

**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, 2018 REPORTS  
PURSUANT TO THE SETTLEMENT AGREEMENT IN CASE NO. 2014-00396**

Kentucky Power submits the following annual reports pursuant to the Commission’s June 22, 2015 Order in Case No. 2014-00396:

- 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 will be filed April 2, 2018.

**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 2017, Kentucky Power collected \$301,127 through the surcharge and contributed a matching \$301,127. In 2017, a total of \$602,254 was deposited into the K-PEGG program account.

During calendar year 2017, and as described in more detail below, the Company used K-PEGG program funds for \$452,870 in grants for economic development activities in its service territory.

**2. Grant Activity**

During calendar year 2017, Kentucky Power received a total of 18 grant applications. The Company issued twelve grants, denied five applications, and held one application received in December 2017 for review until the K-PEGG review committee met in January 2018. The K-PEGG grants issued during the Report Period are described below:

- Recipient: One East Kentucky

Date of Grant Funding: May 5, 2017

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 2017-2018 budget year. As with the grants issued in previous years, 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: Shaping Our Appalachian Region, Inc. ("SOAR")

Date of Grant Funding: May 5, 2017

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. Like the grant issued in 2016, the funds provided by Kentucky Power will allow SOAR to cover a portion of its operational expenses, support regional projects, and develop an on-line community. SOAR is one of Kentucky Power's key regional economic development partners.

- Recipient: Hazard-Perry County Economic Development Alliance

Date of Grant Funding: May 5, 2017

Amount: \$25,000

Counties Served: Perry

Project Description: Kentucky Power issued a K-PEGG grant to the Hazard-Perry County Economic Development Alliance to provide budgetary support for the organization. The organization's mission is to attract, develop, and expand a diversified business base in the county. The Alliance's primary focus is marketing the Coal Fields Regional Industrial Park as an economic development site.

- Recipient: Southeast Kentucky Economic Development Corporation

Date of Grant Funding: May 5, 2017

Amount: \$60,000

Counties Served: Boyd, Breathitt, Carter, Clay, Elliott, Floyd, Johnson, Knott, Lawrence, Leslie, Letcher, Magoffin, Martin, Morgan, Owsley, Perry, and Pike

Project Description: Kentucky Power issued a K-PEGG grant to the Southeast Kentucky Economic Development Corporation to provide funds necessary to assist four companies in the Company's service territory obtain quality control certifications necessary to compete for subcontracting work for major military and government contractors.

- Recipient: Pike County Fiscal Court

Date of Grant Funding: May 5, 2017

Amount: \$18,700

Counties Served: Pike

Project Description: Kentucky Power issued a K-PEGG grant to the Pike County Fiscal Court to provide funds necessary to market the activities at the Pike County Teleworks Hub, including job training and placement services.

- Recipient: Appalachian Industrial Authority

Date of Grant Funding: August 30, 2017

Amount: \$6,000

Counties Served: Letcher

Project Description: Kentucky Power issued a K-PEGG grant to Appalachian Industrial Authority for the creation of a Unmanned Aerial Vehicle marketing video to promote the industrial site for the recruitment of new industry and tenants.

- Recipient: Coal Fields Regional Industrial Authority Inc.

Date of Grant Funding: August 29, 2017

Amount: \$15,000

Counties Served: Perry

Project Description: Kentucky Power issued a K-PEGG grant to the Coal Fields Industrial Authority for the improvement of facilities at the industrial park. The funds allowed Coal Fields Regional Industrial Authority to upgrade signage and improve the entrance to the facility to help attract new industry to the area.

- Recipient: Ashland Alliance / One East Kentucky

Date of Grant Funding: August 29, 2017

Amount: \$60,000

Counties Served: Boyd, Greenup, Floyd, Johnson, Knott, Lawrence, Magoffin, Martin, Perry, Pike

Project Description: Kentucky Power issued a K-PEGG grant to Ashland Alliance and One East Kentucky for the advancement and marketing of the eastern Kentucky Aerospace/Aviation cluster. The funding allowed the direct marketing to aerospace companies and recruitment activities at aerospace shows and conferences.

- Recipient: Ashland Alliance

Date of Grant Funding: August 29, 2017

Amount: \$50,000

Counties Served: Boyd, Greenup

Project Description: Kentucky Power issued a K-PEGG grant to Ashland Alliance to contract for due diligence work, environmental studies, and land option costs associated with attracting Braidy Industries to EastPark Industrial Center. Braidy Industries' planned aluminum rolling will create approximately 550 new permanent jobs plus approximately 1,000 construction jobs while the facility is being built.

- Recipient: Ashland Alliance

Date of Grant Funding: August 29, 2017

Amount: \$23,334

Counties Served: Boyd, Greenup

Project Description: Kentucky Power issued a K-PEGG grant to Ashland Alliance for the creation of a closing fund used to recruit the Wright-Mix Material Development Company. The K-PEGG grant supplemented funding from other community partners in an amount of \$74,666 to secure the investment and jobs for the community. Once operational, Wright-Mix anticipates creating approximately 130 new jobs.

- Recipient: City of Pikeville

Date of Grant Funding: September 19, 2017

Amount: \$100,000

Counties Served: Pike

Project Description: Kentucky Power issued a K-PEGG grant to the City of Pikeville. The grant funds were used for a geotechnical survey and geophysical boring test at the 400-acre Kentucky Enterprise Industrial park. The grant was coupled with contributions from the City of Pikeville, SOAR, and One East Kentucky to provide for the full cost of the testing. The testing survey and results were used in the recruitment of new industry including EnerBlu (875 jobs) and SilverLiner (up to 300 jobs).

- Recipient: Lawrence County Fiscal Court

Date of Grant Funding: September 19, 2017

Amount: \$19,836

Counties Served: Lawrence

Project Description: Kentucky Power issued a K-PEGG grant to Lawrence County Fiscal Court. The funds were used for a feasibility study for a new sewer line extension into a proposed 85 acre industrial park. The new industrial park will be Lawrence County's only industrial property and will be promoted to attract new industry into the area.

### **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 2017, the Company continued to incur incremental costs relating to the 12 work orders (projects), identified in the Company's March 31, 2017 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.

Of the twelve projects identified above, the Company completed work and closed out eleven of them during calendar year 2017. The Company also began work in 2017 on a series of

additional projects relating to NERC and cybersecurity and is evaluating whether those projects are covered by Paragraph 14 of the Settlement Agreement. Kentucky Power will supplement this report no later than April 30, 2018 to identify any additional qualifying projects and the amount deferred for those projects.

In Case No. 2017-00179 Kentucky Power sought and received Commission approval to amortize and recover over five years the deferred costs related to the NERC Compliance and Cybersecurity projects booked prior to the end of February 2017, the end of the test year in that case. The total deferred costs authorized for recovery Case No. 2017-00179 was \$71,374.

The total deferred depreciation expense (\$50,243.80)<sup>1</sup> and carrying charge (\$16,457.29)<sup>2</sup> amounts incurred between the end of the test year in Case No. 2017-00179 (February 28, 2017) and the end of calendar year 2017 is \$66,701.09. 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**. 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 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.

---

<sup>1</sup> See "Total" line of column (I) ("Current Months Retail Share of Accumulated Depreciation") of **EXHIBIT NERC-1**.

<sup>2</sup> See "Totals" line of the "Total CC" column of **EXHIBIT NERC-2**.



As described in the Company's March 31, 2017 filing, the final \$200,000 payment to the Kentucky School Boards Association was made July 2016. Kentucky School Boards Association utilized those funds remaining from the July 2016 payment in calendar year 2017.<sup>3</sup> The remaining funds were used 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 the anticipated receipt on or before August 15, 2018 from the Kentucky School Board Association of the final fiscal year information required under the Program Agreement and the Commission's August 3, 2015 Order in Case No. 2015-00189. Kentucky Power anticipates supplementing this report on approximately September 15, 2018.

---

<sup>3</sup> The Commission granted Kentucky Power the authority to utilize the unexpended funds for the school energy managers program after July 1, 2017 in its November 2, 2017 order in Case No. 2017-00097.