

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

Application Of Kentucky Power Company For)
A General Adjustment Of Its Rates For Electric)
Service; (2) An Order Approving Its 2014)
Environmental Compliance Plan; (3) An Order) Case No. 2014-00396
Approving Its Tariffs And Riders; And (4) An)
Order Granting All Other Required Approvals)
And Relief)

APPLICATION

Kentucky Power Company applies to the Public Service Commission of Kentucky pursuant to KRS 278.180, KRS 278.183, KRS 278.190, 807 KAR 5:001, Section 14, 807 KAR 5:001, Section 16, 807 KAR 5:011 and 807 KAR 5:051, and all other applicable statutes and regulations, for an order granting: (1) approval of a general adjustment of its electric rates; (2) approval of its 2014 environmental compliance plan; (3) approval of its tariffs and riders, including its amended environmental cost recovery surcharge tariff to recover the costs associated with the environmental cost recovery plan; and (4) all other required approvals and relief. In support of its Application, the Company states:

Application For General Adjustment Of Rates

A. **INFORMATION REGARDING THE APPLICANT.**

1. **Name and Address:** The applicant's full name and post office address is:
Kentucky Power Company, 101A Enterprise Drive, P.O. Box 5190, Frankfort, Kentucky 40602-5190. The Company's electronic mail address is kentucky_regulatory_services@aep.com.

2. **Incorporation**: Kentucky Power is a corporation organized on July 21, 1919 under the laws of the Commonwealth of Kentucky. The Company currently is in good standing in Kentucky.¹ A certificate of assumed name is not required.

3. **Business**: Kentucky Power Company is a public utility principally engaged in the provision of electricity to Kentucky consumers. The Company generates and purchases electricity which it distributes and sells at retail to approximately 172,000 retail customers located in all, or portions of, the Counties of Boyd, Breathitt, Carter, Clay, Elliott, Floyd, Greenup, Johnson, Knott, Lawrence, Leslie, Letcher, Lewis Magoffin, Martin, Morgan, Owsley, Perry, Pike and Rowan. The Company also furnishes electric service at wholesale to the City of Olive Hill and the City of Vanceburg.

4. **Affiliations**: Kentucky Power is a direct subsidiary of American Electric Power Company, Inc. (“AEP”).

5. **Annual Reports**: The Company hereby certifies that its annual reports, including the annual report for the most recent calendar year (2013), are on file with the Commission pursuant to 807 KAR 5:006, Section 4(1)(a).

6. **Company Property**: The Company’s Big Sandy Power Plant consists of two steam-electric generating units located at the Big Sandy generating station near Louisa, in Lawrence County, Kentucky, and having an aggregate net capacity of 1,060 MW. In addition, and in accordance with the Commission’s October 7, 2014 Order in Case No. 2012-00578,² a

¹ A certified copy of the Company’s Articles of Incorporation and all amendments thereto was attached to the Joint Application in *In the Matter Of: The Joint Application Of Kentucky Power Company, American Electric Power Company, Inc. And Central And South West Corporation Regarding A Proposed Merger*, P.S.C. Case No. 99-149. The Company’s December 11, 2014 Certificate of Existence is filed in Section II at page 316 of this Application.

² *In the Matter of: Application of Kentucky Power Company for (1) A Certificate of Public Convenience and Necessity Authorizing the Transfer to the Company of an Undivided Fifty Percent Interest in the Mitchell Generating Station and Associated Assets; (2) Approval of the Assumption by Kentucky Power Company of Certain Liabilities in Connection with the Transfer of the Mitchell Generating Station; (3) Declaratory Rulings; (4) Deferral of Costs Incurred in Connection with the Company’s Efforts to Meet Federal Clean Air Act Requirements; and (5)*

fifty percent undivided interest in the Mitchell generating station, located approximately ten miles south of Moundsville, West Virginia, was transferred to the Company effective midnight December 31, 2013. The Company's electric transmission system includes substation capacity of approximately 4,599,500 KVA and approximately 1,207 pole miles of lines, and is interconnected with the systems of neighboring utilities. The Company's electric distribution system includes substation capacity of approximately 2,094,130 KVA and approximately 10,096 circuit miles (including secondary). Other properties include service buildings, stores buildings, garages and other structures and equipment.

The net original cost of the property and the cost thereof to the applicant at September 30, 2014 was:

Original Cost – Electric Plant in Service (“EPIS”)

Production Plant	\$ 1,584,137,873
Transmission Plant	522,875,658
Distribution Plant	717,254,155
General Plant	37,977,870
Intangible Plant and Other EPIS	<u>25,061,861</u>
 TOTAL	 \$ 2,887,307,417
 Less Accumulated Provisions for Depreciation, Depletion and Amortization of Electric Utility Plant	 <u>\$ 1,024,557,425</u>
 Net Original Cost	 \$ 1,862,749,992

7. **Unit Power Agreement:** Through a Unit Power Agreement, the Company is responsible for its contractual share of the costs associated with Rockport Plant Generating Units No. 1 and No. 2, which provides the Company with additional generating capacity of 393 MW.

All Other Required Approvals and Relief, Case No. 2012-00578 (Ky. P.S.C. October 7, 2013) (“Mitchell Transfer Case”).

B. NOTICES.

8. **Notice of Intent.** Pursuant to 807 KAR 5:001, Section 16(2), Kentucky Power filed its Notice of Intent with the Commission on November 14, 2014, and thus the notice was filed at least thirty days, but not more than six days, prior to the filing of this Application. A copy of the notice of intent was mailed and transmitted by e-mail (rateintervention@ky.gov) to the Office of the Attorney General, Office of Rate Intervention. A copy of the written notice of intent is provided in Section II of this Application.

9. **Customer Notices:** The required notice was and is being given in compliance with 807 KAR 5:001, Section 17 as follows:

(a) The Customer Notice required by 807 KAR 5:001, Section 17(2) and 807 KAR 5:011, Section 8(2) will be published once a week for three consecutive weeks in a prominent manner in newspapers of general circulation in Kentucky Power's service area, with the first publication on or before the date of this application is filed with the Commission. The Customer Notice was first published beginning the week of December 15, 2014. An affidavit verifying the contents of the published notice, that the notice was published, and the dates of publication will be filed in accordance with 807 KAR 5:001, Section 17(3)(b) and 807 KAR 5:011, Section 8(3)(b) within 45 days of the date this Application is submitted to the Commission. The form of the customer notice required by 807 KAR 5:001, Section 17(2)(b)(4) is provided in Section II of this Application;

(b) On or before December 23, 2014 by making the Public Posting required by 807 KAR 5:001, Section 17(1)(a) and 807 KAR 5:011, Section 8(1)(a), and provided a copy of the Application for public inspection at the Frankfort corporate office and Service Center buildings in the Company's service territory at the following locations:

- (i) Frankfort Corporate Office, 101A Enterprise Dr., Frankfort, KY;
- (ii) Ashland Service Center, 12333 Kevin Avenue, Ashland, KY;
- (iii) Hazard Service Center, 1400 E. Main Street, Hazard, KY; and
- (iv) Pikeville Service Center, 3249 N. Mayo Trail, Pikeville, KY.

The Public Posting and a copy of the Application will remain available for public inspection in conformity with the requirements of 807 KAR 5:001, Section 17(1)(c) and 807 KAR 5:011, Section 8(1)(c) until the Commission enters a final decision in this matter; and

(c) On or before December 23, 2014 by posting on its Web site (<https://www.kentuckypower.com>) the information and hyperlink required by 807 KAR 5:001, Section 17(1)(b) and 807 KAR 5:011, Section 8(1)(b). This information will remain available for public access and inspection in conformity with the requirements of 807 KAR 5:001, Section 17(1)(c) and 807 KAR 5:011, Section 8(1)(c) on Kentucky Power's website until the Commission enters a final decision in this matter.

10. **Notices to the Company:** Pursuant to KRS 278.380, Kentucky Power waives any right to service of the orders of the Commission by mail for purposes of this proceeding only. The Company requests that electronic copies of all orders, pleadings, and other filings relating to this proceeding be directed to:

- (a) Kentucky Power Company
kentucky_regulatory_services@aep.com
sasloan@aep.com
- (b) Stites & Harbison PLLC
moverstreet@stites.com
kgish@stites.com
bcrittenden@stites.com

C. The Proposed General Adjustment in Existing Electric Rates and Charges.

11. **Reasons for the Adjustment:** Kentucky Power's current rates are not fair, just and reasonable, and do not permit the Company to operate successfully, to maintain its financial integrity, to attract capital, to compensate its investors for the risks assumed, or to continue to provide adequate, efficient and reasonable service throughout its service territory. More specifically, but without limitation, the proposed adjustment is required:

- (a) Under the terms of the July 2, 2013 Stipulation and Settlement Agreement in Case No. 2012-00578 that was approved by the Commission on October 7, 2013;
- (b) To provide for full recovery of the Company's 50% undivided interest in the Mitchell generating station;
- (c) To fund the Company's expanded distribution vegetation management program; and
- (d) To recover the expenses it incurs to provide safe and reliable service to its customers.

A more detailed statement of the reasons for the proposed adjustment is set forth in the testimony of Company's witnesses provided in Section III to this Application. 807 KAR 5:001, Section 16(1)(b)(1).

11. **Historical Test Year:** The Company's Application for a general adjustment to its existing rates is supported by a twelve month historical test year period ending September 30, 2014. 807 KAR 5:001 Section 16(1)(a)(1).

12. **Proposed Tariffs:** The proposed tariffs in a form that complies with 807 KAR 5:011, with an effective date for service rendered on or after January 23, 2015 are filed as Exhibit JAR-8 in Section III to this Application. 807 KAR 5:001, Section 16(a)(3).

13. **Proposed Tariff Changes:** The Company's proposed tariff changes, identified in compliance with 807 KAR 5:011, are filed as Exhibit JAR-8 in Section III to this Application.

807 KAR 5:001, Section 16(a)(4)(b). The proposed rates and charges are fair, just and reasonable as required by KRS 278.030(1).

14. **Effect of Proposed Adjustments:** The Company calculates that the proposed adjustment in electric rates will result in an increase in revenue of approximately \$70 million per year, based on consumption and demand during the twelve month period ending September 30, 2014, resulting in total annual Company revenues of \$630,570,077, and representing an increase in revenue of approximately 12.48%. 807 KAR 5:001, Section 16(4)(d).

(a) The effect of the increase on average or typical electric bills is as follows:

Tariff Class	Average Customer Usage (kWh)	Average Customer Demand (kW)	Present Average Billing	With Transmission Adjustment			Without Transmission Adjustment		
				Proposed Average Billing	Average Billing Change	Average Percent Change	Proposed Average Billing	Average Billing Change	Average Percent Change
R.S.	1,362		\$138.67	\$160.92	\$22.25	16.04%	\$156.16	\$17.48	12.61%
S.G.S.	499		\$68.60	\$75.74	\$7.13	10.40%	\$77.99	\$9.39	13.68%
M.G.S.	5,866	25	\$681.53	\$738.27	\$56.74	8.33%	\$771.06	\$89.53	13.14%
L.G.S.	68,860	213	\$6,870.10	\$7,593.51	\$723.42	10.53%	\$7,771.57	\$901.48	13.12%
M.W.	29,273		\$2,759.73	\$2,993.05	\$233.32	8.45%	\$3,105.14	\$345.41	12.52%
Q.P.*	825,567	2,063	\$58,578.86	\$67,383.25	\$8,804.39	15.03%	\$68,842.68	\$10,263.82	17.52%
C.I.P.-T.O.D.*	15,578,803	26,395	\$889,570.03	\$960,140.50	\$70,570.47	7.93%	\$970,091.02	\$80,521.00	9.05%
I.G.S.*	2,669,721	5,105	\$162,452.76	\$178,977.91	\$16,525.15	10.17%	\$181,498.72	\$19,045.96	11.72%
C.S. - I.R.P.	No Customers	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
O.L.	66		\$12.79	\$14.44	\$1.65	12.88%	\$14.45	\$1.66	12.99%
S.L.	12,188		\$2,117.13	\$2,395.38	\$278.25	13.14%	\$2,399.50	\$282.37	13.54%
C.A.T.V. 2 User	18,039 Attachments	N/A	\$131,161	\$0.00	\$0.00	0.00%	\$0.00	\$0.00	0.00%
C.A.T.V. 3 User	91,260 Attachments	N/A	\$399,768	\$0.00	\$0.00	0.00%	\$0.00	\$0.00	0.00%
COGEN/SSP I	No Customers	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
COGEN/SPP II	No Customers	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A

807 KAR 5:001, Section 16(4)(e).

(b) Analysis showing revenues from present and proposed rates for each customer classification:

Customer Classification	With Transmission Adjustment				Without Transmission Adjustment		
	Current Revenue	Proposed Revenue	Proposed Increase	Percent Change	Proposed Revenue	Proposed Increase	Percent Change
R.A.	\$230,140,574	\$267,061,060	\$36,920,486	16.04%	\$259,157,130	\$29,016,556	12.61%
S.G.S.	\$19,611,844	\$21,651,296	\$2,039,452	10.40%	\$22,294,895	\$2,683,051	13.68%
M.G.S.	\$59,677,591	\$64,645,805	\$4,968,214	8.38%	\$67,517,142	\$7,839,551	13.14%
L.G.S.	\$70,569,638	\$78,000,563	\$7,430,925	10.53%	\$79,829,618	\$9,259,980	13.12%
M.W.	\$364,284	\$395,083	\$30,799	8.45%	\$409,878	\$45,594	12.52%
Q.P.*	\$54,126,867	\$62,262,125	\$8,135,258	15.03%	\$63,610,634	\$9,483,767	17.52%
C.I.P. - T.O.D.**	\$117,423,244	\$126,738,346	\$9,315,302	7.93%	\$128,052,015	\$10,628,771	9.05%
I.G.S.**	\$171,550,110	\$189,000,671	\$17,450,561	10.17%	\$191,662,649	\$20,112,539	11.72%
C.S. - I.R.P.	No Customers	N/A	N/A	N/A	N/A	N/A	N/A
O.L.	\$7,256,325	\$8,191,296	\$934,971	12.88%	\$8,198,601	\$942,276	12.99%
S.L.	\$1,422,710	\$1,609,696	\$186,986	13.14%	\$1,612,465	\$189,755	13.34%
C.A.T.V. 2 User	\$131,161	\$131,161	\$0	0.00%	\$131,161	\$0	0.00%
C.A.T.V. 3 User	\$399,768	\$399,768	\$0	0.00%	\$399,768	\$0	0.00%
COGEN/SPP I	No Customers	N/A	N/A	N/A	N/A	N/A	N/A
COGEN/SPP II	No Customers	N/A	N/A	N/A	N/A	N/A	N/A

807 KAR 5:001, Section 16(4)(g).

16. **New and Modified Programs, Policies and Tariffs.** In connection with this application, the Company is proposing to implement certain new policies, programs and tariffs, and to modify existing policies, programs and tariffs including, but not limited to:
- (a) Implementation of an Industrial General Service Tariff (Tariff I.G.S.) combining, in accordance with Paragraph 3 of the July 2, 2013 Stipulation and Settlement Agreement in Case No. 2012-00578, the Tariff C.I.P.-T.O.D. and Tariff Q.P. classes;
 - (b) Implementation of a Kentucky Economic Development Surcharge (Tariff K.E.D.S.);
 - (c) Implementation of a PJM Rider (Tariff P.J.M.R.) to recover the difference between the approved base rate level of PJM charges and credits and the retail jurisdictional PJM charges and credits incurred;
 - (d) Implementation of a NERC Compliance and Cybersecurity Rider (Rider N.C.C.R.) the approved annual level of Kentucky retail jurisdictional NERC and Cybersecurity expenses and any prior review period over/under recovery;
 - (e) Implementation, in accordance with Paragraph 14 of the July 2, 2013 Stipulation and Settlement Agreement in Case No. 2012-00578, a Big Sandy Retirement Rider (B.S.R.R.) recovering the coal-related retirement costs of Big Sandy Unit 1, retirement costs of Big Sandy Unit 2, and other site related retirement costs on a levelized basis, including a weighted average cost of capital carrying cost, over a 25-year period;

(f) Implementation of a revised Tariff E.S. to restore the environmental surcharge, to permit the recovery of all costs under the Company's 2014 Environmental Compliance Plan, and to recover, in accordance with the Commission's October 7, 2013 Order in Case No. 2012-00578 approving the July 2, 2013 Stipulation and Settlement Agreement the costs associated with the Mitchell FGD unit;

(g) Implementation of a revised Tariff S.S.C. to restore the sharing of off-system sales margins above the amounts included in the Company's new base rates; and

(h) Implementation of a Big Sandy 1 Operation Rider to recover the non-fuel costs associated with the operation of the Big Sandy Unit 1.

D. COMPLIANCE WITH STATUTORY AND REGULATORY REQUIREMENTS FOR GENERAL RATE ADJUSTMENTS.

The Company provides the following information in further response to the requirements imposed by KRS 278.0180, KRS 278.190, KRS 278.2203, KRS 278.2205, 807 KAR 5:001, Section 16, 807 KAR 5:011, and 807 KAR 5:051:

17. A financial exhibit in the form prescribed by 807 KAR 5:001, Section 12 is filed in Section IV to this Application.

18. A description and quantification of all proposed adjustments, with proper support for any proposed changes as prescribed by 807 KAR 5:001 Section 16(6)(a) are provided in Section V to this Application.

19. The prepared testimony and exhibits of the following witnesses in support of this Application is provided in Section III to this Application:

WITNESS	SUBJECT AREA
Gregory G. Pauley	Overview of the Company and its application; Introduction of witnesses; Kentucky Economic Development Surcharge; NERC Cybersecurity Rider
William E. Avera and Adrien M. McKenzie	Cost of Equity/Return on Equity

Jeffrey B. Bartsch	Taxes and Certain Adjustments
Andrew R. Carlin	Employee Compensation
David A. Davis	Depreciation Study
Amy J. Elliott	Environmental Compliance Plan; Mitchell FGD Revenue Requirement
Jeffery D. LaFleur	Generation Assets; Reasonableness of the Generation Non-Fuel On-Going O&M Expenses; Support Removal Of Big Sandy Coal-Related Assets; Support Capital Projects Included In 2014 Environmental Compliance Plan
Shannon R. Listebarger	Jurisdictional Cost Of Service
Hugh E. McCoy	Pension Plan Costs
John M. McManus	Environmental Issues
Everett G. Phillips	Reliability/Vegetation Management
Marc D. Reitter	Cost of Capital
John A. Rogness	Adjustments; Tariff Revisions
Jason M. Stegall	Revenue Adjustments; Class Cost of Service Study
H. Kevin Stogran	NERC Compliance/Cybersecurity
Alex E. Vaughan	Big Sandy 1 Operation Rider Revenue Requirement; PJM Rider; Certain Adjustments; Off-System Sales Normalization; Rate design
Ranie K. Wohnhas	Proposed Rate Adjustment; Tariff Revisions; Capitalization Adjustments; Amortization Of Regulatory Assets And Deferred Costs; Other Adjustments; Riders
Jason M. Yoder	Revenue Requirement For Big Sandy Retirement Rider; Certain Adjustments; Accounting Issues And Amortization Of Certain Adjustments

807 KAR 5:001, Section 16(4)(2).

20. The Company's Cost Allocation Manual is provided in Section II. KRS 278.2203; KRS 278.2205.

21. A copy of the statutory notice is provided in Section I. KRS 278.180.

22. The remaining required information provided in support of this Application, and in compliance with the Commission's regulations is provided, or its location in the Application identified, in the Filing Requirements sheets provided in Section II.

**Application For Approval Of 2014 Environmental Compliance Plan
Amended Tariff E.S.**

23. Kentucky Power is entitled to the current recovery of its Environmental Compliance Costs, including a reasonable return on construction and other capital costs, in accordance with its Commission-approved plan for complying with Environmental Requirements ("Environmental Compliance Plan.") KRS 278.183.

A. APPLICABLE ENVIRONMENTAL REQUIREMENTS.

24. Kentucky Power and the electric utility industry are facing new United States Environmental Protection Agency ("EPA") regulations arising under the federal Clean Air Act and under federal, state, and local environmental requirements which apply to coal combustion byproducts. Regulations under the Clean Air Act applicable to Kentucky Power include the Cross-State Air Pollution Rule ("CSAPR") and the Mercury and Air Toxics Standard Rule ("MATS Rule"). In addition, Kentucky Power's Big Sandy Unit 1, Big Sandy Unit 2, and the Mitchell Generating Station, as well as the Rockport Station, are subject to requirements imposed by the Consent Decree entered by the United States District Court for the Southern District of New York in an action arising under the Federal Clean Air Act, *United States v. American Electric Power Service Corp.*, Civil Action C2-99-1250, and all modifications thereto (the "Consent Decree"). (The CSAPR, MATS Rule, and Consent Decree are referred to collectively as the "Clean Air Act Requirements.")

25. Kentucky Power is also subject to federal, state, and local environmental requirements which apply to coal combustion byproducts ("Coal Combustion Byproduct

Requirements”). Among the Coal Combustion Byproduct Requirements is the Coal Combustion Residuals Rule (“CCR Rule”) proposed by EPA. The Clean Air Act Requirements and the Coal Combustion Byproduct Requirements are among the environmental requirements listed in KRS 278.183. A detailed description of the environmental requirements applicable to Kentucky Power is provided in Mr. McManus’ testimony.

B. KENTUCKY POWER’S PRIOR ENVIRONMENTAL COMPLIANCE PLANS.

26. Kentucky Power’s Environmental Compliance Plan first was approved by the Commission by Order dated May 27, 1997, in Case No. 1996-00489³ (“Original Environmental Compliance Plan”). The Company’s Original Environmental Compliance Plan included the following projects:

- (a) low NO_x burners at Big Sandy Unit 2;
- (b) low NO_x burners at Big Sandy Unit 1;
- (c) continuous emissions monitors at Big Sandy Plant;
- (d) scrubbers at Gavin Plant;
- (e) SO₂ allowances purchased;
- (f) Kentucky air emissions fee for Big Sandy Plant;
- (g) continuous emissions monitors at Rockport plant; and
- (h) Indiana air emission fees at the Rockport Plant.

At the time the Original Compliance Plan was approved, Kentucky Power was responsible for its contractual share of the OPCo and I&M environmental costs under the FERC-approved AEP Power Pool. Kentucky Power is responsible for its share of environmental costs at the Rockport Plant under the terms of the FERC-approved Rockport Unit Power Agreement. The costs

³ *In the Matter of: 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.*

associated with Kentucky Power's Original Environmental Compliance Plan are reasonable. The Original Environmental Compliance Plan, including each of its components, is a reasonable and cost-effective means for the Company to comply with the Environmental Requirements.

27. Kentucky Power's First Amended Environmental Compliance Plan ("2003 Environmental Compliance Plan") consisted of the items contained in the Original Environmental Compliance Plan (filed in Case No. 96-489), plus the following additional components:

- (a) over-fire air with water injection and boiler tube overlays at Big Sandy Unit 1;
- (b) precipitator improvements at Big Sandy Unit 2;
- (c) selective catalytic reduction (SCR) at Big Sandy Unit 2; and
- (d) NO_x allowances purchased.

The 2003 Environmental Compliance Plan was approved by the Commission by Order dated March 31, 2003, in Case No. 2002-00169.⁴ The costs associated with Kentucky Power's 2003 Environmental Compliance Plan are reasonable. The 2003 Environmental Compliance Plan, including each of its components, is a reasonable and cost-effective means for the Company to comply with the Environmental Requirements.

28. Kentucky Power's Second Amended Environmental Compliance Plan ("2005 Environmental Compliance Plan"), consisted of the items contained in the Original Environmental Compliance Plan (filed in Case No. 96-489), the items contained in the 2003 Compliance Plan (filed in Case No. 2002-00169), plus certain environmental costs associated with 53 environmental projects at OPCo and I&M generating plants. At the time the 2005 Environmental Compliance Plan was approved, Kentucky Power was responsible for its

⁴ *In the Matter of: The Application of Kentucky Power Company d/b/a American Electric Power for Approval of an Amended Compliance Plan for Purposes of Recovering the Costs of New and Additional Pollution Control Facilities and to Amend Its Cost Recovery Surcharge Tariff.*

contractual share of the OPCo and I&M environmental costs under the FERC-approved AEP Power Pool. Kentucky Power is responsible for its share of environmental costs at the Rockport Plant under the terms of the FERC-approved Rockport Unit Power Agreement. The Commission approved Kentucky Power's 2005 Environmental Compliance Plan (except for certain costs related to four NO₃ mitigation projects) by Orders dated September 7, 2005, and October 17, 2005, in Case No. 2005-00068.⁵ The costs associated with the 2005 Environmental Compliance Plan are reasonable. The 2005 Environmental Compliance Plan, including each of its components, is a reasonable and cost-effective means for the Company to comply with the Environmental Requirements.

29. Kentucky Power's Third Amended Environmental Compliance Plan, ("2007 Environmental Compliance Plan"), consisted of the items contained in the Original Environmental Compliance Plan (filed in Case No. 96-489), the items contained in the 2003 Compliance Plan (filed in Case No. 2002-00169), the items contained in the 2005 Environmental Compliance Plan (filed in Case No. 2005-00068), plus the expense associated with 44 environmental projects at OPCo and I&M generating plants. At the time the 2007 Environmental Compliance Plan was approved, Kentucky Power was responsible for its contractual share of the OPCo and I&M environmental costs under the FERC-approved AEP Power Pool. Kentucky Power is responsible for its share of environmental costs at the Rockport Plant under the terms of the FERC-approved Rockport Unit Power Agreement. The 2007 Environmental Compliance Plan was approved by the Commission in an order dated January 24,

⁵ *In the Matter of: Application of Kentucky Power Company for Approval of an Amended Compliance Plan for Purposes of Recovering Additional Costs of Pollution Control Facilities and to Amend Its Environmental Cost Recovery Surcharge.*

2007, in Case No. 2006-00307.⁶ The costs associated with Kentucky Power's 2007 Environmental Compliance Plan are reasonable. The 2007 Environmental Compliance Plan, including each of its components, is a reasonable and cost-effective means for the Company to comply with the Environmental Requirements.

C. KENTUCKY POWER'S 2014 ENVIRONMENTAL COMPLIANCE PLAN.

30. Through its Fourth Amended Environmental Compliance Plan, ("2014 Environmental Compliance Plan"), Kentucky Power updates the environmental projects included in its Environmental Compliance Plan. The update is necessary due to fundamental changes in Kentucky Power's generation portfolio since the approval of the 2007 Compliance Plan. These changes include:

- The December 31, 2013 transfer to Kentucky Power of an undivided 50% interest in the Mitchell Plant, including environmental projects not included in the company's current Environmental Compliance Plan, located in Moundsville, West Virginia (the "Mitchell Transfer");
- The planned retirement of Big Sandy Unit 2 no later than May 31, 2015;
- The planned conversion of Big Sandy Unit 1 to natural gas by June 30, 2016;
- The January 1, 2014 termination of the AEP East-System Pool;
- The addition of environmental projects at the Mitchell and Rockport Plants; and
- Planned environmental projects at the Rockport Plant.

As a result of these changes, Kentucky Power is seeking to remove certain environmental projects that had been included in its previously-approved Environmental Compliance Plan. Additionally, the 2014 Environmental Compliance Plan includes additional environmental projects at the Mitchell and Rockport Plants.

⁶ *The Application of Kentucky Power Company for Approval of an Amended Compliance Plan for Purposes of Recovering Additional Costs of Pollution Control Facilities and to Amend Its Environmental Cost Recovery Surcharge Tariff.*

31. The 2014 Environmental Compliance Plan removes all but the following previously included environmental projects from Kentucky Power's Environmental Compliance Plan:

- (a) Mitchell Units 1 and 2 Water Injection, Low NO_x Burners, Low NO_x Burner Modification, SCR, FGD, Landfill, Coal Blending Facilities and SO₃ Mitigation;
- (b) Mitchell Plant Common CEMS, Replace Burner Barrier Valves and Gypsum Material Handling Facilities;
- (c) Continuous Emission Monitors (CEMS) - Rockport Plant;
- (d) Rockport Units 1 and 2 Low NO_x Burners, Over Fire Air, and Landfill;
- (e) Title V Air Emission Fees at Mitchell and Rockport Plants;
- (f) NO_x Allowances Purchased; and
- (g) SO₂ Allowances Purchased.

32. The 2014 Environmental Compliance Plan adds the following environmental projects to Kentucky Power's Environmental Compliance Plan:

- (a) Costs associated with the CSAPR Allowances;
- (b) Precipitator Modifications - Mitchell Plant Units 1 and 2;
- (c) Bottom Ash and Fly Ash Handling - Mitchell Plant Units 1 and 2;
- (d) Mercury Monitoring (MATS) - Mitchell Plant Units 1 and 2;
- (e) Dry Fly Ash Handling Conversion - Mitchell Plant Units 1 and 2;
- (f) Coal Combustion Waste Landfill - Mitchell Plant Units 1 and 2;
- (g) Electrostatic Precipitator Upgrade - Mitchell Plant Unit 2;
- (h) Precipitator Modifications - Rockport Plant Units 1 and 2;
- (i) Activated Carbon Injection (ACI) and Mercury Monitoring - Rockport Plant Units 1 and 2;
- (j) Dry Sorbent Injection - Rockport Plant Units 1 and 2; and
- (k) Coal Combustion Waste Landfill Upgrade to Accept Type 1 Ash - Rockport.

Kentucky Power's 2014 Environmental Compliance Plan is filed with this Application as

EXHIBIT 1. Projects (b)-(g) listed above were underway at the time of the Mitchell Transfer.

33. Pursuant to Paragraph 6 of the July 2, 2013 Stipulation and Settlement Agreement approved by the Commission in its October 7, 2013 Order in the Mitchell Transfer Case, Kentucky Power, Kentucky Industrial Utility Customers, Inc. and Sierra Club agreed that:

When base rates are set in ... [this proceeding], all costs associated with the Mitchell Units 1 and 2 Flue Gas Desulfurization (FGD) equipment will be recovered through the environmental surcharge (Tariff E.S.) approved in ... [this proceeding], and excluded from base rates set in ... [this proceeding]. This collection mechanism shall continue in effect until the Commission sets new base rates for a period commencing after June 30, 2020 that include these costs.

34. Kentucky Power is legally obligated for its contractual share of the Rockport Environmental Projects under the FERC-approved Rockport Unit Power Agreement.

35. The costs associated with the 2014 Environmental Compliance Plan are reasonable. The 2014 Environmental Compliance Plan, including each of its components, is a reasonable and a cost-effective means for the Company to comply with the Environmental Requirements.

D. RATE OF RETURN.

36. The Company is proposing a 10.62% return on equity for compliance related capital expenditures on non-Rockport environmental projects. This rate of return is supported in the testimony of Company Witnesses Avera and McKenzie. The Company's return on equity for compliance related capital expenditures at the Rockport Plant is 12.16% as established by the FERC-approved Rockport Unit Power Agreement.

E. TESTIMONY.

37. The direct testimony and exhibits of Kentucky Power's witnesses in this case set forth a detailed statement of the compliance requirements, how Kentucky Power's 2014 Environmental Compliance Plan is a reasonable and cost-effective means of meeting those requirements, the recommended rate of return on equity for the compliance-related capital expenditures in the 2014 Environmental Compliance Plan, and other facts supporting this application. Specifically, the testimony and exhibits of the following witnesses address matters relating to the 2014 Environmental Compliance Plan:

- Amy J. Elliott, Regulatory Consultant, Kentucky Power Company.
- William E. Avera and Adrien M. McKenzie, Financial Concepts and Applications Consultants, Fincap, Inc.
- Jeffrey B. Bartsch, Director, Tax Accounting & Regulatory Support, American Electric Service Corporation
- David A. Davis, Manager, Property Accounting Policy and Research, American Electric Service Corporation
- Jeffrey D. LaFleur, Vice President, Generating Assets, Kentucky Power Company and Appalachian Power Company
- John M. McManus, Vice President, Environmental Services, American Electric Service Corporation

F. AMENDED TARIFF E.S. (ENVIRONMENTAL SURCHARGE).

38. The proposed Tariff E.S. (Environmental Surcharge) is filed with this Application as EXHIBIT 2. It provides for the recovery of the Environmental Compliance Costs in accordance with Kentucky Power's 2014 Environmental Compliance Plan. Kentucky Power seeks to incorporate the costs of the environmental projects currently in service into the monthly Environmental Surcharge Report effective the month following the Commission's order in this proceeding. With respect to the proposed pollution control facilities in the 2014 Compliance Plan that are not yet in service, Kentucky Power requests to incorporate their costs into the monthly Environmental Surcharge Reports two months following their in-service dates, when the operation and maintenance costs begin to be recorded on Kentucky Power's books.

G. NOTICES.

39. On November 14, 2014, in conjunction with the Notice of Intent to file a general rate case, Kentucky Power filed its Notice of Intent to File Application For Approval of 2014 Environmental Compliance Plan and Environmental Surcharge Recovery and Related Relief. KRS 278.183(2). To the extent applicable, the Customer Notice and Public Posting requirements of 807 KAR 5:001, Section 17 and 807 KAR 5:011, Section 8, and 807 KAR 5:051 were satisfied in conjunction with and through the notices and postings described in paragraph 9 of this Application.

WHEREFORE, Kentucky Power Company respectfully requests the Kentucky Public Service Commission enter an Order:

1. Approving the requested general adjustment of it rates for electric service;
2. Approving its revised and new tariff sheets, including its revised Tariff E.S., submitted herewith as Exhibit JAR-8 in Section III to this Application;
3. Approving the Company's 2014 Environmental Compliance Plan; and

4. Granting such further relief to which the Company may be entitled.

Respectfully submitted,



Mark R. Overstreet
R. Benjamin Crittenden
STITES & HARBISON PLLC
421 West Main Street
P. O. Box 634
Frankfort, Kentucky 40602-0634
Telephone: (502) 223-3477
Facsimile: (502) 223-4124
moverstreet@stites.com
bcrittenden@stites.com

Kenneth J. Gish, Jr.
STITES & HARBISON PLLC
250 West Main Street, Suite 2300
Lexington, Kentucky 40507
Telephone: (859) 226-2300
Facsimile: (859) 253-9144
kgish@stites.com

COUNSEL FOR KENTUCKY POWER
COMPANY

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, and by overnight delivery, to

Michael L. Kurtz
Jody Kyler Cohn
Boehm, Kurtz & Lowry
36 East Seventh Street, Suite 1510
Cincinnati, Ohio 45202
mkurtz@bkllawfirm.com
kBoehm@bkllawfirm.com
jkylercohn@bkllawfirm.com

Jennifer Black Hans
Angela Goad
Gregory T. Dutton
Lawrence W. Cook
Kentucky Attorney General's Office
1024 Capital Center Drive, Suite 200
Frankfort, Kentucky 40601-8204
jennifer.hans@ag.ky.gov
angela.goad@ag.ky.gov
larry.cook@ag.ky.gov
gregory.dutton@ag.ky.gov

this 23rd day of December 2014.



Mark R. Overstreet