

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

ELECTRONIC APPLICATION OF KENTUCKY	)	
POWER COMPANY FOR 1) A CERTIFICATE OF	)	
PUBLIC CONVENIENCE AND NECESSITY TO	)	
CONSTRUCT A MECHANICAL DRAFT COOLING	)	CASE NO.
TOWER AT THE MITCHELL PLANT 2)	)	2026-00001
APPROVAL OF CERTAIN REGULATORY AND	)	
ACCOUNTING TREATMENTS, AND 3) ALL	)	
OTHER REQUIRED APPROVALS AND RELIEF	)	

ORDER

On February 17, 2026, Kentucky Power Company (Kentucky Power) filed an application requesting an order granting: (1) a Certificate of Public Convenience and Necessity (CPCN) to construct a new mechanical draft cooling tower for Unit 2 of the Mitchell Generation Station (Mitchell Plant or Mitchell) and to partially demolish and then fully demolish (when Mitchell Plant is retired) the existing cooling tower at Mitchell Unit 2 (Cooling Tower Project); and (2) approval of accounting treatment to establish a regulatory asset to accumulate and defer costs related to the construction of the Cooling Tower Project for later review and recovery.¹

The Attorney General of the Commonwealth of Kentucky, by and through the Office of Rate Intervention (Attorney General);² Kentucky Industrial Utility Customers, Inc.

¹ Application (filed Feb. 17, 2026).

² Order (Ky PSC Jan 16, 2026).

(KIUC);³ and Sierra Club⁴ intervened in this proceeding. Kentucky Power,⁵ the Attorney General, KIUC,⁶ and Sierra Club⁷ responded to written requests for information; the Attorney General, KIUC,⁸ and Sierra Club⁹ filed written testimony in response to the Application; and Kentucky Power filed rebuttal testimony. A hearing was conducted in this proceeding on July 8, 2026. Kentucky Power responded to post hearing requests for information.¹⁰ Kentucky Power,¹¹ the Attorney General, KIUC,¹² and Sierra Club¹³ filed post hearing briefs. Kentucky Power,¹⁴ the Attorney General, and KIUC,¹⁵ filed

³ Order (Ky PSC March 18, 2026).

⁴ Order (Ky PSC March 23, 2026).

⁵ Kentucky Power's Response to Commissions Staff's First Request for Information (filed April 2, 2026), Kentucky Power's Response to the Attorney General and KIUC's First Request for Information (filed April 2, 2026); Kentucky Power's Response to Sierra Club's First Request for Information (filed April 2, 2026); Kentucky Power's Response to Commissions Staff's Second Request for Information (filed May 1, 2026); Kentucky Power's Response to Commissions the Attorney General and KIUC's Second Request for Information (filed May 1, 2026); Kentucky Power's Response to Sierra Club's Second Request for Information; Kentucky Power's Response to Commissions Staff's Third Request for Information (filed July 2, 2026).

⁶ Attorney General and KIUC Response to Kentucky Power's First Request for Information (filed May 28, 2026).

⁷ Sierra Club's Response to Kentucky Power's First Request for Information (filed June 8, 2026)

⁸ Direct Testimony of Lane Kollen (Kollen Direct Testimony) (filed on May 15, 2026)

⁹ Sierra Club's Direct Testimony of Lucy Metz (Metz Direct Testimony) (filed on May 15, 2026).

¹⁰ Kentucky Power's Response to Commissions Staff's Post Hearing Request for Information (July 28, 2026), Kentucky Power's Response to Sierra Club's Post Hearing for Information (filed July 28, 2026), Kentucky Power's Supplemental Response to Sierra Club's Post Hearing Request for Information (filed Sept. 17, 2026).

¹¹ Kentucky Power's Post Hearing Brief (filed Aug. 21, 2026)

¹² Attorney General and KIUC Post Hearing Brief (filed Aug. 21, 2026).

¹³ Sierra Club Post Hearing Brief (filed Aug. 21, 2026).

¹⁴ Kentucky Power's Responsive Brief (filed August 28, 2026)

¹⁵ Attorney General and KIUC Reply Brief (filed August 28, 2026).

responsive post hearing briefs. This matter stands submitted for a decision by the Commission.

LEGAL STANDARD

CPCN Standard

Pursuant to KRS 278.020(1), no utility may construct or acquire any facility to be used in providing utility service to the public until it has obtained a CPCN from this Commission. To obtain a CPCN, the utility must demonstrate a need for such facilities and an absence of wasteful duplication.¹⁶

“Need” requires

[A] showing of a substantial inadequacy of existing service, involving a consumer market sufficiently large to make it economically feasible for the new system or facility to be constructed or operated.

[T]he inadequacy must be due either to a substantial deficiency of service facilities, beyond what could be supplied by normal improvements in the ordinary course of business; or to indifference, poor management or disregard of the rights of consumers, persisting over such a period of time as to establish an inability or unwillingness to render adequate service.¹⁷

“Wasteful duplication” is defined as “an excess of capacity over need” and “an excessive investment in relation to productivity or efficiency, and an unnecessary multiplicity of physical properties.”¹⁸ To demonstrate that a proposed facility does not result in wasteful duplication, the Commission has held that the applicant must

¹⁶ *Kentucky Utilities Co. v. Pub. Serv. Comm’n*, 252 S.W.2d 885 (Ky. 1952).

¹⁷ *Kentucky Utilities Co. v. Public Service Commission*, 252 S.W.2d 885, 890 (Ky. 1952).

¹⁸ *Kentucky Utilities Co. v. Public Service Commission*, 252 S.W.2d 885, 890 (Ky. 1952).

demonstrate that a thorough review of all reasonable alternatives has been performed.¹⁹

The selection of a proposal that ultimately costs more than an alternative does not necessarily result in wasteful duplication.²⁰ All relevant factors must be balanced.²¹

Regulatory Asset

KRS 278.220 provides that the Commission may establish a uniform system of accounts (USOA) for utilities and in Kentucky Power's case, that the system of accounts shall conform as nearly as practicable to the system adopted or approved 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. 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. The Commission has applied 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

¹⁹ Case No. 2005-00142, *Joint Application of Louisville Gas and Electric Company and Kentucky Utilities Company for the Construction of Transmission Facilities in Jefferson, Bullitt, Meade, and Hardin Counties, Kentucky* (Ky. PSC Sept. 8, 2005).

²⁰ See *Kentucky Utilities Co. v. Pub. Sew. Comm'n*, 390 S.W.2d 168, 175 (Ky. 1965). See also Case No. 2005-00089, *Application of East Kentucky Power Cooperative, Inc. for a Certificate of Public Convenience and Necessity for the Construction of a 138 kV Electric Transmission Line in Rowan County, Kentucky* (Ky. PSC Aug. 19, 2005).

²¹ Case No. 2005-00089, August 19, 2005 Order at 6.

offsets the cost. Additionally, the Commission has established a requirement that utilities seek Commission approval before recording regulatory assets,²² and requirements regarding the timing for applications seeking such approval.²³

BACKGROUND

Kentucky Power is a public utility principally engaged in the provision of electricity to Kentucky retail consumers. Kentucky Power serves approximately 162,000 customers located in Boyd, Breathitt, Carter, Clay, Elliot, Floyd, Greenup, Johnson, Knott, Lawrence, Leslie, Letcher, Lewis, Magoffin, Martin, Morgan, Owsley, Perry, Pike, and Rowan counties, Kentucky.²⁴ The Mitchell Plant is located in Moundsville, West Virginia, and is comprised of two super-critical pulverized coal-fired baseload generating units.²⁵ Kentucky Power owns an undivided 50 percent interest²⁶ in the Mitchell Plant. Mitchell Unit 1 has a nameplate capacity of 770 MW, Mitchell Unit 2 has a nameplate capacity of 790 MW, and both units were placed into service in 1971.²⁷ Both units use similar cooling systems that pump water and steam between the coal-fired units and individual cooling towers; the cooling towers transfer the heat from the water into the atmosphere, and then return cool water to the coal-fired units.²⁸

²² 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), final Order at 9.

²³ Case No. 2016-00180 (Ky. PSC Dec. 12, 2016), Order at 5.

²⁴ Application at 2.

²⁵ Application at 2.

²⁶ Application at 2.

²⁷ Application at 2.

²⁸ Application at 2.

Kentucky Power stated that the cooling tower at Mitchell Unit 2 (Mitchell Unit 2 Cooling Tower) has several areas with surface irregularities and deformations of the concrete shell that have weakened the structure.²⁹ Kentucky Power stated that, in 2024, it began a project to reinforce the weakened structure (Initial Repair Project). Kentucky Power stated that by July of 2025 the contractors discovered more cracking and deterioration that would require additional work.³⁰ Upon discovery of the more extensive issues, work was paused to determine the best solution going forward.³¹ That review preceded the filing of the application in this proceeding.

CPCN to Construct the Cooling Tower Project

Kentucky Power stated that the review following the Initial Repair Project identified and evaluated four alternative options for addressing the structural needs of Mitchell Unit 2:

- Option 1: Expand and extend the paused exterior shell reinforcement project;
- Option 2: Retire Unit 2 and partially demolish the existing cooling tower;
- Option 3: Construct a new mechanical draft cooling tower and partially demolish the existing cooling tower; and
- Option 4: Reduce the height of the existing cooling tower and continue with a reduced scope of exterior shell reinforcement.³²

²⁹ Application at 3.

³⁰ Application at 3.

³¹ Application at 3.

³² Application at 3.

Kentucky Power stated that based on the evaluation of those options and other qualitative components that the Mitchell Operating Committee unanimously selected Option 3 (Cooling Tower Project).³³

Need

Kentucky Power stated that the Cooling Tower Project is needed due to the surface irregularities and deformations of the Cooling Tower's concrete shell, and that without addressing the structural issues, the Mitchell Unit 2 Cooling Tower will continue to deteriorate and become unsafe for use, and in turn jeopardizes the continued operation of Mitchell Unit 2.³⁴ Kentucky Power stated that addressing the structural issues of the Mitchell Unit 2 Cooling Tower is required to ensure continued operation of Mitchell Unit 2, and to prevent the potential loss of up to 308 MW of accredited generation capacity from the company's 50 percent interest in Mitchell Unit 2.³⁵ Kentucky Power stated that, without the 308 MW of accredited generation capacity, it would have to add an equivalent amount of capacity to meet its current capacity requirements, which are based on PJM Interconnection, LLC's (PJM) summer peak, and that it would need to add 601 MW of accredited capacity if PJM were to set capacity requirements based on Kentucky Power's winter peak for planning years 2031 and 2032.³⁶ Kentucky Power further stated that the Cooling Tower Project is needed to meet the energy needs of its customers, and to avoid

³³ Application at 3.

³⁴ Application at 5.

³⁵ Application at 5.

³⁶ Application at 5.

additional costs to customers of having to replace the capacity with market purchases in a constrained market.³⁷

Wasteful Duplication

Kentucky Power stated that the Cooling Tower Project will not result in excess capacity over need or a multiplicity of physical properties.³⁸ Kentucky Power stated that the structural issues with the surface of the Mitchell Unit 2 Cooling Tower prevent long term use without addressing the structural issues, and thus the project is not in excess of what is needed to render safe and efficient services for its customers.³⁹ Kentucky Power stated that the Cooling Tower Project will not result in wasteful duplication because the structural issues put Kentucky Power's ability to obtain capacity and energy from Mitchell Unit 2 at risk, and that in an effort to determine the least-cost, reasonable alternative, Kentucky Power conducted an engineering evaluation that identified the four reasonable alternatives mentioned above.⁴⁰

In evaluating the four alternatives, Kentucky Power conducted an economic analysis to determine the average annual revenue requirement and the net present value revenue requirement (NPVRR) for each alternative.⁴¹ Kentucky Power stated it focused on the revenue requirement because it is the amount to be collected from customers as a result of the project.⁴² Kentucky Power stated that based on that analysis, Option 3,

³⁷ Application at 5.

³⁸ Application at 6.

³⁹ Application at 6.

⁴⁰ Application at 6.

⁴¹ Application at 6.

⁴² Application at 6.

the Cooling Tower Project, was found to be the least-cost reasonable alternative with an average annual, total-plant revenue requirement of \$19,255,642, with Kentucky Power being responsible for 50 percent of the total amount.⁴³

Regulatory Asset

Kentucky Power sought to accumulate and defer the costs of the Cooling Tower Project until the costs could be incorporated into its proposed Generation Rider, Tariff G.R., if approved in Case No. 2025-00257.⁴⁴ Kentucky Power requested that if Tariff G.R. was not approved, that the Commission approve a regulatory asset and a deferral, including a return on the unamortized balance at Kentucky Power's approved weighted average cost of capital.⁴⁵

Kentucky Power stated that the costs of the Cooling Tower Project will be incurred to meet its statutory obligation to provide adequate, efficient, and reasonable service.⁴⁶ Kentucky Power argued that the costs are extraordinary and nonrecurring and are not otherwise captured by the ratemaking process or included in its base rates.⁴⁷

Testimony in Support of Application

In support of the application, Kentucky Power tendered testimonies provided by Tanner S. Wolfram (Wolfram),⁴⁸ Director of Regulatory Services, Kentucky Power;

⁴³ Application at 6.

⁴⁴ Application at 8.

⁴⁵ Application at 9

⁴⁶ Application at 10

⁴⁷ Application at 10.

⁴⁸ By Notice of Adoption filed on June 10, 2026, Kentucky Power stated that Tanner S. Wolfram was no longer employed by Kentucky Power. Kentucky Power Stated that Amy J. Elliot, Lerah M. Kahn, Shawn P. Malone, and Nicole Coon, adopted specific portions of Mr. Wolfram's testimony and responses to data requests.

Shawn P. Malone (Malone), Director of Projects, American Electric Power Service Corporation (AEPSC); Daniel W. Pizzino (Pizzino), Director of Generation Engineering, AEPSC; and Nicole M. Coon (Coon), Regulatory Consultant Principal, AEPSC.⁴⁹ Joshua Snodgrass, Plant Manager of the Mitchell Plant;⁵⁰ Lerah Kahn, Manager of Regulatory Services for Kentucky Power;⁵¹ Amy Elliott, Vice President of Regulatory and External Affairs for Kentucky Power;⁵² and Ms. Coon⁵³ filed rebuttal testimony on behalf of Kentucky Power responding to intervenors' witnesses.

Mr. Wolfram provided testimony regarding Kentucky Power's existing generation resources, the need for the Cooling Tower Project, certain financial aspects, and the proposed cost recovery.⁵⁴ Mr. Wolfram testified that the Cooling Tower Project would cost approximately \$191,000,000 and that an increase in operation and maintenance (O&M) expenses were not expected as a result of the Cooling Tower Project.⁵⁵ Mr. Wolfram testified that Kentucky Power had submitted grant applications to the Department of Energy (DOE), but that Kentucky Power had been notified that it did not receive an award.⁵⁶ Mr. Wolfram stated that Kentucky Power is proposing to recover a

⁴⁹ Joint Post Hearing Brief of Attorney GERAL and Kentucky Industrial Utility Customers, Inc. (filed August 30, 2026) (AG and KIUC Joint Post Hearing Brief) at 7.

⁵⁰ Rebuttal Testimony of Joshua D. Snodgrass (Snodgrass Rebuttal Testimony) (filed Jun. 10, 2026) at R1.

⁵¹ Rebuttal Testimony of Lerah M. Kahn (Kahn Rebuttal Testimony) (filed Jun. 10, 2026) at R1.

⁵² Rebuttal Testimony of Amy J. Elliott (Elliott Rebuttal Testimony) (filed Jun. 10, 2026) at R1.

⁵³ Rebuttal Testimony of Nicole M. Coon (Coon Rebuttal Testimony) (filed Jun. 10, 2026) at R1.

⁵⁴ Direct Testimony of Tanner S. Wolfram (Wolfram Direct Testimony) at 3.

⁵⁵ Wolfram Direct Testimony at 13.

⁵⁶ Wolfram Direct Testimony at 14.

return on rate base and construction work in progress, a return of depreciation expenses associated with the Cooling Tower Project through Tarriff G.R., or alternatively, if Tariff G.R. is not approved, that the associated expenses be treated as a regulatory asset until they can be included in the next base rate case.⁵⁷

Mr. Wolffram testified that Kentucky Power is seeking to use the currently approved rate of return (ROE) of 9.75 percent, and that Kentucky Power used a depreciation rate of 8.33 percent when calculating the revenue requirement.⁵⁸

Mr. Malone provided an overview of the Cooling Tower project, including steps that will be taken to complete the Cooling Tower Project, estimated completion dates, and the total project capital cost.⁵⁹ Mr. Malone testified that the estimated capital cost for the Cooling Tower Project was approximately \$191,000,000, with Kentucky Power's share being \$95,500,000.⁶⁰ Mr. Malone testified that the capital cost estimate was developed based on budgetary quotes for major equipment and historical data for bulk items and minor equipment.⁶¹ With regard to how the capital cost estimate was developed, Mr. Malone stated that Worley, an engineering consultant,⁶² assisted in calculating the direct capital cost estimates; that a labor study was performed; that other direct costs included conceptual and detailed engineering and design, owner's internal costs, and owner's allowances used during the early phases that will be replaced with calculated quantities

⁵⁷ Wolffram Direct Testimony at 14.

⁵⁸ Wolffram Direct Testimony at 16.

⁵⁹ Direct Testimony of Shawn P. Malone (Malone Direct Testimony) (filed Feb. 17, 2026) at 1.

⁶⁰ Malone Direct Testimony at 10.

⁶¹ Malone Direct Testimony at 11.

⁶² Malone Direct Testimony at 5.

to increase budget certainty as the project proceeds; and that a contingency of 10 percent was included in the project cost estimate.⁶³

Mr. Pizzino provided testimony on the need to construct the new cooling tower, the issues with Mitchell Unit 2 Cooling Tower, and the repairs made thus far.⁶⁴ Mr. Pizzino testified that the Mitchell Unit 2 Cooling Tower has several areas of surface irregularities and deformations of its concrete shell, which have reduced its structural integrity, and that the tower is continuing to deteriorate.⁶⁵ Mr. Pizzino testified that the extent of the deterioration was not visually obvious when first noticed, and that only once the scaffold was installed and the high-pressure water wash took place, could the extent of the cracking and damage be seen.⁶⁶ Mr. Pizzino stated that, while the tower is still in use, the safety margin is diminished, and deformations and cracking could spread rapidly during a rare but extreme wind event.⁶⁷ Mr. Pizzino testified that the four alternatives presented are the only options identified by the engineering review.⁶⁸ Mr. Pizzino testified that continued use of the existing tower is not a long-term option as its safety factors will continue to deteriorate until it is no longer useful or safe to use.⁶⁹

Ms. Coon provided testimony on how Kentucky Power and Wheeling Power evaluated the alternatives to address the structural needs of Mitchell Unit 2 Cooling

⁶³ Malone Direct Testimony at 11.

⁶⁴ Direct Testimony of Daniel W. Pizzino (Pizzino Direct Testimony) (filed on Feb. 17, 2026) at 1-2.

⁶⁵ Pizzino Direct Testimony at 4

⁶⁶ Pizzino Direct Testimony at 7.

⁶⁷ Pizzino Direct Testimony at 7.

⁶⁸ Pizzino Direct Testimony at 10.

⁶⁹ Pizzino Direct Testimony at 11.

Tower. Ms. Coon testified that to perform the economic analysis of the four alternatives, she utilized a standard cost-of service model.⁷⁰ Ms. Coon provided the following chart in summary of the economic analysis.⁷¹

Option	Description	PV Rev Req't (Total)	Avg Rev Req't (Total)	Avg Rev Req't (Kentucky Power)
Option 1	Expanded Reinforcement	\$ 142,480,378	\$ 19,828,849	\$ 9,914,425
Option 2	Retire Unit 2	836,300,299	106,317,503	53,158,752
Option 3	Mitchell Cooling Tower Project	147,235,844	19,255,642	9,627,821
Option 4	Shorten Tower	189,471,586	20,406,521	10,203,261

Ms. Coon testified that the average residential customer using 1,206 kWh per month could expect a total increase on their monthly bill of \$4.59, which would start as an additional \$0.33 in 2026, increase by \$1.65 in 2027, and increase an additional \$1.99 in 2028.⁷²

Ms. Coon testified that the calculation for the revenue requirement and that used in the rate impact differ in several ways—for the rate impact evaluation the updates to the costs of the Cooling Tower Project result in amounts that vary slightly from that utilized in the economic analysis; the economic analysis included Allowance for Funds Used During Construction (AFUDC), whereas Kentucky Power is seeking to use Construction Work in Progress (CWIP) for rates; and the depreciable life for the rate calculation was assumed to be 12 years to match the anticipated 2040 retirement date of Mitchell Plant, whereas 25 years was used for the depreciable life in the economic analysis.⁷³ Ms. Coon testified

⁷⁰ Direct Testimony of Nicole M. Coon (Coon Direct Testimony) (filed on Feb. 17, 2026) at 1.

⁷¹ Coon Direct Testimony at 9.

⁷² Coon Direct Testimony at 10-11.

⁷³ Coon Direct Testimony at 1.

that Kentucky Power used a depreciable life of 25 years for the economic analysis, because the new tower will provide flexibility in the future.⁷⁴

Ms. Elliott, who adopted the direct testimony of Mr. Wolfram after he left his position at Kentucky Power, explained that after the filing of the application, Kentucky Power received a \$51 million award from the DOE to support, Option 3, the construction of the mechanical draft cooling tower.⁷⁵ Kentucky Power provided an updated economic analysis that reflects, among other things, that Option 3 depreciated over 25 years and with the award from the DOE has a total NPVRR over 10 years of about \$114.81 million, or a NPVRR for Kentucky Power's customers of about \$57.41 million.⁷⁶ Ms. Coon performed an updated rate analysis and testified that with the DOE award the average residential customer using 1,206 kWh per month would see an average monthly bill increase of about \$3.64 (or 1.8 percent), which she indicated is a decrease of about \$1.14 a month from Kentucky Power's previous estimate.⁷⁷

Direct Testimony of Lane Kollen on Behalf of the Attorney General and KIUC

Lane Kollen is the President and a Principal of Kennedy and Associates.⁷⁸ Mr. Kollen stated he does not oppose the CPCN for the Cooling Tower Project; however, he does oppose the requests for ratemaking recoveries and accounting deferrals.⁷⁹ Mr. Kollen testified that it is his recommendation that the Commission minimize rate increases

⁷⁴ Coon Direct Testimony at 12.

⁷⁵ Elliot Rebuttal Testimony at R3.

⁷⁶ Coon Rebuttal Testimony at R5, Table NMC-R1.

⁷⁷ Coon Rebuttal Testimony at R6.

⁷⁸ Kollen Direct Testimony at 1.

⁷⁹ Kollen Direct Testimony at 4.

during the next several years and that to do so the Commission must reject Kentucky Power's proposal to modify the revenue requirement formula in Tariff G.R. to allow a recovery of costs during construction incurred through a current return on CWIP and instead enforce capitalizing the financing costs during the construction period as AFUDC.⁸⁰ Mr. Kollen recommended that the Commission not grant a regulatory asset for incremental O&M and property taxes during the construction period, and deny the request for an increase in depreciation rate for the Cooling Tower Project.⁸¹ Mr. Kollen provided the following table demonstrating the difference in rate impact between Kentucky Power's proposal and his recommendation.⁸²

Kentucky Power Company Comparison of Tariff G.R. Revenue Increases and Effects on Residential Rates Kentucky Power Company v AG-KIUC Mitchell 2 New Cooling Tower And Partial Demolition of Existing Cooling Tower Costs				
	Kentucky Power Requests (\$)		AG-KIUC Recommendations (\$)	
	Incremental Kentucky Power Tariff G.R. Revenue Increases	Incremental Residential Monthly Bill Increases	Incremental Kentucky Power Tariff G.R. Revenue Increases	Incremental Residential Monthly Bill Increases
2026	1,172,737	0.36	-	-
2027	4,659,384	1.44	-	-
2028	1,189,926	0.36	-	-
2029	8,486,506	2.62	11,466,710	3.53
Cumulative Through 2029	15,508,553	4.78	11,466,710	3.53

⁸⁰ Kollen Direct Testimony at 5.

⁸¹ Kollen Direct Testimony at 5.

⁸² Kollen Direct Testimony at 6.

Direct Testimony of Lucy Metz on Behalf of Sierra Club

Lucy Metz is a Senior Associate at Synapse Energy Economics Inc. and provided testimony to evaluate whether Kentucky Power has demonstrated that the Cooling Tower Project is in the best interest of ratepayers relative to all other feasible alternatives.⁸³ Ms. Metz testified that Kentucky Power failed to demonstrate that Option 3 is in the best interest of ratepayers and avoids wasteful duplication, that Kentucky Power failed to properly compare the forward-going avoidable cost of the alternatives considered, and that Kentucky Power's economic analysis is flawed and does not provide sufficient information for a fair comparison of the revenue requirement of the alternatives.⁸⁴ Ms. Metz also argued that retiring and replacing Mitchell Unit 2 with a cleaner, more efficient,⁸⁵ and more flexible resource would provide better performance and reliability for ratepayers.

Ms. Metz recommended that the Commission deny Kentucky Power's request for a CPCN and that the Commission should find that Kentucky Power has not presented enough evidence to demonstrate that Option 3 is the lower-cost option.⁸⁶ Ms. Metz recommended that the Commission require Kentucky Power to provide capacity expansion and cost modeling to support its request and for all future CPCN and Integrated Resource Plans (IRP).⁸⁷

⁸³ Metz Direct Testimony (filed May 15, 2026).

⁸⁴ Metz Direct Testimony at 7.

⁸⁵ Metz Direct Testimony at 7.

⁸⁶ Metz Direct Testimony at 8.

⁸⁷ Metz Direct Testimony at 8. Sierra Club filed a Corrected version of the Public Testimony of Lucy Metz on June 29, 2026.

Joint Post Hearing Brief of Attorney General and KIUC

In their Joint Post Hearing Brief, the Attorney General and KIUC agreed that Kentucky Power established need for the Cooling Tower Project.⁸⁸ The Attorney General and KIUC stated their agreement that Option 3 was the least cost reasonable alternative.⁸⁹ The Attorney General and KIUC noted that Option 3 allows Mitchell Unit 2 to continue operating through its current projected retirement date of 2040 while minimizing the outage necessary to tie-in the new tower once it is commissioned.⁹⁰ The Attorney General and KIUC further noted that in light of the \$51 million federal grant, which is only available for Option 3, Option 3 is even more cost-effective for Kentucky Power's customers.⁹¹

The Attorney General and KIUC argued that Kentucky Power's request to recover costs through Tariff G.R. during construction should be denied as it is contrary to Kentucky Power's commitment in Case No. 2025-00257, to continue to use AFUDC for all qualifying Mitchell Plant construction.⁹² The Attorney General and KIUC stated that Kentucky Power is requesting to recover financing costs during construction through CWIP in rate base, instead of deferring those costs as AFUDC.⁹³ The Attorney General and KIUC argue that the current request goes against Kentucky Power's historical treatment of financing costs during construction, and that the manner in which Kentucky

⁸⁸ AG and KIUC Joint Post Hearing Brief at 6.

⁸⁹ AG and KIUC Joint Post Hearing Brief at 7.

⁹⁰ AG and KIUC Joint Post Hearing Brief at 7.

⁹¹ AG and KIUC Joint Post Hearing Brief at 7.

⁹² AG and KIUC Joint Post Hearing Brief at 8.

⁹³ AG and KIUC Joint Post Hearing Brief at 8.

Power historically handled these expenses for ratemaking purposes assured there was no recovery of the financing costs during the construction period prior to providing a new asset to customers.⁹⁴ The Attorney General and KIUC further argued that the request to change from AFUDC to CWIP is unnecessary, as AFUDC is fully compensatory and causes no harm to the company if denied.⁹⁵ The Attorney General and KIUC argued that the change will harm customers, that AFUDC is lower cost than CWIP in rate base without the AFUDC offset, on both a nominal and present value basis.⁹⁶ The Attorney General and KIUC argued that the request to use CWIP without an AFUDC offset is contrary to the agreement and Order establishing Tariff G.R. that require the revenue requirement formula in Tariff G.R. to include AFUDC offset.⁹⁷

The Attorney General and KIUC stated that continuing use of AFUDC for all qualifying Mitchell construction costs will benefit Kentucky Power's customers by aligning costs with service dates for the anticipated new TeraWulf load in 2028, which would result in TeraWulf contributing towards the full cost of the Cooling Tower Project, helping to offset the rate impacts for existing customers.⁹⁸

The Attorney General and KIUC argued that the Commission should deny Kentucky Power's request to increase the existing depreciation rates for the new cooling tower. The Attorney General and KIUC state that the requested 8.33 percent depreciation rate is more than double the existing rate of 3.19 percent, and that the Commission's

⁹⁴ AG and KIUC Joint Post Hearing Brief at 9.

⁹⁵ AG and KIUC Joint Post Hearing Brief at 9.

⁹⁶ AG and KIUC Joint Post Hearing Brief at 9.

⁹⁷ AG and KIUC Joint Post Hearing Brief at 10-11.

⁹⁸ AG and KIUC Joint Post Hearing Brief at 12.

historical practice has been to change depreciation rates in the context of base rate proceedings.⁹⁹ The Attorney General and KIUC state that there is no compelling reason to modify the current rate of 3.19 percent recently approved in Case No. 2025-00257, that both rates assume a retirement date of the Mitchell Plant of 2040, and maintaining the current rate mitigates the cost impact on Kentucky Power's customers while Kentucky Power pursues securitization.¹⁰⁰

The Attorney General and KIUC argued that the Commission should deny Kentucky Power's request to include the recovery of incremental O&M expense and property tax expense in Tariff G.R.¹⁰¹ The Attorney General and KIUC stated that the revenue requirements formula in Tariff G.R. does not include those expenses, and that those expenses were expressly excluded by the Commission in Kentucky Power's most recent base rate case.¹⁰²

Sierra Club's Post Hearing Brief

Sierra Club stated that it does not object to the issuance of a CPCN, particularly given the DOE award to assist in funding the project, but that due to flaws in Kentucky Power's analysis, requested that the Commission include conditions on the issuance.¹⁰³ Sierra Club requested that Kentucky Power be required to provide actual ten-year annual forecasts for capital expenditures for the Mitchell Plant in all future Integrated Resource

⁹⁹ AG and KIUC Joint Post Hearing Brief at 13.

¹⁰⁰ AG and KIUC Joint Post Hearing Brief at 13.

¹⁰¹ AG and KIUC Joint Post Hearing Brief at 14.

¹⁰² AG and KIUC Joint Post Hearing Brief at 15.

¹⁰³ Sierra Club's Post Hearing Brief, at 2.

Plan (IRP) cases and any subsequent CPCNs for the Mitchell Plant.¹⁰⁴ Sierra Club argued that Kentucky Power's estimated annual capital expenditure for the Mitchell Plant is one-third of the industry average for a plant of similar size and age.¹⁰⁵ Sierra Club stated that if Kentucky Power's estimates are low, the ratepayers will bear the cost, and that the IRP and subsequent CPCNs provide the appropriate forum for the information.¹⁰⁶

Sierra Club requested that as part of the reporting of the ten-year annual forecasts that Kentucky Power should be required to specifically identify how the Mitchell Plant's annual capital costs compare to the Kentucky Power's \$12.34 Million annual forecast provided in this case for Mitchell Unit 2.¹⁰⁷ Sierra Club argued that Kentucky Power should also be required to conduct capacity expansion modeling as part of any future CPCN for investments into Mitchell Plant.¹⁰⁸ Sierra Club highlighted that in the current action, Kentucky Power conducted production cost modeling, but that without the capacity expansion modeling, the cost modeling does not provide information about resource retirement and generation addition decisions.¹⁰⁹

Sierra Club stated that the Commission should reject Kentucky Power witness Elliott's position that the Commission's decision in Case No. 2025-00175 already addressed whether Kentucky Power should retire and replace Mitchell Unit 2.¹¹⁰ Sierra

¹⁰⁴ Sierra Club's Post Hearing Brief, at 2.

¹⁰⁵ Sierra Club's Post Hearing Brief, at 2.

¹⁰⁶ Sierra Club's Post Hearing Brief, at 2.

¹⁰⁷ Sierra Club's Post Hearing Brief, at 3.

¹⁰⁸ Sierra Club's Post Hearing Brief, at 6.

¹⁰⁹ Sierra Club's Post Hearing Brief, at 6.

¹¹⁰ Sierra Club's Post Hearing Brief (filed August 21, 2026) at 7 *referring to* 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*

Club pointed out that in Case No. 2025-00175, the Commission explained that Kentucky Power's delays in seeking approval artificially constrained the available options, and that the Order in Case No. 2025-00175 clarified that it did not cut off consideration of long-term generation alternatives in future cases in the manner suggested by Ms. Elliott.¹¹¹

Post Hearing Brief of Kentucky Power Company

Kentucky Power clarified its requests as seeking a CPCN for the Cooling Tower Project and approving the accounting treatment to establish a regulatory asset to accumulate and defer for later review and recovery of the costs of the Cooling Tower Project.¹¹² Kentucky Power provided a history of its acquisition and ownership interest in the Mitchell Plant.¹¹³ Kentucky Power stated that staff at Mitchell Plant first observed the structural anomalies in April 2016, which led to an initial structural engineering assessment that revealed additional cracking and deterioration.¹¹⁴ A later engineering analysis was completed by a third party, which led to a monitoring and inspection program which is ongoing.¹¹⁵ Kentucky Power stated the monitoring program is comprised of four elements: continuous structural monitoring, annual drone inspections, bi-annual light detection and ranging assessments, and wind weather monitoring.¹¹⁶

the Mitchell Generating Station after December 31, 2028, (2) An Amended Environmental Compliance Plan, (3) Revised Environmental Surcharge Tariff Sheets, and All Other Required Approvals (Ky. PSC Dec. 30, 2025), Order.

¹¹¹ Sierra Club's Post Hearing Brief at 7.

¹¹² Kentucky Power's Post Hearing Brief (Filed August 21, 2026) at 4.

¹¹³ Kentucky Power's Post Hearing Brief, at 4 through 10.

¹¹⁴ Kentucky Power's Post Hearing Brief at 11.

¹¹⁵ Kentucky Power's Post Hearing Brief at 11.

¹¹⁶ Kentucky Power's Post Hearing Brief at 12.

Kentucky Power stated that in 2024 it attempted an initial repair project with the intent of restoring the structural integrity of the cooling tower, and in the process discovered that the deterioration and cracking were more extensive than originally estimated.¹¹⁷ Kentucky Power stated that as a result of that discovery, work was halted for further analysis to evaluate the risks, project schedules, and options.¹¹⁸

Kentucky Power provided a brief review of each of the four alternatives.¹¹⁹ Kentucky Power stated that Option 1 had a high risk of cost and schedule overruns due to the nature of the deterioration, that Option 2 would require replacing 800 MW of capacity, which would be prohibitively expensive, and Option 4 had the same risks as Option 1, with extra engineering complexity to reduce the height of the tower, thus Option 3 was selected as the best solution.¹²⁰

Kentucky Power argued that Option 3 was the least-cost, reasonable alternative to address the structural issues of the cooling tower. To support that argument, Kentucky Power completed an economic analysis utilizing a standard cost-of-service model and provided the following table.¹²¹

¹¹⁷ Kentucky Power's Post Hearing Brief at 13.

¹¹⁸ Kentucky Power's Post Hearing Brief at 14.

¹¹⁹ Kentucky Power's Post Hearing Brief at 14.

¹²⁰ Kentucky Power's Post Hearing Brief at 14-15.

¹²¹ Kentucky Power's Post Hearing Brief at 15.

Table NMC-1

Option	Description	PV Rev Req't (Total)	Avg Rev Req't (Total)	Avg Rev Req't (Kentucky Power)
Option 1	Expanded Reinforcement	\$ 142,480,378	\$ 19,828,849	\$ 9,914,425
Option 2	Retire Unit 2	836,300,299	106,317,503	53,158,752
Option 3	Mitchell Cooling Tower Project	147,235,844	19,255,642	9,627,821
Option 4	Shorten Tower	189,471,586	20,406,521	10,203,261

Kentucky Power stated that it had been awarded a \$51 million federal investment (award), for Option 3 specifically, and based on that provided the following updated economic analysis which includes both a 25-year and a 12-year useful life calculation.¹²²

Evaluated Option	PV Rev Req't (Total)	Avg Rev Req't (Kentucky Power)
Option 1	\$ 142,480,378	\$ 9,914,425
Option 2	790,168,458	50,756,182
Option 3 (25yr)	148,924,782	9,725,791
Option 3 (12yr)	189,958,426	12,206,906
Option 3 (Award 25yr)	114,813,700	7,509,942
Option 3 (Award 12yr)	144,859,451	9,361,699
Option 4	195,843,712	10,568,204

Kentucky Power argued that it should be authorized to collect a return on CWIP.¹²³ Kentucky Power argued that doing so would allow it to maintain financial integrity by aligning cost recovery with capital investment, and that it would lead to a more gradual rate implementation for customers.¹²⁴ Kentucky Power disagreed with the statements of the Attorney General and KIUC which indicated that Kentucky Power is historically a CWIP with AFUDC company. Kentucky Power pointed to Case No. 2021-00004 stating

¹²² Kentucky Power's Post Hearing Brief at 17-16.

¹²³ Kentucky Power's Post Hearing Brief at 25.

¹²⁴ Kentucky Power's Post Hearing Brief at 26.

that the Commission had approved CWIP recovery for Kentucky Power previously for a major construction project at Mitchell.¹²⁵

Kentucky Power further argued that recovering a return on CWIP does not deviate from the approved revenue requirement of Tariff G.R., but that Tariff G.R. and the settlement included a return on CWIP, and that the Commission approved that Tariff G.R. should include AFUDC offset of any CWIP projects that are eligible for such an allowance.¹²⁶

Kentucky Power challenged the Attorney General and KIUC's argument that Kentucky Power should wait to recover costs because economic development may increase overall load and spread the costs out further. Kentucky Power argued that the timing of the economic development projects makes it imprudent to waive and eliminate the benefits of the gradual rate increase to customers.¹²⁷

Kentucky Power also argued that CWIP treatment helps to sustain the financial health of Kentucky Power, and that a higher credit rating generally means lower cost of debt, leading to lower interest costs to customers, and thus a reduction in revenue requirement.¹²⁸

Kentucky Power argued that Sierra Club sought to relitigate the Commission's 2025 decision allowing Kentucky Power to extend its interest in the Mitchell Plant. Kentucky Power claims that the pending action is limited in scope, and the question of

¹²⁵ Kentucky Power's Post Hearing Brief at 26.

¹²⁶ Kentucky Power's Post Hearing Brief at 27.

¹²⁷ Kentucky Power's Post Hearing Brief at 27-28

¹²⁸ Kentucky Power's Post Hearing Brief at 28

whether Mitchell Unit 2 should be replaced with another resource was addressed by the Commission in Case No. 2025-00175.¹²⁹

Kentucky Power stated that Sierra Club's arguments that a 12-year expected life for the proposed cooling tower should have been used rather a 25-year life is deficient.¹³⁰ Kentucky Power notes that the current retirement date of Mitchell Plant is 2040, that the plant is capable of operating beyond that, and that using a 25-year useful life provides Kentucky Power the flexibility in the future of the Mitchell Plant beyond the timeline of the economics of this case.¹³¹ Kentucky Power stated that the proposed cooling tower could be used for several options that could assure future environmental compliance options, such as converting Mitchell Unit 2 to natural gas.

Kentucky Power also raised issue with what Kentucky Power referred to as Sierra Club's attempt to artificially lower net present value by using the expected useful life of a mechanical draft cooling tower, stating that even if a 12-year depreciable life was used, Option 3 still has the second lowest NPVRR of the alternatives.¹³²

Lastly, Kentucky Power also challenged Sierra Club's argument that Kentucky Power should have conducted a capacity expansion model, stating that the Commission already resolved that issue in Case No. 2025-00175.¹³³

¹²⁹ Kentucky Power's Post Hearing Brief at 29.

¹³⁰ Kentucky Power's Post Hearing Brief at 30.

¹³¹ Kentucky Power's Post Hearing Brief at 30.

¹³² Kentucky Power's Post Hearing Brief at 31.

¹³³ Kentucky Power's Post Hearing Brief at 32.

Joint Reply Brief of Attorney General and KIUC

The Attorney General and KIUC argued that Kentucky Power could not meet its burden of proof that AFUDC treatment would have a materially adverse effect on Kentucky Power's financial condition, and that the record contains zero proof of such an outcome.¹³⁴ The Attorney General and KIUC also stated the Kentucky Power's claim that CWIP without AFUDC results in more a gradual rate increase.¹³⁵ The Attorney General and KIUC argued that regardless of the gradient of the rate impact, AFUDC is a lower cost on a nominal and present value basis.¹³⁶ The Attorney General and KIUC stated that Kentucky Power's argument failed to address the fact that CWIP without AFUDC offset requires customers to pay for the financing costs during construction before the asset provides service, instead of as a cost over the service life of the asset, and that CWIP will result in a series of rate increases beginning this year instead of a single rate increase in 2029.¹³⁷ The Attorney General and KIUC indicated that if the AFUDC is used, the cumulative rate impact would be \$3.53 per month starting in 2029, whereas CWIP without an AFUDC offset would have a monthly rate increase of \$4.78 and would involve several rate increases over several years and referenced a table provided by Kentucky Power.¹³⁸

The Attorney General and KIUC also accused Kentucky Power of drawing a false distinction regarding "Qualifying" CWIP projects, stating that only small dollar short

¹³⁴ Attorney General and KIUC's Reply Brief (August 28, 2026) at 1.

¹³⁵ Attorney General and KIUC's Reply Brief 2.

¹³⁶ Attorney General and KIUC's Reply Brief 2.

¹³⁷ Attorney General and KIUC's Reply Brief 2.

¹³⁸ Attorney General and KIUC's Reply Brief 3.

duration CWIP projects do not qualify for AFUDC and that it is Kentucky Power's burden to provide sufficient evidence to justify the exception.¹³⁹ The Attorney General and KIUC stated that Kentucky Power "has utterly failed to demonstrate why this exception is necessary", and that the Commission should be hesitant to approve such an unwarranted exception as Kentucky Power is likely to argue a similar exception for future larger CWIP projects such as Kentucky Power's pending application in Case No 2026-00103.¹⁴⁰

The Attorney General and KIUC stated that Kentucky Power failed to address or correct the error in the revenue requirements formula in Tariff G.R., which requires AFUDC offset as an addition to operating income as was agreed upon in the settlement agreement and as ordered in Case No. 2025-00257.¹⁴¹

The Attorney General and KIUC also highlighted that Kentucky Power's initial brief failed to address or provide any support for the following requests of Kentucky Power: (1) Defer incremental O&M expense and property tax expense; (2) An accounting order to defer certain costs; and (3) for a new, higher depreciation rate solely for the Cooling Tower Project.¹⁴² The Attorney General and KIUC then stated that the Commission should interpret those failures as concessions of the issues, or as Kentucky Power failing to meet its burden of proof.¹⁴³

¹³⁹ Attorney General and KIUC's Reply Brief 3.

¹⁴⁰ Attorney General and KIUC's Reply Brief 3.

¹⁴¹ Attorney General and KIUC's Reply Brief 4.

¹⁴² Attorney General and KIUC's Reply Brief 4.

¹⁴³ Attorney General and KIUC's Reply Brief 4.

Post Hearing Response Brief of Kentucky Power

Kentucky Power points out that the intervenors have not challenged the need for the CPCN, that the Cooling Tower Project is the least cost-reasonable alternative, or that the project will not create wasteful duplication.¹⁴⁴

Kentucky Power challenged the Attorney General and KIUC's assertion that financing costs during construction should be deferred by AFUDC and reiterated that CWIP without AFUDC offset would allow Kentucky Power to maintain financial integrity and promote the goal of gradualistic rate increases.¹⁴⁵ Kentucky Power also challenged the idea that CWIP without AFUDC offset would result in a higher rate increase, stating that the customers will experience less of a rate increase if Kentucky Power can recover the costs at the outset of construction instead of at project completion, because the financing costs will be recovered when they are incurred and not as an increase to rate base.¹⁴⁶

Kentucky Power stated that it appreciates the Attorney General's and KIUC's position that waiting until the project is complete could allow TeraWulf to share in the costs, but states that TeraWulf expects to come online in 2028, and the project is not certain enough to displace Kentucky Power's practice of matching its currently incurred costs to its customers.¹⁴⁷

¹⁴⁴ Kentucky Power's Response Brief (Filed on August 28, 2026) at 3-4.

¹⁴⁵ Kentucky Power's Response Brief at 5.

¹⁴⁶ Kentucky Power's Response Brief at 5.

¹⁴⁷ Kentucky Power's Response Brief at 5-6.

Kentucky Power also argued that CWIP is supported by prior Commission decisions involving Mitchell Plant, and that Kentucky Power's request to recover a return on CWIP does not deviate from the approved revenue requirements in Tariff G.R., as the settlement the Commission approved stated that Tariff G.R. should include AFUDC offset for any CWIP projects that are eligible for such an allowance.¹⁴⁸

Kentucky Power stated a disagreement with the Attorney General and KIUC's position that the proposed depreciation rate of 8.33 percent should be denied, stating that in the case in which the current depreciation rate was set, Kentucky Power had presented a new depreciation study that supported a higher rate, but that Kentucky Power proposed maintaining the current rate, except updated to exclude interim and terminal net salvage.¹⁴⁹ Kentucky Power challenged the argument that the Commission historically only grants depreciation in base rate cases and stated that there have been two recent Mitchell-related projects where the Commission has authorized unique depreciation rates, included within environmental surcharge mechanisms.¹⁵⁰ Kentucky Power requested that the Attorney General and KIUC's request to keep the depreciation rate at the status quo should be denied, as granting it would result in an increased total remaining netbook value of the Cooling Tower Project to be recovered from customers if Mitchell Plant is retired in 2040.¹⁵¹

¹⁴⁸ Kentucky Power's Response Brief at 6.

¹⁴⁹ Kentucky Power's Response Brief at 7.

¹⁵⁰ Kentucky Power's Response Brief at 7-8.

¹⁵¹ Kentucky Power's Response Brief at 8.

Kentucky Power stated that it has withdrawn its request to defer construction costs to a regulatory asset.¹⁵² Kentucky Power stated that the approval of Tariff G.R. negated the need for Kentucky Power to seek deferral authority.¹⁵³

Kentucky Power argued it should be permitted to defer incremental O&M expense and property tax expenses in Tariff G.R., and cited the Commission's May 3, 2022 Order in Case No. 2021-00004 as support.¹⁵⁴ Regarding property taxes, Kentucky Power noted that the Cooling Tower Project is scheduled for completion in 2029, with the new cooling tower being in service in the second quarter of 2028, and that its request to defer the incremental property tax expense is limited to these costs incurred until such time that a level can be established in base rates, and that such expenses are not included in the calculation of the rate impact for Tariff G.R.¹⁵⁵

Kentucky Power stated that Sierra Club's request for conditions to be placed upon it going forward should be denied. Kentucky Power stated that it is already required to provide actual prior year expenditures and ten-year annual forecasts for capital expenditures for the Mitchell Plant in all future IRPs and CPCNs and ordering it do so would be duplicative and unnecessary.¹⁵⁶ Kentucky Power asserted that if Sierra Club's expectation was that Kentucky Power should never recover costs exceeding a forecasted amount, there is not authority for such an expectation.¹⁵⁷

¹⁵² Kentucky Power's Response Brief at 8.

¹⁵³ Kentucky Power's Response Brief at 8-9.

¹⁵⁴ Kentucky Power's Response Brief at 9.

¹⁵⁵ Kentucky Power's Response Brief at 9-10.

¹⁵⁶ Kentucky Power's Response Brief at 10.

¹⁵⁷ Kentucky Power's Response Brief at 11.

Kentucky Power argued that conducting capacity expansion modelling is not required or warranted in every CPCN application, stating that there is no such requirement in statute or regulation.¹⁵⁸ Kentucky Power stated that such analysis was not required in this case as the question presented was limited to how to address the structural issues of Mitchell Unit 2's cooling tower.

DISCUSSION AND FINDINGS

Request for a CPCN

The record in this case establishes that the cooling tower at Mitchell Unit 2 must be repaired or replaced for Mitchell Unit 2 to remain operational—no party has disputed that assertion. There is also no dispute that Kentucky Power needs its 50 percent share of Mitchell Unit 2 or some alternative generation to serve its customers' projected load and meet PJM capacity requirements. Further, while there were some issues with the analysis, as discussed in more detail below, the Commission finds that the evidence presented in this case established that the proposed Cooling Tower Project is the most reasonable, least cost option to serve customers based on the relative costs and risks of the alternatives. In other words, while the Commission is reluctant to authorize investments that inevitably increase costs, the Commission believes that the failure to do so here would either prevent customers from receiving adequate service or result in higher costs that would ultimately be borne by customers pursuant to legal and constitutional requirements. In reaching this conclusion, the Commission notes the support expressed for the CPCN by the Attorney General and KIUC following their investigations of this proposal, and Sierra Club's position in its post hearing brief that it,

¹⁵⁸ Kentucky Power's Response Brief at 11.

while proposing conditions for future cases, did not object to the grant of the CPCN in this case given the award from DOE that reduced the cost of the project to ratepayers. Thus, having reviewed the record and being otherwise sufficiently advised, the Commission finds that Kentucky Power's request for a CPCN for the proposed Cooling Tower Project should be granted subject to conditions as discussed herein below.

Need for CPCN Investments

Load Serving Entities (LSEs) in PJM, like Kentucky Power, are responsible for ensuring that they have sufficient generating capacity available to serve their load. LSEs may do this either by building resources directly, entering into bilateral contracts to purchase the capacity, or obtaining capacity from PJM's Reliability Pricing Model (RPM) auctions, though members electing the Fixed Resource Requirement (FRR) alternative, like Kentucky Power through AEP, are generally limited to the first two options.¹⁵⁹ Generally speaking, PJM determines the capacity an LSE must have in each year based on the LSE's expected contribution to PJM's system peak, which currently occurs in the summer, and generally accredits generation capacity obtained based on the expected availability of that capacity at system peak.¹⁶⁰ PJM assigns both an LSE's capacity requirement and the capacity credits for generation capacity using various statistical analyses intended to ensure a system with a loss of load expectation (LOLE) equal to or

¹⁵⁹ See PJM Manual 18: PJM Capacity Market, Revision 61 (effective July 23, 2025), Section 7, pgs. 159-165 (discussing the capacity requirements for RPM members and how they are determined); PJM Manual 18: PJM Capacity Market, Revision 61 (effective July 23, 2025), Section 11, pgs. 212-234 (discussing capacity requirements for FRR members and how they are determined).

¹⁶⁰ See PJM Manual 18: PJM Capacity Market, Revision 61, Section 7, pgs. 159-165; PJM Manual 18: PJM Capacity Market, Revision 61, Section 11, pgs. 212-234; see also PJM Manual 21B: PJM Rules and Procedures for Determination of Generating Capability, Revision 4 (effective Dec. 17, 2025) (discussing how resources are accredited in PJM); Wolfram Direct Testimony at 13-14 (discussing how PJM currently establishes resource requirements based on summer load but that it is discussing using winter load).

less than 1 day in 10 years,¹⁶¹ which is a standard commonly used by utilities for resource adequacy planning.¹⁶² Based on that analysis, capacity requirements and credits within PJM are expressed in terms of Unforced Capacity (UCAP).¹⁶³

The undisputed evidence presented in this case indicates that Kentucky Power would be short on the capacity necessary to meet its PJM capacity requirement if it no longer had its share of Mitchell Unit 2. For instance, in the 2027/2028 PJM delivery year, Kentucky Power estimated that Mitchell Unit 1, Mitchell Unit 2, and Big Sandy Unit 1 would be assigned 285 MW, 308 MW, and 238 MW of UCAP, respectively, for a total of 831 MW UCAP, whereas Kentucky Power estimated that its PJM capacity requirement during the same period would be 823 MW UCAP based on its projected load.¹⁶⁴ Kentucky Power estimated similar PJM capacity credits and requirements for the 2028/2029 through 2030/2031 delivery years.¹⁶⁵ Further, those projected credits and requirements are based on and consistent with Kentucky Power's recent capacity credits and

¹⁶¹ See PJM Manual 20A: PJM Adequacy Analysis, Revision 2 (effective December 17, 2025), Section 1.1-1.5, pgs. 8-10 (providing an overview of the various criteria, studies, and methodologies employed by PJM to ensure resource adequacy, and indicating that "[t]he RTO-wide Resource Adequacy Criteria is a LOLE criterion of 1 day in 10 years, or 0.1 days per year").

¹⁶² See Case No. 2022-00402, *Electronic Joint Application of Kentucky Utilities Company and Louisville Gas and Electric Company for Certificates of Public Convenience and Necessity and Site Compatibility Certificates and Approval of a Demand Side Management Plan and Approval of Fossil Fuel-Fired Generating Unit Retirements* (Ky. PSC Nov. 6, 2023), Order at 69, FN 258 (citing to testimony indicating that a 1 in 10 LOLE is a commonly used reliability planning target).

¹⁶³ PJM Manual 18: PJM Capacity Market, Revision 61, Section 7, pgs. 159-165; PJM Manual 18: PJM Capacity Market, Revision 61, Section 11, pgs. 212-234; PJM Manual 21B: PJM Rules and Procedures for Determination of Generating Capability, Revision 4 (all discussing the use of UCAP for capacity requirements and credits).

¹⁶⁴ Wolfram Direct Testimony at 7, Figure TSW-1.

¹⁶⁵ Wolfram Direct Testimony at 7, Figure TSW-1.

requirements and the analysis in its most recent IRP and CPCN cases.¹⁶⁶ Kentucky Power's projected capacity requirements and credits from existing units have also not been challenged by any party. Thus, the Commission finds that Kentucky Power needs its share of Mitchell Unit 2 or some replacement generation of at least the same capacity to meet its PJM capacity requirement and to serve load without significant market exposure.

The record similarly indicates that the proposed Cooling Tower Project or some alternative is necessary for Mitchell Unit 2 to continue operating. Specifically, Kentucky Power presented testimony and documentation that indicates that initial observations of the Mitchell Unit 2 Cooling Tower by AEP personnel revealed surface irregularities; that a detailed structural analysis prompted by those observations performed by a third party recommended reinforcing the structural integrity of the cooling tower; and that the initial structural repairs and inspections revealed that the extent of the deterioration of the concrete and rebar was greater than anticipated.¹⁶⁷ Kentucky Power continues to use Mitchell Unit 2 with extensive monitoring of the cooling tower, but Kentucky Power presented credible evidence that the cooling tower no longer meets design loads, presents a safety hazard, and that there is a risk of catastrophic failure in an extreme weather event.¹⁶⁸ No party has disputed that the Mitchell Unit 2 Cooling Tower needs to

¹⁶⁶ See Case No. 2025-00175 (Ky. PSC Dec. 30, 2025), Order at 27-28 (discussing Kentucky Power's expected PJM credits and capacity requirements in that and previous cases, which are similar those presented herein).

¹⁶⁷ Pizzino Direct Testimony at 6-9; Mallone Direct Testimony at 3-5; Wolfram Direct Testimony at 5-6; *see also* July 8, 2026 Hearing Video Transcript (Jul. 8, 2026 H.V.T.) at 11:24:30 AM - 11:29:30 AM; 11:31:00 AM - 11:32:10 AM (in which Witness Mallone discusses how the Initial Repair Project went over budget because they saw significantly more deformities than expected when work began at the base of the tower and that the expectation was they would find even more deformities as they went up the tower).

¹⁶⁸ See, e.g. Pizzino Direct Testimony at 7-9

be repaired or replaced for Mitchell Unit 2 to continue operating. Thus, having reviewed the record and being otherwise sufficiently advised, the Commission finds that the proposed Cooling Tower Project or some alternative repair or replacement of the cooling tower is necessary for Mitchell Unit 2 to continue operating.

Absence of Wasteful Duplication

Kentucky Power sought to establish the absence of wasteful duplication by comparing the expected costs and risks of (1) a project to complete the reinforcement of the existing tower (Option 1); (2) retiring Mitchell Unit 2 and replacing it with a natural gas combined cycle unit (Option 2); (3) the proposed Cooling Tower Project (Option 3); and (4) a project to partially demolish the cooling tower and reinforce the remaining portions of the tower (Option 4).¹⁶⁹ Kentucky Power presented the results of its initial economic analysis in Table NMC-1 as reflected below:¹⁷⁰

Table NMC-1

Option	Description	PV Rev Req't (Total)	Avg Rev Req't (Total)	Avg Rev Req't (Kentucky Power)
Option 1	Expanded Reinforcement	\$ 142,480,378	\$ 19,828,849	\$ 9,914,425
Option 2	Retire Unit 2	836,300,299	106,317,503	53,158,752
Option 3	Mitchell Cooling Tower Project	147,235,844	19,255,642	9,627,821
Option 4	Shorten Tower	189,471,586	20,406,521	10,203,261

Kentucky Power acknowledged that based on its initial economic analysis the proposed Cooling Tower Project, Option 3, had a higher NPVRR than the Option 1, but argued that the expected average annual revenue requirement effect is lower and that there are qualitative benefits of Option 3 that justify it over Option 1, including the relative cost risks

¹⁶⁹ Wolfram Direct Testimony at 6-7; Coon Direct Testimony at 5-10.

¹⁷⁰ Coon Direct Testimony at 9, Table NMC-1.

of Option 1 as compared to Option 3 and the fact that Option 3 will have a remaining useful life beyond that of Option 1.¹⁷¹

In Rebuttal Testimony, Kentucky Power acknowledged several errors in the economic analysis reflected in Table NMC-1, many of which were identified as a result of testimony presented by Sierra Club. Specifically, with respect to Options 2, 3, and 4, Kentucky Power found errors in the manner that energy margins were included in the workpapers, and in Option 3, Kentucky Power identified a transcription error. Kentucky Power provided an updated analysis correcting those errors.¹⁷² Kentucky Power also provided an alternative analysis of Option 3 in which the Cooling Tower Project was depreciated over 12 years instead of 25 years based on testimony from Sierra Club's witness. Additionally, Kentucky Power indicated that it was awarded a \$51 million grant on June 4, 2026, from DOE for the Cooling Tower Project.¹⁷³ Based on that updated information, Kentucky Power updated its economic analysis as reflected in Table NMC-R1 below:¹⁷⁴

¹⁷¹ Wolfram Direct Testimony at 10-11.

¹⁷² Coon Rebuttal Testimony at R3.

¹⁷³ Coon Rebuttal Testimony at R4-R5.

¹⁷⁴ Coon Rebuttal Testimony at R5, Table NMC-R1.

Table NMC-R1

Evaluated Option	Corrected PV Rev Req't (Total)	Original PV Rev Req't (Total)	Corrected Avg Rev Req't (Kentucky Power)	Original Avg Rev Req't (Kentucky Power)	Reason for Change	Updated Workpaper	Original Workpaper
Option 1	\$ 142,480,378	\$ 142,480,378	\$ 9,914,425	\$ 9,914,425	None	N/A	KPSC 1-10 Attachment 2
Option 2	790,168,458	836,300,299	50,756,182	53,158,751	Update to reflect lost energy from Mitchell Unit 2 only (not full plant)	SC 2-12 Attachment 1	KPSC 1-10 Attachment 3
Option 3 (25yr)	148,924,782	147,235,844	9,725,791	9,627,821	Updated to reflect lost energy margins as an opportunity cost and net energy cost transcription error	SC 2-11 Attachment 2	KPSC 1-10 Attachment 4
Option 3 (12yr)	189,958,426	N/A	12,206,906	N/A	Updated to reflect using 12 years instead of 25 years	Confidential Exhibit NMC-R5	N/A
Option 3 (Award 25yr)	114,813,700	N/A	7,509,942	N/A	Updated to reflect the award	Confidential Exhibit NMC-R6	N/A
Option 3 (Award 12yr)	144,859,451	N/A	9,361,699	N/A	Updated to reflect the award and using 12 years instead of 25 years	Confidential Exhibit NMC-R8	N/A
Option 4	195,843,712	189,471,586	10,568,204	10,203,261	Updated to reflect lost energy margins as an opportunity cost	SC 2-11 Attachment 3	KPSC 1-10 Attachment 5

As an initial matter, the Commission generally agrees with Sierra Club's witness Metz that utilities should consider new generation resources as an option when major upgrades requiring a CPCN are requested for existing generation plants and that utilities should consider the full going forward cost of existing generation when comparing upgrades to the cost of new generation to ensure that the options are compared on a similar basis.¹⁷⁵ However, this case is somewhat unique in that the Commission considered the need for Mitchell Plant and its relative costs as compared to both short-term (2028 to 2031) and long-term (post-2031) alternatives for providing energy and capacity to serve Kentucky Power's customers when granting a CPCN in Case No. 2025-00175 in December 2025.¹⁷⁶ Importantly, the need for the proposed Cooling Tower Project or some alternative was reported to the Commission in Case No. 2025-00175,

¹⁷⁵ See Metz Direct Testimony at 6 ("A key issue in this docket is therefore whether Kentucky Power has adequately compared the proposed Mitchell Cooling Tower Project to all reasonable alternatives. To make this comparison, Kentucky Power needs to compare the full forward-going costs of Mitchell 2 to the all-in costs of various alternatives. This analysis is necessary to ensure that the proposed Mitchell Cooling Tower Project avoids wasteful duplication.").

¹⁷⁶ See Case No. 2025-00175 (Ky. PSC Dec. 30, 2025) at 32-59 (discussing the short and long term options, including Mitchell's continued operation with the Cooling Tower Project).

and the expected NPVRR of that project was considered along with other going forward costs when looking at the costs of both the short-term and long-term options in determining that the continued operation of Mitchell Plant through at least 2031 was the most reasonable, least cost option as compared to other generation resources.¹⁷⁷ The evidence presented in this case did not establish any material change that would justify amending that finding.¹⁷⁸

Moreover, it would take until approximately 2031 to construct a new generating unit to replace Mitchell Unit 2, and Kentucky Power has presented evidence that it would be unsafe to continue operating Mitchell Unit 2 without replacing or repairing the existing cooling tower.¹⁷⁹ For each year that Mitchell Unit 2 is unable to operate between now and when a new alternative plant is placed in service, it would cost about \$36.54 million for Kentucky Power to replace just its share of Mitchell Unit 2's capacity assuming a \$325 per MW-day capacity price,¹⁸⁰ which is consistent with recent PJM annual capacity auctions.¹⁸¹ Additionally, given that Mitchell Plant should be bid into PJM on an economic

¹⁷⁷ See Case No. 2025-00175 (Ky. PSC Dec. 30, 2025) at 32-59.

¹⁷⁸ The NPVRR used for the Cooling Tower Project that was considered in Case No. 2025-00175 as part of the broader analysis was similar that proposed herein. See Case No. 2025-00175 (Ky. PSC Dec. 30, 2025) at 54 (citing to a NPVRR provided in a confidential attachment). For that reason, there was no change in the price of the Cooling Tower Project that would change that analysis. Further, there was only a month and half between the final Order in Case No. 2025-00175 and the application in this case, and there was no evidence presented that there was any developments that would materially change the relative cost benefit analysis of Mitchell Plant as compared to other generation resources. The most material change since the final Order in Case No. 2025-00175 was likely the suspension or elimination of the Green House Gas Rules proposed in the previous Presidential administration. However, the likelihood that there would be an attempt to eliminate those rules was understood and considered in Case No. 2025-00175, and if anything, that change would likely make Mitchell Plant more cost effective as compared to most alternatives.

¹⁷⁹ Pizzino Direct Testimony at 6-9; Mallone Direct Testimony at 3-5; Wolfram Direct Testimony at 5-6; see also Jul. 8, 2026 H.V.T. at 11:31:00 AM - 11:36:00 AM.

¹⁸⁰ 308 MW UCAP x \$325 per MW-day x 365 = \$36,536,500.

¹⁸¹ See PJM, *2028/2029 Base Residual Auction Report* (dated July, 14, 2026) <2028-2029-bra-results-report.pdf> (last accessed Oct. 15, 2026) (providing the results of the 2028/2029 BRA and indicating

basis, there would likely be additional costs associated with energy margins that would be lost in each year in which Mitchell Unit 2 would be unable to operate while replacement generation is being constructed because Kentucky Power would lose the hedge that Mitchell Unit 2 offers when energy prices in PJM exceed the unit's marginal cost of operation. Given the annual cost of capacity and energy that would likely be incurred in years that Mitchell Unit 2 is unable to operate pending construction of new generation, the previous analysis of the short- and long-term options that considered this project, and the fact that the evidence does not indicate that there has been any material change that would raise the cost of Mitchell since that analysis, the Commission finds that continuing to operate Mitchell Unit 2 with the proposed Cooling Tower Project is the most reasonable, lowest cost option at this time as compared to Option 2 or other options that involve replacing Mitchell Unit 2.

With respect to the options that involve replacing or repairing the cooling tower to allow Mitchell Unit 2 to continue operating, Kentucky Power's updated economic analysis reflects that Option 3 depreciated over 25 years and with the award from the DOE is the least cost option by far with a total NPVRR over 10 years of about \$114.81 million, or a NPVRR for Kentucky Power's customers of about \$57.41 million.¹⁸² However, those costs assume both that Kentucky Power receives the award from DOE for the \$51 million and that the mechanical cooling tower for Option 3 has a useful life of 25 years. Based

that they hit the cap of about \$325 per MW-day); PJM, *2027/2028 Base Residual Auction Report* (dated Dec. 17, 2025) <<https://www.pjm.com/-/media/DotCom/markets-ops/rpm/rpm-auction-info/2026-2027/2026-2027-bra-report.pdf>> (last accessed Oct. 12, 2026) (providing the results of the 2027/2028 BRA, discussing the results of previous auctions, and indicating that the clearing price in the last two auctions have been about \$329 per MW-day and \$333 per MW-day).

¹⁸² Coon Rebuttal Testimony at R5, Table NMC-R1.

on Kentucky Power's analysis, the total NPVRR of Option 3 over 10 years would be \$144.86 million if Kentucky Power received the award and the tower had a 12-year useful life; \$148.92 million if the tower had a 25-year useful life and Kentucky Power did not receive the award; and \$189.96 million if Kentucky Power did not receive the award and the tower had a 12-year useful life.¹⁸³ Conversely, Kentucky Power's analysis indicated that Option 1, which is the most economical of the two other alternatives for repairing or replacing the cooling tower, would have a NPVRR of about \$142.48 million over the same period.¹⁸⁴ Thus, the economics of Option 3 are largely dependent on the useful life of the new mechanical cooling tower and whether Kentucky Power receives the \$51 million DOE award.

Sierra Club's witness Metz testified that it was unreasonable to assume a 25-year useful life for the proposed Cooling Tower Project, because Mitchell Unit 2 itself is currently being depreciated based on an expected 2040 retirement date.¹⁸⁵ Kentucky Power responded by arguing that the new cooling tower could be used for another generating unit even if Mitchell Unit 2 otherwise closes in 2040; that the cooling tower could continue to be used for Mitchell Unit 2 if its life were extended, whereas the other repair options considered in Options 1 and 4 would not have that potential; and that even using a 12-year useful life, Option 3 has the second lowest cost from a NPVRR and is the

¹⁸³ Coon Rebuttal Testimony at R5, Table NMC-R1.

¹⁸⁴ Coon Rebuttal Testimony at R5, Table NMC-R1.

¹⁸⁵ Metz Direct Testimony at 23-24.

lowest cost option from an average annual revenue requirement prospective with the \$51.00 million DOE award.¹⁸⁶

The Commission generally agrees with witness Metz regarding the use of the 12-year useful life for Option 3 in the economic analysis. Kentucky Power is currently depreciating Mitchell Unit 2 based on the expectation that it will be retired in 2040 and it is logical to depreciate a component of a larger plant based on the remaining useful life of that plant unless there is some expectation that the component will be useful after the larger plant is retired. While it is possible that the proposed mechanical cooling tower will be able to be used after Mitchell Unit 2 is retired or that the life of Mitchell Unit 2 may be slightly extended (to bridge to other new generation, for example), Kentucky Power's evidence in support of those assertions was vague at best. In fact, for ratemaking purposes, Kentucky Power even proposed in this application to depreciate the proposed Cooling Tower Project based on a 12-year useful life, which would weigh against its assertions that the Cooling Tower Project is likely to remain useful for any material period beyond that time. Thus, while the possibility of future use beyond that of Options 1 and 4 could be a minor factor to consider in a close analysis, as discussed below, the Commission finds that it is unlikely that the Cooling Tower Project will ultimately be assigned a useful life materially greater than 12 years, and therefore, that a 12-year useful life should be used for the purpose of the economic analysis.

The evidence does indicate that Kentucky Power will receive the \$51 million award from the DOE. Kentucky Power was notified that it was awarded those amounts for the proposed project in June 2026, and at the hearing in this case on July 8, 2026, Kentucky

¹⁸⁶ Coon Rebuttal Testimony at R7-R9.

Power's witnesses indicated that they were in the process of finalizing an agreement for the award with the DOE.¹⁸⁷ Then, on September 17, 2026, Kentucky Power made a supplemental filing in this case providing a copy of a contract with the DOE for the award in the amount of \$51 million, as originally disclosed, to be paid out over the life of the project as technical objectives are reached.¹⁸⁸ Thus, while there is some risk that the funding will not be made available by the federal government, it is reasonable to assume that Kentucky Power will receive the DOE award when reviewing the expected cost to customers of the three options to repair or replace the cooling tower.¹⁸⁹

As noted above, assuming a 12-year useful life and that Kentucky Power receives the award from the DOE, Kentucky Power's analysis indicated that the NPVRR of Option 3 for Kentucky Power alone would be about \$72.43 million over 10 years and that the average annual revenue requirement for Kentucky Power alone would be about \$9.36 million.¹⁹⁰ Conversely, Kentucky Power's analysis indicated that the NPVRR for Kentucky Power of Option 1, which is the most economical of the other options to repair and replace the cooling tower, would be about \$71.24 million and that the average annual revenue requirement would be about \$9.91 million.¹⁹¹ Thus, Option 3 has an average annual revenue requirement that is about \$0.55 million lower than the most economical

¹⁸⁷ See Jul. 8, 2026 H.V.T. at 9:43:30 (discussing the current status of the DOE award).

¹⁸⁸ Kentucky Power's September 17, 2026 supplemental response to Sierra Club's Post Hearing Request for Information, Item 4.

¹⁸⁹ The Commission appreciates Kentucky Power's efforts in seeking this award from the DOE, and the DOE for providing this funding to lower costs for Kentucky Power customers. The Commission would encourage Kentucky Power to continue to seek similar opportunities that may come available to support the economic operation of both existing baseload units and new generating units.

¹⁹⁰ Coon Rebuttal Testimony at R5, Table NMC-R1.

¹⁹¹ Coon Rebuttal Testimony at R5, Table NMC-R1.

alternative option on a nominal basis, and a NPVRR that is about \$1.2 million higher than the most economical alternative option over 10 years.

The Commission continues to believe that NPVRR over an appropriate planning period is the best metric for evaluating the economics of a proposed project and alternatives thereto because it looks at the overall cost to customers and accounts for when customers will have to pay those costs in a way that average annual revenue requirement does not.¹⁹² However, while the proposed Cooling Tower Project is slightly more expensive than Option 1 over the first 10 years from a present value prospective, the Commission finds that Option 1 presents more cost and operational risks than Option 3, because the extent of the deterioration and required work to complete Option 1 is difficult to determine until work on the relevant sections begins.¹⁹³ The Commission notes that Option 1 is effectively a continuation of the Initial Repair Project Kentucky Power performed on the cooling tower for which costs escalated significantly because the condition of the tower was worse than expected.¹⁹⁴ Additionally, while the Commission questions the expected useful life of 25 years proposed by Kentucky Power for Option 1, as discussed above, Option 3, being a new mechanical cooling tower, could potentially be useful for longer than Option 1 if there is a use for it, and therefore, Option 3 provides more potential future use options than Option 1. Thus, the Commission finds that the reduced cost and operational risks associated with Option 3 and the potential future uses

¹⁹² See Case No. 2025-00175 (Ky. PSC Dec. 30, 2025) at 41-43 (discussing the importance of NPVRR for evaluating costs).

¹⁹³ See Jul. 8, 2026 H.V.T. at 11:24:30 AM - 11:29:30 AM; 11:31:00 AM - 11:34:00 AM (in which Witness Mallone discusses how the Initial Repair Project went over budget because they saw significantly more deformities and why it is difficult to assess the extent of the deformities until the work is completed).

¹⁹⁴ See Jul. 8, 2026 H.V.T. at 11:22:00 AM - 11:29:00 AM.

of Option 3 as compared to Option 1 justify finding that Option 3 is the most reasonable, least-cost option notwithstanding its slight incremental NPVRR as compared to Option 1.

As in Case No. 2026-00175, Kentucky Power's analysis was not as robust as it could have been and there were flaws in the analysis. However, of the three intervenors in this case, which include the statutory consumer advocate, a group representing Kentucky Power's industrial customers, and an environmental organization, two advocated for the CPCN following discovery in this case based on the contention that it is the most reasonable, least cost option,¹⁹⁵ and one did not object to the CPCN in light of the federal award that reduced the cost of the proposed project to customers, though the latter recommended that certain conditions be imposed in future cases.¹⁹⁶ As discussed above, the Commission also continues to believe that Mitchell Plant, including Mitchell Unit 2, is the most reasonable, least cost option to continue providing service at this time, and that the proposed Cooling Tower Project is the most reasonable, least cost option for addressing the current condition of the cooling tower for the reasons discussed above. Thus, the Commission finds that Kentucky Power's Application for the CPCN should be granted.

In granting Kentucky Power's CPCN, the Commission notes that the expected cost of Option 3 is only competitive with the expected cost of Option 1 due to the DOE award,

¹⁹⁵ See AG and KIUC Joint Post Hearing Brief at 5 (asserting that Kentucky Power established that the Cooling Tower Project is the least cost option).

¹⁹⁶ See Sierra Club's Post Hearing Brief at 2 ("Given the DOE award, Sierra Club does not object to the issuance of the CPCN. However, given the flaws in the Company's analysis, as detailed in the Direct Testimony and July 8, 2026 hearing testimony of Sierra Club witness Lucy Metz, Sierra Club respectfully asks the Commission to include appropriate conditions on the issuance of the CPCN.").

which is not available for Option 1.¹⁹⁷ Without the DOE award, Option 3 would have a total NPVRR about \$47.48 million higher than Option 1 over 10 years, which would result in \$23.74 million in additional costs to Kentucky Power customers.¹⁹⁸ While the cost and operational risks of Option 1 as compared to Option 3 justify choosing Option 3 over Option 1 if Kentucky Power receives the DOE award, it is more difficult to find that the risks of Option 1 and the additional benefits of Option 3 would justify approving Option 3 in the absence of the DOE award. Thus, the Commission finds that the grant of this CPCN should be conditioned on Kentucky Power receiving the DOE award.

As noted above, Kentucky Power now has an agreement with the DOE establishing the award such that it is likely to receive the funds. However, the disbursement of funds is expected to occur over the course of the project as technical objectives are met and is conditioned on the DOE having or receiving funding for the award, among other things, such that there is a risk that some or all of the award will not be disbursed. Thus, to ensure that the condition in the preceding paragraph is satisfied, the Commission finds that Kentucky Power should cease any material work on the proposed project and promptly file a motion in this case requesting an amended CPCN, with supporting documents,¹⁹⁹ if, prior to the beginning of construction or the first disbursement of the DOE award, the award is canceled, it is otherwise determined that

¹⁹⁷ See Jul. 8, 2026 H.V.T. at 1:31:30 p.m. – 1:32:15 (explaining why Option 3 is the only option that was eligible for the DOE award).

¹⁹⁸ \$189.96 million - \$142.48 million = \$47.48 million difference in total revenue requirement

\$47.48 million * 50% = \$23.74 million.

¹⁹⁹ Documents should support Kentucky Power's proposed course of action given the evidence in this case and any changes since this Order was entered whether Kentucky Power is proposing to continue with the project or shift to a different project.

the awarded funds will not be disbursed, or the agreement with the DOE is materially amended. Conversely, if the award is canceled, it is otherwise determined that the awarded funds will not be disbursed, or the agreement with the DOE is materially amended after construction has begun, and the first disbursement has been made, the Commission finds that Kentucky Power should notify the Commission in writing within 14 days of the change and describe the nature of the change and how Kentucky Power plans to proceed.

The Commission next notes that Wheeling Power, a West Virginia regulated utility, owns a 50 percent share in Mitchell Unit 2 and that a CPCN application similar to this case is currently pending before the Public Service Commission of West Virginia (West Virginia Commission). The Commission presumes that if the West Virginia Commission denied the CPCN, Kentucky Power would return to this Commission before proceeding with the construction. However, for clarity, the Commission finds that its approval of a CPCN in this case should be conditioned on the West Virginia Commission granting approval for the Cooling Tower Project. If the West Virginia Commission denies approval for the project, then Kentucky Power should file a motion in this case or a new application proposing how the need will be addressed, through this or some other project, in a manner that does not negatively affect Kentucky Power customers.

Sierra Club proposed that any grant of the CPCN be subject to certain conditions. First, Sierra Club proposed that the Commission direct Kentucky Power to provide actual historical capital expenditures and ten-year annual forecasts of capital expenditures for the Mitchell Plant in all future IRP and any subsequent CPCN cases for projects at the Mitchell Plant, and that Kentucky Power be required to compare those costs to past

projections for expected construction at Mitchell Unit 2, including projections provided in this case.²⁰⁰ Kentucky Power argued in response that the Commission already imposed such a requirement on Kentucky Power in Case No. 2025-00175, in which the Commission required.²⁰¹

By February 1 of each year from 2026 to 2031, Kentucky Power shall file a report:

- a. Identifying each capital project that was completed at the Mitchell Plant in the preceding calendar year, identifying the cost of the project and whether it was on or over budget, and briefly explaining the need for the project;
- b. Identifying material projects expected in the calendar year in which the report is filed, identifying the cost of the project, and briefly explaining the need for the project;
- c. Providing the most recent ten-year capital budget for Mitchell Plant and any capital budget variance reports for Mitchell Plant prepared for management pertaining to the proceeding calendar year; and
- d. Identifying its current and future plans for Mitchell Plant based on Kentucky Power or its affiliates internal resource planning, including its post-2031 plans for Mitchell Plant, and explaining each basis for the resource decisions.

Kentucky Power argued that Sierra Club's request that the Commission order it to provide the same information in all CPCN and IRP cases is duplicative, unnecessary, and wasteful.²⁰²

While the Commission agrees with Sierra Club's concerns regarding the accuracy of projected capital costs, the Commission also agrees that it sought to address that issue,

²⁰⁰ Sierra Club Post Hearing Brief at 2-3.

²⁰¹ Kentucky Power's Post Hearing Response Brief at 10 *quoting* Case No. 2025-00175 (Ky. PSC Dec. 30, 2025) at 64.

²⁰² Kentucky Power's Post Hearing Response Brief at 10-11.

in part, through the imposition of extensive reporting requirements in Case No. 2025-00175 that are substantially similar to those requested by Sierra Club herein. The Commission does not believe that it is necessary to establish a separate, blanket requirement that the same or similar information be filed in every CPCN or IRP case, to the extent it is not already required to meet statutory and regulatory requirements, because the information will be available in Case No. 2025-00175 and can be requested through requests for information in any CPCN or IRP cases. Thus, the Commission declines to impose the first condition proposed by the Sierra Club.

Sierra Club next argued that the Commission should require Kentucky Power “to conduct capacity expansion modeling to support any future capital project at the Mitchell Plant that requires a CPCN, in order to appropriately compare the forward-looking costs of continued investment in the Mitchell Plant with the all-in costs of alternatives.”²⁰³ Sierra Club also argued that the Order in this case should clarify that the decision in Case No. 2025-00175 did not cut off consideration of long-term generation alternatives in future cases in the manner suggested by Kentucky Power’s witness Elliott, who stated that “[t]he question of whether the Company should retire and replace Mitchell Unit 2 with another resource has already been addressed by the Commission.”²⁰⁴ Kentucky Power responded that capacity expansion modeling is not necessary in every instance in which a CPCN may be sought, and that “[s]uch requirement going forward would be an onerous addition to cases in which the Plant’s capacity is not at issue.”²⁰⁵

²⁰³ Sierra Club Post Hearing Brief at 4, 6-7.

²⁰⁴ Sierra Club Post Hearing Brief at 6-7.

²⁰⁵ Kentucky Power’s Post Hearing Response Brief at 11-12.

As an initial matter, the Commission agrees that the final Order in Case No. 2025-00175 did not foreclose consideration of new generation alternatives in future cases. The decision to grant the CPCN in Case No. 2025-00175 was based on a finding that the investments approved therein, which allowed Kentucky Power to continue taking capacity and energy from its 50 percent share of Mitchell Plant after 2028, along with the other investments considered therein, were the most reasonable, least cost option for serving customers through at least 2031.²⁰⁶ However, the Commission expressly indicated that it was not approving any investments other than those for which a CPCN had been requested in that case.²⁰⁷ Additionally, the decision was limited with the caveat through “at least 2031,” because 2031 is when the next major capital investment that would have required a CPCN, other than the Cooling Tower Project, was anticipated at that time. Other than the projects for which a CPCN was requested and approved in Case No. 2025-00175, the Cooling Tower Project was the only project for which a CPCN was anticipated that was fully considered as part of Kentucky Power’s short and long-term analysis in that case, and therefore, it is the only project for which a CPCN is required that may rely, at least in part, on that analysis as discussed above. Other future projects at Mitchell Plant that require a CPCN, whether before or after 2031, would not be able to rely on the finding in Case No. 2025-00175 that Mitchell Plant is the most reasonable, least-cost option as compared to other generation alternatives, because those projects either were unknown, and therefore, not considered, or the projects were discussed as possibilities post-2031

²⁰⁶ Case No. 2025-00175 (Ky. PSC Dec. 30, 2025) at 25.

²⁰⁷ See Case No. 2025-00175 (Ky. PSC Dec. 30, 2025) at 32-59 (analyzing the various alternatives as discussed).

but there was no finding that the projects were the most reasonable, least cost options as compared to alternative generation options. Thus, the final Order in Case No. 2025-00175 did not cut off or otherwise foreclose the need to consider and, to the extent required by KRS 278.020(1), evaluate new generation alternatives in future CPCN cases for proposed investments in Mitchell Plant.

With respect to Sierra Club's request that the Commission require Kentucky Power to complete capacity expansion modelling for all future investments in Mitchell Plant that require a CPCN, the Commission notes that KRS 278.020(1) requires utilities to identify and evaluate reasonable alternatives, and therefore, would generally require capacity expansion modeling or similar evidence to identify reasonable alternatives for which costs may be considered and evaluated as compared to a proposed project and other going forward costs. Further, contrary to the premise that Kentucky Power appears to express in its brief, the Commission notes that the need for a generation plant's capacity is at issue in a case such as this in which a utility is proposing to repair or replace components in an existing plant, because the need that such projects are ultimately addressing is the need for sufficient capacity and energy to serve load and a potential alternative to that is replacement generation. However, while capacity expansion modeling is likely the best way to identify reasonable alternatives for further consideration as part of production cost and financial models, there may be instances in which case specific capacity expansion modeling is not necessary for an incremental investment in a generating plant. Thus, the Commission declines to specifically impose a blanket requirement to complete capacity expansion modeling in all cases beyond what is already required by KRS 278.020(1).

Finally, the Commission is approving the CPCN in this case based on the cost and other representations made by Kentucky Power herein and finds that it is necessary to monitor the progress of the project and any major changes thereto. Thus, the Commission finds that Kentucky Power should be required to report when the project is started and completed, any material changes in scope or nature of the project, and if the expected cost of the new mechanical cooling tower or the demolition of the of the existing tower increase by more than 5 percent above the estimated costs provided in this case, including any contingency.

Deferral of All Costs Related to the Cooling Tower Project

Kentucky Power's application proposed "to accumulate and defer the costs of the Mitchell Cooling Tower Project, including CWIP, until the costs can be incorporated into [Kentucky Power's] proposed Generation Rider, if the Generation Rider is approved in Case No. 2025-00257."²⁰⁸ In the alternative, if the Generation Rider is not approved, Kentucky Power proposed "to accumulate and defer the costs of the Mitchell Cooling Tower Project until the costs can be included in its rate base in a subsequent base rate case or other appropriate mechanism."²⁰⁹ In testimony, Kentucky Power's witness Wolfram explained that Kentucky Power was seeking "deferral authority for all costs related to the Mitchell Cooling Tower Project until such time that those costs can be incorporated into either the Generation Rider or base rates . . . including engineering and related work required to investigate potential alternatives, depreciation expense and a

²⁰⁸ Application at 8.

²⁰⁹ Application at 8-9.

pre-tax [Weighted Average Cost of Capital] return on rate base/construction work in progress, incremental property tax expense and incremental O&M expense.”²¹⁰

Attorney General and KIUC witness Kollen opposed the requested deferral and argued that to the extent that they pertained to the construction of the proposed Cooling Tower Project that the costs would be included in CWIP and then capitalized.²¹¹ Kollen indicated that neither GAAP rules nor FERC’s system of accounts allow for such a deferral.²¹² Kollen also argued that Kentucky Power’s request for deferral authority is inconsistent with the Generation Rider, Tariff G.R., approved in Case No. 2025-00257, which among other things expressly excluded incremental O&M expense and incremental property tax expense.²¹³

In rebuttal testimony responding to Kollen, Kentucky Power’s witness Kahn indicated that the initial request was to defer:

1. Engineering and related work to investigate possible alternatives;
2. Depreciation Expense;
3. Return on rate base or CWIP;
4. Incremental O&M; and
5. Incremental Property Tax.²¹⁴

In rebuttal, Kentucky Power’s witness stated that given the approval of the Generation Rider, Tariff G.R., that there was no longer any need to defer depreciation or a return on

²¹⁰ Wolfram Direct Testimony at 15.

²¹¹ Kollen Direct Testimony at 7-8.

²¹² Kollen Direct Testimony at 8-9.

²¹³ Kollen Direct Testimony at 9-10, 16-17.

²¹⁴ Kahn Rebuttal Testimony at R10.

rate base or CWIP, though the witness indicated that it disagreed with Kollen's substantive reasoning. However, in rebuttal testimony, Kentucky Power's witness indicated that they were still seeking deferral authority for engineering and related work to investigate possible alternatives, incremental O&M, and incremental property tax expense, until those amounts can be included in future base rates.²¹⁵

Kentucky Power's witness Kahn argued in rebuttal testimony that deferral of engineering and related work to investigate possible alternatives should be permitted, because they are required to complete such work to obtain a CPCN.²¹⁶ Kentucky Power's witness argued in rebuttal, with little to no real explanation, that deferral of incremental property tax and O&M should be allowed until amounts can be established in base rates.²¹⁷

A request for regulatory asset treatment is effectively a request to defer a cost or expense that has already been incurred and record it as an asset for potential later recovery from customers. Because a utility controls when it files for a rate increase and granting a regulatory asset allows a cost or expense from one period to potentially be recovered in a later period,²¹⁸ it would be unreasonable to grant every request by a utility to defer for future recovery any expense simply because it was not included in base rates or a rider. It could also potentially create legal issues to do so.²¹⁹ Thus, as noted above, the Commission has generally only allowed regulatory asset treatment in limited, defined

²¹⁵ Kahn Rebuttal Testimony at R10-R13; Jul. 8, 2026 H.V.T at 10:56:00 a.m. – 10:58:00 a.m.

²¹⁶ Kahn Rebuttal Testimony at R11.

²¹⁷ Kahn Rebuttal Testimony at R10.

²¹⁸ See KRS 278.180; KRS 278.190.

²¹⁹ See KRS 278.160; KRS 278.180.

instances such as in the case of an extraordinary, nonrecurring expense which could not have reasonably been anticipated or included in the utility's planning.

Here, the Commission finds that Kentucky Power failed to establish that any of the costs for which it is seeking deferral should be granted a deferral or regulatory asset treatment. First, as noted above, Kentucky Power is now only seeking to defer costs associated with "engineering and related work to investigate possible alternatives," incremental O&M expense, and incremental property tax expense until the next base rate case. However, Kentucky Power's witness acknowledged at the hearing that the Cooling Tower Project would not result in any incremental annual O&M related to the operation of Mitchell Plant, and therefore, stated that the incremental O&M Kentucky Power was seeking to defer was simply the costs associated with the "engineering and related work to investigate possible alternatives."²²⁰ Thus, Kentucky Power is actually only seeking to defer costs associated with "engineering and related work to investigate possible alternatives" and incremental property tax expense.

Kentucky Power proposed to defer the costs associated with "engineering and related work to investigate possible alternatives" and incremental property tax until the next base rate case.²²¹ However, Kentucky Power gave little explanation as to why those costs should be deferred until the next base rate case. Further, Kentucky Power's witness simultaneously acknowledged in rebuttal testimony that "the alternative approach for cost recovery discussed on page 15 on Company Witness Wolfram's Direct Testimony"—i.e. the request to defer the costs until the next base rate case if the Generation Rider were

²²⁰ July 8, 2026 H.V.T. at 10:58:00 a.m. to 11:00:00 a.m.

²²¹ Kahn Rebuttal Testimony at R10.

denied—"is moot," because the Generation Rider was approved.²²² Given the request that was made in Kentucky Power's application, to defer until the next base rate case if Tariff G.R. is denied, it is unclear how Kentucky Power's request for deferral authority until the next base rate case is still active. However, the Commission also finds that Kentucky Power failed to justify a deferral for either (1) engineering and related work to investigate possible alternatives or (2) incremental property tax expense.

The Attorney General and KIUC's witness Kollen noted that both GAAP standards and FERC's USOA allow for certain costs associated with the construction of new facilities to be capitalized.²²³ For instance, Kollen noted that:²²⁴

FERC USOA description of the costs included in account 107 states "[t]his account shall include the total of the balances of work orders for electric plant in process of construction" and states further that "[e]xpenditures on research, development, and demonstration projects for construction of utility facilities are to be included."

The Commission also notes that FERC's USOA requires "preliminary surveys, plans, investigations, and similar items, made for the purpose of determining the feasibility of service company projects under contemplation" to be charged to Account 183, and then provides that Account 183 may be credited and the appropriate property account may be charged if construction results.²²⁵

²²² Kahn Rebuttal Testimony at R4.

²²³ Kollen Direct Testimony at 8-9.

²²⁴ Kollen Direct Testimony at 9 *citing to FERC USOA Electric Plant Instruction 3 Components of Construction Cost and FERC USOA Balance Sheet Accounts, Account 107 Construction Work in Progress – Electric.*

²²⁵ 18 CFR § 367.1830.

Kentucky Power's witness was unable to explain the distinction between the types of preliminary construction costs that are typically capitalized pursuant to GAAP standards or FERC rules and the "engineering and related work to investigate possible alternatives" for which Kentucky Power was seeking a regulatory asset.²²⁶ As such, it is unclear what costs associated with engineering and related work Kentucky Power is seeking to defer, or whether and if so, how they differ from costs that may already be eligible for capitalization. Moreover, because Kentucky Power is seeking to defer the costs instead of capitalizing and including them in plant in service, both of which would allow for a return on and of the amounts, the Commission assumes that the costs for "engineering and related work" that Kentucky Power was seeking to defer are distinct from costs that could typically be capitalized. Kentucky Power did not adequately explain why the Commission should deviate from normal accounting rules and effectively allow it to capitalize costs, through regulatory asset treatment, that would presumably not be eligible for capitalization under normal circumstances. Thus, having reviewed the record and being otherwise sufficiently advised, the Commission finds that Kentucky Power failed to establish that the deferral of costs for engineering and related work to investigate possible alternatives should be approved.²²⁷

²²⁶ See July 8, 2026 H.V.T. at 10:58:00 a.m. - 11:03:30 a.m.

²²⁷ The Commission notes that nothing in this Order should be construed as finding that the costs for which Kentucky Power was seeking regulatory asset treatment can or cannot be capitalized. Rather, the Commission noted that some costs similar to those Kentucky Power was seeking to defer can be capitalized and that Kentucky Power did not distinguish between the costs that could be capitalized and those that it is seeking to defer through a regulatory asset to illustrate that the Kentucky Power did not adequately identify the engineering and related costs that is seeking to defer, explain how they differed from similar costs that are typically capitalized, or explain why the Commission should deviate from normal rules.

With respect to incremental property tax expense, the Commission notes that Kentucky Power initially proposed that property tax expense be included in its Tariff G.R. in Case No. 2025-00257, such that incremental changes to property taxes, whether up or down, would be reflected in that rider. However, those costs were expressly excluded from Tariff G.R. in Case No. 2025-00257, and property taxes associated with Mitchell Plant were included in the revenue requirement used to establish base rates.²²⁸ Allowing the deferral of an incremental change in that expense would be inconsistent with the Order in Case No. 2025-00257, which treated property tax as a base rate expense. Moreover, because Kentucky Power controls when it requests rate increases and whether it uses a historical or forecasted test year, it would be unreasonable to allow it to defer individual expenses included in base rates for later recovery simply because they increased after base rates were approved. This would allow Kentucky Power to pick specific expenses that increased for later recovery without accounting for other changes that might decrease rates. Thus, having reviewed the record and being otherwise sufficiently advised, the Commission finds that Kentucky Power failed to establish that the deferral of incremental property taxes associated with the Cooling Tower Project should be approved.

Recovery of Costs Associated with the Cooling Tower Project through Tariff G.R.

The Generation Rider (Tariff G.R.) was approved in Case No. 2025-00257 as a means of segregating plant related costs for Mitchell Plant from base rates to facilitate removing those costs from rates in the future in the event of a securitization of Mitchell's

²²⁸ Case No. 2025-00257 (Ky. PSC Feb. 28, 2026), Order at 159-168.

net plant-in-service.²²⁹ At the time this case was filed, the final Order in Case No. 2025-00257 had not yet been entered, but Kentucky Power's application generally anticipated that Tariff G.R. would be approved in some form. Kentucky Power's application did not necessarily request specific treatment for the proposed Cooling Tower Project in Tariff G.R., but testimony filed in support of the application did request certain treatments. The Attorney General and KIUC objected to some of those proposed treatments as discussed below.

Depreciation Rate

Kentucky Power proposed a depreciation rate of 8.33 percent (or 1/12 years) for the proposed Cooling Tower Project once it is placed in plant in service.²³⁰ Notably, this is different than the 4.0 percent depreciation rate (or 1/25 years) Kentucky Power used for its economic analysis as discussed above.²³¹ Kentucky Power argued that the 8.33 percent depreciation rate aligns with the current expected retirement date of the Mitchell Plant in 2040, given the expected in service date for the new cooling tower of 2028.²³²

Attorney General and KIUC witness Kollen argued that there is no compelling reason to change the 3.19 percent depreciation rate recently approved as the composite

²²⁹ Case No. 2025-00257 (Ky. PSC Feb. 28, 2026), Order at 159-168.

²³⁰ Kahn Rebuttal Testimony at R4.

²³¹ See Coon Rebuttal Testimony at R7-R9.

²³² Kollen Direct Testimony at 17.

rate for Mitchell Plant in Case 2025-00257 to a new and significantly higher depreciation rate unique to the new cooling tower.²³³ Kollen stated that:²³⁴

The Commission's historic practice is to change depreciation rates only in conjunction with a base rate case based on a recent depreciation study. Once depreciation rates are approved by the Commission, they are applied to the gross plant in service balances in each plant account, which include all additions to and exclude all retirements from those gross plant in service balances between rate cases.

Kollen also argued that increasing the depreciation rate will unnecessarily impose higher costs on customers through Tariff G.R. and reduce potential savings from securitization of the Mitchell plant-related costs, which was the very reason that Tariff G.R. was proposed by Kentucky Power, supported by the parties, and approved by the Commission.²³⁵

As discussed in more detail above, the Commission generally agrees that the most likely useful life for the proposed Cooling Tower Project will be 12 years based on the expected useful life of Mitchell Plant, which it serves, and the expected in service date for the cooling tower. However, the Commission also agrees with Kollen that depreciation rates are generally established through a depreciation study and that a composite rate for all plant in particular accounts is applied to the gross balances of those accounts. The Commission also notes that the proposed Cooling Tower Project has an expected in-service date of 2028,²³⁶ and therefore, it is not likely to start being depreciated until that

²³³ Kahn Rebuttal Testimony at R4.

²³⁴ Kollen Direct Testimony at 17-18.

²³⁵ Kollen Direct Testimony at 18.

²³⁶ Kahn Rebuttal Testimony at R13.

time. Given the cadence at which Kentucky Power has recently filed rate cases,²³⁷ it is unlikely that any depreciation rate set in this case will have a material effect on the rate at which the Cooling Tower Project will be depreciated, because Kentucky Power is likely to have a rate case in which a new rate may be set based on a depreciation study or similar evidence at or about the time the Cooling Tower Project is placed in service. Thus, the Commission finds that it is reasonable to wait until Kentucky Power's next rate case to assign a new depreciation rate when more specific evidence could be available, and therefore, the Commission finds that the composite depreciation rate for Mitchell Plant should be applied to the Cooling Tower Project until a new rate is applied in a future case as proposed by the Attorney General and KIUC and their witness.

CWIP and AFUDC

Kentucky Power's witness Wolfram noted in direct testimony that if the Generation Rider was approved, that the costs of the Cooling Tower Project recoverable through the mechanism would be included with the February 2027 Generation Rider update with rates to begin with the April 2027 billing period. Wolfram then stated that "[t]he Company would reflect CWIP and other initial costs for the Project in the Generation Rider until the new cooling tower is placed in service."²³⁸ Kentucky Power's witness Coon stated that "[a]s described by Company Witness Wolfram, the Company is requesting return on [CWIP]."²³⁹

²³⁷ See Case No. 2025-00257 (Ky. PSC Feb. 28, 2026), Order at 21, 60 (indicating that Kentucky Power's last rate case before that case was filed in 2023 in Case No. 2023-00159, and discussing Kentucky Power's rate case in Case No. 2020-00174 filed in 2021).

²³⁸ Wolfram Direct Testimony at 17.

²³⁹ Coon Direct Testimony at 10.

Attorney General and KIUC witness Kollen stated that Kentucky Power's request for a return on CWIP is inconsistent with Kentucky Power's historic practice. Kollen stated that the historic practice has been to include CWIP in rate base but to include an "AFUDC offset" as an addition to operating income in the revenue requirement formula to effectively remove the current return on CWIP from the revenue requirement.²⁴⁰

Attorney General and KIUC witness Kollen stated that Kentucky Power did not include the AFUDC offset in its initial proposal for Tariff G.R. in Case 2025-00257. However, Kollen stated that based on his testimony arguing for the AFUDC offset in Case No. 2025-00257, that Kentucky Power's witness Wolfram agreed that it would be appropriate to include the offset "consistent with Mr. Kollen's recommendation."²⁴¹

Attorney General and KIUC witness Kollen stated that in the final Order in Case No. 2025-00257 that the Commission directed Kentucky Power to modify the revenue requirement formula in the proposed Tariff G.R to include the AFUDC offset. However, Kollen stated that when Kentucky Power filed its compliance tariff following that final Order in Case No. 2025-00257 that Kentucky Power failed to include the AFUDC offset in the compliance tariff. Then, when the Attorney General and KIUC asked about it in this case, Kollen noted that Kentucky Power stated that "[t]here are no modifications to that tariff necessary as a result of this filing."²⁴²

Attorney General and KIUC witness Kollen asserted that Kentucky Power's historic use of AFUDC (or rather, the inclusion of CWIP with the offset) is lower cost than simply

²⁴⁰ Kollen Direct Testimony at 11.

²⁴¹ Kollen Direct Testimony at 12 quoting Rebuttal Testimony of Tanner Wolfram at R8-R9 in Case 2025-00257.

²⁴² Kollen Direct Testimony at 12.

including CWIP in rate base without an AFUDC offset on both a nominal and present value basis due to a permanent tax penalty that imposes an unnecessary cost on customers over the service life of the assets if CWIP is simply included in rate base. Kollen noted that another concern is that the CWIP approach without an AFUDC offset results in premature and accelerated recovery of the financing costs during the construction period before the asset is completed and before it provides any service to customers.²⁴³ Kollen recommended that the Commission deny Kentucky Power's request for a return on CWIP and that the AFUDC offset be applied to any CWIP as he recommended in Case No. 2025-00257.²⁴⁴

While she stated that CWIP is supposed to be included in the revenue requirement calculation of the rider, Kentucky Power's witness Kahn acknowledged that Kentucky Power agreed in the settlement and that the Commission approved including an AFUDC offset for any CWIP projects that are eligible for such allowance.²⁴⁵ Kahn stated that that method "mimics the calculation of rate base and operating income in rate cases."²⁴⁶ At the hearing, Kentucky Power's witness Kahn acknowledged that the AFUDC offset is accomplished in base rates by including the CWIP balance in rate base and then adjusting operating income to account for AFUDC accrued on eligible CWIP, effectively offsetting that portion of the return on CWIP. Kahn also indicated that AFUDC, which is recorded in the CWIP account, is excluded from the CWIP account balance included in rate base.²⁴⁷

²⁴³ Kollen Direct Testimony at 13.

²⁴⁴ Kollen Direct Testimony at 13.

²⁴⁵ Kahn Rebuttal Testimony at R7.

²⁴⁶ Kahn Rebuttal Testimony at R7.

²⁴⁷ Jul. 8, H.V.T. at 10:51:30 a.m. – 10:54:50 a.m.

However, Kentucky Power witness Coon disagreed with Kollen's assertion that using AFUDC is less expensive on a nominal basis, though she did not expressly dispute that it was lower cost to customers on a present value basis.²⁴⁸ Kentucky Power witness Kahn also noted that if the Commission approves Kentucky Power's request to earn a return on CWIP in this case, without the AFUDC offset, that no AFUDC would be accrued.²⁴⁹

With respect to the language of the compliance tariff, Kentucky Power's witness Kahn argued that whether the Commission requires it follow the method proposed by Kollen or allows it to earn a return on CWIP without any offset as proposed by Kentucky Power that there is no need to change the language of the compliance tariff filed following the final Order in Case No. 2025-00257. Specifically, Kahn notes that the compliance tariff currently states that:²⁵⁰

CWIP = Construction Work in Progress for Non Environmental Mitchell Projects not included within the Company's base rates *including any AFUDC offset if applicable (emphasis added)*.

In its post hearing briefs, the Attorney General and the KIUC argued that while the compliance tariff includes an adjustment removing the AFUDC included in the CWIP account from the CWIP balance included in rate base for the Generation Rider that it does not reference the adjustment required by the AFUDC offset that increases operating income. The Attorney General and KIUC argued that the compliance tariff should be modified to include the AFUDC offset as an adjustment to increase operating income and

²⁴⁸ Coon Rebuttal Testimony at R7.

²⁴⁹ Kahn Rebuttal Testimony at R7.

²⁵⁰ Kahn Rebuttal Testimony at R8.

that the adjustment to CWIP should be characterized as an AFUDC exclusion.²⁵¹ In their response brief, the Attorney General and KIUC noted that Kentucky Power did not respond to their arguments regarding need to change the language of the compliance tariff, and therefore, argued that they had tacitly admitted that the change was necessary.²⁵²

The Commission finds that Kentucky Power's request to earn a return on CWIP without any AFUDC offset should be denied. Even assuming that using CWIP is more expensive on a nominal basis as alleged by Kentucky Power, the Commission believes that the present value savings justifies continuing to use the method used in base rates in previous cases as proposed by Kollen. Further, the Commission finds that the method proposed by Kollen better aligns costs with those receiving the benefit from the plant additions, because the costs are not included in rates until the new plant is in service. Thus, for the purpose of Tariff G.R.'s revenue requirement calculation, the Commission finds that the inclusion of CWIP in rate base should be offset by an adjustment to operating income and that any AFUDC recorded in the CWIP account should be excluded before the CWIP is included in rate base as proposed by Attorney General and KIUC witness Kollen in this case and in Case No. 2025-00257. Further, while the current language of the compliance tariff is arguably broad enough, as it should be broadly read as applying to the entirety of the offset adjustment proposed by Kollen in Case No. 2025-00257, the Commission finds that Kentucky Power should update its Tariff G.R. to specifically reference both the AFUDC offset in the form of an adjustment to operating

²⁵¹ Joint Attorney General and KIUC Post Hearing Brief at 11-12.

²⁵² Joint Attorney General and KIUC Post Hearing Response Brief at 4.

income and the exclusion of AFUDC from CWIP included in rate base in order to avoid confusion in future filings as proposed by the Attorney General and KIUC.

Recovery of Incremental O&M and Property Taxes

Kentucky Power's direct testimony appeared to indicate that it intended to seek recovery of incremental O&M and property taxes associated with the Cooling Tower Project through Tariff G.R. Attorney General and KIUC witness Kollen opposed recovery of incremental O&M and property tax associated with the Cooling Tower Project through the Generation Rider or through deferrals.²⁵³ With respect to the recovery of the incremental O&M and property tax through Tariff G.R., Kentucky Power indicated in rebuttal testimony that it is not making such a request but rather is requesting to defer those amounts through a separate regulatory asset, which is discussed above.²⁵⁴ Thus, the inclusion of those amounts in Tariff G.R. is not at issue in this case.

IT IS THEREFORE ORDERED that:

1. Kentucky Power's request for a CPCN for the construction of the proposed mechanical cooling tower and the partial demolition of the existing cooling tower is approved subject to the conditions set forth herein.
2. Kentucky Power's request for authority to defer costs related to the Cooling Tower Project until such time that those costs can be incorporated into either the Generation Rider or base rates is denied.
3. Plant in service associated with the new mechanical draft cooling tower shall be depreciated at the current rate applicable to Mitchell Plant as proposed by

²⁵³ Kollen Direct Testimony at 15-16.

²⁵⁴ Kahn Rebuttal Testimony at R3-R4.

Attorney General and KIUC witness Kollen until Kentucky Power's next base rate case at which time a new rate may be established based on the evidence presented therein.

4. The inclusion of CWIP in rate base in the Generation Rider, Tariff G.R., shall be offset with an adjustment to operating income and any AFUDC recorded in the CWIP account shall be excluded before CWIP is included in rate base as proposed by the Attorney General and KIUC.

5. Within 20 days of the date of service of this Order, Kentucky Power shall file with the Commission, using the Commission's electronic Tariff Filing System, revised tariff sheets for Tariff G.R. that specifically reference both the AFUDC offset in the form of an adjustment to operating income and the exclusion of AFUDC from CWIP included in rate base.

6. Incremental property tax expense and incremental O&M expense associated with Mitchell Plant shall not be included in the revenue requirement calculation for Tariff G.R.

7. The approval of the CPCN is conditioned on Kentucky Power receiving the DOE award.

8. Kentucky Power shall cease any material work on the proposed project and promptly file a motion in this case requesting an amended CPCN, with supporting documents, if, prior to the beginning of construction or the first disbursement of the DOE award, the award is cancelled, it is otherwise determined that the awarded funds will not be dispursed, or the agreement with the DOE is materially amended.

9. If, after construction has begun *and* the first disbursement of the DOE award has been made, the award is canceled, it is otherwise determined that the awarded funds

will not be dispursed, or the agreement with the DOE is materially amended, Kentucky Power shall notify the Commission within 14 days in writing of the change, describe the nature of the change, and explain how Kentucky Power proposes to proceed.

10. The approval of the CPCN is conditioned on the West Virginia Commission approving the project.

11. Within 14 days of any final Order by the West Virginia Commission approving or denying approval to complete the project, Kentucky Power shall provide notice to the Commission of such order and shall provide a copy of the order.

12. Any material deviation from the construction approved by this Order shall be undertaken only with the prior approval of the Commission.

13. Kentucky Power shall file notice with the Commission of the start of the construction of the mechanical draft cooling tower and the beginning of the partial demolition of the existing tower within 14 days of each.

14. Kentucky Power shall file written notice with the Commission of any increase to the estimated cost of the project that exceeds five percent of the estimated costs provided in this case, including any contingency, within 14 days of any such change.

15. Kentucky Power shall file with the Commission documentation of the dates of completion and the total costs of the mechanical draft cooling tower and the partial demolition of the existing tower with itemized breakdowns within 60 days of the completion of each.

16. Any documents filed in the future pursuant to ordering paragraphs 9 through 15 shall reference this case number and shall be retained in the post-case correspondence file for this proceeding.

17. The Executive Director is delegated authority to grant, in writing, reasonable extensions of time for the filing of any documents required by this Order upon Kentucky Power's showing of good cause for such an extension.

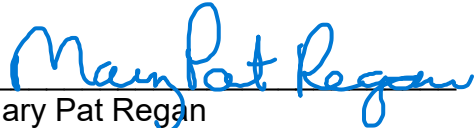
18. This case is closed and is removed from the Commission's docket.

[REMAINDER OF PAGE INTENTIONALLY LEFT BLANK]

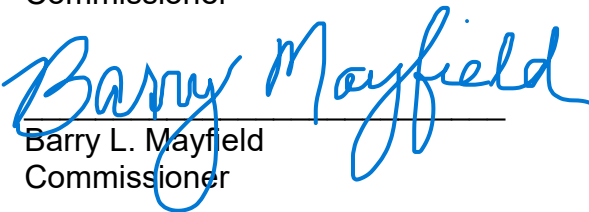
Entered on this 16th day of October, 2026.

PUBLIC SERVICE COMMISSION



Angie Hatton
Chair

Mary Pat Regan
Vice Chair

Andrew W. Wood
Commissioner

Barry L. Mayfield
Commissioner

by A/H
in permission

ATTEST:



Justin McNeil
Executive Director

Service List for Case 2026-00001

* Angela M Goad
Assistant Attorney General
Office of the Attorney General Office of Rate Intervention
700 Capitol Avenue
Suite 20
Frankfort, KY 40601-8204

* Harlee P. Havens
Stites & Harbison
250 West Main Street, Suite 2300
Lexington, KY 40507

* Jody Kyler Cohn
Boehm, Kurtz & Lowry
425 Walnut Street
Suite 2400
Cincinnati, OH 45202

* Jennifer L. Parrish
Kentucky Power Company
1645 Winchester Avenue
Ashland, KY 41101

* Joe F. Childers
Childers & Baxter PLLC
300 Lexington Building, 201 West Sho
Lexington, KY 40507

* John G Horne, II
Office of the Attorney General Office of Rate Intervention
700 Capitol Avenue
Suite 20
Frankfort, KY 40601-8204

* Kentucky Power Company
1645 Winchester Avenue
Ashland, KY 41101

* Kenneth J Gish, Jr.
Stites & Harbison
250 West Main Street, Suite 2300
Lexington, KY 40507

* Kristin Henry
Staff Attorney
Sierra Club Environmental Law Program
2101 Webster Street
Suite 1300
Oakland, CA 94612

* Michael West
Office of the Attorney General Office of Rate Intervention
700 Capitol Avenue
Suite 20
Frankfort, KY 40601-8204

* Michael J. Schuler
American Electric Power Service Corporation
1 Riverside Plaza, 29th Floor
Post Office Box 16631
Columbus, OH 43216

* Honorable Michael L Kurtz
Attorney at Law
Boehm, Kurtz & Lowry
425 Walnut Street
Suite 2400
Cincinnati, OH 45202

* Nathaniel Shoaff
Sierra Club
2101
Webster St. , Suite 1300
Oakland, CA 94612

* Toland Lacy
Office of the Attorney General
700 Capital Avenue
Frankfort, KY 40601