COMMONWEALTH OF KENTUCKY

BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

AN ELECTRONIC EXAMINATION BY THE PUBLIC SERVICE COMMISSION OF THE ENVIRONMENTAL SURCHARGE MECHANISM OF KENTUCKY POWER COMPANY FOR THE SIX-MONTH BILLING PERIOD ENDING DECEMBER 31, 2025	))))))	CASE NO. 2026-00071

ORDER

On April 21, 2026, the Commission initiated the six-month review of Kentucky Power Company's (Kentucky Power) environmental surcharge as billed to customers for the six-month billing period ended December 31, 2025.[1]

LEGAL STANDARD

KRS 278.183(3) requires, in pertinent part, that:

> At six (6) month intervals, the commission shall review past operations of the environmental surcharge of each utility, and after hearing, as ordered, shall, by temporary adjustment in the surcharge, disallow any surcharge amounts found not just and reasonable and reconcile past surcharges with actual costs recoverable pursuant to subsection (1) of this section.

[1] Kentucky Power's surcharge is billed on a two-month lag. Thus, surcharge billings ending December 31, 2025, are based on costs incurred ending October 31, 2025.

BACKGROUND

On May 25, 1997, the Commission approved Kentucky Power's environmental surcharge application and established a surcharge mechanism.[2] The Commission's last review was completed on December 8, 2025.[3]

The April 21, 2026 Order included a procedural schedule that provided for discovery, the filing of prepared testimony, and intervenor testimony. Kentucky Power filed prepared testimony and responded to two requests for information from Commission Staff.[4] There were no intervention requests in this proceeding. On August 19, 2026, Kentucky Power filed a request that this case be submitted for decision by the Commission based on the existing record.[5] The case stands submitted for a decision on the record.

SURCHARGE ADJUSTMENT

Kentucky Power did not propose an over- or under-recovery for the review period.[6] Having reviewed the record, the Commission finds that Kentucky Power's determination that it did not have an additional over- or under-recovery for the review period is reasonable.

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[2] Case No. 1996-00489, *In the Matter of the Application of Kentucky Power Company d/b/a American Electric Power to Assess a Surcharge Under KRS 278.183 to Recover Costs of Compliance with the Clean Air Act and Those Environmental Requirements Which Apply to Coal Combustion Wastes and By-Products* (Ky. PSC May 25, 1997).

[3] Case No. 2025-00267, *An Electronic Examination by the Public Service Commission of the Environmental Surcharge Mechanism of Kentucky Power Company for the Two-Year Billing Period Ending June 30, 2025* (Ky. PSC Dec. 8, 2025).

[4] Kentucky Power's Response to Commission Staff's First Request for Information (Staff's First Request) (filed May 15, 2026); Kentucky Power's Response to Commission Staff's Second Request for Information (Staff's Second Request) (filed June 23, 2026).

[5] Kentucky Power's Request to Submit Matter for Decision on the Record (filed Aug. 19, 2026).

[6] Kentucky Power's Response to Staff's First Request, Item 5.

ES FORMS

The Commission's December 30, 2025 Order in Case No. 2025-00175 approved amendments to Kentucky Power's environmental compliance plan to allow for the effluent limitations guidelines (ELG) investments necessary to continue receiving capacity and energy from the Mitchell Plant beyond December 31, 2028.[7] In accordance with that Order, Kentucky Power updated its Form 3.10 and Form 3.30 for the December 2025 expense month to include the following:

- Form 3.10 – Line 13 for ELG regulatory asset;
- Form 3.10 – Line 42 to isolate the depreciation expense specific to the capital plant portion of the ELG Project;
- Form 3.10 – Line 44 for the monthly installment of the ELG regulatory asset to be amortized through 2040; and
- Form 3.30 – Project 23 (ELG Project) was added to Kentucky Power's Environmental Compliance Plan.

The Commission has reviewed these changes to the monthly filing forms and finds that they are reasonable to effectuate the approval of the ELG project.

RATE OF RETURN

During the review period, Kentucky Power used a return on common equity (ROE) of 9.65 percent for its environmental surcharge, as established in Case No. 2023-00159.[8]

[7] Case No. 2025-00175, *Electronic Application of Kentucky Power Company for Approval of (1) a Certificate of Public Convenience and Necessity to Make the Capital Investments Necessary to Continue Taking Capacity and Energy from the Mitchell Generating Station after December 31, 2026, (2) Revised Environmental Surcharge Tariff Sheets, and (4) All Other Required Approvals and Relief* (Ky. PSC Dec. 30, 2025), Order.

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

Kentucky Power utilized a weighted average cost of capital (WACC) of 6.79 percent and a Gross Revenue Conversion Factor (GRCF) of 1.339896, to be applied to the return on equity in the review period. The Commission finds that the combination of these components, which produces an overall grossed-up rate of return of 8.16 percent, is reasonable.

In Case No. 2025-00257, the Commission approved Kentucky Power's WACC to be 7.41 percent, the Return on Equity to be 9.65 percent, and the GRCF to be 1.338493 going forward for the December 2025 expense month.[9] The Commission finds that the combination of these components, which produces an overall grossed-up rate of return of 8.93 percent, should be used in all monthly environmental surcharge filings subsequent to the date of this Order.[10]

IT IS THEREFORE ORDERED that:

1. Kentucky Power's determination that it had no additional over- or under recovery for the review period is accepted.

2. Kentucky Power shall use a weighted average cost of capital of 7.41 percent, a tax gross-up factor of 1.338493, a return on equity rate of 9.65 percent, and an overall grossed-up return of 8.93 percent in all monthly environmental surcharge filings subsequent to the date of this Order.

3. The environmental surcharge amounts determined by Kentucky Power for the six-month billing period ending December 31, 2025, are fair, just and reasonable.

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

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[9] Kentucky Power's Response to Staff's Second Request, Item 2b, Attachment 1.

[10] Kentucky Power's Response to Staff's Second Request, Item 1.

Entered on this 16th day of September, 2026.

PUBLIC SERVICE COMMISSION

Angie Hatton
Chair

Mary Pat Regan
Vice Chair

Andrew W. Wood
Commissioner

Barry L. Mayfield
Commissioner

ATTEST:

Justin McNeil
Executive Director

Service List for Case 2026-00071

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

* Kentucky Power Company
1645 Winchester Avenue
Ashland, KY 41101

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

* Katie M Glass
Stites & Harbison
421 West Main Street
P. O. Box 634
Frankfort, KY 40602-0634

* Denotes served by Email