

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

APPLICATION

Kentucky Power Company applies to the Public Service Commission of Kentucky pursuant to KRS 278.180, KRS 278.183, KRS 278.190, KRS 278.220, 807 KAR 5:001, Section 14, 807 KAR 5:001, Section 16, 807 KAR 5:011, 807 KAR 5:051, and all other applicable statutes and regulations, for an order granting: (1) approval of a general adjustment of its electric rates; (2) approval of its 2017 environmental compliance plan; (3) approval of its tariffs and riders, including its amended environmental cost recovery surcharge tariff to recover the costs associated with 2017 environmental compliance plan; (4) approval of accounting practices to establish a regulatory asset or liability related to the termination of the Big Sandy 1 Operation Rider, and to defer and establish a regulatory asset or liability in the amount of any over-recovery or under-recovery of Steam Plant Maintenance expenses; and (5) all other required approvals and relief. In support of its Application, the Company states:

Application For General Adjustment Of Rates

A. INFORMATION REGARDING THE APPLICANT.

1. **Name and Address:** The applicant's full name and post office address is:
Kentucky Power Company, 855 Central Avenue, Suite 200, Ashland, Kentucky 41101.¹ The Company's electronic mail address is kentucky_regulatory_services@aep.com.
2. **Incorporation:** Kentucky Power is a corporation organized on July 21, 1919 under the laws of the Commonwealth of Kentucky. The Company currently is in good standing in Kentucky.² Kentucky Power has on file with the Office of the Secretary of State certificates for the following assumed names: "Kentucky Power;" "AEP Kentucky Power;" and "American Electric Power." The required certificates of assumed name are provided in Section II, Exhibit C.
3. **Business:** Kentucky Power Company is a public utility principally engaged in the provision of electricity to Kentucky consumers. The Company generates and purchases electricity that it distributes and sells at retail to approximately 168,000 customers located in all, or portions of, the Counties of Boyd, Breathitt, Carter, Clay, Elliott, Floyd, Greenup, Johnson, Knott, Lawrence, Leslie, Letcher, Lewis, Magoffin, Martin, Morgan, Owsley, Perry, Pike, and Rowan. The Company also furnishes electric service at wholesale to the City of Olive Hill and the City of Vanceburg.
4. **Affiliations:** Kentucky Power is a direct, wholly-owned subsidiary of American Electric Power Company, Inc.

¹ Kentucky Power's Regulatory Services office is located at 101A Enterprise Drive, P.O. Box 5190, Frankfort, Kentucky 40602-5190.

² A certified copy of the Company's Articles of Incorporation and all amendments thereto was attached to the Joint Application in *In the Matter Of: The Joint Application Of Kentucky Power Company, American Electric Power Company, Inc. And Central And South West Corporation Regarding A Proposed Merger*, P.S.C. Case No. 99-149. The Company's June 2, 2017 Certificate of Existence is filed in Section II at Exhibit B of this Application.

5. **Annual Reports:** The Company hereby certifies that its annual reports, including the annual report for the most recent calendar year (2016), are on file with the Commission pursuant to 807 KAR 5:006, Section 4(1) and 807 KAR 5:006, Section 4(2).

6. **Company Property:** The Company's Big Sandy Power Plant consists of a 285 MW gas-fired steam-electric generating unit located at the Big Sandy generating station near Louisa, in Lawrence County, Kentucky. In addition Kentucky Power owns and operates a fifty percent undivided interest in the coal-fired Mitchell generating station, located approximately ten miles south of Moundsville, West Virginia.³ Kentucky Power's share of the Mitchell generating station comprises 780 MW. The Company's electric transmission system includes substation capacity of approximately 4,275,000 KVA and approximately 1,270 circuit miles of line, and is interconnected with the systems of neighboring utilities. The Company's electric distribution system includes substation capacity of approximately 1,803,000 KVA and approximately 10,080 circuit miles (including secondary) of above-ground and underground line. Other properties include service buildings, stores buildings, garages, and other structures and equipment.

The net original cost of the property and the cost thereof to the applicant at February 28, 2017⁴ was:

³ Order, *In the Matter of: Application of Kentucky Power Company for (1) A Certificate of Public Convenience and Necessity Authorizing the Transfer to the Company of an Undivided Fifty Percent Interest in the Mitchell Generating Station and Associated Assets; (2) Approval of the Assumption by Kentucky Power Company of Certain Liabilities in Connection with the Transfer of the Mitchell Generating Station; (3) Declaratory Rulings; (4) Deferral of Costs Incurred in Connection with the Company's Efforts to Meet Federal Clean Air Act Requirements; and (5) All Other Required Approvals and Relief*, Case No. 2012-00578 (Ky. P.S.C. October 7, 2013).

⁴See Section II, Exhibit L for further detail.

Kentucky Power
Electric Plant in Service and Accumulated Depreciation
At February 28, 2017

<u>Original Cost - Electric Plant in Service</u>	
Production Plant	1,176,547,845
Transmission Plant	575,197,376
Distribution Plant	786,876,442
General Plant	41,802,566
Intangible Plant and Other EPIS	19,893,498
Total	2,600,317,727
Less Accumulated Provisions for Depreciation, Depletion and Amortization of Electric Utility Plant	(868,148,164)
Net Original Cost	1,732,169,562

7. **Unit Power Agreement:** Kentucky Power is a party to a unit power agreement and is responsible for its contractual share of the costs associated with Rockport Plant Generating Units No. 1 and No. 2 located near Rockport, Indiana. Through the unit power agreement the Company possesses an additional generating capacity of 393 MW.

B. NOTICES.

8. **Notice of Intent.** Pursuant to 807 KAR 5:001, Section 16(2), Kentucky Power filed its Notice of Intent with the Commission on April 26, 2017. The Notice of Intent was filed at least thirty days prior to the filing of this Application.⁵ A copy of the notice of intent was mailed and transmitted by e-mail (rateintervention@ky.gov) and United States mail to the Office of the Attorney General, Office of Rate Intervention. A copy of the written notice of intent is provided as Section II, Exhibit H of this Application.

⁵ By Order dated May 24, 2017 in this proceeding, the Commission granted Kentucky Power's motion for leave to deviate from the requirements of 807 KAR 5:001, Section 16(2) in connection with the filing of this application so as to permit its filing up to 63 days after its April 26, 2017 notice of intent.

9. **Customer Notices:** The required customer notice was and is being given in compliance with 807 KAR 5:001, Section 17 as follows:

(a) The Customer Notice required by 807 KAR 5:001, Section 17(2) and 807 KAR 5:011, Section 8(2) will be published once a week for three consecutive weeks in a prominent manner in newspapers of general circulation in Kentucky Power's service area, with the first publication on or before the date this application is filed with the Commission. The Customer Notice was first published beginning the week of June 19, 2017. An affidavit verifying the contents of the published notice, that the notice was published, and the dates of publication will be filed in accordance with 807 KAR 5:001, Section 17(3)(b) and 807 KAR 5:011, Section 8(3)(b) within 45 days of the date this Application is submitted to the Commission. The form of the customer notice required by 807 KAR 5:001, Section 17(2)(b)(3) and 807 KAR 5:011, Section 8(4) is provided in Section II, Exhibit F of this Application;

(b) The public postings required by 807 KAR 5:001, Section 17(1)(a) and 807 KAR 5:011, Section 8(1)(a) were posted on or before June 28, 2017 at the following locations:

- (i) Ashland Corporate Office, 855 Central Avenue, Suite 200, Ashland, Kentucky;
- (ii) Frankfort Regulatory Services Office, 101A Enterprise Drive, Frankfort, Kentucky;
- (iii) Ashland Service Center, 12333 Kevin Avenue, Ashland, Kentucky;
- (iv) Hazard Service Center, 1400 E. Main Street, Hazard, Kentucky;
and
- (v) Pikeville Service Center, 3249 N. Mayo Trail, Pikeville, Kentucky.

The Company is providing a copy of the application for public inspection during regular business hours at each of the above locations. The public posting and a copy of the application will

remain available for public inspection in conformity with the requirements of 807 KAR 5:001, Section 17(1)(c) and 807 KAR 5:011, Section 8(1)(c) until the Commission enters a final decision in this matter; and

(c) By posting on its website (www.kentuckypower.com) within five business days of filing this application the information and hyperlink required by 807 KAR 5:001, Section 17(1)(b) and 807 KAR 5:011, Section 8(1)(b). This information will remain available for public access and inspection in conformity with the requirements of 807 KAR 5:001, Section 17(1)(c) and 807 KAR 5:011, Section 8(1)(c) on Kentucky Power's website until the Commission enters a final decision in this matter.

10. **Notices to the Company:** Pursuant to KRS 278.380, Kentucky Power waives its right for purposes of this proceeding to receive service of the orders of the Commission by mail. The Company requests that electronic copies of all orders, pleadings, and other filings relating to this proceeding be directed to:

- (a) Kentucky Power Company
kentucky_regulatory_services@aep.com
easekula@aep.com
rkwohnhas@aep.com
hgarcia1@aep.com
- (b) Stites & Harbison PLLC
moverstreet@stites.com
kgish@stites.com
kglass@stites.com
- C. THE PROPOSED GENERAL ADJUSTMENT IN EXISTING ELECTRIC RATES AND CHARGES.

11. **Historical Test Year:** The Company's Application for a general adjustment to its existing rates is supported by a twelve-month historical test year period ending February 28,

2017, with certain adjustments for known and measurable changes. 807 KAR 5:001

Section 16(1)(a)(1).⁶

12. **Reasons for the Adjusted Rates:** Kentucky Power's current rates are not fair, just, and reasonable, do not permit the Company to operate successfully, to maintain its financial integrity, to attract capital, to compensate its investors for the risks assumed, and do not provide the financial resources required to permit Kentucky Power to continue to provide adequate, efficient, and reasonable service throughout its service territory. More specifically, but without limitation, the proposed rates and tariff changes are required:

- (a) To recover annual revenue lost as a result of the decline in the Company's load since September 30, 2014 (the test year used to establish Kentucky Power's current rates).
- (b) To reduce the amount of off-system sales margins credited in calculating base rates.
- (c) To provide an annual return on the Company's incremental rate base.
- (d) To recover increased annual state and federal income tax expenses resulting from the synchronization of the Company's capital cost and structure in the application with the test period state and federal income tax expense.
- (e) To recover increasing net Federal Energy Regulatory Commission PJM Load-Serving Entity Open Access Transmission Tariff ("OATT") expenses.
- (f) To recover adjusted test year purchase power costs excluded from recovery through the Company's fuel adjustment clause and not included in the Company's current base rates.
- (g) To recover increased depreciation expense resulting from annualization of the Company's test year depreciation and updated Big Sandy Unit 1 depreciation rates.
- (h) To recover in full the reasonable expenses Kentucky Power incurs to provide safe and reliable service to its customers.

⁶ By Order dated May 24, 2017 in this proceeding, the Commission granted Kentucky Power's motion for leave to deviate from the requirements of 807 KAR 5:001, Section 12(1)(a) and to use of a historical test year ending February 28, 2017 in connection with this application.

(i) To build on the success of the Kentucky Economic Development Surcharge and Home Energy Assistance Program by increasing the Kentucky Economic Development Surcharge to \$0.25, with an equal Company match, and the Home Energy Assistance Program charge to \$0.20, with an equal Company match.

The Company's increased revenue requirement is reduced in part by the Company's proposal to amend its distribution vegetation management program and to flow through to customers approximately \$6.2 million in annual savings beginning with the effective date of the requested general rate adjustment. A more detailed statement of the reasons for the proposed adjustment is set forth in the testimony of Company's witnesses provided in Section III to this Application.

807 KAR 5:001, Section 16(1)(b)(1).

13. The proposed rates and charges are fair, just, and reasonable as required by KRS 278.030(1).

14. **Proposed Tariffs:** The proposed tariffs in a form that complies with 807 KAR 5:011, with an effective date for service rendered on or after July 29, 2017,⁷ are filed as Section II, Exhibit D to this Application. 807 KAR 5:001, Section 16(1)(b)(3).

15. **Proposed Tariff Changes:** The Company's proposed tariff changes, identified in compliance with 807 KAR 5:011, are filed as Section II, Exhibit E to this Application. 807 KAR 5:001, Section 16(1)(b)(4).

16. **Effect of Proposed Adjustments:** As shown on Line 1 of the Summary tab of Section V of the application, Kentucky Power's test year retail sales revenues total \$553,900,978. The base rates (exclusive of the increased Kentucky Economic Development Surcharge and Home Energy Assistance Program funding) proposed by Kentucky Power are

⁷ Kentucky Power files this application and provides this notice with the expectation the Commission subsequently will suspend pursuant to KRS 278.190 the proposed rates for investigation. Kentucky Power requests that the Commission conduct its investigation during the suspension period and enter its Order granting the relief requested effective December 29, 2017 (cycle 1 of the January 2018 billing cycle).

designed to produce an additional \$65,387,987 in annual retail revenues, or an increase of approximately 11.80% above the test year retail sales revenues total of \$553,900,978 shown on Line 1 of the Summary tab of Section V of the application. The base rates proposed by Kentucky Power, plus the proposed \$284,891 increase in Kentucky Economic Development Surcharge and Home Energy Assistance Program funding to be provided by customers, are designed to produce \$65,672,878 in additional annual revenue, or an increase of approximately 11.86% above the test year retail sales revenues total of \$553,900,978 shown on Line 1 of the Summary tab of Section V of the application. (See line 3 of the Summary tab of Section V of the application). The proposed base rates, plus the increased Kentucky Economic Development Surcharge and Home Energy Assistance Program funding, are designed to produce, based upon consumption and demand during the twelve month period ending February 28, 2017, annual retail sales revenues of \$619,573,856. 807 KAR 5:001, Section 16(4)(d).

(a) The effect of the increase on average or typical electric bills is presented in Section II, Exhibit I. 807 KAR 5:001, Section 16(4)(e).

(b) The analysis showing revenues from present and proposed rates for each customer classification is presented in Section II, Exhibit K. 807 KAR 5:001, Section 16(4)(g).

17. **New and Modified Programs, Policies, and Tariffs.** In connection with this application, the Company is proposing to implement, without limitation, certain new programs, policies, and tariffs, and to modify existing policies, programs and tariffs by:

(a) Offering an optional demand charge tariff for residential customers (Tariff R.S.D.);

(b) Expanding and renaming Kentucky Power's optional renewable energy rider (Tariff G.P.O.);

(c) Eliminating the Big Sandy Unit 1 Operation Rider (Tariff B.S.1.O.R.);

(d) Amending the Company's Purchase Power Adjustment (Tariff P.P.A.) also to (i) refund or recover the difference between net Federal Energy Regulatory Commission PJM Load-Serving Entity OATT charges and the amount of such charges in base rates; (ii) to refund or recover any difference between the Company's purchase power costs and the amount of such purchases recovered through Kentucky Power's fuel adjustment clause; and (iii) to refund or recover any gains or losses on incremental sales of natural gas purchased. Kentucky Power also proposes to amend Tariff P.P.A. to provide for the annual adjustment of the Tariff P.P.A. rate in lieu of the current monthly adjustment of the Tariff P.P.A. rate;

(e) Amending the name of the Big Sandy Retirement Rider to Decommissioning Rider to reflect more accurately the purpose of the rider;

(f) Revising Tariff E.S. to incorporate the Company's 2017 Environmental Compliance Plan;

(g) Discontinuing the Company's Pilot Tariff K-12 School;

(h) Discontinuing Tariff S.G.S and Tariff M.G.S. and implementing a new Tariff G.S.;

(i) Amending Tariff S.S.C. to provide for the annual adjustment of the Tariff S.S.C. rate in lieu of the current monthly adjustment of the Tariff S.S.C. rate and to reflect the amount of off-system sales margins to be included in the proposed base rates; and

(j) Updating and revising the Company's terms and conditions of service.

D. COMPLIANCE WITH STATUTORY AND REGULATORY REQUIREMENTS FOR GENERAL RATE ADJUSTMENTS.

The Company provides the following information in further response to the requirements imposed by KRS 278.180, KRS 278.190, KRS 278.2203, KRS 278.2205, 807 KAR 5:001, Section 12, 807 KAR 5:001, Section 16, 807 KAR 5:011, and 807 KAR 5:051:

18. A financial exhibit in the form prescribed by 807 KAR 5:001, Section 12 is filed in Section IV to this Application.

19. A description and quantification of all proposed adjustments, with proper support for any proposed changes as prescribed by 807 KAR 5:001 Section 16(6)(a), are provided in Section V to this Application.

20. The prepared testimony and exhibits of the following witnesses in support of this

Application are provided in Section III to this Application:

WITNESS	TOPICS
Matthew J. Satterwhite	Overview of Company's Request; Company's Customer Outreach Efforts; Economic Development Initiatives; Introduction of Witnesses
Adrien P. McKenzie	Calculation Of A Fair, Just, and Reasonable Return on Equity
Alex E. Vaughan	Overview Of The Relation Between The Company's Base Rates And Its Surcharges And Riders; Rate Design; Tariff Changes; Optional Renewable Power Tariff; Certain Revenue and Operating Expense Adjustments
Amy J. Elliott	2017 Environmental Compliance Plan; Changes To Tariff E.S.
Brad N. Hall	Kentucky Power's Investment In Economic Development
Andrew R. Carlin	Employee Compensation Strategy
Everett G. Phillips	Kentucky Power's Storm Preparedness, Response to Outages, and System Reliability; Kentucky Power's 2017 Vegetation Management Plan; Kentucky Power's Smart Grid Investments
Jason A. Cash	Revised Depreciation Rates For Big Sandy Unit 1
Jeffrey B. Bartsch	Calculation Of Gross Revenue Conversion Factor; Tax Effects Of Certain Ratemaking Adjustments
Debra L. Osborne	Kentucky Power Generation Assets; Generation Operation And Maintenance Expenses; Big Sandy Plant Status; Projects Added in 2017 Environmental Compliance Plan
John M. McManus	Environmental Requirements Met by the 2017 Environmental Compliance Plan; Environmental Requirements Under Evaluation
John A. Rogness III	Revenue And Operating Expense Adjustments; Certain Tariff Changes
Katharine I. Walsh	Jurisdictional Cost-of-Service Study
Douglas R. Buck	Class Cost-of-Service Study; Revenue Adjustments; Allocation Of Requested Increase To Customer Classes
Ranie K. Wohnhas	Proposed Revenue Requirement; Capitalization Adjustments; Establishment Of Regulatory Assets And Liabilities; Amortization Of Regulatory Assets And Liabilities
Stephen L. Sharp Jr.	Proposed Changes To Kentucky Power's Tariffs; Certain Adjustments To Test Year Revenues And Operating Expenses
Tyler H. Ross	Test Year Revenue And Operating Expense Adjustments; Capitalization And Rate Base Adjustments Related To The Decommissioning Rider

WITNESS	TOPICS
Zachary C. Miller	Kentucky Power's Proposed Capital Structure; Cost of Capital For Ratemaking Purposes; Kentucky Power's Financial Position And Credit Rating

807 KAR 5:001, Section 16(4)(b).

21. The Company's Cost Allocation Manual is provided in Section II, Exhibit A to the Application. KRS 278.2203; KRS 278.2205.

22. A copy of the statutory notice is provided as Exhibit 1 to this Application. KRS 278.180.

23. The remaining required information provided in support of this Application, and in compliance with the provisions of Chapter 278 of the Kentucky Revised Statutes and the Commission's regulations is provided, or its location in the Application identified, in the Filing Requirements sheets provided in Section II to the application.

**Application For Approval Of 2017 Environmental Compliance Plan
And Amended Tariff E.S.**

24. Kentucky Power is entitled to the current recovery of its environmental compliance costs, including a reasonable return on construction and other capital costs, in accordance with its Commission-approved plan for complying with environmental requirements. KRS 278.183.

A. APPLICABLE ENVIRONMENTAL REQUIREMENTS.

25. Kentucky Power and the electric utility industry are subject to United States Environmental Protection Agency ("EPA") regulations arising under the federal Clean Air Act. Regulations under the federal Clean Air Act applicable to Kentucky Power include the Cross-State Air Pollution Rule ("CSAPR") and the Mercury and Air Toxics Standard Rule ("MATS Rule"). The Mitchell Generating Station and the Rockport Station are subject to requirements

imposed by the Consent Decree entered by the United States District Court for the Southern District of New York in an action arising under the Federal Clean Air Act, *United States v. American Electric Power Service Corp.*, Civil Action C2-99-1250, and all modifications thereto (the “Consent Decree”). (The CSAPR, MATS Rule, and the Consent Decree are referred to collectively as the “Clean Air Act Requirements.”)

26. Kentucky Power is also subject to federal, state, and local environmental requirements which apply to coal combustion byproducts (“Coal Combustion Byproduct Requirements”). Among the Coal Combustion Byproduct Requirements is the Coal Combustion Residuals Rule promulgated by EPA. The Clean Air Act Requirements and the Coal Combustion Byproduct Requirements are among the Environmental Requirements listed in KRS 278.183.

27. The Commission approved Kentucky Power’s current environmental compliance plan (the “2015 Environmental Compliance Plan”) by Order dated June 22, 2015 in Case No. 2014-00396.⁸

C. KENTUCKY POWER’S 2017 ENVIRONMENTAL COMPLIANCE PLAN.

28. Kentucky Power’s 2017 Environmental Compliance Plan consists of the items contained in the Company’s 2015 Environmental Compliance Plan and adds the following two projects:

- (a) Rockport Unit 1 Selective Catalytic Reduction (“SCR”) technology (Project 19); and

⁸ Order, *In the Matter of: The Application of Kentucky Power Company for: (1) A General Adjustment of Its Rates for Electric Service; (2) An Order Approving Its 2014 Environmental Compliance Plan; (3) An Order Approving Its Tariffs and Riders; and (4) An Order Granting All Other Required Approvals and Relief*, Case No. 2014-00396 (Ky. P.S.C. June 22, 2015).

(b) Inclusion of the cost of consumables, including a return on consumables inventories, used in all approved Company environmental compliance projects (Project 20). Kentucky Power's 2017 Environmental Compliance Plan is filed with this Application as EXHIBIT 2.

29. Kentucky Power is legally obligated for its contractual share of the Rockport Environmental Projects under the FERC-approved Rockport Unit Power Agreement including its share of the Rockport Unit 1 SCR.

30. The costs associated with the 2017 Environmental Compliance Plan are reasonable. The 2017 Environmental Compliance Plan, including each of its components, is a reasonable and a cost-effective means for the Company to comply with the Environmental Requirements.

31. The amounts to be recovered through Tariff E.S. in connection with Kentucky Power's 2017 Environmental Compliance Plan is estimated to increase Kentucky Power's annual revenue requirement by \$3,903,056.

32. The \$3,903,056 in additional revenues projected to be recovered through Tariff E.S., when combined with the \$65,672,878 (including the increased Kentucky Economic Development Surcharge and Home Energy Assistance Program funding) of additional annual revenues to be produced by the Company's proposed rates, are expected to produce additional annual retail revenues of \$69,575,934, or an increase of approximately 12.56%. The Company's proposed rates are designed to produce total annual revenues of approximately \$623,476,912.

D. RATE OF RETURN.

33. The Company is proposing a 10.31% return on equity for compliance-related capital expenditures on non-Rockport environmental projects. This rate of return is supported in the testimony of Company Witness McKenzie. The return on equity for compliance-related capital expenditures at the Rockport Plant is 12.16% as established by the FERC-approved Rockport Unit Power Agreement.

E. TESTIMONY.

34. The direct testimony and exhibits of Kentucky Power's witnesses in this case set forth a detailed statement of the compliance requirements and describe how Kentucky Power's 2017 Environmental Compliance Plan is a reasonable and cost-effective means of meeting those requirements. The direct testimony and exhibits of Kentucky Power's witnesses also support the recommended rate of return on equity of 10.31% for the compliance-related capital expenditures in the 2017 Environmental Compliance Plan. Specifically, the testimony and exhibits of the following witnesses are offered in support of the 2017 Environmental Compliance Plan:

- Amy J. Elliott, Regulatory Consultant, Kentucky Power Company.
- Adrien M. McKenzie, Financial Concepts and Applications Consultants, Fincap, Inc.
- Jeffrey B. Bartsch, Director, Tax Accounting & Regulatory Support, American Electric Power Service Corporation
- Zachary C. Miller, Principal Corporate Finance Analyst, American Electric Power Service Corporation
- Debra L. Osborne, Vice President, Generating Assets, Kentucky Power Company and Appalachian Power Company
- John M. McManus, Vice President, Environmental Services, American Electric Power Service Corporation

F. AMENDED TARIFF E.S. (ENVIRONMENTAL SURCHARGE).

35. The proposed Tariff E.S. (Environmental Surcharge) is filed with this Application as **EXHIBIT 3**. It provides for the recovery of the Environmental Compliance Costs in accordance with Kentucky Power's 2017 Environmental Compliance Plan. Kentucky Power seeks to incorporate the costs of the environmental projects currently in service into the monthly Environmental Surcharge Report for service rendered beginning July 29, 2017.⁹

G. NOTICES.

36. On April 26, 2017, in conjunction with the Notice of Intent to file a general rate case, Kentucky Power filed its Notice of Intent to File Application For Approval of 2017 Environmental Compliance Plan and Environmental Surcharge Recovery and Related Relief. KRS 278.183(2). To the extent applicable, the Customer Notice and Public Posting requirements of 807 KAR 5:001, Section 17 and 807 KAR 5:011, Section 8, and 807 KAR 5:051 were satisfied in conjunction with and through the notices and postings described in paragraph 9 of this Application.

**Application For Approval Of Accounting Treatment To Establish
Regulatory Assets And Liabilities**

(a) Termination of Tariff B.S.1.O.R.

37. Kentucky Power's application for a general adjustment of its rates provides for the termination of Tariff B.S.1.O.R. upon the effective date of the proposed rates.

⁹ Kentucky Power files this application and provides this notice with the expectation the Commission subsequently will suspend pursuant to KRS 278.190 and KRS 278.183 the proposed Tariff E.S. for investigation. Kentucky Power requests that the Commission conduct its investigation and enter its Order granting the relief requested effective December 29, 2017 (cycle 1 of the January 2018 billing cycle). The Rockport Unit 1 SCR (Project 19), although currently not in service, is anticipated to be placed in service prior to December 29, 2017.

38. Kentucky Power anticipates there will be an unrecovered balance due the Company, or credits due the Company's customers, in connection with the operation of Tariff B.S.1.O.R. upon the effective date of the rates proposed in this application.

39. Kentucky Power proposes that upon the termination of Tariff B.S.1.O.R. the Company be authorized to defer any over-recovery or under-recovery associated with the termination of Tariff B.S.1.O.R., and that a regulatory asset be established in the amount of any under-recovery due the Company, or a regulatory liability be established in the amount of any credit due the Company's customers. Kentucky Power further proposes that any regulatory asset or liability created be reviewed for recovery in the Company's next case seeking a general adjustment of its rates.

40. Termination of Tariff B.S.1.O.R. upon the effective date of the rates proposed in this application, and the creation of a regulatory asset or liability, will assist in the simplification of the Company's bills, limit customer confusion, and ensure that only the amount of any under-recovery is subsequently recovered – no more or less – or that any over-recovery is credited to the Company's customers in full.

(b) True-Up Of Steam Generating Plant Maintenance Expense

41. The test year levels of Mitchell and Big Sandy Steam Plant Maintenance expense have been adjusted to reflect the normal three year maintenance cycle for steam plant as well as Big Sandy Unit 1's limited operating history as a gas-fired generating unit. Notwithstanding these adjustments and normalizations the actual annual amounts of Mitchell and Big Sandy Steam Plant Maintenance expense may vary from the adjusted normalized test year amounts. To avoid any over-recovery or under-recovery of Mitchell and Big Sandy Steam Plant Maintenance

expense, Kentucky Power proposes to defer on an annual basis any such over-recovery or under-recovery and establish a regulatory liability or asset as may be required. Kentucky Power further proposes that any regulatory asset or liability created be reviewed for recovery in the Company's next case seeking a general adjustment of its rates.

(c) Establishment Of Regulatory Assets And Liabilities.

42. Financial Accounting Standards Board Accounting Standards Codification ("FASB Codification" or "ASC") 980-340-25-1 requires utility management to defer and capitalize a current cost (as a regulatory asset) or a current obligation (as a regulatory liability) when in management's judgment the cost is probable of recovery, or the obligation is probable of refund, in future ratemaking proceedings. The FASB ASC Master Glossary defines "probable" as "the future event or events are likely to occur." Evidence of probable recovery includes orders from the regulator specifically authorizing deferral of the current cost or current obligation for later review and recovery or refund through rates.

43. The requested order authorizing deferral of the current cost or current obligation for later review and recovery or refund through rates would permit Kentucky Power to establish the regulatory assets or liabilities as the case may be.

Request For Deviation

(a) Newly-Enrolling Equal Payment Plan Customers.

44. 807 KAR 5:006, Section 14(2)(a) requires electric utilities to offer residential customers budget payment plans whereby a customer may elect to pay a fixed amount each month in lieu of monthly billings based on actual usage. The regulation also provides that the

customer's account must be brought current once each 12-month period. 807 KAR 5:006, Section 14(2)(a)(1). Under Kentucky Power's Equal Payment Plan customers pay the actual amount of their bill, and bring their accounts, in the month prior to anniversary month of their enrollment in the budget plan current ("Settle-Up Month"). For example, under Kentucky Power Company's current Equal Payment Plan:

Equal Payment Plan Enrollment Month	Settle-Up Month Bill
January	December. The customer pays approximately 30 days of actual usage. Customer's Equal Payment Plan account is settled by payment of any deficit or credit of any surplus. (Customer starts new budget payment plan year with January bill with \$0.00 balance).
February	January. The customer pays approximately 30 days of actual usage. Customer's Equal Payment Plan account is settled by payment of any deficit or credit of any surplus. (Customer starts new budget payment plan year with February bill with \$0.00 balance).
March	February. The customer pays approximately 30 days of actual usage. Customer's Equal Payment Plan account is settled by payment of any deficit or credit of any surplus. (Customer starts new budget payment plan year with March bill with \$0.00 balance).

45. Kentucky Power is proposing to amend its terms and conditions of service to limit the Equal Payment Plan enrollment period to the billing months of April through December of each year. Bills rendered in December through February based on actual usage typically are

among the highest bills of the year because of winter heating season costs. The proposed Equal Payment Plan enrollment “dark” period (January through March) avoids the necessity of customers paying both actual winter season costs and bringing their budget payment accounts current in these higher actual bill months.

46. Although 807 KAR 5:006, Section 14(2)(a) directs electric utilities to offer budget payment plans it does not explicitly state that customers must be permitted to enroll in the plans throughout the year. To the extent the regulation requires that customers be permitted to enroll in a budget payment plan throughout the calendar year Kentucky Power requests that it be permitted to deviate from its provisions to limit enrollment to April through December of each year.

47. 807 KAR 5:006, Section 28 authorizes the Commission to grant deviations from the provisions of 807 KAR 5:006 in special cases upon the demonstration of good cause. Authorizing the requested deviation, to the extent it is required, permits Kentucky Power to assist customers by limiting the total amount of their Settle-Up Month bills. Doing so not only limits the amount of the bill the customer is required to pay in the Settle-Up Month, but also is consistent with the purpose of budget payment plans by limiting variations in the amount of the monthly payments. Both benefits constitute a special case and good cause for granting the requested variation.

(b) Currently-Enrolled Equal Payment Plan Customers.

48. Kentucky Power also proposes to change its terms and conditions of service to offer existing Equal Payment Plan customers whose enrollment anniversary month falls in the proposed budget plan enrollment “dark” period the option of changing their Settle-Up Month to

November or March. This change is voluntary and any change will be made only upon the customer's election. A customer's Equal Payment Plan account must be current to be eligible to change their Settle-Up Month.

49. Existing Equal Payment Plan customers whose Settle-Up Month is December through February, and who elect to change their Settle-Up Month to November or March, may be required in connection with the first settle-up payment only to bring their budget payment account current twice in a single twelve-month period. Thus, existing Equal Payment Plan customers whose Settle-Up Month is December (January enrollment anniversary), and who elect to change their Settle-Up Month to November, will be required to make two settle-up payments in a twelve-month period (December in the year prior to the voluntary change and November of year of the following year).

50. Existing Equal Payment Plan customers whose Settle-Up Month is February (March enrollment anniversary), and who elect to change their Settle-Up Month to March, will not bring their budget payment account current within a twelve-month period as required by 807 KAR 5:006, Section 14(2)(a)(1). Instead, in their first year only their two settle-up payments will be thirteen months apart (February in the year prior to the voluntary change and March of the following year).

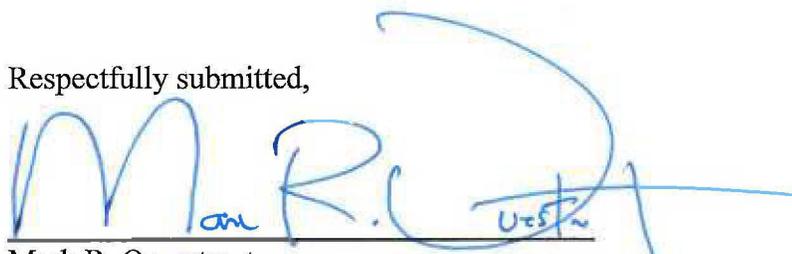
51. Kentucky Power requires a deviation from the provision 807 KAR 5:006, Section 14(2)(a)(1) if the Company is to offer currently enrolled Equal Payment Plan customers the same benefits to be received by newly-enrolling Equal Payment Plan customers. Thus, the requested deviation presents a special case, and is supported by good cause, for the same reasons

supporting the Company's request to limit enrollment by new budget payment customers to the billing months of April through December.

WHEREFORE, Kentucky Power Company respectfully requests the Public Service Commission of Kentucky to enter an Order:

1. Approving the requested general adjustment of it rates for electric service;
2. Approving its revised and new tariff sheets submitted as Schedule II, Exhibit D to this Application;
3. Approving the Company's 2017 Environmental Compliance Plan, including its revised Tariff E.S., submitted as Exhibits 2 and 3 to this application;
4. Granting accounting treatment authorizing Kentucky Power to defer and create a regulatory asset or liability in connection with the termination of Tariff B.S.1.O.R., and further authorizing Kentucky Power to defer and create a regulatory asset or liability in the amount of any over-recovery or under-recovery of Steam Plant Maintenance expenses;
5. Granting, to the extent required, deviations from the provisions of 807 KAR 5:006, Section 14(2) and 807 KAR 5:006, Section 14(2)(a)(1) in connection with Kentucky Power's proposed amendments to its terms and conditions of service governing its Equal Payment Plan; and
6. Granting such further relief to which the Company may be entitled.

Respectfully submitted,



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COUNSEL FOR KENTUCKY POWER
COMPANY

**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)
Riders; (4) An Order Approving Accounting) Case No. 2017-00179
Practices To Establish A Regulatory Asset Or)
Liability Related To The Big Sandy 1 Operation)
Rider; And (5) An Order Granting All Other)
Required Approvals And Relief)

Statutory Notice

Kentucky Power Company informs the Public Service Commission of Kentucky that it is engaged in business as an electric generation, distribution, and transmission utility. The Company principally provides retail electric service to consumers located in all or part of 20 counties in eastern Kentucky. Kentucky Power also furnishes electric service at wholesale to the City of Vanceburg and the City of Olive Hill.

Pursuant to KRS 278.180 and 807 KAR 5:011, Section 9, and all other applicable provisions, Kentucky Power gives notice to the Commission that on June 28, 2017 it is filing with the Commission: (i) its revised tariff sheets adjusting its base rates and implementing or modifying riders and surcharges effective July 29, 2017;¹ (ii) its Application supporting the proposed new and adjusted base rates, riders, and surcharges; and (iii) its 2017 Environmental Compliance Plan and amended Tariff E.S. The proposed effective date of the tariffs and rates proposed in the Company's application is greater than thirty days from the date of filing. The

¹ Kentucky Power files this notice with the expectation the Commission subsequently will suspend pursuant to KRS 278.190 the proposed rates for investigation. Kentucky Power requests that the Commission conduct its investigation during the suspension period and enter its Order granting the relief requested effective December 29, 2017 (cycle 1 of the January 2018 billing cycle).

revised and new tariff sheets, riders, and surcharges are found in Exhibit D to the filing requirements filed in Section II of the Application.

Kentucky Power proposes to adjust its existing base rates, surcharges, riders, and tariffs by substituting the proposed tariff sheets for the corresponding sheets of its existing tariffs.

Kentucky Power is giving notice to the public as required by 807 KAR 5:001, Section 17 807 KAR 5:011, Section 8, and 807 KAR 5:051 by publishing the required Customer Notice once a week for three consecutive weeks in a prominent manner in the newspapers of general circulation in Kentucky Power's service area. The first publication of the notice occurred on or before the date of this application is filed with the Commission.

Notice also is being given by publicly posting the required Customer Notice at the following locations:

- Ashland Corporate Office: 855 Central Avenue, Suite 200, Ashland, Kentucky
- Frankfort Regulatory Office: 101A Enterprise Drive, Frankfort, Kentucky
- Ashland Service Center: 12333 Kevin Avenue, Ashland, Kentucky
- Hazard Service Center: 1400 E. Main Street, Hazard, Kentucky
- Pikeville Service Center: 3249 North Mayo Trail, Pikeville, Kentucky.

The public posting and a copy of the Application will remain available for public inspection during regular business hours in conformity with the requirements of 807 KAR 5:001, Section 17(1)(c) and 807 KAR 5:011, Section 8(1)(c) until the Commission enters a final decision in this matter. In addition, within five business days of June 28, 2017 Kentucky Power will post on its Web site (www.kentuckypower.com) the information and hyperlink required by 807 KAR 5:001, Section 17(1)(b) and 807 KAR 5:011, Section 8(1)(b). This information will remain available on the Company's website for public access and inspection in conformity with the requirements of

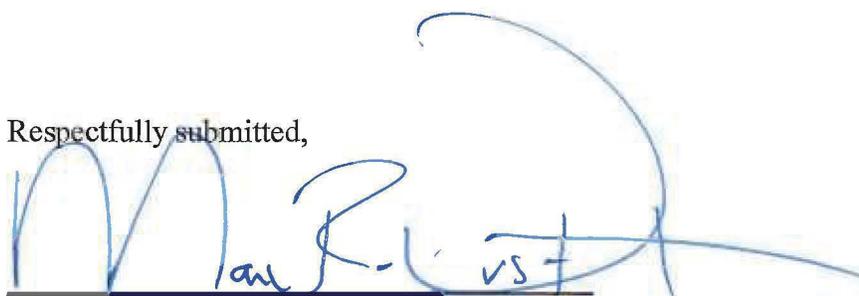
807 KAR 5:001, Section 17(1)(c) and 807 KAR 5:011, Section 8(1)(c) until the Commission enters a final decision in this matter.

A certificate of compliance with the notice requirements will be filed in accordance with 807 KAR 5:001, Section 17(3) and 807 KAR 5:011, Section 8(3).

Additional information regarding the Company's proposed new and adjusted base rates, riders, and surcharges, its 2017 Environmental Compliance Plan, and its amended Tariff E.S. is contained in the Company's Application filed this same date.

This 28th day of June, 2017.

Respectfully submitted,



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COUNSEL FOR KENTUCKY POWER
COMPANY

Kentucky Power Company's Previously Approved Environmental Compliance Projects				
Project	Plant	Pollutant	Description	In-Service Year
1	Mitchell	NO _x , SO ₂ , and SO ₃	Mitchell Units 1 and 2 Water Injection, Low NO _x Burners, Low NO _x Burner Modification, SCR, FGD, Landfill, Coal Blending Facilities and SO ₃ Mitigation	1993-1994-2002-2007
2	Mitchell	SO ₂ , NO _x , and Gypsum	Mitchell Plant Common CEMS, Replace Burner Barrier Valves and Gypsum Material Handling Facilities	1993-2004-2007
3	Rockport	SO ₂ / NO _x	Continuous Emission Monitors (CEMS) - Rockport Plant	1994
4	Rockport	NO _x , Fly Ash, and Bottom Ash	Rockport Units 1 and 2 Low NOX Burners, Over Fire Air, and Landfill	2003-2008
5	Mitchell and Rockport	SO ₂ /NO _x /Particulates/VOC and etc.	Title V Air Emission Fees at Mitchell and Rockport Plants	Annual
6	Big Sandy, Mitchell, and Rockport	NO _x	Costs Associated with Nox Allowances	As-Needed
7	Big Sandy, Mitchell, and Rockport	SO ₂	Costs Associated with SO ₂ Allowances	As-Needed

Kentucky Power Company's Proposed Environmental Compliance Projects				
Project	Plant	Pollutant	Description	In-Service Year
8	Big Sandy, Mitchell, and Rockport	SO ₂ / NO _x	Costs associated with the CSAPR Allowances	As-Needed
9	Mitchell	Particulates	Precipitator Modifications - Mitchell Plant Units 1 and 2	2007-2013
10	Mitchell	Particulates	Bottom Ash and Fly Ash Handling - Mitchell Plant Units 1 and 2	2008 & 2010
11	Mitchell	Mercury	Mercury Monitoring (MATS) - Mitchell Plant Units 1 and 2	2014
12	Mitchell	Selenium	Dry Fly Ash Handling Conversion - Mitchell Plant Units 1 and 2	2015
13	Mitchell	Fly Ash, Bottom Ash, Gypsum, and WWTP Solids	Coal Combustion Waste Landfill - Mitchell Plant Units 1 and 2	2014 & 2015
14	Mitchell	Particulates	Electrostatic Precipitator Upgrade - Mitchell Plant Unit 2	2015
15	Rockport	Particulates	Precipitator Modifications - Rockport Plant Units 1 & 2	2004-2009
16	Rockport	Mercury	Activated Carbon Injection (ACI) and Mercury Monitoring - Rockport Plant Units 1 & 2	2009-2010
17	Rockport	HAPS	Dry Sorbent Injection - Rockport Plant Units 1 and 2	2015
18	Rockport	Fly Ash and Bottom Ash	Coal Combustion Waste Landfill Upgrade To Accept Type 1 Ash -- Rockport Plant	2013 and 2015
19	Rockport	NO _x	SCR Unit 1	2017
20	Rockport and Mitchell	Consumables	Cost of consumables used in conjunction with approved ECP projects. The costs include the cost of the consumables used as well as the return on the consumable inventory. Consumables include, but are not limited to, sodium bicarbonate, activated carbon, anhydrous ammonia, trona, lime hydrate, limestone, polymer, and urea.	As-Needed

TARIFF E.S.
(Environmental Surcharge)

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.~~, S.G.S.-T.O.D., ~~M.G.S.~~, M.G.S.-T.O.D., L.G.S., L.G.S.-T.O.D., ~~Pilot K-12 School~~, I.G.S., C.S.- I.R.P., M.W., O.L., and S.L.,

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RATE.

The environmental surcharge shall provide for monthly adjustments based on a percent of revenues, equal to the difference between the environmental compliance costs in the base period as provided in Paragraph 2 below and in the current period as provided in Paragraph 3 below.

The retail share of the revenue requirement will be allocated between residential and non-residential retail customers based upon their respective total revenues during the previous calendar year. The Environmental Surcharge will be implemented as a percentage of total revenues for the residential class and as a percentage of non-fuel revenues for all other customers.

1. Monthly Environmental Surcharge Gross Revenue Requirement, E(m)

Where: E(m) = CRR - BRR
CRR = Current Period Revenue Requirement for the Expense Month.
BRR = Base Period Revenue Requirement.

(Continued on Sheet 29-2)

DATE OF ISSUE: June 28, 2017

DATE EFFECTIVE: Service Rendered On And After July 29, 2017

ISSUED BY: JOHN A. ROGNESS III

TITLE: Director Regulatory Services

By Authority Of an Order of the Public Service Commission

In Case No. 2017-00179 Dated XXXXXXXX

TARIFF E.S. (Cont'd)
(Environmental Surcharge)

RATE (Cont'd)

2. Base Period Revenue Requirement, BRR

BRR = The Following Monthly Amounts:

<u>Billing Month</u>	<u>Base Net</u> <u>Environmental Costs</u>
JANUARY 2016	\$ 2,646,292 4,136,938
FEBRUARY 2016	2,624,660 4,052,130
MARCH 2016	2,736,994 3,858,141
APRIL 2016	2,795,854 4,164,851
MAY 2016	2,782,209 4,093,983
JUNE 2016	2,723,098 4,323,338
JULY 2016	3,416,840 4,243,526
AUGUST 2016	3,184,443 4,382,364
SEPTEMBER 2016	3,236,974 4,118,637
OCTOBER 2016	2,982,958 4,303,417
NOVEMBER 2016	2,895,369 4,193,118
DECEMBER 2016	\$ 2,876,988 4,356,104
	 \$ 34,902,677 50,226,547

In accordance with the Stipulation and Settlement Agreement approved by the Commission by its Order dated October 7, 2013 in Case No. 2012-00578, the Mitchell FGD and all related associated costs are not included in base rates or the Base Revenue Requirement but will be included in the Current Period Revenue Requirement. The Mitchell FGD will be excluded from Base Rates at least until June 30, 2020.

3. Current Period Revenue Requirement, CRR

$$CRR = [((RB_{KP(c)}) (ROR_{KP(c)}) / 12) + OE_{KP(c)} + (((RB_{IM(c)}) (ROR_{IM(c)}) / 12) + OE_{IM(c)}) (.15) - AS]$$

Where:

- RB_{KP(c)} = Environmental Compliance Rate Base for Mitchell.
- ROR_{KP(c)} = Annual Rate of Return on Mitchell Environmental Compliance Rate Base;
Annual Rate divided by 12 to restate to a Monthly Rate of Return.

(Cont'd on Sheet 29-3)

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In Case No. 2017-00179 Dated XXXXXXXX

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TARIFF E.S. (Cont'd)
(Environmental Surcharge)

RATE (Cont'd)

OE _{KP(C)}	=	Monthly Pollution Control Operating Expenses for Mitchell.
RB _{IM(C)}	=	Environmental Compliance Rate Base for Rockport.
ROR _{IM(C)}	=	Annual Rate of Return on Rockport Rate Base; Annual Rate divided by 12 to restate to a Monthly Rate of Return.
OE _{IM(C)}	=	Monthly Pollution Control Operating Expenses for Rockport.
AS	=	Net proceeds from the sale of Title IV and CSAPR SO ₂ emission allowances, ERCs, and NO _x emission allowances, reflected in the month of receipt.

“KP(C)” identifies components from Mitchell Units – Current Period, and “IM(C)” identifies components from the Indiana Michigan Power Company’s Rockport Units – Current Period.

The Environmental Compliance Rate Base for both Kentucky Power and Rockport reflects the current cost associated with the 1997 Plan, the 2003 Plan, the 2005 Plan, the 2007 Plan, and the 2014 2015 Plan, and the 2017 Plan. The Environmental Compliance Rate Base for Kentucky Power should also include a cash working capital allowance based on the 1/8 formula approach, due to the inclusion of Kentucky Power’s accounts receivable financing in the capital structure and weighted average cost of capital. The Operating Expenses for both Kentucky Power and Rockport should reflect the current operating expenses associated with the 1997 Plan, the 2003 Plan, the 2005 Plan, the 2007 Plan, and the 2015 Plan and the 2017 Plan.

The Rate of Return for Kentucky Power is ~~10.25~~ 10.31% rate of return on equity as authorized by the Commission in its Order Dated ~~June 22, 2015 XXXX XX, 2017~~ in Case No. ~~2014-00396~~ 2017-00179.

The Rate of Return for Rockport should reflect the requirements of the Rockport Unit Power Agreement.

Net Proceeds from the sale of emission allowances and ERCs that reflect net gains will be a reduction to the Current Period Revenue Requirement, while net losses will be an increase.

The Current Period Revenue Requirement will reflect the balances and expenses as of the Expense Month of the filing.

(Cont'd on Sheet No. 29-4)

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By Authority Of an Order of the Public Service Commission

In Case No. 2017-00179 Dated XXXXXXXX

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TARIFF E.S. (Cont'd)
(Environmental Surcharge)

RATE (Cont'd)

4. Revenue Allocation

$$\text{Residential Allocation RA(m)} = \frac{\text{KY Residential Retail Revenue RR(b)}}{\text{KY Retail Revenue R(b)}}$$

$$\text{All Other Allocation OA(m)} = \frac{\text{KY All Other Classes Retail Revenue OR(b)}}{\text{KY Retail Revenue R(b)}}$$

Where:

(m) = the expense month

(b) = most recent calendar year revenues

5. Environmental Surcharge Factor

$$\text{Residential Monthly Environmental Surcharge Factor} = \frac{\text{Net KY Retail E(m)} * \text{RA(m)}}{\text{KY RR(m)}}$$

$$\text{All Other Monthly Environmental Surcharge Factor} = \frac{\text{Net KY Retail E(m)} * \text{AO(m)}}{\text{KY OR(m) - KY OF(m)}}$$

Where:

Net KY Retail E(m) = Monthly E(m) allocated to Kentucky Retail Customers, net of Over/ (Under) Recovery Adjustment; Allocation based on Percentage of Kentucky Retail Revenues to Total Company Revenues in the Expense Month.

(For purposes of this formula, Total Company Revenues do not include Non -Physical Revenues.)

RR(m) = Average Kentucky Residential Retail Revenues for the Preceding Twelve Month Period

OR(m) = Average Kentucky All Other Classes Retail Revenues for the Preceding Twelve Month Period

OF(m) = Average Kentucky All Other Classes Fuel Revenues for the Preceding Twelve Month Period

(Cont'd on Sheet No. 29-5)

DATE OF ISSUE: June 28, 2017

DATE EFFECTIVE: Service Rendered On And After July 29, 2017

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TITLE: Director Regulatory Services

By Authority Of an Order of the Public Service Commission

In Case No. 2017-00179 Dated XXXXXXXX

KENTUCKY POWER COMPANY

P.S.C. KY. NO. 11 ORIGINAL SHEET NO. 29-5
CANCELLING P.S.C. KY. NO. 11 _____ SHEET NO. 29-5

TARIFF E.S. (Cont'd)
(Environmental Surcharge)

RATE (Cont'd)

6. Environmental costs "E" shall be the Company's costs of compliance with the Clean Air Act and those environmental requirements that apply to coal combustion wastes and by-products, as follows:

Total Company:

- return on Title IV and CASPR SO₂ allowance inventory
- over/under recovery balances between the actual costs incurred less the amount collected through the environmental surcharge
- costs associated with any Commission's consultant approved by the Commission
- costs associated with the consumption of Title IV and CSAPR SO₂ allowances
- costs associated with the consumption of NO_x allowances
- return on NO_x allowance inventory
- costs associated with maintaining approved pollution control equipment including material and contract labor (excluding plant labor)
- Costs associated with consumables used in conjunction with approved environmental projects.
- *Return on inventories of consumables used in conjunction with approved environmental projects.*

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(Cont'd on Sheet No. 29-6)

DATE OF ISSUE: June 28, 2017

DATE EFFECTIVE: Service Rendered On And After July 29, 2017

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TITLE: Director Regulatory Services

By Authority Of an Order of the Public Service Commission

In Case No. 2017-00179 Dated XXXXXXXX

TARIFF E.S. (Cont'd)
(Environmental Surcharge)

RATE (Cont'd)

The Company's share of costs associated with the following environmental equipment at the Rockport Plant:

- Continuous Emissions Monitors
- Air Emission Fees
- Costs Associated with the Rockport Unit Power Agreement
- Activated Carbon Injection
- Mercury Monitoring
- Precipitator Modifications
- Dry Sorbent Injection
- Coal Combustion Waste Landfill
- Low NO_x burners, over Fire Air Landfill
- *Selective Catalytic Reduction Technology at Unit 1*

The Company's share of costs associated with the following environmental equipment at the Mitchell Plant:

- Mitchell Unit Nos 1 and 2 Water Injection, Low NO_x burners, Low NO_x burner Modification, SCR, FGD, Landfill, Coal Blending Facilities and SO₃ Mitigation
- Mitchell Plant Common CEMS, Replace Burner Barrier Valves and Gypsum Material Handling Facilities
- Air Emission Fees
- Precipitator Modifications and Upgrades
- Coal Combustion Waste Landfill
- Bottom Ash and Fly Ash Handling
- Mercury Monitoring (MATS)
- Dry Fly Ash Handling Conversion

(Cont'd on Sheet No. 29-7)

DATE OF ISSUE: June 28, 2017

DATE EFFECTIVE: Service Rendered On And After July 29, 2017

ISSUED BY: JOHN A. ROGNESS III

TITLE: Director Regulatory Services

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In Case No. 2017-00179 Dated XXXXXXXX

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KENTUCKY POWER COMPANY

P.S.C. KY. NO. 11 ORIGINAL SHEET NO. 29-7
CANCELLING P.S.C. KY. NO. 11 _____ SHEET NO. 29-7

TARIFF E.S. (Cont'd)
(Environmental Surcharge)

RATE (Cont'd)

7. The monthly environmental surcharge shall be filed with the Commission ten (10) days before it is scheduled to go into effect, 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.

DATE OF ISSUE: June 28, 2017

DATE EFFECTIVE: Service Rendered On And After July 29, 2017

ISSUED BY: JOHN A. ROGNESS III

TITLE: Director Regulatory Services

By Authority Of an Order of the Public Service Commission

In Case No. 2017-00179 Dated XXXXXXXX