

**COMMONWEALTH OF KENTUCKY  
BEFORE THE PUBLIC SERVICE COMMISSION**

In the Matter of:

Electronic Application Of Kentucky Power	)	
Company For (1) A General Adjustment Of Its	)	
Rates For Electric Service; (2) An Order	)	
Approving Its 2017 Environmental Compliance	)	
Plan; (3) An Order Approving Its Tariffs And	)	Case No. 2017-00179
Riders; (4) An Order Approving Accounting	)	
Practices To Establish Regulatory Assets Or	)	
Liabilities; And (5) An Order Granting All Other	)	
Required Approvals And Relief	)	

**MOTION OF KENTUCKY POWER COMPANY FOR PARTIAL REHEARING**

Kentucky Power Company moves the Public Service Commission of Kentucky for rehearing of the Commission’s January 18, 2018 Order in this matter (“Rate Case Order”).<sup>1</sup> The Rate Case Order, in conjunction with the Commission’s Order of the same date in Case No. 2017-00097, in large part supported the bargain struck by the parties to the November 22, 2018 Settlement Agreement, limited the overall financial impact of the Settlement Agreement on the Company’s customers, and honored in substantial part the regulatory compact. Nevertheless, as explained below, the Rate Case Order understated Kentucky Power’s annual revenue requirement by \$2,315,017. As required by law and fundamental principles of administrative practice, the Commission should amend the Rate Case Order to reflect expressly the \$2,315,017 increased annual revenue requirement and the reasons underlying it. The Commission has the option, through the pending proceeding in Case No. 2018-00035, to correct the Company’s revenue requirement while maintaining the benefit of the specific customer bill impact ordered in the Rate Case Order.

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<sup>1</sup> On January 25, 2018, the Commission entered an Order amending the Rate Case Order *nunc pro tunc*. Those amendments are not at issue here.

Kentucky Power Company seeks rehearing on and clarification of the following issues:

- (1) The Commission's calculation of the Company's tax expense savings arising from the Tax Cuts and Jobs Act failed to reflect the net change in the Company's cost of service related to the Tax Cuts and Jobs Act.<sup>2</sup> The effect was to understate the Company's revenue requirement by \$765,030;
- (2) The Commission's treatment of certain of the Company's proposed changes to Tariff P.P.A.<sup>3</sup> The effect was to understate the Company's annual revenue requirement by \$1,158,285;
- (3) Those portions of the Commission's findings regarding recovery of the Rockport Deferral Regulatory Asset;<sup>4</sup> and
- (4) The Commission's unsupported adjustment of the Company's capital structure relating to accounts receivable financing.<sup>5</sup> The effect was to understate the Company's annual revenue requirement by \$391,702.

KRS 278.400 authorizes "any party to the proceedings" to apply for rehearing of a Commission order within 20 days of service of the order. The Commission interprets the statute as "provid[ing] closure to Commission proceedings by limiting rehearing to new evidence not readily discoverable at the time of the original hearings."<sup>6</sup> The statute requires and the Commission expects "the parties to Commission proceedings to use reasonable diligence in the preparation and presentation of their cases and serves to prevent piecemeal litigation of issues."<sup>7</sup> Rehearing is not a vehicle for a party to reargue or re-litigate an issue fully addressed by the parties in the proceedings leading to the original order.<sup>8</sup>

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<sup>2</sup> Rate Case Order at 41-42.

<sup>3</sup> *Id.* at 51-57.

<sup>4</sup> *Id.* at 37-40.

<sup>5</sup> *Id.* at 24.

<sup>6</sup> *In the Matter of: Application Of Kentucky-American Water Company For A Certificate Of Public Convenience And Necessity Authorizing Construction Of The Northern Division Connection*, Case No. 2012-00096 at 4 (Ky. P.S.C. January 23, 2014).

<sup>7</sup> *Id.*

<sup>8</sup> *In the Matter of: D.P.I. Teleconnection, L.L.C. v. BellSouth Telecommunications, Inc. d/b/a AT&T Kentucky*, Case No. 2009-00127 at 3 (Ky. P.S.C. March 2, 2012) (rejecting motion for rehearing where movant failed to raise new arguments and arguments raised were fully considered in original order).

The Commission nevertheless enjoys the discretion to grant rehearing<sup>9</sup> to consider new arguments,<sup>10</sup> particularly where the argument could not reasonably have been raised before. In addition, rehearing will be granted when required to address any errors or omissions in the Commission's orders.<sup>11</sup> Each of these bases support rehearing here.

**A. Rehearing is Required to Address Errors Arising in the Commission's Calculation of the Company's Federal Income Tax Expense Reduction.**

Two weeks following the close of the evidentiary hearing in this case, and the same day responses to post-hearing data requests were filed, President Trump signed into law the Tax Cuts and Jobs Act.<sup>12</sup> The Tax Cuts and Jobs Act in part amended the Internal Revenue Code to reduce the maximum federal corporate income tax rate from 35 percent to 21 percent. This change in the corporate tax rate affects Kentucky Power and its customers by (1) reducing the gross up factor applied to incremental revenue ("Pro Forma Changes"); and (2) reducing federal income tax expense in the current period revenue requirements ("Current Period Changes"). It also results in excess accumulated deferred income tax ("Excess ADIT").

Two days prior to the Tax Cuts and Jobs Act being signed into law, Kentucky Industrial Utility Customers, Inc. ("KIUC") on December 20, 2017 filed a complaint with the Commission seeking a reduction in rates from four investor-owned electric utilities in the state, including Kentucky Power.<sup>13</sup>

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<sup>9</sup> *In the Matter of: Adjustment Of Rates Of General Telephone Company Of Kentucky*, Case No. 8859 at 1 (Ky. P.S.C. June 28, 1984) (Commission exercised its discretion to grant second petition for rehearing to ensure due process).

<sup>10</sup> *In the Matter of: America's Tele-Network Corp.'s Alleged Violation of KRS 278.535*, Case No. 2000-00421 at 2 (Ky. P.S.C. March 23, 2001) (limiting scope of rehearing to new arguments raised in petition).

<sup>11</sup> *In the Matter of: Application of Jessamine-South Elkhorn Water District For A Certificate Of Public Convenience And Necessity To Construct And Finance A Waterworks Improvement Project Pursuant To KRS 278.020 And 278.300*, Case No. 2012-00470 at 11 (January 3, 2014).

<sup>12</sup> H.R. 1, formally titled, An Act To Provide For Reconciliation Pursuant To Titles II And V Of The Concurrent Resolution On The Budget For Fiscal Year 2018.

<sup>13</sup> *Complaint And Petition For The Establishment Of A Regulatory Liability To Provide Consumers A Rate Reduction Because Of Tax Expense Savings*, Case No. 2017-00477. By order dated January 25, 2018, the

In the Rate Case Order, the Commission reduced the Company's revenue requirement to reflect its own calculation of the effect of the reduction in the maximum federal corporate income tax rate as a result of the Tax Cuts and Jobs Act.<sup>14</sup> Kentucky Power joins the Commission in its desire to provide the Company's customers with the net benefits of Tax Cuts and Jobs Act as quickly as possible. Nevertheless, those benefits must be correctly calculated.

The Order identifies \$13,943,890 in reductions due to "Change in GRCF."<sup>15</sup> No explanation is provided in the Order for what constitutes the "Change in GRCF" or how the Commission calculated the \$13,943,890 amount. Additionally, due to the timing of the enactment of the Tax Cuts and Jobs Act, there is no evidence in the record regarding the impact of the change in corporate tax rate on the Company's tax expense.

During the January 23, 2018 informal conference requested by the Company to address this uncertainty, Commission Staff indicated that the \$13,943,890 reduction calculated by the Commission represents the Current Period Change arising from the Tax Cuts and Jobs Act as well as the Pro Forma Changes associated with the approved revenue increase. Notwithstanding the Commission's efforts, and as described below, the Commission's calculation of the Current Period Change overstates the reduction in the Company's revenue requirement by \$765,030.

As shown in Appendix 1,<sup>16</sup> the cost of service study that produced the Settlement revenue requirement of \$31,780,734 contained \$13,953,736 of adjusted test year tax expense that

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Commission separated Case No. 2017-00477 into separate proceedings for each of the defendants. Kentucky Power is a defendant in Case No. 2018-00035.

<sup>14</sup> Rate Case Order at 41. The Rate Case Order addressed only the Commission's calculation of the Pro Forma Changes and the Current Period Changes; it expressly reserved the Excess ADIT issue to the KIUC complaint proceeding.

<sup>15</sup> Rate Case Order, Appendix F.

<sup>16</sup> Because the Tax Cuts And Jobs Act had not been enacted by the conclusion of the hearing, and the Company was not provided with the Commission's calculations of the effect of the Tax Cuts And Jobs Act until after the Commission entered the Rate Case Order, rehearing should be granted and Kentucky Power should be permitted to supplement the record on the issue. *Util. Reg. Com'n v. Ky. Water Serv. Co.*, 642 S.W.2d 591, 593 (Ky. App. 1982) (rehearing is required where utility did not have an opportunity to review, test, explain, or refute evidence relied

contributed to the required net electric operating income increase of \$19,339,091. When the required net electric operating income increase was multiplied by the gross revenue conversion factor of 1.64334 (reflecting the prior 35% marginal tax rate) it produced the settlement revenue requirement of \$31,780,734.

A multi-step process is required to properly reduce the settlement revenue requirement to reflect tax expense at the new 21% marginal rate. First, the adjusted test year tax expense of \$13,953,736 must be reduced to an expense level that reflects the 21% rate by multiplying the adjusted tax year amount by 21/35. The updated adjusted tax year expense reflecting the new 21% marginal rate is \$8,372,242. This amount reflects a reduction in adjusted test year tax expense of \$5,581,494.

Next, the required net operating income increase must be reduced by the amount of the reduction in adjusted test year tax expense. When the prior (at 35%) required net electric operating income increase of \$19,339,091 is reduced by the \$5,581,494 reduction in adjusted test year tax expense, the result is an updated (at 21%) required net electric operating income increase of \$13,757,597.

Finally, the updated (at 21%) required net electric operating income increase of \$13,757,597 must be grossed-up to produce the new updated revenue requirement. When the updated required net electric operating income increase of \$13,757,597 is multiplied by the gross revenue conversion factor of 1.35212 (reflecting the new 21% marginal tax rate) it produces an updated settlement revenue requirement of \$18,601,874.

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upon by Commission.) Kentucky Power thus is filing the testimony of Company Witness Vaughan in support of Appendix 1.

Applying the remaining cost of service adjustments<sup>17</sup> totaling \$5,488,214 identified in Appendix F of the Rate Case Order to the updated Settlement revenue requirement of \$18,601,874 produces an adjusted revenue requirement increase of \$13,113,660, or \$765,030 above the \$12,348,630 calculated by the Commission in the Rate Case Order.

Because the Tax Cuts and Jobs Act was enacted after the conclusion of the hearing, the Commission lacked the opportunity to develop a record concerning the effect of the Act on the Company's cost of service. Rehearing will provide all parties with notice, while providing the Commission an opportunity to develop a record and to calculate correctly the effect of the Tax Cuts and Jobs Act on the Company's adjusted test year tax expense and going-forward annual revenue requirement. Providing this opportunity is fully consistent with due process, which requires that all parties to the proceeding be provided notice of the issues to be decided and the evidence to be considered, as well as the opportunity to test, explain, and refute that evidence,<sup>18</sup> and to offer a contrary calculation.<sup>19</sup>

Kentucky Power respects the Commission's desire to flow the benefits from a reduction in the maximum federal corporate income tax rate back to customers as soon as possible; however, these benefits must be accurately applied to the taxes paid by Kentucky Power and reflected in the adjusted test year tax expense filed in the case. The Commission's calculation failed to do so. The grant of rehearing will provide the Commission with the opportunity to reexamine its calculation and to amend the Rate Case Order to increase the Company's annual revenue requirement by \$765,030 to reflect accurately the effects of the Tax Cuts and Jobs Act on the Company's cost of service filed in the case.

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<sup>17</sup> The Company reserves the right to appeal each of these adjustments.

<sup>18</sup> *Kentucky Util. Reg. Com'n v. Water Serv. Co.*, 642 S.W.2d 591, 593 (Ky. App. 1982).

<sup>19</sup> *Id.* quoting *Bowman Transp. v. Arkansas Best Freight Sys.*, 419 U.S. 281, 287 (1974) ("Indeed, the Due Process Clause forbids any agency to use evidence in a way that forecloses an opportunity to offer a contrary presentation.")

**B. Rehearing is Required to Address Issues Relating to the Company's Proposed Changes to Tariff P.P.A.**

The Rate Case Order does not account for the prior treatment of costs recovered under Tariff P.P.A., omits certain costs from base rates contrary to the clear direction of the Rate Case Order, and presents the Company with unreasonable risk of trapped prudently incurred costs. Each of these issues should be addressed on rehearing.

Prior to the Rate Case Order, the Company recovered through Tariff P.P.A. costs associated with (1) demand credits paid to C.S.-I.R.P. customers; (2) purchase power expenses associated with forced outages not recoverable through the Company's fuel adjustment clause ("Forced Outage Expense"); and (3) power purchased through new Purchase Power Agreements.<sup>20</sup> The Company's recovery of Forced Outage Expense began following the retirement of Big Sandy Unit 2 in conformity with the Commission's Orders in Case Nos. 2012-00578 (approving the recovery) and 2014-00396 (approving the recovery methodology).<sup>21</sup> The Company recovered the aggregate costs of all three categories through a monthly purchase power adjustment factor. None of these costs were included in the Company's cost of service for recovery through base rates.

In this case, the Company sought to modify Tariff P.P.A. in two respects. First, the Company sought approval to recover three additional costs through Tariff P.P.A: (1) the charges and credits it incurs as a load serving entity ("LSE") in PJM under PJM's FERC-approved Open

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<sup>20</sup> Vaughan Direct Testimony at 26.

<sup>21</sup> Order, *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) All Other Required Approvals and Relief*, Case No. 2012-00578 (Ky. P.S.C. October 7, 2013); Order, *In the Matter of: Application Of Kentucky Power Company For: (1) A General Adjustment Of Its Rates For Electric Service; (2) An Order Approving Its 2014 Environmental Compliance Plan; (3) An Order Approving Its Tariffs And Riders; And (4) An Order Granting All Other Required Approvals And Relief*, Case No. 2014-00396 (Ky. P.S.C. June 22, 2015).

Access Transmission Tariff (“PJM OATT LSE Charges”); (2) purchase power costs excluded from recovery under the FAC due to the peaking unit equivalent calculation (“Peaking Unit Equivalent Expense”); and (3) gains and losses from incidental gas sales.<sup>22</sup>

Second, the Company sought to switch from a monthly purchase power adjustment factor calculation, where the monthly qualifying costs were recovered as they were incurred, to an annual purchase power adjustment factor calculation. Under the Company’s proposal, the annual aggregate amount of the costs eligible for recovery through Tariff P.P.A. (“Tariff P.P.A. Expense”) was to be compared to the amount of those costs included in base rates (“Base Rate Tariff P.P.A. Expense”).<sup>23</sup> The Company then would calculate the annual purchase power adjustment factor to recover or credit any over or under recovery of the base rate amount ensuring that customers pay no more or no less than the actual charges.<sup>24</sup> The Company proposed this change to promote bill stability.<sup>25</sup> Kentucky Power set the annual purchase power adjustment factor initially at zero.<sup>26</sup> The aggregate amount of Base Rate Tariff P.P.A. Expense was \$78,737,938.<sup>27</sup>

The Commission approved in part and rejected in part the Company’s proposed changes to Tariff P.P.A. In particular, the Commission (1) denied recovery of the Company’s Peaking Unit Equivalent Expense through Tariff P.P.A.; (2) partially rejected the Company’s proposed change to the peaking unit equivalent calculation; and (3) denied recovery of gains and losses from incidental gas sales through Tariff P.P.A. The Commission also reversed without explanation its prior approval, in Case No. 2012-00578 and Case No. 2014-00396, of the

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<sup>22</sup> Vaughan Direct Testimony at 26.

<sup>23</sup> *Id.* at 35-36.

<sup>24</sup> *Id.* at 36.

<sup>25</sup> *Id.* at 36.

<sup>26</sup> *Id.* at 35-36.



Company’s recovery through Tariff P.P.A. of Forced Outage Expense. Rehearing is appropriate to address each of these issues.

1. Contrary To Its Terms, The Rate Case Order Denied The Company The Ability To Recover Its Test Year Forced Outage Expense Through Its Base Rates.

The Company included \$78,737,938 of Base Rate Tariff P.P.A. Expense. This amount represented adjusted test year amounts for each category of costs proposed for recovery under Tariff P.P.A.:

CATEGORY OF COSTS	AMOUNT
CS-IRP Demand Credits	\$42,026 <sup>28</sup>
Forced Outage Expense	\$882,204 <sup>29</sup>
New Purchase Power Expense	\$0 <sup>30</sup>
PJM OATT LSE Charges	\$74,038,517 <sup>31</sup>
Peaking Unit Equivalent Expense	\$3,789,173 <sup>32</sup>
Gains/Losses from Incidental Gas Sales	(\$13,982) <sup>33</sup>
<b>TOTAL</b>	<b>\$78,737,938<sup>34</sup></b>

Because the Company had been recovering the costs through Tariff P.P.A., and because of the two-month delay in recovering expenses through the prior version of the tariff, the Company synchronized the net unrecovered expense associated with CS-IRP Demand Credits, Forced Outage Expense, and expenses from new purchase power agreements (the “Original Tariff

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<sup>27</sup> See, the Company’s response to KIUC 1-67; Exhibit AEV-4S.

<sup>28</sup> Attachment 1 to the Company’s Response to KIUC 1-67.

<sup>29</sup> Attachment 83 to the Company’s Response to KPSC 1-73 (Adjustment W27 Workpaper).

<sup>30</sup> Attachment 1 to the Company’s Response to KIUC 1-67.

<sup>31</sup> *Id.*

<sup>32</sup> Attachment 82 to the Company’s Response to KPSC 1-73 (Adjustment W26 Workpaper).

<sup>33</sup> Attachment 1 to the Company’s Response to KIUC 1-67.

<sup>34</sup> *Id.*

P.P.A. Expenses”) and removed the unrecovered expenses from the cost of service through Adjustment W9.

Because Adjustment W9 served to “zero-out” the test-year Original Tariff P.P.A. Expenses in the cost of service study, the Company was required to add in adjusted test-year amounts for each in the Base Rate Tariff P.P.A. Expense to be utilized going forward in calculating the annual purchase power adjustment factor. For Forced Outage Expense, the Company, through Adjustment W27, added the three-year average of Forced Outage Expense. Adjustment W27 increased the amount of Forced Outage Expense to be recovered in base rates from \$0.00 to the three-year average of \$882,204.<sup>35</sup> The test-year amount of Forced Outage Expense was \$1,158,285.<sup>36</sup>

Although no party challenged in this case Kentucky Power’s ability under the Commission’s Order in Case No. 2012-00578 and Case No. 2014-00396 to continue to recover its Forced Outage Expense through Tariff P.P.A., or the changes proposed by the Company in this case to the recovery mechanism, the Commission rejected the recovery of Forced Outage Expense through Tariff P.P.A. Instead, the Commission indicated that the Company should recover its test year Forced Outage Expense through base rates:

The Commission is not convinced that this issue requires special ratemaking treatment. The Commission has long held that any purchased power costs not recoverable through the FAC are eligible for recovery through base rates. The Commission finds Kentucky Power’s proposal to include an estimated amount of FAC Purchased Power Limitation Expense in base rates, and subsequently true up that amount through Tariff P.P.A., is unreasonable and therefore should be denied. The Commission notes that Kentucky Power filed this case using a

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<sup>35</sup> Compare with Adjustment W26 which related to Peaking Unit Equivalent Expense. Because the Company had not previously recovered Peaking Unit Equivalent Expense through Tariff P.P.A., the \$638,591 of test-year Peaking Unit Equivalent Expense was not synchronized and removed from the Company’s cost of service. Through Adjustment W26, the Company increased the test year amount of Peaking Unit Equivalent Expense by \$3,150,582 so that the three-year average amount of Peaking Unit Equivalent Expense (\$3,789,173) would be included in the Base Rate Tariff P.P.A. Expense. Elimination of Adjustment W26 leaves the test year amount of \$638,591 in Peaking Unit Equivalent Expense to be recovered in base rates.

<sup>36</sup> Attachment 83 to the Company’s Response to KPSC 1-73 (Adjustment W27 Workpaper).

historic test period. *The Commission will allow recovery of the test year amount of purchased power reasonably incurred, but excluded from the FAC.*<sup>37</sup>

The Commission followed this conclusion by rejecting Adjustment W27, explaining “[f]or the foregoing reasons, adjustments W26 and W27, with total \$4,032,786, are unreasonable and should be removed from the revenue requirement.”<sup>38</sup>

Although recognizing Kentucky Power’s right to recover test year Forced Outage Expense through base rates, the Commission failed to adjust the Company’s base rate revenue requirement to permit it to do so. Because Adjustment W27 adjusted the amount of Forced Outage Expense recovered through base rates from \$0.00<sup>39</sup> to the three-year average of \$882,204, the Commission’s decision to reject Adjustment W27 removes all Forced Outage Expense from base rates. Hence, the \$1,158,285 of reasonably incurred test-year Forced Outage expense was eliminated from the Company’s revenue requirement and base rates despite the Commission’s clear finding authorizing recovery of the same.

Additionally, the Commission’s determination, without specific findings regarding changed circumstances or reasoned explanation,<sup>40</sup> to reject its prior decision allowing the Company to recover its Forced Outage Expense through Tariff P.P.A. creates unreasonable risk for the Company. This is especially true in the context of the three-year rate case stay out included in the Settlement Agreement. While rejecting the previously approved recovery of Forced Outage Expense, the Commission provided a safe-harbor through future rate cases:

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<sup>37</sup> Rate Case Order at 55 (emphasis supplied).

<sup>38</sup> *Id.*

<sup>39</sup> Force Outage Expense was removed from the cost of service as part of Adjustment W9.

<sup>40</sup> *In re Appeal of Hughes & Coleman*, 60 S.W.3d 540, 544 (Ky. 2001) (“while the agency may reexamine its prior decisions and depart from its precedents, it must explicitly and rationally justify such a change of position.”) Compare, Order, *In The Matter Of: Electronic Investigation Of The Reasonableness Of The Demand Side Management Programs And Rates Of Kentucky Power Company* at 12-13, Case No. 2017-00097 (Ky. P.S.C. Jan. 18, 2018) (“Here, we find that the circumstances have sufficiently changed since our approval of the settlement agreement reached by Kentucky Power, the Sierra Club, and others in Case No. 2012-00578 to warrant a re-

*To the extent that Kentucky Power incurs any expenses due to purchased power that is appropriately incurred after the test year, but excluded from the FAC, it can file a base rate case seeking recovery of those expenses.*<sup>41</sup>

This finding provides comfort that the Company could file a rate case, if necessary, and seek recovery of Forced Outage Expense in typical circumstances, but ignores the impact of the three-year rate case stay out provision agreed to by the Company in the Settlement Agreement.

To eliminate the risk associated with increased Forced Outage Expense being recoverable only through subsequent base rate cases while still maintaining the three-year stay out, the Company requests accounting authority to establish a regulatory asset to defer any Forced Outage Expense above the test-year amount of \$1,158,285 included in base rates for recovery in the Company's next base rate case proceeding. Such a deferral will effectuate the Commission's finding that it "will allow recovery of the test year amount of purchased power reasonably incurred, but excluded from the FAC,"<sup>42</sup> by including the test year of Forced Outage Expense in base rates while at the same time giving meaning to the Commission's grant of the ability to recover increased expense in base rate cases in light of the three-year stay out included in the Settlement Agreement. The risk of unmanageable increased Forced Outage Expense could alter the ability of the Company to continue to agree to the stay-out.

2. The Commission Excluded from the Peaking Unit Equivalent Cost Calculation Costs Incurred Regardless of Type of Natural Gas Service.

Because it does not own a peaking unit, the Commission authorized Kentucky Power to use a hypothetical peaking unit equivalent as part of its evaluation of its highest cost generating asset to serve as the cap on the amount of purchased power expense that can be recovered

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examination of the provision requiring Kentucky Power to increase its DSM spending to a minimum of \$6 million through 2018 and beyond, subject to the Commission's prior approval to decrease that amount of spending.")

<sup>41</sup> Rate Case Order at 55 (emphasis supplied).

<sup>42</sup> Rate Case Order at 55.

through the FAC.<sup>43</sup> In its application, Kentucky Power sought to update the calculation of its peaking unit equivalent costs to reflect more accurately the true cost of a peaking unit.<sup>44</sup> The Company's proposed calculation included the cost of obtaining a firm gas supply, unit startup costs, and unit variable operations and maintenance ("O&M") costs.<sup>45</sup>

The Commission approved the addition of unit startup costs and variable O&M costs to the peaking unit equivalent cost calculation but rejected the cost of obtaining a firm gas supply.<sup>46</sup> The Commission did so because it concluded that combustion turbines do not require a firm gas supply:

While firm gas service would certainly allow the CT to be dispatched any day of the year, the Commission is unaware of any jurisdictional utility utilizing firm gas service for a CT. Because CTs typically operate at low capacity factors and are primarily utilized during the summer peaking months, when pipeline capacity would typically not be constrained, the Commission finds the inclusion of firm gas service in the calculation of the PUE to be unreasonable, and therefore, this change in the PUE calculation should be denied.<sup>47</sup>

The Commission erred in excluding firm gas supply cost calculation presented in Exhibit AEV-8 in its entirety. That calculation also included costs the Company would incur in obtaining natural gas on an interruptible basis. Specifically, the costs associated with transportation retainage, the park and lend rate, and the FERC annual charge adjustment are incurred even if a combustion turbine is served via an interruptible natural gas contract.<sup>48</sup>

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<sup>43</sup> Order, *In The Matter Of: An Examination By The Public Service Commission Of The Application Of The Fuel Adjustment Clause Of American Electric Power Company From May 1, 2001 To October 31, 2002*, Case No. 2000-00495-B (Ky P.S.C. Oct. 3, 2002).

<sup>44</sup> Vaughan Testimony at 33-34.

<sup>45</sup> *Id.*

<sup>46</sup> Rate Case Order at 55-56.

<sup>47</sup> *Id.*

<sup>48</sup> Vaughan Testimony, Exhibit AEV-8.

Underscoring this fact is that one of these costs, the park and lend rate, was previously approved for inclusion in the peaking unit equivalent calculation.<sup>49</sup>

Because they are incurred even when a combustion turbine is served by an interruptible natural gas supply, the costs associated with transportation retainage, the park and lend rate, and the FERC annual charge adjustment should be included in the peaking unit equivalent cost calculation.

3. The Company Seeks Clarification of the Reporting Requirement for Gains and Losses from Incidental Gas Sales.

In the Rate Case Order, the Commission rejected the Company's proposal to credit or recover gains and losses from incidental gas sales through Tariff P.P.A., concluding that "[I]f such gains or losses occur in the future, Kentucky Power should notify the Commission so those matters may be addressed in a formal proceeding."<sup>50</sup> The Rate Case Order, however, does not specify the manner through which such notice should be given. Because incidental gas sales occur as part of the Company's normal business operations, the Company is offering as means to satisfy the Commission's notification requirement by reporting gains and losses incurred in connection with incidental gas sales as part of its FAC backup filings. It would be impractical and cost prohibitive to have a formal proceeding for each instance of incidental gas sales.

C. Rehearing is Required to Clarify and Correct the Order's Language Regarding the Recovery of the Rockport Deferral Regulatory Asset.

The Settlement Agreement between Kentucky Power and the Settling Intervenors included the innovative Rockport Deferral that allowed for lower bill impacts for customers in the near term in exchange for the promise of later recovery by the Company. Through the

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<sup>49</sup> Order, *In The Matter Of: The Request Of Kentucky Power Company d/b/a American Electric Power To Change The Gas Price Index It May Use In Determining The Costs Recoverable Through Its Fuel Adjustment Clause*, Case No. 2004-00375 (Ky. P.S.C. Nov. 10, 2004).

<sup>50</sup> Rate Case Order at 57.

Rockport Deferral, Kentucky Power reduced its base rate revenue requirement by \$15 million and will defer a total of \$50 million dollars for future recovery. Deferring costs of this magnitude is risky to a utility and its credit rating, and accordingly, the Settlement Agreement contained specific provisions relating to the recovery of the Rockport Deferral Regulatory Asset.<sup>51</sup> The specific provisions for recovery were part of the balance agreed to as a means of reducing the rate impact of the Rate Case Order in the short term without negatively impacting the Company's credit rating and thereby avoiding additional borrowing costs to be borne by customers.<sup>52</sup> Without the specific recovery provisions the Company's credit rating could be at risk.

The importance of the specific Rockport Deferral recovery mechanism to the Settlement Agreement is evidenced in the language of the Agreement's rate case stay-out provision:

This rate case "stay out" is expressly conditioned on Commission approval of this Settlement Agreement without modification *including the recovery of the Rockport Deferral Regulatory Asset as described in Section 3 above* and the incremental PJM OATT LSE expense through Tariff P.P.A. as described in Section 4 above.<sup>53</sup>

While the stay-out provision is clear that it is conditioned on the approval of the Settlement Agreement without modification, the specific language relating to recovery of the Rockport Deferral Regulatory Asset highlights the critical nature of that recovery to the overall balance of the Settlement Agreement. Without assurance as to the recovery mechanism for the Rockport Deferral Regulatory Asset upon the terms and over the period described in detail in the Settlement Agreement, the Company's risk calculus relating to the rate case stay-out provision changes.

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<sup>51</sup> Settlement Agreement at ¶ 4(c).

<sup>52</sup> Wohnhas Hearing Testimony at 936.

<sup>53</sup> Settlement Agreement at ¶ 5(a) (emphasis added).

Kentucky Power seeks rehearing to address specific issues relating to the Commission's approval of the Rockport Deferral. As an initial matter, the Order notes that the "recovery period of the Proposed Rockport Deferral Mechanism is contingent upon Kentucky Power not renewing the Rockport UPA."<sup>54</sup> The Commission later states that it "recognizes that there are inherent risks associated with any deferral mechanism, especially since the deferral recovery is contingent upon not renewing the Rockport UPA."<sup>55</sup> The Commission's language makes it appear that the period during which the Rockport Deferral Regulatory Asset may be recovered (first quote) or even the ability of the Company to recover the Rockport Deferral Regulatory Asset (second quote) is contingent on Kentucky Power not renewing the Rockport UPA. This is not the case. The only portion of the Rockport Deferral Mechanism contingent upon the non-renewal of the Rockport UPA is the provision in Paragraphs 3(f)-(h) of the Settlement Agreement relating to crediting the Rockport Fixed Costs Savings immediately to customers. Under the Settlement Agreement, recovery of the Rockport Deferral Regulatory Asset must occur regardless of whether conditions warrant renewal of the Rockport UPA. This is a critical clarification that must be addressed. Rehearing is appropriate for the Commission to clarify that only the provisions in Paragraphs 3(f)-(h) of the Settlement Agreement are contingent on non-renewal of the Rockport UPA and that the Company will be allowed to recover the Rockport Deferral Regulatory Asset regardless.<sup>56</sup>

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<sup>54</sup> Rate Case Order at 39.

<sup>55</sup> *Id.* at 40.

<sup>56</sup> Because the Rockport UPA is a FERC-Approved rate schedule, the Company is authorized full and concurrent recovery through rates. *See, Order, In the Matter of: 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*, Case No. 2006-00307 at 11 (Ky. P.S.C. January 24, 2007).



Kentucky Power also seeks rehearing to address the Order's language regarding recovery of the Rockport Deferral Regulatory Asset. The Settlement Agreement clearly identifies the process by which the Company will recover the Rockport Deferral Regulatory Asset:

From December 9, 2022 until the Rockport Deferral Regulatory Asset is fully recovered, the WACC will be applied to the monthly Rockport Deferral Regulatory Asset balance including deferred carrying charges net of ADIT. The Rockport Deferral Regulatory Asset shall be recovered on a levelized basis through the demand component of Tariff P.P.A. and amortized over five years beginning on December 9, 2022.<sup>57</sup>

As described above, the specifics of the recovery mechanism were a critical component of the balance that allowed the Company to reduce the immediate bill impact of this Rate Case Order without negatively impacting the Company's credit rating. The Commission's Order appears, however, to ignore the specific recovery mechanism outlined in the Settlement Agreement. The Commission's approval of the Rockport Deferral concludes with the following statement:

This approval is for accounting purposes only, and the appropriate ratemaking treatment for this regulatory asset account will be addressed in Kentucky Power's next general rate case.<sup>58</sup>

Kentucky Power seeks rehearing to permit the Commission to clarify its support of the recovery language in the Settlement Agreement that enabled the initial bill reduction in the Rate Case Order. The Company premised the entire offer of the lower revenue requirement through a deferral based on the authority to recover that deferral at a later time. The Commission should be willing to authorize the recovery of the Rockport Deferral Regulatory Asset as specifically set forth in the Settlement Agreement or the bargain struck for the benefit of customers in the near term is called into question and the regulatory uncertainty regarding the recovery mechanism for this significant deferral asset could affect the Company's credit rating and force a reevaluation of

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<sup>57</sup> Settlement Agreement at ¶ 3(c).

<sup>58</sup> Rate Case Order at 40.

the rate case stay-out provision. It is unreasonable to order only the near term benefit without the recognition of the corresponding recovery over the longer term.

**D. Rehearing is Required to Correct the Order’s Treatment of Accounts Receivable Financing.**

The Commission also erred in adjusting the Company’s capital structure based upon its misapprehension that the Company acted unreasonably in its use of accounts receivable financing.<sup>59</sup> Specifically, the Commission found that “selling the receivables but maintaining the bad debt places an undue burden onto Kentucky Power’s customers.”<sup>60</sup> The Commission also found that the cost of accounts receivable financing is higher than the current cost of traditional short term financing.<sup>61</sup> Based on these conclusions – the first of which is in error and the second of which, respectfully, is irrelevant – the Commission adjusted the Company’s capital structure by reducing Kentucky Power’s weighted average cost percentage of accounts receivable financing by three basis points and increasing the weighted average cost percentage of short term debt by a like amount.<sup>62</sup> The result was to decrease Kentucky Power’s revenue requirement by \$391,702.

1. **The Company’s Accounts Receivable Discount Properly Includes a Bad Debt Expense Component.**

Accounts receivable financing is a well-established business practice used by regulated and non-regulated businesses alike.<sup>63</sup> It allows Kentucky Power to “reduce ...[its] working capital needs by accelerating the receipt of cash flows from the collection of customer accounts

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<sup>59</sup> *Id.* at 24.

<sup>60</sup> *Id.*

<sup>61</sup> *Id.*

<sup>62</sup> *Id.*

<sup>63</sup> John Downes & Jordan Goodman, *Dictionary of Finance and Investment Terms* (9<sup>th</sup> Ed. 2014) (Factoring has traditionally been most closely associated with the garment industry, but is used by companies in other industries as well.) Although there are differences between factoring and accounts receiving financing, the principles for purposes of this motion for rehearing are the same.

receivable, and thereby reduc[e its] ... dependence ... upon more costly sources of capital.”<sup>64</sup> Indeed, the Commission previously has approved inclusion of accounts receivable financing as part of the capital structures of Kentucky Power<sup>65</sup> and other utilities.<sup>66</sup>

Accounts receivable financing takes two forms: “with recourse” or “without recourse.” In with recourse financing the seller of the account receivable is required to repurchase a defaulted account or otherwise reimburse the purchaser for the defaulted receivable.<sup>67</sup> In without recourse financing, such as Kentucky Power employs, Kentucky Power is not required to repurchase the bad debt.<sup>68</sup> In both instances, however, the seller bears the “cost” associated with the bad debt. In with recourse financing the “cost” is paid through the repurchase of the defaulted account receivable or the payment of the claim made by the purchaser.<sup>69</sup> In without

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<sup>64</sup> Kentucky Power Response to KPSC\_PH\_009.

<sup>65</sup> Order, *In The Matter Of: Application Of Kentucky Power Company For: (1) A General Adjustment Of It Rates For Electric Service; (2) An Order Approving Its 2014 Environmental Compliance Plan; (3) An Order Approving Its Tariffs And Riders; And (4) An Order Granting All Other Required Approvals And Relief*, Case No. 2014-00396 at 36 (Ky. P.S.C. June 22, 2015) (“The Commission finds that Kentucky Power's capital structure for ratemaking purposes should include no short-term debt, 4.61 percent accounts receivable financing, 51.49 percent long-term debt, and 43.9 percent common equity as proposed by the AG.”); Order, *In the Matter of: General Adjustment Of Electric Rates Of Kentucky Power Company*, Case No. 2005-00341 at 14 (Ky. P.S.C. March 14, 2006) (“the Commission finds that the weighted average cost of capital for the Kentucky Power component of the current period revenue requirement should be determined using the unadjusted test-year-end capital structure, the test-year-end costs for debt and accounts receivable financing, and a rate of return on equity of 10.5 percent as stated in the Settlement Agreement.”)

<sup>66</sup> *In The Matter Of: The Application Of Kentucky Utilities Company For Approval Of An Amended Compliance Plan For Purposes Of Recovering The Costs Of New And Additional Environmental Compliance Costs Of New And Additional Environmental Control Facilities And To Amend Its Environmental Surcharge Tariff*, Case No. 220-00439 at 4 (Ky. P.S.C. August 30, 2001) (Order on rehearing amending prior order to provide “KU’s accounts receivable financing shall be recognized as a separate component of its capital structure in calculating the overall rate of return for the environmental surcharge and the ESM.”)

<sup>67</sup> John Downes & Jordan Goodman, *Dictionary of Finance and Investment Terms* (9<sup>th</sup> Ed. 2014) (“an account receivable sold with recourse enables the buyer of the receivable to make claim on the seller if the account doesn’t pay.”)

<sup>68</sup> *Bonnie & Co. Fashions v. Bankers Trust Co.*, 945 F.Supp. 693, 700 (S.D.N.Y. 1996) (recognizing that accounts receivable transferred without recourse to a factor are purchased at an agreed discount).

<sup>69</sup> John Downes & Jordan Goodman, *Dictionary of Finance and Investment Terms* (9<sup>th</sup> Ed. 2014) (“an account receivable sold with recourse enables the buyer of the receivable to make claim on the seller if the account doesn’t pay.”)

recourse financing the bad debt expense is bundled as part of the accounts receivable financing discount.<sup>70</sup>

The Commission erred in concluding “that selling the receivables but maintaining the bad debt places an unreasonable burden onto Kentucky Power’s customers.”<sup>71</sup> Nothing in the record shows that the Company’s accounts receivable financing program during the test year differed from that incorporated as part of capital structures previously approved by the Commission – it did not – or from the manner in which other utilities and businesses employ accounts receivable financing – it does not. The requirement that Kentucky Power bear the expense associated with its bad debt does not prejudice Kentucky Power, or its customers, or impose costs different from what it would otherwise bear. Indeed, if Kentucky Power retained its accounts receivable and collected them in the ordinary course of business, it would bear the bad debt expense – just as it does with accounts receivable financing – related to its uncollectible accounts. What Kentucky Power would lose if forced to abandon accounts receivable financing by the Commission’s Order are the accelerated receipt of cash flows and the reduced dependence on other more costly forms of financing that it gains through the accounts receivable financing program.<sup>72</sup> In short, Kentucky Power’s accounts receivable financing program is not unreasonable. The Commission’s conclusion to the contrary is without evidentiary support or findings of specific evidentiary fact.

Nor are Kentucky Power or its customers twice required to bear the bad debt expense associated with the Company’s uncollectible accounts receivable. Rather, when Kentucky Power bills an account – creating the receivable – it books the full amount of the billed

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<sup>70</sup> *Id.* (explaining that in discount factoring the accounts receivable are purchased at a discount that includes claims (bad debt) and a financing component).

<sup>71</sup> Rate Case Order at 24.

<sup>72</sup> Kentucky Power Response to KPSC\_PH\_009.

revenue.<sup>73</sup> The Company makes accounting entries to reflect the bad debt expense and administrative fee components of the accounts receivable discount.<sup>74</sup> Those two components of the accounts receivable financing discount alone are then reflected in the Company's cost of service.<sup>75</sup> The financing cost (carrying charge) component, by contrast, is reflected only in the Company's capital structure.<sup>76</sup> Customers thus are no differently situated – and certainly are not unduly burdened – than they would be if the Company had instead retained its accounts receivable and otherwise financed its cash flow.

2. The Carrying Charge Component of the Accounts Receivable Financing Discount Is Reasonable.

The Commission's observation that "the cost of accounts receivable financing is higher than traditional short-term financing"<sup>77</sup> assumes without record support that the Company would replace accounts receivable financing exclusively with short term debt. In fact, Company Witness Miller testified that it would fund the financing currently provided by accounts receivable financing using equity, long-term debt, and short-term debt:

If we were to not include accounts receivable financing in the capital structure, we would have to finance that at Kentucky Power's overall cost of capital, or weighted average cost of capital of long-term debt, short-term debt, and equity. So, I mean, it's a cost savings, low cost.<sup>78</sup>

Nor is the financing cost unreasonable. In response to the Vice-Chairman's statement that "the only concern the Commission has is that AEP Credit is actually acting as a profit center for AEP

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<sup>73</sup> *Id.*

<sup>74</sup> *Id.*

<sup>75</sup> *Id.*

<sup>76</sup> *Id.* Because only the financing cost of the accounts receivable financing discount is reflected in the Company's capital structure it is both illogical and without support in the record to adjust the Company's capital structure based on the Commission's concerns – even if they were rooted in the record and they are not – about the bad debt expense.

<sup>77</sup> Rate Case Order at 24.

<sup>78</sup> Miller Hearing Testimony at 903.

and benefitting to the expense of Kentucky Power by paying at a premium over what it could borrow at a short term rate,”<sup>79</sup> Kentucky Power confirmed the financing component of the accounts receivable discount is a direct pass-through of AEP Credit’s cost:

The interest rates or carrying charge AEP Credit bills to Kentucky Power for accounts receivable financing are a direct pass through based on actual financing costs which compensate AEP Credit for the costs associated with financing the purchased receivables.<sup>80</sup>

Moreover, “AEP Credit, as a special purpose financing entity, can borrow money more cheaply than the Operating Companies can individually.”<sup>81</sup> The record thus is uncontroverted that the Company’s use of accounts receivable financing is both reasonable and the financing costs associated therewith are less than Kentucky Power could achieve on its own.

Breaking from precedent, and without support in the record, the Commission erred in its treatment of the Company’s use of accounts receivable financing. Accordingly, the Commission on rehearing should enter an Order increasing the Company’s revenue requirement \$391,702, and adjusting Kentucky Power’s approved capital structure and weighted average cost of capital as follows:

Line No. (1)	Description (2)	Reapportioned Kentucky Jurisdictional Capital 1/ (3)	Percentage of Total (4)	Annual Cost Percentage Rate (5)	Weighted Average Cost Percent (6) = (4) X (5)
1	Long Term Debt	\$648,913,758	53.45%	4.36%	2.33%
2	Short Term Debt	0	1.00%	1.25%	0.01%
3	Accounts Receivable Financing 4/	46,105,009	3.87%	1.95%	0.08%
4	Common Equity	496,766,726	41.68%	9.70%	4.04%
5	Total	<u>\$1,191,785,493</u>	<u>100.00%</u>		<u>6.46%</u>

<sup>79</sup> Hearing Statement of Vice Chairman Cicero at 913.

<sup>80</sup> Kentucky Power Response to KPSC\_PH\_009.

<sup>81</sup> *Id.*

E. **The Commission Can Correct the Company's Annual Revenue Requirement Without Changing the Customer Bill Impacts of the Rate Case Order.**

As described above, rehearing is required to correct errors in the Commission's calculation of the Company's annual revenue requirement; however, the Commission has multiple options for implementing the required change in Company's annual revenue requirement. The Commission can simply amend the rates established in the Rate Case Order to reflect the increased cost of service and order new rates to be applied to customer bills effective January 19, 2018. Alternatively, the Commission can update the Rate Case Order to reflect the correct revenue requirement, but expressly reserve in its order on rehearing a portion of the excess ADIT set to be considered in Case No. 2018-00035 to maintain the same level of bill impact described in the Rate Case Order. However the Commission elects to proceed, the Rate Case Order must be amended, effective January 19, 2018, to reflect the increased revenue requirement as a result of the items raised by the Company on rehearing.

For the foregoing reasons, Kentucky Power respectfully requests that the Commission grant rehearing and:

(1) increase the Company's annual revenue requirement by \$765,030 to correct the Commission's miscalculation of the impact of the Tax Cuts and Jobs Act on the Company's current period tax expense;

(2) increase the Company's annual revenue requirement by \$1,158,285 to include the test year amount of Forced Outage Expense and allow for a deferral of any costs beyond that for recovery in the Company's next base rate case proceeding or, alternatively, permit the Company to continue to recover its Forced Outage Expense through Tariff P.P.A. as approved in Case No. 2012-00578;


(3) authorize the inclusion of the costs associated with transportation retainage, the park and lend rate, and the FERC annual charge adjustment in the Company's peaking unit equivalent cost calculation;

(4) clarify that recovery of the Rockport Deferral Regulatory Asset is not contingent on the non-renewal of the Rockport UPA and will occur consistent with the specific terms of Paragraph 3(c) of the Settlement Agreement;

(5) increase the Company's revenue requirement \$391,702, and adjust Kentucky Power's approved capital structure and weighted average cost of capital as set forth above;

(6) amend the rates established by the Rate Case Order to reflect the Company's corrected annual revenue requirement and change rates to recover that level or, alternatively, order that the annual amount of excess ADIT set to be considered in Case No. 2018-00035 to be reduced by an amount equal to the difference between the annual revenue requirement set forth in the Rate Case Order and the corrected annual revenue requirement so that the customer bill impacts are consistent with the balance provided by the Commission in the Rate Case Order; and

(7) all further relief to which Kentucky Power may be entitled.

Respectfully submitted,  


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COUNSEL FOR KENTUCKY POWER  
COMPANY

# APPENDIX 1

**Kentucky Power Company - Rehearing Appendix 1**

Line #	Line Description	Filed Settlement		Commission Order	Notes
		a	b	Appendix F	
		@35% FIT	@21% FIT	c	
				@21% FIT	
1	Federal Tax Expense Included in Settlement Cost of service	\$ 13,953,736	\$ 8,372,242		\$ 8,372,242 Equals \$13,953,736 * (21/35)
2	Net Electric Operating Income Increase Required	\$ 19,339,091	\$ 13,757,597		\$ 13,757,597 Equals \$19,339,091 minus (\$13,953,736 - \$8,372,242)
3	GRCF Revenue Increase	\$ 12,441,642	\$ 4,844,277		\$ 4,844,277 Equals \$13,757,597 * .352116
4	Required Revenue Increase	\$ 31,780,734	\$ 18,601,874	\$ 31,780,734	\$ 18,601,874 Equals 2b + 3b
5	Gross Revenue Conversion Factor	1.64334	1.35212		
	<u>Cost of Service Adjustments in Appendix F to Commission Order</u>				
6	OSS Rider Adjustment		\$ (489,051)	\$ (489,051)	
7	Theft Recovery Revenue		\$ (167,100)	\$ (167,100)	
8	Purchased Power Adj (WP 26&27)		\$ (4,054,664)	\$ (4,054,664)	
9	Relocation Expense		\$ (132,826)	\$ (132,826)	
10	Total Change in ROE and Capitalization		\$ (644,573)	\$ (644,573)	
11	Change in GRCF			\$ (13,943,890)	
12	Total of Adjustments	\$	\$ (5,488,214)	\$ (19,432,104)	
13	Adjusted Required Revenue Increase	\$ 31,780,734	\$ 13,113,660	\$ 12,348,630	
14	Revenue Requirement Difference Due to Tax Calculation		\$ 765,030		
15	Actual Reduction in GRCF Components		\$ 13,178,860	\$ 13,943,890	\$13,178,860 Equals (1a - 1b) + (3a - 3b)
16	Revenue Requirement Difference Due to Tax/GRCF Calculation		\$ 765,030		

KENTUCKY POWER COMPANY  
FULLY ADJUSTED BASE CASE SETTLEMENT SUMMARY  
TEST YEAR ENDED FEBRUARY 28, 2017

SECTION V  
SCHEDULE 1

LINE NO.	DESCRIPTION	BASE CASE PSC JURISDICTION	PROPOSED CHANGE	ADJUSTED PSC JURISDICTION
<u>Operating Revenues</u>				
1	Sales Of Electricity	\$ 499,534,503	\$ 31,780,734	\$ 531,315,237
2	Other Operating Revenues	\$ 25,618,746	\$ -	\$ 25,618,746
3	Non-firm Sales	\$ 42,357,604	\$ -	\$ 42,357,604
4	<u>Total Operating Revenues</u>	\$ 567,510,853	\$ 31,780,734	\$ 599,291,587
<u>Operating Expenses</u>				
5	Operation & Maintenance	\$ 396,536,656	\$ 171,489	\$ 396,708,145
6	Depreciation	\$ 74,760,443	\$ -	\$ 74,760,443
7	Taxes Other Than Income Taxes	\$ 22,412,856	\$ -	\$ 22,412,856
8	State Income Tax	\$ 691,026	\$ 1,856,797	\$ 2,547,823
	Other Including Customer Deposits	\$ 2,918,288		\$ 2,918,288
	Federal Income Tax :			
9	Current	\$ (5,623,351)	\$ 10,413,357	\$ 4,790,006
10	Deferred	\$ 19,577,087	\$ -	\$ 19,577,087
11	ITC Adjustment	\$ -	\$ -	\$ -
12	<u>Total Operating Expenses</u>	\$ 511,273,006	\$ 12,441,643	\$ 523,714,649
13	<u>Net Electric Operating Income (Line 4 - Line 12)</u>	\$ 56,237,848	\$ 19,339,091	\$ 75,576,939
14	<u>AFUDC Offset Adjustment / Deferred Income</u>	\$ 1,650,761	\$ -	\$ 1,650,761
15	<u>Net Electric Operating Income - Adjusted</u>	\$ 57,888,609	\$ 19,339,091	\$ 77,227,700
16	Total Rate Base			\$ 1,192,510,021
17	Rate of Return			0.0648
18	Capitalization			\$ 1,191,785,493
19	Rate of Return			0.0648
20	Total Operating Revenue			\$ 599,291,587
21	Change in Revenue Requirement			<u>\$ 31,780,734</u>