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News Release

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PSC Issues Final Order in Proposed Liberty Acquisition of Kentucky Power Commission's approval, with modifications, will result in net benefits to customers

FRANKFORT, Ky (May 4, 2022) – Today the Kentucky Public Service Commission (PSC or Commission) approved, with modifications, the proposed acquisition of Kentucky Power Company (Kentucky Power) by Liberty Utility Co. (Liberty). Kentucky Power is a subsidiary of American Electric Power (AEP). The Case number is 2021-00481.

This follows the Commission's orders on May 3 regarding Kentucky Power's ownership in the Mitchell Power Plant and the plant's compliance with federal environmental regulations. Those Case numbers are 2021-00004 and 2021-00421, with more information about those Orders toward the end of this release.

In a Jan. 4, 2022 application filed by all three companies, Liberty proposed to acquire Kentucky Power and AEP Kentucky Transmission Company, LLC (Kentucky Transco) at a purchase price of \$2.846 billion, which included the assumption of \$1.221 billion in debt. Of the purchase price amount, AEP would net \$1.4 billion in cash after taxes and transaction fees, which AEP indicated it would reinvest in renewable energy in other AEP subsidiaries, none of which are in Kentucky.

The purchase price included a \$585 million acquisition premium paid by Liberty to AEP, which represented the amount of the purchase price above Kentucky Power's net book value. The acquisition price included both Kentucky Power and Kentucky Transco. Liberty stated it would not seek to recover in rates the transaction premium or one-time transition costs. Liberty also stated it would retain all current Kentucky Power employees with the same or similar compensation and benefits.

Under relevant Kentucky law, the Commission shall approve a proposed acquisition if the acquiring entity has the financial, technical, and managerial abilities to provide reasonable service and if the Commission finds that the acquisition is in accordance with law, for a proper purpose, and consistent with the public interest. As noted in today's Order, these six legal standards "are central to the regulatory principles that an acquisition must not harm a utility's ratepayers, either financially or in terms of service, and the costs cannot exceed the benefits."

Today's Order notes that based upon the case record, most of these legal standards have been met; however, the proposed acquisition is in the public interest only with the modifications ordered by the Commission. Those modifications include a requirement that Kentucky Power ratepayers receive a \$30 million payment to remedy the continued subsidization of transmission

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investments of other AEP affiliates. This subsidy continues post-transaction. As such, AEP, Kentucky Power and Liberty are incentivized to fix this subsidization issue with active and immediate advocacy at the federal level. Failure to materially address this issue results in the removal of a suspension of a further \$45 million payment to Kentucky Power customers.

In addition to the make whole amount related to transmission subsidization, the Commission's order also requires the creation of a \$43.5 million fund to offset deferred distribution restoration expenses. While these expenses are a result of storm damage, they are a direct result of Kentucky Power's underinvestment in its system, including the failure to address appropriate loading levels required for the utility's distribution system. The Commission noted the purpose of the fund is to ensure ratepayers are not harmed post-transaction by AEP's under-investment over the years, and the company's repeated failure to comply with the Commission's directives and suggestions to improve the distribution system. This fund may be used to reduce Kentucky Power's rates in the utility's next rate case.

Additionally, today's Order approved, with modifications, a proposed \$40 million fuel adjustment clause (FAC) credit (proposed as the Eastern Kentucky Fuel Relief Fund) and a proposed three-year deferral of the existing Big Sandy Decommissioning Rider (BSDR). For the Fuel Relief Fund, Kentucky Power is to establish a sur-credit, resulting in more transparency and predictability for customers. This surcredit is to return the \$40 million between July 1, 2022, and December 31, 2023, and 75 percent is to be returned to the residential class and 25 percent to the non-residential class. Under the Commission's suggested methodology, for the average residential customer using 1,400 kWh, the per kWh credits would result in a bill credit of \$32.72 per month during the winter season and \$1.40 during the non-winter season over the 18-month period. Kentucky Power is permitted to suggest a different methodology to return the \$40 million. The Commission's order permits the BSDR deferral, but requires that Kentucky Power share in the carrying cost associated with deferring instead of recovering the amounts. Deferral of the BSDR will result in some additional costs to customers and an extended recovery period of the rider. However, the long-term benefit of securitization of the BSDR outweighs the risk of the associated deferral. Securitization will require legislation.

An appendix to today's Order contains Liberty's post-acquisition commitments including corporate governance; community involvement; economic development; and customer service activities. Liberty also committed to evaluating the benefits and costs of Kentucky Power's participation in PJM. An exit from PJM would have to be approved by the PSC.

Kentucky Power provides electric service to approximately 165,000 customers in 20 Eastern Kentucky counties. Kentucky Power owns and operates the 260 MW Big Sandy natural gas plant in Lawrence County, Kentucky; a 50 percent undivided interest in the 1,560 MW Mitchell coal-fired plant in Marshall County, West Virginia; and has a purchase power agreement (Rockport UPA) that expires in December 2023.

Liberty is a Delaware corporation and an indirect subsidiary of Algonquin Power & Utilities Corp. Liberty owns 30 regulated electric, natural gas, water and wastewater utilities serving approximately 1.2 million customers in several states. Liberty subsidiaries are organized by region. Kentucky Power will be in its own region, with future acquisitions of utilities in nearby states included in Kentucky Power's region.

Intervenors in the case are the Attorney General of Kentucky, Kentucky Industrial Utility Customers, Inc., LS Power Development, Sierra Club, and Walmart Inc. The Commission conducted an evidentiary hearing on March 28-29, 2022.

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Today's Order and other records in the case file are available at <https://psc.ky.gov/Case/ViewCaseFilings/2021-00481>.

In the two May 3 Orders, the Commission approved, with modifications, Kentucky Power's request for approval of the Mitchell Ownership Agreement and the Mitchell O&M Agreement (Case No. 2021-00421). The approvals were sought in compliance with a previous Order regarding Kentucky Power's 50 percent interest in the Mitchell Plant in light of differing decisions between the Kentucky PSC and West Virginia PSC in Kentucky Power's environmental compliance plans.

The Commission also issued a final Order in the rehearing of certain items related to the Mitchell Generating Station environmental compliance case (Case No. 2021-00004), authorizing Kentucky Power to establish and amortize a regulatory asset for Mitchell Effluent Limitation Guidelines compliance costs incurred prior to July 15, 2021, with the Commission agreeing that those costs were prudently incurred, based upon the evidence presented by Kentucky Power in rehearing discovery. The PSC also authorized a 20 percent depreciation rate for the Commission-approved Coal Combustion Residual compliance project at Mitchell to allow full recovery of those costs at the time Kentucky Power will terminate its interest in the facility in 2028. The decisions in both of these matters are premised on the expected transfer and sale of Kentucky Power's interest in the Mitchell Plant at or near the generating station's net book value.

The May 3 Orders and accompanying case files are available at:

<https://psc.ky.gov/Case/ViewCaseFilings/2021-00421>

<https://psc.ky.gov/Case/ViewCaseFilings/2021-00004>

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