EXHIBIT 1

AGREEMENT

THIS AGREEMENT ("Agreement") is made and entered into as of this the _____ day of July, 2006, by and between KENTUCKY POWER COMPANY ("Kentucky Power" or "KPCo"), a corporation organized and existing under the laws of Kentucky, and KENTUCKY ASSOCIATION FOR COMMUNITY ACTION, INC. ("KACA"), a nonprofit corporation organized and existing under the laws of Kentucky.

WITNESSETH:

WHEREAS, the Public Service Commission of Kentucky ("KPSC") by Order dated March 14, 2006 in P.S.C. Case No. 2005-000341, *In the Matter of: A General Adjustment In The Rates of Kentucky Power Company*, approved the parameters of a low-income home energy assistance program (the "HEA Program") to assist low-income households in the Kentucky Power service territory, conditioned upon Commission approval of a definitive agreement between KACA and Kentucky Power governing the program;

WHEREAS, KACA and Kentucky Power have entered into this definitive Agreement to govern the HEA Program;

WHEREAS, Kentucky Power's HEA Program will help low-income families afford and maintain utility service with Kentucky Power during peak heating and cooling months;

WHEREAS, KACA is willing to act as administrative agent and to operate Kentucky Power's HEA Program for eligible residential customers of Kentucky Power; and

NOW, THEREFORE, in consideration of the mutual obligations of the parties hereto, each of them does hereby covenant and agree:

I. TERM OF AGREEMENT

This Agreement shall be for an indefinite term beginning April 1, 2006. In the event funds remain unexpended at the termination of this Agreement, including any contributions by Kentucky Power for the period ended March 31, 2008, the parties agree the program may continue for an additional period necessary to expend the funds, which period shall not exceed 90 days.

A. Either party may terminate this Agreement without cause at the end of any Program Year by giving written notice of intent to do so no less than thirty days prior to the end of the Program Year. Termination of this Agreement shall not relieve KACA of its obligation to continue to perform its duties under this Agreement for the remainder of the Program Year, including the filing of the Audit required by Section III, unless requested not to do so by Kentucky Power. While performing its services under this Agreement, KACA will continue to be compensated pursuant to the terms of this Agreement.

B. Nothing in this paragraph shall authorize Kentucky Power to collect the ten cent per residential customer monthly charge beyond the date its authority to do so under the Orders of the KPSC and Kentucky Power's duly filed tariffs expires. As used in this Agreement, the term "Program Year" shall run from the Company's revenue months December 1 to November 30 the following year except that the first program year shall run from April 1, 2006 to November 30, 2006.

II. ADMINISTRATIVE EXPENSES

A. Pursuant to Paragraph 8 of the Settlement Agreement in KPSC Case No. 2005-00341 and approved by the KPSC by its Order dated March 14, 2006 (the "KPSC Order"), KACA is entitled to recover its actual reasonable operating expenses in administering the HEA Program in an amount up to but not to exceed in total ten percent (10%) of the total HEA funds collected during the life of the program. The parties acknowledge that the ten percent (10%) limitation on reasonable operating expenses to be reimbursed from the Program funds shall be calculated based upon total HEA funds collected over the life of the Program and that funds available for operations, as well as assistance funds, if unused, will "roll-over" to and be available for expenditure in subsequent periods of the Program.

B. During the first program year Kentucky Power and KACA shall be entitled to recover KRS 278.285(4) their actual IT implementation costs not to exceed $59,968 and $18,000 **[need KACA to verify & supply breakdown]** respectively. Such IT implementation costs shall be in addition to and not be charged against the 10% limitation imposed by paragraph II(A) and shall be collected pursuant to KRS 278.285(4). Budgets for IT Implementation Costs are attached as **EXHIBIT 5**.

III. BUDGET/AUDITS/QUARTERLY MEETINGS

A. Within time to file for the necessary approval by the KPSC and in no event no later than 30 days following the execution of this Agreement and thereafter at least thirty days prior to the beginning of each Program Year, KACA shall prepare and present to Kentucky Power for its approval an annual budget for the HEA Program. Kentucky Power shall provide KACA in a timely fashion such information as may be reasonably required for the preparation of the budget.

B. An outside independent audit of KACA's financial records will be performed annually by an independent certified public accountant, in accordance with existing federal audit requirements. The audit will include a detailed accounting of all expenses associated with administration of the Program, which shall be filed by KACA annually with the KPSC and provided to Kentucky Power. The parties also agree to meet quarterly, or more often if needed, to review Program status and financial reports for actual expenditures compared to budget. This report shall be made in line item detail. KACA shall provide Kentucky Power with an explanation of any variance in Program expenses that vary from budget (either greater or less than) by 10% or more.

IV. KENTUCKY POWER RESPONSIBILITIES

A. Kentucky Power will include on each residential customer's monthly bill for service beginning April 1, 2006 a ten-cent HEA charge to fund Kentucky Power's HEA Program. The charge shall be recovered pursuant to KRS 278.285(4) and shall be set forth as a separate line item on each such bill.

B. For the period May 1, 2006 through April 30, 2008 Kentucky Power shall contribute to the HEA Program a sum equal to the amount collected from residential customers from the ten cent per residential bill charge described in paragraph IV(A). Contributions shall be made monthly. Contributions shall be made in the month following the month in which the charge is collected.

C. Kentucky Power agrees to respond to general billing questions related to whether or not a participant's account has been credited with the appropriate HEA subsidy amount.

D. Kentucky Power agrees to work with KACA in evaluating the HEA Program and to provide KACA with data reasonably necessary for KACA to make all required reports and to assist in the evaluation of the HEA Program. Kentucky Power also agrees to provide to KACA all information reasonably necessary to permit KACA to balance the actual HEA funds collected with HEA funds distributed to customers for each Program year. Upon request by KACA Kentucky Power agrees to work with KACA to provide a list of customers participating in the HEA Program for KACA to compare with its records.

E. Beginning no later than the 20th day of the month preceding the actual expenditure of funds in connection with the HEA Program, and the 20th day of each succeeding month during the term of this Agreement, Kentucky Power shall pay KACA one-twelfth (1/12) of ten percent (10%) of the annual estimated Program budget, for administrative costs. No such payment shall be made for the twelfth month of each year of the program. Instead, within 90 days of the close of each program year KACA's actual operating expenses in administering the HEA Program for the twelve months of the program year shall be compared to the amounts paid by Kentucky Power for the first eleven months of the program year and any difference remitted to or by KACA. As set out in Article II, unused funds for administrative costs will "roll-over" for subsequent periods during the HEA Program, except that in no event shall KACA be paid more than its actual reasonable costs in administering the program.

F. Kentucky Power shall notify KACA whenever a participant is mailed a disconnect notice. Kentucky Power shall provide KACA with the participant's name, billing address, account number and telephone number if available.

G. Kentucky Power shall provide KACA with the following reports:

1. Billing File. Sent daily when enrolled customer is billed. It provides:

(a) KPCo indicative data -Customer name, KPCo account number;

(b) KACA indicative data - Customer request ID;

(c) Current month kWh usage;

(d) Current month billing data (Current bill & Arrears amount);

(e) HEAP subsidy amount credited to current bill; and

(f) HEAP subsidy date.

2. History File. Sent in response to KACA's enrollment file to acknowledge acceptance of customer in to HEAP program. It provides:

(a) Kentucky Power indicative data - Customer name, KPCo account number;

(b) KACA indicative data - Customer request ID

(c) Customer electric consumption data - 12 Months of KWH use; and

(d) Customer DNP (Disconnect for non pay) history - number of times service was disconnected in previous 12 months.

3. Disconnect File. Sent to KACA when service to enrolled customer has been discontinued. Service may be discontinued at customer request or at end of five working days when service has been disconnected for non-payment (DNP) and required payment amount has not been received. It provides:

(a) KPCo indicative data -Customer name, KPCo account number; and

(b) Service discontinuance code (Customer request / DNP)

These files shall be transmitted electronically by Kentucky Power to KACA using File Transfer Protocol (FTP).

V. KACA GENERAL RESPONSIBILITIES

A. KACA acting through its member community action agencies shall administer the HEA Program on behalf of Kentucky Power by identifying and certifying to Kentucky Power the identity of eligible participants. KACA shall also immediately notify Kentucky Power when participants are no longer eligible to participate in the HEA Program.

B. KACA will monitor both the implementation and ongoing operation of the HEA Program, monitor the data collected and report to Kentucky Power and the KPSC as required by the KPSC.

C. KACA will track Program expenditures against budget through monthly financial reports and ensure that the annual OMB A-133 audit is performed by a third party. All such audits shall be seasonably provided to Kentucky Power and the Commission.

D. KACA will provide oversight for the HEA Program, including on-site monitoring as well as review and analysis of Program reports.

E. KACA and its employees, agents and member community action agencies shall manage and expend all monies paid to reimburse the reasonable costs in administering the HEA Program in a diligent manner that embodies sound business practices.

F. KACA agrees to maintain, during the term of this Agreement and for two years following its termination, complete and accurate records of all receipts and disbursements that are funded by this Agreement and to provide Kentucky Power with monthly financial statements in the form of **EXHIBIT 6**, attached hereto. KACA will also provide Kentucky Power with monthly Program updates including number of clients served, attrition, new clients entering the Program, and county distribution.

G. Kentucky Power shall have the right, at any reasonable time, to inspect and audit at Kentucky Power's sole cost the records maintained by KACA either through its own authorized representatives or through any public accounting firm selected by Kentucky Power.

H. KACA agrees to provide Kentucky Power with any and all information necessary to meet KPSC requirements.

I. As part of its screening and qualification procedures KACA or its member Community Action Agencies shall obtain from all applicants a written release permitting Kentucky Power to divulge customer information necessary for the administration of the program to KACA and the applicable community action agency. KACA or its member Community Action Agencies also shall obtain a signed release absolving Kentucky Power of liability in connection with the administration of the HEA Program. The form of the release shall be provided by Kentucky Power. **[Kip: Can you furnish us a copy of KU's?]** A copy is attached as **EXHIBIT 8**.

J. As part of its screening and qualification process KACA or its member Community Action Agencies shall require applicants to read and initial the following statement:

> The program, including benefit amounts and eligibility requirements, may be changed from time to time upon approval by the KPSC. Benefits will be paid only so long as funding is available and the participant remains eligible.

K. When submitting approved applications KACA will provide Kentucky Power with a Request File containing the following information:

[Kip -Need Description]

The Request File shall be transmitted electronically using File Transfer Protocol (FTP).

L. On or before February 28, 2009, KACA, in conjunction with Kentucky Power shall prepare and file with the KPSC an evaluation of any cost savings resulting from the HEA program along with a comprehensive program assessment. In addition to any requirements imposed by the KPSC, the program assessment shall report on the indices set out in **EXHIBIT 9** this Agreement.

VI. PROGRAM OPERATION

A. Scope of Program. The HEA Program is intended to provide assistance with residential electric bills to low income individuals who are customers of Kentucky Power. Assistance shall be provided for the revenue months of December, January, February and March (winter heating season) and July, August and September (summer cooling season) during the term of the HEA Program.

B. Eligibility. Participants must:

1. Be individuals whose income shall not exceed the then effective maximum income level for participation in the federal Low Income Home Energy Assistance Program ("LIHEAP) program (currently 130% per cent of the Federal Poverty guidelines for the contiguous 48 states as published in the Federal Register for the applicant's family unit size for the applicable year. A copy of the applicable 2006 Federal Poverty Guidelines are attached as **EXHIBIT 2**;

2. Be a customer of Kentucky Power Company with service in the applicant's name or have applied for service in the applicant's name;

3. Be enrolled in the LIHEAP program and direct LIHEAP payments to Kentucky Power;

4. Apply for available weatherization programs and accept services if eligible and available.

5. Not reside in a multi-unit single meter building;

6. Provide Kentucky Power with access for the monthly meter reading; and

7. Agree that no part of any benefit shall be refunded to a participant. If a final bill otherwise shows a credit balance a refund will be made of only that portion, if any, of the final credit balance that exceeds the total benefits applied during the current Program Year.

C. The program, including benefit amounts and eligibility requirements, may be changed from time to time upon approval by the KPSC.

D. Allocation of Funding.

1. Funding shall be made available to residential electric customers. Initially, 85% of the funding shall be made available to residential customers who use electricity as their primary source of heat with the remainder (15%) being provided to customers who use other sources of energy for heating.

2. The monthly benefit level for participants who use electricity as their primary source of heat shall be $65. The monthly benefit for participants who do not use electricity as their primary source of heat shall be $33.

3. Within each of the two sectors of residential customers (electric heating and non-electric heating) funding slots initially shall be allocated on a community action agency basis based upon the proportion that the number of Kentucky Power residential customers residing within a community action agency bears to the total number of Kentucky Power residential customers residing in the following Kentucky Counties: Boyd, Carter, Elliott, Greenup, Lawrence, Rowan, Morgan, Floyd, Johnson, Magoffin, Martin, Pike, Breathitt, Owsley, Leslie, Knott, Letcher and Perry Counties. Because of the limited number of Kentucky Power customers in the areas served by Daniel Boone Community Action Agency and Licking Valley Community Action Agency no slots will be provided for customers in Lewis and Clay Counties. The initial allocation of slots is attached hereto as **EXHIBIT 7**.

4. In the event no qualified applicants are seasonably available within a community action agency's region, a slot may be transferred to another Community Action Agency.

5. Kentucky Power and KACA shall meet annually to evaluate the formula for allocating slots and the amount of the monthly payments.

E. Screening and Certification.

1. KACA or its member community action agencies shall be responsible for screening all applicants seeking to participate in the HEA Program to determine their eligibility under the criteria set out in Paragraph VI(B) of this Agreement. If KACA or the member agency determines an applicant meets the eligibility criteria KACA shall certify that fact to Kentucky Power along with the applicant's name and residential service address.

2. Participants shall be screened and certified no less frequently than once every 12 months. If KACA determines a participant is no longer eligible to participate KACA shall notify Kentucky Power and the applicant immediately.

3. KACA shall pay member community action agencies $25.00 per approved application and $15.00 per approved recertification.

F. Manner of Distribution of Funds.

1. Upon certification an applicant shall be eligible to participate if the community action agency within whose territory the applicant lives has an available Program Slot. If there is no available Program Slot, the applicant shall be placed on a waiting list and admitted to the program when a slot becomes available based upon the date of their certification. If more than 12 months have elapsed since an eligible applicant was certified the applicant shall be re-certified prior to being admitted from the waiting list into the program.

2. Participation in the HEA program shall begin at the beginning of the applicable billing cycle for applicant's residence following the applicant's admission to the program.

3. Program participants shall receive benefits under the program in the form of a credit to their Kentucky Power bill in the amount of the Uniform Monthly Benefit. If a HEA Program participant's service is terminated for any reason during a billing cycle the subsidy benefit shall be terminated retroactive to the last billing. **[see Joe Carrasco's email dated 7-7-06]** In no event shall a participant receive payment of any unused credit.

G. Termination of Participation.

1. Except as set out in subparagraph 3 of this paragraph, participation in the program shall terminate when a participant no longer meets the eligibility requirements of Paragraph VI(B) or the participant's electric service is terminated for any reason.

2. Credits to a participant's account shall terminate the billing month following the date the customer is no longer eligible to participate in the program.

3. In the event the customer's service is disconnected for non-payment, the customer shall have five business days after disconnection in which to pay all past due amounts plus all associated charges. If all past due amounts and associated charges are not paid within five business days of disconnection the customer's participation in the program shall end.

VII. REGULATORY APPROVALS

Approval of this Agreement and the details of the HEA Program by the KPSC is required. As a result, the parties' rights and obligations are expressly contingent upon obtaining and maintaining such approval and KACA will cooperate fully with Kentucky Power in this regard. Furthermore, to the extent that there may be, or later arise, a conflict between this Agreement and KPSC requirements, the latter shall be controlling. KACA and Kentucky Power agree to cooperate in obtaining all necessary KPSC approvals for the HEA Program.

VIII. DEFAULTS AND REMEDIES

A. Each of the following events or occurrences shall constitute an event of default under the Agreement:

1. Declaration of Bankruptcy of KACA; or

2. Failure to administer and implement the HEA Program in conformity with this Agreement; or

3. Failure to file in a timely manner any financial and progress reports required by this Agreement; or

4. Failure to disclose or to explain to Kentucky Power's satisfaction any variance in Program expenses that must be reported pursuant to Article III; or

5. Disclosure or discover that the covenants and representations made by KACA requiring the fulfillment of any requirement covered under this Agreement or any other document submitted in support of this Agreement is, was, or shall be false or misleading in any material respect.

B. Except as otherwise provided in this Agreement, in the event of any default in or breach of this Agreement, or any of its terms or conditions by KACA, KACA shall, upon written notice from Kentucky Power, proceed immediately to cure or remedy such default or breach. Until such default or breach is cured, and without limiting Kentucky Power's rights under this Agreement, Kentucky Power shall have the option of suspending its performance under this Agreement.

IX. CONFIDENTIALITY

A. The parties acknowledge that each will have access to Confidential Information, obtained, developed or provided by the other with respect to HEA Program applicants and participants (the "Confidential Information") and each party providing such information is relying upon the representations contained in the Article in making such disclosure.

B. Each of the parties agrees to protect and maintain as confidential all such Confidential Information obtained from another party, and to use such Confidential Information received from another party only in connection with the implementation, operation, evaluation and oversight of the HEA Program, and not to further disseminate such Confidential Information, intentionally or externally or to use it for any other purpose.

C. It is understood and agreed that, to the extent that Confidential Information must be used or reflected in Kentucky Power's billing or accounting systems for purposes of the HEA Program or Kentucky Power's routine operations, then Kentucky Power's usual precautions on dissemination and availability of customer information shall be sufficient for purposes of this Article.

D. All anecdotal reports containing or using Confidential Information shall use fictitious names, addresses, employers, and other identifiers.

E. No individual, firm, partnership, corporation or agency shall be given, sold or otherwise allowed access to Confidential Information.

f. Nothing herein shall limit use of the Confidential Information as necessary to implement, document, evaluate or monitor the HEA Program or to comply with any court or regulatory agency proceeding or filing to which they may be subject. However, in any such proceeding or filing, they shall make reasonable efforts to protect the confidentiality of such information.

X. GOVERNING LAW AND CONSTRUCTION OF CONTRACT

The rights and obligations of Kentucky Power and KACA and the validity and construction of this Agreement shall be interpreted and enforced in accordance with the laws of the Commonwealth of Kentucky. This Agreement was drafted by Kentucky Power for convenience purposes only but has been negotiated by both parties and shall not be interpreted or construed against Kentucky Power or KACA.

XI. ENTIRE AGREEMENT

This Agreement contains all the terms, conditions and promises of the parties hereto. No modification or waiver of this Agreement, or of any provision thereof, shall be valid or binding, unless in writing and executed by both of the parties hereto. No waiver by either party or any breach of any term or provision of this Agreement shall be construed as a waiver of any succeeding breach of the same or any other term or provision.

XII. NO OTHER BENEFICIARIES.

This Agreement is solely between KACA and Kentucky Power, and nothing in this Agreement or in the HEA Program shall be construed as creating any rights or claims in any third party, whether a natural person or otherwise. Notwithstanding the forgoing, KACA hereby represents that it is authorized to bind its member participating community action agencies to the confidentiality requirements of paragraph IX of this Agreement. KACA acknowledges Kentucky Power is relying upon this representation.

IN WITNESS WHEREOF, the parties hereto have executed this Agreement as of the day and year first above written.

Kentucky Power Company

BY: ______________________________

Its: ______________________________

The Kentucky Association for
Community Action, Inc.

BY: ______________________________

Its: ______________________________

KE057:00KE4:13974:10:FRANKFORT

NEED TO GET THIS FROM KIP/DAVID FALCONBERRY

KACA'S ONE-TIME IT PROGRAMMING COST

Exhibit 6

KACA'S MONTHLY FINANCIAL REPORT
TO KENTUCKY POWER COMPANY

NEED EXAMPLE FROM KIP

Exhibit ______

Exhibit 7

Kentucky Power Company
Home Energy Assistance Program (HEAP)
Pro-rata Calculation for Available Slots
for Counties in KPCo Service Territory
Based upon Heating and Non-Heating Residential Customers

			Heating Customer Sector			Non-Heating Sector			
Ln No (1)	County (2)	Agency Serving County (3)	Residential Customers With Space Heating By County * (4)	Percent of Total Residential Customers (5)	Number of Slots Years 1 & 2 (6)	Residential Customers W/O Space Heating By County * (7)	Percent of Total Residential Customers (8)	Number of Slots Years 1 & 2 (9)	**Total Number of Slots Years 1 & 2 (10) Col 6 + 9**
1	Boyd	Northeast Kentucky	8,883	10.74%	63	11,757	18.93%	35	**98**
2	Carter	Northeast Kentucky	4,639	5.61%	33	2,707	4.36%	9	**42**
3	Elliott	Northeast Kentucky	8	0.01%	0	11	0.02%	0	**0**
4	Greenup	Northeast Kentucky	5,697	6.89%	40	7,179	11.56%	21	**61**
5	Lawrence	Northeast Kentucky	3,491	4.22%	25	2,689	4.33%	9	**34**
6		Sub total	22,718	27.47%	161	24,343	39.20%	74	**235**
7	Rowan	Gateway CSO	522	0.63%	4	439	0.71%	1	**5**
8	Morgan	Gateway CSO	662	0.80%	5	368	0.59%	1	**6**
9		Sub total	1,184	1.43%	9	807	1.30%	2	**11**
10	Floyd	Big Sandy CAP	6,539	7.91%	46	6,935	11.17%	22	**68**
11	Johnson	Big Sandy CAP	3,198	3.87%	23	2,819	4.54%	9	**32**
12	Magoffin	Big Sandy CAP	1,524	1.84%	11	769	1.24%	3	**14**
13	Martin	Big Sandy CAP	2,452	2.97%	17	1,921	3.09%	6	**23**
14	Pike	Big Sandy CAP	19,221	23.25%	135	10,192	16.41%	29	**164**
15		Sub total	32,934	39.84%	232	22,636	36.45%	69	**301**
16	Breathitt	Middle Kentucky River	2,637	3.19%	19	1,946	3.13%	6	**25**
17	Owsley	Middle Kentucky River	5	0.01%	0	2	0.00%	11	**11**
18		Sub total	2,642	3.20%	19	1,948	3.13%	17	**36**
19	Leslie	LKLP	3,631	4.39%	26	1,458	2.35%	5	**31**
20	Knott	LKLP	3,803	4.60%	27	3,388	5.46%	11	**38**
21	Letcher	LKLP	7,363	8.91%	52	2,942	4.74%	10	**62**
22	Perry	LKLP	8,400	10.16%	59	4,578	7.37%	15	**74**
23		Sub total	23,197	28.06%	164	12,366	19.92%	41	**205**
24		Grand Total	82,675	100%	585	62,100	100%	203	**788**

* Source: Pg 9-1B March 2006 (excluding Lewis and Clay Counties)

EXHIBIT 8

[KU FORM TO BE SUPPLIED BY KACA]

<u>EXHIBIT 9</u>

The program will be measured against the following benchmarks:

(a) **Reduce the need for LIHEAP Crisis Assistance** – x% of enrollees in the HEA were free of need for LIHEAP Crisis Assistance.

Baseline: Upon enrollment, match enrollee with history of Crisis Assistance using statewide LIHEAP data for past three (3) years.

Evaluation Procedure Compare Crisis Assistance requested and approved during enrollment in the program.

(b) **Reduce arrearages** – Reduction in participant arrearages by x%.

Baseline: Kentucky Power will provide the amount of arrearages currently associated with customer account.

Evaluation Procedure: Compare arrearage data for participants every six (6) months during enrollment in the program.

(c) **Reduce loss of service due to non-payment** – Reduce by z% the percentage of participants losing service because of non-payment.

Baseline: Kentucky Power will provide data for each participant reporting the number of disconnect notices and actual disconnections for one year prior to enrollment.

Evaluation: Number of disconnect notices and actual disconnections per year will be compared to number of notice and disconnections per year during program.

(d) **Increased energy savings in combination with weatherization programs** – Enrollees in the HEA who were also enrolled in other weatherization programs experienced at least a z% reduction in energy costs.

Baseline: Participants' previous year's energy consumption.

Evaluation: Compare annual energy consumption before and after weatherization.

(e) **Other** –

(i) Total households served, total amount of assistance provided;

(ii) An assessment of how program benefits were distributed to customers in all of the counties eligible to participate in the program;

(iii) An assessment of movement of participants in and out of the program to determine if benefits to participants are short-term or long-term in nature.