

**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)	

**TESTIMONY OF
RANIE K. WOHNHAS
ON BEHALF OF KENTUCKY POWER COMPANY
IN SUPPORT OF THE REHEARING SETTLEMENT AGREEMENT**

**SETTLEMENT TESTIMONY OF
RANIE K. WOHNHAS
ON BEHALF OF
KENTUCKY POWER COMPANY
BEFORE THE PUBLIC SERVICE COMMISSION OF KENTUCKY**

CASE NO. 2017-00179

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**SETTLEMENT TESTIMONY OF
RANIE K. WOHNHAS
ON BEHALF OF KENTUCKY POWER COMPANY
BEFORE THE PUBLIC SERVICE COMMISSION OF KENTUCKY**

I. INTRODUCTION

1 **Q. PLEASE STATE YOUR NAME AND POSITION WITH KENTUCKY POWER**
2 **COMPANY.**

3 A. My name is Ranie K. Wohnhas. My position is Managing Director, Regulatory and
4 Finance, Kentucky Power Company. My business address is 855 Central Avenue, Suite
5 200, Ashland, Kentucky 41101.

6 **Q. DID YOU FILE PRIOR TESTIMONY IN THIS RATE PROCEEDING?**

7 A. Yes. I filed both direct and rebuttal testimony.

8 **Q ARE YOU FAMILIAR WITH THE ISSUES PRESENTED IN THIS CASE BY**
9 **THE MOTIONS FOR REHEARING FILED BY KENTUCKY POWER AND**
10 **KENTUCKY INDUSTRIAL UTILITY CUSTOMERS, INC.?**

11 A. Yes.

12 **Q. DID YOU PARTICIPATE IN THE NEGOTIATIONS WHICH LED TO THE**
13 **REHEARING SETTLEMENT AGREEMENT BEING SUBMITTED FOR**
14 **CONSIDERATION AND APPROVAL BY THE COMMISSION?**

15 A. Yes. I participated in the April 18, 2018 telephonic informal conference at which
16 settlement was discussed. In addition, I have been involved through counsel in the
17 subsequent negotiations. The executed Rehearing Settlement Agreement is attached to
18 this testimony as **EXHIBIT RKW-S1**.

1 **Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY?**

2 A. My testimony summarizes the proceedings on rehearing as well as the settlement process
3 leading to the agreement. I explain and support the terms of the Rehearing Settlement
4 Agreement as well as demonstrating why the terms of the Rehearing Settlement
5 Agreement will produce fair, just, and reasonable rates in connection with issues before
6 the Commission on rehearing. I also identify the rehearing settlement issues addressed
7 by Company Witness Vaughan in testimony filed today.

II. THE REHEARING PROCEEDINGS

8 **Q. PLEASE DESCRIBE THE MOTIONS FOR REHEARING PENDING BEFORE**
9 **THE COMMISSION.**

10 A. Although there are multiple parties to this case, only Kentucky Power and KIUC filed
11 motions for rehearing in connection with the Commission's January 18, 2018 order. The
12 Attorney General did not file a motion for rehearing but instead filed responses to the
13 motions for rehearing filed by the Company and KIUC.

14 **Q. WHAT ISSUES WERE PRESENTED FOR REHEARING BY KENTUCKY**
15 **POWER?**

16 A. Kentucky Power filed a motion for partial rehearing on February 7, 2018 seeking
17 rehearing or clarification with respect to six issues. The Commission entered an order on
18 February 27, 2018 addressing and closing four issues. In addition, the Commission
19 granted rehearing for the purposes of further proceedings with respect to two issues. The
20 first of these two issues is the calculation of the reduction of the Company's current
21 federal corporate income tax expense as a result of the enactment of the Tax Cut and Jobs
22 Act ("Tax Act") on December 22, 2017. As set out in Company Witness Vaughan's

1 February 7, 2018 testimony, the Commission’s January 18, 2018 order overstates the
2 reduction in the Company’s current federal corporate income tax expense as a result of
3 the Tax Act by \$765,030. In addition, the Commission granted rehearing on the issue of
4 “the Tariff P.P.A. Forced Outage Expense adjustment,” but resolved Kentucky Power’s
5 concern that it would no longer be able to recover through Tariff P.P.A. the amount of its
6 forced outage expense not embedded in base rates.

7 **Q. WHAT ISSUE DID KIUC RAISE ON REHEARING?**

8 A. KIUC’s motion asked the Commission to reduce Kentucky Power’s base rates by an
9 additional \$1.31 million to reflect KIUC’s calculation of the post-test year reduction in
10 Rockport Unit Power Agreement expense as a result of the Tax Act. Kentucky Power
11 opposed KIUC’s motion for rehearing because it was antithetical to the ratemaking
12 principles inherent in the use of a historic test year. The Company nevertheless indicated
13 that if the Commission were inclined to make KIUC’s requested post-test year
14 adjustment, that base rates must be increased to reflect an increase of \$4,670,302 in the
15 Company’s revenue requirement as a result of the post-test year reduction in the
16 Company’s Transmission Owner revenues because of the Tax Act. The net effect of the
17 two post-test adjustments would be an increase of \$3,360,907 in the Company’s annual
18 revenue requirement increase. By a separate order entered February 27, 2018, the
19 Commission granted KIUC’s motion for rehearing for the purpose of taking additional
20 evidence on the impact of the reduction of the federal corporate tax rate on both the
21 Rockport UPA expense *and* the reduction of the Company’s PJM Transmission Owner
22 revenue credit.

1 **Q. PLEASE DESCRIBE THE PROCESS LEADING TO THE SETTLEMENT**
2 **AGREEMENT.**

3 A. Following the Commission's February 27, 2018 order, the Commission established a
4 procedural schedule. The Attorney General, Staff, and KIUC served discovery on the
5 Company. Kentucky Power filed its responses on April 12, 2018. On April 18, 2018 a
6 telephonic informal conference was convened to address settlement of the remaining
7 rehearing issues. Staff and all parties participated in the informal conference.

III. THE REHEARING SETTLEMENT AGREEMENT

8 **Q. BEFORE DISCUSSING THE SPECIFIC TERMS OF THE REHEARING**
9 **SETTLEMENT AGREEMENT, PLEASE IDENTIFY THE PARTIES TO THIS**
10 **PROCEEDING WHO ARE NOT PARTIES TO THE REHEARING**
11 **SETTLEMENT AGREEMENT.**

12 A. Kentucky School Boards Association, Kentucky League of Cities; Wal-Mart Stores East,
13 LP and Sam's East, Inc.; Kentucky Cable Telecommunications Association; and the
14 Attorney General were granted intervention but are not parties to the Rehearing
15 Settlement Agreement. With the exception of the Attorney General, none of these non-
16 settling parties filed an opposition or other response to the motions of KIUC or Kentucky
17 Power for rehearing. In addition, again with the exception of the Attorney General, none
18 of the non-signatory parties served data requests on the Company or KIUC on the
19 rehearing issues. Finally, all of the non-signatory parties participated by telephone in the
20 April 18, 2018 informal conference and thus had an opportunity to participate in
21 discussions regarding settlement of the rehearing issues.

1 **Q. DOES THE REHEARING SETTLEMENT AGREEMENT REPRESENT THE**
2 **COMPLETE SETTLEMENT BETWEEN THE COMPANY AND KIUC OF THE**
3 **ISSUES PENDING ON REHEARING IN THIS CASE?**

4 A. Yes. There are no agreements or understandings regarding the issues pending on
5 rehearing that are not reflected in the Rehearing Settlement Agreement. The agreements
6 and terms in the Rehearing Settlement Agreement represent the sum total of the give and
7 take of the KIUC and Kentucky Power. Further, there are no agreements nor
8 understandings with non-signatory parties relating to the subject matter of the issues
9 pending on rehearing.

10 **Q. IS THE COMMISSION STAFF A PARTY TO THE REHEARING**
11 **SETTLEMENT AGREEMENT?**

12 A. No. Commission Staff attended the April 18, 2018 informal conference but made clear
13 that it could not be a party to any agreement, that it was not speaking for the
14 Commission, and that its participation in no way would bind the Commission to the
15 agreement.

IV. THE TERMS OF THE REHEARING SETTLEMENT AGREEMENT

16 **Q. PLEASE DESCRIBE THE PRINCIPAL SUBSTANTIVE TERMS OF THE**
17 **REHEARING SETTLEMENT AGREEMENT?**

18 A. The Rehearing Settlement Agreement contains the following substantive provisions:

- 19 ● KIUC and Kentucky Power agree that the Company's Commission-adjusted
20 annual revenue requirement must be increased by \$765,030 to \$13,113,660 to
21 reflect the effect of the Tax Act on the Company's current federal income tax
22 expense. The calculation of this increase is described in the February 7, 2018
23 testimony of Company Witness Vaughan and his testimony filed today.
- 24 ● Kentucky Power and KIUC agree that, in conformity with the Commission's
25 February 27, 2018 order on rehearing, the Company is entitled to recover through

1 Tariff P.P.A. the amount of the Company's forced outage expense not otherwise
2 recovered in base rates. Kentucky Power and KIUC further agree to increase
3 Base Rate Tariff P.P.A. Expense in Tariff P.P.A. by \$372,542 to \$74,453,085.

- 4 ● Kentucky Power agrees as part of the Rehearing Settlement Agreement, and based
5 upon the Commission's statement in its February 27, 2018 order that the
6 Commission's January 18, 2018 order did not affect the Company's ability to
7 recover through Tariff P.P.A. forced outage expenses currently recovered through
8 the tariff, to withdraw its request to increase the Company's annual revenue
9 requirement by \$1,158,285.

- 10 ● KIUC agrees to withdraw its February 7, 2018 motion for rehearing. In return,
11 Kentucky Power agrees to withdraw its request to increase its annual revenue
12 requirement by the net amount of \$3,360,907 to reflect the decreased
13 Transmission Owner revenue to be received by the Company as a result of the
14 Tax Act.

A. Increase In The Company's Annual Revenue Requirement To Reflect The
Effect Of The Tax Act On The Company's Current Federal Income Tax
Expense.

15 **Q. WHERE IS THE CALCULATION OF THE REQUIRED \$765,030 INCREASE IN**
16 **KENTUCKY POWER'S ANNUAL REVENUE REQUIREMENT TO REFLECT**
17 **THE EFFECT OF THE TAX ACT ON THE COMPANY'S CURRENT FEDERAL**
18 **INCOME TAX EXPENSE PRESENTED?**

19 A. The calculation is described at pages RH-2 to RH-3 of Company Witness Vaughan's
20 February 7, 2018 testimony. The calculation also was presented in tabular form as
21 Appendix 1 to the Company's February 7, 2018 motion for hearing. Both presentations
22 are included at pages S2 to S4 and EXHIBIT AEV-S1 in Company Witness Vaughan's
23 testimony filed today.

24 **Q. IS THIS THE ONLY INCREASE TO THE COMPANY'S BASE RATES**
25 **FLOWING FROM THE REHEARING SETTLEMENT AGREEMENT?**

26 A. Yes. The other provisions of the Rehearing Settlement Agreement do not affect the
27 Company's base rates.

B. Tariff P.P.A.

1 **Q. WHY IS KENTUCKY POWER AGREEING TO WITHDRAW ITS REQUEST**
2 **ON REHEARING TO INCREASE ITS ANNUAL REVENUE REQUIREMENT**
3 **BY \$1,158,285 TO REFLECT TEST YEAR FORCED OUTAGE EXPENSE?**

4 A. Kentucky Power is entitled to recover its forced outage expense (not otherwise
5 recoverable through the fuel adjustment clause) either in base rates or through Tariff
6 P.P.A. The Company initially understood the Commission's January 18, 2018 order to
7 prohibit the Company from recovering its forced outage expense through Tariff P.P.A.
8 (as proposed by Kentucky Power). It thus would have been necessary to adjust base rates
9 to provide for their recovery. The February 27, 2018 order on rehearing made clear that
10 nothing in the January 18, 2018 order in this case affected the Company's ability to
11 recover through Tariff P.P.A. those forced outage expenses not recovered base rates.
12 That clarification eliminated the need to incorporate in base rates, as the Company
13 requested in its motion for rehearing, the test year amount of forced outage expense
14 (\$1,158,285).

15 **Q. ARE YOU ADDRESSING THE AMENDMENT OF TARIFF P.P.A TO**
16 **INCREASE THE AMOUNT OF BASE RATE TARIFF P.P.A. EXPENSE?**

17 A. No. Company Witness Vaughan provides additional detail in his testimony filed today
18 on the origin and nature of this adjustment.

C. KIUC's Withdrawal As Part Of The Rehearing Settlement Agreement Of Its Motion For Rehearing And The Company's Reciprocal Agreement Based On KIUC's Withdrawal To Eliminate Kentucky Power's Request To Increase Its Annual Revenue Requirement By \$3,360,907.

1 **Q. WHY IS KENTUCKY POWER AGREEING TO WITHDRAW ITS REQUEST**
2 **FOR A \$3,360,907 NET INCREASE IN THE COMPANY'S ANNUAL REVENUE**
3 **REQUIREMENT?**

4 A. The \$3.36 million increase represents the net difference between two post-test year
5 adjustments flowing from the Tax Act. KIUC claimed on rehearing that Kentucky
6 Power's Commission-adjusted annual revenue requirement should be decreased an
7 additional \$1.31 million to reflect the post-test year reduction in Rockport Unit Power
8 Agreement expense as a result of the Tax Act. In response, Kentucky Power argued that
9 the Commission should respect the historic test year, but that if it were to reach outside
10 the test year to reflect the reduction in the Rockport UPA expense, it also was required to
11 increase the Company's annual revenue requirement by \$4,670,302 to reflect the post-test
12 year reduction in the Company's Transmission Owner revenues (which serve as a base
13 rate credit) as a result of the Tax Act. The agreement of KIUC and the Company to
14 withdraw the two competing adjustments as part of the Rehearing Settlement Agreement
15 provides two benefits.

16 **Q. WHAT ARE THOSE TWO BENEFITS?**

17 A. First, it allows the Commission to maintain (subject only to the modest increase to reflect
18 the proper calculation of the Company's current federal income tax expense as a result of
19 the Tax Act) the base rates established by the Commission in its January 18, 2018 order.
20 Second, the agreement allows the Commission to continue to respect the nature of the
21 historic test year used by the Commission to establish rates in this case. The historic test

1 year does not function as an exact accounting of every dollar of revenue to be received by
2 the Company, or every expense to be paid by Kentucky Power, during the period the
3 rates based on the historic test year are in effect. To the contrary, implicit in the historic
4 test year concept is that the Company retains the ability to manage its future expenses
5 when the new rates are in effect so that it can employ a post-test year decrease in one type
6 of expense to offset a post-test year increase in a different expense. This flexibility to
7 manage expenses (and revenues) provides the Company the ability to agree to many of
8 the important concessions made by Kentucky Power as part of the November 22, 2017
9 settlement agreement, including the three-year base rate case stay out provision and the
10 Rockport Deferral. The selective reduction of only test-year expenses to reflect post-test
11 year reduction in expenses as a result of the Tax Act, without also adjusting base rates to
12 reflect the post-test year Tax Act-driven reduction of the revenues used to set those rates,
13 is not only arbitrary and unreasonable but threatens the Company’s ability to stay out
14 three years. The Rehearing Settlement Agreement avoids both of these problems.

V. REASONABLENESS OF THE REHEARING SETTLEMENT AGREEMENT
AND THE PROPOSED RATES

15 Q. DOES THE REHEARING SETTLEMENT AGREEMENT FAIRLY BALANCE
16 THE INTERESTS OF THE COMPANY AND ITS CUSTOMERS?

17 A. Yes. The Rehearing Settlement Agreement represents a fair and proper balance between
18 Kentucky Power’s right to a fair return on its investment and the requirement that
19 customers be charged fair, just, and reasonable rates. It maintains all of the benefits of
20 the Commission’s January 18, 2018 order, including the rates established by the
21 Commission in that order (subject only to the slight modification to address the proper
22 calculation of the Company’s current federal corporate income tax expense.) It also

1 benefits customers by a \$372,542 increase in the basing point used to calculate the Tariff
2 P.P.A. factor. As a result, the rates to be established based on the Rehearing Settlement
3 Agreement remain just as fair, just, and reasonable as the Commission determined them
4 to be in its January 18, 2018 order.

5 **Q. DO YOU HAVE A RECOMMENDATION FOR THE COMMISSION?**

6 A. Yes. The Settlement Rehearing Agreement should be approved by the Commission
7 without modification. In addition, the Commission should establish rates and charges in
8 conformity with the agreement.

9 **Q. DOES THIS CONCLUDE YOUR TESTIMONY?**

10 A. Yes.

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Liabilities; And (5) An Order Granting All Other)
Required Approvals And Relief)

SETTLEMENT AGREEMENT

This Settlement Agreement, is made and entered into this 25th day of April, 2018, by and among Kentucky Power Company (“Kentucky Power” or “Company”) and Kentucky Industrial Utility Customers, Inc. (“KIUC”) (collectively Kentucky Power and KIUC are “Settling Parties”).

RECITALS

1. On June 28, 2017 Kentucky Power filed an application pursuant to KRS 278.190, KRS 278.183, and the rules and regulations of the Public Service Commission of Kentucky (“Commission”), seeking an annual increase in retail electric rates and charges, seeking approval of its 2017 Environmental Compliance Plan, an order approving accounting practices to establish regulatory assets or liabilities, and further seeking authority to implement or amend certain tariffs (“Application”). Kentucky Power updated the Application on August 7, 2017 to reflect the impact of refinancing activities on the Application.

2. KIUC, Kentucky School Boards Association (“KSBA”); Kentucky League of Cities (“KLC”); the Attorney General of the Commonwealth of Kentucky (“Attorney General”);

Kentucky Commercial Utility Customers, Inc. (“KCUC”); Wal-Mart Stores East, LP and Sam’s East, Inc. (“Wal-Mart”); and Kentucky Cable Telecommunications Association (“KCTA”) filed motions for full intervention in Case No. 2017-00179. The Commission granted the intervention motions.

3. On November 22, 2017, Kentucky Power filed a non-unanimous settlement agreement with KIUC, KSBA, KLC, Wal-Mart, and KCTA (“November 22 Settlement Agreement”) with the Commission. Kentucky Power filed an updated and amended agreement with the Commission on November 30, 2017. The Attorney General and KCUC were not parties to the November 22 Settlement Agreement.

4. An evidentiary hearing was held from December 6 through December 8, 2017 at the Commission to present evidence relating to Kentucky Power’s Application and the amended November 22 Settlement Agreement.

5. On January 18, 2018, the Commission issued an order in this case establishing rates for the Company (“January 18, 2018 Order”). The January 18, 2018 Order included an adjustment to the Company’s revenue requirement to address the tax expense savings resulting from the reduction in the federal corporate income tax rate from 35 to 21 percent in the Tax Cuts and Jobs Act (“Tax Act”).

6. On February 7, 2018, Kentucky Power filed a Motion for Partial Rehearing seeking rehearing on portions of the January 18, 2018 Order relating to (1) the calculation of the change in the tax expense relating to the Tax Act; (2) the treatment of certain of the Company’s proposed changes to Tariff P.P.A.; (3) the recovery of the Rockport Deferral Regulatory Asset; and (4) the Company’s accounts receivable financing (“Kentucky Power’s Motion for Rehearing”).

7. Also on February 7, 2018, KIUC filed a Motion for Rehearing seeking a further reduction in the Company's revenue requirement to address the effect of the Tax Act on the Company's expense under the Rockport Unit Power Agreement ("KIUC's Motion for Rehearing"). No other party sought rehearing.

8. On February 12, 2018, KIUC filed a response to Kentucky Power's Motion for Rehearing. In its response, KIUC asserted that Kentucky Power's proposed tax expense savings calculation was more consistent with the Company's rate case filing and that the Company's test year Forced Outage Expense should be included in base rates.

9. On February 14, 2018, Kentucky Power filed a response to KIUC's Motion for Rehearing arguing that the Commission should not address the effect of the Tax Act on third parties, but that if it does, it must look at all of the effects including that the Tax Act would reduce the Company's transmission owner revenue credit included in base rates. The Attorney General filed a response to both KIUC's Motion for Rehearing and Kentucky Power's Motion for Rehearing.

10. On February 27, 2018, the Commission issued orders on rehearing narrowing the remaining issues. The Commission granted KIUC's Motion for Rehearing and granted in part and denied in part Kentucky Power's Motion for Rehearing. As a result of the Commission's February 27, 2018 orders, the remaining issues from Kentucky Motion for Rehearing are (1) the calculation of tax expense savings arising from the Tax Act and (2) the proper amount of Forced Outage Expense to be included base rates.

11. On April 17, 2018, a telephonic informal settlement conference was held among all of the parties to this case.

12. The Settling Parties execute this Settlement Agreement for purposes of submitting it to the Kentucky Public Service Commission for approval pursuant to KRS 278.190 and KRS 278.183 and for further approval by the Commission of the rate increase, rate structure, and tariffs as described herein.

13. This Settlement Agreement provides for fair, just, and reasonable rates.

NOW, THEREFORE, for and in consideration of the mutual promises set forth above, and the agreements and covenants set forth herein, Kentucky Power and the Settling Parties hereby agree as follows:

AGREEMENT

1. Kentucky Power's Motion for Rehearing

Kentucky Power and KIUC agree as follows with regard to the remaining issues in Kentucky Power's Motion for Rehearing:

(a) Kentucky Power's calculation of tax expense savings arising from the Tax Act shall be approved. This will increase the Company's base rate adjustment by \$765,030;

(b) Kentucky Power and KIUC acknowledge the Commission's statement in its February 27, 2018 Order on rehearing that the Commission's January 18, 2018 Order in this matter did not reverse "any prior decision to allow recovery of Forced Outage Expense through the P.P.A. Forced Outage Expense currently recovered through the P.P.A. is unaffected by the January 18, 2018 Order."¹ As a result of the Commission's confirmation in its February 27, 2018 Order on Kentucky Power's Motion for Rehearing, Kentucky Power withdraws its claim to add \$1,158,285 in test-year Forced Outage Expense to base rates. Kentucky Power shall update its Base Rate Tariff P.P.A. Expense (the amount to which actual expense will be compared in

¹ Commission Order on Rehearing at 4 (Ky. P.S.C. February 27, 2018).

calculating the annual purchase power adjustment factor) to \$74,453,085 to account for a miscalculation in the synchronization of test-year Tariff PPA expenses and revenues; and

(c) Increases to the Company's revenue requirement arising from Kentucky Power's Motion for Rehearing will be allocated among customer classes in the same manner set forth in the "Settlement Base Rate Increase" Column (Column a) of Exhibit 1 to the November 22 Settlement Agreement.

2. KIUC's Motion for Rehearing

Kentucky Power and KIUC agree as follows with regard to the remaining issues in KIUC's Motion for Rehearing:

(a) KIUC withdraws its Motion for Rehearing regarding the effect of the Tax Act on the Company's Rockport UPA expense; and

(b) Kentucky Power withdraws its claims regarding the effect of Tax Act on other third-party expenses and revenues including the effects of the Tax Act on the Company's transmission owner revenue credit embedded in base rates.

3. Good Faith And Best Efforts To Seek Approval

(a) This Settlement Agreement is subject to approval by the Public Service Commission.

(b) Kentucky Power and the Settling Parties shall act in good faith and use their best efforts to recommend to the Commission that this Settlement Agreement be approved in its entirety and without modification and that the rates and charges set forth herein be implemented.

(c) For purposes of any hearing, the Settling Parties and Kentucky Power waive all cross-examination of the other Settling Parties' witnesses except for purposes of supporting this Settlement Agreement unless the Commission disapproves this Settlement Agreement. Each of the Settling Parties further stipulates that the filings made in this case be admitted into the record.

(d) The Settling Parties further agree to support the reasonableness of this Settlement Agreement before the Commission, and to cause their counsel to do the same, including in connection with any appeal from the Commission's adoption or enforcement of this Settlement Agreement.

(e) No party to this Settlement Agreement shall challenge any Order of the Commission approving the Settlement Agreement in its entirety and without modification.

4. Failure Of Commission To Approve Settlement Agreement

If the Commission does not accept and approve this Settlement Agreement in its entirety, then any adversely affected party may withdraw from the Stipulation within the statutory periods provided for rehearing and appeal of the Commission's order by (1) giving notice of withdrawal to all other parties and (2) timely filing for rehearing or appeal. Upon the latter of (1) the expiration of the statutory periods provided for rehearing and appeal of the Commission's order and (2) the conclusion of all rehearings and appeals, all parties that have not withdrawn will continue to be bound by the terms of the Stipulation as modified by the Commission's order.

5. Continuing Commission Jurisdiction

This Settlement Agreement shall in no way be deemed to divest the Commission of jurisdiction under Chapter 278 of the Kentucky Revised Statutes.

6. Effect of Settlement Agreement

This Settlement Agreement shall inure to the benefit of, and be binding upon, the parties to this Settlement Agreement, their successors, and assigns.

7. Complete Agreement

This Settlement Agreement constitutes the complete agreement and understanding among the parties to this Settlement Agreement, and any and all oral statements, representations, or agreements. Any and all such oral statements, representations, or agreements made prior hereto

or contained contemporaneously herewith shall be null and void and shall be deemed to have been merged into this Settlement Agreement.

8. Independent Analysis

The terms of this Settlement Agreement are based upon the independent analysis of the parties to this Settlement Agreement, are the product of compromise and negotiation, and reflect a fair, just, and reasonable resolution of the issues herein. Notwithstanding anything contained in this Settlement Agreement, Kentucky Power and the Settling Parties recognize and agree that the effects, if any, of any future events upon the income of Kentucky Power are unknown and this Settlement Agreement shall be implemented as written.

9. Settlement Agreement And Negotiations Are Not An Admission

(a) This Settlement Agreement shall not be deemed to constitute an admission by any party to this Settlement Agreement that any computation, formula, allegation, assertion, or contention made by any other party in these proceedings is true or valid. Nothing in this Settlement Agreement shall be used or construed for any purpose to imply, suggest or otherwise indicate that the results produced through the compromise reflected herein represent fully the objectives of the Settling Parties.

(b) Neither the terms of this Settlement Agreement nor any statements made or matters raised during the settlement negotiations shall be admissible in any proceeding, or binding on any of the parties to this Settlement Agreement, or be construed against any of the parties to this Settlement Agreement, **except that** in the event of litigation or proceedings involving the approval, implementation or enforcement of this Agreement, the terms of this Settlement Agreement shall be admissible. This Settlement Agreement shall not have any precedential value in this or any other jurisdiction.

10. Consultation With Counsel

The parties to this Settlement Agreement warrant that they have informed, advised, and consulted with their respective counsel with regard to the contents and significance of this Settlement Agreement and are relying upon such advice in entering into this agreement.

11. Authority To Bind

Each of the signatories to this Settlement Agreement hereby warrant they are authorized to sign this agreement upon behalf of, and bind, their respective parties.

12. Construction Of Agreement

This Settlement Agreement is a product of negotiation among all parties to this Settlement Agreement, and no provision of this Settlement Agreement shall be construed in favor of or against any party hereto. This Settlement Agreement is submitted for purposes of this case only and is not to be deemed binding upon the parties hereto in any other proceeding, nor is it to be offered or relied upon in any other proceeding involving Kentucky Power or any other utility.

13. Counterparts

This Settlement Agreement may be executed in multiple counterparts.

14. Future Rate Proceedings

Nothing in this Settlement Agreement shall preclude, prevent, or prejudice any party to this Settlement Agreement from raising any argument or issue, or challenging any adjustment, in any future rate proceeding of Kentucky Power.

IN WITNESS WHEREOF, this Settlement Agreement has been agreed to as of this 25th day of April 2018.

KENTUCKY POWER COMPANY

By: 
Its: COUNSEL

KENTUCKY INDUSTRIAL UTILITY
CUSTOMERS, INC.

By: Neil P. East

Its: Attorney

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**SETTLEMENT TESTIMONY OF
ALEX E. VAUGHAN, ON BEHALF OF
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BEFORE THE PUBLIC SERVICE COMMISSION OF KENTUCKY**

I. INTRODUCTION

1 **Q. PLEASE STATE YOUR NAME AND POSITION WITH KENTUCKY POWER**
2 **COMPANY.**

3 A. My name is Alex E. Vaughan. I am Manager of Regulated Pricing and Analysis for
4 American Electric Power Service Corporation with direct responsibility for Kentucky
5 Power Company cost of service and rate design matters.

6 **Q. HAVE YOU PREVIOUSLY FILED TESTIMONY IN THIS PROCEEDING?**

7 A. Yes. I filed direct testimony, rebuttal testimony, and testimony in support of the
8 November 22, 2017 settlement agreement, as well as testimony in support of the
9 Company’s February 7, 2018 motion for partial rehearing (“Motion for Rehearing”).

10 **Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY?**

11 A. The purpose of my testimony is to support the Company’s position regarding the issues
12 on rehearing remaining after the Commission’s February 27, 2018 orders. In particular, I
13 reaffirm my testimony originally provided in support of the Company’s Motion for
14 Rehearing regarding the calculation of the reduction in the Company’s revenue
15 requirement arising from the enactment of the Tax Cuts and Jobs Act. Additionally, I
16 describe the revised calculation of the Tariff PPA basing point regarding forced outage
17 purchase power expense and CS IRP credits.

II. CALCULATION OF FEDERAL TAX EXPENSE SAVINGS

1 **Q. DO YOU HAVE ANY UPDATES OR CHANGES TO YOUR PREVIOUSLY**
2 **FILED TESTIMONY IN THIS CASE REGARDING THE CALCULATION OF**
3 **THE FEDERAL TAX EXPENSE SAVINGS IN A MANNER CONSISTENT WITH**
4 **HOW THE COMPANY CALCULATED ITS FEDERAL INCOME TAX**
5 **EXPENSE IN ITS RATE CASE FILING?**

6 A. No. The calculation remains the same as set forth in my testimony in support of the
7 Company's Motion for rehearing. The description of the multi-step process I utilized is
8 reproduced here for ease of reference:

9 First, I determined the adjusted test year federal income tax expense (at 35
10 percent) incorporating the terms and conditions of the Settlement Agreement to be
11 \$13,953,736. The adjusted test year federal income tax expense (at 35 percent)
12 contributed to the required net electric operating income increase in the Settlement
13 Agreement of \$19,339,091. I then multiplied the net electric operating income increase
14 by the gross revenue conversion factor of 1.64334 (reflecting the prior 35 percent
15 marginal tax rate) to produce the settlement revenue increase requirement of
16 \$31,780,734.

17 Next, I reduced the adjusted test year federal income tax expense to reflect the
18 new 21 percent income tax rate by multiplying the adjusted test year federal income tax
19 expense by 21/35. This resulted in an adjusted test year federal income tax expense (at
20 21 percent) of \$8,372,242, a reduction in adjusted test year federal income tax expense of
21 \$5,581,494.

1 I then reduced the amount of required net electric operating income increase by
2 the reduction in adjusted test year tax expense to arrive at a new amount of required net
3 electric operating income increase (based on the 21 percent income tax rate) of
4 \$13,757,597 (\$19,339,091 - \$5,581,494).

5 Finally, I multiplied the required net electric operating income increase (based on
6 the 21 percent income tax rate) of \$13,757,597 by the gross revenue conversion factor of
7 1.35212 (reflecting the new 21% marginal tax rate) to arrive at the updated settlement
8 revenue increase requirement of \$18,601,874.

9 This calculation was outlined in Exhibit 1 to the Company's Motion for
10 Rehearing which is also attached to this testimony as EXHIBIT AEV-S1.

11 **Q: WHY IS THE COMPANY'S METHOD OF CALCULATION OF THE FEDERAL**
12 **INCOME TAX EXPENSE SAVINGS MORE APPROPRIATE THAN THE**
13 **ADJUSTMENT INCLUDED IN APPENDIX F OF THE ORDER?**

14 A: Simply put, the Company's calculation uses the actual current and deferred federal
15 income tax expense that was included in the proposed settlement cost of service. This
16 actual current and deferred federal income tax expense also was the foundation for
17 Appendix F to the Commission's January 18, 2018 order. But the Commission's
18 calculation shown on Appendix F imputes additional tax savings that do not exist using
19 the cost of service study that is the basis for the Company's revenue increase in this
20 proceeding.

21 **Q. BASED ON THE COMPANY'S CALCULATION OF THE FEDERAL INCOME**
22 **TAX SAVINGS, WHAT CHANGE IS NECESSARY TO THE COMPANY'S**
23 **COMMISSION-ADJUSTED REVENUE REQUIREMENT?**

1 A. As described in my testimony in support of the Company’s Motion for Rehearing, when
2 the cost of service adjustments made by the Commission (identified in Appendix F to the
3 January 18, 2018 Order) are applied to the updated (at 21 percent) settlement revenue
4 increase requirement of \$18,601,874, it results in a Commission-adjusted revenue
5 requirement increase of \$13,113,660. This is an increase of \$765,030 over the
6 \$12,348,630 identified by the Commission in Appendix F of the January 18, 2018 Order.

7 **Q. HOW WILL THE \$765,030 INCREASE IN REVENUE REQUIREMENT BE**
8 **ALLOCATED AMONG CUSTOMER CLASSES?**

9 A. The \$765,030 increase in revenue requirement will be allocated in the same manner set
10 forth in the “Settlement Base Rate Increase” Column (Column a) of Exhibit 1 to the
11 November 22, 2017 Settlement Agreement. The allocation is shown on EXHIBIT AEV-
12 S2.

III. TARIFF P.P.A.

13 **Q. IN ITS MOTION FOR REHEARING KENTUCKY POWER SOUGHT TO**
14 **INCREASE ITS REVENUE REQUIREMENT BY \$1,158,285 TO INCLUDE THE**
15 **TEST YEAR FORCED OUTAGE EXPENSE. DOES THE COMPANY STILL**
16 **SEEK TO DO SO?**

17 A. No. The Company sought to increase base rates by the test year amount of Forced
18 Outage Expense because it interpreted the Commission’s January 18, 2018 Order in this
19 case as prohibiting the recovery of Force Outage Expense through Tariff P.P.A. In its
20 February 27, 2018 Order on Rehearing in this case, the Commission confirmed that it did
21 not reverse “any prior decision to allow recovery of Forced Outage Expense through the
22 P.P.A. Forced Outage Expense currently recovered through the P.P.A. is unaffected by

1 the January 18, 2018 Order.”¹ With the confirmation that Forced Outage Expense can
2 continue to be recovered through Tariff P.P.A., there is no longer any need to increase
3 the Company’s revenue requirement to include a test-year amount of Forced Outage
4 Expense.

5 **Q. ARE THERE OTHER UPDATES TO TARIFF P.P.A. THAT ARE NECESSARY?**

6 A. Yes. The Company is providing as **EXHIBIT AEV-S3** an updated version of Tariff
7 P.P.A. The Company is updating the tariff to reflect a new amount of “Base Rate Tariff
8 P.P.A. Expense.” The Base Rate Tariff P.P.A. Expense amount serves as the basing
9 point for comparison to actual amount of costs eligible for recovery through Tariff P.P.A.
10 The Company sets the annual purchase power adjustment factor to recover or credit any
11 over or under recovery of the base rate amount, thereby ensuring that customers pay no
12 more or no less than the actual charges.

13 **Q. WHY IS THE COMPANY UPDATING THE BASE RATE TARIFF P.P.A.**
14 **EXPENSE AMOUNT?**

15 A. Adjustment W-9, which meant to synchronize test year Tariff P.P.A. expenses and
16 revenues and zero out the rider’s effect on base rates, was not necessary. During the test
17 year, the Company incurred \$820,696 in expenses recoverable through Tariff P.P.A, but
18 as a result of the two-month delay in recovery, only recovered \$448,154 in revenues
19 through the tariff. Adjustment W-9 was intended to make the Tariff PPA revenues and
20 expenses equal one another by adding the difference between \$820,696 and \$448,154
21 (\$372,542) to the Company’s revenue requirement. This adjustment, however, was
22 unnecessary because the Tariff PPA deferral account (5550141) was also included in the
23 Company’s base rate cost of service. The test year balance in account 5550141 was -

¹ Commission Order on Rehearing at 4 (Ky. P.S.C. February 27, 2018).

1 \$372,542, which equalized revenues and expenses under Tariff P.P.A. Adjustment W-9
2 added \$372,542 of Tariff P.P.A. expense into base rates in this case. Therefore the Base
3 Rate Tariff P.P.A. Expense needs to account for this amount.

4 **Q. WHAT IS THE NEW BASE RATE TARIFF P.P.A. EXPENSE?**

5 A. The Base Rate Tariff P.P.A. Expense is \$74,453,085 (\$74,080,543 + \$372,542).

6 **Q. DOES THE UPDATE TO THE BASE RATE TARIFF P.P.A. EXPENSE CHANGE**
7 **THE COMPANY’S ANNUAL REVENUE REQUIREMENT?**

8 A. No. The Change in Base Rate Tariff P.P.A. Expense only changes the basing point used
9 in calculating the annual purchase power adjustment factor. The annual revenue
10 requirement remains unchanged.

11 **Q. HAS THE COMPANY PREPARED UPDATED FORMS FOR TARIFF PPA?**

12 A. Yes. Attached as part of **EXHIBIT AEV-S4** are the new Tariff PPA forms that contain the
13 derivation of the new basing point on form 5.0.

14 **Q. DOES THIS CONCLUDE YOUR TESTIMONY?**

15 A. Yes.

Kentucky Power Company - Rehearing Appendix 1

Line #	Line Description	Filed Settlement		Commission Order Appendix F	Notes
		a @35% FIT	b @21% FIT		
1	Federal Tax Expense Included in Settlement	\$ 13,953,736	\$ 8,372,242		\$ 8,372,242 Equals \$13,953,736 * (21/35)
2	Net Electric Operating Income Increase	\$ 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 (W/P 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>	<u>\$ 567,510,853</u>	<u>\$ 31,780,734</u>	<u>\$ 599,291,587</u>
<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>	<u>\$ 511,273,006</u>	<u>\$ 12,441,643</u>	<u>\$ 523,714,649</u>
13	<u>Net Electric Operating Income (Line 4 - Line 12)</u>	<u>\$ 56,237,848</u>	<u>\$ 19,339,091</u>	<u>\$ 75,576,939</u>
14	<u>AFUDC Offset Adjustment / Deferred Income</u>	<u>\$ 1,650,761</u>	<u>\$ -</u>	<u>\$ 1,650,761</u>
15	<u>Net Electric Operating Income - Adjusted</u>	<u>\$ 57,888,609</u>	<u>\$ 19,339,091</u>	<u>\$ 77,227,700</u>
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>

Kentucky Power Company
Exhibit AEV - S2
Case No. 2017-00179
Revenue Allocation of Federal Income Tax Expense Correction

Customer Class	Proposed Settlement Base	Allocation of Federal Tax Expense in Base Rates
	Rate Increase	
	a	
RS	\$ 20,076,436	\$ 483,283
SGS	\$ 984,981	\$ 23,711
MGS	\$ 3,421,623	\$ 82,366
GS*	\$ 4,406,604	\$ 106,076
LGS**	\$ 3,520,149	\$ 84,737
IGS	\$ 3,534,466	\$ 85,082
MW	\$ 4,956	\$ 119
OL	\$ 201,254	\$ 4,845
SL	\$ 36,869	\$ 888
Total	\$ 31,780,734	\$ 765,030

* GS is the combination of the SGS and MGS classes

**Includes former PS tariff

**TARIFF P.P.A.
(Purchase Power Adjustment)**

APPLICABLE.

To Tariffs R.S., R.S.D., R.S.-L.M.-T.O.D., R.S.-T.O.D., Experimental R.S.-T.O.D.2, G.S., S.G.S.-T.O.D., M.G.S.-T.O.D., P.S., L.G.S., L.G.S.-T.O.D., I.G.S., C.S. – I.R.P., M.W., O.L. and S.L.

RATE.

The annual purchase power adjustment factor will be computed using the following formula:

1. Annual Purchase Power Net Costs (PPANC)

$$PPANC = N + RP + CSIRP + G + OATT + RKP - BPP$$

Where:

BPP = The annual amount of purchase power costs included in base rates, \$78,453,085.

- a. N = The annual cost of power purchased by the Company through new Purchase Power Agreements. All new purchase power agreements shall be approved by the Commission to the extent required by KRS 278.300.
- b. RP = The annual purchased power costs not otherwise recoverable in the Fuel Adjustment Clause including but not limited to the cost of fuel related substitute generation less the cost of fuel which would have been used in plants suffering forced generation or transmission outages and the cost of purchases in excess of the highest cost owned or leased unit.
- c. CSIRP = The net annual cost of any credits provided to customers under Tariff C.S.-I.R.P. for interruptible service.
- d. G = The annual gains and losses on incidental gas sales; and
- e. OATT = 80% The net annual PJM load-serving entity Open Access Transmission Tariff Charges above or below the \$74,038,517 included in BPP, less the transmission return difference pursuant to the Commission approved Settlement agreement in Case No. 2017-00179.
- f. RKP = Rockport related items includable in Tariff PPA pursuant to the Commission approved Settlement agreement in Case No. 2017-00179:
 - i. Increase in Rockport collection resulting from reduction in base rate deferral;
 - ii. Rockport deferral amount to be recovered;
 - iii. Rockport fixed cost savings; and
 - iv. Rockport offset estimate and true-up.

(Cont'd on Sheet No. 35-2)

DATE OF ISSUE: January 19, 2018

DATE EFFECTIVE: Service Rendered On And After January 19, 2018

ISSUED BY:

TITLE:

By Authority Of an Order of the Public Service Commission

In Case No. 2017-00179 Dated XXXXXXXX

T
T

TARIFF P.P.A. (Cont'd)
(Purchase Power Adjustment)

RATES.

Tariff Class	\$/kWh	\$/kW
R.S., R.S.-L.M.-T.O.D., R.S.-T.O.D., and R.S.-T.O.D. 2, R.S.D.	\$0.00000	--
S.G.S.-T.O.D.	\$0.00000	--
M.G.S.-T.O.D.	\$0.00000	--
G.S.	\$0.00000	--
L.G.S., P.S, L.G.S.-T.O.D.	\$0.00000	\$0.00
L.G.S.-L.M.-T.O.D.	\$0.00000	--
I.G.S. and C.S.-I.R.P.	\$0.00000	\$0.00
M.W.	\$0.00000	--
O.L.	\$0.00000	--
S.L.	\$0.00000	--

The kWh factor as calculated above will be applied to all billing kilowatt-hours for those tariff classes listed above. The kW factor as calculated above will be applied to all on-peak and minimum billing demand kW for the LGS and IGS tariff classes.

The Purchase Power Adjustment factors shall be modified annually using the following formula:

The Purchase Power Adjustment factors shall be determined as follows:

For all tariff classes without demand billing:

$$\text{kWh Factor} = \frac{\text{PPA(E)} \times (\text{BE}_{\text{Class}} / \text{BE}_{\text{Total}}) + \text{PPA(D)} \times (\text{CP}_{\text{Class}} / \text{CP}_{\text{Total}})}{\text{BE}_{\text{Class}}}$$

$$\text{kW Factor} = 0$$

For all tariff classes with demand billing:

$$\text{kWh Factor} = \frac{\text{PPA(E)} \times (\text{BE}_{\text{Class}} / \text{BE}_{\text{Total}})}{\text{BE}_{\text{Class}}}$$

$$\text{kW Factor} = \frac{\text{PPA(D)} \times (\text{CP}_{\text{Class}} / \text{CP}_{\text{Total}})}{\text{BD}_{\text{Class}}}$$

(Cont'd on Sheet No. 35-3)

DATE OF ISSUE: January 19, 2018

DATE EFFECTIVE: Service Rendered On And After January, 19 2018

ISSUED BY:

TITLE:

By Authority Of an Order of the Public Service Commission

In Case No. 2017-00179 Dated XXXXXX

N
N

TARIFF P.P.A. (Cont'd)
(Purchase Power Adjustment)

RATES. (Cont'd)

Where:

1. "PPA(D)" is the actual annual retail PPA demand-related costs, plus any prior review period (over)/under recovery.
2. "PPA(E)" is the actual annual retail PPA energy-related costs, plus any prior review period (over)/under recovery.
3. "BE_{Class}" is the historic annual retail jurisdictional billing kWh for each tariff class for the current year.
4. "BD_{Class}" is the historic annual retail jurisdictional billing kW for each applicable tariff class for the current year.
5. "CP_{Class}" is the coincident peak demand for each tariff class estimated as follows:

Tariff Class	BE _{Class}	CP/kWh Ratio	CP _{Class}
R.S., R.S.-L.M.-T.O.D., R.S.-T.O.D., and R.S.-T.O.D. 2, R.S.D.		0.0240909%	
S.G.S.-T.O.D.		0.0196553%	
M.G.S.-T.O.D.		0.0196553%	
G.S.		0.0196553%	
L.G.S., P.S, L.G.S.-T.O.D		0.0170480%	
L.G.S.-L.M.-T.O.D.		0.0170480%	
I.G.S. and C.S.-I.R.P.		0.0118222%	
M.W.		0.0135480%	
O.L.		0.0000000%	
S.L.		0.0000000%	

6. "BE_{Total}" is the sum of the BE_{Class} for all tariff classes.
7. "CP_{Total}" is the sum of the CP_{Class} for all tariff classes.
8. The factors as computed above are calculated to allow the recovery of Uncollectible Accounts Expense of 0.34% and the KPSC Maintenance Fee of 0.1996% and other similar revenue based taxes or assessments occasioned by the Purchase Power Adjustment revenues.
9. The annual PPA factors shall be filed with the Commission by August 15 of each year with the exception of the Rockport items includable in Tariff PPA pursuant to the Commission approved Settlement agreement in Case No. 2017-00179, with rates to begin with the October billing period, along with all necessary supporting data to justify the amount of the adjustments, which shall include data and information as may be required by the Commission.

Copies of all documents required to be filed with the Commission shall be open and made available for public inspection at the office of the Public Service Commission pursuant to the provisions of KRS 61.870 to 61.884.

DATE OF ISSUE: January 19, 2018

DATE EFFECTIVE: Service Rendered On And After January 19, 2018

ISSUED BY:

TITLE:

By Authority Of an Order of the Public Service Commission

In Case No. 2017-00179 Dated XXXXXXXX

PPA - Form 1.0

Kentucky Power Company
Purchase Power Adjustment
XXXXX-Month Period ended XXXX
SAMPLE ONLY

<u>Line</u>		
(1)	Actual Non-Rockport PPA Costs X-Months Ended xxx - Form 3.0	74,236,044
(2)	Non-Rockport PPA Base Rate Amount - Form 5.0 (Based on No. of Months)	74,453,085
(3)	Non-Rockport Current Period Revenue Requirement (Line 1 - Line 2)	(217,041)
(4)	Increase in Rockport Collection - Reduction of Amount of Rockport Base Rate Deferral (2020 - Dec 8, 2022)*	
(5)	Rockport Fixed Cost Savings (Dec 9, 2022+)	(11,111,111)
(6)	Subtotal (Line 3 + Line 4 + Line 5)	(11,328,152)
(7)	Gross-Up (Line 6 X .005425)	(614,552)
(8)	Rockport Deferral Amount to be Recovered through the PPA (Dec 9, 2022 - Dec 8, 2027)	13,249,154
(9)	Estimated Rockport Offset Amount (2023)	821,670
(10)	Rockport Offset True-Up (2024)	(164,334)
(11)	PPA Revenue Requirement before Prior Period Over/Under (Line 6 + Line 7 + Line 8 + Line 9 + Line 10)	1,963,787
(12)	Actual PPA Revenue Collected For X-Months Ended xxxxxx from PPA Form 4.0	7,777,777
(13)	Prior Period PPA Revenue Target - Previous PPA Update Filing	8,888,888
(14)	Going Level PPA Revenue Requirement (Line 11 - Line 12 + Line 13)	<u>3,074,898</u>

a.) Demand	\$3,051,886
b.) Energy	<u>\$23,011</u>
	\$3,074,898

* \$5 million in 2020, \$10 million in 2021 and 2022

PPA - Form 2.0

**Kentucky Power Company
Purchase Power Adjustment Rate Design**

		<u>Demand</u>	<u>Energy</u>	<u>Total</u>											
KY Retail Jurisdiction Revenue Requirement		\$3,051,886	\$23,011	\$3,074,898											
<u>Class</u> (1)	<u>Historic Period Billing Energy</u> (2)	<u>Historic Period Billing Demand</u> (3)	<u>Test Year CP / kWh Ratio</u> (4)	<u>CP Demand Allocation Factor</u> (5) = (2) x (4)	<u>Allocated Demand Related Costs</u> (6) on (5)	<u>Allocated Energy Related Costs</u> (7) on (2)	<u>\$ / kW Rate</u> (8) = (6) / (3)	<u>\$ / kWh Rate</u> (9) = (7) / (2)	<u>Revenue Verification</u> (10)	<u>Difference</u> (11) = (10) - (6) - (7)					
RES	2,042,413,442		0.0240909%	492,036	\$1,502,812	\$8,448	\$	\$0.00074	\$1,511,386	\$126					
GS (SGS/MGS)	592,644,207		0.0196551%	116,485	355,777	2,451	\$	\$0.00060	355,587	-\$2,641					
LGS	630,280,009	1,933,460	0.0170480%	107,450	328,181	2,607	\$	\$0.00000	328,688	-\$2,100					
LGS LMTOD	1,930,735		0.0170480%	329	1,005	8	\$	\$0.00052	1,004	-\$9					
IGS	2,242,555,474	3,501,814	0.0126039%	282,649	863,287	9,276	\$	\$0.00000	840,435	-\$32,128					
MW	1,992,095		0.0135480%	270	825	8	\$	\$0.00042	837	\$4					
OL	43,044,440		0.0000000%	0	0	178	\$	\$0.00000	0	-\$178					
SL	8,517,885		0.0000000%	0	0	35	\$	\$0.00000	0	-\$35					
Total	5,563,378,287	5,435,274		999,219	\$3,051,887	\$23,011			\$3,037,937	(\$36,961)					

Kentucky Power Company
PPA Costs
Actual Operating Expenses for the XX Month period ended XXXX
SAMPLE ONLY

Account	Description	Actual Period Total	Classification	Allocation	Retail Total
4561005	PJM Point to Point Trans Svc	(\$111,111)	Demand	1.00	\$ (111,111)
4561002	RTO Formation Cost Recovery	(\$222,222)	Demand	1.00	\$ (222,222)
4561035-LSE	PJM Affiliated Trans NITS Cost	\$44,444,444	Demand	1.00	\$ 44,444,444
4561036-LSE	PJM Affiliated Trans TO Cost	\$555,555	Energy	1.00	\$ 555,555
4561060-LSE	Affil PJM Trans Enhancmnt Cost	\$777,777	Demand	1.00	\$ 777,777
5650012	PJM Trans Enhancement Charge	\$5,555,555	Demand	1.00	\$ 5,555,555
5650016	PJM NITS Expense - Affiliated	\$18,888,888	Demand	1.00	\$ 18,888,888
5650019	Affil PJM Trans Enhncement Exp	\$4,444,444	Demand	1.00	\$ 4,444,444
PJM LSE OATT		\$74,333,330			\$ 74,333,330
PJM LSE OATT Base Amount					\$ 74,038,517
Incremental PJM LSE OATT					\$ 294,813
80% of Incremental PJM LSE OATT					\$ 235,850
PJM LSE OATT To be included in PPA					\$ 74,274,367
Forced Outage Purchase Power Limitation - Acct 555		\$ 5,555,555	Energy	1.00	\$ -
CS IRP Credits - Acct 44X		\$ 77,777	Demand	1.00	\$ 77,777
FERC vs KY Retail ROE Delta Return Calculation		(\$116,100)	Demand	1	(\$116,100)
Total PPA Costs					\$74,236,044
	\$		%		
Total Demand	\$	73,680,489		0.993	
Total Energy	\$	555,555		0.007	

PPA - Form 4.0

Kentucky Power Company
PPA Revenue Collected
XX-Month Period ended XXX

<u>Line</u>	<u>Tariff Class</u>	<u>Total for Over/Under</u>
(1)	RES	-
(2)	GS (Includes SGS-TOD and MGS-TOD)	-
(3)	LGS	-
(4)	LGS LMTOD	-
(5)	IGS	-
(6)	MW	-
(7)	OL	-
(8)	SL	-
(9)	Total	-
(10)	Total Revenue Collected	-

PPA Rider Base Rate Amounts
12 Months Ended February 28, 2017
KPCo KY Retail Jurisdiction

PPA - Form 5.0

Line	Account	Description	Adjusted Test Year Total	Classification
(1)	4561005	PJM Point to Point Trans Svc	(\$535,143)	Demand
(2)	4561002	RTO Formation Cost Recovery	\$196,296	Demand
(3)	4561035	PJM Affiliated Trans NITS Cost	\$45,453,207	Demand
(4)	4561036	PJM Affiliated Trans TO Cost	\$566,356	Energy
(5)	4561060	Affil PJM Trans Enhancmnt Cost	\$788,524	Demand
(6)	5650012	PJM Trans Enhancement Charge	\$5,035,193	Demand
(7)	5650016	PJM NITS Expense - Affiliated	\$18,568,254	Demand
(8)	5650019	Affil PJM Trans Enhncement Exp	\$3,965,830	Demand
(9)	PJM LSE OATT Base Amount		\$74,038,517	
(10)	Forced Outage Purchase Power Limitation Base Amount - Acct 555		\$ 372,542	Energy
(11)	CS IRP Credits Base Amount - Acct 44X		\$ 42,026	Demand
(12)	Total PPA Base Amount		\$74,453,085	
(13)	Monthly PPA Base Amount to be used for Periods less than 12 months (Line 11/12)		\$6,204,424	

FERC vs KY Retail ROE Delta Return Calculation

a	TO Transmission Rate Base	\$	300,309,183
b	KY Juris Retail Demand Factor		0.985
c = a*b	KY Retail TO Trans Rate Base	\$	295,804,545
d	Base Rate KY Retail Trans Rate Base	\$	266,193,975
e = c-d	Difference	\$	29,610,570
f	TO WACC @ 10.35 ROE		7.049%
g	TO WACC @ 9.70 ROE		6.757%
h = f-g	Difference		0.2914%
j = e*h	TO Return Delta	\$	86,297
k	GRCF		1.3453
l = j*k	2018 Tariff PPA Revenue Credit	\$	116,096
m	Monthly Amount to be used for Periods less than 12 months (Line 11/12)		<u>\$9,675</u>

Source

2018 OATT TCOS - Updated for settlement in docket EL17-13
2017-00179 Section V, Allocation Factors
calculation

2017-00179 Class Cost of Service
calculation

2018 OATT TCOS - Updated for settlement in docket EL17-13
2018 OATT TCOS - Updated for PSC Order
calculation

calculation

2018 OATT TCOS - Updated for 21% FIT Rate
calculation

WACC 7.88%
Monthly 0.6567%
Monthly Payment \$1,104,096
Retail Revenue Requirement \$13,249,154

Line	Month	Additions	Levelized Payment	Calculated Change in RA	Month End Reg Asset			Balance of Components Subject to WACC	Carrying Charges on Principal net of ADIT only	Carrying Charges on Total Reg Asset net of ADIT	Month End Reg Asset Balance
					Balance	CC	ADIT on RA				
1	January-18	1,250,000		1,250,000	1,250,000	(437,500)	(437,500)	812,500	-	1,250,000	
2	February-18	1,250,000		1,250,000	2,500,000	(437,500)	(875,000)	1,625,000	5,335	2,505,335	
3	March-18	1,250,000		1,250,000	3,750,000	(437,500)	(1,312,500)	2,437,500	10,671	3,766,006	
4	April-18	1,250,000		1,250,000	5,000,000	(437,500)	(1,750,000)	3,250,000	16,006	5,032,013	
5	May-18	1,250,000		1,250,000	6,250,000	(437,500)	(2,187,500)	4,062,500	21,342	6,303,354	
6	June-18	1,250,000		1,250,000	7,500,000	(437,500)	(2,625,000)	4,875,000	26,677	7,580,031	
7	July-18	1,250,000		1,250,000	8,750,000	(437,500)	(3,062,500)	5,687,500	32,013	8,862,044	
8	August-18	1,250,000		1,250,000	10,000,000	(437,500)	(3,500,000)	6,500,000	37,348	10,149,392	
9	September-18	1,250,000		1,250,000	11,250,000	(437,500)	(3,937,500)	7,312,500	42,683	11,442,075	
10	October-18	1,250,000		1,250,000	12,500,000	(437,500)	(4,375,000)	8,125,000	48,019	12,740,094	
11	November-18	1,250,000		1,250,000	13,750,000	(437,500)	(4,812,500)	8,937,500	53,354	14,043,448	
12	December-18	1,250,000		1,250,000	15,000,000	(437,500)	(5,250,000)	9,750,000	58,690	15,352,138	
13	January-19	1,250,000		1,250,000	16,250,000	(437,500)	(5,687,500)	10,562,500	64,025	16,666,163	
14	February-19	1,250,000		1,250,000	17,500,000	(437,500)	(6,125,000)	11,375,000	69,360	17,985,523	
15	March-19	1,250,000		1,250,000	18,750,000	(437,500)	(6,562,500)	12,187,500	74,696	19,310,219	
16	April-19	1,250,000		1,250,000	20,000,000	(437,500)	(7,000,000)	13,000,000	80,031	20,640,250	
17	May-19	1,250,000		1,250,000	21,250,000	(437,500)	(7,437,500)	13,812,500	85,367	21,975,617	
18	June-19	1,250,000		1,250,000	22,500,000	(437,500)	(7,875,000)	14,625,000	90,702	23,316,319	
19	July-19	1,250,000		1,250,000	23,750,000	(437,500)	(8,312,500)	15,437,500	96,038	24,662,356	
20	August-19	1,250,000		1,250,000	25,000,000	(437,500)	(8,750,000)	16,250,000	101,373	26,013,729	
21	September-19	1,250,000		1,250,000	26,250,000	(437,500)	(9,187,500)	17,062,500	106,708	27,370,438	
22	October-19	1,250,000		1,250,000	27,500,000	(437,500)	(9,625,000)	17,875,000	112,044	28,732,481	
23	November-19	1,250,000		1,250,000	28,750,000	(437,500)	(10,062,500)	18,687,500	117,379	30,099,860	
24	December-19	1,250,000		1,250,000	30,000,000	(437,500)	(10,500,000)	19,500,000	122,715	31,472,575	
25	January-20	833,333		833,333	30,833,333	(291,667)	(10,791,667)	20,041,667	128,050	32,433,958	
26	February-20	833,333		833,333	31,666,667	(291,667)	(11,083,333)	20,583,333	131,607	33,398,899	
27	March-20	833,333		833,333	32,500,000	(291,667)	(11,375,000)	21,125,000	135,164	34,367,396	
28	April-20	833,333		833,333	33,333,333	(291,667)	(11,666,667)	21,666,667	138,721	35,339,450	
29	May-20	833,333		833,333	34,166,667	(291,667)	(11,958,333)	22,208,333	142,278	36,315,061	
30	June-20	833,333		833,333	35,000,000	(291,667)	(12,250,000)	22,750,000	145,835	37,294,229	
31	July-20	833,333		833,333	35,833,333	(291,667)	(12,541,667)	23,291,667	149,392	38,276,954	
32	August-20	833,333		833,333	36,666,667	(291,667)	(12,833,333)	23,833,333	152,949	39,263,236	
33	September-20	833,333		833,333	37,500,000	(291,667)	(13,125,000)	24,375,000	156,506	40,253,075	
34	October-20	833,333		833,333	38,333,333	(291,667)	(13,416,667)	24,916,667	160,063	41,246,471	
35	November-20	833,333		833,333	39,166,667	(291,667)	(13,708,333)	25,458,333	163,619	42,243,424	
36	December-20	833,333		833,333	40,000,000	(291,667)	(14,000,000)	26,000,000	167,176	43,243,933	
37	January-21	416,667		416,667	40,416,667	(145,833)	(14,145,833)	26,270,833	170,733	44,313,333	
38	February-21	416,667		416,667	40,833,333	(145,833)	(14,291,667)	26,541,667	172,512	44,420,512	
39	March-21	416,667		416,667	41,250,000	(145,833)	(14,437,500)	26,812,500	174,290	45,011,469	
40	April-21	416,667		416,667	41,666,667	(145,833)	(14,583,333)	27,083,333	176,069	45,604,204	
41	May-21	416,667		416,667	42,083,333	(145,833)	(14,729,167)	27,354,167	177,847	46,198,718	
42	June-21	416,667		416,667	42,500,000	(145,833)	(14,875,000)	27,625,000	179,626	46,795,010	
43	July-21	416,667		416,667	42,916,667	(145,833)	(15,020,833)	27,895,833	181,404	47,393,081	
44	August-21	416,667		416,667	43,333,333	(145,833)	(15,166,667)	28,166,667	183,183	47,992,931	
45	September-21	416,667		416,667	43,750,000	(145,833)	(15,312,500)	28,437,500	184,961	48,594,558	
46	October-21	416,667		416,667	44,166,667	(145,833)	(15,458,333)	28,708,333	186,740	49,197,965	
47	November-21	416,667		416,667	44,583,333	(145,833)	(15,604,167)	28,979,167	188,518	49,803,149	
48	December-21	416,667		416,667	45,000,000	(145,833)	(15,750,000)	29,250,000	190,297	50,410,113	
49	January-22	444,126		444,126	45,444,126	(155,444)	(15,905,444)	29,538,682	192,075	51,046,314	
50	February-22	444,126		444,126	45,888,252	(155,444)	(16,060,888)	29,827,364	193,971	51,684,410	
51	March-22	444,126		444,126	46,332,378	(155,444)	(16,216,332)	30,116,046	195,866	52,324,403	
52	April-22	444,126		444,126	46,776,504	(155,444)	(16,371,776)	30,404,728	197,762	52,966,291	
53	May-22	444,126		444,126	47,220,630	(155,444)	(16,527,221)	30,693,410	199,658	53,610,075	
54	June-22	444,126		444,126	47,664,756	(155,444)	(16,682,665)	30,982,092	201,553	54,255,754	
55	July-22	444,126		444,126	48,108,882	(155,444)	(16,838,109)	31,270,774	203,449	54,903,329	
56	August-22	444,126		444,126	48,553,009	(155,444)	(16,993,553)	31,559,456	205,345	55,552,800	
57	September-22	444,126		444,126	48,997,135	(155,444)	(17,148,997)	31,848,138	207,240	56,204,167	
58	October-22	444,126		444,126	49,441,261	(155,444)	(17,304,441)	32,136,819	209,136	56,857,429	
59	November-22	444,126		444,126	49,885,387	(155,444)	(17,459,885)	32,425,501	211,032	57,512,587	
59	Dec 1 - Dec 8, 2022	114,613		114,613	50,000,000	(40,115)	(17,500,000)	32,500,000	54,949	57,682,149	
60	Dec 9 - Dec 31, 2022		819,168	(819,168)		216,398	(17,283,602)	39,775,148		195,769	57,058,750
61	January-23		1,104,096	(1,104,096)		291,667	(16,991,935)	39,223,908		261,190	56,215,844
62	February-23		1,104,096	(1,104,096)		291,667	(16,700,269)	38,669,049		257,570	55,369,318
63	March-23		1,104,096	(1,104,096)		291,667	(16,408,602)	38,110,546		253,927	54,519,148
64	April-23		1,104,096	(1,104,096)		291,667	(16,116,935)	37,548,376		250,259	53,665,312
65	May-23		1,104,096	(1,104,096)		291,667	(15,825,269)	36,982,514		246,568	52,807,783
66	June-23		1,104,096	(1,104,096)		291,667	(15,533,602)	36,412,936		242,852	51,946,539

WACC 7.88%
 Monthly 0.6567%
 Monthly Payment \$1,104,096
 Retail Revenue Requirement \$13,249,154

Line	Month	Additions	Levelized Payment	Calculated Change in RA	Month End Reg Asset Balance Excl.		ADIT on RA	ADIT Balance	Balance of Components Subject to WACC	Carrying Charges on Principal net of ADIT only	Carrying Charges on Total Reg Asset net of ADIT	Month End Reg Asset Balance
					CC							
67	July-23		1,104,096	(1,104,096)			291,667	(15,241,935)	35,839,619		239,112	51,081,554
68	August-23		1,104,096	(1,104,096)			291,667	(14,950,269)	35,262,536		235,347	50,212,805
69	September-23		1,104,096	(1,104,096)			291,667	(14,658,602)	34,681,664		231,557	49,340,266
70	October-23		1,104,096	(1,104,096)			291,667	(14,366,935)	34,096,977		227,743	48,463,913
71	November-23		1,104,096	(1,104,096)			291,667	(14,075,269)	33,508,451		223,903	47,583,720
72	December-23		1,104,096	(1,104,096)			291,667	(13,783,602)	32,916,060		220,039	46,699,662
73	January-24		1,104,096	(1,104,096)			291,667	(13,491,935)	32,319,780		216,149	45,811,715
74	February-24		1,104,096	(1,104,096)			291,667	(13,200,269)	31,719,583		212,233	44,919,852
75	March-24		1,104,096	(1,104,096)			291,667	(12,908,602)	31,115,446		208,292	44,024,048
76	April-24		1,104,096	(1,104,096)			291,667	(12,616,935)	30,507,341		204,325	43,124,276
77	May-24		1,104,096	(1,104,096)			291,667	(12,325,269)	29,895,243		200,332	42,220,512
78	June-24		1,104,096	(1,104,096)			291,667	(12,033,602)	29,279,125		196,312	41,312,728
79	July-24		1,104,096	(1,104,096)			291,667	(11,741,935)	28,658,962		192,266	40,400,898
80	August-24		1,104,096	(1,104,096)			291,667	(11,450,269)	28,034,726		188,194	39,484,995
81	September-24		1,104,096	(1,104,096)			291,667	(11,158,602)	27,406,392		184,095	38,564,994
82	October-24		1,104,096	(1,104,096)			291,667	(10,866,935)	26,773,931		179,969	37,640,866
83	November-24		1,104,096	(1,104,096)			291,667	(10,575,269)	26,137,317		175,815	36,712,586
84	December-24		1,104,096	(1,104,096)			291,667	(10,283,602)	25,496,522		171,635	35,780,124
85	January-25		1,104,096	(1,104,096)			291,667	(9,991,935)	24,851,520		167,427	34,843,455
86	February-25		1,104,096	(1,104,096)			291,667	(9,700,269)	24,202,282		163,192	33,902,551
87	March-25		1,104,096	(1,104,096)			291,667	(9,408,602)	23,548,781		158,928	32,957,383
88	April-25		1,104,096	(1,104,096)			291,667	(9,116,935)	22,890,988		154,637	32,007,924
89	May-25		1,104,096	(1,104,096)			291,667	(8,825,269)	22,228,876		150,317	31,054,145
90	June-25		1,104,096	(1,104,096)			291,667	(8,533,602)	21,562,416		145,970	30,096,018
91	July-25		1,104,096	(1,104,096)			291,667	(8,241,935)	20,891,580		141,593	29,133,515
92	August-25		1,104,096	(1,104,096)			291,667	(7,950,269)	20,216,338		137,188	28,166,607
93	September-25		1,104,096	(1,104,096)			291,667	(7,658,602)	19,536,663		132,754	27,195,265
94	October-25		1,104,096	(1,104,096)			291,667	(7,366,935)	18,852,524		128,291	26,219,460
95	November-25		1,104,096	(1,104,096)			291,667	(7,075,269)	18,163,893		123,798	25,239,162
96	December-25		1,104,096	(1,104,096)			291,667	(6,783,602)	17,470,740		119,276	24,254,342
97	January-26		1,104,096	(1,104,096)			291,667	(6,491,935)	16,773,035		114,725	23,264,970
98	February-26		1,104,096	(1,104,096)			291,667	(6,200,269)	16,070,748		110,143	22,271,017
99	March-26		1,104,096	(1,104,096)			291,667	(5,908,602)	15,363,850		105,531	21,272,452
100	April-26		1,104,096	(1,104,096)			291,667	(5,616,935)	14,652,309		100,889	20,269,245
101	May-26		1,104,096	(1,104,096)			291,667	(5,325,269)	13,936,097		96,217	19,261,365
102	June-26		1,104,096	(1,104,096)			291,667	(5,033,602)	13,215,181		91,514	18,248,783
103	July-26		1,104,096	(1,104,096)			291,667	(4,741,935)	12,489,531		86,780	17,231,466
104	August-26		1,104,096	(1,104,096)			291,667	(4,450,269)	11,759,116		82,015	16,209,385
105	September-26		1,104,096	(1,104,096)			291,667	(4,158,602)	11,023,905		77,218	15,182,507
106	October-26		1,104,096	(1,104,096)			291,667	(3,866,935)	10,283,865		72,390	14,150,801
107	November-26		1,104,096	(1,104,096)			291,667	(3,575,269)	9,538,967		67,531	13,114,235
108	December-26		1,104,096	(1,104,096)			291,667	(3,283,602)	8,789,176		62,639	12,072,779
109	January-27		1,104,096	(1,104,096)			291,667	(2,991,935)	8,034,462		57,716	11,026,398
110	February-27		1,104,096	(1,104,096)			291,667	(2,700,269)	7,274,793		52,760	9,975,061
111	March-27		1,104,096	(1,104,096)			291,667	(2,408,602)	6,510,134		47,771	8,918,736
112	April-27		1,104,096	(1,104,096)			291,667	(2,116,935)	5,740,454		42,750	7,857,390
113	May-27		1,104,096	(1,104,096)			291,667	(1,825,269)	4,965,721		37,696	6,790,989
114	June-27		1,104,096	(1,104,096)			291,667	(1,533,602)	4,185,899		32,608	5,719,501
115	July-27		1,104,096	(1,104,096)			291,667	(1,241,935)	3,400,957		27,487	4,642,893
116	August-27		1,104,096	(1,104,096)			291,667	(950,269)	2,610,861		22,333	3,561,129
117	September-27		1,104,096	(1,104,096)			291,667	(658,602)	1,815,576		17,145	2,474,178
118	October-27		1,104,096	(1,104,096)			291,667	(366,935)	1,015,068		11,922	1,382,004
119	November-27		1,104,096	(1,104,096)			291,667	(75,269)	209,305		6,666	284,573
120	Dec 1 - Dec 8, 2027		284,928	(284,928)			75,269	(0)	(0)		355	(0)
Totals		50,000,000	66,245,772	(16,245,772)			(0)			7,682,149	8,563,623	

Kentucky Power Company
Exhibit 2 - Rockport
SAMPLE ONLY

(1) Rockport Fixed Cost Savings					
	Amount of Rockport Fixed Cost in Base Rates	\$	11,111,111		
(2) 2023 Rockport Offset Calculation					
				Rockport Offset	
				<u>Estimated</u>	<u>Actual</u>
a	12 Month Net GAAP Income	\$	97,000,000	\$	97,100,000
b	13 Month Average Common Equity	\$	1,000,000,000	\$	1,000,000,000
c = a/b	Return on Common Equity		9.70%		9.71% Calculation
d	Kentucky Power Allowed Retail ROE		9.75%		9.75% Commission Order
	If D < C, Stop				
	If D > C, Continue to Part e				
e = (b*d)-a	Net GAAP Income Increase Required to Earn Allowed Retail ROE	\$	500,000	\$	400,000
f	Gross Revenue Conversion Factor		1.64334		1.64334 Commission Order, or as updated in a future Commission proceeding
g = e*f	Rockport Offset	\$	821,670	\$	657,336
= g	<u>Amount to Be Recovered Through Tariff PPA</u>	\$	<u>821,670</u>		
(3) 2024 Rockport Offset True-up (Actual - Estimate)				\$	(164,334)

Class Billing Determinants
XXXXX-Month Period ended XXXX
Workpaper

Tariff Summary For Review Period

<u>Class</u> (1)	<u>Billing Energy</u>
RES	2,042,413,442
GS (SGS/MGS)	592,644,207
LGS	630,280,009
LGS LMTOD	1,930,735
IGS	2,242,555,474
MW	1,992,095
OL	43,044,440
SL	8,517,885
Total	5,563,378,287

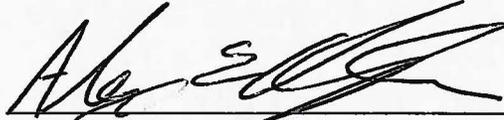
KENTUCKY POWER COMPANY
Gross Revenue Conversion

LINE NO.	Component	Balances	Cap. Structure	Cost Rates		WACC (Net of Tax)	GRCF		WACC (PRE-TAX)
		As of 2/28/2017*							
1	L/T DEBT	\$648,913,758	53.45%	4.36%		2.33%	1.0054		2.34%
2	S/T DEBT	\$0	3.20%	1.25%		0.04%	1.0054		0.04%
3	ACCTS REC FINANCING	\$46,105,009	1.67%	1.95%		0.03%	1.005425		0.03%
4	C EQUITY	\$496,766,726	41.68%	9.70%	**	4.04%	1.35212		5.46%
5	TOTAL	\$1,191,785,493	100.00%			6.44%			7.88%

		<u>Debt</u>	<u>Equity</u>
6	Operating Revenues	100.0000	100.0000
7	Less Uncollectible Accounts Expense	0.3400	0.3400
8	KPSC Maintenance Assessment Fee	0.1996	0.1996
9	Income Before Income Taxes	99.4604	99.4604
10	Less State Income Taxes (Ln 4 x 5.7348)		5.8425
11	Income Before Federal Income Taxes		93.6179
12	Less Federal Income Taxes (Ln 13*35%)		19.6598
13	Operating Income Percentage		73.9581
14	Gross Up Factor (100.00/Ln 9)	1.005425	1.3521

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 testimony and the information contained therein is true and correct to the best of his information, knowledge, and belief.



Alex E. Vaughan

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

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



Notary Public

My Commission Expires 12-03-2020



ANN DAWN CLARK
Notary Public, State of Ohio
My Commission Expires 12-03-2020