COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

Kentucky Industrial Utility Customers, Inc.	)	
	)	
Complainant	)	
	)	
v.	)	Case No. 2018-00035
	)	
Kentucky Power Company	)	
	)	
Defendant	)	

TESTIMONY OF

MATTHEW A. HORELED

ON BEHALF OF KENTUCKY POWER COMPANY

IN SUPPORT OF THE SETTLEMENT AGREEMENT

SETTLEMENT TESTIMONY OF
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I. INTRODUCTION

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

A. My name is Matthew A. Horeled. My position is Director of Regulatory Services, Kentucky Power Company. My business address is 855 Central Avenue, Suite 200, Ashland, Kentucky 41101.

Q. PLEASE SUMMARIZE YOUR EDUCATIONAL BACKGROUND AND BUSINESS EXPERIENCE.

A: I received a Bachelor of Arts, Honors degree in History from Loyola University Chicago in May 2001, a Master of Business Administration degree with a concentration in Finance from Loyola University Chicago in August 2004, and a Juris Doctorate from Valparaiso University School of Law in May 2005.

I began my utility industry career with American Electric Power Service Corporation in September 2007 as a Risk & Insurance Management Analyst with responsibilities for managing numerous insurance programs. I transferred to the Corporate Planning and Budgeting Department in April 2010 as a Financial Analyst with emphasis on operating company forecasts. In that role, I prepared and reviewed short- and long-term forecasts for Kentucky Power and Indiana Michigan Power ("I&M") as well as monthly analyses of budget to actual variances. In April 2014, I was promoted to Financial Analyst Principal. In March 2015, I transferred to I&M as Regulatory Analysis and Case Manager for I&M. In that role, I was responsible for the supervision, preparation, and filing of rate and regulatory matters in Indiana and Michigan. In February 2017, I transferred and was promoted to Director of Business Operations Support for Kentucky Power with responsibility for all corporate budgeting, financial management, and continuous improvement for the company. In April 2018, I assumed my current position as Director of Regulatory Services for Kentucky Power. I am responsible for the supervision and direction of Kentucky Power's Regulatory Services Department, which has responsibility for all rate and regulatory matters.

Q. **HAVE YOU PREVIOUSLY SUBMITTED TESTIMONY IN ANY REGULATORY PROCEEDINGS?**

A. Yes, I have submitted testimony before the Indiana Utility Regulatory Commission in Cause No. 38702-FAC72; Cause No. 38702-FAC73; Cause No. 38702-FAC74; Cause No. 43775 OSS-6; and Cause No. 44511-SPR1.

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

A. Yes. I participated in the April 10, 2018 informal conference at which settlement was discussed and an agreement in principle with the complainant, Kentucky Industrial Utility Customers, Inc., was reached. In addition, I have been involved through counsel in the subsequent discussions regarding documentation of the settlement. The Settlement Agreement is attached as **EXHIBIT MAH-S1**.

Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY?

A. My testimony summarizes the settlement process leading to the agreement. I explain and support the terms of the Settlement Agreement as well as demonstrate why the terms of the Settlement Agreement will produce fair, just, and reasonable rates in connection with the issues before the Commission in this case. In this regard, I discuss the importance of amortizing the Company's excess unprotected accumulated deferred income taxes ("ADIT") over an 18-year period. I also identify the settlement issues addressed by Company Witnesses Kelly and Vaughan in testimony filed today in this case.

II. <u>THE PROCEEDINGS</u>

Q. PLEASE DESCRIBE THE EVENTS LEADING TO THE SETTLEMENT AGREEMENT.

A. President Trump signed the Tax Cut and Jobs Act ("Tax Act") on December 22, 2017. The Tax Act reduced the maximum federal corporate income tax rate from 35 percent to 21 percent effective January 1, 2018. Among its effects on Kentucky Power Company was to reduce the Company's current federal income tax expense. It also resulted in the creation of excess ADIT.

On December 21, 2017, Kentucky Industrial Utility Customers, Inc. filed a complaint with the Commission against the four Kentucky investor-owned electric utilities. The complaint asked the Commission to reduce the rates of the four defendants to reflect the reduction of the utilities' current federal income tax expense and the amortization of any excess ADIT. In its January 18, 2018 order in the Company's base rate case, Case No. 2017-00179, the Commission reduced the Company's Commission-adjusted annual revenue requirement, and the rates based on that revenue requirement, to reflect the reduction in the Company's current federal corporate income tax expense as a result of the Tax Act. The Commission reserved for what eventually became this case any further reduction of the Company's revenue requirement (and rates) as a result of the amortization of the excess ADIT resulting from the Tax Act. By orders entered January 25, 2018, the Commission severed the claims against the individual utilities. This case was established to resolve KIUC's claims against Kentucky Power regarding the amortization of the excess ADIT and resulting rate reduction flowing from the Tax Act.

Q. ARE THERE ANY INTERVENORS IN THIS CASE?

A. Yes. In addition to the Company and KIUC, the Attorney General is a party to this case.

Q. HAS DISCOVERY BEEN TAKEN IN THIS CASE?

A. Yes. Data requests were served on Kentucky Power by Staff, KIUC, and the Attorney General. The Company filed its responses on April 12, 2018.

Q. ARE FURTHER PROCEEDINGS SCHEDULED IN THIS CASE?

A. The current procedural schedule provides for the filing of simultaneous testimony on April 27, 2018. Kentucky Power is filing this testimony in support of the Settlement Agreement with KIUC in fulfillment of that requirement. The schedule also provides for another round of discovery to be filed on May 8, 2018. Responses to that second round of discovery are due May 18, 2018.

Q. HAVE KENTUCKY POWER, KIUC, AND THE ATTORNEY GENERAL MET TO CONSIDER SETTLEMENT IN THIS CASE?

A. Yes, the parties, along with Staff, met at the Commission offices on April 10, 2018 to address settlement of KIUC's claims against Kentucky Power. Subsequently, KIUC and Kentucky Power executed the Settlement Agreement. The Attorney General, who is the only other party to this case, was offered the opportunity to join the settlement but is not joining at this time.

III. THE SETTLEMENT AGREEMENT

Q. DOES THE SETTLEMENT AGREEMENT REPRESENT THE COMPLETE SETTLEMENT BETWEEN THE COMPANY AND KIUC OF THE REMAINING ISSUES RAISED BY KIUC IN ITS COMPLAINT?

A. Yes. There are no agreements or understandings regarding the issues pending on rehearing 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 KIUC and Kentucky Power. Further, there are no agreements nor understandings with the Attorney General or any other non-party relating to the subject matter of the issues pending on rehearing.

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

A. No. Commission Staff attended the April 10, 2018 informal conference 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.

IV. THE TERMS OF THE SETTLEMENT AGREEMENT

Q. PLEASE DESCRIBE THE PRINCIPAL TERMS OF THE SETTLEMENT AGREEMENT.

A. The Settlement Agreement contains the following substantive provisions:

- The Settlement Agreement provides for the return to Kentucky Power’s customers of the estimated $175,272,905 in retail excess ADIT for the Company’s generation and distribution functions. The estimated excess ADIT will be amortized over specified periods and the resulting credit will appear on customers' bills as a billing line item. The $175,272,905 is the Company's current estimate of the total ADIT to be credited through this proceeding.

- Kentucky Power currently estimates that the total retail excess "protected" ADIT for the Company's generation and distribution functions is $82,226,674. The Settlement Agreement, in conformity with the requirements of federal law, provides that the Company's excess "protected" excess ADIT will be amortized over the remaining life of the assets using the Average Rate Assumption Method ("ARAM") beginning January 1, 2018.

- Kentucky Power currently estimates that the total retail excess "unprotected" ADIT for the Company's generation and distribution functions is $93,046,231. The Settlement Agreement provides that the Company's excess "protected" ADIT will be amortized over an 18-year period beginning January 1, 2018.

- The excess ADIT will be flowed back to customers through a Federal Tax Cut Credit that will appear as a billing line item.

A. <u>The Allocation Of Total Excess Generation And Distribution Function ADIT Between Protected And Unprotected ADIT</u>.

Q. WHAT ARE PROTECTED AND UNPROTECTED EXCESS ADIT, AND WHY IS THE ALLOCATION OF THE TOTAL EXCESS ADIT BETWEEN THE TWO CLASSES IMPORTANT?

A. Company Witness Kelly addresses the differences between the two types of excess ADIT in his testimony. For purpose of the Settlement Agreement, the important differences are those resulting from the differing rules for flowing back excess protected ADIT and excess unprotected ADIT to customers. Under federal law, excess protected ADIT is required to be flowed back to customers over the estimated remaining book life of the related assets as calculated in accordance with ARAM. Because the amortization is tied to the estimated remaining life of specific assets, the excess protected ADIT is not flowed back ratably. Company Witness Kelly currently estimates that the excess protected ADIT will be flowed back to customers over an approximately 50-year period. Excess unprotected ADIT, by contrast, may be flowed back to customers ratably over a period determined by the Commission.

Q. ARE THERE ADVERSE CONSEQUENCES TO FAILING TO FLOW BACK PROTECTED EXCESS ADIT IN ACCORDANCE WITH ARAM?

A. Yes. Company Witness Kelly addresses those consequences, and the resulting higher costs to customers, resulting from failing to flow back excess protected ADIT in accordance with federal law.

B. <u>The Calculation Of The Federal Tax Cut Credit</u>

Q. HAS THE COMPANY CALCULATED THE FEDERAL TAX CUT CREDIT TO BE PROVIDED TO CUSTOMERS?

A. Yes. The calculation for 2018, 2019, and 2020 is provided as Attachment 2 to the Settlement Agreement. Company Witness Vaughan describes in his testimony the methodology used to calculate the federal tax rate credit to be provided to customers through the amortization of excess ADIT resulting from the Tax Act. By way of summary:

(a) A separate per kWh federal tax cut rate credit is calculated for the Company's residential and non-residential customers;

(b) If approved by the Commission, the federal tax cut rate credits will begin July 1, 2018. The twelve months of rate credit for 2018 will be provided over the final six months of 2018.

(c) Beginning in 2019, the residential class federal tax cut credit will be "shaped" to provide a higher credit to residential customers during the winter heating months (the billing months of January, February, March, and December).

(d) The federal tax cut credit will appear as a billing line item on the customers' bills.

Q. WHY IS THE COMPANY PROPOSING TO "SHAPE" THE FEDERAL TAX CUT RATE CREDIT FOR ITS RESIDENTIAL CUSTOMERS?

A. Kentucky Power's service territory includes a higher than average incidence of residential customers who employ electric resistance heating. Many of these customers face high electric bills during the winter heating season. By shaping the credit to provide approximately 75 percent of the credit during the winter heating season the Settlement Agreement aids these customers when their need for a rate credit is greatest. Many non-residential customers, by contrast, do not face the same sort of elevated electric bills during the winter heating season.

Q. WHEN DOES THE FEDERAL TAX CUT RATE CREDIT TERMINATE?

A. The credit will continue until the effective date of rates established in the Company's next general rate case. Absent the extraordinary circumstances identified in paragraph 5(c) of the Settlement Agreement in Case No. 2017-00179, this means the credit will continue until at least the first cycle of the January 2021 billing cycle.

Q. HAS THE COMPANY PREPARED THE FEDERAL TAX CUT RATE CREDIT TARIFF?

A. Yes. It is attached as Exhibit 1 to **EXHIBIT MAH-S1** (the Settlement Agreement).

C. The Reasonableness Of The 18-Year Period To Amortize Kentucky Power's Excess Unprotected ADIT.

Q. EXPLAIN WHY THE SETTLEMENT AGREEMENT PROPOSES TO AMORTIZE THE COMPANY'S EXCESS UNPROTECTED ADIT OVER AN 18-YEAR PERIOD?

A. Each dollar of the federal tax cut credit reduces the Company's cash flow by a dollar without a compensating reduction in the Company's expenses. For example, as illustrated in Attachment 2 to **EXHIBIT MAH-S1**, the Company estimates, assuming unprotected ADIT is amortized over an 18-year period, its cash flow will be reduced in 2018 by $10.2 million, in 2019 by $10.3 million, and in 2020 by $10.5 million. A shorter amortization period would only increase the amount of these annual reductions in Kentucky Power's cash flow. But even at 18 years, this reduction in Kentucky Power's cash flow places significant pressure on the Company's credit metrics and ultimately the cost of the Company's capital.

Q. HOW DOES THE REDUCTION OF THE COMPANY'S CASH FLOW AFFECT ITS CREDIT METRICS?

A. Moody's Investors Service evaluates Kentucky Power's credit on a stand-alone company basis. Moody's reviews multiple financial metrics and factors when evaluating companies such as Kentucky Power. These include the company's regulatory framework and environment, the company's ability to recover costs and earn returns, the Company's diversification and financial strength, liquidity, and certain key financial metrics. Among the more important financial metrics Moody's uses in assigning a credit rating to Kentucky Power is the Company's ratio of cash flow from operations (excluding changes in working capital) to the Company's debt.

Q. WHAT IS THE RATIO OF CASH FLOW FROM OPERATIONS (EXCLUDING CHANGES IN WORKING CAPITAL) TO DEBT AND WHAT IS IT INTENDED TO MEASURE?

A. It provides a measure of cash flow generated by the Company's operations that is available to service a company's debt. As cash flow decreases, as will occur with the amortization of the Company's excess ADIT, Kentucky Power has less cash "available" to service debt payments. At some point, a decrease in the ratio may cause Moody's to lower its credit rating for Kentucky Power.

Q. WHY IS THE COMPANY'S CREDIT RATING OF IMPORTANCE AT THIS TIME?

A. There are two reasons. The first has arisen recently; the second is of importance over the longer term. The first reason is that although Moody's on March 21, 2018 maintained the Company's Baa2 credit rating, it revised its credit outlook for the Company from stable to negative. The Moody's website indicates that a negative outlook indicates a higher likelihood of a credit rating change over the medium term.[1] Moody's website also indicates that historically, approximately one-third of issuers assigned a negative outlook have been downgraded within 18 months of the assignment of a negative outlook. As a result, the recent assignment of a negative outlook by Moody's underscores the importance of maintaining, or preferably improving, Kentucky Power's credit metrics, particularly its ratio of cash flow from operations (excluding changes in working capital) to the Company's debt. The amortization of the Company's excess unprotected ADIT over a period of 18 years will help Kentucky Power maintain its credit rating while providing meaningful rate relief to the Company's customers. Conversely, the use of a shorter period will increase the stress on the Company's credit metrics and ultimately its credit rating.

[1] *See* https://www.moodys.com/researchdocumentcontentpage.aspx?docid=PBC_79004

Q. WHAT IS THE SECOND REASON THE COMPANY'S CREDIT RATING IS IMPORTANT?

A. Kentucky Power's credit rating can affect its cost of capital – both debt and equity. The Company's cost of debt tends to be directly related to its credit rating. All other things being equal, a company with a lower credit rating many times will have a higher cost of debt than a company with a higher credit rating. In addition, a company's cost of equity bears a relationship – albeit perhaps less direct – to its credit rating. Again, all other things being equal, a company with a lower credit rating many times will have a higher cost of equity than a company with a higher credit rating. A utility's cost of capital – both in terms of its cost of debt and its cost of equity – in turn affects the rates customers pay.

Q. WHAT IS KENTUCKY POWER'S CURRENT MOODY'S CREDIT RATING?

A. Moody's currently assigns a Baa2 credit rating to Kentucky Power. That is the second to lowest investment grade rating. Stated otherwise, it is two steps above non-investment grade rating.

Q. DO YOU HAVE REASON TO BELIEVE THAT ACCELERATED AMORTIZATION (AN AMORTIZATION PERIOD OF LESS THAN 18 YEARS) OF EXCESS UNPROTECTED ADIT COULD LEAD TO A CREDIT RATING DOWNGRADE?

A. Although I participated in discussions with Moody's as recently as March 15, 2018 concerning the Company's credit rating, I am not, of course, privy to all of its deliberations. Nevertheless, an amortization period of less than 18 years could stress the Company's credit metrics and consequent credit rating. In this regard, Moody's March

21, 2018 press release in connection with its downgrade of the outlook for Kentucky Power, attached as **<u>EXHIBIT MAH-S2</u>**, provides insight into Moody's decision to assign Kentucky Power a negative credit outlook. In particular, in describing the shift from a stable to a negative outlook for Kentucky Power, Moody's explained:

> "The negative outlook reflects the combination of the utility's economically weak service territory, its latest rate case outcome, *and recently enacted tax reform policy*, which will put pressure on credit metrics over the next twelve to eighteen months" added Schumacher. Although we anticipate that the company will seek to compensate for these adverse developments through cost containment and *financial policy*, including the ability to retain cash flow for investment, we also expect the utility's increasing capital program will add to its debt burden….
>
> The health of KPCo's service territory in eastern Kentucky, which has high exposure to the energy and mining sectors, has impacted the utility's revenue and load growth as well as recent rate case outcomes. The area continues to lag the state in terms of economic trends, and KPCo's retail load has declined in each of the past three years, putting downward pressure on earnings and cash flow.

(emphasis supplied). Significantly, among the factors cited for the downgrade, only cost containment and management of financial policy is subject to the Company's control within the next few years. The Company's rates are "frozen" until January 2021, while the fruits of the Kentucky Power's economic development efforts to improve the economics of its service territory and stem customer loss are several years out. It thus is critical that the Company, and the Commission, use the one tool available – a reasonable amortization period for the excess unprotected ADIT – to avoid a credit downgrade.

Q. THE 18-YEAR AMORTIZATION PERIOD FOR KENTUCKY POWER'S UNPROTECTED ADIT IS AT THE LONG END OF THE AMORTIZATION PERIODS EITHER PRESENTED TO OR APPROVED BY THE COMMISSION. CAN YOU JUSTIFY THE DIFFERENT AMORTIZATION PERIODS?

A. Most certainly. Although uniformity in treatment can be important, the Commission's decisions are based upon the record developed in each case and must address the specific circumstances of each utility. A one-size-fits-all approach is not appropriate given the differences among the size and finances of the four investor-owned electric utilities in the Commonwealth, their very disparate service territories, and the amount of their excess unprotected ADIT. As paragraph 2(b) of the Settlement Agreement expressly acknowledges, the 18-year amortization period was agreed upon by KIUC and Kentucky Power with these differences in mind:

> The Settling Parties' conclusion regarding the reasonableness of an 18-year period to amortize Kentucky Power's excess unprotected ADIT is informed by the Company's specific financial and operating characteristics, including, but not limited to, the following:
>
> (a) the amount of Kentucky Power's excess unprotected ADIT as a percentage of Kentucky Power's total equity (14.2 percent);
>
> (b) the percentage of Kentucky Power's total debt as a percentage of total capitalization (56.75 percent);
>
> (c) the Company's Moody's Investor Service credit rating (Baa2);
>
> (d) the recent negative outlook assigned the Company by Moody's; and
>
> (e) the decrease in Kentucky Power Company's load and customer base over the past ten years.

Q. HOW DOES KENTUCKY POWER COMPARE TO THE OTHER THREE INVESTOR-OWNED UTILITIES IN KENTUCKY IN THESE RESPECTS?

A. Counsel for KIUC on April 17, 2018 provided staff and the parties with the following chart comparing as of December 31, 2017 the four investor-owned electric utilities with respect to many of these metrics:

	KU	LG&E	Duke	Kentucky Power
Unprotected Excess ADIT (12/31/2017)	$12,762,150	$24,282,660	$33,032,786	$95,282,425
Commission-Approved/Proposed Amortization Period	15 years	15 years	10 years	18 years
Total Equity (12/31/2017) ($000)	$3,357,000	$2,527,000	$319,052[2]	$670,263
Unprotected Excess ADIT as Percent of Equity	0.38%	0.96%	10.35%	14.2%
Moody's Credit Rating	A3 Stable	A3 Stable	Baa1 Stable	Baa2 Negative
Total Debt/Total Capitalization (12/31/2017)	41.41%	43.02%	46.87%	56.75%
Retail Sales (12/31/2016)	18,881,364 MWH	11,947,052 MWH	4,099,199 MWH	5,862,697 MWH

Based on the information provided by KIUC, Kentucky Power's excess unprotected ADIT is almost seven and one-half times larger than that of the much larger (as measured by retail sales and total equity) Kentucky Utilities Company. Louisville Gas and Electric Company, which has MWh sales nearly twice those of Kentucky, has excess unprotected ADIT approximately one-quarter the size of Kentucky Power' excess unprotected ADIT. The Company's excess unprotected ADIT is nearly three times larger than the excess

[2] Per Case 2017-00321, electric common equity.

unprotected ADIT of Duke Energy Kentucky, which is closest in size to Kentucky Power.

The service territories of Duke, Kentucky Utilities, and Louisville Gas and Electric have not experienced the serious economic downturn or loss of customers endured by Kentucky Power. Indeed, the service territories, or substantial portions of the service territories, of all three lie within the "Golden Triangle." Also supporting the Company's request is that the credit ratings of all three of the other investor-owned electric utilities in Kentucky are stronger than Kentucky Power's Baa2 rating. Particularly significant is the fact that unlike Kentucky Power none are facing a negative credit outlook.

In sum, Kentucky Power lacks the financial and operational wherewithal to amortize its excess unprotected ADIT over the periods the other three investor-owned electric utilities may be required to use.

V. REASONABLENESS OF THE SETTLEMENT AGREEMENT

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

A. Yes. The Settlement Agreement provides meaningful rate relief to the Company's customers in the form of a rate credit equal to more than $10 million a year. It does so while helping to minimize the risk of a credit downgrade and the resulting increased capital costs that ultimately would be borne by Kentucky Power's customers. This is a win-win for the Company and its customers.

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.

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	)	
Complainant	)	
	)	
v.	)	Case No. 2018-00035
	)	
Kentucky Power Company	)	
	)	
Defendant	)	

SETTLEMENT AGREEMENT

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

RECITALS

1. On December 21, 2017, KIUC filed with the Public Service Commission of Kentucky ("Commission") its Complaint and Petition for the Establishment of a Regulatory Liability to Provide Customers a Rate Reduction Because of Tax Expense Savings ("Complaint").

2. On December 22, 2017, the legislation known as the Tax Cuts and Jobs Act, H.R. 1, Public Law 115-97, 131 Stat. 2054 (Dec. 22, 2017) ("Tax Act") was signed into law. The Tax Act reduced the maximum federal corporate income tax rate from 35 percent to 21 percent effective January 1, 2018.

3. On December 27, 2017, the Commission issued an order finding that KIUC's Complaint established a *prima facie* case and opened Case No. 2017-00477.

4. The Attorney General of the Commonwealth of Kentucky ("Attorney General") filed a motion to intervene in Case No. 2017-00477. The Attorney General, who is not a party to this agreement, was granted leave to intervene.

5. On January 25, 2018, the Commission issued an order severing Case No. 2017-00477 into three separate, utility-specific complaint proceedings.

6. By separate order entered January 25, 2018, the Commission established Case No. 2018-00035 for the review and adjudication of KIUC's claims against Kentucky Power. In the order establishing the Case No. 2018-00035, the Commission noted that the effects of the Tax Act on the Company's tax expense were addressed in the Commission's January 18, 2018 Order in Case No. 2017-00179, leaving only the effect of the Tax Act on the Company's excess accumulated deferred federal income tax ("ADIT") for adjudication in Case No. 2018-00035.

7. On March 21, 2018, Moody's Investor Service announced that it maintained Kentucky Power's rating at Baa2 but revised the Company's outlook from stable to negative. According to Moody's "[t]he negative outlook reflects the combination of the utility's economically weak service territory, its latest rate case outcome, and recently enacted tax reform policy, which will put pressure on credit metrics over the next twelve to eighteen months."

8. On April 11, 2018, an informal conference was held at the Commission to review the issues presented in this case and to discuss settlement. Representatives of all of the parties to this case, Kentucky Power, KIUC, and the Attorney General, along with Commission Staff attended the informal conference.

9. The Settling Parties execute this Settlement Agreement for purposes of submitting it to the Kentucky Public Service Commission for approval pursuant to KRS 278.040 and KRS 278.260, and for further approval by the Commission of the rate structure and tariffs as described herein.

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

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

AGREEMENT

1. Excess ADIT Totals

The Settling Parties agree that as a result of the change in maximum federal corporate income tax rate Kentucky Power's estimated retail excess ADIT for its generation and distribution functions totals $175,272,905. Of this total, Kentucky Power currently estimates that $82,226,674 is excess "protected" ADIT and $93,046,231 is excess "unprotected" ADIT. The estimated allocations between excess protected and excess unprotected ADIT are preliminary. The final allocations will not be determined until the fourth quarter of 2018 when the Company files its federal corporate income tax return.[1] Excess ADIT amounts relating to the Company's transmission function have been accounted for in revised PJM OATT annual revenue requirements filed at FERC on April 6, 2018 in Docket Nos. EL 17-13, ER17-405, and ER17-406 and will be reflected in the annual purchase power adjustment factor under Tariff P.P.A.

[1] Amounts in the protected and unprotected categories may be revised to align with final accounting values and to avoid any normalization violations.

2. Excess ADIT Amortization

The Company will amortize and credit to customers the retail generation and distribution excess ADIT arising from the Tax Act as follows:

(a) Protected ADIT: The Company will amortize the excess protected ADIT amount over the remaining life of the assets using the Average Rate Assumption Method ("ARAM") prescribed by the Tax Act.

(b) Unprotected ADIT: The Settling Parties agree that a reasonable period for the Company to amortize its excess unprotected ADIT is 18 years. The Company shall be authorized to amortize its excess unprotected ADIT over an 18-year period beginning January 1, 2018. The Settling Parties' conclusion regarding the reasonableness of an 18-year period to amortize Kentucky Power's excess unprotected ADIT is informed by the Company's specific financial and operating characteristics, including, but not limited to, the following:

(a) the amount of Kentucky Power's excess unprotected ADIT as a percentage of Kentucky Power's total equity (14.2 percent);

(b) the percentage of Kentucky Power's total debt as a percentage of total capitalization (56.75 percent);

(c) the Company's Moody's Investor Service credit rating (Baa2);

(d) the recent negative outlook assigned the Company by Moody's; and,

(e) the decrease in Kentucky Power Company's load and customer base over the past ten years.

The 18-year amortization period will help mitigate against potential additional negative impacts of the Tax Act on the Company's credit metrics during the three-year base rate case stay out agreed to in Case No. 2017-00179 and thereafter, while still providing meaningful rate relief to customers.

3. Tax Cut Tariff

The Company will credit the excess ADIT to customers on bills beginning July 1, 2018 through the new Federal Tax Cut Tariff (Tariff FTC). A copy of Tariff FTC is attached as **EXHIBIT 1** to this Settlement Agreement. Tariff FTC shall remain in effect until rates are effective in the Company's next base rate case. The amounts credited to customers through Tariff FTC will be displayed as a billing line item. Tariff FTC shall operate as follows:

(a) Tariff FTC provides a per-kilowatt hour rate credit for 2018, 2019, and 2020. The rate credit is designed to credit Kentucky Power's customers over each twelve -month period an amount equal to the sum of the excess protected ADIT (calculated in accordance with ARAM) for the corresponding twelve-month period and the excess unprotected ADIT amortized over a period of 18 years beginning January 1, 2018 (collectively the Annual Total Rate Credit).

(b) Tariff FTC provides for separate per-kilowatt hour rate credits for residential and non-residential customer classes. To develop the class specific rate credits, the Annual Total Rate Credit is allocated between residential and non-residential customer classes based on the two classes' percentages of the Company's total revenue for the twelve-month period ended March 31, 2018. The per-kilowatt hour rate credit is calculated for residential and non-residential customer classes by dividing each class' share of Annual Total Rate Credit by that customer class' kilowatt hours usage for the twelve-month period ended March 31, 2018. The derivation of the estimated per-kilowatt hour credit rate under the Tax Cut Tariff is illustrated on **EXHIBIT 2** to this Settlement Agreement.

(c) To the extent that the actual annual amount credited through Tariff FTC varies from the Annual Total Rate Credit Amount, the amortization of the excess unprotected ADIT will be increased or decreased which will ensure that the annual amount of excess protected ADIT required to be amortized in accordance with ARAM is credited to customers to avoid a normalization violation. The actual remaining unamortized excess unprotected ADIT balance will be reflected in the calculation of rates proposed by Kentucky Power in its next base rate case.

(d) The per-kilowatt hour credit rate under the Tax Cut Tariff for 2018 will be effective for service billed on or after July 1, 2018. The per-kilowatt hour credit rates for 2018 only are calculated by dividing the residential and non-residential classes apportioned shares of the Total Rate Credit for 2018 for the twelve months ended December 31, 2018 by the 2017 July to December actual kilowatt hour usage for the residential and non-residential customer classes respectively.

(e) For the residential customer classes only, and beginning on January 1, 2019, the per-kilowatt hour credit rate will be shaped seasonally such that approximately seventy-five percent of the residential annual excess ADIT credit amount will be credited to customers during the billing months of January, February, March, and December. The intent of this provision is to provide the maximum benefit to residential customers during the high-usage winter heating season. The derivation of the seasonal, estimated per-kilowatt hour residential credit rate under the Tax Cut Tariff is provided on **EXHIBIT 2** to this Settlement Agreement.

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

Following the execution of this Settlement Agreement, Kentucky Power and the Settling Parties 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 crediting customers under the Tax Cut Tariff beginning on July 1, 2018.

5. Good Faith And Best Efforts To Seek Approval

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

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

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

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

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

6. Failure Of Commission To Approve Settlement Agreement

This Settlement Agreement, in conjunction with the Commission's January 18, 2018 Order in Case No. 2017-00179, as amended by the Commission's final order in the pending rehearing in Case 2017-00179, as finally determined upon appeal if any, shall resolve all issues regarding the effect of the Tax Act on the Company's federal income tax expense and excess ADIT as reflected in the Company's rates. If the Commission does not accept and approve this Settlement Agreement in its entirety, then any adversely affected party may withdraw from the Stipulation within the statutory periods provided for rehearing and appeal of the Commission's order by (1) giving notice of withdrawal to all other parties and (2) timely filing for rehearing or appeal. Upon the latter of (1) the expiration of the statutory periods provided for rehearing and appeal of the Commission's order and (2) the conclusion of all rehearings and appeals, all parties that have not withdrawn will continue to be bound by the terms of the Stipulation as modified by the Commission's order.

7. 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.

8. 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.

9. 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.

10. Independent Analysis

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

11. Settlement Agreement And Negotiations Are Not An Admission

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

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

12. 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.

13. 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.

14. 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.

15. Counterparts

This Settlement Agreement may be executed in multiple counterparts.

16. Future Rate Proceedings

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

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

KENTUCKY POWER COMPANY

By: ______________________

Its: CONSEC

KENTUCKY INDUSTRIAL UTILITY
CUSTOMERS, INC.

By: Michael L. Kurtz

Its: Attorney

EXHIBIT 1

FEDERAL TAX CUT TARIFF
(F.T.C.)

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., 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.

1. Pursuant to the final order of the Kentucky Public Service Commission in Case No. 2018-00035 and the Stipulation and Settlement Agreement dated ________ as filed and approved by the Commission, Kentucky Power Company is to credit to retail ratepayers the approved annual amount of excess accumulated deferred federal income taxes (ADIT) beginning July1, 2018 and continue to do so until the Company's base rates are re-set in a future base rate proceeding.

2. The Annual Total Rate Credit Amount (AC) was calculated as follows:

   AC = the sum of (1/18th of estimated retail Generation and Distribution related Unprotected Excess ADIT) + calendar year estimated retail Generation and Distribution related ARAM of Protected Excess ADIT

3. The allocation of the actual Annual Tax Credit Amount between residential and all other customers shall be based upon their respective contribution to total retail revenues, according to the following formula:

   $$\text{Residential Allocation RA(y)} = \text{AC(y)} \times \frac{\text{KY Residential Retail Revenue RR}}{\text{KY Retail Revenue R}}$$

   $$\text{All Other Allocation OA(y)} = \text{AC(y)} \times \frac{\text{KY All Other Classes Retail Revenue OR}}{\text{KY Retail Revenue R}}$$

   Where:
   (y) = the credit year;
   RR = $236,006,728;
   OR = $316,554,577; and
   R = $552,561,305.

4. The Residential Allocation and All Other Allocation shall be credited to customers on a kWh basis as follows:

	Residential ($/kWh)	All Other ($/kWh)
July – December 2018	$0.004803	$0.003188
January – March and December 2019	$0.003593	$0.001604
April – November 2019	$0.001000	$0.001604
January – March and December 2020*	$0.003686	$0.001635
April – November 2020*	$0.001000	$0.001635

* And continuing thereafter for the applicable months until the Company's rates are changed as part of a base rate proceeding, but not to exceed a period longer than 18 years total from January 1, 2018.

DATE EFFECTIVE: Service Rendered On And After July 1, 2018

ISSUED BY: Ranie K Wohnhas

TITLE: Managing Director Regulatory/Finance

By Authority Of An Order By The Public Service Commission

In Case No. 2018-00035 Dated XXXX

EXHIBIT 2

Case No. 2018-00035
Exhibit 2

Total KY Retail Unprotected G&D Excess ADIT	$	(93,046,231)						
Applicable GRCF		1.34482						
Revenue Credit	$	(125,130,480)						
18 Year Amortization of Unprotected	$	(6,951,693)						
				2018		2019		2020
KY Retail G&D Protected ARAM			$	(2,420,293)	$	(2,512,545)	$	(2,662,693)
				1.34482		1.34482		1.34482
Revenue Credit			$	(3,254,859)	$	(3,378,922)	$	(3,580,845)
Annual Revenue Credit			$	(10,206,553)	$	(10,330,615)	$	(10,532,538)

		Current Revenue						
Residential Class	$	236,006,728						
All Other	$	316,554,577						
Total	$	552,561,305						
		Annual kWh		Tax Credit Allocation		Tax Credit Allocation		Tax Credit Allocation
Residential Class		2,005,106,410	$	(4,359,363)	$	(4,412,352)	$	(4,498,596)
All Other		3,690,272,791	$	(5,847,190)	$	(5,918,264)	$	(6,033,942)
Total		5,695,379,201	$	(10,206,553)	$	(10,330,615)	$	(10,532,538)
				Over 6 Months		Annual		Annual
		Jul - Dec kWh		Surcredit Rates $/kWh		Surcredit Rates $/kWh		Surcredit Rates $/kWh
Residential Class kWh		907,686,624		(0.004803)		(0.002201)		(0.002244)
All Other kWh		1,834,203,478		(0.003188)		(0.001604)		(0.001635)
Total								

			2019 Seasonal Collection		2019 Seasonal Rate
Residential Class kWh - Winter (Dec-Mar)	928,363,965		(3,335,609)	$	(0.003593)
Residential Class kWh - All Other (Apr-Nov)	1,076,742,445		(1,076,742)	$	(0.001000)
	2,005,106,410	$	(4,412,352)	$	(0.002201)
			2020 Seasonal Collection		2020 Seasonal Rate
Residential Class kWh - Winter (Dec-Mar)	928,363,965		(3,421,853)	$	(0.003686)
Residential Class kWh - All Other (Apr-Nov)	1,076,742,445		(1,076,742)	$	(0.001000)
	2,005,106,410	$	(4,498,596)	$	(0.002244)

KENTUCKY POWER COMPANY
ESTIMATED EXCESS ADFIT
AS OF DECEMBER 31, 2017

	TOTAL COMPANY KPCO - FUNCTIONAL EXCESS ADIT			Kentucky Retail- FUNCTIONAL EXCESS ADIT		
	Total Functional Estimated Protected	Total Functional Estimated Unprotected	Total Functional Estimated Total	Total Functional Estimated Protected	Total Functional Estimated Unprotected	Total Functional Estimated Total
110 Kentucky Power - Distribution	(38,033,924)	(17,091,853)	(55,125,777)	(37,463,415.14)	(16,835,475.21)	(54,298,890.35)
117 Kentucky Power - Generation	(45,444,933)	(77,371,326)	(122,816,259)	(44,763,259.01)	(76,210,756.11)	(120,974,015.12)
180 Kentucky Power - Transmission	(31,750,728)	(2,270,247)	(34,020,975)	(31,274,467.08)	(2,236,193.30)	(33,510,660.38)
	(115,229,585)	(96,733,426)	(211,963,011)	(113,501,141)	(95,282,425)	(208,783,566)

	Total Company 2018 ARAM Protected Amortization	Kentucky Retail 2018 ARAM Protected Amortization
110 Kentucky Power - Distribution	$ 1,173,618	$ 1,156,014
117 Kentucky Power - Generation	$ 1,283,532	$ 1,264,279
180 Kentucky Power - Transmission	$ 534,467	$ 526,450
	2,991,617	2,946,743

	Total Company Estimated 2019 ARAM Protected Amortization	Kentucky Retail 2019 ARAM Protected Amortization
110 Kentucky Power - Distribution	$ 1,241,779	$ 1,223,152
117 Kentucky Power - Generation	$ 1,309,028	$ 1,289,393
180 Kentucky Power - Transmission	$ 616,793	$ 607,541
	3,167,600	3,120,086

	Total Company Estimated 2020 ARAM Protected Amortization	Kentucky Retail 2020 ARAM Protected Amortization
110 Kentucky Power - Distribution	$ 1,357,129	$ 1,336,772
117 Kentucky Power - Generation	$ 1,346,113	$ 1,325,921
180 Kentucky Power - Transmission	$ 704,109	$ 693,547
	3,407,351	3,356,241

Allocation Factor 0.985 GP Total - ADFIT allocated on this in rate case

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

SECTION V
WORKPAPER S-2
PAGE 2 OF 3

Line No. (1)	Description (2)		Percent of Incremental Gross Revenues (3)
1	Operating Revenues		100.00%
2	Less: Uncollectible Accounts Expense 1/		0.0000%
3	KPSC Maintenance Fee		0.0000%
4	Income Before income Taxes		100.0000%
5	Less: State Income Taxes (L4 X 5.8742%) 2/	5.87%	5.874%
6	Income Before Federal Income Taxes		94.1258%
7	Less: Federal income Taxes (L6 X 35.00%)	21.00%	19.7664%
8	Operating Income Percentage		74.3594%
9	Gross Revenue Conversion Factor (100% / L8)		**1.3448205**

Residential Monthly kWh	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Total
Tariff Summary	139,611,685	110,133,894	126,633,141	157,470,184	160,846,868	137,341,704	116,319,001	128,385,968	207,322,899	306,295,049	244,650,159	170,095,858	2,005,106,410
All Other Classes													Total
Tariff Summary	297,714,277	283,482,942	310,052,531	311,095,107	314,801,768	295,499,900	297,105,404	287,344,289	328,357,010	348,377,100	313,419,321	303,023,142	3,690,272,791
Total kWh	437,325,962	393,616,836	436,685,672	468,565,291	475,648,636	432,841,604	413,424,405	415,730,257	535,679,909	654,672,149	558,069,480	473,119,000	5,695,379,201
RES Rev	17,112,497	13,738,866	15,682,580	18,312,050	18,837,040	16,441,857	13,908,912	15,522,872	23,463,906	33,493,389	28,897,220	20,595,539	236,006,728
C&I Rev	26,212,181	25,562,607	26,986,830	26,249,944	26,490,964	25,685,253	24,865,507	24,469,977	26,298,008	27,885,444	28,850,192	26,997,670	316,554,577
Total Rev	43,324,678	39,301,473	42,669,410	44,561,994	45,328,004	42,127,110	38,774,419	39,992,849	49,761,914	61,378,833	57,747,412	47,593,209	552,561,305

MOODY'S
INVESTORS SERVICE

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

Global Credit Research - 21 Mar 2018

Approximately $870 million of debt outstanding

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

RATINGS RATIONALE

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

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

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

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

Rating outlook

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

Factors that could lead to an upgrade

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

Factors that could lead to a downgrade

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

Outlook Actions:

..Issuer: Kentucky Power Company

....Outlook, Changed To Negative From Stable

Affirmations:

..Issuer: Kentucky Power Company

.... Issuer Rating, Affirmed Baa2

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

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

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

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Laura Schumacher

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MOODY'S
INVESTORS SERVICE

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

VERIFICATION

The undersigned, Matthew A. Horeled, being duly sworn, deposes and says he is the Director of Regulatory Services for Kentucky Power, that he has personal knowledge of the matters set forth in the foregoing testimony and the information contained therein is true and correct to the best of his information, knowledge, and belief.

Matthew A. Horeled

Matthew A. Horeled

Commonwealth of Kentucky)
) Case No. 2018-00035
County of Boyd)

Subscribed and sworn before me, a Notary Public, by Matthew A. Horeled this 27 day of April, 2018.

Trisha M. Young-Blum

Notary Public

My Commission Expires 3-18-19

COMMONWEALTH OF KENTUCKY

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

COMMONWEALTH OF KENTUCKY

BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

Kentucky Industrial Utility Customers, Inc. Complaint	)	
	)	
V.	)	Case No. 2018-00035
Kentucky Power Company	)	
Defendant	)	
	)	

TESTIMONY OF

MICHAEL N. KELLY

ON BEHALF OF KENTUCKY POWER COMPANY

IN SUPPORT OF THE SETTLEMENT AGREEMENT

SETTLEMENT TESTIMONY OF
MICHAEL N. KELLY, ON BEHALF OF
KENTUCKY POWER COMPANY
BEFORE THE PUBLIC SERVICE COMMISSION OF KENTUCKY
CASE NO. 2018-00035

TABLE OF CONTENTS

SETTLEMENT TESTIMONY OF
MICHAEL N. KELLY, ON BEHALF OF
KENTUCKY POWER COMPANY
BEFORE THE PUBLIC SERVICE COMMISSION OF KENTUCKY

I. INTRODUCTION

Q. PLEASE STATE YOUR NAME, POSITION AND BUSINESS ADDRESS.

A. My name is Michael N. Kelly. I am the Manager of Taxes - Tax Accounting and Regulatory Support for American Electric Power Service Corporation ("AEPSC"), a wholly owned subsidiary of American Electric Power Company, Inc. ("AEP"). AEP is the parent company of Kentucky Power Company. My business address is 1 Riverside Plaza, Columbus, Ohio 43215.

II. BACKGROUND

Q. PLEASE BRIEFLY DESCRIBE YOUR EDUCATIONAL BACKGROUND AND BUSINESS EXPERIENCE.

A. I earned a Bachelor of Science Degree in Accounting from Virginia Polytechnic Institute and State University (Virginia Tech) in 1984. I have been a Certified Public Accountant since 1987. I joined Appalachian Power Company, a subsidiary of AEP in April 1984 as an Associate Staff Accountant. I was promoted to Staff Accountant in 1986, Accounting Staff Assistant II in 1989, Accounting Staff Assistant in 1992, General Records Supervising Accountant in January 1996 and General Records Supervisor in December 1996. I was promoted to Administrator of Regulated Accounting in May 1998 and transferred to the AEPSC. In 2000, I transferred to Corporate Development as the Principal Financial Coordinator; in 2001 I transferred to the Tax Department as Tax Project Manager. I was promoted to my current position effective January 1, 2005.

Q. WHAT ARE YOUR RESPONSIBILITIES?

A. As Manager of Taxes - Tax Accounting and Regulatory Support, my responsibilities include coordination of the recording of the tax accounting entries and records of AEP and its subsidiaries. I am also responsible for coordinating and developing State and Federal tax data provided by the AEPSC Tax Department for regulatory proceedings. Included in my responsibilities are recording all accounting entries and records related to Statement of Financial Accounting Standards No. 109 (SFAS 109), "Accounting for Income Taxes" and the associated regulatory assets and liabilities. I have attended numerous tax, accounting, and regulatory seminars throughout my professional career.

Q. HAVE YOU PREVIOUSLY TESTIFIED IN ANY REGULATORY PROCEEDINGS?

A. Yes. I have filed testimony before the Michigan Public Service Commission, the Indiana Utility Regulatory Commission, and the Virginia State Corporation Commission. I have also filed testimony before the Federal Energy Regulatory Commission.

III. PURPOSE OF TESTIMONY

Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY IN THIS PROCEEDING?

A. The purpose of my testimony is to describe the effect of the Tax Cuts and Jobs Act of 2017 ("Tax Act") on the recordation of Kentucky Power's excess accumulated deferred income taxes ("ADIT").

IV. EXCESS ACCUMULATED DEFERRED INCOME TAX

Q. ON DECEMBER 22, 2017, PRESIDENT TRUMP SIGNED INTO LAW THE TAX ACT. PLEASE DESCRIBE HOW THE TAX ACT IMPACTED THE COMPANY'S TAX RATE AND ADIT BALANCES.

A. The Tax Act reduced the maximum federal corporate income tax rate from 35 percent to 21 percent. These new federal requirements affect the current tax expense and deferred tax accounting methods used by corporations including utilities. Many of the Tax Act's provisions, including the reduction in the maximum federal corporate income tax rate, went into effect on January 1, 2018 and will reduce a portion of the ADIT balances as I explain later in my testimony.

Q. ARE YOU ADDRESSING THE EFFECT OF THE TAX ACT ON KENTUCKY POWER'S CURRENT FEDERAL INCOME TAX EXPENSE?

A. No. The Commission addressed the effect of the Tax Act on the Company's current federal income tax expense in its January 18, 2018 order in Case No. 2017-00179. The calculation of the change in tax expense currently is pending before the Commission on rehearing in that case.

Q. WHAT IS EXCESS ADIT?

A. ADIT arises because the accelerated depreciation and bonus deprecation provisions of the federal corporate income tax code can result in corporations, such as the Company, recovering through rates their federal corporate income tax expense at a different (initially faster) rate than they pay the associated taxes. Kentucky Power, as a regulated utility following Financial Accounting Standards Codification 980, deferred the difference on the Company's books as a regulatory liability, and if income tax rates had remained the same, the deferral would have been reversed in later years as the Company paid its current federal corporate income tax expense at a rate that was greater than the Company was recovering through rates. When the federal corporate income tax rate is reduced, as happened with the Tax Act, and all other things being equal, a portion of the deferral will never be paid and thus becomes "excess."

Q. WHAT ARE PROTECTED AND UNPROTECTED EXCESS ADIT?

A. There are two components of excess ADIT, – "normalized" or "protected" excess ADIT and "non-normalized" or "unprotected" excess ADIT. These two components are treated differently under the Tax Act. The Tax Act requires that protected excess ADIT be amortized over "the remaining lives of the property as used in its regulated books of account which gave rise to the reserve for deferred taxes." See Tax Act Subtitle C, Part I, Sec. 13001(d)(3)(B). For Kentucky Power this amortization period is based on the Average Rate Assumption Method or "ARAM." While the amortization period for the protected excess ADIT will not be known with certainty until the filing of the Company's 2017 tax returns in 2018, a reasonable estimate using the method dictated by the Tax Act is 50 years.

The unprotected excess ADIT is to be amortized over a period to be approved by the Commission. As described by Company Witness Horeled, Kentucky Power is proposing that the unprotected excess ADIT balance be amortized over an eighteen-year period.

Q. HAS KENTUCKY POWER ESTIMATED ITS EXCESS ADIT AS OF DECEMBER 31, 2017?

A. Yes. Kentucky Power estimates that its retail generation and distribution functions excess ADIT totals $175,272,905. Of this total, Kentucky Power currently estimates that $82,226,674 is protected excess ADIT and $93,046,231 is unprotected excess ADIT. Both the total excess ADIT balance and the allocation of the total excess ADIT between protected and unprotected is preliminary and will not be finally determined until the 2017 federal income tax return is completed and filed in the fourth quarter of 2018 and the required complex and detailed deprecation calculations are made.

Company Witness Vaughan addresses in his testimony filed today the treatment of the Company's excess ADIT related to the transmission function. Company Witness Vaughan also addresses the manner, including the Company's proposed Federal Tax Cut Tariff, in which excess ADIT related to the distribution and generation functions will be returned to customers.

Q. PLEASE DESCRIBE THE ARAM.

A. The ARAM reduces the excess tax reserve over the remaining regulatory lives of the property that gave rise to the reserve for deferred taxes during the years in which the deferred tax reserve related to such property is reversing. That is, when the tax depreciation for a given asset becomes less than the book depreciation, the excess tax reserve is reduced by the difference between the taxes required under the old 35 percent rate (and other rates prior to 1993) and the taxes required under the new 21 percent rate. The excess reserve is not reduced until, and only to the degree, that tax benefits for a given asset expire. The ARAM provides that the utility will not have to refund excess taxes to ratepayers any faster than it would have had to pay those taxes to the federal government had the tax rates not been reduced. Under the ARAM, a utility will not have to change its cash management plan because the excess tax reserve will not be refunded to customers more quickly than it would have been paid to the federal government absent the tax rate reduction.

Q. ARE THERE CONSEQUENCES IF THE COMPANY AMORTIZES THE PROTECTED EXCESS ADIT MORE QUICKLY THAN ARAM PROVIDES?

A. Yes, most decidedly so. Tax Act section 13001(d)(4) provides that if an excess reserve is reduced more rapidly or to a greater extent than the reserve would be reduced under the ARAM, (1) the Company's tax for the taxable year will be increased by the amount by which it reduces its excess tax reserves more rapidly than permitted under a normalization method of accounting; and (2) the Company would not be treated as using a normalization method of accounting for purposes of section 168(f)(2) and (i)(9)(C) of the Internal Revenue Code; i.e. the Company would have violated the normalization rules.

Q. WHAT WOULD HAPPEN IF THE COMPANY VIOLATED THE NORMALIZATION RULES?

A. If the Company violates the normalization rules, the Company would thereafter be prohibited from claiming accelerated depreciation and could claim only regulatory book depreciation amounts. If this were to occur, the Company could not incur depreciation-related deferred taxes in future years. Because accelerated depreciation is, by far, the largest component of ADIT, this loss would result in higher rates due to the loss of this rate base reduction.

Q. DOES THIS COMPLETE YOUR TESTIMONY?

A. Yes it does.

VERIFICATION

The undersigned, Michael N. Kelly, being duly sworn, deposes and says he is the Tax Accounting & Regulatory Support Manager for American Electric Power, that he has personal knowledge of the matters set forth in the forgoing testimony and the information contained therein is true and correct to the best of his information, knowledge, and belief.

Michael N. Kelly

Michael N. Kelly

State of Ohio)
) Case No. 2018-00035
County of Franklin)

Subscribed and sworn before me, a Notary Public, by Michael N. Kelly this 26 day of April, 2018.

NOTARIAL SEAL STATE OF OHIO

HEIDI M HINTON
Notary Public, State of Ohio
My Commission Expires 04-29-18

Heidi M Hinton

Notary Public

My Commission Expires 4/29/18

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

Kentucky Industrial Utility Customers, Inc.	)	
	)	
Complainant	)	
	)	
v.	)	Case No. 2018-00035
	)	
Kentucky Power Company	)	
	)	
Defendant	)	

TESTIMONY OF

ALEX E. VAUGHAN

ON BEHALF OF KENTUCKY POWER COMPANY

IN SUPPORT OF THE SETTLEMENT AGREEMENT

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

CASE NO. 2018-00035

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SETTLEMENT TESTIMONY OF
ALEX E. VAUGHAN
FOR KENTUCKY POWER COMPANY
BEFORE THE PUBLIC SERVICE COMMISSION OF KENTUCKY
CASE NO. 2018-00035

I. INTRODUCTION

Q. PLEASE STATE YOUR NAME, BUSINESS ADDRESS AND PRESENT POSITION.

A. My name is Alex E. Vaughan, and I am employed by American Electric Power Service Corporation ("AEPSC") as Manager, Regulated Pricing and Analysis. My business address is 1 Riverside Plaza, Columbus, Ohio 43215. AEPSC is a wholly-owned subsidiary of American Electric Power Company, Inc. ("AEP"), the parent Company of Kentucky Power Company (the "Company" or "Kentucky Power").

Q. PLEASE DESCRIBE YOUR CURRENT RESPONSIBILITIES.

A. My responsibilities include the oversight of cost of service analyses, rate design, and special contracts for the AEP East System operating companies.

Q. PLEASE SUMMARIZE YOUR PROFESSIONAL EXPERIENCE AND EDUCATIONAL BACKGROUND.

A. I graduated from Bowling Green State University with a Bachelor of Science degree in Finance in 2005. Prior to joining AEP, I worked for a retail bank and a holding company where I held various underwriting, finance and accounting positions. In 2007, I joined AEPSC as a Settlement Analyst in the Regional Transmission Organization ("RTO") Settlements Group. I later became the PJM Settlements Lead Analyst where I was responsible for reconciling AEP's settlement of its activities in the PJM market with the monthly PJM invoices and for resolving billing issues with PJM. In 2010, I transferred to

Regulatory Services as a Regulatory Analyst and was later promoted to the position of Regulatory Consultant. My responsibilities included supporting regulatory filings across AEP's 11 state jurisdictions and at the Federal Energy Regulatory Commission ("FERC"). In addition, I was responsible for performing financial analyses related to AEP's generation resources and loads, power pools and PJM. In September of 2012, I was promoted to my current position.

Q. HAVE YOU PREVIOUSLY TESTIFIED IN REGULATORY PROCEEDINGS?

A. Yes. I presented testimony on behalf of the AEP Operating Companies numerous times before the regulatory bodies in Virginia, West Virginia, Kentucky, Tennessee and Indiana. In Kentucky, I have testified before the Public Service Commission of Kentucky (the "Commission") in Case No. 2013-00197, Case No. 2014-00396, and Case No. 2017-00179 on behalf of the Company. I have also participated in and provided information to the Commission in several informal conferences.

II. PURPOSE OF TESTIMONY

Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY?

A. The purpose of my testimony is to describe the calculations used to develop the rate credits under the Company's proposed new Federal Tax Cut Tariff ("Tariff FTC").

Q. ARE YOU SPONSORING ANY EXHIBITS OR SCHEDULES?

A. Yes, I am sponsoring **EXHIBIT AEV-S1** which describes the calculation of the per-kilowatt hour credits under Tariff FTC.

Q. WAS THIS EXHIBIT PREPARED BY YOU OR UNDER YOUR SUPERVISION?

A. Yes.

III. DISCUSSION

Q. CAN YOU DESCRIBE GENERALLY THE STRUCTURE OF TARIFF FTC?

A. Yes. Kentucky Power proposes to credit back to customers through Tariff FTC amortized portions of the excess federal accumulated deferred income tax ("ADIT") on the Company's books resulting in the reduction of the federal marginal corporate income tax rate from 35 percent to 21 percent. Under Tariff FTC, customers will receive a per-kilowatt hour credit on their bills. Tariff FTC will remain in effect until the date rates become effective following the Company's next base rate case. The Company will address the treatment of the remaining balance of excess federal ADIT in setting rates in its next base rate case. A copy of the proposed Tariff FTC is included as **EXHIBIT AEV-S1**.

Q. HOW WERE THE PER-KILOWATT HOUR CREDITS UNDER TARIFF FTC DETERMINED?

A. The per-kilowatt credits were calculated in a multi-step process. First, the Company determined the annual amount of excess ADIT to be credited to customers (the "Annual Total Rate Credit"). The amount of the Annual Total Rate Credit is equal to the sum of: (a) the excess protected ADIT (calculated in accordance with the "average rate assumption method" or "ARAM") for the corresponding twelve-month period; and (b) the excess unprotected ADIT amortized over a period of 18 years beginning January 1, 2018. Additional information regarding the differences between unprotected and protected ADIT and the use of ARAM is provided in the testimony of Company Witness Kelly. Additional information regarding the basis for amortizing the excess unprotected ADIT over 18 years is provided in the testimony of Company Witness Horeled.

Next, the Company allocated the Annual Total Rate Credit among residential and non-residential customer classes based on the two classes' percentages of the Company's total revenue for the twelve-month period ended March 31, 2018.

Finally, the per-kilowatt hour rate credit is calculated for residential and non-residential customer classes by dividing each class' share of Annual Total Rate Credit by that customer class' kilowatt hours usage for the twelve-month period ended March 31, 2018. The derivation of the estimated per-kilowatt hour credit rate under the Tax Cut Tariff is illustrated on **EXHIBIT AEV-S2**.

Q. ARE THE PER-KILOWATT CREDITS UNDER TARIFF FTC THE SAME FOR EACH YEAR?

A. No. While the annual amount of excess unprotected ADIT scheduled for amortization over 18 years is a constant year-to-year amount, the amount of excess protected ADIT amortized under ARAM varies from year to year depending on the average remaining lives of company property in that year. As a result the Annual Total Rate Credit varies each year.

Q. HOW WERE THE PER-KILOWATT CREDITS UNDER TARIFF FTC FOR CALENDAR YEAR 2018 CALCULATED?

A. Under the Settlement Agreement, the entire 2018 Annual Total Rate Credit will be credited back to customers over the course of the six month period from July 1 through December 31, 2018. The Company determined the 2018 per-kilowatt hour credit by dividing the residential and non-residential classes' apportioned shares of the Annual Total Rate Credit for 2018 by the 2017 July to December actual kilowatt hour usage for the residential and non-residential customer classes respectively.

Q. WHY DOES THE RESIDENTIAL PER-KILOWATT HOUR CREDIT UNDER TARIFF FTC VARY WITHIN THE YEARS FOR 2019 AND 2020?

A. Kentucky Power is proposing to seasonally shape the rate credits for residential customers so that approximately seventy-five percent of the residential annual excess ADIT credit amount for each year will be credited to customers during the billing months of January, February, March, and December. The Company is proposing this rate shape to provide the maximum benefit to residential customers during the high-usage winter heating season.

Q. IS THE COMPANY PROVIDING ANY ANNUAL OVER/UNDER RECOVERY UNDER TARIFF FTC?

A. No. The Company is not proposing annual over/under recovery under Tariff FTC. However, to the extent that the actual annual amount credited through Tariff FTC varies from the Annual Total Rate Credit Amount, the amortization of the excess unprotected ADIT will be increased or decreased. This will ensure that the annual amount of excess protected ADIT required to be amortized in accordance with ARAM is credited to customers to avoid a normalization violation. Additional information regarding the importance of avoiding a normalization violation is provided in the testimony of Company Witness Kelly. The actual remaining unamortized excess unprotected ADIT balance (following any required increase or decrease) will be reflected in the calculation of rates proposed by Kentucky Power in its next base rate case.

Q. COMPANY WITNESSES HORELED AND KELLY NOTE THAT THE EXCESS ADIT BALANCES RECOVERED THROUGH TARIFF FTC ARE THE COMBINED BALANCES FOR THE COMPANY'S GENERATION AND

DISTRIBUTION FUNCTIONS. CAN YOU DESCRIBE HOW THE COMPANY'S EXCESS ADIT BALANCES RELATING TO THE COMPANY'S TRANSMISSION FUNCTION WILL BE CREDITED BACK TO CUSTOMERS?

A. Yes. Excess ADIT amounts relating to the Company's transmission function have been accounted for in revised PJM OATT annual revenue requirements filed at FERC on April 6, 2018 in Docket Nos. EL 17-13, ER17-405, and ER17-406. The revised PJM OATT annual revenue requirements reflecting reduced tax expense and an amortization of excess ADIT will be reflected in the annual purchase power adjustment factor under Tariff P.P.A

Q. DOES THIS CONCLUDE YOUR TESTIMONY?

A. Yes.

KENTUCKY POWER COMPANY **P.S.C. KY. NO. 11 ORIGINAL SHEET NO. XX-1**
CANCELLING P.S.C. KY. NO. 11 __________ SHEET NO. XX-1

FEDERAL TAX CUT TARIFF
(F.T.C.)

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., 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.

1. Pursuant to the final order of the Kentucky Public Service Commission in Case No. 2018-00035 and the Stipulation and Settlement Agreement dated _________ as filed and approved by the Commission, Kentucky Power Company is to credit to retail ratepayers the approved annual amount of excess accumulated deferred federal income taxes (ADIT) beginning July1, 2018 and continue to do so until the Company's base rates are re-set in a future base rate proceeding.

2. The Annual Total Rate Credit Amount (AC) was calculated as follows:

   AC = the sum of (1/18th of estimated retail Generation and Distribution related Unprotected Excess ADIT) + calendar year estimated retail Generation and Distribution related ARAM of Protected Excess ADIT

3. The allocation of the actual Annual Tax Credit Amount between residential and all other customers shall be based upon their respective contribution to total retail revenues, according to the following formula:

   $$\text{Residential Allocation RA(y)} = \text{AC(y)} \times \frac{\text{KY Residential Retail Revenue RR}}{\text{KY Retail Revenue R}}$$

   $$\text{All Other Allocation OA(y)} = \text{AC(y)} \times \frac{\text{KY All Other Classes Retail Revenue OR}}{\text{KY Retail Revenue R}}$$

   Where:
   (y) = the credit year;
   RR = $236,006,728;
   OR = $316,554,577; and
   R = $552,561,305.
   .

4. The Residential Allocation and All Other Allocation shall be credited to customers on a kWh basis as follows:

	Residential ($/kWh)	All Other ($/kWh)
July – December 2018	$0.004803	$0.003188
January – March and December 2019	$0.003593	$0.001604
April – November 2019	$0.001000	$0.001604
January – March and December 2020*	$0.003686	$0.001635
April – November 2020*	$0.001000	$0.001635

* And continuing thereafter for the applicable months until the Company's rates are changed as part of a base rate proceeding, but not to exceed a period longer than 18 years total from January 1, 2018.

DATE EFFECTIVE: Service Rendered On And After July 1, 2018

ISSUED BY: Ranie K Wohnhas

TITLE: Managing Director Regulatory/Finance

By Authority Of An Order By The Public Service Commission

In Case No. 2018-00035 Dated XXXX

Kentucky Power Company
Exhibit AEV - 1

Total KY Retail Unprotected G&D Excess ADIT	$	(93,046,231)	a						
Applicable GRCF		1.34482	b						
Revenue Credit	$	(125,130,480)	c = a*b						
18 Year Amortization of Unprotected	$	(6,951,693)	d = c/18						
					2018		2019		2020
KY Retail G&D Protected ARAM				$	(2,420,293)	$	(2,512,545)	$	(2,662,693)
					1.34482		1.34482		1.34482
Protected Revenue Credit			e	$	(3,254,859)	$	(3,378,922)	$	(3,580,845)
Annual Revenue Credit			f = d+e	$	(10,206,553)	$	(10,330,615)	$	(10,532,538)

		Current Revenue	
Residential Class	$	236,006,728	g
All Other	$	316,554,577	h
Total	$	552,561,305	i

		Annual Total Rate Credits				
		2018		2019		2020
Residential Class	j = f*(g/i)	$ (4,359,363)	$	(4,412,352)	$	(4,498,596)
All Other	k = f*(h/i)	$ (5,847,190)	$	(5,918,264)	$	(6,033,942)
Total		$ (10,206,553)	$	(10,330,615)	$	(10,532,538)

			Rate Credit Calculations		
			2018 Over 6 Months	2019 Annual	2020 Annual
	Jul - Dec kWh		Surcredit Rates $/kWh	Surcredit Rates $/kWh	Surcredit Rates $/kWh
Residential Class kWh	907,686,624	= j/Jul-Dec kWh	(0.004803)		
All Other kWh	1,834,203,478	= k/Jul-Dec kWh	(0.003188)		
	Annual kWh				
Residential Class kWh	2,005,106,410				
All Other kWh	3,690,272,791	= k/Annual kWh		(0.001604)	(0.001635)
Total	5,695,379,201				

		2019 Seasonal Collection		2019 Seasonal Res Rate	
Residential Class kWh - Winter (Dec-Mar)	928,363,965	(3,335,609)	$	(0.003593)	= (j-(Apr-Nov kWh *-.001))/Dec-Mar kWh
Residential Class kWh - All Other (Apr-Nov)	1,076,742,445	(1,076,742)	$	(0.001000)	
	2,005,106,410	$ (4,412,352)			
		2020 Seasonal Collection		2020 Seasonal Res Rate	
Residential Class kWh - Winter (Dec-Mar)	928,363,965	(3,421,853)	$	(0.003686)	= (j-(Apr-Nov kWh *-.001))/Dec-Mar kWh
Residential Class kWh - All Other (Apr-Nov)	1,076,742,445	(1,076,742)	$	(0.001000)	
	2,005,106,410	$ (4,498,596)			

KENTUCKY POWER COMPANY
ESTIMATED EXCESS ADFIT
AS OF DECEMBER 31, 2017

	TOTAL COMPANY KPCO - FUNCTIONAL EXCESS ADIT			Kentucky Retail- FUNCTIONAL EXCESS ADIT		
	Total Functional Estimated Protected	Total Functional Estimated Unprotected	Total Functional Estimated Total	Total Functional Estimated Protected	Total Functional Estimated Unprotected	Total Functional Estimated Total
110 Kentucky Power - Distribution	(38,033,924)	(17,091,853)	(55,125,777)	(37,463,415.14)	(16,835,475.21)	(54,298,890.35)
117 Kentucky Power - Generation	(45,444,933)	(77,371,326)	(122,816,259)	(44,763,259.01)	(76,210,756.11)	(120,974,015.12)
180 Kentucky Power - Transmission	(31,750,728)	(2,270,247)	(34,020,975)	(31,274,467.08)	(2,236,193.30)	(33,510,660.38)
	(115,229,585)	(96,733,426)	(211,963,011)	(113,501,141)	(95,282,425)	(208,783,566)

	Total Company 2018 ARAM Protected Amortization	Kentucky Retail 2018 ARAM Protected Amortization
110 Kentucky Power - Distribution	$ 1,173,618	$ 1,156,014
117 Kentucky Power - Generation	$ 1,283,532	$ 1,264,279
180 Kentucky Power - Transmission	$ 534,467	$ 526,450
	2,991,617	2,946,743

	Total Company Estimated 2019 ARAM Protected Amortization	Kentucky Retail 2019 ARAM Protected Amortization
110 Kentucky Power - Distribution	$ 1,241,779	$ 1,223,152
117 Kentucky Power - Generation	$ 1,309,028	$ 1,289,393
180 Kentucky Power - Transmission	$ 616,793	$ 607,541
	3,167,600	3,120,086

	Total Company Estimated 2020 ARAM Protected Amortization	Kentucky Retail 2020 ARAM Protected Amortization
110 Kentucky Power - Distribution	$ 1,357,129	$ 1,336,772
117 Kentucky Power - Generation	$ 1,346,113	$ 1,325,921
180 Kentucky Power - Transmission	$ 704,109	$ 693,547
	3,407,351	3,356,241

Allocation Factor 0.985 GP Total - ADFIT allocated on this in rate case

KENTUCKY POWER COMPANY
COMPUTATION OF THE GROSS REVENUE
CONVERSION FACTOR

Line No. (1)	Description (2)		Percent of Incremental Gross Revenues (3)
1	Operating Revenues		100.00%
2	Less: Uncollectible Accounts Expense 1/		0.0000%
3	KPSC Maintenance Fee		0.0000%

4	Income Before income Taxes		100.0000%
5	Less: State Income Taxes (L4 X 5.8742%) 2/	5.87%	5.874%

6	Income Before Federal Income Taxes		94.1258%
7	Less: Federal income Taxes (L6 X 35.00%)	21.00%	19.7664%
8	Operating Income Percentage		74.3594%

9	Gross Revenue Conversion Factor (100% / L8)		**1.3448205**
			===========

Residential Monthly kWh	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Total
Tariff Summary	139,611,685	110,133,894	126,633,141	157,470,184	160,846,868	137,341,704	116,319,001	128,385,968	207,322,899	306,295,049	244,650,159	170,095,858	2,005,106,410
All Other Classes													Total
Tariff Summary	297,714,277	283,482,942	310,052,531	311,095,107	314,801,768	295,499,900	297,105,404	287,344,289	328,357,010	348,377,100	313,419,321	303,023,142	3,690,272,791
Total kWh	437,325,962	393,616,836	436,685,672	468,565,291	475,648,636	432,841,604	413,424,405	415,730,257	535,679,909	654,672,149	558,069,480	473,119,000	5,695,379,201
RES Rev	17,112,497	13,738,866	15,682,580	18,312,050	18,837,040	16,441,857	13,908,912	15,522,872	23,463,906	33,493,389	28,897,220	20,595,539	236,006,728
C&I Rev	26,212,181	25,562,607	26,986,830	26,249,944	26,490,964	25,685,253	24,865,507	24,469,977	26,298,008	27,885,444	28,850,192	26,997,670	316,554,577
Total Rev	43,324,678	39,301,473	42,669,410	44,561,994	45,328,004	42,127,110	38,774,419	39,992,849	49,761,914	61,378,833	57,747,412	47,593,209	552,561,305

VERIFICATION

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

____
Alex E. Vaughan

State of Ohio)
) Case No. 2018-00035
County of Franklin)

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

Ann Dawn Clark
Notary Public

My Commission Expires 12-03-2020

NOTARIAL SEAL
STATE OF OHIO

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