

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

In the Matter of:

Electronic Application of Kentucky Power)	
Company To Amend The Settlement Agreement)	
Approved in Case No 2018-00035 To Provide)	
For The One-Time Amortization Of Unprotected)	Case No. 2020-00176
Accumulated Deferred Federal Income Tax)	
In An Amount Sufficient To Eliminate Customer)	
Delinquencies Greater Than 30 Days As Of May)	
28, 2020)	

VERIFIED APPLICATION

Kentucky Power Company (“Kentucky Power” or the “Company”) applies to the Public Service Commission of Kentucky (“Commission”) pursuant to KRS 278.170(2), KRS 278.220, 807 KAR 5:001, Section 14, and the Commission’s March 16, 2020 Order in Case No. 2020-00085 for an order: (1) amending the April 25, 2018 settlement agreement between Kentucky Power and Kentucky Industrial Utility Customers, Inc. (“KIUC”) approved by the Commission by Order dated June 28, 2018 in Case No. 2018-00035; (2) authorizing Kentucky Power to utilize approximately \$10.8 million of its current unprotected retail generation and distribution excess Accumulated Deferred Federal Income Tax (“ADFIT”) balance to issue a one-time bill credit to all Kentucky Power customers in an amount equal to the balance of each customer’s account that is 30 or more days delinquent as of May 28, 2020; and (3) providing all other required approvals and relief. The Company states as follows in support of its Application:

A. INTRODUCTION.

1. Kentucky Power's customers and the Company have faced unprecedented economic challenges over the past ten years. The decline in the coal industry, once a mainstay of the Company's service territory, resulted in significant job loss over the period. More recently, other major employers, including AK Steel and Our Lady of Bellefonte Hospital, have shuttered their doors. These closures, along with others, likewise have led to a significant decline in related economic activity.

2. Between 2008 and 2019, the population of Kentucky Power's service territory has declined by approximately 29,000 persons. The Company's customer count fell by more than 10,000 (approximately six percent) over the same period as businesses closed and residents sought employment elsewhere.

3. Kentucky Power's customers entered 2020 in a more vulnerable economic position than citizens living in almost any other area of the Commonwealth. Then the COVID-19 pandemic struck the nation in late February and early March 2020. The pandemic's impacts and the resulting limitations on economic and other activity have challenged the ability of many Kentucky Power customers to meet their financial obligations, including their ability to pay for electric service provided by Kentucky Power.

4. These challenges could not have been anticipated at the time Kentucky Power and KIUC entered into the April 25, 2018 settlement agreement in Case No. 2018-00035, or by the Commission when it subsequently approved that agreement. Kentucky Power's Application provides meaningful financial relief to many of those customers who were and continue to be most significantly affected by the economic and other impacts associated with the spread of the

COVID-19 virus, without affecting current rates, while retaining in large part the ongoing benefits of the Federal Tax Cut Tariff (“Tariff F.T.C.”) approved in Case No. 2018-00035.

B. INFORMATION REGARDING THE APPLICANT.

5. **Name and Address:** The applicant’s full name and post office address is: Kentucky Power Company, 1645 Winchester Avenue, Ashland, Kentucky 41101. The Company’s electronic mail address is kentucky_regulatory_services@aep.com.

6. **Incorporation:** Kentucky Power is a corporation organized on July 21, 1919 under the laws of the Commonwealth of Kentucky. The Company currently is in good standing in Kentucky.¹

7. **Business:** Kentucky Power Company is a public utility principally engaged in the provision of electricity to Kentucky consumers. The Company generates and purchases electricity that it distributes and sells at retail to approximately 165,200 customers located in all, or portions of, the Counties of Boyd, Breathitt, Carter, Clay, Elliott, Floyd, Greenup, Johnson, Knott, Lawrence, Leslie, Letcher, Lewis, Magoffin, Martin, Morgan, Owsley, Perry, Pike, and Rowan. The Company also furnishes electric service at wholesale to the City of Olive Hill and the City of Vanceburg.

C. BACKGROUND.

1. Case No. 2018-00035 And Unprotected Accumulated Deferred Unprotected Federal Income Tax.
8. On December 21, 2017, KIUC filed a Complaint and Petition for the Establishment of a Regulatory Liability to Provide Customers a Rate Reduction Because of Tax

¹ A certified copy of the Company’s Articles of Incorporation and all amendments thereto was attached to the Joint Application in *In the Matter Of: The Joint Application Of Kentucky Power Company, American Electric Power Company, Inc. And Central And South West Corporation Regarding A Proposed Merger*, P.S.C. Case No. 99-149. The Company’s May 22, 2020 Certificate of Existence is filed as **EXHIBIT 1** to the Application.

Expense Savings (“Complaint”) with the Commission. The Complaint named the four investor-owned retail electric utilities in Commonwealth as defendants.

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

10. On December 27, 2017, the Commission issued an order finding that KIUC’s Complaint established a *prima facie* case and opened Case No. 2017-00477. The Attorney General of the Commonwealth of Kentucky (“Attorney General”) sought and was granted leave to intervene in Case No. 2017-00477.

11. On January 25, 2018, the Commission issued an order establishing Case No. 2018-00035 for the review and adjudication of KIUC’s claims against Kentucky Power. In the order establishing the Case No. 2018-00035, the Commission noted that the effects of the Tax Act on the Company’s tax expense were addressed in the Commission’s January 18, 2018 Order in Case No. 2017-00179, leaving only the effect of the Tax Act on the Company’s retail generation and distribution² excess ADIT for adjudication in Case No. 2018-00035.

12. On April 25, 2018, Kentucky Power and KIUC entered into a settlement agreement resolving KIUC’s claims against Kentucky Power in Case No. 2018-00035. The Attorney General, the other party to Case No. 2018-00035, did not join the settlement agreement. Under the terms of the settlement agreement:

² Excess ADIT amounts relating to the Company’s transmission function were accounted for in revised PJM OATT annual revenue requirements filed at FERC on April 6, 2018 in Docket Nos. EL 17-13, ER17-405, and ER17-406. The revised PJM OATT annual revenue requirements reflecting reduced tax expense and an amortization of excess ADIT are reflected in the annual purchase power adjustment factor under Tariff P.P.A.

(a) Kentucky Power agreed to implement Tariff F.T.C. to credit customer bills with retail generation and distribution excess ADFIT beginning July 1, 2018, through a per-kilowatt hour rate;

(b) Protected retail generation and distribution excess ADFIT was to be amortized over the remaining life of the assets using the Average Rate Assumption Method and credited to customers through Tariff F.T.C.;

(c) Unprotected retail generation and distribution excess ADFIT was to be amortized over an 18-year period beginning January 1, 2018 and credited to customers through Tariff F.T.C.; and

(d) The per-kilowatt hour rates for Tariff F.T.C. for calendar years 2018 and 2019, and through at least November 2020, were prescribed by Tariff F.T.C. The settlement agreement and Tariff F.T.C. further provided that the Tariff F.T.C. rates would be reset in Kentucky Power's next base rate case.

2. Executive Order 2020-215 And The Commission's March 16, 2020 Order.

13. Governor Andy Beshear on March 6, 2020 issued Executive Order 2020-215 declaring a state of emergency in the Commonwealth of Kentucky in response to the public health threat posed by the outbreak and spread of the COVID-19 virus. Subsequent executive orders issued by Governor Beshear required or recommended the closing of schools, the closing of businesses deemed non-essential, the closing of retail locations determined not be life-sustaining, the cessation of in-person public meetings, the closing of child care facilities, the cessation of elective medical procedures, the closing of restaurants and bars to in-person service, the cessation of mass gatherings, limiting the number of persons who may be in stores that are

permitted to remain open, restriction of out-of-state travel, and the closing of assisted living and similar facilities to outside visitors.

14. In response to the economic and other impacts resulting from the spread of the COVID-19 virus, Kentucky Power on March 13, 2020 temporarily suspended all disconnections for non-payment.

15. The Commission on March 16, 2020 initiated Case No. 2020-00085. As part of that docket, the Commission relieved jurisdictional utilities of certain filing and reporting obligations and provided a mechanism whereby jurisdictional utilities could obtain expedited relief from tariff and other legal obligations to permit utilities to address the state of emergency and ongoing health crisis. The Commission also directed that all jurisdictional utilities “cease disconnections for non-payment” and required all jurisdictional utilities to “waive all late payment charges.”³ The prohibitions on disconnections for non-payment and late payment charges were imposed for “at least the next 30 days, and until further notice from the Commission....”⁴ These prohibitions remain in effect.

16. While suspending disconnections for non-payment and prohibiting the imposition of late payment fees, the Commission in its March 16, 2020 Order in Case No. 2020-00085 also emphasized that “[n]othing in this Order shall be conveyed as relieving customers from the obligation to pay for service rendered.”⁵

17. The Commission’s March 16, 2020 Order further directed jurisdictional utilities to work with their customers to address in a liberal fashion non-payment and late payment issues:

³ Order, *In the Matter of: Electronic Emergency Docket Related to the Novel Coronavirus COVID-19*, Case No. 2020-00085 at 9 (Ky. P.S.C. Mar. 16, 2020).

⁴ *Id.* at 3.

⁵ *Id.* at 5.

[T]he Commission urges utilities to implement their tariffs and regulations liberally. Most utilities are provided flexibility in their tariffs to offer payment plans or to waive late fees for non-payment. The Commission expects utilities to use this flexibility given the current circumstances for residential customers and, when necessary or reasonable, businesses.

...

The Commission expects utilities to establish lenient and flexible payment plans for any unpaid balances. Utilities may also seek Commission approval, by written request filed in this docket, to offer free or reduced-rate service pursuant to KRS 278.170(2), which allows a utility to offer free or reduced-rate service during times of epidemic or calamity.⁶

18. Governor Beshear announced on April 17, 2020 certain prerequisites to the first stage of reopening Kentucky's economy. Subsequent announcements by Governor Beshear have identified further steps toward lifting existing restrictions. Although significant limitations may continue thereafter, the currently announced schedule for lifting restrictions continues through at least July 1, 2020.

3. The Increase In Delinquent Accounts And Amounts Due Kentucky Power.

19. Kentucky Power's total accounts receivable 30 or more days delinquent on April 2, 2020 totaled approximately \$7.5 million. On May 28, 2020, the Company's total accounts receivable 30 or more days delinquent totaled approximately \$10.8 million or an increase of 44 percent in 56 days.

20. As shown on **EXHIBIT 2**, as of May 28, 2020, the status of Kentucky Power delinquent customer accounts was:

(a) 22,284 of 165,238 total customer accounts were 30 or more days delinquent;

⁶ *Id.* at 4.

- (b) 19,965 of 133,894 residential customer accounts were 30 or more days delinquent;
- (c) 2,188 of 30,214 commercial customer accounts were 30 or more days delinquent;
- (d) 131 of 1,130 industrial customer accounts were 30 or more days delinquent;
- (e) The total amount 30 or more days delinquent owed by all Kentucky Power customers was \$10,798,596;
- (f) The total amount 30 or more days delinquent owed by Kentucky Power residential customers was \$6,123,907;
- (g) The total amount 30 or more days delinquent owed by Kentucky Power commercial customers was \$935,432; and
- (h) The total amount 30 or more days delinquent owed by Kentucky Power industrial customers was \$3,739,257.

21. Throughout the suspension of service terminations for non-payment, Kentucky Power has continued to make partial payment plans available to customers whose accounts are delinquent, while encouraging all customers to limit the amount of their delinquencies.

22. The economic and other impacts associated with the spread of the COVID-19 virus, coupled with the existing suspension of terminations for nonpayment, have resulted in a substantial increase in the amount owed by customers whose accounts are delinquent. Larger delinquent amounts increase the difficulty many customers face in satisfying partial payment plans, while also making payments in full on current obligations, even when the period for making partial payments of delinquent amounts is extended.

23. Although the Commission has not established a date for lifting the prohibition on terminations for non-payment, Kentucky Power anticipates that the economic and financial challenges facing the Company's customers as a result of the COVID-19 pandemic will continue after the suspension is terminated. These continuing effects, coupled with the unprecedented explosion in the number of customers with delinquent accounts, and the amounts of the delinquencies, could threaten the ability of many Kentucky Power customers to continue to receive electric service once the suspension of terminations for non-payment is lifted because they will be unable to make payments on their partial payment plans and their current electric bills.

D. KENTUCKY POWER COMPANY'S PROPOSAL TO
AMEND THE SETTLEMENT AGREEMENT IN CASE NO. 2018-00035.

24. Kentucky Power's unprotected retail generation and distribution excess ADFIT as of April 30, 2020 totaled approximately \$113.5 million.

25. The settlement agreement in Case No. 2018-00035 provides that this balance will be amortized over the remaining approximately 15 years and seven months of the 18-year amortization period for the Company's unprotected retail generation and distribution excess ADFIT.

26. Kentucky Power proposes to use approximately \$10.8 million of the balance of unprotected retail generation and distribution excess ADFIT to credit all customer accounts that are 30 or more days delinquent as of May 28, 2020. The calculation of the amount to be forgiven is shown on EXHIBIT 2.

27. The application of a portion of the existing balance of unprotected retail generation and distribution excess ADFIT will eliminate customer delinquencies and thereby

better enable customers to maintain electric service once the prohibition on terminations for non-payment is lifted.

28. The existing Tariff F.T.C. rates will continue in effect as prescribed in Tariff F.T.C., and the settlement agreement approved in Case No. 2018-00035, through the later of November 2020 or when Kentucky Power's base rates are next updated.

29. In the two and one-half weeks prior to filing this application, Kentucky Power presented its proposal to use a portion of the Company's unprotected retail generation and distribution excess ADFIT to eliminate customer delinquencies to Kent A. Chandler, Commission Executive Director, Rebecca Goodman, Secretary of the Energy and Environment Cabinet, Michael L. Kurtz, counsel for KIUC, John G. Horne, II, Executive Director of the Attorney General's Office of Rate Intervention, and Rocky Adkins, Senior Advisor to Governor Beshear.

30. Kentucky Power's customers and the Company face unprecedented financial challenges as a result of the economic and other impacts caused by the spread of the COVID-19 virus. The Company's proposal is a reasonable means to "relieve the hardship that exists due to COVID-19,"⁷ is in the public interest, and thus is fully consistent with the Commission's March 16, 2020 Order in Case No. 2020-00085.

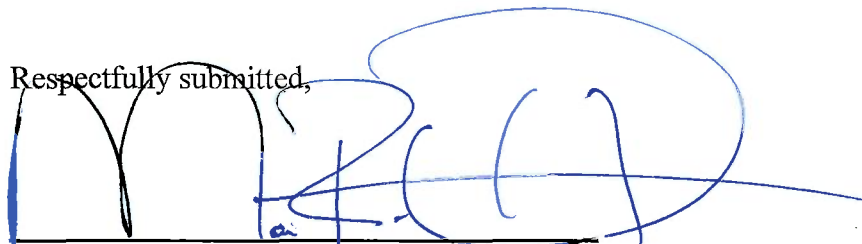
31. Kentucky Power requests a ruling as soon as practicable to enable the credits to be applied to customer accounts in connection with their July or August billings during the summer cooling season.

⁷ *Id.* at 4.

WHEREFORE, Kentucky Power Company respectfully requests the Public Service Commission of Kentucky to enter an Order:

1. Amending the April 25, 2018 settlement agreement approved by the Commission in Case No. 2018-00035 to authorize Kentucky Power to apply \$10.8 million of its current unprotected generation and distribution excess ADFIT balance as a one-time bill credit to all Kentucky Power customers in an amount equal to the balance of each customer's account that is more than 30 or more days delinquent as of May 28, 2020; and
2. Granting such further relief to which the Company may be entitled.

Respectfully submitted,



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Certificate of Existence

Authentication number: 231892
Visit <https://web.sos.ky.gov/ftshow/certvalidate.aspx> to authenticate this certificate.

I, Michael G. Adams, Secretary of State of the Commonwealth of Kentucky, do hereby certify that according to the records in the Office of the Secretary of State,

KENTUCKY POWER COMPANY

is a corporation duly incorporated and existing under KRS Chapter 14A and KRS Chapter 271B, whose date of incorporation is July 21, 1919 and whose period of duration is perpetual.

I further certify that all fees and penalties owed to the Secretary of State have been paid; that Articles of Dissolution have not been filed; and that the most recent annual report required by KRS 14A.6-010 has been delivered to the Secretary of State.

IN WITNESS WHEREOF, I have hereunto set my hand and affixed my Official Seal at Frankfort, Kentucky, this 22nd day of May, 2020, in the 228th year of the Commonwealth.



Michael G. Adams

Michael G. Adams
Secretary of State
Commonwealth of Kentucky
231892/0028317

(1)	(2)	(3)	(4)	(5)	(6)	(7)
	(4)+(5)+(6)+(7)					
Accounts	Total Arrearage Credit	Current Balance	30 Day Arrears	60 Day Arrears	90 Day Arrears	90+ Day Arrears
Commercial	2,188	\$935,432.24	\$570,702.57	\$223,159.40	\$118,683.64	\$53,903.66
30	1,348	\$334,086.78	\$334,086.78	\$0.00	\$0.00	\$0.00
60	407	\$183,135.71	\$92,741.95	\$90,393.76	\$0.00	\$0.00
90	276	\$232,685.29	\$70,374.97	\$88,120.44	\$71,363.43	\$0.00
90+	157	\$185,524.46	\$33,329.71	\$44,645.20	\$47,320.21	\$53,903.66
Industrial	131	\$3,739,257.00	\$1,469,523.56	\$1,187,502.87	\$709,695.66	\$434,082.61
30	52	\$260,826.72	\$391,247.56	\$260,826.72	\$0.00	\$0.00
60	33	\$749,373.54	\$351,444.48	\$354,845.48	\$0.00	\$0.00
90	27	\$1,218,629.98	\$408,952.16	\$418,595.78	\$320,484.40	\$0.00
90+	19	\$1,510,426.76	\$317,879.36	\$353,107.59	\$389,211.26	\$434,082.61
Residential	19,965	\$6,123,906.67	\$2,721,484.20	\$1,444,831.43	\$856,615.11	\$585,051.36
30	10,756	\$1,766,776.39	\$1,446,554.64	\$1,766,776.39	\$0.00	\$0.00
60	3,757	\$1,073,587.40	\$523,844.50	\$474,786.89	\$0.00	\$0.00
90	2,836	\$1,401,747.18	\$384,889.33	\$530,460.92	\$419,994.73	\$0.00
90+	2,616	\$1,881,795.70	\$366,195.73	\$439,583.62	\$436,620.38	\$585,051.36
Grand Total	22,284	\$10,798,595.91	\$4,761,710.33	\$2,855,493.70	\$1,684,994.41	\$1,073,037.63

Customer Class	Total
C	30,214
I	1,130
R	133,894
	165,238

Calculation: Total Arrearage Credit = 30 Day Arrears + 60 Day Arrears + 90 Day Arrears + 90+ Day Arrears