

August 15, 2018

ELECTRONICALLY FILED

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Gwen R. Pinson
Executive Director
Public Service Commission
211 Sower Boulevard
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Frankfort, KY 40602-0615

RE: **Case No. 2017-00179** (Post-Case Correspondence File)

Dear Ms. Pinson:

This letter is to expand upon Kentucky Power Company's August 15, 2018 Excel workbook updating the Company's Tariff P.P.A.

The Commission's January 18, 2018 order in Case No. 2017-00179 amended Kentucky Power's Tariff P.P.A. to permit the Company, effective January 19, 2018, to recover 80 percent of any under-recovery, and to credit 80 percent of any over-recovery, with respect to the \$74,453,085 in net PJM OATT charges and credits included in base rates.

On March 28, 2018, Kentucky Power and certain of its affiliates filed an offer of settlement and motion to implement interim rates in connection with FERC docket No. EL 17-13. That case involved a challenge to the return on equity included in the AEP Zone formula rate used to determine the cost of service for the AEP Transmission Zone. The offer of settlement reduces the return on equity retroactively to October 26, 2016 when the complaint was filed. Although FERC has not approved the offer of settlement, Kentucky Power updated its PJM transmission rates in April 2018 to reflect the lower return on equity, and PJM rebilled calendar year 2018 to reflect the lower interim rates. The effect of the offer of settlement was to produce a refund to Kentucky Power retroactive to October 26, 2016.

Consistent with the January 19, 2018 effective date of the rates established by the Commission's January 18, 2018 order, and the effective date of the amended Tariff P.P.A., the August 15, 2018 update to Tariff P.P.A. reflects the lower interim AEP Zone formula rate resulting from the lower return on equity beginning January 19, 2018. Likewise, the refund to customers as a result of the offer of settlement is retroactive to January 19, 2018.

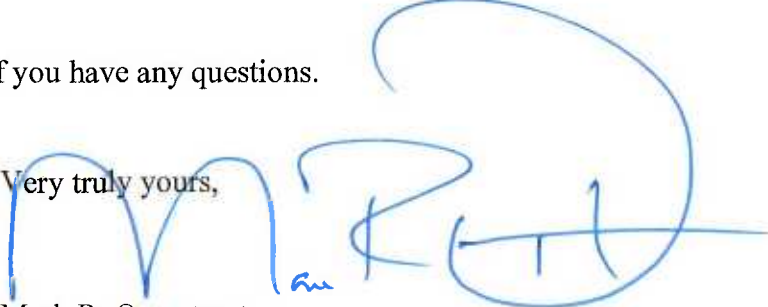
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Prior to January 19, 2018 the PJM OATT charges, including that portion of the PJM OATT charges resulting from the AEP Zone formula rate, were embedded in Kentucky Power's base rates. Kentucky Power was at risk of not recovering its PJM OATT charges in full as those charges increased over time and its base rates remained unchanged. In fact, Kentucky Power under-earned and failed to recover its PJM OATT charges in full during the period of the refund associated with the offer of settlement in FERC Docket EL 17-13. Consistent with the regulatory compact and the filed rate doctrine, the August 15, 2018 Tariff P.P.A. update does not reflect the \$2,967,112.15 refund to Kentucky Power resulting from the offer of settlement for the period October 26, 2016 through January 18, 2018. See Form 3.0a in PPA_2018_Annual_Update.xlsx.

The 2018 annual update of Tariff P.P.A., in sum, provides customers with the benefits of the offer of settlement beginning January 19, 2018 when the new base rates approved by this Commission became effective.

Please do not hesitate to contact me if you have any questions.

Very truly yours,


Mark R. Overstreet

MRO
cc: Counsel of record (via e-filing system)