STITES & HARBISON PLLC
ATTORNEYS

421 West Main Street
Frankfort, KY 40601
[502] 223-3477
[502] 223-4124 Fax

September 18, 2014

Mark R. Overstreet
(502) 209-1219
(502) 223-4387 FAX
moverstreet@stites.com

RECEIVED

SEP 18 2014

PUBLIC SERVICE
COMMISSION

HAND DELIVERED

Jeff R. Derouen
Executive Director
Public Service Commission
211 Sower Boulevard
P.O. Box 615
Frankfort, KY 40602-0615

Case No. 2014-00336

RE: Kentucky Power Company's Application
For Approval of Tariff E.D.R.

Dear Mr. Derouen:

Enclosed please find and accept for filing the original and ten copies of Kentucky Power Company's application for approval of Tariff E.D.R. The tariff is the Company's economic development rider.

Please do not hesitate to contact me if you have any questions.

Very truly yours,

Mark R. Overstreet

MRO
cc: Jennifer B. Hans
Michael L. Kurtz

COMMONWEALTH OF KENTUCKY

RECEIVED

SEP 18 2014

PUBLIC SERVICE
COMMISSION

BEFORE THE PUBLIC SERVICE COMMISSION

In The Matter Of:

The Application Of Kentucky Power Company For (1) Approval Of An Economic Development Rider; (2) For Any Required Deviation From The Commission's Order In Administrative Case No. 327; And (3) All Other Required Approvals And Relief	)	Case No. 2014-00336

APPLICATION

Kentucky Power Company ("Kentucky Power" or the "Company") moves the Public Service Commission of Kentucky ("Commission") pursuant to 807 KAR 5:011 and 807 KAR 5:001, Section 22 for an Order: (1) approving the Company's proposed economic development rider (Tariff E.D.R.); (2) granting the Company any required deviations from the Commission's Order in Administrative Case No. 327;[1] and (3) granting all other required relief or approvals. In support thereof Kentucky Power states:

INTRODUCTION

1. By Order dated September 24, 1990 in Administrative Case No. 327 the Commission established guidelines for the contents and implementation of economic development riders.

2. By this application the Company seeks Commission approval of the Company's proposed economic development rider. Tariff E.D.R. offers two discounts: an incremental billing demand discount and a supplemental billing demand discount. Both discounts contain

[1] By separate motion filed with this application Kentucky Power also is seeking a deviation, to the extent required, from certain of the publication requirements of 807 KAR 5:011, Section 8(4) with respect to the public notice published by the Company.

certain innovative features that, while making the economic development rider more useful and hence attractive to existing and potential customers, may require deviation from certain standards established by the Commission in its order in Administrative Case No. 327.

APPLICANT

3. Kentucky Power was organized in 1919 under the laws of the Commonwealth of Kentucky.[2] The Company's mailing address is 101A Enterprise Drive, P.O. Box 5190, Frankfort, Kentucky 40602-5190. Its electronic mail address is kentucky_regulatory_services@aep.com . Kentucky Power is engaged in the generation, purchase, transmission, distribution and sale of electric power. The Company serves approximately 173,000 retail customers in the following 20 counties of eastern Kentucky: Boyd, Breathitt, Carter, Clay, Elliott, Floyd, Greenup, Johnson, Knott, Lawrence, Leslie, Letcher, Lewis, Magoffin, Martin, Morgan, Owsley, Perry, Pike and Rowan. In addition, the Company also supplies electric power at wholesale to other utilities and municipalities in Kentucky for resale. Kentucky Power is a utility as that term is defined at KRS 278.010.

ECONOMIC DEVELOPMENT RATES

4. For almost a quarter century the Commission has approved, on a case-by-case basis, the offer of economic development rates by gas and electric utilities in the Commonwealth. As described by the Kentucky Supreme Court:

> These reduced gas and electric rates, as the name implies, are intended to promote

[2] A certified copy of the Company's Articles of Incorporation and all amendments thereto was attached to the Joint Application in *In the Matter Of: The Joint Application Of Kentucky Power Company, American Electric Power Company, Inc. And Central And South West Corporation Regarding A Proposed Merger*, P.S.C. Case No. 99-149. The Company's September 18, 2014 Certificate of Existence is attached as **EXHIBIT 1**.

> economic development by encouraging both existing and potential commercial and industrial customers to invest capital in the Commonwealth, thereby creating jobs and stimulating Kentucky's economy.[3]

Economic development rates must fair, just, and reasonable.[4]

5. Economic development rates have been approved by the Commission for, *inter alia*, East Kentucky Power Cooperative, Inc.[5] and Duke Energy Kentucky, Inc.[6]

NEED FOR ECONOMIC DEVELOPMENT IN KENTUCKY POWER'S SERVICE TERRITORY

6. Kentucky Power's service territory comprises all or parts of twenty counties in eastern Kentucky. These counties traditionally have been among the poorest in the Commonwealth. As reported by the United States Department of Agriculture, Economic Research Service, in 2012 all but two counties in the Company's service territory (Boyd and Greenup) have poverty rates in excess of the statewide poverty rate of 19.7%. The 2012 poverty rates in two counties, Clay (42.0%) and Owsley (42.9%) were more than double the statewide rate, while eight other counties, Breathitt (33.3%), Elliot (33.1%), Floyd (33.1%), Knott (30.5%), Lewis (30.9%), Magoffin (31.2%), Martin (38.9%), and Morgan (30.8%), have rates that are at least 50% higher than the state rate.[7]

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[3] *Public Service Commission of Kentucky v. Commonwealth*, 320 S.W.3d 660, 662 (Ky. 2010).

[4] *Id.* at 669.

[5] *In the Matter of: Application Of East Kentucky Power Cooperative, Inc. For Approval Of An Economic Development Rider*, Case NO. 2014-00034 (Ky. P.S.C. June 20, 2014).

[6] *In the Matter of: Application Of Union Light, Heat and Power Company For Approval Of Its Proposed Economic Development Riders*, Case No. 2004-00253 (Ky. P.S.C. April 19, 2005).

[7] http://www.ers.usda.gov/data-products/county-level-data-sets/poverty.aspx

7. The Company's service territory also suffers high unemployment rates. All but two of the 20 counties served by Kentucky Power have unemployment rates in excess of the June 2014 state average (7.5%), and all 20 counties exceed the June 2014 6.5% nationwide rate.[8]

8. Exacerbating the economic conditions in much of the Company's service territory is the decline of coal mining, a long-time mainstay of the area's economy. Coal production in eastern Kentucky recently declined at a rate four times the nationwide decline. This decline has led to large reductions in coal-related employment in eastern Kentucky. Coal mine employment, for example, declined 29.9% in 2012 over 2011.[9] Many of these lost positions were high wage jobs that had a multiplier effect on the area's economic activity.

9. Kentucky Power's Tariff E.D.R. is intended to counter, at least in part, the adverse economic effects of the decline in eastern Kentucky's economy. A growing economy can protect and even expand the Company's customer base, thereby avoiding the higher rates that would result from spreading fixed costs over a declining customer base.

TARIFF E.D.R.

10. Tariff E.D.R. will be offered to existing and new customers receiving service, or who will receive service, under the Company's Tariff L.G.S., Tariff Q.P., and Tariff C.I.P.-T.O.D. who otherwise satisfy the requirements of Tariff E.D.R. The requirements for service under Tariff E.D.R. include:

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[8] https://kylmi.ky.gov/vosnet/analyzer/results.aspx?session=labforce&area=2101000000&timeperiod=20140307&SEASONADJ=false

[9] Kentucky Energy and Environment Cabinet, Department for Energy Development and Independence, *Kentucky Coal Facts* at 28 (14th Ed. 2014).

- A new customer must contract for a maximum monthly billing demand of at least 500 kW. Existing customers must contract for an increase in the monthly base maximum billing demand of at least 500 kW at an existing facility. The base monthly maximum billing demand for an existing facility is calculated as the average corresponding months' maximum billing demand over the previous three years. Alternatively, existing customers may qualify for service under Tariff E.D.R. by taking service at a new service location with a maximum monthly billing demand of at least 500 kW in addition to the customer's existing base maximum monthly billing demand.

- A customer taking service under Tariff E.D.R. must enter into a special contract with the Company for the service. The contract must be for two, four, six, eight, or 10 years only. The special contract is subject to review and approval by the Commission.

- Tariff E.D.R. will provide a discounted demand charge under the applicable general tariff (Tariff L.G.S., Tariff Q.P., and Tariff C.I.P.-T.O.D.) for a period equal to one-half of the special contract term. For example, a customer taking service under a 10-year Tariff E.D.R. special contract will receive discounted demand charges for the first five years of the contract term, while a customer taking service a six-year Tariff E.D.R. special contract will receive discounted demand charges for the first three years of the contract term.

- The amount of the discount will decline each year of the discount period as illustrated below:

IBDD - Percentage Demand Charge Reduction						
	Contract Length	10	8	6	4	2
	Year 1	50 %	40 %	30 %	20 %	10 %
	Year 2	40 %	30 %	20 %	10 %	0 %
	Year 3	30 %	20 %	10 %	0 %	
	Year 4	20 %	10 %	0 %	0 %	
	Year 5	10 %	0 %	0 %		
	Year 6	0 %	0 %	0 %		
	Year 7	0 %	0 %			
	Year 8	0 %	0 %			
	Year 9	0 %				
	Year 10	0 %				

- Subject to certain further limitations, a maximum demand of 250 MW will be eligible to take service under Tariff E.D.R. Among these further limitations is that service under Tariff E.D.R. will be offered only when the Company has sufficient capacity to provide the new or incremental service. Although the Company's current (2013) Integrated Resource Plan indicates Kentucky Power will have adequate capacity to provide service under Tariff E.D.R. for the full 250 MW, any capacity that must be procured to provide service under Tariff E.D.R. will be procured for the customer and the cost of the capacity will be applied to reduce, on a dollar for dollar basis, the discounts received by the customer under Tariff E.D.R. The cost of additional capacity secured to provide service will be assigned in reverse chronological order to the most recent customer to take service under Tariff E.D.R. until the full amount of the secured additional capacity is assigned. The reduction of the discount will be "capped" so that a customer is not required to pay an amount in excess of the applicable non-discounted tariff demand charge.

- Two discounts are available under Tariff E.D.R – an Incremental Billing Demand Discount ("IBDD") and a Supplemental Billing Demand Discount ("SBDD").

  - ► The IBDD will be available to all customers qualifying for service under Tariff E.D.R. and will provide the discounts identified above.

  - ► The SBDD will be in addition to and supplement the IBDD, and will be available to customers who create and maintain certain levels of new permanent jobs in the facility receiving service under Tariff E.D.R. The amount of the discount will vary, in accordance with the following table, based upon the number of jobs created and the term of the special contract:

SBDD - Percentage Demand Charge Reduction																
	Contract Length	10			8			6			4			2		
	Jobs Created	0-24	25-49	50+	0-24	25-49	50+	0-24	25-49	50+	0-24	25-49	50+	0-24	25-49	50+
	Year 1	0	2.5	5.0	0	2.0	4.5	0	1.5	4.0	0	1.0	3.5	0	0.5	3.0
	Year 2	0	2.0	4.5	0	1.5	4.0	0	1.0	3.5	0	0.5	3.0	0	0	0
	Year 3	0	1.5	4.0	0	1.0	3.5	0	0.5	3.0	0	0	0			
	Year 4	0	1.0	3.5	0	0.5	3.0	0	0	0	0	0	0			
	Year 5	0	0.5	3.0	0	0	0	0	0	0						
	Year 6	0	0	0	0	0	0	0	0	0						
	Year 7	0	0	0	0	0	0									
	Year 8	0	0	0	0	0	0									
	Year 9	0	0	0												
	Year 10	0	0	0												

- The applicable general tariff's monthly minimum billing demand charge provision will be waived on a declining scale basis, beginning at 36 months for a 10-year contract and concluding at 12 months for a six-year contract, based on the term of the special contract.

11. The discounts provided under Tariff E.D.R, and the resulting rates, are fair, just, and reasonable.

NOTICE PURSUANT TO 807 KAR 5:011, SECTION 8

12. The notice required by 807 KAR 5:011, Section 8 will be published weekly for three weeks, with the first publication being made no later than the date of this Application, in a prominent manner in a newspaper of general circulation in each county of the Company's service territory. A copy of the text of the notice is attached as **EXHIBIT 3** to this Application.

13. The text also has been or will be posted on Kentucky Power's website and its place of business in accordance with 807 KAR 5:011, Section 8(1) and 807 KAR 5:011, Section 8(2).

14. Proof of notice will be filed in accordance with 807 KAR 5:011, Section 8(3).

REQUEST FOR DEVIATION

15. Finding 10 of the Commission's September 24, 1990 Order in Administrative Case No. 327 provides:

> The major objectives of EDRs are job creation and capital investment. However, specific job creation and capital investment requirements should not be imposed on EDR customers.[10]

In establishing Finding 10, the Commission explained:

[10] Order, *In the Matter Of: An Investigation Into The Implementation Of Economic Development Rates By Electric And Gas Utilities*, Administrative Case No. 327 at 26 (Ky. P.S.C. September 24, 1990).

> [R]equiring specific levels of job creation and capital investment for EDR eligibility might, in some instances, impede rather than promote economic activity. For instance, such a requirement might prevent a customer from participating in an EDR program even if tangible economic benefits unrelated to job creation and capital investment would have been realized. Furthermore, specific job creation and capital investment levels would be arbitrary and would not recognize the needs and characteristics of individual service areas and of new and expanding customers.[11]

16. Minimum job creation requirements are imposed in connection with the SBDD. The SBDD-related job creation requirements are structured to address the Commission's concerns about such requirements, and are tailored to meet the needs of the Company's service territory. Tariff E.D.R. contains no capital investment requirements.

17. The IBDD, which is the larger of the two discounts, does not contain, and thus is available without regard to, any job creation (or capital investment) requirement. Thus, an existing or new customer will still receive substantial benefits under Tariff E.D.R. even if its proposed expansion or new facility does not meet the job creation requirements for the additional SBDD. As a result, the job creation requirements required to receive the additional benefits of the SBDD are not likely to deter economic activity.

18. The high unemployment rates prevalent through much of the Company's service territory – 15 of the 20 counties have unemployment rates in excess of 10% and all 20 counties have an unemployment rate in excess of the national rate – make it imperative that at least some portion of the incentives available under Tariff E.D.R. be available to customers who are sustaining or improving employment in the Company's service territory. The availability of this *supplemental* incentive is consistent with both the Commission's concern that economic

[11] *Id.* at 10-11.

development riders reflect "the needs and characteristics of individual [utility] service areas,"[12] as well as the Commission stated goal of affording utilities "the flexibility to design EDRs according to the needs of their customers and service areas …."[13]

19. The use of *two* job creation requirement levels that vary with the number of jobs created, coupled with the fact that the SBDD is additive to the larger IBDD, eliminates much, if not all, of the arbitrariness inherent in the use of job creation targets. For example, a customer whose installation will result in the creation of 60 jobs will receive a larger SBDD than a customer whose new or expanded facility brings only 35 jobs. Although the discount does not vary directly on a job-by-job basis, doing so would be unrealistic in light of the significant verification burdens of such a system. Moreover, because the SBDD is the lesser of the two discounts, the arbitrariness, if any, is minimized.

TESTIMONY

20. The testimony of Brad N. Hall and John A. Rogness is attached as **EXHIBIT 4** and **EXHIBIT 5** respectively.

EXHIBITS

21. The exhibits listed in the Appendix to this Application are attached to and made a part of this Application.

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[12] *Id.* at 11.

[13] *Id.* at 25.

COMMUNICATIONS

22. The Applicant respectfully requests that communications in this matter be transmitted electronically to:

Mark R. Overstreet
STITES & HARBISON PLLC
moverstreet@stites.com

Kentucky Power Company
Kentucky_regulatory_services@aep.com

ON BEHALF OF KENTUCKY POWER

WHEREFORE, Kentucky Power Company requests that the Commission issue an Order:

1. Approving Tariff E.D.R. and declaring the rates to be charged thereunder to be fair just and reasonable;

2. Granting Kentucky Power, to the extent required, a deviation from the requirements of the Commission's September 24, 1990 Order in Administrative Case No. 327; and

3. Granting Kentucky Power all other relief to which it may be entitled.

Respectfully submitted,

Mark R. Overstreet
STITES & HARBISON PLLC
421 West Main Street
P.O. Box 634
Frankfort, Kentucky 40602-0634
Telephone: (502) 223-3477
Facsimile: (502) 223-4387
moverstreet@stites.com

COUNSEL FOR:
KENTUCKY POWER COMPANY

LIST OF EXHIBITS

EXHIBIT 1: The September 18, 2014 Kentucky Power "Certificate of Existence" issued by the Secretary of State of the Commonwealth of Kentucky.

EXHIBIT 2: Tariff E.D.R.

EXHIBIT 3: Text of the legal notice published in a newspaper of general circulation in each county of the Company's service territory.

EXHIBIT 4: Testimony of Brad N. Hall.

EXHIBIT 5: Testimony of John A. Rogness.

CERTIFICATE OF SERVICE

I hereby certify that a true and accurate copy of the foregoing was served as indicated below upon:

Michael L. Kurtz
Kurt J. Boehm
Jody Kyler Cohn
Boehm, Kurtz & Lowry
36 East Seventh Street, Suite 1510
Cincinnati, Ohio 45202

By Overnight Delivery

Jennifer Black Hans
Angela M. Goad
Gregory T. Dutton
Office of Attorney General,
Office of Rate Intervention
1024 Capital Center Drive, Suite 200
Frankfort, Kentucky 40601-8204

By Overnight Delivery

on this the 18st day of September, 2014.

Mark R. Overstreet

Commonwealth of Kentucky
Alison Lundergan Grimes, Secretary of State

Alison Lundergan Grimes
Secretary of State
P. O. Box 718
Frankfort, KY 40602-0718
(502) 564-3490
http://www.sos.ky.gov

Certificate of Existence

Authentication number: 155174
Visit https://app.sos.ky.gov/ftshow/certvalidate.aspx to authenticate this certificate.

I, Alison Lundergan Grimes, Secretary of State of the Commonwealth of Kentucky, do hereby certify that according to the records in the Office of the Secretary of State,

KENTUCKY POWER COMPANY

is a corporation duly incorporated and existing under KRS Chapter 14A and KRS Chapter 271B, whose date of incorporation is July 21, 1919 and whose period of duration is perpetual.

I further certify that all fees and penalties owed to the Secretary of State have been paid; that Articles of Dissolution have not been filed; and that the most recent annual report required by KRS 14A.6-010 has been delivered to the Secretary of State.

IN WITNESS WHEREOF, I have hereunto set my hand and affixed my Official Seal at Frankfort, Kentucky, this 18th day of September, 2014, in the 223rd year of the Commonwealth.

COMMONWEALTH OF KENTUCKY
OFFICE OF SECRETARY OF STATE

Alison Lundergan Grimes

Alison Lundergan Grimes
Secretary of State
Commonwealth of Kentucky
155174/0028317

TARIFF E.D.R.
(Economic Development Rider)

AVAILABILITY OF SERVICE.

To encourage economic development in the Company's service territory, limited-term reductions in billing demand charges described herein are offered to qualifying new and existing retail customers who make application for service under this Rider.

Service under this Economic Development Rider (EDR) is intended for specific types of commercial and industrial customers whose operations, by their nature, will promote sustained economic development based on plant and facilities investment and job creation. Availability is limited to customers on a first-come, first-served basis until such time as a total of 250 MW of new load has been added to Kentucky Power's system under the EDR. The EDR is available to commercial and industrial customers served under Tariffs L.G.S., Q.P. or C.I.P.-T.O.D. who meet the following requirements:

(1) A new customer must have at least a monthly maximum billing demand of 500 kW. An existing customer must increase its monthly maximum billing demand by at least 500 kW over the current Base Maximum Billing Demand in order to receive the Incremental Billing Demand Discount (IBDD).

(2) A new customer, or the business expansion by an existing customer, will receive a Supplemental Billing Demand Discount (SBDD) for creating and sustaining at least 25 new permanent full time jobs over the contract term at the service location. The Company reserves the right to verify job counts. Failure to demonstrate the creation of new employment positions or to maintain the employment during the contract term will result in the termination of the supplemental discount.

(3) The customer must demonstrate to the Company's satisfaction that, absent the availability of this EDR, the qualifying new or increased electrical demand would be located outside of the Company's service territory or would not be placed in service.

TERMS AND CONDITIONS.

(1) The Company will offer the EDR to qualifying customers with new or increased load when the Company has sufficient generating capacity available. When sufficient generating capacity is not available, the Company will procure the additional capacity on the customer's behalf. The cost of capacity procured on behalf of the customer shall reduce on a dollar-for-dollar basis the customer's IBDD and SBDD. Such reduction shall be capped so that the customer's maximum demand charge shall be the non-discounted tariff demand charge. The reduction will be applied in reverse chronological order beginning with the most recent customer to receive discounted service under this tariff. Last customer to sign up for the EDR tariff would be the first customer responsible for paying the cost of incremental capacity purchases. In any year during the discount period in which the customer pays the full tariff demand charge for all twelve months, the Company will reduce the term of the contract by one year.

(2) The new or increased load cannot accelerate the Company's plans for additional generating capacity during the period for which the customer receives a demand discount. Customers receiving Temporary Service are not eligible for this EDR.

(3) To receive service under this EDR, the customer shall make written application to the Company with sufficient information contained therein to determine the customer's eligibility for service. At a minimum, such information will include:

(Cont'd on Sheet 37-2)

TARIFF E.D.R. (Cont'd)
(Economic Development Rider)

TERMS AND CONDITIONS-(Cont'd).

a. A description and good faith estimate of the new or increased load to be served during each year of the contract,
b. The number of new employees or jobs that will be added as a result of the new load,
c. A description of the anticipated capital investment, and
d. A description of all other federal, state or local economic development tax incentives, grants, or any other incentives / assistance associated with the new or expanded project.
e. A statement that without the EDR discount, the customer would locate elsewhere or chose not to expand within Kentucky Power's service territory.

(3) For new and existing customers, billing demands for which reductions will be for service at a new service location or expanded production at an existing facility and not merely the result of a change of ownership. Relocation of the delivery point of the Company's service, moving existing equipment from another KPCo-served location or load transfers from another KPCo-served location do not qualify as a new service location. Relocating existing facilities from within the Company's service territory shall not disqualify the customer from the IBDD as long as the new relocated facility exceeds the Base Maximum Billing Demand of the previous facility by the minimum required amount.

(4) For existing customers, billing demands for which deductions will be applicable under this EDR shall be the result of an increase in business activity and not merely the result of resumption of normal operations following a force majeure, strike, equipment failure, renovation or refurbishment, or other such abnormal operating condition. In the event that such an occurrence has taken place prior to the date of the application by the customer for service under this EDR, the monthly Base Maximum Billing Demand shall be adjusted as appropriate for this analysis to eliminate the effects of such occurrence.

(5) Service under the EDR will be offered under the applicable Tariff L.G.S., Q.P. or C.I.P.-T.O.D schedule. An EDR will be filed as a Special Contract and must be approved by the Kentucky Public Service Commission before it can be implemented. The total contract period is equal to twice the number of years for which the customer receives a demand discount. The special contract term will be for two (2), four (4), six (6), eight (8), and (ten) 10 years only.

(6) The IBDD and the SBDD, if applicable, begin when the customer's new or expanded operations are billed for service under this Rider. Temporary jobs created during the construction of new facilities or the expansion phase of existing operations are not eligible to be counted as permanent jobs for the purposes of this EDR.

(7) If construction of new or expanded local distribution and/or transmission related facilities by the Company is required in order to provide the additional service, the customer may be required to make a contribution-in-aid of construction (CIAC) for the installed cost of such facilities pursuant to the provisions of the Company's Terms and Conditions of Service. The total cost of the CIAC, including gross-up by the effect of applicable taxes, will be recovered over the life of the EDR contract period, with no less than 80% recovered during the period for which the customer receives a demand discount. If the customer breaches the terms of the contract or ends the contract prematurely, any unpaid contribution-in-aid of construction must be paid to the Company and any EDR discounts provided to the customer must be repaid to the Company. CIAC payment provided under this Rider supersedes the other payment provisions only in the Company's Terms and Conditions Sheet 2-5 Section 9.

DATE OF ISSUE: SEPTEMBER 18, 2014

DATE EFFECTIVE: SERVICE RENDERED ON AND AFTER OCTOBER 29, 2014

ISSUED BY: JOHN A. ROGNESS III

TITLE: DIRECTOR OF REGULATORY SERVICES

BY AUTHORITY OF ORDER BY THE PUBLIC SERVICE COMMISSION

IN CASE NO. 2014-XXXX DATED XXXXXXXX

(Cont'd on Sheet 37-3)

TARIFF E.D.R. (Cont'd)
(Economic Development Rider)

TERMS AND CONDITIONS (Cont'd).

(8) The L.G.S., Q.P. and CIP-TOD tariffs each contain a monthly minimum billing demand charge provision. The minimum demand charge provision is waived for EDR customers for up to 36 months depending upon the length of the contract. The provision is waived for the first 36 months of a 10 year contract, the first 24 months of an 8 year contract and the first 12 months of a 6 year contract. If during the special contract discount period, the customer's monthly demand falls below the minimum billing demand level for four (4) consecutive months or six (6) months total in a contract year, then the EDR discount will not be applied and the appropriate tariff minimum billing demand charge provision will be in force until the customer achieves the minimum billing demand level. Applicable EDR discounts will be applied to the qualifying incremental maximum billing demand only and will appear as a separate line item on the customer's bill.

DETERMINATION OF MONTHLY QUALIFYING INCREMENTAL BILLING DEMAND.

For the purposes of this Rider, the monthly qualifying incremental billing demand will be calculated in the following manner:

Where the new qualifying incremental demand resides in new facilities (or separate facilities for existing customers), those facilities may be metered on a separate meter according to Tariffs L.G.S., Q.P. or C.I.P.-T.O.D. for the current billing period and the incremental billing demand will be calculated based upon that facility's meter readings.

Where the new qualifying incremental demand resides in a customer's existing facility with sufficient service and metering capability to accommodate the business expansion, the qualifying incremental billing demand is equal to demand in excess of the Base Maximum Billing Demand. The Base Maximum Billing Demand for each billing month will be calculated by the Company as the average of the previous three years, corresponding month maximum billing demands, subject to Terms and Conditions Items (3) and (4), and will be agreed to by the customer in advance.

DETERMINATION OF INCREMENTAL BILLING DEMAND DISCOUNT.

Customers meeting all Availability of Service and Terms and Conditions above may contract for service for a period of up to ten (10) years, with a commensurate discount period of up to five (5) years. The (IBDD) for a ten (10) year contract follows:

(a) For the twelve consecutive monthly billings of the first contract year, the qualifying incremental billing demand charge shall be reduced by 50% from the applicable tariff L.G.S., Q.P. or C.I.P.-T.O.D. demand charge;

(b) For the twelve consecutive monthly billings of the second contract year, the qualifying incremental billing demand charge shall be reduced by 40% from the applicable tariff L.G.S., Q.P. or C.I.P.-T.O.D. demand charge;

(c) For the twelve consecutive monthly billings of the third contract year, the qualifying incremental billing demand charge shall be reduced by 30% from the applicable tariff L.G.S., Q.P. or C.I.P.-T.O.D. demand charge;

DATE OF ISSUE: SEPTEMBER 18, 2014

DATE EFFECTIVE: SERVICE RENDERED ON AND AFTER OCTOBER 29, 2014

ISSUED BY: JOHN A. ROGNESS III

TITLE: DIRECTOR OF REGULATORY SERVICES

BY AUTHORITY OF ORDER BY THE PUBLIC SERVICE COMMISSION

IN CASE NO. 2014-XXXX DATED XXXXXXXX

Cont'd on Sheet 37-4)

TARIFF E.D.R. (Cont'd)
(Economic Development Rider)

DETERMINATION OF INCREMENTAL BILLING DEMAND DISCOUNT (Cont'd).

(d) For the twelve consecutive monthly billings of the fourth contract year, the qualifying incremental billing demand charge shall be reduced by 20% from the applicable tariff L.G.S., Q.P. or C.I.P.-T.O.D. charge, but shall not be less than the applicable tariff rate schedule minimum billing demand;

(e) For the twelve consecutive monthly billings of the fifth contract year, the qualifying incremental billing demand charge shall be reduced by 10% from the applicable tariff L.G.S., Q.P. or C.I.P.-T.O.D. demand charge, but shall not be less than the applicable tariff rate schedule minimum billing demand; and

(f) All subsequent monthly billings shall be at the full charges stated in the applicable tariff rate schedule for contract years six (6) through ten (10).

The starting point for the IBDD is dependent upon the length of contract: i.e., an eight (8) year contract will have four (4) years of discount beginning with the IBDD of 40% in year one (1). Similarly, a six (6) year contract will have three (3) years of discount beginning with the IBDD of 30% in year one (1).

DETERMINATION OF SUPPLEMENTAL BLLING DEMAND DISCOUNT.

At the Company's discretion, a (SBDD) which is applicable to the monthly incremental billing demand charge is available to customers meeting all Availability of Service and Terms and Conditions above, and that create at least twenty five (25) new permanent job opportunities in the facility and that maintain those job opportunities in each discount year. The amount of additional discount is determined by the actual number of jobs maintained in each year. The SBDD for a ten (10) year contract follows:

(a) For the twelve consecutive monthly billings of the first contract year, the qualifying incremental billing demand charge shall be reduced an additional 5% for an increase of at least 50 jobs or 2.5% for an increase of at least 25 jobs;

(b) For the twelve consecutive monthly billings of the second contract year, the qualifying incremental billing demand charge shall be reduced 4.5% for at least 50 jobs or 2.0% for at least 25 jobs.

(c) For the twelve consecutive monthly billings of the third contract year, the qualifying incremental billing demand charge shall be reduced an additional 4% for an increase of at least 50 jobs or 1. 5% for an increase of at least 25 jobs;

(d) For the twelve consecutive monthly billings of the fourth contract year, the qualifying incremental billing demand charge shall be reduced an additional 3.5% for an increase of at least 50 jobs or 1. 0% for an increase of at least 25 jobs;

DATE OF ISSUE: SEPTEMBER 18, 2014

DATE EFFECTIVE: SERVICE RENDERED ON AND AFTER OCTOBER 29, 2014

ISSUED BY: JOHN A. ROGNESS III

TITLE: DIRECTOR OF REGULATORY SERVICES

BY AUTHORITY OF ORDER BY THE PUBLIC SERVICE COMMISSION

IN CASE NO. 2014-XXXX DATED XXXXXXXX

(Cont'd on Sheet 37-5)

TARIFF E.D.R. (Cont'd)
(Economic Development Rider)

DETERMINATION OF SUPPLEMENTAL BLLING DEMAND DISCOUNT (Cont'd).

(e) For the twelve consecutive monthly billings of the fifth contract year, the qualifying incremental billing demand charge shall be reduced an additional 3% for an increase of at least 50 jobs or 0.5% for an increase of at least 25 jobs; and

(f) All subsequent monthly billing shall be at the full charges stated in the applicable tariff rate schedule for contract years six (6) through ten (10)

The length of the SBDD shall be identical to the length of the IBDD. The starting point for the discount will be commensurate with the contract length, i.e., an eight (8) year contract will have four (4) years of discount with the SBDD of either 4.5% or 2.0% as appropriate in year one (1).

The appropriate discount(s) shall be applicable over a period of up to 60 consecutive billing months beginning with the first such month following the end of the start-up period. The start-up period shall commence with the effective date of the contract addendum for service under this EDR and shall terminate by mutual agreement between the Company and the customer. In no event shall the start-up period exceed 12 months.

TERMS OF CONTRACT.

A contract or agreement addendum for service under this Rider, in addition to service under Tariffs L.G.S., Q.P. or C.I.P.-T.O.D., shall be executed by the customer and the Company for the time period which includes the start-up period and the multi-year period during which a Total Demand Charge discount is in effect and an equal multi-year period during which the customer agrees to pay the full rates in the applicable Tariff rate schedule.

At a minimum, the contract or agreement addendum shall specify the Base Maximum Billing Demand, the anticipated annual total qualifying demand, the Adjustment Factor and related provisions to be applicable under this Rider, and the effective date for the contract addendum.

The customer may discontinue service under this Rider before the end of the contract or agreement addendum only by reimbursing the Company for any and all demand reductions received under this Rider when billed at the applicable tariff schedule rate.

SPECIAL TERMS AND CONDITIONS.

Except as otherwise provided in this Rider, written agreements shall remain subject to all of the provisions of the applicable tariffs. This Rider is subject to the Company's Terms and Conditions of Service.

DATE OF ISSUE: SEPTEMBER 18, 2014

DATE EFFECTIVE: SERVICE RENDERED ON AND AFTER OCTOBER 29, 2014

ISSUED BY: JOHN A. ROGNESS III

TITLE: DIRECTOR OF REGULATORY SERVICES

BY AUTHORITY OF ORDER BY THE PUBLIC SERVICE COMMISSION

IN CASE NO. 2014-XXXX DATED XXXXXXXX

Please Take Notice that on September 18, 2014 Kentucky Power Company ("Kentucky Power") expects to file with the Kentucky Public Service Commission (Commission) an application for approval of a new Economic Development Rider ("Tariff E.D.R."). The proposed effective date for Tariff E.D.R. is October 19, 2014.

Tariff E.D.R. is intended to encourage economic development in Kentucky Power's service territory through limited-term reductions in billing demand charges to qualifying new and existing retail customers taking service under Tariff L.G.S., Tariff Q.P., or Tariff C.I.P.-T.O.D. that make application for service under the Rider.

Service under Tariff E.D.R. is limited to qualifying customers on a first-come, first-served basis until such time as a total of 250 MW of new load has been added to Kentucky Power's system under the tariff. The discount may be further limited during such periods Kentucky Power lacks sufficient capacity.

A special contract, which must be filed with the Commission, is required for service under Tariff E.D.R., and service under the tariff is conditioned upon approval of the special contract by the Commission. The special contract will be for a term equal to two times the period of discounted service.

Two limited reductions in billing demand charges are available under the tariff. The Incremental Billing Demand Discount ("IBDD") is an annually declining discount available to qualifying customers for a period equal to one-half the special contract term. The Supplemental Billing Demand Discount ("SBDD") is discretionary with Kentucky Power and is in addition to the IBDD. The SBDD is available to qualifying customers that also create at least 25 new permanent job opportunities in the facility and that maintain those job opportunities in each discount year. The amount of SBDD is determined by the actual number of jobs maintained in each discount year.

The present rates and the proposed rates (including the maximum discounts) for each customer classification to which the proposed rates will apply, along with the amount of change requested for each customer classification, are shown in the table below:

Rate Classification	Present Billing Demand Charge	Proposed Rates[1]	Amount Of IBDD Discount (Change)[2] in $	Amount Of IBDD Discount (Change) As A %[3]	Amount Of SBDD Discount (Change)[4] in $	Amount Of SBDD Discount (Change) As A %[5]
LGS	$ 3.89	Discount Year 1 $1.75	$ 1.95	50%	$ 0.19	5.00%
	$ 3.89	Discount Year 2 $2.16	$ 1.56	40%	$ 0.18	4.50%
	$ 3.89	Discount Year 3 $2.57	$ 1.17	30%	$ 0.16	4.00%

	$ 3.89	Discount Year 4 $2.98	$	0.78	20%	$	0.14	3.50%
	$ 3.89	Discount Year 5 $3.38	$	0.39	10%	$	0.12	3.00%
	$ 3.89	Non-Discount Years (Years 6-10) $3.89	$	-	0%	$	-	0%
QP	$ 15.00	Discount Year 1 $6.75	$	7.50	50%	$	0.75	5.00%
	$ 15.00	Discount Year 2 $8.33	$	6.00	40%	$	0.68	4.50%
	$ 15.00	Discount Year 3 $9.90	$	4.50	30%	$	0.60	4.00%
	$ 15.00	Discount Year 5 $11.48	$	3.00	20%	$	0.53	3.50%
	$ 15.00	Discount Year 5 $13.05	$	1.50	10%	$	0.45	3.00%
	$ 15.00	Non-Discount Years (Years 6-10) $15.00	$	-	0%	$	-	0%
CIP-TOD	$ 16.77	Discount Year 1 $7.55	$	8.39	50%	$	0.84	5.00%
	$ 16.77	Discount Year 2 $9.31	$	6.71	40%	$	0.75	4.50%
	$ 16.77	Discount Year 3 $11.07	$	5.03	30%	$	0.67	4.00%
	$ 16.77	Discount Year 4 $12.83	$	3.35	20%	$	0.59	3.50%
	$ 16.77	Discount Year 5 $14.59	$	1.68	10%	$	0.50	3.00%
	$ 16.77	Non-Discount Years (Years 6-10) $ 16.77	$	-	0%	$	-	0%

[1] Assumes a ten-year contract and the maximum SBDD (50 or more jobs) is granted.. For shorter term contracts, the maximum rate will be established at the level under the ten-year contract corresponding to the number of discount years available under the shorter-term contract. For example, the IBDD percentage discounts for an eight-year contract would be Year 1 (40%), Year 2 (30%), Year 3 (20%), Year 4 (10%) and Years 5-8 (0%). The SBDD percentage discounts for an eight-year contract would be Year 1 (4.5%), Year 2 (4.0), Year 3 (3.5%), Year 4 (3.0%) and Years 5-8 (0%).

[1] Assumes a ten-year contract. Rates will decline proportionately for shorter term contracts.

[1] Assumes a ten-year contract. Rates will decline proportionately for shorter term contracts.

[1] Assumes a ten-year contract. Rates will decline proportionately for shorter term contracts.
[1] Assumes a ten-year contract. Rates will decline proportionately for shorter term contracts.

The amount of the average usage and the effect upon the average bill for each customer classification to which the proposed rates will apply:

Customer Class	Current Annual Revenue	Average Customer Bill	Average Customer Usage (kWh)	Average Customer Demand (kW)	Billing Demand Eligible for Discount (in kW)*
LGS	$ 66,639,660	$ 6,503	66,818	210	500
QP	$ 50,193,750	$ 55,771	783,458	2,029	1,000
CIP-TOD	$ 120,533,273	$ 669,629	11,854,223	20,429	7,500

**Applicable Discount Year 1 (IBDD Only)	**Applicable Discount Year 1 (IBDD+SBDD)	**Applicable Discount Year 2 (IBDD Only)	**Applicable Discount Year 2 (IBDD+SBDD)	**Applicable Discount Year 3 (IBDD Only)	**Applicable Discount Year 3 (IBDD+SBDD)
$973	$1,070	$778	$866	$584	$ 661.30
$7,500	$8,250	$6,000	$6,675	$4,500	$ 5,100.00
$83,738	$9,211,125	$66,990	$74,526	$50,243	$ 56,941.50

**Applicable Discount Year 4 (IBDD Only)	**Applicable Discount Year 4 (IBDD+SBDD)	**Applicable Discount Year 5 (IBDD Only)	**Applicable Discount Year 5 (IBDD+SBDD)	**Applicable Discount Years 6-10 (IBDD Only)	**Applicable Discount Years 6-10 (IBDD+SBDD)
$389	$457	$195	$253	$0	$0
$3,000	$3,525	$1,500	$1,950	$0	$0
$33,495	$39,357	$16,748	$21,772	$0	$0

*For sample calculation purposes, customers are assumed to be receiving service at the primary voltage level. Off-Peak billing demand excess is assumed to be 0 for QP. The off-peak billing demand for CIP-TOD I assumed to be the same as the on-peak billing demand. Actual discount will vary dependent upon actual usage.

**Assumed contract length of ten (10) years; discount decreases with shorter contract lengths.

FURTHER INFORMATION REGARDING THE TARIFF FILING

Any person by timely written request for intervention filed with the Public Service Commission may request leave to intervene in the Commission proceeding to review the proposed Tariff E.D.R. The motion shall be submitted to the Public Service Commission, 211 Sower Boulevard, P. O. Box 615, Frankfort, Kentucky 40602-0615, and shall establish the grounds for the request, including the status and interest of the party. If the Commission does not receive a written request for intervention within 30 days of the initial publication of this notice the Commission may take final action on the tariff filing.

Written comments on the proposed rates may be submitted to the Public Service Commission by mail to the address listed above or via the Commission's website: http://psc.ky.gov. The rates contained in this notice are the rates proposed by Kentucky Power but that the Public Service Commission may order rates to be charged that differ from the proposed rates contained in this notice.

A copy of the tariff filing and any related documents Kentucky Power may file with the Public Service Commission may be examined at Kentucky Power's offices located at 101A Enterprise Drive, Frankfort, KY 40601 with a phone number of 502-696-7011; 12333 Kevin Avenue, Ashland, KY 41102 with a phone number of 606-929-1600; 1400 E. Main St. Hazard, KY 41701 with a phone number of 606-436-1322; and 3249 North Mayo Trail, Pikeville, KY 41501 with a phone number of 606-437-3827, and the Company's website: www.kentuckypower.com.

A copy of the tariff filing and any related documents Kentucky Power may file with the Public Service Commission may be examined Monday through Friday from 8:00 a.m. through 4:30 p.m. at the offices of the Commission at the address listed above. The tariff filing and any related documents Kentucky Power has filed with the Public Service Commission may also be examined through the Commission's website: http://psc.ky.gov.

VERIFICATION

The undersigned, Brad N. Hall, being duly sworn, deposes and says he is the External Affairs Manager for Kentucky Power 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

Brad N. Hall

COMMONWEALTH OF KENTUCKY)
)
COUNTY OF PIKE)

Subscribed and sworn to before me, a Notary Public in and before said County and State, by Brad N. Hall, this the 3rd day of September, 2014.

William M. Johnson
Notary Public

My Commission Expires: 8-7-15

DIRECT TESTIMONY OF
BRAD N. HALL, ON BEHALF OF
KENTUCKY POWER COMPANY
BEFORE THE PUBLIC SERVICE COMMISSION OF KENTUCKY

TABLE OF CONTENTS

**DIRECT TESTIMONY OF
BRAD N. HALL, ON BEHALF OF
KENTUCKY POWER COMPANY
BEFORE THE PUBLIC SERVICE COMMISSION OF KENTUCKY**

I. INTRODUCTION

Q: PLEASE STATE YOUR NAME, POSITION AND BUSINESS ADDRESS.

A: My name is Brad N. Hall. My position is Manager, External Affairs for Kentucky Power Company (Kentucky Power, KPCo or Company). My business address is 3249 North Mayo Trail, Pikeville, Kentucky 41501.

II. BACKGROUND

Q: PLEASE SUMMARIZE YOUR EDUCATIONAL BACKGROUND AND BUSINESS EXPERIENCE.

A: I received a Bachelor of Business Administration in Accounting and Computer Science from the University of Pikeville in 1996, and a Master of Business Administration in Management and Human Resources from Morehead State University in 2000. I completed the I.O.M. Certificate from the Institute of Non-Profit Management through the United States Chamber of Commerce in 2010, and I completed the Economic Development Institute Certification through the Oklahoma University Economic Development Institute in 2014.

In May 1995, I began working as an Accountant for Eastern Telephone Company of Pikeville, Kentucky. From April 1997 – March 1998, I served as Senior Accountant in Plant Assets at the University of Kentucky in Lexington, Kentucky. From March 1998 – October 2001, I served as Controller and Office Manager at Mountain Water District in

Pikeville, Kentucky. From October 2001 – September 2005, I served as the Director of Operations at Southeast Telephone in Pikeville, Kentucky. From September 2005 – April 2007, I served as the Director of Revenue Assurance at Southeast Telephone in Pikeville, Kentucky. From April 2007 – May 2011, I served as President and Chief Executive Officer at the Pike County Chamber of Commerce in Pikeville, Kentucky. From May 2011 – June 2012, I served as President and Chief Executive Officer at the Southeast Kentucky Chamber of Commerce in Pikeville, Kentucky. In June, 2012, I began my duties as Manager of External Affairs for Kentucky Power Company.

Q: WHAT ARE YOUR RESPONSIBILITIES AS MANAGER, EXTERNAL AFFAIRS WITH KENTUCKY POWER?

A: As Manager of Kentucky Power's External Affairs, I am primarily responsible for all of the Economic Development activities within our service territory. These activities include seeking and attracting business prospects, assisting existing businesses in retention and expansion efforts, as well as providing counsel and resources for economic development. In addition, I also have responsibilities in community and governmental affairs. In this role I work with community organizations in our service territory and represent the interests of Kentucky Power before both local and state governments.

Q: HAVE YOU PREVIOUSLY TESTIFIED BEFORE THIS COMMISSION?

A: Yes. I provided testimony in 2003 on behalf of Southeast Telephone, a Competitive Local Exchange Carrier located in Pikeville, Kentucky. The case concerned contract pricing for a wholesale services agreement between Southeast Telephone and Bellsouth / AT&T.

III. PURPOSE OF TESTIMONY

Q: WHAT IS THE PURPOSE OF YOUR TESTIMONY IN THIS PROCEEDING?

A: The purpose of my testimony is to discuss the economic development challenges in Kentucky Power's service territory. The Company's overall goal is to increase the ability of city governments, county governments, area development districts and chambers of commerce to attract and retain businesses. The Economic Development Rider (EDR) will provide a necessary tool for attracting new industry and manufacturing and expanding existing businesses in the Company's service territory.

Q: ARE THERE ECONOMIC DEVELOPMENT CHALLENGES IN KENTUCKY POWER'S SERVICE TERRITORY?

A: Kentucky Power's service territory covers all or part of twenty counties in eastern Kentucky. Most of these counties are economically distressed with the primary economic driver being the coal mining industry. As Company witness Rogness explains in his testimony, the eastern Kentucky coal industry is experiencing a pronounced downturn and this is exacerbating the need for economic diversification and additional investments within the area. The coal sector provides primary jobs (high-wage jobs that brings new wealth into a community), and these coal sector jobs have a multiplier of three to one for job creation. Therefore, with the loss of thousands of coal jobs, the need to create new primary jobs within the service territory is at an all-time high.

Q. HAVE YOU IDENTIFIED SPECIFIC PROBLEMS IN CONNECTION WITH THIS CHALLENGE?

A. In my seven years of economic development work in eastern Kentucky, coupled with my past employment by eastern Kentucky businesses, I have discovered many challenges to overcome for the territory to begin to have planned and consistent success in the attraction and expansion of industry. I have categorized these challenges as follows: lack of trained economic development professionals, lack of "shovel-ready" properties for industry, and lack of fully functional economic development organizations.

Lack of Trained Economic Development Professionals

There are very few trained economic development professionals in eastern Kentucky. Most of the individuals practicing economic development within the territory are part-time or have many other duties in addition to economic development. In addition, most of these individuals lack professional economic development training. Kentucky Power is working with local economic development officials to enhance their skills to find and to attract new business prospects and to assist existing businesses in retention and expansion efforts.

Lack of Shovel-Ready Properties

There are a limited number of "shovel-ready" properties available for industry within the territory. Although there are a number of multi-county industrial parks within the Company's service territory, all but one have "fatal flaws," as defined by economic development site location professionals. Fatal flaws include lack of available water capacity, lack of available sewer capacity, lack of available data capacity, lack of available power capacity, and lack of a trained workforce. The absence of one or more of these site attributes will quickly eliminate a property from investment considerations. Kentucky Power has inventoried the gaps in these properties, and we are working with the respective organizations to assist them in the creation of a plan for eliminating these shortcomings. In addition, we are working with communities to assist in the creation of new industrial properties.

Lack of Fully-Functional Economic Development Organizations.

The Company's service territory lacks fully-functional economic development organizations. City governments, county governments, area development districts, and chambers of commerce all engage in economic activities, but none have a fully functioning economic development work plan with the necessary funding to practice effective economic development. There are efforts underway to create fully functioning regional economic development plans within these organizations, but they are not up and running at full capacity today. Kentucky Power is working with its economic development partners to create more effective organizations engaged in economic development activities. These organizations are responsible for managing properties, marketing those properties to potential prospects, and executing deals with locating industry. The absence of this type of organizational resource is a serious challenge for the service territory and the region.

Notwithstanding these challenges, there is significant opportunity for investment in eastern Kentucky. Kentucky Power is investing time and resources in supporting the growth of industry in its territory. Properties can be improved, individuals can be trained, and organizations can be created. There are many efforts underway and partnerships are being formed to overcome these challenges. However, it will take time, money, and dedication from both private industry and public organizations to achieve success. The Company's EDR will be an important tool in these efforts to ensure that we have competitive pricing with other utilities offering similar programs. In fact, an EDR may be the very incentive an industry needs to make the decision to locate in eastern Kentucky. The price of electricity is often the largest cost driver for industry.

Q: DESCRIBE KENTUCKY POWER'S EFFORTS IN ECONOMIC DEVELOPMENT. HAVE YOU EXPERIENCED ANY SUCCESS WITH THE EFFORTS?

A: Kentucky Power Company rebooted its economic development program in June, 2012. Since that time, we have been working diligently to build a quality economic development program specifically crafted for the needs of eastern Kentucky. We have customized our program of work based on a SWOT (Strength, Weakness, Opportunities, Threats) analysis of the service territory. The program has been customized to support and elevate our existing community economic development programs, increase skill levels of economic development practitioners, create and/or prepare industrial sites that are "shovel-ready," seek and provide industry prospects to the territory, provide professional consulting and counseling to our communities, and to be involved strategically in professional economic development organizations on the state and national levels.

Q. HOW HAS KENTUCKY POWER WORKED TO ELEVATE THE SKILL LEVELS OF THE COMPANY'S ECONOMIC DEVELOPMENT PARTNERS?

A. In an effort to elevate the skill levels of our economic development practitioners Kentucky Power has implemented several training programs both in person and using the webinar format at no cost to our economic development allies. The Company also has commissioned multiple economic development consultants to come into the territory to provide training seminars to local economic development agencies, business stakeholders, and local elected officials. We have offered four of these opportunities over the last two years. We are currently hosting a 4-part webinar series called "Win More! Sales Training", focused on how communities can position themselves for success in economic development. In addition to the training opportunities hosted by the Company, we are providing three scholarships per year to the Kentucky Institute for Economic Development (KIED). This three-day course is the first step in becoming a Certified Economic Development Professional (CEcD). We have sponsored six local economic developers through KIED over the last two years.

Q. HAS KENTUCKY POWER TAKEN STEPS TO ADDRESS THE LACK OF "SHOVEL-READY" SITES?

A. Yes. To address the lack of "shovel ready" sites, the Company sought the services of a top economic development site location consultant firm to do a detailed analysis for each of the multi-county industrial parks in the territory. This analysis has provided the Company and its partners with a roadmap for needed investment and improvements in each of the sites. We have provided this information to the stakeholders for each site, and we are assisting them in creating plans for funding the improvements. In addition, we enlisted the same consultant to assist in taking two of the top three properties to market as quickly as possible. This effort has already resulted in major investments in the Marion Branch site in Pikeville with Alltech of Nicholasville, Kentucky planning to locate two new businesses on the site.

Q. PLEASE DESCRIBE SOME OF THE OTHER ECONOMIC DEVELOPMENT ASSISTANCE PROVIDED BY KENTUCKY POWER TO ITS SERVICE TERRITORY.

A. Kentucky Power Company works in conjunction with the American Electric Power Economic and Business Development (AEPED) team to provide other resources to our local communities. The most important of these is our ability to work through our many contacts to provide industry prospects for our territory. We have supplied approximately 15 active prospects to communities in our service territory over the last two years. These prospects are in addition to any that may be supplied by the Kentucky Cabinet for Economic Development or other resources that these communities may have. In addition, through the AEPED team we are providing all of our economic development allies with access to the premiere site management software, Location One Information System (LOIS). We also provide reporting to our allies from Hoover's, Dunn & Bradstreet, and other major research tools. This provides our small communities with much needed demographic information as well as intelligence on potential prospects. Most of our communities would not be able to afford tools of this caliber for their economic development efforts otherwise.

Q. ARE YOU INVOLVED WITH EXISTING ECONOMIC DEVELOPMENT ORGANIZATIONS IN THE COMPANY'S SERVICE TERRITORY?

A. Most certainly. I work closely with our communities in order to achieve success in economic development. I serve or participate in most, if not all, of our communities' organizations involved in economic development activities. This includes, but is not limited to: chambers of commerce, industrial authority boards, and area development district boards. Our goal is to continue to train and provide ongoing counsel to these organizations in their efforts to attract and retain industry. I also assist communities in Request For Information (RFI) submittals to prospects, community presentations for prospects, and site visits by prospects.

The Company represents our communities on both state and national levels of economic development organizations. On the state level, we are very involved in both the Kentucky Association of Economic Development and Kentucky United (a public-private partnership to market Kentucky with the Kentucky Cabinet for Economic Development). On the national level, we are members of the International Economic Development Council. Most of our local communities cannot afford to pay membership or participate in state and national events. It is our goal to represent their needs in these state and national organizations.

Q. HAVE THESE EFFORTS BY KENTUCKY POWER PRODUCED RESULTS?

A. It has taken some time, but we are beginning to see real results from these efforts. Since Kentucky Power rebooted its economic development program, communities are beginning to fund economic development programs, hire economic development managers, create regional economic development organizations, and develop plans to improve industrial sites. These successes are a direct result of our education and counseling efforts within our territory. Just recently, the Marion Branch Industrial site in Pikeville announced two new investments in this brand new industrial site. Kentucky Power's work on this site led the city to rezone this property from residential to industrial and thus directly resulted in the development of the new industrial site and the investment by Alltech. This clearly illustrates that with a proper strategy and proper investments, eastern Kentucky can begin to create a diversified economy and jobs for the region.

Q: HOW WOULD THE ECONOMIC DEVELOPMENT RIDER HELP ATTRACT NEW INDUSTRY AND ASSIST EXISTING INDUSTRY IN EXPANSION?

A: An economic development rider is an important tool in attracting new businesses and assisting existing businesses with expansion plans. Many of the projects qualifying for this rider are significant users of electrical energy, and in today's extremely cost-conscious environment they are very cost conscious of a potential site's energy costs, which in turn directly affect their business investment and the return on that investment. An economic development rider is a common tool used to attract new projects. Therefore, it is practically a requirement for the region's electricity provider to have this rider to compete for these prospective investors. In the case of Kentucky Power, the Company's service territory is surrounded by other energy providers that offer an economic development rider. Without the EDR we are at risk of being at serious competitive disadvantage in attracting projects. In fact, most potential projects are looking in a 3-5 state region to locate their investments. It is the Company's desire to offer a competitive price for our product to provide an attractive incentive to a potential prospect. An EDR can remove a significant barrier for a local community in pursuit of a competitive project.

An EDR is also very important for an expansion of an existing business for the reasons mentioned above. Expansion projects are typically competing with other locations within their own corporate ownership. Thus, by offering this rider, the Company is proving another valuable incentive to assist local communities attract new businesses and expansion opportunities in a very competitive environment.

In summary, prospecting for new industry or for expansion opportunities is an extremely competitive process. These prospects are simply looking at the return on investment concept for each potential site. How do our sites measure up in comparison to other sites on a national and international basis? We must be sure we are working to eliminate every potential barrier to creating competitive deals that will allow our communities to win new projects. This economic development rider is an important tool in this process.

To diversify our economy, we must attract and retain industry. This can only be accomplished by creating strong economic development organizations, with "shovel-ready" sites, and tools that provide us with a competitive advantage to win potential projects.

<u>IV: CONCLUSION</u>

Q. DOES THIS CONCLUDE YOUR TESTIMONY?

A. Yes.

VERIFICATION

The undersigned, John A Rogness III, being duly sworn, deposes and says he is the Director Regulatory Services 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

John A Rogness III

COMMONWEALTH OF KENTUCKY)
) SS
COUNTY OF FRANKLIN)

Subscribed and sworn to before me, a Notary Public in and before said County and State, by John A Rogness III, this the 17th day of September 2014.

Judy K Rosquist 481393
Notary Public

My Commission Expires: January 23, 2017

DIRECT TESTIMONY OF
JOHN A. ROGNESS III, ON BEHALF OF
KENTUCKY POWER COMPANY
BEFORE THE PUBLIC SERVICE COMMISSION OF KENTUCKY

TABLE OF CONTENTS

**DIRECT TESTIMONY OF
JOHN A. ROGNESS III, ON BEHALF OF
KENTUCKY POWER COMPANY
BEFORE THE PUBLIC SERVICE COMMISSION OF KENTUCKY**

I. INTRODUCTION

Q: PLEASE STATE YOUR NAME, POSITION AND BUSINESS ADDRESS.

A: My name is John A. Rogness III. My position is Director, Regulatory Services for Kentucky Power Company (Kentucky Power, KPCo or Company). My business address is 101 A Enterprise Drive, Frankfort, Kentucky 40602.

II. BACKGROUND

Q: PLEASE SUMMARIZE YOUR EDUCATIONAL BACKGROUND AND BUSINESS EXPERIENCE.

A: I received a Bachelor of Science in Economics from the University of Chattanooga in 1980, a Master of Science in Economics from Vanderbilt University in 1984 and a Ph.D. in Economics from the University of Kentucky in 1991.

In January 1990, I began working in the Kentucky Office of Financial Management and Economic Analysis. From July 1991 – September 1998, I served as an Economist with the Kentucky Public Service Commission (KPSC). From September 1998 – July 2010 I served as Manager of the Management Audit Branch at the KPSC. From August 2010 – September 2012 I served as the Director of the Financial Analysis Division at the KPSC. From October 2012 – March 2014, I served as the Director, Energy Generation, Transmission and Distribution at the Department for Energy Development and Independence in

Kentucky's Energy and Environment Cabinet. On March 17, 2014, I began my duties as Director of Regulatory Services for Kentucky Power Company.

Q: WHAT ARE YOUR RESPONSIBILITIES AS DIRECTOR, REGULATORY SERVICES?

A: As Director of Kentucky Power's Regulatory Services, I am responsible for the rate and regulatory matters of Kentucky Power. This includes the preparation of and coordination of the Company's testimony and exhibits in rate cases and any other formal filings before this Commission and federal regulatory bodies. In addition, I am responsible for assuring the proper application of the Company's rates and tariffs in all classifications of business.

Q: HAVE YOU PREVIOUSLY TESTIFIED BEFORE THIS COMMISSION?

A: No. This case represents the first time I have submitted testimony before this Commission.

III. PURPOSE OF TESTIMONY

Q: WHAT IS THE PURPOSE OF YOUR TESTIMONY IN THIS PROCEEDING?

A: The purpose of my testimony is to discuss Kentucky Power's proposed Economic Development Rider (EDR) tariff and how the tariff is consistent with the guidelines that the Commission established in Administrative Case No. 327 Final Order dated September 24, 1990 (Order).

IV. INTRODUCTION

A. Economic Activity And Employment In Eastern Kentucky.

Q: WHY IS KENTUCKY POWER PROPOSING AN ECONOMIC DEVELOPMENT RIDER?

A: The Economic Development Rider is designed, in connection with the Company's other economic development activities, to boost economic activity in Kentucky Power's service territory. In addition to the direct benefits flowing to eastern Kentucky residents and their communities, a growing economy can protect and even expand the Company's customer base, thereby avoiding the higher rates that would result from spreading fixed costs over a declining customer base.

Q. WHAT IS THE CURRENT LEVEL OF ECONOMIC ACTIVITY AND EMPLOYMENT IN THE COMPANY'S SERVICE TERRITORY?

A. Economic activity in eastern Kentucky continues to lag behind the Commonwealth and the nation as a whole. The Company's service territory comprises counties that historically have been heavily dependent on coal mining and related activities. In part as a result of recently promulgated and possible new environmental regulations, economic activity in these sectors is under severe economic stress. For example, according to the Kentucky Quarterly Coal Report over the past three years, coal mining and related industry employment in eastern Kentucky dropped from 14,285 (3rd Quarter 2011) to 7,235 (1st Quarter 2014). Many of these lost jobs were high-paying. According to the Kentucky Coal Facts, 14th Edition 2014, the average annual wage in 2013 for coal mining jobs was $72,779. Such high wage jobs also have a multiplier effect on the economy and help spur economic activity in other sectors. The loss of coal sector jobs has had a significant negative impact on the eastern Kentucky economy.

Q. IS THIS A TEMPORARY DOWNTURN?

A. Although time will tell, several developments suggest that much of the coal-related economic activity in eastern Kentucky may never come back. First, eastern Kentucky is being adversely affected by the decline in coal production at a rate significantly greater than the nationwide decline. Coal mine production nationwide was down seven percent in 2012,[1] but dropped nearly four times that rate (-27.6%) in eastern Kentucky.[2] This trend continued in 2013, with a 3.4% decline nationwide[3] and a 19.8% decline in eastern Kentucky coal production.[4] Perhaps even more telling is that while eastern Kentucky coal production is plummeting, the western Kentucky coal fields are essentially holding steady over a like period. Thus, although eastern Kentucky coal production declined -27.6%[5] and -19.8%[6] in 2012 vs. 2011 and 2013 vs. 2012, respectively, production

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[1] Kentucky Energy and Environment Cabinet, Department for Energy Development and Independence, *Kentucky Coal Facts* at 5 (13th Ed. 2013).

[2] *Id.* at 8.

[3] Kentucky Energy and Environment Cabinet, Department for Energy Development and Independence, *Kentucky Coal Facts* at 15 (14th Ed. 2014).

[4] *Id.* at 17.

[5] Kentucky Energy and Environment Cabinet, Department for Energy Development and Independence, *Kentucky Coal Facts* at 8 (13th Ed. 2013).

[6] Kentucky Energy and Environment Cabinet, Department for Energy Development and Independence, *Kentucky Coal Facts* at 17 (14th Ed. 2014).

actually increased in the western Kentucky fields in 2012 over 2011,[7] and only slightly declined in 2013 vs. 2012.[8]

Second, the decline in eastern Kentucky coal production not unexpectedly produced a similar disparity in coal mine employment. Although the eastern coal Kentucky coalfield region (Central Appalachian Basin) experienced a 29.9% decline in coal mine employment between 2011 and 2012,[9] coal mine employment in the western Kentucky coalfield region (Illinois Basin) remained flat during the same period.[10] This trend continued in 2013. Nationwide, coal mine employment declined 6.9%, while it dropped -15.9% in Kentucky.[11] This decline was limited almost entirely to eastern Kentucky with western Kentucky coal mine employment remaining flat.[12]

Taken together, it appears that the decline in eastern Kentucky coal-related economic activity is not only significantly worse in degree from that being experienced nationwide and in western Kentucky, but given the magnitude of the disparity, may be the result of different or additional causes. Thus, even if coal production and employment were to rebound nationwide these differences suggest it might not do so in eastern Kentucky.

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[7] Kentucky Energy and Environment Cabinet, Department for Energy Development and Independence, *Kentucky Coal Facts* at 8 (13th Ed. 2013) (+2.5%).

[8] Kentucky Energy and Environment Cabinet, Department for Energy Development and Independence, *Kentucky Coal Facts* at 17 (14th Ed. 2014) (-2.8%).

[9] Kentucky Energy and Environment Cabinet, Department for Energy Development and Independence, *Kentucky Coal Facts* at 12 (13th Ed. 2013).

[10] *Id.*

[11] Kentucky Energy and Environment Cabinet, Department for Energy Development and Independence, *Kentucky Coal Facts* at 28 (14th Ed. 2014).

[12] *Id.* at 3, 29-30.

Third, further exacerbating the decline in eastern Kentucky coal-related economic activity is that, as was discussed extensively in Case No. 2012-00578,[13] many coal-fired generating stations, which were an important customer for eastern Kentucky coal,[14] have been retired, or will be forced to retire next year as a result of the federal Mercury and Air Toxic Standards rule. Indeed, whether as result of generating station retirements, or the shift to higher sulfur coals,[15] or for other reasons, "[k]nown shipments of steam coal from Eastern Kentucky to power plants within the United States decreased by 39 percent in 2012…."[16]

These three factors strongly suggest that doing nothing and awaiting a hoped for return of coal-mine activity is not feasible.

Q. IS THE ECONOMIC DOWNTURN LIMITED TO THE COAL INDUSTRY?

A. No. Both as a result of the decline in the coal mining sector, as well as a falloff in other aspects of the eastern Kentucky economy, unemployment in eastern Kentucky remains significantly higher than many other areas in the Commonwealth. For example, the preliminary July 2014 labor force estimates

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[13] Order, *In the Matter of: The Application of Kentucky Power Company For: (1) A Certificate of Public Convenience And Necessity Authorizing The Transfer To the Company Of A Fifty Percent Undivided 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) For All Other Required Approvals And Relief* (Ky. P.S.C. October 7, 2013) ("Mitchell Transfer Order").

[14] Kentucky Energy and Environment Cabinet, Department for Energy Development and Independence, *Kentucky Coal Facts* at 12 (13th Ed. 2013) ("The vast majority of coal shipped from Eastern Kentucky in 2011 was loaded onto coal cars and delivered to electric power plants.")

[15] Kentucky Energy and Environment Cabinet, Department for Energy Development and Independence, *Kentucky Coal Facts* at 26 (14th Ed. 2014).

[16] Kentucky Energy and Environment Cabinet, Department for Energy Development and Independence, *Kentucky Coal Facts* at 17 (13th Ed. 2013).

published by the Research and Statistics Branch of the Office of Employment and Training indicate that all but two of the 20 counties served by Kentucky Power have unemployment rates in excess of the state average (7.5%), and all 20 counties exceed the 6.5% nationwide rate.[17] In fact, the Magoffin County rate (15.4%) is more than double the state unemployment rate, while Clay (12.0%), Perry (11.2%), Owsley (10.3%), Letcher (13.2%), Leslie (13.3%), Knott (12.9%), Breathitt (10.3%), Pike (11.4%), Martin (11.6%), Floyd (10.9%), Carter (11.3%), Elliott (10.4%), Morgan (11.4%), and Lewis (11.2%) counties each have unemployment rates in excess of 10%.[18] High unemployment rates can lead to outmigration, which can further exacerbate depressed economic activity.

In addition, several counties in the Company's service territory are part of one of the four promise zones nationwide recently designated by the federal government.[19] This designation demonstrates the wide recognition that eastern Kentucky counties are in need of incentives to spur economic development.

Q. DOES THE DOWNTURN IN ECONOMIC ACTIVITY AND EMPLOYMENT IN THE COMPANY'S SERVICE TERRITORY HAVE OTHER ADVERSE ECONOMIC EFFECTS?

A. Most assuredly so. Local governments depend on employment-based tax revenues to fund a substantial portion of their operations. Moreover, declining

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17 https://kylmi.ky.gov/vosnet/analyzer/results.aspx?session=labforce&area=2101000000&timeperiod=20140307&SEASONADJ=false

18 *Id.*

19 http://www.kentucky.com/2014/01/08/3022866/impoverished-portion-of-southeast.html

coal production also has led to lower coal severance tax revenues flowing back to the Company's service territory.

B. Kentucky Power's Economic Development Efforts.

Q. PLEASE DESCRIBE THE COMPANY'S ECONOMIC DEVELOPMENT EFFORTS IN ITS SERVICE TERRITORY.

A. Although Kentucky Power has a long history of working to expand economic activity in its service territory, it recently intensified those efforts. For example, in 2012 Kentucky Power employed Company Witness Brad Hall as Manager of External Affairs. Chief among Mr. Hall's responsibilities is economic development in the Company's service territory. In 2014 the Company initiated the Kentucky Power Economic Advancement Program, a five year effort through which the company has committed to provide $1 million to stimulate economic development in its service territory.[20]

Q. WHAT TYPE OF ECONOMIC DEVELOPMENT IS THE FOCUS OF THE COMPANY'S EFFORTS?

A. While any new economic development and jobs would be welcome, and can improve the vitality of the region and expand the local tax base, economic development that brings relatively higher paying jobs is preferred. In addition, one benefit of coal mining and related activity is that they predominately resulted in the export of Kentucky goods and services out of region and state, and the flow of "new" funds are flowing into the area to sustain or fuel economic growth and employment. These new outside funds can then invested and spent in the service territory and region. Thus, the focus of the Company's economic development efforts, including Tariff EDR, will be new or expanded industrial or

[20] https://www.kentuckypower.com/info/news/viewRelease.aspx?releaseID=1553

manufacturing facilities that pay relatively high wages and that predominately export goods and services to customers residing outside the service territory.

Q. HAVE THE COMPANY'S EFFORTS PAID OFF?

A. Yes, Kentucky Power recently announced four new projects: three in Pikeville, Ky. and one in Ashland, Ky. These include the planned construction by EN Engineering LLC in Boyd County of a 24,000 square foot facility that will bring 80 engineering positions. In addition, Alltech will construct a brewery and distillery in Pikeville, as well as an aquaculture facility expected to produce 1.2 million pounds of fish a year and laying facility for the production of eggs at the Marion Branch industrial park in Pike County.

Q. HOW DOES TARIFF E.D.R. FIT IN KENTUCKY POWER'S ECONOMIC DEVELOPMENT EFFORTS?

A. In an effort to counter the drop in employment, and to limit the rate increases that otherwise might be required, the Company developed the EDR to attract new employers and to grow existing businesses in its service territory. By offering limited term reductions in billing demand charges to qualified new and existing customers, this proposed EDR represents another tool that economic development officials can use to help attract new industry jobs to Kentucky Power's service territory and provide an additional incentive for current industrial customers to expand production and employment.

Q. IN ADDITION TO THE DIRECT ECONOMIC DEVELOPMENT BENEFITS PROVIDED BY TARIFF E.D.R, ARE THERE OTHER REASONS FOR THE INITIATIVE?

Yes. Many of the Company's neighboring utilities in Kentucky, West Virginia, Virginia, and Ohio offer some sort of economic development rate for new load and job producing projects. These include Duke Energy Kentucky, Louisville Gas and Electric Company, Kentucky Utilities Company, Atmos Energy Corporation in Kentucky, and Duke Energy Indiana, Inc., Appalachian Power Company, and Ohio Power Company in surrounding states. The Commonwealth of Kentucky is competing with its neighbors for new job creating projects and the Company can play a part in that endeavor. The implementation of an EDR in the Company's service territory will not only provide additional tools to attract new business projects to eastern Kentucky, but will work to counter similar efforts by other utilities competing for the same opportunities.

V. <u>TARIFF E.D.R.</u>

Q: PLEASE DESCRIBE KENTUCKY POWER'S PROPOSED EDR

A: Kentucky Power's proposed EDR tariff is included as JAR Exhibit 1. The EDR seeks to encourage additional investment in the Company's service territory. Service under this EDR is limited to new or existing large commercial and industrial customers who will promote sustained economic development based on new investments in facilities and on job creation.

To qualifying new or existing customers in the L.G.S., Q.P. or C.I.P.-T.O.D. rate classes who provide sufficient investment in Kentucky Power's service territory to create at least 500 kW of new maximum billing demand over a base level (a customer's historic level), a declining discount ranging up to 50 percent will be applied to the monthly demand charge for a period up to five (5) years. For customers who create and sustain a significant number of new jobs, the Company may apply an additional supplemental demand charge discount of up to 5 percent for up to five years. The EDR will be an addendum to any contract between the Company and the customer in the appropriate rate classes. Tariff EDR requires that a Special Contract be submitted to the Commission for approval prior to taking effect.

Q: PLEASE EXPLAIN WHY THE 500 KW MONTHLY MAXIMUM BILLING DEMAND THRESHHOLD WAS ESTABLISHED.

A: The 500 kW threshold was selected as a way to encourage sustained commercial and industrial (including manufacturing) economic development. Setting the threshold too high, such as at 1,000 KW, could discourage prospective companies from locating in the service territory. The 500 KW threshold also mirrors the threshold that has been approved for EKPC and Jackson Energy Cooperative. (See Case No. 2014-00034, Application of East Kentucky Power Company Cooperative, Inc. for Approval of an Economic Development EDR, Final Order dated June 20, 2014 and Case No. 2014-00047, Application of Jackson Energy Cooperative Corporation for Approval of an Economic Development EDR, Final Order dated June 20, 2014.)

Finally, the 500 kW threshold is realistic in light of the current economic environment, as well as the topography and geography of eastern Kentucky. In fact, and as discussed more fully in Company Witness Hall's testimony, the Company's recent economic development efforts have been more successful in attracting relatively smaller new operations.

Q: PLEASE DESCRIBE IN GREATER DETAIL HOW CUSTOMERS MAY QUALIFY FOR THIS EDR.

A: In order to qualify for the EDR, a new customer must have at least a monthly billing demand of 500 kW. An existing customer must increase monthly maximum billing demand by at least 500 kW in excess of the customer's Base Maximum Billing Demand. The Base Maximum Billing Demand is calculated as the average of the previous three years corresponding month maximum billing demands and which will be computed by the Company and agreed to by the customer in advance.

A new customer's investment, or the business expansion by an existing customer, need not result in the creation of any new jobs in order to qualify for the Incremental Billing Demand Discount. However, at the discretion of the Company, a Supplemental Billing Demand Discount may be applied when the new investment results in the creation of 25 or more new permanent full time jobs that are maintained over the contract term. The Company reserves the right to verify job counts. Failure to demonstrate the creation of the new employment positions and to maintain the employment during the contract term will result in the termination of the Supplemental Billing Demand Discount under this EDR.

The customer must demonstrate to the Company's satisfaction that, absent the availability of this EDR, the qualifying new or increased investment would be located outside the Company's service territory or would not be placed in service.

Q. DOES TARIFF E.D.R. MANDATE A CONTRACT TERM?

A. Yes. Tariff E.D.R. requires a Special Contract between the Company and the customer that must be approved by the Commission prior to taking effect. The contract period may extend for up to ten (10) years and the ensuing discount period may not be more than half the contract period. So, for a ten (10) year contract, the discount period may not be more than five (5) years.

Q: ARE THERE OTHER QUALIFYING PROVISIONS?

A: Yes. The EDR is intended to facilitate new capital investment and to create new jobs in the Company's service territory. Therefore, an existing customer may not simply relocate a facility, rename the facility or the owner, or change ownership for the purposes of qualifying for the EDR. In addition, existing customers may not simply resume normal operations following a shutdown resulting from a force majeure, strike, equipment failure, renovation, or refurbishment or other such abnormal operating conditions. However, relocating a facility within the Company's service territory would not automatically disqualify the customer if the new facility represents an expansion of demand over the original load. If the incremental new load satisfies the demand requirement, the project would be eligible for the Incremental Billing Demand Discount. In addition, if the incremental new load produces the minimum number of new jobs over the original number of jobs, then the new expanded facility may qualify for the Supplemental Billing Demand Discount as well.

Finally, the existing local facilities of the Company must be deemed adequate, in the judgment of the Company, to supply the new or expanded electrical capacity requirements of the customer. If construction of new or expanded local distribution and / or transmission related facilities by the Company is required to provide the additional service, the customer may be required to make a contribution-in-aid of construction (CIAC) for the installed cost of such facilities, consistent with the Commission's regulations and the Company's terms and conditions of service. For the purposes of this EDR, any required CIAC can be charged over the life of the contract, with no less than 80% of the CIAC collected during the period of the contract during which the customer is receiving a demand charge discount.

Q: PLEASE DESCRIBE THE EDR DEMAND DISCOUNT PROVISIONS.

A: For the purposes of this EDR, the monthly qualifying incremental billing demand will be calculated in the following manner: where the new qualifying incremental demand resides in new facilities (or separate facilities for existing customers), those facilities may be metered on a separate meter according to Tariffs L.G.S., Q.P. or C.I.P.-T.O.D. for the current billing period and the incremental billing demand will be calculated based upon that facility's meter readings.

Where the new qualifying incremental demand resides in a customer's existing facility with sufficient service and metering capability to accommodate the production expansion, the qualifying incremental billing demand is equal to demand in excess of the Base Maximum Billing Demand. The Base Maximum Billing Demand for the each billing month is established prior to the start of the contract as the average of the previous three years corresponding month maximum billing demands and will be mutually agreed to by the Company and the customer in advance. The demand discount provisions are summarized in tables contained in JAR Exhibit 2.

Q: PLEASE DESCRIBE HOW THE INCREMENTAL BILLING DEMAND DISCOUNT IS DETERMINED.

A: Customers meeting all EDR Availability of Service and Terms and Conditions may contract for service for a period of up to ten (10) years, with a commensurate discount period of up to five (5) years. For contract lengths less than ten (10) years, the discount will be prorated accordingly. Contracts must be at least two (2) years in length with a one (1) year discount. Contracts will be offered for two (2), four (4), six (6), eight (8) or ten (10) years only.

The Incremental Billing Demand Discount (IBDD) for a ten (10) year contract follows:

(a) For the twelve consecutive monthly billings of the first contract year, the qualifying incremental billing demand charge shall be reduced by 50% from the applicable tariff L.G.S., Q.P. or C.I.P.-T.O.D. charge;

(b) For the twelve consecutive monthly billings of the second contract year, the qualifying incremental billing demand charge shall be reduced by 40% from the applicable tariff L.G.S., Q.P. or C.I.P.-T.O.D. charge;

(c) For the twelve consecutive monthly billings of the third contract year, the qualifying incremental billing demand charge shall be reduced by 30% from the applicable tariff L.G.S., Q.P. or C.I.P.-T.O.D. charge;

(d) For the twelve consecutive monthly billings of the fourth contract year, the qualifying incremental billing demand charge shall be reduced by 20% from the applicable tariff L.G.S., Q.P. or C.I.P.-T.O.D. charge, but shall not be less than the applicable tariff rate schedule minimum billing demand charge;

(e) For the twelve consecutive monthly billings of the fifth contract year, the qualifying incremental billing demand charge shall be reduced by 10% from the applicable tariff L.G.S., Q.P. or C.I.P.-T.O.D. charge, but shall not be less than the applicable tariff rate schedule minimum billing demand charge; and

(f) All subsequent monthly billings shall be at the full charges stated in the applicable tariff rate schedule for contract years six (6) through ten (10).

It is important to note that the minimum billing demand charge has not been included in periods when the reduction is 30% or greater, to avoid unintentionally limiting the discount by normal operation of the minimum billing provision.

Q: PLEASE DESCRIBE ANY OTHER DISCOUNT PROVISIONS.

A: At the Company's discretion, a Supplemental Billing Demand Discount which is applicable to the monthly incremental billing demand charge is available to customers meeting all Availability of Service and Terms and Conditions above, that create at least twenty five (25) new permanent full time job opportunities (jobs) in the facility and that maintain employees in those jobs in each discount year. The amount of additional discount is determined by the actual number of jobs maintained in each year. The Supplemental Billing Demand Discount is as follows:

(a) For the twelve consecutive monthly billings of the first contract year, the qualifying incremental billing demand charge shall be reduced an additional

5% for an increase of at least 50 jobs or 2.5% for an increase of at least 25 jobs;

(b) For the twelve consecutive monthly billings of the second contract year, the qualifying incremental billing demand charge shall be reduced 4.5% for at least 50 jobs or 2.0% for at least 25 jobs.

(c) For the twelve consecutive monthly billings of the third contract year, the qualifying incremental billing demand charge shall be reduced an additional 4% for an increase of at least 50 jobs or 1.5% for an increase of at least 25 jobs;

(d) For the twelve consecutive monthly billings of the fourth contract year, the qualifying incremental billing demand charge shall be reduced an additional 3.5% for an increase of at least 50 jobs or 1.0% for an increase of at least 25 jobs;

(e) For the twelve consecutive monthly billings of the fifth contract year, the qualifying incremental billing demand charge shall be reduced an additional 3% for an increase of at least 50 jobs or 0.5% for an increase of less than 50 jobs; and

(f) All subsequent monthly billing shall be at the full charges stated in the applicable tariff rate schedule for contract years six (6) through ten (10).

The length of the Supplemental Billing Demand Discount shall be identical to the length of the Billing Demand Discount. Further the discounts are additive, not compounded. In other words, the total discount in the first contract year would be 55% (50% plus 5%) or 52.5% (50% plus 2.5%).

Q: PLEASE EXPLAIN THE REASONING FOR THE DIFFERENT CONTRACT LENGTHS AND DISCOUNTS.

A: A primary goal of the EDR is to encourage new investment. As such, this EDR will likely be used in conjunction with other economic development incentives as a part of a larger state and local incentive package. Therefore, the Company designed the EDR to be as flexible as possible.

The Company realizes that its industrial and manufacturing customers participate in different markets, have different production processes, and different construction lead times. Not knowing in advance which companies would be interested in locating or expanding facilities presents problems in choosing a single optimal contract length or discount. Also offering a single fixed length contract and discount could prove to be an insurmountable barrier to some development projects. Because potential customers have different requirements, it is reasonable that a one size fits all approach may not provide the best economic development results. For example, a ten year contract could prove to be too long of a commitment for companies operating in highly competitive markets. Therefore, in an effort to be flexible, the Company is offering the option of committing to a variety of contract lengths with commensurate demand discounts. The only proviso is that the total contract length be twice the length of the discount period. Also, contract length flexibility is important because the Company will require a refund of discounted demand charge amounts and the unpaid balance of any contribution-in-aid of construction if the customer does not remain on the EDR contract for the full length of the mutually agreed upon contract length.

Q: PLEASE EXPLAIN THE REASONING FOR THE SUPPLEMENTAL DISCOUNT AND JOB CREATION THRESHHOLDS.

A: The EDR does not require any specific number of jobs be created in order to receive the Incremental Billing Demand Discount. This is in accordance with the Commission's Order in Administrative Case No. 327. In order to provide a further inducement to potential employers, the EDR provides a supplemental demand charge discount for those projects that create larger numbers of new jobs. If a new project creates and sustains between 25 and 49 new jobs, an additional demand charge discount of up to two (2.5) percent will be given, depending upon the length of the contract. For those project employing fifty (50) or more workers that are sustained over the contract period, a supplemental demand charge discount of up to five (5) percent will be given, depending upon the length of the contract.

Q: PLEASE EXPLAIN WHETHER THE SUPPLEMENTAL BILLING DEMAND DISCOUNT VIOLATES THE TERMS OF THE COMMISSION'S ORDER.

A: The EDR complies with the Commission's Order by not requiring either a specific investment amount or a specific number of jobs be created to be eligible for the Incremental Billing Demand Discount. Customers meeting the new load requirements will receive that discount regardless of the investment amount or the number of new jobs created. However at the Company's discretion, the

Supplemental Billing Demand Discount is being offered as an additional inducement for projects creating larger numbers of permanent sustained employment opportunities. In the face of the economic development challenges facing eastern Kentucky and especially those in the Company's service territory, this optional discount could provide the deciding factor to having a project locate in the service territory or not. When the Company files an EDR application with the Commission for approval, it will demonstrate that but for the demand charge discounts, the project would not have located in the Company's service territory.

To the extent that this supplemental demand charge discount violates Finding 10 in the Commission's Order, the Company respectfully requests a deviation from that requirement.[21]

VI. CAPACITY AND DISCOUNTS

Q: DOES THE COMPANY HAVE ADEQUATE CAPACITY TO ACCOMMODATE 250 MW OF ADDITIONAL LOAD ON ITS SYSTEM?

A: Kentucky Power anticipates it will have adequate capacity to serve the maximum of 250 MW of additional load to be served under the tariff. As a member of PJM Interconnection LLC, Kentucky Power's capacity obligations are tied to its summer peak. As illustrated by Exhibit 4-12 of the Company's 2013 Integrated Resource Plan, Kentucky Power is projected, with its planned capacity additions, to have a net capacity position 247 MW to 287 MW beyond its total PJM UCAP obligation. Stated otherwise, Kentucky Power will not be required to purchase or

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[21] Administrative Case No. 327 Final Order dated September 24, 1990 The major objectives of EDR are job creation and capital investment. However, specific job creation and capital investment requirements should not be imposed on EDR customers.

construct additional capacity to satisfy the maximum new or additional load to be served under the tariff.

Q. IS NOT THE COMPANY PROPOSING TO SERVE THE TARIFF E.D.R LOAD THROUGH CAPACITY ADDITIONS IN CONTRAVENTION OF THE COMMISSION'S ORDER IN ADMINISTRATIVE CASE NO. 327?

A. As explained at page 159 of Kentucky Power's 2013 Integrated Resource Plan, the additions identified in the Company's optimized portfolio, and that are being relied upon to meet the capacity requirements of the Commission's Order in Case No. 327, are being added for their energy value and not their capacity value:

> [A]lthough Kentucky Power has sufficient capacity to satisfy its PJM summer *capacity* position, *Plexos*® will continue to add resources based on the inherent *energy* contribution. These resources would serve to reduce Kentucky Power's generation/production-related revenue requirement over the long-term. So, even though Kentucky Power has adequate capacity to serve its [PJM-mandated] summer peak requirement without the addition of incremental resources through the planning period, since Kentucky Power's customers use significant amounts of energy, particularly during the winter … [the resources are projected to be added] because … [they] may produce energy at a cheaper cost than is expected in the (energy) replacement market.

Stated otherwise, the capacity is projected to be added without regard to the new or additional load to be served under Tariff E.D.R.

Q. WILL THE COMPANY HAVE SUFFICIENT ENERGY TO SERVE THE MAXIMUM LOAD TO BE ADDED UNDER TARIFF E.D.R.?

A. Kentucky Power anticipates it may be required to make energy purchases it otherwise would not make in the absence of the new or additional load to be served under the tariff. It does not appear that such purchases would violate the requirements of the Commission's Order in Administrative Case No. 327. More particularly, ordering paragraph 5 requires the Company to demonstrate that "the load expected to be served during each year of the contract will not cause … [the utility] to fall below a reserve margin that is considered essential for system reliability." As indicated above, Kentucky Power is projected to have sufficient capacity to meet the full amount of the new or additional Tariff E.D.R. load and still satisfy its PJM-mandated UCAP obligation. Its need to purchase energy during certain times is unrelated to the Company's ability to meet its "reserve margin."

Q: HAS KENTUCKY POWER ADDRESSED THE POSSIBILITY OF BEING REQUIRED TO OBTAIN ADDITIONAL CAPACITY TO SERVE NEW OR ADDITIONAL TARIFF E.D.R. LOAD

A. Yes. If future periods occur when the Company requires additional capacity to serve its existing EDR customers during their discount period and maintain an adequate reserve margin, the Company proposes to acquire the necessary capacity from the marketplace. To the extent this provision is not consistent with Finding 5 of the Commission's Order in Administrative Case No. 327[22] Kentucky Power requests a deviation from that requirement.

Q: HAS THE COMMISSION RECENTLY GRANTED A DEVIATION FOR A SIMILAR PROVISION.

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[22] Administrative Case No. 327 Final Order dated September 24, 1990 EDRs should only be offered during periods of excess capacity. Utilities should demonstrate, upon submission of each EDR contract, that the load expected to be served during each year of the contract period will not cause them to fall below a reserve margin that is considered essential for system reliability. Such a reserve margin should be identified and justified with each EDR contract filing.

A: Yes. The Commission's June 20, 2014 Order in Case No. 2014-00034, *In the Matter of: Application of East Kentucky Power Cooperative, Inc. For Approval Of An Economic Development Rider* the Commission granted a deviation from the excess capacity guideline where the individual economic development rider customer was responsible for market capacity purchases made on its behalf.

Q: EXPLAIN HOW THIS AFFECTS A POTENTIAL EDR CUSTOMER.

A: Each qualifying customer seeking to take advantage of EDR discounts will be required to make the Company aware of its expected load requirements and which will be listed as a part of the special contract. During periods when the Company requires additional capacity (not energy) to satisfy its PJM-mandated UCAP (Unforced Capacity) obligation, the special contract will specify that the Company will make capacity purchases on the customer's behalf in order to satisfy reserve margin requirements. The customer must agree that the Company cannot extend EDR discounts to any capacity purchase costs. The last customer to sign up for the EDR tariff would be the first customer responsible for paying the cost of incremental capacity purchases. The cost of capacity procured on behalf of the customer shall reduce on a dollar-for-dollar basis the customer's IBDD and SBDD. Such reduction shall be capped so that the customer's maximum demand charge shall be the non-discounted tariff demand charge. EDR discounts will only be applied to the extent that the Company has sufficient capacity to serve the additional load. For any year during the discount period in which the customer pays the full tariff charge for all twelve months, the Company will reduce the term of the Special Contract by one (1) year.

Q: EXPLAIN WHETHER THE EDR WOULD BE USED TO RETAIN AN EXISTING CUSTOMER THAT MAY LEAVE THE COMPANY'S SYSTEM.

A: There is evidence that a large industrial customer leaving a system can adversely affect the remaining utility customers. The case of the two aluminum smelters and the Big Rivers system is instructive. The Company's principal intent in issuing Tariff E.D.R. is to encourage new business activity and employment opportunities. Extending the EDR to retain a customer in economic distress would not meet that objective and would have to be considered carefully, if at all. The Company nevertheless may propose for the Commission's consideration a special contract that extends the EDR to an economically distressed customer in the interest of preserving economic activity and jobs. Such instances will be strictly limited and evaluated very carefully on a case by case basis.

Q: HAS THE COMMISSION ESTABLISHED A FRAMEWORK FOR UTILITIES TO CONSIDER WHEN ESTABLISHING EDR TARIFFS AND IMPLEMENTING EDR SPECIAL CONTRACTS?

A: Yes. The Commission established the EDR framework in Administrative Case No. 327, An Investigation into the Implementation of Economic Development Rates by Electric and Gas Utilities, Final Order dated September 24, 1990. In that Order, the Commission defines EDR to be "a gas or electric rate discount offered to large commercial and industrial customers, which is intended to stimulate the creation of new jobs and capital investment both by encouraging existing customers to expand their operations and by improving the likelihood that new large commercial and industrial customers" would locate in Kentucky (Final Order, Page 1). The Commission established fifteen (15) guidelines that should be considered when utilities filed special contracts that include EDRs. (Final Order, Findings 3 through 17, pages 25-28.)

Q: HAS THE COMMISSION APPROVED ECONOMIC DEVELOPMENT RATES FOR OTHER UTILITIES IN KENTUCKY?

A: Yes. Duke Energy Kentucky ("Duke Energy"), formerly known as The Union Light, Heat and Power Company, filed an application for EDR tariffs in Case No. 2004-00253, In the Matter of the Application of The Union Light, Heat and Power Company for Approval of Its Proposed Economic Development EDRs. A Final Order was issued April 19, 2005 approving Duke Energy's EDR tariffs, including the requirement for special contracts. On August 26, 2010, the Kentucky Supreme Court affirmed the Commission's decision and held that economic development rates are authorized under Kentucky law so long as the Commission determines that the preferential rate is reasonable. (*Public Service Commission of Kentucky v. Commonwealth of Kentucky, ex. Rel. Conway*, 320 S.W.3d 660, 669 (Ky. 2010)). The Commission has also approved economic development rates for the Louisville Gas and Electric Company, the Kentucky Utilities Company, (Case No. 2011-00103, In the Matter of the Application of Louisville Gas and Electric Company and Kentucky Utilities Company to Modify and Rename the Brownfield Development EDR as the Economic Development EDR, Final Order dated August 11, 2011) and for Atmos Energy Corporation,(Case No. 2012-00066, In the Matter of Application of Atmos

Energy Corporation for an Order Approving Economic Development EDRs, Final Order dated August 27, 2012.). In addition, East Kentucky Power Cooperative ("EKPC") applied for and was granted approval to implement a wholesale EDR that would be available to its member distribution cooperatives. (Case No. 2014-00034, Application of East Kentucky Power Company Cooperative, Inc. for Approval of an Economic Development EDR, Final Order dated June 20, 2014.) Finally, Jackson Energy Cooperative Corporation ("JECC") was granted permission to implement an EDR tariff which was based upon EKPC's EDR. (Case No. 2014-00047, Application of Jackson Energy Cooperative Corporation for Approval of an Economic Development EDR, Final Order dated June 20, 2014)

Q: HAS THE COMPANY COMPLIED WITH THE COMMISSION'S SPECIFIC REQUIREMENTS FOR IMPLEMENTING AN EDR?

A: Yes. The proposed tariff complies with the Commission's Findings in Administrative Case No. 327 Final Order dated September 24, 1990.

Q: PLEASE REVIEW EACH OF THE FINDINGS FROM THE SEPTEMBER 24, 1990 ORDER AND EXPLAIN HOW THE PROPOSED EDR TARIFF IS CONSISTENT WITH THE FINDING OR WHAT THE COMPANY'S COMMITMENT IS TOWARD THE FINDING.

A: Each of the Sections following address the Findings from the September 24, 1990 Order.

Finding 1. EDRs will provide important incentives to new large commercial and industrial customers to locate facilities in Kentucky and to existing large *commercial and industrial customers to expand their operations, thereby bringing much needed jobs and capital investment into Kentucky.*

The Company's EDR tariff is designed to provide incentives help attract and retain new industrial and commercial customers whose operations will support economic growth and new employment opportunities in the Company's service territory and in the region.

Finding 2. *Utilities should have the flexibility to design EDRs according to the needs of their customers and service areas and to offer EDRs to those new and existing customers who require such an incentive to locate new facilities in the state and to expand existing ones.*

Working in conjunction with state and local agencies, the proposed EDR tariff will provide the flexibility necessary for the Company to effectively pursue economic development projects.

Finding 3. *EDRs should be implemented by special contracts negotiated between the utilities and their large commercial and industrial customers.*

The proposed EDR tariff requires a special contract between the Company and the customer that must be approved by the Commission prior to implementation. The proposed EDR tariff is available to new or existing customers who contract for a minimum of 500 kW new load of monthly maximum demand.

Finding 4. *An EDR contract should specify all terms and conditions of service including, but not limited to, the applicable rate discount and other discount provisions, the number of jobs and capital investment to be created as a result of* *the EDR, customer-specific fixed costs associated with serving the customer, minimum bill, estimated load factor, and length of contract.*

The proposed EDR tariff requires that in the application the customer will include a description of the new load, the number of new employees anticipated, and the anticipated level of capital investment. The available discount and discount period and contract term are addressed specifically. The customer will be responsible for all customer specific fixed costs and for any construction costs incurred by the Company for work performed in order to provide the additional service to the customer. The Company agrees that the special contract will specify all terms and conditions of service and commits that all EDR special contracts will be consistent with the provisions of Finding 4.

Finding 5. *EDRs should only be offered during periods of excess capacity. Utilities should demonstrate, upon submission of each EDR contract, that the load expected to be served during each year of the contract period will not cause them to fall below a reserve margin that is considered essential for system reliability. Such a reserve margin should be identified and justified with each EDR contract filing.*

As I discuss above, I believe the Company's proposal comports with the requirements of the Commission's Order in Administrative Case No. 327 regarding the need for adequate capacity. In addition, the Company's proposed tariff contains a provision requiring participants to pay market rates for any capacity the Company is required to obtain.

Finding 6. Upon submission of each EDR contract, a utility should demonstrate that the discounted rate exceeds the marginal cost associated with serving the customer. Marginal cost includes both the marginal cost of capacity as well as the marginal cost of energy. In order to demonstrate marginal cost recovery, a utility should submit, with each EDR contract, a current marginal cost-of-service study. A current study is one conducted no more than one year prior to the date of the contract.

The Company commits to provide a current marginal cost of service study with each special contract application.

Finding 7. Utilities with active EDRs should file an annual report with the Commission detailing revenues received from individual EDR customers and the marginal costs associated with serving those individual customers.

The Company commits to providing the required annual report on revenues received and marginal costs associated with individual customers being served under the proposed EDR tariff.

Finding 8. During rate proceedings, utilities with active EDR contracts should demonstrate through detailed cost-of-service analysis that nonparticipating ratepayers are not adversely affected by these EDR customers.

The Company commits to including this type of cost of service analysis in its rate proceedings if EDR special contracts are in place.

Finding 9. All EDR contracts should include a provision providing for the recovery of EDR customer-specific fixed costs over the life of the contract.

The proposed EDR tariff includes a provision for recovering customer specific fixed costs over the life of the special contract.

Finding 10. The major objectives of EDRs are job creation and capital investment. However, specific job creation and capital investment requirements should not be imposed on EDR customers.

The proposed EDR tariff does not require specific investment or job creation thresholds to qualify for the EDR tariff. Substantial discounts are possible without the requirement of either a specific investment amount or a specific number of new jobs being created. The Company believes that this commitment is in line with the guideline requirement. However, at the Company's discretion, a small incremental demand discount may be applied to customers committing to creating and sustaining a minimum of 25 new jobs.

Finding 11. All utilities with active EDR contracts should file an annual report to the Commission providing the information as shown in Appendix A, which is attached hereto and incorporated herein.

The Company has reviewed Appendix A, which is attached to the September 24, 1990 Order titled, "Economic Development Rate Contract Report" and commits to filing the report annually if there are active EDR special contracts in place.

Finding 12. For new industrial customers, an EDR should ally only to load which exceeds a minimum base level. For existing industrial customers, an EDR shall apply only to new load which exceeds an incremental usage level above a normalized base load. At the time an EDR contract is filed, a utility should identify and justify the minimum incremental usage level and normalized base *load required for an existing customer or the minimum usage level required for a new customer.*

The proposed EDR tariff requires new or existing customers to contract for a minimum of a 500 kW monthly maximum demand.

Finding 13. EDR contracts designed to retain the load of existing customers should be accompanied by an affidavit of the customer stating that, without the rate discount, operations will cease or be severely restricted. In addition, the utility must demonstrate the financial hardship experienced by the customer.

The purpose and intent of the proposed EDR tariff is to attract new customers or to encourage existing customers to increase their operations in order to create new and sustain employment opportunities in the service territory and region. While it is possible for the EDR tariff to be used to retain an existing customer and its load, the situation would be strictly limited and any contracts would be closely monitored. In such situations, the company will adhere to the provisions of this guideline.

Finding 14. The term of an EDR contract should be for a period twice the length of the discount period, with the discount period not exceeding five years. During the second half of an EDR contract, the rates charged to the customer should be identical to those contained in a standard rate schedule that is applicable to the customer's rate class and usage characteristics.

The proposed EDR tariff requires that the special contract have a total contract length that is twice the length of the discount period and that during the second half of the contract period, the customer will pay full tariff rates from the applicable tariff schedule. The maximum discount period available to customers is five (5) years with a total contract length of ten years.

Finding 15. Gas utilities proposing to offer a discount or waiver of gas main extension costs should provide a detailed cost-benefit analysis which compares, among other things, the expected revenue stream from the new or expanding customer and the number of new jobs and the amount of new capital investment to be created to the total costs uncured by the utility by offering such a discount or waiver.

This guideline applies to gas utilities and is not applicable to the Company.

Finding 16. EDR contracts that include a discount or waiver of gas main extension cots should include a provision which requires the customer to remain on gas service for a specified term. Gas utilities proposing to offer a discount or waiver of gas main extension costs should provide justification for the required contract term.

This guideline applies to gas utilities and is not applicable to the Company.

Finding 17. Comments submitted by the Cabinet or other interested parties pertaining to EDR contracts should be filed with the Commission no more than 20 days following the filing of an EDR contract by a utility.

The proposed EDR tariff requires that the Company file each Special Contract with the Commission.

Q: HAVE YOU PREPARED ANY SCHEDULES OR WORKPAPERS IN CONNECTION WITH YOUR TESTIMONY?

A: Yes. The proposed EDR tariff is filed with my testimony as Exhibit JAR-1.

Q: DOES THIS CONCLUDE YOUR PRE-FILED DIRECT TESTIMONY?

A: Yes it does.

TARIFF E.D.R.
(Economic Development Rider)

AVAILABILITY OF SERVICE.

To encourage economic development in the Company's service territory, limited-term reductions in billing demand charges described herein are offered to qualifying new and existing retail customers who make application for service under this Rider.

Service under this Economic Development Rider (EDR) is intended for specific types of commercial and industrial customers whose operations, by their nature, will promote sustained economic development based on plant and facilities investment and job creation. Availability is limited to customers on a first-come, first-served basis until such time as a total of 250 MW of new load has been added to Kentucky Power's system under the EDR. The EDR is available to commercial and industrial customers served under Tariffs L.G.S., Q.P. or C.I.P.-T.O.D. who meet the following requirements:

(1) A new customer must have at least a monthly maximum billing demand of 500 kW. An existing customer must increase its monthly maximum billing demand by at least 500 kW over the current Base Maximum Billing Demand in order to receive the Incremental Billing Demand Discount (IBDD).

(2) A new customer, or the business expansion by an existing customer, will receive a Supplemental Billing Demand Discount (SBDD) for creating and sustaining at least 25 new permanent full time jobs over the contract term at the service location. The Company reserves the right to verify job counts. Failure to demonstrate the creation of new employment positions or to maintain the employment during the contract term will result in the termination of the supplemental discount.

(3) The customer must demonstrate to the Company's satisfaction that, absent the availability of this EDR, the qualifying new or increased electrical demand would be located outside of the Company's service territory or would not be placed in service.

TERMS AND CONDITIONS.

(1) The Company will offer the EDR to qualifying customers with new or increased load when the Company has sufficient generating capacity available. When sufficient generating capacity is not available, the Company will procure the additional capacity on the customer's behalf. The cost of capacity procured on behalf of the customer shall reduce on a dollar-for-dollar basis the customer's IBDD and SBDD. Such reduction shall be capped so that the customer's maximum demand charge shall be the non-discounted tariff demand charge. The reduction will be applied in reverse chronological order beginning with the most recent customer to receive discounted service under this tariff. Last customer to sign up for the EDR tariff would be the first customer responsible for paying the cost of incremental capacity purchases. In any year during the discount period in which the customer pays the full tariff demand charge for all twelve months, the Company will reduce the term of the contract by one year.

(2) The new or increased load cannot accelerate the Company's plans for additional generating capacity during the period for which the customer receives a demand discount. Customers receiving Temporary Service are not eligible for this EDR.

(3) To receive service under this EDR, the customer shall make written application to the Company with sufficient information contained therein to determine the customer's eligibility for service. At a minimum, such information will include:

(Cont'd on Sheet 37-2)

TARIFF E.D.R. (Cont'd)
(Economic Development Rider)

TERMS AND CONDITIONS-(Cont'd).

a. A description and good faith estimate of the new or increased load to be served during each year of the contract,
b. The number of new employees or jobs that will be added as a result of the new load,
c. A description of the anticipated capital investment, and
d. A description of all other federal, state or local economic development tax incentives, grants, or any other incentives / assistance associated with the new or expanded project.
e. A statement that without the EDR discount, the customer would locate elsewhere or chose not to expand within Kentucky Power's service territory.

(3) For new and existing customers, billing demands for which reductions will be for service at a new service location or expanded production at an existing facility and not merely the result of a change of ownership. Relocation of the delivery point of the Company's service, moving existing equipment from another KPCo-served location or load transfers from another KPCo-served location do not qualify as a new service location. Relocating existing facilities from within the Company's service territory shall not disqualify the customer from the IBDD as long as the new relocated facility exceeds the Base Maximum Billing Demand of the previous facility by the minimum required amount.

(4) For existing customers, billing demands for which deductions will be applicable under this EDR shall be the result of an increase in business activity and not merely the result of resumption of normal operations following a force majeure, strike, equipment failure, renovation or refurbishment, or other such abnormal operating condition. In the event that such an occurrence has taken place prior to the date of the application by the customer for service under this EDR, the monthly Base Maximum Billing Demand shall be adjusted as appropriate for this analysis to eliminate the effects of such occurrence.

(5) Service under the EDR will be offered under the applicable Tariff L.G.S., Q.P. or C.I.P.-T.O.D schedule. An EDR will be filed as a Special Contract and must be approved by the Kentucky Public Service Commission before it can be implemented. The total contract period is equal to twice the number of years for which the customer receives a demand discount. The special contract term will be for two (2), four (4), six (6), eight (8), and (ten) 10 years only.

(6) The IBDD and the SBDD, if applicable, begin when the customer's new or expanded operations are billed for service under this Rider. Temporary jobs created during the construction of new facilities or the expansion phase of existing operations are not eligible to be counted as permanent jobs for the purposes of this EDR.

(7) If construction of new or expanded local distribution and/or transmission related facilities by the Company is required in order to provide the additional service, the customer may be required to make a contribution-in-aid of construction (CIAC) for the installed cost of such facilities pursuant to the provisions of the Company's Terms and Conditions of Service. The total cost of the CIAC, including gross-up by the effect of applicable taxes, will be recovered over the life of the EDR contract period, with no less than 80% recovered during the period for which the customer receives a demand discount. If the customer breaches the terms of the contract or ends the contract prematurely, any unpaid contribution-in-aid of construction must be paid to the Company and any EDR discounts provided to the customer must be repaid to the Company. CIAC payment provided under this Rider supersedes the other payment provisions only in the Company's Terms and Conditions Sheet 2-5 Section 9.

(Cont'd on Sheet 37-3)

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IN CASE NO. 2014-XXXX DATED XXXXXXXX

TARIFF E.D.R. (Cont'd)
(Economic Development Rider)

TERMS AND CONDITIONS (Cont'd).

(8) The L.G.S., Q.P. and CIP-TOD tariffs each contain a monthly minimum billing demand charge provision. The minimum demand charge provision is waived for EDR customers for up to 36 months depending upon the length of the contract. The provision is waived for the first 36 months of a 10 year contract, the first 24 months of an 8 year contract and the first 12 months of a 6 year contract. If during the special contract discount period, the customer's monthly demand falls below the minimum billing demand level for four (4) consecutive months or six (6) months total in a contract year, then the EDR discount will not be applied and the appropriate tariff minimum billing demand charge provision will be in force until the customer achieves the minimum billing demand level. Applicable EDR discounts will be applied to the qualifying incremental maximum billing demand only and will appear as a separate line item on the customer's bill.

DETERMINATION OF MONTHLY QUALIFYING INCREMENTAL BILLING DEMAND.

For the purposes of this Rider, the monthly qualifying incremental billing demand will be calculated in the following manner:

Where the new qualifying incremental demand resides in new facilities (or separate facilities for existing customers), those facilities may be metered on a separate meter according to Tariffs L.G.S., Q.P. or C.I.P.-T.O.D. for the current billing period and the incremental billing demand will be calculated based upon that facility's meter readings.

Where the new qualifying incremental demand resides in a customer's existing facility with sufficient service and metering capability to accommodate the business expansion, the qualifying incremental billing demand is equal to demand in excess of the Base Maximum Billing Demand. The Base Maximum Billing Demand for each billing month will be calculated by the Company as the average of the previous three years, corresponding month maximum billing demands, subject to Terms and Conditions Items (3) and (4), and will be agreed to by the customer in advance.

DETERMINATION OF INCREMENTAL BILLING DEMAND DISCOUNT.

Customers meeting all Availability of Service and Terms and Conditions above may contract for service for a period of up to ten (10) years, with a commensurate discount period of up to five (5) years. The (IBDD) for a ten (10) year contract follows:

(a) For the twelve consecutive monthly billings of the first contract year, the qualifying incremental billing demand charge shall be reduced by 50% from the applicable tariff L.G.S., Q.P. or C.I.P.-T.O.D. demand charge;

(b) For the twelve consecutive monthly billings of the second contract year, the qualifying incremental billing demand charge shall be reduced by 40% from the applicable tariff L.G.S., Q.P. or C.I.P.-T.O.D. demand charge;

(c) For the twelve consecutive monthly billings of the third contract year, the qualifying incremental billing demand charge shall be reduced by 30% from the applicable tariff L.G.S., Q.P. or C.I.P.-T.O.D. demand charge;

Cont'd on Sheet 37-4)

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IN CASE NO. 2014-XXXX DATED XXXXXXXX

TARIFF E.D.R. (Cont'd)
(Economic Development Rider)

DETERMINATION OF INCREMENTAL BILLING DEMAND DISCOUNT (Cont'd).

(d) For the twelve consecutive monthly billings of the fourth contract year, the qualifying incremental billing demand charge shall be reduced by 20% from the applicable tariff L.G.S., Q.P. or C.I.P.-T.O.D. charge, but shall not be less than the applicable tariff rate schedule minimum billing demand;

(e) For the twelve consecutive monthly billings of the fifth contract year, the qualifying incremental billing demand charge shall be reduced by 10% from the applicable tariff L.G.S., Q.P. or C.I.P.-T.O.D. demand charge, but shall not be less than the applicable tariff rate schedule minimum billing demand; and

(f) All subsequent monthly billings shall be at the full charges stated in the applicable tariff rate schedule for contract years six (6) through ten (10).

The starting point for the IBDD is dependent upon the length of contract: i.e., an eight (8) year contract will have four (4) years of discount beginning with the IBDD of 40% in year one (1). Similarly, a six (6) year contract will have three (3) years of discount beginning with the IBDD of 30% in year one (1).

DETERMINATION OF SUPPLEMENTAL BLLING DEMAND DISCOUNT.

At the Company's discretion, a (SBDD) which is applicable to the monthly incremental billing demand charge is available to customers meeting all Availability of Service and Terms and Conditions above, and that create at least twenty five (25) new permanent job opportunities in the facility and that maintain those job opportunities in each discount year. The amount of additional discount is determined by the actual number of jobs maintained in each year. The SBDD for a ten (10) year contract follows:

(a) For the twelve consecutive monthly billings of the first contract year, the qualifying incremental billing demand charge shall be reduced an additional 5% for an increase of at least 50 jobs or 2.5% for an increase of at least 25 jobs;

(b) For the twelve consecutive monthly billings of the second contract year, the qualifying incremental billing demand charge shall be reduced 4.5% for at least 50 jobs or 2.0% for at least 25 jobs.

(c) For the twelve consecutive monthly billings of the third contract year, the qualifying incremental billing demand charge shall be reduced an additional 4% for an increase of at least 50 jobs or 1. 5% for an increase of at least 25 jobs;

(d) For the twelve consecutive monthly billings of the fourth contract year, the qualifying incremental billing demand charge shall be reduced an additional 3.5% for an increase of at least 50 jobs or 1. 0% for an increase of at least 25 jobs;

(Cont'd on Sheet 37-5)

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IN CASE NO. 2014-XXXX DATED XXXXXXXX

TARIFF E.D.R. (Cont'd)
(Economic Development Rider)

DETERMINATION OF SUPPLEMENTAL BLLING DEMAND DISCOUNT (Cont'd).

(e) For the twelve consecutive monthly billings of the fifth contract year, the qualifying incremental billing demand charge shall be reduced an additional 3% for an increase of at least 50 jobs or 0.5% for an increase of at least 25 jobs; and

(f) All subsequent monthly billing shall be at the full charges stated in the applicable tariff rate schedule for contract years six (6) through ten (10)

The length of the SBDD shall be identical to the length of the IBDD. The starting point for the discount will be commensurate with the contract length, i.e., an eight (8) year contract will have four (4) years of discount with the SBDD of either 4.5% or 2.0% as appropriate in year one (1).

The appropriate discount(s) shall be applicable over a period of up to 60 consecutive billing months beginning with the first such month following the end of the start-up period. The start-up period shall commence with the effective date of the contract addendum for service under this EDR and shall terminate by mutual agreement between the Company and the customer. In no event shall the start-up period exceed 12 months.

TERMS OF CONTRACT.

A contract or agreement addendum for service under this Rider, in addition to service under Tariffs L.G.S., Q.P. or C.I.P.-T.O.D., shall be executed by the customer and the Company for the time period which includes the start-up period and the multi-year period during which a Total Demand Charge discount is in effect and an equal multi-year period during which the customer agrees to pay the full rates in the applicable Tariff rate schedule.

At a minimum, the contract or agreement addendum shall specify the Base Maximum Billing Demand, the anticipated annual total qualifying demand, the Adjustment Factor and related provisions to be applicable under this Rider, and the effective date for the contract addendum.

The customer may discontinue service under this Rider before the end of the contract or agreement addendum only by reimbursing the Company for any and all demand reductions received under this Rider when billed at the applicable tariff schedule rate.

SPECIAL TERMS AND CONDITIONS.

Except as otherwise provided in this Rider, written agreements shall remain subject to all of the provisions of the applicable tariffs. This Rider is subject to the Company's Terms and Conditions of Service.

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IN CASE NO. 2014-XXXX DATED XXXXXXXX

IBDD - Percentage Demand Charge Reduction

Contract Length	10	8	6	4	2
Year 1	50 %	40 %	30 %	20 %	10 %
Year 2	40 %	30 %	20 %	10 %	0 %
Year 3	30 %	20 %	10 %	0 %	
Year 4	20 %	10 %	0 %	0 %	
Year 5	10 %	00 %	0 %		
Year 6	0 %	0 %	0 %		
Year 7	0 %	0 %			
Year 8	0 %	0 %			
Year 9	0 %				
Year 10	0 %				

SBDD - Percentage Demand Charge Reduction

Contract Length	10			8			6			4			2		
Jobs Created	0-24	25-49	50	0-24	25-49	50	0-24	25-49	50	0-24	25-49	50	0-24	25-49	50
Year 1	0 %	2.5 %	5.0 %	0 %	2.0 %	4.5 %	0 %	1.5 %	4.0 %	0 %	1.0 %	3.5 %	0 %	0.5 %	3.0 %
Year 2	0 %	2.0 %	4.5 %	0 %	1.5 %	4.0 %	0 %	1.0 %	3.5 %	0 %	0.5 %	3.0 %	0 %	0 %	0 %
Year 3	0 %	1.5 %	4.0 %	0 %	1.0 %	3.5 %	0 %	0.5 %	3.0 %	0 %	0 %	0 %			
Year 4	0 %	1.0 %	3.5 %	0 %	0.5 %	3.0 %	0 %	0 %	0 %	0 %	0 %	0 %			
Year 5	0 %	0.5 %	3.0 %	0 %	0 %	0 %	0 %	0 %	0 %						
Year 6	0 %	0 %	0 %	0 %	0 %	0 %	0 %	0 %	0 %						
Year 7	0 %	0 %	0 %	0 %	0 %	0 %									
Year 8	0 %	0 %	0 %	0 %	0 %	0 %									
Year 9	0 %	0 %	0 %	0 %											
Year 10	0 %	0 %	0 %	0 %											

Total - Percentage Demand Charge Reduction

Contract Length	10			8			6			4			2		
Jobs Created	0-24	25-49	50	0-24	25-49	50	0-24	25-49	50	0-24	25-49	50	0-24	25-49	50
Year 1	50 %	52.5 %	55.0 %	40 %	42.0 %	44.5 %	30 %	31.5 %	34.0 %	20 %	21.0 %	23.5 %	10 %	10.5 %	13.0 %
Year 2	40 %	42.0 %	44.5 %	30 %	31.5 %	34.0 %	20 %	21.0 %	23.5 %	10 %	10.5 %	13.0 %	0 %	0 %	0 %
Year 3	30 %	31.5 %	34.0 %	20 %	21.0 %	23.5 %	10 %	10.5 %	13.0 %	0 %	0 %	0 %			
Year 4	20 %	21.0 %	23.5 %	10 %	10.5 %	13.0 %	0 %	0 %	0 %	0 %	0 %	0 %			
Year 5	10 %	10.5 %	13.0 %	0 %	0 %	0 %	0 %	0 %	0 %						
Year 6	0 %	0 %	0 %	0 %	0 %	0 %	0 %	0 %	0 %						
Year 7	0 %	0 %	0 %	0 %	0 %	0 %									
Year 8	0 %	0 %	0 %	0 %	0 %	0 %									
Year 9	0 %	0 %	0 %	0 %											
Year 10	0 %	0 %	0 %	0 %											