

**COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION**

In the Matter of:

The Application of Kentucky Power Company)	
A General Adjustment Of Its Rates For)	
Electric Service; (2) An Order Approving Its)	
2014 Environmental Compliance Plan; An)	Case No. 2014-00396
Order Approving Its Tariffs And Riders; And)	
And Order Granting All Other Required Relief)	
And Approvals)	

Kentucky Power Company’s March 31, 2016 Reports
Pursuant To The Settlement Agreement In Case No. 2014-00396

Pursuant to the Settlement Agreement in Case No. 2014-00396, Kentucky Power Company (“Kentucky Power” or “Company”) submits the following annual reports:

- The annual report on the implementation of its Kentucky Economic Development Surcharge program (“KEDS”) pursuant to Paragraph 10(c);
- The annual report quantifying and describing the amounts of incremental costs incurred by the Company in complying with new NERC compliance or cybersecurity requirements pursuant to Paragraph 14(c); and
- The annual report on the manner in which additional funding for the Company’s School Energy Manager program has been utilized pursuant to Paragraph 15(b).

The Company’s annual report on its Distribution System Reliability – Vegetation Management Program required by Paragraph 8(d) of the Settlement Agreement is being filed separately.

KENTUCKY ECONOMIC DEVELOPMENT SURCHARGE

Paragraph 10(c) of the Settlement Agreement requires:

Kentucky Power shall file on or before March 31, 2016, and each March 31st thereafter, a report with the Commission describing: (i) the amount collected through the Economic Development Surcharge; and (ii) the matching amount contributed by Kentucky Power from shareholder funds. The annual report to be filed by the Company shall also describe the amount, recipients, and purposes of its expenditure of the funds collected through the Economic Development Surcharge and shareholder contribution.

The required information follows.

1. Funding

Kentucky Power maintains the KEDS program funds in a segregated account. As of February 29, 2016, Kentucky Power had collected \$190,518.76 through the surcharge and had contributed a matching total of \$190,518.76. During the period ending February 29, 2016, a total of \$381,037.52 was deposited into the KEDS program account.

As of February 29, 2016, and as described in more detail below, the Company used KEDS program funds to award \$166,000 in grants for economic development activities in its service territory. As of February 29, 2016, \$215,037.52 remained in the KEDS program account available for economic development activities.

2. Program Development

Following the Commission's approval of the KEDS program in Case No. 2014-00396, Kentucky Power personnel worked to develop the process details, marketing plans, and support documents necessary to implement the program. Importantly, no KEDS program funds have or will be used to develop or create any KEDS branding, programing, materials or marketing. KEDS program funds will only be used to invest directly into strategic economic development

initiatives throughout the Company’s 20-county service territory. The steps taken by Kentucky Power personnel to develop the program are described below.

(a) Branding

With the implementation of the KEDS program, Kentucky Power operates two economic development programs. The Company also provides funding for economic development opportunities through the KEAP program, which was approved as part of the Stipulation and Settlement Agreement in Case No. 2012-00578.

To avoid confusion between the two programs, Kentucky Power created a branding concept for the Kentucky Economic Development Surcharge (KEDS) program and named the grants awarded under the KEDS program Kentucky Economic Development Growth Grants or “K-PEGG.”

As part of its branding efforts, Kentucky Power created a K-PEGG logo:



A high resolution copy of the logo is attached as EXHIBIT 1 to this report.

(b) Documentation

As part of its development of the K-PEGG program, Kentucky Power created the necessary forms and supporting documents to implement the program. Copies of these documents are included as Exhibit 2:

- K-PEGG Grant Application (EXHIBIT 2A);

- K-PEGG Program Guidelines (**EXHIBIT 2B**);
- K-PEGG Program Winner Progress Report Template (**EXHIBIT 2C**); and
- K-PEGG Information Flyer (**EXHIBIT 2D**).

In addition, the Company developed pages on the Kentucky Power website dedicated to the program so that applicants will be able to obtain information about the program and apply for the grants more easily. The link to the K-PEGG program materials on the Kentucky Power website is as follows: www.kentuckypower.com/info/community/economic/

3. **Review Process**

An eight-person K-PEGG Review Team reviews applications. The team currently includes six Kentucky Power representatives and two non-Company individuals that represent economic development professionals across the Commonwealth. The team members are:

- Hal Goode, Executive Director, Kentucky Association of Economic Development (KAED)
- John Enochs, Senior Attorney, Kentucky Cabinet for Economic Development
- Delinda Borden, Customer & Distribution Services Manager – Ashland, Kentucky Power Company
- Bob Shurtleff, Customer & Distribution Services Manager – Pikeville, Kentucky Power Company
- Michael Lasslo, Customer & Distribution Services Manager – Hazard, Kentucky Power Company
- Allison Barker, Corporate Communications Manager, Kentucky Power Company
- John Rogness, Regulatory Services Director, Kentucky Power Company
- Brad Hall, External Affairs Manager, Kentucky Power Company

The K-PEGG program is a year-round grant program; the Company accepts grant applications at any time. When an application for a specific economic development project grant is filed, it is circulated to the Review Team. Each member reviews the request independently and then votes to approve or disprove the request. A conference call is held to discuss the request and each team member's response.

The Review Team recommendation is forwarded to Kentucky Power's President and Chief Operating Officer who reviews the recommendation, discusses any questions that he may have, and then makes a final decision on the application. If a K-PEGG request is declined, the Company will notify the applicant of the reasons supporting the decision. If a request is granted, the K-PEGG recipient will be responsible for periodic progress reports to the Company until the recipient's project is complete.

4. Program Promotion

Kentucky Power began marketing the K-PEGG program with a "soft launch" in December 2015. During the soft launch, Kentucky Power personnel met one-on-one with the Company's economic development partners throughout the 20-county service area. Kentucky Power's economic development partners have expressed excitement about the program and most have signified that they will be applying for grants.

Kentucky Power officially launched the K-PEGG program on February 1, 2016 at an event in Lawrence County with a crowd of over thirty economic development partners from seven counties. Following the February 1 launch, the Company actively marketed the K-PEGG program throughout its service territory through presentations to Fiscal Courts, Rotary Clubs, local radio shows, and meetings with various press agencies. The Company sent a mass mailing

to all economic development partners throughout the service territory (over 100 in total) notifying them of the program and providing them with the program documents. An email has also been sent to all the same persons notifying them of the program and providing them with the documents. This information also was provided to all County Judge Executives and Mayors in the Company's service territory.

Company representatives met with the following economic development partners, local governments, elected officials, and media organizations as part of its promotion of the K-PEGG program:

- Ashland Alliance Board of Directors (2 county region)
- East Kentucky Broadcasting Television
- East Kentucky Broadcasting Radio (9 stations)
- Perry County Fiscal Court (Judge Executive and Magistrates)
- Lawrence County Economic Development
- City of Ashland Economic Development Director
- City of Pikeville
- Southeast Kentucky Chamber of Commerce Board of Directors (9 county region)
- Floyd County Chamber of Commerce
- Northeast Kentucky Regional Industrial Authority
- FIVECO Area Development District
- Kentucky River Area Development District
- Big Sandy Regional Industrial Development Authority
- Ashland Rotary Club
- Hazard – Perry County Chamber of Commerce
- City of Hazard
- One East Kentucky (9 county region economic development authority)
- Shaping Our Appalachian Region (SOAR)

- Perry County Economic Development Board
- WYMT News (CBS Affiliate)
- Big Sandy Community & Technical College
- Ashland Community & Technical College
- Boyd County Judge Executive
- Knott County Fiscal Court
- Breathitt County Fiscal Court
- East Kentucky Concentrated Employment Program (Workforce Investment Agency for 23 Counties)
- Paintsville – Johnson County Chamber of Commerce
- Lawrence County Community Meeting that included partners from 7 counties with over 30 people in attendance.
- Floyd County Judge Executive
- Pike County Economic Development
- State Representative Jill York, Carter County
- State Representative Tim Couch, Leslie County

Kentucky Power will continue to meet with organizations in its service territory to promote the K-PEGG program. It has scheduled meetings with Pikeville Rotary Club and Boyd County Fiscal Court in the near future.

The Company also received beneficial media coverage of the K-PEGG program and the initial grant recipients. These stories are linked below:

- Hazard Herald, March 17, 2016 -- <http://hazard-herald.com/news/2522/ky-power-grants-awarded>
- Floyd County Times, March 15, 2016 -- <http://floydcountytimes.com/news/4119/kentucky-power-awards-grants-worth-77000>
- WYMT News, March 14, 2016 -- <http://www.wytm.com/content/news/Kentucky-Power-donates-thousands-for-economic-development-372016102.html>
- The Levisa Lazer, March 14, 2016 -- <http://www.thevisalazer.com/index.php/regional-state-news/ky-power-restores-77-000-to-fund-economic-development-in-eastern-ky>

- Ashland Independent, March 17, 2016 -- http://www.dailyindependent.com/news/kentucky-power-provides-k-grants-for-economic-development-in-eastern/article_6340e646-ea21-11e5-8b8b-3307b933e11e.html
- EKB Evening News, February 22, 2016. Fast forward to the 3 minute 50 second mark -- <http://livestream.com/ekb-tv/events/4862961>
- EKB Evening News, March 14, 2016. Fast forward to the 4 minute 10 second mark -- <http://livestream.com/ekb-tv/events/4992258>

5. Grant Activity

Kentucky Power received four applications and issued four grants to date under the K-PEGG program. These grants are described below:

- One East Kentucky -- \$60,000

One East Kentucky is a nine-county regional economic development organization created in partnership by approximately 20 businesses in the region. The mission of One East KY is to market and promote industrial sites and buildings to potential prospects. The agency applied for a grant of general operating funds to support its 5-year mission to attract and retain jobs in Eastern Kentucky. The Company presented the grant award to One East Kentucky on March 14, 2016. A copy of One East Kentucky's grant application is included as **EXHIBIT 3A** and **EXHIBIT 3B**.

- Perry County Economic Development Board¹ -- \$25,000

The Perry County Economic Development Board serves as the local economic development organization serving County that works in partnership with One East Kentucky. The Board applied for a grant of general operating funds to support its work in identifying and inventorying sites and buildings in Perry County for industry, and to work closely with One East Kentucky as a local agent for economic development. The Company presented the grant award to the Board on March 15, 2016. A copy of the Board's application is included as **EXHIBIT 3C**.

- Shaping Our Appalachian Region (SOAR) -- \$25,000

SOAR's mission is to expand job creation, enhance regional opportunity, innovation, and identity, improve the quality of life, and support all those working to achieve these goals

¹ Kentucky Power worked with several other businesses to assist the community in creating the Perry County Economic Development Board. Prior to this effort, Perry County was without an economic development agency for over a decade.

in Appalachian Kentucky. Kentucky Power has been involved in SOAR since its inception. SOAR applied for a grant of general operating funds to support its mission and specifically to enable the agency to provide enhanced economic development education, funding to facilitate sites and buildings analysis, funding for increased marketing and promotion of the region, and funding to assist local communities with professional consulting services. Kentucky Power will present the grant award to SOAR on March 30, 2016. A copy of SOAR's application is included as **EXHIBIT 3D**.

- **City of Hazard (Coalfields Industrial Park) -- \$56,000**

The City of Hazard applied for a grant to assist with the expansion of wastewater capacity at the Coalfields Industrial Park located near Hazard. Currently the Park's facilities have available 100,000 gallons per day of capacity for new projects. This grant will provide money to upgrade the impellers in the wastewater lift stations serving the park to increase the available capacity to approximately 244,000 gallons per day. This increase in the available capacity will make the park "competitive" in attracting prospects on the national level. Kentucky Power presented the grant award to the City of Hazard on March 15, 2016. A copy of the City's application is included as **EXHIBIT 3E** and **EXHIBIT 3F**.

NERC COMPLIANCE AND CYBERSECURITY DEFERRAL

Paragraph 14(c) of the Settlement Agreement provides:

Kentucky Power agrees beginning on or before March 31, 2016, and each March 31st thereafter, it shall make an informational filing with the Commission quantifying and describing the amounts deferred in accordance with this paragraph 14. A copy of this annual informational filing shall be served by Kentucky Power upon counsel for all parties to this proceeding.

The Company identified 12 work orders (projects) relating to incremental costs incurred by Kentucky Power in complying with new NERC compliance or cybersecurity requirements. They are:

- W/O SITC056001 - NERC-CIP v5 Upgrade - Program Management team costs for upgrades to systems and processes to enable readiness for the new v5 NERC CIP standards.
- W/O SITC151801 – ECMP Agile Team - ECMP (End Point Configuration Management) costs needed to support NERC CIP v5 Upgrade Program.
- W/O SITC152301 – Security Configuration Agile Team - Implementation of new tool “iDefender” to enable compliance with new NERC CIP v5 Configuration Management requirements.
- W/O SITC151901 – Firewall Management Tool Team - Implementation of new tool “Tufin” to enable compliance with new NERC CIP v5 Firewall Management requirements.
- W/O SITC151701 – ARCS Agile Team – ARCS (AEP’s Risk & Compliance Solution) updates needed to support new NERC CIP v5 requirements.
- W/O SITC152401 – ServiceNow Agile Team – ServiceNow updates needed to support new NERC CIP v5 requirements.
- W/O SITC152101 – IAM Agile Team – IAM (Identity & Access Management) updates needed to support new NERC CIP v5 requirements.
- W/O SITC156201 – IT Active Directory – Implementation of a new active directory domain to support new NERC CIP v5 requirements.

- W/O SITCB44601 – Physical Access Control – Implementation of new Physical Access Control System for NERC CIP v5 requirements.
- W/O SITCA40401 – Physical Access Management – Implementation of a new system for physical access management for NERC CIP v5 requirements.
- W/O SITCA55601 – PAM Cost for EACMS – Additional costs needed for implementation of a new system for physical access management (PAM) for NERC CIP v5 requirements surrounding EACMS (Electronic Access Control and Monitoring Systems).
- W/O SITCB45901 – Lenel OnGuard Upgrade – Implementation of new Physical Access Control System (Lenel OnGuard) for NERC CIP v5 requirements.

The total deferred depreciation expense (\$7,617.72)² and carrying charge (\$2,495.14)³ amounts related to these capital costs incurred July 2015 through December 2015 is \$10,112.76. There is a two month lag from the time the capital cost is incurred until the deferred amounts are booked. For example, eligible capital costs incurred in July are transferred to plant in service in August. Depreciation expense related to the July capital cost, plus the carrying charge, is calculated and booked in September. As a result, the total amount deferred for capital costs incurred July through December 2015 is not booked until February 2016. The support for the deferred depreciation expense calculation is shown on EXHIBIT NERC-1 attached to this report. The support for the calculation of the deferred carrying charge is shown on EXHIBIT NERC-2.

The total eligible capital costs upon which the deferral is based for the period July 2015 through December 2015 is \$136,169.43. No operation and maintenance expense was incurred related to these projects.

² See “Total” line of column (k) (“Current Months Retail Share of Accumulated Depreciation”) of EXHIBIT NERC-1.

³ See “Totals” line of the “Total CC” column of EXHIBIT NERC-2.

SCHOOL ENERGY MANAGER PROGRAM

Paragraph 15(b) of the Settlement Agreement requires:

Beginning on or before March 31, 2016, and each March 31st thereafter, Kentucky Power agrees to make an informational filing with the Commission describing the manner in which the additional funds described in subparagraph (a) were expended. KSBA agrees to cooperate with the Company by providing the information required to make the annual report. A copy of this annual informational filing shall be served by Kentucky Power upon counsel for all parties to this proceeding.

Kentucky School Boards Association used the additional \$200,000 provided for the School Energy Manager Program as part of the Settlement Agreement in Case No. 2014-00396 to double the number of school energy managers serving the Company's service territory from six to 12 managers. The 12 school energy managers provide services in 17 school districts in Kentucky Power's service territory. The current participating school districts and the incumbent energy managers are:

<u>School District</u>	<u>Energy Manager</u>
Breathitt County	Darrell Watts
Carter County	Ronnie Cooley
Fairview Independent	Martha Casher
Floyd County	Linda Hackworth
Hazard Independent	Jon Combs
Jackson Independent	Lonnie Morris
Jenkins Independent	Sherry Sexton
Johnson County	Terry Salyer
Knott County	Justin Amburgey

Lawrence County	Terry Salyer
Leslie County	Garry Morgan
Letcher County	Sherry Sexton
Magoffin County	Terry Salyer
Martin County	Terry Salyer
Paintsville Independent	Terry Salyer
Perry County	Larry Melton
Pikeville Independent	Billy Johnson

The Company further anticipates that the Pike County School District will enter into a Memorandum of Understanding for participation in the program in April 2016.

The Company will supplement this report 30 days following Kentucky Power's receipt from the Kentucky School Board Association of the fiscal year information required under the Program Agreement and the Commission's August 3, 2015 Order in Case No. 2015-00189 (approximately September 15, 2016).

CERTIFICATE OF SERVICE

I hereby certify that a copy of the foregoing was filed using the Public Service Commission of Kentucky's electronic filing service, which will send an e-mail message to

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