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

In the Matter of:

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|---|---|---|
| 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 Practices To Establish Regulatory Assets Or Liabilities; And (5) An Order Granting All Other Required Approvals And Relief | ) ) ) ) ) ) ) ) ) | Case No. 2017-00179 |

**TESTIMONY OF**

**MATTHEW J. SATTERWHITE**

**ON BEHALF OF KENTUCKY POWER COMPANY**

**IN SUPPORT OF THE SETTLEMENT AGREEMENT**

**SETTLEMENT TESTIMONY OF**
**MATTHEW J. SATTERWHITE, ON BEHALF OF**
**KENTUCKY POWER COMPANY**
**BEFORE THE PUBLIC SERVICE COMMISSION OF KENTUCKY**

**CASE NO. 2017-00179**

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## I. INTRODUCTION

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

A. My name is Matthew J. Satterwhite, and I am the President and Chief Operating Officer of Kentucky Power Company ("Kentucky Power" or "Company").

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

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

**Q ARE YOU FAMILIAR WITH THE ISSUES PRESENTED IN THIS CASE BY THE COMPANY AND THE OTHER PARTIES GRANTED INTERVENTION?**

A. Yes.

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

A. Yes. I participated in an initial informal meeting on October 24, 2017 at the Company's office in Frankfort with the parties to the case and informal conferences on October 26, 2017 and November 7, 2017 at the Commission that led to the agreement in principle. The Settlement Agreement is attached as **EXHIBIT MJS-S1**.

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

A. In my testimony I explain and support the terms of the Settlement Agreement, as well as demonstrating why the terms of the Settlement Agreement will produce fair, just, and reasonable rates. The underlying support for the issues in the case-in-chief is still sponsored by the Company witnesses sponsoring those issues. My testimony explains the deviation from the Company's filed case and summarizes the settlement process leading to those changes.

## II. THE SETTLEMENT AGREEMENT

**Q. PLEASE DESCRIBE GENERALLY THE AREAS ADDRESSED BY THE SETTLEMENT AGREEMENT.**

A. The comprehensive Settlement Agreement addresses a number of substantive areas that differ from the Company's June 28, 2017 application in this case ("June 2017 Application") as updated on August 8, 2017 to reflect the impact of June 2017 refinancing activities on the Company's application ("August 2017 Refinancing Update"). The Settlement Agreement only reflects changes to the June 2017 Application and the August 2017 Refinancing Update. Unless otherwise altered in the Settlement Agreement, the Signatory Parties agreed to the proposed rates and other changes to the Company's terms and conditions of providing service set forth in the June 2017 Application and the August 2017 Refinancing Update (Paragraph 1). For example, the parties agreed to the Company's 2017 Environmental Compliance Plan as filed.

The major terms of the Settlement Agreement are:

1. A net annual increase in the Company's retail revenues of $31,780,734 (Paragraph 2) which represents a decrease of $28,616,704 from the requested $60,397,438 set forth in the August 2017 Refinancing Update;

2. Establishment of deferral and recovery mechanisms for $50 million of Rockport Unit Power Agreement ("UPA") Expenses (Paragraph 3);

3. Changes to the proposed Tariff P.P.A. to recover 80% of the change in annual PJM OATT LSE expense as compared to the annual amount included in base rates and to include an offset for the difference in return on transmission system investment (Paragraph 4);

4. An agreement by the Company to not file a request to change the general base rates for rates to be effective until the first day of the January 2021 billing cycle in exchange for the other provisions outlined in the agreement (Paragraph 5);

5. An agreement to change the depreciation rates for Big Sandy Unit 1 to use the 20 year expected life of the unit and a further adjustment to depreciation rates for Big Sandy Unit 1 and the Mitchell Plant to remove terminal net salvage costs for the setting of rates at this time (Paragraph 7);

6. The establishment of a return on equity of 9.75% and an update to the Company's capitalization to reflect short term debt as 1% of the Company's total capital structure (Paragraph 8);

7. Amortization of the remaining deferred storm expense regulatory asset authorized in Case No. 2012-00445 and the deferred storm expense regulatory asset from Case No. 2016-00180 over a five-year period beginning with approval of the settlement agreement in this case at an annual amount of $2,092,867 (Paragraph 9);

8. Amendment to the proposed structure of the Kentucky economic development surcharge ("KEDS") to decrease the residential charge to $0.10 per month and increase the non-residential per meter charge to $1.00 per month and to adjust the matching contribution by the Company (Paragraph 10);

9. A commitment to work with Marathon Petroleum on a backup and maintenance service agreement or to seek a Commission ruling if an agreement cannot be reached (Paragraph 11);

10. Inclusion of the DSM-based School Energy Manager Program as a program for Commission approval in the 2018 and 2019 DSM program filings and the extension of Tariff K-12 School which will now include private schools (Paragraphs 12 and 13);

11. Acceptance of the bill formatting changes proposed by the Company and a commitment by the Company to conduct training sessions with representatives from municipal customers to discuss bill format and tools available to better understand bills (Paragraphs 14);

12. Approval of the Renewable Power Option Rider with amended language to allow customers with meters under the same parent company to aggregate for purposes of qualifying for Option B (Paragraph 15).

13. Increase in the Company's customer charge for Tariff R.S. to $14.00 per month (Paragraph 16(a));

14. Approval of certain other new tariffs set out in the Company's application, as well as modifications of the Company's existing tariffs (Paragraph 16(b)); and

15. Approval of a new pole attachment rates under Tariff C.A.T.V. of $10.82 for attachments on two-user poles and $6.71 for attachments on three-user poles (Paragraph 16(c)).

I discuss each of these areas, and the pertinent terms, in more detail below. In addition, the Settlement Agreement contains standard terms regarding its operation, interpretation, and applicability. Chief among these is Paragraph 19, which stresses the importance of Commission approval of the Settlement Agreement in its entirety. The Parties understand that no agreement binds the Commission in its ultimate initial jurisdiction over a general rate case filed before it. However, the Settlement Agreement represents significant give and take among the Signatory Parties. Further, the Company believes many of the items agreed to involve commitments beyond the unilateral authority of a regulatory body to impose absent an agreement, such as the Company's commitment to a base rate case "stay out."

**Q. BEFORE DISCUSSING THE SPECIFIC TERMS OF THE SETTLEMENT AGREEMENT, PLEASE IDENTIFY THE PARTIES TO THE AGREEMENT.**

A. The settling parties in this case include: Kentucky Power, Kentucky Industrial Utility Customers, Inc. ("KIUC"), Kentucky School Boards Association, ("KSBA"), Kentucky League of Cities ("KLC"); Wal-Mart Stores East, LP and Sam's East, Inc. ("Wal-Mart"); and Kentucky Cable Telecommunications Association ("KCTA") (collectively "Signatory Parties").

**Q. ARE THERE OTHER PARTIES TO THIS PROCEEDING WHO ARE NOT SIGNATORIES TO THE SETTLEMENT AGREEMENT?**

A. Yes. The Attorney General of the Commonwealth of Kentucky, by and through his Office of Rate Intervention, ("Attorney General") and Kentucky Commercial Utility Customers, Inc. ("KCUC") are not signatories to the Settlement Agreement.

**Q. WERE ALL PARTIES TO THIS PROCEEDING OFFERED THE OPPORTUNITY TO PARTICIPATE IN THE NEGOTIATIONS THAT LED TO THE EXECUTION OF THE SETTLEMENT AGREEMENT?**

A. Yes. Representatives of the Office of the Attorney General attended the informal meeting on October 24, 2017 and the October 26, 2017 informal conference at the Commission. They indicated they would not attend the November 7, 2017 informal conference because of a scheduling conflict. In an e-mail exchange with Commission Staff on November 7, 2017, that Staff shared with the parties attending the informal conference, the Attorney General's representatives further indicated the settlement conference should proceed as scheduled and not be rescheduled. Kentucky Power discussed settlement individually with representatives of the Attorney General and kept them abreast of the developments, provided the information exchanged at the November 7, 2017 informal conference, and repeatedly offered the Attorney General the opportunity to join the other parties or engage in further negotiation. Representatives of KCUC attended all three settlement conferences and the Signatory Parties provided copies of all term sheets to KCUC.

**Q. DOES THE SETTLEMENT AGREEMENT REPRESENT THE COMPLETE SETTLEMENT IN THIS CASE?**

A. Yes. There are no agreements or understandings regarding the Company's application that are not reflected in the Settlement Agreement. The agreements and terms in the Settlement Agreement represent the sum total of the give and take of the Signatory Parties. Further, there are no agreements nor understandings with non-signatory parties relating to the subject matter of the Company's application.

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

A. No. Commission Staff attended two informal conferences but made clear that it could not be a party to any agreement, that it was not speaking for the Commission, and that its participation in no way would bind the Commission to the agreement.

**Q. DID THE PARTIES TO THIS CASE ACTIVELY LITIGATE THIS MATTER?**

A. Yes. In addition to the four sets of data requests propounded by the Commission Staff and answered by Kentucky Power, multiple rounds of data requests, consisting of 793 separate data requests, not including subparts, also were propounded by KIUC, the Attorney General, Wal-Mart, KCUC, KLC, KSBA, and KCTA and answered by the Company. Testimony was filed by witnesses for all intervenors, and discovery taken regarding certain of these witnesses' testimony by Commission Staff, the Attorney General, and Kentucky Power. The Company also filed rebuttal testimony. Thus, Kentucky Power and the parties were fully informed of each other's respective positions while engaging in settlement negotiations.

**Q. WHAT WAS THE TONE OF THE NEGOTIATIONS?**

A. Without discussing specific matters raised during the negotiations, as they are confidential, I would like to thank the parties who worked in a constructive manner. There is recognition that Kentucky Power is working to help rebuild Eastern Kentucky's economy and as part of that effort the Company has needs that must be addressed under the regulatory compact. Likewise, the Parties advocated for their clients and the affordability of bills for all customers as the region deals with the economic situation it is facing. The settlement is a reflection of that creative thinking to allow Kentucky Power to meet its obligation to provide reasonable service while limiting the impact of the rate adjustment on all customers. I am encouraged by the constructive approach to the negotiations to put Eastern Kentucky first and work to a mutually agreeable solution that will allow the focus to return to rebuilding the economy in the region.

## III. THE TERMS OF THE SETTLEMENT AGREEMENT

**Q. IN SEVERAL PLACES IN YOUR TESTIMONY BELOW YOU NOTE THAT THE SETTLEMENT AGREEMENT EMBODIES A POSITION ADVOCATED BY ONE OR MORE OF THE INTERVENORS. DOES THE INCORPORATION OF THE INTERVENOR POSITION IN THE SETTLEMENT AGREEMENT CONSTITUTE AN ENDORSEMENT BY THE COMPANY OF THAT POSITION IN ABSENCE OF THE SETTLEMENT AGREEMENT?**

A. Absolutely not. Like any fair and reasonable settlement, the Settlement Agreement represents a compromise by all parties to the agreement of their positions in a fully-litigated case. In fact, Paragraph 24 recognizes that the agreement is not to be construed as an admission by any party to agreement. Likewise, the agreement provides that it is not to be read as incorporating fully the objectives of the parties to the agreement. The Settlement Agreement is a package that balances out the interests of the Signatory Parties to provide the Commission a unique option to rule upon the issues in this case.

**A. <u>Net Increase In Annual Revenues</u>**

**Q. YOU INDICATED THAT THE NET EFFECT OF THE SETTLEMENT AGREEMENT ON THE COMPANY'S RETAIL RATES WAS AN ANNUAL INCREASE OF $31.8 MILLION. HOW DOES THAT COMPARE TO THE REQUEST IN THIS CASE?**

A. The net annual increase in the Company's retail revenues of $31,780,734 is described in Paragraph 2 of the Settlement Agreement. The updated revenue requirement reflects a decrease of $28,616,704 from the $60,397,438 requested by Kentucky Power in the August 2017 Refinancing Update. To be clear, and except when I expressly state to the contrary, when I discuss the Company's revenue requirement I am referring to the amount requested in the August 2017 Refinancing Update.

**Q. DOES THE SETTLEMENT AGREEMENT IDENTIFY THE DERIVATION OF THE $28,616,704 REDUCTION IN REQUESTED ADDITIONAL REVENUE?**

A. Yes. This is not a black box settlement. The drivers for the $28.6 million decrease in the Company's requested additional annual revenue requirement reflect agreed upon adjustments that are itemized in Paragraph 2 of the Settlement Agreement.

**Q. DOES THE SETTLEMENT AGREEMENT EQUALIZE RATES OF RETURN ACROSS ALL CUSTOMER CLASSES**?

A. No. It is unlikely that doing so could be accomplished in a single proceeding. That said, the Settlement Agreement reduces the inter-class subsidies to the residential class while limiting the effect of doing so on residential rates. The Signatory Parties used the decrease in the revenue requirement first to remove the subsidy provided to residential customers by industrial customers receiving service under Tariff I.G.S. The remainder of the rate reduction was then used to reduce the rate impact across the other classes. The result of the subsidy removal and decrease in the revenue requirement is a decrease across the board for all customer classes. The impact of the Settlement Agreement on revenue requirements by customer class is provided in **EXHIBIT 1** to the Settlement Agreement. Additional information about the allocation of the revenue requirement is included in the Settlement Testimony of Company Witness Vaughan.

**B. <u>Return On Equity</u>**

**Q. DOES THE SETTLEMENT AGREEMENT SPECIFY A RETURN ON EQUITY?**

A. Yes. The Signatory Parties agreed for settlement purposes that the Company shall be authorized a return on equity of 9.75%. The negotiated amount is below the 10.31% return justified in the testimony of Company Witness Adrien McKenzie. The only intervenors to file testimony regarding the Company's proposed rate of return were the Attorney General and KIUC. Attorney General Witness Woolridge proposed a return on equity of 8.60% while KIUC Witness Baudino proposed a rate of 8.85%. The settlement negotiations led to a compromise of 9.75% ROE. The testimony of Company Witness McKenzie stresses the importance of a fair and reasonable return on equity for the health of the utility and to permit the Company to provide adequate service. A return on equity of 9.75% provides this fair and reasonable return in the overall context of this settlement.

### C. Rockport Deferral Mechanism

**Q. DID THE SIGNATORY PARTIES AND THE COMPANY AGREE ON A METHOD TO DEFER A PORTION OF THE ROCKPORT UPA EXPENSES?**

A. Yes. The Company was able to work with the parties to manage the deferral of non-fuel, non-environmental Rockport UPA Expense in a manner that minimized the risk associated with deferrals described by Company Witness Wohnhas in his rebuttal testimony while still relieving the pressure of customer bills in the near term. The agreement reflects a deferral of fifty million dollars ($50 million) over five years and provides that the deferral will be established as a regulatory asset for later recovery ("Rockport Deferral Regulatory Asset"). The Rockport Deferral Regulatory Asset, plus a WACC carrying charge, will be recovered through the Company's Tariff P.P.A. over a five- year period starting in December 2022. The end of the deferral period, and the start of the five-year amortization period, coincide with the anticipated end of the Rockport UPA in December 2022.

**Q. WHAT IS THE DEFERRAL SCHEDULE?**

A. The Signatory Parties agreed on an initial deferral of $15 million a year for the first two years of the deferral period and then a step down in the deferral amount in the final three years of the five-year deferral period. In calendar years 2018 and 2019 the Company will defer $15 million each year. The settlement's annual revenue requirement reflects that $15 million decrease to base rates. In 2020, the deferral will step-down to $10 million. The $5 million difference between the initial $15 million deferral in each of the first two years, and upon which base rates are established, and the $10 million deferral in 2020 will be recovered through an offsetting increase in the amount recovered through Tariff

P.P.A. In calendar years 2021 and 2022 the deferral is reduced by an additional $5 million each year to an annual deferral of $5 million. This additional reduction in the deferral amount is recovered through with an incremental offsetting increase of $5 million to the annual amount to be recovered through Tariff P.P.A. In 2022, the amount recovered through Tariff P.P.A. will be prorated through December 8 – the termination date of Rockport UPA. Utilizing Tariff P.P.A. provides a mechanism to achieve the reduction in the deferral amount without changing base rates. A summary of the Rockport UPA Expense deferral timeline is provided below:

| YEAR | CREDIT IN BASE RATES | DEFERRAL AMT | AMT RECOVERED VIA TARIFF PPA |
|---|---|---|---|
| 2018 | $15 million | $15 million | $0 |
| 2019 | $15 million | $15 million | $0 |
| 2020 | $15 million | $10 million | $5 million |
| 2021 | $15 million | $5 million | $10 million |
| 2022 | $15 million | $5 million | $10 million[1] |

**Q. WHAT HAPPENS TO THE REGULATORY ASSET AFTER THE FIVE YEARS?**

A. The Signatory Parties agreed to start recovery of the regulatory asset beginning in December 2022. The regulatory asset will be amortized over five years starting in December 2022 through Tariff P.P.A. The Rockport Deferral Regulatory Asset will be subject to carrying charges based on a weighted average cost of capital (“WACC”) of 9.11% until the Regulatory Asset is fully recovered. The Company estimates the regulatory asset will total approximately $59 million at the end of 2022. That amount will decrease over the five-year amortization period until fully collected.

[1] Will be prorated through December 8 – the termination date of the Rockport UPA.

**Q. HOW IS THE ROCKPORT DEFERRAL IN THIS SETTLEMENT AGREEMENT BENEFICIAL FOR CUSTOMERS?**

A. The Rockport UPA Expense deferral as structured in the Settlement Agreement provides a more affordable rate structure in the immediate future balanced by the need to avoid too heavy of a burden on customers in the later years when it will be recovered. The concept is similar to public comments shared in Hazard, Kentucky during the Commission's public meeting. Some of the commenters expressed an understanding that Kentucky Power needed a rate increase to adequately operate, but the individuals asked the Commission to look for a way to delay the impact of the request for just a few years while the region fights back against the economic downturn. The proposed Rockport UPA Expense deferral helps accomplish that request. Rates in the near term will be set at a lower level than otherwise would be required with the guarantee that those deferred amounts will be collected by the Company for carrying those costs over a number of years.

**Q. WHAT IS THE SIGNIFICANCE OF THE FIVE YEAR DEFERRAL TERM PROVIDED BY THE SIGNATORY PARTIES?**

A. The Rockport UPA expires in December 2022. While the decision on whether to extend or not extend the Rockport UPA is not an issue in this case and a matter to be decided at a later date, the potential for the end of that agreement and its accompanying expenses provided an opportunity to structure the adjustment to rates to take advantage of that potential reduction in purchase power costs. If the Company is not paying the expenses associated with the Rockport agreement beginning in December 2022 then there is an opportunity to begin recovery of the deferred amount at the same time as the other

Rockport UPA expenses fall off the customer bills. The ultimate decision on whether to extend or not extend the Rockport UPA will be made at another time, but the timelines in place today provided a convenient framework to propose the concept and focus on the impact on customer bills.

**Q. WHY IS THE DEFERRAL AMOUNT SUBJECT TO A CARRYING CHARGE?**

A. The Company will be incurring and paying the Rockport UPA expenses prior to their recovery and will be financing the associated under-recovery with a combination of debt and equity. Thus, applying a carrying charge at the Company's WACC, which represents Kentucky Power's financing costs, is appropriate. This is especially true in light of the magnitude of the under-recovery and the time frame for recovering the regulatory asset.

**Q. WHAT IS THE ROCKPORT CREDIT AND OFFSET THAT IS INCLUDED IN THE DEFERRAL PLAN AGREED TO BY THE SIGNATORY PARTIES?**

A. The Rockport Offset and Credit are described in Paragraph 3(f-h) of the Settlement Agreement. If Kentucky Power does not extend the Rockport agreement then it will begin to credit the Rockport Fixed Cost Savings through Tariff P.P.A. until new base rates are set. The credit will be offset, however, by the retention by Kentucky Power of that portion of the Rockport Fixed Cost Savings in 2023 necessary to allow the Company to earn its Commission-authorized return on equity if it should be earning below that level at that time ("Rockport Offset").

**Q. HOW WILL THE ROCKPORT FIXED COSTS SAVINGS AND OFFSET BE APPLIED?**

A. As outlined in Paragraph 3(h) of the Settlement Agreement, the Company will file an updated factor for Tariff P.P.A. for rates effective December 9, 2022 to reflect the impact of the Fixed Cost Saving and Estimated Rockport Offset. This will represent the sum of the fixed cost savings and the estimated offset related to the estimated level necessary to meet the return on equity component in 2023. By February 1, 2024 the Company will file a final accounting to wrap up this credit/offset in the Tariff P.P.A. for rates effective March 1, 2024. This update will serve as the final true-up to provide a credit back to customers for any amount of any over-collection from the offset or collect any further amount due to finalize the mechanism. That true-up will be applied over the three months of March, April and May of 2024.

**D. PJM OATT LSE Expense Recovery and General Rate Case Stay Out**

**Q. WILL YOU PLEASE EXPLAIN THE SETTLEMENT AGREEMENT'S TREATMENT OF THE COMPANY'S PJM OATT LSE EXPENSE RECOVERY?**

A. Yes. Kentucky Power will track, on a monthly basis via deferral accounting, the amount of OATT LSE charges and credits above or below the amount embedded in base rates as discussed in the testimony of Company Witness Vaughan. Kentucky Power will recover 80% of this annual over- or under-collection of PJM OATT LSE charges ("Annual PJM OATT LSE Recovery") through Tariff P.P.A. That means that the Company will absorb 20% of any annual under-collection through base rates of PJM OATT LSE charges.

**Q. WHY DOES THE SETTLEMENT AGREEMENT SINGLE OUT THE COMPANY'S PJM OATT LSE CHARGES FOR THIS TREATMENT?**

A. Kentucky Power has the ability to manage most of its expenses. By contrast, PJM OATT LSE expenses are largely outside the Company's control and are volatile within the regulatory compact and test year construct. Coupled with the magnitude of the expected increases in the Company's PJM OATT LSE expenses – Kentucky Power forecasts that its PJM OATT LSE expenses will increase by approximately $14 million or approximately 19% in 2018 over the test year amount – the Company would be forced to file another base rate case early in 2018 without the recovery mechanism provided in the Settlement Agreement.

**Q. WHAT IS THE TRANSMISSION RETURN DIFFERENCE THE SETTLEMENT AGREEMENT PROVIDES AS AN OFFSET TO THE PJM OATT LSE EXPENSE?**

A. Kentucky Power agreed to credit the difference in the return it receives on transmission investment in excess of the investment level already included in the Company's retail rate base between the FERC-approved return on equity and the 9.75% return on equity agreed to by the parties to the Settlement Agreement. The calculation of that credit is shown in **EXHIBIT 3** to the Settlement Agreement and is described in detail in the Settlement Testimony of Company Witness Vaughan.

**Q. WILL THE COMMISSION HAVE THE OPPORTUNITY TO REVIEW THE ANNUAL UPDATES TO TARIFF P.P.A. REFLECTING THE PJM OATT LSE RECOVERY AND OFFSET?**

A. Yes. The Company will make Tariff P.P.A. filings quantifying and describing the amounts to be recovered and the offset. The first update will not occur until August 2018. That means the rate impact of the costs (or credits) tracked under this mechanism will not impact customer bills until the fourth quarter of 2018.

**E. Rate Case Stay Out**

**Q. PLEASE DESCRIBE THE RATE CASE STAY OUT PROVISION IN THE SETTLEMENT AGREEMENT**?

A. The parties agreed to balance the Company's recovery of the 80% of incremental PJM OATT LSE expenses and the Rockport Deferral Regulatory Asset with an agreement by the Company not to file for a general adjustment of base rates to be effective prior to cycle 1 of the January 2021 billing cycle. That is essentially a three-year stay out from changing base rates. This provision also serves to address the concerns raised by customers on the frequency of general rate cases. This stay out is a settlement term that can only be done under the structure of a settlement agreement like the one entered into in this proceeding. Chapter 278 of the Kentucky Revised Statutes and the Commission's regulations do not authorize the Commission to order a utility not to file a general rate case. The balance provided by the Settlement Agreement, and particularly the Company's ability to recover 80% of the amount by which its actual PJM OATT LSE expenses exceed the amounts embedded in base rates, provide the Company the ability to agree to such an extreme restriction. Without all of the considerations provided by the Settlement Agreement, Kentucky Power lacks that ability.

**Q. ARE THERE ANY EXCEPTIONS TO THIS AGREEMENT TO STAY-OUT FROM IMPLEMENTING NEW GENERAL RATES?**

A. There are emergency clauses tied to a major change in law or where required to address an emergency that could adversely impact Kentucky Power or its customers. These clauses are intended for emergency situations that would significantly change the operations of the Company. An example of a material change in law would be the deregulation of the electric market in Kentucky. Such a change would have a material impact on the operations of the Company and could require a new general rate structure.

**Q. DOES THAT LIMIT THE COMMISSION'S AUTHORITY OVER THE COMPANY'S RATES UNTIL 2021?**

A. No, the Commission retains its ultimate jurisdiction over rates. Rates could change for other reasons, but the Company is agreeing not to file a general rate case to change rates in that time period. The Commission is not giving up any of its authority as a result of the Settlement Agreement to change the Company's general rates in a base rate case. In addition, the Commission retains its full regulatory authority with respect to the Company's riders and surcharges. This provision of the Settlement Agreement is a commitment by the Company not to file an application for the general adjustment of its base rates that would be effective prior to the first cycle of the January 2021 billing cycle. Customer bills will still change as a result of changes in existing riders.

**F. <u>Additional Settlement Terms</u>**

**Q. WHAT CHANGES WERE MADE TO DEPRECIATION RATES FOR BIG SANDY UNIT 1 AND THE MITCHELL PLANT IN THE SETTLEMENT AGREEMENT?**

A. The Signatory Parties agreed to use the 20-year expected life of Big Sandy Unit 1 in calculating the related depreciation expense. The Signatory Parties also agreed to adjust its depreciation rates for Big Sandy Unit 1 and for the Mitchell Plant to remove terminal net salvage costs. Terminal net salvage, which is discussed in more detail in the direct and rebuttal testimony of Company Witness Cash, reflects the difference between salvage and removal cost upon retirement of a unit. The changes to the depreciation rates as a result of the updated anticipated retirement date of Big Sandy Unit 1 and the removal of terminal net salvage rates from the calculation of the Company's depreciation expense are found in **EXHIBIT 5** to the Settlement Agreement.

**Q. WHAT OTHER FINANCIAL UPDATES THAT IMPACT RATES ARE INCLUDED IN THE SETTLEMENT AGREEMENT?**

A. Paragraph 8 of the Settlement Agreement discusses a number of updates. The 9.75% ROE agreed to in this Settlement Agreement is also applicable to the calculation of the Company's Environmental Surcharge factor and the carrying charges for the Rockport Deferral and Decommissioning Rider regulatory assets. Kentucky Power also agreed to a capital structure that reflects one percent short term debt with a 1.25% annual interest rate for the short term debt. The change to short term debt resulted in a decrease of approximately $350,000 to the revenue requirement. Likewise, the Settlement Agreement reflects the calculations of the WACC and GRCF as shown on **EXHIBIT 6** to the Agreement.

**Q. WHAT DOES THE SETTLEMENT AGREEMENT PROVIDE FOR IN CONNECTION WITH STORM DAMAGE EXPENSE AMORTIZATION?**

A. The Signatory Parties agreed to amortize the remaining unamortized balance of its existing deferred storm expense regulatory asset, authorized in Case No. 2012-00445, over a period of five years beginning January 1, 2018. This is consistent with the recommendation of KIUC and has the effect of extending the previous amortization period and reducing the Company's annual storm damage amortization expense. The unamortized balance of the existing storm damage regulatory asset will total $6,087,000 on December 31, 2017 and will be amortized over five years at an annual amount of

$1,217,400. In addition, the Settlement Agreement provides for the amortization of the regulatory asset authorized in Case No. 2016-00180 over a period of 5 years beginning January 1, 2018 consistent with the testimony of Company Witness Wohnhas. The balance of the regulatory asset authorized in Case No. 2016-00180 totals $4,377,336 and will be amortized over five years at an annual amount of $875,467. The combined balance of the Kentucky Power's deferred storm expense regulatory assets (the remaining unamortized balance authorized in Case No. 2012-00445 and the amount authorized in Case No. 2016-00180) will total $10,464,336 on December 31, 2017 and will be amortized over five years at an annual amount of $2,092,867.

**Q. DID THE SETTLEMENT AGREEMENT PROPOSE ANY CHANGES TO THE COMPANY'S INCENTIVE COMPENSATION PLAN?**

A. Yes. The Settling Parties agreed to decrease the level of incentive compensation by $3.15 million in the revenue requirement. While the Company still supports the full recovery of its incentive compensation plan as an important part of attracting and retaining top talent, for purposes of settlement at this time in this case, the Company agreed to remove that amount from the revenue requirement.

**Q. HOW DOES THE SETTLEMENT IMPACT THE PROPOSED CHANGES TO THE KENTUCKY ECONOMIC DEVELOPMENT SURCHARGE (KEDS)?**

A. The Signatory Parties supported the increase in the funding for economic development through an increase in the KEDS charge. The adjustment made to the Company's proposal was to change the responsibility for payment levels. Under the Settlement Agreement (Paragraph 10), residential customers will pay a fixed monthly charge of $0.10 instead of the proposed $0.25. This is a reduction from the current $0.15 monthly charge. To make up that difference, non-residential customers will pay an increased level of per meter charges. The non-residential customers will pay a monthly charge of $1.00 per meter as opposed to the $0.25 proposed by the Company. This decreases the charge to the residential class of customers while still allowing them to be involved in the partnership of rebuilding the economy. This allocation will produce slightly more funds to be used for the KEDS grants. Kentucky Power will continue to match dollar-for-dollar the funds provided by customers at the modified levels provided for by the Settlement Agreement.

**Q. WHAT PROVISION IS INCLUDED IN THE AGREEMENT RELATED TO THE REQUEST ON BACKUP AND MAINTENANCE SERVICE OPTIONS BY THE COMPANY?**

A. The Settlement Agreement includes a provision (Paragraph 11) that sets up a path for discussions between Marathon Petroleum LP and Kentucky Power. The settlement term provides for a discussion between the two entities and if an agreement cannot be reached within 120 days of Marathon providing a specific proposal, then the issue may be presented to the Commission for a decision.

**Q. HOW DOES THE SETTLEMENT TREAT THE SCHOOL ENERGY MANAGER PROGRAM?**

A. The Signatory Parties agreed that Kentucky Power would seek to include funding up to $200,000 for the School Energy Manager Program as part of its 2018 and 2019 DSM Program offerings. The parties recognize that the Commission is not bound to approve the School Energy Manager Program or its funding level, and that both will be addressed in a separate proceeding. However, Kentucky Power supports the program and believes that it provides a tool by which the region's schools – both public and private – can reduce that portion of their budgets devoted to electric energy costs. As the result, Kentucky Power committed to seek to fund that program up to $200,000 in 2018 and 2019 through the DSM factor. The Settlement Agreement also recognizes that the Commission is currently studying the costs and benefits associated with the Company's DSM programs and their future offerings.

**Q. DOES THE SETTLEMENT EXTEND THE PILOT TARIFF K-12 SCHOOL?**

A. Yes. The Settlement Agreement (Paragraph 13) removes the pilot designation on the tariff and provides for the general service to all K-12 schools, both public and private, in the Company's territory. Under the offering, eligible schools may elect to take service under rates designed to produce $500,000 less annually in the aggregate from the Tariff K-12 eligible customers than would be produced if those same customers took service under the Tariff L.G.S. proposed as part of this Settlement Agreement. Also, the agreement provides that the total annual revenues produced by both Tariff L.G.S. and Tariff K-12 under the new rates will equal the total revenues that would be produced if all customers taking service under the two tariffs were taking service under the new Tariff L.G.S.

**Q. WHAT DOES THE SETTLEMENT CHANGE RELATED TO THE BILL FORMAT REQUEST IN THE COMPANY'S FILING?**

A. The bill formatting changes proposed by the Company in Case No. 2017-00231 and consolidated in this case will be approved to the extent they are not already approved (Paragraph 14). Kentucky Power will also hold training sessions for representatives of the municipal customers to address concerns their understanding of consolidated bills and other bill items. The Company has already visited with the City of Paintsville since KLC filed testimony raising a concern with the city's understanding of Company bills. The Company customer service representative walked the Paintsville staff through an online tool that provides customers access to data underlying the bill and how to better understand what is provided. The Company appreciates the time the city personnel spent with its customer service representative to ensure we could meet the customer's expectations. In addition, the Settling Parties agreed that any charges under Rider R.P.O. will be identified as a separate line on the bills of customers taking advantage of Rider R.P.O.

**Q. DID THE SIGNATORY PARTIES AGREE ON THE STRUCTURE INTRODUCED BY THE COMPANY ON THE RENEWABLE POWER OPTION RIDER?**

A. Yes, with one modification (Paragraph 15). The Settlement Agreement allows customers seeking to receive service under Option B to aggregate accounts to reach the 1,000 kW of peak demand needed as long as there is a common ownership under a single parent company. A revised Rider R.P.O incorporating the updated language is included as **EXHIBIT 8** to the Settlement Agreement.

**Q. WHAT OTHER CHANGES DID THE SETTLEMENT AGREEMENT MAKE TO THE REQUEST FILED BY THE COMPANY IN ITS APPLICATION?**

A. The Settlement Agreement reflects a change in the requested residential service charge. The Company requested a residential service charge of $17.50 as explained in the direct testimony of Company Witness Vaughan. The Signatory Parties agreed to decrease that customer charge to a value of $14.00. The current charge was updated in the last

Company base case and raised $3.00 to the current level of $11.00. In that previous case the Commission cited the concept of gradualism in only raising the charge $3.00 to $11.00. The $3.00 increase in this case is consistent with that precedent by raising the charge only $3.00 and not the $6.50 requested by the Company.

**Q. WHAT DOES THE SETTLEMENT AGREEMENT DO TO ASSIST THE ECONOMIC SITUATION FACING THE COAL INDUSTRY IN EASTERN KENTUCKY?**

A. The Settlement Agreement proposes to extend the Coal Plus program that currently is set to expire at the end of 2017. Earlier this year the Commission approved an effort by Kentucky Power to remove barriers to the opening and re-opening of coal operations. The Commission approved Tariff C.S.-Coal, and the amendments to Tariff C.S. – I.R.P., as well as Tariff E.D.R. approved in Case No. 2017-00099, through December 31, 2017. The Settlement Agreement seeks to extend that framework for another year. There are customers already taking advantage of the Coal Plus program and others have expressed an interest. The rate allocation in this case is also a benefit for the large coal operations. Many of the coal operations are served under Tariff I.G.S. The allocation proposed by the Settlement Agreement limits the impact to this rate class by removing the subsidy it pays to support the residential class. This served to limit the impact on these companies and encourage more operations to open or expand to new business in Eastern Kentucky.

**Q. WHAT DID THE SETTLEMENT AGREEMENT DO TO ADDRESS THE POLE ATTACHMENT CONCERNS RAISED IN THE RECORD?**

A. The Settlement Agreement includes a provision that establishes pole attachment rates for users under Tariff C.A.T.V. The agreement provides that the pole attachment rate under

Tariff C.A.T.V. shall be $10.82 for attachments on two-user poles and $6.71 for attachments on three-user poles. In its application, the Company proposed rates of $11.97 for attachments on two-user poles and $7.42 for attachments on three-user poles. The modification to the unified rate included in the November 22, 2017 filing was made following additional communication with KCTA. The Company does not anticipate that, based on the test year number of attachments, the modified rates will change the estimated revenue to be produced under Tariff C.A.T.V. as compared to the estimated revenue that would have been produced using the unified rate filed on November 22, 2017. The settled-upon rates reflects a reasonable increase in pole costs in the twelve years since the Company's pole attachment rates were last updated.

## IV. REASONABLENESS OF THE SETTLEMENT AGREEMENT AND THE PROPOSED RATES

**Q. DOES THE SETTLEMENT AGREEMENT FAIRLY BALANCE THE INTERESTS OF THE COMPANY AND ITS CUSTOMERS?**

A. Yes. The Settlement Agreement represents a fair and proper balance between Kentucky Power's right to a fair return on its investment and the requirement that customers be charged fair, just, and reasonable rates.

**Q. WHAT IS THE BASIS FOR THAT CONCLUSION?**

A. Kentucky Power has faced multiple financial challenges since its last base rate case. The Company sought to address these challenges over the longer-term through its economic development efforts. Those efforts already have borne fruit as evidenced by the economic development successes described by Company Witness Hall. The Company's economic development successes do not address, however, the Company's need for financial relief in the near term. The Settlement Agreement addresses this near term need while providing important benefits, such as the Rockport Deferral and the base case stay-out provision, to all customers. Further, the increase of $31,780,734 in the Company's revenue requirement represents approximately 53% of the Kentucky Power's request.

**Q. DOES THE SETTLEMENT AGREEMENT PROVIDE FOR FAIR, JUST, AND REASONABLE RATES?**

A. Yes. Rates and tariffs should be designed to reflect and capture the opportunity to earn revenues that will produce a fair return on equity for the Company without posing an unfair or unreasonable burden on the ratepayers. The terms of the Settlement Agreement accomplish these objectives by balancing the need to provide for the existence of the utility while addressing the affordability of the rate increase through deferrals. In particular, the actions agreed to by the Company in this case related to the agreement to stay out from filing a general rate case are actions only achievable through a settlement agreement. The revenue allocations, tariffs and charges, while not those originally proposed by the Company, reflect a fair and proper balancing of the interests of the affected customer classes.

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

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

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

A. Yes.

## VERIFICATION

The undersigned, Matthew J. Satterwhite, being duly sworn, deposes and says he is the President and COO for Kentucky Power Company 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

Matthew J. Satterwhite

COMMONWEALTH OF KENTUCKY )
) 2017-00179
COUNTY OF BOYD )

Subscribed and sworn to before me, a Notary Public in and before said County and State, by Matthew J. Satterwhite, this 27 day of November 2017.

Trisha M. Young Blum
Notary Public

Notary ID Number: 530202

My Commission Expires: 3-18-19

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

# EXHIBIT MJS-1S

**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 Practices To Establish Regulatory Assets Or Liabilities; And (5) An Order Granting All Other Required Approvals And Relief | ) | Case No. 2017-00179 |

## SETTLEMENT AGREEMENT

This Settlement Agreement, made and entered into this 22nd day of November, 2017, by and among Kentucky Power Company ("Kentucky Power" or "Company"); Kentucky Industrial Utility Customers, Inc. ("KIUC"); Kentucky School Boards Association ("KSBA"); Kentucky League of Cities ("KLC"); Wal-Mart Stores East, LP and Sam's East, Inc. ("Wal-Mart"); and Kentucky Cable Telecommunications Association ("KCTA"); (collectively Kentucky Power, KIUC, KSBA, KLC, Wal-Mart, and KCTA, are "Signatory 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 totaling $69,575,934, 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 ("June 2017 Application").

2. On August 8, 2017, Kentucky Power supplemented its filing to reflect the impact of subsequent refinancing activities on the Company's Application ("August 2017 Refinancing Update"). The refinancing activities reduced the Company's requested annual increase in retail electric rates and charges from $69,575,934 to $60,397,438.

3. KIUC, KSBA, KLC, Wal-Mart, and KCTA filed motions for full intervention in Case No. 2017-00179. The Commission granted the intervention motions. Collectively KIUC, KSBA, KLC, Wal-Mart, and KCTA are referred to in this Settlement Agreement as the "Settling Intervenors."

4. The Attorney General of the Commonwealth of Kentucky ("Attorney General") and Kentucky Commercial Utility Customers, Inc. ("KCUC") also filed motions to intervene. The Attorney General and KCUC, who are not parties to this agreement, were granted leave to intervene.

5. Certain of the Settling Intervenors, KCUC, and the Attorney General filed written testimony in Case No. 2017-00179 raising issues regarding Kentucky Power's Rate Application.

6. Kentucky Power, KCUC, the Attorney General, and the Settling Intervenors have had a full opportunity for discovery, including the filing of written data requests and responses.

7. Kentucky Power offered the Settling Intervenors, KCUC, and the Attorney General, along with Commission Staff, the opportunity to meet and review the issues presented by Kentucky Power's application in this proceeding and for purposes of settlement.

8. The Signatory 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.

9. The Signatory Parties believe that 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 Intervenors hereby agree as follows:

## AGREEMENT

1. Kentucky Power's Application

(a) Except as modified in this Settlement Agreement, Kentucky Power's June 2017 Application as updated by the August 2017 Refinancing Update is approved.

2. Revenue Requirement

(a) Effective for service rendered on or after January 19, 2018, Kentucky Power shall implement a base rate adjustment sufficient to generate additional annual retail revenues of $31,780,734. This annual retail revenue amount represents a $28,616,704 million reduction from the $60,397,438 sought in the Company's August 2017 Refinancing Update.

(b) The $28,616,704 million reduction was the result of the following adjustments to the Company's request in the June 2017 Rate Application as modified in the August 2017 Refinancing Update:

| Adjustment | Reduction in Revenue Requirement ($Millions) |
|---|---|
| Defer a portion of Rockport UPA non-fuel, non-environmental expenses | 15.0 |
| Increase revenues to Apply Weather Normalization to Commercial Sales Net of Variable O&M | 0.40 |
| Reduce Incentive Compensation | 3.15 |
| Reduce Amortization Expense to Recalibrate Storm Damage Amortization | 1.22 |

| | |
|---|---|
| Reduce Depreciation Expense by Extending Service Life of BS1 to 20 years | 2.84 |
| Reduce Depreciation Expense by Removing Terminal Net Salvage for BSU1 | 0.37 |
| Reduce Depreciation Expense by Removing Terminal Net Salvage for Mitchell | 0.57 |
| Increase Short Term Debt to 1% and Set Debt Rate at 1.25% | 0.36 |
| Change in Return on Equity from 10.31% to 9.75% | 4.70 |
| **Total Adjustments** | **28.6** |

(c) Kentucky Power agrees to allocate the $31,780,734 in additional annual revenue as illustrated on **Exhibit 1.** The Company will design rates and tariffs consistent with this allocation of additional revenue.

(i) As part of the Commission's consideration of the reasonableness of this Settlement Agreement, the tariffs designed in accordance with this subparagraph shall be filed with the Commission and served on counsel for all parties to this case no later than December 1, 2017.

(ii) Within ten days of the entry of the Commission's Order approving without modification this Settlement Agreement and the rates thereunder, Kentucky Power shall file with the Commission signed copies of the tariffs in conformity with 807 KAR 5:011.

3. Rockport UPA Expense Deferral

(a) Kentucky Power is a party to a FERC-approved Unit Power Agreement with AEP Generating Company for capacity and energy produced at the Rockport Plant ("Rockport UPA"). The Rockport UPA expires on December 8, 2022.

(b) Kentucky Power will defer a total of $50 million in non-fuel, non-environmental Rockport UPA Expense for later recovery as follows:

(i) Kentucky Power will defer $15M annually of Rockport UPA Expense in 2018 and 2019 for later recovery.

(ii) Kentucky Power will defer $10M of Rockport UPA Expense in 2020 for later recovery.

(iii) Kentucky Power will defer $5M annually of Rockport UPA Expense in years 2021 and 2022 for later recovery.

(c) The Rockport UPA Expense of $50 million described in Paragraph 3(b) above will be deferred into a regulatory asset ("the Rockport Deferral Regulatory Asset") and will be subject to carrying charges based on a weighted average cost of capital ("WACC") of 9.11%[1] until the Regulatory Asset is fully recovered. From January 1, 2018 through December 8, 2022, the WACC will be applied to the monthly Rockport Deferral Regulatory Asset principal balance net of accumulated deferred income taxes ("ADIT"). From December 9, 2022 until the Rockport Deferral Regulatory Asset is fully recovered, the WACC will be applied to the monthly Rockport Deferral Regulatory Asset balance including deferred carrying charges net of ADIT. The Rockport Deferral Regulatory Asset shall be recovered on a levelized basis through the demand component of Tariff P.P.A. and amortized over five years beginning on December 9, 2022. Kentucky Power estimates that the regulatory asset balance will total approximately $59 million on December 8, 2022.

(d) Additional expenses reflecting the declining deferral amount in years 2020 through 2022 will be recovered through the demand component of Tariff P.P.A. as follows:

(i) Kentucky Power will recover $5 million through Tariff P.P.A. in 2020

(ii) Kentucky Power will recover $10 million through Tariff P.P.A. in 2021

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[1] 6.48% grossed up for applicable State and Federal taxes, uncollectible accounts expense, and the KPSC maintenance fee

(iii) Kentucky Power will recover $10 million through Tariff P.P.A. in 2022, prorated through December 8, 2022.

(e) The Signatory Parties acknowledge that the Company's decision whether to seek Commission approval to extend the Rockport UPA will be made at a later date. Whether or not the Company seeks to extend the Rockport UPA, beginning December 9, 2022, the Capacity Charge recovered through Tariff C.C., approved in Case No. 2004-00420, will end. Any final over- or under-recovery balance will be included in the subsequent calculation of the purchase power adjustment under Tariff P.P.A. In the event that Kentucky Power elects not to extend the Rockport UPA, it will experience a reduction in Rockport UPA fixed costs ("Rockport Fixed Costs Savings").

(f) If Kentucky Power elects not to extend the Rockport UPA, it will, beginning December 9, 2022, credit the Rockport Fixed Cost Savings through the demand component of Tariff P.P.A. until new base rates are set. However, for 2023 only, the Rockport Fixed Cost Savings credit will be offset by the amount, if any, necessary for the Company to earn its Kentucky Commission-authorized return on equity (ROE) for 2023 ("Rockport Offset"). An example of the calculation of the Rockport Offset is included as **EXHIBIT 2**.

(g) For the purposes of implementing the Rockport Fixed Costs Savings credit described in Paragraph 3(f) above, the following definitions apply:

(i) "Rockport Fixed Costs Savings" shall mean the annual amount of non-fuel, non-environmental Rockport UPA expense included in base rates for rates effective in November 2022.

(ii) "Estimated Rockport Offset" shall mean the amount of additional annual revenue the Company estimates would be necessary for it to earn the Commission-authorized return on equity for 2023 considering the termination of the Rockport UPA and the Rockport Fixed Cost Savings.

(iii) "Actual Rockport Offset" shall mean the amount of additional annual revenue that would have been necessary for the Company to earn the Commission-authorized return on equity for 2023 considering the termination of the Rockport UPA and the Rockport Fixed Cost Savings. The Company shall calculate the Actual Rockport Offset using a comparison of the per books return on equity for 2023 to the Commission-approved return on equity. The Actual Rockport Offset cannot exceed the Rockport Fixed Costs Savings.

(iv) "Rockport Offset True-Up" shall mean the difference between the Estimated Rockport Offset and the Actual Rockport Offset.

(h) The Company shall implement the Rockport Fixed Costs Savings credit described in Paragraph 3(f) above as follows:

(i) By November 15, 2022, the Company shall file an updated purchase power adjustment factor under Tariff P.P.A. for rates effective December 9, 2022. This filing shall reflect the impact of the Rockport Fixed Cost Savings and the Estimated Rockport Offset on the purchase power adjustment factor. This filing shall also reflect the commencement of recovery of the Rockport Deferral Regulatory Asset.

(ii) The Company shall make its normal August 15, 2023 Tariff P.P.A. filing for rates effective in October 2023. The Rockport Fixed Cost Savings and the Estimated Rockport Offset will continue to be factored into the calculation of the purchase power adjustment factor through the end of 2023. Beginning in January 2024, the Estimated Rockport Offset will not be factored into the calculation of the purchase power adjustment factor.

(iii) By February 1, 2024, the Company shall file an updated purchase power adjustment factor under Tariff P.P.A. for rates effective March 1, 2024. This filing shall only reflect the impact of the Rockport Offset True-Up on the purchase power adjustment factor. The purchase power adjustment factor shall be established to recover or credit the Rockport Offset True-Up amount in three months.

(iv) Beginning with the August 15, 2024 Tariff P.P.A. filing, the Company will incorporate the Rockport Fixed Cost Savings in its annual calculation of the purchase power adjustment factor.

4. PJM OATT LSE Expense Recovery

(a) As described in the testimony of Company Witness Vaughan, Kentucky Power has included an adjusted test year amount of net PJM OATT LSE charges and credits in base rates. Kentucky Power will track, on a monthly basis, the amount of OATT LSE charges and credits above or below the base rate level using deferral accounting. Kentucky Power will recover and collect 80% of the annual over or under collection of PJM OATT LSE charges, as compared to the annual amount included in base rates, ("Annual PJM OATT LSE Recovery") through the operation of Tariff P.P.A.

(b) Kentucky Power will credit against the Annual PJM OATT LSE Recovery 100% of the difference between the return on its incremental transmission investments calculated using the FERC-approved PJM OATT return on equity and the return on its incremental transmission investments calculated using the 9.75% return on equity provided for in this settlement (the "Transmission Return Difference"). Kentucky Power shall calculate the Transmission Return Difference as shown in **EXHIBIT 3**.

(c) These changes to Tariff P.P.A. to allow for the Annual PJM OATT LSE Recovery will terminate on the effective date when base rates are reset in the next base rate proceeding unless otherwise specifically extended by the Commission. Nothing in this Paragraph 4(c) prohibits Kentucky Power or any other Signatory Party from taking any position regarding the extension of the Annual PJM OATT LSE Recovery mechanism or any other treatment of the Company's PJM OATT LSE expenses.

5. Rate Case Stay Out

(a) Kentucky Power will not file an application for a general adjustment of base rates for rates that would be effective prior to the first day of the January 2021 billing cycle. This rate case "stay out" is expressly conditioned on Commission approval of this Settlement Agreement without modification including the recovery of the Rockport Deferral Regulatory Asset as described in Section 3 above and the incremental PJM OATT LSE expense through Tariff P.P.A. as described in Section 4 above.

(b) This stay out will not apply if a change in law occurs that will result in a material adverse effect on the Company's financial condition.

(c) Nothing in this stay out provision should be interpreted as prohibiting the Commission from altering the Company's rates upon its own investigation, or upon complaint, including to reflect changes in the tax code, including the federal corporate income tax rate, depreciation provisions, or upon a request by the Company to seek leave to address an emergency that could adversely impact Kentucky Power or its customers. In the event the Commission initiates an investigation or a complaint is filed with the Commission regarding the Company's rates, the Company retains the right to defend the reasonableness of its rates in such proceedings.

6. Tariff P.P.A.

(a) Kentucky Power's proposed changes to Tariff P.P.A., as set forth in the testimony of Company Witness Vaughan and modified by Sections 2 and 3 above, are approved.

(b) A revised version of Tariff P.P.A. incorporating the modifications described in Sections 2 and 3 above is included as **EXHIBIT 4.**

7. Depreciation Rates

(a) Kentucky Power and the Settling Intervenors agree that Big Sandy Unit 1 has an expected life of 20 years following its conversion from a coal-fired to a natural gas-fired generating unit. The depreciation rates for Big Sandy Unit 1 have been adjusted to reflect the 20 year expected life. Kentucky Power and the Signatory Parties retain the right to propose updated depreciation rates for Big Sandy Unit 1 in future proceedings to reflect updates to the expected life.

(b) Kentucky Power has adjusted depreciation rates for Big Sandy Unit 1 and for the Mitchell Plant to remove terminal net salvage costs. Kentucky Power retains the right to propose updated depreciation rates for Big Sandy Unit 1 and for the Mitchell Plant in future proceedings to include terminal net salvage costs, and the Settling Intervenors retain the right to challenge the inclusion of such costs in future proceedings.

(c) Kentucky Power's updated depreciation rates are included as **EXHIBIT 5**.

8. Return on Equity, Capitalization, WACC, and GRCF

(a) Kentucky Power shall be authorized a 9.75% return on equity. The authorized return on equity of 9.75% will be used in the calculation of the Company's Environmental Surcharge factor (for non-Rockport environmental projects) and the carrying charges for the Rockport Deferral and Decommissioning Rider regulatory assets.

(b) Kentucky Power will update its capitalization to reflect short term debt as 1% of the Company's total capital structure. The annual interest rate for the short term debt will be set at 1.25%.

(c) Kentucky Power shall utilize a weighted average cost of capital ("WACC") of 9.11% including a gross revenue conversion factor ("GRCF") of 1.6433%. The GRCF does not include a Section 199 deduction. This WACC and GRCF shall remain constant (including for the riders and surcharges described in Paragraph 8(a) above) until such time as the Commission sets base rates in the Company's next base rate case proceeding. The calculations of the WACC and GRCF are shown on **EXHIBIT 6**.

9. Storm Damage Expense Amortization

(a) Kentucky Power will recover and amortize the remaining unamortized balance of its deferred storm expense regulatory asset authorized in Case No. 2012-00445 over a period of five years beginning January 1, 2018, consistent with the recommendation of KIUC. The unamortized balance of the regulatory asset authorized in Case No. 2012-00445 will total $6,087,000 on December 31, 2017 and will be amortized over five years at an annual amount of $1,217,400.

(b) Kentucky Power will recover and amortize the deferred storm expense regulatory asset authorized in Case No. 2016-00180 over a period of 5 years beginning January 1, 2018 consistent with the testimony of Company Witness Wohnhas. The balance of the regulatory asset authorized in Case No. 2016-00180 totals $4,377,336 and will be amortized over five years at an annual amount of $875,467.

(c) The combined balance of the Kentucky Power's deferred storm expense regulatory assets (the remaining unamortized balance authorized in Case No. 2012-00445 and the amount authorized in Case No. 2016-00180) will total $10,464,336 on December 31, 2017 and will be amortized over five years at an annual amount of $2,092,867.

10. <u>Kentucky Economic Development Surcharge</u>

(a) Kentucky Power's new Kentucky Economic Development Surcharge Tariff ("Tariff K.E.D.S.") shall be approved with rates amended as follows:

(i) The KEDS rate for residential customers will be set at $0.10 per meter instead of $0.25 as proposed by the Company.

(ii) The KEDS rate for non-residential customers for which the KEDS applies will be set at $1.00 per meter instead of $0.25 as proposed by the Company.

(b) All KEDS funds collected by Kentucky Power shall be matched dollar-for-dollar by Kentucky Power from shareholder funds. The proceeds of KEDS and Kentucky Power's shareholder contribution shall be used by Kentucky Power for economic development projects, including the training of local economic development officials, in the Company's service territory. The KEDS, and the matching shareholder contribution, shall remain in effect until changed by order of the Commission.

(c) Kentucky Power will continue to file on or before March 31st of each year a report with the Commission describing: (i) the amount collected through the Economic Development Surcharge; and (ii) the matching amount contributed by Kentucky Power from shareholder funds. The annual report to be filed by the Company shall also describe the amount, recipients, and purposes of its expenditure of the funds collected through the Economic Development Surcharge and shareholder contribution.

(d) Kentucky Power shall serve a copy of the annual report to be filed with the Commission in accordance with subparagraph (c) on counsel for all parties to this proceeding.

11. Backup and Maintenance Service

(a) In order for Marathon Petroleum LP ("Marathon") to evaluate the economics of self or co-generation, Kentucky Power and Marathon will begin negotiations regarding the terms, conditions and pricing for backup and maintenance service within 30 days of a Commission Order approving this provision and will complete negotiations within the next 120 days. Prior to the start of the 120 day negotiation period, Marathon will provide Kentucky Power with specific information regarding the MW size of a potential self or co-generation facility and the type of generation technology being considered.

(b) If Kentucky Power and Marathon cannot reach an agreement on backup and maintenance service within 120 days, Kentucky Power and Marathon agree to submit the issue to the Commission for resolution.

12. School Energy Manager Program

(a) Kentucky Power shall seek leave from the Commission to include up to $200,000 for the School Energy Manager Program in its each of its 2018 and 2019 DSM Program offerings.

(b) Kentucky Power and KSBA both expressly acknowledge that there is in Case No. 2017-00097 a currently-pending Commission investigation of the Company's DSM programs and funding and that the outcome of that investigation could impact the School Energy Manager Program.

13. Tariff K-12 School

(a) Kentucky Power shall continue its current Pilot Tariff K-12 School but shall remove the Pilot designation as set forth in **EXHIBIT 7**. Tariff K-12 School shall be available for general service to all K-12 schools in the Company's service territory, public and private, with normal maximum demands greater than 100 kW. Tariff K-12 School shall reflect rates for customers taking service under the tariff designed to produce annually in the aggregate $500,000 less from Tariff K-12 School customers than would be produced under the new L.G.S. rates to be established under this Settlement Agreement from customers eligible to take service under Tariff K-12 School. The aggregate total revenues to be produced by Tariff K-12 School and Tariff L.G.S. shall be equal to the revenues that would be produced in the aggregate by the new rates in the absence of Tariff K-12 School. Service under Tariff K-12 School shall be optional.

14. <u>Bill Format Changes</u>

(a) The bill formatting changes proposed by the Company in Case No. 2017-00231 and consolidated into this case by Commission Order dated July 17, 2017, to the extent not already approved, are approved.

(b) Within 180 days of a Commission Order approving this Settlement, Kentucky Power will conduct a training session with representatives from its municipal clients and KLC to explain the new bill format and tools available to clients to evaluate their electric usage.

15. <u>Renewable Power Option Rider</u>

(a) The proposed changes to the Company's Green Pricing Option Rider, including renaming the rider to the Renewable Power Option Rider ("Rider R.P.O."), are approved except that the availability of service provision for Option B will state the following:

> "Customers who wish to directly purchase the electrical output and all associated environmental attributes from a renewable energy generator may contract bilaterally with the Company under Option B. Option B is available to customers taking metered service under the Company's I.G.S., and C.S.-I.R.P. tariffs, or multiple L.G.S. tariff accounts with common ownership under a single parent company that can aggregate multiple accounts to exceed 1000 kW of peak demand."

A revised version of Rider R.P.O. incorporating the modifications described above is included as **EXHIBIT 8**. Bills for customers receiving service under Rider R.P.O. will include a separate line item for Rider R.P.O. charges.

(b) Beginning no later than March 31, 2018, and no later than each March 31 thereafter, Kentucky Power will file a report with the Commission describing the previous year's activity under Rider R.P.O. This annual report will replace the semi-annual reports filed in Case No. 2008-00151.

16. Modifications To Kentucky Power's Rate Tariffs

In addition to the rate and tariff changes described and agreed to above, Kentucky Power and the Settling Intervenors agree that the following tariffs shall be modified or implemented as described below:

(a) The Customer charge for the Residential Class ("Tariff R.S.") shall be increased to $14.00 per month instead of the $17.50 per month proposed by the Company in its filing in this case.

(b) The Company is extending the termination date for Tariff C.S. – Coal and the amendments to Tariff C.S. – I.R.P. and Tariff E.D.R. approved in Case No. 2017-00099 from December 31, 2017 to December 31, 2018.

(c) The pole attachment rate under Tariff C.A.T.V. shall be $10.82 for attachments on two-user poles and $6.71 for attachments on three-user poles for all attachments instead of the $11.97 for attachments on two-user poles and $7.42 for attachments on three-user poles proposed by the Company in its filing in this case.

17. Filing Of Settlement Agreement With The Commission And Request For Approval

Following the execution of this Settlement Agreement, Kentucky Power and the Settling Intervenors shall file this Settlement Agreement with the Commission along with a joint request to the Commission for consideration and approval of this Settlement Agreement so that Kentucky

Power may begin billing under the approved adjusted rates for service rendered on or before January 19, 2018.

18. 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 Intervenors 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) Kentucky Power and the Settling Intervenors filed testimony in this case. Kentucky Power also filed testimony in support of the Settlement Agreement. For purposes of any hearing, the Settling Intervenors and Kentucky Power waive all cross-examination of the other Signatory Parties' witnesses except for purposes of supporting this Settlement Agreement unless the Commission disapproves this Settlement Agreement. Each further stipulates and recommends that the Notice of Intent, Application, testimony, pleadings, and responses to data requests filed in this proceeding be admitted into the record.

(d) The Signatory 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.

19. Failure Of Commission To Approve Settlement Agreement

If the Commission does not accept and approve this Stipulation 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 rehearing's 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.

20. 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.

21. 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.

22. 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.

23. 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 Intervenors 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.

24. 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 Signatory 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.

25. 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.

26. 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.

27. 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.

28. Counterparts

This Settlement Agreement may be executed in multiple counterparts.

29. 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 $22^{nd}$ day of November 2017.

KENTUCKY POWER COMPANY

By: ______________________

Its: Counsel

KENTUCKY INDUSTRIAL UTILITY
CUSTOMERS, INC.

By: Michael L. Kurtz

Its: Counsel

KENTUCKY SCHOOL BOARDS
ASSOCIATION, INC.

By: Matthew Malone

Its: Legal Counsel

KENTUCKY LEAGUE OF CITIES

By: [signature]

Its: Director of Municipal Law & Training

KENTUCKY CABLE
TELECOMMUNICATION
ASSOCIATION, INC.

By: Jason K[illegible]

Its: KCTA Board Chairman

WAL-MART STORES EAST, LP AND
SAM'S EAST, INC.

By: ____________________

Its: Counsel

# CASE NO. 2017-00179
# SETTLEMENT AGREEMENT
# EXHIBIT LIST

1. Revenue Allocation
2. Rockport Offset Calculation
3. Transmission Return Difference Calculation
4. Revised Tariff P.P.A.
5. Depreciation Rates
6. Calculation of WACC and GRCF
7. Revised Tariff K-12 School
8. Revised R.P.O. Rider

# EXHIBIT 1

Kentucky Power Company
Settlement Agreement Exhibit-1
Case No. 2017-00179
Settlement Revenue Allocation

| Customer Class | Base Rate Case Settlement Increase | | | | | | Increase Incorporating Surcharge Changes | | | Return on Rate Base | | Settlement |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Settlement Base Rate Increase | ECP | HEAP KEDS | Total Increase | Test Year Rev | % Increase | Carrying Charge Savings in ES | Net Increase | Total Bill % Increase | Current ROR | Proposed ROR | Proposed Non-Fuel Base Revenue Increase |
| | a | b | c | d = a+b+c | e | = d/e | f | g = d+f | = g/e | | | |
| RS | $ 20,076,436 | $1,734,600 | 594 | 21,811,630 | $232,952,481 | 9.36% | ($835,019) | $20,976,611 | 9.00% | 1.90% | 3.77% | 14.15% |
| SGS | $ 984,981 | $184,183 | 247,506 | 1,416,670 | $21,371,729 | 6.63% | ($88,664) | $1,328,006 | 6.21% | 11.30% | 12.90% | 7.19% |
| MGS | $ 3,421,623 | $500,403 | 69,324 | 3,991,350 | $60,245,787 | 6.63% | ($240,889) | $3,750,461 | 6.23% | 9.14% | 10.96% | 9.24% |
| GS* | $ 4,406,604 | $ 684,586 | $ 316,830 | $ 5,408,020 | $ 81,617,516 | 6.63% | ($329,553) | $5,078,467 | 6.22% | 9.67% | 11.43% | 8.68% |
| LGS/PS | $ 3,520,149 | $549,861 | 8,467 | 4,078,477 | $70,567,216 | 5.78% | ($264,696) | $3,813,779 | 5.40% | 8.78% | 10.45% | 8.61% |
| IGS | $ 3,534,466 | $836,950 | 694 | 4,372,110 | $157,911,866 | 2.77% | ($402,899) | $3,969,211 | 2.51% | 6.82% | 7.71% | 5.85% |
| MW | $ 4,956 | $1,620 | 102 | 6,678 | $221,405 | 3.02% | ($780) | $5,898 | 2.66% | 12.12% | 13.02% | 3.94% |
| OL | $ 201,254 | $82,080 | 0 | 283,334 | $8,984,564 | 3.15% | ($39,512) | $243,822 | 2.71% | 15.03% | 15.68% | 2.87% |
| SL | $ 36,869 | $13,751 | 0 | 50,620 | $1,645,931 | 3.08% | ($6,620) | $44,000 | 2.67% | 15.92% | 16.84% | 3.29% |
| Total | $ 31,780,734 | $ 3,903,448 | $ 326,687 | $ 36,010,869 | $ 553,900,979 | 6.50% | ($1,879,080) | $34,131,789 | 6.16% | 4.85% | 5.48% | 9.47% |

* GS is the combination of the SGS and MGS classes

# EXHIBIT 2

Kentucky Power Company
**Exhibit 2 - Rockport Offset Calculation Example**
**Case No. 2017-00179**

| | *Calculation** | | | | Source |
|---|---|---|---|---|---|
| a | 12 Month GAAP Net Income | $ | 97,000,000 | | Q4 2023 Per Books as Reported SEC Kentucky Power Company |
| b | 13 Month Average Common Equity | $ | 1,000,000,000 | | Q4 2023 Per Books as Reported SEC Kentucky Power Company |
| c = a/b | Return on Common Equity | | 9.70% | | Calculation |
| d | Kentucky Power Allowed Retail ROE | | 9.75% | ** | Commission Order |
| | If D < C, Stop<br>If D > C, Continue to Part e | | | | |
| e = (b*d)-a | Net GAAP Income Increase Required to Earn Allowed Retail ROE | $ | 500,000 | | Calculation |
| f | Gross Revenue Conversion Factor | | 1.6433 | ** | Commission Order |
| g = e*f | Rockport Earnings Retainer Revenue | $ | 821,670 | | Calculation |
| = g | ***Amount to Be Recovered Through Tariff PPA*** | ***$*** | ***821,670*** | | |

*These numbers are illustrative
** Or as updated in a future Commission proceeding

# EXHIBIT 3

Kentucky Power Company
Settlement Exhibit 3 - Transmission Return Difference Calculation
Case No. 2017-00179

| | *Calculation** | | | *Source* | *Frequency* |
|---|---|---|---|---|---|
| a | TO Transmission Rate Base | $ | 319,471,085 | 2018 OATT TCOS | Update Annually |
| b | KY Juris Retail Demand Factor | | 0.985 | 2017-00179 Section V, Allocation Factors | Remains Static |
| c = a*b | KY Retail TO Trans Rate Base | $ | 314,679,018 | calculation | |
| d | Base Rate KY Retail Trans Rate Base | $ | 266,193,980 | 2017-00179 Class Cost of Service | Remains Static |
| e = c-d | Difference | $ | 48,485,038 | calculation | |
| f | TO WACC @ 11.49 ROE | | 7.55% | 2018 OATT TCOS | Update Annually |
| g | TO WACC @ 9.75 ROE | | 6.78% | 2018 OATT TCOS | Update Annually |
| h = f-g | Difference | | 0.77% | calculation | |
| j = e*h | TO Return Delta | $ | 371,431 | calculation | |
| k | GRCF | | 1.6351 | 2018 OATT TCOS | Update Annually |
| = j*k | *2018 Tariff PPA Revenue Credit* | *$* | *607,326* | calculation | Update Annually |

*These numbers are illustrative

# EXHIBIT 4

**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., K-12 School, 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, $78,737,938.

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.
   v. Final (over)/under recovery associated with tariff CC following its expiration

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

DATE OF ISSUE:

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

ISSUED BY: Ranie K. Wohnhas

TITLE: Managing Director, Regulatory & Finance

By Authority Of an Order of the Public Service Commission

In Case No. 2017-00179 Dated XXXXXXX

N

**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:

$$\text{kWh Factor} = \frac{PPA(E) \times (BE_{Class} / BE_{Total}) + PPA(D) \times (CP_{Class} / CP_{Total})}{BE_{Class}}$$

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

For all tariff classes with demand billing:

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

$$\text{kW Factor} = \frac{PPA(D) \times (CP_{Class} / CP_{Total})}{BD_{Class}}$$

N

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

DATE OF ISSUE:

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

ISSUED BY: Ranie K. Wohnhas

TITLE: Managing Director, Regulatory & Finance

In Case No. 2017-00179 Dated XXXXXXX

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. N

DATE OF ISSUE:

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

ISSUED BY: Ranie K. Wohnhas

TITLE: Managing Director, Regulatory & Finance

By Authority Of an Order of the Public Service Commission

In Case No. 2017-00179 Dated XXXXXXX

# EXHIBIT 5

Exhibit 5 - Depreciation Rates
Case No. 2017-00179

KENTUCKY POWER COMPANY
BIG SANDY UNIT 1 AND MITCHELL PLANT SETTLEMENT DEPRECIATION RATES CALCULATION
BASED ON PLANT IN SERVICE AT DECEMBER 31, 2013 (MITCHELL) AND AT DECEMBER 31, 2016 (BIG SANDY UNIT 1)
AVERAGE LIFE GROUP (ALG) METHOD ACCRUAL RATES

| | | | | | | | | | Annual Accrual | |
|---|---|---|---|---|---|---|---|---|---|---|
| Acct. | Title | Original Cost | Net Salvg. Ratio | Total to be Recovered | Calculated Depreciation Requirement | Accumulated Depreciation | Remaining to Be Recovered | Avg. Remain Life | Amount | Percent |
| (I) | (II) | (III) | (IV) | (V) | (VI) | (VII) | (VIII) | (IX) | (X) | (XI) |
| **STEAM PRODUCTION PLANT** | | | | | | | | | | |
| **Big Sandy Unit 1** | | | | | | | | | | |
| 311.0 | Structures & Improvements | 11,756,127 | 1.02 | 11,991,250 | 7,526,502 | 4,805,397 | 7,185,853 | 20.00 | 359,293 | 3.06% |
| 312.0 | Boiler Plant Equipment | 75,388,722 | 1.02 | 76,896,496 | 22,552,265 | 9,774,280 | 67,122,216 | 20.00 | 3,356,111 | 4.45% |
| 314.0 | Turbogenerator Units | 61,392,346 | 1.02 | 62,620,193 | 36,338,075 | 28,424,981 | 34,195,212 | 20.00 | 1,709,761 | 2.78% |
| 315.0 | Accessory Electrical Equip. | 3,877,136 | 1.02 | 3,954,679 | 2,964,549 | 2,578,951 | 1,375,728 | 20.00 | 68,786 | 1.77% |
| 316.0 | Misc. Power Plant Equip. | 3,321,344 | 1.02 | 3,387,771 | 2,153,127 | 1,512,867 | 1,874,904 | 20.00 | 93,745 | 2.82% |
| | **Total** | **155,735,675** | | **158,850,389** | **71,534,518** | **47,096,476** | **111,753,913** | | **5,587,696** | **3.59%** |
| **Mitchell Plant** | | | | | | | | | | |
| 311 | Structures & Improvements | 42,000,197 | 1.03 | 43,260,203 | 18,282,178 | 16,183,402 | 27,076,801 | 25.01 | 1,082,639 | 2.58% |
| 312 | Boiler Plant Equipment | 765,644,984 | 1.03 | 788,614,334 | 245,324,500 | 238,518,432 | 550,095,902 | 24.25 | 22,684,367 | 2.96% |
| 312 | Boiler Plant Equip SCR Catalyst | 8,190,115 | 1.00 | 8,190,115 | 4,023,394 | 2,378,493 | 5,811,622 | 4.07 | 1,023,764 | 12.50% |
| 314 | Turbogenerator Units | 53,295,697 | 1.03 | 54,894,568 | 29,106,660 | 33,613,523 | 21,281,045 | 23.84 | 892,661 | 1.67% |
| 315 | Accessory Electrical Equip. | 17,080,672 | 1.03 | 17,593,092 | 9,466,086 | 11,043,285 | 6,549,807 | 25.81 | 253,770 | 1.49% |
| 316 | Misc. Power Plant Equip. | 7,693,412 | 1.03 | 7,924,214 | 3,289,590 | 3,072,520 | 4,851,694 | 23.96 | 202,491 | 2.63% |
| | **Total** | **893,905,077** | **1.03** | **920,476,526** | **309,492,408** | **304,809,655** | **615,666,871** | **23.55** | **26,139,693** | **2.92%** |

**Notes:**

1.) Terminal net salvage removed as a component of net salvage ratio for both plants (column IV).

2.) Average remaining life adjusted to reflect a 20 year useful life of BS1 (column IX).

3.) Mitchell Plant information from schedule used to calculate depreciation rates in settlement of Case No. 2014-00396.

# EXHIBIT 6

**Kentucky Power Company**
**Exhibit 6a - Calculation of Weighted Average Cost of Capital**
**Case No. 2017-00179**

KENTUCKY POWER COMPANY
COST OF CAPITAL
TEST YEAR ENDED FEBRUARY 28, 2017

| Line No. | Description | Reapportioned Kentucky Jurisdictional Capital 1/ | Percentage of Total | Annual Cost Percentage Rate | | Weighted Average Cost Percent | Gross Up | Pre-Tax Weighted Average Cost Percent |
|---|---|---|---|---|---|---|---|---|
| (1) | (2) | (3) | (4) | (5) | | (6) = (4) X (5) | (7) | (8) = (6) X (7) |
| 1 | Long Term Debt | $636,995,903 | 53.45% | 4.36% | 2/ | 2.33% | 1.00540 | 2.34% |
| 2 | Short Term Debt | 11,917,855 | 1.00% | 1.25% | 3/ | 0.01% | 1.00540 | 0.01% |
| 3 | Accounts Receivable F | 46,105,009 | 3.87% | 1.95% | 5/ | 0.08% | 1.00540 | 0.08% |
| 4 | Common Equity | 496,766,726 | 41.68% | 9.75% | 6/ | 4.06% | 1.64334 | 6.67% |
| 5 | Total | $1,191,785,493 | 100.00% | | | 6.48% | | 9.11% |

**Kentucky Power Company**
**Exhibit 6b - Calculation of Gross Revenue Conversion Factor**
**Case No. 2017-00179**

KENTUCKY POWER COMPANY
COMPUTATION OF THE GROSS REVENUE
CONVERSION FACTOR
TEST YEAR ENDED FEBRUARY 28,2017

| Line No. (1) | Description (2) | | Percent of Incremental Gross Revenues (3) |
|---|---|---|---|
| 1 | Operating Revenues | | 100.00% |
| 2 | Less: Uncollectible Accounts Expense 1/ | | 0.3400% |
| 3 | KPSC Maintenance Fee | | 0.1996% |
| 4 | Income Before income Taxes | | 99.4604% |
| 5 | Less: State Income Taxes (L4 X 5.8742%) 2/ | 5.87% | 5.843% |
| 6 | Income Before Federal Income Taxes | | 93.6179% |
| 7 | Less: Federal income Taxes (L6 X 35.00%) | 35.00% | 32.7663% |
| 8 | Operating Income Percentage | | 60.8516% |
| 9 | Gross Revenue Conversion Factor (100% / L8) | | **1.6433** |

# EXHIBIT 7

**TARIFF K-12 SCHOOL**
**(Public and Private School)**

**AVAILABILITY OF SERVICE.**

Available for general service to K-12 School customers subject to KRS 160.325 with normal maximum demands greater than 100 KW but not more than 1,000 KW.

**RATE.**

| | Service Voltage | | | |
|---|---|---|---|---|
| | Secondary | Primary | Subtransmission | Transmission |
| Tariff Code | 260 | 264 | 268 | 270 |
| Service Charge per Month | $ 85.00 | $ 127.50 | $ 660.00 | $ 660.00 |
| Demand Charge per KW | $ 7.97 | $ 7.18 | $ 5.74 | $ 5.60 |
| Excess Reactive Charge per KVA | $ 3.46 | $ 3.46 | $ 3.46 | $ 3.46 |
| Energy Charge per KWH | 7.671¢ | 6.709¢ | 5.535¢ | 5.429¢ |

**MINIMUM CHARGE.**

Bills computed under the above rate are subject to a monthly minimum charge comprised of the sum of the service charge and the minimum demand charge. The minimum demand charge is the product of the demand charge per KW and the monthly billing demand.

**ADJUSTMENT CLAUSES.**

The bill amount computed at the charges specified above shall be increased or decreased in accordance with the following:

| | |
|---|---|
| Fuel Adjustment Clause | Sheet No. 5 |
| System Sales Clause | Sheet No. 19 |
| Franchise Tariff | Sheet No. 20 |
| Demand-Side Management Adjustment Clause | Sheet No. 22 |
| Kentucky Economic Development Surcharge | Sheet No. 24 |
| Capacity Charge | Sheet No. 28 |
| Environmental Surcharge | Sheet No. 29 |
| School Tax | Sheet No. 33 |
| Purchase Power Adjustment | Sheet No. 35 |
| Decommissioning Rider | Sheet No. 38 |

(Cont'd on Sheet No. 9-10)

DATE OF ISSUE:

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

ISSUED BY: Ranie K. Wohnhas

TITLE: Managing Director, Regulatory & Finance

By Authority Of an Order of the Public Service Commission

In Case No. 2017-00179 Dated XXXXXXX

**TARIFF K-12 SCHOOL (Cont'd)**
**(Public and Private School)**

**DELAYED PAYMENT CHARGE.**

This tariff is due and payable in full on or before the due date stated on the bill. On all accounts not so paid, an additional charge of 5% of the unpaid balance will be made.

**METERED VOLTAGE.**

The rates set forth in this tariff are based upon the delivery and measurement of energy at the same voltage, thus measurement will be made at or compensated to the delivery voltage. At the sole discretion of the Company, such compensation may be achieved through the use of loss compensating equipment, the use of formulas to calculate losses or the application of multipliers to the metered quantities. In such cases, the metered KWH and KW values will be adjusted for billing purposes. If the Company elects to adjust KWH and KW based on multipliers, the adjustment shall be in accordance with the following:

(1) Measurements taken at the low-side of a customer-owned transformer will be multiplied by 1.01.

(2) Measurements taken at the high-side of a Company-owned transformer will be multiplied by 0.98.

**MONTHLY BILLING DEMAND.**

Billing demand in KW shall be taken each month as the highest 15-minute integrated peak in kilowatts as registered during the month by a 15-minute integrating demand meter or indicator, or at the Company's option as the highest registration of a thermal type demand meter or indicator. The monthly billing demand so established shall in no event be less than 60% of the greater of (a) the customer's contract capacity or (b) the customer's highest previously established monthly billing demand during the past 11 months.

**DETERMINATION OF EXCESS KILOVOLT-AMPERE (KVA) DEMAND.**

The maximum KVA demand shall be determined by the use of a multiplier equal to the reciprocal of the average power factor recorded during the billing month, leading or lagging, applied to the metered demand. The excess KVA demand, if any, shall be the amount by which the maximum KVA demand established during the billing period exceeds 115% of the kilowatts of metered demand.

(Cont'd on Sheet No. 9-11)

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TITLE: Managing Director, Regulatory & Finance

[redacted]

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**TARIFF K-12 SCHOOL (Cont'd)**
**(Public and Private School)**

**TERM OF CONTRACT.**

Contracts under this tariff will be made for customers requiring a normal maximum monthly demand between 500 KW and 1,000 KW and be made for an initial period of not less than 1 (one) year and shall remain in effect thereafter until either party shall give at least 6 months written notice to the other of the intention to terminate the contract. The Company reserves the right to require initial contracts or periods greater than 1 (one) year. For customers with demands less than 500 KW, a contract may, at the Company's option, be required.

Where new Company facilities are required, the Company reserves the right to require initial contracts for periods greater than one year for all customers served under this tariff.

A new initial contract period will not be required for existing customers who change their contract requirements after the original initial period unless new or additional facilities are required.

**CONTRACT CAPACITY.**

The Customer shall set forth the amount of capacity contracted for (the "contract capacity") in an amount up to 1,000 KW. Contracts will be made in multiples of 25 KW. The Company is not required to supply capacity in excess of such contract capacity except with express written consent of the Company.

**SPECIAL TERMS AND CONDITIONS.**

This tariff is subject to the Company's Terms and Conditions of Service.

This tariff is also available to Customers having other sources of energy supply but who desire to purchase standby or back-up electric service from the Company. Where such conditions exist the customer shall contract for the maximum amount of demand in KW, which the Company might be required to furnish, but not less than 100 KW nor more than 1,000 KW. The Company shall not be obligated to supply demands in excess of the contract capacity. Where service is supplied under the provisions of this paragraph, the billing demand each month shall be the highest determined for the current and previous two billings periods, and the minimum charge shall be as set forth under paragraph "Minimum Charge" above.

Customers with PURPA Section 210 qualifying cogeneration and/or small power production facilities shall take service under Tariff COGEN/SPP I or II or by special agreement with the Company.

# EXHIBIT 8

**RIDER R.P.O.**
**(Renewable Power Option Rider)**

**AVAILABILITY OF SERVICE.**

Available to customers taking metered service under the Company's 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., K-12 School, L.G.S., L.G.S.-T.O.D., I.G.S., C.S.-I.R.P. and M.W. tariffs. T T

Participation in this program under Option A may be limited by the ability of the Company to procure renewable energy certificates (RECs) from Renewable Resources. If the total of all kWh under contract under this Rider equals or exceeds the Company's ability to procure RECs, the Company may suspend the availability of this Rider to new participants. T

Customers who wish to directly purchase the electrical output and all associated environmental attributes from a renewable energy generator may contract bilaterally with the Company under Option B. Option B is available to customers taking metered service under the Company's I.G.S., and C.S.-I.R.P. tariffs, or multiple L.G.S. tariff accounts with common ownership under a single parent company that can aggregate multiple accounts to exceed 1000 kW of peak demand. N N

**CONDITIONS OF SERVICE.**

Customers who wish to support the development of electricity generated by Renewable Resources may under Option A contract to purchase each month a specific number of fixed kWh blocks, or choose to cover all of their monthly usage. T T

Renewable Resources shall be defined as Wind, Solar Photovoltaic, Biomass Co-Firing of Agricultural crops and all energy crops, Hydro (as certified by the Low Impact Hydro Institute), Incremental Improvements in Large Scale Hydro, Coal Mine Methane, Landfill Gas, Biogas Digesters, Biomass Co-Firing of All Woody Waste including mill residue, but excluding painted or treated lumber. All REC's purchased under Option A of this tariff shall be retained or retired by the Company on behalf of customers. T T T

**RATES.** N

**Option A:**

In addition to the monthly charges determined according to the Company's tariff under which the customer takes metered service, the customer shall also pay the following rate for the REC option of their choosing. The charge will be applied to the customer's bill as a separate line item. T

The Company will provide customers at least 30-days' advance notice of any change in the Rate. At such time, the customer may modify or cancel their automatic monthly purchase agreement. Any cancellation will be effective at the end of the current billing period when notice is provided.

A1. Solar RECs:

| | |
|---|---|
| Block Purchase: | Charge ($ per 100 kWh block): $ 1.00/month | N
| All Usage Purchase: | Charge: $0.010/kWh consumed | N

(Cont'd on Sheet 31-2)

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**RIDER R.P.O.** T
**(Renewable Power Option Rider)** T

**RATES. (Cont'd)**

A2. Wind RECs: N

| | |
|---|---|
| Block Purchase: | Charge ($ per 100 kWh block): $ 1.00/month |
| All Usage Purchase: | Charge: $0.010/kWh consumed |

A3. Hydro & Other RECs:

| | |
|---|---|
| Block Purchase: | Charge ($ per 100 kWh block): $ 0.30/month |
| All Usage Purchase: | Charge: $0.003/kWh consumed |

**Option B:**

Charges for service under option B of this Tariff will be set forth in the written agreement between the Company and the Customer and will reflect a combination of the firm service rates otherwise available to the Customer and the cost of the renewable energy resource being directly contracted for by the Customer. N

**TERM.**

This is a voluntary program.

Under Option A Customers may participate through a one-time purchase, or establish an automatic monthly purchase agreement. Any payments under this program are nonrefundable. Customers participating under Option A may terminate service under this Rider by notifying the Company with at least thirty (30) days prior notice. T T T

Under Option B, the term of the agreement will be determined in the written agreement between the Company and the Customer. T

**SPECIAL TERMS AND CONDITIONS.**

This Rider is subject to the Company's Terms and Conditions of Service and all provisions of the tariff under which the customer takes service, including all payment provisions. The Company may deny or terminate service under this Rider to customers who are delinquent in payment to the Company.

Funds collected under this Renewable Power Option Rider will be used solely to purchase RECs for the program. T

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