

Kentucky Power
1645 Winchester Ave.
Ashland, KY 41101

Brett Mattison
President and Chief Operating Officer
Office: 606-327-2600
kentuckypower.com



March 12, 2021

ELECTRONICALLY FILED

Linda C. Bridwell
Executive Director
Public Service Commission
211 Sower Boulevard
P.O. Box 615
Frankfort, KY 40602-0615

RE: **Case No. 2020-00174**

Dear Ms. Bridwell:

This is to follow up my January 28, 2021 letter where I committed to inform the Commission and the parties to the above proceeding whether the Company could waive its Capacity Charge. The Commission asked Kentucky Power to consider foregoing the approved charge as a means of assisting customer with their bills until the Rockport Unit Power Agreement ended in December 2022.

The Company studied in depth whether its finances will permit the Company to forego the revenues to which it is entitled under Tariff C.C. Unfortunately, and notwithstanding the new rates resulting from the Commission's January 13, 2021 and February 22, 2021 Orders, Kentucky Power lacks the financial wherewithal to forego the full amount of the approved Capacity Charge.

Kentucky Power forecasts that it will earn a return on equity in 2021 and 2022 below that recently awarded in Case No. 2020-00174. If the Company were to forego the Capacity Charge in its entirety, its forecast return on equity would be further eroded in 2021 and 2022. The likely additional decline in the Company's return on equity and cash flow, along with the damage to its credit metrics if Kentucky Power agreed to forego the Capacity Charge revenues in full, could lead to higher borrowing costs that ultimately would be borne by its customers.

Kentucky Power nevertheless intends to address the Commission's concern for customer bills in a more targeted manner. The Company recognizes that many of its customers continue to struggle financially for reasons wholly outside the Company's control. The Company's low-income residential customers have been particularly hard hit by recent economic conditions affecting our communities. Kentucky Power therefore commits to contribute a portion of the proceeds received from the approved charge and apply them to its low-income assistance program (now known as HEART) and the more recently approved THAW program.

Kentucky Power specifically commits to increase its shareholder contribution to the HEART and THAW programs by a total of \$2,000,000 to be contributed over 2021 and 2022. With the economy still recovering from the pandemic, the Company elected to begin its contribution this year to assist customers in the near term despite the fact the 2020/2021 HEART/THAW program year is near its end. Kentucky Power commits to meet promptly with Staff and interested parties, including Community Action Kentucky, Inc., to address the program mechanics required to implement the Company's additional \$2,000,000, and discuss any new options to make the funds available to assist the Company's customers most in need.

Cancelling the Capacity Charge tariff would have produced monthly savings of approximately \$1.94 for the average residential customer. The additional funding to be provided by Kentucky Power to the Company's two low income assistance programs will enable local community action agencies in Kentucky Power's service territory to assist the Company's most needy customers to avoid disconnections and keep the lights and heat on.

Please do not hesitate to contact me if you have any questions.

Sincerely,

A handwritten signature in black ink that reads "Brett Mattison". The signature is written in a cursive, flowing style.

Brett Mattison
President and Chief Operating Officer
Kentucky Power