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JUL 02 2013

PUBLIC SERVICE
COMMISSION

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July 2, 2013

HAND DELIVERED

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

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

RE: Case No. 2012-00578

Dear Mr. Derouen:

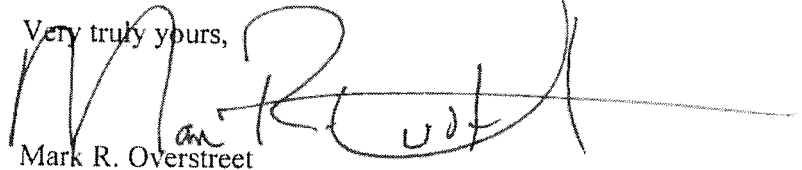
Enclosed please find and accept for filing the original and ten copies of the following documents:

- (a) Notice of Filing of Stipulation and Settlement Agreement; and
- (b) Supplemental Testimony of Ranie K. Wohnhas in Support of Stipulation and Settlement Agreement.

By copy of this letter a copy of both documents is being served by overnight delivery on counsel of record in this proceeding.

If you have any questions please do not hesitate to contact me.

Very truly yours,



Mark R. Overstreet

MRO

cc: Michael L. Kurtz
Jennifer B. Hans
Shannon W. Fisk
Robb Kappla
Joe F. Childers

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

IN THE MATTER OF:

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

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**PUBLIC SERVICE
COMMISSION**

Case No. 2012-00578

STIPULATION AND SETTLEMENT AGREEMENT

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

WITNESSETH:

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

21. Kentucky Power and the Settling Intervenors agree:

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

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

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

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

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

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

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

23. Good Faith And Best Efforts To Seek Approval.

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

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

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

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

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

24. Failure Of Commission To Approve Settlement Agreement.

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

25. Continuing Commission Jurisdiction.

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

26. Effect of Settlement Agreement.

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

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

27. Complete Agreement.

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

28. Independent Analysis.

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

29. Settlement Agreement And Negotiations Are Not An Admission.

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

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

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

30. Consultation With Counsel

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

31. Authority To Bind.

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

32. Construction Of Agreement.

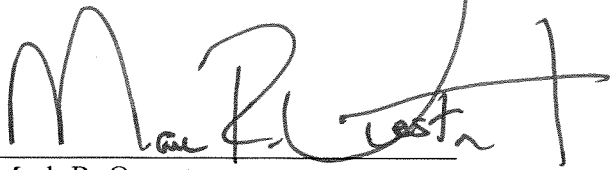
This Settlement Agreement is a product of negotiation among all parties to this Settlement Agreement, and no provision of this Settlement Agreement shall be construed in favor of or against any party hereto. This Settlement Agreement is submitted for purposes of this case only. Except as otherwise provided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

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

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


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

KENTUCKY POWER COMPANY

By: 
Mark R. Overstreet

Its: Attorney


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

By: 

Shannon W. Fisk

Their: Attorney

KENTUCKY INDUSTRIAL UTILITY
CUSTOMERS, INC.

By: 
Michael L. Kurtz

Its: Attorney

EXHIBIT 1

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

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

RATE.

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

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

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

Where:

(m) = the expense month;

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

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

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

Where:

Net Monthly Residential Allocation NRA(m) = Monthly Residential Allocation RA(m), net of Over/(Under) Recovery Adjustment;

Residential Retail Revenue RR(m) = Monthly Retail Revenue for all KY residential classes for the expense month (m).

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

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

Where:

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

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

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

DATE OF ISSUE XXXXXXXX

DATE EFFECTIVE SERVICE RENDERED ON AND AFTER JANUARY 1, 2014

ISSUED BY

TITLE: MANAGER OF REGULATORY SERVICES

BY AUTHORITY OF ORDER BY THE PUBLIC SERVICE COMMISSION

IN CASE NO. 2012-00578 DATED

EXHIBIT 1-A

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

APPLICABLE.

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

RATE.

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

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

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

Where:

(m) = the expense month;

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

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

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

Where:

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

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

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

DATE OF ISSUE XXXXXXXX

DATE EFFECTIVE SERVICE RENDERED ON AND AFTER JANUARY 1, 2014

ISSUED BY

TITLE: MANAGER OF REGULATORY SERVICES

BY AUTHORITY OF ORDER BY THE PUBLIC SERVICE COMMISSION

IN CASE NO. 2012-00578 DATED

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

RATE (Cont'd)

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

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

Where:

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

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

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

DATE OF ISSUE XXXXXX

DATE EFFECTIVE SERVICE RENDERED ON OR AFTER JANUARY 1, 2014

ISSUED BY

TITLE : MANAGER REGULATORY SERVICES

BY AUTHORITY OF ORDER BY THE PUBLIC SERVICE COMMISSION

IN CASE NO. 2012-00578 DATED

EXHIBIT 2

KENTUCKY POWER COMPANY

Original Sheet No. 29-1
 Canceling Sheet No. 29-1

TARIFF E.S.
(Environmental Surcharge)

APPLICABLE.

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

RATE.

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

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

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

Where:

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

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

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

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

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

Where:

$$\text{CRR} = \text{Current Period Revenue Requirement for the Expense Month.}$$

$$\text{BRR} = \text{Base Period Revenue Requirement.}$$

3. Base Period Revenue Requirement, BRR

$$\text{BRR} = \text{The Following Monthly Amounts:}$$

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

(Continued on Sheet 29-2)

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

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

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

EXHIBIT 3

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

APPLICABLE.

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

RATE.

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

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

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

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

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

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

The out-of-pocket costs include all operating, maintenance, tax, transmission losses and other expenses that would not have been incurred if the power and energy had not been supplied for such sales, including demand and energy charges for power and energy supplied by Third Parties.

- c. KPCo's environmental costs allocated to non-associated utilities in the Company's Environmental Surcharge Report.

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

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

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

EXHIBIT 4

KENTUCKY POWER COMPANY

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

P.S.C. ELECTRIC NO. 9

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

AVAILABILITY OF SERVICE.

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

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

CONDITIONS OF SERVICE.

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

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

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

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

RATE. (Tariff Code 321)

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

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

FUEL ADJUSTMENT CLAUSE.

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

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

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

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

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

KENTUCKY POWER COMPANY

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

P.S.C. ELECTRIC NO. 9

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

SYSTEM SALES CLAUSE.

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

DEMAND-SIDE MANAGEMENT ADJUSTMENT CLAUSE.

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

ENVIRONMENTAL SURCHARGE.

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

CAPACITY CHARGE.

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

DELAYED PAYMENT CHARGE.

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

TERM OF CONTRACT

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

CONFIDENTIALITY

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

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

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

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

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

EXHIBIT 5

KENTUCKY POWER COMPANY

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

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

APPLICABLE.

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

RATE.

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

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

Where:

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

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

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

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

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

DATE OF ISSUE XXXXXXXXXX

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IN CASE NO. 2012-00578 DATED