

August 15, 2025

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FILED VIA ELECTRONIC TARIFF FILING SYSTEM

Linda C. Bridwell
Executive Director
Public Service Commission
211 Sower Boulevard
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RE: **Kentucky Power Company's Second Revised Tariff Sheet 31-2 and 31-3
(Tariff Purchase Power Adjustment ("Tariff P.P.A."))**

Dear Ms. Bridwell:

Kentucky Power Company hereby files redline and annotated versions P.S.C. KY. NO. 13 5th Revised Tariff Sheet 31-2 (Tariff P.P.A.) to reflect updated annual Tariff P.P.A. rates, and P.S.C. KY NO. 13 1st Revised Tariff Sheet 31-3 (Tariff P.P.A.), which reflects the Commission's directives in its June 14, 2024 Order in Case No. 2023-00318 for the Company to use forecasted billing units to calculate the Tariff P.P.A. rate.

"**KPCo_PPA_2025_Annual_Update**" also is being uploaded with the tariff sheet. It includes the calculations supporting the updated Tariff P.P.A. rates.

The 2025 P.P.A. rate reflects collection through the true-up mechanism of the difference in the amounts implemented subject to change pursuant to KRS 278.190(2) and the rates ultimately ordered by the Commission in Case No. 2023-00318. Please refer to "KPCo_PPA_2025_Annual_Update," Tab "PPA Form 1.0," Cell G16 and Tab "Rev Req Variance," Cell F29, which reflect this calculation and inclusion. The Company has included recovery of these amounts as ordered by the Commission in its April 10, 2025 Order in Case No. 2023-00318.

These updated Tariff P.P.A. rates are effective for service rendered on and after September 29, 2025. These revised tariff sheets and supporting files also are being filed in Case No. 2023-00159.

Information Required by the Commission's March 4, 2025 Order in Case No. 2023-00318

The Commission's March 4, 2025 Order in Case No. 2023-00318 also required the Company to provide additional information with this 2025 annual filing, including:

Linda C. Bridwell
August 15, 2025
Page 2

- The financial impact of removing the PJM LSE OATT expense (transmission expense) from Tariff P.P.A.;
- The impact of securitization and the effect of securitization on the Tariff P.P.A. regulatory asset balance; and
- The impact of using forecasted billings determinants and their role in mitigating under-recoveries.¹

The Company provides the following information in response:

1. The financial impact of removing the PJM LSE OATT expense (transmission expense) from Tariff P.P.A.

In the Company's 2020 base rate case (Case No. 2020-00174), the Commission granted Kentucky Power's request to track and recover through Tariff P.P.A. 100% of PJM LSE OATT expenses over or above the amount in base rates "until the next rate case, when the issue [would] be re-examined."²

In direct response to the Commission's concerns regarding PJM LSE OATT cost-tracking through Tariff P.P.A. in Case No. 2020-00174, the Company proposed in its next base rate case (Case No. 2023-00159) to cease such cost-tracking and to instead recover an annual amount of PJM LSE OATT expense through base rates. The Company proposed to recover through base rates the test year amount and an adjustment to align with the PJM LSE OATT costs that the Company would actually incur beginning in 2023. The Commission approved the Company's test year level of PJM LSE OATT expense for recovery through base rates, but denied the Company's pro forma adjustment that would have brought the amount in base rates in-line with the amount of the expense that Kentucky Power was actually incurring beginning in 2023.

As a result of the findings in Case No. 2023-00159, Kentucky Power was collecting significantly less PJM LSE OATT expense through base rates than it was actually incurring from the moment the Commission entered its order in Case No. 2023-00159.

¹ Order at 5-6, *In The Matter Of: Electronic Tariff Filing Of Kentucky Power Company To Update Its Purchase Power Adjustment Rates*, Case No. 2023-00318 (Ky. P.S.C. Mar. 4, 2025).

² Order at 60, *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. Jan. 13, 2021).

Linda C. Bridwell
August 15, 2025
Page 3

Kentucky Power's actual PJM LSE OATT expense increased again beginning in 2024, and again in 2025, further compounding the issue. After appeal of the adjustment denial, the Commission entered an order that allowed Kentucky Power to begin collecting, in 2025, the PJM LSE OATT amount that it was actually incurring beginning in 2023. For these reasons, Kentucky Power has never, as of this date, actually collected the amount of PJM LSE OATT expense incurred since the Commission's January 19, 2024 Order in Case No. 2023-00159.

The combination of ceasing cost-tracking of PJM LSE OATT expense through Tariff P.P.A. and the Company's inability to collect from customers through base rates the PJM LSE OATT expense that it is actually incurring, results in a negative financial impact to Kentucky Power. Because these expenses continue to increase year-over-year, the difference in the actual expenses and the amount collected through base rates results in stranded costs. The amount of such stranded costs for each month beginning in January 2024 through June 2025, totaling nearly \$30 million, is demonstrated in "**Attachment1.**"

The financial impacts of this issue include, but are not limited to:

- a) An erosion to net income;
- b) The erosion of net income results in a reduction to the Company's earned return on equity ("ROE"), which can increase the risk profile of the Company to investors, including debt holders or lenders. 2024 PJM LSE OATT costs that are above the amount in base represents an approximate 182 basis point drag on the Company's ROE; and
- c) An approximate 126 basis point drag on the Company's FFO to debt ratio.

2. The impact of securitization and the effect of securitization on the Tariff P.P.A. Regulatory Asset balance.

Following bond pricing on June 5, 2025, costs recoverable through securitization were finalized based on actual, approved costs as of the most recently completed accounting close period prior to bond pricing (April 2025), including applicable carrying costs through the securitization date (see the below chart for a summary of costs recovered through securitization). On June 12, 2025, ratepayer-backed bonds were issued. The effect of securitization for Kentucky Power was to sell the regulatory asset balances to the Special Purpose Entity. Subsequent to securitization, Kentucky Power is collection agent and servicer, and as such is responsible for billing and collecting the Tariff Securitized Surcharge Rider charges from customers and remitting amounts collected to the bond trustee.

As demonstrated in the table below, the balance of the Tariff P.P.A. Regulatory Asset as of April 2025 was reduced to zero. Similarly, the other regulatory assets that were securitized were also reduced to zero.

Linda C. Bridwell
August 15, 2025
Page 4

Description	Amount
Utility Issuance Cost	\$3,120,019.66
Rockport Deferral Regulatory Asset as of April 2025, with Carrying Costs Through June 12, 2025	\$51,333,428.33
Tariff P.P.A. Under-Recovery Regulatory Asset as of April 2025	\$55,635,203.44
Major Storm (2021-2023) Expense Deferral Regulatory Assets	\$78,759,219.52
Decommissioning Rider Regulatory Asset as of April 2025, with Carrying Costs Through June 12, 2025	\$311,319,693.03
KPCo Regulatory Assets to be recovered through Securitization	\$500,167,563.98
Net Present Value of Return on ADIT Related to Decommissioning Rider Regulatory Asset (ADIT excluded from future ratemaking)	(\$28,750,152.93)
KPCo Securitized Costs	\$471,417,411.05
Less: Cash Proceeds from Sale of Securitization Property	\$471,417,411.05³
Net (KPCo Fully Recovered its Regulatory Assets)	\$ -

3. The impact of using forecasted billings determinants and their role in mitigating under-recoveries.

The impact of utilizing forecasted billing determinants on mitigating under-recoveries will vary year to year. Forecasted billing units are useful for a) capturing expected customer load changes and b) normalizing weather.

In this current filing, a comparison of historical vs. forecasted billing units is provided on the “Input Sheet” tab of “KPCo_PPA_2025_Annual_Update.” As all forecasted units are a reduction compared to historical, the rates produced by using forecasted units is higher – as the revenue requirement is being “spread” over less units. Consequently, the Company will collect more in Tariff P.P.A. revenues than if historical units were utilized to calculate the rates. This

³ The \$471,417,411.05 Cash Proceeds from Sale of Securitization Property plus Non-Utility Issuance Cost of \$6,331,588.95 equals the Securitization Par Amount of \$477,749,000.

Linda C. Bridwell
August 15, 2025
Page 5

helps to limit any potential under-recoveries. Importantly, and as noted above, the inverse could be just as likely; where forecasted units are an increase from historical units.

“Attachment2” provides an illustrative example comparing rates utilizing forecasted billing units to historical billing units and the resulting (over) or under recovery for each. This example is to highlight that each approach has the potential to result in a greater (over) or under recovery to the other.

However, the Company notes that the under-recovery issue identified and proposed to be remedied with its 2023 Tariff P.P.A. filing cannot be, and has not been, resolved through the use of forecasted billing units.⁴ The specific under-recovery formula issue identified in and proposed to be cured in that proceeding causes an inappropriate level to be recovered (numerator) while forecasted billing units change the denominator (or the “spread” of how those costs established in the numerator are to be recovered).

The Company offers to meet with Commission Staff via an informal conference to provide further details on the information included in this filing to the extent it would be helpful.

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

Very truly yours,

STITES & HARBISON PLLC



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KMG

⁴ See Company’s Response to Commission Staff’s Rehearing Data Request, Item 6, *In The Matter Of: Electronic Tariff Filing Of Kentucky Power Company To Update Its Purchase Power Adjustment Rates*, Case No. 2023-00318 (filed Oct. 7, 2024); see also Company’s Response to Staff’s Data Request, Item 1-2, *In The Matter Of: Electronic Tariff Filing Of Kentucky Power Company To Update Its Purchase Power Adjustment Rates*, Case No. 2024-00289 (filed Jan. 23, 2025).