COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In The Matter Of: Electronic Application Of Kentucky Power Company For An Order Establishing the Form of Notice To Be Employed In Its Upcoming Application for A General Adjustment Of Rates And Other Relief	: : : : :	**Case No 2020-00174** **(Post-Case Correspondence File)**

RESPONSE AND REQUEST FOR INFORMAL CONFERENCE
OF ATTORNEY GENERAL AND
KENTUCKY INDUSTRIAL UTILITY CUSTOMERS

On August 12, 2022, Kentucky Power Company ("Kentucky Power") made a filing in furtherance of Ordering Paragraph 14 Of the Commission's February 22, 2021 Order on Rehearing in this docket. The Attorney General, by his Office of Rate Invention ("AG") and Kentucky Industrial Utility Customers, Inc. ("KIUC") submit this Response and Request for an Informal Conference.

On December 8, 2022, the Unit Power Agreement ("UPA") whereby Kentucky Power purchases 15% of the energy and capacity (393 MW) from Indiana Michigan's ("I&M") Rockport Units 1 and 2 will expire. That will trigger a number of very important events which will begin on December 9, 2022.

1. Rockport fuel costs will no longer be recovered in the FAC. This will necessitate even greater reliance on expensive market purchases to meet native load. Unless the Mitchell Units begin to run at higher capacity factors, this will very likely result in even greater FAC charges.

2. Rockport environmental costs will no longer be recovered in the Environmental Surcharge. This should result in an automatic rate reduction. Kentucky Power did not provide the amount of Rockport environmental savings.

3. The Rockport Capacity Charge (Tariff C.C.) of $6.2 million annually will terminate thus resulting in a rate reduction. This $6.2 million is the above cost-of-service payment AEP required to extend the Rockport UPA for 18 years in 2004.

4. The amount of non-fuel, non-environmental Rockport costs included in base rates will continue to be collected from ratepayers even though those costs will no longer be paid by Kentucky Power. This includes demand charges, fixed and variable O&M, property taxes, etc. These are referred to as Rockport Fixed Cost Savings in the Settlement Agreement approved by the Commission in its January 18, 2018 Order in Case No. 2017-00179. The total amount of the Rockport Fixed Cost Savings included in base rates was not identified by Kentucky Power in its filing last week. But in the Liberty case Kentucky Power identified the expected amount of Rockport Fixed Cost Savings (without any back-up documentation) to be $50.8 million.[1]

5. In order to meet its PJM FRR capacity obligation, Kentucky Power will begin purchasing replacement capacity from its AEP affiliates under the Power Coordination Bridge Agreement ("PCBA"). For the period December 9, 2022 through May 31, 2023 that replacement capacity will be 152.4 MW priced at the PJM BRA market capacity price of $50/MW-day, or $1,325,880 (152.4 MW x $50 x 174 days). For the period June 1, 2023 through December 31, 2023 the replacement capacity will be 70.2 MW at $34.13/MW-day or $512,728 (70.2 MW x $34.13 x 214 days). The total replacement capacity costs before the rate freeze is over and new base rates are expected to go into effect on January 1, 2024 will be $1,838,608.

Pursuant to the Settlement Agreement in Case No. 2017-00179, (Settlement Agreement Exhibit 4 and Kentucky Power PPA Rider Form 1.0) there are two expected uses of the $50.8 million Rockport Fixed Cost Savings.

First, payment of the Rockport Offset will begin. The Rockport Offset is the estimated amount (subject to true-up) of revenue necessary for Kentucky Power to earn its authorized ROE of 9.25% (base rate and environmental surcharge averaged authorized ROE) in 2023. If the Liberty Transaction closes, then Kentucky Power's estimated 2023 ROE will include a whole host

[1] Response to KIUC 1-20, Case No. 2021-00481.

of additional expenses that could not have been anticipated in 2017. This could improperly result in ratepayers paying for Liberty transaction/transition costs. Because of the Liberty complication, AG/KIUC have consistently argued that the intent of the Settlement Agreement could best be satisfied by using a historic test year that does not include Liberty-related costs. By way of example, based upon per books numbers for the 12 months ending June 30, 2022, the revenue requirement needed for Kentucky Power to earn a 9.25% ROE was $22 million. Even if the Liberty Transaction does not close and a 2023 estimate is used the Commission will need to ensure in the post-2023 true-up process that unreasonable or excessive expenses were not incurred simply because of the Rockport Offset.

Second, the remaining portion of the Rockport Fixed Cost Savings is required to be credited to ratepayers in the PPA Rider beginning December 9, 2022. This credit is to be accomplished through a filing to be made no later than November 15, 2022. Therefore, the Commission may only have three weeks to: a) confirm the amount of Rockport Fixed Cost Savings currently in base rates; b) approve the estimated revenue Kentucky Power will need to achieve its authorized ROE in 2023 (or approve a historic test year approach instead); and c) approve the ratepayer credit.

In addition, on December 9, 2022, repayment will begin on the $50 million Rockport deferral plus interest at Kentucky Power's weighted average cost of capital (WAC). Because the Rockport deferral included a WAC carrying charge, Kentucky Power was made whole for its agreement to defer recovery. The deferral repayment was originally scheduled to be over the five-year period December 2022 through December 2027. The total amount of the deferral including interest as of December 2022 is expected to be approximately $58.8 million. Because a WAC will continue to be applied to the unamortized deferral balance once levelized recovery begins, Kentucky Power will continue to be made whole. It is not clear what WAC the Company is using or what repayment amount Kentucky Power requests.

The amount of Rockport Fixed Cost Savings that will be credited to ratepayers through the PPA Rider beginning December 9, 2022 will bring much needed rate relief to the people and businesses of Eastern Kentucky. Accordingly, AG/KIUC request that the Commission act expeditiously. Kentucky Power should be required to verify in detail the amount of non-fuel, non-environmental Rockport costs currently being recovered in base rates. It should also provide the amount of Rockport environmental savings. Finally, the deferral repayment requested by the Company should be provided. An Informal Conference should then be scheduled in an effort to resolve these matters.

Respectfully submitted,

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