anticipated to be lower than the fuel costs for the Big Sandy units, the Company
11 expects that the transfer of the fifty percent undivided interest in the Mitchell generating
12 station to Kentucky Power will yield fuel savings of approximately \$2.50/MWh
13 compared to Big Sandy fuel costs. Based on 2012 jurisdictional kWh sales of 6.7 GWh,
14 these fuel savings benefits could total \$16.75 million annually.

15 **Q. ARE THESE FUEL BENEFITS INCLUDED IN THE LOWER RATES**
16 **PROVIDED BY THE ASSET TRANSFER RIDER OF THE SETTLEMENT**
17 **AGREEMENT?**

18 A. No, fuel savings would be *in addition to* the savings customers would realize through the
19 Stipulation and Settlement Agreement's Asset Transfer Rider.

1 2. Other Financial Benefits Provided By the Stipulation And Settlement Agreement
2 (Paragraphs 10 and 11 of the Stipulation and Settlement Agreement).

3 **Q. ALTHOUGH SIGNIFICANT STANDING ALONE, ARE THE LOWER**
4 **RATES AND FUEL COSTS YOU DESCRIBE ABOVE, ALONG WITH THE**
5 **BENEFITS RESULTING FROM THE CONVERSION OF BIG SANDY UNIT 1**
6 **YOU DISCUSS BELOW, THE ONLY FINANCIAL BENEFITS PROVIDED**
7 **KENTUCKY POWER’S CUSTOMERS THROUGH THE STIPULATION AND**
8 **SETTLEMENT AGREEMENT?**

9 A. Far from it. The Company agreed as part of the Stipulation and Settlement Agreement to
10 make two significant financial contributions to its service territory. Neither of these
11 appear to be available in the absence of a settlement. First, the Company agreed in
12 paragraph 10 of the Stipulation and Settlement Agreement to make an annual \$100,000
13 contribution to provide economic development support for Lawrence County, Kentucky
14 and the Kentucky counties contiguous thereto. The annual \$100,000 contribution would
15 be for a period of five years. Approximately one-third of the annual contribution,
16 \$33,000, would be earmarked for job training, with a preference for weatherization and
17 energy efficiency-related job training.

18 **Q. WHAT IS THE SECOND ADDITIONAL FINANCIAL BENEFIT PROVIDED BY**
19 **THE STIPULATION?**

20 Kentucky Power agreed in Paragraph 11 to contribute to the Home Energy Assistance
21 Program (“HEAP”) an additional amount equal to \$0.025 multiplied by the number of
22 monthly residential ratepayer payments of \$0.15 to the HEAP. With this additional
23 contribution, Kentucky Power’s contribution to HEAP will match that made by its

1 customers. This additional annual contribution of nearly \$43,000 will bring the
2 Company's total annual contribution to approximately \$268,000. This is a 20% increase
3 over the amount currently being contributed, and constitutes a real benefit to Kentucky
4 Power's customers that the Company otherwise would not be obligated to provide.

5 **Q. WON'T THE COMPANY PASS THE COST OF THESE CONTRIBUTIONS ON**
6 **TO ITS CUSTOMERS?**

7 A. No. The Stipulation and Settlement Agreement expressly provides that these
8 contributions are not recoverable from Kentucky Power customers. Stipulation and
9 Settlement Agreement at ¶¶ 10, 11.

10 3. Mitigation of The Effects Of The Retirement Of Big Sandy Unit 2 (Paragraphs
11 13, 17, and 18 of the Stipulation and Settlement Agreement).

12 **Q. CONCERN HAS BEEN EXPRESSED ABOUT THE EFFECT THE**
13 **RETIREMENT OF BIG SANDY UNITS 1 AND 2 WILL HAVE ON LAWRENCE**
14 **AND SURROUNDING COUNTIES. DOES THE STIPULATION AND**
15 **SETTLEMENT AGREEMENT ADDRESS THIS ISSUE?**

16 A. Yes. Kentucky Power is committing in Paragraph 13 of the agreement to file an
17 application for a Certificate of Public Convenience and Necessity with the Commission
18 seeking authority to convert Big Sandy Unit 1 from coal to natural gas. If Commission
19 grants the certificate, a portion of the jobs and tax base that would otherwise be lost if
20 Big Sandy Unit 1 were retired will be retained.

1 **Q. DOES THE COMPANY HAVE AN ESTIMATE OF THE EFFECT THAT THE**
2 **PROPOSED BIG SANDY UNIT 1 CONVERSION WILL HAVE ON THE LOCAL**
3 **TAX BASE AND JOBS?**

4 A. Yes, but it is only an estimate and is subject to change with further engineering and
5 study. With that caveat, the Company estimates that the conversion will require an
6 additional investment by the Company of approximately \$60 million. This new
7 investment in Lawrence County, along with the existing Big Sandy site and those
8 portions of Big Sandy Unit 1 that will not be retired (principally the non-coal facilities),
9 will remain subject to all applicable taxes. In addition, Kentucky Power estimates that
10 the conversion of Big Sandy Unit 1 to natural gas will allow the Company to retain 20%
11 of its existing Big Sandy work force. These Lawrence County jobs, and their
12 accompanying contribution to the local economy, could be lost if the unit were retired.

13 **Q. DOES THE STIPULATION AND SETTLEMENT AGREEMENT ADDRESS IN**
14 **ADDITIONAL WAYS THE EFFECT OF THE RETIREMENT OF BIG SANDY**
15 **UNIT 2?**

16 A. Yes. The Company agrees to work during the conversion of Big Sandy Unit 1 to use
17 local labor sources in connection with the conversion to the extent technically
18 practicable. (Paragraph 18). Kentucky Power also agrees to procure coal for the
19 Mitchell units with no bias against Kentucky-produced coal. (Paragraph 17). Both of
20 these measures are continuations of past or existing Kentucky Power policies, but the
21 agreement commits the Company to continue those policies.

1 **Q. HOUSE MAJORITY FLOOR LEADER ADKINS RECENTLY ADDRESSED**
2 **THE COMMISSION CONCERNING THE RETIREMENT OF BIG SANDY**
3 **UNIT 2. HE ALSO RECOMMENDED THAT THE COMMISSION AND THE**
4 **COMPANY REVISIT THE RETROFIT OF BIG SANDY UNIT 2 WITH AN FGD**
5 **UNIT, WHICH WAS THE SUBJECT OF THE COMPANY’S APPLICATION IN**
6 **CASE NO. 2011-00401. HAS THE COMPANY CONSIDERED**
7 **REPRESENTATIVE ADKINS’ REMARKS?**

8 A. Yes. In December 2011 the Company filed an application to retrofit Big Sandy Unit 2
9 with a dry FGD (“DFGD”) unit. The issues presented by the Company’s application to
10 retrofit Big Sandy Unit 2 were vigorously litigated by the intervenors in that case – the
11 Attorney General, KIUC, and Sierra Club. In the course of that litigation, all of the
12 Intervenors adamantly opposed the Company’s plans to follow the precise course
13 Representative Adkins recently appeared before the Commission on May 29, 2013 to
14 advocate. Following the conclusion of a three-day hearing on Kentucky Power’s DFGD
15 application, the Company sought leave on May 30, 2012 to withdraw its DFGD
16 application to provide additional time to examine options that were not available to the
17 Company at the time it filed the December 2011 DFGD application. Doing so was
18 necessary to ensure the Company was following the least cost path. The Commission
19 granted the Company’s motion the following day. At no time did anyone other than the
20 Company’s witnesses appear at the Commission hearing to speak in favor of the
21 Company’s DFGD application.

22 With the developments that led to the withdrawal in May 2012 of the Company’s
23 application to retrofit Big Sandy Unit 2 with a DFGD unit, the continued operation of

1 Big Sandy Unit 2 is no longer the least cost option. In fact, it is far from it. As Mr.
2 Weaver demonstrates at Exhibit SCW-1R of his rebuttal testimony, and there is no
3 evidence challenging this part of his testimony, the retrofit of Big Sandy Unit 2 is on a
4 cumulative present worth basis as much as \$819 million more expensive (with resulting
5 substantially higher rates) than the transfer of Mitchell combined with the conversion of
6 Big Sandy Unit 1 to natural gas. Stated otherwise, the path taken under the Stipulation
7 and Settlement Agreement is more than three quarters of a billion dollars less expensive
8 on a cumulative present worth basis than a Big Sandy Unit 2 retrofit.

9 The Company appreciates the contributions made by its employees and other
10 residents of its service territory to the success of the Big Sandy Generating Station. Over
11 the past sixty years the Big Sandy generating station likewise has provided enormous
12 benefits to the people and the economy of Lawrence County, as well as to other areas in
13 its service territory. During that period, Kentucky Power utilized the Big Sandy
14 Generating Station to provide reliable electrical service at a reasonable cost to its
15 customers. The Big Sandy Generating Station also has enabled the Company to provide
16 good paying jobs, while substantially increasing the Lawrence County tax base. (The
17 Stipulation and Settlement Agreement permits Kentucky Power to continue to do so,
18 albeit on a reduced basis.) But for reasons beyond the control of the Company and this
19 Commission, times have changed and it is no longer possible to operate Big Sandy Unit
20 2 without imposing very substantial rate increases – far beyond those required by the
21 Mitchell transfer or set out in the Stipulation and Settlement Agreement – on Kentucky
22 Power’s customers in Lawrence and the other counties in its service territory.

1 4. Demand-Side Management, Energy Efficiency, and Generation Resource
2 Diversity. (Paragraphs 12, 13, and 19 Of The Stipulation And Settlement
3 Agreement).

4 **Q. THE COMMISSION HAS EMPHASIZED THE IMPORTANCE OF DEMAND-**
5 **SIDE MANAGEMENT AND ENERGY EFFICIENCY IN CAPACITY**
6 **PLANNING AND ACQUISITION.¹ IN ADDITION, BOTH THE SIERRA CLUB**
7 **AND KIUC FILED TESTIMONY ADVOCATING GENERATION FUEL**
8 **SOURCE DIVERSITY. DOES THE STIPULATION AND SETTLEMENT**
9 **AGREEMENT ADDRESS THESE ISSUES?**

10 A. Yes. The conversion of Big Sandy Unit 1 to a 268 MW gas-fired unit will not only
11 increase the Company's fuel diversity, the conversion will also provide substantial
12 benefits to Lawrence (where Big Sandy is located) and surrounding counties. I discuss
13 these benefits in more detail above.

14 **Q. IS THE USE OF RENEWABLE ENERGY RESOURCES TO INCREASE**
15 **GENERATION DIVERSITY ANYWHERE ADDRESSED IN THE**
16 **STIPULATION AND SETTLEMENT AGREEMENT?**

17 A. Yes. The Company commits in Paragraph 19 to issue a non-binding Request for
18 Proposal for 100 MW (equal to 13 MW of installed capacity) of wind power for the
19 purpose of incorporating the results in the Company's Integrated Resource Plan that is to
20 be filed by the end of the year.

21
¹ Order, *In the Matter of: Consideration Of the New Federal Standards Of The Energy Independence And Security Act of 2007*, Case No. 2008-00408 at 18 (Ky. P.S.C. July 24, 2014).

1 **Q. WHAT PROVISION DOES PARAGRAPH 12 MAKE FOR DEMAND SIDE**
2 **MANAGEMENT AND ENERGY EFFICIENCY?**

3 A. The Company's current DSM programs currently are budgeted at approximately \$3
4 million a year. Under the Stipulation and Settlement Agreement the Company agrees to
5 increase its budget for cost-effective demand side management and energy efficiency
6 measures through Commission-approved DSM programs to \$4 million. The budget
7 would increase to \$5 million in 2015, and to \$6 million beginning in 2016; after 2016 it
8 would be maintained at that level until at least 2018. Thereafter, the Company agreed to
9 seek to maintain a \$6 million minimum spending level on such Commission-approved
10 programs.

11 In paragraph 12, the Company also agrees to institute a two-year DSM measure to
12 assist schools in implementing energy management programs. The funding level for the
13 program will be \$75,000 in 2014 and \$50,000 in 2015.

14 5. Rate Certainty. (Paragraphs 3 and 16 of the Stipulation and Settlement
15 Agreement).

16 **Q. DOES THE STIPULATION AND SETTLEMENT AGREEMENT HAVE A BASE**
17 **RATE CASE STAY-OUT PROVISION?**

18 A. Yes. Subject to a force-majeure provision I will discuss in a moment, the Company
19 agrees as part of the Stipulation and Settlement Agreement to maintain current base rates
20 through at least May 31, 2015.

21

1 **Q. THE COMPANY ON JUNE 28, 2013 FILED AN APPLICATION FOR A**
2 **GENERAL ADJUSTMENT OF ITS RATES SEEKING A 23.39% REVENUE**
3 **INCREASE. WILL THE COMPANY PROSECUTE THAT APPLICATION IF**
4 **THE STIPULATION AND SETTLEMENT AGREEMENT ARE APPROVED?**

5 A. No; the Stipulation and Settlement Agreement requires the Company withdraw its June
6 28, 2013 rate application upon the Commission's approval of the agreement without
7 modification. (Paragraph 3 of the Stipulation and Settlement Agreement). As a result, if
8 the Stipulation and Settlement Agreement is approved, Kentucky Power's customers will
9 experience significantly lower rates than are requested in the Company's base rate case.

10 **Q. PLEASE EXPLAIN THE FORCE-MAJEURE PROVISION IN CONNECTION**
11 **WITH THE COMPANY'S STAY-OUT COMMITMENT.**

12 A. Paragraph 16 authorizes Kentucky Power to seek emergency relief in the event Big
13 Sandy Unit 2 is retired as a result of its catastrophic failure prior to the unit's current May
14 31, 2015 retirement date. The economics of the Stipulation and Settlement Agreement,
15 and specifically the "stay-out provision," work only if both Big Sandy Unit 2 and
16 Mitchell generation is available for potential market sales during the 17-month stay-out
17 period following the transfer of the Company's interest in the Mitchell generating station.
18 Without the ability to utilize both Mitchell and Big Sandy Unit 2 generation during the
19 stay-out period the Company's operations and credit may be severely impaired. Thus,
20 the parties to the Stipulation and Settlement Agreement agreed, in the event Big Sandy
21 Unit 2 is forced to retire prematurely, to the exception to the stay-out period.

1 **Q. DO KENTUCKY POWER'S CUSTOMERS HAVE ANY PROTECTIONS WITH**
2 **RESPECT TO THE COMPANY'S INVOCATION OF THE FORCE-MAJEURE**
3 **PROVISION?**

4 A. Yes. Foremost is the fact that any request for emergency rate relief would have to be
5 approved by the Commission in accordance with KRS 278.190(2) and Commission
6 precedent and orders governing such relief. Second, any emergency rate is limited to \$24
7 million annually. For example, an order granting emergency relief effective January 1,
8 2015 would provide the Company an additional \$10 million in revenue, while one
9 effective March 1, 2015 would provide only \$6 million of emergency rate relief. Finally,
10 the retirement of Big Sandy Unit 2 is not a unilateral decision of the Company; the unit
11 can be retired only in conformity with the requirements of the applicable PJM tariff
12 (Section 113.1 of the PJM OATT.)

13 6. The Adjustment Of The Company's Rates In Connection With The May 31, 2015
14 Retirement Of Big Sandy Unit 2. (Paragraphs 1, 3, 4, and 6 of the Stipulation and
15 Settlement Agreement).

16 **Q. PLEASE EXPLAIN THE BASIS FOR THE REQUIREMENT IN PARAGRAPH 3**
17 **OF THE AGREEMENT THAT THE COMPANY FILE NO LATER THAN**
18 **DECEMBER 29, 2014 A BASE RATE CASE USING A SEPTEMBER 30, 2014**
19 **TEST YEAR.**

20 A. The retirement of Big Sandy Unit 2 in mid-2015 will yield significant rate benefits for
21 Kentucky Power's customers. Requiring the Company to file a base rate case no later
22 than December 31, 2014 ("Base Rate Case") means that the customers will receive the
23 benefits of the Big Sandy Unit 2 retirement in a timely fashion. The requirement for

1 filing the Base Rate Case also provides the Company the opportunity to begin the
2 recovery of the Big Sandy retirement costs.

3 **Q. DID THE COMPANY MAKE ANY COMMITMENTS WITH RESPECT TO THE**
4 **BASE RATE CASE?**

5 A. Yes. Doing so may help simplify certain of the issues likely to arise in that filing.

6 Specifically, Kentucky Power committed to:

7 (a) Propose depreciation rates reflecting a 2040 retirement date for the Mitchell
8 Generating Station;

9 (b) Propose an agreed upon method for recognizing in the Company's rates the effect
10 of the retirement of Big Sandy Unit 2 and the non-coal related aspects of Big
11 Sandy Unit 1;

12 (c) Propose an agreed upon method for the Company's recovery of the Big Sandy
13 retirement costs; and

14 (d) Propose an agreed upon method for the recovery of the costs associated with the
15 Mitchell FGD units.

16 **Q. WHAT IS THE BASIS FOR THE AGREEMENT TO PROPOSE**
17 **DEPRECIATION RATES IN THE BASE RATE CASE TO REFLECT THE**
18 **RETIREMENT OF THE GENERATING STATION IN 2040?**

19 A. The Company currently estimates that the Mitchell Generating Station will be retired in
20 2040. Thus, the depreciation rates established in the base rate case should reflect that
21 estimate. Prior to the establishment of rates in the Base Rate Case, Kentucky Power will
22 use the current Mitchell depreciation rate.

1 **Q. HOW WILL THE RETIREMENT OF BIG SANDY UNIT 2 AND THE NON-**
2 **COAL FACILITIES OF BIG SANDY UNIT 1 BE TREATED IN THE BASE**
3 **RATE CASE APPLICATION?**

4 A. In connection with the Stipulation and Settlement Agreement, Kentucky Power agreed to
5 remove:

6 (a) All *coal-related* operating expenses related to Big Sandy Unit 1, and all
7 operating expenses related to Big Sandy Unit 2, from the Base Rate Case
8 cost of service study. (Paragraph 3);

9 (b) All *coal-related* plant and other capitalized costs related to Big
10 Sandy Unit 1 from the Base Rate Case cost of service study. (Paragraph
11 3); and

12 (c) All plant and other capitalized costs related to Big Sandy Unit 2
13 from the Base Rate Case cost of service study. (Paragraph 3).

14 Removing these costs and expenses from the Company's Base Rate Case cost of service
15 study reduces the rates that otherwise would be required.

16 **Q. DOES THE STIPULATION AND SETTLEMENT AGREEMENT ADDRESS THE**
17 **RECOVERY OF BIG SANDY RETIREMENT COSTS?**

18 A. Yes. The recovery of such costs is a proper component of the Company's rate following
19 the retirement of Big Sandy Unit 2 and the coal-related facilities associated with Big
20 Sandy Unit 1. Paragraph 4 of the agreement recognizes the Company's right to recover
21 such costs.

22

1 **Q. OVER WHAT PERIOD WILL THE RETIREMENT COSTS BE RECOVERED?**

2 A. The Stipulation and Settlement Agreement provides that the retirement costs are to be
3 recovered over a 25-year period on a levelized basis, including a weighted average cost
4 of capital carrying charge.

5 **Q. ARE THERE ANY ADVANTAGES TO THE COMPANY'S CUSTOMERS
6 THROUGH THE USE OF A LEVELIZED BASIS METHOD OF COST
7 RECOVERY ?**

8 A. Yes, recovery on a levelized basis allows customers to avoid the higher upfront costs
9 associated with use of the declining balance method.

10 **Q. WHAT MECHANISM WILL BE USED TO RECOVER THESE COSTS?**

11 A. The Big Sandy retirement costs will be recovered through Asset Transfer Rider-2
12 beginning with the effective date of the Commission's decision in the Base Rate Case. I
13 discuss the operation of both the Asset Transfer Rider and Asset Transfer Rider-2 below.

14 **Q. DOES THE STIPULATION AND SETTLEMENT AGREEMENT CONTAIN ANY
15 OTHER RATE DESIGNS PROVISIONS IN CONNECTION WITH THE
16 COMPANY'S BASE RATE CASE APPLICATION?**

17 A. It includes two such provisions. In Paragraph 6 of the Agreement all costs associated
18 with the Mitchell Units 1 and 2 FGD equipment are to be removed from the base rates
19 established in the Base Rate Case, and instead such costs will be recovered through the
20 environmental surcharge approved in Base Rate Case. The Stipulation and Settlement
21 Agreement also details allocations in connection with the environmental surcharge, and

1 provides that this collection mechanism for Mitchell Units 1 and 2 FGD equipment is to
2 continue at least until base rates are set for a period commencing after June 30, 2020.

3 Under paragraph 3 of the agreement, the Company will propose as part of its
4 application in the Base Rate Case to combine the Q.P. and C.I.P.-T.O.D. tariff classes
5 using the C.I.P.-T.O.D. rate design.

6 7. Revisions Of Existing Tariffs. (Paragraphs 5, 7, and 9 Of The Stipulation And
7 Settlement Agreement).

8 **Q. DOES THE STIPULATION AND SETTLEMENT AGREEMENT PROVIDE FOR**
9 **THE MODIFICATION OF ANY EXISTING TARIFFS?**

10 A. Yes. Three tariffs are to be revised: Tariff S.S.C. (the System Sales Clause), Tariff E.S.
11 (the Environmental Surcharge), and Tariff C.S.- I.R.P. (Contract Service – Interruptible
12 Power). The changes to the first two tariffs would be effective January 1, 2014. Tariff
13 C.S.-I.R.P. would be revised effective June 1, 2015 to coincide with the PJM planning
14 year.

15 **Q. PLEASE EXPLAIN THE PROPOSED MODIFICATION TO TARIFF S.S.C.**

16 A. Currently, customers receive a credit, or pay a charge, equal to 40% of the difference
17 between the Company's net system sales revenues for a particular month, and the amount
18 specified for that month in Tariff S.S.C. The monthly amount in the tariff is an
19 allocation of the \$15,290,363 built into current base rates. As modified, customers will
20 receive the benefit of the full \$15,290,363 built into base current base rates even if the
21 monthly sales fall short of the tariff amount. On the other hand, customers will not share
22 when off-system sales exceed the amount in base rates. This modification, which will

1 continue until new base rates are established in the Base Rate Case, is accomplished by
2 setting the System Sales Factor at \$0.0000 mills/kWh.

3 **Q. WHAT ARE THE ADVANTAGES TO THE CUSTOMERS OF THE PROPOSED**
4 **MODIFICATION?**

5 A. Customers receive a number of benefits. First, customers no longer will be subject to a
6 charge when monthly off-system sales fall short of the monthly allocation of the amount
7 built into base rates. In effect, they are guaranteed at \$15,290,363 in net off-system sales
8 revenues. This is a significant benefit because in eight of the 12 months in the year
9 ending March 31, 2013, customers have paid a charge under Tariff S.S.C. Similarly, for
10 the twelve month period ending March 31, 2013, off-system sales revenues were
11 \$13,582,608, or 12% less than the amount built into current base rates.

12 Second, the change has the effect of shifting to Kentucky Power the entire risk of
13 off-system sales. It thus is both fair and reasonable for the Company to receive 100% of
14 the amount by which off-system sales exceed the amount built into base rates if it is
15 taking 100% of the risk that the sales will exceed or fall below that amount. Moreover,
16 the modification allows the Company to limit its recovery under the Asset Tracker Rider
17 to \$44 million a year, thereby further benefiting customers.

18 **Q. HOW DO THE COMPANY AND THE SETTLING INTERVENORS PROPOSE**
19 **TO MODIFY THE ENVIRONMENTAL SURCHARGE?**

20 A. Under Paragraph 5 of the Stipulation and Settlement Agreement the Environmental
21 Surcharge Factor collected under Tariff E.S. will be set at 0.00% percent until new base

1 rates are established in the Base Rate Case. Although the costs recoverable through the
2 environmental surcharge are expected to decline beginning January 1, 2014 with the
3 termination of the Interconnection Agreement, the proposed modification will help
4 provide rate stability during the period between the transfer of the fifty percent interest in
5 the Mitchell Generating Station and the effective date of the new rates to be established
6 in the Base Rate Case.

7 **Q. PLEASE EXPLAIN THE PROPOSED CHANGES TO TARIFF C.S.-I.R.P.**

8 A. Tariff C.S.-I.R.P. allows customers to nominate a certain portion of their load to be
9 interrupted under emergency conditions. Kentucky Power is able to bid in the nominated
10 load in fulfillment of its PJM capacity obligations. This can benefit both Kentucky
11 Power and its customers by forestalling the need for Kentucky Power to acquire
12 additional capacity. Under the proposed modifications, the total amount that can be
13 nominated is increased from 60,000 kW to 75,000 kW. In addition, the tariff was revised
14 to include certain eligibility and other limitations to ensure that the nominated load
15 qualifies under PJM rules as capacity for the purposes of the Company's PJM FRR
16 obligation. Finally, because the nominated load can benefit the Company and all of
17 Kentucky Power's customers, the tariff provides a credit of \$3.68 per kW/month for
18 qualifying interruptible load. The amount of the credit actually paid is then recovered
19 through the new Purchase Power Adjustment I discuss below.

20

21

1 8. New Tariffs.

2 (a) The Asset Transfer Rider (Paragraphs 4 and 14 of the Stipulation and
3 Settlement Agreement).

4 **Q. WHAT IS THE ASSET TRANSFER RIDER?**

5 A. The Stipulation and Settlement Agreement provides for two different Asset Transfer
6 Riders. Although similarly named, the two riders serve two different purposes, and will
7 operate in two different periods. Tariff A.T.R. permits the Company to recover a portion
8 of the non-fuel costs associated with the transfer to Kentucky Power of a fifty percent
9 share of the Mitchell Generating Station. The Company will use the second Asset
10 Transfer Rider, Asset Transfer Rider-2 (Tariff A.T.R.-2), to recover its Big Sandy
11 retirement costs.

12 **Q. PLEASE EXPLAIN TARIFF A.T.R.**

13 A. During the period between January 1, 2014 and the effective date of the rates to be
14 established in the Base Rate Case, the Company agreed in the Stipulation and Settlement
15 Agreement to limit its recovery on and of the Mitchell Generating Station (excluding fuel
16 costs) to \$44 million a year. This limitation represents a significant benefit to Kentucky
17 Power's customers, and concession by the Company, during the period that both Mitchell
18 and Big Sandy Unit 2 are expected to be operating. As such, it fully and fairly addresses
19 any concerns raised during this proceeding concerning the so-called "Overlap Period."

20 **Q. HOW WILL THE ASSET TRANSFER RIDER OPERATE?**

21 A. The charges payable under the Asset Transfer Rider are determined by first allocating the
22 \$44 million revenue requirement between residential and all other customers based upon

1 their respective percentage of total revenues as of the twelve month period ended
2 September 30, 2013. The Asset Transfer Rider charges will then be calculated as a
3 percentage of total revenues for the residential class, and as a percentage of non-fuel
4 revenues for all other customers.

5 **Q. ISN'T THERE A RISK OVER-RECOVERY OR UNDER-RECOVERY**
6 **THROUGH USE OF THE ASSET RIDER?**

7 A. No. Tariff A.T.R. includes an annual true-up mechanism.

8 **Q. IS TARIFF A.T.R. INTENDED TO BE A PERMANENT RIDER?**

9 A. No. The Asset Transfer Rider will remain in place only for the approximately 17-month
10 period between the transfer and when the Commission establishes new base rates for the
11 Company that include the Mitchell units. That is, coincident with the expected
12 retirement of Big Sandy Unit 2, the Base Rate Case will establish rates that fully and
13 fairly recover the non-fuel, non-Mitchell FGD unit costs associated with the Company's
14 ownership and operation of the fifty percent in the Mitchell Generating Station. At that
15 time Tariff A.T.R. will be withdrawn.

16 **Q. WHAT WILL OCCUR WHEN TARIFF A.T.R. IS WITHDRAWN?**

17 A. The Company anticipates the Base Rate Case rates will become effective, and Tariff
18 A.T.R. will be withdrawn, coincident with the approximate date Big Sandy Unit 2 is
19 retired. At that time, the Company will be entitled to begin recovery of its costs
20 associated with the retirement of Big Sandy Unit 2, and the Big Sandy Unit 1 coal-related
21 costs. That will be accomplished through Tariff A.T.R.-2.

1 Also coincident with the withdrawal of Tariff A.T.R., the new base rates
2 established in the Base Rate Case will reflect the removal from the Company's cost of
3 service of all coal-related operating expenses, coal-related plant, and other coal-related
4 costs of Big Sandy Unit 1, as well as all Big Sandy unit 2 operating expenses, plant, and
5 other capitalized costs.

6 **Q. WHAT COSTS ARE RECOVERABLE UNDER TARIFF ATR-2?**

7 A. Paragraph 14 of the Stipulation and Settlement Agreement identifies the retirement costs
8 to be recovered through Asset Transfer Rider-2 as:

9 the coal-related retirement costs of Big Sandy Unit 1, the retirement costs
10 of Big Sandy Unit 2, and other site-related retirement costs that will not
11 continue in use...

12 Retirement costs shall include the net book value, materials and supplies
13 that cannot be used economically at other plants owned by Kentucky
14 Power, and removal costs and salvage credits, net of related ADIT.
15 Related ADIT shall include the tax benefits from tax abandonment losses.
16 The Company will use its best efforts to minimize the cost of dismantling
17 and to maximize salvage credits.

18 (Stipulation and Settlement Agreement at ¶ 14). As I discussed earlier, these costs are to
19 be recovered on 25-year levelized basis, including a weighted average cost of capital
20 carrying cost.

21 **Q. HOW ARE THE RETIREMENT COSTS TO BE ALLOCATED AND**
22 **RECOVERED UNDER TARIFF A.T.R.-2?**

23 A. The Asset Transfer Rider-2 charges will be calculated as a percentage of total revenues
24 for the residential class, and as a percentage of non-fuel revenues for all other customers.

1 This is the same allocation and recovery mechanism embodied in the Asset Transfer
2 Rider.

3 **Q. WILL THERE BE ANY OVERLAP IN THE OPERATION OF TARIFF A.T.R.**
4 **AND TARIFF A.T.R.-2?**

5 A. No.

6 (b) Purchase Power Adjustment. (Paragraph 15 of the Stipulation and
7 Settlement Agreement).

8 **Q. YOU INDICATED THAT THE STIPULATION AND SETTLEMENT**
9 **AGREEMENT PROVIDES FOR TWO NEW TARIFFS. WHAT IS THE**
10 **SECOND NEW TARIFF?**

11 A. It is the Purchase Power Adjustment (Tariff P.P.A.) The Purchase Power Adjustment
12 primarily is intended to protect the Company from any incremental purchased power
13 costs in the event Big Sandy Unit 2 is retired (including an early retirement) or can no
14 longer be economically operated. In such a case, the Company would be entitled to
15 recover through the Purchase Power Adjustment the net costs of any power purchases as
16 a result of the forced outage at any other Kentucky Power generation facility (Rockport
17 Units 1 and 2; Mitchell Units 1 and 2).

18

1 **Q. ARE ANY OTHER COSTS RECOVERED THROUGH THE PURCHASE**
2 **POWER ADJUSTMENT?**

3 A. Yes. The Purchase Power Adjustment also recovers for the Company the costs
4 associated with the \$3.68 per kW/month credit payable to customers taking designating
5 interruptible load under Tariff C.S.-I.R.P.

6 **Q. ARE INCREMENTAL POWER PURCHASE COSTS ASSOCIATED WITH A**
7 **FORCED OUTAGE OF BIG SANDY UNIT 2 RECOVERED THROUGH THE**
8 **PURCHASE POWER ADJUSTMENT?**

9 A. No. Paragraph 15 instead provides that no outage of Big Sandy Unit 2, including its
10 retirement, will be treated as a forced outage for purposes of the Company's fuel
11 adjustment clause. Instead, any such incremental costs will be recovered through the fuel
12 adjustment clause.

13 **Q. PLEASE EXPLAIN THE PURPOSE SERVED BY THE PURCHASE POWER**
14 **ADJUSTMENT, AS WELL AS THE PROVISION OF PARAGRAPH 15**
15 **REGARDING BIG SANDY UNIT 2 OUTAGES.**

16 A. The risk mitigation provided by the Purchase Power Adjustment benefits the Company's
17 customers by exerting downward pressure on the Company's capital costs, and by
18 helping the Company to stay out longer between base rate cases.

19

20

1 9. Approval Of The Deferral Of Costs And Creation of Regulatory Asset.
2 (Paragraph 8 Of The Stipulation And Settlement Agreement).

3 **Q. THE COMPANY’S APPLICATION IN THIS CASE ALSO SOUGHT**
4 **APPROVAL TO DEFER FOR REVIEW AND RECOVERY IN THE**
5 **COMPANY’S NEXT BASE RATE CASE THE COSTS ASSOCIATED WITH**
6 **KENTUCKY POWER’S ON-GOING EFFORTS TO MEET FEDERAL CLEAN**
7 **AIR ACT AND OTHER ENVIRONMENTAL REQUIREMENTS IN**
8 **CONNECTION WITH BIG SANDY UNIT 2. DOES THE STIPULATION AND**
9 **SETTLEMENT AGREEMENT ADDRESS THIS REQUEST?**

10 **A.** Yes. Paragraph 8 of the agreement provides that the Company is to be authorized in
11 accordance with Financial Accounting Standards Board Standards Codification 980-340-
12 25-1 to accumulate and defer for review and recovery in the Base Rate Case a portion of
13 the requested costs. It also provides for the amortization and recovery of the authorized
14 costs, along with carrying costs associated with the unamortized regulatory asset using a
15 long-term debt rate of 6.48%, over a five year period beginning with the rates authorized
16 in the Base Rate Case.

1 **Q. YOU INDICATE THAT THE AMOUNT OF THE REGULATORY ASSET**
2 **REPRESENTS A PORTION OF THE \$29.287 MILLION REQUESTED IN THE**
3 **COMPANY'S APPLICATION. WHAT IS THE AMOUNT OF THE**
4 **REGULATORY ASSET SPECIFIED IN THE STIPULATION AND**
5 **SETTLEMENT AGREEMENT AND WHY DOES IT DIFFER FROM THE**
6 **AMOUNT REQUESTED IN THE APPLICATION?**

7 A. The agreement provides for the creation of a regulatory asset in the amount of
8 \$28,113,304. The 4% reduction from the amount identified in the application reflects
9 refinements made by the Company following further review of the costs.

10 **Q. IS CREATION AND RECOVERY OF THE REGULATORY ASSET**
11 **APPROPRIATE?**

12 A. Yes. My direct and rebuttal testimony, along with the rebuttal testimony filed by
13 Company Witness Walton, and the Company's responses to written discovery, provide a
14 full and compelling evidentiary basis for the treatment provided for in the Stipulation and
15 Settlement Agreement. In sum, the costs allowed Kentucky Power to determine the least
16 cost solution for addressing the environmental requirements facing Big Sandy Unit 2.

1 **Q. DOES THE TREATMENT OF THE REQUESTED REGULATORY ASSET**
2 **UNDER THE STIPULATION AND SETTLEMENT AGREEMENT PROVIDE**
3 **ANY BENEFITS TO CUSTOMERS IN COMPARISON TO THE RELIEF**
4 **REQUESTED IN THE APPLICATION?**

5 A. Yes. The application contemplated that the amortization would begin in rates that would
6 have been effective January 1, 2014. Under the Stipulation and Settlement Agreement
7 the amortization will begin approximately 17 months earlier. In addition, the parties to
8 the agreement have agreed upon a five year amortization period, thereby possibly
9 limiting the need to litigate the issue in the Base Rate Case.

10 10. Possible Greenhouse Gas Regulation.

11 **Q. ON JUNE 25, 2013 PRESIDENT OBAMA OUTLINED HIS ADMINISTRATION'S**
12 **PROPOSALS TO ADDRESS GREENHOUSE GASES. DOES THE**
13 **STIPULATION AND SETTLEMENT AGREEMENT ADDRESS THE**
14 **POSSIBILITY OF FUTURE GREENHOUSE GAS REGULATION ?**

15 A. Yes. Kentucky Power believes that the President's speech did not represent a significant
16 change from his administration's prior announcements regarding greenhouse gas
17 regulation, other than perhaps to provide some specificity as to the schedule. In addition,
18 the Company continues to believe that its modeling presented in this case reasonably
19 accounts for the likely effect of any such regulation. (Company Witnesses McManus and
20 Weaver are best situated to address the Company's understanding of the President's
21 announcement and the Company's modeling). Nevertheless, Kentucky Power agreed to
22 include the provisions set out in Paragraph 21 of the Stipulation and Settlement
23 Agreement.

1 **Q. WHAT DOES PARAGRAPH 21 OF THE STIPULATION AND SETTLEMENT**
2 **AGREEMENT PROVIDE?**

3 A. I would like to address four of its most important provisions. First, in Paragraph 21(c)
4 the Company agreed to include an economic analysis of all generating unit costs,
5 including the costs of complying with greenhouse gas emission regulation, in future
6 Integrated Resource Plans. This will give the Commission and any intervenors the
7 information necessary to assess the impact, if any, of future greenhouse regulation on all
8 Kentucky Power generating unit costs. Second, in Paragraph 21(b) the Company agreed
9 that any costs resulting from federal, state or local environmental requirements relating to
10 greenhouse gas emissions will be collected through the Environmental Surcharge or a
11 similarly-structured surcharge mechanism. Third, Kentucky Power, KIUC, and Sierra
12 Club further agreed to work collaboratively with Kentucky and West Virginia
13 environmental agencies to address in a reasonable fashion the potential regulation of
14 carbon and its effect on Company customers. (Paragraph 21(a)). Finally, the Company
15 acknowledged the Commission's authority, upon a finding, following a full due process
16 hearing, that Mitchell Units 1 and 2 are no longer the least cost generation resource for
17 the ratepayers of the Company due to federal, state or local environmental laws or
18 regulations imposing on Mitchell Units 1 and 2 costs or operational requirements
19 associated with or related to greenhouse gas emissions, to order that Mitchell Units 1 and
20 2 be retired for Kentucky ratemaking purposes. Paragraph 21(a) also identifies certain
21 ratemaking treatment associated with the retirement of Big Sandy Units 1 and 2 for
22 Kentucky ratemaking purposes.

Reasonableness Of The Stipulation And Settlement
Agreement And The Proposed Rates.

1
2
3 **Q. WILL THE TRANSFER TO KENTUCKY POWER OF A FIFTY PERCENT**
4 **UNDIVIDED INTEREST IN THE MITCHELL GENERATING STATION ON**
5 **THE TERMS AND CONDITIONS SET OUT IN THE STIPULATION AND**
6 **SETTLEMENT AGREEMENT SERVE THE PUBLIC CONVENIENCE AND**
7 **NECESSITY?**

8 A. Yes. It is the least cost alternative for meeting the Company's very real and rapidly
9 approaching need for base load capacity and energy. With the termination of the
10 Interconnection Agreement effective January 1, 2014, and the need to address the
11 environmental requirements facing both Big Sandy Unit 1 and Big Sandy Unit 2, there is
12 little or no dispute in this case that Kentucky Power must do something promptly to
13 address or acquire 1,080 MW of capacity and associated energy. The status quo, or even
14 further investigation and litigation, is not a reasonable option.

15 The record in this case compellingly demonstrates that the transfer of the
16 undivided fifty percent interest in the Mitchell Generating Station to Kentucky Power is
17 the least-cost option. The transfer is made even more so by the very significant financial
18 concessions made by the Company with respect to the rates to be charged during the 17-
19 months between the transfer of the interest in Mitchell and the retirement of Big Sandy
20 Unit 2.

21 The proposed transfer also provides Kentucky Power with a reliable and known
22 asset that is environmentally controlled and capable of meeting the requirements of the
23 Mercury and Air Toxics Standards rule. The "steel in the ground" solution available

1 through Mitchell not only enhances the Commission's jurisdiction, but also allows the
2 Commission to avoid the risks inherent in a market-based solution. Indeed, a market-
3 based solution is not only much more risky, but as Mr. Weaver's testimony demonstrates,
4 much more expensive. Moreover, while the retrofit of Big Sandy Unit 2 with a DFGD
5 unit provides some benefits not available through the Mitchell transfer, the nearly three
6 quarters of a billion dollars additional cumulative present worth price tag associated with
7 retrofit of Big Sandy Unit 2 is not a fair, just, or reasonable solution for the Company's
8 customers – including those residing in Lawrence County – who will be required to bear
9 those increased costs for years to come through higher rates.

10 **Q. IS THERE A NEED FOR THE CAPACITY AND ENERGY THE COMPANY**
11 **WILL ACQUIRE IN CONNECTION WITH THE TRANSFER?**

12 A. The need to address the May 2015 loss of the 800 MW represented by Big Sandy Unit 2
13 as presently controlled is one fact that seemingly is not in dispute. Without Mitchell or
14 another resource, Kentucky Power in 2015 will move from a 20% reserve margin to a
15 *negative 66.26%* reserve margin.

16 **Q. WILL THE TRANSFER OF THE FIFTY PERCENT INTEREST IN THE**
17 **MITCHELL GENERATING STATION TO KENTUCKY POWER ON**
18 **DECEMBER 31, 2014 RESULT IN WASTEFUL DUPLICATION?**

19 A. No. Although the transfer precedes the expected retirement of Big Sandy Unit 2 by a
20 short period, large acquisitions of capacity – and 780 MW certainly is fairly characterized
21 as a large acquisition – cannot be precisely timed. The assets must be acquired when
22 available, and there is no guarantee Mitchell or any other comparable asset will be

1 available, and or available at the transfer price, when Big Sandy Unit 2 is expected to
2 retire. Moreover, the 17 months between the transfer date and the anticipated retirement
3 of Big Sandy Unit 2 represents only five percent of the expected remaining life of the
4 Mitchell units. It is difficult to time a transfer, and even less so the construction of a new
5 unit or retrofit of an existing unit, more closely than that.

6 Equally important, further delay, as would be occasioned by the denial of the
7 transfer, is in no one's interest. At the April 2012 hearing on the Company's application
8 to retrofit Big Sandy Unit 2 with a scrubber the Chairman made abundantly clear to
9 Kentucky Power the need to resolve the fate of Big Sandy Unit 2 promptly. That need
10 has become no less compelling in the intervening fourteen months.

11 **Q. DOES THE STIPULATION AND SETTLEMENT AGREEMENT FAIRLY**
12 **BALANCE THE INTERESTS OF THE COMPANY AND ITS CUSTOMERS?**

13 A. Yes. The Stipulation and Settlement Agreement strikes a fair and proper balance
14 between Kentucky Power's need to acquire capacity and energy to meet its legal
15 obligations and to provide reliable service to its customers, and its customers' obligation
16 to pay fair, just, and reasonable rates.

17 **Q. WHAT IS THE BASIS FOR YOUR CONCLUSION?**

18 A. The rates permit the Company to acquire 780 MW of environmentally controlled, known,
19 and proven base load generation, with an anticipated retirement date of 2040, to replace
20 Big Sandy Unit 2. The transfer price is not only below market price, but more than three

1 quarters of a billion dollars less, on a cumulative present worth basis, than the cost of
2 retrofitting Big Sandy Unit 2 with a DFGD unit.

3 During the period the Company will own and operate both Big Sandy Unit 2 and
4 its fifty percent undivided interest in the Mitchell units, Kentucky Power's customers will
5 receive the full benefit of the Company's interest in the Mitchell units at rates that are a
6 fraction of the rates supported by the Company's June 28, 2013 application for a general
7 adjustment of rates. These much lower rates are possible only because of the financial
8 and other concessions made by Kentucky Power in the course of the negotiations leading
9 to the execution of the Memorandum of Understanding and the subsequent Stipulation
10 and Settlement Agreement.

11 **Q. ARE THESE THE ONLY CONSIDERATIONS SUPPORTING YOUR**
12 **CONCLUSION CONCERNING THE REASONABLENESS OF THE RATES?**

13 A. No; far from it. The Stipulation and Settlement Agreement provides many other benefits
14 – both financial and non-financial – to the Company's customers.

15 **Q. PLEASE DETAIL THOSE BENEFITS, INCLUDING ANY BENEFITS**
16 **INVOLVING THE RATES TO BE CHARGED IF THE STIPULATION AND**
17 **SETTLEMENT AGREEMENT IS APPROVED.**

18 A. The Stipulation and Settlement Agreement also provides that:

- 19 • Through the use of the Asset Transfer Rider the Company's overall revenue
20 requirement will increase only 7.87% following the transfer of the Company's
21 interest in the Mitchell Generating Station and prior to the retirement of Big
22 Sandy Unit 2;

- 1 • Residential customers, who experienced the largest percentage rate increase in the
2 Company's last base rate case, will see a rate increase of 7.87% -- equal to the
3 overall increase in the Company's revenue requirement, and the third lowest
4 increase among all tariff classes;
- 5 • Because of the anticipated lower Mitchell Generating Station fuel costs as
6 compared to those for Big Sandy Unit 1 and Big Sandy Unit, the Company
7 anticipates customers will receive, based upon 2012 jurisdictional kWh sales of
8 6.7 GWh, \$16.75 million in reduced fuel costs.
- 9 • The Company will withdraw, following the Commission's approval of the
10 Stipulation and Settlement Agreement, its June 28, 2013 base rate case
11 application. Without rate mitigation, and with the Transmission Adjustment, the
12 application seeks a 23.39% increase in its revenue requirement in that case.
13 Residential customers would experience a 31% increase in their rates if the
14 application were granted in full;
- 15 • The Company will maintain current base rates, subject to a force majeure
16 provision, through at least May 31, 2015;
- 17 • Customers will enjoy greater rate stability during the period prior to the retirement
18 of Big Sandy Unit 2 as a result of the "zeroing out" of charges under the
19 Company's System Sales Clause and Environmental Surcharge;
- 20 • The Company agreed to file the Base Rate Case no later than December 29, 2014,
21 thereby permitting Kentucky Power's customers to timely capture the savings
22 resulting from the retirement of Big Sandy Unit 2 and Big Sandy Unit 1's coal
23 related facilities;
- 24 • Tariff C.S.-I.R.P. will be modified to provide specific incentives for customers to
25 designate interruptible load, as well as to increase the load subject to the tariff.
26 The Company can bid in the nominated load in fulfillment of its PJM capacity
27 obligations;
- 28 • Big Sandy retirement costs will be recovered over a 25-year period on a levelized
29 basis, thereby mitigating the rate impact of the recovery;
- 30 • The new Purchase Power Adjustment will be used to recover purchase power
31 costs, thereby mitigating certain risks facing the Company. This risk mitigation
32 could result in lower capital costs and the need for less frequent base rate cases;
- 33 • Over a three year period the Company will double its spending on cost effective
34 DSM and energy efficiency measures through Commission-approved DSM
35 programs;
- 36 • The Company will institute a two-year DSM program to assist schools with
37 energy management;

- 1 • The Company will increase by 20% its contribution to the Home Energy
2 Assistance Program. The increased funding, like the amounts currently being
3 contributed by Kentucky Power, will be paid by the Company's shareholder and not
4 recovered from customers;
- 5 • The Company agreed to make an annual \$100,000 contribution for five years to
6 provide economic development support to Lawrence County, Kentucky and the
7 surrounding Kentucky counties. Like the increased Home Energy Assistance
8 Program contributions, the \$100,000 annual economic development contribution
9 will be made solely from shareholder funds; and
- 10 • Kentucky Power agreed to seek a certificate of public convenience and necessity
11 to convert Big Sandy Unit 1 to natural gas. The conversion not only will provide
12 the Company with 268 MW of inexpensive capacity and increase its fuel
13 diversity, but will also provide important economic benefits to Lawrence and
14 surrounding counties;
- 15 • The Company agreed to continue two ongoing efforts that will aid its service
16 territory;
- 17 • In aid of its 2013 Integrated Resource Planning, the Company will issue a non-
18 binding Request For Proposals seeking 100 MWs of wind energy; and
- 19 • The Company has made certain commitments with respect to possible greenhouse
20 gas regulation.

21 In short, as a result of the significant give and take between Kentucky Power and
22 the Settling Intervenor prior to the execution of the Memorandum of Understanding, and
23 the negotiations leading to the final agreement, the Stipulation and Settlement Agreement
24 provides for a pragmatic, reasonable, and fair balancing of the interests of all concerned,
25 including the Company's residential customers.

26

1 The New And Revised Tariffs Required To Implement
2 The Stipulation And Settlement Agreement.

3 **Q. DID THE COMPANY PREPARE THE TARIFFS REQUIRED TO**
4 **IMPLEMENT THE TERMS OF THE STIPULATION AND SETTLEMENT**
5 **AGREEMENT?**

6 A. Yes; the Company prepared six tariffs. They appear as the following exhibits to the
7 agreement:

- 8 (a) Exhibit 1 – Asset Transfer Rider (Tariff A.T.R.);
- 9 (b) Exhibit 1-A – Asset Transfer Rider – 2 (Tariff A.T.R.– 2);
- 10 (c) Exhibit 2 – amended Environmental Surcharge (Tariff E.S.);
- 11 (d) Exhibit 3 – amended Tariff System Sales Clause (Tariff S.S.C.);
- 12 (e) Exhibit 4 – amended Tariff C.S.-I.R.P.;
- 13 (f) Exhibit 5 – Purchase Power Adjustment (Tariff P.P.A.)

14 **Q. ARE THE ABOVE TARIFFS CONSISTENT WITH THE TERMS OF THE**
15 **STIPULATION AND SETTLEMENT AGREEMENT?**

16 A. Yes.

17 The Approvals Required Pursuant To KRS 278.300.

18 **Q. ARE THE LIABILITIES TO BE ACQUIRED AS PART OF THE MITCHELL**
19 **TRANSFER IDENTIFIED ANYWHERE?**

20 A. Yes. Subject to the exclusions specified in Section 2.04 of the Asset Contribution
21 Agreement between AEP Generation Resources Inc. and NEWCO Kentucky, Kentucky

1 Power will assume a fifty percent undivided interest in the liabilities described in Section
2 2.03 of the Asset Contribution Agreement.

3 **Q. IS KENTUCKY POWER'S ASSUMPTION OF THE LIABILITIES DESCRIBED**
4 **ABOVE NECESSARY FOR, CONSISTENT WITH, AND APPROPRIATE FOR**
5 **THE COMPANY'S PERFORMANCE OF SERVICE TO THE PUBLIC AS A**
6 **PUBLIC UTILITY?**

7 A. Yes. The Transferred Assets will permit Kentucky Power to meet its long-term capacity
8 obligations and to provide base load generation to meet its customers' requirements
9 through known, reliable, and environmentally-controlled base load generating facilities.
10 Moreover, because the transfer to Kentucky Power of the undivided fifty percent interest
11 in the Mitchell Generating Station, which requires the assumption of the liabilities to be
12 assumed by the Company, is the least cost alternative for meeting these obligations and
13 requirements, the liabilities are being assumed in connection with a lawful object within
14 the corporate purposes of Kentucky Power, and are necessary and appropriate for, and
15 consistent with, the proper performance by the Company of its provision of electric utility
16 service to the public.

17 **Q. WILL THE ASSUMPTION OF THE ABOVE DESCRIBED LIABILITIES**
18 **IMPAIR KENTUCKY POWER'S ABILITY TO PROVIDE RELIABLE AND**
19 **SAFE ELECTRIC UTILITY SERVICE TO ITS CUSTOMERS?**

20 A. No. The Stipulation and Settlement Agreement provides an adequate financial basis for
21 the Company to meet these obligations.

1 Deviation Pursuant To KRS 278.2207(b).

2 **Q. IS THE NET BOOK VALUE OF THE MITCHELL GENERATING STATION**
3 **LESS THAN ITS MARKET VALUE?**

4 A. Yes, the evidentiary record, particularly the testimony of Dr. McDermott and Mr.
5 Weaver, clearly establishes this fact.

6 **Q. IF THE COMMISSION WERE TO CONCLUDE OTHERWISE, IS THE**
7 **TRANSFER PRICING NONETHELESS REASONABLE AND IN THE PUBLIC**
8 **INTEREST, THEREBY PROVIDING A SUFFICIENT BASIS FOR THE**
9 **COMMISSION'S GRANT OF A DEVIATION PURSUANT TO KRS 278.2207(2)?**

10 A. Yes. The multiple benefits I identified earlier flowing to the Company's customers
11 through the transfer of the fifty percent undivided interest in the Mitchell Generating
12 Station, as well as the financial and other benefits provided by the Stipulation and
13 Settlement Agreement, ensure that the pricing is reasonable and that any required
14 deviation would be in the public interest.

15 Conclusion

16 **Q. DO YOU HAVE A RECOMMENDATION FOR THE COMMISSION?**

17 A. Yes. The Stipulation and Settlement Agreement should be approved. In addition, the
18 Commission should grant a certificate of public convenience and necessity authorizing,
19 as described in the Company's application, the transfer to Kentucky Power of a fifty
20 percent undivided interest in the Mitchell Generating Station. The Commission also
21 should grant all necessary approvals to consummate the transfer, including approving the

1 Company's assumption of liabilities in connection with the transfer, and, to the extent
2 deemed necessary by the Commission, the grant of a deviation in accordance with KRS
3 278.2207(2). Finally, the Commission should establish rates and charges in conformity
4 with the agreement, and approve the tariffs required to implement the Stipulation and
5 Settlement Agreement.

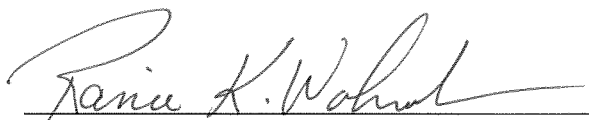
6 **Q. DOES THIS CONCLUDE YOUR TESTIMONY?**

7 A. Yes.

8

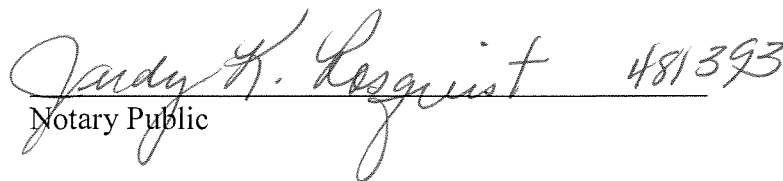
VERIFICATION

The undersigned, Ranie K. Wohnhas being duly sworn, deposes and says he is the Managing Director Regulatory and Finance for Kentucky Power Company, that he has personal knowledge of the matters set forth in the forgoing testimony and the information contained therein is true and correct to the best of his information, knowledge, and belief.


Ranie K. Wohnhas

COMMONWEALTH OF KENTUCKY)
)
COUNTY OF FRANKLIN)

Subscribed and sworn to before me, a Notary Public in and before said County and State, by Ranie K. Wohnhas, this the 28th day of June 2013.


Notary Public

My Commission Expires: January 23, 2017

EXHIBIT RKW-1

COMMONWEALTH OF KENTUCKY

BEFORE THE PUBLIC SERVICE COMMISSION

IN THE MATTER OF:

APPLICATION OF KENTUCKY POWER COMPANY FOR (1) A CERTIFICATE OF PUBLIC CONVENIENCE AND NECESSITY AUTHORIZING THE TRANSFER TO THE COMPANY OF AN UNDIVIDED FIFTY PERCENT INTEREST IN THE MITCHELL GENERATING STATION AND ASSOCIATED ASSETS; (2) APPROVAL OF THE ASSUMPTION BY KENTUCKY POWER COMPANY OF CERTAIN LIABILITIES IN CONNECTION WITH THE TRANSFER OF THE MITCHELL GENERATING STATION; (3) DECLARATORY RULINGS; (4) DEFERRAL OF COSTS INCURRED IN CONNECTION WITH THE COMPANY'S EFFORTS TO MEET FEDERAL CLEAN AIR ACT AND RELATED REQUIREMENTS; AND (5) ALL OTHER REQUIRED APPROVALS AND RELIEF

Case No. 2012-00578

STIPULATION AND SETTLEMENT AGREEMENT

This Stipulation and Settlement Agreement, made and entered into this 2ND day of July, 2013, by and among Kentucky Power Company ("Kentucky Power" or "Company"); Kentucky Industrial Utility Customers, Inc. ("KIUC"); and Sierra Club, Alexander Desha, Tom Vierheller, and Beverly May ("Sierra Club");

WITNESSETH:

WHEREAS, on December 19, 2012 Kentucky Power filed a verified application pursuant to KRS 278.020, 807 KAR 5:001, Section 9 (now 807 KAR 5:001, Section 15), KRS 278.300, and 807 KAR 5:001, Section 11 (now 807 KAR 5:001, Section 17). In its application, styled *In the Matter of: Application of Kentucky Power Company for: (1) A Certificate Of Public Convenience and Necessity Authorizing The Transfer To The Company Of An Undivided Fifty Percent Interest In The Mitchell Generating Station And Associated Assets; (2) Approval Of The Assumption By Kentucky Power Company Of Certain Liabilities In Connection With The Transfer Of Mitchell Generating Station; (3) Declaratory Rulings;*¹ *(4) Deferral Of Costs Incurred In Connection With The Company's Efforts To Meet Federal Clean Air Act And Related Requirements; And (5) For All Other Required Approvals And Relief*, Case No. 2012-00578 ("Transfer Application.") In the Transfer Application, the Company sought approval for all approvals necessary to effectuate the transfer of a fifty percent undivided interest in Ohio Power Company's Mitchell Generating Station, including the assumption of certain liabilities. In addition, the Company sought the authority, in accordance with Financial Accounting Standards Board Standards Codification 980-340-25-1, to accumulate and defer for review and recovery in its next base rate proceeding certain costs incurred from 2004 through 2012 in connection with the Company's ongoing efforts to meet Federal Clean Air Act and other environmental requirements with respect to Big Sandy Unit 2; and

WHEREAS, KIUC, Sierra Club, and the Attorney General of the Commonwealth of Kentucky, by and through his Office of Rate Intervention ("Attorney General") (collectively the

¹ On February 15, 2013 the Commission issued a declaratory order stating that prior approval pursuant to KRS 278.020(5) and KRS 278.020(6) is not required for the merger of Kentucky Power and NEWCO Kentucky.

“Intervenors”) filed motions for full intervention in P.S.C. Case No. 2012-00578. The Public Service Commission of Kentucky (“Commission”) granted each of the intervention motions; and

WHEREAS, Sierra Club and KIUC filed written testimony raising issues regarding Kentucky Power’s Transfer Application; and

WHEREAS, Kentucky Power and the Intervenors have had a full opportunity for discovery, including the filing of written data requests and responses; and

WHEREAS, Kentucky Power offered the Intervenors, along with Commission Staff, the opportunity to meet and review the issues presented by Kentucky Power’s application in this proceeding and for purposes of settlement; and

WHEREAS, during May 2013 representatives of Kentucky Power and the Intervenors, along with Commission Staff, met to review the issues and discuss settlement of the Transfer Application; and

WHEREAS, on May 28, 2013 Kentucky Power, along with Sierra Club and KIUC (“Settling Intervenors”), entered into a Memorandum of Understanding Regarding Stipulation and Settlement Agreement memorializing the basis for settling the issues in this proceeding; and

WHEREAS, Kentucky Power and the Settling Intervenors have reviewed the issues raised in P.S.C. Case No. 2012-0578, and have reached a settlement of the case, including the issues raised therein; and

WHEREAS, the Attorney General declined to enter into a settlement of the issues and thus there is not a unanimous settlement of the proceedings in Case No. 2012-00578; and

WHEREAS, Kentucky Power and the Settling Intervenors execute this Stipulation and Settlement Agreement (“Settlement Agreement”) for purposes of submitting it to the Public Service Commission of Kentucky for approval, and for such further approvals as are required to implement its provisions; and

WHEREAS, Kentucky Power and the Settling Intervenors believe that the relief, rates, and approvals provided for by this Settlement Agreement are in accordance with the requirements of Chapter 278; and

WHEREAS, the adoption of this Settlement Agreement will limit the need for the Commission and the parties to expend considerable resources in the litigation of this proceeding,

NOW THEREFORE, for and in consideration of the mutual premises set forth above, and the agreements and covenants set forth herein, Kentucky Power and the Settling Intervenors hereby agree:

1. On December 31, 2013, fifty percent of Mitchell Units 1 and 2 (including associated assets and liabilities) are to be transferred to Kentucky Power Company in the manner described in the Transfer Application. The transfer will be at actual net book value as of December 31, 2013, including all Accumulated Deferred Income Tax benefits, with no off-set to negate the transfer of those tax benefits to Kentucky ratepayers, in a manner consistent with the accounts and accounting entries shown on RKW-Exhibit 2 and RKW-Exhibit 3 (the net book value is currently estimated to be approximately \$536 million), and the calculation of the “Mitchell Plant Revenue Requirement” amounts shown on RKW-Exhibit 4 and the underlying workpapers for RKW-Exhibit 4. Such transfer shall be deemed a prudent component of rate base in future proceedings. The Company will use current Ohio Power Company depreciation rates

for Mitchell Units 1 and 2 until such rates are changed in the Base Rate Case, as that proceeding is defined in Paragraph 3. The Company shall propose depreciation rates that reflect a 2040 retirement date for the Mitchell units in the Base Rate Case.

2. Mitchell-related fuel costs shall be included in the calculation of charges or credits under Kentucky Power Company's Fuel Adjustment Clause. The Mitchell units will be included in the economic dispatch of Kentucky Power Company's generation resources. Because of the anticipated lower fuel costs of Mitchell Units 1 and 2 vis-à-vis the anticipated fuel costs of the Big Sandy units, the transfer of the Mitchell units to Kentucky Power is expected to provide Kentucky Power customers with the benefit of reduced fuel costs of approximately \$2.50/MWh. Based on 2012 jurisdictional kWh sales of 6.7 GWh, the benefits are estimated to total \$16.75 million annually.

3. Upon approval by the Commission of this Stipulation and Settlement Agreement, the Company shall withdraw any pending base rate case.² The Company agrees to maintain current base rates at least through May 31, 2015, subject to Paragraph 16 of this Settlement Agreement. In addition, the Company agrees to file a base rate proceeding ("Base Rate Case") no later than December 29, 2014 utilizing a September 30, 2014 test year. The Company agrees to propose combining, using the C.I.P.-T.O.D. rate design, the C.I.P.-T.O.D. and Q.P. tariff classes in the Base Rate Case. The Company agrees to remove all coal-related operating expenses related to Big Sandy 1, and all operating expenses related to Big Sandy Unit 2 from the cost of service study in the Base Rate Case. The Company further agrees to remove all coal-related plant and other capitalized costs, e.g., fuel inventories, materials and supplies inventories,

² Kentucky Power Company on May 17, 2013 filed its Notice of Intent to file an Application For General Adjustment of its Rates (Case No. 2013-00197). On June 28, 2013 the Company filed its Application seeking a 23.39% adjustment in its revenues (with the transmission adjustment).

etc., related to Big Sandy Unit 1, and all plant and other capitalized costs, e.g., fuel inventories, materials and supplies inventories, etc., related to Big Sandy Unit 2, from the cost of service study in the Base Rate Case, and instead recover these costs in the manner set forth in Paragraph 14 of this Settlement Agreement.

4. Effective January 1, 2014, the Company will implement an Asset Transfer Rider pursuant to the Tariff Asset Transfer Rider attached hereto as EXHIBIT 1. The Asset Transfer Rider is designed to collect \$44 million annually, with a true-up mechanism to ensure no over or under recovery. The charges payable under the Asset Transfer Rider are initially determined by first allocating the \$44 million revenue requirement between residential and all other customers based upon their respective percentage of total revenues as of the twelve month period ended September 30, 2013. The Asset Transfer Rider charges will be calculated as a percentage of total revenues for the residential class, and as a percentage of non-fuel revenues for all other customers. The Asset Transfer Rider will remain in place until the Commission sets new base rates for the Company that include the Mitchell units. After new base rates are established, the Asset Transfer Rider will be reset to remove the \$44 million by substituting Asset Transfer Rider-2 (Tariff A.T.R.-2), attached hereto as EXHIBIT 1-A, which thereafter will be used to recover the Big Sandy 1 and Big Sandy 2 retirement costs as described in Paragraph 14.

5. Effective January 1, 2014, the monthly Environmental Surcharge factor (Tariff E.S.) will be fixed and maintained at 0.00% until new base rates are set by the Commission. The revised Tariff E.S. is attached hereto as EXHIBIT 2.

6. When base rates are set in the Base Rate Case, all costs associated with the Mitchell Units 1 and 2 Flue Gas Desulfurization (FGD) equipment will be recovered through the

environmental surcharge (Tariff E.S.) approved in the Base Rate Case, and excluded from base rates in the Base Rate Case. This collection mechanism shall continue at least until the Commission sets new base rates for a period commencing after June 30, 2020 that include these costs. The charges payable under the Environmental Surcharge to be submitted for approval in the Base Rate Case will be determined by first allocating the revenue requirement between full requirements wholesale customers and retail customers in the same manner that it is presently allocated. The retail share of the revenue requirement will then be allocated between residential and non-residential retail customers based upon their respective total revenues. The Environmental Surcharge will be implemented as a percentage of total revenues for the residential class and as a percentage of non-fuel revenues for all other customers.

7. Effective January 1, 2014, the Company will set and maintain the System Sales Adjustment Factor (Tariff S.S.C.) to 0.0000 mills/kWh until new base rates are set by the Commission. The revised Tariff S.S.C. is attached hereto as **EXHIBIT 3**. Calendar year off-system sales margins above \$15,290,363, the level in current base rates, will be retained by the Company until new base rates are set.

8. The Company shall be authorized in accordance with Financial Accounting Standards Board Standards Codification 980-340-25-1 to accumulate and defer for review and recovery in the Base Rate Case the \$28,113,304 of costs incurred from 2004 through 2012 in connection with the Company's ongoing efforts to meet Federal Clean Air Act and other environmental requirements with respect to Big Sandy Unit 2. The Company shall be authorized to amortize and recover the regulatory asset over a five-year period commencing with the implementation of the base rates established in the Base Rate Case. The Company will be

authorized to apply carrying costs to the unamortized regulatory asset at a long-term debt rate of 6.48%.

9. Effective June 1, 2015, the availability of service under Tariff C.S.-I.R.P. shall increase to 75,000 kW in accordance with the revised Tariff C.S.-I.R.P. attached hereto as **EXHIBIT 4**. Further, the revised Tariff C.S.-I.R.P. provides that effective June 1, 2015 credits under Tariff C.S.-I.R.P. of \$3.68 /kW/month will be provided for interruptible load that qualifies under PJM's rules as capacity for the purposes of the Company's FRR obligation. This interruptible service will be consistent with PJM's Limited Demand Response, Emergency – Capacity Only Program, subject to any limitations on the availability of that Program by PJM. If insufficient MWs are available for PJM enrollment by Kentucky Power, the revised Tariff C.S.-I.R.P. provides that Company shall offer to substitute one of the other PJM Emergency Demand Response Programs that is available. To be eligible for the credit, customers must be able to provide interruptible load (not involving behind the meter diesel generation) of at least one MW at a single site and commit to a minimum 4-year contract term. Any such credits will be collected through the newly-established Purchase Power Adjustment to be implemented pursuant to Paragraph 15 of this Settlement Agreement.

10. The Company agrees to provide economic development support for Lawrence County, Kentucky and the Kentucky counties contiguous thereto in the total amount of \$100,000 per year for five years. Of this annual amount, \$33,000 will be set aside for job training, with a preference for training for weatherization and energy efficiency-related jobs. The \$100,000 annual contribution shall not be recoverable from Kentucky Power customers.

11. The Company agrees to increase its contribution to the Home Energy Assistance Program to 15 cents per residential meter per month. Such amounts shall not be recoverable from customers.

12. The Company agrees to institute a new two-year Demand-Side Management (“DSM”) program to help fund energy management programs for schools affected by KRS 160.325. The annual DSM funding level for this program will be \$75,000 in 2014 and \$50,000 in 2015. Further, Kentucky Power agrees to increase its aggregate annual spending on cost-effective DSM and energy efficiency measures through Commission-approved DSM programs to \$4 million in 2014; \$5 million in 2015; and \$6 million in 2016, 2017, and 2018. The Company also will seek to maintain a minimum spending level of \$6 million for Commission-approved cost-effective DSM and energy efficiency measures in years after 2018. The Sierra Club may participate in the Company’s DSM collaborative and receive the Company’s periodic reports and evaluations of its DSM programs.

13. The Company shall file with the Commission an application pursuant to KRS 278.020 for Certificate of Public Convenience of Necessity to convert the 268 MW Big Sandy Unit 1 to natural gas, and will exercise its option to terminate its March 28, 2013 Request for Proposals. All parties to this Settlement Agreement agree they will not move to intervene to challenge the Company’s filing for the required Certificate of Public Convenience and Necessity to convert Big Sandy Unit 1 to natural gas, provided the cost to convert is approximately \$60 million.

14. The Company shall be authorized to recover the coal-related retirement costs of Big Sandy Unit 1, the retirement costs of Big Sandy Unit 2, and other site-related retirement

costs that will not continue in use. The costs shall be recovered on a levelized basis, including a weighted average cost of capital (WACC) carrying cost, over a 25 year period beginning when base rates are set in the Base Rate Case. The term "Retirement Costs" as used in this agreement are defined as and shall include the net book value, materials and supplies that cannot be used economically at other plants owned by Kentucky Power, and removal costs and salvage credits, net of related ADIT. Related ADIT shall include the tax benefits from tax abandonment losses. The Company will use its best efforts to minimize the cost of dismantling and to maximize salvage credits. Such retirement costs will be recovered in the Asset Transfer Rider-2.

15. Beginning January 1, 2014, no outage associated with Big Sandy Unit 2, including that due to its retirement, shall be treated as a forced outage for purposes of the Fuel Adjustment Clause. After Big Sandy Unit 2 is retired or can no longer be economically operated, the Company shall be authorized to recover incremental purchased power costs associated with forced outages of other Kentucky Power plants, not otherwise recoverable through the Fuel Adjustment Clause, pursuant to the Purchase Power Adjustment attached hereto as **EXHIBIT 5**. Customers shall at all times be entitled to the least cost energy produced by generation owned, leased or purchased by the Company consistent with economic dispatch principles.

16. The retirement of Big Sandy Unit 2 prior to May 31, 2015, shall be considered a Force Majeure Event and the Company shall have the right to seek emergency rate relief from the Commission to prevent its credit or operations from being materially impaired or damaged under KRS 278.190 (2) consistent with the Commission's orders and precedent governing such relief. Such emergency rate relief shall be limited to \$24 million annually (\$2 million per month

for each remaining month through May 2015). For purposes of this provision, Big Sandy Unit 2 shall be deemed retired upon review of the retirement as required under the PJM tariff.

17. The Company agrees to continue to procure coal for the Mitchell units with no bias against coal produced in Kentucky.

18. The Company agrees to continue to work during the conversion of Big Sandy Unit 1 to use local labor sources, in connection with the conversion, when technically practical.

19. The Company agrees to issue a non-binding Request For Proposals for 100 MW of wind power for the purpose of incorporating the results of the RFP in its Integrated Resource Plan that will be filed in December 2013.

20. The Company's application in Case No. 2013-00144 (*In The Matter Of: The Application Of Kentucky Power Company For: (1) The Approval Of The Terms And Conditions Of The Renewable Energy Purchase Agreement For Biomass Energy Resources Between The Company And ecoPower Generation-Hazard LLC; (2) Authorization To Enter Into The Agreement; (3) The Grant Of Certain Declaratory Relief; And (4) The Grant Of All Other Required Approvals and Relief*) is to be decided separately by the Commission.

21. Kentucky Power and the Settling Intervenors agree:

(a) Any party can contest the reasonableness of the ongoing costs of environmental compliance in future proceedings. The Company acknowledges the authority of the Commission, upon its own motion, or upon application by the parties (including the Attorney General, Sierra Club, and KIUC), to determine following a full due process hearing that Mitchell Units 1 and 2 are no longer the least cost generation resource for the ratepayers of the Company

due to federal, state or local environmental laws or regulations imposing on Mitchell Units 1 and 2 costs or operational requirements associated with or related to greenhouse gas emissions, and to order upon such determination that Mitchell Units 1 and 2 shall be retired for Kentucky ratemaking purposes. Nothing in this Stipulation and Settlement Agreement shall bar the Commission or the parties (including the Attorney General, Sierra Club, and KIUC) from proceeding pursuant to KRS 278.260 to challenge the Company's rates on the ground the rates are unreasonable or unjustly discriminatory because Mitchell Units 1 and 2 are no longer the least cost generation resource for the ratepayers of the Company due to federal, state or local environmental laws or regulations imposing on Mitchell Units 1 and 2 costs or operational requirements associated with or related to greenhouse gas emissions. The Company and Settling Intervenor further agree to work collaboratively with the Kentucky and West Virginia Environmental Protection Agencies to attempt to reasonably address the potential regulation of carbon and its impact on Kentucky Power customers.

(b) Any costs resulting from federal, state or local environmental requirements relating to greenhouse gas emissions will be collected through the Environmental Surcharge or a similarly-structured surcharge mechanism consistent with the allocation specified in Paragraph 6.

(c) If Mitchell Units 1 or 2 are retired for Kentucky ratemaking purposes pursuant to Paragraph 21(a) or retired early as the result of federal, state or local environmental requirements relating to greenhouse gas emissions, the Company agrees to collect the Retirement Costs with a debt-only carrying cost. The recovery period and mechanism shall be approved by the Commission. Retirement Costs shall be as defined in Paragraph 14. The Company further agrees to include an economic analysis of all generating unit costs, including the costs of

complying with greenhouse gas emission regulation, in future Integrated Resource Plans. This Stipulation and Settlement Agreement does not bar any party from advocating any position it deems appropriate in a future Integrated Resource Plan docket, or any other future proceeding.

22. Filing Of Settlement Agreement With The Commission And Request For Approval.

Following the execution of this Settlement Agreement, Kentucky Power and the Settling Intervenors shall file this Settlement Agreement with the Commission along with a joint request to the Commission for consideration and approval of this Settlement Agreement.

23. Good Faith And Best Efforts To Seek Approval.

(a) This Settlement Agreement is subject to approval by the Commission.

(b) Kentucky Power and the Settling Intervenors shall act in good faith and use their best efforts to recommend to the Commission that this Settlement Agreement be approved in its entirety and without modification, and that the rates and charges set forth herein be implemented.

(c) Kentucky Power and certain Intervenors filed testimony in this case and Kentucky Power filed rebuttal testimony. Kentucky Power also filed testimony in support of this Settlement Agreement. For purposes of any hearing with respect to this Settlement Agreement or the Application in Case No. 2012-00578, the Settling Intervenors and Kentucky Power waive all cross-examination of the other parties' witnesses except for supporting this Settlement Agreement, unless the Commission disapproves this Settlement Agreement.

(d) Kentucky Power and the Settling Intervenors further agree to support the reasonableness of this Settlement Agreement before the Commission, and to cause their counsel to do the same, including in connection with any appeal from the Commission's approval, implementation, or enforcement of this Settlement Agreement.

(e) No party to this Settlement Agreement shall file judicial or administrative challenges to any Order of the Commission approving the Settlement Agreement in its entirety and without modification.

24. Failure Of Commission To Approve Settlement Agreement.

If the Commission does not accept and approve this Settlement Agreement in its entirety and without modification, this Settlement Agreement shall be void and withdrawn by Kentucky Power and the Settling Intervenors from further consideration by the Commission and none of the parties to this Settlement Agreement shall be bound by any of the provisions herein.

25. Continuing Commission Jurisdiction.

This Settlement Agreement shall in no way be deemed to divest the Commission of jurisdiction under Chapter 278 of the Kentucky Revised Statutes.

26. Effect of Settlement Agreement.

This Settlement Agreement shall inure to the benefit of and be binding upon the parties to this Settlement Agreement, their successors and assigns. In the event that the Company or either of the Settling Intervenors believes a Party to this Settlement Agreement has breached any of its obligations set forth herein, the Party alleging breach shall provide the allegedly breaching Party

written notice and a 30-day opportunity to cure the alleged breach. The Parties agree that any breach of this agreement shall result in irreparable injury, for which the non-breaching party is without adequate remedy at law. Accordingly, the parties to this Stipulation and Settlement Agreement further agree that equitable relief, including specific performance or injunctive, is the sole remedy in the event of an uncured breach, and that no Party shall be liable for monetary damages in the event of breach. The Parties expressly waive and forego the right to money damages for any breach of any of the obligations set forth in this Settlement Agreement.

27. Complete Agreement.

This Settlement Agreement constitutes the complete agreement and understanding among the parties to this Settlement Agreement, and any and all oral statements, representations or agreements made prior hereto or contained contemporaneously herewith shall be null and void and shall be deemed to have been merged into this Settlement Agreement.

28. Independent Analysis.

The terms of this Settlement Agreement are based upon the independent analysis of the parties to this Settlement Agreement, are the product of compromise and negotiation, and reflect a fair, just and reasonable resolution of the issues herein.

29. Settlement Agreement And Negotiations Are Not An Admission.

(a) This Settlement Agreement shall not be deemed to constitute an admission by any party to this Settlement Agreement that any computation, formula, allegation, assertion or contention made by any other party in these proceedings is true or valid. Nothing in this Settlement Agreement shall be used or construed for any purpose to imply, suggest or otherwise

indicate that the results produced through the compromise reflected herein represent fully the objectives of Kentucky Power or the Settling Intervenors.

(b) Neither the terms of this Settlement Agreement nor any statements made or matters raised during the settlement negotiations shall be admissible in any proceeding, or binding on any of the parties to this Settlement Agreement, or be construed against any of the parties to this Settlement Agreement, *except that* in the event of litigation or proceedings involving the approval, implementation or enforcement of this Agreement, the terms of this Settlement Agreement shall be admissible. This Settlement Agreement shall not have any precedential value in this or any other jurisdiction.

30. Consultation With Counsel

The parties to this Settlement Agreement warrant that they have informed, advised, and consulted with their respective counsel with regard to the contents and significance of this Settlement Agreement and are relying upon such advice in entering into this agreement.

31. Authority To Bind.

Each of the signatories to this Settlement Agreement hereby warrant they are authorized to sign this agreement upon behalf of, and bind, their respective parties.

32. Construction Of Agreement.

This Settlement Agreement is a product of negotiation among all parties to this Settlement Agreement, and no provision of this Settlement Agreement shall be construed in favor of or against any party hereto. This Settlement Agreement is submitted for purposes of this case only. Except as otherwise provided in this Settlement Agreement, this Settlement

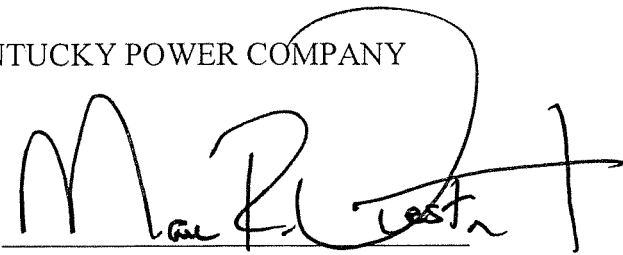
Agreement is not to be deemed binding upon the parties hereto in any other proceeding, nor is it to be offered or relied upon in any other proceeding involving Kentucky Power or any other utility.

33. This Settlement Agreement may be executed in multiple counterparts.

IN WITNESS WHEREOF, this Stipulation and Settlement Agreement has been agreed to as of this 2nd day of July, 2013.

KENTUCKY POWER COMPANY

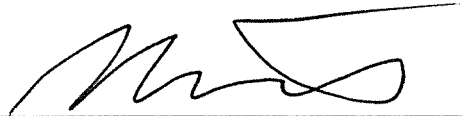
By:

A handwritten signature in black ink, appearing to read 'Mark R. Overstreet', written over a horizontal line. The signature is stylized and cursive.

Mark R. Overstreet

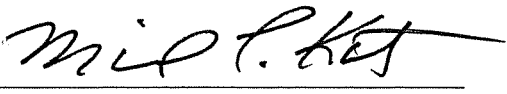
Its: Attorney

SIERRA CLUB, ALEXANDER DESHA,
TOM VIERHELLER, AND BEVERLY
MAY

By: 
Shannon W. Fisk

Their: Attorney

KENTUCKY INDUSTRIAL UTILITY
CUSTOMERS, INC.

By: 
Michael L. Kurtz

Its: Attorney

EXHIBIT 1

TARIFF A.T.R.
(Asset Transfer Rider)**APPLICABLE.**

To Tariffs R.S., R.S.-L.M.-T.O.D., R.S.-T.O.D., Experimental R.S.-T.O.D.2, S.G.S., Experimental S.G.S.-T.O.D., M.G.S., M.G.S.-T.O.D., L.G.S., L.G.S.-T.O.D., Q.P., C.I.P.-T.O.D., C.S.- I.R.P., M.W., O.L. and S.L.

RATE.

- Pursuant to the final order of the Kentucky Public Service Commission in Case No. 2012-00578 and the Stipulation and Settlement Agreement dated June __, 2013 as filed and approved by the Commission, Kentucky Power Company is to recover from retail ratepayers \$44 million annually beginning January 1, 2014 and ending when the Commission sets new base rates for the Company that include Mitchell Units 1 and 2.
- The allocation of the \$44 million revenue requirement between residential and all other customers shall be based upon their respective contribution to total retail revenues for the twelve month period ended September 30, 2013, according to the following formula:

$$\text{Residential Allocation RA(m)} = \frac{\$44,000,000}{12 \text{ months}} \times \frac{\text{KY Residential Retail Revenue RR(b)}}{\text{KY Retail Revenue R(b)}}$$

$$\text{All Other Allocation OA(m)} = \frac{\$44,000,000}{12 \text{ months}} \times \frac{\text{KY All Other Classes Retail Revenue OR(b)}}{\text{KY Retail Revenue R(b)}}$$

Where:

(m) = the expense month;

(b) = twelve month period ended September 30, 2013.

- The Residential Asset Transfer Adjustment shall provide for monthly adjustments based on a percent of total revenues, according to the following formula:

$$\text{Residential Asset Transfer Adjustment Factor} = \frac{\text{Net Monthly Residential Allocation NRA(m)}}{\text{Residential Retail Revenue RR(m)}}$$

Where:

$$\text{Net Monthly Residential Allocation NRA(m)} = \text{Monthly Residential Allocation RA(m), net of Over/(Under) Recovery Adjustment;}$$

$$\text{Residential Retail Revenue RR(m)} = \text{Monthly Retail Revenue for all KY residential classes for the expense month (m).}$$

- The All Other Classes Asset Transfer Adjustment shall provide for monthly adjustments based on a percent of non-fuel revenues, according to the following formula:

$$\text{All Other Classes Asset Transfer Adjustment Factor} = \frac{\text{Net Monthly All Other Allocation NOA(m)}}{\text{All Other Classes Non-Fuel Retail Revenue ONR(m)}}$$

Where:

$$\text{Net Monthly All Other Allocation NOA(m)} = \text{Monthly All Other Allocation OA(m), net of Over/(Under) Recovery Adjustment;}$$

$$\text{All Other Classes Non-Fuel Retail Revenue ONR(m)} = \text{Monthly Non-Fuel Retail Revenue for all classes other than residential for the expense month (m).}$$

- The monthly asset transfer rider adjustments shall be filed with the Commission ten (10) days before it is scheduled to go into effect, along with all the necessary supporting data to justify the amount of the adjustments, which shall include data, and information as may be required by the Commission.
- Copies of all documents required to be filed with the Commission shall be open and made available for public inspection at the office of the Public Service Commission pursuant to the provisions of KRS61.870 to 61.884

DATE OF ISSUE XXXXXXXX

DATE EFFECTIVE SERVICE RENDERED ON AND AFTER JANUARY 1, 2014

ISSUED BY

TITLE: MANAGER OF REGULATORY SERVICES

BY AUTHORITY OF ORDER BY THE PUBLIC SERVICE COMMISSION

IN CASE NO. 2012-00578 DATED

EXHIBIT 1-A

TARIFF A.T.R.-2
(Asset Transfer Rider-2)

APPLICABLE.

To Tariffs R.S., R.S.-L.M.-T.O.D., R.S.-T.O.D., Experimental R.S.-T.O.D.2, S.G.S., Experimental S.G.S.-T.O.D., M.G.S., M.G.S.-T.O.D., L.G.S., L.G.S.-T.O.D., Q.P., C.I.P.-T.O.D., C.S.- I.R.P., M.W., O.L. and S.L.

RATE.

1. Pursuant to the final order of the Kentucky Public Service Commission in Case No. 2012-00578 and the Stipulation and Settlement Agreement dated June __, 2013 as filed and approved by the Commission, Kentucky Power Company is to recover from retail ratepayers the coal-related retirement costs of Big Sandy Unit 1, the retirement costs of Big Sandy Unit 2 and other site-related retirement costs that will not continue in use on a levelized basis over a 25 year period beginning when new base rates are set for the Company that include Mitchell Units 1 and 2.
2. The allocation of the levelized revenue requirement (LRR) between residential and all other customers shall be based upon their respective contribution to total retail revenues for the most recent calendar twelve month period, according to the following formula:

$$\text{Residential Allocation RA(m)} = \text{LRR(m)} \times \frac{\text{KY Residential Retail Revenue RR(b)}}{\text{KY Retail Revenue R(b)}}$$

$$\text{All Other Allocation OA(m)} = \text{LRR(m)} \times \frac{\text{KY All Other Classes Retail Revenue OR(b)}}{\text{KY Retail Revenue R(b)}}$$

Where:

(m) = the expense month;

(b) = Most recent available twelve calendar-month period ended December 31.

3. The Residential Asset Transfer Adjustment shall provide for monthly adjustments based on a percent of total revenues, according to the following formula:

$$\text{Residential Asset Transfer Adjustment Factor} = \frac{\text{Net Monthly Residential Allocation NRA(m)}}{\text{Residential Retail Revenue RR(m)}}$$

Where:

$$\text{Net Monthly Residential Allocation NRA(m)} = \text{Monthly Residential Allocation RA(m), net of Over/(Under) Recovery Adjustment;}$$

$$\text{Residential Retail Revenue RR(m)} = \text{Monthly Retail Revenue for all KY residential classes for the expense month (m).}$$

(Cont'd on Sheet No. 36-2)

DATE OF ISSUE XXXXXXXX

DATE EFFECTIVE SERVICE RENDERED ON AND AFTER JANUARY 1, 2014

ISSUED BY

TITLE: MANAGER OF REGULATORY SERVICES

BY AUTHORITY OF ORDER BY THE PUBLIC SERVICE COMMISSION

IN CASE NO. 2012-00578 DATED

TARIFF A.T.R.-2
(Asset Transfer Rider-2)

RATE (Cont'd)

1. The All Other Classes Asset Transfer Adjustment shall provide for monthly adjustments based on a percent of non-fuel revenues, according to the following formula:

$$\text{All Other Classes Asset Transfer Adjustment Factor} = \frac{\text{Net Monthly All Other Allocation NOA(m)}}{\text{All Other Classes Non-Fuel Retail Revenue ONR(m)}}$$

Where:

$$\text{Net Monthly All Other Allocation NOA(m)} = \text{Monthly All Other Allocation OA(m), net of Over/(Under) Recovery Adjustment;}$$

$$\text{All Other Classes Non-Fuel Retail Revenue ONR(m)} = \text{Monthly Non-Fuel Retail Revenue for all classes other than residential for the expense month (m).}$$

2. The monthly asset transfer rider adjustments shall be filed with the Commission ten (10) days before it is scheduled to go into effect, along with all the necessary supporting data to justify the amount of the adjustments, which shall include data, and information as may be required by the Commission.
3. Copies of all documents required to be filed with the Commission shall be open and made available for public inspection at the office of the Public Service Commission pursuant to the provisions of KRS61.870 to 61.884

DATE OF ISSUE XXXXXX

DATE EFFECTIVE SERVICE RENDERED ON OR AFTER JANUARY 1, 2014

ISSUED BY

TITLE : MANAGER REGULATORY SERVICES

BY AUTHORITY OF ORDER BY THE PUBLIC SERVICE COMMISSION

IN CASE NO. 2012-00578 DATED

EXHIBIT 2

TARIFF E.S.
(Environmental Surcharge)

APPLICABLE.

To Tariffs R.S., R.S.-L.M.-T.O.D., R.S.-T.O.D., Experimental R.S.-T.O.D. 2, S.G.S., Experimental S.G.S.-T.O.D., M.G.S., M.G.S.-T.O.D., L.G.S., L.G.S.-T.O.D., Q.P., C.I.P.-T.O.D., C.S.-I.R.P., M.W., O.L., and S.L.

RATE.

In accordance with the Stipulation and Settlement Agreement approved by the Commission by its Order dated _____, 2013 in Case No. 2012-00578, the Monthly Environmental Surcharge Factor will be fixed and maintained at 0.00% until new base rates are first established by Commission after the effective date of this tariff without regard to the calculation of the Monthly Environmental Surcharge Factor under paragraphs 1 through 4 below. Coincident with the first establishment of new base rates after the effective date of this tariff, the retail share of the revenue requirement associated with this tariff will then be allocated between residential and non-residential retail customers based upon their respective total revenues. The Environmental Surcharge will be implemented as a percentage of total revenues for the residential class and as a percentage of non-fuel revenues for all other customers.

1. The environmental surcharge shall provide for monthly adjustments based on a percent of revenues, equal to the difference between the environmental compliance costs in the base period as provided in Paragraph 3 below and in the current period according to the following formula:

$$\text{Monthly Environmental Surcharge Factor} = \frac{\text{Net KY Retail E(m)}}{\text{KY Retail R(m)}}$$

Where:

Net KY Retail E(m) = Monthly E(m) allocated to Kentucky Retail Customers, net of Over/ (Under) Recovery Adjustment; Allocation based on Percentage of Kentucky Retail Revenues to Total Company Revenues in the Expense Month.

(For purposes of this formula, Total Company Revenues do not include Non-Physical Revenues.)

$$\text{KY Retail R(m)} = \text{Kentucky Retail Revenues for the Expense Month.}$$

2. Monthly Environmental Surcharge Gross Revenue Requirement, E(m)

$$E(m) = \text{CRR} - \text{BRR}$$

Where:

CRR = Current Period Revenue Requirement for the Expense Month.

BRR = Base Period Revenue Requirement.

3. Base Period Revenue Requirement, BRR

BRR = The Following Monthly Amounts:

<u>Billing Month</u>	<u>Base Net Environmental Costs</u>
JANUARY	\$ 3,991,163
FEBRUARY	3,590,810
MARCH	3,651,374
APRIL	3,647,040
MAY	3,922,590
JUNE	3,627,274
JULY	3,805,325
AUGUST	4,088,830
SEPTEMBER	3,740,010
OCTOBER	3,260,302
NOVEMBER	2,786,040
DECEMBER	<u>4,074,321</u>
	<u>\$44,185,079</u>

(Continued on Sheet 29-2)

DATE OF ISSUE XXXXXXXXXX DATE EFFECTIVE Service rendered on and after January 1, 2014

ISSUED BY LILA P. MUNSEY MANAGER REGULATORY SERVICES FRANKFORT, KENTUCKY
 NAME TITLE ADDRESS

Issued by authority of an Order of the Public Service Commission in Case No. 2012-00578 dated XXXXXXXX

EXHIBIT 3

TARIFF S. S. C.
(System Sales Clause)

APPLICABLE.

To Tariffs R.S., R.S.-L.M.-T.O.D., R.S.-T.O.D., Experimental R.S.-T.O.D.2, S.G.S., Experimental S.G.S.-T.O.D., M.G.S., M.G.S.-T.O.D., L.G.S., L.G.S.-T.O.D., Q.P., C.I.P.-T.O.D., C.S.- I.R.P., M.W., O.L. and S.L.

RATE.

In accordance with the Stipulation and Settlement Agreement approved by the Commission by its Order dated _____, 2013 in Case No. 2012-00578, the System Sales Adjustment Factor will be fixed and maintained at 0.0000 mills/kWh until new base rates are first established by Commission after the effective date of this tariff without regard to the calculation of the Monthly System Sales Adjustment Factor under paragraphs 1 through 7 below.

1. When the monthly net revenues from system sales are above or below the monthly base net revenues from system sales, as provided in paragraph 3 below, an additional credit or charge equal to the product of the KWHs and a system sales adjustment factor (A) shall be made, where "A", calculated to the nearest 0.0001 mill per kilowatt-hour, is defined as set forth below.

$$\text{System Sales Adjustment Factor (A)} = (.6 [T_m - T_b])/S_m$$

In the above formulas "T" is Kentucky Power Company's (KPCo) monthly net revenues from system sales in the current (m) and base (b) periods, and "S" is the KWH sales in the current (m) period, all defined below.

The net revenue from American Electric Power (AEP) System sales to non-associated companies that are shared by AEP Member Companies, including KPCo, in proportion to their Member Load Ratio and as reported in the Federal Energy Regulatory Commission's Uniform System of Accounts under Account 447, Sales for Resale, shall consist of and be derived as follows:

- a. ~~KPCo's Member Load Ratio share~~ of total revenues from system sales as recorded in Account 447, less b. and c. below.
- b. ~~KPCo's Member Load Ratio share~~ of total out-of-pocket costs incurred in supplying the power and energy for the sales in a. above.

The out-of-pocket costs include all operating, maintenance, tax, transmission losses and other expenses that would not have been incurred if the power and energy had not been supplied for such sales, including demand and energy charges for power and energy supplied by Third Parties.
- c. KPCo's environmental costs allocated to non-associated utilities in the Company's Environmental Surcharge Report.

(Cont'd on Sheet No. 19-2)

DATE OF ISSUE XXXXXXXXXX DATE EFFECTIVE Service rendered on and after January 1, 2014

ISSUED BY LILA P. MUNSEY MANAGER REGULATORY SERVICES FRANKFORT, KENTUCKY
NAME TITLE ADDRESS

Issued by authority of an Order of the Public Service Commission in Case No.2012-00578 dated XXXXXXXX

EXHIBIT 4

KENTUCKY POWER COMPANY

Original Sheet No 12-1
Canceling _____ Sheet No. 12-1

P.S.C. ELECTRIC NO. 9

TARIFF C.S.-I.R.P.
(Contract Service - Interruptible Power)

AVAILABILITY OF SERVICE.

Available for service to customers who contract for service under one of the Company's interruptible service options. The Company reserves the right to limit the total contract capacity for all customers served under this Tariff to ~~60,000~~ 75,000kW.

Loads of new customers locating within the Company's service area or load expansions by existing customers may be offered interruptible service as part of an economic development incentive. Such interruptible service shall not be counted toward the limitation on total interruptible power contract capacity, as specified above, and will not result in a change to the limitation on total interruptible power contract capacity.

CONDITIONS OF SERVICE.

The Company will offer eligible customers the option to receive interruptible power service.. This interruptible service will be consistent with PJM's Limited Demand Response, Emergency – Capacity Only Program, subject to any limitations on the availability of that Program by PJM. If insufficient MWs are available for PJM enrollment by Kentucky Power, the Company shall offer to substitute one of the other PJM Emergency Demand Response Programs that is available. To be eligible for the credit, customers must be able to provide interruptible load (not including behind the meter diesel generation) of at least one (1) MW at a single site and commit to a minimum four (4) year contract term. The contract shall provide that 90 days prior to each contract anniversary date, the customer shall re-nominate the amount of interruptible load for the upcoming contract year, except that the cumulative reductions over the life of the contract shall not exceed 20% of the original interruptible load nominated under the contract. If no re-nomination is received at least 90 days prior to the contract anniversary date, the prior year's interruptible load shall apply for the forthcoming contract year.

Upon receipt of a request from the Customer for interruptible service, the Company will provide the Customer with a written offer containing the rates and related terms and conditions of service under which such service will be provided by the Company. If the parties reach an agreement based upon the offer provided to the Customer by the Company, such written contract will be filed with the Commission. The contract shall provide full disclosure of all rates, terms and conditions of service under this Tariff, and any and all agreements related thereto, subject to the designation of the terms and conditions of the contract as confidential, as set forth herein.

The Customer shall provide reasonable evidence to the Company that the Customer's electric service can be interrupted in accordance with the provisions of the written agreement including, but not limited to, the specific steps to be taken and equipment to be curtailed upon a request for interruption.

The Customer shall contract for capacity sufficient to meet normal maximum interruptible power requirements, but in no event will the interruptible amount contracted for be less than 1,000 KW at any delivery point.

RATE. (Tariff Code 321)

Credits under this tariff of \$3.68/kW/month will be provided for interruptible load that qualifies under PJM's rules as capacity for the purpose of the Company's FRR obligation.

Charges for service under this Tariff will be set forth in the written agreement between the Company and the Customer and will reflect the firm service rates otherwise available to the Customer.

FUEL ADJUSTMENT CLAUSE.

Bills computed according to the rates set forth herein will be increased or decreased by a Fuel Adjustment Factor per KWH calculated in compliance with the Fuel Adjustment Clause contained in Sheet Nos. 5-1 and 5-2 of this Tariff Schedule.

(Cont'd on Sheet No. 12-2)

DATE OF ISSUE XXXXXXXXXX DATE EFFECTIVE Service rendered on and after January 1, 2014

ISSUED BY LILA P. MUNSEY MANAGER REGULATORY SERVICES FRANKFORT, KENTUCKY
NAME TITLE ADDRESS

Issued by authority of an Order of the Public Service Commission in Case No.2012-00578 dated XXXXXXXX

KENTUCKY POWER COMPANY

Original Sheet No 12-2
Canceling _____ Sheet No. 12-2

P.S.C. ELECTRIC NO. 9

TARIFF C.S.-I.R.P.
(Contract Service - Interruptible Power) (Cont'd.)

SYSTEM SALES CLAUSE.

Bills computed according to the rates set forth herein will be increased or decreased by a System Sales Factor per KWH calculated in compliance with the System Sales Clause contained in Sheet Nos. 19-1 and 19-2 of this Tariff Schedule.

DEMAND-SIDE MANAGEMENT ADJUSTMENT CLAUSE.

Bills computed according to the rates set forth herein will be increased or decreased by an Demand-Side Management Adjustment Clause Factor per KWH calculated in compliance with the Demand-Side Management Adjustment Clause contained in Sheet Nos. 22-1 and 22-2 of this Tariff Schedule, unless the Customer is an industrial who has elected to opt-out in accordance with the terms pursuant to the Commission's Order in Case No. 95-427.

ENVIRONMENTAL SURCHARGE.

Bills computed according to the rates set forth herein will be increased or decreased by an Environmental Surcharge Adjustment based on a percent of revenue in compliance with the Environmental Surcharge contained in Sheet Nos. 29-1 through 29-5 of this Tariff Schedule.

CAPACITY CHARGE.

Bills computed according to the rate set forth herein will be increased by a Capacity Charge Factor per KWH calculated in compliance with the Capacity Charge Tariff contained in Sheet No. 28-1 of this Tariff Schedule.

DELAYED PAYMENT CHARGE.

This tariff is due and payable in full on or before the due date stated on the bill. On all accounts not so paid, an additional charge of 5% of the unpaid balance will be made.

TERM OF CONTRACT

The length of the agreement and the terms and conditions of service will be stated in the agreement between the Company and the Customer.

CONFIDENTIALITY

All terms and conditions of any written contract under this Tariff shall be protected from disclosure as confidential, proprietary trade secrets, if either the Customer or the Company requests a Commission determination of confidentiality pursuant to 807 KAR5:001, Section 7 and the request is granted.

(Cont'd on Sheet No. 12-3)

DATE OF ISSUE XXXXXXX DATE EFFECTIVE Service rendered on and after January 1, 2014

ISSUED BY LILA P. MUNSEY MANAGER OF REGULATORY SERVICES FRANKFORT, KENTUCKY
NAME TITLE ADDRESS

Issued by authority of an Order of the Public Service Commission in Case No.2012-00578 dated XXXXXX

EXHIBIT 5

KENTUCKY POWER COMPANY

P.S.C. KY. NO. 10 ORIGINAL SHEET NO. 35-1
CANCELING P.S.C. KY. NO. 10 _____ SHEET NO. 35-1

TARIFF P.P.A.
(Purchase Power Adjustment)

APPLICABLE.

To Tariffs R.S., R.S.-L.M.-T.O.D., R.S.-T.O.D., Experimental R.S.-T.O.D.2, S.G.S., Experimental S.G.S.-T.O.D., M.G.S., M.G.S.-T.O.D., L.G.S., L.G.S.-T.O.D., Q.P., C.I.P.-T.O.D., C.S.- I.R.P., M.W., O.L. and S.L.

RATE.

1. The purchase power adjustment shall provide for monthly adjustments based on a percent of revenues, equal to the net costs of any power purchases in the current period according to the following formula:

$$\text{Monthly Purchase Power Adjustment Factor} = \frac{\text{Net KY Retail P(m)}}{\text{KY Retail R(m)}}$$

Where:

Net KY Retail P(m) = Monthly P(m) allocated to Kentucky Retail Customers, net of Over/(Under) Recovery Adjustment; Allocation based on Percentage of Kentucky Retail Revenues to Total Company Revenues in the Expense Month (m). (For purposes of this formula, Total Company Revenues include only Retail and Full-Requirements Wholesale revenues.)

KY Retail R(m) = Kentucky Retail Revenues for the Expense Month (m).

2. The net costs of any power purchased shall exclude costs recovered through the Fuel Adjustment Clause and shall be computed as the sum of the following items:
- a. PPA(m) = The cost of power purchased by the Company through new Purchase Power Agreements (PPAs). All new PPAs shall be approved by the Commission to the extent required by KRS 278.300.
 - b. RP(m) = The cost of fuel related substitute generation less the cost of fuel which would have been used in plants suffering forced generation or transmission outages.
 - c. CSIRP(m) = The cost of any credits provided to customers under Tariff C.S.-I.R.P for interruptible service.

$$\text{Monthly P(m)} = \text{PPAm} + \text{RP(m)} + \text{CSIRP(m)}$$

3. The monthly purchase power adjustment shall be filed with the Commission ten (10) days before it is scheduled to go into effect, along with all the necessary supporting data to justify the amount of the adjustment, which shall include data, and information as may be required by the Commission.
4. Copies of all documents required to be filed with the Commission shall be open and made available for public inspection at the office of the Public Service Commission pursuant to the provisions of KRS61.870 to 61.884

DATE OF ISSUE XXXXXXXXXX

DATE EFFECTIVE SERVICE RENDERED ON AND AFTER JANUARY 1, 2014

ISSUED BY

TITLE: MANAGER OF REGULATORY SERVICES

BY AUTHORITY OF ORDER BY THE PUBLIC SERVICE COMMISSION

IN CASE NO. 2012-00578 DATED