

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

In the Matter of:

Electronic Application Of Kentucky Power Company )  
For (1) A General Adjustment Of Its Rates For )  
Electric Service; (2) Approval Of Tariffs And Riders; )  
(3) Approval Of Accounting Practices To Establish ) Case No. 2020-00174  
Regulatory Assets And Liabilities; (4) Approval Of A )  
Certificate Of Public Convenience And Necessity, )  
And (5) All Other Required Approvals And Relief )

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**MOTION OF KENTUCKY POWER COMPANY FOR REHEARING**

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## MOTION OF KENTUCKY POWER COMPANY FOR REHEARING

### Introduction

Kentucky Power Company (“Kentucky Power” or the “Company”) filed its Application to adjust its rates on June 29, 2020. The Order entered January 13, 2021 (“Order”) by the Public Service Commission of Kentucky (“Commission”) granted a base rate increase of \$52.419 million. Kentucky Power appreciates the time, effort, and attention the Commission put into reviewing the Company’s rate application. The Company respectfully suggests, however, that in several key respects the Order is based upon incurred assumptions, analyses, or understandings and therefore arrives at conclusions that are squarely inconsistent with the record, underlying legal authorities, or Commission precedent. Kentucky Power therefore respectfully submits this Motion for Rehearing pursuant to KRS 278.400 and other applicable law. It is necessary and appropriate for the Commission to grant rehearing for the reasons set forth below.

### Law and Argument

#### **C. Standard for Rehearing.**

KRS 278.400 authorizes “any party to the proceedings” to apply for rehearing of a Commission order within 20 days of service of the order. The Commission interprets the statute as “provid[ing] closure to Commission proceedings by limiting rehearing to new evidence not readily discoverable at the time of the original hearings.”<sup>1</sup> The statute requires and the Commission expects “the parties to Commission proceedings to use reasonable diligence in the preparation and presentation of their cases and serves to prevent piecemeal litigation of issues.”<sup>2</sup>

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<sup>1</sup> Order, *In the Matter of: Application Of Kentucky-American Water Company For A Certificate Of Public Convenience And Necessity Authorizing Construction Of The Northern Division Connection*, Case No. 2012-00096 at 4 (Ky. P.S.C. January 23, 2014).

<sup>2</sup> *Id.*

The Commission nevertheless enjoys the discretion to grant rehearing to consider new arguments,<sup>3</sup> particularly where the argument could not reasonably have been raised before. In addition, rehearing will be granted when required to address any errors or omissions in the Commission's orders.<sup>4</sup> Each of these bases supports rehearing here.

**D. Kentucky Power's Motion for Rehearing.**

Kentucky Power submits that rehearing is warranted and should be granted on the following issues, as further described below: (1) cash working capital, (2) rate case expense, (3) incentive compensation expense, (4) savings plan expense, (5) known and measurable additional Rockport Unit Power Agreement ("UPA") expense, (6) miscellaneous expense, (7) application of the Environmental Surcharge return on equity, (8) reduction of the Company's long-term debt rate, (9) the Order's future zero-intercept study requirement, (10) certain findings and clarifications regarding the Company's advanced metering infrastructure and Grid Modernization Rider proposals, (11) amortization of the Rockport Deferral Mechanism regulatory asset, (12) recovery of COGEN/SPP tariff purchased power expense, and (13) the Company's Tariff NMS II proposal.

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<sup>3</sup> Order, *In the Matter of: America's Tele-Network Corp.'s Alleged Violation of KRS 278.535*, Case No. 2000-00421 at 2 (Ky. P.S.C. March 23, 2001) (limiting scope of rehearing to new arguments raised in petition).

<sup>4</sup> Order, *In the Matter of: Application of Jessamine-South Elkhorn Water District For A Certificate Of Public Convenience And Necessity To Construct And Finance A Waterworks Improvement Project Pursuant To KRS 278.020 And 278.300*, Case No. 2012-00470 at 11 (Ky. P.S.C. January 3, 2014).

The impact of the Commission’s errors on the Company’s base rate revenue requirement ranges from approximately \$12.6 million to over \$13 million, as is summarized in the table below and further described herein.

<b>Rehearing Issue</b>	<b>Revenue Requirement Impact</b>	
<b>Cashing Working Capital in Rate Base</b>	\$	1,660,444
<i>or</i>		
<b>AR Financing in the Capital Structure</b>	\$	2,133,481
<b>Rate Case Expense - CCA</b>	\$	51,117
<b>STI and LTIP Expenses</b>	\$	5,665,765
<b>Savings Plan Expense</b>	\$	1,684,045
<b>Rockport UPA Operating Ratio - Base Rates</b>	\$	935,533
<b>Rockport UPA Operating Ratio - ES/Basing Point</b>	\$	770,311
<b>Miscellaneous Expenses</b>	\$	545,012
<b>Mitchell Non-FGD Rate Base @ 9.1 ROE</b>	\$	236,063
<b>Actual Long Term Debt Rate</b>	\$	1,057,851

The Company reserves the right to collect retroactive to January 14, 2021 any additional amounts due it as a result of adjustments made by the Commission on rehearing, or adjustments that are made in subsequent proceedings to review the Commission’s Orders.<sup>5</sup>

**1. The Commission’s Adjustment Of Cash Working Capital To \$0 Is Unreasonable And Unlawful.**

Although recognizing that its own regulations permit a utility to utilize the capitalization methodology for valuing return on rate base and that a lead/lag study is not necessary under that methodology,<sup>6</sup> and after having accepted Kentucky Power’s and other utilities’ use of the capitalization methodology for decades, the Commission in this case determined – without prior notice to Kentucky Power – that “net investment rate base is the appropriate measure of return in

<sup>5</sup> See *Natural Gas Clearinghouse v. FERC*, 965 F.2d 1066, 1075 (D.C. Cir. 1992) (“The filed rate doctrine simply does not extend to cases in which buyers are on adequate notice that resolution of some specific issue may cause a later adjustment to the rate being collected at the time of service.”).

<sup>6</sup> Order at 8.

this matter...”<sup>7</sup> The Commission then proceeded to reduce Kentucky Power’s cash working capital (“CWC”) to \$0, reducing the revenue requirement by \$1,660,440, based upon Kentucky Power’s purported “unwillingness” to conduct a study that its chosen and well-accepted methodology does not require.<sup>8</sup> The Commission also directed, without citation to any evidence, that CWC be removed from Kentucky Power’s Tariff ES rate base.<sup>9</sup>

The Commission erred in several respects. First, the record evidence refutes the Commission’s findings that Kentucky Power “refused” or was simply “unwilling[]” to perform a lead/lag study, and the Commission erred in setting CWC to \$0 based upon those findings. Second, the Commission’s decision, without prior notice, to require that Kentucky Power use the return on rate base methodology and perform a lead/lag study in this case, and its related adjustment of CWC to \$0 because Kentucky Power did not do so, violated due process. Third, the Commission’s rejection, without notice, of Kentucky Power’s use of the capitalization methodology is inconsistent with its prior, longstanding acceptance of the Company’s use of that approach. Finally, the Commission in adjusting CWC to \$0 failed to remove accounts receivable financing from the Company’s capital structure, resulting in that item being improperly double counted to the Company’s detriment.

- a. **The Commission’s findings that Kentucky Power “refused” and was “unwilling[] to conduct a lead/lag study in support of its CWC adjustment” are incorrect.**

The Commission also erred by predicating its adjustment of Kentucky Power’s CWC to \$0 based upon factual findings that the Company “refused” or was “unwilling[]” to conduct a

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<sup>7</sup> *Id.*

<sup>8</sup> *Id.* at 8-9.

<sup>9</sup> *Id.* at 27.



lead/lag study. There is no evidentiary or record support for those factual findings. What the evidentiary record does demonstrate is:

1. The Commission did not direct the Company at any time prior to or during this case to perform a lead/lag study in connection with the calculation of rate base.<sup>10</sup>

2. Commission Staff took no discovery from the Company regarding the performance of a lead/lag study.<sup>11</sup>

3. The concept of a lead/lag study was first raised on September 16, 2020, nearly 3 months after the Company filed its Application in this case, in supplemental data requests propounded by the Office of the Attorney General of the Commonwealth of Kentucky and Kentucky Industrial Utility Customers (jointly, “AG/KIUC”).<sup>12</sup> Although the Company has no obligation to complete analyses it has not performed at the request of intervenors in discovery, AG/KIUC 2-1 notably did not request that Kentucky Power prepare a lead/lag study.<sup>13</sup> Instead, it requested a copy of all such studies performed by the Company since 2017. The Company answered fully and completely that no such studies had been performed.<sup>14</sup>

4. Kentucky Power would have had to contract with an outside consultant to produce a lead/lag study.<sup>15</sup>

5. Kentucky Power provided verified responses to AG/KIUC’s September 16, 2020 data requests in which it provided unrefuted evidence that “the typical lead/lag study can take

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<sup>10</sup> Tr. Vol. VI at 1529-1530.

<sup>11</sup> See generally, KPSC Staff data requests.

<sup>12</sup> See AG/KIUC’s Second Set of Joint Supplemental Data Requests, Item 1 (“AG/KIUC 2-1”) (filed Sept. 16, 2020). Kentucky Power filed its Application on June 29, 2020.

<sup>13</sup> See Joint Supplemental Data Requests of KIUC and the Attorney General (Sept. 16, 2020).

<sup>14</sup> Kentucky Power Response to AG/KIUC’s Second Set of Data Requests, Item 1 (filed Sept. 30, 2020).

<sup>15</sup> Vaughan Rebuttal Test. at R6.

approximately 3 to 4 months to prepare.”<sup>16</sup> Thus, even if Kentucky Power had been able to begin a lead/lag study the very day AG/KIUC inquired about the Company’s ability to perform one, that study would have been completed approximately between the date on which the Company filed its post-hearing reply brief and the date on which the Commission issued its Order.

6. Kentucky Power could not confirm, in response to AG/KIUC’s September 16, 2020 data requests, that the Company was “aware that the Commission set Duke Energy Kentucky’s CWC to \$0 after the Company refused to perform or provide a CWC study using the lead/lag approach in response to AG discovery in Case No. 2019-00271.”<sup>17</sup>

Far from demonstrating that Kentucky Power refused or was unwilling to perform a lead/lag study, the record evidence before the Commission demonstrates that the Company had no notice of the need to perform such a study, was not directed or requested to perform one by the Commission, its Staff, or any party to this case, and would not have been able to complete one in the time between the date on which the concept of a lead/lag study was raised in discovery and the completion of this case. The Commission’s findings in this regard are not only unsupported by but also misapprehend the record evidence. The Commission erred in reducing the Company’s CWC to \$0 based upon those findings.

**b. The Commission’s adjustment of cash working capital to \$0 is arbitrary and violates due process.**

As set forth above, the record demonstrates that Kentucky Power had no notice that the Commission would choose in this case to require the Company to utilize the rate base methodology and perform a lead/lag study. It is both arbitrary in violation of Section 2 of the

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<sup>16</sup> Kentucky Power Response to AG/KIUC’s Second Set of Data Requests, Item 2.

<sup>17</sup> Kentucky Power Response to AG/KIUC’s Second Set of Data Requests, Item 5.

Kentucky Constitution, and a fundamental violation of due process for the Commission to exclude CWC from the Company's revenue requirement based upon a requirement that the Commission imposed after the fact, and which it did not communicate to the Company until its Order reducing CWC to \$0. It is well-established that due process requires the opportunity to know what evidence is being considered and having a meaningful opportunity to test, explain, or refute that evidence.<sup>18</sup> Kentucky Power was deprived of that opportunity here.

**c. The Commission's Order is impermissibly inconsistent with its prior precedent on this issue.**

"It is axiomatic that an administrative agency either must conform with its own precedents or explain its departure from them."<sup>19</sup> As the Supreme Court of Kentucky has held:

An agency changing its course must supply a reasoned analysis indicating that prior policies and standards are deliberately being changed, not casually ignored, and if an agency glosses over or swerves from prior precedent without discussion, it may cross the line from the tolerably terse to the intolerably mute. Consequently, while the agency may reexamine its prior decisions and depart from its precedents, it must explicitly and rationally justify such a change of position.<sup>20</sup>

The Commission has failed to provide a reasoned analysis supporting its punitive and unreasonable treatment of CWC in this case. Nor has it justified its 180-degree change in position. By changing course and departing from its well established and longstanding acceptance of Kentucky Power's use of the capitalization methodology, and by setting CWC to \$0 based upon that course reversal, the Commission has erred as a matter of law.

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<sup>18</sup> See *Kentucky American Water Co. v. Com. ex. rel. Cowan*, 847 S.W.2d 737, 741 (Ky. 1993) ("Under due process, the AG and the City were entitled to know what evidence is being considered and are entitled to an opportunity to test, explain and/or refute that evidence."), citing *Utility Regulatory Commission v. Kentucky Water Service, Inc.*, 642 S.W.2d 591 (Ky. App. 1982).

<sup>19</sup> *In re: Appeal of Hughes & Coleman*, 60 S.W.3d 540, 543 (Ky. 2001).

<sup>20</sup> *Id.* at 543-544.

**d. The Commission improperly double counted accounts receivable financing.**

The Commission's reduction of CWC to \$0 reduced rate base for accounts receivable financing included in the Company's capitalization (rate base).<sup>21</sup> As Company Witness Vaughan explained when rebutting Mr. Kollen's arguments that the Commission abandon capitalization in favor of rate base and reduce CWC to \$0, the Commission also was required to remove the accounts receivable financing amount from the Company's capital structure.<sup>22</sup> By failing to do so, the Commission wrongfully caused a reduction in the Company's rate base for accounts receivable financing while also providing a benefit to customers associated with that item through a reduction in the Company's weighted average cost of capital ("WACC") in the capital structure.<sup>23</sup> Thus, the Commission double counted this item in both rate base and the Company's capital structure.<sup>24</sup> The Commission should correct this error on rehearing and remove accounts receivable financing from the Company's capital structure, which results in an approximately 12 basis point increase in the Company's WACC.<sup>25</sup>

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<sup>21</sup> Vaughan Rebuttal Test. at R6; Kollen Test. at 16 (directly linking AG/KIUC's proposed adjustment to the Company's CWC to the Company's receivables financing).

<sup>22</sup> Vaughan Rebuttal Test. at R6.

<sup>23</sup> *Id.*

<sup>24</sup> *Id.*

<sup>25</sup> *Id.*

**2. Several Of The Commission’s Adjustments To Operating Income Are Erroneous.**

- a. The Commission’s reduction of rate case expense to exclude witness training expense provided by a third-party consultant is unreasonable and inconsistent with Commission precedent.**

The Commission ordered a reduction of the Company’s revenue requirement in the amount of \$418,069 for Rate Case Expense, which included \$51,117 in witness training provided to the Company by Communications Counsel of America (“CCA”), finding that the Company failed to meet its burden to show such expenses were reasonable, that the training was likely duplicative of Kentucky Power’s outside counsel billed the Company for, and that it was unfair to recover such costs from customers.<sup>26</sup> This reduction is an unsupported departure from past Commission treatment of CCA witness training expenses and further is unreasonable and unsupported by the record.

The Commission’s reduction and disallowance of recovery of CCA witness training expenses departs from past Commission precedent holding that such expense is reasonable and recoverable. In the Company’s last base rate case (Case No. 2017-00179), the Attorney General “proposed to remove certain rate case expenses billed by a consultant who conducted witness preparation but did not sponsor testimony on Kentucky Power’s behalf.”<sup>27</sup> Indeed, in that case Attorney General Witness Ralph C. Smith proposed to “remove[] \$11,130 [of rate case expense], which is the amount billed to KPCo from Communications Counsel of America, Inc. through

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<sup>26</sup> Order at 19-20.

<sup>27</sup> Order, *In the Matter of: Electronic Application of Kentucky Power Company for (1) A General Adjustment of its Rates for Electric Service; (2) An Order Approving its 2017 Environmental Compliance Plan; (3) An order Approving its Tariffs and Riders; (4) An Order Approving Accounting Practices to Establish Regulatory Assets and Liabilities; and (5) An Order Granting All Other Required Approvals and Relief*, Case No. 2017-00179 (“2017 Rate Case Order”), at 20 (Ky. P.S.C. Jan. 18, 2018).

August 31, 2017, or \$33,391 divided by the three year amortization period.”<sup>28</sup> The Attorney General argued that “[s]uch expenses typically fall under services provided by attorneys, and as such is inappropriate for ratepayers to bear.”<sup>29</sup> On rebuttal in that case, the Company “argued that witness preparation is a necessary part of litigating a base rate case and that, regardless of who performs the function, the cost should be recovered.”<sup>30</sup> Further, “[h]ad the Company elected to use its legal team to perform this function, the estimated legal expense of \$510,000 would have been higher.”<sup>31</sup> The Commission ultimately rejected the Attorney General’s proposal, holding: “Given the type of service provided, the Attorney General’s argument to remove the witness preparation consultant’s fees is not persuasive.”<sup>32</sup>

Now in this case, without evidence or explanation, the Commission held that the same kind of CCA witness training was “likely duplicative” of witness preparation by Kentucky Power counsel and that recovery is “patently unfair.” There is no evidence to support these findings. Moreover, as a matter of fact, CCA witness training was not duplicative of witness preparation by Kentucky Power’s outside counsel, as it was conducted without outside counsel’s involvement or presence.

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<sup>28</sup> Smith Direct Test., *In the Matter of: Electronic Application of Kentucky Power Company for (1) A General Adjustment of its Rates for Electric Service; (2) An Order Approving its 2017 Environmental Compliance Plan; (3) An order Approving its Tariffs and Riders; (4) An Order Approving Accounting Practices to Establish Regulatory Assets and Liabilities; and (5) An Order Granting All Other Required Approvals and Relief*, Case No. 2017-00179, at 52 (filed October 3, 2017).

<sup>29</sup> Attorney General’s Post Hearing Brief, *In the Matter of: Electronic Application of Kentucky Power Company for (1) A General Adjustment of its Rates for Electric Service; (2) An Order Approving its 2017 Environmental Compliance Plan; (3) An order Approving its Tariffs and Riders; (4) An Order Approving Accounting Practices to Establish Regulatory Assets and Liabilities; and (5) An Order Granting All Other Required Approvals and Relief*, Case No. 2017-00179, at 27 (filed January 5, 2018).

<sup>30</sup> 2017 Rate Case Order at 20; Wohnhas Rebuttal Test. at R-20 (filed November 3, 2017).

<sup>31</sup> Wohnhas Rebuttal Test. at R-20 (filed November 3, 2017).

<sup>32</sup> 2017 Rate Case Order at 20-21.

As discussed in Section B.1.c. *supra*, the Commission’s ability to deviate from its own precedent is limited.<sup>33</sup> Here too, the Commission has departed from past precedent finding that rate case expenses for CCA witness training were reasonable and recoverable. The Commission failed to explain its departure from past precedent or to provide a “reasoned analysis indicating that prior policies are being deliberately changed.”<sup>34</sup> Because the Commission’s Order lacks any “explicit or rational justification” for departing from its precedent by denying recovery of the Company’s rate case expense related to CCA witness training, the Commission should grant rehearing and allow CCA witness training expenses based on prior precedent. Alternatively, the Commission should grant rehearing to allow Kentucky Power to present evidence on the reasonableness of the expense.

**b. The Commission’s removal of all short-term and long-term incentive compensation expense is inappropriate and inconsistent with precedent.**

The Commission’s Order reduces the Company’s revenue requirement by \$5,665,765 to remove all the STI and LTIP expenses that the Company sought to recover in its jurisdictional revenue requirement.<sup>35</sup> In reaching this conclusion, the Commission again rewrote its precedent to disallow the Company’s recovery of certain incentive compensation expenses tied to achieving non-financial performance measures that provide benefits to customers.<sup>36</sup> As the Commission has fully considered and established precedent that clearly provides for recovery of

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<sup>33</sup> See *GTE v. Revenue Cabinet*, 889 S.W.2d 788, 792 (Ky. 1994) (“interpretation of a statute by an administrative agency, once made and applied over a long period of time, cannot be unilaterally revoked by the agency”); *Utility Regulatory Comm’n v. Kentucky Water Service Co.*, 642 S.W.2d 591, 593 (Ky. Ct. App. 1982) (“radical departure from [past] administrative interpretation consistently followed cannot be made except for the most cogent reasons.”); *In re Appeal of Hughes & Coleman*, 60 S.W.3d at 543-44.

<sup>34</sup> *In re Appeal of Hughes & Coleman*, 60 S.W.3d at 544.

<sup>35</sup> Order at 15 (KY. P.S.C. Jan. 13, 2021)

<sup>36</sup> Order at 12-15 (KY. P.S.C. Jan. 13, 2021).

incentive compensation costs tied to those non-financial performance measures that provide benefits to customers, and because the record reflects that the Company's non-financial performance measures provide direct benefits to customers, the Company respectfully requests the Commission grant rehearing on this issue to reconsider the exclusion of incentive compensation costs related to non-financial performance measures included in the Company's revenue requirement.

The Commission has repeatedly held that incentive compensation costs tied to non-financial performance measures, regardless of the applicable funding mechanism, are appropriate for ratemaking purposes because they are not in the category of incentive compensation costs that have been historically disallowed because they are not incurred to incentivize financial performance goals that primarily benefit shareholders.<sup>37</sup> Specifically, as highlighted in its Order here, the Commission approved non-financial incentive compensation costs for ratemaking purposes in Case No. 2018-00358, when it held that, although Kentucky-American Water Company's Annual Performance Plan ("APP") was 100% funded through EPS, "which means that no APP payment are made if the EPS targets have not been met," it was still entitled to recover the incentive compensation expenses of its APP related to the non-financial performance measures.<sup>38</sup> The Commission similarly approved the portion of Kentucky Power's incentive

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<sup>37</sup> See Order, *Electronic Application of Duke Energy Kentucky, Inc. for: 1) An Adjustment of the Electric Rates; 2) Approval of an Environmental Compliance Plan and Surcharge Mechanism; 3) Approval of New Tariffs; 4) Approval of Accounting Practices to Establish Regulatory Assets and Liabilities; and 5) All Other Required Approvals and Relief*, Case No. 2017-00321 ("Duke Kentucky Case"), at 21 (Ky. P.S.C. Apr. 13, 2018); Order, *Application of Kentucky Power Company for: (1) A General Adjustment of Its Rates for Electric Service; (2) An Order Approving Its 2014 Environmental Compliance Plan; (3) An Order Approving Its Tariffs and Riders; and (4) An Order Granting All Other Required Approvals and Relief*, Case No. 2014-00396 ("Kentucky Power 2014 Rate Case"), at 25–26 (Ky. P.S.C. June 22, 2015); and Order, *Electronic Application of Kentucky- American Water Company for an Adjustment of Rates*, Case No. 2018-00358, ("Kentucky-American Case"), at 43–44 (Ky. P.S.C. June 27, 2019).

<sup>38</sup> Kentucky-American Case, Order at 43–44 (Ky. P.S.C. June 27, 2019).



compensation expenses related to non-financial performance measures of the Company's STI plan in Case No. 2014-00396 and, in doing so, specifically rejected the Attorney General's argument that disallowance of the Company's STI costs should be based on the EPS funding mechanism rather than performance measures of the plan, which is the position the Commission appears to be taking in this proceeding.<sup>39</sup> Even in the Duke Kentucky case the Commission cites here to highlight the perceived need to rewrite its precedent on this issue, the Commission made clear that its disallowance of the incentive compensation expenses was based on the fact that there was, "no measure of improvement in areas such as service quality, call-center response, or other customer-focused criteria" and, therefore, those expenses were shareholder-oriented.<sup>40</sup>

Unlike Duke Kentucky, the Company did include STI costs in its revenue requirement that were incurred to achieve customer-focused non-financial performance measures. Specifically, the record is undisputed that the Company's STI performance measures were 90% non-financial in 2019 and 80% non-financial in 2020<sup>41</sup> and that the Company's non-financial performance measures relate to the achievement of customer-focused goals. These include, but are not limited to, improving the ease of doing business with the Company, improving SAIDI statistics, creating sustainable efficiency gains, and ensuring proper safety and training for the employees needed to provide customers with safe and reliable electric service, all of which provide direct benefits to customers.<sup>42</sup> Thus, the record is clear that, had the Commission

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<sup>39</sup> Kentucky Power 2014 Rate Case, Order at 24-26 (Ky. P.S.C. June 22, 2015) (stating, "the amount that should be 20 removed for ratemaking purposes should be based on the performance measures of the plan, not the funding measures.").

<sup>40</sup> Duke Kentucky Case, Order at 21 (Ky. P.S.C. Apr. 13, 2018).

<sup>41</sup> Post-Hearing Brief of Kentucky Power Company at 84 (filed Dec. 8, 2020) (*citing* Kaiser Rebuttal Test. at R6-R7; Tr. Vol. III at 648-649 (stating that for 2019, 10% of Kentucky Power's STI performance metric were based on financial performance and, for 2020, 20% of Kentucky Power's STI performance metrics were based on financial performance)).

<sup>42</sup> Kaiser Rebuttal Test. at R6-R7.

followed its precedent, the costs related to these non-financial performance measures would have been allowed for ratemaking purposes.

The Commission has fully considered and historically allowed recovery of incentive compensation costs tied to non-financial performance measures that provide benefits to customers when they *are not* related to achieving financial goals that primarily benefit shareholders. The Company has established that a significant portion of its STI expenses provide direct benefits to customers, and therefore requests the Commission grant rehearing to revisit its departure from its precedent on this issue and allow the portion of the Company's STI expenses related to non-financial performance measures for ratemaking purposes. These expenses are clearly necessary for the provision of safe and reliable electric service and directly benefits customers.

**c. The Commission's exclusion of savings plan expense is unreasonable and unsupported by the record.**

The Company included \$1,684,045, adjusted to reflect the applicable Gross Revenue Conversion Factor, in its jurisdictional revenue requirement for contributions to its cash balance formula pension and matching 401(k) plans.<sup>43</sup> In its Order, the Commission removed the entire expense based on its finding that the Company did not provide "substantial evidence" to support its assertion that the 401(k) and cash balance formula pensions were designed so that, taken together, the contributions are market competitive.<sup>44</sup> Despite the finding to the contrary, the Company has carried its burden of proving its pension and 401(k) plans and its savings plan expenses are reasonable and should be allowed for ratemaking purposes. Specifically, the

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<sup>43</sup> Kentucky Power Response to Commission Staff's Post-Hearing Data Requests, Item 3 (filed December 9, 2020) ("KPCO\_R\_KPSC\_PH\_003").

<sup>44</sup> Order at 18.

Company provided a significant amount of evidence demonstrating that its contributions to both its cash balance formula pension and 401(k) plans only provide employees with a market competitive post-retirement benefits. The Company further demonstrated that the Company's pension and 401(k) plans, as well as the related expenses sought to be recovered as part of this proceeding, are consistent with the Commission's approval of the inclusion of those expenses in base rates in the Company's last rate case and are otherwise reasonable.

First, as the Commission correctly points out, the only evidence offered in this proceeding related to the Company's savings plan expense demonstrates that the Company's contributions, taken together, are market competitive and reasonable.<sup>45</sup> Furthermore, as it established in this proceeding, the Company made no changes to its 401(k) and pension plans since its last base case during which these plans were thoroughly reviewed and approved as being, in combination, market-competitive and reasonable.<sup>46</sup> In fact, the nature of the savings plan expense sought to be recovered in this proceeding is nearly identical to that approved by the Commission in Case No. 2017-00179.<sup>47</sup> As such, the evidence presented in this case shows that 1) the Company incurred savings plan expenses pursuant to the plans the Commission reviewed and approved in Case No. 2017-00179, and 2) the combination of the Company's plans only provides market-competitive post-retirement benefits to its employees. There is no evidence to

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<sup>45</sup> KPCO\_R\_KPSC\_PH\_003; Post-Hearing Brief of Kentucky Power Company at 84 (Dec. 8, 2020) (citing Tr. Vol. III at 703-704; KPCO\_R\_KPSC\_PH\_3; 2017 Rate Case, Hearing Tr. Vol. II at 679-680 (“[The Company has] designed these two plans together to do what other companies are doing, to provide the median amount of pension benefits together as a total, and so yes, [the Company has] two plans, but they’re not creating a value for participants that’s any greater than if [it] had a full-blown 401(k) plan with 100 percent or 125 percent match or a full-blown pension plan with a greater employee contribution there as well.”)).

<sup>46</sup> Post-Hearing Brief of Kentucky Power Company at 83 (filed Dec. 8, 2020); Tr. Vol. III at 6888 & 699-70; KPCO\_R\_KPSC\_PH\_003; *See* Tr. Vol. III at 703-704; 2017 Rate Case, Hearing Tr. Vol. II at 679-68; 2017 Rate Case Order at 15.

<sup>47</sup> *See* KPCO\_R\_KPSC\_PH\_003; Order at 17 (establishing the savings plan expense of \$1,684,045); 2017 Rate Case Order at 15 (approving the Company's savings plan expense of \$1,662,975).

refute the otherwise established reasonableness or market-competitiveness of the savings plan expenses included in this proceeding; the Company has carried its burden of establishing the expenses are reasonable and appropriate for ratemaking.

Therefore, the Company requests the Commission grant rehearing on this issue and approve the Company's savings plan expense. The Company has carried its burden of proving its pension and 401(k) plans and the associated expenses are reasonable. Based on the evidence presented in this record and in the Company's prior rate case proceeding, the Company avers that it has carried its burden of proving its savings plans costs are reasonable and, given that there is no evidence in the record refuting the reasonableness of these expenses, there is not substantial evidence to support the Commission's reduction in the Company's jurisdictional savings plans expense.

**d. The Commission's rejection of known and measurable Rockport UPA expenses is unreasonable and unlawful.**

In its Application and testimony, the Company proposed an adjustment to increase test-year purchased power expense to account for known and measureable changes to its Rockport UPA expenses. The adjustment related to an increase in the Rockport UPA operating ratio billing formula caused by the Rockport Unit 2 SCR being placed into service after the test year, in June 2020.<sup>48</sup> Specifically, the Rockport UPA billing formula includes an operating ratio that adjusts the amount of the total Rockport capital investment included in the return on equity calculation.<sup>49</sup> The operating ratio represents the percentage of the Rockport capital investment that is in service; it essentially reduces the equity return billed through the agreement when there

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<sup>48</sup> Vaughan Direct Test. at 48-49; Application Section V, Exhibit 2, Adjustment W47.

<sup>49</sup> *Id.*

is a CWIP balance.<sup>50</sup> During the test year, there was a large CWIP balance related to the Rockport Unit 2 SCR facility construction, which lowered the amount of equity return that was billed through the UPA to the Company.<sup>51</sup> When the Unit 2 SCR was placed in service in early June 2020, the operating ratio increased as the Unit 2 SCR CWIP was moved to plant-in-service.<sup>52</sup> Thus, to reflect the known increase to the operating ratio associated with moving the Unit 2 SCR CWIP to plant-in-service, the Company proposed Adjustment 47, which removed the Rockport Unit 2 SCR CWIP to increase the operating ratio back to a normal level to accurately reflect the costs the Company will be billed through the UPA now that the Unit 2 SCR has been placed in service.<sup>53</sup> Further, the Company excluded the SCR CWIP amount in its plant-in-service total to avoid including the return on Unit 2 SCR plant.<sup>54</sup> Further, as clearly shown in KPCO\_R\_KPSC\_PH\_009, only 45.2% of the non-Unit 2 SCR rate base is environmental in nature and thus included in the environmental surcharge basing point. The remaining \$929,867<sup>55</sup> of the proposed adjustment is related to non-environmental UPA base rate expense for which the Company is being billed.

The only party that addressed the proposed adjustment was AG/KIUC Witness Kollen who recommended that the adjustment be deferred to mitigate the immediate effect on ratepayers.<sup>56</sup> However, Mr. Kollen acknowledged that the adjustment was required to allow

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<sup>50</sup> *Id.*

<sup>51</sup> *Id.*

<sup>52</sup> *Id.*

<sup>53</sup> *Id.*; Kentucky Power Response to Commission Staff's Post-Hearing Data Requests, Item 9 (filed December 9, 2020) ("KPCO\_R\_KPSC\_PH\_009"); KPCO\_R\_KPSC\_6\_15\_Attachment1 (filed Nov. 2, 2020) (the Rockport Unity 2 SCR CWIP was removed from cell D145 on the AEGBS table).

<sup>54</sup> KPCO\_R\_KPSC\_PH\_009.

<sup>55</sup> \$935,533 when grossed up for revenue requirement ( $\$929,867 \times 1.0060929 = \$935,533$ ).

<sup>56</sup> Kollen Test. at 33-34.

Kentucky Power to fully recover its costs related to the Rockport UPA.<sup>57</sup> As a mitigation measure specific to this case, the Company agreed that the proposed adjustment should be included in the Rockport UPA regulatory asset and deferred per Mr. Kollen's recommendation.<sup>58</sup>

Despite the evidence presented by the Company that such adjustment was appropriate and necessary<sup>59</sup> and the acknowledgement by AG/KIUC Witness Kollen that the increased costs related to the change in the Rockport UPA operating ratio represented increased costs to the Company that it should be allowed to fully recover,<sup>60</sup> the Commission denied both the Company's proposed adjustment to reflect an increase in the operating ratio and the mitigation measure proposed by Mr. Kollen and agreed to by the Company.<sup>61</sup> However, in reaching its decision, the Commission failed to provide any explanation as to why it denied the proposed adjustment and the proposal to include the amount of the adjustment in the Rockport Deferral Mechanism regulatory asset.

The Commission's decision to deny the proposed adjustment as part of this case and deny the adjustment's inclusion in the Rockport UPA regulatory asset denies the Company its ability to recover FERC-approved costs that it is entitled to recover as a matter of federal law. It also is wholly unsupported by the record. Therefore, the Company respectfully requests that the Commission grant rehearing on this issue and either approve the proposed adjustment as part of this proceeding or allow the Company to include the costs at issue in the Rockport Deferral Mechanism regulatory asset.

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<sup>57</sup> *Id.*

<sup>58</sup> Vaughan Rebuttal Test. at 7-8.

<sup>59</sup> Vaughan Direct Test. at 48-49; Application Section V, Exhibit 2, Adjustment W47; KPCO\_R\_KPSC\_PH\_009.

<sup>60</sup> Kollen Test. at 33-34.

<sup>61</sup> Order at 24-25.

e. **The Commission’s reduction to miscellaneous expense is unreasonable and unsupported by the record.**

The Commission ordered a reduction to the Company’s revenue requirement in the amount of \$545,012 for Miscellaneous Expenses.<sup>62</sup> The Commission held that “Kentucky Power has the burden of proof in this case to demonstrate that the expenses that it requests recovery of are reasonable ... [W]hen asked to provide information regarding a certain category of expenses, as has been done in this case, Kentucky Power has evidenced its inability, or unwillingness to do so.”<sup>63</sup> This holding and the reduction itself are unsupported by the record. Kentucky Power respectfully submits that it complied with each of the Commission’s requests for additional information regarding the Company’s Miscellaneous Expenses to the extent the Company was reasonably able.

In Commission Staff Data Request 2-47(b), the Company was asked to provide:

An analysis of Account No. 930 – Miscellaneous General expenses for the test year. Include a complete breakdown of this account as shown in Schedule 30b and provide detailed workpapers supporting this analysis. At a minimum, the workpapers should show the date, vendor, reference (i.e., voucher no., etc.), dollar amount, and brief description of each expenditure of \$500 or more, provided that lesser items are grouped by classes as shown in Schedule L2.

The Company provided its response to the request in Excel format as

KPCO\_R\_KPSC\_2\_47\_Attachment2.<sup>64</sup> That attachment, as requested, breaks out the expenses by account number and shows the date, vendor, journal/voucher ID, dollar amount of the expense, and a brief description of the expense for each expenditure of \$500 or more (about 300

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<sup>62</sup> Order at 19.

<sup>63</sup> *Id.*

<sup>64</sup> Filed July 21, 2020.

separate row entries).<sup>65</sup> Questioned later about the miscellaneous general expenses at the hearing on this matter, Company Witness West testified:

We included what we felt was reasonable to recover from customers. And what I mean by that, your Honor, is we went through a list and removed all the ones that we thought were not appropriate to recover. So what remains on the list is what we thought -- now, we can certainly do some more research on those and digging if that will help.

Thereafter, the Vice Chairman followed up with Company Witness West regarding the miscellaneous expenses:

The Vice Chairman: Q. Well, I -- and maybe it's unfair for me to ask you on the stand to point to a multi thousand -- 10, 15, 20 or however many thousand pages it is, but if the Commission asked -- if we asked staff in a post-hearing discovery response where in the record the company, you know, put forth the argument as to why the company expenses are reasonable or why these are appropriate and the other ones are not, could the company point us to those if it's in the record?

Company Witness West: A. We can certainly look and see where it might be in the record. Yes.

In Commission Staff Post-Hearing Data Request, Item 14(a), the Company was asked to “[s]tate where in the record Kentucky Power provided support that recovery of [Account 930 Misc. General Expenses that were included in base rates] is reasonable.” In response Kentucky Power provided record cites evidencing the Company’s examination of the reasonableness of the expenses.<sup>66</sup> Having already provided an itemized descriptive breakdown of over 300 different expenses of \$500 or more in KPCO\_R\_KPSC\_2\_47\_Attachment2, the Company further responded:

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<sup>65</sup> *Id.*

<sup>66</sup> See Kentucky Power Response to Commission Staff’s Post-Hearing Data Requests, Item 14 (filed December 9, 2020) (“Company Witnesses Scott and Bishop analyzed advertising (Scott) and miscellaneous business expenses (Bishop) recorded in Account 930 for reasonableness, to prepare cost of service adjustments W19 and W34.”).



Kentucky Power employs multiple daily business processes to ensure all expenses paid by the Company are reasonable in amount and required to provide adequate, efficient and reasonable service. These include the Company's invoice and approval process as well as a review of expenses to ensure they are recoverable. Consistent with Commission practice in the Company's prior rate cases, and to the Company's knowledge, past Commission practice in rate cases involving other utilities, the reasonableness of these previously reviewed and approved expense amounts for recovery is demonstrated by testimony and other evidence adjusting the Company's reasonable expenses for specific items not recoverable in rates under Kentucky law. The alternative, to identify each expense (or category of expense) and provide testimony expressly supporting its recovery would be unworkable, unprecedented, and unreasonable. In this case, Company Witnesses Scott and Bishop supported the exclusion of as prudent expenses that should be recovered.<sup>67</sup>

Thus, Kentucky Power fully responded to each of the Commission's requests for additional information regarding the Company's Miscellaneous Expenses to the extent the Company was reasonably able. Respectfully, the Commission did not ask the Company to provide the underlying invoices supporting each expense; the Company provided the Commission the information for which it asked. Further, the evidence submitted by the Company regarding Miscellaneous Expenses sufficiently supported the reasonableness of the expenses—the evidence showed when, where, by whom, and for what each expense was incurred, and further showed that the Company examined Miscellaneous Expenses for reasonableness, determined which were reasonable, and submitted for recovery only those expenses deemed reasonable for recovery by the Company.

The Commission should grant rehearing to reconsider its holding on Miscellaneous Expenses and deem the expenses reasonable and recoverable, or, at a minimum, should allow the Company to submit further evidence showing the same.

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<sup>67</sup> *Id.*

**3. The Commission Erred In Its Application Of The Return On Equity Authorized For Kentucky Power’s Environmental Surcharge.**

The Commission erred in two respects with regard to the 9.10 percent return on equity (“ROE”) that it established for the Company’s Environmental Surcharge (“Tariff E.S.”).<sup>68</sup> First, the Commission erred by directing Kentucky Power, in violation of KRS 278.160(2), to utilize the 9.10 percent ROE in Tariff E.S. filings that relate to environmental compliance costs incurred prior to the effective date of the Commission’s Order. Second, the Commission erred by reducing the Company’s base rate revenue requirement to reflect the application of the 9.10 percent Tariff E.S. ROE as to Mitchell Non-FGD rate base, which is a base rate item and is not included in Tariff E.S. rate base.

- a. The Commission’s directive to implement a 9.10 percent ROE for Tariff E.S. filings related to service rendered prior to January 14, 2021 violates KRS 278.160(2).**

The Commission erred when it directed the Company “to utilize an ROE of 9.10 percent for all Tariff E.S. filings after the date of th[e] Order.”<sup>69</sup> Due to the timing of the recovery of costs through Tariff E.S., the Commission’s directive runs afoul of KRS 278.160.

KRS 278.160(2) mandates that:

No utility shall charge, demand, collect, or receive from any person a greater or less compensation for any service rendered or to be rendered than that prescribed in its filed schedules, and no person shall receive any service from any utility for a compensation greater or less than that prescribed in such schedules.<sup>70</sup>

Thus, in the absence of any statutory or regulatory authority for the Commission to order a utility not to recover a tariff charge, the Commission must allow the utility to “demand, collect, and

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<sup>68</sup> Order at 27.

<sup>69</sup> *Id.*

<sup>70</sup> KRS 278.160(2) (emphasis added).

receive” its tariff charges. For service rendered prior to January 14, 2021, the Company’s Commission-approved tariff provides that the rate of return to be utilized in calculating the Company’s Current Period Revenue Requirement for Tariff E.S. is the 9.7% ROE authorized by the Commission in its January 18, 2018 Order in Case No. 2017-00179.<sup>71</sup>

Kentucky Power files a monthly Environmental Surcharge Report to update Tariff E.S., which reflects expenses incurred in the prior expense month. For example, Kentucky’s Power’s January 2021 Environmental Surcharge Report, filed January 19, 2021, related to service rendered and expenses incurred through the end of December 2020.<sup>72</sup> Thus, by requiring the Company to utilize a 9.10% ROE for its January 2021 Tariff E.S. filing (for service rendered December 2020), the Commission’s Order violates KRS 278.160(2) by requiring Kentucky Power to charge, demand, collect, or receive less compensation for its qualifying December 2020 environmental compliance costs than is prescribed in its filed schedules.

To correct this issue, Kentucky Power respectfully requests that the Commission clarify on rehearing that Kentucky Power should begin utilizing an ROE of 9.10 percent in monthly Tariff E.S. filings for service rendered on or after January 14, 2021. The Commission further should authorize the Company to recover in Kentucky Power’s first Tariff E.S. filing following the Commission’s order on rehearing the under-recovery reflected in the Company’s January 2021 Environmental Surcharge filing that resulted from the Order’s initial Tariff E.S. ROE implementation directive.

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<sup>71</sup> See P.S.C. Ky. No. 11 1<sup>st</sup> Revised Sheet No. 29-3.

<sup>72</sup> A copy of Kentucky Power’s January 2021 Environmental Surcharge Report is attached as Exhibit A. The Company noted this issue in that report and further indicated that its use of a 9.10 percent ROE in that filing was without prejudice to its right to address any under-recovery through future Tariff E.S. filings or a motion for clarification or rehearing in this case. The Company requests that Exhibit A be incorporated by reference into the record in this case.

b. **The Commission erred in reducing Mitchell Non-FGD rate base to reflect the reduced Tariff E.S. ROE.**

The Commission's Order incorrectly characterized Kentucky Power's Mitchell Non-FGD rate base as "Tariff E.S. rate base recovered in base rates" and adjusted the Company's base rate revenue requirement by \$236,063 to reflect the 9.10 percent Tariff E.S. ROE the Commission established.<sup>73</sup> Mitchell Non-FGD rate base is base rate rate base, not Tariff E.S. rate base, as Company Witness Vaughan's Direct Testimony explained:

The Company included the revenues and expenses associated with non-Mitchell FGD portion of the test year environmental surcharge in its proposed base rate cost of service. ... Through the environmental surcharge, the Company recovers from or credits to customers the costs for its environmental projects that exceed or are below the corresponding monthly amounts included in base rates. The Company's test year non-FGD environmental compliance costs and non-FGD environmental surcharge revenues are included in base rates and serve as the monthly baselines against which actual costs are compared.<sup>74</sup>

Because Mitchell Non-FGD rate base plainly is not Tariff E.S. rate base, but rather is the baseline in base rates from which Tariff E.S. rate base is determined each month, it was inappropriate and unreasonable for the Commission to apply the 9.10 percent ROE applicable to Tariff E.S. rate base to the Mitchell Non-FGD rate base. There is no reasoned nor reasonable basis for treating Mitchell Non-FGD rate base differently than any other rate base component. Conversely, the reasons proffered by the Commission for awarding a lower return on equity for the Company's Environmental Surcharge and Decommissioning Rider<sup>75</sup> are inapplicable to Mitchell non-FGD rate base. The Mitchell Non-FGD rate base should earn the same ROE

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<sup>73</sup> Order at 27-28.

<sup>74</sup> Vaughan Direct Test. at 6-7 (emphasis added).

<sup>75</sup> Order at 66-67.

applicable to all other base rate items. The Commission should correct this error on rehearing and reverse its \$263,063 reduction to Kentucky Power's revenue requirement related to this item.

**4. The Commission's Reduction Of The Company's Actual Long-Term Debt Rate To A Conjectural Rate Through June 2021 Is Unreasonable And Unsupported By The Record.**

There is no dispute that Kentucky Power's Senior Unsecured Notes-Series A debt with an interest rate of 7.32 percent will mature June 18, 2021.<sup>76</sup> The Order, however, substituted the debt's actual interest rate with a conjectural rate of 3.54 percent – a rate that has no support on the record, was not proposed by any witness, and was reached by inappropriately averaging figures that neither correspond to a time period nor are reasonably anticipated to have any meaning in June 2021 when the Company's debt matures. Whether the cost of the debt that replaces the Series A debt later this year will be above or below 3.54 percent is unknown and unknowable.

**a. The Commission lacks authority to impute a conjectural interest rate, and the imputed rate is unsupported by record evidence and therefore is not known and measurable.**

In violation of the principle that adjustments to the test year be for known and measurable amounts, the Order supplants Kentucky Power's actual cost of the debt at issue with an arbitrary 3.54 percent interest rate that is unjustified, unsupported by the record, and represents a significant reduction of the Company's necessary revenue requirement and cash flows.

The Order states that "based upon settled case law and Commission regulations, the Commission must determine what the reasonable cost is for ratemaking purpose for a maturing debt that, shortly after new rates are in effect, will be reissued at a significantly lower interest

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<sup>76</sup> See, e.g., Order at 39.

rate.”<sup>77</sup> The only case cited by the Commission in support of that statement is *Pub. Serv. Com. v. Cont'l Tel. Co.*, 692 S.W.2d 794, 798-801 (Ky. 1985). However, that case did not discuss whether the Commission can impute a hypothetical interest rate for long-term debt that may be refinanced 16 months after the end of the historical test year. Instead, that case dealt with a very narrow federal tax credit issue, and “whether the commission can require [a] hypothetical interest expense to reduce the company’s tax expense and lower its revenue requirements.”<sup>78</sup> In finding that the Commission could, the Kentucky Supreme Court explained the crux of this narrow issue:

Under 26 I.R.C. § 46(c)(3), a tax credit against income is available to regulated companies qualifying as a public utility. The credit is computed on a percentage of qualifying investment. Under the option selected by the company, the unused or deferred amounts of the tax credit must be included in the rate base for rate-making purposes or the tax credit will be lost. 26 IRC § 46(f). The code and IRS regulations require that the portion of the credit included in the capital structure be assigned a rate not lower than the taxpayer or utility overall cost of capital. What constitutes the fair overall cost of capital rate depends in part on the practices of the individual regulatory commission. Treas. Reg. § 1.46-6(b)(3)(ii) (1980).

[...]

A utility is only permitted to earn a return on debt, equity and preferred, which are sources of capital supplied by investors. See *Federal Power Com'n v. Hope Natural Gas Co.*, 320 U.S. 591, 603, 64 S. Ct. 281, 88 L. Ed. 333 (1944). The inclusion of the tax credit in a utility capital structure is a statutory exception to this rule because the tax credit is a cost-free source of capital not supplied by investors. It is entitled to a return only because of the provisions of the IRS code.<sup>79</sup>

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<sup>77</sup> *Id.*

<sup>78</sup> *Id.* at 797.

<sup>79</sup> *Id.* at 798.

Based on the specific mechanics of that federal tax credit, the Kentucky Supreme Court held that the Commission did not exceed its authority when it imputed a hypothetical interest rate.<sup>80</sup>

Those facts are very different than those presented in this case.

Nor is there any evidence in the record, and the Commission does not cite any, that the Company's Senior Unsecured Notes-Series A debt will be issued at a "significantly lower interest rate." The Commission regularly holds utilities to the standard that adjustments or changes to companies' applications must be "known and measurable," and that "all assumptions made must be supported by detailed documentation including alternatives to the assumptions chosen," or "thoroughly explained and supported by detailed documentation in the evidence of record."<sup>81</sup> Further, "an 'estimate' does not meet rate-making criteria of known and measurable" and the Commission "must reject" it.<sup>82</sup>

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<sup>80</sup> *Id.*

<sup>81</sup> Order, *In The Matter Of: Notice Of South Central Bell Telephone Company Of An Adjustment In Its Intrastate Rates And Charges And The Volume Usage Measured Rate Service And Multiline Service Tariff Filing Of South Central Bell Telephone Company*, Case Nos. 8847 and 8879, at 7, 34 (Ky. P.S.C. January 18, 1984) (emphasis in original).

<sup>82</sup> Order, *In The Matter Of: Salt River Water District And Kentucky Turnpike Water District Joint Petition For Approval Of Merger Agreement And Retail Rate Adjustment*, Case No. 92-00169, at 11, 16 (Ky. P.S.C. February 10, 1993); *see also* Order, *In The Matter Of: The Filing Of A General Rate Increase By Lakeway Shores Utilities Association, Inc.*, Case No. 8502, at 2 (Ky. P.S.C. July 16, 1982) ("The Commission in the past has allowed adjustments to the historical test year that are known and measurable. The Commission has consistently denied adjustments based on estimates and finds no compelling reason in this instance to depart from its past policy."); Order, *In The Matter Of: Application Of Madison County Utility District For (A) Authority To Finance Construction In The Approximate Amount Of \$ 3,000,000; (B) A Certificate Of Convenience And Necessity For The Construction Of Water Facilities; And (C) Adjustment Of Rates*, Case No. 2002-00184, at 11 (Ky. P.S.C. January 27, 2003) ("Madison also proposed to increase test-year expenses by \$ 30,000 to cover the maintenance, repair and inspection of three other tanks. The amount proposed is based on unsubstantiated estimates. Madison has not provided any evidence that proves the amount known and measurable. The adjustment is therefore denied."); Order, *In The Matter Of: General Adjustment Of Sewerage System, Inc.*, Case No. 8654, at 12 (Ky. P.S.C. February 17, 1983) ("The Commission is of the opinion that the estimate proposed by Maryville is speculative in nature and that the forecasting of future expenditures fails to meet the criteria of known and measurable changes."); Order, *In The Matter Of: Application Of Carroll County Water District For A Certificate Of Public Convenience And Necessity: (1) Approving The Construction Of Major Additions, Extensions And Improvements; (2) Seeking Approval Of The Issuance Of Certain Securities; And (3) For An Order Authorizing Adjustment Of Water Service Rates And Charges*, Case No. 8960, at 5-6 (Ky. P.S.C. October 19, 1984) ("These adjustments were based on assumed inflation with no documentation, unsubstantiated estimates, and averages of various expense accounts for 1983... In adhering to its

The interest rate for bonds issued six months in the future cannot be ‘known’ and can only be an ‘estimate.’ The only evidence cited by the Commission to support the imputed conjectural interest rate is that the Company reported that “as of December 2, 2020, current bond rates range from 2.59 percent for a 7-year bond tenor to 4.49 percent for a 30-year tenor.”<sup>83</sup> The Commission cites no other evidence in the record to support its estimate.

Thus, because the future interest rate for bonds cannot be known and because the Commission’s imputed conjectural interest rate was based only upon an estimated range of current bond rates, the interest rate imputed by the Commission is not supported by “detailed documentation in the evidence of record,” and the interest rate therefore is not known and measurable and must be rejected based on the Commission’s own precedent. The Commission should amend its order to correct this error and reflect the Company’s actual cost of debt.

**b. The imputed conjectural interest rate further harms the Company’s credit metrics.**

This arbitrary reduction further erodes the Company’s challenged credit metrics, as is well-documented in the record. More fundamentally, it is plainly not reflective of the actual costs Kentucky Power will incur between the effective date of its new rates and June 18, 2021. It is also inappropriate for the Commission to arbitrarily pick and choose aspects of the Company’s filing to adjust or modify in anticipation of post-test year and post-Order occurrences whose outcome is unknown, while ignoring known and measurable adjustments proposed by the Company and without regard for other post-Order occurrences that might offset the impact of the

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policy of allowing only known and measurable increases to test period expenses, the Commission has no alternative other than to reject the majority of the proposed adjustments.”).

<sup>83</sup> Order at 39-40.



future debt instrument's interest rate. The Commission's Order in this regard is arbitrary and not based on sound or established ratemaking or cost of service principles.

Moreover, the Order provides for deferred accounting of \$1,057,851 (on an annual basis) of interest expense that Kentucky Power will incur but will not be authorized to collect in rates. Kentucky Power estimates that that amount will be approximately \$650,000 between January 14, 2021 and June 18, 2021. This deferral inevitably would increase carrying charges, thus increasing costs and further harming customers. As explained in Company Witness Messner's testimony, Kentucky Power's credit metrics are already weak for its current credit rating.<sup>84</sup> The Order's departure from the actual undisputed costs in the record, in favor of an arbitrary rate and associated costly deferral, is inconsistent with the legal requirements for known and measurable adjustments, and will harm customers. Therefore the Company respectfully requests that the order be amended to reflect the actual costs associated with the debt that will mature June 18, 2021, consistent with the Commission's long-standing precedent.

At a minimum, if the Commission is disinclined to amend its Order to reflect the Company's actual cost of debt, the Commission should confirm on rehearing that Kentucky Power is authorized to amortize the deferred interest expense through Tariff PPA beginning in July 2021, and it should further authorize a carrying charge on the deferral at the Company's weighted average cost of capital.

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<sup>84</sup> Messner Rebuttal Test. at R6-R7; Tr. Vol. III at 814.

**5. On Rehearing, The Commission Should Eliminate Its Requirement That The Company Perform A Zero-Intercept Study In Its Next Base Rate Case.**

The Commission's Order directs Kentucky Power to perform a zero-intercept study to determine the split between customer-related and demand-related costs for distribution FERC Accounts 364 through 368 in the Company's cost of service study in its next base rate case.<sup>85</sup> The Company traditionally has utilized, and the Commission repeatedly has accepted, the Company's use of the minimum system method. Indeed, the NARUC Electric Utility Cost Allocation Manual recommends and supports the use of either of these methods.<sup>86</sup> A zero-intercept study "requires considerably more data and calculation than the minimum-size method."<sup>87</sup> Kentucky Power does not have the detailed information necessary to properly perform the zero-intercept method, as the Commission's Order recognizes.<sup>88</sup> Specifically, among other things, the NARUC Electric Utility Cost Allocation Manual requires that a utility have the following information in order to perform a zero-intercept study:

- The number, investment, and average installed book cost of distribution poles by height and class of pole;<sup>89</sup>
- The feet, investment, and average installed book cost per foot for distribution conductors by size and type;<sup>90</sup>
- The feet, investment, and average installed book cost per foot for single-conductor and three-conductor underground cables, by voltage;<sup>91</sup>

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<sup>85</sup> Order at 53.

<sup>86</sup> National Association of Regulatory Utility Commissioners, Electric Utility Cost Allocation Manual, at 90-95 (1992).

<sup>87</sup> *Id.* at 92.

<sup>88</sup> Order at 53; Kentucky Power Response to Staff's Sixth Set of Data Requests, Item 28.

<sup>89</sup> Electric Utility Cost Allocation Manual, at 92.

<sup>90</sup> *Id.* at 93.

<sup>91</sup> *Id.* at 93-94.

- The number, investment, and average installed book cost per line transformer by size and type (voltage).<sup>92</sup>

Kentucky Power does not maintain property records at this level of granularity. The Company maintains pole detail by material type (*e.g.*, wood, aluminum, fiberglass, etc.) and could calculate an average overall cost per pole, but it could not calculate an average cost by height or class of pole. The Company does not maintain records regarding the size and type of overhead or underground conductor; rather the Company only keeps details regarding the total quantity (length) of overhead and underground conductor from which it could calculate an average cost per foot of those two general categories. Finally, Kentucky Power does not maintain detailed information regarding the size and voltage of line transformers and again would be able only to calculate a general average cost per line transformer.

Because the Company's property records do not allow it to perform a zero-intercept study, the Commission should eliminate on rehearing its order that the Company complete such a study in the Company's next base rate case. At a minimum, if the Commission retains this requirement, it should confirm that the Company's performance of a zero-intercept study using the information available to it, described above, will be sufficient to satisfy this requirement.

**6. The Commission Should Grant Rehearing To Correct, Reconsider, And Clarify Certain Of Its Findings Related To Advanced Metering Infrastructure.**

The Commission denied Kentucky Power's advanced metering infrastructure ("AMI") proposal without prejudice, directing the Company to refile a CPCN application with evidence that its existing metering system is obsolete and documenting the Company's evaluation of multiple RFP responses and the costs of the proposed system selected.<sup>93</sup> The Commission also

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<sup>92</sup> *Id.* at 94.

<sup>93</sup> Order at 80.

specifically held that “Kentucky Power provided no substantial evidence to support its assertion that replacing its current system with another AMR system was not a reasonable alternative because AMR meters will become obsolete in the near term...”<sup>94</sup> The Commission further found that the Company’s proposed GMR should be denied.<sup>95</sup> Kentucky Power respectfully requests that the Commission grant rehearing to correct, reconsider, and clarify certain aspects of its Order related to AMI, as set forth below.

**a. The Commission should correct its finding that Kentucky Power failed to prove that its existing metering system is obsolete.**

The Company respectfully asserts that Kentucky Power demonstrated beyond contravention that its existing automated meter reading (“AMR”) metering system is obsolete. First, the simple fact is that the current AMR meters, which run on the SCM platform, are no longer made nor supported by any manufacturer.<sup>96</sup> Second, the useful life of the current AMR meters is 15 years,<sup>97</sup> and 74.6% of the current AMR meters were between 10-15 years old at the time the Company filed its Application.<sup>98</sup> In the past three years, the failure rate of the Company’s 10-15 year old AMR meters has been approximately 10%,<sup>99</sup> and the Company currently is experiencing higher than normal failure rates and expects those rates to grow exponentially as the meters get older.<sup>100</sup> Simply put, soon all of the Company’s current AMR

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<sup>94</sup> *Id.* at 79-80.

<sup>95</sup> *Id.* at 80.

<sup>96</sup> Blankenship Direct Test. at 2-3; Blankenship Rebuttal Test. at R3-R4

<sup>97</sup> Tr. Vol. IV at 1028.

<sup>98</sup> Blankenship Direct Test. at 3; Tr. Vol. IV at 979, 1028.

<sup>99</sup> *Id.* at 3-4.

<sup>100</sup> Tr. Vol. IV at 979; *see also* Kentucky Power Post-Hearing Br. at 35-36.

meters will fail, and it will be impossible to replace those AMR meters with the same new AMR meters because they no longer are manufactured.

The Commission previously has cited Black's Law Dictionary for the definition of "obsolete," which is defined as, "no longer in general use; out-of-date."<sup>101</sup> It has also cited the Merriam-Webster Dictionary definition: "no longer in use or no longer useful."<sup>102</sup> Based on these definitions, the Company provided ample evidence to show that its current AMR meters are 'no longer in use,' 'no longer useful,' and 'out of date.' Accordingly, the Commission on rehearing should correct its Order and find that the Company's existing AMR meters are obsolete.

The Company plans to re-file its AMI CPCN application in accordance with the Order. As such, the Company respectfully requests, in the alternative, that the Commission amend its Order and provide guidance on any additional evidence the Commission should require to further prove the obsolescence of the Company's current AMR meters in its upcoming AMI CPCN application.

**b. The Commission should authorize a placeholder Grid Modernization Rider for the limited purpose of recovering future AMI deployment costs.**

The Commission also denied the Company's request to establish the GMR, presumably because the Company's AMI proposal was rejected. Although the Commission did not fully examine the Company's GMR proposal in the Order, the Company provided sufficient evidence

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<sup>101</sup> Order, *In The Matter Of: Electronic Application Of Jackson Purchase Energy Corporation For A Certificate Of Public Convenience And Necessity To Construct A New Headquarters Facility*, Case No. 2019-0326, at 12 (Ky. P.S.C. January 14, 2020) (citing Black's Law Dictionary (10<sup>th</sup> ed. 2014)).

<sup>102</sup> Order, *In The Matter Of: Petition Of East Kentucky Power Cooperative, Inc. For A Declaration Of Its Authorization To Sell The Smith Unit 1 Assets Without A Transfer Of Control Filing Under KRS 278.218*, Case No. 2013-00005, at 4-5 (Ky. P.S.C. March 5, 2013).

to establish the GMR to fund the cost of AMI deployment.<sup>103</sup> The Company explained its growing need to maintain and modernize its grid<sup>104</sup>, but that an earned ROE steadily declining to 5.3% as of September 2020,<sup>105</sup> prevents Kentucky Power from obtaining access to sufficient capital for reliability projects required to improve the grid and, ultimately, customer experience, and reliability metrics.<sup>106</sup> It further explained that it needs an alternative means to obtain the cash flow necessary to implement grid modernization projects like AMI, and the GMR provides a mechanism that makes sense: it gives the Company access to cash flow and capital that it otherwise would not have between base rate cases, while ensuring customers pay no more or no less than required to implement the projects.<sup>107</sup> The Company's financial position is unlikely to improve sufficiently by the time any CPCN for AMI meters is granted to allow the Company to front the cost of implementing AMI meters. Thus, the Company will have the same need for a mechanism providing incremental recovery of the costs to implement AMI meters that it has currently. The Company therefore requests, based on the evidence given in this case, that the Commission amend its Order and approve conditionally the establishment of the GMR for the limited purpose of funding the deployment of AMI meters and technology. The approved GMR would serve as a placeholder to be implemented if and when the Commission grants a CPCN to install AMI meters.

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<sup>103</sup> See Kentucky Power Post-Hearing Br. at 45-48; Phillips Direct Test. at 31-34; West Rebuttal Test. at R3-R6.

<sup>104</sup> Tr. Vol. IV at 967.

<sup>105</sup> Tr. Vol. I at 33; Mattison Rebuttal Test. at R3.

<sup>106</sup> Tr. Vol. IV at 966; Phillips Direct Test. at 31.

<sup>107</sup> Tr. Vol. IV at 1059.

**c. The Company cannot implement residential EV charging rates until AMI is deployed.**

The Commission approved Kentucky Power’s proposal to add a provision to its residential tariff allowing customers to, through a separately wired time-of-use meter, take advantage of time-of-use rates for their electrical vehicle charging load only.<sup>108</sup> Specifically, the Commission found the Company’s proposal to be “reasonable when utilizing AMR meters...”<sup>109</sup> The Company cannot implement residential EV charging rates unless and until AMI is deployed due to the fact that the rate requires the installation of an AMI meter. The Company’s ability to offer this important option under the electrical code requires the use of utility meters that are UL listed for installation within customer electrical facilities.<sup>110</sup> AMI meters are the only known utility metering choice to meet this requirement. Accordingly, the Company requests that the Commission amend its Order to clarify that the proposed residential EV charging rates are conditionally approved to be implemented upon approval of a CPCN for AMI meters.

**7. The Commission Should Grant Rehearing To Clarify The Timing Of The Future Proceeding To Authorize The Amortization Of The Rockport Deferral Mechanism Regulatory Asset And To Modify Its Order Regarding The Scope Of That Proceeding.**

**a. Background.**

The modification of the then-existing Tariff PPA to create the Rockport Deferral Mechanism, including the complementary and required establishment of the Rockport Deferral regulatory asset, was a linchpin to the Commission’s ability in Case No. 2017-00179 to mitigate

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<sup>108</sup> Order at 87-89.

<sup>109</sup> *Id.* at 89.

<sup>110</sup> *See* National Electrical Code § 230.66 (requiring service equipment not under the exclusive control of an electric utility to be listed or field labeled). Service equipment within a customer’s electrical facilities by definition cannot be under the electric utility’s exclusive control. 807 KAR 5:041, Section 3(2) makes the National Electrical Code applicable to the Company’s “construction and maintenance of plant and facilities....”

the impact of the increased rates required by the Company to continue to provide adequate, efficient, and reasonable service to its customers. The Rockport UPA is a FERC-approved rate schedule, and as such, the Company is entitled as a matter of federal law to the full and concurrent recovery of the UPA charges through its rates. The Company's agreement in Case No. 2017-00179 to forego its right to concurrent recovery by deferring a portion of the Rockport UPA expense provided the mechanism by which the Commission reduced the rate impact of the Rockport UPA in the near term. The design of the Rockport Deferral Mechanism also provided the necessary balance that allowed the Company to do this without unduly affecting the Company's credit rating, thereby avoiding additional borrowing costs to be borne by customers.

The Rockport Deferral Mechanism, along with the necessary establishment of the Rockport Deferral regulatory asset, was a creative concept, first suggested by Kentucky Industrial Utility Customers, Inc., that allowed the Company to defer, and its customers to defer paying, \$50 million of Rockport UPA contractual expenses until 2022 when they would be offset as a result of the expiration of the Rockport UPA. Under the settlement agreement proposed in Case No. 2017-00179, the Company would be authorized to establish the Rockport Deferral Mechanism regulatory asset that would be subject to a carrying charge at the Company's weighted average cost of capital. The Company estimated in Case No. 2017-00179 that the Rockport Deferral Regulatory Asset would total \$59 million dollars at the end of 2022.

The settlement agreement further provided that Kentucky Power would begin to recover the Rockport Deferral Mechanism regulatory asset beginning in December 2022 through amortization of the Rockport Deferral Mechanism regulatory asset over a five-year period. The settlement agreement recognized that if Kentucky Power elected not to extend the Rockport UPA it would no longer incur the costs associated with the Rockport UPA starting with the



termination date of the UPA. The settlement agreement likewise provided that these fixed cost savings would be credited back to the Company's customers through Tariff PPA to offset the amortization of the Rockport Deferral regulatory asset. For 2023 only, the settlement agreement provided that this flow-back of the Rockport UPA fixed cost savings would be subject to an offset in the amount of revenue, up to the amount of the realized savings, necessary for the Company to earn its Commission-authorized return on equity.

The Commission recognized the benefits of the Rockport Deferral in approving, for accounting purposes only, the Rockport Deferral Mechanism regulatory asset:

The Commission recognizes that there are inherent risks associated with any deferral mechanism, especially the deferral recovery is contingent upon not renewing the Rockport UPA. Given Kentucky Power's excess capacity and slow load growth, the Commission believes the benefits of the deferral outweigh the associated risks, and approves the Rockport Deferral Mechanism and the associated \$15 million decrease to rate base. The carrying charges associated with this rider shall be based on the WACC approved in this Order and are effective as of the date of this Order.<sup>111</sup>

The Commission deferred until this case "the appropriate ratemaking treatment for this regulatory asset account ...."<sup>112</sup> The Commission held on rehearing in Case No. 2017-00179 that the approval was not just for accounting purposes but was to reflect future rate recovery of the Rockport Deferral Mechanism regulatory asset.<sup>113</sup>

Kentucky Power subsequently elected not to extend the Rockport UPA. Thus, the risk that the Commission concluded in its Order in Case No. 2017-00179 was outweighed by the

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<sup>111</sup> 2017 Rate Case Order at 40. The final sentence of the quoted language subsequently was modified to provide that the carrying charges "shall be as "specif[ied] in paragraph 3(c) on page 5 of the Settlement Agreement attached as Appendix A to the January 18, 2018 Order." 2017 Rate Case, Order at 9 (Feb. 27, 2018) ("2017 Rate Case Rehearing Order").

<sup>112</sup> 2017 Rate Case Order at 40.

<sup>113</sup> 2017 Rate Case Rehearing Order.

benefits of the Rockport Deferral Mechanism never materialized. As a result, the Company's customers continue to this day to reap the full benefits of the Rockport Deferral Mechanism.

- b. **Given the Rockport Deferral Mechanism regulatory asset's significance, the Commission should clarify on rehearing the timing of the additional proceeding to authorize the regulatory asset's amortization.**

In accordance with the Commission's indication in its January 18, 2018 Order in Case No. 2017-00179 that it would address the issue in this proceeding, the Company proposed in this case to amortize the Rockport Deferral Mechanism regulatory asset over the five years provided for in the settlement agreement in Case No. 2017-00179.

The Commission concluded in this case that the Company's request to amortize the Rockport Deferral Mechanism over five years was premature based on the Commission's finding the Company "was unable to confirm the amortization amount or savings once the Rockport UPA terminates."<sup>114</sup> It therefore deferred "the determination of the appropriate amortization period and recovery mechanism to a subsequent matter the Commission will initiate on its own motion."<sup>115</sup> The Commission also indicated it would "review and clarify items related to provisions of the final Order in Case No. 2017-00179 regarding Kentucky Power's ability to use the savings from the expiration of the Rockport UPA to earn its Commission-approved ROE in calendar year 2023."<sup>116</sup>

Kentucky Power respectfully requests that the Commission grant rehearing to provide a date certain by which it will initiate the subsequent proceeding to establish the amortization period for the Rockport Deferral Mechanism regulatory asset. The Company further requests on

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<sup>114</sup> Order at 64-65.

<sup>115</sup> *Id.* at 65.

<sup>116</sup> *Id.*

rehearing that the proceeding be established at the earliest practicable time. The Rockport Deferral Mechanism regulatory asset totals \$41.267 million as of December 31, 2020, and as such constitutes a material part of the Company's balance sheet. Both the timing, and the certainty of that timing, of the amortization of the Rockport Deferral Mechanism are fundamental to the Company's ability to maintain its credit metrics.

**c. The Commission should confirm the scope of the subsequent amortization proceeding on rehearing.**

The Company further requests that the Commission grant rehearing to delete that portion of its January 13, 2021 Order in this case indicating its intent to “review and clarify items related to provisions of the final Order in Case No. 2017-00179 regarding Kentucky Power’s ability to use the saving from the expiration of the Rockport UPA to earn its Commission-approved ROE in calendar year 2023.”<sup>117</sup> Kentucky Power respectfully submits that there is nothing to review or clarify with respect to the use of the Rockport UPA savings in 2023.

The Commission’s January 18, 2018 Order in Case No. 2017-00179 approved the settlement agreement in that case “subject to the modification and deletions” specified in the Commission’s Order. The Company’s right to use the Rockport Savings in calendar 2023 as detailed in the settlement agreement in Case No. 2017-00179 was not among the modifications and deletions identified by the Commission. The Commission’s January 18, 2018 Order in Case No. 2017-00179 is unambiguous regarding the calendar year 2023 offset. Certainly, the Commission’s January 13, 2021 Order in this case does not identify any ambiguities with calendar year 2023 offset, and thus review and clarification is unwarranted. Further, Kentucky Power accepted the modifications made by the Commission to the Rockport Deferral

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<sup>117</sup> Order at 65.

Mechanism, and agreed to forego its right under federal law to the concurrent recovery of the Rockport UPA costs, based on the limited modifications identified by the Commission in its January 18, 2018 Order.

The Company's customers have enjoyed the benefits of the reduced rates flowing from the Rockport Deferral Mechanism. To the extent the subsequent proceeding to be initiated by the Commission deprives the Company of the benefit of the calendar year 2023 offset, the Commission's January 13, 2021 Order in this case is arbitrary in violation of Section 2 of the Kentucky Constitution and the Fifth and Fourteenth Amendments to the Constitution of the United States, and constitutes a taking under both constitutions.<sup>118</sup> Respectfully, the decision also is unsupported by findings of specific evidentiary fact. Finally, the provision is fundamentally unfair and will undermine the ability of the Company in the future to enter into the sort of creative mechanisms benefitting customers like the Rockport Deferral Mechanism.

**8. The Commission Should Confirm On Rehearing That Kentucky Power May Recover COGEN/SPP Purchased Power Expense Through Tariff PPA.**

In its Application and supporting testimony, Kentucky Power requested approval to recover payments made to qualifying facilities under the Company's approved COGEN/SPP tariffs through Tariff PPA.<sup>119</sup> As Company Witness Vaughan explained, "[s]uch payments are akin to purchased power expense already authorized to be recovered through the rider."<sup>120</sup> That proposal was unopposed; however, it does not appear to have been explicitly addressed in the Commission's Order. Kentucky Power thus respectfully requests that the Commission confirm

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<sup>118</sup> *Allard v. Big Rivers Elec. Corp.*, 602 S.W.3d 800, 807 (Ky. App. 2020) quoting *God's Center Found., Inc. v. Lexington-Fayette Urban Cnty. Govt.*, 125 S.W.3d 295, 299-300 (Ky. App. 2002) (prohibition against arbitrary action under Section 2 of the Kentucky Constitution extends to takings); *Herr v. U.S. Forest Serv.*, 865 F.3d 351 (6<sup>th</sup> Cir. 2017). *See also*, Ky. Const. § 13.

<sup>119</sup> Vaughan Direct Test. at 31.

<sup>120</sup> *Id.*

on rehearing that the Company may recover COGEN/SPP purchased power expense through Tariff PPA.

**9. The Commission Should Grant Rehearing To Amend Its Order To Recognize That The Company Met Its Evidentiary Burden With Respect To Its Proposed Tariff NMS II Rates. The Commission Alternatively Should Clarify Its Order To Indicate The Nature Of The Evidence It Is Seeking In Connection With The Establishment Of Rates Under KRS 278.466(3).**

The Commission deferred its decision on the Company’s proposed NMS II tariff<sup>121</sup> and associated rates to the subsequently scheduled April 6-8, 2021 hearing in this matter.<sup>122</sup> The Commission in part premised its decision to defer a decision on the fact that it was contracting with a consultant to assist it with its review of rates to be established in conformity with KRS 278.466(3), and the fact that this is “the first proceeding to propose new net metering rates consistent with the Net Metering Act ....”<sup>123</sup> The Commission also observed that the Company “did not conduct a cost of service study or provide any cost support for serving net metered customers. Instead, Kentucky Power proposed to use avoided cost as the basis for net metering rates.”<sup>124</sup> Finally, the Commission indicated that it was not convinced that avoided cost was an appropriate basis for net metering rates.<sup>125</sup>

Kentucky Power recognizes that Tariff NMS II is the first net metering rate proposal examined by the Commission under the Net Metering Act. But novelty does not mean the

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<sup>121</sup> The Commission also indicated it was deferring a decision on the Company’s proposal to close its NMS I tariff to new customers. Order at 114.

<sup>122</sup> Order at 85; Order, *In the Matter of: Electronic Application Of Kentucky Power Company For (1) A General Adjustment Of Its Rates For Electric Service; (2) Approval Of Tariffs And Riders; (3) Approval Of Accounting Practices To Establish Regulatory Assets And Liabilities; (4) Approval Of A Certificate Of Public Convenience And Necessity, And (5) All Other Required Approvals And Relief*, Case No. 2020-00174 (Ky. P.S.C. January 15, 2021).

<sup>123</sup> Order at 84, 85.

<sup>124</sup> *Id.* at 84-85.

<sup>125</sup> *Id.* at 85.

Commission is traveling in uncharted waters in establishing net metering rates. As the Commission itself noted, the standard governing the Commission’s review of Tariff NMS II is whether the proposed rates are fair, just, and reasonable.<sup>126</sup> In reaching that determination it is the result, and not the particular method used to reach that result, that controls.<sup>127</sup>

Kentucky Power respectfully notes that the record in this case supports the reasonableness of its proposed NMS II rates whether measured on an avoided cost basis or a cost of service basis. The Company produced “actual calculations and cost of service analysis specific to the Company and its customers”<sup>128</sup> in developing its proposed NMS II rates. For example, Exhibit AEV-3 demonstrates the calculation of the \$0.03659/kWh rate proposed by the Company using cost of service building blocks.<sup>129</sup> That is, the proposed NMS II rate includes those cost of service components “for which the Company and its other non-net metering customers would see an actual cost reduction as a result of an NMS II customer’s excess generation.”<sup>130</sup>

The Company further refined and updated its proposed NMS II rates in response to discovery and the testimony of the Intervenor’s witnesses.<sup>131</sup> These refined and updated rates provide “a full accounting of the costs and benefits’ of eligible customer generators’ distributed

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<sup>126</sup> *Id.*

<sup>127</sup> *National-Southwire Aluminum Co. v. Big Rivers Electric Corp.*, 785 S.W.2d 503, 512-513 (Ky. App. 1990).

<sup>128</sup> Vaughan Rebuttal at R43.

<sup>129</sup> Vaughan Direct at 26-27.

<sup>130</sup> Vaughan Direct at 27. These include the Company’s cost-based avoided energy cost, distribution losses, and avoided generation and transmission fixed costs. *Id.*; AEV-3. *See also* Vaughan Rebuttal at R28-R30. Company Witness Vaughan expanded on this point at the hearing in this matter by explaining: “[b]ut basically the Company is valuing an avoided cost rate *based on what the actual avoided costs are, so that when a customer’s load is reduced through net metering or excess net metering in that interval, what is the total cost of service actually realiz[ed].*” Tr. Vol. V at 1299 (emphasis supplied).

<sup>131</sup> Vaughan Rebuttal at R33-R34; AEV-R4; AEV-R5.

generation systems.”<sup>132</sup> Exhibit AEV-R4 and Exhibit AEV-R5 provide the same sort of cost of service support for the updated rates as provided in AEV-3. Likewise, Company Witness Vaughan’s rebuttal testimony provides a high-level class cost of service analysis for the Company’s net metering customers.<sup>133</sup>

Crediting these cost of service-based avoided cost rates against NMS II customers’ cost-based retail rates approved by the Commission for the customer’s metered usage results in NMS II customers paying net rates based on the cost of serving those customers. Such rates are by any measure fair, just, and reasonable.<sup>134</sup>

Further, even if the Company had not provided the cost of service analyses contained in Company Witness Vaughan’s direct and rebuttal testimony, such a study is not required to establish NMS II rates. Nothing in the Net Metering Act dictates the use of a class cost of service study in establishing rates under the act. The underlying loads of net metering customers are no different on average from those of other non-net metering members of the residential and commercial classes.<sup>135</sup> More fundamentally, general ratemaking principles and Commission practice, which do not mandate a separate cost of service study for each specific customer or group of customers within the broader classes upon which rates are established,<sup>136</sup> counsel against imposing a requirement of a cost of service study for net metering customers in

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<sup>132</sup> Vaughan Rebuttal at R28; *See also* R33 (“a full accounting of the costs and benefits of net metering customers’ service has already been performed based on the Company’s actual costs and those it can avoid.”) Company Witness Vaughan expanded on this point at the hearing in this matter by explaining: “[b]ut basically the Company is valuing an avoided cost rate based on what the actual avoided costs are, so that when a customer’s load is reduced through net metering or excess net metering in that interval, what is the total cost of service actually realiz[ed].” Tr. Vol. V at 1299 (emphasis added).

<sup>133</sup> Vaughan Rebuttal Test. at R35-R38.

<sup>134</sup> Transcript of Hearing at 1391-1392.

<sup>135</sup> Vaughan Rebuttal at R38.

<sup>136</sup> *Id.* at R37; Transcript of Hearing at 1393.

establishing rates under the Net Metering Act. Indeed, as it has in the past,<sup>137</sup> the Commission in its January 13, 2021 Order approved as fair, just, and reasonable multiple specific rates within broad customer classes without the benefit of a cost of service study for each rate classification.<sup>138</sup>

Kentucky Power respectfully requests that the Commission grant rehearing to amend its January 13, 2021 Order to approve the proposed NMS II rates and tariff, along with the complementary NMS I tariff, based upon the evidentiary record. Alternatively, the Company requests that the Commission enter an Order on rehearing specifying the type of study or evidence it believes it requires to establish fair, just, and reasonable NMS II rates.

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<sup>137</sup> *Id.* at R38.

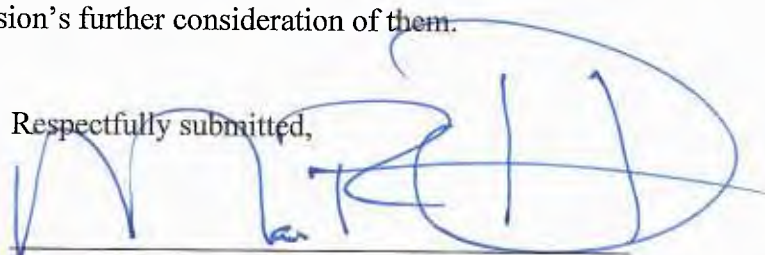
<sup>138</sup> *See* Vaughan Rebuttal Test. at R37-R38; Order at 51-53.



## Conclusion

The Company respectfully suggests that rehearing is warranted on each of the above issues. In addition to the property and substantive rights the utility and its investors that are always implicated in any rate case proceeding, it is important to fully understand the rationale for certain of the Commission's findings. Other issues presented herein arise from apparent clerical missteps or oversights. The rehearing process is appropriate to address such issues, and the Company requests and appreciates the Commission's further consideration of them.

Respectfully submitted,



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COUNSEL FOR  
KENTUCKY POWER COMPANY

**EXHIBIT A**



**DELIVERED VIA EMAIL TO PSCED@KY.GOV**

January 19, 2021

Linda Bridwell  
Executive Director  
Public Service Commission of Kentucky  
211 Sower Boulevard  
Frankfort, Kentucky 40602

**RE: Monthly Environmental Surcharge Report**

Dear Ms. Bridwell,

Pursuant to KRS 278.183(3), Kentucky Power Company files the original and two copies of its Environmental Surcharge Reports for the month of December 2020 to be billed in February 2021.

The Company is using a 9.10 percent return on equity in connection with this filing. The reduced return on equity is being applied in accordance with the Commission's January 13, 2021 Order in Case No. 2020-00174 (page 27) "find[ing] that Kentucky Power should use an ROE of 9.10 percent for Tariff ES filings after the date of this Order."

Kentucky Power believes that KRS 278.160 and Commission precedent limit the effective date of the change in the return on equity to service rendered after January 13, 2021. Kentucky Power nevertheless continues to review the issue, and its use of a return on equity of 9.10 percent in this filing is without prejudice to the Company's right to address any under-recovery through future Tariff ES filings, or through filing a motion for clarification or rehearing in Case No. 2020-00174.

If there are any questions, please contact me at 606-327-2603.

Sincerely,

Brian K. West  
Vice President Regulatory & Finance

Attachments

**KENTUCKY POWER COMPANY**

**Environmental Surcharge**

**Summary**

**Month Ended:** **December 2020**

Residential Environmental Surcharge Factor	=	<u>\$1,165,467</u> \$17,288,687	=	6.7412%
All Other Classes Environmental Surcharge	=	<u>\$1,442,425</u> \$13,057,724	=	11.0465%

Effective Date for Billing February 2021

Submitted by:   
(Signature)

Title: Vice President Regulatory & Finance

Date Submitted: January 19, 2021

KENTUCKY POWER COMPANY - ENVIRONMENTAL SURCHARGE REPORT  
CALCULATION OF E(m) and SURCHARGE FACTOR  
December 2020

<u>CALCULATION OF E(m)</u>			
E(m) = CRR - BRR			
LINE 1	CRR from ES FORM 3.00	\$4,766,682	
LINE 2	BRR from ES FORM 1.10	\$3,882,677	
LINE 3	Mitchell FGD Expenses (E.S. Form 3.13, Line 42)	\$2,143,420	
LINE 4	E(m) (LINE 1 - LINE 2 + LINE 3)	\$3,027,425	
LINE 5	Kentucky Retail Jurisdictional Allocation Factor, from ES FORM 3.30, Schedule of Revenues, LINE 1	97.5%	
LINE 6	KY Retail E(m) (LINE 4 * LINE 5)	\$2,951,437	
LINE 7	Under/ (Over) Collection, ES Form 3.30	(\$343,545)	
LINE 8	Net KY Retail E(m) (Line 6 + Line 7)	\$2,607,892	
<u>SURCHARGE FACTORS</u>		<u>Residential</u>	<u>All Other Classifications</u>
LINE 9	Allocation Factors, % of revenue during previous Calendar Year	44.69%	55.31%
LINE 10	Current Month's Allocation E(m) (Line 8* Line 9)	\$1,165,467	\$1,442,425
LINE 11	Kentucky Residential Revenues/All Other Non-Fuel Revenues	\$17,288,687	\$13,057,724
LINE 12	Surcharge Factors (Line 10/Line 11)	6.7412%	11.0465%

\* Calculations may not tie due to rounding.

ES FORM 1.10

KENTUCKY POWER COMPANY - ENVIRONMENTAL SURCHARGE REPORT  
BASE PERIOD REVENUE REQUIREMENT  
December 2020

MONTHLY BASE PERIOD REVENUE REQUIREMENT

Billing Month	Base Net Environmental Costs
JANUARY	\$3,664,681
FEBRUARY	\$3,581,017
MARCH	\$3,353,024
APRIL	\$3,661,574
MAY	\$3,595,145
JUNE	\$3,827,332
JULY	\$3,747,320
AUGUST	\$3,888,262
SEPTEMBER	\$3,636,247
OCTOBER	\$3,824,697
NOVEMBER	\$3,717,340
DECEMBER	\$3,882,677
TOTAL	\$44,379,316

KENTUCKY POWER COMPANY - ENVIRONMENTAL SURCHARGE REPORT  
CURRENT PERIOD REVENUE REQUIREMENT  
December 2020

CALCULATION OF CURRENT PERIOD REVENUE REQUIREMENT

LINE NO.	COMPONENTS		
1	<b>First Component:</b> Associated with Mitchell Non-FGD expenses <b>ES FORM 3.13</b> , Line 42		\$2,702,309
2	<b>Second Component:</b> Associated with Rockport Plant [((RB IM(C)) (ROR IM(C)/12)) + OE IM(C)] <b>ES FORM 3.20</b> , Line 28		\$2,064,373
3	<b>Third Component:</b> Net Proceeds from Emission Allowances Sales  1) <b>CAIR SO2</b> - EPA Auction Proceeds received during Expense Month  2) <b>CSAPR SO2</b> - Net Gain or (Loss) from Allowance Sales, received during Expense Month  <p style="text-align: right;"><b>Total Net Proceeds from SO2 Allowances</b></p> 3) <b>NOx</b> - EPA Auction Proceeds, received during Expense Month  4) <b>NOx</b> - Net Gain or (Loss) from NOx Allowances Sales, received during Expense Month  <p style="text-align: right;"><b>Total Net Proceeds from NOx Allowances</b></p>	\$0  \$0  <b>\$0</b>  \$0  \$0  <b>\$0</b>	
4	Total Net Gain or (Loss) from Emission Allowance Sales		\$0
5	Total Current Period Revenue Requirement, CRR Record on ES FORM 1.00. (Line 1 + Line 2 - Line 4)	-----	----- \$4,766,682

\* Calculations may not tie due to rounding.

KENTUCKY POWER COMPANY - ENVIRONMENTAL SURCHARGE REPORT  
CURRENT PERIOD REVENUE REQUIREMENT  
SO2 EMISSIONS ALLOWANCE INVENTORY

December 2020

	(1) Total Allowance Inventory (Quantity)	(2) Total Allowance Inventory (Dollar Value)	(3) Current Allowance Inventory (Quantity)	(4) Current Allowance Inventory (Dollar Value)	(5) Average Cost per Allowance (Current Allowances)
MONTHLY BEGINNING INVENTORY	1,777,257	\$8,601,136	171,884	\$ 8,601,136	\$50.04
Additions -					
EPA Allowances	0	\$0	0	\$0	\$0.00
Gavin Reallocation	0	\$0	0	\$0	\$0.00
P & E Transfers In	0	\$0	0	\$0	\$0.00
Intercompany Purchases	0	\$0	0	\$0	\$0.00
Other (List)	0	\$0	0	\$0	\$0.00
SO2 Emissions Allowance					
Adjustment	0	\$0	0	\$0	\$0.00
Withdrawals -					
P & E Transfers Out	0	\$0	0	\$0	\$0.00
Intercompany Sales	0	\$0	0	\$0	\$0.00
Off - System Sales	0	\$0	0	\$0	\$0.00
Surrenders- Consent Decree	48,530	\$0	0	\$0	\$0.00
Consumption Adjustment (RP & ML)	0	\$0	0	\$0	\$0.00 ****
Consumption Adjustment (BS)	0	\$0	0	\$0	\$0.00
SO2 Emissions Allowances Consumed By Kentucky Power - 1:1 (Year 2009 & Prior)	0	\$0	0	\$0	\$0.00
SO2 Emissions Allowances Consumed By Mitchell and Rockport	33	\$1,651	33	\$1,651	\$50.04 *
SO2 Emissions Allowances Consumed By Big Sandy	2	\$100	2	\$100	\$0.00 **
ENDING INVENTORY - Record Balance on ES FORM 3.13	1,728,692	\$8,599,384	171,849	\$8,599,384	\$50.04 ***

\* Includes only Mitchell and Rockport allowance consumption.

\*\* Big Sandy consumption is recovered through base and not included in E(m).

\*\*\* Inventory represents entire Kentucky Power SO2 emissions allowance inventory.

\*\*\*\* Prior Year Consumption Adjustments. Only adjustments related to Rockport and Mitchell are included.



KENTUCKY POWER COMPANY - ENVIRONMENTAL SURCHARGE REPORT  
CURRENT PERIOD REVENUE REQUIREMENT  
CSAPR SO2 EMISSIONS ALLOWANCE INVENTORY

December 2020

	(1)	(2)	(3)	(4)	(5)
	Total Allowance Inventory (Quantity)	Total Allowance Inventory (Dollar Value)	Current Allowance Inventory (Quantity)	Current Allowance Inventory (Dollar Value)	Average Cost per Allowance (Current Allowances)
MONTHLY BEGINNING INVENTORY	103,598	\$21,137	62,469	\$ 21,137	\$0.34
Additions -					
EPA Allowances	0	\$0	0	\$0	\$0.00
Gavin Reallocation	0	\$0	0	\$0	\$0.00
P & E Transfers In	0	\$0	0	\$0	\$0.00
Intercompany Purchases	0	\$0	0	\$0	\$0.00
Other (List)	0	\$0	0	\$0	\$0.00
CSAPR SO2 Emissions Allowance Adjustment	0	\$0	0	\$0	\$0.00
Withdrawals -					
P & E Transfers Out	0	\$0	0	\$0	\$0.00
Intercompany Sales	0	\$0	0	\$0	\$0.00
Off - System Sales	0	\$0	0	\$0	\$0.00
Consumption Adjustment (RP & ML)	0	\$0	0	\$0	\$0.00 ****
Consumption Adjustment (BS)	0	\$0	0	\$0	\$0.00
CSAPR SO2 Emissions Allowances Consumed in Current Month At Rockport and Mitchell Plants	33	\$11	33	\$11	\$0.34 *
CSAPR SO2 Emissions Allowances Consumed in Current Month at Big Sandy Plant	2	\$1	2	\$1	\$0.00 **
ENDING INVENTORY - Record Balance on ES FORM 3.13	103,563	\$ 21,125	62,434	\$ 21,125	\$0.34 ****

\* Includes only Mitchell and Rockport allowance consumption.

\*\* Big Sandy consumption is recovered through base and not included in E(m).

\*\*\* Inventory represents entire Kentucky Power CSAPR SO2 emissions allowance inventory.

\*\*\*\* Prior Year Consumption Adjustments. Only adjustments related to Rockport and Mitchell are included.

ES FORM 3.12 A

KENTUCKY POWER COMPANY - ENVIRONMENTAL SURCHARGE REPORT  
CURRENT PERIOD REVENUE REQUIREMENT  
CSAPR Annual NOx EMISSIONS ALLOWANCE INVENTORY  
December 2020

	(1)	(2)	(3)	(4)	(5)
	Total Allowance Inventory (Quantity)	Total Allowance Inventory (Dollar Value)	Current Allowance Inventory (Quantity)	Current Allowance Inventory (Dollar Value)	Average Cost per Allowance (Current Allowances)
MONTHLY BEGINNING INVENTORY	61,073	\$0	33,670	\$0	\$0.00
Additions -					
EPA Allowances	0	\$0	0	\$0	\$0.00
P&E Transfers In	0	\$0	0	\$0	
Intercompany Purchases	0	\$0	0	\$0	\$0.00
Other (List)	0	\$0	0	\$0	\$0.00
Withdrawals -					
P & E Transfers Out	0	\$0	0	\$0	\$0.00
Intercompany Sales	0	\$0	0	\$0	\$0.00
Off - System Sales	0	\$0	0	\$0	\$0.00
Prior Period Consumption Adjustment	0	\$0	0	\$0	\$0.00
CSAPR Annual NOx Emissions Allowances Consumed By Kentucky Power--Mitchell and Rockport Plants	74	\$0	74	\$0	\$0.00 *
CASPR Annual NOx Emissions Allowances Consumed By Kentucky Power--Big Sandy Plant	60	\$0	60	\$0	\$0.00 **
ENDING INVENTORY - Record Balance on ES FORM 3.13	60,939	\$0	33,536	\$0	\$0.00 ***

\* Includes only Mitchell and Rockport allowance consumption.

\*\* Big Sandy consumption is recovered through base and not included in E(m).

\*\*\* Inventory represents entire Kentucky Power CSAPR ANNX emissions allowance inventory.

KENTUCKY POWER COMPANY - ENVIRONMENTAL SURCHARGE REPORT  
CURRENT PERIOD REVENUE REQUIREMENT  
CSAPR Seasonal NOx EMISSIONS ALLOWANCE INVENTORY  
December 2020

	(1)	(2)	(3)	(4)	(5)
	Total Allowance Inventory (Quantity)	Total Allowance Inventory (Dollar Value)	Current Allowance Inventory (Quantity)	Current Allowance Inventory (Dollar Value)	Average Cost per Allowance (Current Allowances)
MONTHLY BEGINNING INVENTORY	8,381	\$0	1,155	\$0	\$0.00
Additions -					
EPA Allowances	0	\$0	0	\$0	\$0.00
P&E Transfers In	0	\$0	0	\$0	\$0.00
Intercompany Purchases	0	\$0	0	\$0	\$0.00
External Purchases	0	\$0	0	\$0	\$0.00
Other (List)	0	\$0	0	\$0	\$0.00
CSAPR Seasonal NOx Emissions Allowance Adjustment	0	\$0	0	\$0	\$0.00
Withdrawals -					
P & E Transfers Out	0	\$0	0	\$0	\$0.00
Intercompany Sales	0	\$0	0	\$0	\$0.00
External Sales	0	\$0	0	\$0	\$0.00
Consumption Adjustments	0	\$0	0	\$0	\$0.00
CSAPR Seasonal NOx Emissions Allowances Consumed By Kentucky Power --Rockport and Mitchell Plants only	0	\$0	0	\$0	\$0.00 *
CSAPR Seasonal NOx Emissions Allowances Consumed by Kentucky Power--Big Sandy Plant	0	\$0	0	\$0	\$0.00 **
ENDING INVENTORY - Record Balance on ES FORM 3.13	8,381	\$0	1,155	\$0	\$0.00 ***

\* Includes only Mitchell and Rockport allowance consumption.

\*\* Big Sandy consumption is recovered through base and not included in E(m).

\*\*\* Inventory represents entire Kentucky Power CSAPR Seasonal NOx emissions allowance inventory.

Kentucky Power Company  
Mitchell Environmental Costs  
December 2020

Ln. No.	Cost Component	Non-FGD Costs	FGD Costs	Total Costs
1	Utility Plant at Original Cost	\$ 384,208,246	\$ 329,333,074	\$ 713,541,320
2	Less Accumulated Depreciation	\$ 136,130,760	\$ 130,741,596	\$ 266,872,356
3	Less Accumulated Deferred Income Tax	\$ 44,151,739	\$ 32,132,305	\$ 76,284,044
4	Net Utility Plant	<b>\$ 203,925,747</b>	<b>\$ 166,459,173</b>	<b>\$ 370,384,920</b>
5	*SO2 Emission Allowance Inventory	\$ 8,599,384	\$ -	\$ 8,599,384
6	*CSAPR SO2 Emission Allowance Inventory	\$ 21,125	\$ -	\$ 21,125
7	*CSAPR NOx Emission Allowance Inventory (Seasonal)	\$ -	\$ -	\$ -
8	*CSAPR AN Emission Allowance Inventory (Annual)	\$ -	\$ -	\$ -
9	Limestone Inventory (1540006)	\$ -	\$ 2,338,478	\$ 2,338,478
10	Urea Inventory (1540012)	\$ 177,660	\$ -	\$ 177,660
11	Limestone In-Transit Inventory (1540022)	\$ -	\$ 62,874	\$ 62,874
12	Urea In-Transit Inventory (1540023)	\$ 350,003	\$ -	\$ 350,003
13	Cash Working Capital Allowance	\$ 152,313	\$ 210,803	\$ 363,116
14	<b>Total Rate Base</b>	<b>\$ 213,226,232</b>	<b>\$ 169,071,327</b>	<b>\$ 382,234,685</b>
15	Weighted Average Cost of Capital	7.50%		
16	Monthly Weighted Avg. Cost of Capital	0.63%	0.63%	0.63%
17	Monthly Return on Rate Base	\$ 1,332,664	\$ 1,056,696	\$ 2,388,967
18	Monthly Disposal (5010000)	\$ -	\$ (9,729)	\$ (9,729)
19	Monthly Fly Ash Sales (5010012)	\$ -	\$ -	\$ -
20	Monthly Urea Expense (5020002)	\$ 46,287	\$ -	\$ 46,287
21	Monthly Trona Expense (5020003)	\$ 23,612	\$ -	\$ 23,612
22	Monthly Lime Stone Expense (5020004)	\$ -	\$ 160,243	\$ 160,243
23	Monthly Polymer Expense (5020005)	\$ -	\$ (57,872)	\$ (57,872)
24	Monthly Lime Hydrate Expense (5020007)	\$ -	\$ 7,794	\$ 7,794
25	Monthly WV Air Emission Fee	\$ 10,165	\$ -	\$ 10,165
26	SO2 Consumption **	\$ 1,651	\$ -	\$ 1,651
27	CSAPR SO2 Consumption **	\$ 11	\$ -	\$ 11
28	CSAPR Annual NOx Consumption	\$ -	\$ -	\$ -
29	CSAPR Seasonal NOx consumption	\$ -	\$ -	\$ -
30	<b>Total Monthly Operation Costs</b>	<b>\$ 1,414,390</b>	<b>\$ 1,157,133</b>	<b>\$ 2,571,130</b>
31	Monthly FGD Maintenance Expense	\$ -	\$ 157,269	\$ 157,269
32	Monthly Non-FGD Maintenance Expense	\$ 245,601	\$ -	\$ 245,601
33	<b>Total Monthly Maintenance Expense</b>	<b>\$ 245,601</b>	<b>\$ 157,269</b>	<b>\$ 402,870</b>
34	Monthly Depreciation Expense	\$ 924,425	\$ 812,355	\$ 1,736,780
35	Monthly Catalyst Amortization Expense	\$ 98,347	\$ -	\$ 98,347
36	Monthly Property Tax	\$ 19,356	\$ 16,592	\$ 35,948
37	<b>Total Monthly Other Expenses</b>	<b>\$ 1,042,128</b>	<b>\$ 828,947</b>	<b>\$ 1,871,075</b>
38	<b>Total Monthly Operation, Maintenance, and Other Expenses</b>	<b>\$ 1,369,456</b>	<b>\$ 1,086,652</b>	<b>\$ 2,456,108</b>
39	<b>O&amp;M for corresponding month of test year</b>	<b>\$ 1,334,591</b>	<b>\$ 1,073,331</b>	<b>\$ 2,407,922</b>
40	<b>Difference in Test Year Month O&amp;M &amp; Current Month O&amp;M</b>	<b>\$ 34,865</b>	<b>\$ 13,321</b>	<b>\$ 48,187</b>
41	<b>Gross-up for Uncollectible Expense &amp; KPSC Maint Fee (Ln 40 * .005425)</b>	<b>\$ 189</b>	<b>\$ 72</b>	<b>\$ 261</b>
42	<b>Total Revenue Requirement</b>	<b>\$ 2,702,309</b>	<b>\$ 2,143,420</b>	<b>\$ 4,845,729</b>

\* Inventory Includes Total Kentucky Power allowances inventory.

\*\* Includes Consumption for Rockport and Mitchell plants only.

ES FORM 3.15

KENTUCKY POWER COMPANY - ENVIRONMENTAL SURCHARGE REPORT  
CURRENT PERIOD REVENUE REQUIREMENT  
MITCHELL PLANT COST OF CAPITAL

December 2020

LINE NO.	Component	Balances	Cap. Structure	Cost Rates		WACC (Net of Tax)	GRCF		WACC (PRE-TAX)
		<b>As of 3/31/2020*</b>							
1	L/T DEBT	\$752,127,351	53.73%	3.89%		2.09%	1.006093		2.10%
2	S/T DEBT	\$0	0.00%	1.71%		0.00%	1.006093		0.00%
3	ACCTS REC								
3	FINANCING	\$42,248,832	3.02%	2.80%		0.08%	1.006093		0.08%
4	C EQUITY	\$605,509,950	43.25%	<b>9.10%</b> **		3.94%	<b>1.352731</b>		5.33%
5	TOTAL	<b>\$1,399,886,133</b>	<b>100.00%</b>						<b>7.50%</b>

	<u>Debt</u>	<u>Equity</u>
6 Operating Revenues	100.0000	100.0000
7 Less Uncollectible Accounts Expense	0.4100	0.4100
8 KPSC Maintenance Assessment Fee	0.1956	0.1956
9 Income Before Income Taxes	99.3944	99.3944
10 Less State Income Taxes (Ln 4 x 5.8545)		5.8190
11 Taxable Income for Federal Income Taxes		93.5754
12 Less Federal Income Taxes (Ln 11*21%)		19.6508
13 Operating Income Percentage		73.9245
14 Gross Up Factor (100.00/Ln 9)	1.006093	1.352731

\* As provided in Appendix A, Page 3 of 3, by the Public Service Commission in Order dated January 13, 2021 in Case No. 2020-00174.

\*\* Rate of Return on Common Equity as authorized by the Public Service Commission in Order Dated January 13, 2021 in Case No. 2020-00174.

E.S. 3.20

**Kentucky Power Company**  
**Rockport Environmental Costs**  
**December 2020**

Ln. No.	Cost Component		Total Costs
1a	Utility Plant at Original Cost Unit 1		\$ 479,286,180
1b	Utility Plant at Original Cost Unit 2		\$ 362,114,404
2	Less Accumulated Depreciation		\$ 267,351,739
3	Less Accumulated Deferred Income Tax		\$ 43,419,137
4	Net Utility Plant		<b>\$ 530,629,708</b>
5	Activated Carbon Inventory (1540025)		\$ 2,284,991
6	Anhydrous Ammonia Inventory (1540028)		\$ 90,349
7	Sodium Bicarbonate Inventory (1540029)		\$ 1,038,104
8	Cash Working Capital Allowance		\$ 166,930
9	<b>Total Rate Base</b>		<b>\$ 534,210,081</b>
10	Weighted Average Cost of Capital	<b>7.7730%</b>	
11	Monthly Weighted Avg. Cost of Capital		0.65%
12	Monthly Return on Rate Base		\$ 3,460,346
13	Monthly Sodium Bicarbonate (5020028)		\$ 431,617
14	Monthly Brominated Activated Carbon (5020008)		\$ 2,876
15	Monthly Anhydrous Ammonia (5020013)		\$ 2,189
16	Monthly IN Air Emission Fee		\$ 19,844
17	Property Tax		\$ -
18	<b>Total Monthly Operation Costs</b>		<b>\$ 3,916,872</b>
19	Monthly Maintenance Expense		\$ 42,444
20	<b>Total Monthly Maintenance Expense</b>		<b>\$ 42,444</b>
21a	Monthly Depreciation Expense Unit 1	<b>2.95%</b>	\$ 1,178,245
21b	Monthly Depreciation Expense Unit 2	<b>28.48%</b>	\$ 8,594,182
22	Total Monthly Other Expenses		<b>\$ 9,772,427</b>
23	Total Monthly Operation, Maintenance, and Other Expenses		<b>\$ 10,271,397</b>
24	O&M for corresponding month of test year		\$ 4,604,609
25	Difference in Base Level O&M & Current Month O&M		<b>\$ 5,666,788</b>
26	Gross-up for Uncollectible Expense & KPSC Maint Fee (Ln 25 * .005425)	<b>0.005425</b>	<b>\$ 30,742</b>
27	Total Revenue Requirement		<b>\$ 13,762,485</b>
28	<b>KPCo Share of Environmental Revenue Requirement</b>	<b>15%</b>	<b>\$ 2,064,373</b>

\* Indiana does not currently assess property taxes on environmental controls.

\*\* In accordance with FERC Docket No. ER19-717-000 Order dated February 14, 2019.

KENTUCKY POWER COMPANY - ENVIRONMENTAL SURCHARGE REPORT  
CURRENT PERIOD REVENUE REQUIREMENT  
ROCKPORT UNIT POWER AGREEMENT COST OF CAPITAL

December 2020

LINE NO.	Component	Balances  <b>As of December 31, 2020</b>	Cap. Structures	Cost Rates		WACC (NET OF TAX)	GRCF		WACC (PRE - TAX)
1	L/T DEBT	195,000,000	52.6227%	1.9836%		1.0438%			1.0438%
2	S/T DEBT	22,452,061	6.0589%	0.2788%		0.0169%			0.0169%
3	CAPITALIZATION								
3	OFFSETS	0	0.0000%	1.8076%		0.0000%			0.0000%
4	DEBT		0.0000%	0.0000%					
5	C EQUITY	153,110,508	41.3184%	12.1600%	1/	5.0243%	1.335970	2/	6.7123%
6	TOTAL	370,562,569	100.0000%			6.0850%			7.7730%
WACC = Weighted Average Cost of Capital 1/ Cost Rates per the Provisions of the Rockport Unit Power Agreement  2/ Gross Revenue Conversion Factor (GRCF) Calculation:									
7	OPERATING REVENUE						100.00		
8	LESS: INDIANA ADJUSTED GROSS INCOME								
9	(LINE 1 X .0550)						<u>5.25</u>		
10	INCOME BEFORE FED INC TAX						94.75		
11	LESS: FEDERAL INCOME TAX								
12	(LINE 4 X .21)						<u>19.898</u>		
13	OPERATING INCOME PERCENTAGE						74.852		
14	GROSS REVENUE CONVERSION								
15	FACTOR (100% / LINE 13)						<u>1.335970</u>		

The WACC (PRE - TAX) value on Line 6 is to be recorded on ES FORM 3.20, Line 10.

ES Form 3.22

Kentucky Power Company  
November 30, 2020

Plant	Description	Total In Service Cost	Accumulated Depreciation
Mitchell	FGD	\$329,333,074	\$130,741,596
Mitchell	Mitchell Units 1 and 2 Water Injection	\$117,322	\$55,492
Mitchell	Low NOX Burners	\$2,666,858	\$1,277,607
Mitchell	Low NOX Burner Modification	\$14,195,467	\$5,931,967
Mitchell	SCR	\$160,503,322	\$69,162,006
Mitchell	Landfill	\$16,420,003	\$6,768,684
Mitchell	Coal Blending Facilities	\$16,475,788	\$6,442,324
Mitchell	SO3 Mitigation	\$10,959,913	\$4,328,199
Mitchell	Mitchell Plant Common CEMS	\$1,321,734	\$579,889
Mitchell	Replace Burner Barrier Valves	\$4,324,175	\$1,936,085
Mitchell	Gypsum Material Handling Facilities	\$16,190,002	\$6,266,224
Mitchell	Precipitator Modifications - Mitchell Plant Units 1 and 2	\$12,665,486	\$4,736,382
Mitchell	Bottom Ash and Fly Ash Handling - Mitchell Plant Units 1 and 2	\$21,196,423	\$8,582,270
Mitchell	Mercury Monitoring (MATS) - Mitchell Plant Units 1 and 2	\$3,285,963	\$835,340
Mitchell	Dry Fly Ash Handling Conversion - Mitchell Plant Units 1 and 2	\$64,591,348	\$12,083,537
Mitchell	Coal Combustion Waste Landfill - Mitchell Plant Units 1 and 2	\$36,907,469	\$6,737,785
Mitchell	Electrostatic Precipitator Upgrade - Mitchell Plant Unit 2	\$2,386,974	\$406,969
Mitchell	<b>Non-FGD Total</b>	<b>\$384,208,246</b>	<b>\$136,130,760</b>
RK1	Precipitator Modifications	\$6,996,544	\$2,284,902
RK1	*Activated Carbon Injection (ACI) and Mercury Monitoring	\$25,026,394	\$17,810,636
RK1	*Dry Sorbent Injection	\$121,166,972	\$71,635,433
RK1	Coal Combustion Waste Landfill Upgrade To Accept Type 1 Ash	\$22,293,429	\$9,170,227
RK1	Continuous Emission Monitors (CEMS)	\$379,998	\$119,489
RK1	Low NOX Burners	\$16,754,028	\$14,846,394
RK1	Selective Catalytic Reduction Technology	\$269,261,983	\$47,880,139
RK1	Over Fire Air	\$76,135	\$47,842
RK1	Landfill	\$17,330,697	\$6,173,139
RK1	<b>Rockport Unit 1 Total</b>	<b>\$479,286,180</b>	<b>\$169,968,201</b>
RK2	Precipitator Modifications	\$3,442,320	\$2,403,366
RK2	*Activated Carbon Injection (ACI) and Mercury Monitoring	\$1,669,649	\$1,178,884
RK2	*Dry Sorbent Injection	\$111,939,611	\$60,649,072
RK2	Coal Combustion Waste Landfill Upgrade To Accept Type 1 Ash	\$15,789	\$2,439
RK2	Continuous Emission Monitors (CEMS)	\$0	\$0
RK2	Low NOX Burners	\$16,708,434	\$14,460,406
RK2	Selective Catalytic Reduction Technology	\$227,978,838	\$18,581,819
RK2	Over Fire Air	\$36,623	\$26,027
RK2	Landfill	\$323,140	\$81,525
RK2	<b>Rockport Unit 2 Total</b>	<b>\$362,114,404</b>	<b>\$97,383,538</b>



KENTUCKY POWER COMPANY - ENVIRONMENTAL SURCHARGE REPORT  
CURRENT PERIOD REVENUE REQUIREMENT  
MONTHLY REVENUES, JURISDICTIONAL ALLOCATION FACTOR,  
and (OVER)/UNDER RECOVERY ADJUSTMENT  
December 2020

SCHEDULE OF MONTHLY REVENUES

Line No.	Description	Monthly Revenues	Percentage of Total Revenues
1	Kentucky Retail Revenues	\$47,014,504	97.5%
2	FERC Wholesale Revenues	\$476,270	1.0%
3	Associated Utilities Revenues	\$0	0.0%
4	Non-Assoc. Utilities Revenues	\$734,367	1.5%
5	Total Revenues for Surcharges Purposes	----- \$48,225,141	----- 100.0%
6	Non-Physical Revenues for Month	\$26,137	
7	Total Revenues for Month	\$48,251,278	

The Kentucky Retail Percentage of Total Revenues (Line 1) is to be recorded on ES FORM 1.00, Line 5. The Percentage of Kentucky Retail Revenues to the Total Revenues for the Expense Month will be the Kentucky Retail Jurisdictional Allocation Factor.

OVER/(UNDER) RECOVERY ADJUSTMENT

Line No.	Description	
1	Surcharge Amount To Be Collected	\$3,657,464
2	Actual Billed Environmental Surcharge Revenues	\$4,001,009
3	(Over) / Under Recovery (1) - (2) = (3)	(\$343,545)

The (Over)/Under Recovery amount is to be recorded on ES FORM 1.00, LINE 7.

ES Form 3.31

**Kentucky Power Company  
Total Billed Revenues  
As Used in Calculation of ES Form 3.30  
Calendar Year 2019**

<u>Line No.</u>	<u>Revenue Category</u> (1)	<u>Total</u> (2)	Percentage of <u>Total</u> (3)	<b>Residential/ All Other Classes to be used in <u>2020</u></b> (4)
1	Residential	\$244,949,469	41.83%	<b>44.69%</b>
2	All Other Classes	\$303,175,649	51.77%	<b>55.31%</b>
3	Total Retail Revenues	\$548,125,118	93.60%	<b>100%</b>
4	FERC Wholesale Revenues	\$5,412,448	0.92%	
5	Associated Utilities Revenues	\$0	0.00%	
6	Non Associated Utilities Revenues	\$31,287,517	5.34%	
7	Non-Physical Sales	\$769,215	0.13%	
8	Total Revenues	\$585,594,298		

KENTUCKY POWER COMPANY  
Environmental Surcharge  
Billed Revenues

Month	Residential Revenues	Residential Decommissioning Rider Revenues	Residential Environmental Surcharge Revenues	Residential PPA Revenues	Residential ATR Revenues	Residential, Non-Percentage of Revenue Rider Revenues
(1)	(2)	(3)	(4)	(5)	(6)	(7) (2)-(3)-(4)-(5)-(6)
January 2020	\$ 26,113,293	\$ 1,080,064	\$ 1,469,346	\$ (0)	\$ 0	\$ 23,563,884
February 2020	\$ 22,236,979	\$ 937,330	\$ 930,191	\$ 1	\$ (52)	\$ 20,369,509
March 2020	\$ 20,813,706	\$ 879,697	\$ 815,782	\$ 1	\$ -	\$ 19,118,226
April 2020	\$ 17,309,284	\$ 717,825	\$ 1,002,259	\$ (1)	\$ -	\$ 15,589,201
May 2020	\$ 15,107,577	\$ 624,054	\$ 916,842	\$ (0)	\$ -	\$ 13,566,681
June 2020	\$ 16,062,350	\$ 667,702	\$ 884,250	\$ 0	\$ -	\$ 14,510,398
July 2020	\$ 18,185,158	\$ 749,273	\$ 1,151,024	\$ (0)	\$ -	\$ 16,284,862
August 2020	\$ 20,900,893	\$ 868,094	\$ 1,167,072	\$ (0)	\$ -	\$ 18,865,727
September 2020	\$ 19,746,779	\$ 801,782	\$ 1,519,175	\$ 1	\$ -	\$ 17,425,822
October 2020	\$ 15,327,555	\$ 671,592	\$ 991,432	\$ (0)	\$ -	\$ 13,664,532
November 2020	\$ 15,832,887	\$ 744,951	\$ 1,190,236	\$ -	\$ -	\$ 13,897,700
December 2020	\$ 23,642,966	\$ 1,105,547	\$ 1,929,719	\$ -	\$ -	\$ 20,607,700
Average Monthly Residential Revenues for 12-Month Period ended with most Recent Expense Month						\$ 17,288,687

Non-Residential, Non-Fuel Revenues								
Month	Non-Residential Revenues	Base Rate Fuel Revenue	Fuel Adjustment Clause Revenue	Non-Residential Decommissioning Rider Revenues	ATR	Non-Residential Environmental Surcharge Revenues	Non-Residential PPA Revenues	Non-Residential, Non-Percentage of Revenue Rider Total Revenues
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9) (3)-(4)-(5)-(6)-(7)
January 2020	\$ 26,557,396	\$ 8,425,451	\$ 946,124	\$ 1,074,694	\$ 0	\$ 1,421,360	\$ (0)	\$ 14,689,766
February 2020	\$ 23,184,376	\$ 7,894,019	\$ (506,701)	\$ 1,014,397	\$ (52)	\$ 983,924	\$ 1	\$ 13,798,789
March 2020	\$ 22,602,193	\$ 7,899,232	\$ (1,008,530)	\$ 1,006,958	\$ -	\$ 911,246	\$ 1	\$ 13,793,286
April 2020	\$ 20,391,042	\$ 6,886,592	\$ (611,122)	\$ 873,733	\$ -	\$ 1,180,146	\$ (1)	\$ 12,061,693
May 2020	\$ 19,105,544	\$ 6,696,025	\$ (1,423,287)	\$ 857,761	\$ -	\$ 1,218,131	\$ (0)	\$ 11,756,913
June 2020	\$ 18,877,005	\$ 6,846,661	\$ (2,206,974)	\$ 877,084	\$ -	\$ 1,131,820	\$ 0	\$ 12,228,413
July 2020	\$ 19,652,764	\$ 7,477,490	\$ (3,215,504)	\$ 936,725	\$ -	\$ 1,423,828	\$ (0)	\$ 13,030,226
August 2020	\$ 22,105,634	\$ 7,668,479	\$ (1,425,568)	\$ 978,719	\$ -	\$ 1,320,751	\$ (0)	\$ 13,563,252
September 2020	\$ 22,703,159	\$ 7,517,209	\$ (693,450)	\$ 947,855	\$ -	\$ 1,804,499	\$ 1	\$ 13,127,045
October 2020	\$ 16,769,915	\$ 4,573,917	\$ (396,267)	\$ 801,354	\$ -	\$ 1,220,395	\$ (0)	\$ 10,570,515
November 2020	\$ 25,321,673	\$ 9,056,415	\$ (1,566,051)	\$ 1,149,774	\$ -	\$ 1,931,819	\$ -	\$ 14,749,717
December 2020	\$ 22,635,076	\$ 7,274,943	\$ (1,117,652)	\$ 1,083,426	\$ -	\$ 2,071,290	\$ -	\$ 13,323,070
Average Monthly Non-Residential Revenues for 12-Month Period ended with most Recent Expense Month								\$ 13,057,724

Kentucky Power Company  
Environmental Surcharge  
Cash Working Capital Calculation  
December 2020

**ES 3.33**

		<u>Rockport</u>	<u>Mitchell Non-FGD</u>	<u>Mitchell FGD</u>
1	December 2020	\$ 62,287	\$ 281,041	\$ 97,462
2	November 2020	\$ 124,249	\$ 180,192	\$ 194,577
3	October 2020	\$ 80,774	\$ 153,664	\$ 163,476
4	September 2020	\$ 66,835	\$ 63,617	\$ 300,135
5	August 2020	\$ 68,895	\$ 85,772	\$ 47,600
6	July 2020	\$ 60,618	\$ 63,391	\$ 211,334
7	June 2020	\$ 73,926	\$ 81,484	\$ 115,355
8	May 2020	\$ 54,104	\$ 69,187	\$ 118,921
9	April 2020	\$ 103,618	\$ 60,417	\$ 49,439
10	March 2020	\$ 92,457	\$ 59,531	\$ 185,450
11	February 2020	\$ 392,901	\$ 165,722	\$ 40,027
12	January 2020	\$ 154,776	\$ (45,511)	\$ 162,647
	1/8 of 12-Month Total	\$ 166,930	\$ 152,313	\$ 210,803