Kentucky Power Company
KPSC Case No. 2017-00179 General Rate Adjustment
Attorney General's First Re-Hearing Set of Data Requests
Dated April 2, 2018

DATA REQUEST

AG_RH1_001 Confirm that the Commission's reduction of KPCo's historic test year tax expense was based on a known and measurable change due to the Tax Cuts and Jobs Act ("TCJA").

RESPONSE

The Company confirms that the federal corporate tax rate was reduced from 35% to 21% as part of the Tax Cuts and Jobs Act ("TCJA"). The Company disputes the computation by the Commission of the effect of the rate reduction in its January 18, 2018 order in this case. That matter is pending before the Commission on rehearing in this case.

Witness: Ranie K. Wohnhas

DATA REQUEST

AG_RH1_002 Confirm that the non-unanimous settlement into which KPCo entered in the instant case provides, at page 9, that the Commission has authority to modify KPCo's rates to reflect changes in the tax code.

RESPONSE

The Company confirms that paragraph 5(c) of the non-unanimous settlement in this instant case states "Nothing in this stay out provision should be interpreted as prohibiting the Commission from altering the Company's rates upon its own investigation, or upon complaint, including to reflect changes in the tax code, including the federal corporate income tax rate, depreciation provisions, or upon a request by the Company to seek leave to address an emergency that could adversely impact Kentucky Power or its customers."

Witness: Ranie K. Wohnhas

DATA REQUEST

AG_RH1_003 Does KPCo agree with the Commission's statement on p. 42 of the Final Order in this matter dated Jan. 18, 2018, that ". . . the lower rates should serve as an impetus for economic development through recruiting new businesses as well as maintaining existing business customers"? If not, why not? Explain in complete detail.

RESPONSE

It is the Company's understanding that the statement referenced in the question refers to the decision to reflect the January 1, 2018 reduction in the effective federal corporate tax rate in the rates established in this case by the Commission's January 18, 2018 Order. Although Kentucky Power agrees that all other things being equal, comparatively lower electric rates can aid economic development efforts, the Company points out that economic development is many times a competition between many states and even sometimes areas within a state. It is the Company's understanding that most states opened a similar docket to implement reductions associated with federal tax reform, and that the Commission is addressing, or has addressed, the effect of the Tax Cut and Jobs Act on the rates of other Kentucky investor-owned utilities in separate proceedings. Therefore, to the extent economic development involves competition with other states, or other investor-owned utilities within the Commonwealth, the Commission's decision to reflect the reduction in the federal corporate tax rate effective January 19, 2018 allowed Kentucky Power to keep pace with the likely competition.

Beyond the effect of lower rates on the Company's competitiveness, the other issue associated with the implementation of the reduction of the Company's effective federal impact tax rate is the manner in which the reduction is implemented through rates, and the impact that implementation has on Kentucky Power's financial metrics. It is important that Kentucky Power be financially healthy enough to be able to provide safe and reliable service as part of any economic development effort. The implementation in Kentucky Power's rates of the reduction of the Company's effective federal corporate income tax rate must be undertaken in a way that does not harm Kentucky Power's financial metrics monitored by Wall Street and investors. Since the January 18, 2018 Order in this case, and the reflection of the federal tax changes in the rates established by that order, Kentucky Power has been placed on a negative ratings outlook (from stable) by Moody's Investors Service. The Moody's Investor Service release indicated "[t]he negative outlook reflects the combination of the utility's economically weak service territory, its latest rate case outcome, and recently enacted tax reform policy, which will put pressure on credit metrics over the next twelve eighteen months …." The negative outlook can adversely impact the Company when borrowing money, increasing interest rates and putting pressure on the programs the Company is planning to enable it to provide the expected level of service. It is unknown what impact the negative outlook assigned by Moody's Investor Service will have in the short term, but is a factor to consider in Case No. 2018-00035.

A copy of the Moody's Investors Service release is attached as KPCO_R_AG_RH1_3_Attachment1.pdf.

Witness: Matthew J. Satterwhite

MOODY'S
INVESTORS SERVICE

Rating Action: Moody's affirms Kentucky Power at Baa2, outlook revised to negative

Global Credit Research - 21 Mar 2018

Approximately $870 million of debt outstanding

New York, March 21, 2018 -- Moody's Investors Service, ("Moody's") affirmed the ratings of Kentucky Power Company (KPCo, Baa2), a subsidiary of American Electric Power Company, Inc. (AEP, Baa1 stable), and revised the outlook to negative from stable.

RATINGS RATIONALE

"The rating affirmation recognizes KPCo's credit risk profile as a vertically integrated electric utility subsidiary within the large multi-utility system AEP family, operating in eastern Kentucky", said Laura Schumacher, Senior Credit Officer. "The negative outlook reflects the combination of the utility's economically weak service territory, its latest rate case outcome, and recently enacted tax reform policy, which will put pressure on credit metrics over the next twelve to eighteen months" added Schumacher. Although we anticipate that the company will seek to compensate for these adverse developments through cost containment and financial policy, including the ability to retain cash flow for investment, we also expect the utility's increasing capital program will add to its debt burden. Longer term, KPCo remains exposed to climate change risks because a sizeable portion of its rate base is represented by coal-fired generating assets.

The health of KPCo's service territory in eastern Kentucky, which has high exposure to the energy and mining sectors, has impacted the utility's revenue and load growth as well as recent rate case outcomes. The area continues to lag the state in terms of economic trends, and KPCo's retail load has declined in each of the past three years, putting downward pressure on earnings and cash flow. In its most recent rate case, the Kentucky Public Service Commission (KPSC) cited the area's economic challenges as a rationale for its decision to award a lower return on equity than was agreed to with intervenors, or initially requested by the utility. In addition, KPCo agreed to defer recovery of $50 million of costs associated with a power purchase agreement over five years, which will also limit the impact of rate increases to customers. Ultimately, the base rate increase approved by the KPSC was approximately $12.4 million (2%) versus a request of approximately $60 million. KPCo also agreed that it would not request another rate increase to become effective prior to January 2021.

KPCo has been actively involved in efforts to stimulate economic growth in its service territory, and to help displaced workers transfer their skills to alternative industries; however, the full benefit of these investments is still a few years out. In the interim, we expect the combination of modest load growth, deferred revenue, and increasing capital expenditures to assure system reliability and attract investment, will maintain pressure on cash flow credit metrics. For example, we anticipate KPCo's ratio of cash flow from operations excluding changes in working capital (CFO pre-WC) to debt may move to the low teens from the mid-to-high teens historically.

As a subsidiary of AEP, one of the largest utility companies in the U.S., KPCo continues to benefit from the operational expertise of a larger organization. The company also has ready access to capital from its parent, and the ability to retain capital for investment. Going forward, in light of the economic and financial challenges facing the company, we anticipate KPCo will make limited distributions to AEP parent.

Rating outlook

KPCo's negative rating outlook reflects our view that the combination of recent rate actions, a weak service territory, and increasing capital expenditures will impact the utility's cash flow generating ability and its cash flow based credit metrics. For example, we believe KPCo's ratio of CFO pre-WC to debt will likely decline to the low teens.

Factors that could lead to an upgrade

Given the negative outlook, a rating upgrade is unlikely over the near to intermediate term. The outlook could be revised to stable if there were to be an improvement in economic conditions, or a reduction in operating or capital expenses such that we could expect the company would be able to demonstrate cash flow based credit metrics that are supportive of the current ratings. If, for example, the company were able to maintain a ratio of CFO pre-WC to debt above 13% while the ratio of CFO pre-WC less dividends to debt remained above 11%.

Factors that could lead to a downgrade

The rating could move downward if current trends continue and economic conditions do not improve in its service territory or, if as a result of higher capital expenditures, increased operating expenses or additional cash deferrals hindering KPCo's ability to recover its costs on a timely basis, the ratio of CFO pre-WC to debt were to fall below 13% for a sustained period of time.

Outlook Actions:

..Issuer: Kentucky Power Company

....Outlook, Changed To Negative From Stable

Affirmations:

..Issuer: Kentucky Power Company

.... Issuer Rating, Affirmed Baa2

....Senior Unsecured Regular Bond/Debenture, Affirmed Baa2

KPCo, a vertically integrated electric utility company headquartered in Ashland, Kentucky, is a wholly owned subsidiary of AEP, with about $1.6 billion in rate base (5% of AEP's total) and 2017 revenue of about $643 million (about 4% of AEP total revenue).

The principal methodology used in these ratings was Regulated Electric and Gas Utilities published in June 2017. Please see the Rating Methodologies page on www.moodys.com for a copy of this methodology.

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INVESTORS SERVICE

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MJKK and MSFJ also maintain policies and procedures to address Japanese regulatory requirements.

DATA REQUEST

AG_RH1_004 Identify the reductions to the gross revenue conversion factor ("GRCF") that KPCo believes would be appropriate, given the Tax Cuts and Jobs Act ("TCJA")'s reduction of the corporate tax rate from 35% to 21%.
a.. Provide the GRCF Kentucky Power believes the Commission should use to calculate rates in this proceed. Provide all associated worksheets used to calculate this amount, in their native Excel format.

RESPONSE

The appropriate gross revenue conversion factor for calculating rates in this proceeding is the 1.352116 from Appendix F of the Commission's order. See KPCO_R_AG_RH1_4_Attachment1.xlsx for the requested calculation.

Witness: Alex E. Vaughan

DATA REQUEST

AG_RH1_005 Reference KPCo's Motion for Partial Rehearing, p. 4, where it is stated: ". . . . 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." Provide the information the Company believes is necessary for the Commission to determine the TCJA's effect on the Company's tax expense. Provide all data in Excel spreadsheet format, with all cells and formulae fully accessible.

RESPONSE

Please see the Company's rehearing Appendix 1 which is attached as KPCO_R_AG_RH1_5_Attachment1.xlsx. See also the originally filed settlement cost of service from which the tax expense information in the Company's KPCO_R_AG_RH1_5_Attachment1.xlsx is sourced, which is attached as KPCO_R_AG_RH1_5_Attachment2.xlsx

Witness: Alex E. Vaughan

Kentucky Power Company
KPSC Case No. 2017-00179 General Rate Adjustment
Attorney General's First Re-Hearing Set of Data Requests
Dated April 2, 2018

DATA REQUEST

AG_RH1_006 Reference KPCo's Motion for Partial Rehearing, p. 4, wherein the Company states: ". . . the Commission's calculation of the Current Period Change overstates the reduction in the Company's revenue requirement by $765,030." Provide all documentation to support the Company's calculation. Provide all data in Excel spreadsheet format, with all cells and formulae fully accessible.

RESPONSE

Please refer to AG RH1_5 and KPCO_R_AG_RH1_5_Attachment1.xlsx for the requested information.

Witness: Alex E. Vaughan

DATA REQUEST

AG_RH1_007 Confirm that the Rockport UPA formula rate varies from month to month in order to reflect actual fuel, O&M, and other expenses, including tax expense.

RESPONSE

Kentucky Power confirms that the rate charged pursuant to the Rockport UPA formula rate varies from month to month in order to reflect actual fuel, O&M, and other expenses, including tax expense.

Witness: Ranie K. Wohnhas

DATA REQUEST

AG_RH1_008 Confirm that the TCJA's reduction of the corporate tax rate from 35% to 21% should reduce costs for KPCo is responsible under the Rockport UPA formula rate. If KPCo does not agree, state in complete detail why not.

a. If so confirmed, provide the reduction on expense under the Rockport UPA Kentucky Power would no longer be required to pay.

RESPONSE

The Company confirms that the TCJA's reduction of the corporate tax rate from 35% to 21% reduces the costs it pays under the Rockport UPA formula rates from what it would have paid absent the TCJA.

a. As a result of the TCJA's reduction of the effective corporate income tax rate beginning January 1, 2018 Kentucky Power's 30 percent share under the Rockport UPA of the Rockport federal income tax recorded in accounts 409.1, 410.1, and 411.1 will be 40 percent less than they would have been with respect to the same income prior to the effective date of the TCJA.

Witness: Ranie K. Wohnhas

DATA REQUEST

AG_RH1_009 Identify all accounting adjustments to which the GRCF or Federal income tax applies, including but not limited to the Rockport UPA, Environmental Surcharge, and the Big Sandy Decommissioning Rider.
a. Provide these amounts and calculations in native Excel format.

RESPONSE

The GRCF applies to all accounting adjustments included in the Company's base rate cost of service as they all affect either the net operating income required or the total capitalization. The base rate revenue requirement is then calculated by multiplying the GRCF by the required net electric operating income change in Section V, Schedule 2. The Big Sandy Decommissioning Rider and the Mitchell Plant FGD portion of the Environmental Surcharge were removed from the Company's base rate case through accounting adjustments.

Rockport UPA - Effective January 1, 2018, updated federal income tax rates are reflected in the Rockport UPA bill from AEP Generating Company as shown in KIUC_RH1_1_Attachment1.xls, KIUC_RH1_1_Attachment2.xls, and KIUC_RH1_1_Attachment3.xls.

Environmental Surcharge - Environmental Surcharge revenues and related costs were excluded from the calculation of Kentucky Power's base rates in the current base rate case (Case No. 2017-00179). Effective January 1, 2018, the updated Federal income tax rate is reflected in Kentucky Power's monthly Environmental Surcharge carrying charge calculation. Starting with the March 2018 billing for the January 2018 period, the lower Federal income tax rate has been reflected in the determination of Kentucky Power's Environmental Surcharge rates. Please refer to KPCO_R_AG_RH1_9_Attachment1.xlsx.

Decommissioning Rider - Decommissioning Rider revenues and related costs were excluded from the calculation of Kentucky Power's base rates in the current base rate case (Case No. 2017-00179). Effective January 1, 2018, the updated Federal income tax rate is reflected in Kentucky Power's monthly Decommissioning Rider carrying charge calculation. The lower Federal income tax rate will be reflected in the determination of Kentucky Power's next update to Decommissioning Rider rates, which will be filed in August 2018 and be effective October 2018.

Witness: Tyler H. Ross
Alex E. Vaughan

DATA REQUEST

AG_RH1_010 Reference FERC Docket EL17-13-000, American Municipal Power, Inc., et al. v. Kentucky Power Co., et al., "Explanatory Statement In Support Of Settlement Agreement And Offer Of Settlement," dated March 28, 2018.

a. Confirm that KPCo, its affiliated AEP East Companies, together with other AEP affiliates entered into a settlement agreement with American Municipal Power and the other entities that filed the above-referenced FERC complaint, in which KPCo and its affiliates agreed, inter alia:

(i) to reduce the base return on equity ("ROE") used to calculate charges for the AEP East Companies under PJM Tariff Attachments H-14 and H-20 from the current 10.99% to 9.85% for services rendered on and after January 1, 2018;

(ii) the equity component included in each AEP East Company's capital structure shall be the lesser of the actual such component, but in no event greater than 55%;

(iii) that the AEP East Companies will address the effect of the TCJA on each company's revenue requirements and charges for services rendered after January 1, 2018;

(iv) apply the provisions of the TCJA in full beginning with interim rates to be requested by AEP;

(v) excess ADITs not subject to the TCJA's provisions governing the availability of normalization accounting will be returned to customers over a period of 10 years; and

(vi) for the period between the date that the above-referenced FERC complaint was filed and December 31, 2017, the AEP East Companies shall calculate and direct PJM to provide a lump-sum credit against charges otherwise payable by transmission customers equal to $50 million, together with interest thereon.

b. Provide the jurisdictional monetary impact of each of the terms of the above-referenced settlement impact on KPCo's tax expense, including but not limited to the Rockport UPA.

c. Provide the jurisdictional monetary reduction to revenue requirements or expense levels as a result of the above-referenced settlement.

RESPONSE

a. Confirmed

b. The non-unanimous settlement in FERC Docket EL17-13-000 will affect the amount of PJM LSE OATT charges and Transmission Owner revenues the Company will receive. It is unrelated to the Rockport UPA. The requested analysis has not been performed for the individual components of the settlement listed in parts i-vi. See the Company's response to subpart c for an estimate of the settlement's impact on the Company's 2018 expenses and revenues.

c. The Company's 2018 PJM OATT LSE expense will be reduced by an estimated $12.1 million. That amount is subject to the monthly deferral accounting under Tariff PPA. The Company's PJM Transmission Owner revenues will also decrease by $11.5 million to $58.1 million from the originally filed projected transmission annual revenue requirement of $69.6. Please see KPCO_R_AG_RH1_10_Attachment1.xlsx for the calculations that produce the estimated $12.1 million reduction in the Company's 2018 PJM OATT LSE expense.

Witness: Ranie K. Wohnhas
Alex E. Vaughan

DATA REQUEST

AG_RH1_011 Confirm that the test year level of purchase power expense associated with forced outages not recoverable under KPCo's FAC was $1.158 million.

RESPONSE

Confirmed.

Witness: Alex E. Vaughan

DATA REQUEST

AG_RH1_012 Confirm that the 3-year average of purchase power expense associated with forced outages not recoverable under KPCo's FAC was $882,204.

RESPONSE

The Company cannot confirm this statement. As described on pages 44-45 of the Direct Testimony of Company Witness Vaughan, the Company included, through adjustment W27, an adjusted three year average of Forced Outage Expense of $882,204 in base rates.

Witness: Alex E. Vaughan

DATA REQUEST

AG_RH1_013 Confirm that KPCo's application sought recovery of the 3-year average of purchase power expense associated with forced outages not recoverable under KPCo's FAC.

RESPONSE

Denied. The Company included the adjusted three year average of Forced Outage Expense of $882,204 in base rates as part of the Base Rate Tariff P.P.A. Expense.

As discussed on pages 26-36 of the Direct Testimony of Company Witness Vaughan, Kentucky Power sought to revise the operation of its Tariff P.P.A. in two ways: (1) changing the purchase power adjustment factor from a monthly to an annual surcharge and (2) adding additional categories of costs recoverable under Tariff P.P.A. Kentucky Power had been recovering its Forced Outage Expense through Tariff P.P.A. prior to the filing of this case.

To implement the change from a monthly purchase power adjustment factor to an annual purchase power adjustment factor, the Company included in base rates the adjusted test year amounts of each category of costs proposed for recovery through tariff P.P.A ("Base Rate Tariff P.P.A. Expense"). Under Tariff P.P.A., the Company will compare the aggregate, annual amount of costs eligible for recovery under Tariff P.P.A. ("Tariff P.P.A. Expense") to the Base Rate Tariff P.P.A. Expense. The annual purchase power adjustment factor will be set to recover or credit the any over or under recovery of the base rate amount ensuring that customers pay no more or no less than the actual charges.
Through the operation of Tariff P.P.A., the Company will recover its actual Forced Outage Expense – no more and no less.

Witness: Alex E. Vaughan

DATA REQUEST

AG_RH1_014 Explain why KPCo now seeks recovery of the test year level of purchase power expense associated with forced outages not recoverable under KPCo's FAC.
a. Provide documentation of the additional $276,081 in test year purchase power expense not recoverable under KPCo's FAC for which KPCo now seeks recovery.

RESPONSE

Kentucky Power sought on rehearing the inclusion of the test year amount of Forced Outage Expense ($1,158,285) in the Base Rate Tariff P.P.A. Expense to comport with Commission's directive on page 55 of its January 18, 2018 Order, "The Commission will allow recovery of the test year amount of purchase power reasonably incurred, but excluded from the FAC." The difference between the test year amount of Forced Outage Expense ($1,158,285) and the adjusted three-year average amount of Forced Outage Expense identified in the Commission-rejected Adjustment W27 ($882,204) equals$276,801. Regardless of the amount of the Forced Outage Expense component included in the Base Rate Tariff P.P.A. Expense, the Company will only recover its actual Forced Outage Expense through Tariff P.P.A.

As described in the Company's response to AG RH1_013, the Company continues to seek only recovery of its actual Forced Outage Expense incurred – no more and no less. The Commission clarified and confirmed the Company's ability to recover its Forced Outage Expense through Tariff P.P.A. on page 4 of its February 27, 2018 Order on rehearing, "Forced Outage Expense currently recovered through the P.P.A. is unaffected by the January 18, 2018 Order."

Witness: Alex E. Vaughan

DATA REQUEST

AG_RH1_015 Reference Kentucky Power Company's February 14, 2018, Response in Opposition to KIUC's Petition for Rehearing, pages 5-6. Kentucky Power references the Transmission Owner Revenues the Company reflected as a credit in base rates.
a. Provide the amount of costs in base rates KPCo pays to other utilities as a Transmission user.
b. Provide the amount KPCo expects those FERC approved rates will decrease as a result of the reduction in the Federal income tax rate.
c. Is KPCO aware of any FERC proceedings regarding the reduction of the Federal income tax rate on transmission owners, including AEP East Companies? If so, provide citation to any such proceeding and explain the anticipated effect on KPCo customers.

RESPONSE

a. The Company's PJM OATT LSE charges included in the Base Rate Tariff P.P.A. Expense is $74,038,517.

b. Please see the Company's response to AG RH1_010.

c. Please reference FERC Docket EL17-13-000 identified in AG RH1_010 above and the Company's response to AG RH1_010.

Witness: Alex E. Vaughan

VERIFICATION

The undersigned, Matthew J. Satterwhite, being duly sworn, deposes and says he is the President & COO for Kentucky Power, that he has personal knowledge of the matters set forth in the forgoing responses and the information contained therein is true and correct to the best of his information, knowledge, and belief.

Matthew J. Satterwhite

Commonwealth of Kentucky	)	
	)	Case No. 2017-00179
County of Boyd	)	

Subscribed and sworn before me, a Notary Public, by Matthew J. Satterwhite this 10th day of April, 2018.

Trisha M. Young Blum
Notary Public

My Commission Expires 3-18-19

COMMONWEALTH OF KENTUCKY
UNITED WE STAND DIVIDED WE FALL
TRISHA M. YOUNG
NOTARY ID 530202
COMMISSION EXPIRES 3-18-19

VERIFICATION

The undersigned, Ranie K. Wohnhas, being duly sworn, deposes and says he is the Managing Director of Regulatory & Finance for Kentucky Power, that he has personal knowledge of the matters set forth in the forgoing responses and the information contained therein is true and correct to the best of his information, knowledge, and belief.

Ranie K. Wohnhas

Ranie K. Wohnhas

Commonwealth of Kentucky	)	
	)	Case No. 2017-00179
County of Boyd	)	

Subscribed and sworn before me, a Notary Public, by Ranie K. Wohnhas this 9th day of April, 2018.

Trisha M. Young Blum

Notary Public

My Commission Expires 3-18-19

TRISHA M. YOUNG
NOTARY ID 530202
COMMISSION EXPIRES 3-18-19

VERIFICATION

The undersigned, Alex E. Vaughan, being duly sworn, deposes and says he is the Regulatory Pricing & Analysis Manager for American Electric Power, that he has personal knowledge of the matters set forth in the forgoing responses and the information contained therein is true and correct to the best of his information, knowledge, and belief.

Alex E. Vaughan

State of Ohio)
) Case No. 2017-00179
County of Franklin)

Subscribed and sworn before me, a Notary Public, by Alex E. Vaughan this
9 day of April, 2018.

Amanda E Owen
Notary Public

My Commission Expires Never

NOTARIAL SEAL STATE OF OHIO

Amanda E. Owen, Attorney At Law
NOTARY PUBLIC - STATE OF OHIO
My commission has no expiration date
Sec. 147.03 R.C.

VERIFICATION

The undersigned, Tyler H. Ross, being duly sworn, deposes and says he is the Director of Regulatory Accounting Services for American Electric Power, that he has personal knowledge of the matters set forth in the forgoing responses and the information contained therein is true and correct to the best of his information, knowledge, and belief.

Tyler H Ross

Tyler H. Ross

State of Ohio)
) Case No. 2017-00179
County of Franklin)

Subscribed and sworn before me, a Notary Public, by Tyler H. Ross this 9th day of April, 2018.

S Smithhisler S.Smithhisler

Notary Public

My Commission Expires April 29, 2019

NOTARIAL SEAL STATE OF OHIO