

**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, 2017 Reports  
Pursuant To The Settlement Agreement In Case No. 2014-00396**

Pursuant to the April 30, 2015 Settlement Agreement in Case No. 2014-00396 among Kentucky Power Company, Kentucky Industrial Utilities Customers, Inc., and Kentucky School Board’s Association, Kentucky Power submits the following annual reports:

- The annual report on the implementation of its Kentucky Economic Development Surcharge program (“KEDS”) pursuant to Paragraph 10(c) of the Settlement Agreement;
- 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) of the Settlement Agreement; and
- The annual report regarding the Company’s School Energy Manager program required by Paragraph 15(b) of the Settlement Agreement.

The Company’s annual report on its Distribution System Reliability – Vegetation Management Program required by Paragraph 8(d) of the Settlement Agreement will be 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 31<sup>st</sup> 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**

As described in the Company's March 31, 2016 filing, Kentucky Power created the Kentucky Power Economic Growth Grant ("K-PEGG") program to implement economic development activities funded through the Kentucky Economic Development Surcharge ("KEDS") Kentucky Power maintains the K-PEGG program funds in a segregated account. During calendar year 2016<sup>1</sup>, Kentucky Power collected \$303,444 through the surcharge and contributed a matching total of \$303,444. In 2016, a total of \$606,888 was deposited into the K-PEGG program account.

During calendar year 2016, and as described in more detail below, the Company used K-PEGG program funds for \$652,500 in grants for economic development activities in its service territory.

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<sup>1</sup> Because Kentucky Power had only recently initiated the K-PEGG Program at the time of the March 31, 2016 Report, the Company included information about the activity of the program through February 29, 2016 in the report to provide the Commission with information regarding the initial implementation of the program. Beginning with this report, the Company will provide the Commission with a report of K-PEGG activities during the prior calendar year.

## 2. Grant Activity

During calendar year 2016, Kentucky Power received a total of 17 grant requests. The Company issued twelve grants, denied three applications, and held two applications for review until sufficient funds became available. Kentucky Power only issues K-PEGG program grants when sufficient funds are available in the K-PEGG account. The K-PEGG grants issued during the Report Period are described below:

- Recipient: One East Kentucky

Date of Grant: February 23, 2016

Amount: \$10,000

Counties Served: Floyd, Johnson, Knott, Lawrence, Letcher, Magoffin, Martin, Perry, and Pike

Project Description: Kentucky Power issued a K-PEGG grant to One East Kentucky to support the organization's budget requirements for the 2015-2016 budget year. One East Kentucky used these funds to help cover costs incurred to meet with potential new employers, necessary travel, attend economic development conferences, and market the region. One East Kentucky is one of Kentucky Power's key regional economic development partners.

- Recipient: One East Kentucky

Date of Grant: February 23, 2016

Amount: \$50,000

Counties Served: : Floyd, Johnson, Knott, Lawrence, Letcher, Magoffin, Martin, Perry, and Pike

Project Description: Kentucky Power issued a K-PEGG grant to One East Kentucky to support the organization's budget requirements for the 2016-2017 budget year. As with the grant issued for the 2015-2016 budget year, One East Kentucky used or will use these funds to help cover costs incurred to meet with potential new employers, necessary travel, attend economic development conferences, and market the region. One East Kentucky is one of Kentucky Power's key regional economic development partners.

- Recipient: Perry County Economic Development Board

Date of Grant: February 17, 2016

Amount: \$25,000

Counties Served: Perry

Project Description: Kentucky Power issued a K-PEGG grant to the Perry County Economic Development Board to support the development of a Perry County economic development organization. The funds were used to create a strategic plan and provide budgeting support for the organization whose mission is to attract, develop, and expand a diversified business base in the counties.

- Recipient: City of Hazard

Date of Grant: February 28, 2016

Amount: \$56,000

Counties Served: Perry, Harlan, Leslie, Letcher, and Breathitt

Project Description: Kentucky Power issued a K-PEGG grant to the City of Hazard to fund improvements to the sanitary sewer system that serves the Coalfields Regional Industrial Park. The industrial park is a partnership among Perry, Knott, Leslie, Harlan, and Breathitt Counties. The funds were used to replace impellers in lift station pumps that increased the capacity of the sanitary sewer system. Replacing the impeller and increasing the capacity of the sanitary sewer system addressed specifically one of the infrastructure gaps identified in the InSite gap analysis report. Increasing the sewer capacity to 260,000 gallons per day at the Coalfields Industrial Park makes that site more attractive to businesses looking to relocate to the area.

- Recipient: Shaping Our Appalachian Region, Inc. (“SOAR”)

Date of Grant: February 28, 2016

Amount: \$25,000

Counties Served: Entire Kentucky Power service territory

Project Description: Kentucky Power issued a K-PEGG grant to SOAR to help SOAR fulfill its mission of expanding job creation, enhancing regional opportunity, innovation, and identity, improving the quality of life, and supporting all those working to achieve these goals in Appalachian Kentucky. The funds

provided by Kentucky Power allowed SOAR to cover a portion of its operational expenses, support regional projects, and develop and on-line community. SOAR is one of Kentucky Power's key regional economic development partners.

- Recipient: City of Pikeville

Date of Grant: April 29, 2016

Amount: \$75,000

Counties Served: Pike

Project Description: Kentucky Power issued a K-PEGG grant to the City of Pikeville to provide the City with the funding necessary to hire engineers to design the "last mile" portion of the broadband infrastructure provided through the KentuckyWired project. The KentuckyWired project only provides the broadband infrastructure backbone or the "middle mile." The City's project provided the engineering design necessary to extend broadband service from backbone to individual customers. The access to high-quality broadband service is intended to assist the City of Pikeville to attract new businesses to the area.

- Recipient: One East Kentucky

Date of Grant: June 27, 2016

Amount: \$37,500

Counties Served: Floyd, Johnson, Knott, Lawrence, Letcher, Magoffin, Martin, Perry, and Pike

Project Description: Kentucky Power issued a K-PEGG grant to One East Kentucky to complete an Aerospace Assessment and Marketing Plan for the region. One East Kentucky used the funds to hire an outside consultant to perform the assessment and planning. As a result of the assessment and marketing plan, communities served by One East Kentucky received the AEROREady designation. This designation helps One East Kentucky give assurances to private aerospace and aviation companies that an independent firm has verified that the workforce and assets of the region can support their facilities.

- Recipient: Big Sandy Regional Industrial Development Authority

Date of Grant: June 27, 2016

Amount: \$100,000

Counties Served: Martin and Magoffin

Project Description: Kentucky Power issued a K-PEGG grant to the Big Sandy Regional Industrial Development Authority (“BSRIDA”) to provide the final funding necessary for BSRIDA to purchase Logan Corporation’s facility in Martin County. Logan Corporation sought to sell the property so that it would be able to purchase a larger facility in Magoffin County to expand its business. The facility in Martin County was insufficiently sized to support Logan’s operations as it transitioned from manufacturing mining equipment to dump truck beds. BSRIDA’s purchase of Logan’s facility in Martin County made the move to Magoffin County practical. As a result, none of the 35 jobs at Logan’s facility will be lost from the region and Logan will eventually create 80 new jobs at its Magoffin County facility. In addition, the BSRIDA now owns an industrial facility it can market to potential new businesses.

- Recipient: Big Sandy Community and Technical College

Date of Grant: July 20, 2016

Amount: \$75,000

Counties Served: Floyd, Johnson, Magoffin, Martin, and Pike

Project Description: Kentucky Power issued a K-PEGG grant to Big Sandy Community and Technical College (“BSCTC”) to purchase equipment for the college’s new Advanced Technology Center at its Pikeville campus. This equipment helps students in BSCTC’s Fiber Optics Technician training program develop the skills necessary to serve as certified technicians for the new broadband infrastructure to be installed in the region through the KentuckyWired and other related projects.

- Recipient: Ashland Alliance

Date of Grant: July 20, 2016

Amount: \$84,000

Counties Served: Boyd and Greenup

Project Description: Kentucky Power issued a K-PEGG grant to Ashland Alliance for two projects: (1) to obtain an “AEROREady certification” for Greenup and Boyd Counties and (2) to hire an outside consultant to assist with the region’s marketing and branding efforts. As a result of the funds provided through the K-PEGG grant, Ashland Alliance obtained the AEROREady certification. This designation helps Ashland Alliance give assurances to private aerospace and

aviation companies that an independent firm has verified that the workforce and assets of the region can support their facilities. Additionally, Ashland Alliance obtained a marketing and branding plan that will assist Ashland Alliance in marketing the region to interested companies.

- Recipient: Floyd County Fiscal Court

Date of Grant: August 15, 2016

Amount: \$100,000

Counties Served: Floyd

Project Description: Kentucky Power issued a K-PEGG grant to the Floyd County Fiscal Court to allow it to provide bridge funding for the RCC Big Shoal, LLC gas-to-liquids project. The bridge funding provided by this grant allowed RCC Big Shoal to complete pre-construction project development activities including site evaluation and engineering. RCC Big Shoal's facility will be located on a reclaimed coal mine and will provide the equivalent of 500-600 jobs during construction. Once complete, the project is anticipated to result in 50 to 75 full-time jobs.

- Recipient: Ashland Alliance

Date of Grant: August 15, 2016

Amount: \$15,000

Counties Served: Boyd/Greenup

Project Description: Kentucky Power issued a K-PEGG grant to Ashland Alliance to offset a portion of the cost of upgrading an existing natural gas line at the Wurtland Riverport Industrial Park. The natural gas line upgrade was necessary to attract Steel Ventures, a West Virginia based company, to construct a steel galvanizing and distribution facility at the industrial park. Steel Ventures began construction on the new facility and anticipates it becoming operational in the summer of 2017. Steel Venture's new facility will eventually employ 65 personnel.

#### **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 31<sup>st</sup> 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.

During calendar year 2016, the Company continued to incur incremental costs relating to the 12 work orders (projects), identified in the Company's March 31, 2016 report. The costs were incurred to comply with NERC compliance or cybersecurity requirements established subsequent to the Commission's Order in Case No. 2014-00396. These projects 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 Company did not identify any new, additional projects necessary to comply with NERC or other cybersecurity requirements during calendar year 2016.

The total deferred depreciation expense (\$53,763.62)<sup>2</sup> and carrying charge (\$17,610.17)<sup>3</sup> amounts related to these capital costs incurred July 2015 through December 2016 is \$71,373.79.

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. 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 2016 is \$294,367.72. No operation and maintenance expense was incurred related to these projects.

### SCHOOL ENERGY MANAGER PROGRAM

Paragraph 15(b) of the Settlement Agreement requires:

Beginning on or before March 31, 2016, and each March 31<sup>st</sup> thereafter, Kentucky Power agrees to make an informational filing with the Commission describing the manner in

<sup>2</sup> See “Total” line of column (k) (“Current Months Retail Share of Accumulated Depreciation”) of EXHIBIT NERC-

1.

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

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.

The final \$200,000 payment to the Kentucky School Boards Association was made July 2016. Kentucky School Boards Association used the \$200,000 payment to continue support of school energy managers providing services in the following 17 school districts within Kentucky Power's service territory:

- Breathitt County
- Carter County
- Fairview Independent
- Floyd County
- Hazard Independent
- Jackson Independent
- Jenkins Independent
- Johnson County
- Knott County
- Lawrence County
- Leslie County
- Letcher County
- Magoffin County
- Martin County
- Paintsville Independent
- Perry County
- Pikeville Independent

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, 2017).