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PUBLIC SERVICE COMMISSION

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

GENERAL ADJUSTMENTS IN ELECTRIC RATES OF KENTUCKY POWER COMPANY | CASE NO. 2005-00341

SETTLEMENT AGREEMENT

This Settlement Agreement, made and entered into this 6th day of February, 2006, by and among Kentucky Power Company ("KPC"), Attorney General, Commonwealth of Kentucky, Kentucky Industrial Utility Customers, Inc., (KIUC) Kentucky Association for Community Action, Inc., (KACA) and Kentucky Cable Telecommunications Association, (KCTA) (parties and addresses),

W I T N E S S E T H:

WHEREAS, on September 26, 2005 KPC filed an application with the Kentucky Public Service Commission ("Commission") pursuant to KRS 278.190, for an increase in retail rates of $64,796,239 and to implement tariffs as proposed, styled "In the Matter of: General Adjustments in Electric Rates of Kentucky Power Company," PSC Case No. 2005-00341; and

WHEREAS, the Attorney General, KIUC, KCTA and KACA filed motions for leave to intervene in Case No. 2005-00341 (collectively, the "intervenors"), which Motions were granted by the Commission; and

WHEREAS, the parties to Case No. 2005-00341 have filed written testimony in the administrative proceeding which raised several issues regarding the rate application filed by KPC; and

WHEREAS, all parties have filed written responses to numerous data requests filed by the parties and by the Commission Staff; and

WHEREAS, the parties have reviewed the respective issues raised in Case No. 2005-00341 by the Company and/or the various Intervenors, and have reached an overall settlement and resolution of the case, including the various issues raised therein; and

WHEREAS, the parties hereto execute this Settlement Agreement for purposes of submitting it to the Kentucky Public Service Commission for approval pursuant to KRS 278.190, and for further approval by the Commission of the rate increase, rate structure and tariffs as described herein;

NOW, THEREFORE, for and in consideration of the mutual premises set forth above, and the agreements and covenants set forth herein, the parties hereby agree as follows:

ARTICLE I. GENERAL TERMS

1. Effective for the first billing cycle of April, 2006 (March 30, 2006), the Company shall implement an increase in retail base rates sufficient to generate additional annual retail revenues of $41 million based on the June 30, 2005 KPC test year. The proposed Net Congestion Recovery Tariff shall not be implemented.

2. Within 10 days of approval by the Commission of this Settlement Agreement, the Company shall file tariffs in the same format as set forth in the Application, except as otherwise provided herein, and , which are designed to produce the revenue increase set forth in paragraph 1 above.

3. The Company shall retain its existing ECR tariff except that the annual baseline level for ECR costs under the tariff shall be $28,106,683 and the monthly baseline amounts shall be as set forth in the Company's proposal in this case.

4. The Company's System Sales Clause tariff for its off-system sales margins shall continue in full force and effect, except as follows. Effective for the first billing cycle of April

2006 the sharing of off-system sales margins shall be calculated using an annual baseline of $24,855,326. The monthly amounts shall be as set forth in Section V Workpaper S-4 page 26 and described as "New System Sales Tariff Base." The difference between each month's actual off-system sales margins and the monthly baseline shall be shared by the ratepayers and Company on a 70%-30% basis respectively. The 50%-50% ratepayer and Company sharing shall be discontinued effective April 1, 2006. If the Company's annual off-system sales margins in any twelve (12) month period, starting April 1, 2006, exceeds $30,000,000, then the monthly off-system margins sales in excess of $30,000,000 for the remainder of the twelve (12) month period shall be shared by the ratepayers and Company on a 60%-40% basis respectively.

5. Effective April 1, 2006, the CATV tariff shall be adjusted as follows: Two User Pole Rate = $7.21 per pole/year; Three User Pole Rate = $4.47 per pole/year.

6. The Company shall continue to include in the calculation of its annual depreciation expense the depreciation rates currently approved and utilized by the Company as a result of the Company's 1991 rate case, Case No. 91-066.

7. The parties have not specified a return on equity for purposes of determining the rate increase referred in paragraph 1 above. For purposes of the ECR tariff, and for accounting for allowance for funds used during construction (AFUDC), the Company shall utilize a 10.5% rate of return on equity.

8. The Company shall impose a $.10/month charge through a separate line item on the monthly bill of each residential customer to create a Home Energy Assistance Program (HEAP) account, which funds will be credited to the monthly bills of customers qualifying for the HEAP program (through KACA) pursuant to an agreement with KACA providing for, *inter alia*, a 10% cap on administrative fees. This charge will be recovered as provided by KRS

278.285(4). In addition, the Company agrees to match the residential contributions to the HEAP account for a period of two years following approval of this Settlement Agreement by the Commission. The Company shall have no further obligation following the two (2) year contribution period.

9. The Company agrees to design tariffs that will generate the additional $41 million in retail rates. In the design of the tariffs, revenue requirements shall be allocated among the customer classes in accordance with the attached revenue allocation. (Attachment 1)

10. The customer charge for the Residential Class shall be $5.86 and the descending block shall be replaced with a flat rate.

11. The Miscellaneous charges shall be as follows: $12.94 Reconnect for Non-Payment-Regular Hours; $17.26 Reconnect for Non-Payment-Overtime End-of-Day; $35.95 Reconnect for Non-payment – Call Out; $44.58 Reconnect for non-payment – Sundays & Holidays; $8.63 Termination of Service Field Trip; $7.00 Returned Check Charge; and, $14.38 Meter Test Charge.

12. Tariff State Issues Settlement (Tariff S.I.S.) shall be renamed Tariff Capacity Charge (Tariff C.C.).

13. The Company shall allow industrial customer participation in the PJM Economic Demand Response Program for a period of one (1) year. The program will be available solely for such industrial customers, and is to be revenue neutral for the Company as well as the other customer classes. In order to preserve this revenue neutrality, the participating customer will pay the Company's tariff charges for any reductions under the program when the customer's payment from PJM has not been reduced by such amounts. In offering this Program, the Company is not waiving or compromising its right to take a position on the merits of the

Program, including its right to oppose the Program, in any FERC proceeding, PJM stakeholder process or other public forum.

14. The Company will continue to reflect the IRC Section 199 deduction in its ECR consistent with the Commission's decision in Case No. 2005-00068, consistent with the final result of the appeal in that case.

15 The parties agree that the non-rate terms of the following tariffs may be modified or implemented as described in the indicated direct testimony:

Tariff Modified or Implemented	**Testimony**
Small General Service (SGS), Medium General Service (MGS), MGS Time-of-day; Large General Service (LGS), Quantity Power (QP), Commercial and Industrial Power-Time-of-Day (CIP-TOD)	D.M. Roush – Pages 8-9 (Pre-filed Direct Testimony)
Average Monthly Payment Plan	E.K. Wagner – Pages 42-46 (Pre-filed Direct Testimony)
Terms and Conditions (Miscellaneous Changes)	E.K. Wagner – Page 53 (Pre-filed Direct Testimony)

In addition, the Parties further agree that (i) the Bill Format may be modified as described at page 46 of Mr. Wagner's Pre-filed Direct Testimony; and (ii) the Residential Special Terms and Conditions Tariff shall be amended as described at page 53 of Mr. Wagner's pre-filed testimony to conform to Exhibit EKW-5, Sheet No. 6-3 to reduce the line extension that will made without charge from 2,500 feet or less to 1,000 feet or less.

16. Following the execution of this Settlement Agreement, the signatories shall cause the Settlement Agreement to be filed with the Commission with a request to the Commission for consideration and approval of this Settlement Agreement so that the Company may begin billing under the approved adjusted rates for the first billing cycle of April , 2006 (March 30, 2006).

17. The signatories to this Settlement Agreement shall act in good faith and use their best efforts to recommend to the Commission that this Settlement Agreement be accepted and approved. The parties further agree and intend to support the reasonableness of this Settlement Agreement before the Commission, and to cause their counsel to do the same, and in any appeal from the Commission's adoption and /or enforcement of this Settlement Agreement.

18. If the Commission does not accept and approve this Settlement Agreement in its entirety, then: (a) this Settlement Agreement shall be void and withdrawn by the parties hereto from further consideration by the Commission and none of the parties shall be bound by any of the provisions herein; and (b) neither the terms of this Settlement Agreement nor any matters raised during the settlement negotiations shall be binding on any of the signatories to this Settlement Agreement or be construed against any of the signatories.

19. Should the Settlement Agreement be voided or vacated for any reason after the Commission has approved the Settlement Agreement and thereafter any implementation of the terms of the Settlement Agreement has been made, then the parties shall be returned to the *status quo* existing at the time immediately prior to the execution of this Settlement Agreement.

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

21. This Settlement Agreement shall inure to the benefit of and be binding upon the parties hereto, their successors and assigns.

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

23. For the purpose of this Settlement Agreement only, the terms are based upon the independent analysis of the parties to reflect a just and reasonable resolution of the issues herein and are the product of compromise and negotiation. Notwithstanding anything contained in the Settlement Agreement, the parties recognize and agree that the effects, if any, of any future events upon the operating income of KPC are unknown and this Settlement Agreement shall be implemented as written.

24. Neither the Settlement Agreement nor any of the terms shall be admissible in any court or commission except insofar as such court or commission is addressing litigation arising out of the implementation of the terms herein or the approval of this Settlement Agreement. This Settlement Agreement shall not have any precedential value in this or any other jurisdiction.

25. Making this Settlement Agreement shall not be deemed in any respect to constitute an admission by any party hereto that any computation, formula, allegation, assertion or contention made by any other party in these proceedings is true or valid. Nothing in this Settlement Agreement shall be used or construed for any purpose to imply, suggest or otherwise indicate that the results produced through the compromise reflected herein represent fully the objectives of an party.

26. The signatories hereto warrant that they have informed, advised, and consulted with the respective parties hereto in regard to the contents and significance of this agreement and based upon the foregoing are authorized to execute this Settlement Agreement on behalf of the parties hereto.

27. This Settlement Agreement is subject to the acceptance of and approval by the Public Service Commission.

28. This Settlement Agreement is a product of negotiation among all parties hereto, and no provision of this Settlement Agreement shall be strictly construed in favor of or against any party.

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

30. Nothing in this Settlement Agreement shall preclude, prevent or prejudice any party hereto from raising any argument/issue or challenging any adjustment in any future rate case proceeding of the Company.

IN WITNESS WHEREOF, this Settlement Agreement has been agreed to as of this 6th day of February 2006. By affixing their signatures below, the undersigned parties respectfully request the Commission to issue its Order approving and adopting this Stipulation Agreement the parties hereto have hereunto affixed their signatures.

KENTUCKY POWER COMPANY

By:

ATTORNEY GENERAL

COMMONWEALTH OF KENTUCKY

By: ______________________

KENTUCKY INDUSTRIAL UTILITY
CUSTOMERS, INC.

By:

KENTUCKY ASSOCIATION FOR
COMMUNITY ACTION, INC.

By: ______________________

KENTUCKY CABLE
TELECOMMUNICATIONS
ASSOCIATION

By:

KE057:KE180:13616:3:FRANKFORT

Attachment 1

Kentucky Power Company
Settled Revenue Allocation
Twelve Months Ended June 30, 2005

Ln No (1)	Tariff (2)	Current Revenues (3)	KPCo Proposed Increase $ (4)	KPCo Proposed Increase % (5)	Settled Non-Recurring Charges Increase Revenues (6)	Settled Proposed Increase $ (7)	Settled Proposed Increase % (8)	Total Settled Proposed Increase (Cols 6 + 7) (9)
1	Non-Recurring Revenue				$71,890			$71,890
2	RS	$130,089,965	$35,508,669	27.30%		$19,157,568	14.73%	$19,157,568
3	SGS	$6,396,711	$977,925	15.29%		$942,005	14.73%	$942,005
4	MGS	$40,049,839	$5,330,812	13.31%		$5,322,900	13.29%	$5,322,900
5	LGS	$41,639,263	$6,715,919	16.13%		$6,707,264	16.11%	$6,707,264
6	QP	$39,023,377	$5,207,626	13.34%		$2,669,597	6.84%	$2,669,597
7	CIP-TOD	$74,184,655	$9,504,584	12.81%		$5,251,404	7.08%	$5,251,404
8	MW	$367,037	$53,773	14.65%		$53,750	14.64%	$53,750
9	OL	$4,776,969	$1,353,543	28.33%		$703,476	14.73%	$703,476
10	SL	$815,872	$143,388	17.57%		$120,149	14.73%	$120,149
11	Total	$337,343,688	$64,796,239	19.21%	$71,890	$40,928,110	0.1213	$41,000,003