

Kentucky Power Company  
KPSC Case No. 2022-00283  
Commission Staff's First Set of Data Requests  
Dated September 23, 2022  
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**DATA REQUEST**

- KPSC 1\_1** Refer to the Direct Testimony of Brian K. West (West Direct Testimony), pages 11–12, and BKW-Exhibit 5, pages 5–7.
- a. Confirm that “modifying and rejecting rate case settlements” is specific to settlements presented in a rate case and modified before approval and not modifications or rejections of settlements that have already been approved. If this cannot be confirmed, explain.
  - b. Explain whether Kentucky Power’s credit rating was affected by Regulatory Research Associates’ downgrade of Kentucky to Average/2.

**RESPONSE**

a. The *RRA State Regulation Evaluation* attached as Exhibit BKW-5, and discussing Orders of this Commission, does not distinguish between “settlements presented in a rate case and modified before approval” and “modifications or rejections of settlements that have already been approved.” Nevertheless, it is the Company’s understanding that the quoted language refers principally to “settlements presented in a rate case and modified before approval.”

Kentucky Power has not reviewed all Orders of the Commission with respect to settlements in rate cases. Based on the Company’s experience, the Commission has reviewed and modified settlements in rate cases presented before Settlement (June 22, 2015 Order in Case No. 2014-00396; January 18, 2018 Order in Case No. 2017-00179; and January 13, 2021 Order in Case No. 2020-00174), as well as signaling its intent in its January 13, 2021 Order in Case No. 2020-00174 to review and possibly modify or reject the Commission approved, as modified, settlement agreement in Case No. 2017-00179:

Therefore, the Commission finds that Kentucky Power’s request to amortize the Rockport regulatory asset over five years beginning in 2022 for recovery through Tariff PPA is premature at this time, and the Commission will defer the determination of the appropriate amortization period and recovery mechanism to a subsequent matter the Commission will initiate on its own motion. As part of this subsequent matter, the Commission will also review and clarify items related to provisions of the final Order in Case No. 2017-00179 regarding Kentucky Power’s ability

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to use the savings from the expiration of the Rockport UPA to earn its Commission-approved ROE in calendar year 2023.<sup>1</sup>

b. While there have been no changes to Kentucky Power's credit rating since the Regulatory Research Associates' (RRA) downgrade of Kentucky to Average/2, credit rating agencies use publicly available information when determining a company's credit rating and may use the RRA information. In the RRA downgrade they indicate the team lowered the ranking of Kentucky regulation to Average/2 from Average/1 to account for the Kentucky Public Service Commission's pattern of modifying or rejecting rate case settlements over the preceding months.

Witness: Brian K. West

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<sup>1</sup>Case No. 2020-00174, Order at 65 (Jan. 13, 2021).

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**DATA REQUEST**

- KPSC 1\_2** Refer to the West Direct Testimony, BKW-Exhibit 1, page 5, section 3(c), BKW-Exhibit 2, and Case No. 2017-00179,<sup>2</sup> the Commission's February 27, 2018 Order on rehearing, page 9.
- a. Explain why the carrying charges used in BKW-Exhibit 2 differ from the amount specified in the settlement.
  - b. Provide the calculation of each weighted average cost of capital (WACC) included in BKW-Exhibit 2, the WACC used in the settlement, and the WACC approved in Case No. 2017-00179.
  - c. Refer also to Case No. 2017-00179, the Commission's January 18, 2018 Order, pages 39–40. Explain the basis for Kentucky Power's argument that the Commission approved recovery of the Rockport deferral regulatory asset through Kentucky Power's Tariff Purchased Power Adjustment beginning December 9, 2022.

**RESPONSE**

- a. Kentucky Power has consistently used its authorized grossed-up base rate weighted average cost of capital (WACC) to compute carrying charges on the Rockport UPA Expense Deferral, in accordance with page 40 of the final order dated January 18, 2018 in Case No. 2017-00179 which states, "...carrying charges...shall be based on the WACC approved in this Order and are effective as of the date of this Order." The grossed-up base rate WACC authorized in Case No. 2017-00179 of 7.88%, effective January 19, 2018, was used to compute carrying charges January 19, 2018 through January 13, 2021. The grossed-up base rate WACC authorized in Case No. 2020-00174 of 7.62%, effective January 14, 2021, has been used to compute carrying charges since January 14, 2021.

As discussed on pages 30 ("Rate of Return Summary") and page 41 ("Total Jurisdictional Revenue Requirements") of the final order dated January 18, 2018 in Case No. 2017-00179, the Commission modified the settlement agreement for certain cost of capital and gross revenue conversion factor matters, resulting in an authorized grossed-up base rate WACC of 7.88% (6.44% overall cost of capital, grossed up for applicable federal and state income taxes, uncollectible accounts expense, and KPSC maintenance fee) as supported by KPCO\_R\_KPSC\_1\_2\_Attachment1.

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The Commission's final order dated January 13, 2021 in Case No. 2020-00174 authorized a grossed-up base rate WACC of 7.62% as supported by KPCO\_R\_KPSC\_1\_2\_Attachment2.

b. Please refer to KPCO\_R\_KPSC\_1\_2\_Attachment1 for the grossed-up base rate WACC authorized in Case No. 2017-00179, which was used to compute carrying charges on the Rockport UPA Expense Deferral for the period January 19, 2018 through January 13, 2021 on BKW-Exhibit 2. Please refer to KPCO\_R\_KPSC\_1\_2\_Attachment2 for the grossed-up base rate WACC authorized in Case No. 2020-00174, which was used to compute carrying charges on the Rockport UPA Expense Deferral for the period beginning January 14, 2021 on BKW-Exhibit 2. Please refer to KPCO\_R\_KPSC\_1\_2\_Attachment3 for the grossed-up base rate WACC specified in the settlement in Case No. 2017-00179, which was not approved by the Commission as filed and therefore was not used in the calculation of carrying charges on the Rockport UPA Expense Deferral.

c. The Commission's January 18, 2018 Order initially approving the Rockport Deferral regulatory asset explicitly recognized the link between the expiration of the Rockport Unit Power Agreement ("Rockport UPA") on December 8, 2022 and the beginning of the amortization of the Rockport Deferral regulatory asset and the source of the funding for doing so:

The recovery period of the proposed Rockport Deferral Mechanism is contingent upon Kentucky Power not renewing the Rockport UPA. If the lease is not renewed, the expenses associated will be removed from the rate base, which allows the regulatory asset to be funded without a change in rate base. However, if the lease is renewed, the deferred expenses will have to be recovered from future ratepayers, and possibly through an increase in rate base.<sup>2</sup>

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<sup>2</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 Or Liabilities; And (5) An Order Granting All Other Required Approvals And Relief*, Case No. 2017-00179 at 39-40 (Ky. P.S.C. January 18, 2018) ("Rate Case Order").

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The Commission on rehearing subsequently clarified that although it retains the authority to “determine the manner and timing of cost recovery,” “the Commission has no discretion to deny recovery of those costs.”<sup>3</sup> It then expressly approved the Rockport Deferral Mechanism:

The recovery period of the proposed Rockport Deferral Mechanism is not contingent upon Kentucky Power's decision whether or not to renew 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 the Rockport Deferral Mechanism shall be as specific in paragraph 3(c) on page 5 of the Settlement Agreement attached as Appendix A to the January 18, 2018 Order.<sup>4</sup>

The Rockport Deferral Mechanism, as described at page 38 of the Commission’s Rate Case Order, expressly ties “end of the deferral period and the start of the five-year amortization period ...” to the anticipated end of the Rockport UPA.”<sup>5</sup>

The Commission also directed in 2018 that appropriate ratemaking treatment for the regulatory asset “*will* be addressed in Kentucky Power’s next general rate case.”<sup>6</sup> The Commission’s use of the imperative “will”, rather than a permissive verb like “may”, in the foregoing sentence confirms the Commission’s intent, in its 2018 order, that recovery of the Rockport Deferral regulatory asset would occur in the future and was not speculative or subject to further proof other than as to the appropriate ratemaking treatment to effect that recovery.

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<sup>3</sup> Order on Rehearing, *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 Or Liabilities; And (5) An Order Granting All Other Required Approvals And Relief*, Case No. 2017-00179 at 39-40 (Ky. P.S.C. February 27, 2018).

<sup>4</sup> *Id.*

<sup>5</sup> Rate Case Order at 38.

<sup>6</sup> *Id.* at 40 (emphasis added).

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Further, until implementation of the Rockport Deferral mechanism, Kentucky Power's customers will not receive the benefit of the Rockport Fixed Cost Savings. That is, beginning December 9, 2022, Kentucky Power will no longer incur the Rockport UPA expense; its base rates will remain unchanged. It is only through the Tariff P.P.A. recovery mechanism that customers will receive, prior to the Company's next base rate case, any of the Rockport Fixed Cost Savings:

1. Annual Purchase Power Net Costs

$$(PPANC) PPANC = N + CSIRP + OATT + RKP + RP - BPP$$

Where: [...]

d. RKP = Rockport related items includable in Tariff PPA pursuant to the Commission approved Settlement agreement in Case No. 2017-00179:

1. Increase in Rockport collection resulting from reduction in base rate deferral;
2. Rockport deferral amount to be recovered;
- 3. Rockport fixed cost savings; and**
4. Rockport offset estimate and true-up.
5. Final (over)/under recovery associated with tariff CC following its expiration.<sup>7</sup>

The Commission approved Sheet 35-1 of Tariff P.P.A., which included the above mechanism, after the Company's 2017 base rate case (Case No. 2017-00179) for rates effective January 19, 2018. The Commission approved Sheet 35-1 of Tariff P.P.A. again for rates effective June 28, 2018, and again for rates effective January 14, 2021. The Commission most-recently approved the current version of Sheet 35-1 of Tariff P.P.A., which includes the above Rockport recovery mechanism, for rates effective January 28, 2022.

Thus, the Commission's January 18, 2018 Order in Case No. 2017-00179 expressly contemplated and stated that, subject to the non-renewal of the Rockport UPA, the Rockport Deferral regulatory asset would be subject to recovery.

Witness: Brian K. West  
Witness: Heather M. Whitney

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<sup>7</sup> P.S.C. KY. NO. 12 1st REVISED SHEET NO. 35-1 (emphasis added).

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**DATA REQUEST**

**KPSC 1\_3** Refer to the West Direct Testimony, BKW-Exhibit 2. Explain why the total additions do not equal \$50 million.

**RESPONSE**

Additions will not equal \$50 million because (a) customer rates reflecting a \$15 million annual amount of the Rockport UPA expense deferral were not effective for a full year in 2018 (rates were effective January 19, 2018 through December 31, 2018) and (b) customer rates reflecting a \$5 million annual amount of the Rockport UPA expense deferral will not be effective for a full year in 2022 (rates are effective January 1, 2022 through December 8, 2022).

Witness: Heather M. Whitney

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**DATA REQUEST**

- KPSC 1\_4** Refer to the West Direct Testimony, BKW-Exhibit 3.
- a. Provide the missing note "A."
  - b. For all line items not included in the calculation of "Total Rockport Non-fuel Cost in Base Rates" or "Total Rockport Fuel Expense in Base Rates," explain how that line item is reflected in Kentucky Power's current base rates.
  - c. Confirm that the listed expenses were used in Case No. 2020-00174.<sup>3</sup> If this cannot be confirmed, provide the origin of these expenses and the test-year expenses included in rates in Case No. 2020-00174.
  - d. Refer also to BKW-Exhibit 4. Confirm that the "Total Non-Fuel Cost in Rates" will be reflected in the PPA through two separate line items, the removal of the \$10 million increase in Rockport collections and the direct credit of the "Total Rockport Non-fuel Cost in Base Rates." If this cannot be confirmed, explain.
  - e. Refer to the West Direct Testimony, BKW-Exhibit 4. Confirm that the amounts shown are in thousands.

**RESPONSE**

- a. The missing note for A is "Rockport Unit Power Agreement purchased power expenses."
- b. The other line items are not included in the Company's non-fuel base rates. They are either included in the fuel basing point and FAC calculation, or are included in the System Sales Clause.
- c. Confirmed.
- d. Confirmed.
- e. Confirmed.

Witness: Brian K. West



VERIFICATION

The undersigned, Brian K. West, being duly sworn, deposes and says he is the Vice President, Regulatory & Finance for Kentucky Power, that he has personal knowledge of the matters set forth in the foregoing responses and the information contained therein is true and correct to the best of his information, knowledge, and belief.



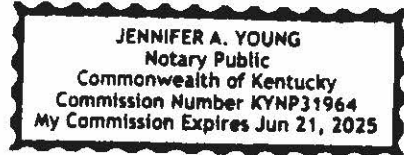
\_\_\_\_\_  
Brian K. West

Commonwealth of Kentucky )  
  )  
County of Boyd )

Case No. 2022-00283

Subscribed and sworn to before me, a Notary Public in and before said County and State, by Brian K. West, on October 3, 2022.

  
\_\_\_\_\_  
Notary Public



My Commission Expires 6/21/25

Notary ID Number KYNP31964



### Whitney Verification Form.doc

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#### E-Signature Summary

**E-Signature 1: Heather M. Whitney (HMW)**  
 October 03, 2022 07:03:12 -8:00 [D967087E5167] [167.239.221.101]  
 hmwhitney@aep.com (Principal) (Personally Known)

**E-Signature Notary: Jennifer Young (JAY)**  
 October 03, 2022 07:03:12 -8:00 [9515EAE6F23E] [167.239.221.104]  
 jayoung1@aep.com  
 I, Jennifer Young, did witness the participants named above electronically sign this document.



**VERIFICATION**

The undersigned, Heather M. Whitney, being duly sworn, deposes and says she is the Director in Regulatory Accounting Services for American Electric Power Service Corporation, that she has personal knowledge of the matters set forth in the foregoing responses and the information contained therein is true and correct to the best of her information, knowledge, and belief.

*Heather M. Whitney*  
Signed on 2022/10/03 at 03:12:40

\_\_\_\_\_  
Heather M. Whitney

Commonwealth of Kentucky )  
  )  
County of Boyd )

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Subscribed and sworn before me, a Notary Public, by Heather M. Whitney this 3<sup>rd</sup> day of October, 2022.

*JAY*  
Notary Public

\_\_\_\_\_  
Notary Public

JENNIFER A. YOUNG  
ONLINE NOTARY PUBLIC  
STATE AT LARGE KENTUCKY  
Commission # KYNP31964  
My Commission Expires Jun 21, 2025

Notarial act performed by audio-visual communication

My Commission Expires 6/21/25

Notary ID Number: KYNP31964

9262F3C8-F431-4C80-9767-994DB0506204 --- 2022/10/03 05:11:50 -8:00 --- Remote Notary

