

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

ELECTRONIC APPLICATION OF KENTUCKY)	
POWER COMPANY FOR (1) A GENERAL)	
ADJUSTMENT OF ITS RATES FOR ELECTRIC)	
SERVICE; (2) APPROVAL OF TARIFFS AND)	CASE NO.
RIDERS; (3) APPROVAL OF CERTAIN)	2025-00257
REGULATORY AND ACCOUNTING)	
TREATMENTS; AND (4) ALL OTHER REQUIRED)	
APPROVALS AND RELIEF)	

ORDER

This matter arises from an application tendered by Kentucky Power Company (Kentucky Power) on August 29, 2025, pursuant to KRS 278.180; KRS 278.190; KRS 278.220; 807 KAR 5:001, Section 14; 807 KAR 5:001, Section 16; 807 KAR 5:011; and all other applicable statutes and regulations, for an order granting: (1) approval of a general adjustment of its electric rates; (2) approval of its tariffs and riders; (3) approval of accounting practices to establish a regulatory asset or liability; and (4) all other required approvals and relief. On September 4, 2025, the application was deemed filed as of August 29, 2025.¹ The application used a historical test year as its base period for rate review. Kentucky Power's application proposed the rates become effective on March 1, 2026.²

¹ No Deficiency Letter (Ky. PSC Sept. 4, 2025).

² Application at 9.

PROCEDURAL HISTORY

On September 11, 2025, the Commission issued an Order that established a procedural schedule for the processing of this matter. Because Kentucky Power proposed an effective date for the rates that was beyond 30 days from the application date, the Commission did not suspend the effective date of the proposed rates for five months, as authorized in KRS 278.190(2). The Order further provided for a deadline for requesting intervention, two rounds of discovery upon Kentucky Power, a deadline for the filing of intervenor testimony, one round of discovery upon any intervenor testimony, and an opportunity for Kentucky Power to file rebuttal testimony. The following parties were granted intervention in this proceeding: the (1) Attorney General of the Commonwealth of Kentucky, by and through the Office of Rate Intervention (Attorney General);³ (2) Kentucky Industrial Utility Customers (KIUC);⁴ (3) SWVA Kentucky, LLC (SWVA);⁵ (4) Appalachian Citizens Law Center (ACLC), Kentuckians for the Commonwealth (KFTC), Kentucky Solar Energy Society (KYSES), Mountain Association (MA) (collectively, Joint Intervenors);⁶ and (5) Kentucky Solar Industries Association, Inc. (KYSEIA).⁷

The Commission, on its own motion, scheduled an informal technical conference (ITC) to allow Kentucky Power to provide an overview of the regulatory assets requested; adjustments via a technical presentation on the financial schedules; Kentucky Power's

³ Order (Ky. PSC Aug. 13, 2025).

⁴ Order (Ky. PSC Sept. 30, 2025).

⁵ Order (Ky. PSC Oct. 10, 2025).

⁶ Order (Ky. PSC Oct. 10, 2025).

⁷ Order (Ky. PSC Oct. 10, 2025).

Return on Equity (ROE) calculations; and an overview of the Depreciation Study.⁸
Commission Staff conducted the ITC on September 30, 2025.⁹

Prior to hearing, Kentucky Power responded to four requests for information from Commission Staff, two rounds of requests from intervenors and periodically updated certain responses.¹⁰ The Attorney General and KIUC, KYSEIA, and Joint Intervenors filed testimony on November 17, 2025 and each responded to a one round of data requests.¹¹

Many public comments were filed in this matter.¹² Additionally, the Commission held three public comment meetings on November 20, 2025, in Pikeville, Kentucky;

⁸ Order (Ky. PSC Sept. 11, 2025).

⁹ Public Service Commission Letter Filing Memo into the Record (Ky. PSC Oct. 10, 2025).

¹⁰ Kentucky Power's Response to Commission Staff's First Request for Information (Staff's First Request) (filed Sept. 12, 2025); Kentucky Power's Response to Commission Staff's Second Request for Information (Staff's Second Request) (filed Oct. 9, 2025); Kentucky Power's Response to Attorney General and KIUC's First Request for Information (Attorney General/KIUC's First Request) (filed Oct. 9, 2025); Kentucky Power's Response to SWVA's First Request for Information (SWVA's First Request) (filed Oct. 10, 2025); Kentucky Power's Response to KYSEIA's First Request for Information (KYSEIA's First Request) (filed Oct. 10, 2025); Kentucky Power's Response to Joint Intervenors' First Request for Information (Joint Intervenors' First Request) (filed Oct. 13, 2025); Kentucky Power's Response to Commission Staff's Third Request for Information (Staff's Third Request) (filed Nov. 3, 2025); Kentucky Power's Response to KYSEIA's Second Request for Information (KYSEIA's Second Request) (filed Nov.3, 2025); Kentucky Power's Response to Attorney General and KIUC's Second Request for Information (Attorney General/KIUC's Second Request) (filed Nov.3, 2025); Kentucky Power's Response to Commission Staff's Fourth Request for Information (Staff's Fourth Request) (filed Jan. 2, 2026).

¹¹ Attorney General/KIUC's Response to Commission Staff's First Request for Information (Staff's First Request to Attorney General/KIUC) (filed Dec. 8, 2025); Attorney General/KIUC's Response to Kentucky Power's First Request for Information (Kentucky Power's First Request to Attorney General/KIUC) (filed Dec. 8, 2025); Joint Intervenors' Response to Commission Staff's First Request for Information (Staff's First Request to Joint Intervenors) (filed Dec. 8, 2025); Joint Intervenors' Response to Kentucky Power's First Request for Information (Kentucky Power's First Request to Joint Intervenors) (filed Dec. 8, 2025); KYSEIA's Response to Commission Staff's First Request for Information (Staff's First Request to KYSEIA) (filed Dec. 8, 2025); KYSEIA's Response to Kentucky Power's First Request for Information (Kentucky Power's First Request to KYSEIA) (filed Dec. 8, 2025).

¹² [View Public Comments for: 2025-00257](#).

December 18, 2025, in Hazard, Kentucky; and January 8, 2026 in Ashland, Kentucky.¹³ Sign-in sheets and a video recording of each public comment meeting are also included in the record in the case. On January 9, 2026, Kentucky Power and intervenors KIUC and KYSEIA (Signatory Parties) filed a joint motion to approve a non-unanimous settlement agreement between the three parties (Settlement Agreement).¹⁴ The Attorney General, Joint Intervenors, and SWVA did not agree to this settlement. A formal evidentiary hearing was held on January 13, 2026 through January 15, 2026. Kentucky Power responded to two rounds of post-hearing data requests and Joint Intervenors responded to one round of post-hearing data requests.¹⁵ The parties filed a series of briefs subsequent to the hearing.¹⁶ On January 27, 2026, Kentucky Power filed a motion requesting permission to implement the rates as set forth in the Settlement Agreement KRS 278.190(2) and 807 KAR 5:001, Section 5. The Commission finds that this motion

¹³ Order (Ky. PSC Oct. 17, 2025).

¹⁴ The Signatory Parties concurrently filed a Motion to Recess the Hearing and Amend Witness List in Consideration of Settlement Agreement to allow Commission Staff time to review the Settlement Agreement. The Commission ruled from the bench denying the recess and granting the witness list amendment. The Commission also granted from the bench Kentucky Power's January 12, 2026 Motion for Deviation from notice publication requirements.

¹⁵ Kentucky Power's Response to Commission Staff's Post-Hearing Request for Information (Staff's Post-Hearing Request) (Kentucky Power's Response to Staff's Post-Hearing Request) (filed Jan. 27, 2026); Kentucky Power's Response to Attorney General's Post-Hearing Request for Information (Attorney General's Post-Hearing Request)) (Kentucky Power's Response to Attorney General's Post-Hearing Request) (filed Jan. 27, 2026); Kentucky Power's Response to Commission Staff's Second Post-Hearing Request for Information (Staff's Second Post-Hearing Request) (Kentucky Power's Response to Staff's Second Post-Hearing Request) (filed Feb. 13, 2026); Joint Intervenors' Response to Commission Staff's Post-Hearing Request for Information (Staff's Post-Hearing Request to Joint Intervenors) (Joint Intervenors' Response to Staff's Post-Hearing Request) (filed Jan. 27, 2026).

¹⁶ Attorney General's Post-Hearing Brief (filed Feb. 3, 2026); KIUC's Post-Hearing Brief (filed Feb. 3, 2026); KYSEIA's Post-Hearing Brief (filed Feb. 3, 2026); Kentucky Power's Post-Hearing Brief (filed Feb. 3, 2026); Joint Intervenors' Post-Hearing Brief (filed Feb. 3, 2026); Kentucky Power's Reply Brief (filed Feb. 10, 2026); KIUC's Reply Brief (filed Feb. 10, 2026); KYSEIA's Reply Brief (filed Feb. 10, 2026); Joint Intervenors' Reply Brief (filed Feb. 10, 2026); Kentucky Power's Supplemental Post-Hearing Brief (filed Feb. 16, 2026); Joint Intervenors' Supplemental Post-Hearing Brief (filed Feb. 16, 2026).

should be denied as moot, since the Commission has issued its final Order prior to Kentucky Power's proposed effective date. This case is now submitted for decision.

BACKGROUND

Kentucky Power is a jurisdictional electric utility that generates and purchases electricity that it distributes and sells at retail to approximately 162,511 customers located in all, or portions of, the counties of Boyd, Breathitt, Carter, Clay, Elliott, Floyd, Greenup, Johnson, Knott, Lawrence, Leslie, Letcher, Lewis, Magoffin, Martin, Morgan, Owsley, Perry, Pike, and Rowan counties, Kentucky.¹⁷ Kentucky Power is a wholly owned subsidiary of American Electric Power (AEP).¹⁸ Kentucky Power is also affiliated with AEP Kentucky Transmission Company (KY Transco), which is a third-tier subsidiary of AEP. Kentucky Power is a member of regional transmission organization PJM Interconnection, LLC (PJM). Kentucky Power generates power through two steam generation facilities, Big Sandy Plant and Mitchell Plant. Kentucky Power also purchases its remaining power requirements from PJM. Kentucky Power's last adjustment of its base electric rates was in Case No. 2023-00159.¹⁹

APPLICATION SUMMARY

On July 29, 2025, Kentucky Power filed a notice of its intent to file an application for an approval of increases in its electric rates.²⁰ Kentucky Power's August 29, 2025

¹⁷ *Annual Report of Kentucky Power to the Public Service Commission for the Year Ending December 31, 2024* (2024 Annual Report) at 4-5.

¹⁸ Application at 2 and 13.

¹⁹ Case No. 2023-00159, *Electronic Application of Kentucky Power Company for (1) a General Adjustment of its Rates for Electric Service; (2) Approval of Tariffs and Riders; (3) Approval of Accounting Practices to Establish Regulatory Assets and Liabilities; (4) a Securitization Financing Order; and (5) All Other Required Approvals and Relief* (Ky. PSC Jan. 19, 2024), Order.

²⁰ Kentucky Power's Notice of Intent (filed July 29, 2025).

application for a rate adjustment was supported by a 12-month historical test year ending May 31, 2025, with adjustments for known and measurable changes.²¹

The application requested authorization to increase Kentucky Power's electric base rate total revenue by \$95,558,248 or an increase of approximately 14.62 percent above the test-year retail sales revenue of \$653,489,895.²² The application stated that Kentucky Power is proposing a new Generation Rider (Tariff G.R.), which is included in its total revenue requirement.²³ Kentucky Power indicated that the average monthly residential bill, based on average usage and the proposed electric base rates, would be \$210.67, a 14.9 percent increase from the current average bill of \$183.37.²⁴

Kentucky Power stated that the primary reasons for the requested increase are that Kentucky Power's current rates are not fair, just and reasonable; do not permit the company to operate successfully, to maintain its financial integrity, to attract capital, or to compensate its investors for the risks assumed; and do not provide the financial resources required to permit Kentucky Power to continue to provide adequate, efficient, and reasonable service throughout its service territory.²⁵ Kentucky Power noted several proposals to offset the impacts to customers of the rate adjustment: a capital structure that reduces Kentucky Power's equity ratio, which, in turn, reduces Kentucky Power's

²¹ Application at 6.

²² Application at 9.

²³ Application at 9.

²⁴ Application, Exhibit F at 7.

²⁵ Application at 6.

weighted average cost of capital (WACC);²⁶ a lower ROE than supported in the application;²⁷ postponement of an update to the depreciation rates for the Mitchell Plant to pursue the securitization of the Mitchell Plant investments;²⁸ removal of storm expenses from base rates to deferred regulatory assets and pursuit of securitization of those storm costs.²⁹

Kentucky Power's application also included requests for new and modified programs and tariff updates related to a new Tariff G.R. to recover non-environmental Mitchell Plant capital plant balances and associated depreciation; a new FlexPay (Tariff F.P.) prepayment program; consolidation of Tariff Cogeneration and/or Small Power Production – 100 KW or Less (Tariff COGEN/SPP I) and Tariff Cogeneration and/or Small Power Production – Over 100 KW (Tariff COGEN/SPP II) into a single Tariff Cogeneration and/or Small Power Production (Tariff COGEN/SPP); elimination of Tariff Voluntary Curtailment Service (Tariff V.C.S.) due to lack of participation; removal of amounts recovered through Tariff Decommissioning Rider (Tariff D.R.); modification of the Tariff Purchase Power Adjustment (Tariff P.P.A.) and Federal Tax Cut Tariff (Tariff F.T.C.); continuance of the current level of Kentucky Power Economic Growth Grants funding through the Kentucky Economic Development Surcharge Tariff; and maintenance of the current level of Residential Energy Assistance surcharge and Company match to support

²⁶ Direct Testimony of Jeffrey D. Newcomb (filed Aug. 29, 2025) (Newcomb Direct Testimony) at 16.

²⁷ Direct Testimony of Adrien M. McKenzie (filed Aug. 29, 2025) (McKenzie Direct Testimony) at 4.

²⁸ Direct Testimony of Cynthia G. Wiseman (filed Aug. 29, 2025) (Wiseman Direct Testimony) at 13.

²⁹ Application at 8–9; Wiseman Direct Testimony at 14.

customers through its existing energy assistance program offerings.³⁰

For the test year, Kentucky Power reported actual net operating income from its jurisdictional electric operations of \$96,236,567.³¹ Kentucky Power proposed 59 adjustments³² to revenues and expenses to reflect more current and anticipated operating conditions, resulting in an adjusted net operating income of \$85,570,264.³³ With this level of net operating income, Kentucky Power reported an adjusted test-year revenue deficiency of \$95,558,248.³⁴

The Attorney General and KIUC provided testimony supporting several adjustments to Kentucky Power's revenue requirement, totaling a \$24.44 million reduction in annual base rate and Tariff G.R. recovery,³⁵ which would represent an approximately 25.6 percent reduction from the proposed \$95.558 million in annual base rate and Tariff G.R. recovery. These recommendations, Kentucky Power's rebuttal testimony, and the Attorney General's, KIUC's, Kentucky Power's and Joint Intervenors' post-hearing briefs' recommendations will be discussed individually below.

LEGAL STANDARD

Kentucky Power filed its application pursuant to KRS 278.180; KRS 278.190; KRS 278.220; 807 KAR 5:001, Sections 14 through 16; 807 KAR 5:011; and 807 KAR 5:051. Pursuant to KRS 278.030(1), the Commission's standard of review for a utility's request

³⁰ Application at 10–11.

³¹ Application, Section V, Exhibit 1, Schedule 4.

³² Application, Section V, Exhibit 2 at 1.

³³ Application, Section V, Exhibit 1, Schedule 4.

³⁴ Application, Section V, Exhibit 1.

³⁵ Direct Testimony of Lane Kollen (filed Nov. 17, 2025) (Kollen Direct Testimony) at 5.

for a rate increase is well established and is whether the proposed rates are “fair, just and reasonable.”³⁶ Kentucky Power bears the burden of proof to show that the proposed rates are fair, just and reasonable under the requirements of KRS 278.190(3).

KRS 278.010 states, “an affiliate means a person that controls or that is controlled by, or is under common control with, a utility”. Pursuant to KRS 278.2207(1)(a), “services and products provided to the utility by an affiliate shall be priced at the affiliate's fully distributed cost but in no event greater than market or in compliance with the utility's existing USDA, SEC, or FERC approved cost allocation methodology.” Further, “[i]n any formal commission proceeding in which cost allocation is at issue, a utility shall provide sufficient information to document that its cost allocation procedures and affiliate transaction pricing are consistent with the provisions of this chapter.”³⁷ If a utility has failed to provide sufficient evidence of its compliance, the Commission may “[o]rder that the costs attached to any transaction be disallowed from rates.”³⁸ Pro forma adjustments to the historical test-period expenses are also subject to the requirements that they must be known and measurable.³⁹

Kentucky Power’s application also requested approval for the establishment of a regulatory asset for storm damage restoration. KRS 278.220 provides that the Commission may establish a uniform system of accounts (USoA) for utilities. The system of accounts should conform as nearly as practicable to the system adopted or approved

³⁶ KRS 278.030 and *Pub. Serv. Comm’n v. Com. ex rel. Conway*, 324 S.W.3d 373, 377 (Ky. 2010).

³⁷ KRS 278.2209.

³⁸ KRS 278.2211(1)(b).

³⁹ 807 KAR 5:001, Section 16(1)(a)(1).

by the Federal Energy Regulatory Commission (FERC). The FERC USoA provides for regulatory assets, or the capitalization of costs that would otherwise be expensed but for the actions of a rate regulator. The Financial Accounting Standards Board's Statement of Financial Accounting Standards No. 71, Accounting for the Effects of Certain Types of Regulation, which was codified as Accounting Standards Codification (ASC) 980, Regulated Operations, provides the criteria for recognition of a regulatory asset.⁴⁰ Pursuant to ASC 980, it must be probable that the utility will recover approximately equal revenue through the inclusion of these costs for ratemaking purposes, with the intent to recover the previously incurred cost not a similar future cost.

In prior matters, the Commission has identified, generally, parameters for expenses that may qualify for regulatory asset treatment and has approved regulatory assets when a utility has incurred (1) an extraordinary, nonrecurring expense which could not have reasonably been anticipated or included in the utility's planning; (2) an expense resulting from a statutory or administrative directive; (3) an expense in relation to an industry sponsored initiative; or (4) an extraordinary or nonrecurring expense that over

⁴⁰ ASC 980-340-25-1 provides, in full, as follows:

25-1 Rate actions of a regulator can provide reasonable assurance of the existence of an asset. An entity shall capitalize all or part of an incurred cost that would otherwise be charged to expense if both of the following criteria are met:

a. It is probable (as defined in Topic 450) that future revenue in an amount at least equal to the capitalized cost will result from inclusion of that cost in allowable costs for rate-making purposes.

b. Based on available evidence; the future revenue will be provided to permit recovery of the previously incurred cost rather than to provide for expected levels of similar future costs. If the revenue will be provided through an automatic rate-adjustment clause, this criterion requires that the regulator's intent clearly be to permit recovery of the previously incurred cost. A cost that does not meet these asset recognition criteria at the date the cost is incurred shall be recognized as a regulatory asset when it does meet those criteria at a later date.

time will result in a saving that fully offsets the cost.⁴¹ Additionally, the Commission has established a requirement that utilities seek Commission approval before recording regulatory assets,⁴² and requirements regarding the timing for applications seeking such approval.⁴³ In addition, outside of the prescribed categories of expenses that qualify for regulatory asset treatment, utilities have established regulatory assets for certain timing and accounting differences, such as over- or under-recoveries for riders. Other applicable legal standards will be discussed within the relevant section of the Order set forth below.

SETTLEMENT

On January 9, 2026, Kentucky Power and intervenors KIUC and KYSEIA (Signatory Parties) filed a joint motion to approve a non-unanimous settlement agreement between the three parties (Settlement Agreement).⁴⁴ The Attorney General, Joint Intervenors, and SWVA did not agree to this settlement. The Settlement Agreement incorporated nearly all of the revenue requirement adjustments recommended by the Attorney General/KIUC's witnesses.⁴⁵ The Settlement Agreement also reduced the

⁴¹ Case No. 2008-00436, *Application of East Kentucky Power Cooperative, Inc. for an Order Approving Accounting Practices to Establish a Regulatory Asset Related to Certain Replacement Power Costs Resulting from Generation Forced Outages* (Ky. PSC Dec. 23, 2008), Order at 3–4.

⁴² Case No. 2016-00180, *Application of Kentucky Power Company for an Order Approving Accounting Practices to Establish Regulatory Assets and Liabilities Related to the Extraordinary Expenses Incurred by Kentucky Power Company in Connection with the Two 2015 Major Storm Events* (Ky. PSC Nov. 3, 2016), Order at 9.

⁴³ Case No. 2016-00180, Dec. 12, 2016 Order at 5.

⁴⁴ The Signatory Parties concurrently filed a Motion to Recess the Hearing and Amend Witness List in Consideration of Settlement Agreement to allow Commission Staff time to review the Settlement Agreement. The Commission ruled from the bench denying the recess and granting the witness list amendment. The Commission also granted from the bench Kentucky Power's January 12, 2026 Motion for Deviation from notice publication requirements.

⁴⁵ Settlement Testimony of Tanner S. Wolfram (Wolfram Settlement Testimony) (filed Jan. 9, 2026), Exhibit TSW-S1 (Settlement Agreement) at 47. The only Attorney General-recommended adjustments not incorporated into the Settlement Agreement were \$779,000 in Big Sandy plant interim

revenue requirement requested in the application in the short-term by using Deferred Tax Liabilities (DTLs) as credits to offset revenue requirement for 2026 and 2027,⁴⁶ then recover the difference from ratepayers starting in 2028 through a DTL Rider and DTL Regulatory Asset.⁴⁷ A regulatory asset of up to \$2 million was included for interest on short-term debt to finance the DTL credits.⁴⁸ Kentucky Power's vegetation management program expense, up to the limits set forth in the Settlement Agreement, would be deferred to a regulatory asset.⁴⁹ Up to \$2 million in storm expenses would be added back into base rates to account for storm expenses not recoverable as regulatory assets.⁵⁰ Kentucky Power would receive a 9.8 percent ROE—less than the 10 percent requested in the application,⁵¹ but more than the Attorney General/KIUC witness's recommendation in direct testimony of 9.5 percent.⁵² The Settlement Agreement also included changes to

retirements and interim net salvage and revenue requirement reductions based on the Attorney General's lower ROE recommendation.

⁴⁶ Settlement Agreement at 3–4.

⁴⁷ Settlement Agreement at 8–9.

⁴⁸ Settlement Agreement at 10.

⁴⁹ Settlement Agreement at 10; Hearing Testimony of Tanner S. Wolfram (Wolfram Hearing Testimony) Hearing Video Transcript (HVT) of the Jan. 14, 2026 Hearing at 9:26:33. The caps are \$25 million for the Trees Inside the Right-of-Way (TIR) program and \$20 million for the Trees Outside the Right-of-Way (TOR) program in 2026 and \$27 million in 2027.

⁵⁰ See Case No. 2025-00291, *Electronic Application of Kentucky Power Company for an Order Approving Accounting Practices to Establish a Regulatory Asset Related to the Extraordinary Expenses Incurred by Kentucky Power Company in Connection with Several Severe Storms from February Through May 2025* (Ky. PSC Oct. 30, 2025), Order at 8, denying deferral of storm damage expenses; and Case No. 2025-00031, *Electronic Application of Kentucky Power Company for an Order Approving Accounting Practices to Establish a Regulatory Asset Related to the Extraordinary Expenses Incurred by Kentucky Power Company in Connection with the January 5, 2025 and February 15, 2025 Major Event Storms* (Ky. PSC Mar. 31, 2025), Order at 8, which limited deferral of storm expenses to costs over \$1.1 million.

⁵¹ Settlement Agreement at 4.

⁵² Direct Testimony of Richard A. Baudino (filed Nov. 17, 2025) (Baudino Direct Testimony) at 3.

the COGEN/SPP tariff sought by KYSEIA.⁵³ Tariff G.R. would also be approved, utilizing a 9.7 percent ROE, and including \$60.4 million associated with Kentucky Power's Certificate of Public Convenience and Necessity (CPCN) application in Case No. 2025-00175,⁵⁴ that was granted after the application was filed in the present case. The total revenue requirement set forth in the Settlement Agreement, including for Tariff G.R., was \$77,400,374, shown in the table below with settlement adjustments compared to the application.⁵⁵ The Settlement Agreement did not include a stay-out provision. The Signatory Parties filed a Joint Motion to Accept the Settlement concurrently with the Settlement Agreement.

⁵³ Settlement Agreement at 11.

⁵⁴ Settlement Agreement at 10–11; Case No. 2025-00175, *Electronic Application of Kentucky Power Company for Approval of (1) A Certificate of Public Convenience and Necessity to Make the Capital Investments Necessary to Continue Taking Capacity and Energy from the Mitchell Generating Station After December 31, 2028, (2) an Amended Environmental Compliance Plan, (3) Revised Environmental Surcharge Tariff Sheets, and (4) All Other Required Approvals and Relief* (Ky. PSC Dec. 30, 2025), Order at 63.

⁵⁵ Settlement Agreement at 3.

Description	Settlement	Line No. Ref
Base Rate Increase Requested by Company	75.270	Ln 1
Increase Due to New Generation Rider Requested by Company - Without ELG Investment	20.289	Ln 2
Total Increase Requested by Company	95.558	Ln 3 = Ln 1 + Ln 2
AG and KIUC Rate Base Issues		
Subtract Vendor Supplied Fuel Inventory	(0.914)	Ln 4
Subtract Vendor Supplied Materials & Supplies Inventory	(0.207)	Ln 5
Reduce Deferred Tax Asset Federal NOL ADIT	(4.110)	Ln 6
Reduce Asset Deficient Federal NOL ADIT	(0.885)	Ln 7
Remove Post-Test Year Capital Increase to TOR Vegetation Management	(1.646)	Ln 8
AG and KIUC Operating Income Issues		
Exclude Incentive Compensation Expense Tied to Financial Performance	(1.842)	Ln 9
Exclude SERP Expense	(0.144)	Ln 10
Exclude 401(k) Matching Expense for Employees Who Also Participate in Defined Pension Plan	(1.943)	Ln 11
Correct Property Tax Expense	(0.320)	Ln 12
Defer Pension Settlement Accounting Expenses for AEPSC Employees and Amortize Over 12 Year	(0.985)	Ln 13
Remove Depreciation Expense - Capital Increase for TOR Vegetation Management	(0.588)	Ln 14
Reduce Depreciation Expense to Remove Terminal Net Salvage - Big Sandy	(1.011)	Ln 15
Reduce Depreciation Expense to Remove Interim Retirements and Interim Net Salvage - Big Sandy		Ln 16
Reduce Depreciation Expense to Remove Interim Retirements and Interim Net Salvage - Mitchell	(2.793)	Ln 17
Reduce Depreciation Expense Removal to Recover in Generation Rider - Mitchell	1.190	Ln 18
Remove EEI and Kentucky Chamber of Commerce Dues	(0.113)	Ln 19
Increase Non-Major Storm Expense	2.000	Ln 20
AG and KIUC Cost of Capital Issues		
Correct Small Error of 0.0004% in the Short-Term Debt Rate	(0.075)	Ln 21
ROE Adjustments, AG/KIUC (9.5%), Settlement (9.8%)	(2.153)	Ln 22
Total AG and KIUC Adjustments to KPCo Base Rate Request	(16.539)	Ln 23 = SUM(Ln 4 - Ln 22)
Maximum Base Rate Increase After AG and KIUC Adjustments	58.73	Ln 24 = Ln 1 + Ln 23
Adjustments to Generation Rider - Without ELG Investment		
Remove Recovery of Property Tax Expense - To Be Recovered Through Base Rates	(0.195)	Ln 25
Reduce Depreciation Expense to Remove Interim Retirements and Interim Net Salvage - Mitchell	(1.185)	Ln 26
ROE Adjustments, AG/KIUC (9.5%), Settlement (9.7% for Gen Rider)	(0.239)	Ln 27
Total AG and KIUC Adjustments to KPCo Generation Rider Rate Request	(1.619)	Ln 28 = SUM(Ln 25 - Ln 27)
Maximum Generation Rider Rate Increase After AG and KIUC Adjustments	18.67	Ln 29 = Ln 2 + Ln 28
Maximum Base Rate and Generation Rider Increases After AG and KIUC Adjustments	77.40	Ln 30 = Ln 24 + Ln 29
DTL amortization of \$20M annually	(20.000)	Ln 31
Rate Increase after DTL Credit Rider	57.40	Ln 32 = Ln 30 + Ln 31
Additional Residential DTL Amortization	(5.000)	Ln 33
Total Rate Increase after Year 1 DTL Amortization/Credit Rider	52.40	Ln 34 = Ln 32 + Ln 33

ATTORNEY GENERAL RECOMMENDATIONS

In addition to providing intervenor testimony recommending the individual adjustments set out below, the Attorney General filed a post-hearing brief that

recommended additional specific revenue requirement adjustments, discussed below, but also argued that the Commission should not permit Kentucky Power to increase rates at all.⁵⁶ The Attorney General argued that Kentucky Power’s rates play an outsized role in the economic conditions fueling the decrease in population and electric demand that leave a smaller number of customers being asked to bear the fixed costs of service in Kentucky Power’s territory.⁵⁷ The Attorney General stated that, “[i]f AEP wants to continue to operate in this service territory, then it must share in the good and the bad, the risk and the reward, and not solely burden the ratepayers with the problems of the area.”⁵⁸ Furthermore, the Attorney General stated that Kentucky Power has engaged in “poor planning and management.”⁵⁹ The brief refers to an investigation case in which an Attorney General witness “provided testimony identifying serious concerns about whether Kentucky Power was utilizing its resources efficiently.”⁶⁰

The Attorney General also argued that Kentucky Power has produced

[N]o evidence in the record that reliability will suffer if the request for a rate increase is denied. Kentucky Power is earning a profit. Even if it were to earn less of a profit, there are still sufficient funds to operate the utility and provide service at its current level. Lower profits do not cause reliability issues.⁶¹

The Commission has closely examined the Attorney General’s witnesses’

⁵⁶ Attorney General’s Post-Hearing Brief at 5.

⁵⁷ Attorney General’s Post-Hearing Brief at 3.

⁵⁸ Attorney General’s Post-Hearing Brief at 3.

⁵⁹ Attorney General’s Post-Hearing Brief at 4.

⁶⁰ Attorney General’s Post-Hearing Brief at 5, citing Case No. 2021-00370, *Electronic Investigation of the Service, Rates, and Facilities of Kentucky Power Company* (Ky. PSC Sept. 15, 2021), Order at 3.

⁶¹ Attorney General’s Post-Hearing Brief at 8.

testimony, as well as the arguments supplied in the Attorney General's post-hearing brief, which includes positions in opposition to the Attorney General's own witnesses' sponsored testimony.⁶² Kentucky Power's customers made ardent and heartrending pleas to oppose any rate increase as part of the written public comments and in-person spoken public comment meetings in this case, and those comments cannot be ignored. It is clear that the ratepayers in Kentucky Power's service territory are some of the poorest in the country and are experiencing a high energy burden. While the Commission respects the Attorney General's advocacy for Kentucky Power customers and is sympathetic to the situation of many of Kentucky Power's customers, the Commission must perform its statutory role to balance sufficient expense recovery to supply safe and adequate service. The Commission finds that, under the circumstances, a broad refusal to allow Kentucky Power to recover any of its increased expenses or return on investments made since its last rate case would be contrary to Kentucky law and unreasonable. KRS 278.030(1) states that "[e]very utility may demand, collect and receive fair, just and reasonable rates for the services rendered or to be rendered by it to any person." The Kentucky Supreme Court "has equated an unjust and unreasonable rate to the confiscation of utility property" and has "declared that rates established by a regulatory agency must enable the utility to operate successfully and maintain its financial integrity in order to meet the just and reasonable non-confiscatory tests."⁶³ Kentucky Power has provided evidence regarding the minimum revenue requirement it asserts as

⁶² Direct Testimony of Lane Kollen at 4, supporting a rate increase based on a minimum revenue requirement increase of \$52.603 million.

⁶³ *Pub. Serv. Comm'n v. Dewitt Water Dist.*, 720 S.W.2d 725, 730 (Ky. 1986), citing *Commonwealth ex rel. Stephens v. S. Cent. Bell Tel. Co.*, 545 S.W.2d 927 (Ky. 1976). The opinion in *Stephens* (at 930–931) also set forth that a utility is entitled to a reasonable return on its investment.

necessary to maintain its financial integrity;⁶⁴ as detailed in this Order, the Commission is charged with reviewing that evidence and determining what rates are reasonable. The Commission has only completely denied a rate increase when a utility has failed to meet its evidentiary burden by providing incomplete or demonstrably incorrect financial information such that fair, just and reasonable rates could not be determined,⁶⁵ which the Commission does not find occurred in this case.

Kentucky Power's territory is plagued by economic difficulties. It has no control over customer density and general topography that can lead to higher costs to extend, operate, and maintain service to customers. Nonetheless as the monopolistic electric utility granted an exclusive territory, Kentucky Power has a duty to the customers of the territory to provide safe, reliable and sufficient service at reasonable prices. As discussed in more detail below, the Commission takes the Attorney General's allegations of Kentucky Power's "poor planning and management" and request that a management audit be performed seriously.⁶⁶ However, the record in this case does not include evidence that every adjustment sought by Kentucky Power is the result of errors in planning, management, or execution. Moreover, the record does not support a finding that that every adjustment or change is unlawful. Absent such evidence, KRS 278.030(1) and case law interpreting the statute are clear; Kentucky Power is entitled to recover its costs and a reasonable return.

⁶⁴ Hearing Testimony of Tanner S. Wolffman (Wolfram Hearing Testimony), HVT of the Jan. 14, 2026 Hearing at 11:28:33–11:29:53. See also Kentucky Power Reply Brief at 9–10.

⁶⁵ See Case No. 2024-00252, *Electronic Application of Navitas KY NG, LLC for an Alternative Rate Filing Pursuant to 807 KAR 5:076* (Ky. PSC Mar. 26, 2025), Order.

⁶⁶ Attorney General's Post-Hearing Brief at 17.

MOTION TO ACCEPT SETTLEMENT

The Signatory Parties filed a motion to accept the Settlement Agreement concurrent with filing the Settlement Agreement into the record,⁶⁷ and filed post-hearing briefs in support of the Settlement Agreement.⁶⁸ The Attorney General did not participate in negotiating the Settlement Agreement, but sought in its post-hearing brief the following modifications if the Commission were to accept it: (1) adoption of all adjustments set forth in the Attorney General/KIUC's witness testimony; (2) adjustment of Kentucky Power's capital structure to reduce equity; (3) reduction of ROE to 8.9 percent; (4) removal of incidental gas losses from base rates and using a \$0 baseline for recovery of these losses in Tariff P.P.A.; (5) and adjustment of rate base to remove Construction Work in Progress (CWIP) balances not subject to Allowances for Funds Used During Construction (AFUDC).⁶⁹ These recommended modifications made by the Attorney General are discussed below as part of the overall analysis of the case.

The Commission finds the use of the DTL credits in the Settlement Agreement to be compelling, but overall finds that the Settlement Agreement cannot be accepted as presented. The Commission's total modifications result in a revenue requirement below the amount sought in the Settlement Agreement. However, as discussed below, the Commission finds that DTL Credits should be reduced by the difference in the revenue requirement proposed in the Settlement Agreement and the modified revenue requirement. This will avoid reducing Kentucky Power's revenue below the level it needs

⁶⁷ Motion to Accept Settlement (filed Jan. 9, 2026).

⁶⁸ KIUC's Post-Hearing Brief at 2–6; Kentucky Power's Post-Hearing Brief at 13–32; KYSEIA's Post-Hearing Brief at 3–6.

⁶⁹ Attorney General's Post-Hearing Brief at 9–11.

to continue to maintain reliable service while avoiding credit impacts that could arise from the use of additional credits and would have the potential to raise customer costs in the future. Therefore, as will be explained in detail below, the Commission approves the proposed Settlement Agreement with modifications.

ANALYSIS AND FINDINGS

Having reviewed the evidence and being sufficiently advised, the Commission has determined that certain adjustments to the rates proposed in Kentucky Power's application and agreed to by Signatory Parties to the Settlement Agreement are necessary. These adjustments are discussed in greater detail below. Allowance of any pro forma adjustment not discussed herein should not be construed to serve as precedent.

TEST PERIOD

Kentucky Power proposed the 12-month period ending May 31, 2025, as the test period for determining the reasonableness of its proposed rates.⁷⁰ None of the intervenors contested the use of this period as the test period. Pursuant to 807 KAR 5:001, Section 16(a)(1), Kentucky Power is limited to adjustments for known and measurable changes to the historical test period.

The Commission finds that it is reasonable to use the 12-month period ending May 31, 2025, as the test period in this case.

VALUATION

Pursuant to KRS 278.290(1), the Commission is empowered to "ascertain and fix

⁷⁰ Application at 6.

the value of the whole or any part of the property of any utility,” and in doing so is given guidance by the legislature “in establishing value of utility property in connection with rates,” and the Commission must “give due consideration” to a number of factors, including capital structure, original cost, and “other elements of value recognized by law” in order to ascertain the value of any property under KRS 278.290 “for rate-making purposes.”⁷¹ In its application, Kentucky Power proposed to use the rate base method, utilizing a rate base of \$1,872,259,310 and Rate of Return of 7.5740 percent, to calculate its revenue requirement and required increase.⁷² The Commission has weighed the evidence filed in the case and finds that Kentucky Power’s base rates should be based on a rate base of \$1,726,910,581.

Line No	Description	Jurisdiction Test Period Amount (KP Adjusted)	Adjustments	Commission Pro Forma Adjusted Amount
1	Electric Plant in Service - Original Cost	\$ 2,978,898,391	\$ (68,465,900)	\$ 2,910,432,491
2	Accumulated Provision for Depreciation & Amortization	(1,024,100,056)		(1,024,100,056)
3	Net Utility Plant in Service	1,954,798,335	(68,465,900)	1,886,332,435
4	Electric Plant Held for Future Use	801,671		801,671
5	Prepayments	1,432,086		1,432,086
6	Materials & Supplies	89,956,880	(12,257,367)	77,699,514
7	Cash Working Capital	(60,772,165)		(60,772,165)
8	Construction Work in Progress (excludes AFUDC in CWIP)	158,784,862		158,784,862
9	Customer Advances & Deposits & Other	(27,092,403)	(10,000,000)	(37,092,403)
10	Accumulated Deferred Income Taxes	(245,649,956)	(54,625,462)	(300,275,418)
11	Total Rate Base	\$ 1,872,259,310	\$ (145,348,729)	\$ 1,726,910,581

RATE BASE

Net Operating Loss Carryforward Deferred Tax Liabilities (DTLs) and Assets (DTAs)

⁷¹ *National Southwire Aluminum Co. v. Big Rivers Elec.*, 785 S.W.2d 503, 512 (Ky. App. 1990).

⁷² Application, Section V, Exhibit 1, Schedules 1, 2, and 4.

Kentucky Power proposed two pro forma rate base adjustments to include deferred tax assets (DTAs) that allegedly arose from net operating loss carryforwards (NOLC). Specifically, Kentucky Power included a rate base increase of \$44.950 million in NOLC DTAs allegedly associated with deferred tax liabilities (DTLs) arising from accelerated tax depreciation and about \$9.675 million in NOLC DTAs allegedly associated with excess DTLs arising from accelerated tax depreciation (hereinafter, the former will be referred to as “NOLC DTA” and the latter will be referred to as “Deficient NOLC DTA”).⁷³ The NOLC DTA and Deficient NOLC DTA adjustments to rate base resulted in an increase in the test year revenue requirement in the amount of \$4,994,726.⁷⁴ Kentucky Power also proposed to amortize the Deficient NOLC DTAs, which would reduce the offset provided by the amortization of its excess ADIT through Tariff F.T.C.⁷⁵

In Case No. 2023-00159, Kentucky Power’s last rate case, it proposed a similar adjustment adding significant amounts of NOLC DTAs and Deficient NOLC DTAs from previous years into rate base. It also similarly proposed to amortize the Deficient NOLC DTA associated with excess ADIT through Tariff F.T.C.⁷⁶ Kentucky Power and certain intervenors entered into a settlement in that rate case, approved by the Commission with modifications, that removed the effects of the NOLC DTAs from the revenue requirement but allowed Kentucky Power to book a regulatory asset for the amounts that would have been in rates to be amortized if and when Kentucky Power received an Internal Revenue

⁷³ Direct Testimony of David A. Hodgson (filed Aug. 29, 2025) (Hodgson Direct Testimony) at 10–11.

⁷⁴ Hodgson Direct Testimony at 10-11; *see also* Kollen Direct Testimony at 18 (discussing the revenue requirement effect of the removal of the rate base adjustments).

⁷⁵ Hodgson Direct Testimony at 11.

⁷⁶ Kollen Direct Testimony at 9–18; Case No. 2023-00159, Jan. 19, 2024 Order at 14.

Service (IRS) Private Letter Ruling (PLR) supporting its position.⁷⁷ Kentucky Power did not propose to include the amortization of that regulatory asset in base rates here, because it has not yet received the PLR. However, it sought to amend its Tariff F.T.C. to allow that regulatory asset to be amortized through that tariff when it receives its PLR.

Pursuant to 26 U.S.C.A. § 168(f)(2), the IRS will prohibit a utility from using accelerated depreciation in calculating its federal taxes “if the [utility] does not use a normalized method of accounting.” Federal normalization rules generally require that a utility use book depreciation when establishing tax expense for cost-based rates despite using accelerated federal tax depreciation to determine tax liability.⁷⁸ Normalization rules then allow the deferred tax liabilities (DTLs) that arise from those book-tax timing differences to be included as an offset to the rate base when setting cost-based rates to reflect the cost free-capital arising from that temporary difference. However, the IRS has indicated that, to the extent DTLs offset rate base to reflect the zero-cost capital arising from the accelerated tax depreciation, associated NOLC DTAs attributable to accelerated depreciation should be included in rate base to reflect the extent to which DTLs were not able to offset tax expense.⁷⁹

Kentucky Power does not dispute that it has no net operating loss carryforwards, and therefore, no actual NOLC DTAs to include in rate base. Rather, Kentucky Power files its federal taxes as part of a consolidated return with other AEP affiliates, which collectively did not have any net operating loss carryforwards during the relevant periods.

⁷⁷ Case No. 2023-00159, Jan. 19, 2024 Order at 17.

⁷⁸ See 26 U.S.C.A. § 168(i)(9)(A).

⁷⁹ See Case No. 2021-00214, *Electronic Application of Atmos Energy Corporation for an Adjustment of Rates* (Ky. PSC June 24, 2022), Order at 9–13.

However, Kentucky Power alleged that if its standalone federal income taxes were calculated based on a standalone return that it would have had net operating loss carryforwards and corresponding NOLC DTAs and Deficient NOLC DTAs. Kentucky Power further alleged that federal normalization rules required the Commission to include those imputed NOLC DTAs and Deficient NOLC DTAs in rate base when setting rates.⁸⁰

Kentucky Power cited IRS PLRs obtained by affiliates in support of its argument that federal normalization rules required its proposed NOLC DTA and Deficient NOLC DTA adjustments. Those private letter rulings generally found that reducing a utility's NOLC DTAs or Deficient NOLC DTAs calculated on a stand-alone return basis and attributable to accelerated depreciation to reflect the utilization of those NOLC DTAs based on the taxable income of an affiliate on a consolidated return would violate federal normalization rules and that certain accounting treatments that had a similar effect would also violate the federal normalization rules.⁸¹

Attorney General and KIUC witness, Lane Kollen (Kollen), indicated that the position taken by the IRS with respect to other AEP affiliates in the PLRs relied on by Kentucky Power is incorrect and that Kentucky Power's inclusion of the DTAs before it received a PLR from the IRS is inconsistent with the settlement and decision in Case No. 2023-00159.⁸² Kollen asserted that other state commissions have recently opposed the position the IRS took in other PLRs supporting Kentucky Power's position and have made

⁸⁰ Hodgson Direct Testimony at 10.

⁸¹ Hodgson Direct Testimony at 13-14.

⁸² Kollen Direct Testimony at 9-18, citing to Case No. 2023-00159, Jan. 19, 2024 Order at 16-18.

filings with the IRS to explain the issues with their analyses.⁸³ Kollen also indicated that the NOLC DTAs and Deficient NOLC DTAs should be removed from rate base pending Kentucky Power obtaining a PLR consistent with the settlement in the last case.⁸⁴ Kollen argued that removal of the NOLC DTA and Deficient NOLC DTA from rate base would result in about a \$4.11 million and \$0.885 million reduction to the base revenue requirement.⁸⁵

In the event the Commission, by this Order, did not remove the NOLC DTAs from rate base as a whole, Kollen indicated that Kentucky Power's calculation of the NOLC ADIT balance would be incorrect and inconsistent with the method Kentucky Power proposed in Case No. 2023-00159.⁸⁶ Kollen also argued that under either scenario there is no Deficient NOLC DTA that should be allocated to excess ADIT, and therefore, no Deficient NOLC DTAs should be included in rate base or amortized in operating expenses even if the Commission does not require Kentucky Power to wait for a favorable PLR before including the revenue requirement effects of the DTAs.⁸⁷

On rebuttal, Kentucky Power argued that the Order in Case No. 2023-00159 only applied to the regulatory asset created by the deferral of amounts in that case and did not require it to defer the revenue requirement effects of its proposed NOLC DTA adjustments

⁸³ Kollen Direct Testimony at 17.

⁸⁴ Kollen Direct Testimony at 17–18.

⁸⁵ Kollen Direct Testimony at 41–42.

⁸⁶ Kollen Direct Testimony at 18–22.

⁸⁷ Kollen Direct Testimony at 22–29.

indefinitely, including in future base rate cases.⁸⁸ Kentucky Power also argued that PLRs received for affiliate companies all agreed with Kentucky Power's interpretation of the normalization rules.⁸⁹ Kentucky Power stated that Kollen's assertions that the NOLC DTA is overstated were incorrect because Kentucky Power used the "with and without" method to determine the amount attributable to accelerated depreciation.⁹⁰ Kentucky Power stated that the "with and without" method is the only method accepted by the IRS to ensure that no amount of ADIT attributable to accelerated depreciation is excluded from the NOLC DTA.⁹¹ Kentucky Power stated that Kollen's proposed adjustment to the amount of the NOLC DTA did not use the "with and without" method, and therefore, was flawed.⁹²

In the Settlement Agreement, the Signatory Parties proposed to continue to defer revenue requirement effects of the NOLC DTA and Deficient NOLC DTA adjustment, until Kentucky Power receives a PLR ruling or other guidance from the IRS verifying Kentucky Power's position regarding the NOLC. With respect to the mechanism for including the effects of the NOLC DTAs in rates, the Settlement Agreement stated:

Upon receipt of a private letter ruling or other guidance from the Internal Revenue Service verifying the Company's position regarding the NOLC, Kentucky Power shall notify the Parties, and the NOLC Regulatory Asset shall be recovered through the Federal Tax Change Tariff ("Tariff F.T.C."), with the Current NOLC Revenue Requirement. Upon such circumstances, Kentucky Power will make a filing with the

⁸⁸ Rebuttal Testimony of David Hodgson (Hodgson Rebuttal Testimony) (filed Dec. 22, 2025) at 3-4.

⁸⁹ Hodgson Rebuttal Testimony at 4.

⁹⁰ Hodgson Rebuttal Testimony at 4-5.

⁹¹ Hodgson Rebuttal Testimony at 5.

⁹² Hodgson Rebuttal Testimony at 10.

Commission to recover the NOLC Regulatory Asset and the Current NOLC Revenue Requirement through Tariff F.T.C. The Signatory Parties reserve their rights to make recommendations regarding the calculation of the NOLC Regulatory Asset and the amortization period of the accrued NOLC Regulatory Asset. The Current NOLC Revenue Requirement will be collected through Tariff F.T.C. until such time that the NOLC is reflected in base rates. Additionally, upon verification of the Company's position, the Company will adjust the excess deferred income tax regulatory liability to reflect the deficient deferred income taxes related to the stand-alone NOLC.⁹³

In its post-hearing brief, the Attorney General argued that NOLC regulatory asset referred to in the settlement agreement is dependent on the underlying calculations of the NOLC DTA and the Deficient NOLC DTA.⁹⁴ The Attorney General asserted that:

The Commission should modify this provision of the Settlement Agreement to adopt Mr. Kollen's quantifications of the two DTAs and to direct the Company to recalculate the NOLC regulatory asset to reflect the reductions in the two DTAs. In the alternative, the Commission should modify this provision of the Settlement Agreement to expressly state that the quantifications of the NOLC DTA and the deficient NOLC DTAs, as well as the related NOLC regulatory asset (for the return on both NOLC DTAs and the amortization of the deficient NOLC DTA), will be reviewed in a future proceeding after an IRS Private Letter Ruling is received.⁹⁵

The Attorney General asserted that the three amounts are interconnected.⁹⁶

As noted above, there is no dispute that Kentucky Power does not have any NOLC in fact. The NOLC either never existed due to the taxable income reflected on AEPs consolidated return or was fully used if it existed to offset tax expense on Kentucky

⁹³ Wolfram Settlement Testimony, Exhibit TSW-S1 at 5.

⁹⁴ Attorney General's Post-Hearing Brief at 13.

⁹⁵ Attorney General's Post-Hearing Brief at 13.

⁹⁶ Attorney General's Post-Hearing Brief at 13.

Power's consolidated return. Moreover, prior to Kentucky Power's rate case filing in Case No. 2023-00159, Kentucky Power generally calculated NOLCs for ratemaking purposes using a standalone allocation method in which NOLC arising from a particular affiliate's operations would be allocated to that affiliate if it existed but NOLC would not be imputed on a standalone return basis where it did not exist.⁹⁷ This methodology has been used by FERC for decades.⁹⁸ Kentucky Power's only argument for changing that methodology is its assertion that federal normalization rules now require use of the standalone return method.⁹⁹

The PLRs obtained by Kentucky Power's affiliates support Kentucky Power's position, but they are not binding on Kentucky Power or the Commission.¹⁰⁰ Further, the relevant federal normalization statutes and regulations have not materially changed in decades, so it is unclear why the IRS has now determined that a ratemaking treatment that has been used for decades now violates decades old normalization statutes and regulations. As other states pointed out in the attachments provided by Kollen, there are

⁹⁷ See Kollen Direct Testimony at 14 (noting that Kentucky Power first proposed this treatment in Case No. 2023-00159); *see also* Case No. 2023-00159, (Ky. PSC Jan. 19, 2024), Order at 14-15 (discussing the previous treatment of NOLC); Hodgson Direct Testimony, Exhibit DAH-1 at 7-9 (discussing the difference between the separate return method and the stand-alone allocation method, or stand along method, of calculating NOLC DTAs).

⁹⁸ See *AEP Oklahoma Transmission Company, Inc., et. al. v. Public Service Company of Oklahoma*, 186 FERC P 61034, 2024 WL 202232, paragraph 22–52 (F.E.R.C. Jan. 18, 2024) (discussing the historic use of the stand-alone allocation method in rejecting AEP's proposed stand-alone return approach) *but see* *AEP Oklahoma Transmission Company, Inc., et. al. v. Public Service Company of Oklahoma*, 191 FERC P 61239, 2025 WL 1873206 (F.E.R.C. Jun. 30, 2025) (in which FERC reversed its January 18, 2024 decision and allowed the use of the stand-alone return method for protected NOLC DTAs after FERC determined that AEP obtained a PLR indicating that the treatment was required to avoid a normalization violation).

⁹⁹ See Hodgson Direct Testimony at 10–15, discussing the reasoning for the adjustment.

¹⁰⁰ See Hodgson Direct Testimony, Exhibit DAH-1 at 5 (“This ruling is directed only to the taxpayer requesting it. Section 611 0(k)(3) of the Code provides that it may not be used or cited as precedent.”).

also valid arguments that the positions taken by the IRS in the PLRs obtained by AEP affiliates are flawed.¹⁰¹ Moreover, on a related issue regarding utility commissions' treatment of NOLC DTAs, the IRS recently softened its position after initially taking a very strict position, such that there is a possibility that the questions it has received on this issue from other states or additional review of this issue will change its position.¹⁰² Thus, the Commission does not believe that including the revenue requirement effects of the imputed NOLC DTAs and Deficient NOLC DTAs based on the PLRs AEP received for affiliates would be reasonable.

However, the loss of accelerated federal tax depreciation would be detrimental to customers such that the Commission would not want to take a position that materially risked that outcome, regardless of the merits of the IRS's reasoning. Rejecting a PLR specific to Kentucky Power that found failure to include the revenue requirement effects of NOLC DTAs calculated on standalone return basis would result in a normalization violation would risk losing the benefit of accelerated depreciation. The Commission finds that allowing Kentucky Power to continue to defer the revenue requirement effects of the NOLC DTA and Deficient NOLC DTA, without carrying costs, pending the receipt of the

¹⁰¹ See Kollen Direct Testimony, Exhibit LK-9 (in which the Louisiana Commission, in a request to the IRS, discusses issues with the PLRs, the IRS's position that the stand alone allocation method violates the so called Consistency Rule); Kollen Direct Testimony, Exhibit LK-10 (in which the Oklahoma Commission raised issues with the PLRs with the IRS in an August 25, 2025).

¹⁰² For instance, beginning in about 2015, the IRS issued a series of private letter rulings in which it indicated that the so called "with or without method" (also known as the "last dollar deducted method") must be used when determining the extent to which NOLC DTAs should be attributed to accelerated tax depreciation in order to avoid a normalization violation. See, e.g., Private Letter Ruling 2015-19021, 2015 WL 2148898 (issued May 8, 2015). However, in 2020, the IRS issued Revenue Procedure 2020-39 stating, in relevant part, that "there is not one single methodology provided for determination of the portion of an NOLC that is attributable to depreciation," and that "[r]egulating commissions have expertise in this area, and any reasonable method for determining the portion of the NOLC attributable to depreciation should generally be respected provided such method does not clearly violate normalization requirements."

requested PLR and a determination from the Commission regarding the inclusion of the revenue requirement effects and deferred amounts in rates is reasonable and should be approved.

However, as noted by the Attorney General, the amount of the DTAs, and therefore, the amount of the deferrals, both arising from this and the previous case, are explicitly in dispute. While the Commission has concerns about Kentucky Power's methodology, specifically, the manner in which it proposes to convert unprotected DTAs to protected DTAs based on accelerated depreciation in years in which the DTAs were not accrued, the Commission finds that it would be most efficient to address those issues after Kentucky Power receives the guidance it has requested and seeks to include the deferrals or DTAs in rates in the future, because there may be additional information available at that time that affects the interpretation of the normalization rules.

With respect to the mechanism for including the revenue requirement effects associated with the NOLC DTA in rates, the Commission generally agrees with the position taken in the Settlement Agreement that allowing more immediate recovery through a mechanism such as Tariff F.T.C. would mitigate the risk of the IRS imposing a penalty, and therefore, would generally be reasonable. However, as discussed above, even if the PLR received by Kentucky Power and other information available at that time plainly indicates that the revenue requirement effects of the NOLC DTAs should be included, the amount of the DTAs would still be at issue. Any request to include the revenue requirement effects in the Tariff F.T.C. or any other mechanism would involve more than a simple tariff update or report. Thus, to the extent Kentucky Power, upon receipt of its requested PLR, seeks to implement rates in Tariff F.T.C. or through some

other mechanism to recover the revenue requirement effects of the NOLC DTA and Deficient NOLC DTA and the related deferred amounts, the Commission finds that Kentucky Power should file an application proposing such recovery including the proposed amount of such recovery, proposed tariff sheets, and the PLR along with any other evidence necessary to support its position, and finds that Kentucky Power should provide notice to the parties in this case along with any other required notice when making such an application. The Commission will consider any evidence presented in any case initiated by such a filing, including the PLR obtained by Kentucky Power, along with the evidence presented in this case, but makes no commitment herein to be bound by any particular piece of evidence. Further, nothing herein should be construed as preventing Kentucky Power from waiting until its next base rate case to seek recovery of such amounts as it may be more efficient to do so depending on when it receives a PLR.

Having reviewed the record and being otherwise sufficiently advised, the Commission finds, consistent with Kentucky Power's most recent rate case, that the revenue requirement effects of the NOLC DTAs and Deficient NOLC DTAs, including the amortization of the Deficient NOLC DTAs should be excluded from rates pending Kentucky Power's receipt of a contrary PLR. The Commission further finds that Kentucky Power should be permitted to defer those revenue requirement effects for future rate recovery without carrying costs as discussed in more detail above. If Kentucky Power receives a PLR that it contends requires it to be permitted to recover those amounts to avoid a normalization violation, it may request such recovery in a future base rate case or in an application to modify its Tariff F.T.C. or some other mechanism for such recovery. While the Commission does have some questions regarding the manner in which

Kentucky Power calculated the NOLC DTAs and Deficient NOLC DTAs, the Commission finds that it would be inefficient to address Kollen's arguments regarding the overstatement of the DTAs until Kentucky Power receives a favorable PLR and makes a filing regarding the same. The Commission will address the effects of PLR and the calculation of the DTA amounts and resulting deferrals when Kentucky Power makes such a filing.

Based on the foregoing, the Commission accepts the recommended revenue requirement reductions of \$4.11 million and \$0.885 million proposed by Kollen. These adjustments are the same as those reflected in the Settlement Agreement.

Material and Supplies (M&S)

Kentucky Power included \$68.140 million in fuel/allowances in rate base,¹⁰³ and \$21.816 million in non-fuel M&S inventories in rate base.¹⁰⁴ However, Kentucky Power temporarily finances those expenditures, in part, through delayed payments to its fuel and M&S vendors recorded as accounts payable. Attorney General/KIUC witness Kollen explained that a portion of the cost of those inventories is always financed at no cost to Kentucky Power based on the accounts payable for those categories of cost, because even though Kentucky Power pays invoices and uses the fuel and supplies, it is constantly accruing new payables in a process that continually repeats itself.¹⁰⁵

Specifically, Kollen indicated that vendors provided cost-free financing for \$9.996 million of the fuel/allowance inventories and \$2.262 million of the non-fuel M&S

¹⁰³ Application, Section V, Exhibit 1 (Schedule 4) at 14, line 234.

¹⁰⁴ Application, Section V, Exhibit 1 (Schedule 4) at 14, Lines 235-238.

¹⁰⁵ Kollen Direct Testimony at 8.

inventories included in rate base based on the accounts payable for those categories.¹⁰⁶ Kollen recommended subtracting accounts payable in those amounts from rate base to reflect the vendors cost free financing.¹⁰⁷ Kollen indicated that the removal of the fuel/allowance inventories financed by vendors would reduce the revenue requirement by \$0.914 million and that removal of the non-fuel M&S inventories would reduce the revenue requirement by \$0.207 million.¹⁰⁸

Kentucky Power responded that accounts payable are short-term in nature, and therefore, would be financed at the weighted average cost of capital by the time new rates resulting from this case are implemented in 2026.¹⁰⁹ However, the Settlement Agreement includes Kollen's proposed adjustment.

The Commission finds that Kollen's proposed adjustment is reasonable and should be accepted. The evidence indicates that Kentucky Power is effectively receiving no cost financing as alleged by Kollen for the fuel/allowance inventories and the M&S inventories to the extent of its account payables. Further, while the specific vendor invoices that were outstanding during the test year may have been paid, there will always be a percentage of invoices outstanding as asserted by Kollen, and therefore, there will always be a going level of expenditures that are outstanding and financed at no cost. The value of cost-free vendor financing was also removed from revenue requirement in Kentucky Power's last

¹⁰⁶ Kollen Direct Testimony at 8.

¹⁰⁷ Kollen Direct Testimony at 8.

¹⁰⁸ Kollen Direct Testimony at 9.

¹⁰⁹ Rebuttal Testimony of Brian R. Ciborek (filed Dec. 22, 2025) (Ciborek Rebuttal Testimony) at R3.

rate case.¹¹⁰ Thus, as proposed by Kollen, the Commission finds that the revenue requirement should be reduced by \$914,000 to reflect the removal of the accounts payable for fuel/allowances and that the revenue requirement should be further reduced by \$207,000 to reflect the accounts payable for M&S inventories. These adjustments are the same as those reflected in the Settlement Agreement.

Turbine Reservation Fee

Kentucky Power proposed a pro forma adjustment to allow it to earn a return on a one-time \$10 million reservation fee for a planned 450 MW combustion turbine (CT) for which a CPCN has not yet been sought.¹¹¹ Kentucky Power asserted that this fee was necessary in order to place a new generating facility into effect by 2031.¹¹²

The Commission finds that Kentucky Power's proposed pro forma adjustment to allow for a return on the reservation for this generating unit is unreasonable and should be denied. The Uniform System of Accounts allows for expenditures that would be capitalized as part of a future project to be held in preliminary accounts prior to commission approval.¹¹³ Allowing new generation investments to be recovered before a CPCN application is approved defeats the purpose of CPCNs and could result in ratepayers paying for infrastructure that is never built. This should not be recovered at the very least until a CPCN is approved.¹¹⁴ The removal of the \$10 million deposit from

¹¹⁰ Case No. 2023-00159, Jan. 19, 2024 Order at 21–22.

¹¹¹ Wolfram Direct Testimony at 38.

¹¹² Kentucky Power's Response to Staff's Second Request, Item 29(c–d).

¹¹³ See Kentucky Power's Response to Staff's Fourth Request, Item 6.

¹¹⁴ Even then there may be other accounting standards that limit the ability to include these amounts in rate base before the unit is operational, but there is no need to address that treatment one way or the other here.

rate base results in a decrease to the revenue requirement of \$914,760 using Kentucky Power's application grossed-up WACC of 9.14 percent.¹¹⁵

Vegetation Management

Kentucky Power participates in two vegetation management programs to protect its distribution infrastructure. Kentucky Power indicated that the Trees Inside the Right-of-Way (TIR) program is a five-year cycle-based program that removes vegetation within Kentucky Power's rights-of-way and that the Trees Outside the Right-of-Way (TOR) program involves widening existing rights-of-way and identifying and removing trees located outside of the right-of-way that threaten distribution lines.¹¹⁶

In Case No. 2009-00459, the Commission approved a settlement agreement as part of a general application for an increase in rates. The Commission cited a "recognition of the need for increased reliability expenditures in Kentucky Power's service territory" as "a very important factor in the Commission's acceptance of the Agreement."¹¹⁷ According to Kentucky Power's testimony, this increase of \$10 million to \$17,237,965 would enable it to achieve a four-year cycle for performing vegetation management over its entire service territory, which would take seven years to achieve. In Case No. 2014-00396, Kentucky Power requested approval for additional annual reliability spending of \$10,655,900 and further projected that the clearing of every circuit would be completed by the end of 2018 due to significantly underestimating the amount of vegetation in and

¹¹⁵ Direct Testimony of John Cullop (filed Aug. 29, 2025) (Cullop Direct Testimony) at 6.

¹¹⁶ Direct Testimony of Michele Ross (Ross Direct Testimony) at 15.

¹¹⁷ Case No. 2009-00459, *Application of Kentucky Power Company for a General Adjustment of Electric Rates* (Ky. PSC June 28, 2010), Order at 9.

around its energized facilities.¹¹⁸ As part of the settlement in that case, Kentucky Power proposed implementing a five-year maintenance clearing cycle, and expected to reduce annual Vegetation Management Plan expenditures to approximately \$16 million beginning in 2019. As a result of this change, Kentucky Power was to reduce rates beginning in 2019 and until the first base-rate case after June 30, 2019.¹¹⁹

Since 2017, the vegetation management program spending has been as follows:¹²⁰

Year	TIR	TOR
2017	\$ 27,840,992	\$ -
2018	21,779,501	5,800,828
2019	21,303,373	11,291,140
2020	21,347,446	8,477,187
2021	21,847,587	6,843,116
2022	21,599,427	6,694,133
2023	21,491,040	6,731,375
2024	22,217,123	4,631,694

Notably, as reflected in that chart, Kentucky Power treated all its vegetation management spending in 2017 as being part of its TIR program and as an annual operating expense. However, in 2018, Kentucky Power began characterizing those portions of its vegetation management expenditures that it identified as part of its TOR program as a capital expenditures. This would allow Kentucky Power to recover all TOR program expenditures through annual depreciation expense and carrying costs on the TOR program

¹¹⁸ Case No. 2014-00396, *Application of Kentucky Power Company for: (1) A General Adjustment of its Rates for Electric Service; (2) An Order Approving its 2014 Environmental Compliance Plan; (3) An Order Approving Its Tariffs and Riders; and (4) an Order Granting All Other Required Approvals and Relief* (Ky. PSC June 22, 2015), Order at 75.

¹¹⁹ Case No. 2014-00396, June 22, 2015 Order at 77.

¹²⁰ Direct Testimony of Michele Ross (filed Aug. 29, 2025) (Ross Direct Testimony) at 16. The TOR program began in 2018.

expenditures.¹²¹ Kentucky Power stated that it capitalizes its TOR expenditures pursuant to FERC regulations.¹²²

Kentucky Power's test-year revenue requirement was based on plant in service that included all TOR expenditures through the end of the test year.¹²³ Kentucky Power's application proposed a pro forma adjustment to rate base to reflect the capitalization of an additional \$18 million in post-test-year TOR program expenditures.¹²⁴ Specifically, Kentucky Power proposed an adjustment to account for \$9.291 million in projected TOR expenditures from June 1, 2025 through December 31, 2025 and \$8.709 million in projected TOR expenditures from January 1, 2026 through May 31, 2026.¹²⁵

Prior to the Settlement Agreement, the Attorney General/KIUC's witness Randy A. Futral (Futral) recommended rejecting Kentucky Power's proposed pro forma adjustment to rate base associated with the post-test-year TOR spending, which Futral indicated would result in a \$2.233 million reduction in Kentucky Power's pro forma revenue requirement, representing a \$585,000 decrease in depreciation expense plus a \$1.646 million decrease in carrying costs.¹²⁶ This sum includes depreciation expense at Kentucky Power's proposed depreciation rate, carrying costs at Kentucky Power's

¹²¹ These expenditures are depreciated over 42 years for Electric Plant Account 365 and 50 years for Electric Plant Account 364 under the FERC USoA. See Kentucky Power's Response to Staff's Fourth Request, Item 5(b).

¹²² Kentucky Power's Response to Staff's Second Request, Item 31(c); Kentucky Power's Response to Staff's Fourth Request, Item 5(e).

¹²³ Ross Direct Testimony at 21. Kentucky Power included an adjustment to distribution plant for its proposed increases to the TOR program.

¹²⁴ Ross Direct Testimony at 21.

¹²⁵ Ross's Direct Testimony, Exhibit MR-4 at 4.

¹²⁶ Direct Testimony of Randy A. Futral (filed Nov. 17, 2025) (Futral Direct Testimony) at 9.

proposed WACC, and relevant gross-ups. Futral asserted that, because Kentucky Power chose a historical test year, it should not be permitted to cherry pick future capital expenditures to include as adjustments.¹²⁷

Kentucky Power disagreed that the TOR program expenditures outside of the test year were inappropriate to include in rate base; witness Wolfram stated in rebuttal testimony that 807 KAR 5:001, Section 16(5), expressly allows a utility to request pro forma adjustments for known and measurable changes to ensure fair, just, and reasonable rates based on a historical test year.¹²⁸ The Settlement Agreement included Futral's proposed adjustment of the pro forma test-year amount but also proposed deferrals related to TOR and TIR program expenditures as discussed in more detail below.

Although the Commission agrees that the selection of a historical test year does not forbid all adjustments, the Commission finds that several aspects of TOR program spending recovery proposals should be altered.

TOR Capitalization

The Commission notes that changes to plant in service projected to occur after rates are expected to be in effect or after the record is closed are not known and measurable.¹²⁹ Moreover, if a utility seeks to include some post-test-year plant additions

¹²⁷ Futral Direct Testimony at 9.

¹²⁸ Rebuttal Testimony of Tanner S. Wolfram (filed Dec. 22, 2025) (Wolfram Rebuttal Testimony) at R6–R7.

¹²⁹ See Case No. 2022-00432, *Electronic Application of Bluegrass Water Utility Operating Company, LLC for an Adjustment of Sewage Rates* (Ky. PSC Feb. 14, 2024), Order at 39 (“Further, it would be unreasonable to include forecasted plant additions as Bluegrass Water proposed while failing to account for other rate base changes such as the continue[d] accumulation of depreciation following the forecasted test year.”).

as pro forma adjustments, these adjustments raise questions regarding why they are reasonable without making other such changes—for instance, to accumulated depreciation, which would be easy to project for all plant based on depreciation rates. Despite generally agreeing with witness Futral’s reasoning, the Commission finds that making the adjustment proposed by Futral is unnecessary because, as discussed below, the Commission also finds that capitalizing the TOR expenditures is unreasonable and inconsistent with the applicable accounting standards, and therefore, finds that the TOR expenditures should be removed from rate base and should be treated as an annual operating expense.

Kentucky Power argued that TOR expenditures were permitted to be capitalized pursuant to FERC regulations. Specifically, Kentucky Power indicated that it was relying on 18 C.F.R. §101, Electric Plant Instructions No. 8(A), which states in relevant part:¹³⁰

The accounts for structures and improvements shall include the cost of all buildings and facilities to house, support, or safeguard property or persons, including all fixtures permanently attached to and made a part of buildings and which cannot be removed therefrom without cutting into the walls, ceilings, or floors, or without in some way impairing the buildings, and improvements of a permanent character on or to land. Also include those costs incurred in connection with the first clearing and grading of land and rights-of-way and the damage costs associated with construction and installation of plant.

However, that standard plainly indicates that it allows the capitalization of the first clearing and grading of land and rights-of-way, whereas the TOR program involves the clearing of trees outside existing rights-of-way. In fact, FERC recently ruled that this type of expense

¹³⁰ 18 C.F.R. §101, Electric Plant Instructions No. 8(A).

was not meant to be classified this way and was therefore ineligible for capitalization.¹³¹

In that FERC case, the California Public Utilities Commission (CPUC) protested Pacific Gas & Electric's (PG&E) capitalization of right-of-way expansion and clearing expenditures.¹³² As in the present case, PG&E characterized the vegetation clearing program at issue (Reliability ROW Expansion Program) as a new program, involving new clearing of vegetation via expansion of existing transmission lines' rights-of-way to prevent vegetation-caused outages. PG&E argued that this clearing was different in scope than routine vegetation management, was more similar to initial clearing of rights-of-way, and therefore was subject to capitalization as initial vegetation clearing is.¹³³ CPUC countered that the new program was no different than routine tree trimming on existing circuits, and should be expensed because the work was not associated with initial construction of plant assets.¹³⁴ FERC agreed with CPUC, finding that PG&E's classification of the Reliability ROW Expansion Program expense was inconsistent with applicable accounting practices, because the expansion program did not involve "first clearing and grading of land and rights-of-way" under 18 C.F.R. §101, Electric Plant Instructions No. 8(A).¹³⁵ FERC further held that

[S]uch activities, taking place after the initial clearing associated with construction of an asset, are considered maintenance expense, unless such activities result in a substantial addition to plant. The Commission has previously clarified that to qualify as a substantial addition, an item added

¹³¹ *Pacific Gas and Electric Company*, 189 FERC P 61021, 2024 WL 4778014 (Oct. 8, 2024).

¹³² 189 FERC P 61021 at 6.

¹³³ 189 FERC P 61021 at 7.

¹³⁴ 189 FERC P 61021 at 8.

¹³⁵ 189 FERC P 61021 at 8. Both CPUC and the Kentucky Commission are required to apply the FERC Uniform System of Accounts, 18 C.F.R. §101. See KRS 278.220; Calif. Public Utilities Code § 793.

to the cost of an in-service asset must extend the useful life of the asset beyond its original estimated useful life, or increase operating capacity or efficiency of the asset.¹³⁶ (citations omitted)

FERC determined that PG&E had not established that the Reliability ROW Expansion Program extended the useful life of the asset beyond its original estimated useful life, or increased operating capacity or efficiency of the asset.¹³⁷

The Commission, in the present case, finds that Kentucky Power has not established that the TOR program has extended the useful life of the asset beyond its original estimated useful life, or increased operating capacity or efficiency of the asset. Kentucky Power explained that the TOR program was intended to widen, remove, or trim certain at-risk trees outside the right-of-way to prevent them from falling on existing lines. While such clearing may prevent trees from falling and causing an outage, it does not involve any direct work on the lines, and therefore, does not support a finding that it extends the life or capacity of the lines, or that the effect on the lines is materially different than that of the TIR program. Thus, the Commission finds that Kentucky Power may not capitalize TOR expenditures, which would allow treatment of an operating expense as part of rate base for future recovery through depreciation rates with a return on the expenditures pending recovery.

Based on the above, the Commission finds that Kentucky Power should reclassify all TOR expenditures as an expense to FERC Account 571, Maintenance of Overhead Lines, and not under FERC Account 101, Electric Plant in Service. The previously

¹³⁶ 189 FERC P 61021 at 8.

¹³⁷ 189 FERC P 61021 at 8.

capitalized amounts were calculated using the 2018-2024 expenditures provided in Figure MR-5 and 2025 amounts provided in Exhibit MR-4¹³⁸ in the amount of \$54,178,819 as shown in the table below. An estimated Accumulated Depreciation was also included in the calculation to determine the net book value of the assets.

TOR Investments			
Year	Amount	Percent Depreciated	Accumulated Depreciation
2018	5,800,828	24.64%	1,429,324
2019	11,291,140	21.12%	2,384,689
2020	8,477,187	17.60%	1,491,985
2021	6,843,116	14.08%	963,511
2022	6,694,133	10.56%	706,900
2023	6,731,375	7.04%	473,889
2024	4,631,694	3.52%	163,036
2025	3,709,346	-	-
Total	<u>54,178,819</u>		<u>7,613,333</u>
Net Book Value	<u><u>46,565,486</u></u>		

The Commission finds the previous TOR investments through the end of the test year should be removed from rate base and recovered through a regulatory asset discussed below. At the grossed-up application WACC, the net \$46,565,486 reduction combined with the \$18,000,000 proposed capital increase results in a decrease to the revenue requirement of \$5,906,192. Depreciation Expense in the amount \$2,345,812 was also removed using the previously capitalized amount of \$54,178,819 combined with the \$18,000,000 proposed capital increase and calculated using the depreciation study rate of 3.250 percent.¹³⁹ This results in a grossed-up revenue requirement reduction of

¹³⁸ Ross Direct Testimony at 16.

¹³⁹ Direct Testimony of John Spanos (Spanos Direct Testimony), Exhibit JJS-1, Account 365, Overhead Conductors and Devices, at 241 of 271.

\$2,356,220 attributable to depreciation expense. As discussed below, because the TOR investments are not to be capitalized going forward, the Commission is including a provision to allow the previous seven-year average spend on the TOR program as an operating expense in the amount \$7,209,925. The grossed-up revenue requirement impact is an increase of \$7,241,915.

Regarding past TOR expenses treated as capital expenditures, the Commission finds that Kentucky Power should not be penalized by losing the principal balance of the capitalized amounts as of the end of the test year for its interpretation of 18 C.F.R. §101, Electric Plant Instructions No. 8(A) prior to the *Pacific Gas and Electric Company* decision. The Commission finds that Kentucky Power's existing TOR plant balance as of the end of the test year should be reclassified but that Kentucky Power should be permitted to record the net plant balance as of the end of the test year as a regulatory asset to be amortized over a 30-year period, without carrying costs. The annual amount of the amortization of that regulatory asset should be \$1,552,183 based upon amounts as of the end of the test year.¹⁴⁰ This results in a grossed-up revenue requirement increase of \$1,559,070. The net impact of the rate base reduction, depreciation expense adjustment, increase to O&M expenses, and the amortization of the regulatory asset results in an increase of \$538,573 to Kentucky Power's application as shown in the table below but will result in ratepayer savings in the future.

¹⁴⁰ \$46,565,486 / 30 = \$1,552,183

Description	Amount
Rate Base Rev Adj	\$ (5,906,192)
Depreciation Expense	(2,356,220)
Increase O&M Expenses	7,241,915
Reg Asset Amortization	1,559,070
Total	<u><u>\$ 538,573</u></u>

Amount of TOR Expense

Because the TOR program expenditures cannot be capitalized, the Commission must analyze them as an operating and maintenance (O&M) expense and analyze proposed increases as pro forma adjustments to O&M subject to the requirement that they are fair, just and reasonable and that adjustments are also known and measurable. The test-year TOR expenditure was \$7.203 million¹⁴¹ and during the seven years of the program prior to the filing of this application, the average annual expenditure was \$7.209 million.¹⁴² However, Kentucky Power intended to increase TOR expenditure to \$18 million for 2026 and \$25 million for 2027 through 2029.¹⁴³

At hearing, Kentucky Power witness Ross testified regarding the process for selecting distribution circuits for widening of rights-of-way.¹⁴⁴ Kentucky Power uses Customer Minutes of Interruption (CMI) as the metric for determining priority of circuits.¹⁴⁵ Kentucky Power monitors CMI on each circuit, which represents the cumulative outage

¹⁴¹ Kentucky Power’s Response to Staff’s Post-Hearing Request, Item 12(c).

¹⁴² Ross Direct Testimony at 16, Figure MR-5. Ross Direct Testimony, Exhibit MR-4, at 3.

¹⁴³ Ross Direct Testimony at 20–21; Exhibit MR-4 at 4.

¹⁴⁴ Hearing Testimony of Michele Ross (Ross Hearing Testimony), HVT of the Jan. 14, 2026 Hearing at 16:15:31–16:18:04.

¹⁴⁵ Ross Hearing Testimony, HVT of the Jan. 14, 2026 Hearing at 16:15:12–16:17:13.

minutes of all customers on the circuit for a period of time.¹⁴⁶ Circuits with the highest CMI have a combination of the greatest vegetation hazards and number of customers that are affected by these hazards.¹⁴⁷ Kentucky Power obtains expanded easements, clears vegetation, and the circuit is then moved to the TIR program for periodic clearing.¹⁴⁸

The TOR program began in 2018, and between 2018 and 2024, Kentucky Power has reported approximately 20 percent fewer total CMI on widened circuits.¹⁴⁹ The amounts spent on the TOR program during this time were subject to budget restraints, as TOR funding was derived from distribution budgets that were required to be allocated to multiple projects.¹⁵⁰ The proposed \$18 million capital expenditure is a budget dedicated only to the TOR program.¹⁵¹ Although witness Ross advocated for increasing TOR budgets, she acknowledged that at some point, the level of improvement in terms of CMI would no longer justify a \$25 million budget proposed for 2027 through 2029.¹⁵² If the circuits with the most CMI are prioritized, then each subsequent circuit cleared will necessarily result in fewer CMI avoided per dollar spent.¹⁵³ However, Ross did not believe any level of cost per CMI avoided should result in termination of the program.¹⁵⁴

¹⁴⁶ Ross Hearing Testimony, HVT of the Jan. 14, 2026 Hearing at 16:15:12–16:17:13.

¹⁴⁷ Ross Hearing Testimony, HVT of the Jan. 14, 2026 Hearing at 16:15:12–16:17:13.

¹⁴⁸ Ross Hearing Testimony, HVT of the Jan. 14, 2026 Hearing at 16:15:12–16:29:15.

¹⁴⁹ Ross Direct Testimony at 20, Figure MR-8.

¹⁵⁰ Ross Hearing Testimony, HVT of the Jan. 14, 2026 Hearing at 16:27:49–16:28:07.

¹⁵¹ Ross Hearing Testimony, HVT of the Jan. 14, 2026 Hearing at 16:27:49–16:28:07.

¹⁵² Ross Hearing Testimony, HVT of the Jan. 14, 2026 Hearing at 16:36:07–16:36:50.

¹⁵³ Ross Hearing Testimony, HVT of the Jan. 14, 2026 Hearing at 16:34:20–16:34:58.

¹⁵⁴ Ross Hearing Testimony, HVT of the Jan. 14, 2026 Hearing at 16:29:23.

Her hope was to expand the rights-of-way for every distribution circuit, regardless of CMI level.¹⁵⁵

The Commission agrees that expanding rights-of-way to clear additional vegetation that may endanger distribution lines is a worthy goal. During her testimony, Ross referenced the *Ike and Ice* report issued by the Commission in 2009, which stated:

Finding: A program to address hazardous trees outside electric utility ROWs has the potential to reduce weather-related outages.

Recommendation: All jurisdictional electric utilities should take steps to increase removal of such hazard trees and those steps are to be reported to the PSC as updates to utility vegetation management plans.¹⁵⁶

Distribution reliability concerns culminated in an Order in Administrative Case No. 2011-00450 requiring jurisdictional electric distribution utilities to report annual distribution reliability information.¹⁵⁷ However, the Commission must balance the TOR program benefits versus its cost in light of the economic burdens that Kentucky Power emphasized throughout the present case.

The Commission sought to determine how the proposed increase in TOR expense would affect customer outage hours prevented and distribution line repair costs avoided, but Kentucky Power declined to provide the information necessary for the Commission to evaluate the increased program on a cost-benefit analysis basis.¹⁵⁸ Upon request,

¹⁵⁵ Ross Hearing Testimony, HVT of the Jan. 14, 2026 Hearing at 16:29:23.

¹⁵⁶ IKE and ICE Report (Ky. PSC Nov. 19, 2009) at 3.

¹⁵⁷ Administrative Case No. 2011-00450, *An Investigation of the Reliability Measures of Kentucky's Administrative Jurisdictional Electric* (Ky. PSC May 30, 2013), Order at 7–9.

¹⁵⁸ Kentucky Power's Response to Staff's Second Request, Item 31(a)–(b).

Kentucky Power provided inflation adjusted storm damage costs since 2018,¹⁵⁹ but the Commission agrees with witness Ross that the irregularity of storm damage from year to year makes inflation adjusted storm damage costs a poor metric for determining distribution line repair costs avoided. As a result, Kentucky Power's position is that the benefits of the TOR program should be measured in CMI avoided.¹⁶⁰

In recognition of the necessity of the TOR program to address the concerns set forth in the Ike and Ice report and the final Order in Administrative Case No. 2011-00450, the CMI improvements from 2018 to 2024, and the costs incurred to achieve this benefit, the Commission finds that expenses incurred up to and including 2024 were reasonable. The Commission approves inclusion in base rates of the average annual TOR expense for 2018 through 2024 of \$7,209,924.¹⁶¹ However, the Commission finds that Kentucky Power has not met its burden to establish that TOR expense in excess of this amount would be fair, just and reasonable or represents a known and measurable adjustment. This represents a reduction from the proposed \$18 million expenditure for 2026 and \$25 million expenditure for the following three years to \$7,209,924 based on the average historical expenditures. This adjustment reverses Kentucky Power's proposed pro forma adjustment of \$18 million from the application, consistent with the adjustment recommended by Futral and accepted in the Settlement Agreement.

At hearing, witness Ross stated that the budget was based on the TIR program

¹⁵⁹ Kentucky Power's Response to Staff's Third Request, Item 17(c), Attachments 1 and 2.

¹⁶⁰ Kentucky Power's Response to Staff's Second Request, Item 31(a)–(b).

¹⁶¹ Kentucky Power's TIR expense was normalized over the 5-year clearing cycle, resulting in a decrease in revenue requirement. The Commission finds that an increase reflecting a similar normalization is appropriate for the TOR program.

budget.¹⁶² However, unlike the TIR budget, which after the initial clearing should remain approximately the same over time because of its cyclical nature, with incremental increases to keep up with inflation and additional clearing from TOR-expanded circuits, the TOR program is not cyclical. The benefits of new TOR clearing per amount spent will likely decrease as the priority circuits are cleared. This likelihood is supported by the fact that the initial TOR projects resulted in a 60 percent decrease in interruptions related to rights-of-way trees and vegetation,¹⁶³ compared to 20 percent cumulatively from the start of the program to the present application. Increasing the budget from the test-year amount of \$7.203 million¹⁶⁴ or the average spend of \$7.209 million¹⁶⁵ to \$18 million annually is unreasonable based on all of the program considerations. A more reasonable, incremental approach would be to maintain the current level of spending and collect additional CMI data so the Commission can re-evaluate the budget in the next rate case. An \$18 million increase runs the risk of spending more than double the previous average annual expense but without a reciprocal improvement—and based on the nature of the program, the CMI is unlikely to decrease to the same degree it did from 2018 to 2024. At some point, the program would necessarily result in diminishing returns as to both customer outage hours prevented and distribution line repair costs avoided, and the Commission needs to be able to review incremental costs and effects of the program to determine when the program has crossed a threshold where it is no longer cost-effective.

¹⁶² Ross Hearing Testimony, HVT of the Jan. 14, 2026 Hearing at 16:51:47-16:53:21.

¹⁶³ Case No. 2017-00179, Direct Testimony of Everett G. Phillips (filed June 28, 2017) at 40

¹⁶⁴ Kentucky Power's Response to Staff's Post-Hearing Request, Item 12(c).

¹⁶⁵ Ross Direct Testimony at 16.

The Commission cannot support the position that any decrease in customer outage hours justifies additional expense.

Therefore, the Commission finds that the proposed \$18 million plant addition should be excluded from plant-in-service, TOR expenditures should be classified as expense to FERC Account 571, Maintenance of Overhead Lines, a grossed-up \$7,241,915 million in annual TOR expense should be added to revenue requirement, and Kentucky Power should be permitted to record and amortize the net plant balance of the TOR expenditures as of the end of the test year as discussed above. The Commission further notes that the deferral of TIR and TOR expenses as proposed in the Settlement Agreement is discussed in the deferral section below. The Attorney General's position that TOR expense outside the test year is unrecoverable is moot.

OPERATING INCOME

Approved Adjustments

Kentucky Power proposed several adjustments to normalize its test-year operating revenue and expenses that were not contested in this case. Those adjustments resulted in a total operating revenue decrease of \$52,263,695 and a total expense decrease of \$55,668,433. The total revenue requirement impact of these adjustments, listed in Appendix A, Table 5, is a reduction of \$3,424,738. After reviewing the evidence in the record, the Commission approves these adjustments as part of the Settlement Agreement. Additional adjustments to the net operating income, including modifications to the Settlement Agreement, are discussed below.

Depreciation Rate Adjustments

Depreciation Study

In its initial application, Kentucky Power submitted a new, revised depreciation study for approval by the Commission.¹⁶⁶ In support of its application, Kentucky Power hired John Spanos from Gannett Fleming Valuation and Rate Consultants, LLC (Gannett Fleming) to compose the depreciation study proposed in this proceeding.¹⁶⁷ The depreciation study proposed in this proceeding represents all electric plant assets, including the Mitchell Plant.¹⁶⁸ However, in its application, Kentucky Power stated that it was not proposing to update its depreciation rates for the Mitchell Plant in this case, so immediate bill impacts would be reduced and to better position Kentucky Power to pursue securitization of the Mitchell plant investments.¹⁶⁹ Gannett Fleming stated that it used the straight-line remaining life method of depreciation, with the average service life procedure for all plant assets except some general plant accounts.¹⁷⁰ The straight-line remaining life method of depreciation allocates the original cost of the property, less accumulated depreciation and future net salvage, in equal amounts to each year of remaining service life.¹⁷¹ Under the average service life procedure, the annual accrual rate is determined for the entire group or account based on its average remaining life and the rate is then applied to the surviving balance of the group's cost.¹⁷²

For General Plant Accounts 391.00, 392.00, 393.00, 394.00, 395.00, 396.00,

¹⁶⁶ Application at 8; Direct Testimony of John Spanos (filed Aug. 29, 2025 (Spanos Direct Testimony), Exhibit JJS-1.

¹⁶⁷ Spanos Direct Testimony at 2.

¹⁶⁸ Spanos Direct Testimony at 2.

¹⁶⁹ Application at 8; Wolfram Direct Testimony at 22.

¹⁷⁰ Spanos Direct Testimony at 4.

¹⁷¹ Spanos Direct Testimony at 16.

¹⁷² Spanos Direct Testimony at 17.

397.10, 397.21, 397.30, and 398.00, Mr. Spanos recommended using the straight-line remaining life method of amortization.¹⁷³ Kentucky Power stated that amortization accounting was appropriate for these General Plant accounts due to the fact that these General Plant accounts had a large number of units with small asset values, and depreciation accounting was difficult for these assets because periodic inventories were required to properly reflect plant in service.¹⁷⁴ No intervenors in this proceeding objected to the methodology used in the preparation of the proposed depreciation study. With respect to Kentucky Power's decision not to include updated Mitchell plant depreciation rates in this proceeding, the Attorney General/KIUC were the only intervenors who offered testimony supporting the notion that excluding the updated Mitchell plant depreciation rates from Kentucky Power's cost of service, and agreed that securitizing the undepreciated Mitchell Plant costs would create greater savings to customers from the lower cost securitization financing.¹⁷⁵

Kentucky Power's current depreciation rates were approved in different rate cases. Steam Production Plant depreciation rates for the Mitchell and Big Sandy plants were last updated as part of the settlement in Case No. 2017-00179.¹⁷⁶ Current Big Sandy Unit 1 Depreciation rates are based on December 31, 2016 plant-in-service balances.¹⁷⁷ Current Mitchell plant depreciation rates are based on December 31, 2013 plant-in-

¹⁷³ Spanos Direct Testimony at 4.

¹⁷⁴ Spanos Direct Testimony at 17.

¹⁷⁵ Kollen Direct Testimony at 48-49.

¹⁷⁶ Case No. 2017-00179, Jan. 18, 2018 Order at 5 and Appendix A at Article 7(b).

¹⁷⁷ Case No. 2017-00179, Application, Section III, Vol. 1, Direct Testimony of Jason Cash (filed June 28, 2017) at 3.

service balances.¹⁷⁸ As mentioned above, although Kentucky Power developed new depreciation rates for the Mitchell plant accounts, Kentucky Power is not requesting any changes to the present Mitchell depreciation rates, as the current depreciation rates better position Kentucky Power to pursue securitization of the Mitchell investments, which Kentucky Power contends will reduce the bill impact to customers.¹⁷⁹

Transmission and General Plant depreciation rates were last updated as part of the approved settlement in Case No. 2014-00396 using December 31, 2013 plant-in-service balances.¹⁸⁰ Distribution plant depreciation rates were approved in Case No. 1991-00066 and were calculated using December 31, 1989 plant in service balances.¹⁸¹

While Kentucky Power did not supply the Commission with a reason as to why it included an updated depreciation study in this proceeding, the Commission notes that the maintenance of sound depreciation rates requires periodic review of those rates. Kentucky Power has not updated its depreciation rates for at least eight years, and for that fact, the Commission finds that the inclusion of a depreciation study in this proceeding should be accepted. The Commission further finds that the use of straight-line remaining life method with the average service life procedure, and the straight-line remaining life method of amortization (for specific General plant accounts) are reasonable and consistent with the methodologies used in Kentucky Power's prior depreciation studies.

¹⁷⁸ Application, Filing Requirement 807 KAR 5:001 Section 16(4)(n) at 1; Case No. 2014-00396, *Application of Kentucky Power Company for: (1) A General Adjustment of Its Rates for Electric Service; (2) An Order Approving its 2014 Environmental Compliance Plan; (3) An Order Approving its Tariffs and Riders; and (4) An Order Granting All Other Required Approvals and Relief*, Application, Section III, Direct Testimony of David Davis (filed Dec. 23, 2014) at 3.

¹⁷⁹ Wiseman Direct Testimony at 4.

¹⁸⁰ Case No. 2014-00396, Direct Testimony of David Davis (filed Dec. 8, 2014) at 3.

¹⁸¹ Case No. 2014-00396, June 22, 2015 Order, Appendix A at Article 9(a).

Terminal Net Salvage

As mentioned above, Kentucky Power included terminal net salvage in its application in the amount of \$1,006,515 for the Big Sandy plant. Prior to the Settlement Agreement, the Attorney General/KIUC originally recommended removing decommissioning costs from all production plant accounts, or in the instant case, removing the decommissioning costs associated with the Big Sandy plant, because the Mitchell plant depreciation rates already excluded terminal net salvage and were not being updated in this proceeding.¹⁸² The basis for the Attorney General/KIUC's recommendations centered around the application of KRS 278.264(2), which limits recovery of decommissioning costs. The Attorney General/KIUC argued that the statute requires a utility to seek and obtain approval to retire a specific thermal generating unit with various thresholds that the utility must meet before the Commission may approve a requested retirement, and precludes recovery of decommissioning costs until after the Commission approves the retirement.¹⁸³ Further, the Attorney General/KIUC argued that decommissioning costs are estimates of costs many years into the future which are inherently not known or measurable, and the delayed recovery of decommissioning costs promotes intergenerational equity. The Attorney General/KIUC also argued that the cost of decommissioning should be considered a transition cost to newer, more efficient, and lower cost replacement generation and appropriately recovered from the customers who benefit from the new replacement generation.¹⁸⁴

¹⁸² Kollen Direct Testimony at 30–31.

¹⁸³ Kollen Direct Testimony at 34.

¹⁸⁴ Kollen Direct Testimony at 34.

In rebuttal, Kentucky Power stated that it is widely accepted that depreciation should include future net salvage, or decommissioning costs, recovered on a straight-line basis, and that those costs should be based on the expected cost to retire Kentucky Power's assets at the time of retirement or removal.¹⁸⁵ Kentucky Power also cited to the National Association of Regulatory Utility Commissioners' (NARUC) Public Utility Depreciation Practices, which states that the goal of accounting for net salvage is to allocate the net cost of an asset to accounting periods, making due allowance for the net salvage, positive or negative, that will be obtained when the asset is retired.¹⁸⁶

In the Settlement Agreement, the Signatory Parties agreed to reduce Kentucky Power's revenue requirement to remove from depreciation expense terminal net salvage for the Big Sandy plant.¹⁸⁷ As mentioned above, because Kentucky Power decided not to update the depreciation rates for the Mitchell plant, the depreciation rates already excluded terminal net salvage for the Mitchell plant, so no additional adjustment needed to be made.

KRS 278.264(2) states that the Commission "shall not...take any other action which authorizes or allows for the recovery of costs for the retirement of an electric generating unit...unless the presumption created by this section is rebutted." The Commission previously found that KRS 278.264(2) prohibits a utility from recovering terminal net salvage, which generally represents an estimate of the cost to decommission a plant, on fossil fuel generating units without rebutting the presumption against the

¹⁸⁵ Rebuttal Testimony of John Spanos (filed Dec.22, 2025) (Spanos Rebuttal Testimony) at 3.

¹⁸⁶ Spanos Rebuttal Testimony at R5.

¹⁸⁷ Wolfram Settlement Testimony, Exhibit TSW-S1 at Section D(iv).

retirement of that unit established by that statute.¹⁸⁸ However, the Commission notes that the Kentucky General Assembly currently has legislation pending that would amend KRS 278.264(2) to allow the inclusion of terminal net salvage. As of the date of this Order, that proposed revision to the statute has not been approved.

Having considered the record and being otherwise sufficiently advised, the Commission finds that the Settlement Agreement adjustment relating to the removal of terminal net salvage from the Big Sandy plant should be accepted, without modification. This approval is consistent with Commission precedent. As a result of this adjustment, Kentucky Power's as-filed test-year depreciation expense should be reduced to account for the removal of terminal net salvage from Kentucky Power's Big Sandy plant, consistent with the requirements set forth in KRS 278.264(2). In the instant case, Kentucky Power has the burden to overcome the presumption established in KRS 278.264 and Kentucky Power has not done so here. Therefore, under the current language of the statute, the Commission cannot allow recovery of costs for the retirement of electric generating units before the Commission has authorized the retirement of that unit. Removing terminal net salvage from Kentucky Power's Big Sandy plant reduces its test-year depreciation expense by \$1,006,515 and reduces Kentucky Power's base revenue requirement by \$1,010,980.

¹⁸⁸ See Case No. 2017-00321, *Electronic Application of Duke Energy Kentucky, Inc. for: (1) an Adjustment of Electric Rates; (2) Approval of an Environmental Compliance Plan and Surcharge Mechanism; (3) Approval of New Tariffs; (4) Approval of Accounting Practices to Establish Regulatory Assets and Liabilities; and (5) all Other Required Approvals and Tariff* (Ky. PSC Apr. 13, 2018), Order at 27; Case No. 2025-00113, *Electronic Application of Kentucky Utilities Company for an Adjustment of its Electric Rates and Approval of Certain Regulatory and Accounting Treatments* (Ky. PSC Feb. 16, 2026), Order at 59; Case No. 2025-00114, *Electronic Application of Louisville Gas and Electric Company for an Adjustment of its Electric and Gas Rates and Approval of Certain Regulatory and Accounting Treatments* (Ky. PSC Feb. 16, 2026), Order at 61.

Interim Retirements and Interim Net Salvage

In conjunction with Kentucky Power's inclusion of terminal net salvage in its proposed depreciation rates, Kentucky Power also included estimates of interim retirements and interim net salvage in its depreciation rates for both the Big Sandy and Mitchell plant, in the amount of \$3,556,484 (\$775,331 for the Big Sandy plant, \$2,781,153 for the Mitchell plant). As part of its recommendation, the Attorney General/KIUC noted an offsetting increase to Kentucky Power's base rate depreciation expense in the amount of approximately \$1.185 million (\$1,184,621) after the transfer of Mitchell plant costs to the proposed Generation Rider.¹⁸⁹

Prior to the Settlement Agreement, the Attorney General/KIUC recommended that the Commission remove the estimated interim net salvage from Kentucky Power's base rates.¹⁹⁰ The basis of the Attorney General/KIUC's argument was centered around the idea that the estimated interim retirements and estimated net negative salvage were estimates of future costs from the present to the probable retirement dates of each generating unit, usually decades beyond the test year.¹⁹¹ The Attorney General/KIUC argued that in the depreciation study, Kentucky Power used the estimated interim retirements to effectively shorten the average remaining lives for the production plant accounts, which increased the depreciation rates and the corresponding depreciation expense for those assets.¹⁹² The Attorney General/KIUC further argued this point by

¹⁸⁹ Kollen Direct Testimony at 41.

¹⁹⁰ Kollen Direct Testimony at 39.

¹⁹¹ Kollen Direct Testimony at 37.

¹⁹² Kollen Direct Testimony at 37.

discussing how estimated interim net negative salvage was not incurred at the depreciation study date, and how these estimated future costs were not known and measurable and did not fit within either the historic test-year or forecasted test-year statutory constructs in Kentucky, which technically do not allow estimated costs beyond the end of the test year that have not yet been incurred and that are not known and measurable.¹⁹³

In rebuttal, Kentucky Power stated that the Attorney General/KIUC had mischaracterized the process of projecting interim retirements and interim net salvage in its testimony.¹⁹⁴ Kentucky Power stated that the interim retirements were projected using the interim survivor curves for the production plant accounts (Big Sandy and Mitchell plants), which the Attorney General/KIUC did not dispute as part of its testimony.¹⁹⁵ Kentucky Power further argued that the estimated interim net salvage percentage is not applied to the actual net book value, as the Attorney General/KIUC claimed, but rather it is applied to the original cost of the assets because the original cost is the amount that will be retired in the future.¹⁹⁶

In the Settlement Agreement, the Signatory Parties agreed to reduce Kentucky Power's revenue requirement to remove from its depreciation expense the estimated interim retirements and estimated interim net salvage associated with the Mitchell plant, but not the Big Sandy plant.¹⁹⁷ However, in the Settlement Agreement, the Signatory

¹⁹³ Kollen Direct Testimony at 38.

¹⁹⁴ Spanos Rebuttal Testimony at R8.

¹⁹⁵ Spanos Rebuttal Testimony at R8–9.

¹⁹⁶ Spanos Rebuttal Testimony at R9.

¹⁹⁷ Wolfram Settlement Testimony, Exhibit TSW-1 at Section D(vi).

Parties stated that “absent a legislative prohibition, interim net salvage is generally appropriate to be included in depreciation expense; however, the Signatory Parties agree to reduce the base rate and Generation Rider revenue requirements for this case only while the Company continues to seek securitization legislation associated with the Mitchell plant.”¹⁹⁸ In this regard, the Commission notes that while it has allowed recovery of estimated interim net salvage in the past, the Commission maintains plenary authority, in each case in which the use of a depreciation study is proposed, to determine the reasonableness of the costs included in the revenue requirement, including estimated interim net salvage.

In its post-hearing brief, Kentucky Power stated that it agreed to remove the depreciation expense associated with interim retirements and interim net salvage for the Mitchell Plant with the goal of maximizing the amount of Mitchell-related costs that could be securitized to maximize savings for customers.¹⁹⁹ The Attorney General claimed that actual interim net salvage is generally appropriate to be included in depreciation expense, but estimated interim net salvage is not.²⁰⁰ The Attorney General disagreed about how these costs should be calculated and recovered.²⁰¹ No other intervenor provided testimony regarding the treatment of estimated interim net salvage.

Having reviewed the record and being otherwise sufficiently advised, the Commission finds that the proposed Settlement Agreement adjustment, specifically

¹⁹⁸ Wolfram Settlement Testimony, Exhibit TSW-1 at Section D(vi).

¹⁹⁹ Kentucky Power Post-Hearing Brief at 15.

²⁰⁰ Attorney General Post-Hearing Brief at 14.

²⁰¹ Attorney General Post-Hearing Brief at 14.

pertaining to the removal of interim retirements and interim net salvage from only the Mitchell plant, is reasonable and should be accepted without modification. The lack of statutory prohibition of certain expenditures does not guarantee recovery of those costs.

Here, while the Commission notes that Kentucky Power's production plant accounts incurred actual interim retirements and actual interim net negative salvage in the test year, the Attorney General raises questions regarding the accuracy of the amount of interim net salvage embedded in Kentucky Power's depreciation rates. More importantly, the Commission notes that determination of how Mitchell plant's net plant in service, including accumulated depreciation associated with interim net salvage, will be treated in the event of a potential securitization is unclear. Kentucky Power has not met the burden of proof that the expenses included within the revenue requirement of the test period are prudent and reasonable to include within the test period. Further, the removal of the estimated interim net salvage for Mitchell plant in this case will not prevent Kentucky Power from recovering such costs in the future but rather will simply defer such recovery. Given those facts, the Commission finds that the adjustment proposed in the Settlement Agreement should be accepted without modification. Accepting this adjustment reduces Kentucky Power's test-year depreciation expense by \$2,781,153, with an offsetting increase in its test-year depreciation expense to account for the transfer of these costs to the proposed Tariff G.R. in the amount of \$1,184,621, for a net reduction in Kentucky Power's test-year depreciation expense of \$1,596,532. This amount is grossed up for bad debt and Commission assessment fees to bring the net reduction to Kentucky Power's base revenue requirement to \$1,603,615.

Incentive Compensation

In its application, Kentucky Power requested recovery of its total remuneration package in this proceeding, including elements of a short-term incentive compensation plan (STI) and a long-term incentive compensation plan (LTI).²⁰² Approximately 30.57 percent of the STI and approximately 93 percent of the LTI is tied to the financial performance of AEP.²⁰³

Attorney General/KIUC witness Futral recommended the Commission disallow the compensation tied to financial performance metrics, resulting in a grossed-up total reduction of \$1,842,208 million.²⁰⁴ Witness Futral argued the Commission historically has disallowed and removed incentive compensation expenses from the revenue requirement that were incurred to incentivize the achievement of shareholder goals as measured by financial performance, not incurred to incentivize the achievement of customer and safety goals.²⁰⁵

Kentucky Power's witness Andrew R. Carlin (Carlin) argued that previous Commission precedent indicated "that incentive plan costs for funding metrics and performance metrics tied to financial objectives should be disallowed from recovery for ratemaking purposes absent a clear showing of benefit to ratepayers" and that Kentucky

²⁰² Application, Section V, Exhibit 2, Adjustment WP 30; Kentucky Power's Responses to Attorney General/KIUC's First Request, Items 28, 29, and 31; Kentucky Power's Responses to Staff's Second Request, Item 85.

²⁰³ Kentucky Power's Responses to Staff's Second Request, Item 85.

²⁰⁴ Futral Direct Testimony at 14.

²⁰⁵ Futral Direct Testimony at 11, 13.

Power has established the benefit to ratepayers.²⁰⁶ Carlin asserted that incentive-based compensation is part of a reasonable and competitive compensation package required to attract and retain qualified employees, who are required to provide customers with safe, efficient, and effective service.²⁰⁷

The Commission finds that the Attorney General/KIUC's adjustment should be accepted. In Case No. 2020-00174, the Commission disallowed Kentucky Power's requested recovery of compensation based on financial objectives.²⁰⁸ Recovery of financial incentive-based compensation was excluded in Kentucky Power's last rate case by settlement.²⁰⁹ Carlin's argument ignores the fact that the metrics upon which the incentive-based compensation is based apply to parent company AEP and not Kentucky Power. Although greater compensation in general will attract more qualified employees, this type of compensation may actually incentivize employees to increase the value of AEP even if it means harming Kentucky Power to do so. The Commission is extremely concerned that Kentucky Power and AEP have established incentive compensation that not only has minimal bearing on the success of the financially weaker Kentucky Power, but incentivizes employees at both AEP and Kentucky Power to make management decisions that prioritize AEP value to the significant detriment of Kentucky Power.

²⁰⁶ Rebuttal Testimony of Andrew R. Carlin (Carlin Rebuttal Testimony) (filed Dec. 22, 2025) at R3, quoting Case No. 2020-00174, *Electronic Application of Kentucky Power Company for (1) a General Adjustment of Its Rates for Electric Service; (2) Approval of Tariffs and Riders; (3) Approval of Accounting Practices to Establish Regulatory Assets and Liabilities; (4) Approval of A Certificate of Public Convenience and Necessity; and (5) All other Required Approvals and Relief* (Ky. PSC Jan. 13, 2021), Order at 14.

²⁰⁷ Carlin Rebuttal Testimony at R4.

²⁰⁸ Case No. 2020-00174, Jan. 13, 2021 Order at 14.

²⁰⁹ Case No. 2023-00159, Jan. 19, 2024 Order at 26.

The \$1,834,071 removal of incentive-based compensation and the grossed-up revenue requirement impact of \$1,842,209 reflected in the Settlement Agreement is approved.

Kentucky Power's incentive compensation across STI and LTI offerings totaled \$4,002,622.²¹⁰ Kentucky Power included \$2,168,551 in incentive based compensation for both Kentucky Power and allocated for AEP employees that was not tied to the financial metrics.²¹¹ The Commission has, in recent years, allowed rate recovery for incentive based compensation that was not tied to financial metrics if it could be demonstrated as a direct benefit to customers. These have included metrics based on safety, operational excellence and customer service goals. In this instance, however, the Commission does not believe that that Kentucky Power and AEP have established that the metrics utilized in the incentive compensation have provided a direct benefit for Kentucky Power customers. A review of Kentucky Power annual reliability reporting in Case No. 2011-00450 shows that Kentucky Power consistently reports SAIDI and SAIFI metrics that are not only far above other investor-owned utilities in the Commonwealth,²¹² but do not compare favorably with most of the electric cooperatives in the Commonwealth despite the electric cooperatives being much smaller in size. This begs the question as to whether or not being a part of the investor-owned utility of AEP is providing a benefit to Kentucky Power customers when it comes to achieving safe and reliable service.

²¹⁰ Kentucky Power's Response to Attorney General/KIUC First Request for Information, Item 1-28 Attachment 1 Excel Document, Item 1-28 Attachment 2 Excel Document, Item 1-29 Attachment 1 Excel Document, Item 1-29 Attachment 2 Excel Document, Item 1-31 Attachment 1 Excel Document, Item 1-31 Attachment 2 Excel Document.

²¹¹ \$4,002,622 - \$1,842,208 = \$2,160,414

²¹² Ross Direct Testimony at 6.

Public comments provided throughout the case were not only emotional responses to the increase but significant complaints regarding the reliability of service, particularly during regular weather events.

While the reliability metrics have trended downward,²¹³ no measurable improvement correlates to the significant increase in vegetation management expenses that this Commission has allowed over the last fifteen years. Further, despite approval in Case 2023-00159 for a significant increase in Vegetation Management expenditures outside the right-of-way with the pilot TOR program and approved in Kentucky Power's vegetation management plan, Kentucky Power elected to reduce actual vegetation management expenditures in 2023. Kentucky Power is required to file annual vegetation management plans and reports in Case No. 2017-00149. The 2022 Distribution Vegetation Management Report and 2023 Distribution Vegetation Management Work Plan dated April 3, 2023 projected \$21,477,083 in O&M expenses and \$8,412,712 in capital expenditures.²¹⁴ However, Kentucky Power elected to reduce spending in the TOR in 2023 after the Vegetation Management Plan was filed and the Order in Case No. 2023-00159 encouraged Kentucky Power to continue the TOR pilot program.²¹⁵ Kentucky Power elected to pay incentive compensation based on non-financial metrics with questionable benefit to Kentucky Power customers rather than fully fund its

²¹³ Ross Direct Testimony at 9.

²¹⁴ See Case No. 2017-00179, *Electronic Application of Kentucky Power Company for (1) a General Adjustment of its Rates for Electric Service; (2) an Order Approving its 2017 Environmental Compliance Plan; (3) an Order Approving its Tariffs and Riders; (4) an Order Approving Accounting Practices to Establish Regulatory Assets and Liabilities; and (5) an Order Granting All Other Required Approvals and Relief* (filed July 20, 2017), *Kentucky Power Company 2023 Distribution Vegetation Management Plan* (filed April 3, 2023) at 17 of 17, and *2023 Distribution Vegetation Management Report of Kentucky Power Company* (filed April 1, 2024) at 8 of 16, and Attachment 1.

²¹⁵ Case No. 2023-00159, Jan. 19, 2024 Order at 78.

vegetation management program at previously approved levels.

The Commission finds that Kentucky Power's incentive compensation program has not met the burden of proof that it provides benefit to Kentucky Power's customers as an appropriate expense, and therefore is not authorized. The Commission approves the Settlement Agreement with the modification to exclude all Incentive Compensation. This results in a grossed-up revenue requirement decrease of \$2,178,173.

Other Compensation

Kentucky Power provided \$7,286,925 in "Other" compensation to its employees during the test year.²¹⁶ In its response to Staff's First Request for Information, Item 41, Kentucky Power was requested to specify what any "Other" amounts represented.²¹⁷ The only additional information provided in the document was that the amount came from payroll. Further, Kentucky Power workpapers do not reconcile the salary and wage expenses from the income statement to the information provided in response to this data request despite the data request being issued prior to the application filing. The Commission cannot include recovery of unknown expenses in rates and finds the amount should be removed. This results in a grossed-up revenue requirement decrease of \$7,319,257. The Commission finds that a clear description of what the amounts represent and what benefits the compensation provides to ratepayers is necessary to reasonably include these expenditures in rates.

Supplemental Executive Retirement Plan (SERP) Expense

Kentucky Power provides two supplemental retirement plans—the AEP

²¹⁶ Kentucky Power's Response to Staff's First Request, Item 1-41, Confidential Attachment 1, Cell H78.

²¹⁷ Staff's First Request, Item 41f.

Supplemental Benefits Plan, available to all employees, and the CSW Executive Retirement Plan, available only to participants in the former CSW pension plan.²¹⁸ These plans are intended to provide deductions for employer-provided benefits outside of the limits imposed on Employee Retirement Income Security Act (ERISA) qualified defined benefit pension plans.²¹⁹ Although the AEP Supplemental Benefits Plan is available to non-executive employees, less than ten Kentucky Power employees participate in the plan, and all are executives.²²⁰

Attorney General/KIUC witness Futral recommended a \$143,789 reduction for grossed-up SERP expense.²²¹ In support of this proposed adjustment, Futral argued that recovery for these retirement programs are excessive and therefore unreasonable.²²²

Kentucky Power witness Carlin's rebuttal testimony indicated that this retirement plan is available to all employees and is part of a reasonable and competitive compensation package required to attract and retain qualified employees.²²³ However, in the Settlement Agreement, the Signatory Parties agreed to remove Kentucky Power's proposed SERP expense in the test year, which was the same reduction proposed by the Attorney General/KIUC.²²⁴

²¹⁸ Carlin Rebuttal Testimony at R20.

²¹⁹ Rebuttal Testimony of Andrew C. Carlin (filed Dec. 12, 2025) (Carlin Rebuttal Testimony at R20; Hearing Testimony of Andrew Carlin (Carlin Hearing Testimony), HVT of the Jan. 15, 2026 Hearing at 12:12:18–12:12:51.

²²⁰ Hearing Testimony of Andrew C. Carlin (Carlin Hearing Testimony), HVT of the Jan. 15, 2026 Hearing at 12:13:53–12:14:23.

²²¹ Futral Direct Testimony at 16.

²²² Futral Direct Testimony at 15.

²²³ Carlin Rebuttal Testimony at R22–R23.

²²⁴ Wolfram Settlement Testimony, Exhibit TSW-S1 at Section D(i).

The Commission finds that the Attorney General/KIUC's proposed adjustment should be adopted. The Commission has previously found that retirement plans that benefit highly compensated employees without providing a benefit to ratepayers are the type of costs that should not be borne by ratepayers.²²⁵ Kentucky Power's SERP expenses should be disallowed for ratemaking purposes because Kentucky Power did not provide substantial evidence that its SERP benefits provide a quantitative benefit to ratepayers, and thus failed to establish that recovery of SERP costs is warranted under the facts of this case. The \$143,789 grossed-up adjustment is the same as reflected in the Settlement Agreement.

401(k) Matching

Kentucky Power included \$1.943 million in 401(k) matching contributions in its revenue requirement. The Commission has previously disallowed retirement plan expenses for Kentucky Power employees who participated in both a defined benefit pension plan and received matching contributions pursuant a 401(k) retirement plan.²²⁶

Previously, all Kentucky Power employees were eligible to participate in the 401(k) as well as the pension plan. Kentucky Power established new benefit rules for its employees that receive 401(k) contributions but are not eligible to participate in the pension plan until after one year of service.²²⁷ When asked for the amount of contributions to 401(k) matching expenses that were for employees who had not yet reached one year of service, Kentucky Power objected to the question for being overly

²²⁵ Case No. 2020-00174, Jan 13, 2021 Order at 16.

²²⁶ Case No. 2020-00174, Jan 13, 2021 Order at 17–18.

²²⁷ Direct Testimony of Andrew R. Carlin (filed Aug. 29, 2025) (Carlin Direct Testimony) at 56, lines 12–16.

broad.²²⁸ Because the amount for 401(k) contributions for those employees who did not have a defined benefit pension plan were not provided, Witness Futral proposed to remove the entire \$1.943 million amount from the revenue requirement.²²⁹

Kentucky Power witness Carlin's rebuttal testimony provided the requested 401(k) matching expenses for employees who had not yet reached one year of service at \$84,867 and stated if 401(k) matching expenses were removed that it should not include this amount. Witness Carlin also argued that Kentucky Power's average contributions were in line with other utilities and were therefore reasonable.²³⁰

In the Settlement Agreement, the Signatory Parties agreed to include the Attorney General/KIUC's original recommendation to remove the 401(k) matching expense for employees who also participate in Kentucky Power's defined benefit pension plan, which resulted in a revenue requirement reduction of \$1,942,580.²³¹

The Commission finds that the Attorney General/KIUC's proposed adjustment should be accepted, except for the removal of the \$84,867 in 401(k) expense attributable to employees participating that have not yet reached one year of service, and thus are not participating yet in the pension plan. Kentucky Power witness Carlin's argument is not sufficient to support the inclusion of the remaining 401(k) matching, and the Commission therefore finds that a \$1,857,714 adjustment should be made—the original

²²⁸ Kentucky Power's Responses to Attorney General/KIUC's First Request for Information, Item 76.

²²⁹ Futral Direct Testimony at 19.

²³⁰ Carlin Rebuttal Testimony at R12 and R17.

²³¹ Wolfram Settlement Testimony, Exhibit TSW-1 at Section D(i).

\$1,943,258 less the \$84,867 identified by Kentucky Power. The grossed-up reduction results in a decrease to the revenue requirement of \$1,865,957.

Outside Services Employed (Account 923)

In its application, Kentucky Power proposed to include \$2,997,898 in its test year associated with its Outside Services Employed expense account (Account 923) directly attributable to Kentucky Power.²³² The FERC Uniform System of Accounts explains that Account 923 – Outside Services Employed must include the fees and expenses of professional consultants and others for general services with the exception of fees and expenses for outside services of Account 928, regulatory Commission expenses, and Account 930.1 – General Advertising expenses.²³³ In response to discovery, Kentucky Power stated that these expenses are primarily comprised of recurring expenses billed to Kentucky Power for services provided by American Electric Power Services Corporation (AEPSC) and that cost-of-service adjustments were generally not made for costs billed to Kentucky Power for services provided by AEPSC.²³⁴ The proposed Settlement Agreement did not include any reduction to Kentucky Power's expenses listed in Account 923 – Outside Services Employed.²³⁵

Having reviewed the record and being otherwise sufficiently advised, the Commission finds that the proposed Settlement Agreement should be modified to account for a reduction to Kentucky Power's test-year expenses in Account 923 – Outside

²³² Application, Exhibit T at 8, Account 9230 – Outside Services Employed, Line 39

²³³ The Code of Federal Regulations, Title 18, Chapter I, Subchapter U, Part 367, Subpart K, §367.9320.

²³⁴ Kentucky Power's Response to the Attorney General/KIUC's Second Request for Information (Attorney General/KIUC Second Request), item 9(d).

²³⁵ Wolfram Settlement Testimony, Exhibit TSW-S1, Exhibit 1.

Services Employed. The Commission reviewed the expenses listed in Account 923, and found that the volatility, evidenced by the sharp increase in “Allocation Factor 39 – 100% to One Company” from its expense levels incurred from 2020 through 2023 to its 2024 level of expense, is unreasonable and should be adjusted to a level of expense that is more indicative of Kentucky Power’s historical costs for that expense line item. The Commission notes that, while these costs fluctuate on a yearly basis, an increase of approximately 55,000 percent from 2023 to 2024, and using the highest expense amount occurring in a six-year period to set rates, places an unreasonable burden on ratepayers without sufficient justification for the increase. For these reasons, the Commission finds that, in order to smooth out the volatility in this expense year over year, it should reduce Kentucky Power’s expenses in Allocation Factor 39 – 100% to One Company based on Kentucky Power’s most recent six-year average of the expense, including the test year ended May 2025. As shown in the table below, setting these costs at a six-year average, including the test year, reduces Kentucky Power’s expenses in Account 923 by \$1,708,519 which, when grossed-up for bad debt expenses and PSC assessment fees, reduces Kentucky Power’s base revenue requirement by \$1,716,100.

Kentucky Power Company's Historical Costs
 Account 923 - Outside Services Employed
 Allocation Factor 39 - 100% to One Company
 For the Years 2020-2024 and the Test Year Ended May 31, 2025

Year	O&M Cost
Test Year	\$ 2,997,898
2024	3,925,340
2023	7,059
2022	95,879
2021	(109,982)
2020	820,079
Average	<u>\$ 1,289,379</u>
Difference from Test Year Amount	<u>\$ (1,708,519)</u>

Property Tax

During the test year, Kentucky Power reported \$11,150,129 in property tax expense and proposed an annualization adjustment as an increase of \$4,262,813.²³⁶ The Attorney General/KIUC questioned the calculation of this amount and Kentucky Power provided an updated calculation that increased the test period property tax expense to \$13,667,986 and reduced the proposed adjustment to \$3,943,827, or a reduction of \$318,986 from Kentucky Power's initial proposed amount.²³⁷ Kentucky Power modified the methodology for its data comparison which made the property tax calculations much more understandable.²³⁸ Attorney General/KIUC witness Futral argued that Kentucky Power modified the methodology for its data comparison, which made the property tax

²³⁶ Application, Section V, Exhibit 2 at 44.

²³⁷ Kentucky Power's Response to Attorney General/KIUC's Second Request, Item 12 and Attachment 1 at tab W42 Annualization of PropTax.

²³⁸ Futral Direct Testimony at 22-23.

calculations much more understandable. Futral asserted that the revised calculation provided by Kentucky Power was reasonable and recommended that the adjustment be reduced to the revised amount.²³⁹ Futral provided a new calculation for the property tax, which shows that Kentucky Power's Jurisdictional Real and Personal Property Tax is \$13,561,919 in the initial filings.²⁴⁰ Futral also recommended removing the Flue Gas Desulfurization (FGD) property tax of \$188,833,²⁴¹ resulting in a decrease to the jurisdictional amount before pro forma adjustment to \$13,373,086. The revenue requirement impact after the reduction recommended by Futral, gross-up for bad debt expense and Commission fees is \$320,402 as set forth in the table below. Kentucky Power witness Hodgson's rebuttal testimony agreed with this adjustment.²⁴² The Commission finds that this adjustment is consistent with the historical data presented in the record and should, therefore, be sustained. This \$320,402 adjustment is the same as reflected in the Settlement Agreement.

²³⁹ Futral Direct Testimony at 23.

²⁴⁰ Application, Section V, Exhibit 1, Tab Schedule 4; Kentucky Power's Response to Staff's First Request, Item 55, Attachment 63, Line 482 ;and Futral Direct Testimony at 19–23.

²⁴¹ Application, Section V, Exhibit 2, Tab W19; Kentucky Power's Response to Staff's First Request, Item 55, Attachment 63, Line 20; and Futral Direct Testimony at 19–23.

²⁴² Hodgson Rebuttal Testimony at R17.

Description	As Filed	Nov. 3rd, 2025 Updated	Nov. 17, 2025 AG/KIUC Futral	Jan. 9, 2025 Settlement Agreement	Commission Adjustment
Net Estimated Property Tax	\$ 15,412,943	\$ 17,800,646	\$ 17,635,899		\$ 17,694,579
Net Property Tax Charged during the Test Year	11,150,129	13,667,986	13,561,919		13,561,919
FGD Adjustment (W19)			(188,833)		
Jurisdictional Amount Before Proforma Adjustment	11,150,129	13,667,986	13,373,086		13,561,919
Adjustment to Property Tax Expense	4,262,813	4,132,660	4,262,813	4,262,813	4,132,660
FGD Adjustment (W19)		(188,833)			(188,833)
Kentucky Power's updated Total Adjustment with FGD Removed		3,943,827	3,943,827	3,943,827	3,943,827
Initial Adjustment to Property Tax Expense					4,262,813
Kentucky Power's updated Total Adjustment with FGD Removed					3,943,827
Reduction to Pro Forma Adjustment			318,986	318,986	318,986
Bad Debt and PSC Gross-Up Conversion Factor			1.004437	1.004437	1.004437
Reduction to Revenue Adjustments			320,402	320,402	320,402

Pension Settlement

In April 2024, AEP and its subsidiaries, including Kentucky Power, offered a voluntary severance program designed to achieve a reduction in the size of AEP's workforce and help offset increasing operation and maintenance expenses caused by inflation.²⁴³ AEP and its subsidiaries, including Kentucky Power, triggered Pension Settlement Accounting and recorded pension settlement accounting entries in the fourth quarter of 2024.²⁴⁴ The total test-year expenses for Kentucky Power's voluntary pension settlement were \$1.689 million. Kentucky Power proposed to amortize these expenses over 12 years, representing an annual increase of \$140,773.²⁴⁵ No parties took issue with the deferral for Kentucky Power's pension settlement expenses.

In Attorney General/KIUC witness Futral's testimony, he stated that Kentucky Power also incurred \$1.070 million in the same kind of expense for AEP's voluntary

²⁴³ Direct Testimony of Brian C. Ciborek (filed Aug. 29, 2025) (Ciborek Direct Testimony) at 21.

²⁴⁴ Ciborek Direct Testimony at 22.

²⁴⁵ Ciborek Direct Testimony at 23.

pension settlement program, but did not propose to amortize this program's expenses.²⁴⁶ Because these expenses were the result of a voluntary severance program designed to reduce the size of AEP's workforce and reduce O&M expense, and resulted in one-time lump sum payments, the Attorney General/KIUC recommended amortizing these expense in the same way as Kentucky Power's proposed adjustment to its own pension settlement expenses.²⁴⁷

Attorney General/KIUC's witness Futral recommended a grossed-up \$985,000 decrease in revenue requirement.²⁴⁸ Kentucky Power's witnesses did not address this issue in any of their rebuttal testimony, but witness Futral's proposal is included as a provision in the Settlement Agreement.²⁴⁹ The Commission finds that this grossed-up \$984,952 reduction is reasonable and should be adopted.

Edison Electric Institute (EEI) and Chamber of Commerce Dues

During the test year, Kentucky Power reported \$114,000 in EEI dues and \$25,000 in Kentucky Chamber of Commerce dues, for a total of \$139,000. Kentucky Power removed amounts totaling \$25,800 for activities related to lobbying based upon percentages provided in the invoices by each organization.

The Commission has previously denied all dues from being included in the revenue requirement when the utility did not provide evidence that the amount to be recovered in rates did not include prohibited costs including legislative lobbying, regulatory advocacy,

²⁴⁶ Futral Direct Testimony at 24.

²⁴⁷ Futral Direct Testimony at 24.

²⁴⁸ Futral Direct Testimony at 26.

²⁴⁹ Settlement Agreement at 6.

and public relations.²⁵⁰ Even when percentages have been provided, the Commission found that without knowing how the percentage of dues attributable to lobbying noted on their invoices were determined, the amount of these percentages that are based on actual lobbying spending cannot be determined.²⁵¹ Attorney General/KIUC witness Futral recommended all remaining dues for EEI and the Kentucky Chamber of Commerce be removed from the revenue requirement, resulting in an additional \$113,206 decrease from the test period amounts, unless Kentucky Power was able to provide the requisite evidence.

In rebuttal testimony, Kentucky Power provided additional support for the portions of these dues spent on prohibited costs in the form of an EEI budget report.²⁵² Kentucky Power did not provide additional information regarding the Kentucky Chamber of Commerce fees. However, the lobbying percentages provided are for 2024, with the 2025 numbers being estimated,²⁵³ meaning a portion of the test-year expense would be based on an estimated deduction from the test period expense. In addition, Kentucky Power has not accounted for prohibited regulatory advocacy and public relations costs when calculating the amounts to be removed. The Commission is unable to determine the costs that are not attributable to prohibited activities and cannot include amounts in the revenue requirement that do not provide a benefit to ratepayers.

²⁵⁰ Case No. 2021-00214, *Electronic Application of Atmos Energy Corporation for an Adjustment of Rates* (Ky. PSC May 19, 2022), final Order at 23-25.

²⁵¹ Case No. 2024-00276, *Electronic Application of Atmos Energy Corporation for an Adjustment of Rates; Approval of Tariff Revisions; and other General Relief* (Ky. PSC Aug 11, 2025) Order at 26–27.

²⁵² Rebuttal Testimony of John D. Cullop (filed Dec. 22, 2025) (Cullop Rebuttal Testimony), Exhibit JDC-R1.

²⁵³ Cullop Rebuttal Testimony, Exhibit JDC-R1 at 3.

Therefore, the Commission finds that the Attorney General/KIUC's proposed adjustment should be accepted as Kentucky Power has not established benefit to ratepayers.²⁵⁴ This \$113,206 revenue requirement decrease aligns with the Settlement Agreement.

Transmission Expense and Revenue

Kentucky Power stated in direct testimony that its "FERC-approved Open Access Transmission Tariff (OATT) includes rates and billing units that are different in 2025 than they were in 2024, and as a result, the test-year FERC-approved PJM LSE OATT expense must be revised to account for these differences."²⁵⁵ Kentucky Power asserted that "[t]his adjustment increases the Kentucky retail jurisdiction base rate cost-of-service by \$9,981,873 for a total adjusted test-year PJM LSE OATT expense level of \$152,262,631."²⁵⁶

While Kentucky Power did not explain the manner in which it made the LSE OATT expense adjustment in its narrative testimony, it provided workpapers in response to requests for information that indicated that the adjustment was based on projected changes to seven of the ten accounts that it indicated make up its "Total LSE OATT Expense," as compared to the test year, as reflected in the following table:²⁵⁷

²⁵⁴ See Case No. 2024-00276, Aug. 11, 2025 Order at 27.

²⁵⁵ Spaeth Direct Testimony at 26.

²⁵⁶ Spaeth Direct Testimony at 26.

²⁵⁷ Kentucky Power's Response to Staff's First Request, Item 55, Attachment 27, Tab "ADJ-Calc."

Account #	Test Year Amount	Annualize 2025 Rates	Adjustment to 2025 Rates
4561005	\$ 2,197,348	\$ 2,360,401	\$ 163,052
4561002			
4561035	(59,422,359)	(63,831,746)	(4,409,387)
4561036	(137,136)	(137,136)	
4561060	(1,198,532)	(1,209,050)	(10,518)
subtotal 456 *	(58,560,679)	(62,817,531)	(4,256,852)
5650012	2,056,949	2,074,999	18,050
5650016	75,312,915	80,901,448	5,588,533
5650019	5,201,997	5,247,646	45,649
5650021	980,914	1,053,702	72,788
5650015	167,304	167,304	
sub total 565 *	\$ 83,720,079	\$ 89,445,099	\$ 5,725,020
Total	\$ 142,280,758	\$ 152,262,631	\$ 9,981,873

* FERC Account 456 is a Revenue account with a Normal Credit Balance (represented as a negative number)

* FERC Account 565 is an Expense account with a Normal Debit Balance (represented as a positive number)

Kentucky Power's workpapers reflect that the changes to those accounts were generally projected by: (1) determining the overall projected FERC transmission revenue requirement for 2025 for the AEP affiliates located in AEP's PJM zone (AEP East Companies), which includes Kentucky Power; (2) determining the allocation of that projected revenue requirement to AEP companies overall; (3) allocating the costs allocated to AEP among AEP's load serving entities in the zone, including Kentucky Power, based on the average 12CP in 2024 for each load serving entity; and (4) allocating the overall projected LSE OATT expense for 2025 to Kentucky Power's LSE OATT accounts proportionally based on the 2024 allocation.²⁵⁸ In contrast to its projections based on the 2025 transmission revenue requirements, Kentucky Power provided the actual amounts in the accounts that make up its Total LSE OATT Expense for 2025 and

²⁵⁸ See generally Kentucky Power's Response to Staff's First Request, Item 55, KPCO_R_KPSC_1_55_Attachment27_SpaethWP7 (reflecting the calculation of the adjustment).

those actual 2025 amounts are meaningfully lower than what Kentucky Power projected for its pro forma adjustment to LSE OATT expense.

Specifically, as reflected in the table below, the accounts that Kentucky Power indicated include its LSE OATT expense reflected \$(56,372,160) in revenue and \$84,622,369 in expenses from January 2025 through December 2025, when Kentucky Power was subject to the 2025 transmission rates that it used to project the LSE OATT expense adjustment. Conversely, to make its proposed pro forma adjustment, Kentucky Power projected that those accounts would reflect \$(62,817,531) in revenue and \$89,445,009 in expenses based on annualized projection of the expense that would be incurred from the 2025 transmission rates. Thus, the actual LSE OATT expense in 2025 was \$(11,268,102) lower than the amount Kentucky Power projected to calculate its LSE OATT expense adjustment as reflected in the table below.²⁵⁹

²⁵⁹ See Kentucky Power's Response to Staff's Second Post-Hearing Request, Item 1, KPCO_R_KPSC_PHDR_2_1_Attachment1.xlsm, Tab "FERC_IS1" (reflecting the amounts in those accounts from January 2025 through December 2025, which sum to the amounts reflected in the table for the 2025 actuals); see also Kentucky Power's Response to Staff's Second Post-Hearing Request, Item 4(c) (in which Kentucky Power provided the amounts in the accounts from January 2025 to December 2025); Kentucky Power's December 31, 2025 Supplemental Response to Staff's First Request, Item 3, KPCO_SR_KPSC_1_3_2025-12-31_SupplementalAttachment1.xlsm (reflecting similar actual transmission revenue and LSE OATT charges based on those same accounts for the period from December 2024 through November 2025).

Account #	Annualize 2025 Rates	Actual 2025 Rates	Difference
4561005	\$ 2,360,401	\$ 2,582,262	\$ 221,861
4561002			
4561035	(63,831,746)	(57,784,534)	6,047,212
4561036	(137,136)	(97,057)	40,079
4561060	(1,209,050)	(1,072,831)	136,219
subtotal 456 *	(62,817,531)	(56,372,160)	6,445,371
5650012	2,074,999	2,019,950	(55,049)
5650016	80,901,448	76,544,270	(4,357,178)
5650019	5,247,646	4,786,634	(461,012)
5650021	1,053,702	1,105,429	51,727
5650015	167,304	166,086	(1,218)
sub total 565 *	\$ 89,445,099	\$ 84,622,369	\$ (4,822,730)
Total	\$ 152,262,631	\$ 140,994,529	\$ (11,268,102)

* FERC Account 456 is a Revenue account with a Normal Credit Balance (represented as a negative number)

* FERC Account 565 is an Expense account with a Normal Debit Balance (represented as a positive number)

Additionally, as referenced above, the overall 2025 transmission revenue requirement for the AEP East Companies used by Kentucky Power to project its LSE OATT expense included Kentucky Power's projected 2025 revenue requirement for FERC transmission rates. Specifically, Kentucky Power projected the overall 2025 transmission revenue requirement for the AEP East Companies based, in part, on a projected 2025 revenue requirement for Kentucky Power for transmission rates in the amount of \$107,521,697, prior to the application of any incentives or enhancements offered by FERC.²⁶⁰ Conversely, Kentucky Power provided workpapers indicating that its transmission revenue requirement included in the overall 2024 revenue requirement for transmission rates for the AEP East Companies was \$94,527,054, prior to the

²⁶⁰ See Kentucky Power's Response to Staff's First Request, Item 55, KPCO_R_KPSC_1_55_Attachment27_SpaethWP7.xlsx, Tab "Zonal Rates" (reflecting the revenue requirement for Kentucky Power used to calculate the overall revenue requirement).

application of any incentives or enhancements offered by FERC.²⁶¹

Based on the projected increase in its FERC revenue requirement used to calculate the 2025 transmission rates, Kentucky Power should have seen an increase in other revenue in 2025 based on the projected increase in its FERC revenue requirement reflecting the additional revenue from transmission rates, and this increase is in fact reflected in Kentucky Power's actual income statement. Specifically, in both its schedules and income statement, Kentucky Power reflected \$97,701,231 in other revenues from its transmission operations in the test year, June 2024 through May 2025.²⁶² Conversely, from January 2025 through December 2025, Kentucky Power's income statement reflects \$107,651,307 in other revenues from its transmission operations, which corresponds almost precisely to the projected transmission revenue requirement that Kentucky Power used, along with the projected revenue requirements of other AEP East Companies, to project its LSE OATT expense.²⁶³

²⁶¹ Kentucky Power's Response to Staff's Second Post-Hearing Request, Item 5, KPCO_R_KPSC_PHDR_2_5_Attachment1.xlsx, Tab "TCOS."

²⁶² See Kentucky Power's Response to Staff's First Request, Item 55, KPCO_R_KPSC_1_55_Attachment63_WPSection_V_Exhibit_1, Tab "Sch 4," Excel line 292 (reflecting that amount as other revenue that reduces the base rate revenue requirement and indicating that accounts that make up that amount); see also Kentucky Power's Response to Staff's First Request, Item 55, KPCO_SR_KPSC_1_3_2025-12-31_SupplementalAttachment1.xlsm, Tab "FERC_IS1" (reflecting that amount in the accounts that are included in transmission revenue in the months that make up the test year).

²⁶³ See Kentucky Power's Response to Staff's Second Post-Hearing Request, Item 1, KPCO_R_KPSC_PHDR_2_1_Attachment1.xlsm, Tab "FERC_IS1" (reflecting the amounts in the accounts that make up transmission revenue from January 2025 through December 2025, which sum to that amount).

Account #	Jan. 2025 - Dec. 2025 Transmissions' Revenue
4561006	\$ 94,596
4561007	12,004,769
4561028	956
4561029	2,940,029
4561030	6,861
4561033	88,783,310
4561034	201,928
4561045	22,332
4561058	1,893,579
4561059	1,648,355
4561061	54,592
Total	<u>\$ 107,651,307</u>

Generally speaking, transmission revenue from FERC rates is included in other revenue for Kentucky Power and acts to reduce the revenue that must be generated from base rates, and therefore, reduces the base revenue requirement.²⁶⁴ In fact, as reflected in the table above, Kentucky Power's workpapers reflect that a significant portion of what Kentucky Power identified as the "LSE OATT expense" in the test year and pro forma test year is reflected as negative revenue, and Kentucky Power's workpapers indicate those amounts are intended to offset or reduce other revenues, and thereby, increase the revenue requirement.²⁶⁵ However, Kentucky Power made no adjustment to its test-year transmission revenue to reflect the projected or actual increase in revenue from

²⁶⁴ See Kentucky Power's Response to Staff's First Request, Item 55, KPCO_R_KPSC_1_55_Attachment63_WPSection_V_Exhibit_1.xlsx (in which the \$97,701,231 in transmission revenue reflected in Sch 4 reduces the revenue requirement in that way).

²⁶⁵ See Kentucky Power's Response to Staff's First Request, Item 55, KPCO_R_KPSC_1_55_Attachment27_SpaethWP7.xlsx (reflecting in multiple places that those amounts are revenue offsets).

transmission rates used to project its LSE OATT expense.²⁶⁶

If Kentucky Power's actual 2025 "LSE OATT expense," including the negative revenue offsets, and actual 2025 transmission revenue were used to calculate Kentucky Power's base rate revenue requirement in this case, it would reduce Kentucky Power's pro forma revenue requirement by about \$(21,218,180) before any gross-up.²⁶⁷ Kentucky Power was asked in post-hearing requests for the following information, among other things, (1) why the actual amounts reflected in the LSE OATT expense accounts from January 2025 to December 2025 should not be used to calculate the adjustments to those accounts; (2) why it was reasonable to project an increase in LSE OATT expense based, in part, on a projected increase in transmission revenue without making the corresponding increase in the other revenue; and (3) why its actual 2025 transmission revenue should not be used when calculating the revenue requirement.²⁶⁸ Kentucky Power was also given the opportunity to file a brief on those issues.

In response to post-hearing requests and in briefing, Kentucky Power noted three distinct items included in its retail rates related to the transmission service: (1) Kentucky Power's embedded retail transmission cost of service; (2) PJM transmission owner revenues; and (3) PJM LSE OATT charges. Kentucky Power asserted that the PJM LSE OATT charges are different from the other two transmission related items, because PJM LSE OATT charges are based on the zonal cost of PJM transmission service, include

²⁶⁶ See Kentucky Power's Response to Staff's First Request, Item 55, KPCO_R_KPSC_1_55_Attachment63_WPSection_V_Exhibit_1, Tab "Sch 4," Excel line 298 (reflecting no adjustment to the overall \$97,701,231 amount included in the test year).

²⁶⁷ $\$97,701,231 - \$107,651,307 = \$(9,950,076)$; $\$(9,950,076) + \$(11,268,104) = \$(21,218,180)$.

²⁶⁸ See Kentucky Power's Response to Staff's Second Post-Hearing Request, Item 2 through Item 4.

charges from many transmission owners in PJM per AEP's PJM tariff, and are not based solely on Kentucky Power's owned transmission assets.²⁶⁹

Kentucky Power argued that increasing the transmission revenue to reflect the projected revenue from transmission rates in 2025 or the actual transmission revenue in 2025, both of which were roughly \$107 million, would not be appropriate, because Kentucky Power made no post-test-year transmission investment adjustment to rate base.²⁷⁰ Kentucky Power asserted that "any cost-of-service increase to [Transmission Owner] revenue would require an increase to transmission rate base, depreciation expense, transmission O&M expense and depreciation expense, which have not been made in the Company's cost of service schedules in this proceeding."²⁷¹

With respect to the use of the actual 2025 LSE OATT expense as reflected in Kentucky Power's income statement as compared to Kentucky Power's projected LSE OATT expense based on 2025 transmission rates, Kentucky Power asserted that:

[T]he Company appropriately used a historical test year based on the 12 months' ended May 31, 2025, to calculate its revenue requirement, consistent with 807 KAR 5:001, Section 16(1)(a)(1), and made pro forma adjustments for known and measurable changes consistent with 807 KAR 5:001, Section 16(5).²⁷²

Kentucky Power further stated that a historical test-year is used as the basis to set prospective rates and that there are numerous changes to its historical cost of service, almost all of which are not subject to true-up during the proceeding. Kentucky Power also

²⁶⁹ Kentucky Power's Response to Staff's Second Post-Hearing Request, Item 2.

²⁷⁰ Kentucky Power's Response to Staff's Second Post-Hearing Request, Item 2.

²⁷¹ Kentucky Power's Response to Staff's Second Post-Hearing Request, Item 2.

²⁷² Kentucky Power's Response to Staff's Second Post-Hearing Request, Item 4.

noted that because the rates proposed in this case will not be effective until 2026 that it will incur expenses based on the updated 2026 FERC transmission rates. Kentucky Power asserted that it would be improper to adjust a single expense item to reflect updated actuals at the exclusion of other expenses or revenue items that may have also changed during the course of the pending proceeding.²⁷³

Kentucky Power asserted that it has a long history of adjusting test-year historical LSE OATT expense to the current rates accepted and authorized by FERC. Kentucky Power stated that it has consistently used the same methodology to adjust the test-year expense to a fixed, known, and measurable level of expense charged to Kentucky Power at the time of filing. Kentucky Power asserted that its recovery of these expenses as calculated was recently upheld and confirmed by the Franklin Circuit Court. While it responded, Kentucky Power also objected to the post-hearing requests for information asking about the use of actual 2025 LSE OATT expenses and transmission revenue in setting rates on due process grounds.²⁷⁴

As an initial matter, Kentucky Power's assertion that it lacked notice that transmission expenses or revenue would be an issue is not supported by the record. Kentucky Power proposed a rate increase in this matter and has the burden to establish that its proposed rate increase is reasonable. Moreover, Kentucky Power specifically proposed an adjustment to the test year's amounts for LSE OATT expenses/charges, which is interconnected with transmission revenue and the embedded cost of transmission in rates (and Kentucky Power's proposed adjustment was, in fact, based on

²⁷³ Kentucky Power's Response to Staff's Second Post-Hearing Request, Item 4.

²⁷⁴ Kentucky Power's Response to Staff's Second Post-Hearing Request, Item 2 and 4

a projected transmission revenue requirement increase for Kentucky Power). Among numerous other questions, Kentucky Power was asked for Excel workpapers supporting its schedules and pro forma adjustments, as discussed above, and for historical and updated income statement information, discussed above, used to verify schedules and determine if proposed adjustments are reasonable, and Kentucky Power was asked specific questions regarding its proposed LSE OATT adjustment and related items. Thus, Kentucky Power had notice that transmission revenue and expenses were at issue in this matter and ample opportunity to present evidence and arguments on that issue.

With respect to the substantive issues related to Kentucky Power's transmission revenue and expenses, the Commission finds that the evidence does not support Kentucky Power's proposed LSE OATT expense adjustment. While Kentucky Power projected the LSE OATT expense based upon the forecasted FERC revenue requirements, a number of factors can affect the extent to which Kentucky Power is charged the FERC rates in a given year such as Kentucky Power's demand. Further, Kentucky Power's own evidence in this case indicated that its LSE OATT expense in 2025 was not only inconsistent with its projected annualized amount based on the 2025 rate but that the LSE OATT expense in 2025, the period in which the 2025 rate would apply, was actually lower than the charges in the test year by approximately \$1.286 million dollars.²⁷⁵ In light of those actual LSE OATT charges from January 2025 through December 2025, which come from Kentucky Power's own income statement, the

²⁷⁵ \$142,280,758 - \$140,994,529 = \$1,286,229. The Commission also notes that information provided by Kentucky Power on December 31, 2025 in a supplemental response to Staff's First Request for Information indicated that the actual LSE OATT charges from December 2024 through November 2025 were also lower than the test-year amounts and significantly lower than the pro forma test-year amounts. See Kentucky Power's December 31, 2025 Supplemental Response to Staff's First Request, Item 3, KPCO_SR_KPSC_1_3_2025-12-31_SupplementalAttachment1.xlsm.

Commission is not able to find that Kentucky Power met its burden of establishing a known and measurable change to its LSE OATT expense that justifies its proposed pro forma adjustment, and therefore, finds that the proposed pro forma adjustment to LSE OATT expense should be denied.

While the decrease in the LSE OATT expense in 2025 as compared to the test year alone supports rejecting Kentucky Power's proposed adjustment, the Commission notes that the decrease in the LSE OATT expense makes sense despite the forecasted increase in the overall revenue requirement used to calculate the transmission rates, because the bulk of the transmission costs are allocated based on a load serving entity's overall share of the demand. Kentucky Power's workpapers reflect this in projecting Kentucky Power's LSE OATT expense by allocating AEP's share of the overall transmission revenue requirement for the AEP East Companies based primarily on 2024 demand.²⁷⁶ However, unlike most other utilities in the current environment,²⁷⁷ Kentucky Power's demand has been flat or decreasing.²⁷⁸ Thus, Kentucky Power logically would be responsible for an increasingly smaller share of the transmission revenue requirement allocated based on demand such that Kentucky Power's LSE OATT expense would decrease or remain flat despite an overall increase in the revenue requirement used to calculate LSE OATT charges for all AEP East Companies. In fact, this appears to be what is occurring given that Kentucky Power's actual transmission revenue increased

²⁷⁶ See Kentucky Power's Response to Staff's First Request, Item 55, KPCO_R_KPSC_1_55_Attachment27_SpaethWP7.xlsx, Tab "Adjustment."

²⁷⁷ See Case No. 2025-00175, Dec. 30, 2025 Order, discussing Kentucky Power's arguments and evidence filed in support of a CPCN that load forecasts within PJM are increasing.

²⁷⁸ Wiseman Direct Testimony at 9.

in 2025 as compared to the test year but Kentucky Power's apparent responsibility for its own transmission revenue requirement, reflected as the negative revenue in its LSE OATT Expense, decreased.

The Commission also notes that in rejecting Kentucky Power's proposed pro forma adjustment to LSE OATT expense, based on the actual numbers, that the Commission is not proposing that all numbers be trued-up based on actuals. Rather, Kentucky Power proposed a pro forma adjustment to a test year expense and has the burden in establishing that the adjustment is known and measurable and is reasonable. The evidence simply does not support Kentucky Power's proposed adjustment in this case, because the actual amounts indicate that the LSE OATT expense was lower in 2025 than in the test year and was significantly lower than Kentucky Power projected.

Additionally, while the Kentucky Power alleges in its brief that it is now subject to LSE OATT charges based on 2026, projected 2026 rate effects were not the basis of Kentucky Power's proposed adjustment, and even assuming those rates resulted in an overall increase in the revenue requirement for the AEP East Companies that would not necessarily translate into an increase in the overall charges for Kentucky Power, as reflected by the effect of the 2025 charges. Moreover, as noted above, Kentucky Power's actual 2025 LSE OATT charges are actually lower than the actual test year amounts, such that the revenue requirement used to set rates actually already includes a margin in the event LSE Charges increase in the future. It would be unreasonable to provide a significant additional margin based on projected 2025 charges that do not match the reality of what occurred based on the evidence.

The Commission also is not persuaded by Kentucky Power's attempts to

distinguish LSE OATT expense from the other transmission items included in rates. Kentucky Power seems to suggest that LSE OATT expense can be adjusted separately from transmission revenue and the embedded cost of transmission in base rates but that the other two items must be adjusted together because the other two items are interconnected whereas the LSE OATT expense is not. However, that is not entirely accurate in that Kentucky Power projected its increase in LSE OATT expense based in part on a projected increase in Kentucky Power's transmission revenue, and as discussed above, a significant portion of Kentucky Power's LSE OATT expense and its proposed pro forma increase is reflected as a revenue offset, which is obviously intended to reflect the extent to which Kentucky Power is responsible for its own transmission revenue requirement.

Moreover, while Kentucky Power did not make post-test year adjustments to its transmission plant in service to reflect additional investments beyond May 2025, the test year included at least some of the transmission investments used to justify Kentucky Power's proposed 2025 transmission revenue requirement, which was based on projected 2025 O&M and a 13-month average of Kentucky Power's projected 2025 rate base. Additionally, Kentucky Power did project a number of pro forma increases to O&M to bring them up to 2025 levels such that at least a portion of the increased 2025 O&M used to calculate the increase in Kentucky Power's 2025 transmission revenue requirement, as compared to Kentucky Power's 2024 transmission revenue requirement, is embedded in the cost of service used to establish base rates in this case. Thus, in its Application, Kentucky Power adjusted the LSE OATT expense and at least partially adjusted the cost of transmission service embedded in base rates, both of which generally

increased rates, but made no adjustment to the related transmission revenue that would act to decrease the base revenue requirement.

However, Kentucky Power appears to be correct that no adjustment was made to transmission plant in service after May 2025 such that projected plant additions and CWIP beyond that date are not being reflected in base rates. Therefore, the risk that Kentucky Power customers are paying such costs twice, through LSE OATT expense and costs embedded in rates, without receiving a revenue offset is diminished. However, differences in the manner that rate base is determined for FERC rates and here make it difficult to confirm that the risk is entirely eliminated. Additionally, Kentucky Power's base revenue requirement did include at least some of the revenue from the increased transmission revenue requirement, because the test year includes part of 2025. Finally, as noted above, the Commission is rejecting Kentucky Power's proposed pro forma adjustment to the LSE OATT expense for the reasons discussed above, which reduces the risk of inconsistent adjustments of related items. Thus, the Commission will not make any adjustment to Kentucky Power's transmission revenue in this case despite the concerns expressed above. The denial of the pro forma adjustment to LSE OATT expense of \$9,981,873 results in a grossed-up decrease to the revenue requirement of \$10,026,163.

Storm Expenses

In its application, Kentucky Power proposed to remove all \$13.5 million²⁷⁹ of storm damage expenses from O&M to be recovered in base rates and sought approval to

²⁷⁹ Wolfram Direct Testimony at 33. Kentucky Power uses a three-year average to determine storm damage expense for the test-year. The actual amount of storm expense for the test-year was \$23 million.

automatically record all future storm damage expenses as regulatory assets, subject to quarterly review.²⁸⁰ However, as part of the Settlement Agreement, and in response to the Commission's decision in Case No. 2025-00291 denying Kentucky Power's request for a storm damage expense regulatory asset,²⁸¹ Kentucky Power included \$2 million in storm damage expense in base rates.

In Case No. 2023-00159, Kentucky Power's last base rate case, the Commission approved Kentucky Power's proposal to reduce the level of total distribution major and non-major storm project expense in the test year from \$7.3 million to approximately \$1.0 million and maintain the actual test-year level of transmission major and non-major storm project expense of \$0.1 million.²⁸² In that proceeding, the Commission approved the lower amounts but cautioned Kentucky Power that it would examine each application for a regulatory asset thoroughly to ensure that the costs were reasonable and prudently incurred, regardless of the amount, and would not find that an expense is extraordinary simply because it exceeded the test year amount.²⁸³ The Commission disallowed Kentucky Power's request for a regulatory asset of approximately \$2 million for incremental O&M costs for non-major storm damages in Case No. 2025-00291 that Kentucky Power cited as a reason for the adjustment to storm damage expenses introduced in the Settlement Agreement.²⁸⁴

The Commission reviewed the previous five years of non-major storm damage

²⁸⁰ Application at 17; Wolfram Direct Testimony at 33.

²⁸¹ Case No. 2025-00291, Oct. 30, 2025 Order at 8.

²⁸² Case No. 2023-00159, Jan. 19, 2024 Order at 33.

²⁸³ Case No. 2023-00159, Jan. 19, 2024 Order at 35.

²⁸⁴ Case No. 2025-00291, Oct 30, 2025 Order at 8, ordering paragraph 1.

expenses and determined the amounts were approximately the \$2.00 million proposed by Kentucky Power. Therefore, the Commission finds that the \$2.00 million increase proposed in the Settlement Agreement is reasonable and should be approved. Kentucky Power's request for automatic recording of future storm damage as a regulatory asset is denied as discussed in the Deferrals section below.

Rate Case Expense

Kentucky Power proposed an adjustment to increase the annual amortization of rate case expense by \$241,939.²⁸⁵ This amount included an estimated \$1,393,500 for rate case expense in this proceeding and the outstanding balance of \$274,328 from the rate case expense regulatory asset from Case No. 2023-00159 to be amortized over three years, resulting in annual costs of \$555,943.²⁸⁶ This amount also included a reduction for amortization related to the current base rate expense regulatory asset of \$314,004, resulting in the proposed \$241,939 adjustment.²⁸⁷ Kentucky Power's most recently filed update to rate case expense costs was filed February 2, 2026 and showed actual costs through December 2025 of \$894,386.²⁸⁸ The difference between the as-filed estimate and most recent estimate is \$499,114. The difference between the two amounts amortized over the three-year period results in a grossed-up revenue requirement decrease of \$167,109. The Commission finds the reduction of \$167,109 is reasonable because it represents the most recent actual spending for rate case expenses. The

²⁸⁵ Direct Testimony of John D. Cullop (file Aug. 29, 2025) (Cullop Direct Testimony) at 12.

²⁸⁶ Cullop Direct Testimony at 12.

²⁸⁷ Cullop Direct Testimony at 12.

²⁸⁸ Kentucky Power's Supplemental Response to Commission Staff's First Request (filed Feb. 2, 2026), Item 14, Attachment 1.

Commission approves an increase to annual amortization of rate case expense of \$74,830.²⁸⁹

Incidental Gas Sales Loss Expense

As discussed in the Deferrals section below, the Commission finds that incidental gas sales losses and gains are too volatile to include in base rates, and should be recovered exclusively via Tariff P.P.A. Therefore, a \$1,880,306 reduction should be made to the revenue requirement, representing the \$1,872,000 in incidental gas losses included in base rates, grossed-up for bad debt expense and Commission assessments.

Non-Recurring Special Charges Revenue Adjustments

Due to the changes in the Non-Recurring Special Charges discussed below in the Tariffs/Riders section, an adjustment is necessary to correct the expected revenues from those charges. Using the number of occurrences for each charge provided by Kentucky Power and the difference between the application and Commission approved cost, Kentucky Power's Other Revenues should be decreased by \$99,762. Grossed-up, this results in an increase to the revenue requirement of \$100,205.

Income Tax Expense

Kentucky Power reported a negative state income tax expense of \$(245,892)²⁹⁰ and a negative federal income tax expense of \$(2,735,511)²⁹¹ during the test year. The total effect of the Commission's adjustments is a \$22,518,460 reduction to Kentucky

²⁸⁹ \$241,939 - \$167,109 = \$74,830

²⁹⁰ Kentucky Power's Response to Staff's First Request, Item 55, Attachment 65, SIT Schedules Tab, Cell O132.

²⁹¹ Kentucky Power's Response to Staff's First Request, Item 55, Attachment 65, CFIT Schedules Tab, O168 Tab.

Power's Test Year Operating Income as shown in the table below.

O&M Adjustments	Amount
Incentive Compensation - Financial	\$ (1,834,071)
Incentive Compensation - Safety, Reliability, Service	(2,168,551)
Other Compensation	(7,286,925)
SERP Expense	(143,154)
401(k) Expense	(1,857,714)
Property Tax Expense	(318,986)
Pension Settlement (AEP)	(980,601)
Depreciation TOR Veg Management	(2,345,812)
Depreciation Expense - Terminal Net (Big Sandy)	(1,006,515)
Depreciation Expense - Interim (Mitchell)	(2,781,153)
Depreciation Expense - Gen Rider Offset	1,184,621
Membership Dues	(112,706)
Increase Non-Major Storm Expense	2,000,000
O&M TOR Veg Management	7,209,925
Amortization of TOR Reg Asset	1,552,183
Incidental Loss on Gas (Hedging)	(1,872,000)
Decrease FERC Transmission Rates Expense	(9,981,873)
Decrease Revenues for NRC Adjustments	99,762
Rate Case Expense	(166,371)
Outside Services Employed (Account 923)	(1,708,519)
Total O&M Adjustments	\$ (22,518,460)

As a result of adjustments to Kentucky Power's revenues and O&M Expenses, Kentucky-Power's operating income, and, in turn, its income taxes, increase. The Commission finds that, after the adjustments to Kentucky Power's revenues O&M Expenses, Kentucky Power's proposed state income tax expense will increase by \$1,338,062, and Kentucky Power's proposed federal income tax expense will increase by \$5,374,359, for a total increase of \$6,712,421 to Kentucky Power's Income Tax expense.

DEFERRALS

The Commission has established parameters for expenses that qualify for

regulatory asset treatment; the Commission has approved regulatory assets where a utility has incurred (1) an extraordinary, nonrecurring expense which could not have reasonably been anticipated or included in the utility's planning; (2) an expense resulting from a statutory or administrative directive; (3) an expense in relation to an industry sponsored initiative; or (4) an extraordinary or nonrecurring expense that over time will result in a saving that fully offsets the cost.²⁹² The Commission does not consider these factors to be exhaustive.

Storm Expense Automatic Deferral

As noted above, Kentucky Power's Application proposed removing all storm damage expenses from base rates and sought approval to automatically record all future storm damage expenses as regulatory assets, subject to quarterly review.²⁹³ Kentucky Power is pursuing legislation to allow securitization of current storm expense regulatory assets. Otherwise, Kentucky Power would seek recovery in a later rate case.

Attorney General/KIUC witness Kollen recommended accepting the proposal by Kentucky Power, stating all components of Kentucky Power's proposal maximize the savings to customers from securitization financing without harming Kentucky Power.²⁹⁴

In light of the Commission's decision in Case No. 2025-00291 denying Kentucky Power's request for a storm damage expense regulatory asset,²⁹⁵ Kentucky Power altered its proposal and sought to include \$2 million in storm damage expense in base

²⁹² Case No. 2025-00291, Oct. 30, 2025 Order at 3–4.

²⁹³ Application at 17; Wolfram Direct Testimony at 33.

²⁹⁴ Kollen Direct Testimony at 48–49.

²⁹⁵ Case No. 2025-00291, Oct. 30, 2025 Order at 8.

rates under the Settlement Agreement, while maintaining its position that it should be permitted to automatically defer storm damage expenses in excess of \$2 million.²⁹⁶

The Commission is concerned about this proposal for two reasons. First, the current method for creating a regulatory asset involves Kentucky Power filing an application to treat extraordinary storm damage expenses as a regulatory asset for later recovery. The proposed method for handling storm damage expenses is to automatically record all future storm damage expenses as regulatory assets, then perform quarterly true-ups. While the Settlement Agreement adjusted the proposed storm damage expenses in base rates, it did not address the request for automatic deferral of all storm damage expenses. This would result in Kentucky Power receiving automatic approval for the deferral of all storm damage expenses and ratepayers paying for expenses that have not yet been subject to the deferral analysis described above. This mechanism would also reduce Kentucky Power's incentive to minimize storm damage expenses. This is particularly troubling in light of Kentucky Power's inability to significantly reduce reliability metrics despite significant increases in vegetation management expenses for the last 15 years as discussed above.

Second, such deferrals decouple costs from current customers benefiting from these expenditures and places them on future ratepayers. In general, the Commission seeks to minimize future ratepayers paying for current expenses that do not benefit them, just as the Commission seeks to avoid having current ratepayers pay for past costs that do not benefit them.

Having reviewed the record and being otherwise sufficiently advised, the

²⁹⁶ Settlement Agreement at 78.

Commission finds that the proposed mechanism for deferring additional storm damage expense automatically should be denied. The Commission sees no reason for Kentucky Power to receive automatic deferral of storm damage expenses that would outweigh the concerns set out above. However, nothing herein should be construed as prohibiting Kentucky Power from making an application to defer extraordinary storm damage expense as it has in the past or as limiting Kentucky Power's ability to request recovery of such amounts in future filings.

Vegetation Management

The Settlement Agreement proposed to defer certain costs associated with the TIR and TOR program expenditures, subject to caps, stating:

The Parties agree the Commission should approve deferral accounting treatment for Kentucky Power for any actual amounts above or below the levels in rates for the following items:

- i. Vegetation management operation and maintenance expense ("O&M") and capital costs, including return on capital investment and depreciation expense. For purposes of the deferral, the total TIR Program cost will not exceed \$25 million on an annual basis and total TOR Program cost will not exceed \$20 million in 2026 and \$27 million in 2027. For clarity, this accounting treatment supersedes the one-way balancing mechanism that currently exists for TIR expense as referenced in the Direct Testimony of Company Witness Ross.²⁹⁷

The Settlement Agreement and supporting testimony are not entirely clear how those deferrals would function. However, given that Kentucky Power was previously capitalizing the TOR expenditures, the Settlement Agreement appears to have intended to allow Kentucky Power to continue to capitalize the TOR expenditures and defer for

²⁹⁷ Wolfram Settlement Testimony, Exhibit TSW-S1 at 10.

later recovery any return on and of incremental TOR expenditures after the end of the test year subject to a limit of \$20 million in TOR expenditures in 2026 and a limit of \$27 million in TOR expenditures in 2027 (though it is unclear how TOR expenditures from June 1, 2025 through December 31, 2025 and TOR expenditures after 2027 would be treated). Conversely, since Kentucky Power treats TIR expenditures as an operating expense, the Settlement Agreement appears to have intended to allow Kentucky Power to defer the difference between the TIR expense embedded in the revenue requirement and the actual annual TIR expense in a given year subject to a limit of \$25 million.

The one-way balancing adjustment mechanism referred to in the Settlement Agreement is a mechanism first approved as part of a settlement in Case No. 2014-00396²⁹⁸ and reapproved in Kentucky Power's subsequent rate cases. In general, the one-way balancing adjustment tracks the annual vegetation management expense as compared to the amount included in the test year and requires Kentucky Power to record a regulatory liability to the extent the cumulative annual spending between rate adjustments was less than the cumulative annual amount that would have been spent based on the expense included in the test year.²⁹⁹ The one-way balancing adjustment mechanism was adopted as part of a broader settlement in Case No. 2014-00396, which significantly increased vegetation management expense included in base rates from about \$17 million annually to about \$27 million annually to improve Kentucky Power's vegetation management practices and ostensibly get it to a place where it could

²⁹⁸ Case No. 2014-00396, June 22, 2015 Order at 74-77.

²⁹⁹ Case No. 2014-00396, June 22, 2015 Order at 74-77.

implement a five-year maintenance clearing cycle.³⁰⁰ The one-way balancing adjustment appears to have been implemented as part of the settlement out of concern that Kentucky Power might not be able to engage in vegetation management to the degree anticipated by the settlement.³⁰¹

In this case, Kentucky Power proposed in its application to maintain the one-way balancing adjustment but proposed to increase the amount used to determine the annual over or under from \$22,421,864 to \$22,825,396.³⁰² Kentucky Power's witness Ross explained that "[t]he increase in the current annual level of vegetation management O&M from \$22.4 million to \$22.8 million is reasonable and necessary due to the increased costs of labor, equipment, and vine mitigation."³⁰³ Ross further indicated that "[t]he current clearing cycle has proven to be effective, and Kentucky Power must continue to make incremental investments in vegetation management to maintain its current TIR outage performance."³⁰⁴

With respect to the proposed TOR program deferral, the Commission notes, as discussed above, that TOR expenditures should not be capitalized, so the function of the proposed deferral would not work in practice. Additionally, the Commission finds that Kentucky Power's proposed incremental increases in TOR expenditures are inconsistent with its historical expenditures and unreasonable for the reasons discussed above. There

³⁰⁰ Case No. 2014-00396, June 22, 2015 Order at 74-77.

³⁰¹ See Case No. 2014-00396, June 22, 2015 Order at 76-77 (noting that there may be circumstances in which expenditures on vegetation management may be altered immediately before discussing the implementation of the one-way balancing adjustment mechanism).

³⁰² Ross Direct Testimony at 18.

³⁰³ Ross Direct Testimony at 18.

³⁰⁴ Ross Direct Testimony at 18.

is no reasonable basis for allowing the deferral of TOR expenditures to the extent that they are treated as an expense, because with the adjustments herein, TOR expense is embedded in rates at a reasonable level, i.e. the average historical level, and allowing the automatic deferral would limit any incentive to keep down costs. Moreover, even assuming TOR expenditures were permitted to be capitalized and treated as a capital cost, the amount of spending allowed by the deferral would be unreasonable, and no reasonable explanation was offered for why Kentucky Power should effectively be permitted to recover a return on and of incremental projected TOR expenditures for at least 2.5 years after the end of the test year despite using a historical test period to establish rates. Thus, the Commission finds that the TOR deferral proposed in the Settlement Agreement is unreasonable and should be denied.

With respect to the proposed TIR deferral, the Commission notes that Kentucky Power's spending on what it classified as its TIR program has been virtually the same for the last seven years—ranging between about \$21.3 million to about \$22.2 million from 2018 to 2024 as reflected in the chart included above—and Kentucky Power set TIR expense in the revenue requirement in this case to include a slight incremental increase with respect to those historical costs. Moreover, Kentucky Power's own witness indicated that the current level of TIR performance could be maintained with the incremental increase proposed by Kentucky Power.³⁰⁵ For that reason, the evidence does not support a finding that Kentucky Power would need to increase that spending in future years in a way that would justify the deferral. Allowing the automatic deferral for TIR program expenditures would simply limit Kentucky Power's incentive to continue to keep TIR

³⁰⁵ Ross Direct Testimony at 18.

expenditures, which Kentucky Power acknowledges are at a reasonable level, from increasing. Thus, the Commission finds that the TIR deferral proposed in the Settlement Agreement is unreasonable and should be denied. However, the Commission finds that Kentucky Power should be permitted to increase the base level used for the calculation in the one-way balancing mechanism that existed before this case to \$22,825,396 as proposed by Kentucky Power in its application, because that is the amount included in base rates here and is reasonable as discussed above.

Incidental Gas Sales Losses

In 2023, Kentucky Power began a hedging program pertaining to its purchases of natural gas for its Big Sandy power plant. Kentucky Power enters into advance purchase contracts for natural gas used to power Big Sandy to insure against the risk of future high gas costs, because gas costs can be fairly volatile.³⁰⁶ The incidental sales represent excess gas purchased in advance that was not used and could not be stored. Kentucky Power indicated that a loss occurs when Kentucky Power both over-purchases the amount of gas required and spends more on gas in the advance contract than it would have through spot market purchases.³⁰⁷ Kentucky Power asserted that it does not benefit from the hedging practices. Rather, it indicated that any hedging gains or losses pass through to the ratepayers as part of the Fuel Adjustment Clause (FAC) mechanism.³⁰⁸ However, the losses arising from incidental gas sales are not recovered through the FAC

³⁰⁶ Direct Testimony of Clinton M. Stutler (filed Aug. 29, 2025) (Stutler Direct Testimony) at 7.

³⁰⁷ Hearing Testimony of Clinton M. Stutler (Stutler Hearing Testimony), HVT of the Jan. 15, 2026 Hearing at 13:09:37–13:14:08.

³⁰⁸ Stutler Hearing Testimony, HVT of the Jan. 15, 2026 Hearing at 13:18:47–13:19:23.

mechanism, and Kentucky Power indicated that they are currently not recovered through any mechanism or rate.

During the test period, Kentucky Power's hedging program resulted in paying approximately \$2.9 million more for natural gas through advance contracts than it would have paid via spot market purchases.³⁰⁹ This hedging loss results in increased fuel costs that pass through the FAC mechanism and are ultimately paid for by ratepayers in future FAC cases, unless the Commission excludes some portion of those costs. During this same period, Kentucky Power incurred approximately \$1.872 million in losses for sales of surplus gas.³¹⁰

In its application, Kentucky Power proposed to (1) recover \$1.872 million in incidental gas sales losses experienced during the test period in base rates; (2) defer an additional \$1.872 million to be recovered in rates because this amount was not previously included in rates; and (3) use \$1.872 million in incidental gas sales losses that it proposes to include in the test year as a baseline moving forward, to recover or credit gains or losses on incidental gas sales over or under \$1.872 million per year through Tariff P.P.A.³¹¹ The Attorney General recommended removing incidental gas sales losses/gains from base rates and including recovery of all losses and gains through Tariff P.P.A. using a \$0 baseline, resulting in a revenue requirement reduction of \$1.880 million after gross-up for bad debt expense and Commission fees.³¹²

³⁰⁹ Kentucky Power's Response to Staff's Post-Hearing Request, Item 18, Attachment 1.

³¹⁰ Kentucky Power's Response to Staff's Post-Hearing Request, Item 18, Attachment 1.

³¹¹ Wolfram Direct Testimony at 30; Stutler Direct Testimony at 10.

³¹² Attorney General's Post-Hearing Brief at 10.

The Commission finds that the incidental gas sales loss expense is reasonable and Kentucky Power should be permitted to recover this expense. Because this expense is likely to vary due to the gas price volatility witness Stutler discusses, recovering the over/under in Tariff P.P.A. is reasonable. However, the Commission finds that due to the volatility of this expense, it should adopt the Attorney General's position that incidental gas sales losses/gains should be recovered/credited only through Tariff P.P.A. with the \$1.880 million in grossed-up incidental gas sales losses removed from base rates. All losses or gains after the effective date of the rates approved herein should be recovered annually using a \$0 baseline. In addition, the Commission finds that annual net loss and gains should be subject to a \$3 million cap. The loss cap will protect ratepayers from unreasonable losses and the gain cap creates parity in the mechanism and gives Kentucky Power an incentive to continue hedging and potentially profit from hedging gains.

The Commission also finds that Kentucky Power's request to create a regulatory asset for incidental gas sales loss that was not previously included in base rates should be denied as unreasonable and prohibited retroactive ratemaking.³¹³ Kentucky Power has the ability to request a change in rates in the event it contends that it is not recovering its reasonable costs, and it should have done so earlier if it contended it was incurring a new cost that was not included in rates that makes its rates unreasonable. The Commission notes numerous costs and credits that are new or increased or decreased

³¹³ See Case No. 2006-00307, *The Application of Kentucky Power Company for Approval of an Amended Compliance Plan for Purposes of Recovering Additional Costs of Pollution Control Facilities and to Amend Its Environmental Cost Recovery Surcharge Tariff* (Ky. PSC Jan. 24, 2007), Order at 16; Case No. 2016-00109, *An Examination by the Public Service Commission of the Environmental Surcharge Mechanism of Kentucky Power Company for the Six-Month Billing Period Ending December 31, 2015* (Ky. PSC Nov. 4, 2016), Order at 4.

in the test year as compared to Kentucky Power's last rate case, but the fact that such costs or credits are not in previous rates alone does not justify allowing a deferral. If it did, the statutory scheme that allows a utility to prospectively propose new rates would be wholly undermined.

FlexPay Deferral

Kentucky Power seeks to defer the \$75,000 in costs associated with developing the FlexPay offering proposed in this case³¹⁴ discussed below. The costs include software expenses required for the FlexPay billing system.³¹⁵ Kentucky Power stated that it will seek to recover those costs in a subsequent rate case after AMI has been deployed in the latter half of 2026.³¹⁶ Kentucky Power argued that deferral is appropriate as it is in response to the Commission's order to pursue all reasonable and cost-effective programs, including prepay programs, made possible by AMI, as set out in Case No. 2024-00344.³¹⁷ The Commission finds that the deferral of \$75,000 should be accepted, as it is a one-time expense resulting from an administrative directive.

Short-Term Debt to Fund DTL Credits

Kentucky Power proposed as part of its Settlement Agreement the following deferral authority:

If incremental short-term debt is needed to fund the DTL Credits, the Company may defer short-term debt interest costs in excess of the \$0 in rates up to \$2 million annually.³¹⁸

³¹⁴ Wolfram Direct Testimony at 31.

³¹⁵ Direct Testimony of Stevi N. Cobern (filed Aug. 29, 2025) (Cobern Direct Testimony) at 15.

³¹⁶ Kentucky Power's Post-Hearing Brief at 38.

³¹⁷ Kentucky Power's Post-Hearing Brief at 38

³¹⁸ Settlement Testimony of Tanner S. Wolfram (file Jan. 9, 2026) (Wolfram Settlement Testimony), Exhibit TSW-S1.

Kentucky Power explained that provision was intended to authorize the deferral of short-term debt interest costs in excess of \$0 in base rates up to \$2 million annually to the extent it is needed to fund the DTL Credits.³¹⁹

Kentucky Power was unclear about how it would determine whether the payment of the DTL Credits resulted in an increase in short-term debt interest, but it at least implicitly indicated that any increase in short-term debt interest above the \$0 it included in base rates would be assumed to arise from the DTL Credits up to the principal amount of the DTL Credits at any given time. Kentucky Power's proposal is problematic for a number of reasons.

First, notwithstanding Kentucky Power including \$0 short-term debt in the capital structure it used to calculate base rates, Kentucky Power accrued short-term debt in every month of 2025.³²⁰ Second, Kentucky Power did not calculate rates based on capitalization, but rather, calculated its WACC based on its capital structure and then applied that to its rate base. Therefore, deferring carrying costs directly on increases in short-term debt would result in a mix of rate base and capitalization being used to determine the cost of service. Most importantly, the DTL Rider already accounts for the increase in carrying costs associated with the payment of the DTL Credits.

Specifically, as Kentucky Power's witness Hodgson explained:

The Deferred Tax Liability Rider revenue requirement includes a return on the DTL Regulatory Asset to recognize that because the Company used its deferred tax liability to provide revenue credits to customers, it no longer has the benefit of the interest-free loan from the federal government.

³¹⁹ Wolfram Settlement Testimony at S14.

³²⁰ Kentucky Power's response to Staff's Post-Hearing Requests, Item 9, KPCO_R_KPSC_PHDR_9_Attachment2.xlsx.

The Company's deferred tax liabilities are incorporated into its ratemaking as a reduction to rate base because they represent an interest-free loan from the federal government. The return on the DTL Regulatory Asset offsets the return that is provided to customers by the deferred tax liability being a reduction to rate base.³²¹

In short, the DTLs that form the basis for the revenue credits that will flow through the DTL Rider are currently offsetting rate base to reflect the zero-cost capital arising from the book-tax timing differences. To recognize that this zero-cost capital is being eliminated through revenue credits offered by the DTL Rider, the rider allows for a return on the DTL Regulatory Asset at Kentucky Power's WACC. Thus, the DTL Rider itself assumes that Kentucky Power is replacing the DTLs that form the basis for the credit with new capital at a carrying cost consistent with Kentucky Power's WACC, which is higher than Kentucky Power's historic short-term debt rate.

If Kentucky Power were to assume any increase in short-term debt was funding the payment of those credits, Kentucky Power would receive carrying costs on those credits at its WACC, at least to the extent of the DTL Regulatory Asset, and it would then assume that it was incurring interest on those credits at the short-term debt rate to be deferred for later recovery. This would effectively allow Kentucky Power to recover carrying costs on the same amounts twice, at least to the extent of the DTL Regulatory Assets, which would be unreasonable. Thus, the Commission finds that this deferral should be denied to the extent that Kentucky Power intends to defer interest on the revenue credits at the short-term debt rate for which it is already recovering carrying costs at the WACC.

³²¹ Settlement Testimony of David A. Hodgson (filed Jan. 29, 2026) (Hodgson Settlement Testimony) at S7.

However, the Commission acknowledges that the DTLs that form the basis for the credit to be included in the DTL Rider are offsetting rate base to reflect the zero-cost capital. Further, Kentucky Power should be permitted to recover carrying costs as that no-cost capital is eliminated, which is why the Commission is authorizing carrying costs on the offsetting DTL Regulatory Assets through the DTL Rider as discussed below. For the same reason, Kentucky Power should be permitted to recover short-term interest to the extent the carrying costs associated with the use of the DTLs to provide the revenue credit are not captured by the application of the WACC to the DTL Regulatory Assets. However, because the circumstances in which that would occur, if at all, are still unclear, the Commission finds that Kentucky Power should have the burden of establishing that the deferred short-term interest arose from the DTL Credit and is not duplicative when it seeks to recover the proposed regulatory asset in future rates. The Commission will also not assume any incremental short-term interest as compared to the \$0 in the test year on amounts up to the amount of revenue credit arose from the DTL Credit for the reasons discussed above. Thus, the Commission finds that the deferral of short-term interest as proposed in the Settlement Agreement is reasonable and should be approved, subject to the condition that Kentucky Power will be required to establish that the deferred interest arose from the DTL Credits and is not duplicative of other carrying costs recovered through the DTL Rider or base rates when seeking to recover the deferral.

Amortization of Existing Regulatory Assets

Storm Damage

Kentucky Power was authorized to record regulatory assets for extraordinary storm

damage expenses in Case Nos. 2024-00241,³²² 2024-00345,³²³ and 2025-00031.³²⁴

In its application, Kentucky Power proposed to defer recovery of existing storm damage regulatory assets, both to mitigate the rate increase in this case and to prepare for possible securitization of these regulatory assets.³²⁵ Kentucky Power stated that if securitization does not occur, it will seek to amortize and recover those existing and any new storm regulatory assets in its next base rate case or other appropriate proceeding.³²⁶

No intervenor objected to this proposal and, as an element of Kentucky Power's Application left unmodified in the Settlement Agreement, the Signatory Parties request that it be approved as filed (Catchall Provision).³²⁷

The Commission finds that the proposal to not recover existing storm damage regulatory assets, approved in Case Nos. 2024-00241,³²⁸ 2024-00345,³²⁹ and 2025-00031, in this proceeding is reasonable and should be approved. The Commission notes

³²² Case No. 2024-00241, *Electronic Application of Kentucky Power Company for an Order Approving Accounting Practices to Establish a Regulatory Asset Related to the Extraordinary Expenses Incurred by Kentucky Power Company in Connection with the April 2, 2024 and May 26, 2024 Major Event Storms* (Ky. PSC Sept. 27, 2024), Order.

³²³ Case No. 2024-00345, *Electronic Application of Kentucky Power Company for an Order Approving Accounting Practices to Establish a Regulatory Asset Related to the Extraordinary Expenses Incurred by Kentucky Power Company in Connection with the September 27, 2024 Major Event Storm* (Ky. PSC Dec. 13, 2024), Order.

³²⁴ Case No. 2025-00031, Mar. 31, 2025 Order.

³²⁵ Wolfram Direct Testimony at 36.

³²⁶ Wolfram Direct Testimony at 36.

³²⁷ Wolfram Settlement Testimony, Exhibit TSW-S1 at 3.

³²⁸ Case No. 2024-00241, *Electronic Application of Kentucky Power Company for an Order Approving Accounting Practices to Establish a Regulatory Asset Related to the Extraordinary Expenses Incurred by Kentucky Power Company in Connection with the April 2, 2024 and May 26, 2024 Major Event Storms* (Ky. PSC Sept. 27, 2024), Order.

³²⁹ Case No. 2024-00345, Dec. 13, 2024 Order.

that Kentucky Power did not propose to amortize these regulatory assets in this proceeding, thus no revenue requirement impact results.

North American Electric Reliability Corporation (NERC) Compliance and Cybersecurity

Kentucky Power was authorized to record a regulatory asset for NERC Compliance and Cybersecurity in Case No. 2023-00159.³³⁰ Since March 31, 2023, Kentucky Power deferred \$2,171,917 in NERC Compliance and Cybersecurity expenses.³³¹

In its application, Kentucky Power proposed to amortize this regulatory asset over five years, for an annual amortization expense of \$434,383. Kentucky Power stated that a five-year amortization period is consistent with the amortization period authorized in prior cases and aligns with the five-year depreciable life of the underlying projects.³³²

No intervenor objected to this proposal and Kentucky Power requested that it be approved under the Catchall Provision of the Settlement Agreement.³³³

The Commission finds that a five-year amortization period for the NERC Compliance and Cybersecurity is reasonable and should be approved. The test period amortization for this regulatory asset should be \$434,383.

RATE OF RETURN

³³⁰ Ciborek Direct Testimony at 21.

³³¹ Ciborek Direct Testimony at 21.

³³² Ciborek Direct Testimony at 21.

³³³ Wolfram Settlement Testimony, Exhibit TSW-S1 at 3.

Return on Equity (ROE)

Kentucky Power applied the Discounted Cash Flow (DCF) model, Capital Asset Pricing Model (CAPM), Empirical CAPM (ECAPM), Risk Premium Model (RPM), and Expected Earnings analyses to a proxy group of 20 electric utilities to determine an ROE range of 10.0 percent to 11.0 percent.³³⁴ Kentucky Power asserted its evidence supported an ROE of 10.50 percent;³³⁵ however, it requested an ROE of 10.0 percent, which it argued significantly understated investors' required return for Kentucky Power, but represented a reasonable compromise between balancing the impact on customers and the need to provide Kentucky Power with a return that is adequate to compensate investors.³³⁶ Additionally, Kentucky Power argued that, because its requested ROE of 10.0 percent already understates investors' required return for Kentucky Power, it should not be further reduced for the purposes of single-issue cost recovery mechanisms, such as the Environmental Surcharge or Decommissioning Rider.³³⁷ A summary of the results of Kentucky Power's ROE analysis is shown in the table below:³³⁸

³³⁴ McKenzie Direct Testimony at 4.

³³⁵ McKenzie Direct Testimony at 9.

³³⁶ McKenzie Direct Testimony at 4.

³³⁷ McKenzie Direct Testimony at 4.

³³⁸ McKenzie Direct Testimony, Exhibit AMM-2.

<u>Method</u>	<u>Result</u>
DCF	
Value Line	9.7%
IBES	10.6%
Zacks	10.8%
Internal br+sv	9.1%
CAPM	10.5% - 11.0%
ECAPM	10.9% - 11.4%
Utility Risk Premium	10.7%
Expected Earnings	11.1%
ROE Recommendation	
Cost of Equity	
Range	10.0% - 11.0%
Recommendation	10.50%
Request	10.00%

Kentucky Power argued that a 10.0 percent ROE for Kentucky Power is reasonable because: (1) the need to consider ongoing challenges to Kentucky Power’s credit standing; (2) Kentucky Power’s chronic inability to earn its authorized rate of return due to ongoing exposure to attrition; and (3) the additional risks posed by Kentucky Power’s relatively high concentration of industrial customers and financial leverage.³³⁹ In 2023, Standard and Poor’s Global Ratings (Standard and Poor’s) downgraded Kentucky Power, referencing that weakening financial standing ultimately resulted in lower credit ratings.³⁴⁰ Kentucky Power argued that authorizing a fair ROE and providing the utility a reasonable opportunity to earn this return also lowers the cost of borrowing and maintains access to the capital necessary to provide service, resulting in customer benefits from ensuring the utility has the financial ability to take necessary actions to ensure safe and

³³⁹ McKenzie Direct Testimony at 10.

³⁴⁰ McKenzie Direct Testimony at 8.

reliable service.³⁴¹ Additionally, Kentucky Power stated that its earned ROE for the 12 months ended May 31, 2025, was 3.93 percent.³⁴² Kentucky Power stated that the downward linear trend is driven by loss of significant non-residential customers as well as regulatory lag from increases to non-rider eligible rate base and increases to non-rider eligible operating and interest expense between base rate cases.³⁴³

Finally, Kentucky Power argued that flotation costs associated with issuing common stock are a legitimate expense incurred to raise equity capital supporting Kentucky Power's investment in utility infrastructure and that, although it did not include an adjustment for flotation costs, that is another legitimate consideration that supports the reasonableness of Kentucky Power's requested ROE.³⁴⁴

In direct testimony, the Attorney General/KIUC's witness recommended an ROE of 9.50 percent for Kentucky Power's retail electric operations based on (1) the results of a DCF analysis applied to a proxy group of 17 regulated electric utilities and (2) CAPM analyses using historical and forecasted market risk premiums as well as publicly available estimates of market risk premiums from other publicly available sources.³⁴⁵ In selecting their proxy group of companies, the Attorney General/KIUC's witness explained that they began with the proxy group of vertically integrated electric utilities that Kentucky Power used for its analysis, and chose to exclude Edison International due to adverse effects in its stock price, as well as NorthWestern Energy Group and Black Hills

³⁴¹ McKenzie Direct Testimony at 9.

³⁴² Newcomb Direct Testimony at 8.

³⁴³ Newcomb Direct Testimony at 9.

³⁴⁴ McKenzie Direct Testimony at 10.

³⁴⁵ Baudino Direct Testimony at 3.

Corporation due to an announced merger between the two companies.³⁴⁶ Additionally, the Attorney General/KIUC' witness recommended the Commission apply a ten basis point reduction to Kentucky Power's Decommissioning Rider and Environmental Surcharge Rider, making their recommended ROE for these riders equal to 9.40 percent.³⁴⁷

The Attorney General/KIUC's witness presented DCF results ranged from 8.39 percent to 11.0 percent and 9.08 percent to 10.95 percent for its average growth rates method and median growth rates method, respectively.³⁴⁸ The Attorney General/KIUC's witness noted that a considerable amount of judgment must be employed in determining the market return and expected risk premium elements of the CAPM equation and their experience indicated prudence in using a wide variety of data in estimating investor-required returns, which may lead to the range of results also being wider.³⁴⁹ The Attorney General/KIUC's witness provided CAPM ROE estimates ranged from 7.86 percent to 10.13 percent.³⁵⁰ Based on their DCF and CAPM results, the Attorney General/KIUC's witness recommended an ROE range of 8.90 percent to 10.0 percent, and noted that its recommended ROE for Kentucky Power of 9.50 percent is near the approximate midpoint of this range.³⁵¹ The Attorney General/KIUC's witness argued that the recommended 9.50 percent ROE fully reflected current economic and financial market conditions at the

³⁴⁶ Baudino Direct Testimony at 17.

³⁴⁷ Baudino Direct Testimony at 37.

³⁴⁸ Baudino Direct Testimony at 21.

³⁴⁹ Baudino Direct Testimony at 24–25.

³⁵⁰ Baudino Direct Testimony at 32.

³⁵¹ Baudino Direct Testimony at 33.

time their testimony was prepared, and provides a fair return on low-risk regulated electric utility investments for Kentucky Power.³⁵² A summary of the estimates provided by the Attorney General/KIUC's witness is shown in the table below:³⁵³

<u>DCF Methodology</u>	
Method 1:	
High	11.10%
Low	8.39%
Average	9.84%
Method 2:	
High	10.95%
Low	9.08%
Average	9.96%
<u>CAPM Methodology</u>	
Forward-looking Market Return	9.21%
Historical Risk Premium:	
Arithmetic Mean	10.13%
Supply Side MRP	9.37%
Supply Side less WWII Bias	8.68%
IESE MRP Survey	8.81%
KMPG MRP	8.63%
Kroll MRP	8.45%
Damodoran MRP	7.86%
Average CAPM Results	8.89%
Average CAPM Excluding High and Low	8.86%
CAPM Midpoint	8.99%
CAPM Midpoint Excluding High and Low	8.91%

The Attorney General/KIUC's witness argued that Kentucky Power's approach systematically overstated the investor-required ROE for Kentucky Power and that the recommended 10.0 percent ROE did not represent a reasonable compromise between

³⁵² Baudino Direct Testimony at 3.

³⁵³ Baudino Direct Testimony at 33, Table 1.

impacts on customers and an adequate ROE for shareholders.³⁵⁴ The Attorney General/KIUC's witness also argued that Kentucky Power used a biased approach in formulating its DCF recommendations.³⁵⁵ Kentucky Power applied a test for excluding ROE results that it viewed were too low; however, the Attorney General/KIUC's witness argued that Kentucky Power also included ROE results that were still very high.³⁵⁶ The Attorney General/KIUC's witness noted in direct testimony that Kentucky Power excluded ROE estimates above 13.1 percent, but argued that it did not provide any analysis or justification as to why the high-end estimate was used.³⁵⁷ Additionally, the Attorney General/KIUC's witness argued that, based on their review of commission-allowed ROEs, they could argue that ROEs over 11 percent were too high as well, citing to their calculation of the average commission-allowed ROE for vertically integrated utilities of 9.84 percent and 9.71 percent for 2024 and the first nine months of 2025, respectively.³⁵⁸ The Attorney General/KIUC's witness concluded that, while Kentucky Power excluded 11 ROE results, eight of which Kentucky Power opined were too low and three too high, Kentucky Power included 13 ROE results that were 11 percent or above.³⁵⁹ The Attorney General/KIUC's witness recommended that the median be used as an alternative

³⁵⁴ Baudino Direct Testimony at 4.

³⁵⁵ Baudino Direct Testimony at 39.

³⁵⁶ Baudino Direct Testimony at 39.

³⁵⁷ Baudino Direct Testimony at 39.

³⁵⁸ Baudino Direct Testimony at 39.

³⁵⁹ Baudino Direct Testimony at 40.

measure of central tendency, which was the approach the Attorney General/KIUC's witness took in their DCF analyses.³⁶⁰

Additionally, the Attorney General/KIUC's witness noted that Kentucky Power did not consider forecasted dividend growth from Value Line in its analysis, and argued that current consensus analysts' forecasts from S&P Capital IQ and Zacks Investment Survey (Zacks) were unsustainable in the long run.³⁶¹ The Attorney General/KIUC's witness calculated consensus analysts' earnings growth rates from S&P Capital IQ and Zacks of 6.96 percent to 7.48 percent and 7.10 percent to 7.33 percent for average and median growth rates, respectively.³⁶² The Attorney General/KIUC's witness argued that these earnings growth forecasts were significantly higher than the long-term growth rate of the overall economy as measured by growth in the Gross Domestic Product (GDP), which is equal to 3.80 percent per year based on projections of real GDP growth and inflation from the Federal Reserve and Congressional Budget Office.³⁶³ Additionally, the Attorney General/KIUC's witness argued the importance of considering and including lower and more reasonable dividend growth forecasts from Value Line to at least partially offset the excessive earnings growth forecasts from S&P Capital IQ and Zacks, and that solely relying on earnings growth forecasts would lead to overstated DCF ROE results.³⁶⁴

The Attorney General/KIUC's witness disagreed with Kentucky Power's general formulation of the CAPM and ECAPM, in particular its estimate of the expected market

³⁶⁰ Baudino Direct Testimony at 40.

³⁶¹ Baudino Direct Testimony at 40.

³⁶² Baudino Direct Testimony at 34.

³⁶³ Baudino Direct Testimony at 34-35; Exhibit RAB-3.

³⁶⁴ Baudino Direct Testimony at 40-41.

return.³⁶⁵ The Attorney General/KIUC's witness noted that Kentucky Power did not consider the market risk premiums from sources that the Attorney General/KIUC's witness presented in their testimony, and argued that Kentucky Power only used a single flawed source of its market risk premium.³⁶⁶ With regard to the ECAPM, the Attorney General/KIUC's witness argued that it is not a reasonable method to use to estimate the investor-required ROE for Kentucky Power as the argument that an adjustment factor is needed to "correct" the CAPM results for companies with betas less than 1.0 is further evidence of the lack of accuracy inherent to the CAPM itself.³⁶⁷ The Attorney General/KIUC's witness also argued that, although Kentucky Power cited the source of the ECAPM formula it used, it provided no evidence that investors favor this version of the ECAPM over the standard CAPM.³⁶⁸ The Attorney General/KIUC's witness also argued that the size adjustment Kentucky Power incorporated into its CAPM and ECAPM results is not appropriate.³⁶⁹ The Attorney General/KIUC's witness noted the source of the data used for the size adjustment--that the groups of companies from which Kentucky Power took the upward adjustments contain many unregulated companies, and the betas of the decile groups used for Kentucky Power's size adjustments were significantly higher than the proxy group average beta presented by the Attorney General/KIUC's witness, indicating that the decile groups used are riskier.³⁷⁰ While Kentucky Power did not make

³⁶⁵ Baudino Direct Testimony at 42.

³⁶⁶ Baudino Direct Testimony at 44.

³⁶⁷ Baudino Direct Testimony at 41.

³⁶⁸ Baudino Direct Testimony at 42.

³⁶⁹ Baudino Direct Testimony at 45.

³⁷⁰ Baudino Direct Testimony at 45.

an explicit size adjustment to its recommended ROE based on its size relative to the proxy group, the Attorney General/KIUC's witness argued that Kentucky Power's CAPM size adjustment is still based on the relative size of the companies in the proxy group which in turn raises its CAPM and ECAPM ROEs and, thus, should be rejected by the Commission.³⁷¹

Additionally, the Attorney General/KIUC's witness argued that, generally, the bond yield plus risk premium approach is imprecise and can only provide very general guidance on the currently authorized ROE for a regulated electric utility and that this analysis also assumed that investor-required ROEs were deterministically based on average commission-allowed ROEs and the risk premium relationship posited by Kentucky Power's regression analysis.³⁷² The Attorney General/KIUC's witness tested Kentucky Power's analysis to see how its risk premium equation matched up with actual historical ROE results, and calculated a 60 basis point excess in Kentucky Power's predicted 2024 ROE compared to the actual 2024 average ROE, and argued that applying Kentucky Power's formula could result in highly inaccurate and inflated ROEs.³⁷³

Finally, the Attorney General/KIUC's witness argued that the Expected Earnings approach is not a reasonable method for estimating the current required ROE in this proceeding as forecasted returns from Value Line will not be as reliable or as accurate as a properly specified DCF analysis using stock prices, and disagreed with Kentucky

³⁷¹ Baudino Direct Testimony at 46.

³⁷² Baudino Direct Testimony at 47.

³⁷³ Baudino Direct Testimony at 48–49.

Power's use of flotation costs and unregulated non-utility companies to estimate a fair rate of return, recommending that they be rejected.³⁷⁴

Joint Intervenors argued that establishing an ROE is fundamentally predicated on balancing customer and investor interests, and it is necessary for the Commission to understand the customer interests in order to appropriately balance them against the competing investor interests.³⁷⁵ Joint Intervenors also argued that, of the consumer issues that are important drivers of the just and reasonable ROE determinations, one of the most significant is the concern about affordability, and that, if a sizable portion of customers cannot afford to pay the rates imposed by the Commission, the Commission can hardly be said to have approved just and reasonable rates, and such concerns should bear directly on the determination of the fair ROE.³⁷⁶ Additionally, Joint Intervenors argued that, as a utility such as Kentucky Power adds more and more expensive plant, this increases rates, which may in turn put a downward pressure on the just and reasonable ROE, not for financial reasons, but because of affordability concerns.³⁷⁷ While the Joint Intervenors did not provide a recommended ROE for Kentucky Power's electric operations, they did propose penalties should certain performance metrics not be achieved.³⁷⁸

These sanctions included (1) a dollar amount equivalent to a 15 basis point reduction for noncompliance with a single improvement goal; and (2) a dollar amount

³⁷⁴ Baudino Direct Testimony at 49–51.

³⁷⁵ Direct Testimony of Roger D. Colton (filed Nov. 17, 2025) (Colton Direct Testimony) at 16.

³⁷⁶ Colton Direct Testimony at 16–17.

³⁷⁷ Colton Direct Testimony at 17.

³⁷⁸ Colton Direct Testimony at 109–110.

equivalent to 25 basis points ROE reduction for noncompliance with multiple improvements goals.³⁷⁹ Joint Intervenors explained that the proposed sanction would not result in a change to Kentucky Power's authorized ROE, but would be calculated to produce a revenue reduction equivalent to the specified ROE reduction.³⁸⁰

In rebuttal, Kentucky Power argued that the 9.50 percent ROE recommended by the Attorney General/KIUC's witness falls below both national average ROEs, once adjusted for current interest rates, as well as ROEs that were being authorized under similar capital market conditions.³⁸¹ Kentucky Power argued that the ROE recommendation by the Attorney General/KIUC's witness violates the economic and regulatory standards underlying a fair ROE, while confirming that the 10.0 percent ROE requested by Kentucky Power is conservative.³⁸² Additionally, Kentucky Power argued that nationally authorized ROEs from 2022 to 2025 were significantly lower than in prior years, after controlling for capital costs, and suggested a disconnect between recently allowed ROEs for electric utilities and underlying capital costs.³⁸³ Kentucky Power noted that the Attorney General/KIUC's witness recognized the upward trend in capital costs, and argued that the recommendation by the Attorney General/KIUC's witness to decrease Kentucky Power's ROE was out of line with the increase in capital costs.³⁸⁴

³⁷⁹ Colton Direct Testimony at 109.

³⁸⁰ Colton Direct Testimony at 109–110.

³⁸¹ Rebuttal Testimony of Adrien M. McKenzie (filed Dec. 22, 2025) (McKenzie Rebuttal Testimony) at R4.

³⁸² McKenzie Rebuttal Testimony at R4.

³⁸³ McKenzie Rebuttal Testimony at R8–R9.

³⁸⁴ McKenzie Rebuttal Testimony at R14–R18.

Kentucky Power specified certain benchmarks that it argued indicated that the ROE recommendation by the Attorney General/KIUC's witness was too low, including that Baa-rated utility bonds averaged 5.82 percent for the years 2005, 2010, and 2011, and the authorized ROE for electric utilities was 10.33 percent over these same years, as well as the risk premium between allowed ROEs and Baa-rated utility bond yields and expected earned rates of return for other utilities.³⁸⁵

In response to the Attorney General/KIUC's witness, Kentucky Power argued that the recommendation by the Attorney General/KIUC's witness was too low and had the Attorney General/KIUC's witness employed other approaches such as the RPM, Expected Earnings, and ECAPM methodologies, the Attorney General/KIUC's witness would have seen that their recommendation was not reasonable.³⁸⁶

Specifically in response to the DCF model used by the Attorney General/KIUC's witness, Kentucky Power disagreed with the inclusion of growth rates in dividends per share by the Attorney General/KIUC's witness, which Kentucky Power argued was not likely to provide a meaningful guide to investors' current growth expectation, and that the approach used by the Attorney General/KIUC's witness of averaging all the individual growth rates for their proxy group companies and computing a single DCF estimate for each growth rate source masked the presence of extreme data and biased the results downward.³⁸⁷ With regards to the CAPM presented by the Attorney General/KIUC's witness, Kentucky Power disagreed with the criticism of the CAPM and argued that the

³⁸⁵ McKenzie Rebuttal Testimony at R20–R22.

³⁸⁶ McKenzie Rebuttal Testimony at R25.

³⁸⁷ McKenzie Rebuttal Testimony at R26.

CAPM and other methods are relied on by investors in making their investments and should not be minimized in the regulatory process.³⁸⁸ Additionally, Kentucky Power argued that the historical approaches used by the Attorney General/KIUC's witness are inconsistent with the assumptions of the CAPM and ignore the returns investors are currently requiring in the capital markets, with the resulting estimates falling short of investors' current required rate of return, and criticized shortcomings with the IESE Survey, KPMG, Kroll, and Damodaran sources cited by the Attorney General/KIUC.³⁸⁹ Kentucky Power disagreed with the contention by the Attorney General/KIUC's witness that a flaw in Kentucky Power's CAPM analysis is its focus on the dividend paying firms in the S&P 500 as the basis of its market risk premium, and that the projected growth rate supporting Kentucky Power's market risk premium is unsustainably high.³⁹⁰ Additionally, Kentucky Power disagreed with the comparison by the Attorney General/KIUC's witness of results of ROE analyses and GDP growth.³⁹¹

Kentucky Power argued with the criticism by the Attorney General/KIUC's witness that a CAPM/ECAPM size adjustment does not apply, and argued that no credible basis allows the conclusion that the CAPM and ECAPM estimates for utilities are immune from the relationship between smaller size and higher realized rates of return.³⁹² Kentucky Power also disagreed with arguments made by the Attorney General/KIUC's witness with regard to its excluded results in its DCF analysis, and criticisms to Kentucky Power's

³⁸⁸ McKenzie Rebuttal Testimony at R31–R32.

³⁸⁹ McKenzie Rebuttal Testimony at R33–R36.

³⁹⁰ McKenzie Rebuttal Testimony at R36–R37.

³⁹¹ McKenzie Rebuttal Testimony at R38–R41.

³⁹² McKenzie Rebuttal Testimony at R47–R48.

RPM, ECAPM, and Expected Earnings approach.³⁹³ Finally, Kentucky Power argued against the position of the Attorney General/KIUC's witness on the riskiness of non-utility companies compared to utilities, and that a flotation cost adjustment is not necessary due to flotation costs being already accounted for in current stock prices.³⁹⁴

In response to Joint Intervenors, Kentucky Power argued that the Commission cannot reduce otherwise reasonable returns on equity or use any other means of reducing otherwise reasonable rates to penalize utilities for service performance, that the Commission has held that it does not have the ability to discriminate among customers based on income when setting rates, and that it cannot address affordability as a means to discriminate among customers for rate making purposes.³⁹⁵ Additionally, Kentucky Power argued that, given this long-standing precedent, there is no merit to Joint Intervenors' recommendation to use performance-based ratemaking to penalize Kentucky Power for not meeting metrics designed specifically to benefit a specific portion of Kentucky Power's customer base.³⁹⁶ Kentucky Power also argued that Joint Intervenors' proposed performance target sanctions would increase existing risks associated with economic weakness in Kentucky Power's service territory and create additional uncertainty regarding Kentucky Power's ability to actually earn its authorized ROE.³⁹⁷ Finally, Kentucky Power argued that the cases cited by Joint Intervenors do not

³⁹³ McKenzie Rebuttal Testimony at R50–R58.

³⁹⁴ McKenzie Rebuttal Testimony at R59–R60.

³⁹⁵ Wolfram Rebuttal Testimony at R17.

³⁹⁶ Wolfram Rebuttal Testimony at R17-R18.

³⁹⁷ McKenzie Rebuttal Testimony at R61.

justify consideration of affordability in the way they suggest, and do not justify a detour into considerations of affordability as they suggest.³⁹⁸

In the Settlement Agreement, the parties agreed upon an ROE of 9.80 percent applicable to base rates and all existing riders except Tariff G.R.,³⁹⁹ for which the parties agreed upon an ROE of 9.70 percent.⁴⁰⁰ The following table presents the as-filed recommended ROEs from Kentucky Power and intervenors, and the methods used to support each party's recommendations:

Party	Range	Recommendation		Methods
		Base Rates	Capital Riders	
Kentucky Power	10.00% - 11.00%	10.00%	10.00%	DCF, CAPM, ECAPM, RPM, and Expected Earnings
Attorney General/KIUC	8.90% - 10.00%	9.50%	9.40%	DCF, CAPM
Settlement Agreement	-	9.80%	9.8%*	-

* Excluding the Generation Rider, for which the parties agreed on a 9.70% ROE

In its post-hearing brief, Kentucky Power emphasized the impact of its credit rating and funds from operation as a percentage of debt (FFO/Debt) on its ability to attract low-cost capital, and argued that new fair, just, and reasonable base rates must also be established to ensure an appropriate FFO/Debt is maintained going forward to prevent further downgrade of Kentucky Power's credit rating.⁴⁰¹

³⁹⁸ McKenzie Rebuttal Testimony at R61-R62.

³⁹⁹ Wolfram Settlement Testimony at S7.

⁴⁰⁰ Wolfram Settlement Testimony at S11.

⁴⁰¹ Kentucky Power's Post-Hearing Brief at 12.

The Attorney General's post-hearing brief stated that the Commission could make additional adjustments, which the Attorney General argued were supported by the record.⁴⁰² Among these was an adjustment to reduce Kentucky Power's ROE to 8.9 percent, which the Attorney General noted is within the reasonable range based on the testimony provided by the Attorney General/KIUC's joint witness.⁴⁰³ Additionally, the Attorney General recommended the Commission adjust Kentucky Power's Generation Rider ROE to 8.9 percent as well.⁴⁰⁴

In its reply brief, Kentucky Power argued that the Attorney General's suggested additional disallowances were raised too late, and are plainly unsupported by any record evidence, including the Attorney General's own witness.⁴⁰⁵ Kentucky Power reiterated that any material modification to the Settlement Agreement would likely result in Kentucky Power having to withdraw from the agreement,⁴⁰⁶ and explained that, holding all else equal, lower cash from operations means lower funds from operations which is a key ratio affecting credit metrics, ultimately affecting Kentucky Power's cost of debt and therefore the cost of service.⁴⁰⁷ Kentucky Power stated that the same is true if there is a decrease in the settled-upon revenue requirement and, for these reasons, the Commission should

⁴⁰² Attorney General's Post-Hearing Brief at 9.

⁴⁰³ Attorney General's Post-Hearing Brief at 9.

⁴⁰⁴ Attorney General's Post-Hearing Brief at 11.

⁴⁰⁵ Kentucky Power's Reply Brief at 7.

⁴⁰⁶ Kentucky Power's Reply Brief at 9.

⁴⁰⁷ Kentucky Power's Reply Brief at 10.

approve the Settlement Agreement as filed, and disregard the Attorney General's arguments.⁴⁰⁸

As discussed in recent cases, such as Case Nos. 2025-00122,⁴⁰⁹ 2025-00113,⁴¹⁰ and 2025-00114,⁴¹¹ the Commission explained why utilities should present, for the Commission to evaluate, multiple methodologies to estimate ROEs. Each approach has its own strengths and limiting assumptions. As demonstrated in the respective ROE testimonies in this proceeding, considerable variation exists in both data and application within each modeling approach, which can lead to very different results. The Commission will evaluate all models but will accord most weight to DCF and CAPM analyses based upon regulated company proxy groups. Both the DCF and CAPM are long-standing, well-accepted models that evaluate risk and returns both implicitly and explicitly. The Commission reiterates that it continues to reject the use of flotation cost adjustments, financial risk adjustments, and explicit size adjustments in the ROE analyses considering a business risk or size adjustment has not been approved in the past.

The testimony in this proceeding is a clear example of the effect of removing data a party views as outlier data, and that in doing so, results may be skewed to support recommendations. In selecting comparable proxy companies on which to base an

⁴⁰⁸ Kentucky Power's Reply Brief at 11.

⁴⁰⁹ Case No. 2025-00122, *Electronic Application of Kentucky-American Water Company for an Adjustment of Rates* (Ky. PSC Dec. 16, 2025), Order at 62–63.

⁴¹⁰ Case No. 2025-00113, *Electronic Application of Kentucky Utilities Company for an Adjustment of Its Electric Rates and Approval of Certain Regulatory and Accounting Treatments* (Ky. PSC Feb. 16, 2026), Order at 133.

⁴¹¹ Case No. 2025-00114, *Electronic Application of Louisville Gas and Electric Company for an Adjustment of Its Electric and Gas Rates and Approval of Certain Regulatory and Accounting Treatments* (Ky. PSC Feb. 16, 2026), Order at 136.

analysis, considerable judgment may be taken to determine comparability, and once selected, it can be assumed that the results of analyses based on those proxy companies are comparable to the utility as well. However, the Commission understands that the pool of regulated utilities in a specific industry to include in a proxy group is limited and also understands the effect that relying on a small sample size may have on the reasonableness of the results. As such, the Commission expects that, should a party choose to exclude results of its analyses for any reason, clear justification should be presented, including calculations and justification for any benchmarks used in determining that data is “too high” or “too low.”

The Commission acknowledges and is sympathetic to the unique economic struggles of eastern Kentucky and that the ongoing slow decline in population coupled with a need to implement significant capital investment are contributing factors in Kentucky Power’s inability to achieve its authorized ROE. In addition, the Commission acknowledges Kentucky Power’s efforts to control its costs and to limit the rate impact in the current proceeding.⁴¹² However, some of the cost-saving efforts such as the advanced metering infrastructure (AMI) deployment,⁴¹³ will be realized in the future and are not reflective of cost-saving efforts during the test year. Kentucky Power has a measure of control over its expenses and its investment spending. The Commission takes note of Kentucky Power’s recently approved capital spending projects and planned capital projects. For example, in Case No. 2024-00344, the Commission approved

⁴¹² Wiseman Direct Testimony at 6 and 12.

⁴¹³ Wiseman Direct Testimony at 6.

Kentucky Power's request to implement its AMI system.⁴¹⁴ In Case No. 2025-00175, the Commission approved Kentucky Power's request to make investments necessary to retain its 50 percent undivided ownership in the Mitchell generating units.⁴¹⁵ Finally, Kentucky Power indicated it is planning to build a 450 MW natural gas fired combustion turbine in addition to other capital investment projects.⁴¹⁶

The Commission is not persuaded by Kentucky Power's argument that population decline, regulatory lag, and increased expenses are the sole reasons that Kentucky Power has been unable to earn its authorized ROE, considering the rates from Kentucky Power's prior rate increase were effective less than two years prior to the filing of Kentucky Power's application in this proceeding.⁴¹⁷ The demographic, economic, and topographical challenges in Kentucky Power's service territory are not new.⁴¹⁸ Kentucky Power has always had and continues to have control over expenses, its investment decisions, and the timing, presentation and structure of its requests for rate increases. Despite having the need for additional capital investments, Kentucky Power continues to file rate cases with historic test years, the effect of which bases the recovery of future capital spending and other expenses on a test period which are not fully reflective of those

⁴¹⁴ Case No. 2024-00344, *Electronic Application of Kentucky Power Company for (1) A Certificate of Public Convenience and Necessity Authorizing the Deployment of Advanced Metering Infrastructure; (2) Request for Accounting Treatment; and (3) All Other Necessary Waivers, Approvals, and Relief* (Ky. PSC Jul. 22, 2025), Order.

⁴¹⁵ Case No. 2025-00175, Dec. 30, 2025 Order.

⁴¹⁶ Newcomb Direct Testimony at 7.

⁴¹⁷ Kentucky Power's Response to Staff's Post-Hearing Request, Item 41b.

⁴¹⁸ The Commission notes that these challenges are shared equally by East Kentucky Power Cooperative (EKPC) and various EKPC member electric distribution cooperatives such as Grayson Rural Electric Cooperative Corporation, Big Sandy Rural Electric Cooperative Corporation, and Licking Valley Rural Electric Cooperative Corporation.

future expenses. This alone could prevent Kentucky Power from earning its authorized ROE, especially when Kentucky Power is faced with a declining customer base and increased capital spending plans. In addition, the Commission notes the recent approval for Kentucky Power to securitize certain assets in Case No. 2023-00159.⁴¹⁹ The structure of that securitization bond completely removes the risk of rate recovery for those assets by effectively shifting the burden away from itself and onto captive ratepayers. The securitized bond, the FAC, ECR, and PPA riders on ratepayer's bills all serve to give Kentucky Power near contemporaneous cost recovery on a monthly basis of significant costs with greatly reduced risk.⁴²⁰ In addition, the Commission notes that in Kentucky Power's current FAC case,⁴²¹ it has invested in coal inventory significantly above its target level, the expenses of which cannot be recovered until the coal is burned. The Commission further notes the weight of Kentucky Power's rider-eligible expenses compared to other vertically integrated electric utilities it regulates, which Kentucky Power receives contemporaneous recovery for on a monthly basis. The Commission expects a utility to effectively manage its spending such that it may earn the reasonable return that the Commission gives it the opportunity to earn once new rates are ordered.

Finally, the Commission notes the approximate \$468 million in net proceeds from Kentucky Power's securitization bond, as further discussed below, effectively alters Kentucky Power's risk profile in that, although ultimately providing a monetary benefit to

⁴¹⁹ Case No. 2023-00159, Apr. 11, 2025 Order.

⁴²⁰ Case No. 2025-00338, *An Electronic Examination of the Application of the Fuel Adjustment Clause of Kentucky Power Company from November 1, 2022 Through October 31, 2024* (filed Jan. 23, 2026).

⁴²¹ Case No. 2025-00338, Direct Testimony of Kimberly K. Chilcote at 11–12.

ratepayers, any risk of recovering those expenses is shifted away from Kentucky Power. As the determination of an authorized ROE should consider investors' expected return moving forward, the Commission also notes Kentucky Power's intent to seek further securitization of large expense categories such as the Mitchell plant investment.

Having considered and weighed all evidence in the record, and being otherwise sufficiently advised, the Commission finds that the stipulated 9.80 percent ROE is unreasonable and this provision of the Settlement Agreement should be modified. In accordance with the underlying financial data provided in this matter, and for all of the reasons discussed above, the Commission finds that an ROE of 9.75 percent applicable to base rates and an 9.65 percent ROE applicable to Kentucky Power's Generation Rider represent a fair, just, and reasonable return on equity for Kentucky Power. Finally, due to the lower risk associated with contemporaneous recovery, the Commission continues to view capital riders as providing lower risk to the utility and finds that establishing the ROE component of Kentucky Power's remaining capital riders as 9.65 percent is fair, just, and reasonable.

Capital Structure/Cost of Debt

Kentucky Power's per books capital structure, based on the test year ended May 31, 2025, consisted of 55.82 percent long-term debt, 3.48 percent short-term debt, and 40.70 percent common equity.⁴²² On June 12, 2025, shortly after the close of its test year, Kentucky Power's previously approved securitization bonds were issued, resulting

⁴²² Direct Testimony of Franz D. Messner (filed Aug. 29, 2025) (Messner Direct Testimony) at 4.

in a change to its capital structure.⁴²³ Kentucky Power’s proposed pro forma adjustments to its capital structure for changes due to securitization are discussed below.

Repayment of Short-Term and Long-Term Debt

Kentucky Power explained that two \$150 million term loans and the outstanding balance of short-term debt were repaid with cash proceeds from securitization, and Kentucky Power’s short-term debt position moved from a borrowing position to an investing position as the balance was reduced to zero.⁴²⁴ A summary of Kentucky Power’s May 31, 2025 capital structure, adjusted for the repayment of approximately \$385 million of debt, is shown in the table below:⁴²⁵

Capital Component	Per Book Balance	Percent of Total	Adjustments for Debt Repayment	Adjusted Balance	Percent of Total
Long-Term Debt	1,365,000,000	55.82%	(300,000,000)	1,065,000,000	51.70%
Short-Term Debt	85,199,814	3.48%	(85,199,814)	-	0.00%
Common Equity	995,158,147	40.70%	-	995,158,147	48.30%
Total	2,445,357,961	100.00%		2,060,158,147	100.00%

Reduction in Equity

Additionally, Kentucky Power proposed further adjustments to its capital structure to reduce its adjusted equity balance by the amount of remaining available securitization proceeds in the amount of \$83,079,578.⁴²⁶ Kentucky Power explained that, in Case No.

⁴²³ Messner Direct Testimony at 5.

⁴²⁴ Messner Direct Testimony at 5.

⁴²⁵ Messner Direct Testimony at 6, Figure FDM-2.

⁴²⁶ Messner Direct Testimony at 6.

2020-00174, its March 31, 2020 per books capital structure consisted of 56.75 percent debt and 43.25 percent equity⁴²⁷ and, in Case No. 2023-00159, its March 31, 2023 per books capital structure consisted of 58.38 percent debt and 41.62 percent equity⁴²⁸ and, thus, its equity ratio has continued to shrink over time.⁴²⁹ Kentucky Power noted that on multiple occasions the Commission has indicated a desire to see Kentucky Power, and other utilities in the Commonwealth, maintain a reasonably balanced capital structure.⁴³⁰ The calculation of the securitization proceeds is shown in the table below:⁴³¹

From the Securitization Bond Issuance Advice Letter	
Principal Amount of Issuance	\$ 477,749,000
Less: Upfront Financing Costs	(9,451,609)
Net Proceeds Available	\$ 468,297,391
Less: \$300,000,000 Term Loan Repayment	(300,000,000)
Less: \$85,199,814 May 31, 2025 Short-Term Debt Balance	(85,199,814)
Securitization Proceeds Remaining	\$ 83,097,578

Kentucky Power's proposed capital structure, after the capital structure adjustments discussed above, is shown in the table below.⁴³²

⁴²⁷ Case No. 2020-00174, Jan. 13, 2021 Order at 33.

⁴²⁸ Case No. 2023-00159, Jan. 19, 2024 Order at 47.

⁴²⁹ Messner Direct Testimony at 4.

⁴³⁰ Messner Direct Testimony at 5.

⁴³¹ Messner Direct Testimony at 7, Figure FDM-3.

⁴³² Messner Direct Testimony at 7, Figure FDM-4.

Capital Component	Per Book Balance	Percent of Total	Adjusted Balance	Percent of Total
Long-Term Debt	1,365,000,000	55.82%	1,065,000,000	53.87%
Short-Term Debt	85,199,814	3.48%	-	0.00%
Common Equity	995,158,147	40.70%	912,060,569	46.13%
Total	2,445,357,961	100.00%	1,977,060,569	100.00%

Kentucky Power argued that its investor-supplied capital structure of 46.13 percent equity and 53.87 percent debt is reasonable considering industry benchmarks and the importance of maintaining its financial strength to meet the capital requirements of its customers.⁴³³ Additionally, Kentucky Power argued that, based on its evaluation, its proposed common equity ratio of 46.13 percent represents a reasonable basis from which to calculate Kentucky Power's overall rate of return.⁴³⁴ Kentucky Power based its conclusion on (1) its common equity ratio being well within the range of capitalizations maintained by other electric utility operating companies and the firms in the proxy group based on data at year-end 2024 and near-term expectations; (2) its proposed equity ratio also being below the average equity ratio of 51.7 percent maintained by the comparable electric utility operating companies; and (3) its requested capitalization being consistent with its need to maintain its credit standing and financial flexibility as it seeks to raise additional capital to fund significant system investments and meet the requirement of customers.⁴³⁵ Finally, Kentucky Power argued that its proposed capital structure strikes a reasonable balance and is consistent with the Moody's Investor Service (Moody's)

⁴³³ McKenzie Direct Testimony at 4.

⁴³⁴ McKenzie Direct Testimony at 11.

⁴³⁵ McKenzie Direct Testimony at 11.

target range for a Baa3 rated company, and that its proposed capital structure is responsive to the Commission's directive to increase its level of equity in its capital structure, while also being lower than the currently authorized equity ratios for investor-owned utilities in the Commonwealth, whose authorized equity ratios range from 52.145 percent to 53.23 percent.⁴³⁶

Additionally, Kentucky Power's proposed costs of short-term and long-term debt for ratemaking purposes of 5.50 percent and 5.49 percent, respectively.⁴³⁷ Kentucky Power explained that the cost of short-term debt used in calculating its proposed WACC was Kentucky Power's actual short-term interest expense for the 12 months ended May 31, 2025, divided by the actual average borrowings outstanding during the same time period.⁴³⁸ Kentucky Power also explained that the cost of long-term debt used in calculating its proposed WACC was determined by taking the sum of each debt instrument's actual annualized cost and dividing that amount by the total debt outstanding as of May 31, 2025.⁴³⁹ Although the balances of the two repaid \$150 million term loans were excluded from the capital structure, Kentucky Power explained that it did not adjust the impact on the cost of long-term debt, as doing so would have increased the cost of long-term debt used in the cost of capital calculation.⁴⁴⁰ Kentucky Power further explained that, in an effort to reduce the weighted average cost of capital and the corresponding impact on customers, it chose to use the lower cost of debt that included

⁴³⁶ Messner Direct Testimony at 10–11.

⁴³⁷ Messner Direct Testimony at 8, Figure FDM-5.

⁴³⁸ Messner Direct Testimony at 9.

⁴³⁹ Messner Direct Testimony at 9.

⁴⁴⁰ Messner Direct Testimony at 10.

the cost impact of the two \$150 million term loans that were paid with the securitization proceeds.⁴⁴¹

The Attorney General/KIUC's witness recommended the Commission adopt Kentucky Power's requested cost of long-term debt.⁴⁴² However, the Attorney General/KIUC's witness recommended a correction regarding Kentucky Power's short-term debt, as further discussed below.

Correction of Weighted Cost of Short-Term Debt Error

The Attorney General/KIUC's witness noted that Kentucky Power's calculation of its weighted cost of short-term debt contained an error resulting in the overall as-filed weighted cost of capital to be 7.5740 percent rather than the correct 7.57 percent.⁴⁴³ Kentucky Power explained that the short term debt amount of 0.004 was inadvertently included in error, and it agreed that the WACC should reflect 7.57 percent, resulting in a \$98,556 reduction to the originally filed revenue requirement of \$95,459,692.⁴⁴⁴ However, the Attorney General/KIUC's witness disagreed with Kentucky Power's quantification of the impacts of this error, and stated that the impact should only be \$0.075 million.⁴⁴⁵ The Attorney General/KIUC's witness argued that it believed Kentucky Power grossed-up the impacts of the error correction for income taxes, while there is no income tax gross-up on

⁴⁴¹ Messner Direct Testimony at 10.

⁴⁴² Baudino Direct Testimony at 37.

⁴⁴³ Futral Direct Testimony at 29.

⁴⁴⁴ Kentucky Power's Response to Attorney General/KIUC's First Request (filed Oct. 9, 2025), Item 16.

⁴⁴⁵ Futral Direct Testimony at 29.

the debt return.⁴⁴⁶ The Attorney General/KIUC's witness recommended that the Commission correct the filing error in the short-term debt portion of the weighted cost of capital determination and reduce the requested base rate increase by \$0.075 million.⁴⁴⁷

In the Settlement Agreement, the parties agreed to remove the value that was inadvertently included in the weighted average cost of capital calculation, which resulted in a weighted average cost of capital that was 0.004 percent higher than intended.⁴⁴⁸

Bond Remarketing

In Case No. 2013-00410, the Commission granted Kentucky Power the authority to issue notes and other evidences of indebtedness in the aggregate amount of \$265 million, including \$65 million in West Virginia Economic Development Authority (WVEDA) bonds.⁴⁴⁹ In Kentucky Power's prior base rate proceeding, Case No. 2023-00159, the Commission found that the expense associated with remarketing the WVEDA bonds was not prudently and appropriately incurred, the expense should be removed from the cost of long-term debt, noted that Kentucky Power did not provide sufficient evidence or testimony that remarketing these bonds every three years was necessary, and stated its expectation that Kentucky Power provide sufficient evidence in its next base rate case as to whether the remarketing was necessary for the period chosen and was incurred in an

⁴⁴⁶ Futral Direct Testimony at 29–30.

⁴⁴⁷ Futral Direct Testimony at 30.

⁴⁴⁸ Wolfram Settlement Testimony at 7.

⁴⁴⁹ Case No. 2013-00410, *Application of Kentucky Power Company for Authority Pursuant to KRS 278.300 to Issue and Sell Promissory Notes of One Or More Series, to Enter into Loan Agreements, and for Other Authorizations in Connection with the Refunding of Liabilities Assumed by the Company in Connection with the Mitchell Transfer* (Ky. PSC Mar. 25, 2014), Order.

appropriate and prudent manner.⁴⁵⁰ In the current proceeding, Kentucky Power stated that the WVEDA bonds were originally issued under authority granted by the Commission in Case No. 2013-00410, with an interest rate determination mode feature allowing the bonds to be issued and subsequently remarketed from time-to-time at the issuers' discretion, allowing the issuer to determine, based on market conditions and investor appetite, the beneficial tenor and rate mode with which to remarket the bonds.⁴⁵¹ Kentucky Power argued that, because the bonds were remarketed in June 2020 with a three-year tenor, the remarketing in June 2023 was mandatory per the terms of the June 2020 Bond Purchase Agreement.⁴⁵² Kentucky Power also argued that the rate environment in June 2020, shortly after the onset of the COVID-19 pandemic, was lower than it was in June 2023 when the mandatory remarketing was required, which resulted in an increased rate when the bonds were remarketed in June 2023.⁴⁵³ Finally, Kentucky Power argued that the 2023 remarketing had been in its forecast for the prior three years and had been reviewed with the company multiple times given its forecasting process and, because the remarketing was mandatory, the issuance costs associated with it were unavoidable and, therefore, prudently and reasonably incurred.⁴⁵⁴

In its post-hearing brief, Kentucky Power reiterated that it proposed to reflect in its capital structure the repayment of debt and, absent the proposed equity reduction, the revenue requirement and WACC in this case would increase as a result of a higher ratio

⁴⁵⁰ Case No. 2023-00159, Jan 19, 2024 Order at 52–53.

⁴⁵¹ Messner Direct Testimony at 12.

⁴⁵² Messner Direct Testimony at 12.

⁴⁵³ Messner Direct Testimony at 12.

⁴⁵⁴ Messner Direct Testimony at 12.

of common equity in its capital structure, which generally carries a higher cost than long-term and short-term debt.⁴⁵⁵ Additionally, Kentucky Power stated that no evidence in the record supports the conclusion that its proposed capital structure is unreasonable or otherwise imprudent.⁴⁵⁶ Kentucky Power argued that if its proposed modifications to the capital structure were not approved, the capital structure would not reflect known and measurable changes and the resulting new base rates would not provide it the opportunity to earn the ROE authorized in this proceeding.⁴⁵⁷ Likewise, Kentucky Power argued that any capital riders that would use the resulting approved WACC would also not provide Kentucky Power an opportunity to earn the ROE authorized in this proceeding on its respective rider-eligible rate bases.⁴⁵⁸

As discussed above, the Attorney General's post-hearing brief stated that the Commission could make additional adjustments, which he argued are supported by the record.⁴⁵⁹ Among these was an adjustment to Kentucky Power's capital structure that resulted in a 45 percent equity and 55 percent debt from Kentucky Power's proposed capital structure of 46.13 percent equity and 53.87 percent debt.⁴⁶⁰ Additionally, the Attorney General recommended an adjustment to Kentucky Power's capital structure of its Tariff G.R. to 45 percent equity and 55 percent debt as well.⁴⁶¹

⁴⁵⁵ Kentucky Power's Post-Hearing Brief at 40.

⁴⁵⁶ Kentucky Power's Post-Hearing Brief at 41.

⁴⁵⁷ Kentucky Power's Post-Hearing Brief at 41.

⁴⁵⁸ Kentucky Power's Post-Hearing Brief at 41.

⁴⁵⁹ Attorney General's Post-Hearing Brief at 9.

⁴⁶⁰ Attorney General's Post-Hearing Brief at 9.

⁴⁶¹ Attorney General Post-Hearing Brief at 11.

In its reply brief, in response to the Attorney General, Kentucky Power argued that the Attorney General's suggested additional disallowances were raised too late, and are plainly unsupported by any record evidence, and argued that the Attorney General's own witness agreed with Kentucky Power's proposed capital structure.⁴⁶² Finally, Kentucky Power argued that the Commission should approve the settlement agreement as filed, and disregard the Attorney General's arguments.⁴⁶³

The Commission understands the importance of a balanced capital structure such that a higher equity ratio leads to a higher WACC, and therefore higher rates in an instant proceeding, while a higher debt ratio, though it may result in lower rates initially, could lead to increased borrowing costs over time if the overweight of debt is significant. While some intervenors argued that this is contradictory,⁴⁶⁴ the Commission acknowledges the subtle and nuanced nature of the capital structure used for ratemaking purposes. The Commission recognizes the impact of a company's capital structure on its cash flow metrics, credit rating, borrowing costs, and, ultimately, its revenue requirement, in the instant as well as subsequent proceedings. The potential implications of a credit downgrade for Kentucky Power could be detrimental and, as discussed above, the Commission calculated Kentucky Power's revenue requirement such that, while adjustments were made, Kentucky Power's cash flow metrics may remain consistent with that negotiated in the Settlement Agreement. The Commission, therefore, finds that Kentucky Power's proposed capital structure consisting of 53.87 percent long-term debt,

⁴⁶² Kentucky Power Reply Brief at 7–8.

⁴⁶³ Kentucky Power Reply Brief at 11.

⁴⁶⁴ Joint Intervenors' Reply Brief at 9–10.

0.00 percent short-term debt, and 46.13 common equity should be approved for ratemaking purposes. The approved capital structure is based on known and measurable changes resulting from the issuance of securitization bonds and the impact of the proceeds on Kentucky Power's debt and equity ratios. Additionally, the Commission finds that Kentucky Power's proposed cost of long-term debt of 5.49 percent and cost of short-term debt of 5.50 percent should be approved for ratemaking purposes, including the WVEDA bonds issuance expense in Kentucky Power's cost of long-term debt. The Commission, however, cautions Kentucky Power against including such costs in its cost of debt calculation, and Kentucky Power should be prepared in future rate proceedings to justify each of the expenses used in its cost of debt calculations, as it has done in this case, regardless of whether an expense has been previously rejected by the Commission. In Case No. 2023-00159, Kentucky Power indicated that another remarketing of the bonds is anticipated to take place in June 2026.⁴⁶⁵ The Commission expects Kentucky Power to exercise prudent control when entering bond purchase agreements, and to evaluate the impacts of the terms of such agreements, and be able to justify the prudence of those terms in any subsequent proceeding in which Kentucky Power requests to recover such issuance expenses.

Rate of Return Summary

Applying the cost rates of 5.49 percent for long-term debt, 5.50 percent for short-term debt, and 9.75 percent for common equity, and the capital structure percentages

⁴⁶⁵ Case No. 2023-00159, Kentucky Power's Response to Commission Staff's Third Request for Information (filed Sept. 25, 2023), Item 2.

consisting of 53.87 percent, 0.00 percent, and 46.13 percent, respectively, produce an overall WACC of 7.46 percent.

Capital Component	Percentage	Cost Rate	Weighted Cost
Long-Term Debt	53.87%	5.49%	2.96%
Short-Term Debt	0.00%	5.50%	0.00%
Common Equity	46.13%	9.75%	4.50%
Total	<u>100.00%</u>		<u>7.46%</u>

Total Base Rate Revenue Requirement Summary

The effect of the Commission’s approved adjustments is a base rate revenue requirement increase of approximately \$36,406,093, as shown in the table below, which includes the authorized ROE discussed above. This reflects a \$28,288,623 decrease in Kentucky Power’s originally requested base rate revenue increase of \$75,269,689.

Kentucky Power Company - Authorized Revenue Increase
For the Test Year Ended May 31, 2025

<u>Kentucky Power Company Requested Base Rate Increase</u>	<u>\$ 75,269,689</u>
O&M Adjustments:	
Incentive Compensation - Financial	(1,842,209)
Incentive Compensation - Safety, Reliability, Service	(2,178,173)
Other Compensation	(7,319,257)
SERP Expense	(143,789)
401(k) Expense	(1,865,957)
Property Tax Expense	(320,401)
Pension Settlement (AEP)	(984,952)
Depreciation TOR Veg Management	(2,356,220)
Depreciation Expense - Terminal Net (Big Sandy)	(1,010,981)
Depreciation Expense - Interim (Mitchell)	(2,793,493)
Depreciation Expense - Gen Rider Offset	1,189,877
Membership Dues	(113,206)
Increase Non-Major Storm Expense	2,008,874
O&M TOR Veg Management	7,241,915
Amortization of TOR Reg Asset	1,559,070
Incidental Loss on Gas (Hedging)	(1,880,306)
Increase Revenues for FERC Transmission Rates	(10,026,163)
Decrease Revenues for NRC Adjustments	100,205
Rate Case Expense	(167,109)
Outside Services Employed (Account 923)	(1,716,100)
 Total Rate Base Adjustments	 <u>(16,245,221)</u>
 Rate Increase	 <u>\$ 36,406,093</u>
 Percent Rate Increase	 <u>5.57%</u>

*Differences are due to rounding

The Tariff G.R. revenue requirement is discussed in the tariffs section below.

REVENUE ALLOCATION AND RATE DESIGN

Cost of Service Study

Kentucky Power filed a fully-allocated jurisdictional cost-of-service study (COSS) to determine the cost to serve each customer as well as the rate of return on rate base

for each rate class during the test year.⁴⁶⁶ Kentucky Power utilized the 12 coincident peak (12 CP) method to allocate production and transmission costs to rate classes.⁴⁶⁷ In its application, Kentucky Power stated that a primary reason for the requested rate increase was its financing and capital investment needs to ensure the long-term reliability of electric service⁴⁶⁸ as the current rates are deficient and do not allow Kentucky Power the opportunity to earn the reasonable return currently authorized by the Commission.⁴⁶⁹

In Case No. 2023-00159, the Commission stated it would evaluate the appropriateness of the equipment and values used in the zero-intercept analysis in Kentucky Power's next rate case.⁴⁷⁰ In that case, the zero-intercept analysis concluded that 82.56 percent of overhead conductor (Account 365) costs were customer-related, and the remaining 17.44 percent were demand-related.⁴⁷¹ Additionally, it concluded that 67.86 percent of underground line (Account 367) costs were customer-related and 32.14 percent demand.⁴⁷² In the proposed zero-intercept analysis, overhead conductor (Account 365) resulted in 74.59 percent customer-related costs, and underground lines (Account 367) resulted in 48.89 percent customer-related costs.⁴⁷³

⁴⁶⁶ Direct Testimony of Jaclyn N. Cost (filed Aug. 29, 2025) (Cost Direct Testimony); Application, Section V, Exhibit 1.

⁴⁶⁷ Cost Direct Testimony at 9.

⁴⁶⁸ Newcomb Direct Testimony at 6.

⁴⁶⁹ Wiseman Direct Testimony at 12.

⁴⁷⁰ Case No. 2023-00159, Jan. 19, 2024 Order at 41.

⁴⁷¹ Case No. 2023-00159, Jan. 19, 2024 Order at 41.

⁴⁷² Case No. 2023-00159, Jan. 19, 2024 Order at 41.

⁴⁷³ Direct Testimony of John Wolfram (filed Aug. 29, 2025) (Wolfram Direct Testimony), Exhibit JW-2 at 3 and 8.

The Commission acknowledges that the customer-related classifications have significantly decreased from the prior rate case. The Commission is still concerned with the level of the customer-related costs for overhead conductors (Account 365). The Commission finds that the zero-intercept analysis, as a whole, is reasonable; however, the Commission will continue to evaluate the appropriateness of the equipment and values used in Kentucky Power's next general rate case. Additionally, the Commission finds that Kentucky Power's use of the 12 CP method as a guide to determining revenue allocation to be reasonable.

Revenue Allocation and Rate Design

In its application, Kentucky Power proposed to allocate its proposed revenue requirement increase to ensure no customer class received more than a 15 percent total rate increase.⁴⁷⁴ Kentucky Power acknowledged the economic challenges throughout its service territory, specifically for residential customers, and determined that it should be allocating the revenue requirement more equally among the classes rather than attempting to eliminate interclass subsidies at the expense of its residential customers or any other specific customer class.⁴⁷⁵ Kentucky Power explained that eliminating the interclass subsidy to the residential class would result in a significant rate increase for the average residential customer and maintaining the existing subsidy would result in an approximately 18.5 percent increase for the average residential customer.⁴⁷⁶ The

⁴⁷⁴ Wolfram Direct Testimony at 5–6.

⁴⁷⁵ Wolfram Direct Testimony at 6–7.

⁴⁷⁶ Wolfram Direct Testimony at 5.

proposed revenue allocation is illustrated in the table below:⁴⁷⁷

Current Class	Base Proposed Increase	Total Current Revenue	Mitigation Proposed Increase	Base Mitigation Change Needed	Mitigated Base Percent Increase	Generation Rider Increase	Total Increase
RS	\$43,308,495	\$286,735,722	\$33,202,037	\$(10,106,458)	11.6%	3.4%	15.0%
GS	\$10,963,949	\$105,637,778	\$12,104,626	\$1,140,677	11.5%	2.4%	13.8%
PS	\$952,944	\$12,905,695	\$1,478,814	\$525,870	11.5%	2.5%	13.9%
LGS	\$4,289,647	\$54,851,157	\$6,285,183	\$1,995,536	11.5%	2.5%	13.9%
IGS	\$14,465,106	\$182,038,170	\$20,859,053	\$6,393,947	11.5%	3.4%	14.9%
MW	\$17,035	\$242,812	\$27,823	\$10,788	11.5%	2.0%	13.5%
OL	\$1,093,811	\$9,318,114	\$1,093,811	\$0	11.7%	0.3%	12.0%
SL	\$178,701	\$1,905,482	\$218,342	\$39,641	11.5%	0.3%	11.8%
Total	\$75,269,688	\$653,634,930	\$75,269,688	\$0	11.5%	3.1%	14.6%

In the Settlement Agreement, the allocation of the stipulated revenue requirement increase was further mitigated through the use of the DTL credits.⁴⁷⁸ The DTL credits would essentially allow Kentucky Power to phase-in the rate increase over a three-year period, as outlined below:⁴⁷⁹

	Application	Settlement	Year 1	Year 2
Customer Class	Estimated Bill Increase	Estimated Bill Increase ⁴⁸⁰	Estimated Bill Increase with DTL Rider	Estimated Bill Increase with DTL Rider
Residential Service RS	15.0%	11.9%	7.0%	9.1%
General Service GS	13.8%	11.9%	8.8%	9.9%
Large General Service LGS	13.9%	11.9%	8.8%	9.9%
Industrial General Service IGS	14.9%	11.9%	8.8%	9.9%
Municipal Water MW	13.5%	11.9%	8.8%	9.9%

⁴⁷⁷ Direct Testimony of Nichole M. Coon (filed Aug. 29,2026) (Coon Direct Testimony), Exhibit NMC-2 at 3.

⁴⁷⁸ Wolfram Settlement Testimony, Exhibit TSW-1 at 26.

⁴⁷⁹ Wolfram Settlement Testimony, Exhibit TSW-1 at 26.

⁴⁸⁰ Includes Base Rates and Generation Rider.

	Application	Settlement	Year 1	Year 2
Customer Class	Estimated Bill Increase	Estimated Bill Increase ⁴⁸⁰	Estimated Bill Increase with DTL Rider	Estimated Bill Increase with DTL Rider
Outdoor Lighting OL	12.0%	11.9%	8.8%	9.9%
Street Lighting SL	11.8%	11.9%	8.8%	9.9%
Total	14.6%	11.9%	8.0%	9.6%

The Commission acknowledges the steps Kentucky Power has taken to mitigate the financial impact in regard to the allocation of the revenue requirement increase to each customer class. The Commission notes that even though the COSS supported an increase for the residential class larger than ultimately decided upon, Kentucky Power’s stipulated revenue requirement increase allocation makes an effort to lessen the financial burden on the residential class by equalizing the overall bill increase across all customer classes. The Commission finds that the stipulated revenue requirement increase allocation is reasonable and has adopted it in the Commission’s subsequent revisions to the class rate increases.

Residential (RS) Rate Design

Kentucky Power proposed to implement a tiered residential rate design including a two-tiered service charge and a two-block declining energy charge.⁴⁸¹ Kentucky Power explained that its service charge will be replaced with a two-tiered structure where customers who consume between 0–2,000 kWh in a month will be charged the Tier 1 charge of \$26.00 per month and customers who consume greater than 2,000 kWh in a

⁴⁸¹ Direct Testimony of Michael M. Spaeth (filed Aug. 29, 2025) (Spaeth Direct Testimony) at 9.

month will be charged the Tier 2 charge of \$40.00 per month.⁴⁸² Kentucky Power stated that the tiered service charge for residential customers more accurately reflects recovery of the actual fixed cost of providing service to those customers while also mitigating bill impacts to lower-usage customers arguing that low-income households will disproportionately, and on average, have lower electricity consumption.⁴⁸³

Kentucky Power stated that in addition to the tiered service charge, it proposed a two-tier declining block energy rate where all customers are charged \$0.15750 per kWh for the first 600 kWh in a month and \$0.12606 for all usage in excess of 600 kWh.⁴⁸⁴ Kentucky Power explained that because of the highly seasonal nature of customers' energy usage, that redistributing revenue recovery out from the volumetric energy charge and into the service charge will help ease bill volatility.⁴⁸⁵

The Attorney General/KIUC expressed concern that the proposed two-tier service charge results in a \$14 increase for one incremental kWh.⁴⁸⁶ The Attorney General/KIUC noted that although Kentucky Power stated that increasing the service charge may incentivize customers to reduce usage to below 2,000 kWh per month, such reduction may not be practical as customer usage fluctuates seasonally throughout the year⁴⁸⁷ and stated that Kentucky Power could consider the development of additional tiers for the

⁴⁸² Spaeth Direct Testimony at 10.

⁴⁸³ Spaeth Direct Testimony at 10.

⁴⁸⁴ Spath Direct Testimony at 10.

⁴⁸⁵ Spaeth Direct Testimony at 13.

⁴⁸⁶ Direct Testimony of Leah J. Wellborn (filed Nov. 17, 2025) (Wellborn Direct Testimony) at 12.

⁴⁸⁷ Wellborn Direct Testimony at 14.

service charge to mitigate the impact of the 2,000 kWh level.⁴⁸⁸ Finally, the Attorney General/KIUC requested Kentucky Power provide additional analysis of the existing intra-class subsidies explaining how the proposal will address the existing construct and provide relief to high energy customers.⁴⁸⁹

The Joint Intervenors recommended that Kentucky Power's proposal for a two-tier service charge and two-tier declining block energy charge be denied and that the existing structure of service charge, along with the existing flat energy rate structure, be retained.⁴⁹⁰ The Joint Intervenors argued that the proposed rate structure imposes a substantially higher proportionate rate increase on customers with the lowest usage, as it affects few customers with usage exceeding 2,000 kWh per month and would further exacerbate affordability for low-income customers.⁴⁹¹

Kentucky Power argued that creating additional tiers for the service charge would add complexity to customer bills and customers would have difficulty meaningfully understanding price signals; however, in the future Kentucky Power would be willing to reanalyze the number of blocks and tiers to potentially benefit customers.⁴⁹² Further, Kentucky Power argued that its proposed rate design addresses intra-class subsidies because less Customer-Related Costs are being paid through energy rates thereby aligning costs and reducing subsidies. Kentucky Power explained that the service charge

⁴⁸⁸ Wellborn Direct Testimony at 15.

⁴⁸⁹ Wellborn Direct Testimony at 16.

⁴⁹⁰ Colton Direct Testimony at 112.

⁴⁹¹ Colton Direct Testimony at 115.

⁴⁹² Rebuttal Testimony of Michael M. Spaeth (filed Dec. 22, 2025) (Spaeth Rebuttal Testimony) at R4–R5.

recovers 61 percent of Customer-Related Costs, resulting in less cost paid through energy rates and the remaining 39 percent of Customer-Related Costs are recovered entirely in the first energy block.⁴⁹³

Kentucky Power argued that the Joint Intervenors' reliance on median usage statistics is oversimplistic, as it does not reflect the usage patterns of Kentucky Power's customers.⁴⁹⁴ Kentucky Power witness Michael M. Spaeth (Spaeth) argued that as customer usage increases, the bill impact decreases, and high-usage customers are better off under the proposed rate design as the average customer's typical bill increase in this proceeding is 14.9 percent and increases would be 14.9 percent for 2,001 kWh, 10.9 percent for 3,000 kWh, 9.8 percent for 3,500 kWh, and 7.6 percent for 5,000 kWh.⁴⁹⁵ Further, witness Spaeth explained that witness Colton's analysis failed to consider that customers with usage between 1,300 and 2,000 kWh receive smaller bill increases than the class-allocated 15 percent for residential customers.⁴⁹⁶

Kentucky Power argued that low-income households in the service territory are high energy users as poorly weatherized homes and electric heat pumps can lead to high energy usage in volatile winter months.⁴⁹⁷ Kentucky Power stated that the average Low Income Home Energy Assistance Program (LIHEAP)-assisted residential customer used more electricity than the average residential customer for the period of November 2024

⁴⁹³ Spaeth Rebuttal Testimony at R4.

⁴⁹⁴ Spaeth Rebuttal Testimony at R5.

⁴⁹⁵ Spaeth Rebuttal Testimony at R6.

⁴⁹⁶ Spaeth Rebuttal Testimony at R5.

⁴⁹⁷ Spaeth Rebuttal Testimony at R7.

through April 2025⁴⁹⁸ and approximately 27 percent of housing units are mobile homes.⁴⁹⁹

Kentucky Power argued that the rate design encourages energy conservation, as staying below 2,000 kWh to avoid the higher service charge and under the voluntary FlexPay program, Kentucky Power will provide an alert to customers when they are 500 kWh from the threshold to pay the second-tier service charge.⁵⁰⁰

At the hearing, Kentucky Power witness Spaeth acknowledged the complexity of the rate design and the need for customers to understand the components of the design to take advantage of its benefits⁵⁰¹ and further stated that it intends to do everything possible to help customers take advantage of this rate design and communicate with them in a manner that informs them of their usage and its impact on their bills.⁵⁰²

The Joint Intervenors stated that the proposed residential rate design is confusing and that high energy users will benefit the most.⁵⁰³ The Joint Intervenors stated that some of the high energy users may even see a bill decrease.⁵⁰⁴ The Joint Intervenors argued that the rate design does not effectively address the Commission's directive in Case No. 2023-00159 that it "expects Kentucky Power to address the issue of low-income and residential customers [sic] energy usage during the winter months and find cost-effective

⁴⁹⁸ Spaeth Rebuttal Testimony at R7.

⁴⁹⁹ Spaeth Rebuttal Testimony at R9

⁵⁰⁰ Spaeth Rebuttal Testimony at R11.

⁵⁰¹ Hearing Testimony of Michael M. Spaeth (Spaeth Hearing Testimony), HVT of the Jan. 15, 2026 Hearing at 11:18:56–11:19:32.

⁵⁰² Kentucky Power's Post-Hearing Brief at 36–37.

⁵⁰³ Joint Intervenors' Post-Hearing Brief at 18.

⁵⁰⁴ Joint Intervenors' Post Hearing Brief at 18–19.

measures to reduce demand.”⁵⁰⁵ Additionally, the Joint Intervenors reiterated that Kentucky Power had the highest average residential rates among the regulated investor-owned utilities in 2024.⁵⁰⁶

The Attorney General stated that the rates proposed were not fair, just, and reasonable.⁵⁰⁷ The Attorney General noted that Kentucky Power had the highest residential electric bills in the state, and that Kentucky Power ratepayers pay higher per kWh rates than all other ratepayers, with the exception of Grayson Rural Electric Cooperative Corporation.⁵⁰⁸ The Attorney General provided a table that compared per kWh residential rates and average bills among Kentucky Power and the other electric utilities that border it.⁵⁰⁹ As illustrated in the table below, Kentucky Power has the highest average residential bill in eastern Kentucky:⁵¹⁰

<u>Utility</u>	<u>Residential Rate (per kWh)</u>	<u>Average Total Bill</u>
Kentucky Power	\$0.1507	\$178.32
Kentucky Utilities	\$0.1197	\$131.93
Cumberland Valley Electric	\$0.1287	\$139.41
Jackson Energy Cooperative	\$0.1381	\$142.51
Licking Valley RECC	\$0.1383	\$128.20
Big Sandy RECC	\$0.1369	\$149.34
Grayson RECC	\$0.1627	\$148.20
Fleming-Mason Energy Co-op	\$0.1289	\$130.13

⁵⁰⁵ Joint Intervenors’ Post-Hearing Brief at 19, quoting Case No. 2023-00159, (Ky. PSC Jan. 19, 2024), Order at 70.

⁵⁰⁶ Joint Intervenors’ Post-Hearing Brief at 12.

⁵⁰⁷ Attorney General’s Post-Hearing Brief at 6.

⁵⁰⁸ Attorney General’s Post-Hearing Brief at 6.

⁵⁰⁹ Attorney General’s Post-Hearing Brief at 6.

⁵¹⁰ Attorney General’s Post-Hearing Brief, Table at 6.

Additionally, the Attorney General urged the Commission to scrutinize the proposed rate structure to limit unintended consequences.⁵¹¹ The Attorney General recommended that Kentucky Power incentivize and encourage budget billing plans to assist ratepayers with high seasonal usage.⁵¹²

Kentucky Power argued in its reply brief that the issues raised by the Attorney General and Joint Intervenors had little to do with the evidence in the record and only distracted from the solutions that Kentucky Power and the Signatory Parties have proposed for the Commission's consideration.⁵¹³ Kentucky Power reaffirmed that the proposed residential rate design provides a tangible path for high-usage customers to reduce energy costs now while Kentucky Power continues to investigate other possible solutions.⁵¹⁴ Kentucky Power explained that it already provided extensive evidence in the record that the proposed rate design was the best option, at this time, to address the high-usage issue without prejudice and disadvantage to the remaining residential customers.⁵¹⁵ Additionally, Kentucky Power agreed that it should offer budget billing plans and referred the Attorney General to review the existing Equal Payment Plan and Average Monthly Payment Plan.⁵¹⁶

In the Settlement Agreement, the 601 kWh and above energy block rate decreased

⁵¹¹ Attorney General's Post-Hearing Brief at 15.

⁵¹² Attorney General's Post-Hearing Brief at 16.

⁵¹³ Kentucky Power's Reply Brief at 18.

⁵¹⁴ Kentucky Power's Reply Brief at 11.

⁵¹⁵ Kentucky Power's Reply Brief at 11.

⁵¹⁶ Kentucky Power's Reply Brief at 12.

from the proposed \$0.12606 per kWh to \$0.11836 per kWh⁵¹⁷ to meet the decrease in stipulated revenue requirement increase. No other changes were made to the proposed residential rate design.

The Commission notes its initial concern about how the proposed residential rate design may impact outlying residential customers. The Commission further notes that over the pendency of this case, it has carefully analyzed the outcomes among various levels of energy consumption, using the real usage data provided by Kentucky Power.⁵¹⁸ The Commission acknowledges the evidence in the record which illustrates how the proposed residential rate design may benefit certain residential customer usage profiles, especially residential customers with excessive energy usage during the winter months.⁵¹⁹ As the Commission heard during many of the public comments, excessive energy use customers can at times also be the customers who can least afford higher bills. Residential customers should be properly educated on the advantages, possible disadvantages, and the overall mechanics of this creative rate design. Kentucky Power should maintain a clear initiative to keep costs and bill impacts as low as possible, which the proposed residential rate design may do compared to a standard rate design.

Based upon the Commission-approved revenue requirement increase of \$36,406,093, the Commission made minor alterations to the residential rate. The Commission finds that the service charge tier should decrease from the proposed \$26.00

⁵¹⁷ Kentucky Power's Response to Staff's Post-Hearing Request, Item 2, Attachment 2, Tab "Rate Export from RD" at C8.

⁵¹⁸ Kentucky Power's Response to Staff's Second Request (filed Oct. 9, 2025), Item 19, Attachment.

⁵¹⁹ Kentucky Power's Response to Staff's Post-Hearing Requests, Item 40.

per month to \$24.00 per month, while the second service charge tier should decrease from the proposed \$40.00 per month to \$38.00. The decrease in the fixed cost components will result in a recovery of \$41,034,942⁵²⁰ in fixed revenue for the standard residential class. The Commission also finds that the proposed declining block rates should decrease from \$0.15750 per kWh for the first 600 kWh and \$0.12606 per kWh for 601 kWh and above, to \$0.15385 per kWh and \$0.11534 per kWh, respectively.

The revisions to rates will result in the following bill impacts for varying residential usage profiles, before the DTL credits are applied. The bill impacts including the DTL credits will be discussed in subsequent section of this Order.

Usage Profile	Stipulated Base Impact	Commission Base Impact
600 kWh	\$23.79 or 24.6%	\$19.60 or 20.3%
1,208 kWh	\$18.02 or 10.3%	\$11.99 or 6.9%
2,500 kWh	\$19.75 or 5.8%	\$9.83 or 2.9%
4,000 kWh	\$5.51 or 1.04%	(\$8.93) or (1.7%)

The Commission finds the revisions to the proposed residential rate design reasonable and, as reflected in Appendix B to this Order, should be approved. The Commission finds the proposed rate structure overall is intended to benefit ratepayers of Kentucky Power, and thus, is reasonable; however, the Commission finds a need for Kentucky Power to track and report the impacts on an annual basis until its next general rate case. The Commission expects Kentucky Power to utilize various usage scenarios and compare each month's bill with the approved residential rates with the following standard rate design: \$26.28 per month, \$0.13198 per kWh. The usage scenarios should

⁵²⁰ Fixed Revenue = (billing units for tier 1 x new rate) + (billing units for tier 2 x new rate).
 \$41,034,942 = (1,314,461 x \$24.00) + (249,681 x \$38.00).

include actual customer data to determine an average low-energy user (under 600 kWh annually), an average energy user of approximately 1,200 kWh annually, a user of approximately 2,500 kWh annually, and a high-energy user (around 4,000 kWh annually). The report should specifically address when the two-tier service charge/declining block rate structure is not beneficial and why that may be. The report should also include customer feedback on the rate structure, which Kentucky Power should seek to collect throughout the first year of the rate structure and onward.

Industrial General Service (IGS) Rate Design

Attorney General/KIUC Witness Leah J. Wellborn (Wellborn) stated that the proposed rate design for IGS should be revised as the percentage increase in the IGS energy charge is almost identical to the overall IGS increase.⁵²¹ Witness Wellborn expressed concern that the proposed energy charge included a significant amount of non-fuel, non-purchased energy costs that were not variable costs.⁵²² Witness Wellborn recommended that the IGS energy rate be set to reflect only variable costs and the remaining proposed revenue be recovered through the demand charges.⁵²³

Kentucky Power witness Spaeth stated in rebuttal testimony that Kentucky Power is amenable to the change proposed by Ms. Wellborn as this rate change is exclusive to the IGS class and does not affect any other customer classes.⁵²⁴

KIUC stated in its initial post-hearing brief that the revenue-neutral revisions are

⁵²¹ Wellborn Direct Testimony at 19.

⁵²² Wellborn Direct Testimony at 19.

⁵²³ Wellborn Direct Testimony at 23.

⁵²⁴ Spaeth Rebuttal Testimony at R14.

important to the high-load-factor IGS customers.⁵²⁵ KIUC explained that the revisions to rate IGS have no impact on the other rate schedules.⁵²⁶

In the Settlement Agreement, the Signatory Parties agreed to the revenue-neutral modifications to the IGS rate design as proposed by witness Wellborn.⁵²⁷

The Commission accepts the revision proposed by the Attorney General/KIUC witness Wellborn and agreed to by the Signatory Parties in the Settlement Agreement. However, because the Commission made revisions to the overall revenue requirement increase, the rates have been revised. The Commission decreased the per kWh energy rate and the per kW demand charges until the appropriate revenue requirement increase allocation was met for each IGS sub-class. The Commission finds its revisions to the IGS rates, as shown in Appendix B, reasonable and should be approved.

Remaining Commission Rate Revisions

Based upon the Commission-approved revenue requirement increase, the Commission made minor revisions to the remaining rates. The rates were slightly reduced to meet the appropriate revenue requirement increase allocation. The Commission finds its other rate revisions reasonable, as reflected in Appendix B to this Order, and should be approved.

TARIFFS/RIDERS

Kentucky Power proposed several revisions to its tariff in its application, some of which were amended as a result of the Settlement Agreement. Below is a discussion of

⁵²⁵ KIUC's Post-Hearing Brief at 6.

⁵²⁶ KIUC's Post-Hearing Brief at 5.

⁵²⁷ Settlement Agreement, Section 3.

the significant revisions. Unless otherwise noted, the tariffs discussed below were not explicitly addressed in the Settlement Agreement but were agreed to by the Signatory Parties under the tariff changes section of the Settlement Agreement.⁵²⁸ Following a review of the record, including the Settlement Agreement, the Commission finds it should make modifications to the Settlement Agreement as it relates to the DTL Rider, Tariff Purchased Power Adjustment (Tariff P.P.A.), Generation Rider (Tariff G.R.), FlexPay (Tariff F.P.), Tariff COGEN/SPP, Non-Recurring Special Charges, and the Environmental Surcharge Tariff (Tariff E.S.).

DTL Rider

The Signatory Parties proposed as part of the Settlement Agreement to use existing unprotected deferred tax liabilities (DTLs) to temporary lower rates through a new proposed DTL Rider. Specifically, the Settlement Agreement included a new mechanism to provide revenue credits to customers for the period of March 1, 2026 through February 28, 2027 (2026 Rate Case Year) and the period of March 1, 2027 through February 28, 2028 (2027 Rate Case Year). Kentucky Power asserted that the credits would meaningfully mitigate and reduce the increase in rates resulting from the Settlement Agreement.⁵²⁹

Kentucky Power explained that through a DTL Rider, the Company will provide \$20 million in revenue credits in the 2026 Rate Case Year, allocated across all classes on a levelized basis and an additional \$5 million in revenue credits allocated to the residential class for a total of \$25 million. Then, in the 2027 Rate Case Year, the

⁵²⁸ Settlement Agreement, Section 7.

⁵²⁹ Wolfram Settlement Testimony at S12–S13.

Company would provide \$12.5 million in revenue credits allocated across all classes on a levelized basis and an additional \$2.5 million revenue credit allocated to the residential class, for a total of \$15 million.⁵³⁰ Kentucky Power noted that the proposed DTL Rider would not change the amount of deferred tax expense that is incorporated into ratemaking, but rather, only would change the period over which it occurs.⁵³¹ Kentucky Power explained that the DTLs that form the basis of its proposed credit arise from book-tax timing differences that are not subject to federal normalization rules, and therefore, are not subject to limits imposed by federal law that prohibit commissions from flowing through the benefits of accelerated tax expensing when setting rates.⁵³²

Kentucky Power indicated that to provide the DTL Credit it would credit operating deferred income tax expense and debit a new regulatory asset (DTL Regulatory Asset). Kentucky Power indicated that it would record those entries in the amount of approximately \$20.2 million during the 2026 Rate Case Year and approximately \$13.7 million during the 2027 Rate Case Year. Then, following the end of the 2027 Rate Case Year, Kentucky Power would begin amortizing the DTL Regulatory Assets through the DTL Rider over the life of the underlying plant for which the deferred tax liability was established—26 years. Additionally, the DTL Rider revenue requirement would include a return on the DTL Regulatory Asset “to recognize that because the Company used its deferred tax liability to provide revenue credits to customers, it no longer has the benefit

⁵³⁰ Wolfram Settlement Testimony at S12–S13.

⁵³¹ Testimony of David Hodgson on Behalf of Kentucky Power Company in Support of the Settlement Agreement (filed Jan. 9, 2026) (Hodgson Settlement Testimony) at S6.

⁵³² Hodgson Settlement Testimony at S7.

of the interest-free loan from the federal government.”⁵³³

The Attorney General asserted that Kentucky Power acknowledged additional unprotected DTLs that could be used to reduce rates and argued that the rate effects of those DTLs should be flowed through now in the same manner as the amounts proposed by Kentucky Power in the Settlement Agreement to provide customers with immediate rate relief. However, while Kentucky Power’s witnesses acknowledged that there were additional unprotected DTLs that could have been included in the DTL Rider, Kentucky Power argued that flowing through the full benefit of those DTLs on such an accelerated basis would negatively affect its credit rating, which is based in part on its Funds From Operations (FFO) to Debt Ratio.

Kentucky Power stated in its post-hearing reply brief that:

The concepts developed for the Settlement Agreement, particularly the DTL rider revenue credits that the Attorney General seeks to flippantly amend, were very carefully constructed to maximize benefits to customers up to the very point that Kentucky Power’s financials could withstand. Importantly, the revenue requirement agreed to in the Settlement Agreement and the DTL rider revenue credits go hand-in-hand. Each one depends on the other, and any unbalanced change to either will negatively affect Kentucky Power’s financial health and would result in unreasonable and confiscatory rates.⁵³⁴

As an initial matter, the Commission notes, as acknowledged by Kentucky Power, that the DTL Credits simply affect the timing of when customers are responsible for certain payments but do not affect what customers will ultimately pay. In short, through a series of accounting entries, the DTL Credit uses deductions that would otherwise reduce rates

⁵³³ Testimony of David Hodgson on Behalf of Kentucky Power Company in Support of the Settlement Agreement (Hodgson Settlement Testimony) at S7.

⁵³⁴ Kentucky Power’s Reply Brief at 9–10.

in the future as the timing differences that created the DTLs are reversed, to reduce rates in the two years at issue, but rates in the future will be marginally higher than they otherwise would have been because the deductions will have already been taken, and therefore, will not be available to use in the future.

On a nominal basis, the DTL Rider will actually marginally increase the total costs paid by customers, because customers will eventually have to pay a cost like that offset by the credit and will lose the benefit of the DTL offset to rate base early such that carrying costs will increase. Conversely, on a net present value basis, the DTL Rider will likely result in something close to a net zero cost differential, though it could result in a net present value cost or net present value savings depending on the time value of money assigned to customers.⁵³⁵ However, the DTL Rider will likely offer the most benefit to customers who are currently struggling with increasing bills. Thus, the Commission finds that the DTL Rider is reasonable.

However, Kentucky Power's evidence with respect to the potentially negative credit effects of reducing its cash flow to levels below that included in the first year of the Settlement Agreement is creditable. Further, any benefit to customers of the DTL Credits would likely be significantly reduced or eliminated if they reduced Kentucky Power's FFO to Debt Ratio in a manner that affected its credit rating or increased its borrowing costs, because the credits would almost certainly result in a net present value cost to customers if that occurred. Thus, the Commission finds the DTL Credits should be reduced due to

⁵³⁵ For instance, it would result in savings for a customer with borrowing costs in excess of Kentucky Power's WACC, such as a customer with significant credit card debt, because that customer would arguably be able to incur less or reduce its credit debt with the savings offered by DTL Credit at the cost of Kentucky Power's lower WACC. Conversely, the DTL credits would result in net present value costs to a customer who simply placed any savings in a savings account that accrued interest at a rate below the WACC.

the revenue requirement adjustments the Commission made above in a manner that maintains the same expected cash flow agreed to in the settlement to avoid the risk of additional borrowing costs that will be borne by customers in the future.

Specifically, given the difference between the base revenue requirement proposed in the settlement and the base revenue requirement approved herein, the Commission finds that the revenue credits in the DTL Rider for the 2026 Rate Case Year should be \$2.19 million for all classes and \$0.55 million for the additional residential credit. Conversely, the additional revenue requirement adjustments exceed the revenue credits in the 2027 Rate Case Year such that the Commission finds they should be eliminated. The Commission further finds the DTL Regulatory Asset and other accounting entries anticipated as part of the DTL Rider should be modified consistent with the modification revenue credits. With those modifications, the Commission finds that the DTL Rider should be approved.

The table below summarizes the bill impacts for varying residential usages when the DTL credits are applied:

Usage Profile	Commission Base Impact	DTL Year 1 Bill Impact
600 kWh	\$19.60 or 20.3%	\$16.12 or 16.7%
1,208 kWh	\$11.99 or 6.9%	\$4.99 or 2.9%
2,500 kWh	\$9.83 or 2.9%	(\$4.67) or (1.4%)
4,000 kWh	(\$8.83) or (1.7%)	(\$32.13) or (6.05%)

Tariff Purchased Power Adjustment

Kentucky Power proposed to remove the Rockport plant balances that have been securitized from Tariff P.P.A. The Commission approves removal of Rockport items from Tariff P.P.A., as these amounts have been securitized and are no longer recovered through Tariff P.P.A.

Kentucky Power also proposed the addition of incidental gas sales losses/gains, which are approved with modifications as discussed above regarding deferrals.

Generation Rider (Tariff G.R.)

Kentucky Power proposed the establishment of a new Tariff G.R., primarily to recover non-environmental capital plant balances and associated depreciation expenses for the Mitchell Plant.⁵³⁶ Kentucky Power proposed an initial annual revenue requirement for this rider of \$20,288,559.⁵³⁷ This request is linked to Kentucky Power's ongoing efforts to pursue securitization legislation in Kentucky, as the rider mechanism is intended to make the future reflection of securitization in customer rates more efficient.⁵³⁸ Kentucky Power explained that the proposed annual rate increase, and if the generation rider is not approved, the \$20.3 million would be collected base rates.⁵³⁹ The Generation Rider would be subject to annual true-ups, which would include recovery/credit for any under/over collection during the prior period and any additions to the rider.⁵⁴⁰ Kentucky Power stated that if securitization legislation is passed, collection through the Generation Rider will cease, and if legislation is not passed the Generation Rider will be updated using annual true-ups.⁵⁴¹

In addition to the base rider proposal, Kentucky Power sought authority to establish a regulatory asset to manage timing differences related to non-environmental Mitchell

⁵³⁶ Application; Wiseman Direct Testimony at 16.

⁵³⁷ Application; Newcomb Direct Testimony at 5.

⁵³⁸ Application at 10.

⁵³⁹ Application; Wolfram Direct Testimony at 20.

⁵⁴⁰ Application; Wolfram Direct Testimony at 24.

⁵⁴¹ Kentucky Power's Response to Attorney General/KIUC's Second Request, Item 58.

plant investments. Specifically, Kentucky Power expected a delay between the investment of approximately \$60.4 million in capital approved in Case No. 2025-00175,⁵⁴² which was not included in the application for this case, and the commencement of rate recovery of the \$60.4 million.⁵⁴³ To address this, Kentucky Power proposed to defer the annual revenue requirement associated with these investments into a regulatory asset, starting from the date the capital is recorded on the books until it is reflected in rates. This regulatory asset would then be recovered through a subsequent update to Tariff G.R. or a future rate proceeding if the rider is not approved.⁵⁴⁴ The regulatory asset balance of this proposal is approximately \$26.3 million.⁵⁴⁵

In its response to Joint Intervenors' Second Request, Kentucky Power stated it only sought to recover non-environmental costs through the Tariff G.R. because an existing mechanism, the Environmental Surcharge (Tariff E.S.), recovers Mitchell-related environmental costs.⁵⁴⁶ Kentucky Power stated that if the base period amount for the Tariff E.S. was removed from base rates and included in Tariff G.R., then the Tariff E.S., which is updated monthly, would be based on a variable rider mechanism (Tariff G.R.) as opposed to leaving the current structure in place. This would create complications in the monthly Tariff E.S. filings, particularly when updates to Tariff E.S. and Tariff G.R. occur in the same month. By leaving the Tariff E.S. base period amount in base rates, this

⁵⁴² Case No. 2025-00175, (Ky. PSC Dec. 30, 2025), Order at 9.

⁵⁴³ Wolfram Direct Testimony at 19.

⁵⁴⁴ Application at 18.

⁵⁴⁵ Kentucky Power's Response to Staff's Second Request (filed Oct. 9, 2025), Item 28(b).

⁵⁴⁶ Kentucky Power's Response to Joint Intervenors' Second Request, Item 2.

complication is avoided.⁵⁴⁷

Kentucky Power determined that property taxes of \$195,008 should have been excluded from Tariff G.R.'s annual revenue requirement, and the proposed Tariff G.R. should include only the return on and of Mitchell Plant currently recovered through base rates.⁵⁴⁸ Kentucky Power would continue to incur property tax expense and, therefore, must continue collecting an associated level of property tax expense in base rates.⁵⁴⁹

The Attorney General/KIUC's witness Kollen stated that Tariff G.R. was designed as a temporary mechanism to recover the base revenue requirement for capital costs once those costs have been removed from the rate base and operating income. This interim recovery continues until the remaining net book value is transitioned and sold as a regulatory asset to a Special Purpose Entity (SPE). Upon the completion of this sale, the Tariff G.R. is reduced to zero, remaining active only for necessary true-up or balancing adjustments. Following the sale, the financial structure of the recovery shifts: the return on rate base previously found in Tariff G.R. is replaced by securitization debt's interest expenses, while depreciation expenses are replaced by a principal recovery component within the securitization rider.⁵⁵⁰

Kollen argued that to achieve the objective of resetting the Tariff G.R. to zero upon the sale of the regulatory asset to the SPE, two specific modifications are required. The first modification necessitates that the Tariff G.R. include an AFUDC offset for any CWIP

⁵⁴⁷ Kentucky Power's Response to Joint Intervenors' Second Request, Item 4.

⁵⁴⁸ Kentucky Power's Response to Staff's First Request, Item 28(b).

⁵⁴⁹ Kentucky Power's Response to Staff's First Request, Item 28(b).

⁵⁵⁰ Kollen Direct Testimony at 44.

projects that are eligible for such an allowance.⁵⁵¹ Kollen argued that by incorporating this offset, the calculation of the rate base and operating income within the Tariff G.R. will accurately mimic the methodology used to calculate the rate base and operating income in the base revenue requirement, ensuring financial consistency throughout the transition.⁵⁵² Second, Kollen argued that property tax expense should remain in the base revenue requirement.⁵⁵³ To the extent property tax expense will continue to be incurred, then it should be recovered through the base revenue requirement in the same manner that non-fuel operating expenses will continue to be recovered through the base revenue requirement.⁵⁵⁴

Attorney General/KIUC's witness Kollen recommended approving Tariff G.R., stating that "[r]elocating the costs and the recovery from base revenues to Tariff G.R. will facilitate the use of securitization financing and the related financing order rider recovery at a future date."⁵⁵⁵ However, witness Kollen recommended three revenue adjustments to Tariff G.R. recovery totaling a decrease of \$1,772,639. First, he recommended including property tax expense in base rates as discussed above, which results in a revenue requirement reduction of \$195,008. Second, as discussed above, witness Kollen recommended removing Interim Retirements and Interim Net Salvage, which when applied to the Mitchell Plant balances in Tariff G.R. results in a decrease of \$1,184,621 million. Third, he recommended reducing the ROE included in Tariff G.R. to the ROE

⁵⁵¹ Kollen Direct Testimony at 44.

⁵⁵² Kollen Direct Testimony at 44.

⁵⁵³ Kollen Direct Testimony at 45.

⁵⁵⁴ Kollen Direct Testimony at 45.

⁵⁵⁵ Kollen Direct Testimony at 6.

authorized in this proceeding, which the Attorney General/KIUC recommended at 9.5 percent in this proceeding, which reduces the allowed return on rate base by \$393,010.

Kentucky Power, in its rebuttal testimony, accepted the Attorney General/KIUC's adjustments, indicated that Tariff G.R. is intended to mimic base rate recovery for these specific amounts, ultimately facilitating their securitization and acknowledged that property taxes associated with Tariff G.R. should be excluded from this mechanism, as they are not expected to be securitized. Consequently, Kentucky Power agreed that these property taxes should remain within base rates.⁵⁵⁶ Kentucky Power also agreed that the treatment of CWIP in Tariff G.R. should match the AFUDC offset method currently used in base rates.⁵⁵⁷ Kentucky Power did note that because the CWIP and associated AFUDC offset were already included in base rates, a revenue requirement adjustment for Tariff G.R. was not needed.⁵⁵⁸

In the Settlement Agreement, Kentucky Power agreed with all of the Attorney General/KIUC's recommended adjustments related to Tariff G.R. except the ROE.⁵⁵⁹ The Settlement Agreement included KIUC as a signatory; notably, the Attorney General is not a party to the Settlement Agreement.⁵⁶⁰ As discussed above, in the Settlement Agreement, Kentucky Power reduced depreciation expenses related to interim retirements and net salvage at the Mitchell plant, resulting in a total revenue requirement reduction of \$2.793 million. To account for this, Kentucky Power would decrease the

⁵⁵⁶ Wolfram Rebuttal Testimony at R8.

⁵⁵⁷ Wolfram Rebuttal Testimony at R8–R9.

⁵⁵⁸ Wolfram Rebuttal Testimony at R9.

⁵⁵⁹ Settlement Agreement at 21.

⁵⁶⁰ Settlement Agreement at 2.

Tariff G.R. revenue requirement by \$1.185 million.⁵⁶¹ Notably, the Settlement Agreement set the ROE for the Generation Rider at 9.7 percent, below the 9.8 percent applied to base rates, reducing Tariff G.R.'s annual revenue requirement by \$0.239 million. Additionally, Kentucky Power agreed recovery of property tax expenses should be through base rates rather than Tariff G.R. itself. This reallocation further reduces the annual Tariff G.R. revenue requirement by \$0.195 million. Beyond the initial revenue requirement, the Settlement Agreement establishes a mechanism for Kentucky Power to recover capital investments made at the Big Sandy and Mitchell plants after May 31, 2025. This recovery, facilitated through Tariff G.R., includes a return on and of investment based on the approved WACC and depreciation expenses.⁵⁶²

While these costs are generally subject to an annual true-up, Kentucky Power is authorized to defer all eligible costs starting June 1, 2025. A notable exception is approximately \$60.4 million approved in Case No. 2025-00175,⁵⁶³ Kentucky Power may make a specific, one-time filing to begin recovering this amount through Tariff G.R. Furthermore, costs for any new generating assets, including related O&M expenses, may be added to Tariff G.R. subject to Commission approval.⁵⁶⁴ Pursuant to Section 2 of the Settlement Agreement, Kentucky Power will implement the new Tariff G.R. with a first-year annual revenue requirement of \$18,669,720.⁵⁶⁵

In its Post-Hearing Brief, KIUC supported the modified Tariff G.R., which benefits

⁵⁶¹ Settlement Agreement at 9.

⁵⁶² Settlement Agreement at 11.

⁵⁶³ Case No. 2025-00175, Dec. 30, 2025 Order at 9.

⁵⁶⁴ Settlement Agreement at 11.

⁵⁶⁵ Settlement Agreement at 5.

customers by consolidating non-environmental Mitchell plant capital costs and future life-extension investments into a single, flexible mechanism. By isolating these costs outside of traditional base rates, Kentucky Power can facilitate a more efficient securitization process, allowing for the immediate cessation of Tariff G.R. collections once bonds are issued without the administrative delay or expense of a full base rate case. Furthermore, KIUC argued that the Settlement Agreement enhances ratepayer value by applying specific downward adjustments to Tariff G.R.'s revenue requirement, most notably by reducing the ROE to 9.7 percent and reallocating depreciation and property tax expenses to lower Tariff G.R.'s immediate financial impact.⁵⁶⁶

In its post-hearing brief, the Attorney General recommended significant modifications and reductions to Kentucky Power's proposed Tariff G.R. by referring to testimony from experts sponsored by the Attorney General and KIUC who initially recommended a revenue requirement of \$18.516 million for the rider, which is slightly lower than the \$18.669 million proposed in the Settlement Agreement. To further reduce costs for ratepayers, the brief suggested adjusting the rider's capital structure to 45 percent equity and 55 percent debt and lowering the ROE to 8.9 percent, which would save an additional \$0.094 million and \$0.461 million, respectively. Furthermore, the Attorney General argued that the rider's formula must be modified to include an AFUDC offset related to CWIP to ensure the results are fair and just.⁵⁶⁷

In its post-hearing brief, Kentucky Power supported the Settlement Agreement and stated that the proposed Tariff G.R. is designed to recover the revenue requirement for

⁵⁶⁶ KIUC's Post-Hearing Brief at 2, 5.

⁵⁶⁷ Attorney General's Post-Hearing Brief at 9–13.

approximately \$127 million in non-environmental Mitchell plant capital balances, along with \$60.4 million of non-ELG capital costs approved in Case No. 2025-00175.⁵⁶⁸ By segregating these costs from base rates, Kentucky Power aims to more efficiently pursue securitization legislation, which would allow Kentucky Power to eventually end collection through the rider without requiring a new base rate case. Under the terms of the Settlement Agreement, the authorized ROE for Tariff G.R. is set at 9.7 percent, which is 10 basis points lower than originally proposed and the 9.8 percent ROE set for base rates.⁵⁶⁹

In its post-hearing brief, Joint Intervenors expressed significant concern regarding Kentucky Power's proposed Tariff G.R., which is intended to recover all non-environmental capital plant costs and Mitchell plant operation and maintenance expenses beyond 2028. Kentucky Power plans to eventually securitize these costs under anticipated 2026 legislation, though the Joint Intervenors note that such legislation does not yet exist and would do nothing to lower current rates. A primary concern is that the rider reduces the ability of the Commission and ratepayers to scrutinize costs, potentially removing the incentive for Kentucky Power to operate more efficiently because future costs could be added without a formal rate case. Furthermore, the Joint Intervenors highlighted that the remaining net book value of the Mitchell Plant (\$537 million) is actually higher now than when it was first acquired in 2013, and O&M expenses are increasing as the plant nears the end of its useful life. Consequently, Joint Intervenors recommended that if the rider is approved, it must be conditioned on the filing of a detailed management

⁵⁶⁸ Case No. 2025-00175, Dec. 30, 2025 Order at 9.

⁵⁶⁹ Attorney General's Post-Hearing Brief at 19–23.

plan for Mitchell—including investment and retirement schedules—and a requirement that future resource planning be overseen by the Commission through all-source RFPs rather than being controlled solely by AEP.⁵⁷⁰

Kentucky Power, in its reply to the Joint Intervenors' brief, explained its concern that Tariff G.R. actually gives the Commission greater ability to scrutinize generation costs because all costs will be included in the proposed annual review filing. Currently, generation costs (other than those recovered through the environmental surcharge) are only scrutinized by the Commission in rate cases or CPCN filings. Kentucky Power argued that Tariff G.R. gives the Commission more oversight, and if a review proceeding is opened, the intervenors also have an additional opportunity to take evidence supporting any such costs.⁵⁷¹ Joint Intervenors, in its reply to Kentucky Power Brief, stated that the proposed Tariff G.R. and efforts to pursue securitization mentioned in the application and Settlement Agreement only defer expenses, to be collected later (generally with interest paid to Kentucky Power's sole shareholder, AEP).⁵⁷²

Having reviewed the record and being otherwise sufficiently advised, the Commission finds that Tariff G.R. should be approved with an ROE of 9.65 discussed in the ROE section above. Its purpose is to keep the Mitchell plant balances separate from base rates to allow flexibility depending on how those balances are affected by potential securitization legislation. Tariff G.R. does not increase cost to ratepayers—it simply separates the Mitchell Plant balances from base rates to simplify securitization if

⁵⁷⁰ Joint Intervenors' Post-Hearing Brief at 15–17.

⁵⁷¹ Kentucky Power's Post-Hearing Brief at 15–17.

⁵⁷² Joint Intervenors' Reply Brief at 4–5.

applicable. The adjustments are discussed in pertinent revenue requirement sections above. The Commission finds that the \$195,000 property tax reduction, \$1,184,621 Interim Retirements and Interim Net Salvage reduction, and a revised \$269,352 reduction for a 9.65 percent ROE should be accepted. The Commission further finds that the treatment of CWIP in Tariff G.R. should match the AFUDC offset method currently used in base rates. In regards to the \$60.4 million in capital approved in Case No. 2025-00175,⁵⁷³ Kentucky Power stated as of October 2025 it had not spent \$10,079,739 of the estimated future spending from April 2025 to December 2025 of \$15,852,410 included in the \$60.4 million in capital approved.⁵⁷⁴ The Commission finds the \$60.4 million amount should be reduced to account for the actual spending, although any difference attributable to Kentucky Power would be half of the total.

The Commission finds the true-up mechanism, to occur annually by February 15, is reasonable and should be approved. The table below summarizes the Generation Rider positions discussed above.

Cost Component	As Filed	Updated on Oct 9, 2025		Nov. 17, 2025 AG/KUIC Kollen	Jan. 9, 2025 Settlement Agreement	Commission Adjustment
		Without Property Tax	With 2025-00175 + Property Tax Removed			
Utility Plant at Original Cost	\$ 327,699,888	\$ 327,699,888	\$ 373,123,948	\$ 327,699,888	\$ 327,699,888	\$ 327,699,888
Less Accumulated Depreciation	200,045,017	200,045,017	202,192,187	200,045,017	200,045,017	200,045,017
Less Accumulated Deferred Income Tax						
Net Utility Plant	127,654,871	127,654,871	170,931,761	127,654,871	127,654,871	127,654,871
Construction Work in Progress (CWIP)			14,966,969			
Total Rate Base	127,654,871	127,654,871	185,898,730	127,654,871	127,654,871	127,654,871
WACC for Capital Riders	9.14%	9.14%	9.14%	8.84%	8.96%	8.93%
Return on Capital	11,667,655	11,667,655	16,997,836	11,279,241	11,433,026	11,398,852
Annual Depreciation Expense	8,425,896	8,425,896	9,341,865	8,425,896	8,425,896	8,425,896
Attorney General's Annual Depreciation Adjustment				(1,184,621)	(1,184,621)	(1,184,621)
Annual Property Tax	195,008					
Annual Expenses	8,620,904	8,425,896	9,341,865	7,241,275	7,241,275	7,241,275
Annual Revenue Requirement	\$ 20,288,559	\$ 20,093,551	\$ 26,339,701	\$ 18,515,920	\$ 18,669,720	\$ 18,640,127

FlexPay Program (Tariff F.P.)

⁵⁷³ Case No. 2025-00175, Dec. 30, 2025 Order at 9.

⁵⁷⁴ Case No. 2025-00175, Kentucky Power's Response to Commission Staff's Post-Hearing Data Requests, Item 4.

Kentucky Power proposed a new voluntary prepayment program, FlexPay, which allows customers to prepay for their electricity and avoid a deposit when signing up for service.⁵⁷⁵ Tariff F.P. will be available to all residential customers equipped with an AMI meter, except for those served under Rate Schedule Residential Demand-Metered (R.S.D.), those with specific medical or life-threatening conditions, those on partial payment plans, Average Monthly Payment plan participants, Equal Payment Plan customers, or those customers with onsite generation operating in parallel with Kentucky Power's system.⁵⁷⁶ Kentucky Power indicated that it would begin the installation of its AMI meters in the third quarter of 2026 and once customers received AMI meters, they would be able to enroll in Tariff F.P.⁵⁷⁷

Customers signing up for Tariff F.P. must make an initial payment of \$40 within two days of enrollment.⁵⁷⁸ Once the initial payment is made, it will be available to be applied toward electric usage.⁵⁷⁹ If a customer enrolling in Tariff F.P. has an existing deposit on file, the deposit will be applied to the FlexPay account and will count towards the \$40 initial payment.⁵⁸⁰ Customers with an existing deposit on file and an arrears amount must pay any outstanding amount over \$500 in addition to the initial \$40 payment.⁵⁸¹ Once again, the customer's deposit can be credited toward the required

⁵⁷⁵ Cobern Direct Testimony at 4–5

⁵⁷⁶ Cobern Direct Testimony at 5–6.

⁵⁷⁷ Cobern Direct Testimony at 6.

⁵⁷⁸ Cobern Direct Testimony at 8.

⁵⁷⁹ Cobern Direct Testimony at 8.

⁵⁸⁰ Cobern Direct Testimony at 8.

⁵⁸¹ Cobern Direct Testimony at 9.

payment.⁵⁸² Any remaining balance, up to \$500, will be carried into an arrears amount and eighty percent of any future FlexPay payment will be applied to the FlexPay balance with the remaining twenty percent applied to the arrears amount until it is paid off.⁵⁸³

When enrolling in Tariff F.P., customers will be required to select at least one preferred communication method and will be responsible for keeping their contact information current to maintain enrollment in the program.⁵⁸⁴ If Kentucky Power is unable to reach a customer by their preferred communication method, a letter will be sent informing the customer that they have 30 days to select a communication method to remain on Tariff F.P. and that if the means of communication is not updated, the customer will be switched to traditional pay billing.⁵⁸⁵ New FlexPay customers must also select a low balance amount of at least \$25 for notification purposes.⁵⁸⁶ Once the customer's balance reaches that amount, the customer will receive daily alerts until the balance exceeds the low-balance threshold.⁵⁸⁷

FlexPay customers will be billed daily based on their daily usage.⁵⁸⁸ Fixed charges will be prorated based on one-thirtieth of the total fixed charge and included in the daily charge.⁵⁸⁹ When a FlexPay customer's usage exceeds 2,000 kWh in a billing cycle, the

⁵⁸² Cobern Direct Testimony at 9.

⁵⁸³ Cobern Direct Testimony at 9.

⁵⁸⁴ Cobern Direct Testimony at 10.

⁵⁸⁵ Cobern Direct Testimony at 10.

⁵⁸⁶ Cobern Direct Testimony at 10.

⁵⁸⁷ Cobern Direct Testimony at 10.

⁵⁸⁸ Cobern Direct Testimony at 6.

⁵⁸⁹ Cobern Direct Testimony at 6.

full difference between the two service charges along with the standard daily prorated service charge, will be deducted from the FlexPay balance the subsequent day.⁵⁹⁰ For the rest of the billing cycle, the customer will continue to pay the prorated daily service charge based on the lower tier.⁵⁹¹ Kentucky Power will send a separate alert to FlexPay customers once their usage reaches 1,500 kWh in a billing cycle so that the customer would have the opportunity to adjust their usage to maintain the lower service charge rate.⁵⁹²

Once a FlexPay customer's balance hits \$0, the customer will have until the beginning of the next business day to make a payment to restore a positive balance.⁵⁹³ If a positive balance is not restored, the customer's service will automatically be disconnected during regular business hours, excluding recognized holidays.⁵⁹⁴ When a balance reaches \$0 on a weekend, the disconnection notice will be sent on Monday with actual disconnection occurring on Tuesday.⁵⁹⁵ If disconnected, once a customer restores a positive balance, service will be automatically reconnected.⁵⁹⁶ Kentucky Power indicated that it would not disconnect FlexPay service for 24 hours following when temperatures are forecast to be 32 degrees or below or 95 degrees or higher.⁵⁹⁷

⁵⁹⁰ Cobern Direct Testimony at 7.

⁵⁹¹ Cobern Direct Testimony at 7.

⁵⁹² Cobern Direct Testimony at 8.

⁵⁹³ Cobern Direct Testimony at 11.

⁵⁹⁴ Cobern Direct Testimony at 11.

⁵⁹⁵ Cobern Direct Testimony at 11.

⁵⁹⁶ Cobern Direct Testimony at 12.

⁵⁹⁷ Kentucky Power's Response to Attorney General/KIUC's First Request, Item 12.

FlexPay customers will have the same access to energy assistance as those on post-pay billing.⁵⁹⁸ However, FlexPay customers seeking Winter Hardship Reconnection, a Certificate of Need, or a Medical Certificate under 807 KAR 5:006, Sections 14, 15, and 16 will be removed from Tariff F.P. and reverted to post-pay service as Tariff F.P. does not allow credit extensions and requires a positive balance for reconnection.⁵⁹⁹

FlexPay customers will receive a monthly bill summary that will contain the same information the customer can access online.⁶⁰⁰ Due to the nature of Tariff F.P., information such as meter readings and usage data will be reflected on the bill daily instead of monthly.⁶⁰¹ Taxes and adjustments, which are required to be listed separately on each bill by 807 KAR 5:006, Section 7(1)(a)(8)–(9), will not be listed separately on the monthly bill summary as Kentucky Power indicated their inclusion could complicate the billing information.⁶⁰² Kentucky Power also stated that its billing software is not able to provide specific line items, such as riders and taxes, for the FlexPay program.⁶⁰³ However, customers will be able to contact Kentucky Power if they want to know the breakdown of their daily charges.⁶⁰⁴ Kentucky Power also indicated that if there is sufficient room on the bill for bill messages in a specific month, it would be able to add a message advising FlexPay customers that they can contact the company if they have

⁵⁹⁸ Cobern Direct Testimony at 12.

⁵⁹⁹ Cobern Direct Testimony at 12–13.

⁶⁰⁰ Cobern Direct Testimony at 14.

⁶⁰¹ Cobern Direct Testimony at 14.

⁶⁰² Cobern Direct Testimony at 14.

⁶⁰³ Kentucky Power's Response to Staff's Second Request, Item 38.

⁶⁰⁴ Hearing Testimony of Stevi N. Cobern, HVT of the Jan. 14, 2026 Hearing at 6:02:15.

questions about the breakdown of their daily charges.⁶⁰⁵ In addition, the meter constant, total bill amount, and date after which a penalty may apply, all of which are required to be on the bill in accordance with 807 KAR 5:006, Section 7(1)(a), will not be on the monthly bill summary as the information is not applicable to the FlexPay program.⁶⁰⁶

Kentucky Power requested the Commission grant deviations from the requirements set forth in 807 KAR 5:006, Section 15(1)(f) and 807 KAR 5:006, Section 7 to implement Tariff F.P.⁶⁰⁷ 807 KAR 5:006, Section 15(1)(f) requires a utility to mail or otherwise deliver an advance termination notice in the event a customer will be disconnected for nonpayment. Kentucky Power stated that customers using FlexPay will receive frequent and timely electronic notifications regarding their balances and disconnection warnings, ultimately offering more notifications about potential service termination than the traditional forms of notice outlined in the regulation.⁶⁰⁸ 807 KAR 5:006, Section 7 specifies specific information that must be included on a customer's bill. Kentucky Power argued that the existing bill format does not accommodate a transactional overview of a FlexPay participant's monthly activities, which may involve multiple transactions and proposes to offer FlexPay customers a bill format that will more accurately reflect the transactions occurring for each day's usage.⁶⁰⁹

The Joint Intervenors argued that Kentucky Power's FlexPay program should not

⁶⁰⁵ Kentucky Power's Response to Staff's Post-Hearing Request, Item 22.

⁶⁰⁶ Cobern Direct Testimony at 14.

⁶⁰⁷ Cobern Direct Testimony at 15–16; Kentucky Power's Post-Hearing Brief at 38

⁶⁰⁸ Cobern Direct Testimony at 16; Kentucky Power's Post-Hearing Brief at 38.

⁶⁰⁹ Cobern Direct Testimony at 15–16; Kentucky Power's Post-Hearing Brief at 39.

be approved.⁶¹⁰ First, Joint Intervenors stated that Tariff F.P. will adversely affect low-income customers⁶¹¹ as low-income customers are not able to adequately engage in energy saving behavior due to numerous factors.⁶¹² Second, Joint Intervenors claimed that FlexPay does not match a customer's income or cash flow⁶¹³ resulting in a number of customers that will self-disconnect by failing to purchase additional energy when it becomes unaffordable.⁶¹⁴ Third, Joint Intervenors argued that pre-pay programs should be accompanied by discounts because such programs impose fewer costs on a utility system and constitute a lesser service.⁶¹⁵ Fourth, Joint Intervenors argued that Kentucky Power's request for a deviation from the Commission's regulations should be denied as Kentucky Power must give proper termination notice to customers prior to disconnecting service because Kentucky Power has a duty to protect its customers from foreseeable damage from the failure of electric service upon disconnection due to non-payment.⁶¹⁶ Finally, Joint Intervenors argued that implementation of Tariff F.P. was premature as Kentucky Power has not yet begun to install the AMI meters.⁶¹⁷

Kentucky Power argued, in rebuttal testimony, that the Commission encouraged Kentucky Power to develop a pre-pay program and that FlexPay is a voluntary

⁶¹⁰ Colton Direct Testimony at 69.

⁶¹¹ Colton Direct Testimony at 69–70.

⁶¹² Colton Direct Testimony at 73–74.

⁶¹³ Colton Direct Testimony at 70.

⁶¹⁴ Colton Direct Testimony at 75.

⁶¹⁵ Colton Direct Testimony at 78.

⁶¹⁶ Colton Direct Testimony at 80–83.

⁶¹⁷ Colton Direct Testimony at 83–84.

program.⁶¹⁸ Kentucky Power also indicated that customers would not be required to remain on Tariff F.P. for any specific amount of time if the customer decides it is not a good fit.⁶¹⁹ Kentucky Power stated that community action agencies also recommended that Kentucky Power offer a pre-pay program because it can be beneficial to customers.⁶²⁰

Kentucky Power argued that customers on Tariff F.P. would receive the same electric service as traditionally-billed customers and that offering a discount would not reflect the actual cost of serving such customers.⁶²¹ Regarding termination notices, Kentucky Power stated that FlexPay customers receive more frequent notifications before service termination than a post-pay customer and that if a FlexPay customer is disconnected, they must only restore a positive balance to their account to restore service unlike post-pay customers who must pay the entire past due balance to be reconnected.⁶²² Finally, Kentucky Power indicated that approval of Tariff F.P. in this proceeding will allow it to offer the program to customers as soon as an AMI meter is installed at their premises.⁶²³

The Joint Intervenors recommended the Commission deny the FlexPay program and require Kentucky Power to propose adjusted rates and programs to utilize AMI to the

⁶¹⁸ Rebuttal Testimony of Stevi N. Cobern (Cobern Rebuttal Testimony) (filed Dec. 2025) at R2–R3.

⁶¹⁹ Cobern Rebuttal Testimony at R3.

⁶²⁰ Cobern Rebuttal Testimony at R4.

⁶²¹ Cobern Rebuttal Testimony at R5.

⁶²² Cobern Rebuttal Testimony at R5.

⁶²³ Cobern Rebuttal Testimony at R6.

full benefit of customers in conjunction with any future proposal.⁶²⁴

As noted above, the Commission has encouraged Kentucky Power to develop a pre-pay program. The most important aspect of Tariff F.P. is that it is voluntary, and as Kentucky Power noted, customers will not be forced to take service under it. Most of Joint Intervenors' concerns regarding Tariff F.P. should be allayed by that fact. The Commission has approved numerous pre-pay programs over the years, mostly for Rural Electric Cooperative Corporations.⁶²⁵ Kentucky Power's Tariff F.P. has many of the same characteristics of pre-pay programs that have been approved in the past, and in some ways, such as suspending disconnections during extreme weather, offers customers more benefits than the programs that have been approved by this Commission in the past.

Having considered the record and being otherwise sufficiently advised, the Commission finds that Tariff F.P. is reasonable and that it should be approved with a modification. The Commission is concerned that the presentation of the daily charges on a FlexPay customer's bill is insufficient. Given the number of riders that are included on a traditional customer's bill, and the fact that such riders will not be present on the FlexPay bill, this could cause some confusion with FlexPay customers about how their daily charges are calculated. While including such information on the FlexPay monthly bills

⁶²⁴ Joint Intervenors' Brief at 33.

⁶²⁵ Case No. 2012-00141, *Application of Salt River Electric Cooperative Corporation for Approval of a Prepay Metering Pilot Program* (Ky. PSC Jul. 11, 2012); Case No. 2012-00260, *Application of Blue Grass Energy Cooperative Corporation for Approval of a Prepay Metering Program* (Ky. PSC Aug. 10, 2012); Case No. 2012-00437, *Application of Farmers Rural Electric Cooperative Corporation for Approval of a Prepay Metering Program Tariff* (Ky. PSC Jan. 23, 2013); Case No. 2015-00311, *Application of Inter-County Energy Cooperative Corporation for Approval of a Prepay Tariff* (Ky. PSC Mar. 17, 2016); Case No. 2015-00337, *Application of Big Sandy Rural Electric Cooperative Corporation* (Ky. PSC Apr. 7, 2016).

may not be feasible given how long it would make the bill, the Commission finds that Kentucky Power should include a bill message on FlexPay monthly bills indicating that customers can contact Kentucky Power if they have questions about the breakdown of their daily charges. The Commission also finds that Kentucky Power should explore ways for customers to be able to access the breakdown of the FlexPay daily charges in their online accounts.

The Commission also finds that a deviation should be granted from 807 KAR 5:006, Section 15(1)(f)1 and 807 KAR 5:006, Section 7. These are common deviations that the Commission has granted for pre-pay Programs many times in the past due to the nature of pre-pay programs.⁶²⁶

Residential Energy Assistance Tariff (Tariff R.E.A)

The Residential Energy Assistance (Tariff R.E.A) collects a monthly \$0.40 per meter surcharge from residential customers and in combination with a two-for-one Company match, or \$0.80 per residential meter per month, and funds the Home Energy Assistance in Reduced Temperatures (HEART) and Temporary Heating Assistance in Winter (THAW) programs to assist qualifying low-income customers with their electric bills.⁶²⁷ Kentucky Power explained that through Tariff R.E.A, qualifying low-income customers participating in the HEART program with electric heat receive \$115 each month from January to April and customers with non-electric heat receive \$58 each month

⁶²⁶ Case No. 2015-00311, (Ky. PSC Mar. 17, 2016), Order at 6; Case No. 2015-00337, (Ky. PSC Apr. 7, 2016), Order at 4; and Case No. 2020-00278, *Electronic Application of Taylor County Rural Electric Cooperative Corporation for Approval to Implement a Prepay Metering Program* (Ky. PSC Dec. 22, 2020), Order at 6.

⁶²⁷ Cobern Direct Testimony at 19.

for the same four months.⁶²⁸ Kentucky Power stated that the THAW program provides \$175 to qualifying customers in January through April, until funds are depleted.⁶²⁹ Kentucky Power is not proposing to change the level of Home Energy Assistance funding.⁶³⁰

Joint Intervenors argued that the Tariff R.E.A. rate should be expanded from \$0.40 per month to \$0.75 per month.⁶³¹ Additionally, Joint Intervenors argued that the HEART assistance provided to participating low-income residential customers whose primary source of heating is electricity should be expanded from \$115 per month to \$150 per month⁶³² and the HEART assistance provided to participating low-income residential customers whose primary source of heating is non-electricity should be expanded from \$58 per month to \$76 per month. Also, the Joint Intervenors argued that the maximum THAW assistance that may be provided in January through April of any single calendar year should be expanded from \$175 to \$250.⁶³³ In conclusion, the Joint Intervenors expressed concern about the availability of LIHEAP in the future in support of its position for increasing Tariff R.E.A. funding.⁶³⁴

In rebuttal, Kentucky Power stated that the surcharge rate for Tariff R.E.A. was increased from \$0.30 to \$0.40 per month per residential meter and Kentucky Power

⁶²⁸ Cobern Direct Testimony at 17.

⁶²⁹ Cobern Direct at Testimony at 17.

⁶³⁰ Cobern Direct Testimony at 19.

⁶³¹ Colton Direct Testimony at 63–64.

⁶³² Colton Direct Testimony at 60.

⁶³³ Colton Direct Testimony at 61–62

⁶³⁴ Colton Direct Testimony at 30.

increased shareholder funding from a one-to-one match to a two-to-one match in Case No. 2023-00159.⁶³⁵ Kentucky Power argued that the adjustments proposed by the Joint Intervenors were premature because only one heating season has passed since the higher rate and increased shareholder funding were implemented and explained that the programs would be evaluated with Community Action agencies next spring to determine the necessary level of funding.⁶³⁶ Kentucky Power acknowledged the benefits of the federally funded LIHEAP program to customers in need and explained that Kentucky Power and representatives from AEP participated in the National Energy and Utility Affordability Coalition's LIHEAP Action Day in March 2025 and met with office staff for several members of Congress to share the benefits of the program and stated that Kentucky Power will continue to advocate for LIHEAP.

The Commission acknowledges the arguments presented by the Joint Intervenors regarding the Tariff R.E.A. rate, as well as the HEART and THAW programs. The Commission notes that the Tariff R.E.A. rate was just approved in Case No. 2023-00159 and has not captured more than one heating season with the updated rates. The Commission also notes that the funding released for 2026 is comparable to the 2025 funding level and Kentucky's designated share of this funding is \$50,848,092.⁶³⁷ Based on the record and otherwise being sufficiently advised, the Commission finds that the Tariff R.E.A. rates should remain at current levels.

Tariff COGEN/SPP

⁶³⁵ Cobern Rebuttal Testimony at R6.

⁶³⁶ Cobern Rebuttal Testimony at R6-R7.

⁶³⁷ Cobern Rebuttal Testimony at R7.

Kentucky Power proposed several revisions to its COGEN/SPP tariffs. First, Kentucky Power proposed to combine Tariff COGEN/SPP I and Tariff COGEN/SPP II into a single tariff as the language in those tariffs is mostly identical.⁶³⁸ Secondly, Kentucky Power proposed to provide clarity regarding the contract terms for customers requesting service under Tariff COGEN/SPP.⁶³⁹ The current tariff provides for a contract term of no less than five years.⁶⁴⁰ Kentucky Power proposed to establish a maximum contract term of 20 years.⁶⁴¹ Third, Kentucky Power proposed to add specific criteria to the tariff to define what constitutes a legally enforceable obligation (LEO). Finally, Kentucky Power proposed to update its capacity credits for Tariff COGEN/SPP customers utilizing avoided generation capacity cost information presented in Kentucky Power's 2022 Integrated Resource Plan (IRP).⁶⁴²

Kentucky Power explained that a LEO must be established before it has an obligation to enter into a contract to purchase the output from a Qualifying Facility (QF) at avoided cost rates.⁶⁴³ In order for a LEO to be established, Kentucky Power proposed that the following criteria need to be met to Kentucky Power's satisfaction: (1) documentation of having obtained QF status from FERC pursuant to certification procedures set out in 18 CFR § 292.207, with QF's self-certifying providing Kentucky Power with the submitted FERC Form No. 556 – Certification of QF Status for Small

⁶³⁸ Cobern Direct Testimony at 24.

⁶³⁹ Cobern Direct Testimony at 24.

⁶⁴⁰ Cobern Direct Testimony at 24.

⁶⁴¹ Cobern Direct Testimony at 24.

⁶⁴² Spaeth Direct Testimony at 21.

⁶⁴³ Cobern Direct Testimony at 24.

Power Production and Cogeneration Facilities (Form 556); (2) documentation regarding the location of the project and its proximity to other projects within one and ten miles of the project and an estimated, non-binding, good faith estimate of the energy production for the project for each month and year of the entire term of the project's anticipated avoided cost power purchase agreement; (3) documentation of an interconnection application with the appropriate electric utility and proof of payment of applicable application fees; (4) documentation of meaningful steps to obtain site control adequate to commence construction of the project at the proposed location; (5) documentation of all applications, including filing fees, to obtain all necessary local permitting and zoning approvals; (6) for cogeneration facilities, written proof, provided to the electric utility, of a steam host willing to contract for steam over the full term of the project's anticipated power purchase agreement for a cogeneration facility; and (7) proof of a deposit, paid in full, to cover the estimated costs for a system impact or facilities study should a study of studies become necessary.⁶⁴⁴

In Case No. 2023-00159, the Commission stated “given Kentucky Power’s current economic and financial condition, the Commission will allow Kentucky Power to utilize Net CONE for its cogeneration capacity cost rate until its next base rate case in which Kentucky Power will then provide updated avoided capacity costs based on a proxy unit calculation.”⁶⁴⁵ In this proceeding, Kentucky Power calculated the capacity credits utilizing an avoided generation capacity cost using information from its 2022 IRP.

⁶⁴⁴ Application, Section II, Exhibit D at 139.

⁶⁴⁵ Case No. 2023-00159, Jan. 19, 2024 Order at 72.

Kentucky Power used a 480 MW natural gas combustion turbine in the calculation with dollars adjusted to 2025.⁶⁴⁶

KYSEIA had several objections to the proposed Tariff COGEN/SPP. First, KYSEIA indicated that the 45 kW minimum system size threshold for Tariff COGEN/SPP, which Kentucky Power indicated was included in error, should be rejected as it would prevent a QF with less than 45 kW of net power production capacity from selling power to Kentucky Power.⁶⁴⁷ Second, KYSEIA argued that any LEO framework that is adopted should not be applied to customers whose power sale offers are limited to as-available energy, but that if such a requirement is applied to as-available energy, it should be limited to facilities larger than 100 kW.⁶⁴⁸ Third, KYSEIA argued that the establishment of a LEO should not be dependent on Kentucky Power's discretion and that it should essentially be implemented as a standard form that automatically confers the creation of the LEO.⁶⁴⁹ Fourth, KYSEIA argued that the requirement for filing Form 556 should be rejected for any facility that is exempt from filing Form 556 according to FERC's rules.⁶⁵⁰ Fifth, KYSEIA stated that the requirement to pay an interconnection study deposit should be eliminated entirely, or in the alternative, it should only apply to QFs larger than 1 MW and Kentucky Power should be subject to a strict timeline for providing information on estimated study costs to prospective QFs.⁶⁵¹ Sixth, KYSEIA objected to the requirement

⁶⁴⁶ Spaeth Direct Testimony at 21.

⁶⁴⁷ Direct Testimony of Justin R. Barnes (filed Nov. 17, 2025) (Barnes Direct Testimony) at 14.

⁶⁴⁸ Barnes Direct Testimony at 16–24.

⁶⁴⁹ Barnes Direct Testimony at 27–29.

⁶⁵⁰ Barnes Direct Testimony at 29–30.

⁶⁵¹ Barnes Direct Testimony at 30–31.

for all QFs with a total design capacity of more than 10 kW to purchase power from Kentucky Power on demand-related tariffs unless the QF enters into a buy-all/sell-all arrangement under Option 3 of Tariff COGEN/SPP.⁶⁵² Seventh, KYSEIA argued that Kentucky Power should ensure that all meter replacements for Tariff COGEN/SPP customers after AMI installation has begun should use an AMI meter as the new meter and that the separate metering charge for Tariff COGEN/SPP customers with AMI meters should be eliminated.⁶⁵³ Finally, KYSEIA stated that the tariff language pertaining to the contract term should be revised to clarify that contract term should be determined by the eligible customer.⁶⁵⁴

Kentucky Power confirmed in its rebuttal testimony that the 45 kW minimum size threshold was included in error.⁶⁵⁵ Pertaining to KYSEIA's arguments regarding meter replacements, Kentucky stated that while it could not guarantee that Tariff COGEN/SPP customers requiring meter replacement would receive an AMI meter, it would use AMI meters as replacements in districts where AMI deployment had begun and all enabling AMI infrastructure was available to allow the AMI meter to serve the customer.⁶⁵⁶ Kentucky Power also indicated that, in the future, it would be willing to evaluate eliminating the separate metering charge for Tariff COGEN/SPP customers for AMI meters, but at this time, it expects the Tariff COGEN/SPP customers to be served via existing AMR meters throughout AMI deployment, so it proposed to maintain the separate metering

⁶⁵² Barnes Direct Testimony at 31–35.

⁶⁵³ Barnes Direct Testimony at 35–36.

⁶⁵⁴ Barnes Direct Testimony at 37–38.

⁶⁵⁵ Wolfram Rebuttal Testimony at R11.

⁶⁵⁶ Wolfram Rebuttal Testimony at R11–R12.

charge in this case.⁶⁵⁷ Kentucky Power asserted that LEO conditions should apply to QFs offering as-available energy as it would provide certainty that Kentucky Power would be required to purchase the power the QF produces.⁶⁵⁸ Kentucky Power also stated that KYSEIA overstated the company's control and discretion it may use in regards to the establishment of a LEO but that the company must be able to verify the details of the proposed interconnection and that the QF is entitled to payment for the power it sells.⁶⁵⁹ Kentucky Power indicated that it would be open to modifying the provision requiring the submission of Form 556, but that it would still require the QF to provide much of the same information presented on that form.⁶⁶⁰ Kentucky Power also stated that KYSEIA misunderstood the requirement regarding the deposit for system impact and facilities studies, as it indicated that such a deposit would only be required if the engineering team deemed additional studies were needed and that it would be willing to adjust that tariff language to reflect that.⁶⁶¹ Regarding the requirement that facilities over 10 kW in size take service pursuant to a demand-metered tariff, Kentucky Power indicated that the requirement is already in the current Tariff COGEN/SPP I and that no changes would result from the inclusion of the requirement in the combined tariff.⁶⁶² Finally, Kentucky Power stated that the term of a QF contract has always been at the QF's choosing and that KYSEIA's proposed edit on this issue was unnecessary.

⁶⁵⁷ Wolfram Rebuttal Testimony at R12.

⁶⁵⁸ Spaeth Rebuttal Testimony at R16–R17.

⁶⁵⁹ Spaeth Rebuttal Testimony at R18–R19.

⁶⁶⁰ Spaeth Rebuttal Testimony at R19–R20.

⁶⁶¹ Spaeth Rebuttal Testimony at R20–R21.

⁶⁶² Spaeth Rebuttal Testimony at R21–R22.

In the Settlement Agreement, Kentucky Power and the Signatory Parties agreed to the following in connection with Tariff COGEN/SPP: (1) Kentucky Power will update the language in Tariff COGEN/SPP to remove the 45 kW minimum size threshold; (2) Kentucky Power agreed that for Tariff COGEN/SPP customers that require a meter replacement prior to their scheduled meter change, such replacement would be made with an AMI meter to the extent the customer is within a district where AMI deployment has begun and the AMI network and equipment is available to serve the customer; (3) Kentucky Power agreed to implement procedures for customers with behind-the-meter generation facilities of 45 kW or less to enroll and take service under Tariff COGEN/SPP in a manner similar to how customers enroll and take service under Net Metering Service II, understanding that there may be different requirements in order to allow Kentucky Power to operate consistently with applicable state or federal regulations; (4) Kentucky Power agreed to develop a form for customers seeking to take service under Tariff COGEN/SPP with QFs with capacities less than 1 MW, which may be submitted instead of Form 556; (5) Kentucky Power will implement an application fee for customers seeking to connect distributed energy resources (DERs) to its system to be calculated as \$100 plus \$1/kW of the proposed resource;⁶⁶³ (6) Kentucky Power agreed not to conduct a system impact study for DERs with capacities less than 100 kW, but indicated that it must conduct technical reviews and screening for all resources proposed to be connected to its system, although there will be no additional costs for such technical screening other than the application fee mentioned above; (7) Kentucky Power will conduct

⁶⁶³ Witness Wolfram confirmed in hearing testimony that the proposed application fee would only apply to Tariff COGEN/SPP customers. See Wolfram Hearing Testimony, HVT of the Jan. 14, 2026 Hearing at 10:41:10.

interconnection studies within 140 days of receipt of a complete application for interconnection; and (8) Kentucky Power will not implement internal prohibitions on the ability of leased systems to participate in net metering and Tariff COGEN/SPP, with the understanding that such a system must comply with the requirements of state and federal law, including but not limited to KRS 278.465(1).⁶⁶⁴

Having reviewed the record and being otherwise sufficiently advised, the Commission finds that the provisions of the Settlement Agreement pertaining to Tariff COGEN/SPP are reasonable and should be approved with the modifications noted below.

The inclusion of the LEO requirements in the tariff provides clarity to prospective QFs as to what steps it must take in order to establish a LEO. While Kentucky Power must be able to verify the details of the proposed interconnection, the proposed requirements place the establishment of the LEO in the control of the QF. When updating its tariff for the Settlement Agreement provisions, Kentucky Power made the revisions pertaining to the 45 kW minimum size threshold, Form 556, and the deposits for the system impact studies. Kentucky Power did not make revisions to its tariff pertaining to the other Settlement Agreement provisions pertaining to Tariff COGEN/SPP. While Kentucky Power indicated that it would develop some of the procedures shortly after a final order was issued in this proceeding,⁶⁶⁵ it should have already updated the tariff to include the Tariff COGEN/SPP application fee, a statement that it would not conduct system impact studies for DERs with capacities less than 100 kW and that no additional costs would be assessed for the additional technical reviews, and a statement that it

⁶⁶⁴ Settlement Agreement, Section 6 (A)-(H).

⁶⁶⁵ Wolfram Hearing Testimony, HVT of the Jan. 14, 2026 Hearing at 10:40:26.

would conduct interconnection studies within 140 days of receipt of a complete application for interconnection in the tariff. Therefore, the Commission finds that the compliance tariffs filed by Kentucky Power at the conclusion of this case should include such information. For the additional procedures that will be developed after the conclusion of this case, namely the procedures pertaining to behind-the-meter generation facilities of less than 45 kW and the new form in lieu of Form 556, Kentucky Power should submit those for review through a post-case filing or a tariff filing, if applicable, once they are developed.

The Commission also finds that the capacity credits proposed by Kentucky Power are reasonable and should be approved after being updated for the WACC approved in this case, as reflected in Appendix B. As Kentucky Power noted, the Commission directed it to provide updated avoided capacity costs based on a proxy unit calculation in this proceeding. As Kentucky Power demonstrated in its 2022 IRP that its next generation addition would be the 480 MW natural gas combustion turbine, basing the avoided capacity cost for Tariff COGEN/SPP off that generation addition is reasonable.

Non-Recurring Special Charges

In its application, Kentucky Power proposed to increase its special charges to align closer with the principles of cost-causation.⁶⁶⁶ Kentucky Power stated that the deployment of AMI in the service territory will have a significant impact on reconnection and disconnection costs.⁶⁶⁷ Additionally, Kentucky Power stated that the current special charges do not collect all the costs to perform the services, and thus, are being partially

⁶⁶⁶ Wolfram Direct Testimony at 14–15.

⁶⁶⁷ Wolfram Direct Testimony at 13.

subsidized by other customers who did not request those services.⁶⁶⁸ Kentucky Power stated that due to the deployment of AMI technology in its service territory, it aligned the charges to reflect the Commission’s findings in Case No. 2020-00349, where Kentucky Utilities was approved to collect labor costs in its reconnect and disconnect fees after AMI meters were fully implemented.⁶⁶⁹ The current and proposed revisions to the special charges are illustrated in the table below:⁶⁷⁰

Special Charges	Current Charge	Proposed Charge
Reconnect during regular hours (non-AMI)	\$4.70	\$54.11
Reconnect at the end of day (non-AMI)	\$30.00	\$137.20
Reconnect prior to 8pm, call-out required (non-AMI)	\$95.00	\$137.20
Reconnect double time required (non-AMI)	\$124.00	\$178.75
Reconnect (AMI)	N/A	\$0.00
Termination or Field Trip	\$4.70	\$54.11
Meter Read Check	\$21.00	\$54.11
Returned Check Charge	\$14.65	\$6.60
Meter Test Charge	\$48.00	\$74.88

The Attorney General/KIUC’s witness Wellborn did not dispute that the increases to the special charges reflect Kentucky Power’s cost of service.⁶⁷¹ However, witness Wellborn stated that the increases were substantial, and that the increases will be

⁶⁶⁸ Wolfram Direct Testimony at 13–14.

⁶⁶⁹ Wolfram Direct Testimony at 14-15. See also, Case No. 2020-00349, *Electronic Application of Kentucky Utilities Company for an Adjustment of its Electric Rates, A Certificate Of Public Convenience And Necessity to Deploy Advanced Metering Infrastructure, Approval of Certain Regulatory and Accounting Treatments, and Establishment of a One-Year Surcredit* (Ky. PSC June 30, 2021), Order at 50.

⁶⁷⁰ Wolfram Direct Testimony, Figure TSW-2 at 13.

⁶⁷¹ Wellborn Direct Testimony at 18.

disproportionally applied to customers without AMI.⁶⁷² The Attorney General/KIUC recommended that Kentucky Power take the principle of gradualism into consideration in developing the special charges.⁶⁷³

Kentucky Power stated that if it were to take a more gradual approach in increasing the special charges, some portion of the costs of the services would be socialized to its remaining customer base.⁶⁷⁴ If the Commission does approve a lower amount, Kentucky Power stated that the Commission would need to reflect a reduction to the Other Operating Revenue so that the costs not recovered through the special charge could be recovered through base rates.⁶⁷⁵

The Commission recognizes that at current levels, the special charges are not capturing the true cost to perform non-recurring duties. However, in Case No. 2020-00141, the Commission found that the calculation of special charges should only reflect the marginal costs related to the service.⁶⁷⁶ The Commission does not find an issue in labor costs being reflected in special charges for duties outside of normal business hours. The Commission notes that the inclusion of fringe benefits, as they relate to the performance of non-recurring services, do not reflect the actual costs of performing the task. Furthermore, because Kentucky Power is in the process of installing AMI across its service territory, but has yet to complete the installation, the Commission finds it is

⁶⁷² Wellborn Direct Testimony at 18.

⁶⁷³ Wellborn Direct Testimony at 19.

⁶⁷⁴ Wolfram Rebuttal Testimony at R10.

⁶⁷⁵ Wolfram Rebuttal Testimony at R9.

⁶⁷⁶ Case No. 2020-00141, *Electronic Application of Hyden-Leslie County Water District for an Alternative Rate Adjustment* (Ky. PSC Nov. 6, 2020), Order at 19-20.

premature to include labor costs in special charges within regular business hours, or when overtime is not necessary. The Commission removed labor costs from the reconnection/disconnection within regular business hours and trip charge, as well as fringe benefits from all of the special charges with proposed increases. Having considered the record and otherwise being sufficiently advised, the Commission finds the proposed special charges to be unreasonable, and that the revised special charges set forth in Appendix B are reasonable and should be approved.

Net Metering Service II (Tariff N.M.S. II)

Kentucky Power proposed to revise its net metering tariff to clarify that credits provided under KRS 278.466(4) are not transferable and that unused credits expire when a customer no longer takes service under Tariff N.M.S. II.⁶⁷⁷ The proposed language is in line with KRS 278.466(4), which states in part, “[e]xcess bill credits shall not be transferable between customers or premises. If an eligible customer-generator closes his or her account, no cash refund for accumulated credits shall be paid.” No intervenor provided testimony on this issue. The Commission finds that the proposed language is reasonable and should be accepted as it is in line with the KRS 278.466(4).

Voluntary Curtailment Service

Kentucky Power proposed to remove the Voluntary Curtailment Service Tariff (Tariff V.C.S.) from its tariff due to a lack of participation, as there have been no requests for service under Tariff V.C.S. since the tariff was established.⁶⁷⁸ Kentucky Power stated that customers seeking a curtailment program have instead chosen to take service under

⁶⁷⁷ Cobern Direct Testimony at 25.

⁶⁷⁸ Cobern Direct Testimony at 25.

Tariff Contract Service – Interruptible Power, which will continue to be available to customers.⁶⁷⁹ No intervenors provided testimony on this issue. The Commission finds that removal of Tariff V.C.S. from the tariff is reasonable and should be approved.

Kentucky Economic Development Surcharge Tariff

Kentucky Power proposed to continue its Kentucky Power Economic Growth Grant (K-PEGG) Program and to maintain the Kentucky Economic Development Surcharge Tariff (Tariff K.E.D.S.) at \$1.00 per meter per month for its non-residential customers with a dollar-for-dollar match by Kentucky Power.⁶⁸⁰ The K-PEGG program provides grant funding targeted at projects designed to enhance the economic development potential of communities in Kentucky Power’s service territory.⁶⁸¹ No intervenors objected to the continuation of the K-PEGG Program and Tariff K.E.D.S.

The Commission finds that Kentucky Power’s proposal to continue the K-PEGG Program and maintain Tariff K.E.D.S. is reasonable and should be approved as the funds are being used to further economic development within Kentucky Power’s service territory.

Federal Tax Cut Tariff (Tariff F.T.C.)

In the application, Kentucky Power proposed to modify Tariff F.T.C. to create a line-item for the NOLC regulatory asset established in accordance with the Commission’s January 19, 2024 Order in Case No. 2023-00159.⁶⁸² The Commission authorized

⁶⁷⁹ Cobern Direct Testimony at 25.

⁶⁸⁰ Cobern Direct Testimony at 20.

⁶⁸¹ Cobern Direct Testimony at 20.

⁶⁸² Application at 12; Wolfram Direct Testimony at 25.

Kentucky Power to defer the revenue requirement related to the NOLC ADIT to a regulatory asset with recovery contingent on Kentucky Power receiving a PLR from the IRS that affirms Kentucky Power's position regarding the NOLC ADIT. Kentucky Power proposed to modify the Tariff F.T.C. upon receipt of a PLR to allow recovery of the regulatory asset associated with the NOLC ADIT.⁶⁸³

Attorney General/KIUC witness Kollen recommended denial of Kentucky Power's modification to Tariff F.T.C. to recover a regulatory asset associated with the NOLC DTA and its request to discontinue accruing the regulatory liability authorized by the Commission in Case 2023-00159.⁶⁸⁴ Witness Kollen argued that Kentucky Power has not yet received a PLR from the IRS. In addition, witness Kollen argued that Kentucky Power's regulatory asset related to the deferred return on the NOLC DTA and the NOLC DTA is overstated and inconsistent with the calculation methodology described by Kentucky Power's witness Linda Schlessman in Case 2023-00159, which both the settlement agreement and Commission Order in that proceeding referenced.⁶⁸⁵

In both Direct Testimony and Rebuttal Testimony, Kentucky Power's witness Hodgson stated that Kentucky Power is not seeking recovery of the regulatory asset in this case because it had not yet received a PLR from the IRS.⁶⁸⁶ Witness Hodgson added that Kentucky Power requested that the regulatory asset related to NOLC be recovered through Tariff F.T.C. Hodgson asserted that this request aligns with the Commission

⁶⁸³ Wolfram Direct Testimony at 29.

⁶⁸⁴ Kollen Direct Testimony at 6–7.

⁶⁸⁵ Kollen Direct Testimony at 6–7.

⁶⁸⁶ Hodgson Rebuttal Testimony at R3; Hodgson Direct Testimony at 15.

Order in Case No. 2023-00159 by seeking recovery only after a PLR has been issued.⁶⁸⁷

In the Settlement Agreement, Kentucky Power excluded its proposed adjustment to include a NOLC until reflected in rates (Current NOLC Revenue Requirement) and will continue to accrue the foregone revenue to a regulatory asset (NOLC Regulatory Asset) established in accordance with the Commission's January 19, 2024 Order in Case No. 2023-00159. Kentucky Power also added that upon receipt of a PLR or other guidance from the IRS, verifying Kentucky Power's position regarding the NOLC, Kentucky Power shall notify the Signatory Parties and the NOLC Regulatory Asset shall be recovered through F.T.C. Tariff, with the Current NOLC Revenue Requirement.⁶⁸⁸

Having reviewed the record and being otherwise sufficiently advised, the Commission finds that the Commission will address this issue upon Kentucky Power's receipt of a favorable PLR as discussed in the Rate Base section above. Kentucky Power's request to include recovery of the NOLC Regulatory Asset through Tariff F.T.C. is premature and should be denied.

Environmental Surcharge Tariff

Kentucky Power proposed to update Tariff E.S. to reflect the new base period revenue requirement and return on equity. The new Tariff E.S. base amount is \$37,975,278⁶⁸⁹ and the overall rate of return is 8.93 percent, based on an ROE of 9.65 percent and a gross revenue conversion factor of 1.33849291.⁶⁹⁰ Kentucky Power also

⁶⁸⁷ Hodgson Rebuttal Testimony at R3–R4.

⁶⁸⁸ Settlement Agreement at 7–8.

⁶⁸⁹ Cullop Direct Testimony, Exhibit JDC-2.

⁶⁹⁰ Kentucky Power's Response to Staff's First Request, Item 55, Attachment WP, Section V, Exhibit 1.

proposed to revise the tariff and Form 3.10 to remove the recovery of the Monthly Installment of ELG Regulatory Asset Amortization as the final monthly installment was amortized in April 2024 and to add a provision allowing for Asset Retirement Obligation depreciation and accretion expenses for all approved environmental projects to be captured within Tariff E.S. No intervenors provided testimony on these revisions. The Commission finds that the proposed changes to Tariff E.S. and the monthly reporting forms are reasonable and should be approved.

Decommissioning Rider (Tariff D.R.) and Securitized Surcharge Rider (Tariff S.S.R.)

Kentucky Power proposed revisions to Tariff D.R. and Tariff S.S.R. to clarify which revenues the Tariff D.R. and Tariff S.S.R. adjustment factors would be applied to. No intervenors provided testimony on these revisions. The Commission finds the proposed revisions to be reasonable and that they should be approved.

The Commission notes that revisions that were put into effect subject to change for Tariff D.R., Tariff S.S.R., and Tariff P.P.A. are currently the subject of another proceeding before the Commission.⁶⁹¹ Approval of the revisions in the previous paragraphs above should not be viewed as approval of the revisions that were put into effect subject to change. Those revisions will be addressed in Case No. 2025-00307.

Miscellaneous Tariff Revisions

Kentucky Power also proposed various minor text changes to its tariff, which can be summarized as updates to correct typographical errors and improve clarity. The

⁶⁹¹ Case No. 2025-00307, *Electronic Tariff Filing of Kentucky Power Company to Update Its Purchase Power Adjustment and Decommissioning Rider Rates and its Securitized Surcharge Rider* (filed Aug. 15, 2025).

Settlement Agreement accepted these proposals as filed.⁶⁹² Unless otherwise stated in this Order, the Commission finds that the proposed changes are accepted.

JOINT INTERVENORS' RECOMMENDATIONS

Limitation of Kentucky Power's Liability

In Joint Intervenors' post-hearing brief,⁶⁹³ they express concern over the following language under the terms and conditions section of Kentucky Power's tariff:⁶⁹⁴

The Company will use reasonable diligence in furnishing a regular and uninterrupted supply of energy, but does not guarantee uninterrupted service. The Company shall not be liable for damages in case such supply should be interrupted or fail by reason of an event of Force Majeure. Force Majeure consists of an event or circumstance which prevents Company from providing service, which event or circumstance was not anticipated, which is not in the reasonable control of, or the result of negligence of, the Company, and which, by the exercise of due diligence, Company is unable to overcome or avoid or cause to be avoided. Force Majeure events includes acts of God, the public enemy, accidents, labor disputes, orders or acts of civil or military authority, breakdowns or injury to the machinery, transmission lines, distribution lines or other facilities of the Company, or extraordinary repairs.

Unless otherwise provided in a contract between the Company and Customer, the point at which service is delivered by Company to Customer, to be known as "delivery point," shall be the point at which the Customer's facilities are connected to the Company's facilities. The metering device is the property of the Company. The meter base, connection, grounds and all associated internal parts inside the meter base are customer owned and are the responsibility of the customer to install and maintain. The Company shall not be liable for any loss, injury, or damage resulting from the Customer's use of their equipment or occasioned by the

⁶⁹² Settlement Agreement at 13, paragraph 7.

⁶⁹³ Joint Intervenors' Post-Hearing Brief at 22–27.

⁶⁹⁴ Application, Section II, Filing Requirements, Section D, Section 1 – Terms and Conditions Sheets 2-1 thru 2-26.

energy furnished by the Company beyond the delivery point.

Any new installation, upgrade or other modification of an existing meter installation shall be made using only Company supplied or Company-approved meter bases. A list of Company-approved meter bases and specifications can be found on the Company's website at: www.kentuckypower.com.

The Customer shall provide and maintain suitable protective devices on their equipment to prevent any loss, injury or damage that might result from single phasing conditions or any other fluctuation or irregularity in the supply of energy. The Company shall not be liable for any loss, injury or damage resulting from a single phasing condition or any other fluctuation or irregularity in the supply of energy which could have been prevented by the use of such protective devices. The Company shall not be liable for any damages, whether direct, incidental or consequential, including, without limitation, loss of profits, loss of revenue, or loss of production capacity occasioned by interruptions, fluctuations, or irregularity in the supply of energy.

The Company is not responsible for loss or damage caused by the disconnection or reconnection of its facilities. The Company is not responsible for loss or damages caused by the theft or destruction of Company facilities by a third party

The Company will provide and maintain the necessary line or service connections, transformers (when same are required by conditions of contract between the parties thereto), meters and other apparatus, which may be required for the proper measurement of and protection to its service. All such apparatus shall be and remain the property of the Company.

Joint Intervenors argued that the limitation of liability portions of this proposed tariff seek approval for limitation of customers' jural rights protected by the Kentucky Constitution and for which the Commission lacks authority to approve.⁶⁹⁵ Joint Intervenors asserted that the monopolistic nature of the relationship between utility and customer distinguish it

⁶⁹⁵ Joint Intervenors' Post-Hearing Brief at 27.

from the normal contractual conditions of voluntary agreement to such limitations.⁶⁹⁶

The jural rights doctrine derives its existence from the following Kentucky Constitutional provisions:⁶⁹⁷

All courts shall be open, and every person for an injury done him in his lands, goods, person or reputation, shall have remedy by due course of law, and right and justice administered without sale, denial or delay.⁶⁹⁸

The General Assembly shall have no power to limit the amount to be recovered for injuries resulting in death, or for injuries to person or property.⁶⁹⁹

Whenever the death of a person shall result from an injury inflicted by negligence or wrongful act, then, in every such case, damages may be recovered for such death, from the corporations and persons so causing the same. Until otherwise provided by law, the action to recover such damages shall in all cases be prosecuted by the personal representative of the deceased person. The General Assembly may provide how the recovery shall go and to whom belong; and until such provision is made, the same shall form part of the personal estate of the deceased person.⁷⁰⁰

Joint Intervenors argued that the grant of jurisdiction by the legislature to the Commission to regulate utilities via KRS 278.040 did not confer authority for the Commission to approve tariff provisions that limit a customer's right to recover in court for tort damages as protected by these three Constitutional provisions. Joint Intervenors further asserted that some of the tariff language "is unclear and internally inconsistent" and implies limitation of liability for negligent acts that would normally be subject to tort recovery, such

⁶⁹⁶ Joint Intervenors' Post-Hearing Brief at 23.

⁶⁹⁷ *Williams v. Wilson*, 972 S.W.2d 260, 265-267 (Ky. 1998).

⁶⁹⁸ Ky Const § 14 (1891).

⁶⁹⁹ Ky Const § 54 (1891).

⁷⁰⁰ Ky Const § 241 (1891).

as causing “interruptions, fluctuations, or irregularity in the supply of energy” and “the disconnection or reconnection of its facilities.”⁷⁰¹

Kentucky Power countered that the tariff language complained of was accepted by the Commission over 20 years ago, that the Commission lacks jurisdiction because as an administrative agency cannot decide Constitutional issues, and by first raising the issue in its post-hearing brief, Joint Intervenors should be procedurally barred from making new claims, unsupported by any record evidence, and requiring additional fact-finding.⁷⁰²

The Commission finds that liability limitation language in the tariff quoted above should not be changed. The tariff language was accepted over 20 years ago and the Commission does not have the resources to engage in the necessary fact-finding to overturn long-established tariff language based on arguments first raised in Joint Intervenors’ post-hearing brief.

Residential Service Time of Day Rates Tariff

Joint Intervenors argue for the expansion of the Residential Service Time of Day rates to deliver financial benefits to low-income customers.⁷⁰³ Witness Colton explains that Kentucky Power should review the accounts of each customer receiving energy assistance benefits to establish residential customers with low-income status and identify energy assistance recipients who would receive a bill savings of no less than \$50 through a switch to each Company’s TOD rates and switch the customer to the TOD rate, while allowing the customer the option to opt out. The Joint Intervenors explained that after a

⁷⁰¹ Joint Intervenors’ Post-Hearing Brief at 25–27.

⁷⁰² Kentucky Power’s Reply Brief at 15–18.

⁷⁰³ Colton Direct Testimony at 63–64.

customer is on the new rate for 12 months, the rate would be compared to the residential RS rate and refund the difference to the customer and the review and refund would occur only during the first 12 months of the program.⁷⁰⁴ Additionally, Witness Colton recommended that Kentucky Power engage in a two-year pilot program that focuses on enlisting community-based organizations in the provision of outreach for Kentucky Power's time-of day rates initiative, at a cost of \$200,000 annually for two years.⁷⁰⁵ Witness Colton explained that the \$200,000 should be distributed through a competitive bid process, through which community partners would commit to serve specific communities, to allow Kentucky Power to incorporate its desired outcomes along with periodic performance measurements.⁷⁰⁶

Kentucky Power argued that the analysis recommended by Witness Colton is not possible with its current AMR meters, as they do not provide data at the level of granularity necessary to determine if a customer would save money on a time-of-use rate and AMI meters are required to gather data to support changes to Kentucky Power's time-of-use rates.⁷⁰⁷ Additionally, Kentucky Power argued that the creation of a two-year pilot program would cost \$200,000 per year, that it cannot commit to the pilot program at this time, and Kentucky Power was unsure that the pilot program would be justified even when the company has sufficient AMI data.⁷⁰⁸ Finally, Kentucky Power argued that it does not support automatically switching customers to TOD rates, as it would take the freedom of

⁷⁰⁴ Colton Direct Testimony at 65.

⁷⁰⁵ Colton Direct Testimony at 49.

⁷⁰⁶ Colton Direct Testimony at 49–50.

⁷⁰⁷ Wolfram Rebuttal at 15–16.

⁷⁰⁸ Wolfram Rebuttal at 16.

choice away from its customers and would be in opposition to the Commission-approved tariff which specifically provides that it is not Kentucky Power's option to select the tariff under which the customer takes service. Kentucky Power further does not currently have AMI data to support whether the proposed automatic switch to TOD rate would be favorable to its customers.⁷⁰⁹ Kentucky Power stated that it intends to promote time-of-day rates to customers as AMI meters are rolled out and can use additional usage data available from AMI meters to compare a customers' current tariff to time-of-day rates on a case-by-case basis, if the customer requests that information.⁷¹⁰ This comparison will allow customers to determine if changing to a new tariff may be beneficial; however Kentucky Power argued that doing so for all customers irrespective of whether the customer asks for such information, as proposed by witness Colton, would be time- and cost-prohibitive.⁷¹¹

The Commission finds that the information provided is insufficient to require Kentucky Power to implement the pilot program. The Commission finds that the Joint Intervenors' recommendation regarding the availability of residential time-of-day rates should be rejected. Customers have the choice of which rate schedule they wish to be served under and allowing Kentucky Power the ability to initiate a change without the customer's prior knowledge or agreement could lead to unintended consequences. Kentucky Power stated that it will use data available from AMI meters to compare a customers' current tariff to time-of-day rates on a case-by-case basis. The Commission

⁷⁰⁹ Wolfram Rebuttal at 17.

⁷¹⁰ Kentucky Power's Response to Staff's Post-Hearing Request, Item 31.

⁷¹¹ Kentucky Power's Response to Staff's Post-Hearing Request, Item 31.

urges Kentucky Power to expand the outreach of information regarding the benefits of a time-of-day rate so that customers can make informed decisions to switch rates when beneficial to them.

Arrearage Management Program (AMP)

Joint Intervenors recommended that Kentucky Power adopt an arrearage management program⁷¹² arguing that this is supported by KRS 278.030(3) combined with the lack of any limiting language as to what classes of customers may receive reduced rates in KRS 278.170.⁷¹³ The Joint Intervenors argued that the Commission has ample authority and supporting empirical evidence to order, at a minimum, an investigation on the design of an appropriate AMP, and should order Kentucky Power to do so within 12 months.⁷¹⁴ Witness Colton explained that an AMP allows qualified low-income ratepayers to reduce pre-program arrears over an extended period of time in exchange for a customer's continuing payment of bills for current service.⁷¹⁵ The Joint Intervenors proposed a program structure that allows arrears to be retired over a two-year period with customers making \$7.50 per month copayments toward arrears and only customers with a pre-existing arrearage balance exceeding \$180 will be eligible to receive arrearage forgiveness.⁷¹⁶ Joint Intervenors explained that the AMP should be made available to active customers and customers with disconnected service, and customers should not be removed from the program for non-payment but would be subject to the same collection

⁷¹² Colton Direct Testimony at 84.

⁷¹³ Joint Intervenors' Post-Hearing Brief at 29.

⁷¹⁴ Joint Intervenors' Post-Hearing Brief at 29.

⁷¹⁵ Colton Direct Testimony at 84–101.

⁷¹⁶ Colton Direct Testimony at 89–90.

process as other residential customers.⁷¹⁷

Kentucky Power argued that the proposed AMP program would likely result in preferential treatment to certain customers, could raise rate discrimination concerns, and is inconsistent with cost causation principals.⁷¹⁸ Joint Intervenors argued that KRS 278.170(1) only prohibits Kentucky Power from offering any unreasonable preference or advantage in its rates and that witness Colton was not proposing creation of a separate rate for any class or within any class--rather he proposed essentially a low-income assistance program and concluded that the allowance of the R.E.A. program supported the allowance of the AMP program.⁷¹⁹

The Commission finds that the Joint Intervenors' recommendation that Kentucky Power establish an AMP should be rejected. An AMP program would shift costs to other Kentucky Power customers and provide preferential treatment to a subclass of customers.

Demand-Side Management

The Joint Intervenors referenced Case No. 2023-00159 and argued that the solution to high usage is not lower rates for extreme usage but measures to reduce usage in the first place.⁷²⁰ In the final Order in Case No. 2023-00159, the Commission stated that it "expects Kentucky Power to address the issue of low-income and residential customers' energy usage during the winter months and find cost-effective measures to

⁷¹⁷ Colton Direct Testimony at 89–90

⁷¹⁸ Wolfram Rebuttal Testimony at 20.

⁷¹⁹ Joint Intervenors' Post-Hearing Brief at 30.

⁷²⁰ Joint Intervenors' Post-Hearing Brief at 31.

reduce demand, rather than mask winter demand with arbitrary rate reductions.”⁷²¹ The Joint Intervenors argued that Kentucky Power is masking demand with arbitrary rate reductions.⁷²² Joint Intervenors explained that programs offered by other utilities include programs for heat pump rebates of \$2,000 or more, a bring your own device program offering rebates up to \$10,500 for backup devices, backup device leasing, and zero-outages initiatives. Joint Intervenors further pointed out that Duke Energy Kentucky has an “Income Qualified Neighborhood Energy Saver Program” aimed at neighborhoods with greater than 50% of households under 200% of the federal poverty level, successfully serving hundreds of households per year and the programs illustrate that the Commission should again order Kentucky Power to investigate demand-side alternatives to reduce demand and require Kentucky Power to file a report on its investigation.⁷²³

The Attorney General argued that the DSM programs that do not result in net-increase for non-participating ratepayers should be eliminated.⁷²⁴ The Attorney General explained that Kentucky Power’s DSM programs increase rates for non-participating ratepayers. Although the Attorney General acknowledged that the cost incurred may be relatively small, the Attorney General argued that it is a non-essential cost.⁷²⁵ Kentucky Power argued that the Attorney General’s argument would have been more appropriately and timely made in the currently pending DSM case and elimination of the Kentucky Power’s DSM programs would ultimately harm the customers benefiting from the

⁷²¹ Case No. 2023-00159, Jan. 19, 2024 Order at 70.

⁷²² Joint Intervenors’ Post-Hearing Brief at 32.

⁷²³ Joint Intervenors’ Post-Hearing Brief at 32.

⁷²⁴ Attorney General’s Post-Hearing Brief at 17.

⁷²⁵ Attorney General’s Post-Hearing Brief at 17.

programs.⁷²⁶

Kentucky Power's DSM programs were approved in Case No. 2024-00115.⁷²⁷ The Commission finds that Kentucky Power should retain its current DSM programs and continue to develop its DSM suite of programs. The record includes many references to excess usage resulting from lack of weatherization.⁷²⁸ The Commission believes additional DSM efforts would alleviate rate problems associated with electric heat combined with poor weatherization.

The Attorney General focuses on cost to non-participating ratepayers. However, most of the DSM programs approved by the Commission are those deemed cost-effective—programs that result in a utility realizing avoided cost equal to or greater than the cost of the program. That leaves programs that are not cost-effective but are intended to assist low-income customers. In light of the current federal administration's efforts at defunding and delaying the LIHEAP program, the Commission will not compound the challenges that low-income customers face by cutting DSM programs that benefit them. Additionally, non-participating ratepayers see indirect benefits from DSM programs, especially through programs that target energy efficiency. When a utility offers energy efficient measures, participation can lower the overall generation needs to meet peak

⁷²⁶ Kentucky Power's Reply Brief at 13.

⁷²⁷ Case No. 2024-00115, *Electronic Application of Kentucky Power Company for: (1) Approval to Expand Its Targeted Energy Efficiency Program; (2) Approval of a Home Energy Improvement Program and a Commercial Energy Solutions Program; (3) Authority to Recover Costs and Net Lost Revenues, and to Receive Incentives Associated with the Implementation of Its Demand-Side Management/Energy Efficiency Programs; (4) Approval of Revised Tariff D.S.M.C.; (5) Acceptance of Its Annual DSM Status Report; and (6) All Other Required Approvals and Relief* (Ky. PSC Feb. 28, 2025), Order.

⁷²⁸ Spaeth Rebuttal Testimony at R9; Kentucky Power's Response to Staff's Second Request (filed Oct. 9, 2025), Item 20; Spaeth Hearing Testimony, HVT of the Jan. 15, 2026 Hearing at 09:29:09–9:30:07.

demands, ultimately lowering generation costs to meet such demands. A non-participating ratepayer benefits from lower generation costs and the overall improved reliability in the system.

MANAGEMENT AUDIT

The Commission reiterates that the record in this case does not include evidence that every adjustment sought by Kentucky Power is the result of errors in planning, management, or execution. However, in his post-hearing brief, the Attorney General noted that recent cases before the Commission have raised questions about whether Kentucky Power is managing its system appropriately.⁷²⁹ Specifically, the Attorney General references Kentucky Power's recent CPCN application, Case No. 2025-00175, in which the Commission, when discussing alternatives to Kentucky Powers proposals, recognized that

[T]he primary issue with Kentucky Power's consideration of short-term alternatives was its delay in the consideration of alternatives, which limited the options that could be considered. Specifically, Kentucky Power indicated that the reason that it did not consider self-build options was that those options could not be completed by 2028. Rather, Kentucky Power indicated that the first date on which it could possibly complete new build replacement generation for Mitchell would be 2031. However, if Kentucky Power had taken action more quickly after the final Order in Case No. 2021-00004, new build options would have been a possibility even in 2028.⁷³⁰

Further, Kentucky Power's failure to plan in a timely manner ignores its obligation to provide adequate, efficient, and reasonable service pursuant to KRS 278.030(2), and the

⁷²⁹ Attorney General's Post-Hearing Brief at 4–5.

⁷³⁰ Case No. 2025-00175, *Electronic Application of Kentucky Power Company for Approval of (1) a Certificate of Public Convenience and Necessity to make the Capital Investments Necessary to Continue taking Capacity and Energy from the Mitchell Generating Station after December 31, 2028, (2) an Amended Environmental Compliance Plan, (3) Revised Environmental Surcharge Tariff Sheets, and (4) All Other Required Approvals and Relief*, (Ky. PSC Dec. 30, 2025), Order at 36–37.

necessity to engage in appropriate and timely planning to ensure that it is able to do so.

The Attorney General also noted that, in addition to concerns raised in Case No. 2025-00175, an investigation opened by the Commission in 2021, designated 2021-00370, remains active and is focused, in part, upon concerns regarding Kentucky Power's management.⁷³¹ As a result, the Attorney General requested, in part, that the Commission "order an independent management audit to engage outside experts to determine how Kentucky Power can improve the service received and rates paid by Kentucky Power ratepayers."⁷³²

In response, Kentucky Power asserted that the Attorney General's arguments lacked merit;⁷³³ however, also noted that Kentucky Power did not "...oppose an impartial independent management audit so long as the Commission deems the costs of doing so reasonable and does not seek to re-litigate decades of past Commission approvals."⁷³⁴

During the pendency of this matter, Kentucky Power tendered direct testimony from its President and Chief Operating Officer, Cynthia Wiseman, who was subject to cross examination during the hearing held in this matter. Ms. Wiseman was unable to clarify in some circumstances whether Kentucky Power or AEP maintained control over

⁷³¹ Case No. 2021-00370, *Electronic Investigation of the Service, Rates, and Facilities of Kentucky Power Company* (Ky. PSC Sept. 15, 2021), Order at 6

⁷³² Attorney General's Post-Hearing Brief at 5.

⁷³³ Kentucky Power Reply Brief at 11.

⁷³⁴ Kentucky Power Reply Brief at 13.

certain decision-making authority and processes, did not know how policies were created or changed, or was unaware of significant developments affecting AEP affiliates.⁷³⁵

Pursuant to KRS 278.255, the Commission has the authority to perform periodic management and operations audits upon its utilities. Specifically, KRS 278.255 states, in part,

(2) The commission may provide for management or operations audits, or both, of any utility under its jurisdiction on a regular or irregular schedule to investigate all or any portion of the management and operating procedures or any other internal workings of the utility. . .

Pursuant the evidence of record in this case, and considering the discussion set forth above, the Commission finds that it should establish an administrative case by separate Order to initiate, manage, and finalize a management audit of Kentucky Power as authorized by KRS 278.255. Generally, the management audit will focus upon Kentucky Power's operations and decision making, and relationship with AEP, including the allocation of expenses; and planning processes, with a goal of identifying efficiencies that benefit ratepayers.

IT IS THEREFORE ORDERED that:

1. The rates and charges proposed by Kentucky Power are denied.
2. The rates and charges as set forth in Appendix B to this Order are approved as fair, just and reasonable for Kentucky Power, and these rates and charges are approved for service rendered on and after March 1, 2026.
3. Kentucky Power's Settlement Agreement shall be approved with

⁷³⁵ Hearing Testimony of Cynthia G. Wiseman (Wiseman Hearing Testimony) HVT of the Jan. 13, 2026 Hearing at 11:21:04–11:25:15 (general authority of Kentucky Power Board of Directors); 11:51:18–11:56:08 (CPCN filings); 11:58:22–12:00:30 (fuel procurement); 12:04:22–12:05:32 (contractor management); 14:36:25–14:37:18 (cost allocation manual).

modifications as set out herein.

4. Kentucky Power's Settlement Agreement request to defer TIR and TOR expenses is denied.

5. Kentucky Power shall reclassify all TOR expenditures as an expense to FERC Account 571, Maintenance of Overhead Lines, and not under FERC Account 101, Electric Plant in Service.

6. A regulatory asset in the amount of the net plant balance arising from TOR expenditures through the end of the test year shall be established and amortized, without carrying costs, as discussed herein above.

7. Kentucky Power's Settlement Agreement request to defer short-term debt expense is approved, subject to the conditions discussed herein above.

8. Kentucky Power's request to automatically defer storm damage expenses is denied.

9. Kentucky Power's request to defer the test-year incidental gas sales losses is denied.

10. Kentucky Power's request to create the Generation Rider (Tariff G.R.) is granted, subject to the modifications set forth herein.

11. Kentucky Power's request to create a FlexPay prepayment program (Tariff F.P.) is granted, subject to the modifications set forth herein.

12. Kentucky Power's requests for deviation from 807 KAR 5:006, Sections 7(1)(a) and 15(1)(f), as they pertain to Tariff F.P. are granted.

13. Kentucky Power's requests to modify Tariff P.P.A. to remove the securitized Rockport plant balances is approved. Kentucky Power's request to modify the Tariff

P.P.A. to recover the incremental incidental gas sales losses, as compared to the \$0.00 balance in the test year, through Tariff P.P.A., is approved as modified herein above. Any other requests to modify Tariff P.P.A., if any, are denied. Kentucky Power's request to modify Tariff F.T.C. is denied.

14. Kentucky Power's request to combine Tariff COGEN/SPP I and Tariff COGEN/SPP II into Tariff COGEN/SPP is granted subject to the modifications set forth in the Settlement Agreement and this Order.

15. Kentucky Power's request to modify Tariff N.M.S. II is granted.

16. Kentucky Power's request to continue K-PEGG and maintain Tariff K.E.D.S. is granted.

17. Kentucky Power's request to modify Tariff E.S. is granted, subject to the modification set forth herein.

18. Kentucky Power's request to remove Tariff V.C.S. is granted.

19. Kentucky Power's request to modify Tariff D.R. is granted.

20. Kentucky Power's request to modify Tariff S.S.R. is granted.

21. Kentucky Power's proposed DTL Rider is approved with modifications as discussed herein above.

22. Kentucky Power's request to make Settlement Agreement modifications to Tariff I.G.S. are granted.

23. Except for the tariffs modified herein or denied, Kentucky Power's proposed tariffs are approved as filed.

24. Within 20 days of the date of this Order, Kentucky Power shall file with the Commission, using the Commission's electronic Tariff Filing System, new tariff sheets

setting forth the rates, charges, and modifications approved or as required herein and reflecting their effective date and that they were authorized by this Order.

25. Kentucky Power shall track the financial impact of the residential rate structure with the guidelines set forth herein, and report to the Commission its findings on or before April 1 of each year until its next general rate case is filed. This report should be filed in the post-case filings in this case.

26. Kentucky Power shall continue to file its annual Vegetation Management Plan and Report in the post-case filings in Case No. 2017-00179.

27. Pursuant to KRS 278.255, the Commission will engage an independent consultant to perform a focused management audit of Kentucky Power.

28. Kentucky Power's January 27, 2026 motion concerning ability to implement interim rates subject to refund is denied as moot.

29. This case is closed and removed from the Commission's docket.

PUBLIC SERVICE COMMISSION



Chairman



Commissioner



Commissioner

ATTEST:



Executive Director





APPENDIX A

APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE
COMMISSION IN CASE NO. 2025-00257 DATED FEB 28 2026

Table 1

Kentucky Power Company - Overall Financial Summary For the Test Year Ended May 31, 2025			
Line No.	Description	KP Application	Commission Approved
1	Rate Base	\$1,872,259,310	\$1,723,197,481
2	Rate of Return	7.5740%	7.4640%
3	Required Net Electric Operating Income (L1 X L2)	\$141,804,920	\$128,619,460
4	Test Year Net Electric Operating Income	\$85,570,264	\$101,376,303
5	Net Electric Operating Income Change (L3 - L4)	\$56,234,656	\$27,243,157
6	Gross Revenue Conversion Factor	1.33849291	1.33849291
7	Revenue Requirement Increase (L5 X L6)	\$75,269,689	\$36,464,773
8	Generation Rider Revenue Requirement	20,288,559	18,669,781
9	Total Revenue Requirement (L8 + L9)	\$95,558,248	\$55,134,554

Table 2
Kentucky Power Company - Rate Base Adjustments
For the Test Year Ended May 31, 2025

Rate Base Adjustments:	Amount
Vendor Supplied Fuel Inventory	\$ (913,977)
Vendor Supplied Materials Inventory	(206,786)
Deferred Tax Asset NOLC ADIT	(4,110,057)
Asset Deficient NOLC ADIT	(884,669)
TOR Veg Management	(6,602,630)
Remove Turbine Reservation Fee	(914,760)
Error in Short-Term Debt Rate	(75,222)
Return on Equity Impact	(2,537,120)
Rate Base Adjustments Subtotal	\$ (16,245,221)

Table 3

Kentucky Power Company - Authorized Revenue Increase
For the Test Year Ended May 31, 2025

<u>Kentucky Power Company Requested Base Rate Increase</u>	<u>\$ 75,269,689</u>
O&M Adjustments:	
Incentive Compensation - Financial	(1,842,209)
Incentive Compensation - Safety, Reliability, Service	(2,178,173)
Other Compensation	(7,319,257)
SERP Expense	(143,789)
401(k) Expense	(1,865,957)
Property Tax Expense	(320,401)
Pension Settlement (AEP)	(984,952)
Depreciation TOR Veg Management	(2,356,220)
Depreciation Expense - Terminal Net (Big Sandy)	(1,010,981)
Depreciation Expense - Interim (Mitchell)	(2,793,493)
Depreciation Expense - Gen Rider Offset	1,189,877
Membership Dues	(113,206)
Increase Non-Major Storm Expense	2,008,874
O&M TOR Veg Management	7,241,915
Amortization of TOR Reg Asset	1,559,070
Incidental Loss on Gas (Hedging)	(1,880,306)
Increase Revenues for FERC Transmission Rates	(10,026,163)
Decrease Revenues for NRC Adjustments	100,205
Rate Case Expense	(167,109)
Outside Services Employed (Account 923)	(1,716,100)
Total Rate Base Adjustments	<u>(16,245,221)</u>
Rate Increase	<u>\$ 36,406,093</u>
Percent Rate Increase	<u>5.57%</u>

*Differences are due to rounding

Table 4

Kentucky Power Company - DTL Credit Calculation
For the Test Year Ended May 31, 2025

DTL Credit Calc Year 1	Settlement	Commission Approved
Calculated Revenue Requirement Increase	\$ 77.40	\$ 55.13
DTL Amortization All Classes	(20.00)	(2.19)
Additional Residential DTL Amortization	(5.000)	(0.55)
Total Year 1 Rate Increase	<u>\$ 52.40</u>	<u>\$ 52.40</u>

Table 5

**Kentucky Power Company - Uncontested Adjustments
For the Test Year Ended May 31, 2025**

Workpaper	Test Year Operating Income Adjustment	Revenue	Expense	Net Income Impact
W1	Reset OSS Margin Baseline to Test Year	2,449,583		2,449,583
W2	Adjustment to Recognize Accrued Surcharge Revenue Differences	(515,362)		(515,362)
W3	Book to Bill	145,034		145,034
W4	Remove Federal Income Tax Rider Revenues	2,712,449		2,712,449
W5	Annualize Base Rate Revenues	33,001,097		33,001,097
W6	Misc Charges Revenue (Increased Charges)	\$643,148		643,148
W7	Remove Tariff D.R. Revenues and Expenses	(5,276)	(209,318)	204,042
W8	Removal of Mitchell FGD Environmental Surcharge Rider Revenues	(19,703,413)	1,980,517	(21,683,931)
W9	Synchronize Fuel Expense	(49,418,888)	(42,632,032)	(6,786,856)
W10	Remove Tariff P.P.A. Revenues and Expenses	(16,771,447)	(3,562,776)	(13,208,671)
W11	Remove Tariff D.S.M Revenues and Expenses	(573,590)	(515,763)	(57,827)
W12	Remove Tariff R.E.A. Revenues and Expenses	(628,079)	(628,079)	-
W13	Remove Tariff K.E.D.S. Revenues and Expenses	(373,894)	(373,894)	-
W14	Customer Annualization Adjustment	(3,776,112)	(1,596,918)	(2,179,194)
W15	Weather Normal Revenue Adjustment	(1,012,932)	(428,369)	(584,563)
W17	Adjustment to Remove Joint Use Pole Rental (Prior Period)	(271,394)	21,148	(292,542)
W18	Wholesale Load (Due to Ceasing in May 2025)	1,835,381	6,691,173	(4,855,792)
W19	Remove Mitchell FGD Operating Expenses		(13,085,851)	13,085,851
W20	Adjust Interest on Customer Deposits		(243,879)	243,879
W21	Storm Damage Expense		215,408	(215,408)
W22	Amortization of Storm Expense Reg Assets		-	-
W24	Eliminate Miscellaneous Expense		(54,804)	54,804
W25	Annualization of Lease Expense		116,943	(116,943)
W27	Adjust Employee Related Group Benefit Expense		(61,787)	61,787
W29	Kentucky Power Severance Expense Removal		(3,086,549)	3,086,549
W30	KPCo Incentive Compensation Expense Adjustment		836,596	(836,596)
W31	KPCo Annualization of Payroll Expense Adjustment		2,120,142	(2,120,142)
W32	KPCo Overtime Related to Employee Merit Increases Adjustment		174,165	(174,165)
W33	KPCo Medicare Tax Expense Adjustment		45,398	(45,398)
W34	KPCo Social Security Tax Expense Adjustment		184,630	(184,630)
W35	KPCo Social Security Tax Base Adjustment		17,122	(17,122)
W36	Eliminate Non-Recoverable Business Expenses		(24,171)	24,171
W37	Annualization of Depreciation Expense (Excluding ARO Depreciation)		3,942,450	(3,942,450)
W38	Annualization of ARO Depreciation Expense		113,369	(113,369)
W39	Annualization of ARO Accretion Expense		124,567	(124,567)
W40	Commission Maintenance Assessment		114,529	(114,529)
W41	AFUDC Offset Adjustment			-
W43	To remove an Out-of-Period Sales and Use Tax Audit Adjustment.		-	-
W44	To remove an Out-of-Period State Business & Occupation Tax Adjustment.		1,190,525	(1,190,525)
W45	Amortize Non FAC Eligible Fuel Costs Since Last Base Case		1,212,198	(1,212,198)
W47	Request to Defer and Amortize Pension Settlement Costs		140,773	(140,773)
W49	Remove Mitchell from Rate Base and Cost of Service		(8,425,896)	8,425,896
		\$ (52,263,695)	\$ (55,688,433)	\$ 3,424,738

APPENDIX B

APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE
COMMISSION IN CASE NO. 2025-00257 DATED FEB 28 2026

The following rates and charges are prescribed for the customers in the area served by Kentucky Power. All other rates and charges not specifically mentioned herein shall remain the same as those in effect under the authority of this Commission prior to the effective date of this Order.

RESIDENTIAL SERVICE (011, 012, 013, 014, 015, 017, 022, 062)

Rate RS

Service Charge Tier 1 (0-2,000 kWh):	\$24.00 per month
Service Charge Tier 2 (over 2,000 kWh):	\$38.00 per month
Energy Charge Block 1 (0-600 kWh):	\$0.15385 per kWh
Energy Charge Block 2 (over 600 kWh):	\$0.11534 per kWh
Storage Water Heating	\$0.09134 per kWh

RESIDENTIAL LOAD MANAGEMENT TIME-OF-DAY SERVICE (028, 030, 032, 034)

Rate RS LMTOD

Service Charge	\$26.00 per month
On-peak Energy Charge	\$0.18822 per kWh
Off-peak Energy Charge	\$0.09134 per kWh
Separate Metering Charge	\$4.45 per month

RESIDENTIAL TIME-OF-DAY SERVICE (036)

Rate RS TOD

Service Charge	\$26.00 per month
On-peak Energy Charge	\$0.18822 per kWh
Off-peak Energy Charge	\$0.09134 per kWh

GENERAL SERVICE - SECONDARY (211, 212, 215, 216, 218)

Rate GS-SEC

Service Charge	\$31.00 per month
Demand Charge	\$12.10 per kW
Energy Charge First 4,450 kWh	\$0.13725 per kWh
Energy Charge Over 4,450 kWh	\$0.11316 per kWh

GENERAL SERVICE - NON METERED (204, 213)

Rate GS-NM

Service Charge	\$17.00 per month
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Energy Charge First 4,450 kWh	\$0.13725 per kWh
Energy Charge Over 4,450 kWh	\$0.11316 per kWh

SMALL GENERAL SERVICE EXPERIMENTAL TIME-OF-DAY (227)

Rate SGS TOD

Service Charge	\$31.00 per month
Summer On-peak Energy Charge	\$0.22137 per kWh
Winter On-peak Energy Charge	\$0.21457 per kWh
Off-peak Energy Charge	\$0.13132 per kWh

GENERAL SERVICE - ATHLETIC FIELDS (214)

Rate GS-AF

Service Charge	\$31.00 per month
All kWh Energy Charge	\$0.14997 per kWh

GENERAL SERVICE LOAD MANAGEMENT TIME-OF-DAY (223,225)

Rate GSLMTOD

Service Charge	\$30.00 per month
On-peak Energy Charge	\$0.21757 per kWh
Off-peak Energy Charge	\$0.09179 per kWh

MEDIUM GENERAL SERVICE TIME-OF-DAY (229)

Rate MGSTOD

Service Charge	\$30.00 per month
On-peak Energy Charge	\$0.21757 per kWh
Off-peak Energy Charge	\$0.09079 per kWh

GENERAL SERVICE - PRIMARY (217,220)

Rate GS-PRI

Service Charge	\$140.00 per month
Demand Charge	\$10.75 per kW
Energy Charge First 4,450 kWh	\$0.12119 per kWh
Energy Charge Over 4,450 kWh	\$0.10059 per kWh

GENERAL SERVICE - SUBTRAN 236

Rate GS-SUB

Service Charge	\$460.00 per month
Demand Charge	\$8.14 per kWh
Energy Charge First 4,450 kWh	\$0.11353 per kWh
Energy Charge Over 4,450 kWh	\$0.09479 per kWh

LARGE GENERAL SERVICE - SECONDARY (240, 242, 260)

Rate LGS-SEC

Service Charge	\$104.00 per month
Energy Charge	\$0.09591 per kWh
Demand Charge	\$15.30 per kW

Excess kVA \$3.30 per kVA

LARGE GENERAL SERVICE - PRIMARY (244, 246)

Rate LGS-PRI

Service Charge \$155.00 per month
Energy Charge \$0.08768 per kWh
Demand Charge \$13.05 per kW
Excess kVA \$3.30 per kVA

LARGE GENERAL SERVICE LOAD MANAGEMENT TIME-OF-DAY (251)

Rate LGSLMTOD

Service Charge \$104.00 per month
On-peak Energy Charge \$0.19320 per kWh
Off-peak Energy Charge \$0.09102 per kWh

LARGE GENERAL SERVICE - TIME OF DAY - PRIMARY (257)

Rate LGS-PRI TOD

Service Charge \$155.00 per month
On-peak Energy Charge \$0.13541 per kWh
Off-peak Energy Charge \$0.06636 per kWh
Demand Charge \$10.40 per kW
Excess kVA \$3.30 per kVA

LARGE GENERAL SERVICE - SUBTRANSMISSION (248, 268)

Rate LGS-SUB

Service Charge \$838.00 per month
Energy Charge \$0.06724 per kWh
Demand Charge \$8.55 per kW
Excess kVA \$3.30 per kVA

LARGE GENERAL SERVICE - TRANSMISSION (250, 270)

Rate LGS-TRAN

Service Charge \$838.00 per month
Energy Charge \$0.06561 per kWh
Demand Charge \$8.45 per kW
Excess kVA \$3.30 per kVA

LARGE GENERAL SERVICE - TIME OF DAY - SECONDARY (256)

Rate LGS-SEC TOD

Service Charge \$104.00 per month
On-peak Energy Charge \$0.14078 per kWh
Off-peak Energy Charge \$0.06726 per kWh
Demand Charge \$12.55 per kW
Excess kVA \$3.30 per kVA

PUBLIC SCHOOL - SECONDARY (260)

Rate PS-SEC

Service Charge	\$104.00 per month
Energy Charge	\$0.09555 per kWh
Demand Charge	\$15.30 per kW
Excess kVA	\$3.30 per kVA

PUBLIC SCHOOL - PRIMARY (264)

Rate PS-PRI

Service Charge	\$155.00 per month
Energy Charge	\$0.08768 per kWh
Demand Charge	\$13.05 per kW
Excess kVA	\$3.30 per kVA

INDUSTRIAL GENERAL SERVICE - SECONDARY (356)

Rate IGS-SEC

Service Charge	\$276.00 per month
Energy Charge	\$0.03575 per kWh
On-peak Demand Charge	\$32.31 per kW
Off-peak Demand Charge	\$2.00 per kW
Minimum Demand Charge	\$30.88 per kW
Reactive Demand Charge	0.69 per KVAR

INDUSTRIAL GENERAL SERVICE - PRIMARY (330, 358, 370)

Rate IGS-PRI

Service Charge	\$276.00 per month
Energy Charge	\$0.03392 per kWh
On-peak Demand Charge	\$29.96 per kW
Off-peak Demand Charge	\$1.89 per kW
Minimum Demand Charge	\$27.70 per kW
Reactive Demand Charge	\$0.69 per KVAR

INDUSTRIAL GENERAL SERVICE - SUBTRANSMISSION (331, 333, 359, 371)

Rate IGS-SUB

Service Charge	\$794.00 per month
Energy Charge	\$0.03378 per kWh
On-peak Demand Charge	\$21.51 per kW
Off-peak Demand Charge	\$1.89 per kW
Minimum Demand Charge	\$19.94 per kW
Reactive Demand Charge	\$0.69 per KVAR

INDUSTRIAL GENERAL SERVICE - TRANSMISSION (332, 360, 372)

Rate IGS-TRAN

Service Charge	\$1,353.00 per month
Energy Charge	\$0.03426 per kWh
On-peak Demand Charge	\$21.15 per kW

Off-peak Demand Charge	\$1.80 per kW
Minimum Demand Charge	\$19.36 per kW
Reactive Demand Charge	\$0.69 per KVAR

MUNICIPAL WATERWORKS (540)
Rate MW

Service Charge	\$27.00 per month
Minimum Demand Charge	\$10.22 per kVA
Energy Charge	\$0.13287 per kWh

STREET LIGHTING (528)
Rate SL

OH Service on Distribution Poles	
100 watts, 9,500 Lumens	\$10.25
150 watts, 16,000 Lumens	\$10.75
200 watts, 22,000 Lumens	\$12.45
400 watts, 50,000 Lumens	\$15.65
LED - 8,000-11,000 Lumens	\$10.20
LED - 10,000-14,000 Lumens	\$12.00
LED - 24,000-30,000 Lumens	\$15.05
Post Top 6,000-10,000 Lumens	\$10.50
Post Top 8,000-12,000 Lumens	\$22.50
Flood 17,500-22,500 Lumens	\$16.00
Service on New Wood Distribution Poles	
100 watts, 9,500 Lumens	\$14.55
150 watts, 16,000 Lumens	\$15.55
200 watts, 22,000 Lumens	\$16.75
400 watts, 50,000 Lumens	\$20.00
LED - 8,000-11,000 Lumens	\$17.50
LED - 10,000-14,000 Lumens	\$19.12
LED - 24,000-30,000 Lumens	\$23.00
Post Top 6,000-10,000 Lumens	\$16.68
Post Top 8,000-12,000 Lumens	\$29.20

Flood 17,500-22,500 Lumens	\$23.10
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Service on New Metal or Concrete Poles

100 watts, 9,500 Lumens	\$28.15
150 watts, 16,000 Lumens	\$29.17
200 watts, 22,000 Lumens	\$32.00
400 watts, 50,000 Lumens	\$35.00

LED - 8,000-11,000 Lumens	\$28.49
LED - 10,000-14,000 Lumens	\$30.40
LED - 24,000-30,000 Lumens	\$33.00
Post Top 6,000-10,000 Lumens	\$29.34
Post Top 8,000-12,000 Lumens	\$41.70
Flood 17,500-22,500 Lumens	\$33.39

OUTDOOR LIGHTING (093, 094, 095, 097, 098, 099, 103, 107, 109, 110, 111, 113, 116, 120, 122, 126, 131, 136, 150, 151, 152, 153, 160, 165, 166, 175, 201)

Rate OL

Overhead Lighting Service

High Pressure Sodium	
KPKY - 094 OL 100 HP	\$11.00
KPKY - 113 OL 150 HP	\$13.00
KPKY - 097 OL 200 HP	\$16.00
KPKY - 098 OL 400 HP	\$25.00
KPKY - 103 OL 250 HP	\$23.00
Mercury Vapor	
KPKY - 093 OL 175 MV	\$15.00
KPKY - 095 OL 400 MV	\$25.60

Post Top Lighting Service

High Pressure Sodium	
KPKY - 111 OL100 HPP	\$21.30
KPKY - 122 OL150 HPP	\$33.60
KPKY - 120 OL 250HPP	\$39.00
KPKY - 126 OL 400HPP	\$51.05
Mercury Vapor	
KPKY - 099 OL175 MVP	\$17.15

Flood Lighting Service

High Pressure Sodium	
KPKY - 107 OL 200HPF	\$18.15
KPKY - 109 OL400 HPF	\$27.00

Metal Halide	
KPKY - 110 OL 250 MH	\$22.25
KPKY - 116 OL 400 MH	\$28.25
KPKY - 130 OL 250MON	\$29.25
KPKY - 131 OL 1000MH	\$52.00
KPKY - 136 OL 400MON	\$36.00

LED	
6,000-8,500 Lumens (150,151,152,153)	\$8.00
KPKY - 160 65WLEDOL	\$24.75
KPKY - 165 175WLEDOL	\$32.00
KPKY - 166 297WLEDOL	\$39.25
201 Flex	

Facilities Charge

Pole	\$4.50
Span	\$2.25
Lateral	\$7.65

Non-Recurring Special Charges

Reconnect during business hours	\$12.56 per occurrence
Reconnect end of day (no call out)	\$101.96 per occurrence
Reconnect prior to 8pm (call out)	\$101.96 per occurrence
Reconnect double time required (Sundays and holidays)	\$131.76 per occurrence
Termination or field trip	\$12.56 per occurrence
Meter read check	\$12.56 per occurrence
Meter test charge	\$57.26 per occurrence
Returned payment (paper check)	\$6.60 per occurrence
Returned payment (electronic debit)	\$1.60 per occurrence

Tariff COGEN/SPP

(Cogeneration and/or Small Power Production)

Monthly Credits or Payments for Energy and Capacity Deliveries, Capacity Credit:	
Standard Energy Meters	\$4.53 kW/month
Time-of-Day Energy Meters	\$10.88 kW/month

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