

**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. 2023-00159
Regulatory Assets And Liabilities; (4) A)	
Securitization Financing Order; And (5) All Other)	
Required Approvals And Relief)	

APPLICATION

Kentucky Power Company (“Kentucky Power” or the “Company”) applies to the Public Service Commission of Kentucky (“Commission”) pursuant to KRS 278.180, KRS 278.190, KRS 278.220, KRS 278,670 *et seq.*, KRS 65.114, 807 KAR 5:001, Section 14, 807 KAR 5:001, Section 15, 807 KAR 5:001, Section 16, 807 KAR 5:011, 807 KAR 5:051, and all other applicable statutes and regulations, for an order granting: (1) approval of a general adjustment of its electric rates; (2) approval of its tariffs and riders; (3) approval of accounting practices to establish a regulatory asset or liability; (4) a securitization financing order; and (5) all other required approvals and relief. In support of this Application, the Company states:

Application for General Adjustment of Rates

A. INFORMATION REGARDING THE APPLICANT.

1. **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.

2. **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 Kentucky Power has on file with the Office of the Secretary of State certificates for the following assumed names: "Kentucky Power;" "AEP Kentucky Power;" and "American Electric Power." The required certificates of assumed name are provided in Section II, Exhibit C.

3. **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 163,400 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.

4. **Affiliations:** Kentucky Power is a direct, wholly-owned subsidiary of American Electric Power Company, Inc.

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 June 23, 2023 Certificate of Existence is filed in Section II at Exhibit B of this Application.

5. **Annual Reports:** The Company hereby certifies that its annual reports, including the annual report for the most recent calendar year (2022), are on file with the Commission pursuant to 807 KAR 5:006, Section 4(1) and 807 KAR 5:006, Section 4(2).

6. **Company Property:** The Company's Big Sandy Power Plant consists of a 295 MW gas-fired steam-electric generating unit located at the Big Sandy generating station near Louisa, in Lawrence County, Kentucky. In addition, Kentucky Power owns and operates a fifty percent undivided interest in the coal-fired Mitchell generating station, located approximately ten miles south of Moundsville, West Virginia.² Kentucky Power's share of the Mitchell generating station comprises 780 MW. The Company's electric transmission system includes substation nameplate capacity of approximately 4,520,000 kVA and approximately 1,263 circuit miles of line, and is interconnected with the systems of neighboring utilities. The Company's electric distribution system includes substation nameplate capacity of approximately 1,853,000 kVA and approximately 10,108 circuit miles (including secondary) of above-ground and underground line. Other properties include service buildings, stores buildings, garages, and other structures and equipment.

The net original cost of the property and the cost thereof to the applicant at March 31, 2023³ was:

² Order, *In the Matter of: Application of Kentucky Power Company for (1) A Certificate of Public Convenience and Necessity Authorizing the Transfer to the Company of an Undivided Fifty Percent Interest in the Mitchell Generating Station and Associated Assets; (2) Approval of the Assumption by Kentucky Power Company of Certain Liabilities in Connection with the Transfer of the Mitchell Generating Station; (3) Declaratory Rulings; (4) Deferral of Costs Incurred in Connection with the Company's Efforts to Meet Federal Clean Air Act Requirements; and (5) All Other Required Approvals and Relief*, Case No. 2012-00578 (Ky. P.S.C. October 7, 2013).

³See Section II, Exhibit L for further detail.

Kentucky Power
Electric Plant in Service and Accumulated Depreciation
At March 31, 2023

<u>Original Cost - Electric Plant in Service</u>	
Production Plant	1,240,461,007
Transmission Plant	806,326,991
Distribution Plant	1,077,191,875
General Plant	107,196,677
Intangible Plant and Other EPIS	61,225,982
Total	3,292,402,531
Less Accumulated Depreciation and Amortization of Electric Utility Plant	(1,248,334,822)
Net Plant	2,044,067,708

B. NOTICES.

7. **Notice of Intent.** Pursuant to 807 KAR 5:001, Section 16(2), Kentucky Power filed its Notice of Intent with the Commission on May 23, 2023. The Notice of Intent was filed at least thirty days prior to the filing of this Application. A copy of the Notice of Intent was transmitted by e-mail to the Attorney General’s Office of Rate Intervention in a portable document format (rateintervention@ky.gov). A copy of the notice of intent is provided as Section II, Exhibit H of this Application.

8. **Customer Notices:** The required customer notice was and is being given in compliance with 807 KAR 5:001, Section 17 as follows:

(a) The customer notice required by 807 KAR 5:001, Section 17(2) and 807 KAR 5:011, Section 8(2), as modified by the Commission’s June 2, 2023 order in these proceedings, will be published once a week for three consecutive weeks in a prominent manner in newspapers of general circulation in Kentucky Power’s service area, with the exception of two

newspapers as detailed herein (the “Abbreviated Customer Notice”).⁴ The Abbreviated Customer Notice was first published beginning the week of June 19, 2023. Kentucky Power Company on June 26, 2023 filed a request for deviation with respect to the publication of the third weekly notices in *The Elliott County News* and *The Licking Valley Courier*. Both papers will not publish the week of July 3, 2023. The Company is therefore requesting to publish the third weekly notice in those papers approximately one week later than they otherwise would have run. An affidavit verifying the contents of the published Abbreviated Customer Notice, that the notice was published, and the dates of publication will be filed in accordance with 807 KAR 5:001, Section 17(3)(b) and 807 KAR 5:011, Section 8(3)(b) within 45 days of the date this Application is submitted to the Commission;

(b) The Company also is making available on request the full-length customer notice required by 807 KAR 5:001, Section 17 and 807 KAR 5:011, Section 8(2) (“Full-Length Customer Notice”). The forms of the customer notice required by 807 KAR 5:001, Section 17(2)(b)(3) and 807 KAR 5:011, Section 8(4), as modified by the Commission’s June 2, 2023 order in these proceedings, are provided in Section II, Exhibit F of this Application;

(c) The public postings of the Full-Length Customer Notice required by 807 KAR 5:001, Section 17(1)(a) and 807 KAR 5:011, Section 8(1)(a) were posted on or before June 29, 2023 at the following locations;

- (i) Ashland Corporate Office, 1645 Winchester Avenue, Ashland, Kentucky;
- (ii) Cannonsburg (Ashland) Service Center, 12333 Kevin Avenue, Ashland, Kentucky;
- (iii) Hazard Service Center, 1400 E. Main Street, Hazard, Kentucky;

⁴ By Order dated June 2, 2023 in this proceeding, the Commission granted Kentucky Power’s Application to provide abbreviated newspaper notice of the Company’s Application for a rate adjustment in satisfaction of the requirements of 807 KAR 5:001, Section 17(2).

- (iv) Pikeville Service Center, 3249 N. Mayo Trail, Pikeville, Kentucky;
- (v) Paintsville Service Center, 416 Teays Branch Road, Paintsville, Kentucky; and
- (vi) Whitesburg Service Center, 117 Madison Street, Suite A, Whitesburg, Kentucky.

The Company also is providing a copy of the Application for public inspection during regular business hours at each of the above locations. The public postings of the Full-Length Customer Notice and copies of the Application will remain available for public inspection in conformity with the requirements of 807 KAR 5:001, Section 17(1)(c) and 807 KAR 5:011, Section 8(1)(c) until the Commission enters a final decision in this matter; and

(d) By posting on its website (www.kentuckypower.com) within five business days of filing this Application the information and hyperlink required by 807 KAR 5:001, Section 17(1)(b) and 807 KAR 5:011, Section 8(1)(b). This information will remain available for public access and inspection in conformity with the requirements of 807 KAR 5:001, Section 17(1)(c) and 807 KAR 5:011, Section 8(1)(c) on Kentucky Power's website until the Commission enters a final decision in this matter.

9. **Notices to the Company:** Pursuant to KRS 278.380, Kentucky Power waives its right for purposes of this proceeding to receive service of the orders of the Commission by mail. The Company requests that electronic copies of all orders, pleadings, and other filings relating to this proceeding be directed to the following in accordance with its May 12, 2023 Notice of Election to Use Electronic Filing Procedures:

- (a) Kentucky Power Company
kentucky_regulatory_services@aep.com
cblend@aep.com
hgarcial@aep.com
tswolffram@aep.com

(b) Stites & Harbison PLLC
kglass@stites.com

(c) K&L Gates LLP
ken.gish@klgates.com

C. THE PROPOSED GENERAL ADJUSTMENT IN EXISTING ELECTRIC RATES AND CHARGES.

10. **Historical Test Year:** The Company's Application for a general adjustment to its existing rates is supported by a twelve-month historical test year period ending March 31, 2023, with certain adjustments for known and measurable changes. 807 KAR 5:001, Section 16(1)(a)(1).

11. **Reasons for the Adjusted Rates:** The Company files this application, in part, in conformity with the Commission's January 13, 2021 Order in Case No. 2020-00174, directing the Company to file a general base rate adjustment application for rates effective January 1, 2024.⁵ In addition, the Company files this application because Kentucky Power's current rates are not fair, just, and reasonable; do not permit the Company to operate successfully, to maintain its financial integrity, to attract capital, or to compensate its investors for the risks assumed; and do not provide the financial resources required to permit Kentucky Power to continue to provide adequate, efficient, and reasonable service throughout its service territory. More specifically, but without limitation, the proposed rates and tariff changes are required:

(a) To recover the annual test-year revenue shortfall resulting from increases in expense and other items.

⁵ Order at 32, *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 13, 2021).

- (b) To recover annual revenue lost as a result of the decline in the Company's load since March 31, 2020 (the test year used to establish Kentucky Power's current rates).
- (c) To provide an annual return on the Company's incremental rate base.
- (d) To recover increased annual state and federal income tax expenses resulting from the synchronization of the Company's capital cost and structure in the Application with the test period state and federal income tax expense.
- (e) To recover net Federal Energy Regulatory Commission PJM Load-Serving Entity Open Access Transmission Tariff ("OATT") expenses solely through base rates.
- (f) To recover reasonable and prudently incurred adjusted test year fuel and purchase power costs excluded from recovery through the Company's current fuel adjustment clause and not included in the Company's current base rates.
- (g) To recover the costs of planned distribution reliability investments through the proposed Distribution Reliability Rider.
- (h) To recover in full the reasonable expenses Kentucky Power incurs to provide adequate, efficient, and reasonable service to its customers.
- (i) To maintain the success of the Kentucky Economic Development Surcharge and Home Energy Assistance Program by continuing the Kentucky Economic Development Surcharge, with an equal Company match, and the Home Energy Assistance Program charge, with an equal Company match at their current levels.

12. In recognition of the circumstances in the Company's service territory, and which the Company's customers are facing, the Company is proposing the following measures to reduce and offset customer rate impacts:

- (a) The Company proposes to finance through securitized bonds certain deferred costs pursuant to KRS 278.670, *et seq.*, which will allow the Company to spread those costs over a longer period of time to reduce immediate bill impacts that would have been otherwise incurred without securitization;
- (b) Kentucky Power conditionally proposes to suspend collection of the Decommissioning Rider and the Rockport Deferral (collected through Tariff Purchase Power Adjustment) upon implementation of base rates approved in this case. This proposal is conditioned upon Commission approval of the Company's request to securitize the Decommissioning Rider and Rockport Deferral

Regulatory Assets, Commission authorization for the Company to continue to accrue carrying charges at the Company's weighted average cost of capital proposed in this case until the securitized bonds are issued, and the securitized bonds being issued;

(c) Kentucky Power is postponing updating its depreciation expense as a result of regulatory commission decisions regarding its interest in the Mitchell Generating Station. Preliminary depreciation analysis reflected that updating depreciation rates in this proceeding would have resulted in an approximately \$69 million annual increase in Mitchell depreciation expense for the next five years;

(d) The Company proposes to reduce the level of total distribution major and non-major storm project expense in the test year from \$7.3 million to approximately \$1.0 million, and maintain the actual test year level of transmission major and non-major storm project expense of \$0.1 million, rather than propose an increase to expense to reflect the three-year average of actual expenses (excluding February 2021 Ice Storm and July 2022 Flood expenses), which would have equaled approximately \$9.4 million; and

(e) Kentucky Power is proposing a return on equity that is 70 basis points lower than, and below the recommended reasonable range of, the return on equity supported by Company Witness McKenzie.

13. The proposed rates and charges, even in the absence of the proposed rate impact reduction and offset measures, are fair, just, and reasonable as required by KRS 278.030(1).

14. **Proposed Tariffs:** The proposed tariffs in a form that complies with 807 KAR 5:011, with an effective date for service rendered on or after January 1, 2024,⁶ are filed as Section II, Exhibit D to this Application. 807 KAR 5:001, Section 16(1)(b)(3).

15. **Proposed Tariff Changes:** The Company's proposed tariff changes, identified in compliance with 807 KAR 5:011, are filed as Section II, Exhibit E to this Application. 807 KAR 5:001, Section 16(1)(b)(4)(a). Kentucky Power also is providing a redlined version of its proposed tariffs that indicates text changes in compliance with 807 KAR 5:001, Section

⁶ Kentucky Power files this Application and provides this notice with the expectation the Commission subsequently will suspend pursuant to KRS 278.190 the proposed rates for investigation. Kentucky Power requests that the Commission conduct its investigation during this suspension period and enter its Order granting the relief requested in conformity with the statutory requirements of KRS 278.190, and enter an order for rates effective January 1, 2024 consistent with the Commission's January 13, 2021 Order in Case No. 2020-00174.

16(1)(b)(4)(b), but not formatting changes, as Exhibit LMK-7 to the Direct Testimony of Lerah M. Kahn.

16. **Effect of Proposed Adjustments:** As shown on Line 1 of the Summary tab of Section V of the Application, Kentucky Power's test year retail sales revenues total \$694,002,526. The base rates proposed by Kentucky Power are designed to produce an additional \$93,935,727 in annual retail revenues, or an increase of approximately 13.6% above the test year retail sales revenues total of \$694,002,526 shown on Line 1 of the Summary tab of Section V of the Application. (See line 2 of the Summary tab of Section V of the Application). 807 KAR 5:001, Section 16(4)(d).

(a) The effect of the increase on average or typical electric bills is presented in Section II, Exhibit I. 807 KAR 5:001, Section 16(4)(e).

(b) The analysis showing revenues from present and proposed rates for each customer classification is presented in Section II, Exhibits J and K. 807 KAR 5:001, Section 16(4)(g).

17. **New and Modified Programs, Policies, and Tariffs.** In connection with this Application, the Company is proposing to implement, without limitation, certain new programs, policies, and tariffs, and to modify existing policies, programs and tariffs by:

(a) Creating a new Securitization Financing Rider to recover the costs associated with issuing securitized bonds in the total approximate amount of \$446.7 million to finance regulatory assets totaling approximately \$471.2 million pursuant to KRS 278.670 *et seq.*, which will allow the Company to spread those costs over a longer period of time to reduce immediate bill impacts that would have been otherwise incurred without securitization;

(b) Creating a new Distribution Reliability Rider to recover the capital and incremental operation and maintenance expenses associated with projects to improve the reliability and resiliency of the Company's distribution system, including the projects to expand the Company's existing trees outside the right-of-way expansion work and additional incremental distribution investments targeted at improving reliability to customers served via

radial distribution lines proposed in this case; and to perform over/under accounting in connection with that tariff;

(c) Proposing a voluntary seasonal residential service tariff option, which will enable residential customers to reduce impacts associated with higher usage in the winter as a result of electric heating and provide greater electric heating cost predictability and stability;

(d) Proposing a financial hedging plan to mitigate the volatility of its PJM market energy purchases, which will provide customers with more fuel cost certainty and stability, and amending Tariff Fuel Adjustment Clause to provide for recovery of the Company's proposed financial hedging plan through that tariff;

(e) Proposing a new distributed solar garden program, which will provide significant benefits to customers, generate jobs and property taxes, and provide an approximately \$66 annual energy credit to low-income customers;

(f) Proposing to continue the current level of Kentucky Power Economic Growth Grants grant funding through the Kentucky Economic Development Surcharge Tariff to continue to support economic development and expansion in the Company's service territory;

(g) Proposing to increase its Residential Energy Assistance surcharge and Company match from \$0.30 per month to \$0.40 per month to support approximately 1,000 additional customers through its existing energy assistance program offerings;

(h) Proposing to discontinue cost-tracking of PJM Load Serving Entity Open Access Transmission Tariff costs through Tariff Purchase Power Adjustment at this time, and to instead collect those costs through base rates;

(i) Amending and renaming the Federal Tax Cut tariff to reflect the ending of the rate credits associated with returning the unprotected accumulated deferred income taxes owed to customers as a result of the 2018 Tax Cuts and Jobs Act, to reflect the collection of accumulated deferred federal income taxes and corporate alternative minimum tax through that tariff, and to perform over/under accounting in connection with that tariff;

(j) Amending Tariff Purchase Power Adjustment to reflect the proposed discontinuance of cost-tracking of PJM Load Serving Entity Open Access Transmission Tariff costs at this time, and to reflect the expiration of the Rockport Unit Power Agreement through that tariff;

(k) Amending Tariff Environmental Surcharge to reflect the expiration of the Rockport Unit Power Agreement, and to reflect the proposed updated return on equity for that surcharge;

(l) Closing the Non-Utility Generator tariff to new participants and removing provisions for Commissioning Power Service and Startup Power Service; and

(m) Limited updating and revising of the Company’s terms and conditions of service, including providing customers with additional time to pay their bills by extending the deadline for customer bill payment from 15 to 21 days; and

(n) Implementing non-substantive global formatting and reorganization changes to the entire tariff book.

D. COMPLIANCE WITH STATUTORY AND REGULATORY REQUIREMENTS FOR GENERAL RATE ADJUSTMENTS.

The Company provides the following information in further response to the requirements imposed by KRS 278.180, KRS 278.190, KRS 278.2203, KRS 278.2205, 807 KAR 5:001, Section 12, 807 KAR 5:001, Section 16, and 807 KAR 5:011:

18. A financial exhibit in the form prescribed by 807 KAR 5:001, Section 12 is filed in Section IV to this Application.

19. A description and quantification of all proposed adjustments, with proper support for any proposed changes as prescribed by 807 KAR 5:001 Section 16(6)(a), is provided in Section V to this Application.

20. The prepared testimony and exhibits of the following witnesses in support of this Application are provided in Section III to this Application:

WITNESS	TOPICS
Cynthia G. Wiseman	Company Organizational Structure and Service Territory; The Company’s Support of Customers, Eastern Kentucky; Current Challenges and the Need for this Case; Overview of Major Proposals and Measures to Reduce and Offset Customer Rate Impacts; and Identification and Introduction of the Company’s Witnesses

WITNESS	TOPICS
Brian K. West	Proposed Revenue Requirement; Proposed Recovery of Winter Storm Elliott Purchase Power Costs; Distribution Reliability Rider Proposal; Prudence of the Company’s Distribution Investment; Overview of Request for Securitization Financing Order; Total Estimated Amount to be Securitized; Discontinuing PJM LSE OATT Cost Tracking; and Amortization of Certain Other Deferrals
Steven Fetter	The Regulatory Compact and Need for Constructive Utility Regulation to Support Utility Credit Quality
Stevi Cobern	Kentucky Power’s Focus on Customer Care; Proposal to Increase Residential Energy Assistance Surcharge to Increase Benefit Availability; and Proposal to Extend Customer Bill Payment Deadline
Amanda Clark	Kentucky Power’s Investment in Economic Development and Kentucky Power Economic Growth Grant Program Continuation
Everett G. Phillips	Overview of Kentucky Power Distribution Programs; Annual Distribution O&M Expenses and Capital Investment; Vegetation Management Plan Funding; Kentucky Power’s Smart Grid Investments; and Overview of Investments to be Recovered through the Proposed Distribution Reliability Rider
Stephen D. Blankenship	Prudence of Major Storm Costs Sought to be Securitized
Timothy C. Kerns	Overview of Kentucky Power Generation Assets; Description of Retired Generation Assets Comprising Decommissioning Rider Regulatory Asset; Generation Capital Investments Since Last Case; Test Year Generation O&M Expenses; and Operation of Kentucky Power Generation Assets During Winter Storm Elliott
Alex E. Vaughan	Prudence of Purchased Power Costs Above Peaking Unit Equivalent, Including Winter Storm Elliott Costs; Financial Power Hedging Proposal; and Distributed Solar (Solar Garden) Proposal
Adrien M. McKenzie	Calculation Of A Fair, Just, and Reasonable ROE Range
Franz D. Messner	Kentucky Power’s Proposed Capital Structure; Cost of Capital For Ratemaking Purposes; Securitization Customer Benefits NPV Analysis; Proposed Securitized Bond Recovery Period; and Estimated Upfront and Ongoing Securitization Costs

WITNESS	TOPICS
Katrina T. Niehaus	Securitization Background; Proposed Securitization Transaction; Securitization Execution Process; and Key Elements of Financing Order and Transaction Documents
Michael M. Spaeth	Overview of the Relation Between the Company's Base Rates and its Surcharges and Riders; Rate Design; Certain Tariff Changes; Securitization Financing Rider; Estimated Amount of Securitized Surcharge; Semi-Annual Securitization Financing Rider True-Up; and Proposed Future Reconciliation Process
Katharine I. Walsh	Jurisdictional Cost-of-Service Study; and Calculation of Return on ADIT for Securitization Customer Benefits NPV Analysis
Jaclyn N. Cost	Class Cost-of-Service Study; and Allocation Of Requested Increase To Customer Classes
Heather M. Whitney	Certain Revenue And Operating Expense Adjustments; Requests for Deferral Accounting Authority Related to Certain Riders; and Certain Capitalization And Rate Base Adjustments
Linda M. Schlessman	Calculation Of Gross Revenue Conversion Factor; Jurisdictional State and Federal Income Taxes; Cost of Removal; Net Operating Loss Carryforward Normalization; Tax Effects Of Certain Ratemaking Adjustments; and Corporate Alternative Minimum Tax
Lerah M. Kahn	Environmental Surcharge Base Revenue Requirement; Certain Revenue and Operating Expense Adjustments; and Proposed Changes to Certain Tariffs
Scott E. Bishop	Certain Revenue and Operating Expense Adjustments
Andrew R. Carlin	Employee Compensation Strategy
Kamran Ali	Transmission Planning; Kentucky Power Transmission Investment; and Reasonableness of PJM LSE Costs
Joshua D. Burkholder	Overview of Kentucky Power's PJM Membership and Participation in the AEP Transmission Agreement; Kentucky Power's Transmission Expense and Revenues; and Compliance with Transmission Cost-Related Provisions of the Commission's Order in 2020-00174
Katherine Steward	Zero-Intercept Study
Michael Adams	Lead/Lag Study

807 KAR 5:001, Section 16(4)(b).

21. The Company's Cost Allocation Manual is provided in Section II, Exhibit A to the Application. KRS 278.2203; KRS 278.2205.

22. A copy of the statutory notice is provided as **EXHIBIT 1** to this Application. KRS 278.180.

23. The remaining required information provided in support of this Application, and in compliance with the provisions of Chapter 278 of the Kentucky Revised Statutes and the Commission's regulations is provided, or its location in the Application identified, in the Filing Requirements sheets provided in Section II to the Application.

24. The Company also provides as **EXHIBIT 2** to this Application its rate case filing requirements summary demonstrating that it has complied with the filing requirements.

**Application for Approval of Accounting Treatment to Establish
Regulatory Assets and Liabilities**

25. The Company incorporates paragraphs 1 through 24 of this Application as if fully restated herein.

26. Kentucky Power's application for a general adjustment of its rates provides for the creation of its Distribution Reliability Rider ("Rider D.R.R.") to recover the costs of projects that will improve the reliability and resiliency of the distribution grid.

27. For Rider D.R.R. projects, the Company will institute appropriate accounting and cost recording processes to accumulate Rider D.R.R. revenues and related Rider D.R.R. project costs. As discussed further in the testimony of Company witnesses provided in Section III to this Application, to avoid any over-recovery or under-recovery as a result of the timing difference between costs incurred for Rider D.R.R. projects and Rider D.R.R. revenues, the Company

proposes to calculate and record (*i.e.*, defer) the cumulative monthly or other periodic difference between Rider D.R.R. revenues and actual incurred Rider D.R.R. project costs eligible for recovery as a regulatory asset or regulatory liability. Any resulting over- or under-recovery would be subject to annual reconciliation.

28. Kentucky Power's application for a general adjustment of its rates also provides for recovery through Tariff Federal Tax Credit (proposed to be renamed to "Federal Tax Change") ("Tariff F.T.C.") amounts associated with federal taxes assessed to the Company.

29. For Tariff F.T.C., the Company will institute appropriate accounting and cost recording processes to accumulate Tariff F.T.C. revenues/(refunds) and Tariff F.T.C. costs/(benefits). As discussed further in the testimony of Company witnesses provided in Section III to this Application, to avoid any over-recovery or under-recovery as a result of the timing difference between eligible tax costs/(benefits) incurred and Tariff F.T.C. revenues/(refunds), the Company proposes to calculate and record (*i.e.*, defer) the cumulative monthly or other periodic difference between Tariff F.T.C. revenues and actual eligible tax costs/(benefits) incurred, as a regulatory asset or regulatory liability. Any resulting over- or under-recovery would be subject to annual reconciliation.

30. Financial Accounting Standards Board Accounting Standards Codification ("FASB Codification" or "ASC") 980-340-25-1 requires utility management to defer and capitalize a current cost (as a regulatory asset) when in management's judgment the cost is probable of recovery. ASC 980-405-25-1 requires deferral accounting based on the existence of a regulatory liability when a true-up to actual costs results in an over-recovery and probable refund to customers in a future ratemaking proceeding. The FASB ASC Master Glossary defines "probable" as "the future event or events are likely to occur." Evidence of probable recovery

includes orders from the regulator specifically authorizing deferral of the current cost or current obligation for later review and recovery or refund through rates.

31. The requested order authorizing over/under accounting treatment for annual review and reconciliation through rates would permit Kentucky Power to establish the regulatory assets or liabilities, as the case may be, for Rider D.R.R. and Tariff F.T.C.

Application for Securitization Financing Order
Pursuant to KRS 278.670, et seq.

32. The Company incorporates paragraphs 1 through 31 of this Application as if fully restated herein.

33. The Company hereby applies to the Commission for a financing order to finance extraordinary and other deferred costs from previous events for regulatory assets that total approximately \$471.2 million. KRS 278.672(1).

34. The Company seeks to securitize the regulatory assets described in the table below. Each of these regulatory assets will exist on Kentucky Power's books on June 30, 2023. Their respective expected values as of June 30, 2023 also are provided in the table below. KRS 278.672(1); KRS 278.672(2)(a); KRS 278.672(2)(b).

Line No.	Regulatory Asset Description	Case No.	FERC Subaccount(s)	Expected Balance as of June 30, 2023
1	Decommissioning Rider Regulatory Asset	Please Refer to Application Exhibit 4	1823376	\$ 289,193,517
2			1823378	
3			1823379	
4			1823380	
5			1823517	
6			1823518	
7	January 2020 Wind Storm	2020-00368	1823620	\$ 646,479
8	April 2020 Thunderstorm			\$ 474,856
9	April 2020 Wind Storm			\$ 9,843,199
10	December 2020 Snow Storm	2021-00135	1823620	\$ 1,043,892
11	2020 Storm Incremental O&M			\$ 12,008,426
12	Less: Amount in Base Rates			\$ (1,498,582)
13	2020 Storm Expense Deferral Regulatory Asset			\$ 10,509,844
14	February 2021 Ice and Snow Storms	2021-00129		1823623	$ 46,199,297
15	February 2021 Major Flood	2021-00402	\$ 826,495	
16	2021 Storm Incremental O&M		\$ 47,025,792	
17	Less: Amount in Base Rates		\$ (1,029,789)	
18	2021 Storm Expense Deferral Regulatory Asset		\$ 45,996,003	
19	June 2022 Thunderstorm and Wind Storm	2022-00293	1823698	\$ 3,401,582
20	July 2022 Historic Flood			\$ 11,449,177
21	2022 Storm Incremental O&M			\$ 14,850,759
22	Less: Amount in Base Rates		\$ (1,012,476)	
23	2022 Storm Expense Deferral Regulatory Asset		\$ 13,838,283	
24	March 2023 Wind Storm (March 3, 2023)	2023-00137	1823722	\$ 3,295,455
25	March 2023 Wind Storm (March 25, 2023)			\$ 1,028,326
26	April 2023 Wind Storm			\$ 5,643,197
27	2023 Storm Incremental O&M - Estimate			\$ 9,966,978
28	Less: Amount in Base Rates			\$ (1,012,476)
29	2023 Storm Expense Deferral Regulatory Asset - Estimate			\$ 8,954,502
30	Rockport Deferral Regulatory Asset	2017-00179 2020-00174 2022-00283	1823430 1823431	\$ 52,253,087
31	Tariff P.P.A. Under-Recovery Regulatory Asset (Under-Recovered Since January 2020)	2017-00179 2020-00174 2022-00416	1823557	\$ 50,453,564
32	Total Regulatory Assets Requested for Securitization			\$ 471,198,800

35. The Decommissioning Rider Regulatory Asset is comprised entirely of retired generation costs. Each of the storm regulatory assets are comprised entirely of extraordinary storm costs. Each of the Rockport Deferral Regulatory Asset and the Tariff P.P.A. Under-

Recovery Regulatory Asset are comprised entirely of other deferred costs that are not ongoing utility investments or operating costs. KRS 278.672(1). Because June 2023 Tariff Decommissioning Rider (“Tariff D.R.”) and Tariff Purchase Power Adjustment (“Tariff P.P.A.”) revenues and expenses are not known at the time of this filing, expected amounts reported in the table above for the Decommissioning Rider Regulatory Asset and Tariff P.P.A. Under-Recovery Regulatory Asset represent May 2023 actual balances. The expected amount reported in the table above for the 2023 Storm Expense Deferral Regulatory Asset represents the estimated regulatory asset balance, as provided to the Commission in Case No. 2023-00137.⁷ The Company will file its actual costs associated with the March and April 2023 storms on or before September 30, 2023 in Case No. 2023-00137.

36. The Decommissioning Rider Regulatory Asset totals approximately \$289,000,000. Thus, more than fifty percent of the deferred costs that the Company seeks to securitize in this proceeding are retired generation costs. Company Witness Kerns further describes the Big Sandy Unit 2 retirement costs and Big Sandy Unit 1 coal-related retirement costs comprising that regulatory asset. KRS 278.672(2)(a)(1).

37. Copies of the previous Commission orders related to the deferral of the costs comprising the Decommissioning Rider Regulatory Asset are presented in **EXHIBIT 4** to this Application. KRS 278.672(2)(a)(2).

38. The Commission has authorized the Company to amortize and recover the Decommissioning Rider Regulatory Asset through Tariff D.R. The Commission has authorized the Company to amortize and recover the Rockport Deferral Regulatory Asset through Tariff

⁷ *In The Matter Of: Electronic Application Of Kentucky Power Company For An Order Approving Accounting Practices To Establish A Regulatory Asset Related To The Extraordinary Expenses Incurred By Kentucky Power Company In Connection With The March 3, 2023, March 25, 2023, And April 1, 2023 Major Event Storms, Case No. 2023-00137.*

P.P.A. The Commission has authorized the Company to recover the Tariff P.P.A. Under-Recovery Regulatory Asset through the over/under accounting mechanism in Tariff P.P.A.⁸

39. The costs incurred that comprise each of the above storm regulatory assets were reasonably and prudently incurred. Company Witness Blankenship supports the reasonableness of the costs comprising each storm regulatory asset and the recovery of these costs from customers. KRS 278.676(1)(a).

40. The Company seeks to finance through securitized bonds all of the deferred costs comprising each of the regulatory assets, net of any applicable return on accumulated deferred income tax (“ADIT”) as described in further detail by Company Witness Walsh, listed in the table above. KRS 278.672(2)(c).

41. The estimated financing costs related to the securitized bonds are \$6.3 million for upfront costs and an estimated \$973 thousand of ongoing costs. KRS 278.672(2)(d). Company Witness Messner describes these financing costs in greater detail.

42. The estimated net amount to be securitized is \$446.7 million. KRS 278.676(1)(a).

43. The estimated securitized surcharge necessary to recover the securitized costs and financing costs will be allocated to Residential and All Other Non-Residential Customers based on total retail revenue and assessed to both customer groups as a percentage of retail revenue at the following rates:

Residential SFR Factor: 5.8233%

All Other SFR Factor: 11.440%

The expected period for recovery of the costs is 20 years. KRS 278.672(2)(e). Company Witness Spaeth discusses the calculation of the securitized surcharge in greater detail.

⁸ See Tariff D.R. (Tariff Sheet No. 38-1 through 38-2); Tariff P.P.A. (Tariff Sheet No. 35-1 through 35-3).

44. The Company performed a comparison between the net present value (“NPV”) of the costs to ratepayers that are estimated to result from the issuance of securitized bonds and the cost that would result from an alternative means of providing for the full recovery of and return on those securitized costs from customers, using the weighted average cost of capital proposed by the Company in this case. That NPV analysis demonstrates that, based on current market conditions, the issuance of securitized bonds and the imposition of securitized surcharges are expected to provide a quantifiable NPV net benefit to customers of approximately \$74 million, compared to the cost that would result from an alternative means of providing for the full recovery of and return on those securitized costs from customers using the Company’s proposed weighted average cost of capital. This amount is an estimate based on current market conditions and reasonable assumptions regarding tenor, coupon, upfront, and ongoing bond costs and may change between now and the date of the securitized bonds’ issuance. Company Witness Messner provides additional detail regarding the NPV calculation. Company Witness Walsh provides additional detail on the calculation of the return on ADIT used to develop the NPV calculation. KRS 278.672(2)(f).

45. The Company is proposing the Securitization Financing Rider to recover the securitized costs detailed herein. The Securitization Financing Rider’s monthly cost would appear as a separate line item on customers’ bills (the securitized surcharge). The Company’s proposed Securitization Financing Rider is supported by Company Witness Spaeth.

46. The Company also is proposing a future ratemaking process to reconcile any differences between securitized costs financed by securitized bonds and the final securitized costs incurred by the Company. KRS 278.672(2)(g). Company Witness Spaeth describes this process.

47. In addition, the Company will propose semi-annual adjustments to the securitized surcharge that customers are required to pay pursuant to the financing order. This is necessary to correct for any over- or under-collection of the surcharge and ensure the timely payment of principal, interest, and ongoing financing costs. The Company proposes to make a semi-annual true-up filing no later than February 15 and August 15 of each year for rates effective with cycle 1 of the following April and October billing periods, as set forth in the Securitization Financing Rider tariff sponsored by Company Witness Spaeth. KRS 278.676(1)(f).

48. The Company’s Application for a securitization financing order is supported by testimony as follows. KRS 278.672(2)(h).

WITNESS	TOPICS
Brian K. West	Overview of Request for Securitization Financing Order; and Total Estimated Amount to be Securitized;
Katrina T. Niehaus	Securitization Background; Proposed Securitization Transaction; Securitization Execution Process; and Key Elements of Financing Order and Transaction Documents
Timothy C. Kerns	Description of Retired Generation Assets Comprising Decommissioning Rider Regulatory Asset
Stephen D. Blankenship	Prudency of Major Storm Costs Sought to be Securitized
Franz D. Messner	Securitization Customer Benefits NPV Analysis; Proposed Securitized Bond Recovery Period; and Estimated Upfront and Ongoing Securitization Costs
Michael M. Spaeth	Securitization Financing Rider; Estimated Amount of Securitized Surcharge; Semi-Annual Securitization Financing Rider True-Up; and Proposed Future Reconciliation Process
Katharine I. Walsh	Calculation of Return on ADIT for Securitization Customer Benefits NPV Analysis

49. The approval of a securitization financing order, and the resulting estimated securitized surcharge, is in the public interest and is fair, just, and reasonable because it would

reduce rates for customers by financing these prudently incurred regulatory assets at a long-term triple-A debt interest rate, and over a longer period of time than would be the case absent securitization. Further, it also would give the Company access to capital that can be deployed elsewhere over a comparable time horizon.

50. The Company has identified the location within the Application of the required information in support of the Company's request for a securitization financing order pursuant to the provisions of KRS 278.670 *et seq.* in the securitization filing requirements summary provided as EXHIBIT 3 to this Application.

51. The proposed Financing Order, discussed in further detail by Company Witness Niehaus, is attached as EXHIBIT 5 to this Application.

52. The Company also provides as EXHIBIT 6 to this Application a glossary of acronyms used throughout the Company's Application and testimony.

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

1. Approving the requested general adjustment of it rates for electric service;
2. Approving its revised and new tariff sheets submitted as Schedule II, Exhibit D to this Application;
3. Granting accounting treatment authorizing Kentucky Power to defer and create a regulatory asset or liability in connection with the creation of the Distribution Reliability Rider and modification of the Federal Tax Cut Tariff;
4. Granting the Company's request for a securitization financing order pursuant to KRS 278.670 *et seq.*; and
5. Granting such further relief to which the Company may be entitled.

Respectfully submitted,



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COUNSEL FOR KENTUCKY POWER
COMPANY

Exhibit 1

**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. 2023-00159
Regulatory Assets And Liabilities; (4) A)	
Securitization Financing Order; And (5) All Other)	
Required Approvals And Relief)	

STATUTORY NOTICE

Kentucky Power Company (“Kentucky Power” or the “Company”) informs the Public Service Commission of Kentucky (“Commission”) that it is engaged in business as an electric generation, distribution, and transmission utility. The Company principally provides retail electric service to consumers located in all or part of 20 counties in eastern Kentucky. Kentucky Power also furnishes electric service at wholesale to the City of Vanceburg and the City of Olive Hill.

Pursuant to KRS 278.180 and 807 KAR 5:011, Section 9, and all other applicable provisions, Kentucky Power gives notice to the Commission that on June 29, 2023 it is filing with the Commission: (i) its revised tariff sheets adjusting its base rates and implementing or modifying riders and surcharges effective for service rendered on or after January 1, 2024;¹ and (ii) its Application supporting the proposed new and adjusted base rates, riders, and surcharges. The proposed effective date of the tariffs and rates proposed in the Company’s Application is greater

¹ Kentucky Power files this Application and provides this notice with the expectation the Commission subsequently will suspend pursuant to KRS 278.190 the proposed rates for investigation. Kentucky Power requests that the Commission conduct its investigation during this suspension period and enter its Order granting the relief requested in conformity with the statutory requirements of KRS 278.190, and enter an order for rates effective January 1, 2024 consistent with the Commission’s January 13, 2021 Order in Case No. 2020-00174.

than thirty days from the date of filing. The revised and new tariff sheets, riders, and surcharges are found in Exhibit D to the filing requirements filed in Section II of the Application.

Kentucky Power proposes to adjust its existing base rates, surcharges, riders, and tariffs by substituting the proposed tariff sheets for the corresponding sheets of its existing tariffs as shown in Exhibit E to the filing requirements filed in Section II of the Application.

Kentucky Power is giving notice to the public as required by 807 KAR 5:001, Section 17 and 807 KAR 5:011, Section 8, as modified by the Commission's June 2, 2023 order in these proceedings, by publishing notice once a week for three consecutive weeks in a prominent manner in newspapers of general circulation in Kentucky Power's service area, with the exception of two newspapers as detailed herein (the "Abbreviated Customer Notice").² The Abbreviated Customer Notice was first published beginning the week of June 19, 2023. Kentucky Power Company on June 26, 2023 filed a request for deviation with respect to the publication of the third weekly notices in *The Elliott County News* and *The Licking Valley Courier*. Both papers will not publish the week of July 3, 2023. The Company is therefore requesting to publish the third weekly notice in those papers approximately one week later than they otherwise would have run.

Notice also is being given through the public posting of the full-length customer notice required by 807 KAR 5:001, Section 17(1)(a) and 807 KAR 5:011, Section 8(1)(a) ("Full-Length Customer Notice") at each of the offices listed below. The Company also is providing a copy of the Application for public inspection at Kentucky Power's corporate offices and distribution operations centers at the following locations:

- (i) Ashland Corporate Office, 1645 Winchester Avenue, Ashland, Kentucky;

² By Order dated June 2, 2023 in this proceeding, the Commission granted Kentucky Power's Application to provide abbreviated newspaper notice of the Company's Application for a rate adjustment in satisfaction of the requirements of 807 KAR 5:001, Section 17(2).

- (ii) Cannonsburg (Ashland) Service Center, 12333 Kevin Avenue, Ashland, Kentucky;
- (iii) Hazard Service Center, 1400 E. Main Street, Hazard, Kentucky;
- (iv) Pikeville Service Center, 3249 N. Mayo Trail, Pikeville, Kentucky;
- (v) Paintsville Service Center, 416 Teays Branch Road, Paintsville, Kentucky; and
- (vi) Whitesburg Service Center, 117 Madison Street, Suite A, Whitesburg, Kentucky.

The public postings of the Full-Length Customer Notice and copies of the Application will remain available for public inspection during regular business hours in conformity with the requirements of 807 KAR 5:001, Section 17(1)(c) and 807 KAR 5:011, Section 8(1)(c) until the Commission enters a final decision in this matter. In addition, within five business days after June 29, 2023, Kentucky Power will post on its website (www.kentuckypower.com) the information and hyperlink required by 807 KAR 5:001, Section 17(1)(b) and 807 KAR 5:011, Section 8(1)(b). This information will remain available on the Company's website for public access and inspection in conformity with the requirements of 807 KAR 5:001, Section 17(1)(c) and 807 KAR 5:011, Section 8(1)(c) until the Commission enters a final decision in this matter.

A proof of compliance with the notice and posting requirements will be filed in accordance with 807 KAR 5:001, Section 17(3) and 807 KAR 5:011, Section 8(3).

Additional information regarding the Company's proposed new and adjusted base rates, riders, and surcharges is contained in the Company's Application filed this same date.

This 29th day of June, 2023.

Respectfully submitted,



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COUNSEL FOR KENTUCKY POWER
COMPANY

Exhibit 2

Requirement	Description of Requirement	Location(s) in Filing
KRS 278.180	30 days' notice of proposed rates to Commission. <i>(If no effective date provided for proposed rates no advance notice required)</i>	Application, Exhibit 1.
807 KAR 5:001		
Section 14(1)	Full name, mailing address, and e-mail address of applicant.	Application ¶ 1.
Section 14(1)	A reference to the particular provision of law requiring Commission approval.	Application at introductory paragraph.
Section 7(1)	The application and 10 copies.	Company is e-filing.
Section 4(3)	Paper signed by submitting party or attorney.	Application p. 24.
Section 4(3)	Name, address, telephone number, fax number, and e-mail address of submitting party or attorney.	Application p. 24.
Section 4(10)	Personal information must be redacted	Complied.
Section 8(4)(b)	Has submitting party optimized pdf document Making all text pages searchable or OCR'd. Bookmarks added to distinguish sections of the paper	Complied.
Section 14(2)	If applicant is a corporation, the applicant shall identify in the application the state in which it is incorporated and the date of its incorporation, attest that it is currently in good standing in the state in which it is incorporated, and, if it is not a Kentucky corporation, state whether it is authorized to transact business in Kentucky.	Application ¶ 2, fn. 1; Section II at Exhibit B.

Requirement	Description of Requirement	Location(s) in Filing
Section 14(3)	If applicant is a limited liability company, the applicant shall identify in the application the state in which it is organized and the date on which it was organized, attest that it is in good standing in the state in which it is organized, and, if it is not a Kentucky limited liability company, state whether it is authorized to transact business in Kentucky.	N/A.
Section 14(4)	If applicant is a limited partnership, a certified copy of its limited partnership agreement and all amendments, <u>or</u> a written statement that its partnership agreement and all amendments have been filed with the Commission in a prior proceeding and a reference to the case number of that proceeding.	N/A.
Section 16(1)(b)	1. A statement of the reason the adjustment is required.	Application ¶ 11; Wiseman Test. p. 10-15.
	2. A certified copy of a certificate of assumed name as required by KRS 365.015 or a statement that such a certificate is not necessary.	Application ¶ 2; Section II, Exhibit C.
	3. New or revised tariff sheets, if applicable, in form complying with 807 KAR 5:011 with an effective date not less than thirty (30) days from the date the application is filed (or no effective date).	Application ¶ 14; Section II, Exhibit D.
	4. New or revised tariff sheets, if applicable, shown by either providing the present and proposed tariffs in comparative form on the same sheet side by side or on facing sheets side by side, or providing a copy of the present tariff indicating proposed additions by italicized inserts or underscoring and striking over proposed deletions.	Application ¶ 15; Section II, Exhibit E; <i>see also</i> Section III, Exhibit LMK-7 to the Kahn Test.
	5. A statement that notice has been given in compliance with Section 17 of this administrative regulation, with a copy of the notice.	Application ¶ 8; Section II, Exhibit F.

Requirement	Description of Requirement	Location(s) in Filing
	6. If a water district proposes to increase any current rate for service or implement a new rate for service, a statement from an authorized official of the district indicating the date the proposed rate increase or new rate was reported to the governing body of the county in which the largest number of its customers resides and the date it presented testimony, or is scheduled to present testimony, to that governing body.	N/A.
Section 16(2)	If utility's gross annual revenues exceed \$5,000,000, was written notice of intent to file a rate application filed at least thirty (30) days, but not more than sixty (60) days, prior to application	Filed May 23, 2023; Section II, Exhibit H; <i>see also</i> Section II, Exhibit G at ¶ 2(a).
	(a) Notice shall state whether the application will be supported by historical or a fully forecasted test period.	Complied.
	(b) Upon filing the notice of intent, an application may be made to the commission for permission to use an abbreviated form of newspaper notice of proposed rate increases provided the notice includes a coupon that may be used to obtain a copy from the applicant of the full schedule of increases or rate changes.	Filed May 23, 2023; Approved by Order dated June 2, 2023; Section II, Exhibit G at p. 2.
	(c) Has a copy of the notice of intent been served upon the Attorney General, either by electronic mail in a portable document format or mail	Application ¶ 7; <i>see also</i> Section II, Exhibit G at ¶ 2(a).
Historical Test Period		
Section 16(4)	(a) Complete description and quantified explanation for all proposed adjustments with support for changes in price or activity levels, and other factors affecting the adjustment.	Section V; and Section III, Bishop Test.; Kahn Test.; Phillips Test.; Schlessman Test.; Walsh Test.; and Whitney Test.
	(b) If utility has gross annual revenues exceeding \$5,000,000, written testimony of each witness who will support the application.	Section III.

Requirement	Description of Requirement	Location(s) in Filing
	(c) If the utility has gross annual revenues less than \$5,000,000, written testimony of each witness who will support application or statement that utility does not plan to submit written testimony.	N/A.
	(d) Estimate of effect that new rate(s) will have on revenues including, at minimum, total revenues resulting from increase or decrease and percentage of increase or decrease.	Application ¶ 16; West Test. p. 5; and Section V, Summary Tab.
	(e) If electric, gas, sewage or water utility, the effect upon the average bill for each customer classification to which change will apply.	Section II, Exhibit I.
	(f) If incumbent local exchange company, effect upon the average bill for each customer class for change in basic local service.	N/A.
	(g) Analysis of customers' bills in such detail that revenues from present and proposed rates can be readily determined for each customer class.	Section II, Exhibits J and K.
	(h) Summary of determination of revenue requirements based on return on net investment rate base, return on capitalization, interest coverage, debt service coverage, or operating ratio, with supporting schedules.	Section V, Schedules 1, 2, and 4.
	(i) Reconciliation of rate base and capital used to determine revenue requirements.	Section II, Exhibit L.
	(j) Current chart of accounts if more detailed than the Uniform System of Accounts.	Section II, Exhibit M.
	(k) Independent auditor's annual opinion report, with any written communication from auditor which indicates existence of material weakness in internal controls.	Section II, Exhibit N.
	(l) The most recent FERC or FCC audit reports.	Section II, Exhibit O.
	(m) The most recent FERC Form 1 (electric), FERC Form 2 (gas), or PSC Form T (telephone).	Section II, Exhibit P.

Requirement	Description of Requirement	Location(s) in Filing
	(n) Summary of latest depreciation study with schedules by major plant accounts, except that telecommunications utilities adopting PSC's average depreciation rates shall provide schedule identifying current and test period depreciation rates used by major plant accounts. If filed in another PSC case, refer to that case's number.	West Test. p. 32; Section II, Regulatory Filing Requirements, p. 49.
	(o) List of all commercial or in-house computer software, programs, and models used to develop schedules and work papers associated with the filing. Include each software, program, or model; what each was used for; its supplier; brief description and specifications for the computer hardware and the operating system required to run the program.	Section II, Regulatory Filing Requirements, p. 51.
	(p) Prospectuses of most recent stock or bond offerings.	Section II, Exhibit Q.
	(q) Annual report to shareholders, or members, and statistical supplements covering the 2 most recent years from the application filing date.	Section II, Exhibit R.
	(r) Monthly managerial reports providing financial results for 12 months in test period.	Section II, Exhibit S.
	(s) SEC's annual report (Form 10-K) for most recent 2 years, any Form 8-Ks issued within past 2 years, and Form 10-Qs issued during the past 6 quarters updated as current information becomes available.	Section II, Exhibits R and T; Section II, Regulatory Filing Requirements, p. 58.

Requirement	Description of Requirement	Location(s) in Filing
	<p>(t) If utility had amounts charged or allocated to it by affiliate or general or home office, or paid any monies to affiliate or general or home office during test period or during previous 3 calendar years, file:</p> <ol style="list-style-type: none"> 1. Detailed description of method of calculation and amounts allocated or charged to utility by affiliate or general or home office for each charge allocation or payment; 2. Explanation of how allocator for the test period was determined; and 3. All facts relied upon, including other regulatory approval, to demonstrate that each amount charged, allocated or paid during test period was reasonable; 	<p>Section II, Exhibit U; Section II Regulatory Filing Requirements, p. 59.</p>
	<p>(u) If gas, electric, sewage or water utility, whose annual gross revenues exceed \$5,000,000, cost of service study based on methodology generally accepted in industry and based on current and reliable data from a single time period.</p>	<p>Cost Test., <i>passim</i>; Exhibits JCN-1 & JCN-2; Walsh Test., <i>passim</i>; Section V, Schedule 4 and 5.</p>
	<p>(v) Local exchange carriers with more than 50,000 access lines shall file:</p> <ol style="list-style-type: none"> 1. Jurisdictional separations study consistent with 47 C.F.R. Part 36 of the FCC's rules and regulations; and 2. Service specific cost studies supporting pricing of all services that generate annual revenue greater than \$1,000,000 except local exchange access: <ol style="list-style-type: none"> a. Based on current and reliable data from a single time period; and b. Using generally recognized fully allocated, embedded, or incremental cost principles. 	<p>N/A.</p>
<p>Pro Forma Adjustments</p>		

Requirement	Description of Requirement	Location(s) in Filing
Section 16(5)	(a) Detailed income statement and balance sheet reflecting impact of all proposed adjustments.	Section IV, pp. 3, 4 and 7.
	(b) Most recent capital construction budget containing at least period of time as proposed for any pro forma adjustment for plant additions.	Section II, Exhibit W; Section II Regulatory Filing Requirements, p. 63.
	(c) For each proposed pro forma adjustment reflecting plant additions the following information: 1. Starting date of the construction of each major component of plant;	N/A.
	2. Proposed in-service date;	N/A.
	3. Total estimated cost of construction at completion;	N/A.
	4. Amount contained in construction work in progress at end of test period;	N/A.
	5. A schedule containing complete description of actual plant retirements and anticipated plant retirements related to the pro forma plant additions including the actual or anticipated date of retirement;	N/A.
	6. Original cost and the cost of removal and salvage for each component of plant to be retired during the period of the proposed pro forma adjustment for plant additions;	N/A.
	7. Explanation of any differences in amounts contained in the capital construction budget and amounts of capital construction cost contained in the pro forma adjustment period; and	N/A.
	8. Impact on depreciation expense of all proposed pro forma adjustments for plant additions and retirements;	N/A.

Requirement	Description of Requirement	Location(s) in Filing
	(d) The operating budget for each month of the period encompassing the pro forma adjustments; and	Section II, Exhibit X; Section II Regulatory Filing Requirements, p. 65.
	(e) Number of customers to be added to the test period – end level of customers and the related revenue requirements impact for all pro forma adjustments with complete details and supporting work papers.	Section II Regulatory Filing Requirements, p. 66.
Public Notice		
Section 17(1)	(a) A utility shall post at its place of business a copy of the notice no later than the date the application is submitted to the commission.	Application ¶ 8(c); Section II, Exhibit G at ¶ (2)(c).
	(b) A utility that maintains a Web site shall, within five (5) business days of the date the application is submitted to the commission, post on its Web sites: 1. A copy of the public notice; and 2. A hyperlink to the location on the commission's Web site where the case documents are available.	Application ¶ 8(d); Section II, Exhibit G at ¶ (2)(d).
	(c) The information required in paragraphs (a) and (b) of this subsection shall not be removed until the commission issues a final decision on the application.	Application ¶ 8(c) and (d); Section II, Exhibit G at ¶ (2)(c) and (d).
Section 17(2)	(b) If a utility has more than twenty (20) customers and is not a sewage utility, it shall provide notice by:	
	3. Publishing notice once a week for three (3) consecutive weeks in a prominent manner in a newspaper of general circulation in the utility's service area, the first publication to be made no later than the date the application is submitted to the commission.	Application ¶ 8(a) and (b); Section II, Exhibit G at ¶ (2)(b).
Section 17(4)	Each notice issued in accordance with this section shall contain: (a) The proposed effective date and the date the proposed rates are expected to be filed with the commission.	Section II, Exhibit F at pp. 2, 4.

Requirement	Description of Requirement	Location(s) in Filing
	(b) The present and proposed rates for each customer class to which the proposed rates will apply.	Section II, Exhibit F at pp. 2, 4-28.
	(c) Amount of change requested in dollar amounts and percentage change for each customer classification to which change will apply.	Section II, Exhibit F at pp. 2, 29.
	(d) Electric, gas, and water utilities – the amount of the average usage and the effect upon average bill for each customer class to which change will apply.	Section II, Exhibit F at pp. 2, 30.
	(e) A statement that a person may examine this application at the offices of (utility name) located at (utility address);	Section II, Exhibit F at pp. 2, 31.
	(f) A statement that a person may examine this application at the commission's offices located at 211 Sower Boulevard, Frankfort, Kentucky, Monday through Friday, 8:00 a.m. to 4:30 p.m., or through the commission's Web site at http://psc.ky.gov ;	Section II, Exhibit F at pp. 2, 31.
	(g) A statement that comments regarding the application may be submitted to the Public Service Commission through its Web site or by mail to Public Service Commission, Post Office Box 615, Frankfort, Kentucky 40602;	Section II, Exhibit F at p. 2, 31.
	(h) A statement that the rates contained in this notice are the rates proposed by (utility name) but that the Public Service Commission may order rates to be charged that differ from the proposed rates contained in this notice;	Section II, Exhibit F at p. 2, 31.
	(i) A statement that a person may submit a timely written request for intervention to the Public Service Commission, Post Office Box 615, Frankfort, Kentucky 40602, establishing the grounds for the request including the status and interest of the party; and	Section II, Exhibit F at p. 2, 31.
	(j) A statement that if the commission does not receive a written request for intervention within thirty (30) days of initial publication or mailing of the notice, the commission may take final action on the application.	Section II, Exhibit F at p. 2, 31.

Exhibit 3

Requirement	Description of Requirement	Location(s) in Filing
KRS 278.672(1)	Application for financing order – eligibility of costs to be securitized	Application ¶ 33-35; West Test. p. 25-26.
KRS 278.672(2)(a)(1)	Application contents – description of deferred costs and retired electric generating facility	Application ¶ 33-36; West Test. p. 23-24; Kerns Test. p. 8.
KRS 278.672(2)(a)(2)	Application contents – copy of Commission orders	Application Ex. 4.
KRS 278.672(2)(b)	Application contents – dollar amount of deferred costs	Application ¶ 34; West Test. p. 23-24.
KRS 278.672(2)(c)	Application contents – statement concerning financing of all or a portion of deferred costs using securitized bonds	Application ¶ 40; West Test. p. 23-24.
KRS 278.672(2)(d)	Application contents – estimate of financing costs related to securitized bonds	Application ¶ 41; Messner Test. p. 10.
KRS 278.672(2)(e)	Application contents – estimate of securitized surcharge and recovery period	Application ¶ 43, 45; Spaeth Test. p. 22; West Test. at p. 27.
KRS 278.672(2)(f)	Application contents – net present value calculation	Application ¶ 44; Messner Test. p. 7-9; Walsh Test. p. 19-20.
KRS 278.672(2)(g)	Application contents – proposed future ratemaking process for reconciliation	Application ¶ 46; Spaeth Test. p. 21; West Test. p. 28-29.
KRS 278.672(2)(h)	Application contents – testimony supporting application	Application ¶ 48; West Test. p. 21-30; Niehaus Test. <i>passim</i> ; Kerns Test. p. 8-9; Blankenship Test. <i>passim</i> ; Messner Test. p. 7-11; Spaeth Test. p. 20-22; Walsh Test. p. 19-20.
KRS 278.672(3)	Application shall not be filed after December 31, 2024	Date of Application

Requirement	Description of Requirement	Location(s) in Filing
KRS 278.674(1)(b)(1)	The application is in the public interest	Application ¶ 49; West Test. p. 27-28.
KRS 278.674(1)(b)(2)	The estimated securitized surcharge is fair, just, and reasonable	West Test. p. 27-28; Spaeth Test. p. 21-22.
KRS 278.676(1)(a)	Financing order – amount of securitized costs and finding that recovery is fair, just, reasonable, and in the public interest	Application Ex. 5; West Test. p. 26; Messner Test. p. 9.
KRS 278.676(1)(b)	Financing order – description and estimate of the amount of financing costs and recovery period	Application Ex. 5; Messner Test. p. 9-10.
KRS 278.676(1)(c)	Financing order – proposed issuance and securitized surcharge are fair, just, reasonable, in the public interest, and are expected to provide quantifiable net present value benefits to customers	Application Ex. 5
KRS 278.676(1)(d)	Financing order – proposed structuring and pricing of securitized bonds is expected to result in lowest securitized surcharges at the time of pricing under the financing order’s terms	Application Ex. 5
KRS 278.676(1)(e)	Financing order – nonbypassability of securitized bonds	Application Ex. 5
KRS 278.676(1)(f)	Financing order – formula-based true-up mechanism	Application Ex. 5; Spaeth Test. p. 21; West Test. p. 28-29.
KRS 278.676(1)(g)	Financing order – requirements regarding creation and use of securitized property	Application Ex. 5
KRS 278.676(1)(h)	Financing order – degree of flexibility afforded to utility in establishing bond terms and conditions and bond issuances and transfers	Application Ex. 5
KRS 278.676(1)(i)	Financing order – allocation of securitized surcharges among retail classes	Application Ex. 5; Spaeth Test. p. 22; West Test. at p. 27.
KRS 278.676(1)(j)	Financing order – process for determining initial securitized surcharge after approval but before securitized bond issuance	Application Ex. 5

Requirement	Description of Requirement	Location(s) in Filing
KRS 278.676(1)(k)	Financing order – method of tracing funds collected as securitized surcharges and funds and identifiable cash proceeds of securitized property	Application Ex. 5
KRS 278.676(1)(l)	Financing order – future ratemaking process to reconcile any differences between the actual securitized costs financed	Application Ex. 5; Spaeth Test. p. 21; West Test. p. 28-29.
KRS 278.676(1)(m)	Financing order – procedure allowing utility to earn return at WACC in rate proceedings on moneys advanced by the electric utility to fund reserves, or capital accounts established under the terms of any indenture, ancillary agreement, or other financing documents pertaining to the securitized bonds	Application Ex. 5
KRS 278.676(1)(n)	Financing order – expected timeline for issuance of securitized bonds	Application Ex. 5
KRS 278.676(1)(o)	Financing order – statement that ADIT used calculating retired generation costs shall be excluded from rate base and not reflected in future rate cases	Application Ex. 5

Exhibit 4

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

APPLICATION OF KENTUCKY POWER)	
COMPANY FOR (1) A CERTIFICATE OF)	
PUBLIC CONVENIENCE AND NECESSITY)	
AUTHORIZING THE TRANSFER TO THE)	
COMPANY OF AN UNDIVIDED FIFTY)	
PERCENT INTEREST IN THE MITCHELL)	
GENERATING STATION AND ASSOCIATED	)	CASE NO.
ASSETS; (2) APPROVAL OF THE	)	2012-00578
ASSUMPTION BY KENTUCKY POWER)	
COMPANY OF CERTAIN LIABILITIES IN)	
CONNECTION WITH THE TRANSFER OF THE)	
MITCHELL GENERATING STATION; (3))	
DECLARATORY RULINGS; (4) DEFERRAL OF)	
COSTS INCURRED IN CONNECTION WITH)	
THE COMPANY'S EFFORTS TO MEET)	
FEDERAL CLEAN AIR ACT AND RELATED)	
REQUIREMENTS; AND (5) ALL OTHER)	
REQUIRED APPROVALS AND RELIEF)	

ORDER

On December 19, 2012, Kentucky Power Company ("Kentucky Power") filed an Application seeking a Certificate of Public Convenience and Necessity ("CPCN"), pursuant to KRS 278.020, in connection with the proposed transfer of an undivided 50 percent interest in the Mitchell Generating Station ("Mitchell Station") and related assets currently owned by an affiliate, Ohio Power Company ("Ohio Power"). The 1,560-MW Mitchell Station is located in Moundsville, West Virginia, and is comprised of two coal-fired units. Kentucky Power also requests authorization pursuant to KRS 278.300 to assume certain liabilities in connection with the transfer. Kentucky Power further seeks authority to accumulate and defer for review and recovery in its next base rate case

approximately \$28 million of costs associated with Kentucky Power's efforts to meet the Federal Clean Air Act and other environmental requirements with respect to Big Sandy Unit 2.

The following parties were granted full intervention in this matter: (1) the Attorney General of the Commonwealth of Kentucky, by and through his Office of Rate Intervention ("AG"); (2) Kentucky Industrial Utility Customers, Inc. ("KIUC"); and (3) Alexander DeSha, Tom Vierheller, Beverly May, and the Sierra Club (collectively "Sierra Club"). On January 25, 2013, the Commission issued an Order establishing a procedural schedule for the processing of this matter. The procedural schedule provided for two rounds of discovery on Kentucky Power, an opportunity to file intervenor testimony, discovery on intervenor testimony, and an opportunity for Kentucky Power to file rebuttal testimony.

The Commission conducted a public meeting for the purpose of taking public comments on Kentucky Power's Application in Louisa, Kentucky, on May 14, 2013, and in Hazard and Whitesburg, Kentucky, on May 15, 2013. A formal hearing was scheduled to begin on May 29, 2013, at the Commission's offices in Frankfort, Kentucky, but was continued until July 10, 2013, so that the record could be more fully developed and to allow further discussion among the parties with respect to a possible settlement.

On July 2, 2013, Kentucky Power filed a non-unanimous Stipulation and Settlement Agreement ("Stipulation") entered into by and among Kentucky Power, KIUC, and Sierra Club. Kentucky Power also filed supplemental testimony in support of the Stipulation, which set forth the terms of the Stipulation and an explanation of why

the Stipulation should be approved as fair, just, and reasonable. The Stipulation also contained, as exhibits, certain new and revised tariffs to implement the terms of the Stipulation. The new proposed tariffs were the Asset Transfer Riders and the Purchase Power Adjustment. The first is Tariff Asset Transfer Rider ("Tariff A.T.R."), which permits Kentucky Power to recover a portion of the non-fuel costs associated with the Mitchell acquisition during the period between January 1, 2014, and the date the base rates established in Kentucky Power's next base rate case become effective. The second is Tariff Asset Transfer Rider-2, which would replace Tariff A.T.R. upon Kentucky Power's next base rate case and allows Kentucky Power to recover its Big Sandy Station retirement costs. If Big Sandy Unit 2 is retired or can no longer be economically operated, the Purchase Power Adjustment would allow Kentucky Power to recover any incremental power costs associated with forced outages of other Kentucky Power generating units that are not otherwise recoverable through the fuel adjustment clause. This provision is intended to protect Kentucky Power from any incremental purchased power cost in the event Big Sandy Unit 2 is retired or can no longer be economically operated. The provision benefits ratepayers by exerting downward pressure on the company's capital costs which allows Kentucky Power to stay out longer between base rate cases.

The Commission conducted a formal evidentiary hearing on this matter on July 10 through 12, 2013. Kentucky Power filed post-hearing responses on July 26, 2013. The parties submitted post-hearing briefs on August 12 and 13, 2013. The matter is now before the Commission for a decision.

KENTUCKY POWER'S SCRUBBER STUDY

Beginning in 2004, Kentucky Power, in collaboration with AEP Service Corporation ("AEPSC"),¹ began an investigation into the measures necessary to allow Big Sandy Unit 2 to continue to operate in compliance with the Federal Clean Air Act and other environmental requirements. Among the environmental requirements addressed in the investigation were the former Cross-State Air Pollution Rule, the Clean Air Interstate Rule, the former Electric Generating Unit Maximum Achievable Control Technology Rule, the Mercury and Air Toxics Standard ("MATS") Rule, and the requirements imposed by the 2007 New Source Review ("NSR") Consent Decree.²

As part of the investigation, Kentucky Power engaged an architect/engineer to perform engineering, design, and feasibility studies in connection with the investigation. The architect/engineer, with input from a team of AEPSC engineers and managers, defined the scope of the project, prepared work plans, and developed a budgetary cost estimate and schedule for implementation. Preliminary environmental permitting work also began. Finally, because Kentucky Power was investigating the use of a wet flue gas desulfurization unit ("WFGD"), a WFGD supplier was engaged to begin conceptual engineering of a WFGD unit.³

In 2006, Kentucky Power stated that it suspended, but did not cancel, the investigation into retrofitting Big Sandy Unit 2. According to Kentucky Power, the suspension was driven by the conclusion that the WFGD was not the most economic

¹ AEPSC is a service company that provides management and professional services to American Electric Power and its utility operating companies, including Kentucky Power.

² Application, page 23, paragraph 65.

³ *Id.*, paragraph 66.

means of addressing the environmental requirements for the continued operation of Big Sandy Unit 2 due to the decreased projected price spread between low- and higher-sulfur coals. At the time of suspension, the investigation and related expenditures for which deferral is sought in this proceeding totaled approximately \$15.2 million, of which \$1.69 million was related to a landfill needed in conjunction with the WFGD.⁴

Kentucky Power states that it reinitiated its investigation in October 2011, following further investigation into the least-cost alternative for meeting Kentucky Power's capacity and energy needs in light of the environmental requirements affecting Big Sandy Unit 2. Kentucky Power maintains that this work was a continuation of the work that began in 2004 and was suspended in 2006. At no time during the suspension period did Kentucky Power seek authority to accumulate and defer for future recovery the investigation costs.

As part of the continued investigation, Kentucky Power evaluated the available flue gas desulfurization ("FGD") technologies and concluded that the most suitable was a dry FGD ("DFGD") technology. Kentucky Power undertook engineering and other activities to support Kentucky Power's application in Case No. 2011-00401^{5,6}. The cost incurred by Kentucky Power in conducting this more recent investigation was approximately \$12.9 million. The investigation's overall cost totaled \$28,113,304.

⁴ *Id.*, page 24, paragraph 67.

⁵ Case No. 2011-00401, *Application of Kentucky Power Company for Approval of Its 2011 Environmental Compliance Plan, for Approval of Its Amended Environmental Cost Recovery Surcharge Tariff, and for the Grant of a Certificate of Public Convenience and Necessity for the Construction and Acquisition of Related Facilities* (Ky. PSC May 31, 2012).

⁶ Application, page 24, paragraph 68.

On May 31, 2012, the Commission granted Kentucky Power's motion for leave to withdraw without prejudice its application in Case No. 2011-00401⁷ to permit Kentucky Power to reevaluate the continued operation of the Big Sandy generating station in light of the 2007 NSR Consent Decree, the Cross-State Air Pollution Rule, the MATS Rule, and other environmental standards.

PROPOSED MITCHELL ACQUISITION

Kentucky Power is a privately owned electric utility that generates, transmits, distributes and sells electricity to approximately 173,000 customers in all or parts of 20 counties in eastern Kentucky. Kentucky Power is a subsidiary of American Electric Company ("AEP"), a public utility holding company.⁸ Kentucky Power, along with three other operating utility companies,⁹ is also a member of the AEP East System, which provides electric service to retail customers in seven states.

Kentucky Power states that as a result of current and evolving environmental requirements, as well as the termination of the AEP Interconnection Agreement ("Pool

⁷ *Id.*, Case No. 2011-00401, Ky. PSC May 31, 2012.

⁸ As a subsidiary of AEP, Kentucky Power is a member of the integrated AEP System. Subsequent to its merger in 2000 with Central and South West Corporation, AEP has operations in Arkansas, Indiana, Kentucky, Louisiana, Michigan, Ohio, Oklahoma, Tennessee, Texas, Virginia, and West Virginia.

⁹ The subsidiaries are Appalachian Power Company, Indiana & Michigan Power Company and Ohio Power Company.

Agreement”),¹⁰ it faces important choices about how to obtain sufficient resources and base load generation to meet the capacity and energy needs of its customers over the long term. At this crossroad, and as promised last year when Kentucky Power withdrew its application to retrofit Big Sandy Unit 2,¹¹ Kentucky Power has conducted in-depth analyses of reasonable portfolio alternatives to determine the best path to ensure adequate and reliable capacity and energy for its customers relative to the unit disposition of Big Sandy Unit 2. Kentucky Power states that its comprehensive economic analysis demonstrated that the proposed acquisition of an undivided 50 percent interest in the Mitchell Station is the least-cost and best alternative.

According to Kentucky Power, the Mitchell units are of a similar size, design, and capacity to Big Sandy Unit 2, and thus represent technology with which Kentucky Power and the Commission are already familiar. Kentucky Power maintains that the Mitchell units are appropriately sized to meet its needs, and are environmentally controlled units

¹⁰ The Pool Agreement, which created the AEP East System, is a tariff that contains rates and terms of service for the wholesale sale of power and is subject to regulation by the Federal Energy Regulatory Commission (“FERC”). The Pool Agreement governs the use of generating facilities and the allocation of their costs among the four AEP member operating companies. This agreement requires that the various members of the system are to be planned and operated as a single integrated system. Thus, the member operating companies share generating capacity and either make or receive capacity-related payments pursuant to FERC-approved rates. Under the terms of the Pool Agreement, each operating company must provide adequate generating facilities to meet its firm load requirements; capacity costs are allocated to each operating company based on a formula referred to as the “Member Load Ratio;” and payment of a carrying charge, referred to as a capacity settlement payment, must be made to equalize the cost responsibility for existing generating capacity. The provisions of the Pool Agreement require a capacity “deficit” company to pay under a FERC tariff a capacity settlement charge to capacity “surplus” companies, with the payment based on the embedded costs of capacity of the surplus companies. On December 17, 2010, each of the members of the Pool Agreement, including Kentucky Power, provided notice to the other Pool Agreement members to terminate the Pool Agreement on January 1, 2014. The decision to terminate the Pool Agreement was due to certain cumulative changes in the structure of the electric industry, including evolving environmental regulations, introduction of open access to transmission facilities, the advent of regional transmission organizations, movement toward industry deregulation, an increased emphasis on demand-side management, and expanding competition. Once the Pool Agreement is effectively terminated, Kentucky Power will essentially operate as a stand-alone utility.

¹¹ Case No. 2011-00401, Kentucky Power’s Motion for Leave to Withdraw Application Without Prejudice, filed May 30, 2012.

already equipped with both FGD and selective catalytic reduction (“SCR”) systems. The Mitchell units are proposed to be transferred at their net book value (“NBV”), which Kentucky Power states is less than the cost of retrofitting Big Sandy Unit 2.

The proposed transfer will consist of a series of near-simultaneous transactions that are scheduled to take place on or about December 31, 2013, and are intended to be accomplished without incurring unintended tax consequences.

Under the corporate restructuring plan approved by the Public Utilities Commission of Ohio, Ohio Power will enter into a Corporate Separation Transaction whereby it will divest its generation assets, including the Mitchell Generating Station, to AEP Generation Resources Inc. (“AEP Generating Resources”). Immediately upon the closing of the Corporate Separation Transaction, it is proposed that a 50 percent undivided interest in the Mitchell Generating Station (including related assets and assumed liabilities) will be transferred in a near-simultaneous series of transactions to NEWCO Kentucky,¹² which is a yet-to-be formed corporation to be organized under the laws of the State of Delaware for the limited purpose of effectuating the proposed transfer of the subject assets and liabilities to Kentucky Power. In the final step, NEWCO Kentucky, a wholly owned subsidiary of AEP Generation Resources, will merge with Kentucky Power, with Kentucky Power being the surviving entity and owning the proposed 50 percent undivided interest in the Mitchell Generating Station. The contemplated merger will take place in accordance with the terms and conditions of the

¹² Application, paragraph 64, page 22. Kentucky Power requested that the Commission enter an Order declaring that the merger of NEWCO Kentucky and Kentucky Power is not subject to the requirements of KRS 278.020(5) or KRS 278.020(6) on or before February 15, 2013. On February 15, 2013, the Commission issued an Order that approval is not required pursuant to KRS 278.020(5) and KRS 278.20(6) for the merger of NEWCO Kentucky and Kentucky Power.

Form of Agreement and Plan of Merger of Kentucky Power Company and NEWCO Kentucky.

Mitchell Station Unit 1 has an average annual capacity rating of 770 MW. Unit 2 has an average annual capacity rating of 790 MW. As stated earlier, both units are equipped with FGD and SCR systems, which, according to Kentucky Power, bring the Mitchell units into compliance with the 2007 Consent Decree and the MATS rule. The proposed Mitchell transfer is scheduled to close on December 31, 2013, based on a projected NBV of \$536 million, or \$687 per kW.

Along with the undivided 50 percent interest in the Mitchell generating station, a like share of all related equipment and facilities associated with the Mitchell generating station is proposed to be transferred to Kentucky Power, including the appurtenant interconnection facilities, the associated real property, inventories, leases, permits, emission allowances, equipment, machinery, and the other assets described in the Form of the Asset Contribution Agreement between AEP Generation Resources and NEWCO Kentucky ("Asset Contribution Agreement").¹³ Collectively, the undivided 50 percent interest in the Mitchell Station and related assets to be transferred to Kentucky Power constitute the transferred assets ("Transferred Assets"). Excluded from the definition of Transferred Assets are the assets described in the Asset Contribution Agreement.¹⁴

¹³ Application, Exhibit 1, page 9, Article II, Transfer of Assets, Section 2.01 of the Application, filed Dec. 19, 2012.

¹⁴ Application, Exhibit 1, page 11, Article II, Excluded Assets, Section 2.02 of the Application, filed Dec. 19, 2012.

In conjunction with the transfer of the Transferred Assets, Kentucky Power will assume an undivided 50 percent interest in the liabilities described in the Asset Contribution Agreement between AEP Generation Resources Inc. and NEWCO Kentucky (collectively the "Assumed Liabilities").¹⁵ Excluded from Assumed Liabilities are those liabilities described in the Asset Contribution Agreement.¹⁶

The Transferred Assets and Assumed Liabilities will be transferred to Kentucky Power through a series of near-simultaneous transactions ("Transfer and Assumption Transaction"). At the conclusion of the Transfer and Assumption Transaction, Kentucky Power will own the Transferred Assets and be subject to the Assumed Liabilities.

The remaining undivided 50 percent interest in the Mitchell Station will be transferred to NEWCO Appalachian. This undivided 50 percent interest in the Mitchell Station will then be transferred to Appalachian Power Company ("APCo") in a series of near-simultaneous transactions that parallel those by which the other undivided 50 percent interest in the Mitchell Station will be transferred to Kentucky Power.¹⁷ APCo is required to seek approval from the West Virginia Public Service Commission and the Virginia State Corporation Commission to acquire its half interest of the Mitchell Station.¹⁸

¹⁵ Application, page 7, paragraph 14 and Exhibit 1, page 11, Article II, Assumed Liabilities, Section 2.03 of the Application, filed Dec. 19, 2012.

¹⁶ Application, page 7, paragraph 14 and Exhibit 1, page 12, Article II, Excluded Liabilities, Section 2.04 of the Application, filed Dec. 19, 2012.

¹⁷ Application, page 10, footnote 9.

¹⁸ On July 31, 2013, the Virginia State Corporation Commission issued an Order in Case No. PUE-12-00141 denying APCo's request to acquire the remaining 50 percent undivided interest in the Mitchell Station. As of the date of the instant Order, the West Virginia Public Service Commission has not yet ruled upon APCo's request for the acquisition of a 50 percent undivided interest in the Mitchell Station, Case No. 12-1655.

There are other agreements associated with the transfer and assumption of the Mitchell plant, one of which is the Mitchell Plant Operating Agreement (“Operating Agreement”). Under the Operating Agreement, APCo is to operate and maintain the Mitchell generating station in accordance with good utility practices. The Operating Agreement also provides Kentucky Power with the right to call on at any and all times its pro rata share of the available output of the Mitchell generating station. The monthly Mitchell Station’s operating and maintenance costs are apportioned between APCo and Kentucky Power in accordance with their respective ownership interests. The Operating Agreement also provides for an Operating Committee, made up of representatives of APCo, Kentucky Power, and AEPSC as agent, to review and approve annual budgets, capital expenditures, and other matters regarding the operation of the Mitchell generating station. Finally, the Operating Agreement governs other aspects of the operation of the Mitchell Station, as well as relations among the parties to the agreement.¹⁹

In addition to the Operating Agreement,²⁰ the transfer of ownership of the Mitchell generating station will involve the assumption by APCo (in its role as operator of the plant) of the rights and obligations under various executory contracts necessary for the operation of Mitchell. These contracts include contracts for supplies of coal, transportation of coal, consumables for the operation of environmental control facilities (e.g., limestone, urea, and trona), and other matters. All of these contracts are existing

¹⁹ Application, Exhibit 3, Rate Schedule No. 303, Mitchell Plant Operating Agreement, Appalachian Power Company, Kentucky Power Company, and American Electric Power Service Corporation, as Agent.

²⁰ *Id.*, footnote 11, The Mitchell Plant Operating Agreement is a mechanism to fairly allocate Kentucky Power's ratable expenses in connection with its ownership of a 50 percent undivided interest in the Mitchell generating station; it is not an assumption of liability by Kentucky Power.

and necessary for the operation of the Mitchell Station, are significant in number, and may be subject to change prior to the transfer.²¹ Under the Operating Agreement, Kentucky Power will reimburse APCo for Kentucky Power's pro rata share of the expenses under the contracts assumed by APCo.²²

Another agreement associated with the Mitchell acquisition is the Bridge Agreement. The Bridge Agreement is an interim agreement among APCo, Indiana & Michigan Power Company ("I&M"), Ohio Power, Kentucky Power, AEP Generation Resources, and AEPSC, as agent, and governs the treatment of purchases and sales made on behalf of the parties before, but that extend beyond, the termination of the Pool Agreement. In addition, the Bridge Agreement addresses the manner in which APCo, I&M, Ohio Power, and Kentucky Power will meet their collective obligation under the PJM Reliability Assurance Agreement through May 31, 2015 (PJM planning year 2014/2015).²³

Lastly, in connection with the termination of the Pool Agreement at the end of 2013, a Power Coordination Agreement was entered into among APCo, I&M, and Kentucky Power. Unlike the Pool Agreement, the Power Coordination Agreement does not require generation to be planned on a system-wide basis. APCo, I&M, and Kentucky Power each individually will be required to have sufficient generation to meet their respective load and reserve obligations. Parties to the Power Coordination Agreement are not precluded from jointly owning units with, or buying capacity from or

²¹ *Id.*, Exhibit 4, the contracts include coal, gypsum sale, hydrated lime, limestone, trona, urea, urea transportation, railcar lease, and construction, operation, and maintenance of fly ash impoundment.

²² *Id.*, page 12, paragraph 28.

²³ *Id.*, page 13, paragraph 29.

selling capacity to, other parties to the agreement, through separate agreements. Consequently, there are no capacity equalization payments required under the Power Coordination Agreement.²⁴ Kentucky Power states that Commission approval is not required for the Bridge Agreement, the Power Coordination Agreement, or the Mitchell Plant Operating Agreement, which upon acceptance by FERC, will be FERC-filed rate schedules under Section 205 of the Federal Power Act. Kentucky Power also states that following the execution of these agreements, Kentucky Power plans to file with the Commission executed copies of Agreement and Plan of Merger of Kentucky Power and NEWCO Kentucky and the Mitchell Plant Operating Agreement among APCo, Kentucky Power, and AEPSC as agent.

ECONOMIC ANALYSIS OF PROPOSED MITCHELL ACQUISITION

The purpose of this proceeding is to determine the least-cost option and best alternative for Kentucky Power to meet necessary capacity and energy requirements for its customers. In the Application, Kentucky Power provided six options for consideration.

Option 1: Retrofit Big Sandy Unit 2.

Option 1A: Retrofit Big Sandy Unit 2 with DFGD technology by approximately June 2017 (and, subsequently, require Coal Combustion Residuals ("CCR") and Rule 316(b)-related equipment by 2019); and Retire Big Sandy Unit 1 by June 2015 replacing this unit with capacity and energy from a 20 percent (312 MW) ownership interest of Mitchell Units 1 and 2 on January 1, 2014.

Option 1B: Same as Option 1A, except assume additional capacity and energy required to replace Big Sandy 1 is purchased from projected available PJM markets for 10 years in lieu of a Mitchell unit ownership transfer; then assume a new-build combined cycle ("CC"), or simple-cycle combustion turbine ("CT") facility.

²⁴ *Id.*, paragraph 30.

Option 2: Retire & Replace Big Sandy Unit 2 with a (Brownfield) CC.

Option 2A: Retire Big Sandy Unit 2 (and Unit 1) by January 2016 (and April 2015), respectively, and replace Unit 2 capacity and energy with a nominally-rated 762-MW (918-MW for peaking purposes with duct-firing) new-build natural gas CC facility, to be located at the Big Sandy site, by June 2017, with additional capacity and energy required to replace Big Sandy Unit 1 from a 20 percent (312 MW) ownership interest of Mitchell Units 1 and 2 on January 1, 2014.

Option 2B: Same as Option 2A except, assume additional capacity and energy to replace Big Sandy Unit 1 is purchased from projected available PJM markets for 10 years in lieu of a Mitchell unit ownership transfers; then assume a new-build CC, or CT(s).

Option 3: Retire & Replace Big Sandy Unit 2 with a CC-Repowered Big Sandy Unit 1.

Option 3A: Retire Big Sandy Unit 2 by January 2016 and replace it with the repowering of Big Sandy Unit 1 as a nominally-rated 745-MW (802-MW for peaking purposes with duct-firing) natural gas CC unit by June 2017, with additional capacity and energy required to replace Big Sandy Unit 1 from a 20 percent (312 MW) ownership interest of Mitchell Units 1 & 2 on January 1, 2014.

Option 3B: Same as Option 3A except, assume additional capacity and energy to replace Big Sandy 1 is purchased from projected available PJM markets for 10 years in lieu of a Mitchell unit ownership transfer; then assume a new-build CC, or CT(s).

Option 4: Retire & Replace Big Sandy Units 2 (and Unit 1) with Market Purchases.

Option 4A: Retire Big Sandy Units 1 & 2 by June 2015, and replace both units with capacity and energy purchased from projected available PJM markets for an interim period of 5 years (through 2020), then assume a larger-tranche (700-800 MW) new-build CC and/or CT(s) capacity replacement.

Option 4B: Same as Option 4A except, assume replacement capacity and energy purchases from projected available PJM markets for an interim period of 10 years (through 2025) before a (~700-800 MW) new-build CC and/or CT(s).

Option 5: Retire Big Sandy Unit 2 and Preserve Big Sandy Unit 1 as a Converted Natural Gas-Fired Unit.

Option 5A: Retire Big Sandy Unit 2 by June 2015 replacing it with capacity and energy from a 50 percent (780-MW) ownership interest of Mitchell Units 1 and 2 on January 1, 2014; while converting Big Sandy Unit 1 to burn natural gas by July 2015.

Option 5B: Same as Option 5A except, assume capacity and energy purchased from projected available PJM markets for an interim period of 5 years (through 2020), then assume (~700-800 MW) new-build CC and/or CT(s), in lieu of a 50 percent Mitchell transfer.

Option 6: Retire Big Sandy Unit 2 (and Unit 1) with 50 percent Mitchell Asset Transfer and Market Purchases.

Retire both Big Sandy Units 1 & 2 by June 2015, and replace with capacity and energy from a 50 percent ownership interest of Mitchell Units 1 and 2, plus additional (~250 MW) capacity and energy purchased from available projected PJM markets for a period of 10 years, then assume new-build CC, or CT(s).

In analyzing the least-cost option, Kentucky Power conducted a comprehensive analysis utilizing Strategist, an economic software modeling tool. The Strategist simulation modules used were Load Forecast Adjustment ("LFA"), Generation and Fuel ("GAF"), and PROVIEW. The LFA module simulates the peak demand and energy requirements and also models any demand-side management programs that may impact peak demand and energy requirements. The peak demand and energy-requirement data is transferred from the LFA to the GAF module. The GAF module uses a probabilistic generating unit dispatch algorithm to simulate the dispatch of a utility's generating resources and estimates the energy production and related variable cost incurred in meeting those peak demand and energy requirements. The GAF module simulates a utility's ability to purchase or sell energy from or into a market when it is economic to do so, on user-defined long-term market pricing profiles. The

PROVIEW resource optimization module's dynamic programming optimization algorithm is used to create a decision tree of alternatives to determine the utility's optimal overall capacity and energy-resource plan over the user-defined study period, such as the 30-year study period assumed in this matter. In developing a decision tree, PROVIEW determines the recovery of each resource's capital cost and energy-production cost in order to determine an overall revenue requirement for that resource and the plan as a whole.²⁵

PROVIEW determines the cumulative present worth ("CPW") of the revenue requirements for each branch of the decision tree. PROVIEW then uses that CPW to determine which branch of the decision tree is the least-cost optimal resource plan for the utility over the user-defined study.²⁶

The Strategist modeling process determined that Option 6 and Option 5A, both incorporating the ownership transfer of 50 percent of the Mitchell facility, were the least-cost alternatives,²⁷ with Option 5A being the lowest cost option.²⁸

DISCUSSION OF PROPOSED MITCHELL ACQUISITION

Because the Commission was presented with a non-unanimous Stipulation, we must first address the position of the parties with respect to Kentucky Power's proposal to acquire an undivided 50 percent interest in the Mitchell Station.

²⁵ Application, Direct Testimony of Mark A. Becker, pages 3-4 and MAB-Exhibit 23, page 1 of 1.

²⁶ *Id.*, pages 4-5.

²⁷ Application, Direct Testimony of Scott C. Weaver, page 44 and SCW-Exhibit 5.

²⁸ *Id.*, SCW-Exhibit 5.

KENTUCKY POWER'S ARGUMENTS

Kentucky Power contends that, based upon its robust economic analyses, the proposed acquisition of the Mitchell Station was the least-cost option when compared to a wide range of available, real-world alternatives for Kentucky Power to meet its long-term capacity and energy obligations in light of known and emerging environmental requirements.

Kentucky Power evaluated the alternative of retrofitting Big Sandy Unit 2 with DFGD technology against options that included the following: (1) retiring Big Sandy Unit 2 and replacing it with the Mitchell purchase;²⁹ (2) retire and replace Big Sandy Unit 2 with a new 762 MW CC natural gas unit; (3) retire and replace Big Sandy Unit 2 by repowering Big Sandy Unit 1 as a 745 MW natural gas-fired CC unit; (4) retire and replace both Big Sandy units with capacity and energy purchased from projected available PJM markets for an interim period of five years and then construct a 700-800 MW CC or combustion turbine ("CT") natural gas unit; (5) retire and replace Big Sandy Unit 2 with capacity and energy purchased from projected available PJM markets for an interim period of five years then construct a 700-800 MW CC or CT natural gas unit; and (6) retire and replace both Big Sandy units with capacity and energy from a 50 percent ownership interest of the Mitchell Station, plus additional capacity and energy purchased from available projected PJM markets for a period of ten years then construct a CC or CT natural gas unit. Kentucky Power noted that the focus of its evaluation was to determine the lowest cost option to meet environmental requirements applicable to Big Sandy Unit 2. The evaluations also included, as subsets of most of the options, alternatives for the disposition of Big Sandy Unit 1.

²⁹ This alternative also included the conversion of Big Sandy Unit 1 to burn natural gas.

In performing the Strategist economic modeling, the total revenue requirement for each of the 11 alternatives over a 30-year period is calculated, discounted back to 2011 dollars, and reflected on a CPW basis. Rather than concentrating on the absolute CPW results, the economic modeling focused on a comparative view of the alternative options' results, which, according to Kentucky Power, would identify the relative least-cost option among the 11 alternative scenarios. The economic modeling, which took into account long-term forecasts of Kentucky Power's energy sales and peak demand, long-term forecast of generation related commodity prices, and capital costs, demonstrated that the Mitchell acquisition, as Option 5a, was the least-cost alternative by a significant margin when compared against all five commodity pricing scenarios. The next closest option was Option 6: retire and replace Big Sandy Units 1 and 2 with the proposed Mitchell acquisition and market purchases for a ten-year period followed by construction of a new gas-fired generation unit. Option 6 was still \$156 million more expensive, on a CPW basis, than the option of retiring Big Sandy Unit 2 and replacing it with Mitchell and repowering Big Sandy Unit 1. When compared against the Big Sandy Unit 2 retrofit alternative, the proposed Mitchell acquisition is less expensive by a \$469-\$663 million margin, on a CPW basis. Likewise, the alternative to construct a brownfield new natural gas CC unit is \$327-\$526 million, on a CPW basis, more expensive than the Mitchell transfer. The repowering Big Sandy Unit 1 alternative would cost \$402-\$598 million more than the Mitchell proposal. Lastly, the market purchase option is \$376-\$401 million more than the Mitchell transfer.

The relative CPW of all other options compared to the proposed Mitchell acquisition alternative is summarized as follows:

<u>Option</u>	<u>Big Sandy Unit 2 Replacement</u>	<u>Big Sandy Unit 1 Replacement</u>	<u>CPW vs. Option 5A (In Millions of Dollars)</u>
1A	Retrofit with DFGD	20 Percent Mitchell	\$626
1B	Retrofit with DFGD	PJM Market (10 Yrs)	\$819
2A	Retrofit with NGCC	20 Percent Mitchell	\$483
2B	Retrofit with NGCC	PJM Market (10 Yrs)	\$682
3A	BS1 Repower	20 Percent Mitchell	\$558
3B	BS1 Repower	PJM Market (10 Yrs)	\$754
4A	PJM Market (5 Yrs)	PJM Market (5 Yrs)	\$532
4B	PJM Market (10 Yrs)	PJM Market (10 Yrs)	\$557
5A	50 Percent Mitchell	Natural Gas Conversion	\$0
5B	PJM Market (5 Yrs)	Natural Gas Conversion	\$379
6	50 Percent Mitchell	PJM Market (10 Yrs)	\$156

Kentucky Power noted that it also conducted a break-even analysis to determine how much reduction in capital cost for a new CC unit would be needed in order to make the company indifferent to acquiring Mitchell. The break-even analysis showed that the cost of a new-build CC would have to decline by \$587 million, or \$613/kW, to achieve the point of economic indifference with the Mitchell option. When comparing against both the Mitchell acquisition and the repowering of Big Sandy Unit 1, the cost of a new-build CC unit would have to decrease by \$448/kW before reaching the economic break-even point. When the break-even analysis is applied to compare the cost of an existing CC facility, the purchase price would need to be at most \$310/kW to be competitive with the proposed Mitchell acquisition combined with the repowering of Big Sandy Unit 1.

Kentucky Power conducted other sensitivity analyses to confirm that the Mitchell transfer and the repowering of Big Sandy Unit 1 was the least-cost option. Other sensitivity analyses included the modeling of additional costs associated with the installation of a baghouse fabric filter, which could potentially be needed to meet the new MATS requirements; the construction of a new CC unit in 2017, plus the conversion of Big Sandy Unit 1 to natural gas combined with a lower natural gas price

forecast; and the early retirement of the Mitchell Station by 2035, rather than the retirement in 2041 as modeled. The results from these sensitivity runs showed that the proposed Mitchell option is still the least-cost option by \$274 million, \$377-\$560 million, and \$250 million, respectively.

Kentucky Power asserted that a request for proposals (“RFP”) would not have established a fair market value benchmark for the Mitchell Station because the company had already publicly announced the price at which it would be willing to acquire the Mitchell assets. Thus, any solicitation would have been perceived by the bidding community as artificial, less than genuine, and an attempt to obtain market intelligence. Rather, Kentucky Power argued that its economic modeling and the evidence of record established that the fair market value of the Mitchell Station exceeded its NBV. Kentucky Power maintained that its utilization of Strategist, which is a widely used and sophisticated modeling tool for resource planning and unit disposition, provided the best, most appropriate, and transparent method for determining the fair market value of a base load plant such as the Mitchell Station. Kentucky Power contends that its Strategist modeling effectively considered a market proxy option through the alternative, which assumed the retirement and replacement of Big Sandy Unit 2 with a new build CC option.

Kentucky Power believes that it is very reasonable to assume that a long-term, competitive power-purchase agreement solicitation to replace the capacity and energy supplied by Big Sandy Unit 2 would likely be offered or priced at the cost of a new-build CC in response to such a request for proposal. Because its economic analysis examined all performance and cost attributes of a new-build CC replacement and

utilized the projected net book value of the Mitchell assets, Kentucky Power concluded that the equivalent market replacement value would have exceeded Mitchell's NBV. Kentucky Power's conclusion is based upon the significant difference between the CPW of the Mitchell transfer, coupled with the conversion of Big Sandy Unit 1 to natural gas and the various sub-options of the market proxy alternative. Those range from \$483 million when compared with the sub-option of the CC new-build and a 20 percent purchase of the Mitchell Station to \$682 million when compared to the sub-option of the CC new-build and purchasing the remaining capacity from the PJM market for a ten-year interim period, and then building a new CC or CT natural gas unit. Such a significant difference in CPW is highly indicative of the fact that the starting point of the Strategist analysis, the NBV of the Mitchell assets, is less than market.

Moreover, Kentucky Power argues that its stacking analysis of the conforming responses to the Big Sandy Unit 1 RFP also demonstrates that the NBV of the Mitchell Station is less than its fair market value.³⁰ Because the generation bid into the Big Sandy Unit 1 RFP could be substituted for the Mitchell proposal, an analysis of the CPW of the Big Sandy Unit 1 RFP conforming bids' costs to CPW of the Mitchell proposal's costs would provide evidence of the relationship between the NBV and the fair market value of the Mitchell Station. Kentucky Power stated that it performed such an analysis by first creating a substitute for the Mitchell acquisition by combining, or stacking, the least-cost conforming Big Sandy Unit 1 RFP bids and then comparing, by utilizing Strategist modeling, the CPW of the substitute generation stack's costs against the CPW of the Mitchell acquisition costs. The results of this stacking analysis indicate

³⁰ As required by the Commission's Order entered May 28, 2013, Kentucky Power filed a summary of the responses to its RFP for power to replace Big Sandy Unit 1.

that the CPW of the costs of the substitute stack generation exceeded, by \$110 million, the CPW of the costs of the Mitchell acquisition, including the assumption that Big Sandy Unit 1 would be converted to natural gas. Kentucky Power pointed out that KIUC agreed that the Big Sandy Unit 1 RFP responses were indicative of the availability of generation resources and their pricing to results that might be obtained in the case of an RFP for 800 MW.

Lastly, Kentucky Power puts forth that the fair market value of the Mitchell assets exceeding their NBV was independently confirmed at the evidentiary hearing in this matter.³¹ KIUC noted that AEP was required to conduct an impairment analysis of the Mitchell Station, which was triggered by the anticipated termination of the Pool Agreement and the Ohio Power-related corporate separation and electric security plan proceedings conducted by the Public Utility Commission of Ohio. The results of the impairment analysis, as reviewed by AEP's external auditors, indicated that the book cost³² of the Mitchell Station was less than its fair market value. Under cross-examination at the hearing, a KIUC witness confirmed that the fair market value of the Mitchell Station exceeded its NBV, even though the impairment analysis utilized more conservative assumptions than those employed in Kentucky Power's Strategist modeling.³³

³¹ Post-Hearing Brief of Kentucky Power Company, p. 84; *see also*, Post-Hearing Brief of Kentucky Industrial Utility Customers, Inc., p. 12-13.

³² Book cost of the Mitchell Station is its original cost less accumulated depreciation.

³³ Post-Hearing Brief of Kentucky Industrial Utility Customers, Inc., p. 13.

KIUC'S AND SIERRA CLUB'S ARGUMENTS

In its post-hearing brief, KIUC agrees with Kentucky Power's position that the company's economic analysis sufficiently determined that the proposed Mitchell acquisition and conversion of Big Sandy Unit 1 to natural gas was the least-cost option by a significant margin. Sierra Club also agrees with Kentucky Power's analysis that the Big Sandy Unit 2 retrofit alternative was more expensive than the proposed Mitchell acquisition.

AG'S ARGUMENTS

The AG argues that Kentucky Power failed to satisfy its burden of proof. In particular, the AG contends that Kentucky Power did not demonstrate that its plan to acquire the Mitchell Station was based upon prudent and independent decision-making analyses, noting that the results of the economic modeling could not be independently reproduced and that the modeling itself was self-serving and contained questionable data assumptions. The AG also contends that Kentucky Power failed to issue an RFP to assess alternatives for the disposition of Big Sandy Unit 2, and in contravention of what the AG asserted was the Commission's clear indication that an RFP is the "preferred" benchmarking tool to determine least-cost generation and planning decisions. The AG also cites to the Virginia State Corporation Commission's denial of APCo's request to acquire the remaining 50 percent interest of the Mitchell Station. The AG noted that the Virginia State Corporation Commission denial was based on a finding that APCo failed to provide compelling evidence regarding market alternatives and, therefore, had failed to satisfy Virginia's least-cost test as applied to affiliate transactions. The AG contends that Kentucky Power has likewise failed to present

credible and independently verifiable evidence in the instant matter establishing that the Mitchell acquisition is the least-cost alternative.

PUBLIC COMMENTS

This case has generated significant interest from the local public and many comments and efforts on behalf of the region most affected by the situation at the Big Sandy plant. Representative Rocky Adkins, House Majority Floor Leader, and Michael T. Hogan, Lawrence County Attorney, were especially vocal and eloquent in their advocacy of the plan to install a pollution control system at the Big Sandy Unit 2, rather than retiring Big Sandy Unit 2 and replacing that capacity and energy with the acquisition of the Mitchell Station, as Kentucky Power has proposed in this case.

Representative Adkins wrote several letters and spoke at both the public meeting in Louisa, Kentucky, on May 14, 2013 and the formal hearings at the Commission's offices on May 29, 2013 and July 10, 2013. He argued that Kentucky Power's original rate impact estimate of 31 percent resulting from scrubbing Big Sandy Unit 2, as compared to an estimated rate impact of 8 percent associated with the proposed Mitchell acquisition, was faulty.³⁴ Representative Adkins contends that the rate impact differential between the two options has narrowed based upon the evidence presented in this matter and in Kentucky Power's pending rate case. Because of this, he recommends that the Commission reconsider the option of scrubbing Big Sandy Unit 2 and keep that unit operational, which would preserve good paying jobs, preserve property tax revenues, and preserve coal sales.

³⁴ Based upon our analysis of the information in the record, the rate impact associated with the retrofitting of Big Sandy Unit 2 would have been approximately 26 percent based upon the company's 2012 jurisdictional revenues. The rate impact associated with the proposed Mitchell acquisition is approximately 14 percent based upon Kentucky Power's 2012 jurisdictional revenues. The difference between the two in real dollars is \$59,392,000, an average of \$343.31 per year per customer.

Mr. Hogan points out that the closure of Big Sandy Unit 2 would not only result in the loss of 150 well-paying jobs, but also the loss of approximately \$980,000 annually in franchise tax paid by Kentucky Power. The loss of jobs and tax revenues would impact public safety and welfare, as well as public education. Mr. Hogan contends that the economic impact of Kentucky Power's decision to retire Big Sandy Unit 2 should be considered when evaluating the options proposed by Kentucky Power.

The Commission greatly appreciates the participation of elected officials and affected customers in this important process. We note that the scrubber issue has been extensively reviewed in Case No. 2011-00401 and to a lesser extent in Case No. 2013-00144 involving Kentucky Power's request to enter into a purchase power agreement for the purchase of biomass renewable power. Kentucky Power has been investigating Big Sandy Unit 2 environmental compliance since 2004 and entered into the 2007 Consent Decree ultimately agreeing to either retrofit, repower, refuel, or retire Big Sandy Unit 2 by the end of 2015. Kentucky Power then made a formal filing with the Commission to retrofit Big Sandy Unit 2 in 2011, at a cost of more than \$940 million,³⁵ only to withdraw its application after the evidentiary record had been completed. Thus, the decision before the Commission in this case is limited to whether the acquisition of the Mitchell Station is the lowest cost compared to other options, including the scrubber installation at Big Sandy Unit 2. Kentucky Power, by withdrawing its application in Case No. 2011-00401, made the decision not to scrub Big Sandy Unit 2, and because of the

³⁵ Case No. 2011-00401, *Application of Kentucky Power Company for Approval of its 2011 Environmental Compliance Plan for Approval of its Amended Environmental Cost Recovery Surcharge Tariff, and for the Grant of a Certificate of Public Convenience and Necessity for the Construction and Acquisition of Related Facilities*, Application at paragraph 20.

consent decree and the economic analysis showing that scrubbing Big Sandy Unit 2 is not the lowest cost option, will retire the unit.

As discussed in more detail below, the framework of our analysis in the instant case is guided by KRS Chapter 278. The legal standard that the Commission must apply to this case is whether there is a need for the proposed Mitchell acquisition and whether that proposal would result in wasteful duplication of facilities. Thus, arguments on economic benefits to specific areas of Kentucky Power's service territory are beyond the scope of the Commission's jurisdiction.

LEGAL STANDARD

No utility may construct or acquire any facility to be used in providing utility service to the public until it has obtained a CPCN from this Commission.³⁶ To obtain a CPCN, the utility must demonstrate a need for such facilities and an absence of wasteful duplication.³⁷

"Need" requires:

[A] showing of a substantial inadequacy of existing service, involving a consumer market sufficiently large to make it economically feasible for the new system or facility to be constructed or operated.

[T]he inadequacy must be due either to a substantial deficiency of service facilities, beyond what could be supplied by normal improvements in the ordinary course of business; or to indifference, poor management or disregard of the rights of consumers, persisting over such a period of time as to establish an inability or unwillingness to render adequate service.³⁸

³⁶ KRS 278.020(1).

³⁷ *Kentucky Utilities Co. v. Pub. Serv. Comm'n*, 252 S.W.2d 885 (Ky. 1952).

³⁸ *Id.* at 890.

“Wasteful duplication” is defined as “an excess of capacity over need” and “an excessive investment in relation to productivity or efficiency, and an unnecessary multiplicity of physical properties.”³⁹ To demonstrate that a proposed facility does not result in wasteful duplication, we have held that the applicant must demonstrate that a thorough review of all reasonable alternatives has been performed.⁴⁰ Selection of a proposal that ultimately costs more than an alternative does not necessarily result in wasteful duplication.⁴¹ All relevant factors must be balanced.⁴² The Commission has long recognized that the principle of least-cost is one of the fundamental foundations utilized when setting rates that are fair, just, and reasonable and that this principle is embedded in KRS 278.020(1).⁴³

The Commission fully recognizes the unique situation that Kentucky Power is faced with: the decision to replace a significant portion of not only its base load generating capacity but that of its base load energy as well. The complexity of the situation is heightened by the fact that the Pool Agreement is scheduled to terminate on January 1, 2014. Kentucky Power along with several other AEP affiliates jointly operated their systems under the Pool Agreement, which allowed Kentucky Power

³⁹ *Id.*

⁴⁰ Case No. 2005-00142, *Joint Application of Louisville Gas and Electric Company and Kentucky Utilities Company for a Certificate of Public Convenience and Necessity for the Construction of Transmission Facilities in Jefferson, Bullitt, Meade, and Hardin counties, Kentucky* (Ky. PSC Sept. 8, 2005).

⁴¹ See *Kentucky Utilities Co. v. Pub. Serv. Comm'n*, 390 S.W.2d 168, 175 (Ky. 1965). See also Case No. 2005-00089, *Application of East Kentucky Power Cooperative, Inc. for a Certificate of Public Convenience and Necessity for the Construction of a 138 kV Electric Transmission Line in Rowan County, Kentucky* (Ky. PSC Aug. 19, 2005).

⁴² Case No. 2005-00089, *East Kentucky Power*, Order dated August 19, 2005, at 6.

⁴³ Case No. 2009-00545, *Application of Kentucky Power Company for Approval of Renewable Energy Purchase Agreement for Wind Energy Resources Between Kentucky Power Company and FPL Illinois Wind, LLC* (Ky. PSC Jun. 28, 2010).

access to low cost capacity and energy for over five decades. Upon the termination of the Pool Agreement, Kentucky Power will operate in effect as a stand-alone utility and will be required to conduct resource planning to meet its load requirements without the benefit of the low-cost capacity and energy provided under the Pool Agreement. Kentucky Power's decision is constrained further by the potential additional costs imposed by more stringent environmental regulations.

Against this backdrop, and based on our comprehensive review of the extensive record, we find that Kentucky Power has established that the proposed Mitchell acquisition is needed to address the disposition of the nearly 1078 MW Big Sandy Generating Station because the station can no longer operate as it is currently configured and be in compliance with stringent federal environmental regulations. Based on Kentucky Power's analyses, the cost of retrofitting the Big Sandy Station would not be economically justified resulting in the company's decision to retire Big Sandy Unit 2 by June 2015. In the absence of the Mitchell capacity and energy, Kentucky Power would be energy deficit by 268 Gwh beginning in January 2014 with a negative 66.26 percent reserve margin, or 937 MW short, beginning the 2015/2016 PJM planning year.

The Commission further finds that the record is sufficient to demonstrate that the proposed Mitchell acquisition represents the least-cost resources to meet Kentucky Power's capacity and energy needs resulting from the decision to retire Big Sandy Unit 2. Contrary to the AG's assertion that an RFP is the Commission's "preferred" benchmarking tool to determine market alternatives for the proposed Mitchell acquisition, the Commission has previously accepted economic analyses in lieu of

RFPs when justified by the circumstances. As Kentucky Power points out, the Commission in Case No. 2003-00252⁴⁴ specifically found that an RFP was not required by the Union Light, Heat and Power Company ("ULH&P") to determine the reasonableness of ULH&P's proposal to acquire certain generating units from its parent company. The Commission further found that ULH&P's market analysis, which was conducted by a retained consulting firm, of the generating capacity that was the subject of the proposed transaction was reasonable. As we succinctly stated in the ULH&P matter:

The Commission recognizes the AG's concerns and acknowledges that utilities under its jurisdiction typically conduct an RFP as part of the process of selecting new supply resources. We believe that such a process has benefitted Kentucky's utilities and its ratepayers and that it will continue to benefit them in the future. However, in this instance, given the uniqueness of the proposed transaction, we are not persuaded that undertaking an RFP process would benefit ULH&P or its ratepayers. Attempting to acquire an entire generation fleet through a single transaction is unprecedented in the electric utility industry. Given the level of uncertainty that exists in the electric industry today, there are several arguments in favor of relying on factors other than the market or financial strength of the firms that make up that market. Furthermore, based on ICF's market analysis, the facilities included in the transaction are being offered at an attractive price.⁴⁵

Our ruling in the ULH&P matter is squarely on point in this instance. Like ULH&P in the case cited above, Kentucky Power finds itself in an unenviable and unique situation of having to replace nearly 1100 MW of its generation capacity, or

⁴⁴ Case No. 2003-00252, *Application of the Union Light, Heat and Power Company for a Certificate of Public Convenience and Necessity to Acquire Certain Generation Resources and Related Property; for Approval of Certain Purchase Power Agreements; for Approval of Certain Accounting Treatment; and for Approval of Deviation from Requirements of KRS 278.2207 and 278.2213(6)* (Ky. PSC Dec. 5, 2003).

⁴⁵ *Id.* at 11.

approximately 73 percent of its generation portfolio. The electric industry is as uncertain today, as it was in the early 2000s, and perhaps even more uncertain in light of more stringent environmental regulatory requirements, combined with shale gas development that has driven down the price of natural gas. Lastly, as the evidentiary record indicates, based upon the indicative offers from the Big Sandy Unit 1 RFP, the Mitchell units are being offered at a reasonable price of approximately \$687 per kW, based on a projected NBV of \$536 million. In comparison, Louisville Gas and Electric Company and Kentucky Utilities Company are constructing a 640-MW natural gas CC combustion turbine at a proposed price of \$583 million, or approximately \$910 per kW.⁴⁶

Based on all these factors, we find that the absence of an RFP in this matter was not fatal to Kentucky Power's ability to establish the reasonableness of the proposed Mitchell acquisition. As in the ULH&P matter, we find that Kentucky Power had other means of determining whether the proposed acquisition is reasonable. In particular, Kentucky Power utilized Strategist,⁴⁷ a highly sophisticated and industry-wide accepted economic modeling software tool, to conduct a robust and comprehensive economic analysis of the Mitchell acquisition.

Significantly, Kentucky Power's economic modeling took into account a wide range of reasonable alternatives, including a market proxy alternative that consisted of retiring and replacing the Big Sandy Station with a new-build CC natural gas unit which provided a reasonable means of determining the relationship between the NBV of the

⁴⁶ Case No. 2011-00375, *Joint Application of Louisville Gas and Electric Company and Kentucky Utilities Company for a Certificate of Public Convenience and Necessity and Site Compatibility Certificate for the Construction of a Combined Cycle Combustion Turbine at the Cane Run Generating Station and the Purchase of Existing Simple Cycle Combustion Turbine Facilities from Bluegrass Generation Company, LLC in Lagrange, Kentucky* (Ky. PSC May 3, 2012) at 1.

⁴⁷ ULH&P utilized Strategist in performing economic modeling analysis of its proposed generation acquisition in Case No. 2002-00252.

Mitchell assets and its fair market value. The evidentiary record contained other means through which one could quantitatively assess the reasonableness of the proposed Mitchell acquisition; for example, Kentucky Power's stacking analysis of the Big Sandy Unit 1 RFP indicative responses and the impairment analysis.

Lastly, the Commission finds that Kentucky Power's comprehensive economic analysis sufficiently supports the company's conclusion that the Mitchell acquisition is the least-cost alternative and would not result in wasteful duplication. We note that the economic analysis evaluated various resource options to address the mandatory environmental standards applicable to Big Sandy Units 1 and 2 over a 30-year study period. Options included the Mitchell transfer, retrofitting Big Sandy Unit 2, constructing a new gas unit, converting Big Sandy Unit 1 to gas, and purchasing power from the market. The modeling assumed Kentucky Power as a stand-alone utility and relied upon inputs related to price forecasts for coal, natural gas, market prices for on- and off-peak energy, market capacity, emissions allowances, and carbon. In addition to a base commodity price scenario, Kentucky Power also used four additional pricing scenarios to reflect the effects of higher fuel costs, lower fuel costs, an earlier carbon-pricing date, and no carbon pricing. The economic analysis showed that the Mitchell proposal, combined with the conversion of Big Sandy Unit 1 to gas, was the least-cost alternative by a wide margin. Sensitivity and break-even analyses also demonstrated that the Mitchell acquisition is the least-cost option. Accordingly, we conclude that the proposed Mitchell acquisition represents the least-cost alternative to meeting Kentucky Power's capacity and energy needs and would not result in wasteful duplication of facilities.

DISCUSSION OF NON-UNANIMOUS STIPULATION

Finding that the Mitchell proposal is needed and represents the least-cost alternative, we now address the reasonableness of the Stipulation reached by Kentucky Power, KIUC, and Sierra Club (collectively "Stipulating Parties"). The Stipulation is attached as Appendix A to this Order. The Stipulating Parties contend that the Stipulation is fair, just, and reasonable in that it offers benefits that otherwise would not be achievable in a fully litigated proceeding while recognizing and acknowledging that the Mitchell acquisition is the least-cost alternative. Kentucky Power contends that the Stipulation is in the public interest because it provides the Commission, the company's ratepayers, and Kentucky Power with the benefits of a regulated owned asset model while avoiding the volatility and increased risk attendant with a market-based alternative. Kentucky Power asserts that the Stipulation provides substantial rate benefits to its customers, noting that the company has agreed to limit the recovery of the Mitchell related non-fuel costs, including its return on and of its investment in the Mitchell assets, to \$44 million annually for a 17-month period and that the recovery of such costs would be through an Asset Tariff Rider surcharge.⁴⁸ Kentucky Power also agreed to maintain its current base rates through at least May 31, 2015 and to withdraw its pending base rate case.⁴⁹ In the absence of the Stipulation, the increase in Kentucky Power's stand-alone Mitchell-related annual revenue requirement would be approximately \$138 million.⁵⁰ The limited recovery under the Stipulation would result in

⁴⁸ Stipulation, paragraph 4.

⁴⁹ Stipulation, paragraph 3.

⁵⁰ Post-Hearing Brief of Kentucky Power, p. 50.

Kentucky Power's customers saving \$133 million over the 17-month base-rate-freeze period.⁵¹ KIUC concurs, arguing that the 13.98 percent total rate increase⁵² associated with the Mitchell acquisition is reasonable and manageable, particularly when compared with the 23.9 percent rate increase associated with the pending rate case⁵³ and the 25.59 percent rate increase which would have occurred if the scrubber retrofit on Big Sandy Unit 2 had been pursued.⁵⁴ In addition, Kentucky Power points out that the Stipulation recognizes that the Mitchell Station will be included in the economic dispatch of Kentucky Power's generation resources, and that Mitchell-related fuel costs will be included in the calculation of any charges or credits under the company's fuel adjustment clause. Because Mitchell fuel costs are anticipated to be lower than the fuel costs for the Big Sandy Station, the Mitchell acquisition would result in annual fuel savings of approximately \$16.75 million to the benefit of Kentucky Power's customers.⁵⁵

The Stipulating Parties point out that the Stipulation also provides protection against unreasonably higher costs due to unanticipated greenhouse gas regulation. The significance of this provision is highlighted by the fact that on June 25, 2013, President Obama issued his Climate Action Plan and Presidential Memorandum directing the Environmental Protection Agency to "issue proposed carbon pollution standards, regulations, or guidelines, as appropriate, for modified, reconstructed, and

⁵¹ *Id.*

⁵² This total rate increase comprises a 5.33 percent increase during the 17-month rate freeze period and an 8.21 percent increase when Big Sandy Unit 2 is retired in mid-2015.

⁵³ Direct Testimony of Jason M. Stegall, Exhibit JMS-3, at 1 filed in Case No. 2013-00197, Application for a General Adjustment of Electric Rates of Kentucky Power Company.

⁵⁴ Kentucky Power's Response to Commission Staff's Fifth Data Request, Item No. 10.

⁵⁵ Stipulation, paragraph 2.

existing power plants by no later than June 1, 2014.”⁵⁶ Under Paragraph 21 of the Stipulation, Kentucky Power is required to file, as part of its future integrated resource plans, an economic analysis of all generating unit costs, including the costs of complying with greenhouse gas emission regulation; Kentucky Power explicitly recognizes the right of the Commission or any parties to challenge the company’s rates on the grounds that they are unreasonable due to the Mitchell Station’s no longer being the least-cost generation resource due to environmental requirements relating to greenhouse gas emission regulation; Kentucky Power explicitly recognizes the Commission’s authority to retire for ratemaking purposes the company’s interest in the Mitchell Station in such an event; and Kentucky Power will recover its remaining investment in the Mitchell Station over a period determined by the Commission at a debt-only return.

The Stipulating Parties contend that the Stipulation provides other tangible benefits that could not otherwise be achieved through a litigated process. These benefits include (1) Kentucky Power agrees to shareholder contributions of \$100,000 annually in each of the next five years for economic development and job training in Lawrence and contiguous Kentucky counties to mitigate the economic impact of the closure of Big Sandy Unit 2;⁵⁷ (2) Kentucky Power agrees to increase its shareholder contribution to the Home Energy Assistance (“HEA”) Program by 20 percent from \$0.125 per meter per month to \$0.15 per meter per month, which increases the amount

⁵⁶ Presidential Memorandum of June 25, 2013, Power Sector Carbon Pollution Standards, 78 Fed. Reg. 39535 (2013).

⁵⁷ Stipulation, paragraph 10.

of shareholder HEA contributions by \$43,500 to an annual total of \$522,000;⁵⁸ (3) Kentucky Power agrees to institute a new two-year Demand-Side Management (“DSM”) program to help fund energy management programs for schools that are mandated by KRS 160.325 to participate in the Kentucky Energy Efficiency Program – \$75,000 in 2014 and \$50,000 in 2015;⁵⁹ (4) Kentucky Power commits to increase its DSM expenditures from the current \$3 million annual amount to \$6 million in 2016 and to maintain the expenditure level at \$6 million through at least 2018;⁶⁰ (5) Kentucky Power agrees to increase the amount of qualified interruptible load programs that can receive credit to 75 MW for industrial customers;⁶¹ and (6) Kentucky Power agrees to issue a non-binding RFP for 100 MW of wind power for the purpose of incorporating the results of the RFP when it files its next Integrated Resource Plan filing in December 2013.⁶²

Having reviewed the non-unanimous Stipulation and being otherwise sufficiently advised, the Commission finds that it is in effect an offer by Kentucky Power to amend its application by requesting authority to acquire a 50 percent interest in the Mitchell Station on terms more favorable than those originally proposed. The Commission finds that the acquisition of 50 percent of the Mitchell Station is Kentucky Power’s lowest-cost option and the provisions of the non-unanimous Stipulation provide additional, substantial benefits to ratepayers that could not otherwise be obtained. Therefore, we find the Stipulation to be reasonable and we will approve it subject to the following

⁵⁸ Stipulation, paragraph 11.

⁵⁹ Stipulation, paragraph 12.

⁶⁰ *Id.*

⁶¹ Stipulation, paragraph 9.

⁶² Stipulation, paragraph 19.

modifications. In addition to our finding that the Mitchell acquisition is the least-cost alternative to address the unit disposition of Big Sandy Unit 2, the Commission believes that the benefits achieved through the Stipulation, as modified, would provide Kentucky Power's customers with rate savings and tangible financial commitments. Regarding the provision to fund school energy managers,⁶³ the Commission finds that this provision should be modified to make clear that Kentucky Power's shareholder contribution would be incremental funding for the school energy manager program, which could be for new school energy manager(s) or additional funds for existing school managers, and that the funding would be limited to those schools in Lawrence and contiguous Kentucky counties impacted by KRS 160.325.

Concerning the provision in which Kentucky Power agrees to maintain a minimum level of DSM spending of at least \$6 million after 2018,⁶⁴ the Commission finds that this provision is ambiguous and should be modified to clearly specify Kentucky Power's commitment to seek prior Commission approval should the company desire to spend less than \$6 million on DSM or energy-efficiency programs after 2018.

With respect to Kentucky Power's agreement to provide shareholder contribution for economic development support for Lawrence County and the counties contiguous to Lawrence county, we find that the amount of \$100,000 per year for five years, with a carve-out of \$33,000 set aside for job training, with a preference on weatherization and energy-efficiency-related jobs,⁶⁵ to be insufficient to mitigate the significant negative economic impact that the closure of Big Sandy Unit 2 would have on this region. We,

⁶³ Stipulation, paragraph 12.

⁶⁴ *Id.*

⁶⁵ Stipulation, paragraph 10.

therefore, find that the provision should be modified to increase the shareholder contribution to \$200,000 per year for five years toward economic development support for Lawrence county and the contiguous counties thereto. We also find that the amount set aside for job training should not be carved out of the total annual contribution but should instead be in addition to the \$200,000 annual shareholder contribution for an annual contribution from Kentucky Power shareholders of \$233,000 per year for five years. The shareholder funds designated for job training should also be placed in an account for the benefit of the two colleges in the Kentucky Community and Technical College System located in Kentucky Power's system, Ashland Community and Technical College and Big Sandy Community and Technical College, for the express purpose of utilizing the two colleges to work with local economic officials, local industrial authorities, local workforce investment boards, and chambers of commerce on a regular basis to retain or attract business as well as to provide career counseling, assessments, and retraining of displaced workers. The two colleges would also be able to utilize their workforce solution divisions to provide specific training for industry, such as weatherization and energy-efficiency job training.

The Stipulation also provides that Kentucky Power be authorized to accumulate and defer for review the \$28,113,304 in costs incurred by the company from 2004 through 2012 associated with Kentucky Power's ongoing efforts to meet Federal Clean Air Act and other environmental requirements with respect to Big Sandy Unit 2 ("Scrubber Study Costs").⁶⁶ Kentucky Power contends that this provision is reasonable because those costs were a necessary part of a major multi-year capital asset project that would have been included in the capital cost of the project if the retrofit of Big

⁶⁶ Stipulation, paragraph 8.

Sandy Unit 2 had proven the least-cost alternative. Kentucky Power also contends that the full span of the study was necessary for the company to reach the least-cost option for the environmental issues facing Big Sandy Unit 2, and that it was only in the eighth and final year that the company was able to reduce the capital cost by \$412 million, which reflects the difference between the capital cost of retrofitting Big Sandy Unit 2 with a DFGD and the capital cost of the Mitchell acquisition.

While studies or evaluations relating to major multi-year capital asset projects are generally considered necessary and recovery of the cost of such studies and evaluations through rates is generally considered reasonable, given the uniqueness of the situation as presented herein, the Commission finds that this provision of the Stipulation is not reasonable and should be stricken. We note that the proposed Mitchell acquisition will result in a 5.33 percent rate increase to Kentucky Power's customers during the 17-month period in which Kentucky Power's base rates are frozen at the current level. Upon the retirement of Big Sandy Unit 2 in mid-2015, Kentucky Power's projects that its ratepayers will see an additional increase of approximately 8.21 percent to their rates when Kentucky Power will seek to recover, among other things, the undepreciated costs associated with the retirement of Big Sandy Unit 2, as well as the coal-related retirement costs of Big Sandy Unit 1. The Commission finds that the potential imposition of the \$28 million Scrubber Study Costs, in addition to the costs associated with the Mitchell acquisition, is not reasonable, particularly when the Scrubber Study Costs, although spanning a significant period of time, did not result in a formal Kentucky Power proposal upon which the Commission rendered a decision based on its merits. The Commission likewise finds the potential imposition of the

Scrubber Study Costs on ratepayers not reasonable due to the fact that a study of this magnitude did not result in the addition of a scrubber or other pollution control facilities at Big Sandy Unit 2.

DISCUSSION OF ASSUMPTION OF LIABILITIES

As part of the Mitchell acquisition, Kentucky Power requests authority pursuant to KRS 278.300 to assume an undivided 50 percent interest in the liabilities associated with the Mitchell Station as of December 31, 2013. Kentucky Power contends that its assumption of these liabilities comports with KRS 278.300. Kentucky Power asserts that assuming the liabilities as part of its efforts to obtain the necessary capacity and energy to continue to provide retail electric is for a lawful object within the corporate purposes of the company. Kentucky Power also asserts that such assumption is both necessary for and consistent with its provision of public utility service to the public because, in the absence of the Mitchell acquisition, Kentucky Power would not be able to provide the capacity and energy to meet its customers' needs at the lowest possible price. Lastly, Kentucky Power contends that the assumption of liabilities will not impair its ability to provide public utility service, noting that any liabilities assumed would reduce the transfer price of the Mitchell Station.

The Commission finds that Kentucky Power's request to assume an undivided 50 percent interest in the liabilities associated with the Mitchell acquisition is for lawful objects within the corporate purposes of Kentucky Power, is necessary and appropriate for and consistent with the proper performance by Kentucky Power of its service to the public, will not impair its ability to perform that service, is reasonable, necessary, and appropriate for such purposes, and should be approved. In arriving at this decision, the

Commission relied upon the testimony of witnesses for Kentucky Power who indicated that no environmental liabilities are known at this time as a result of environmental retrofits to the Mitchell Station. Additionally, the Commission relied upon Kentucky Power's testimony that because of prior maintenance and upgrades to the Mitchell Station, there are no known liabilities or repairs needed at the current time, and with only normal maintenance the Commission can expect the Mitchell Station to be operational in 2040.

MISCELLANEOUS ISSUES

1. **Reporting Requirement**

Given the age of the Mitchell units and the ever changing landscape of environmental requirements, we will require Kentucky Power to file annual reports providing the Commission with detailed updates on the performance of the Mitchell Station and the company's assessment of any potential changes in environmental regulations that would impact the Mitchell Station. The annual reports shall include, at a minimum, a discussion and evaluation of the performance of each of the two Mitchell units, unplanned system outages, heat rate, budgeted and actual capital expenditures for the prior year and budgeted capital expenditures for the reporting year, budgeted and actual operation and maintenance ("O&M") expenditures for the prior year and budgeted O&M expenses for the reporting year, and a discussion of potential environmental regulations that may impact the Mitchell Station.

2. **Mitchell Plant Operating Agreement**

On August 5, 2013, Kentucky Power filed supplemental responses to Commission Staff's post-hearing data requests, which advised that the Virginia

Corporation Commission had recently issued an order denying the transfer of a 50 percent undivided interest in the Mitchell Station to APCo.⁶⁷ Kentucky Power noted in that supplemental response that the instant Application is independent of any action by either the Virginia or West Virginia commissions because Kentucky Power continues to require both the capacity and energy available to it through the Mitchell acquisition and because the Mitchell acquisition continues to represent the least-cost alternative to address the company's needs.

Kentucky Power advises that if the remaining 50 percent undivided interest in the Mitchell Station is not ultimately transferred to APCo, that interest will likely remain with AEP Generation Resources. Under those circumstances, Kentucky Power states that a revised Mitchell Plant Operating Agreement will be filed with FERC providing that Kentucky Power will operate the Mitchell Station on behalf of itself and AEP Generating Resources. The revised operating agreement will continue to reflect the costs attendant to Kentucky Power's ownership and operation of the undivided 50 percent interest in the Mitchell Station.

Should APCo fail to obtain the remaining undivided 50 percent interest of the Mitchell Station and the Mitchell Plant Operating Agreement is revised and filed with FERC to reflect Kentucky Power's status as operator of the Mitchell Station, Kentucky Power should provide the Commission a copy of the FERC application and apprise the Commission of FERC's final decision on the application.

⁶⁷ See Case No. PUE-2012-00141, *Application of Appalachian Power Company for Approval of Transactions to Acquire Interests in the Amos and Mitchell Generation Plants and to Merge with Wheeling Power Company* (VSCC, July 31, 2013).

3. Net Book Value

In the event the Public Service Commission of West Virginia (“West Virginia PSC”) approves APCo’s request to acquire the remaining 50 percent undivided interest in the Mitchell Station at a NBV that is lower than the \$536 million projected in the instant matter, Kentucky Power’s authority to acquire the Mitchell Station will be limited to the NBV as determined by the West Virginia PSC.

4. Off-System Sales

The Stipulation also provides that Kentucky Power will set and maintain the System Sales Adjustment Factor to 0.0000 mills/kWh until new base rates are established.⁶⁸ Currently, customers receive a credit, or pay a charge, equal to 60 percent of the difference between Kentucky Power’s net system sales revenues for a particular month and the amount specified for that month in the Tariff System Sales Clause. Pursuant to the Stipulation, customers will receive the benefit of the full \$15,290,363 built into current base rates even if the monthly off-system sales fall short of the tariff amount and Kentucky Power will retain all of the excess amounts when off-system sales exceed the amount in base rates. This modification will continue until new base rates are established in Kentucky Power’s next base rate case.

As we stated earlier, Kentucky Power is in the midst of a unique transformation of its operations, having to consider the disposition of a significant portion of its generation portfolio. This case is just one step towards how Kentucky Power will propose to reconstitute its generation assets. As has been mentioned in this matter, we anticipate Kentucky Power to file a certificate case for the repowering of Big Sandy Unit 1. Also,

⁶⁸ Stipulation, paragraph 7.

Kentucky Power has requested approval of a renewable energy purchase agreement and that case is currently pending before the Commission.⁶⁹ The final resolution of the disposition of Big Sandy Unit 1 and Case No. 2013-00144 will bring more clarity to Kentucky Power's capacity and energy needs. Accordingly, the Commission will closely scrutinize Kentucky Power's treatment of its off-system sales and any associated mechanism proposed in the company's next base rate case.

IT IS THEREFORE ORDERED that:

1. Kentucky Power's request to acquire an undivided 50 percent interest in the Mitchell Generating Station and to assume an undivided 50 percent interest in the liabilities associated with the Mitchell acquisition is approved subject to the provisions of the Stipulation set forth in Appendix A and Kentucky Power's acceptance of the modifications to the Stipulation set forth in Appendix B.

2. The Stipulation, including the tariffs proposed to implement the terms of the Stipulation, is approved subject to Kentucky Power's acceptance of the modifications to the Stipulation set forth in Appendix B.

3. Kentucky Power's request for a deviation from KRS 278.2207(2) is denied as moot.

4. Within seven days from the date of this Order, the President of Kentucky Power shall file written notice with the Commission indicating whether Kentucky Power accepts and agrees to be bound by the modifications to the Stipulation as set forth in Appendix B.

⁶⁹ Case No. 2013-00144, *Application of Kentucky Power Company for Approval of the Terms and Conditions of the Renewable Energy Purchase Agreement for Biomass Energy Resources Between the Company and ecoPower Generation-Hazard LLC; Authorization to Enter Into the Agreement; Grant of Certain Declaratory Relief; and Grant of All Other Required Approvals and Relief* (filed April 10, 2013).

5. Should APCo fail to obtain ownership of the remaining undivided 50 percent interest of the Mitchell Station and a revised Mitchell Plant Operating Agreement is filed with FERC to reflect Kentucky Power's status as operator of the Mitchell Station, Kentucky Power shall file a copy of the FERC application and apprise the Commission of FERC's final decision on the application.

6. Kentucky Power shall file annual status reports concerning the performance of the Mitchell Station as discussed herein no later than March 1, 2014, and on the same date each year thereafter until the Commission orders otherwise.

7. In the event the West Virginia PSC approves APCo's request to acquire the remaining 50 percent undivided interest in the Mitchell Station at a NBV that is lower than the \$536 million NBV proposed in the instant matter, Kentucky Power's authority to acquire the Mitchell Station shall be limited to the NBV as found by the West Virginia PSC.

8. Within seven days after the closing of the Mitchell transaction, Kentucky Power shall file written notification to the Commission detailing the status of the transaction.

9. Within 20 days after the date of closing the Mitchell transaction, Kentucky Power shall file with the Commission its tariff sheets as approved herein, showing their date of issue and that they were issued by authority of this Order.

10. Any documents filed pursuant to ordering paragraphs 8 and 9 of this Order shall reference the number of this case and shall be retained in the utility's general correspondence file.

Nothing contained herein shall be construed as a finding of value for any purpose or as a warranty on the part of the Commonwealth of Kentucky or any agency thereof as to the securities authorized herein.

By the Commission



ATTEST:

Raymond D. Grunwell for
Executive Director

APPENDIX A

APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE
COMMISSION IN CASE NO. 2012-00578 DATED **OCT 07 2013**

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

IN THE MATTER OF:

APPLICATION OF KENTUCKY POWER COMPANY FOR (1) A CERTIFICATE OF PUBLIC CONVENIENCE AND NECESSITY AUTHORIZING THE TRANSFER TO THE COMPANY OF AN UNDIVIDED FIFTY PERCENT INTEREST IN THE MITCHELL GENERATING STATION AND ASSOCIATED ASSETS; (2) APPROVAL OF THE ASSUMPTION BY KENTUCKY POWER COMPANY OF CERTAIN LIABILITIES IN CONNECTION WITH THE TRANSFER OF THE MITCHELL GENERATING STATION; (3) DECLARATORY RULINGS; (4) DEFERRAL OF COSTS INCURRED IN CONNECTION WITH THE COMPANY'S EFFORTS TO MEET FEDERAL CLEAN AIR ACT AND RELATED REQUIREMENTS; AND (5) ALL OTHER REQUIRED APPROVALS AND RELIEF

RECEIVED

JUL 02 2013

PUBLIC SERVICE
COMMISSION

Case No. 2012-00578

STIPULATION AND SETTLEMENT AGREEMENT

This Stipulation and Settlement Agreement, made and entered into this 2nd day of July, 2013, by and among Kentucky Power Company ("Kentucky Power" or "Company"); Kentucky Industrial Utility Customers, Inc. ("KIUC"); and Sierra Club, Alexander Desha, Tom Vierheller, and Beverly May ("Sierra Club");

WITNESSETH:

WHEREAS, on December 19, 2012 Kentucky Power filed a verified application pursuant to KRS 278.020, 807 KAR 5:001, Section 9 (now 807 KAR 5:001, Section 15), KRS 278.300, and 807 KAR 5:001, Section 11 (now 807 KAR 5:001, Section 17). In its application, styled *In the Matter of: Application of Kentucky Power Company for: (1) A Certificate Of Public Convenience and Necessity Authorizing The Transfer To The Company Of An Undivided Fifty Percent Interest In The Mitchell Generating Station And Associated Assets; (2) Approval Of The Assumption By Kentucky Power Company Of Certain Liabilities In Connection With The Transfer Of Mitchell Generating Station; (3) Declaratory Rulings;*¹ *(4) Deferral Of Costs Incurred In Connection With The Company's Efforts To Meet Federal Clean Air Act And Related Requirements; And (5) For All Other Required Approvals And Relief,* Case No. 2012-00578 ("Transfer Application.") In the Transfer Application, the Company sought approval for all approvals necessary to effectuate the transfer of a fifty percent undivided interest in Ohio Power Company's Mitchell Generating Station, including the assumption of certain liabilities. In addition, the Company sought the authority, in accordance with Financial Accounting Standards Board Standards Codification 980-340-25-1, to accumulate and defer for review and recovery in its next base rate proceeding certain costs incurred from 2004 through 2012 in connection with the Company's ongoing efforts to meet Federal Clean Air Act and other environmental requirements with respect to Big Sandy Unit 2; and

WHEREAS, KIUC, Sierra Club, and the Attorney General of the Commonwealth of Kentucky, by and through his Office of Rate Intervention ("Attorney General") (collectively the

¹ On February 15, 2013 the Commission issued a declaratory order stating that prior approval pursuant to KRS 278.020(5) and KRS 278.020(6) is not required for the merger of Kentucky Power and NEWCO Kentucky.

“Intervenors”) filed motions for full intervention in P.S.C. Case No. 2012-00578. The Public Service Commission of Kentucky (“Commission”) granted each of the intervention motions; and

WHEREAS, Sierra Club and KIUC filed written testimony raising issues regarding Kentucky Power’s Transfer Application; and

WHEREAS, Kentucky Power and the Intervenors have had a full opportunity for discovery, including the filing of written data requests and responses; and

WHEREAS, Kentucky Power offered the Intervenors, along with Commission Staff, the opportunity to meet and review the issues presented by Kentucky Power’s application in this proceeding and for purposes of settlement; and

WHEREAS, during May 2013 representatives of Kentucky Power and the Intervenors, along with Commission Staff, met to review the issues and discuss settlement of the Transfer Application; and

WHEREAS, on May 28, 2013 Kentucky Power, along with Sierra Club and KIUC (“Settling Intervenors”), entered into a Memorandum of Understanding Regarding Stipulation and Settlement Agreement memorializing the basis for settling the issues in this proceeding; and

WHEREAS, Kentucky Power and the Settling Intervenors have reviewed the issues raised in P.S.C. Case No. 2012-0578, and have reached a settlement of the case, including the issues raised therein; and

WHEREAS, the Attorney General declined to enter into a settlement of the issues and thus there is not a unanimous settlement of the proceedings in Case No. 2012-00578; and

WHEREAS, Kentucky Power and the Settling Intervenors execute this Stipulation and Settlement Agreement (“Settlement Agreement”) for purposes of submitting it to the Public Service Commission of Kentucky for approval, and for such further approvals as are required to implement its provisions; and

WHEREAS, Kentucky Power and the Settling Intervenors believe that the relief, rates, and approvals provided for by this Settlement Agreement are in accordance with the requirements of Chapter 278; and

WHEREAS, the adoption of this Settlement Agreement will limit the need for the Commission and the parties to expend considerable resources in the litigation of this proceeding,

NOW THEREFORE, for and in consideration of the mutual premises set forth above, and the agreements and covenants set forth herein, Kentucky Power and the Settling Intervenors hereby agree:

1. On December 31, 2013, fifty percent of Mitchell Units 1 and 2 (including associated assets and liabilities) are to be transferred to Kentucky Power Company in the manner described in the Transfer Application. The transfer will be at actual net book value as of December 31, 2013, including all Accumulated Deferred Income Tax benefits, with no off-set to negate the transfer of those tax benefits to Kentucky ratepayers, in a manner consistent with the accounts and accounting entries shown on RKW-Exhibit 2 and RKW-Exhibit 3 (the net book value is currently estimated to be approximately \$536 million), and the calculation of the “Mitchell Plant Revenue Requirement” amounts shown on RKW-Exhibit 4 and the underlying workpapers for RKW-Exhibit 4. Such transfer shall be deemed a prudent component of rate base in future proceedings. The Company will use current Ohio Power Company depreciation rates

for Mitchell Units 1 and 2 until such rates are changed in the Base Rate Case, as that proceeding is defined in Paragraph 3. The Company shall propose depreciation rates that reflect a 2040 retirement date for the Mitchell units in the Base Rate Case.

2. Mitchell-related fuel costs shall be included in the calculation of charges or credits under Kentucky Power Company's Fuel Adjustment Clause. The Mitchell units will be included in the economic dispatch of Kentucky Power Company's generation resources. Because of the anticipated lower fuel costs of Mitchell Units 1 and 2 vis-à-vis the anticipated fuel costs of the Big Sandy units, the transfer of the Mitchell units to Kentucky Power is expected to provide Kentucky Power customers with the benefit of reduced fuel costs of approximately \$2.50/MWh. Based on 2012 jurisdictional kWh sales of 6.7 GWh, the benefits are estimated to total \$16.75 million annually.

3. Upon approval by the Commission of this Stipulation and Settlement Agreement, the Company shall withdraw any pending base rate case.² The Company agrees to maintain current base rates at least through May 31, 2015, subject to Paragraph 16 of this Settlement Agreement. In addition, the Company agrees to file a base rate proceeding ("Base Rate Case") no later than December 29, 2014 utilizing a September 30, 2014 test year. The Company agrees to propose combining, using the C.I.P.-T.O.D. rate design, the C.I.P.-T.O.D. and Q.P. tariff classes in the Base Rate Case. The Company agrees to remove all coal-related operating expenses related to Big Sandy 1, and all operating expenses related to Big Sandy Unit 2 from the cost of service study in the Base Rate Case. The Company further agrees to remove all coal-related plant and other capitalized costs, e.g., fuel inventories, materials and supplies inventories,

² Kentucky Power Company on May 17, 2013 filed its Notice of Intent to file an Application For General Adjustment of its Rates (Case No. 2013-00197). On June 28, 2013 the Company filed its Application seeking a 23.39% adjustment in its revenues (with the transmission adjustment).

etc., related to Big Sandy Unit 1, and all plant and other capitalized costs, e.g., fuel inventories, materials and supplies inventories, etc., related to Big Sandy Unit 2, from the cost of service study in the Base Rate Case, and instead recover these costs in the manner set forth in Paragraph 14 of this Settlement Agreement.

4. Effective January 1, 2014, the Company will implement an Asset Transfer Rider pursuant to the Tariff Asset Transfer Rider attached hereto as EXHIBIT 1. The Asset Transfer Rider is designed to collect \$44 million annually, with a true-up mechanism to ensure no over or under recovery. The charges payable under the Asset Transfer Rider are initially determined by first allocating the \$44 million revenue requirement between residential and all other customers based upon their respective percentage of total revenues as of the twelve month period ended September 30, 2013. The Asset Transfer Rider charges will be calculated as a percentage of total revenues for the residential class, and as a percentage of non-fuel revenues for all other customers. The Asset Transfer Rider will remain in place until the Commission sets new base rates for the Company that include the Mitchell units. After new base rates are established, the Asset Transfer Rider will be reset to remove the \$44 million by substituting Asset Transfer Rider-2 (Tariff A.T.R.-2), attached hereto as EXHIBIT 1-A, which thereafter will be used to recover the Big Sandy 1 and Big Sandy 2 retirement costs as described in Paragraph 14.

5. Effective January 1, 2014, the monthly Environmental Surcharge factor (Tariff E.S.) will be fixed and maintained at 0.00% until new base rates are set by the Commission. The revised Tariff E.S. is attached hereto as EXHIBIT 2.

6. When base rates are set in the Base Rate Case, all costs associated with the Mitchell Units 1 and 2 Flue Gas Desulfurization (FGD) equipment will be recovered through the

environmental surcharge (Tariff E.S.) approved in the Base Rate Case, and excluded from base rates in the Base Rate Case. This collection mechanism shall continue at least until the Commission sets new base rates for a period commencing after June 30, 2020 that include these costs. The charges payable under the Environmental Surcharge to be submitted for approval in the Base Rate Case will be determined by first allocating the revenue requirement between full requirements wholesale customers and retail customers in the same manner that it is presently allocated. The retail share of the revenue requirement will then be allocated between residential and non-residential retail customers based upon their respective total revenues. The Environmental Surcharge will be implemented as a percentage of total revenues for the residential class and as a percentage of non-fuel revenues for all other customers.

7. Effective January 1, 2014, the Company will set and maintain the System Sales Adjustment Factor (Tariff S.S.C.) to 0.0000 mills/kWh until new base rates are set by the Commission. The revised Tariff S.S.C. is attached hereto as EXHIBIT 3. Calendar year off-system sales margins above \$15,290,363, the level in current base rates, will be retained by the Company until new base rates are set.

8. The Company shall be authorized in accordance with Financial Accounting Standards Board Standards Codification 980-340-25-1 to accumulate and defer for review and recovery in the Base Rate Case the \$28,113,304 of costs incurred from 2004 through 2012 in connection with the Company's ongoing efforts to meet Federal Clean Air Act and other environmental requirements with respect to Big Sandy Unit 2. The Company shall be authorized to amortize and recover the regulatory asset over a five-year period commencing with the implementation of the base rates established in the Base Rate Case. The Company will be

authorized to apply carrying costs to the unamortized regulatory asset at a long-term debt rate of 6.48%.

9. Effective June 1, 2015, the availability of service under Tariff C.S.-I.R.P. shall increase to 75,000 kW in accordance with the revised Tariff C.S.-I.R.P. attached hereto as **EXHIBIT 4**. Further, the revised Tariff C.S.-I.R.P. provides that effective June 1, 2015 credits under Tariff C.S.-I.R.P. of \$3.68 /kW/month will be provided for interruptible load that qualifies under PJM's rules as capacity for the purposes of the Company's FRR obligation. This interruptible service will be consistent with PJM's Limited Demand Response, Emergency – Capacity Only Program, subject to any limitations on the availability of that Program by PJM. If insufficient MWs are available for PJM enrollment by Kentucky Power, the revised Tariff C.S.-I.R.P. provides that Company shall offer to substitute one of the other PJM Emergency Demand Response Programs that is available. To be eligible for the credit, customers must be able to provide interruptible load (not involving behind the meter diesel generation) of at least one MW at a single site and commit to a minimum 4-year contract term. Any such credits will be collected through the newly-established Purchase Power Adjustment to be implemented pursuant to Paragraph 15 of this Settlement Agreement.

10. The Company agrees to provide economic development support for Lawrence County, Kentucky and the Kentucky counties contiguous thereto in the total amount of \$100,000 per year for five years. Of this annual amount, \$33,000 will be set aside for job training, with a preference for training for weatherization and energy efficiency-related jobs. The \$100,000 annual contribution shall not be recoverable from Kentucky Power customers.

11. The Company agrees to increase its contribution to the Home Energy Assistance Program to 15 cents per residential meter per month. Such amounts shall not be recoverable from customers.

12. The Company agrees to institute a new two-year Demand-Side Management (“DSM”) program to help fund energy management programs for schools affected by KRS 160.325. The annual DSM funding level for this program will be \$75,000 in 2014 and \$50,000 in 2015. Further, Kentucky Power agrees to increase its aggregate annual spending on cost-effective DSM and energy efficiency measures through Commission-approved DSM programs to \$4 million in 2014; \$5 million in 2015; and \$6 million in 2016, 2017, and 2018. The Company also will seek to maintain a minimum spending level of \$6 million for Commission-approved cost-effective DSM and energy efficiency measures in years after 2018. The Sierra Club may participate in the Company’s DSM collaborative and receive the Company’s periodic reports and evaluations of its DSM programs.

13. The Company shall file with the Commission an application pursuant to KRS 278.020 for Certificate of Public Convenience of Necessity to convert the 268 MW Big Sandy Unit 1 to natural gas, and will exercise its option to terminate its March 28, 2013 Request for Proposals. All parties to this Settlement Agreement agree they will not move to intervene to challenge the Company’s filing for the required Certificate of Public Convenience and Necessity to convert Big Sandy Unit 1 to natural gas, provided the cost to convert is approximately \$60 million.

14. The Company shall be authorized to recover the coal-related retirement costs of Big Sandy Unit 1, the retirement costs of Big Sandy Unit 2, and other site-related retirement

costs that will not continue in use. The costs shall be recovered on a levelized basis, including a weighted average cost of capital (WACC) carrying cost, over a 25 year period beginning when base rates are set in the Base Rate Case. The term "Retirement Costs" as used in this agreement are defined as and shall include the net book value, materials and supplies that cannot be used economically at other plants owned by Kentucky Power, and removal costs and salvage credits, net of related ADIT. Related ADIT shall include the tax benefits from tax abandonment losses. The Company will use its best efforts to minimize the cost of dismantling and to maximize salvage credits. Such retirement costs will be recovered in the Asset Transfer Rider-2.

15. Beginning January 1, 2014, no outage associated with Big Sandy Unit 2, including that due to its retirement, shall be treated as a forced outage for purposes of the Fuel Adjustment Clause. After Big Sandy Unit 2 is retired or can no longer be economically operated, the Company shall be authorized to recover incremental purchased power costs associated with forced outages of other Kentucky Power plants, not otherwise recoverable through the Fuel Adjustment Clause, pursuant to the Purchase Power Adjustment attached hereto as EXHIBIT 5. Customers shall at all times be entitled to the least cost energy produced by generation owned, leased or purchased by the Company consistent with economic dispatch principles.

16. The retirement of Big Sandy Unit 2 prior to May 31, 2015, shall be considered a Force Majeure Event and the Company shall have the right to seek emergency rate relief from the Commission to prevent its credit or operations from being materially impaired or damaged under KRS 278.190 (2) consistent with the Commission's orders and precedent governing such relief. Such emergency rate relief shall be limited to \$24 million annually (\$2 million per month

for each remaining month through May 2015). For purposes of this provision, Big Sandy Unit 2 shall be deemed retired upon review of the retirement as required under the PJM tariff.

17. The Company agrees to continue to procure coal for the Mitchell units with no bias against coal produced in Kentucky.

18. The Company agrees to continue to work during the conversion of Big Sandy Unit 1 to use local labor sources, in connection with the conversion, when technically practical.

19. The Company agrees to issue a non-binding Request For Proposals for 100 MW of wind power for the purpose of incorporating the results of the RFP in its Integrated Resource Plan that will be filed in December 2013.

20. The Company's application in Case No. 2013-00144 (*In The Matter Of: The Application Of Kentucky Power Company For: (1) The Approval Of The Terms And Conditions Of The Renewable Energy Purchase Agreement For Biomass Energy Resources Between The Company And ecoPower Generation-Hazard LLC; (2) Authorization To Enter Into The Agreement; (3) The Grant Of Certain Declaratory Relief; And (4) The Grant Of All Other Required Approvals and Relief*) is to be decided separately by the Commission.

21. Kentucky Power and the Settling Intervenors agree:

(a) Any party can contest the reasonableness of the ongoing costs of environmental compliance in future proceedings. The Company acknowledges the authority of the Commission, upon its own motion, or upon application by the parties (including the Attorney General, Sierra Club, and KIUC), to determine following a full due process hearing that Mitchell Units 1 and 2 are no longer the least cost generation resource for the ratepayers of the Company

due to federal, state or local environmental laws or regulations imposing on Mitchell Units 1 and 2 costs or operational requirements associated with or related to greenhouse gas emissions, and to order upon such determination that Mitchell Units 1 and 2 shall be retired for Kentucky ratemaking purposes. Nothing in this Stipulation and Settlement Agreement shall bar the Commission or the parties (including the Attorney General, Sierra Club, and KIUC) from proceeding pursuant to KRS 278.260 to challenge the Company's rates on the ground the rates are unreasonable or unjustly discriminatory because Mitchell Units 1 and 2 are no longer the least cost generation resource for the ratepayers of the Company due to federal, state or local environmental laws or regulations imposing on Mitchell Units 1 and 2 costs or operational requirements associated with or related to greenhouse gas emissions. The Company and Settling Intervenors further agree to work collaboratively with the Kentucky and West Virginia Environmental Protection Agencies to attempt to reasonably address the potential regulation of carbon and its impact on Kentucky Power customers.

(b) Any costs resulting from federal, state or local environmental requirements relating to greenhouse gas emissions will be collected through the Environmental Surcharge or a similarly-structured surcharge mechanism consistent with the allocation specified in Paragraph 6.

(c) If Mitchell Units 1 or 2 are retired for Kentucky ratemaking purposes pursuant to Paragraph 21(a) or retired early as the result of federal, state or local environmental requirements relating to greenhouse gas emissions, the Company agrees to collect the Retirement Costs with a debt-only carrying cost. The recovery period and mechanism shall be approved by the Commission. Retirement Costs shall be as defined in Paragraph 14. The Company further agrees to include an economic analysis of all generating unit costs, including the costs of

complying with greenhouse gas emission regulation, in future Integrated Resource Plans. This Stipulation and Settlement Agreement does not bar any party from advocating any position it deems appropriate in a future Integrated Resource Plan docket, or any other future proceeding.

22. Filing Of Settlement Agreement With The Commission And Request For Approval.

Following the execution of this Settlement Agreement, Kentucky Power and the Settling Intervenors shall file this Settlement Agreement with the Commission along with a joint request to the Commission for consideration and approval of this Settlement Agreement.

23. Good Faith And Best Efforts To Seek Approval.

(a) This Settlement Agreement is subject to approval by the Commission.

(b) Kentucky Power and the Settling Intervenors shall act in good faith and use their best efforts to recommend to the Commission that this Settlement Agreement be approved in its entirety and without modification, and that the rates and charges set forth herein be implemented.

(c) Kentucky Power and certain Intervenors filed testimony in this case and Kentucky Power filed rebuttal testimony. Kentucky Power also filed testimony in support of this Settlement Agreement. For purposes of any hearing with respect to this Settlement Agreement or the Application in Case No. 2012-00578, the Settling Intervenors and Kentucky Power waive all cross-examination of the other parties' witnesses except for supporting this Settlement Agreement, unless the Commission disapproves this Settlement Agreement.

(d) Kentucky Power and the Settling Intervenors further agree to support the reasonableness of this Settlement Agreement before the Commission, and to cause their counsel to do the same, including in connection with any appeal from the Commission's approval, implementation, or enforcement of this Settlement Agreement.

(e) No party to this Settlement Agreement shall file judicial or administrative challenges to any Order of the Commission approving the Settlement Agreement in its entirety and without modification.

24. Failure Of Commission To Approve Settlement Agreement.

If the Commission does not accept and approve this Settlement Agreement in its entirety and without modification, this Settlement Agreement shall be void and withdrawn by Kentucky Power and the Settling Intervenors from further consideration by the Commission and none of the parties to this Settlement Agreement shall be bound by any of the provisions herein.

25. Continuing Commission Jurisdiction.

This Settlement Agreement shall in no way be deemed to divest the Commission of jurisdiction under Chapter 278 of the Kentucky Revised Statutes.

26. Effect of Settlement Agreement.

This Settlement Agreement shall inure to the benefit of and be binding upon the parties to this Settlement Agreement, their successors and assigns. In the event that the Company or either of the Settling Intervenors believes a Party to this Settlement Agreement has breached any of its obligations set forth herein, the Party alleging breach shall provide the allegedly breaching Party

written notice and a 30-day opportunity to cure the alleged breach. The Parties agree that any breach of this agreement shall result in irreparable injury, for which the non-breaching party is without adequate remedy at law. Accordingly, the parties to this Stipulation and Settlement Agreement further agree that equitable relief, including specific performance or injunctive, is the sole remedy in the event of an uncured breach, and that no Party shall be liable for monetary damages in the event of breach. The Parties expressly waive and forego the right to money damages for any breach of any of the obligations set forth in this Settlement Agreement.

27. Complete Agreement.

This Settlement Agreement constitutes the complete agreement and understanding among the parties to this Settlement Agreement, and any and all oral statements, representations or agreements made prior hereto or contained contemporaneously herewith shall be null and void and shall be deemed to have been merged into this Settlement Agreement.

28. Independent Analysis.

The terms of this Settlement Agreement are based upon the independent analysis of the parties to this Settlement Agreement, are the product of compromise and negotiation, and reflect a fair, just and reasonable resolution of the issues herein.

29. Settlement Agreement And Negotiations Are Not An Admission.

(a) This Settlement Agreement shall not be deemed to constitute an admission by any party to this Settlement Agreement that any computation, formula, allegation, assertion or contention made by any other party in these proceedings is true or valid. Nothing in this Settlement Agreement shall be used or construed for any purpose to imply, suggest or otherwise

indicate that the results produced through the compromise reflected herein represent fully the objectives of Kentucky Power or the Settling Intervenors.

(b) Neither the terms of this Settlement Agreement nor any statements made or matters raised during the settlement negotiations shall be admissible in any proceeding, or binding on any of the parties to this Settlement Agreement, or be construed against any of the parties to this Settlement Agreement, *except that* in the event of litigation or proceedings involving the approval, implementation or enforcement of this Agreement, the terms of this Settlement Agreement shall be admissible. This Settlement Agreement shall not have any precedential value in this or any other jurisdiction.

30. Consultation With Counsel

The parties to this Settlement Agreement warrant that they have informed, advised, and consulted with their respective counsel with regard to the contents and significance of this Settlement Agreement and are relying upon such advice in entering into this agreement.

31. Authority To Bind.

Each of the signatories to this Settlement Agreement hereby warrant they are authorized to sign this agreement upon behalf of, and bind, their respective parties.

32. Construction Of Agreement.

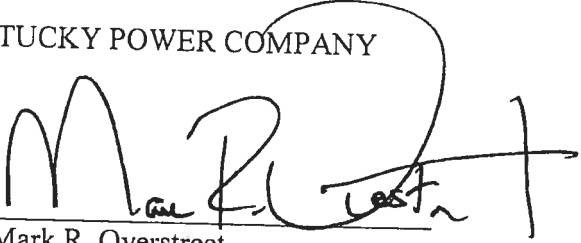
This Settlement Agreement is a product of negotiation among all parties to this Settlement Agreement, and no provision of this Settlement Agreement shall be construed in favor of or against any party hereto. This Settlement Agreement is submitted for purposes of this case only. Except as otherwise provided in this Settlement Agreement, this Settlement

Agreement is not to be deemed binding upon the parties hereto in any other proceeding, nor is it to be offered or relied upon in any other proceeding involving Kentucky Power or any other utility.

33. This Settlement Agreement may be executed in multiple counterparts.


IN WITNESS WHEREOF, this Stipulation and Settlement Agreement has been agreed to as of this 2nd day of July, 2013.

KENTUCKY POWER COMPANY

By: 
Mark R. Overstreet

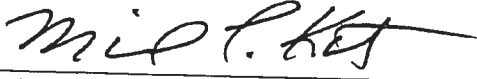
Its: Attorney

SIERRA CLUB, ALEXANDER DESHA,
TOM VIERHELLER, AND BEVERLY
MAY

By: 
Shannon W. Fisk

Their: Attorney

KENTUCKY INDUSTRIAL UTILITY
CUSTOMERS, INC.

By: 
Michael L. Kurtz

Its: Attorney

EXHIBIT 1

TARIFF A.T.R.
(Asset Transfer Rider)

APPLICABLE.

To Tariffs R.S., R.S.-L.M.-T.O.D., R.S.-T.O.D., Experimental R.S.-T.O.D.2, S.G.S., Experimental S.G.S.-T.O.D., M.G.S., M.G.S.-T.O.D., L.G.S L.G.S.-T.O.D., Q.P., C.I.P.-T.O.D., C.S.- I.R.P., M.W., O.L. and S.L.

RATE.

1. Pursuant to the final order of the Kentucky Public Service Commission in Case No. 2012-00578 and the Stipulation and Settlement Agreement dated June __, 2013 as filed and approved by the Commission, Kentucky Power Company is to recover from retail ratepayers \$4 million annually beginning January 1, 2014 and ending when the Commission sets new base rates for the Company that include Mitche Units 1 and 2.
2. The allocation of the \$44 million revenue requirement between residential and all other customers shall be based upon their respective contribution to total retail revenues for the twelve month period ended September 30, 2013, according to the following formula:

$$\text{Residential Allocation RA(m)} = \frac{\$44,000,000}{12 \text{ months}} \times \frac{\text{KY Residential Retail Revenue RR(b)}}{\text{KY Retail Revenue R(b)}}$$

$$\text{All Other Allocation OA(m)} = \frac{\$44,000,000}{12 \text{ months}} \times \frac{\text{KY All Other Classes Retail Revenue OR(b)}}{\text{KY Retail Revenue R(b)}}$$

Where:

(m) = the expense month;

(b) = twelve month period ended September 30, 2013.

3. The Residential Asset Transfer Adjustment shall provide for monthly adjustments based on a percent of total revenues, according to the following formula:

$$\text{Residential Asset Transfer Adjustment Factor} = \frac{\text{Net Monthly Residential Allocation NRA(m)}}{\text{Residential Retail Revenue RR(m)}}$$

Where:

$$\text{Net Monthly Residential Allocation NRA(m)} = \text{Monthly Residential Allocation RA(m), net of Over/(Under) Recovery Adjustment;}$$

$$\text{Residential Retail Revenue RR(m)} = \text{Monthly Retail Revenue for all KY residential classes for the expense month (m).}$$

4. The All Other Classes Asset Transfer Adjustment shall provide for monthly adjustments based on a percent of non-fuel revenues, according to the following formula:

$$\text{All Other Classes Asset Transfer Adjustment Factor} = \frac{\text{Net Monthly All Other Allocation NOA(m)}}{\text{All Other Classes Non-Fuel Retail Revenue ONR(m)}}$$

Where:

$$\text{Net Monthly All Other Allocation NOA(m)} = \text{Monthly All Other Allocation OA(m), net of Over/(Under) Recovery Adjustment;}$$

$$\text{All Other Classes Non-Fuel Retail Revenue ONR(m)} = \text{Monthly Non-Fuel Retail Revenue for all classes other than residential for the expense month (m).}$$

1. The monthly asset transfer rider adjustments shall be filed with the Commission ten (10) days before it is scheduled to go into effect, along with all the necessary supporting data to justify the amount of the adjustments, which shall include data, and information as may be required by the Commission.
2. Copies of all documents required to be filed with the Commission shall be open and made available for public inspection at the office of the Public Service Commission pursuant to the provisions of KRS61.870 to 61.884

DATE OF ISSUE XXXXXXXX

DATE EFFECTIVE SERVICE RENDERED ON AND AFTER JANUARY 1, 2014

ISSUED BY

TITLE: MANAGER OF REGULATORY SERVICES

BY AUTHORITY OF ORDER BY THE PUBLIC SERVICE COMMISSION

IN CASE NO. 2012-00578 DATED

EXHIBIT 1-A

TARIFF A.T.R.-2
(Asset Transfer Rider-2)

APPLICABLE.

To Tariffs R.S., R.S.-L.M.-T.O.D., R.S.-T.O.D., Experimental R.S.-T.O.D.2, S.G.S., Experimental S.G.S.-T.O.D., M.G.S., M.G.S.-T.O.D., L.G.S., L.G.S.-T.O.D., Q.P., C.I.P.-T.O.D., C.S.- I.R.P., M.W., O.L. and S.L.

RATE.

1. Pursuant to the final order of the Kentucky Public Service Commission in Case No. 2012-00578 and the Stipulation and Settlement Agreement dated June __, 2013 as filed and approved by the Commission, Kentucky Power Company is to recover from retail ratepayers the coal-related retirement costs of Big Sandy Unit 1, the retirement costs of Big Sandy Unit 2 and other site-related retirement costs that will not continue in use on a levelized basis over a 25 year period beginning when new base rates are set for the Company that include Mitchell Units 1 and 2.
2. The allocation of the levelized revenue requirement (LRR) between residential and all other customers shall be based upon their respective contribution to total retail revenues for the most recent calendar twelve month period, according to the following formula:

$$\text{Residential Allocation RA(m)} = \text{LRR(m)} \times \frac{\text{KY Residential Retail Revenue RR(b)}}{\text{KY Retail Revenue R(b)}}$$

$$\text{All Other Allocation OA(m)} = \text{LRR(m)} \times \frac{\text{KY All Other Classes Retail Revenue OR(b)}}{\text{KY Retail Revenue R(b)}}$$

Where:

(m) = the expense month;

(b) = Most recent available twelve calendar-month period ended December 31.

3. The Residential Asset Transfer Adjustment shall provide for monthly adjustments based on a percent of total revenues, according to the following formula:

$$\text{Residential Asset Transfer Adjustment Factor} = \frac{\text{Net Monthly Residential Allocation NRA(m)}}{\text{Residential Retail Revenue RR(m)}}$$

Where:

$$\text{Net Monthly Residential Allocation NRA(m)} = \text{Monthly Residential Allocation RA(m), net of Over/(Under) Recovery Adjustment;}$$

$$\text{Residential Retail Revenue RR(m)} = \text{Monthly Retail Revenue for all KY residential classes for the expense month (m).}$$

(Cont'd on Sheet No. 36-2)

DATE OF ISSUE XXXXXXXX

DATE EFFECTIVE SERVICE RENDERED ON AND AFTER JANUARY 1, 2014

ISSUED BY

TITLE: MANAGER OF REGULATORY SERVICES

BY AUTHORITY OF ORDER BY THE PUBLIC SERVICE COMMISSION

IN CASE NO. 2012-00578 DATED

TARIFF A.T.R.-2
(Asset Transfer Rider-2)

RATE (Cont'd)

1. The All Other Classes Asset Transfer Adjustment shall provide for monthly adjustments based on a percent of non-fuel revenues, according to the following formula:

$$\text{All Other Classes Asset Transfer Adjustment Factor} = \frac{\text{Net Monthly All Other Allocation NOA(m)}}{\text{All Other Classes Non-Fuel Retail Revenue ONR(m)}}$$

Where:

$$\text{Net Monthly All Other Allocation NOA(m)} = \text{Monthly All Other Allocation OA(m), net of Over/(Under) Recovery Adjustment;}$$

$$\text{All Other Classes Non-Fuel Retail Revenue ONR(m)} = \text{Monthly Non-Fuel Retail Revenue for all classes other than residential for the expense month (m).}$$

2. The monthly asset transfer rider adjustments shall be filed with the Commission ten (10) days before it is scheduled to go into effect, along with all the necessary supporting data to justify the amount of the adjustments, which shall include data, and information as may be required by the Commission.
3. Copies of all documents required to be filed with the Commission shall be open and made available for public inspection at the office of the Public Service Commission pursuant to the provisions of KRS 61.870 to 61.884

DATE OF ISSUE XXXXXX

DATE EFFECTIVE SERVICE RENDERED ON OR AFTER JANUARY 1, 2014

ISSUED BY

TITLE : MANAGER REGULATORY SERVICES

BY AUTHORITY OF ORDER BY THE PUBLIC SERVICE COMMISSION

IN CASE NO. 2012-00578 DATED

EXHIBIT 2

TARIFF E.S.
 (Environmental Surcharge)

APPLICABLE.

To Tariffs R.S., R.S.-L.M.-T.O.D., R.S.-T.O.D., Experimental R.S.-T.O.D. 2, S.G.S., Experimental S.G.S.-T.O.D., M.G.S., M.G.S.-T.O.D., L.G.S., L.G.S.-T.O.D., Q.P., C.I.P.-T.O.D., C.S.-I.R.P., M.W., O.L., and S.L.

RATE.

In accordance with the Stipulation and Settlement Agreement approved by the Commission by its Order dated _____, 2013 in Case No. 2012-00578, the Monthly Environmental Surcharge Factor will be fixed and maintained at 0.00% until new base rates are first established by Commission after the effective date of this tariff without regard to the calculation of the Monthly Environmental Surcharge Factor under paragraphs 1 through 4 below. Coincident with the first establishment of new base rates after the effective date of this tariff, the retail share of the revenue requirement associated with this tariff will then be allocated between residential and non-residential retail customers based upon their respective total revenues. The Environmental Surcharge will be implemented as a percentage of total revenues for the residential class and as a percentage of non-fuel revenues for all other customers.

1. The environmental surcharge shall provide for monthly adjustments based on a percent of revenues, equal to the difference between the environmental compliance costs in the base period as provided in Paragraph 3 below and in the current period according to the following formula:

$$\text{Monthly Environmental Surcharge Factor} = \frac{\text{Net KY Retail E(m)}}{\text{KY Retail R(m)}}$$

Where:

$$\text{Net KY Retail E(m)} = \frac{\text{Monthly E(m) allocated to Kentucky Retail Customers, net of Over/ (Under) Recovery Adjustment; Allocation based on Percentage of Kentucky Retail Revenues to Total Company Revenues in the Expense Month.}}{\text{Month.}}$$

(For purposes of this formula, Total Company Revenues do not include Non-Physical Revenues.)

$$\text{KY Retail R(m)} = \text{Kentucky Retail Revenues for the Expense Month.}$$

2. Monthly Environmental Surcharge Gross Revenue Requirement, E(m)

$$\text{E(m)} = \text{CRR} - \text{BRR}$$

Where:

$$\text{CRR} = \text{Current Period Revenue Requirement for the Expense Month.}$$

$$\text{BRR} = \text{Base Period Revenue Requirement.}$$

3. Base Period Revenue Requirement, BRR

$$\text{BRR} = \text{The Following Monthly Amounts:}$$

<u>Billing Month</u>	<u>Base Net Environmental Costs</u>
JANUARY	\$ 3,991,163
FEBRUARY	3,590,810
MARCH	3,651,374
APRIL	3,647,040
MAY	3,922,590
JUNE	3,627,274
JULY	3,805,325
AUGUST	4,088,830
SEPTEMBER	3,740,010
OCTOBER	3,260,302
NOVEMBER	2,786,040
DECEMBER	<u>4,074,321</u>
	<u>\$44,185,079</u>

(Continued on Sheet 29-2)

DATE OF ISSUE XXXXXXXXXX DATE EFFECTIVE Service rendered on and after January 1, 2014

ISSUED BY LILA P. MUNSEY MANAGER REGULATORY SERVICES FRANKFORT, KENTUCKY
 NAME TITLE ADDRESS

Issued by authority of an Order of the Public Service Commission in Case No. 2012-00578 dated XXXXXXXX

EXHIBIT 3

KENTUCKY POWER COMPANY

Original Sheet No. 19-1
 Canceling _____ Sheet No. 19-1

P.S.C. ELECTRIC NO. 9

TARIFF S. S. C.
 (System Sales Clause)

APPLICABLE.

To Tariffs R.S., R.S.-L.M.-T.O.D., R.S.-T.O.D., Experimental R.S.-T.O.D.2, S.G.S., Experimental S.G.S.-T.O.D., M.G.S., M.G.S.-T.O.D., L.G.S., L.G.S.-T.O.D., Q.P., C.I.P.-T.O.D., C.S.- I.R.P., M.W., O.L. and S.L.

RATE.

In accordance with the Stipulation and Settlement Agreement approved by the Commission by its Order dated _____, 2013 in Case No. 2012-00578, the System Sales Adjustment Factor will be fixed and maintained at 0.0000 mills/kWh until new base rates are first established by Commission after the effective date of this tariff without regard to the calculation of the Monthly System Sales Adjustment Factor under paragraphs 1 through 7 below.

1. When the monthly net revenues from system sales are above or below the monthly base net revenues from system sales, as provided in paragraph 3 below, an additional credit or charge equal to the product of the KWHs and a system sales adjustment factor (A) shall be made, where "A", calculated to the nearest 0.0001 mill per kilowatt-hour, is defined as set forth below.

$$\text{System Sales Adjustment Factor (A)} = (.6 [T_m - T_b]) / S_m$$

In the above formulas "T" is Kentucky Power Company's (KPCo) monthly net revenues from system sales in the current (m) and base (b) periods, and "S" is the KWH sales in the current (m) period, all defined below.

The net revenue from American Electric Power (AEP) System sales to non-associated companies that are shared by AEP Member Companies, including KPCo, in proportion to their Member Load Ratio and as reported in the Federal Energy Regulatory Commission's Uniform System of Accounts under Account 447, Sales for Resale, shall consist of and be derived as follows:

- a. ~~KPCo's Member Load Ratio share of~~ total revenues from system sales as recorded in Account 447, less b. and c. below.
- b. ~~KPCo's Member Load Ratio share of~~ total out-of-pocket costs incurred in supplying the power and energy for the sales in a. above.

The out-of-pocket costs include all operating, maintenance, tax, transmission losses and other expenses that would not have been incurred if the power and energy had not been supplied for such sales, including demand and energy charges for power and energy supplied by Third Parties.

- c. KPCo's environmental costs allocated to non-associated utilities in the Company's Environmental Surcharge Report.

(Cont'd on Sheet No. 19-2)

DATE OF ISSUE XXXXXXXXXX DATE EFFECTIVE Service rendered on and after January 1, 2014

ISSUED BY LILA P. MUNSEY MANAGER REGULATORY SERVICES FRANKFORT, KENTUCKY
 NAME TITLE ADDRESS

Issued by authority of an Order of the Public Service Commission in Case No.2012-00578 dated XXXXXXXX

EXHIBIT 4

KENTUCKY POWER COMPANY

Original Sheet No. 12-1
Canceling _____ Sheet No. 12-1

P.S.C. ELECTRIC NO. 9

TARIFF C.S.-I.R.P.
(Contract Service - Interruptible Power)

AVAILABILITY OF SERVICE.

Available for service to customers who contract for service under one of the Company's interruptible service options. The Company reserves the right to limit the total contract capacity for all customers served under this Tariff to ~~60,000~~ 75,000kW.

Loads of new customers locating within the Company's service area or load expansions by existing customers may be offered interruptible service as part of an economic development incentive. Such interruptible service shall not be counted toward the limitation on total interruptible power contract capacity, as specified above, and will not result in a change to the limitation on total interruptible power contract capacity.

CONDITIONS OF SERVICE.

The Company will offer eligible customers the option to receive interruptible power service.. This interruptible service will be consistent with PJM's Limited Demand Response, Emergency – Capacity Only Program, subject to any limitations on the availability of that Program by PJM. If insufficient MWs are available for PJM enrollment by Kentucky Power, the Company shall offer to substitute one of the other PJM Emergency Demand Response Programs that is available. To be eligible for the credit, customers must be able to provide interruptible load (not including behind the meter diesel generation) of at least one (1) MW at a single site and commit to a minimum four (4) year contract term. The contract shall provide that 90 days prior to each contract anniversary date, the customer shall re-nominate the amount of interruptible load for the upcoming contract year, except that the cumulative reductions over the life of the contract shall not exceed 20% of the original interruptible load nominated under the contract. If no re-nomination is received at least 90 days prior to the contract anniversary date, the prior year's interruptible load shall apply for the forthcoming contract year.

Upon receipt of a request from the Customer for interruptible service, the Company will provide the Customer with a written offer containing the rates and related terms and conditions of service under which such service will be provided by the Company. If the parties reach an agreement based upon the offer provided to the Customer by the Company, such written contract will be filed with the Commission. The contract shall provide full disclosure of all rates, terms and conditions of service under this Tariff, and any and all agreements related thereto, subject to the designation of the terms and conditions of the contract as confidential, as set forth herein.

The Customer shall provide reasonable evidence to the Company that the Customer's electric service can be interrupted in accordance with the provisions of the written agreement including, but not limited to, the specific steps to be taken and equipment to be curtailed upon a request for interruption.

The Customer shall contract for capacity sufficient to meet normal maximum interruptible power requirements, but in no event will the interruptible amount contracted for be less than 1,000 KW at any delivery point.

RATE. (Tariff Code 321)

Credits under this tariff of \$3.68/kW/month will be provided for interruptible load that qualifies under PJM's rules as capacity for the purpose of the Company's FRR obligation.

Charges for service under this Tariff will be set forth in the written agreement between the Company and the Customer and will reflect the firm service rates otherwise available to the Customer.

FUEL ADJUSTMENT CLAUSE.

Bills computed according to the rates set forth herein will be increased or decreased by a Fuel Adjustment Factor per KWH calculated in compliance with the Fuel Adjustment Clause contained in Sheet Nos. 5-1 and 5-2 of this Tariff Schedule.

(Cont'd on Sheet No. 12-2)

DATE OF ISSUE XXXXXXXXXX DATE EFFECTIVE Service rendered on and after January 1, 2014

ISSUED BY LILA P. MUNSEY MANAGER REGULATORY SERVICES FRANKFORT, KENTUCKY
NAME TITLE ADDRESS

Issued by authority of an Order of the Public Service Commission in Case No.2012-00578 dated XXXXXXXX

KENTUCKY POWER COMPANY

Original Sheet No 12-2
Canceling _____ Sheet No. 12-2

P.S.C. ELECTRIC NO. 9

TARIFF C.S.-I.R.P.
(Contract Service - Interruptible Power) (Cont'd.)

SYSTEM SALES CLAUSE.

Bills computed according to the rates set forth herein will be increased or decreased by a System Sales Factor per KWH calculated in compliance with the System Sales Clause contained in Sheet Nos. 19-1 and 19-2 of this Tariff Schedule.

DEMAND-SIDE MANAGEMENT ADJUSTMENT CLAUSE.

Bills computed according to the rates set forth herein will be increased or decreased by an Demand-Side Management Adjustment Clause Factor per KWH calculated in compliance with the Demand-Side Management Adjustment Clause contained in Sheet Nos. 22-1 and 22-2 of this Tariff Schedule, unless the Customer is an industrial who has elected to opt-out in accordance with the terms pursuant to the Commission's Order in Case No. 95-427.

ENVIRONMENTAL SURCHARGE.

Bills computed according to the rates set forth herein will be increased or decreased by an Environmental Surcharge Adjustment based on a percent of revenue in compliance with the Environmental Surcharge contained in Sheet Nos. 29-1 through 29-5 of this Tariff Schedule.

CAPACITY CHARGE.

Bills computed according to the rate set forth herein will be increased by a Capacity Charge Factor per KWH calculated in compliance with the Capacity Charge Tariff contained in Sheet No. 28-1 of this Tariff Schedule.

DELAYED PAYMENT CHARGE.

This tariff is due and payable in full on or before the due date stated on the bill. On all accounts not so paid, an additional charge of 5% of the unpaid balance will be made.

TERM OF CONTRACT

The length of the agreement and the terms and conditions of service will be stated in the agreement between the Company and the Customer.

CONFIDENTIALITY

All terms and conditions of any written contract under this Tariff shall be protected from disclosure as confidential, proprietary trade secrets, if either the Customer or the Company requests a Commission determination of confidentiality pursuant to 807 KAR5:001, Section 7 and the request is granted.

(Cont'd on Sheet No. 12-3)

DATE OF ISSUE XXXXXXX DATE EFFECTIVE Service rendered on and after January 1, 2014

ISSUED BY LILA P. MUNSEY MANAGER OF REGULATORY SERVICES FRANKFORT, KENTUCKY
NAME TITLE ADDRESS

Issued by authority of an Order of the Public Service Commission in Case No.2012-00578 dated XXXXXX

EXHIBIT 5

KENTUCKY POWER COMPANY

P.S.C. KY. NO. 10 ORIGINAL SHEET NO. 35-1
CANCELING P.S.C. KY. NO. 10 _____ SHEET NO. 35-1**TARIFF P.P.A.**
(Purchase Power Adjustment)**APPLICABLE.**

To Tariffs R.S., R.S.-L.M.-T.O.D., R.S.-T.O.D., Experimental R.S.-T.O.D.2, S.G.S., Experimental S.G.S.-T.O.D., M.G.S., M.G.S.-T.O.D., L.G.S., L.G.S.-T.O.D., Q.P., C.I.P.-T.O.D., C.S.-I.R.P., M.W., O.L. and S.L.

RATE.

1. The purchase power adjustment shall provide for monthly adjustments based on a percent of revenues, equal to the net costs of any power purchases in the current period according to the following formula:

$$\text{Monthly Purchase Power Adjustment Factor} = \frac{\text{Net KY Retail P(m)}}{\text{KY Retail R(m)}}$$

Where:

Net KY Retail P(m) = Monthly P(m) allocated to Kentucky Retail Customers, net of Over/(Under) Recovery Adjustment; Allocation based on Percentage of Kentucky Retail Revenues to Total Company Revenues in the Expense Month (m). (For purposes of this formula, Total Company Revenues include only Retail and Full-Requirements Wholesale revenues.)

KY Retail R(m) = Kentucky Retail Revenues for the Expense Month (m).

2. The net costs of any power purchased shall exclude costs recovered through the Fuel Adjustment Clause and shall be computed as the sum of the following items:
- PPA(m) = The cost of power purchased by the Company through new Purchase Power Agreements (PPAs). All new PPAs shall be approved by the Commission to the extent required by KRS 278.300.
 - RP(m) = The cost of fuel related substitute generation less the cost of fuel which would have been used in plants suffering forced generation or transmission outages.
 - CSIRP(m) = The cost of any credits provided to customers under Tariff C.S.-I.R.P for interruptible service.

$$\text{Monthly P(m)} = \text{PPAm} + \text{RP(m)} + \text{CSIRP(m)}$$

3. The monthly purchase power adjustment shall be filed with the Commission ten (10) days before it is scheduled to go into effect, along with all the necessary supporting data to justify the amount of the adjustment, which shall include data, and information as may be required by the Commission.
4. Copies of all documents required to be filed with the Commission shall be open and made available for public inspection at the office of the Public Service Commission pursuant to the provisions of KRS61.870 to 61.884

DATE OF ISSUE XXXXXXXXXXDATE EFFECTIVE SERVICE RENDERED ON AND AFTER JANUARY 1, 2014

ISSUED BY

TITLE: MANAGER OF REGULATORY SERVICESBY AUTHORITY OF ORDER BY THE PUBLIC SERVICE COMMISSIONIN CASE NO. 2012-00578 DATED

APPENDIX B

APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE
COMMISSION IN CASE NO. 2012-00578 DATED OCT 07 2013

MODIFICATIONS TO NON-UNANIMOUS STIPULATION

1. Paragraph 8 of the Stipulation allowing Kentucky Power to accumulate and defer for review and recovery in a future base rate case the \$28,113,304 Scrubber Study Costs shall be stricken and removed from the Stipulation.
2. Paragraph 10 of the Stipulation concerning Kentucky Power's commitment to provide shareholder contribution for economic development support for Lawrence County and the counties contiguous to Lawrence county shall be modified to reflect an increase in shareholder contribution from \$100,000 to \$200,000 per year for five years. The amount set aside for job training should not be carved out of the total annual contribution but should instead be in addition to the \$200,000 annual shareholder contribution for a total annual contribution from Kentucky Power shareholders of \$233,000 per year for five years. The shareholder funds designated for job training should also be placed in an account for the benefit of the two colleges in the Kentucky Community and Technical College System located in Kentucky Power's system, Ashland Community and Technical College and Big Sandy Community and Technical College, for the express purpose of utilizing the two colleges to work with local economic officials, local industrial authorities, local workforce investment boards, and chambers of commerce on a regular basis to retain or attract business as well as to provide career counseling, assessments, and retraining of displaced workers. The two colleges would also be able to utilize their workforce solution divisions to provide specific training for industry, such as weatherization and energy efficiency job training.
3. That portion of Paragraph 12 of the Stipulation dealing with Kentucky Power's commitment to contribute shareholder funds to assist energy management programs for schools affected by KRS 160.325 shall be modified to make clear that Kentucky Power's shareholder contribution would be incremental funding for the school energy manager program, which could be for new school energy manager(s) or additional funds for existing school managers, and that the funding would be limited to those schools in Lawrence and contiguous Kentucky counties impacted by KRS 160.325.
4. That portion of Paragraph 12 of the Stipulation concerning Kentucky Power's commitment to maintain a minimum level of DSM spending of at least \$6 million after 2018 shall be modified to clearly specify Kentucky Power's commitment to seek prior Commission approval should Kentucky Power desire to spend less than \$6 million on DSM or energy efficiency programs after 2018.

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COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

APPLICATION OF KENTUCKY POWER)	
COMPANY FOR: (1) A GENERAL)	
ADJUSTMENT OF ITS RATES FOR)	
ELECTRIC SERVICE; (2) AN ORDER)	
APPROVING ITS 2014 ENVIRONMENTAL	)	CASE NO.
COMPLIANCE PLAN; (3) AN ORDER	)	2014-00396
APPROVING ITS TARIFFS AND RIDERS;)	
AND (4) AN ORDER GRANTING ALL OTHER)	
REQUIRED APPROVALS AND RELIEF)	

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ORDER

Kentucky Power Company ("Kentucky Power"), a wholly owned subsidiary of American Electric Power Company, Inc. ("AEP") is an electric utility that generates, transmits, distributes, and sells electricity to approximately 172,000 consumers in all or portions of 20 counties in eastern Kentucky.¹ The most recent adjustment of its base rates was in June 2010 in Case No. 2009-00459.² This Order addresses a non-unanimous Settlement Agreement ("Settlement")³ between Kentucky Power and two intervening parties, as well as issues contested by one of the intervenors that was not a signatory to the Settlement. As discussed in detail herein, and subject to some modifications, the Commission is approving the Settlement with this Order.

¹ Application at 2 lists the 20 counties. Kentucky Power also furnishes electric service at wholesale to the city of Olive Hill and the city of Vanceburg.

² Case No. 2009-00459, *Application of Kentucky Power Company for a General Adjustment of Electric Rates* (Ky. PSC June 28, 2010).

³ Settlement (filed Apr. 30, 2015).

BACKGROUND

On November 14, 2014, Kentucky Power filed notice of its intent to file an application for approval of an increase in its electric rates based on a historical test year ended September 30, 2014, pursuant to the Stipulation and Settlement Agreement ("Mitchell Settlement") in Case No. 2012-00578.⁴ On December 23, 2014, Kentucky Power filed its Application, which included new rates to be effective on or after January 23, 2015, based on a request to increase its electric revenues by approximately \$70 million, or 12.48 percent. The Application also requested approval of Kentucky Power's environmental compliance plan and proposed to revise, add, and delete various tariffs applicable to its electric service. To determine the reasonableness of these requests, the Commission suspended the proposed rates for five months from their effective date, pursuant to KRS 278.190(2), up to and including June 22, 2015.

The following parties requested and were granted full intervention: Kentucky Industrial Utility Customers, Inc. ("KIUC"); the Attorney General of the Commonwealth of Kentucky, by and through his Office of Rate Intervention ("AG"); Kentucky School Boards Association ("KSBA"); and Wal-Mart Stores East, LLP/Sam's East, Inc. ("Wal-Mart").

On January 13, 2015, the Commission issued a procedural schedule establishing the schedule for processing this case. The procedural schedule provided for discovery, intervenor testimony, rebuttal testimony by Kentucky Power, a formal evidentiary

⁴ Case No. 2012-00578, *Application of Kentucky Power Company for (1) a Certificate of Public Convenience and Necessity Authorizing the Transfer to the Company of an Undivided Fifty Percent Interest in the Mitchell Generating Station and Associated Assets; (2) Approval of the Assumption by Kentucky Power Company of Certain Liabilities in Connection with the Transfer of the Mitchell Generating Station; (3) Declaratory Rulings; (4) Deferral of Costs Incurred in Connection with the Company's Efforts to Meet Federal Clean Air Act and Related Requirements; and (5) All Other Required Approvals and Relief* (Ky. PSC Nov. 22, 2013).

hearing, and an opportunity for the parties to file post-hearing briefs.⁵ Intervenor testimonies were filed on March 23, 2015. Kentucky Power filed its rebuttal testimony on April 29, 2015.

On April 9, 14, and 23, 2015, an informal conference ("IC"), which extended over four days, including the teleconference on April 27, 2015, was held at the Commission's offices to discuss procedural matters and the possible resolution of pending issues. All parties participated in the IC through April 23, 2015.⁶ On April 27, 2015, the IC was continued via telephone at which time the parties, with the exception of the AG, arrived at an agreement in principle for the resolution of the issues raised in this case. On April 30, 2015, Kentucky Power, KIUC, and KSBA ("Settling Intervenors") filed a Settlement which addressed all of the issues raised in this proceeding. The AG and Wal-Mart were not signatories to the Settlement. Although Wal-Mart did not sign the Settlement, it filed a sworn statement that it had no objection to the Settlement and that it was unaware of any reason why the Commission should not adopt and approve the Settlement in its entirety. Under the terms of the Settlement, Kentucky Power and the Settling Intervenors agreed to forego cross-examination of each other's witnesses at the evidentiary hearing in this matter. The Settlement is attached as Appendix A to this Order.

Because the Settlement was not unanimous, the evidentiary hearing set for May 5, 2015, convened as scheduled for the purposes of hearing (1) testimony by Kentucky

⁵ After establishing the procedural schedule for the evidentiary portion of the case, the Commission scheduled and conducted three public meetings in the service territory of Kentucky Power. The public meetings were held on March 24, 2015, in Hazard; March 25, 2015, in Louisa; and April 16, 2015, in Pikeville.

⁶ The AG participated in the IC for part of the day on April 23, 2015, to discuss procedural matters, after which he ended his participation in the IC.

Power in support of the Settlement, and (2) testimony by Kentucky Power and the AG on contested issues related to the amount of the revenue increases sought by Kentucky Power. On June 5, 2015, Kentucky Power, KSBA, KIUC, Wal-Mart, and the AG filed their post-hearing briefs. The matter now stands submitted to the Commission for a decision.

SETTLEMENT AGREEMENT

The Settlement reflects the agreement of the parties, except for the AG and Wal-Mart, on all issues raised in this case. The major substantive areas addressed in the Settlement are as follows:

- Kentucky Power's electric revenues should be increased by \$45.4 million effective June 30, 2015;⁷ this amount consists of a base rate revenue decrease of \$23.0 million and \$68.4 million of additional revenue from four riders contained in the Settlement.
- The establishment of a return on equity of 10.25 percent for the Environmental Surcharge ("ES") Tariff, the Big Sandy Retirement Rider ("BSRR") Tariff, and the Big Sandy Unit 1 Operation Rider ("BS1OR") Tariff;⁸
- Agreement on Kentucky Power's capitalization and gross revenue conversion factor;⁹
- Approval of Kentucky Power's new Environmental Compliance Plan and establishment of baseline levels for Tariff ES;¹⁰

⁷ Settlement, paragraph 1.

⁸ *Id.*, paragraph 2.

⁹ *Id.*, paragraph 3.

¹⁰ *Id.*, paragraph 4.

- Amendment of Kentucky Power's System Sales Clause ("SSC") Tariff, including increasing the customers' allocation of the customer/Kentucky Power sharing split to 75 percent/25 percent with an annual base of \$15,136,000;¹¹
- Establishment of Tariff BSRR;¹²
- Establishment of Tariff BS1OR;¹³
- Revisions to and increased funding for Kentucky Power's Distribution Vegetation Management Plan;¹⁴
- Revision of Kentucky Power's non-distribution depreciation rates and agreement concerning the amortization of certain deferred costs;¹⁵
- Establishment of an economic development surcharge and matching contribution by Kentucky Power;¹⁶
- Dismissal of the appeals by Kentucky Power and KIUC from the Commission's January 22, 2015 Order in Case No. 2014-00225;¹⁷ resolution of the no-load cost issue in Case No. 2014-00450, which is currently pending before the Commission;¹⁸ and agreement by Kentucky Power and KIUC concerning the manner in

¹¹ *Id.*, paragraph 5.

¹² *Id.*, paragraph 6.

¹³ *Id.*, paragraph 7.

¹⁴ *Id.*, paragraph 8.

¹⁵ *Id.*, paragraph 9.

¹⁶ *Id.*, paragraph 10.

¹⁷ Case No. 2014-00225, *An Examination of the Application of the Fuel Adjustment Clause of Kentucky Power Company from November 1, 2013 Through April 30, 2014* (Ky. PSC Jan. 22, 2015).

¹⁸ Case No. 2014-00450, *An Examination of the Application of the Fuel Adjustment Clause of Kentucky Power Company from November 1, 2012 through October 30, 2014* (Initiating Order Feb. 5, 2015).

which no-load costs will be treated following the retirement of Big Sandy Unit 2 (paragraph 11 of the Settlement);^{19 20}

- Amendment of Kentucky Power's Biomass Energy Rider ("BER") Tariff;²¹
- Establishment of deferral mechanisms for PJM Interconnection, L.L.C. ("PJM") costs and North American Electric Reliability Corporation ("NERC") compliance and cybersecurity costs;²²
- Expansion of the demand-side management ("DSM") based School Energy Manager Program to Kentucky Power's entire service territory and the establishment of a pilot tariff for K-12 schools ("Tariff K-12 School");²³
- Modification of the Contract Service-Interruptible Power ("CS-IRP") Tariff and the merger of the Quantity Power ("QP") and the Commercial and Industrial Power—Time-of-Day ("CIP-TOD") Tariffs through the establishment of the Industrial General Service Tariff;²⁴ and
- Increase in Kentucky Power's customer charge for the Residential Service Tariff to \$14.00 per month.²⁵

¹⁹ *Id.*, paragraph 11.

²⁰ A similar side agreement on this issue has been reached by Kentucky Power and the AG, who is not a signatory to the Settlement.

²¹ *Id.*, paragraph 12.

²² *Id.*, paragraph 13.

²³ *Id.*, paragraphs 15-16.

²⁴ *Id.*, paragraphs 17-18.

²⁵ *Id.*, paragraph 19(a).

The Settlement addresses several other issues, including revenue allocation, rate design, tariffs, nonrecurring charges and non-rate tariff changes.²⁶ In addition to the rate and tariff changes described above, Kentucky Power and the Settling Intervenor agree to the modifications of the following tariffs:

- The QP, CIP-TOD, Emergency Curtailable Service—Capacity and Energy, Energy Curtailable Service Rider, and Experimental Real-Time Pricing Tariffs should be removed from Kentucky Power's filed tariffs.
- The Capacity Charge Tariff should be amended to reflect an updated charge and to incorporate an annual true-up mechanism as described in the Direct Testimony of John A. Rogness ("Rogness Testimony").
- The CS-IRP Tariff should be amended to incorporate a new credit rate and to expand the total contract capacity authorized under this tariff as described in the Rogness Testimony.
- The Asset Transfer Rider ("ATR") Tariff should be amended to allow a temporary extension of the asset transfer rider to allow Kentucky Power to recover the full amount of the authorized revenue requirement as described in the Rogness Testimony.
- The Purchase Power Adjustment ("PPA") Tariff should be amended to include a variable to allow Kentucky Power to recover the cost of power purchased

²⁶ The Commission notes the following three errors that appear in the tariff attached to the Testimony of Ranie K. Wohnhas in Support of the Settlement Agreement ("Wohnhas Settlement Testimony") as Wohnhas Exhibit 3: (1) Page 55 of 176 contains incorrect rates for Medium General Service-Secondary ("MGS-Secondary") customers. The rates for the MGS-Secondary class included in Appendix B to this Order are the rates contained in Exhibit 4 to the Wohnhas Settlement Testimony. (2) Pages 173 and 174, Tariff BSRR, differ from Tariff BSRR filed as Exhibit 6 to the Settlement. (3) It appears that Home Energy Assistance Program ("HEAP") Charge language has been added inadvertently to non-residential tariffs. As the HEAP is charged only to residential customers, it should not appear in non-residential tariffs.

unrelated to forced generation or transmission outages that are calculated in accordance with its peaking unit equivalent methodology as described in the Rogness Testimony. A further amendment should be made to reflect that costs recovered through the tariff shall be subject to periodic review and approval by the Commission.

- The Terms and Conditions should be amended to reflect changes to Kentucky Power's schedule of special or nonrecurring charges as described in the Rogness Testimony.

- The non-rate terms of certain tariffs should be modified or implemented as described in the Rogness Testimony.

- The incidental, non-rate text changes identified in the tariff filed as Exhibit JAR-9 should be implemented.

CONTESTED REVENUE REQUIREMENT ISSUES

In its Application, Kentucky Power proposed an annual increase in its electric revenues of \$69,977,002.²⁷ Through testimony, the AG contends that Kentucky Power should be allowed to increase its electric revenues by \$20,454,000. Pursuant to the Settlement, Kentucky Power and the Settling Intervenors agree that, among other things, an annual increase in electric revenues of \$45.4 million is reasonable. Since the parties have not reached a unanimous settlement on the increase in revenues, the Commission must consider the evidentiary record on this issue as presented by Kentucky Power and the AG and render a decision based on a determination of Kentucky Power's capital, rate base, operating revenues, and operating expenses as would be done in a fully litigated rate case.

²⁷ Direct Testimony of Ranie K. Wohnhas ("Wohnhas Testimony") at 5. Kentucky Power's Application included an alternative rate increase amount that included a transmission adjustment that increased its revenue requirement by \$126,908.

TEST PERIOD

Kentucky Power proposes the 12-month period ending September 30, 2014, as the test period for determining the reasonableness of its proposed rates. None of the intervenors contested the use of this period as the test period, which was a provision of the Mitchell Settlement. The Commission also finds it is reasonable to use the 12-month period ending September 30, 2014, as the test period in the instant case. That 12-month period is the most recent feasible period to use for setting rates based on the timing of Kentucky Power's filing and by virtue of the Mitchell Settlement, and, except for the adjustments approved herein, the revenues and expenses incurred during that period are neither unusual nor extraordinary. In using this historic test period, the Commission has given full consideration to appropriate known and measurable changes.

RATE BASE

Jurisdictional Rate Base Ratio

Kentucky Power proposed a test-year-end Kentucky jurisdictional rate base of \$1,556,922,634.²⁸ The Kentucky jurisdictional rate base is divided by Kentucky Power's test-year-end total-company rate base to derive the Kentucky jurisdictional rate-base ratio ("jurisdictional ratio"). This jurisdictional ratio is then applied to Kentucky Power's total-company capitalization to derive its Kentucky jurisdictional capitalization. The jurisdictional ratio uses the test-year-end rate base before any ratemaking adjustments applicable to either Kentucky jurisdictional operations or other jurisdictional operations.

²⁸ Application, Section V, Exhibit 1, Schedule 4; and Section I at 2. The non-jurisdictional percentage of approximately 1 percent is due to the furnishing of electric service at wholesale to the city of Olive Hill and the city of Vanceburg.

Kentucky Power used a jurisdictional ratio of 99 percent.²⁹ The Commission has reviewed and agrees with the calculation of Kentucky Power's test-year electric rate base for purposes of establishing the jurisdictional ratio.

Pro Forma Jurisdictional Rate Base

Kentucky Power calculated a pro forma jurisdictional rate base of \$1,158,186,514,³⁰ which reflects the types of adjustments made by the Commission in prior rate cases to determine the pro forma rate base. In arriving at that amount, Kentucky Power, among other things, made adjustments of \$398,736,120 to remove the coal related assets at the Big Sandy Generating Station ("Big Sandy").

The AG proposed adjustments to Kentucky Power's proposed rate base in his testimony for three items: 1) Accumulated Deferred Income Taxes–2014 Bonus Tax Depreciation ("ADIT"); 2) Contributions in Aid of Construction ("CIAC"); and 3) Cash Working Capital ("CWC"). With respect to ADIT, the AG recommended that Kentucky Power's rate base be reduced by \$23.6 million to reflect the impact of the extension of the 50-percent bonus depreciation provision for federal income tax purposes that became law on December 19, 2014. This had not been reflected in Kentucky Power's Application due to the timing of when the Application was filed. In response to discovery questions, Kentucky Power estimated an increase of \$23.6 million to ADIT in order to reflect the impact of the 50-percent bonus depreciation provision.³¹ After

²⁹ Application, Section V, Exhibit 1, Schedule 4.

³⁰ *Id.*, Section II at 392.

³¹ Kentucky Power's responses to KIUC's First Request for Information ("KIUC's First Request"), Item 29; and the AG's Second Request for Information ("AG's Second Request"), Item 79.

adjusting for the jurisdictional ratio, the AG's adjustment to reduce rate base on a Kentucky jurisdictional basis for ADIT is \$23,346,433.

With respect to the CIAC adjustment, the AG corrected an error in Kentucky Power's Application. Kentucky Power had reflected \$909,674 in CIAC as a reduction to rate base. In response to a request for information, Kentucky Power stated that the CIAC collected during the test year totaled \$947,995.³² Therefore, the AG proposed an adjustment which reduces rate base by \$37,899 on a Kentucky jurisdictional basis with which Kentucky Power is in agreement.³³

With respect to CWC, the AG proposed an allowance of \$42,844,928 which is approximately \$726,000 lower than the \$43,570,708 proposed by Kentucky Power in its Application. While indicating a preference for using a lead-lag study, the AG stated that if CWC is to be calculated using the Commission's long-standing 1/8-formula approach, then the proper level of CWC for ratemaking purposes should be based on the pro forma operations and maintenance expenses allowed by the Commission.³⁴

Kentucky Power does not agree with the proposed reduction in its rate base for ADIT resulting from bonus depreciation. Kentucky Power maintains that the accounting entries that would have been included in its income statement and balance sheet if the 50-percent bonus depreciation were included would have produced equal and off-

³² Kentucky Power's response to the AG's Second Request, Item 51.

³³ Direct Testimony of Ralph P. Smith ("Smith Testimony") at 30-31.

³⁴ *Id.* at 32.

setting entries.³⁵ Also, Kentucky Power states these adjustments would have had no effect on Kentucky Power's capitalization for ratemaking purposes.³⁶

With the exception of CWC, the Commission has accepted the AG's proposed adjustments to Kentucky Power's Kentucky jurisdictional rate base. The CWC allowance included in the rate base shown below is based on the adjusted operation and maintenance expenses discussed in this Order, as approved by the Commission. With respect to ADIT and CIAC, the Commission has long held that such items are a reduction in rate base for ratemaking purposes. ADIT is a form of cost-free capital, and as such has historically been removed from rate base for ratemaking purposes. To allow a return on ADIT would in effect allow a double return on the amount of ADIT which violates fundamental ratemaking theory. Therefore, the Commission has concluded that the ADIT resulting from bonus depreciation should be removed from Kentucky Power's rate base. We have determined Kentucky Power's pro forma jurisdictional rate base for ratemaking purposes for the test year to be as follows:

³⁵ Rebuttal Testimony of Ranie K. Wohnhas ("Wohnhas Rebuttal") at R 3.

³⁶ *Id.*

Total Utility Plant in Service	\$2,094,058,019
Add:	
Materials & Supplies	46,045,697
Prepayments	2,476,841
Cash Working Capital Allowance	43,570,708
Subtotal	<u>\$ 92,093,246</u>
Deduct:	
Accumulated Depreciation	689,419,283
Customer Advances	25,377,961
Accumulated Deferred Income Taxes	336,513,939
Contributions in Aid of Construction	37,899
Subtotal	<u>\$1,051,349,082</u>
Pro Forma Rate Base	<u>\$1,134,802,183</u>

Reproduction Cost Rate Base

KRS 278.290(1) states, in relevant part, that:

the commission shall give due consideration to the history and development of the utility and its property, original cost, cost of reproduction as a going concern, capital structure, and other elements of value recognized by the law of the land for rate-making purposes.

Neither Kentucky Power nor the AG provided information relative to Kentucky Power's proposed Kentucky jurisdictional reproduction cost rate base. Therefore, the Commission finds that using Kentucky Power's historic costs for deriving its rate base is appropriate and consistent with Commission precedents involving Kentucky Power as well as other Kentucky jurisdictional utilities.

CAPITALIZATION

Kentucky Power proposed an adjusted Kentucky jurisdictional capitalization of \$1,147,480,328.³⁷ This amount was the result after recognizing adjustments to exclude

³⁷ Application, Section II at 392.

certain environmental compliance investments which remain part of the environmental rate base included in Kentucky Power's environmental surcharge mechanism.

Kentucky Power determined its electric capitalization by multiplying its total-company capitalization by the jurisdictional ratio described earlier in this Order. This is consistent with the approach used in previous Kentucky Power rate cases.

The AG addressed Kentucky Power's proposed capitalization with adjustments similar to those he proposed for Kentucky Power's rate base. He proposed a jurisdictional capitalization of \$1,124,095,996 based upon adjustments to ADIT resulting from bonus depreciation of \$23,346,433, an increase in CIAC of \$37,899, and the elimination of negative short-term debt in the amount of \$30,904,414. Kentucky Power is in agreement with the CIAC and short-term debt adjustments but disagrees with the ADIT adjustment for the same reasons discussed in the Rate Base section of this Order.³⁸

The Commission agrees with the AG's proposed adjustments to Kentucky Power's capitalization. Our reasoning for accepting the AG's proposed ADIT adjustment is the same as set out in the Rate Base section of this Order.

REVENUES AND EXPENSES

For the test year, Kentucky Power reported actual net operating income from its electric operations of \$106,878,446.³⁹ Kentucky Power proposed 47 adjustments to revenues and expenses to reflect more current and anticipated operating conditions,

³⁸ Smith Testimony at 30-31; and Wohnhas Rebuttal at R 2-R 3.

³⁹ Application, Section IV, Exhibit 1, Schedule 4.

resulting in an adjusted net operating income of \$91,334,037.⁴⁰ With this level of net operating income, Kentucky Power reported an adjusted test-year revenue sufficiency of \$4,696,331.⁴¹

The AG accepted 39 of Kentucky Power's proposed adjustments to its test-year revenues and expenses, adjustments which are also acceptable to the Commission.⁴² A list of the accepted adjustments is contained in Appendix C to this Order.

The AG proposed 13 adjustments to Kentucky Power's operating income relating to: 1) commercial and industrial ("C&I") operating revenue; 2) the amortization of deferred integrated gas combined cycle ("IGCC") costs; 3) the amortization of deferred carbon capture and sequestration ("CCS") FEED study costs; 4) amortization of deferred Carrs site costs; 5) amortization of deferred preliminary Big Sandy flue gas desulfurization ("FGD") costs; 6) the treatment of the parent-company loss allocation ("PCLA"); 7) incentive compensation tied to financial performance; 8) the treatment of stock-based compensation expense; 9) Engage to Gain program costs; 10) the treatment of PJM charges and credits related to Big Sandy; 11) treatment of the Mitchell Plant maintenance expense normalization costs; 12) interest synchronization; and 13)

⁴⁰ *Id.*

⁴¹ Kentucky Power's base rate revenue sufficiency consists of a base-rate revenue increase of approximately \$39.3 million, excluding Kentucky Power's proposed transmission adjustment, and the elimination of the approximate \$44 million to be collected annually under the Asset Transfer Rider (see Kentucky Power's response Commission Staff's Second Request for Information ("Staff's Second Request"), Item 96.

⁴² Appendix C shows 36 adjustments to revenues and expenses. The Annualization of Employee Related Expense includes the following adjustments: 1) Payroll and Savings Plan Annualized Payroll Expense Adjustment; 2) Changes to Savings Plan Expenses Adjustment; 3) 408 Payroll Taxes Related to the Payroll Adjustment; and 4) 408 Payroll Taxes Related to the Payroll Adjustment—Medicare Tax Expenses Adjustment.

miscellaneous expenses, about which the Commission makes the conclusions listed below.

The AG also opposed Kentucky Power's proposed transmission adjustment, which will be addressed herein. These adjustments, and the discussion and findings thereon, pertain solely to Kentucky Power's base rate revenue requirements. In addition to base rates, Kentucky Power's Application includes a number of proposed riders or surcharges. On the various base rate adjustments, the Commission makes the following conclusions:

Commercial and Industrial Revenue

The AG proposed an adjustment to increase Kentucky Power's C&I operating revenues \$1,057,173. The proposed adjustment was based upon the AG's inquiry to Kentucky Power about its communications with its C&I customers regarding actual and anticipated expansion, reductions, or closures, as well as the actual or anticipated effective date of each expansion, reduction or closure.⁴³ As part of its response to the inquiry, Kentucky Power stated:

The attached list includes information from customers who have informed the Company of plans to expand operations. The additional load may or may not actually materialize on the effective date. Because of the advanced start date, the specific rate code has not been determined yet, so it is not possible to provide the amount of revenue associated with each project.⁴⁴

⁴³ Kentucky Power's response to the AG's First Request for Information, Item 331.

⁴⁴ *Id.*

Based upon the Commission's requirement that adjustments to the income and expenses of a utility be known and measurable in order to be reflected in its decision, we find that the proposed adjustment should be denied due to its speculative nature.

Amortization of Deferred IGCC Costs

Kentucky Power incurred a total of \$1,331,254 in deferred IGCC preliminary engineering and development costs and proposed to amortize such costs over a 25-year period which resulted in an annual increase in operations and maintenance expense of \$52,505 on a Kentucky jurisdictional basis. Kentucky Power conducted a feasibility study which was the basis for its determination of whether the Kentucky General Assembly would adopt legislation that would support recovery of the proposed IGCC facility's costs through rates. Kentucky Power maintains that the preliminary costs in support of this facility were prudently incurred and that as a result of the General Assembly's failure to adopt such legislation, the facility became uneconomic.⁴⁵

The AG maintains that the Commission should deny approval of the amortization of the deferred IGCC costs. He opines that since the General Assembly failed to pass the legislation and Kentucky Power had not constructed an IGCC facility, these costs are not related to an asset that is used and useful in the provision of electric service to Kentucky ratepayers, and it should be denied.⁴⁶

The Commission is not persuaded by the AG's arguments. Kentucky electric utilities are required to continually review options for safe, reliable and least-cost power. Kentucky Power's IGCC costs were incurred in order to consider this option as a viable

⁴⁵ Wohnhas Testimony at 16.

⁴⁶ Smith Testimony at 36-37.

alternative. The Commission finds that Kentucky Power incurred its IGCC costs in good faith, and that we are not bound by a used and useful standard, and that such costs may be recovered through rates. Accordingly, we approve the full amount of the proposed \$52,505 adjustment for ratemaking purposes.

Amortization of Deferred CCS FEED Study Costs

As part of its investigation to address emerging environmental regulations, AEP conducted a CCS FEED study at its Mountaineer generating station in West Virginia. AEP contends that because the benefits of the study would be enjoyed by each AEP operating company with coal-fired generation, the costs associated with the study should be allocated among those companies.⁴⁷ AEP allocated \$872,858 in deferred study costs to Kentucky Power and Kentucky Power has proposed a 25-year amortization of that cost which results in an increase in operations and maintenance expense of \$34,425 on a Kentucky jurisdictional basis.

The AG disagrees with Kentucky Power's proposed treatment of such costs for a number of reasons, including 1) the costs associated with the CCS FEED study were incurred prior to the test year; 2) the CCS FEED study was conducted at the Mountaineer facility located in West Virginia, which is not owned by Kentucky Power; and 3) AEP did not complete the full CCS FEED study that was originally intended.⁴⁸ Also, the AG pointed out that Kentucky Power stated in response to a request for information that none of the generating plants owned by AEP and its subsidiaries,

⁴⁷ Wohnhas Testimony at 16-17.

⁴⁸ Smith Testimony at 40.

including Kentucky Power, currently employ any forms of CCS nor are there any plans to employ CCS.⁴⁹

Again the Commission is not persuaded by the AG's arguments. With the myriad of existing and pending environmental regulations, utilities must conduct research and development in order to develop the new or improved technologies necessary to comply with such environmental regulations on a timely basis. Despite the fact that the study was not completed, AEP incurred the study costs in good faith. Accordingly, the Commission finds the amount allocated to Kentucky Power should be allowable for ratemaking purposes. Accordingly, we approve Kentucky Power's proposed adjustment of \$34,425 for ratemaking purposes.

Amortization of Deferred Carrs Site Costs

Kentucky Power proposed an adjustment to recover costs associated with its Carrs site development. These costs were incurred for preliminary design and engineering work to support developing a new generation facility at the site. The costs total \$2,619,935 and Kentucky Power proposes amortizing them over 25 years, producing an increase in operations and maintenance expense of \$103,330 on a jurisdictional basis.

The AG concludes that Kentucky Power's proposed amortization of the Carrs site costs should be removed from the cost of service.⁵⁰ He states that:

these costs were incurred over 30 years ago and there are evidently no records from that time that support these costs nor is it clear that it was actually KPCo that incurred the cost. In addition, the Company has not constructed a generation

⁴⁹ *Id.*

⁵⁰ Smith Testimony at 42.

facility at the CARRS site and these costs are not related to an asset that is used and useful in the provision of electric service to Kentucky ratepayers. Moreover, the land, which is not being used to provide electric utility service, may have value and KPCo could sell it. Therefore, the Company's proposed amortization should be rejected.⁵¹

Kentucky Power did not address the AG's contention in its rebuttal testimony.

However, in its original testimony, Kentucky Power stated:

As part of its long term planning, the Company purchased property (the "Carrs Site") in Lewis County, Kentucky as a potential site for a new generation facility. In addition, the Company conducted preliminary site design and engineering work to support developing the property. The Company has elected not to pursue construction of new generation at the Carrs Site at this time and has removed the land-related costs for this site from rate base. The Company is seeking, however, to recover the engineering and site design costs. The Company prudently incurred these costs as part of its long-term generation resource planning.⁵²

The Commission is not persuaded by Kentucky Power's arguments. We note that a Certificate of Public Convenience and Necessity was never requested from the Commission for any project related to the Carrs site property; it is not entirely clear as to what costs were incurred and the purpose for those costs; the costs were incurred more than 30 years ago; and the property has not benefitted Kentucky Power's customers at any time since its acquisition. Accordingly, the Commission denies Kentucky Power's request to recover \$103,330 for ratemaking purposes. Further, the Commission directs Kentucky Power to remove the deferred costs of \$2,619,935 from its books and charge that amount to expense upon the issuance of this Order.

⁵¹ *Id.*

⁵² Wohnhas Testimony at 17.

Amortization of Deferred Preliminary Big Sandy FGD Costs

Kentucky Power proposed an adjustment to recover costs it incurred for engineering and design work related to potentially installing FGD systems at Big Sandy Unit 2. Kentucky Power is proposing to recover \$28,024,682 by amortizing these costs over a 25-year period, or an increase to operations and maintenance expense of \$1,105,293 on a Kentucky jurisdictional basis.

The AG opposes Kentucky Power's proposed adjustment to recover the amortization of the Big Sandy FGD preliminary engineering costs as it was addressed by the Commission's removal of paragraph 8 from the Mitchell Settlement. He further states that the recovery of these costs is not reasonable as the study in question did not result in the addition of an FGD system being installed at Big Sandy Unit 2 and that Kentucky Power's proposed adjustment should be rejected.⁵³

Kentucky Power maintains recovery should be allowed since:

In the Stipulation and Settlement Agreement in Case No. 2012-00578, the Company and other settling parties agreed that Kentucky Power would be authorized to treat the Big Sandy FGD Preliminary Engineering costs as a deferred regulatory asset to be recovered over a five year period. In its Order in approving the Mitchell Transfer, the Commission conditioned its approval of the transfer on the Company agreeing to modify the July 2, 2013 Stipulation and Settlement Agreement to delete Kentucky Power's right under the agreement to defer and recover over a five-year period the Big Sandy FGD Preliminary Engineering costs. Contrary to what Messrs. Smith and Kollen claim, neither the Commission's Order in Case No. 2012-00578, nor the Company's acceptance of the modification required by the Order, provided that the Company was precluded from seeking Commission approval to recover the Big Sandy FGD Preliminary Engineering Costs in a future rate proceeding.⁵⁴

⁵³ Smith Testimony at 44.

⁵⁴ Wohnhas Rebuttal at R 5.

In support of its proposed adjustment, Kentucky Power also pointed out the cost savings that resulted from the Mitchell Transfer as compared to retrofitting Big Sandy Unit 2.

The Commission finds that Kentucky Power's proposed adjustment for the amortization of the Big Sandy FGD study costs is unreasonable and should be denied. In its October 7, 2013 Order in Case No. 2012-00578, the Commission determined that those costs were unreasonable and struck that provision from the Mitchell Settlement.⁵⁵ Our ruling on that issue was never appealed and thus the determination on the Big Sandy FGD study costs is final and controlling herein. Accordingly, the proposed adjustment of \$1,105,293 will be denied for ratemaking purposes. Furthermore, Kentucky Power should remove the deferred asset of \$28,024,682 from its books and charge that amount to expense upon the issuance of this Order.⁵⁶

Parent-Company Loss Allocation

The AG proposed a negative adjustment of \$516,651 to Kentucky Power's revenue requirement to reflect a reduction in federal income tax expense due to the PCLA. The PCLA occurs when the income tax savings benefit of the tax loss of AEP is allocated to the companies with positive taxable income which participate in the AEP consolidated tax return.⁵⁷ In support of its position, the AG stated that the PCLA adjustment has been included in federal income tax expense and approved by the West

⁵⁵ Case No. 2012-00578, *Kentucky Power Company* (Ky. PSC Oct. 7, 2013), Order at 39.

⁵⁶ It is the Commission's understanding that Kentucky Power took these actions upon issuance of the October 7, 2013 Order in Case No. 2012-00578. If that understanding is correct, the instruction in this sentence may be disregarded by Kentucky Power.

⁵⁷ Kentucky Power's response to KIUC's First Request, Item 21.a.

Virginia Commission in West Virginia rate cases since the early 1990s.⁵⁸ Further, the AG states that Kentucky Power has not demonstrated a good reason why the PCLA should be excluded from the determination of Kentucky jurisdictional federal income tax expense.⁵⁹

Kentucky Power reflected the PCLA in its Application on a total-company basis but it did not flow through as a reduction to its Kentucky jurisdictional federal income tax expense. In its filing, it followed past precedent in Case Nos. 2005-00341⁶⁰ and 2009-00549⁶¹ and did not include the PCLA in its determination of income tax expense.⁶²

The Commission finds that the AG's proposal to include the PCLA in Kentucky Power's federal income tax expense is inappropriate. This recommendation, if adopted, would represent a significant departure from over 25 years of the Commission's established and balanced policy prohibiting affiliate cross-subsidization.⁶³ Therefore, the "stand-alone" approach the Commission has historically used shall be used to allocate income tax liabilities for Kentucky ratemaking purposes. Accordingly, we deny the AG's proposed adjustment for ratemaking purposes.

⁵⁸ *Id.*

⁵⁹ Smith Testimony at 47.

⁶⁰ Case No. 2005-00341, *General Adjustments in Electric Rates of Kentucky Power Company* (Ky. PSC Mar. 14, 2006).

⁶¹ Case No. 2009-00549, *Kentucky Power Company* (Ky. PSC June 28, 2010).

⁶² Kentucky Power's response to KIUC's First Request, Item 21.c.

⁶³ See Case No. 89-374, *Application of Louisville Gas and Electric Company for an Order Approving an Agreement and Plan of Exchange and to Carry Out Certain Transactions in Connection Therewith* (Ky. PSC May 25, 1990).

Incentive Compensation

Kentucky Power included \$3,970,200 of incentive compensation plan (“ICP”) costs in its Kentucky jurisdictional revenue requirement.⁶⁴ This amount reflects the adjustments made by Kentucky Power in its filing to remove ICP costs related to the Big Sandy generation and the annualization of the Mitchell generation expense.⁶⁵

The AG recommended an adjustment to eliminate 75 percent, or \$4,607,841⁶⁶ of ICP costs on a Kentucky jurisdictional basis, from rate recovery.⁶⁷ As support for his recommendation, the AG notes that Kentucky Power’s funding measures for the plan are tied to AEP’s earnings per share (“EPS”) (75-percent weight), safety (10-percent weight), and strategic initiatives (15-percent weight).⁶⁸ He maintains that since Kentucky Power’s shareholders are the main beneficiaries of the 75-percent funding measure for EPS, then ratepayers should not be responsible for the ICP costs that are tied to the 75-percent funding measure.⁶⁹

Kentucky Power maintains that the AG’s adjustment to its proposed ICP expense is not warranted, arguing that the ICP provides benefits to both Kentucky Power’s customers and its shareholders.⁷⁰ Kentucky Power states that the expense should be permitted since it is part of the AEP System and Kentucky Power and its employees

⁶⁴ Rebuttal Testimony of Jason M. Yoder (“Yoder Rebuttal”), Exhibit JMY – R2 at 1.

⁶⁵ *Id.* at R 2.

⁶⁶ Smith Testimony at 51.

⁶⁷ *Id.*

⁶⁸ *Id.* at 48.

⁶⁹ *Id.* at 50.

⁷⁰ Wohnhas Rebuttal at R 13.

benefit from the expertise and the work performed by AEP Service employees to control costs and provide reliable service to all of its customers.⁷¹

Kentucky Power points out that the AG failed to recognize the adjustments made to remove the ICP costs related to Big Sandy generation expense and the annualization of the Mitchell generation expense, a failure which results in double counting the removal of generation-related ICP.⁷² Kentucky Power maintains that the double-counting must be recognized and its effects eliminated if a proposal to remove any portion of Kentucky Power's ICP expense from the cost of service is approved.⁷³

The Commission is in general agreement with the AG on this matter after the adjustments described above are made. Incentive criteria based on a measure of EPS, with no measure of improvement in areas such as service quality, call-center response, or other customer-focused criteria are clearly shareholder oriented. As noted in Case No. 2013-00148, the Commission has long held that ratepayers receive little, if any, benefit from these types of incentive plans.⁷⁴ It has been the Commission's practice to disallow recovery of the cost of employee incentive plans that are tied to EPS or other earnings measures and we find that Kentucky Power's argument to the contrary does nothing to change this holding as it is unpersuasive.

While the Commission agrees with the AG conceptually, we find that the amount that should be removed for ratemaking purposes should be based on the performance

⁷¹ *Id.*

⁷² Yoder Rebuttal at R 3.

⁷³ *Id.*, JMY-R2 at 1; On rebuttal, Kentucky provided the calculation showing \$2,947,874 as the corrected amount of the AG's adjustment after recognition of the double-counting.

⁷⁴ Case No. 2013-00148, *Application of Atmos Energy Corporation for and Adjustment to Rates and Tariff Modifications* (Ky. PSC Apr. 22, 2014), Order at 20.

measures of the plan, not the funding measures. Among the performance measures, only 15 percent is based on financial performance. Accordingly, the Commission's adjustment removes only 15 percent, or \$442,181, of the cost of \$2,947,874 Kentucky Power provided in rebuttal from test-period operating expenses for ratemaking purposes.

Stock-Based Compensation

Kentucky Power included \$1,725,818 in Long-Term Incentive Plan ("LTIP") costs in its Kentucky jurisdictional revenue requirement. Kentucky Power maintains, as with its ICP, that the LTIP is a substantial component of the compensation for the management employees and is critical to maintaining the market-competitiveness of compensation for such employees.⁷⁵

These LTIP plans include Restricted Stock Units ("RSU") and Performance Units ("PU").⁷⁶ Neither of these plans has any voting rights nor are they entitled to receive any dividend declared on AEP common stock. However, the RSU's are entitled to additional RSUs (Dividend Equivalent RSUs) of an equal value to dividends paid on AEP common stock.⁷⁷ The PUs accrue dividend credits that are generally equal to the value of dividends paid on shares of AEP common stock.⁷⁸

⁷⁵ Direct Testimony of Andrew R. Carlin at 31.

⁷⁶ Smith Testimony at 52.

⁷⁷ *Id.*

⁷⁸ *Id.* at 53.

The AG recommended an adjustment of \$2,614,851 to remove the LTIP costs in their entirety for ratemaking purposes.⁷⁹ As support for his position, the AG states:

Ratepayers should not be required to pay executive or director compensation that is based on the performance of the Company (or its parent company's) stock price, or which has the primary purpose of benefitting the parent company's stockholders and aligning the interests of participants with those of such stockholders.

Additionally, prior to being required to expense stock options for financial reporting purposes under ASC 718 (Formerly SFAS 123R), the cost of stock options was typically treated as a dilution of shareholders' investments, i.e., it was a cost borne by shareholders. While ASC 718 now requires stock option cost to be expensed on a company's financial statements, this does not provide a reason for shifting the cost responsibility for stock-based compensation from shareholder to utility ratepayers.⁸⁰

Finally, the AG points to Case No. 2010-00036,⁸¹ where the Commission found that with regard to stock-based compensation, the program primarily benefits shareholders and that the expenses associated with the stock-based compensation plan should be denied.

The Commission is in agreement with the AG on this matter. Regarding stock-based compensation, the Commission has consistently held, in the absence of clear and definitive quantitative evidence demonstrating a benefit to ratepayers, that

⁷⁹ Yoder Rebuttal, JMY-R3 at 1; As with the ICP costs, this adjustment did not reflect Kentucky Power's adjustments for the Big Sandy and Mitchell generation. With those adjustments recognized, the correct amount is \$1,725,818.

⁸⁰ Smith Testimony at 53-54.

⁸¹ Case No. 2010-00036, *Application of Kentucky-American Water Company for an Adjustment of Rates Supported by a Fully Forecasted Test Year* (Ky. PSC Dec. 14, 2010), Order at 34.

ratepayers should not be required to bear the program's cost. Accordingly, we will remove \$1,725,818 in LTIP costs for ratemaking purposes.

Engage to Gain Program Costs

The AG proposed an adjustment to remove the Engage to Gain Program costs of \$145,421 included in the test year since the program was only in effect for a year and ended in December 2013.⁸² Kentucky Power maintains the Engage to Gain program provided an opportunity for employees to submit cost-saving and revenue-enhancing ideas to create sustainable savings to Kentucky Power.⁸³ Further, Kentucky Power maintains these savings are reflected in the cost of service and that the related costs should be recovered in rates.

The Commission is in agreement with the AG in that Kentucky Power's Engage to Gain Program costs are nonrecurring and should not be allowed as an expense for ratemaking purposes. Accordingly, the Commission will accept the AG's adjustment which denies recovery of \$145,421.

PJM Charges and Credits Related to Big Sandy Unit 1

In its filing, Kentucky Power proposed to remove from base rates \$4,300,110 of PJM charges and have them recovered through the BS1OR. For purposes of including the PJM charges in the BS1OR, Kentucky Power annualized these costs.⁸⁴

The AG recommended that the PJM charges remain in base rates. The AG claims that Kentucky Power has not justified inclusion of the estimated PJM charges in

⁸² Smith Testimony at 55.

⁸³ Wohnhas Rebuttal at R 14.

⁸⁴ Application, Exhibit AEV-4 at 1. Kentucky Power's annualized PJM charges total \$5,653,211.

the BS1OR and states that, "Inclusion of PJM charges in the BS1OR could also lead to abuse, as PJM invoices can be quite complicated, and KPCo has not provided a clear audit trail of which exact PJM charges would be included in the Rider versus PJM charges that are recovered elsewhere, such as in base rates."⁸⁵

In its rebuttal, Kentucky Power maintains the PJM charges resulting from operating Big Sandy Unit 1 as a coal plant are properly considered "coal related operating expenses" as contemplated by paragraph 3 of the Commission-approved Mitchell Settlement.⁸⁶ Kentucky Power states that:

[t]hese charges relate to the Company's operation of Big Sandy Unit 1 because they are incurred directly as a result of the MWh of generation produced by Big Sandy Unit 1. Because of this, the PJM charges and credits directly related to Big Sandy Unit 1 should be recovered through the proposed BS1OR.⁸⁷

Kentucky Power also rejects the AG's witness's, Ralph C. Smith, assertion that PJM bills are confusing and difficult to audit and might lead to "abuse."⁸⁸ It maintains that the AG's view is an unsupported contention and that, even if accurate, his concern that the bills might be difficult to audit could be easily addressed by moving Big Sandy Unit 1 into a subaccount.⁸⁹ Also, Kentucky Power states that, because of the annual BS1OR

⁸⁵ Smith Testimony at 67.

⁸⁶ Rebuttal Testimony of Alex. E. Vaughn at R 6.

⁸⁷ *Id.*

⁸⁸ *Id.*

⁸⁹ *Id.*

filing requirements, recovering Big Sandy-related operating costs via the BS1OR is particularly transparent.⁹⁰

The Commission concurs with Kentucky Power's proposed treatment of the PJM charges and credits related to Big Sandy Unit 1. The proposed treatment is appropriate and in accordance with paragraph 3 of the Commission-approved Mitchell Settlement. Moreover, Kentucky Power has indicated that it can set up a separate accounting for Big Sandy Unit 1, which should alleviate the AG's concerns about an audit trail.⁹¹ Therefore, Kentucky Power's proposal to remove PJM charges of \$4,300,110 from base rates to be recovered in BS1OR is approved.

Mitchell Plant Expense Normalization Costs

Kentucky Power proposed to normalize maintenance expense for the Mitchell Plant by calculating a three-year average of the Mitchell Plant maintenance expense using the 12-month periods ending September 30, 2012, and September 30, 2013, and an annualized amount for 2014, resulting in maintenance expense averaging \$15,744,373 for the three-year period. With annualized Mitchell Plant maintenance expense for the test year of \$12,474,790, Kentucky Power's proposal results in an increase to operations and maintenance expense of \$3,223,809 on a Kentucky jurisdictional basis.

The AG partially agrees with the normalization adjustment but believes a period greater than three years should be used to achieve a better measure for smoothing out any abnormal maintenance costs incurred in a particular year. He recommends a five-

⁹⁰ Post-Hearing Brief of Kentucky Power Company at 71.

⁹¹ *Id.*

year period which results in decreasing Kentucky Power's proposed adjustment by \$998,577 on a Kentucky jurisdictional basis.⁹²

In its rebuttal testimony, Kentucky Power stated that it purposefully chose a three-year period to calculate a plant maintenance normalization adjustment because the past three years reasonably depict the necessary level of plant maintenance to maintain the safe and operable reliability of the Mitchell Plant on an ongoing basis.⁹³ Further, Kentucky Power states that the AG witness, Mr. Smith, is not an engineer; his testimony is devoid of any relevant experience in the operation of coal-fired steam generating plants; and he bases his recommendation on his belief, unsupported by anything other than his testimony, that "a period of greater than three years provides a better measure for smoothing out any abnormal plant maintenance costs."⁹⁴

The Commission finds that Kentucky Power's proposed adjustment of Mitchell Plant maintenance expense is reasonable and supported by its direct and rebuttal testimony. Accordingly, we will include \$3,223,809 in operations and maintenance expense for ratemaking purposes.

Interest Synchronization

The AG proposed an adjustment to modify Kentucky Power's interest synchronization adjustment to: (1) reflect the AG's recommended capitalization; and (2) include the tax deductible interest related to Kentucky Power's accounts receivable

⁹² Smith Testimony at 58-59.

⁹³ Rebuttal Testimony of Jeffrey D. LaFleur at R 2.

⁹⁴ *Id.* at R 5.

financing. The result of this adjustment is to increase state and federal income tax by \$54,320 and \$312,504, respectively.

Kentucky Power did not entirely agree with the AG on this issue. Kentucky Power agrees that its capitalization should be adjusted to set short-term debt at zero and to include an interest calculation for accounts receivable financing but disagrees with the amount of long-term debt used by the AG in his capitalization.⁹⁵ Kentucky Power maintains the AG's state and federal income tax result shown above is incorrect due to the reduction in capitalization for bonus tax depreciation.⁹⁶

The Commission finds that the AG's proposal for the interest synchronization adjustment is correct. Kentucky Power's capitalization should be adjusted to reflect the impact on ADIT due to the bonus tax depreciation. Accordingly, an adjustment of \$366,824 in additional state and federal income tax will be made for ratemaking purposes.

Miscellaneous Expenses

The AG proposed an adjustment to remove from cost-of-service expenses related to lobbying, tickets to sporting events, employee gifts and awards, membership dues, charitable contributions, and public relations. The total proposed adjustment reduces operation and maintenance expense by \$365,132 on a Kentucky jurisdictional basis.

Kentucky Power provided no rebuttal to the AG's proposed adjustment to miscellaneous expenses. However, in response to a request for information from

⁹⁵Wohnhas Rebuttal at R 5.

⁹⁶ *Id.*

Commission Staff, Kentucky Power stated that the miscellaneous expenses in question were inadvertently included in the cost of service and should have been excluded.⁹⁷

The Commission finds that the adjustment proposed by the AG for miscellaneous expenses is reasonable and should be accepted. Accordingly, \$365,132 will be removed from operations and maintenance expense for ratemaking purposes.

Transmission Adjustment

In its Application, Kentucky Power proposed that its transmission costs should be based upon the charges it incurs as a load-serving entity ("LSE") under PJM's Open Access Transmission Tariff ("OATT"). Kentucky Power states that such costs, which are included in the proposed PJM rider, would be what Kentucky retail customers pay for transmission service rather than its embedded cost of service.⁹⁸ To facilitate such a change, the embedded cost of transmission service and the PJM OATT transmission owner revenues would have to be removed from Kentucky Power's cost of service, and the PJM OATT charges are then the remaining cost for transmission service.

Kentucky Power offered a number of reasons as to why its customers' transmission costs should be based upon the charges under the PJM OATT rather than its embedded cost-of-transmission service. Ultimately, under Kentucky Power's proposal, the rates its customers pay for retail electric service would reflect the cost-of-transmission service that Kentucky Power incurs as their LSE.

The AG disagrees with Kentucky Power's proposed transmission adjustment. He states that the proposal would remove transmission costs from base rates and have

⁹⁷ Kentucky Power's response to Commission Staff's Third Request for Information (Staff's Third Request"), Item 45.

⁹⁸ Direct Testimony of Alex E. Vaughn ("Vaughn Testimony") at 20.

recovery in a transmission rider.⁹⁹ He states the recovery of the transmission cost should continue in Kentucky Power's base rates and that the proposed adjustment, which reduced Kentucky Power's requested revenue requirement by \$126,908, is not needed.¹⁰⁰

The Commission is in agreement with the AG on this issue.¹⁰¹ The Commission is responsible for ensuring that utilities provide safe and reliable electric service at the least cost. The proposed transmission adjustment would delegate ratemaking authority for transmission service from the Commission to the Federal Energy Regulatory Commission ("FERC") which would increase the cost of transmission service. Further, the proposal is inconsistent under Kentucky law and precedent which give the Commission retail ratemaking authority for vertically integrated utilities.

Net Operating Income Summary

After considering all pro forma adjustments and applicable income taxes, Kentucky Power's adjusted net operating income is as follows:

Operating Revenues	\$570,599,659
Operating Expenses	<u>478,031,053</u>
Adjusted Net Operating Income	<u>\$ 92,568,606</u>

RATE OF RETURN

Capital Structure

Kentucky Power proposed an adjusted test-year-end capital structure consisting of 2.69 percent negative short-term debt, 4.52 percent accounts receivable financing,

⁹⁹ Smith Testimony at 72.

¹⁰⁰ *Id.*

¹⁰¹ The transmission adjustment is not included in the Settlement.

52.98 percent long-term debt, and 45.19 percent common equity.¹⁰² The AG recommends an adjusted capital structure for Kentucky Power containing no negative short-term debt, 4.61 percent accounts receivable financing, 51.49 percent long-term debt, and 43.9 percent common equity.¹⁰³

Kentucky Power agreed to eliminate negative short-term debt from its jurisdictional capitalization as suggested by the AG.¹⁰⁴ Kentucky Power disagreed with the AG with respect to the proposed impact of the 50-percent bonus depreciation on rate base and capitalization.¹⁰⁵

In the Reitter Testimony, he states that, "[d]uring 2014, Kentucky Power both reduced its equity and increased its debt as part of the recapitalization required to restore the Company's debt to capitalization ratio to pre-Mitchell Transfer levels of approximately 54%."¹⁰⁶ This was accomplished by permanently refinancing \$265 million of long-term debt¹⁰⁷ associated with the Mitchell Transfer, distributing \$155 million in dividends to the parent company, and returning the paid-in capital associated with the Mitchell Transfer Case.¹⁰⁸

¹⁰² Direct Testimony of Marc D. Reitter ("Reiter Testimony"), Section V, Exhibit 1, Schedule 2, at 1.

¹⁰³ Smith Testimony, Exhibit RCS-1, Schedule D at 1.

¹⁰⁴ Wohnhas Rebuttal at R 2.

¹⁰⁵ *Id.* at R 3.

¹⁰⁶ Reitter Testimony at 4.

¹⁰⁷ Case No. 2013-00410, Application of Kentucky Power Company for Authority Pursuant to KRS 278.300 to Issue and Sell Promissory Notes of One or More Series, to Enter into Loan Agreements, and for Other Authorizations in Connection with the Refunding of Liabilities Assumed by the Company in Connection with the Mitchell Transfer (Ky. PSC Mar. 25, 2014).

¹⁰⁸ Reitter Testimony 5.

The Commission finds that Kentucky Power's capital structure for ratemaking purposes should include no short-term debt, 4.61 percent accounts receivable financing, 51.49 percent long-term debt, and 43.9 percent common equity as proposed by the AG.

Cost of Debt

Kentucky Power proposed costs of short-term debt of .25 percent, accounts-receivable financing of 1.07 percent, and long-term debt of 5.41 percent.¹⁰⁹ The AG recommended that Kentucky Power's cost of debt as proposed in its Application be used by the Commission.¹¹⁰ Therefore, the Commission finds the cost of short-term debt, accounts-receivable financing, and long-term debt to be 0.25 percent, 1.07 percent, and 5.41 percent, respectively.

Return on Equity ("ROE")

In the Testimony of William E. Avera and Adrien M. McKenzie ("Avera/McKenzie Testimony") Kentucky Power estimated its required ROE using the Discounted Cash Flow model ("DCF"); the Empirical Capital Asset Pricing Model ("ECAPM"), which is a variation of the Capital Asset Pricing Model ("CAPM"); and the Risk Premium ("RP") approach.¹¹¹ Based on the results of the methods employed in its analysis, Kentucky Power recommended an ROE range of 9.7 to 11.3 percent, with a midpoint of 10.5 percent. Kentucky Power added a 12-point adjustment for flotation cost, resulting in a recommended ROE of 10.62 percent.¹¹² Kentucky Power likewise recommended a

¹⁰⁹ *Id.* at 9 and Section V, Exhibit 1, Schedule 2 at 1.

¹¹⁰ Woolridge Testimony at 19.

¹¹¹ Avera/McKenzie Testimony at 4.

¹¹² *Id.* at 5.

10.62 percent ROE for its environmental compliance-related expenditures.¹¹³ Through settlement negotiations, all the parties except the AG reached an agreement, which is set forth in the Settlement, that an ROE of 10.25 percent should be used for purposes of calculating rates for Tariff ES, Tariff BSRR, and Tariff BS1OR.¹¹⁴ Otherwise, the Settlement is silent as to ROE.

Kentucky Power employed a comparable risk-proxy group in its analysis which consists of 13 electric utility companies included in *The Value Line Investment Survey's* ("Value Line") electric utility industry group and that have Standard & Poor's Corporation ("S&P") corporate credit ratings of "BBB-," "BBB," or "BBB+," long-term Moody's issuer ratings of "Baa3," "Baa2," or "Baa1," a *Value Line* Safety Rank of "2" or "3;" market capitalization of \$2.4 billion or greater; no ongoing involvement in a major merger or acquisition; and no cuts in dividend payments during the last three months.¹¹⁵ Kentucky Power also applied the DCF model to a proxy group of low-risk non-utility companies followed by *Value Line* that pay common dividends; have a Safety Rank of "1"; have a Financial Strength Rating of "B++" or greater; have a beta of 0.70 or less; and have investment-grade credit ratings from S&P with bonds having ratings of "BBB" and above.¹¹⁶

As part of its analysis, Kentucky Power provided a discussion of regulatory mechanisms allowing it to recover fuel and purchased power costs, environmental costs, and DSM costs, which affect its rates for utility service but do not eliminate its risk

¹¹³ *Id.* at 70.

¹¹⁴ Settlement at 5.

¹¹⁵ Avera/McKenzie Testimony at 20.

¹¹⁶ *Id.* at 65.

and do not set it apart from other utility firms, according to Kentucky Power.¹¹⁷ Kentucky Power indicated that Moody's left its long-term issuer rating unchanged in 2014 when it upgraded the ratings of most electric utilities, and quoted S&P and Moody's statements that Kentucky Power's need for additional capital for maintenance, replacements, and investment in new facilities will require it to seek external funding sources to meet its cash flow needs and to receive additional equity contributions to maintain an appropriate capital structure.¹¹⁸

In the Direct Testimony of J. Randall Woolridge ("Woolridge Testimony"), the AG criticized Kentucky Power's ROE estimates on several grounds. The AG's major areas of disagreement with Kentucky Power's DCF analysis, which produced an ROE range of 9.4 to 10.1 percent,¹¹⁹ were the asymmetric elimination of low-end DCF results, and the "excessive" use of Wall Street analysts' and *Value Line* Earnings Per Share ("EPS") growth rates in developing the growth-factor component, contending that they are overly optimistic and overstated.¹²⁰ The AG stated that the primary problems with Kentucky Power's ECAPM analysis, which suggests an ROE range of 11.3 to 12.4 percent,¹²¹ are the use of the ECAPM version of the CAPM; the current and projected risk-free interest rates that are used; the market-risk premium that is computed using an expected market return of 13.1 percent; and the size adjustment that is used.¹²² The AG

¹¹⁷ *Id.* at 10-11.

¹¹⁸ *Id.* at 9.

¹¹⁹ *Id.* at 4.

¹²⁰ Woolridge Testimony at 58.

¹²¹ Avera/McKenzie Testimony at 4.

¹²² Woolridge Testimony at 63.

disagreed with Kentucky Power's RP approach, which resulted in 10.1 and 11.3 percent equity-cost rates using current and projected utility bond yields respectively,¹²³ stating that both the base yield and risk premium used are inflated. The AG contends that Kentucky Power's RP equity-cost rates, which are developed by regressing the annual authorized ROEs for electric utilities from 1974 to 2013 on the yields on Moody's long-term utility bonds, overstate actual state-level ROEs authorized by state utility commissions. As a basis of comparison to Kentucky Power's RP equity-cost rates, the AG quotes the Regulatory Research Associates' ("RRA") statistics of allowed average electric utility ROEs, excluding Virginia generation adders of 10.01 percent in 2012, 9.8 percent in 2013, and 9.76 percent in 2014.¹²⁴ The AG also recommends against Kentucky Power's proposed adjustment for flotation costs, stating that Kentucky Power has not identified any current flotation costs.

The AG estimated Kentucky Power's required ROE using the DCF model and the CAPM applied to both the AG's electric proxy group as well as Kentucky Power's proxy group. Relying primarily on the DCF model, the AG determined an ROE range of 7.9 to 8.45 percent, and using the upper end of the equity-cost rate recommended an ROE for the proxy groups of 8.4 percent. In recognition of the risk difference between Kentucky Power and the proxy group, the AG recommended that the equity-cost rate be adjusted by .25 percent, resulting in a recommended ROE for Kentucky Power of 8.65 percent.¹²⁵

¹²³ Avera/McKenzie Testimony at 4.

¹²⁴ Woolridge Testimony at 71-74.

¹²⁵ *Id.* at 53-54.

The AG employed in his analysis an electric proxy group consisting of 29 utility companies having at least 50 percent of their revenues from regulated electric operations as reported by *AUS Utilities Reports*; listed as electric utilities by *Value Line* and as an electric or combination electric and gas utility in *AUS Utilities Reports*; having an investment-grade corporate credit and bond rating; having paid a cash dividend for the past six months with no cuts or omissions; not involved in an acquisition in the past six months; and having long-term EPS analysts' growth-rate forecasts available from Yahoo, Reuters, and/or Zack's.¹²⁶ As previously mentioned, Kentucky Power's electric proxy group was also included in the AG's analysis.

The AG supported his analysis with a discussion of capital costs in today's markets, and countered the views set out in the Avera/McKenzie Testimony regarding forecasts of higher interest rates and their likely impact on public-utility yields. The AG concluded that capital markets have recovered and that capital costs continue to be at historically low levels with low interest rates and high stock prices.¹²⁷ The AG's discussion includes a reference to an exhibit showing the investment risk for 99 industries including electric, water, and gas utilities, indicating that the investment risk of utilities is very low when compared to the other industries as measured by *Value Line* betas.¹²⁸

On rebuttal, Kentucky Power addressed the AG's recommended ROE stating that the recommended 8.65 percent ROE is far below investors' required return and is

¹²⁶ *Id.* at 17.

¹²⁷ *Id.* at 16.

¹²⁸ *Id.* at 27.

based on an analysis that is downwardly biased. Kentucky Power discussed the importance of being granted an ROE that allows it the opportunity to achieve earnings comparable to those from alternative investments of similar risk. According to Kentucky Power, while the AG noted that the ROE must be comparable to returns investors expect to earn on other investments of similar risk, this fundamental standard was ignored in the AG's estimate of Kentucky Power's required ROE.¹²⁹ Kentucky Power quoted a recent FERC opinion which affirmed that its ultimate task is to ensure that awarded ROEs satisfy the requirements of the Supreme Court decisions in the Hope¹³⁰ and Bluefield¹³¹ cases, and stated that FERC has made it clear that it is the result reached and not the method used that determines whether an ROE is just and reasonable. Kentucky Power referenced FERC's conclusion that a mechanical Application of the DCF model during times of anomalous capital market conditions could result in an ROE that was insufficient to meet regulatory standards, and that additional record evidence, such as alternative benchmark methodologies and state commission-approved ROEs, should be considered in determining a reasonable ROE.¹³²

Kentucky Power stated that the AG's reliance on dividend growth rates and historical growth measures in performing the DCF analysis did not provide a meaningful indication of investors' expectations; that the AG considered analysts' EPS forecasts as being biased and failed to recognize the importance of considering investors'

¹²⁹ Rebuttal Testimony of William E. Avera and Adrien M. McKenzie ("Avera/McKenzie Rebuttal Testimony") at 3-4.

¹³⁰ Federal Power Commission v. Hope Natural Gas Company, 320 U.S. (1944).

¹³¹ Bluefield Waterworks and Improvement Company v. Public Service Commission. 262 U.S. 679 (1932).

¹³² Avera/McKenzie Rebuttal Testimony at 4-5.

perceptions and expectations; that the AG relied upon personal views rather than the capital markets for investors' expectations; and that the AG failed to test the reasonableness of model inputs, including data, in its analysis that leads to illogical conclusions.¹³³

Kentucky Power recommended that the AG's CAPM analysis be disregarded, noting that the AG gave primary weight to its DCF analysis. Kentucky Power states that the AG's criticisms of its RP analysis is inaccurate, and addressed the AG's claims regarding allowed ROEs not reflecting investors' expectations, and that regulators have routinely authorized ROEs greater than what investors require. Kentucky Power discussed the AG's argument that current interest rates indicate that investors have low expectations of capital cost, and stated that highly regarded forecasts indicate a clear consensus in the investment community that the cost of long-term capital will be significantly higher over the 2015-2019 period.¹³⁴ Kentucky Power recommended that the AG's electric proxy group be rejected due to flaws in the screening criteria and data used in its establishment. Kentucky Power also reiterated on rebuttal the need for a flotation cost adjustment in its ROE calculation, stating that it is supported by financial literature and that there is no basis to ignore such an adjustment.

Having considered the evidence in the record, the Commission finds an ROE of 9.8 percent to be reasonable, within a range of 9.3 to 10.3 percent that we also consider to be reasonable. In reaching our finding, we have excluded adjustments for flotation cost and have given considerable weight to analysts' projections in the Application of

¹³³ *Id.* at 18.

¹³⁴ *Id.* at 50-51.

the DCF model. During the May 5, 2015 Hearing in this proceeding, Kentucky Power's ROE witness, Mr. Avera, and the AG's ROE witness, Mr. Woolridge, were cross-examined concerning the previously-mentioned information from RRA regarding average-authorized ROEs for electric utilities from state regulatory commissions. The average-authorized ROEs with and without Virginia awards, which include ROE premiums for generation projects, were 10.02 and 9.8 percent, respectively, in 2013; 9.91 and 9.76 percent, respectively, in 2014; and for the first quarter of 2015 were 10.37 and 9.67 percent, respectively. As stated in the final Order in Case No. 2013-00148,¹³⁵ while this Commission does not rely on returns awarded in other states in determining the appropriate ROE for Kentucky jurisdictional utilities, it is reasonable to expect that other state commissions, each with their own attributes, are evaluating expert witness testimony which uses the same or similar cost-of-equity models and reaching conclusions based on the data provided in the records of individual cases. The conclusions reached by those commissions as well as this Commission as to reasonable ROEs are summarized periodically by RRA with explanatory reference points and made available to investors. To the extent that investors' expectations are influenced by such publications, we believe it is appropriate to use that information to put their expectations in context and that our findings as to a reasonable ROE for Kentucky Power will not appear unreasonable.

Rate-of-Return Summary

Applying the rates of 5.41 percent for long-term debt, 1.07 percent for accounts-receivable financing, and 9.8 percent for common equity to the capital structure

¹³⁵ Case No. 2013-00148, *Atmos Energy Corporation* (Ky. PSC April 22, 2014), Order at 29.

produces an overall cost of capital of 7.14 percent. The cost of capital produces a return on Kentucky Power's rate base of 7.07 percent.

BASE RATE REVENUE REQUIREMENTS

The Commission has determined that, based upon Kentucky Power's capitalization of \$1,124,095,996 and an overall cost of capital of 7.14 percent, Kentucky Power's net operating income that could be justified by the evidence of record is \$80,260,454. Based on the adjustments found reasonable herein, Kentucky Power's pro forma net operating income for the test year is \$92,568,606. Therefore, Kentucky Power would need a decrease in annual base rate operating income of \$12,308,152. After the provision for uncollectible accounts, the PSC Assessment, and state and federal income taxes, Kentucky Power would have a base rate electric revenue sufficiency of \$19,895,192.

The calculation of this base rate revenue sufficiency is as follows:

Net Operating Income Found Reasonable	\$80,260,454
Pro Forma Net Operating Income	<u>92,568,606</u>
Net Operating Income Sufficiency	\$12,308,152
Gross Revenue Conversion Factor	<u>1.616424</u>
Base Rate Revenue Sufficiency	<u>\$ 19,895,192</u>

This base rate revenue sufficiency compares to the base rate decrease of \$23.0 contained in the Settlement.

The reasonableness of the Settlement increase of \$45.4 million is discussed later in the Total Jurisdictional Revenue Requirements section.

REVENUE REQUIREMENT-RELATED RIDERS AND DEFERRALS

This section contains discussion and analyses of various riders, or surcharges, proposed by Kentucky Power, which are considered to be part of its overall revenue requirement.

Big Sandy Retirement Rider

Pursuant to paragraphs 3 and 14 of the Mitchell Settlement, Kentucky Power proposes to recover the coal-related retirement costs of Big Sandy Unit 1, the retirement costs of Big Sandy Unit 2, and other site-related retirement costs through the proposed BSRR.¹³⁶ In accordance with the Mitchell Settlement, the costs are to be recovered over a 25-year period on a levelized basis including a weighted-average cost-of-capital ("WACC") carrying cost. Kentucky Power calculated an annual revenue requirement for the BSRR of \$21,855,982 using actual and estimated retirement costs.¹³⁷ The AG contested the use of estimated future costs in calculating the BSRR annual revenue requirement amount and stated that the carrying costs included in the revenue requirement were excessive. After making adjustments to remove estimated costs and adjusting the net book value used in the calculation, the AG recommended an initial BSRR annual revenue requirement of \$11.114 million.¹³⁸

On rebuttal, Kentucky Power referred to the Wohnhas Testimony for the reasons why it is appropriate to include estimated costs in determining the BSRR annual revenue requirement. In addition, Kentucky Power criticized the AG for not using

¹³⁶ The rider was referred to as "Asset Transfer Rider-2" in the Mitchell Settlement.

¹³⁷ Wohnhas Testimony at 7 and the Direct Testimony of James M. Yoder at 15.

¹³⁸ Smith Testimony at 63.

updated information in his calculation which was provided by Kentucky Power during discovery, and related to accumulated deferred incomes taxes and the WACC. Using the updated information and excluding estimated costs, Kentucky Power calculated a BSRR annual revenue requirement of \$15.578 million using the AG's proposed WACC.¹³⁹

The Settlement provides that no estimated costs shall be included in the calculation of the BSRR revenue requirement and sets an initial annual revenue requirement of approximately \$16.7 million, or \$5.2 million less than that proposed in the Application.¹⁴⁰ Under the Settlement, actual Big Sandy retirement-related costs incurred subsequent to June 30, 2015, will be deferred as they are incurred and added to the unamortized balance of the BSRR regulatory asset. Although the initial rate will be in effect for approximately 15 months, the Settlement sets forth that the BSRR rates will be adjusted annually with the first annual filing to be made beginning on or before August 15, 2016, and each August 15 thereafter to be effective with the cycle 1 October billing cycle each year.¹⁴¹ The AG states in his Post-Hearing Brief that he does not object to most of the basic structure of the BSRR as set forth in the Settlement; however, he opposes the use of an ROE of 10.25 percent for the BSRR. He argues that an ROE of this level would result in rates that are not fair, just, or reasonable.

¹³⁹ Rebuttal Testimony of James M. Yoder at 9.

¹⁴⁰ \$21.9 million – \$5.2 million = \$16.7 million. See Wohnhas Settlement Testimony at 19. The reduction in the annual revenue requirement from that included in the Application is due to the exclusion of estimated costs, the agreed reduction from 10.62 percent to 10.25 percent of the return on equity used in computing the WACC, and Kentucky Power's acceptance to use no negative short-term debt in computing the initial capitalization and resulting WACC.

¹⁴¹ The information to be included in the annual filings is set forth in paragraph 6(e) of the Settlement.

Based on our earlier finding that a 9.8 percent ROE is a reasonable return for Kentucky Power in this matter, we have determined the revenue requirement for the BSRR to be \$16.5 million. As the 9.8 percent ROE is the mid-point of a range of 9.3 to 10.3 percent that the Commission considers reasonable, and the 10.25 percent ROE reflected in the Settlement falls within that range, we find the use of the 10.25 percent ROE to be reasonable for purposes of settlement.

Big Sandy Unit 1 Operation Rider

As part of the Mitchell Settlement, Kentucky Power agreed to remove from the cost of service in its next base-rate case, all coal-related operating expenses related to Big Sandy Unit 1.¹⁴² Therefore, Kentucky Power proposes that a rider be established to recover: the non-fuel costs of operating Big Sandy Unit 1 as a coal-burning unit until its conversion to natural gas; the non-fuel costs of its operation as a natural gas unit; and a return on and of the capital investment required for its conversion to natural gas once it is placed in service. The rider, BS1OR, would be in effect only until the rates established in Kentucky Power's next base rate case are implemented. At that time, the BS1OR would be discontinued as the Big Sandy Unit 1 operating costs would then be recovered through base rates. Kentucky Power calculated an initial annual revenue requirement of \$18,245,413,¹⁴³ which included non-fuel operation and maintenance expenses and an annual level of Big Sandy Unit 1 PJM charges and credits. Kentucky Power proposed that the BS1OR revenue requirement and billing factors be adjusted annually and filed with the Commission 10 days before they are scheduled to go into

¹⁴² Mitchell Settlement, paragraph 3.

¹⁴³ Vaughn Testimony at 19.

effect, along with all necessary supporting data. However, Kentucky Power did not provide a specific date by which the filing would be made each year.

The Settlement allows for the implementation of the BS1OR as proposed. Testimony filed in support of the Settlement states that the rider permits Kentucky Power to demonstrate the removal of all Big Sandy coal-related costs from base rates in a transparent manner and avoids the necessity of filing a base-rate case following the conversion of Big Sandy Unit 1 to a natural gas-fired generating unit.¹⁴⁴

In his Post-Hearing Brief, the AG stated that he had no objection with the terms of the BS1OR as set forth in the Settlement with two exceptions. He reiterated his objection to including PJM costs in the BS1OR and argued that the stated ROE for this rider should be set at a level of 8.65 percent.¹⁴⁵

As previously discussed in this Order, the Commission has rejected the AG's position on the inclusion of PJM costs in the BS1OR. The Commission also notes that Kentucky Power committed to establishing a separate PJM subaccount for Big Sandy Unit 1 costs at the Hearing in this proceeding.¹⁴⁶ As with the BSRR, given that the Commission considers a range of 9.3 to 10.3 percent to be a reasonable range for Kentucky Power's ROE, we find the 10.25 percent ROE used in the Settlement to be reasonable for purposes of settlement given that it falls within that range. The Commission finds the BS1OR to be a reasonable method for recovery of the Big Sandy Unit 1 operating costs removed from the cost of service and will approve this portion of

¹⁴⁴ Wohnhas Settlement Testimony at 20.

¹⁴⁵ AG's Post-Hearing Brief at 32.

¹⁴⁶ May 5, 2015 Hearing Video at 18:11:15.

the Settlement, but finds that when Kentucky Power files its compliance tariff for the BS1OR, it should include the date by which it will make its annual filing each year.

Kentucky Economic Development Surcharge

In its Application, Kentucky Power proposed to collect from all customers an economic development surcharge of \$0.15 per meter per month¹⁴⁷ in order to fund economic development initiatives in Kentucky Power's service territory. All amounts collected through the surcharge would be matched equally by Kentucky Power from shareholder funds. It is expected that the surcharge would generate a total of \$615,014 annually, including amounts contributed by shareholders.¹⁴⁸

Kentucky Power contends that an increase in economic activity and additional jobs will result from the expenditure of these funds and that the increased economic activity will strengthen communities' tax bases which will help to support schools and other local government-provided services. Kentucky Power also argues that by growing its service territory economy, it will grow its load and customer base which will allow costs to be spread over a greater number of kWhs and customers, and would therefore aid in keeping the cost to individual customers as low as possible.¹⁴⁹

In the Smith Testimony, the AG recommended removal of the economic development surcharge stating that it was not needed, has not been justified, and that such expenditures should not receive special surcharge treatment. The AG criticized Kentucky Power for not identifying specific projects to be funded by the surcharge and

¹⁴⁷ The charge would not apply to the outdoor lighting class.

¹⁴⁸ Rogness Testimony at 17.

¹⁴⁹ *Id.* at 19.

noted that Kentucky Power is currently committed to continue shareholder-provided funding via the Kentucky Power Economic Advancement Program through 2018, but that Kentucky Power has not made a decision concerning shareholder funding for that program beyond 2018.¹⁵⁰

In rebuttal testimony, Kentucky Power contends that the need for the economic development surcharge is evidenced by the January 13, 2014 Final Report presented to Governor Steve Beshear and Congressman Hal Rogers in connection with the Shaping Our Appalachian Region ("SOAR") initiative.¹⁵¹ Kentucky Power states that the January 13, 2014 Final Report shows a lack of economic development in eastern Kentucky and notes a 43.1 percent loss of coal jobs in the 54-county SOAR area due to coal companies closing or reducing size.¹⁵² Kentucky Power claims that unemployment is a major problem in its service territory and that the current \$200,000 shareholder contribution for the Kentucky Power Economic Advancement Program is not sufficient in that those funds target only Lawrence County and contiguous counties surrounding Lawrence County. Finally, Kentucky Power argues that the lack of specific identified projects that will benefit from the economic development surcharge funds is necessary in order to provide as much flexibility as possible.

Recognizing that Kentucky Power's service territory has some of the highest unemployment rates in the state, the AG stated in his Post-Hearing Brief that he supports economic development but prefers that the total economic development funds be provided by Kentucky Power's shareholders. The AG also states that, alternatively,

¹⁵⁰ Smith Testimony at 71.

¹⁵¹ Rebuttal Testimony of John A. Rogness at 2.

¹⁵² *Id.*

he does not object to the economic development surcharge as set forth in the Settlement.

The Commission recognizes that Kentucky Power's service territory includes many of the most economically deprived counties in the Commonwealth. Considering the economic needs of this service area, Kentucky Power's history and expertise in economic development, and its current commitment of shareholder funds to this effort, the Commission finds the proposed economic development surcharge to be reasonable and it should be approved. Kentucky Power should work closely with SOAR, and its economic development efforts and expenditures should be coordinated with the SOAR initiative in its service territory. Finally, the Commission urges Kentucky Power to extend beyond the current 2018 commitment its shareholders' financial support for the Economic Advancement Program, which is specifically for Lawrence County and the surrounding contiguous counties.

TOTAL JURISDICTIONAL REVENUE REQUIREMENTS

The Commission has found that Kentucky Power's required ROE falls within a range of 9.3 percent to 10.3 percent, with a mid-point of 9.8 percent. Applying the findings herein regarding the reasonable cost of debt and common equity to Kentucky Power's capitalization would result in a justifiable revenue increase, including riders, of approximately \$46.8 million. The alternative proposal provided in the Settlement is \$45.4 million. The Settlement amount is based upon a base rate revenue sufficiency of approximately \$23 million coupled with the riders proposed in the Settlement. The \$45.4 million revenue increase Kentucky Power is willing to accept will result in fair, just, and reasonable electric rates for Kentucky Power and its ratepayers. Therefore, the

Commission will accept Kentucky Power's alternative proposal that its revenues be increased by \$45.4 rather than the higher level justified by the record.

NONREVENUE REQUIREMENT RIDERS AND TARIFF

The following sections address riders and a tariff that have no direct impact on Kentucky Power's revenue requirement. The discussion covers both those that have been contested and those that are included in the Settlement.

Tariff SSC

Kentucky Power's current Tariff SSC was set at zero pursuant to the Mitchell Settlement until new base rates are set by the Commission. In its Application, Kentucky Power proposed to update the system sales margin amount included as a credit to the annual revenue requirement. In addition, Kentucky Power proposed to maintain the same 60/40 customer sharing mechanism that was in place prior to the Mitchell Settlement. The total amount proposed to be credited to customers through base rates in the Application was approximately \$14.3 million.¹⁵³

The AG opposed Kentucky Power's 60 percent (customer)/40 percent (Kentucky Power) sharing mechanism and recommended a 90/10 sharing mechanism. The AG claimed that Kentucky Power's customers are paying for the fixed costs of Kentucky Power's generation and should receive a larger share of any off-system sales margins.

In its rebuttal testimony, Kentucky Power claims that the 60/40 sharing mechanism reasonably and equitably addresses the customer contribution while allowing Kentucky Power a reasonable incentive to maximize off-system sales.¹⁵⁴ Kentucky Power also points out that increasing the customer percentage also increases

¹⁵³ Vaughn Testimony, Exhibit AEV-7.

¹⁵⁴ Wohnhas Rebuttal at 7.

customer risk. Although a 90/10 sharing mechanism would provide customers with additional margins when margins exceeded the monthly base amount, it would require customers to assume the risk of paying additional amounts when margins fell below the monthly base amount.¹⁵⁵

Under the Settlement, effective with the first billing cycle of July 2015, Tariff SSC would be approved as filed in the Application except that: 1) the annual baseline amount would be \$15,136,000; and 2) any difference, either positive or negative, between each month's actual margins and the baseline will be shared 75 percent (customers)/25 percent (Kentucky Power). The Settlement specifies that the monthly off-system sales margin baseline amount includes, and monthly actual off-system sales margins shall be calculated utilizing, the methodology for allocating no-load costs described in the Settlement.

The AG states in his Post-Hearing Brief that he has no objection to the proposed revisions to the SSC Tariff as set forth in the Settlement.

Given that Kentucky Power had a SSC mechanism in place for more than 20 years prior to the Mitchell Settlement, the Commission views the establishment of a new Tariff SSC favorably. Accordingly, we find that the revised Tariff SSC contained in the Settlement is reasonable and that it should be approved.

PJM Costs

In its Application, Kentucky Power proposed a new rider to recover certain PJM charges and credits that it incurs from its participation as a load-serving entity and generation-resource owner in PJM. Kentucky Power proposed to include a specified test-year level of charges and credits in base rates and then track the PJM charges or

¹⁵⁵ Wohnhas Rebuttal at R 7- R 8.

credits above or below the base level. The annual net over or under collection would be collected from, or credited to, customers through the proposed PJM rider. Kentucky Power argued that PJM charges and credits can have a material effect on its financial operations and are largely out of its control. Kentucky Power also claimed that tracking PJM charges and credits through a rider could reduce the frequency of general rate proceedings.¹⁵⁶

The Settlement does not provide for such a rider but instead allows Kentucky Power to defer PJM costs in excess of the amount included in base rates under certain conditions. If Kentucky Power's calendar-year ROE falls below 10 percent, the Settlement specifies that Kentucky Power would be authorized to defer for future recovery through the establishment of a regulatory asset only the portion of PJM costs in excess of \$74,856,675 (the amount of PJM costs included in base rates) required to increase the ROE for the calendar year to 10 percent. Any amounts that would increase Kentucky Power's ROE to more than 10 percent are not to be deferred.¹⁵⁷ The Settlement states that Kentucky Power is prohibited from recording a carrying charge or earning a return on any amounts deferred.

In his Post-Hearing Brief, the AG states that he has no objection to the PJM deferral mechanism as set forth in the Settlement and recommends the Commission approve it. However, the Commission is not convinced that these costs have reached a level of uncertainty or volatility that would require the establishment of a deferral mechanism. The Commission believes that costs of this nature are more appropriately

¹⁵⁶ Vaughn Testimony at 16.

¹⁵⁷ Wohnhas Settlement Testimony at 36.

recoverable through base rates. Therefore, the Commission rejects this portion of the Settlement.

NERC Compliance and Cybersecurity Costs

In its Application, Kentucky Power proposed a new rider to track and defer the capital and operation and maintenance expense costs associated with compliance and cybersecurity activities for new requirements or new interpretations of existing requirements of NERC. Kentucky Power proposed that any capital-related costs deferred include carrying costs at Kentucky Power's WACC. The Application stated that Kentucky Power would request recovery of the deferred NERC costs through this proposed rider in a subsequent proceeding, at which time the Commission would review the costs for prudence.

The Settlement does not include a rider to recover NERC costs but allows Kentucky Power to track and defer any post-June 30, 2015 incremental costs incurred in complying with new NERC compliance and cybersecurity requirements. Subject to Commission review and approval, Kentucky Power would be allowed to recover and amortize these costs over five years beginning when the Commission sets base rates in the next base-rate case. Kentucky Power agreed in the Settlement to make an informational filing each year on or before March 31 quantifying and describing the amounts deferred.

The AG states in his Post-Hearing Brief that, while he does not object to the terms of the Settlement related to this issue, he recommends that when these costs are before the Commission for review and approval, the Commission consider the concerns set forth by KIUC in this proceeding through the Direct Testimony of Lane Kollen.

The Commission will approve the deferral costs incurred for new NERC requirements, but puts Kentucky Power on notice that any future request to recover such costs must be supported by showing a direct relationship between the costs incurred and the new NERC requirements. Kentucky Power will have to provide substantial evidence that a nexus exists between the new NERC requirements and the incremental costs incurred.

Tariff BER

Kentucky Power has a BER included in its current tariff which will be charged to customers when Kentucky Power begins purchasing power under the Renewable Energy Purchase Agreement approved by the Commission in Case No. 2013-00144.¹⁵⁸ In its Application filed in the instant case, Kentucky Power did not propose any changes to its Tariff BER. However, the Settlement includes a revision to the Tariff BER in that total charges to be recovered would include an energy charge and a demand, or non-energy, charge. The current tariff provides for only an energy charge per kWh. Under the Settlement, the energy charge would be determined using the PJM AEP Zone Locational Marginal Price. The demand charge would be the difference between the energy charge and the total annual charges and would be charged to non-residential customers based on a percentage of non-fuel revenues. For residential customers, the total charges would continue to be based on the energy usage recorded at the customers' meters. A residential customer would pay the same amount under the current and revised Tariff BER.

¹⁵⁸ Case No. 2013-00144, *Application of Kentucky Power Company for Approval of the Terms and Conditions of the Renewable Energy Purchase Agreement for Biomass Energy Resources Between the Company and ecoPower Generation-Hazard LLC; Authorization to Enter into the Agreement; Grant of Certain Declaratory Relief; and Grant of All Other Required Approvals and Relief* (Ky. PSC Oct. 10, 2013).

In his Post-Hearing Brief, the AG stated that he has no objection to the terms of the Settlement related to this issue. The Commission finds the changes to Tariff BER to be reasonable and that they should be approved.

RATE DESIGN, TARIFFS, AND OTHER ISSUES

Residential Customer Charge

In its Application, Kentucky Power proposed an increase in the residential customer charge from \$8.00 to \$16.00. The cost-of-service study filed by Kentucky Power in this proceeding supports a customer charge of \$39.88.¹⁵⁹ The Settlement allows for an increase in the residential customer charge to \$14.00, an increase of \$6.00 from the current customer charge of \$8.00.

Although the AG did not file testimony on this issue, he objects to an increase in the residential customer charge in his Post-Hearing Brief. The AG argues that the increase set forth in the Settlement is not consistent with the principle of gradualism. He references the unanimous settlement agreement filed in Case Nos. 2014-00371¹⁶⁰ and 2014-00372¹⁶¹ in which Kentucky Utilities Company and Louisville Gas and Electric Company agreed not to increase the residential customer charge, which for each is currently set at \$10.75. The AG recommends that the Commission not allow an increase in Kentucky Power's residential customer charge. In the alternative, if the Commission believes an increase is justified, the AG states that an increase from \$8.00

¹⁵⁹ Vaughn Testimony, Exhibit AEV-2 at 1.

¹⁶⁰ Case No. 2014-00371, *Application of Kentucky Utilities Company for an Adjustment of Its Electric Rates* (filed Nov. 26, 2014).

¹⁶¹ Case No. 2014-00372, *Application of Louisville Gas and Electric Company for an Adjustment of Its Electric and Gas Rates* (filed Nov. 26, 2014).

to \$11.00 would be more consistent with the principle of gradualism than the increase to \$14.00 included in the Settlement.

While the Commission believes that some increase in the residential customer charge is warranted, it does not accept an increase to \$14.00 as set forth in the Settlement. Within rate classes, when determining the allocation of a rate increase, the Commission has long employed the principle of gradualism. In this instance, we find that allocating a portion of the increase to the residential customer charge to a level of half that set out in the Settlement, and allocating a greater portion to the energy charge, is in keeping with that principle. Therefore, we find that the residential customer charge should be increased to \$11.00 instead of the \$14.00 contained in the Settlement.¹⁶²

Consistent with this change, the Commission will also modify the customer charges set forth in the Settlement for the three optional residential tariffs: 1) Residential Service Load Management Time-of-Day; 2) Residential Service Time-of-Day; 3) and Experimental Residential Service Time-of-Day 2. Using a method similar to that used for determining the monthly customer charge for the residential service class, the Commission will approve a customer charge of \$13.60 for these classes instead of the \$16.65 set forth in the Settlement. Commensurate with the decreases to the customer charges from the levels included in the Settlement, energy rates have been increased to allow Kentucky Power to collect the approved Settlement increase of \$45.4 million.

¹⁶² While we have approved increased customer charges for a number of distribution cooperatives in order to provide for greater recovery of fixed costs through the fixed-charge component of customers' bills in order to offset lost revenues due to enlarged and enhanced DSM programs, the Commission notes that Kentucky Power's level of DSM activity has not increased significantly and that it recovers its lost revenues through its DSM surcharge.

Tariff PPA

Kentucky Power proposed certain text changes to its tariff as part of its Application. One of the modifications proposed is a text change to Tariff PPA. The modification would allow Kentucky Power to recover power purchases in excess of its peaking unit equivalent¹⁶³ each month through the revised PPA. The Commission has previously disallowed recovery of costs in excess of a utility's highest-cost generating unit, or in excess of the peaking unit equivalent for Kentucky Power, through the fuel adjustment clause ("FAC"), stating that such costs, so long as they are reasonable, were recoverable through base rates.

The Settlement includes the modification proposed in the Application, but also includes an additional text change to the PPA Tariff which states that costs recovered through the PPA shall be subject to periodic review and approval by the Commission.

Kentucky Power stated in discovery that during the years 2010-2013, it did not exclude any purchased power costs from recovery through the FAC due to the peak unit equivalent limitation because of the availability of energy from the AEP East System Pool ("AEP Pool").¹⁶⁴ Kentucky Power also stated that it did not reduce purchased power expenses in the test year, because it recovered all the fuel expenses during the test year¹⁶⁵ but that during 2014, it did not recover \$655,017 of purchased power costs

¹⁶³ Because Kentucky Power was unique in that it owned no combustion turbines, it was granted authority by the Commission in 2002 to use the peaking unit equivalent approach to calculate the level of non-economy purchased power costs to recover through the FAC. The peaking unit equivalent was based on the operating characteristics of a General Electric simple-cycle gas turbine.

¹⁶⁴ Kentucky Power's response to Staff's Third Request, Item 23.b.

¹⁶⁵ Kentucky Power's response to Staff's Second Request, Item 58.b.

due to the peaking unit equivalent limitation.¹⁶⁶ The fact that the agreement with the AEP Pool is now terminated means that Kentucky Power is on the same footing as the other jurisdictional generating utilities in Kentucky which do not have a mechanism for recovering such costs on a monthly basis. Further, Kentucky Power has not shown that the amounts of these excluded purchased power costs are volatile to the point of requiring this method of recovery. In addition, the Commission notes that there would be numerous administrative issues involved in establishing periodic proceedings to review and approve or deny these costs. The Commission believes these costs are more appropriately recoverable through base rates and will not approve this portion of the Settlement.

Nonrecurring Charges

The Settlement provides for the approval of increases to Kentucky Power's nonrecurring charges including its reconnection charges, returned-check charge, and meter-test charge, as proposed in the Application and set forth in Appendix B to this Order. Kentucky Power's nonrecurring charges were last adjusted in 2006 in Case No. 2005-00341.¹⁶⁷ The Commission finds the increases to Kentucky Power's nonrecurring charges to be reasonable and that they should be approved.

Tariff ATR

Kentucky Power's tariff currently includes an Tariff ATR which allows for the recovery of \$44 million annually as set forth in the Mitchell Settlement. The current Tariff ATR states that the tariff will end when the Commission sets new base rates for

¹⁶⁶ *Id.*, Item 23.b.

¹⁶⁷ Case No. 2005-00341, *Kentucky Power Company* (Ky. PSC Mar. 14, 2006).

Kentucky Power that include the costs of Mitchell Units 1 and 2. In its Application, Kentucky Power proposed to modify the tariff language to allow it to recover its pro rata share (computed on a 365-day annual basis) of the annual \$44 million in 2015.¹⁶⁸ The Settlement accepts these changes to the ATR Tariff.

The Commission finds the changes to Tariff ATR to be reasonable and that they should be approved.

Fuel Cost Allocation Methodology

Upon approval of the Settlement, Kentucky Power and KIUC agree to withdraw and dismiss with prejudice their pending appeals of the Commission's Order in Case No. 2014-00225.¹⁶⁹ By separate agreement, the AG, KIUC, and Kentucky Power have agreed that the AG shall withdraw and dismiss with prejudice his appeal in consideration of Kentucky Power withdrawing and dismissing its appeal. Kentucky Power also agrees that it shall not recover any Mitchell no-load costs during the period January 1, 2014, through May 31, 2015 ("Overlap Period"). KIUC agrees to withdraw the joint testimony of Lane Kollen filed in Case No. 2014-00450. Following the end of the Overlap Period, the Settlement allows Kentucky Power to allocate fuel costs as it has done historically, as described in paragraph 11(e) of the Settlement.

Given that the retirement of Big Sandy Unit 2 will result in a significant decrease in Kentucky Power's reserve margin and the proposed off-system sharing mechanism under the Settlement is 75/25 with 75-percent sharing to customers, the Commission accepts this portion of the Settlement.

¹⁶⁸ Rogness Testimony at 35-36.

¹⁶⁹ Case No. 20141-00225, *Kentucky Power Company* (Ky. PSC Jan. 22, 2015).

In testimony filed in support of the Settlement and at the Hearing, Kentucky Power requested that, with the first FAC filing made subsequent to this Order, the Commission direct Kentucky Power to initiate refunds of Mitchell no-load costs for the period May 1, 2014, through October 31, 2014, that have been collected by Kentucky Power but not yet refunded to customers.¹⁷⁰ The amount of the total refund for that period is \$17,877,704.95.¹⁷¹ The Commission finds that this request should be granted and that, for the first six FAC filings made subsequent to the date of this Order, Kentucky Power shall credit \$2,979,617.49 to customers through the FAC.

ENVIRONMENTAL COMPLIANCE PLAN

As part of this proceeding, Kentucky Power filed an application, pursuant to KRS 278.183, seeking Commission approval of an amended Environmental Compliance Plan ("2015 Plan")¹⁷² and to amend its environmental surcharge Tariff ES. Kentucky Power's current compliance plan is the plan as approved in Case No. 2006-00307 ("2007 Plan").¹⁷³ Kentucky Power states that the proposed 2015 Plan is necessary to reflect fundamental changes in Kentucky Power's environmental projects and in its generation portfolio since its 2007 Plan was approved by the Commission.¹⁷⁴

¹⁷⁰ Wohnhas Settlement Testimony at 30-31. Also see May 5, 2015 Hearing Video at 11:52:45.

¹⁷¹ Case No. 2014-00450, *Kentucky Power Company* (Initiating Order Feb. 5, 2015), Kentucky Power's response to the Commission's Request for Information, Item 41.

¹⁷² Kentucky Power's Application and witness testimony refers to the environmental compliance plan as the 2014 Plan. In prior environmental compliance plan Orders, the Commission has named the plan according to the year in which the Order is issued approving the environmental compliance plan. Accordingly the Commission will refer to the subject environmental compliance plan as the 2015 Plan.

¹⁷³ Case No. 2006-00307, *The Application of Kentucky Power Company for Approval of an Amended Compliance Plan for Purposes of Recovering Additional Costs of Pollution Control Facilities and to Amend Its Environmental Cost Recovery Surcharge Tariff* (Ky. PSC Jan. 2, 2007).

¹⁷⁴ Application at 15.

KRS 278.183(1) provides that a utility shall be entitled to the current recovery of its costs of complying with the Federal Clean Air Act ("CAA") as amended and those federal, state, or local environmental requirements that apply to coal combustion wastes and by-products from facilities utilized for the production of energy from coal. Pursuant to KRS 278.183(2), a utility seeking to recover its environmental compliance costs through an environmental surcharge must first submit to the Commission a plan that addresses compliance with the applicable environmental requirements. The plan must also include the utility's testimony concerning a reasonable return on compliance-related capital expenditures and a tariff addition containing the terms and conditions of the proposed surcharge applied to individual rate classes. Within six months of submission, the Commission must conduct a hearing to:

1. Consider and approve the compliance plan and rate surcharge if the plan and rate surcharge are found reasonable and cost-effective for compliance with the applicable environmental requirements;
 2. Establish a reasonable return on compliance-related capital expenditures;
- and
3. Approve the Application of the surcharge.

Kentucky Power's original compliance plan and environmental surcharge were approved by the Commission in 1997 in Case No. 1996-00489.¹⁷⁵ The original compliance plan ("1997 Plan") was comprised of five projects at the Big Sandy generating station, and three projects at generating stations owned by members of the

¹⁷⁵ Case No.96-489, *Application of Kentucky Power Company d/b/a American Electric Power to Assess a Surcharge Under KRS 278.183 to Recover Costs of Compliance with the Clean Air Act and those Environmental Requirements which Apply to Coal Combustion Waste and By-Products* (Ky. PSC May 27, 1997).

AEP Pool.¹⁷⁶ Kentucky Power's first amendment to its compliance plan and environmental surcharge was approved by the Commission in 2003 in Case No. 2002-00169.¹⁷⁷ The first amendment to the compliance plan ("2003 Plan") was comprised of four projects at Big Sandy Units 1 and 2. Kentucky Power's second amendment to its compliance plan and environmental surcharge was approved by the Commission in 2005 in Case No. 2005-00068.¹⁷⁸ The second amendment to the compliance plan ("2005 Plan") sought to include Kentucky Power's member load ratio share of environmental compliance costs associated with 53 projects at AEP Pool locations owned by Ohio Power and I&M generating stations. Kentucky Power's third amendment to its compliance plan, the 2007 Plan, and environmental surcharge was approved in Case No. 2006-00307.¹⁷⁹ The third amendment sought to include its member load ratio share of environmental compliance costs associated with 44 projects located at Ohio Power and I&M generating stations.¹⁸⁰

¹⁷⁶ The AEP East-System Pool agreement was terminated effective January 1, 2014. AEP member companies that participated in the AEP Pool were Appalachian Power Company, Columbus Southern Power Company, Indiana Michigan Power Company (I&M), Kentucky Power, and Ohio Power Company ("Ohio Power").

¹⁷⁷ Case No. 2002-00169, *The Application of Kentucky Power Company d/b/a American Electric Power for Approval of an Amended Compliance Plan for Purposes of Recovering the Costs of New and Additional Pollution Control Facilities and to Amend Its Environmental Cost Recovery Surcharge Tariff* (Ky. PSC Mar. 31, 2003).

¹⁷⁸ Case No. 2005-00068, *Application of Kentucky Power Company for Approval of an Amended Compliance Plan for Purposes of Recovering Additional Costs of Pollution Control Facilities and to Amend Its Environmental Cost Recovery Surcharge Tariff* (Ky. PSC Sept. 7, 2005, rehearing Oct. 17, 2005).

¹⁷⁹ Case No. 2006-00307, *Kentucky Power Company* (Ky. PSC Jan. 24, 2007).

¹⁸⁰ Projects at the Mitchell Plant, formerly part of Ohio Power, were among those approved for the Ohio Power locations in the 2005 and 2007 Plans, and are now included in the 2015 Plan. Kentucky Power acquired an undivided 50-percent interest in Mitchell effective December 31, 2013.

THE 2015 COMPLIANCE PLAN

Kentucky Power's 2015 Plan reflects changes to the current 2007 Plan due to changes in its generation portfolio, as well as changes in individual projects. The changes include:¹⁸¹

- Effective December 31, 2013, Kentucky Power acquired an undivided 50-percent interest in Ohio Power's Mitchell generating station located in Moundsville, West Virginia;
- The January 1, 2014 termination of the AEP Pool;
- The planned retirement of Big Sandy Unit 2 no later than June 1, 2015;
- The planned conversion of Big Sandy Unit 1 to natural gas by June 30, 2016; and
- Planned environmental projects at I&M's Rockport ("Rockport") generating station.

In the 2015 Plan, Kentucky Power is seeking to include the environmental compliance costs associated with 18 projects located at the Mitchell and Rockport generating stations. The 2015 Plan includes projects that were previously approved in Kentucky Power's original compliance plan and the 2005 and 2007 Plan amendments for the Mitchell and Rockport generating stations. In addition, the 2015 Plan includes projects at Mitchell and Rockport that were installed since approval of the 2007 Plan and the costs associated with Cross-State Air Pollution Rule ("CSAPR") allowances. The 2015 Plan includes the following projects at Mitchell and Rockport that have been installed since the 2007 Plan was approved, or are currently in progress:

¹⁸¹ Direct Testimony of Amy J. Elliott ("Elliott Testimony") at 3-4.

Mitchell Units 1 and 2:

- Precipitator modifications;
- Bottom ash and fly ash handling;
- Mercury monitoring equipment;
- Dry fly ash conversion;
- Coal combustion waste landfill; and
- Electrostatic precipitator upgrade (Unit 2).

Rockport Units 1 and 2:

- Precipitator modifications;
- Activated carbon injection and mercury monitoring;
- Dry sorbent injection; and
- Coal combustion waste landfill upgrade to accept Type 1 ash.

At the time of the filing the instant case, two projects at Mitchell were in progress with planned in-service dates in 2015.¹⁸² Likewise, the 2015 Plan includes two projects at Rockport that were not complete at the time of this filing and that have planned in-service dates of 2015.¹⁸³ The 18 projects included in the 2015 Plan are listed in Appendix D of this Order.

With the termination of the AEP Pool, Kentucky Power no longer incurs costs for pool-related environmental projects and does not include pool-related environmental costs for recovery in its monthly environmental surcharge filings. Previously-approved

¹⁸² Elliott Testimony at 7. The Mitchell projects with 2015 in-service dates are the next phase of coal combustion waste landfill and electrostatic precipitator upgrade for Unit 2.

¹⁸³ *Id.* at 9. The Rockport projects with 2015 in-service dates are portions of the coal combustion waste landfill upgrade and dry sorbent injection for Units 1 and 2.

projects at the Mitchell and Rockport generating stations billed to Kentucky Power under the AEP Pool are included in the 2015 Plan as noted above.

Kentucky Power removed previously-approved environmental projects at its Big Sandy generating stations from the 2015 Plan with the exception of emission allowances. Because of the planned conversion of Big Sandy Unit 1 to natural gas by June 30, 2016, Kentucky Power is proposing to recover all costs associated with Big Sandy Unit 1 through the BS1OR. The BS1OR would recover all of the operations and maintenance expenses for Big Sandy Unit 1, including those costs which would otherwise be recovered through the environmental surcharge. Due to the planned retirement of Big Sandy Unit 2 by June 1, 2015, to comply with the Mercury and Air Toxics Standards ("MATS") Rule, Kentucky Power removed the Big Sandy Unit 2 projects it previously recovered through the environmental surcharge.¹⁸⁴

Kentucky Power states that the pollution control projects included in the 2015 Plan are necessary for Kentucky Power to comply with the CAA and other federal, state, and local regulations which apply to coal combustion wastes and by-products from facilities utilized for the production of energy from coal. Kentucky Power contends that the costs associated with its 2015 Plan are reasonable and that the projects are reasonable and cost-effective means to comply with environmental requirements.¹⁸⁵ The Commission finds that the projects proposed by Kentucky Power to be included in the 2015 Plan are reasonable and cost-effective for environmental compliance and should be approved.

¹⁸⁴ Kentucky Power retired Big Sandy 2 in May 2015.

¹⁸⁵ Application at 17.

ENVIRONMENTAL REQUIREMENTS

Clean Air Interstate Rule ("CAIR") and CSAPR

The CAIR and CSAPR are regional rules that set standards for the emission of sulfur dioxide ("SO₂") and nitrogen oxides ("NO_x") from electric generating units.¹⁸⁶ Phase 1 of CSAPR will effectively replace CAIR in 2015. Under both rules, the United States Environmental Protection Agency ("EPA") establishes emission budgets for each state and SO₂ and NO_x allowances are allocated to emitting units. The allowances permit holders to emit one ton of the covered pollutants and are traded regionally. Kentucky Power records emission allowances on a per-company basis and carries them on an average-cost basis.¹⁸⁷ The allowances are allocated to Kentucky Power by the EPA at zero cost, but subsequent prices are determined by the market for specific allowances with other electric generating units.¹⁸⁸ Whether Kentucky Power will need to purchase additional allowances will be determined by the generation output of pollutants and the sufficiency of allocated allowances.

MATS

The MATS Rule creates environmental requirements for coal- and oil-fired electric generating units regarding the emission of the hazardous air pollutants ("HAPs") of mercury; non-mercury metals such as arsenic, lead, cadmium, and selenium; acid gases, including hydrochloric acid; and many organic HAPs.¹⁸⁹ While MATS is being reviewed by the Supreme Court, the rule will remain in effect; a ruling is expected by the

¹⁸⁶ Direct Testimony of John M. McManus ("McManus Testimony") at 4.

¹⁸⁷ Elliott Testimony at 6 and 10.

¹⁸⁸ *Id.* at 12.

¹⁸⁹ McManus Testimony at 6.

end of June 2015. Compliance was required by April 16, 2015, with a 45-day extension available. Mercury monitoring equipment and activated carbon-injection systems are necessary for MATS compliance at the Mitchell and Rockport units and will be installed and upgraded under the 2015 Plan. The closure of Big Sandy Unit 2 and the conversion of Big Sandy Unit 1 to a natural gas-fired generating facility were precipitated by the MATS compliance deadline.¹⁹⁰

Consent Decree

Kentucky Power's generating units are subject to requirements imposed by the Consent Decree entered by the United States District Court for the Southern District of New York in an action arising under the CAA, *United States v. American Electric Power Service Corp.*, Civil Action C2-99-1250, and all modifications thereto (the "Consent Decree").¹⁹¹ The Consent Decree outlines emission control and monitoring standards, schedules compliance for SO₂, NO_x, and particulate matter for Kentucky Power's generating units, and stipulates penalties for noncompliance. The Third Joint Modification of the Consent Decree authorized the retirement of Big Sandy Unit 2 and the installation of dry sorbent injection equipment at both Rockport units instead of the previously-required installation of FGD equipment by these three units.¹⁹²

TARIFF ES MODIFICATIONS

Kentucky Power proposed several changes to its Tariff ES to reflect the changes in its generation portfolio and compliance plan. Kentucky Power proposed to eliminate

¹⁹⁰ Direct Testimony of Gregory G. Pauley at 4.

¹⁹¹ Application at 11.

¹⁹² McManus Testimony at 7, and Exhibit JMM-2.

the zero percent surcharge factor authorized by the Commission per the Mitchell Settlement which involved Kentucky Power's acquisition of a 50-percent undivided interest in the Mitchell Plant.¹⁹³ Tariff ES is updated to reflect the rate of return authorized in the Settlement in the instant case. Kentucky Power is updating the list of projects in the tariff to match the projects included in the 2015 Plan as noted previously in this Order. Also, Tariff ES is updated to reflect the monthly base environmental costs as set forth in Exhibit 4 to the Settlement. The annual base revenue-requirement level for environmental-cost recovery is \$34,902,677. Per the Mitchell Settlement, all costs associated with the Mitchell FGD equipment are to be excluded from base rates and are not included in the base revenue requirement noted above, but will be included in the current-period environmental revenue requirement.¹⁹⁴ Tariff ES is also modified to reflect the change in the revenue allocation and environmental-surcharge factor calculations so that the environmental-surcharge factor for non-residential customers will be calculated as a function of non-fuel revenues. Kentucky Power will continue to calculate the environmental-surcharge factor for residential customers as a function of total revenues. The environmental-surcharge factor calculation is consistent with the Mitchell Settlement.¹⁹⁵ The Commission finds that Tariff ES, as provided for in paragraph 4 of the Settlement and as discussed and modified in this Order, should become effective for service rendered on and after the date of this Order.

¹⁹³ Mitchell Settlement, paragraph 5.

¹⁹⁴ *Id.*, paragraph 6.

¹⁹⁵ *Id.*

SURCHARGE MECHANISM AND CALCULATION

Costs Associated with the 2015 Plan

Kentucky Power's surcharge mechanism determines the environmental-surcharge revenue requirement by comparing the base-period revenue requirement with the current-period revenue requirement. Kentucky Power has proposed to incorporate the costs associated with the 2015 Plan into the existing surcharge mechanism used for previous compliance plans. Kentucky Power has identified the environmental compliance costs for the 2015 Plan projects and these are the costs that Kentucky Power proposes to recover through its environmental surcharge. The costs identified here by Kentucky Power are eligible for surcharge recovery if they are shown to be reasonable and cost-effective for complying with the environmental requirements specified in KRS 278.183. The Commission finds that the costs identified for the 2015 Plan projects have been shown to be reasonable and cost-effective for environmental compliance. Thus, they are reasonable and should be approved for recovery through Kentucky Power's environmental surcharge.

Qualifying Costs

As stated earlier, the qualifying costs included in Kentucky Power's annual baseline level for environmental cost recovery under Tariff ES are \$34,902,677.¹⁹⁶ The qualifying costs included in the current-period revenue requirement will reflect the Commission-approved environmental projects from Kentucky Power's 1997, 2003, 2005, 2007 and 2015 Plans. Per the Mitchell Settlement, all costs associated with Mitchell Units 1 and 2 FGD equipment have been excluded from both base rates and

¹⁹⁶ Settlement, paragraph 4.

the environmental baseline level and should be recovered exclusively through Tariff ES.¹⁹⁷ Should Kentucky Power desire to include other environmental projects in the future, it will have to apply for an amendment to its approved compliance plans.

Rate of Return

Per paragraph 2 of the Settlement, Kentucky Power is authorized a 10.25-percent ROE that will be utilized in Tariff ES to determine the WACC.¹⁹⁸ Kentucky Power's ROE for environmental projects at the Rockport Plant is 12.16 percent as established by the FERC-approved Rockport Unit Power Agreement.¹⁹⁹

Capitalization and Gross Revenue Conversion Factor

Per paragraph 3, Exhibits 2 and 3 of the Settlement, Kentucky Power should utilize a WACC of 7.34 percent and a gross revenue conversion factor ("GRCF") of 1.616424 in determining the rate of return to be used in its monthly environmental surcharge filings. The WACC reflects no short-term debt. The WACC and GRCF should remain constant until such time as the Commission sets base rates in Kentucky Power's next base-rate case proceeding.²⁰⁰

Surcharge Formulas

The inclusion of the 2015 Plan in Kentucky Power's existing surcharge mechanism will result in changes to the surcharge formulas. The costs associated with Big Sandy will be excluded from Tariff ES. The costs previously charged to Kentucky Power under the AEP Pool agreement will be excluded from Tariff ES, except those

¹⁹⁷ *Id.*

¹⁹⁸ *Id.*, paragraph 2.

¹⁹⁹ Elliott Testimony at 15.

²⁰⁰ Settlement, paragraph 3.

projects at Mitchell and Rockport that are now included in the 2015 Plan as noted previously in this Order. The costs associated with the Mitchell FGD will be excluded from base rates and the base rate revenue requirement of the environmental surcharge at least until June 30, 2020, but will be included in the current-period revenue requirement for the environmental surcharge.²⁰¹ The Commission finds that the formulas used to determine the environmental-surcharge revenue requirement as proposed by Kentucky Power should be approved.

Surcharge Allocation

The retail share of the revenue requirement will be allocated between residential and non-residential customers based upon their respective total revenue during the previous calendar year. The environmental surcharge will be implemented as a percentage of total revenues for the residential class and as a percentage of non-fuel revenues for all other customers.²⁰²

Monthly Reporting Forms

The inclusion of the 2015 Plan in the existing surcharge mechanism will require modifications to the monthly environmental surcharge reporting forms. Kentucky Power provided its proposed revised forms to be used in the monthly environmental reports on May 18, 2015.²⁰³ The revised forms include the changes necessary to reflect the proposed 2015 Plan, as well as changes necessitated by the removal of the Big Sandy environmental projects, termination of the AEP Pool Agreement, and the proposed

²⁰¹ Elliott Testimony at 16.

²⁰² Elliott Testimony at 15.

²⁰³ Kentucky Power's supplemental response to Staff's Second Request, Item 37.

methodology for allocating the environmental revenue requirement among customer classes. The Commission finds that Kentucky Power's proposed monthly environmental-surcharge reporting forms as revised should be approved.

FINDINGS ON SETTLEMENT AGREEMENT

Based upon a review of all the provisions in the Settlement, an examination of the entire record, and being otherwise sufficiently advised, the Commission finds that the provisions of the Settlement are in the public interest and should be approved, subject to the modifications as discussed herein since they will result in a slightly lower rate increase than justified by our traditional ratemaking analysis. Our approval of the Settlement, as modified herein, is based solely on its reasonableness and does not constitute precedent on any issue except as specifically provided for therein.

OTHER ISSUES

Vegetation Management

Kentucky Power's current Distribution Vegetation Management Plan ("Vegetation Plan") was approved as part of a Unanimous Settlement Agreement ("Unanimous Settlement")²⁰⁴ in Kentucky Power's last base-rate case.²⁰⁵ As part of that Unanimous Settlement, Kentucky Power agreed to expand its Distribution Vegetation Management Plan ("Vegetation Management Plan"), which required a \$10 million increase in expenditures. With this addition, total annual Vegetation Management Plan expenditures increased to \$17,237,965.²⁰⁶ The aim was for Kentucky Power to

²⁰⁴ Unanimous Settlement by and among Kentucky Power; the AG; KIUC; Community Action of Kentucky, Inc.; Wal-Mart; Hazard Perry County Ministries, Inc.; and KSBA, May 19, 2010.

²⁰⁵ Case No. 2009-00459, *Kentucky Power Company* (Ky. PSC June 28, 2010).

²⁰⁶ *Id.*

transition from a reactive performance-based plan to a four-year clearing cycle. Kentucky Power estimated that it would take seven years to transition to the four-year trim cycle.²⁰⁷ Kentucky Power's 2015 Distribution Vegetation Management Plan ("2015 Vegetation Plan") was submitted to the Commission on September 30, 2014 and presented in the Phillips Testimony, Kentucky Power's Managing Director of Distribution Region Operations. The 2015 Vegetation Plan identifies two obstacles Kentucky Power encountered in the initial plan. First, Kentucky Power found that it had significantly underestimated the amount of vegetation in and around its energized facilities and that the 12.47-kV circuits required significantly more time to clear than originally projected. Second, Kentucky Power found that it took much longer than originally anticipated to safely and productively increase the vegetation management workforce to full staffing levels.²⁰⁸ As a result of these two obstacles, as stated in the Phillips Testimony, Kentucky Power now estimates it will take eight-and-a-half years to complete the re-clearing instead of the seven years originally estimated.²⁰⁹ In its current Application, Kentucky Power is requesting approval for additional annual reliability spending of \$10,655,900.²¹⁰ Kentucky Power further projects that the clearing of every circuit will be completed by the end of 2018, instead of the mid-2017.²¹¹

²⁰⁷ *Id.* Kentucky Power Company 2010 Distribution Vegetation Management Plan (filed May 20, 2010) in conformity with paragraph 5.c. of the Unanimous Settlement Agreement, at 2.

²⁰⁸ 2015 Distribution Vegetation Management Plan (filed Sept. 30, 2014).

²⁰⁹ Phillips Testimony at 3.

²¹⁰ *Id.* at 31.

²¹¹ 2015 Distribution Vegetation Management Plan, Scenario 3 at 8.

In paragraph 8 and 8(a) of the Settlement, Kentucky Power notes that on July 1, 2015, the current Vegetation Management Plan will be replaced with its new 2015 Plan. Kentucky Power agrees to implement Scenario 2 as described in Phillips Testimony, further modified by Kentucky Power's response to a request for information,²¹² and as illustrated in Exhibit 9 of the Settlement. As reflected in Exhibit 9 of the Settlement, Kentucky Power is to spend approximately \$22.3 million in 2015, \$27.7 million beginning 2016-2018, and \$21.5 million in 2019. Beginning July 1, 2019, Kentucky Power projects implementing a five-year maintenance clearing cycle, at which time it will reduce Vegetation Management Plan expenditures to approximately \$16 million. Exhibit 9 of the Settlement shows that Kentucky Power will continue with this expenditure level for its vegetation plan through 2023.²¹³

Kentucky Power anticipates adhering to the Vegetation Management Plan as filed, yet it recognizes situations may arise which require altering expenditures as they relate to system reliability. Paragraph 8(e) of the Settlement addresses Kentucky Power's intent, during the four-year Vegetation Management Plan periods, from July 1, 2015, to June 30, 2019, to adhere to projected annual spending levels of \$27,661,060, cumulatively summing to \$110,640,240. If it annually spends less than or more than this amount, the annual shortfall or excess will balance against the cumulative four-year sum ending July 1, 2019. At that time, Kentucky Power will record a cumulative shortfall as a regulatory liability which will either be refunded to the customers or used to reduce the revenue requirement in its next filed base-rate case. If Kentucky Power has

²¹² Kentucky Power's response to Staff's Third Request, Item 7.

²¹³ Settlement, Exhibit 9, Scenario 2 on 5 yr Cycle Revised on 4/20/2015.

overspent on a cumulative basis during the four-year period, it will not seek recovery of such costs in a future base-rate case proceeding.²¹⁴

As Kentucky Power reaches the five-year maintenance clearing cycle around July 1, 2019, the Settlement provides for a reduction in base rates. As stated in paragraph 8(f) of the Settlement, beginning with cycle 1 of the July 2019 billing cycle, and until Kentucky Power's new base rates are established in the first base-rate case after June 30, 2019, Kentucky Power will reduce base retail rates for tariff classes with primary and secondary service offerings by \$11,780,408.²¹⁵ The Commission expects Kentucky Power to timely and accurately submit this tariff filing.²¹⁶

Paragraph 8(e)(i) of the Settlement states:

Kentucky Power may alter its proposed spending as detailed in its annual September 30 filing upon discovery of a more pressing need for Distribution Vegetation Management expenditures relating to system reliability purposes. Kentucky Power shall notify the Commission in writing within 30 days of any material deviation from the work plans filed in connection with this subparagraph.

The Commission accepts this provision of the Settlement with the condition that Kentucky Power must seek prior-Commission approval before altering any proposed spending that deviates by 10 percent or more from the total amount or within each Division as set forth in an annual filing on September 30.

As the Commission stated in Kentucky Power's last base-rate case Order,²¹⁷ the Commission will again closely review the annual work plans and expenditures Kentucky

²¹⁴ *Id.*, paragraph 8(e).

²¹⁵ *Id.*, paragraph 8(f).

²¹⁶ *Id.*

²¹⁷ Case No. 2009-00459, *Kentucky Power Company* (Ky. PSC June 28, 2010).

Power will be filing. In addition, the Commission will monitor the progress of the clearing work to verify the progression toward a five-year maintenance cycle. As set forth in paragraph 8(d)(vi) of the Settlement, the Commission expects Kentucky Power to be diligent in reporting and fully explaining any unanticipated problems or its inability to complete a material portion of the planned work on a circuit.

Mitchell Plant Transfer/Ash Pond Costs

As part of the Mitchell Plant Transfer, Kentucky Power acquired, in addition to the other assets, a 50-percent interest in the ash ponds at the Conner Run Impoundment. As a result, Kentucky ratepayers are responsible for 50 percent of the costs associated with the operation of the ash ponds. The AG maintains that if a serious ash pond spill should occur there, similar to the one that occurred at Duke Energy's North Carolina plant, it should be understood that Kentucky Power's shareholders, and not the Kentucky ratepayers, would be responsible for the related fines and remediation cost.²¹⁸

In support of his position, the AG pointed to the transfer in 2014 of the remaining 50-percent undivided interest in the Mitchell generation station by AEP Generation Resources Inc. ("AEPGR") to Wheeling Power Company, which excluded to 50-percent interest in the Conner Run Impoundment. As part of the Mitchell Settlement, Wheeling Power Company paid \$20 million to AEPGR and the establishment and recovery of a \$20 million regulatory asset to be included in Wheeling Power Company's base rate that approximated AEPGR's book value of Conner Run.

Kentucky Power does not agree with the AG's position on this matter. Kentucky

²¹⁸ Smith Testimony at 75.

Power points out that, in Case No. 2012-00578,²¹⁹ the Commission authorized it to assume all assets and liabilities associated with the Mitchell generating station.²²⁰ Further, the facility has been, and will continue to be, used to provide service to Kentucky Power's customers until sometime in 2015 when Mitchell fly ash and coal combustion residuals, along with cooling tower blow down will no longer be deposited there.²²¹ In addition, Kentucky Power is currently in discussions with Consolidation Coal Company ("Consolidation Coal") to transfer ownership of the impoundment to Consolidation Coal contemporaneously with Kentucky Power's cessation of use of the impoundment.²²² Kentucky Power states the AG's witness, Mr. Smith, provides no principled explanation why hypothetical personal-injury or property-damage liability associated with its ownership of the Conner Run facility, with respect to an event that Mr. Smith only speculates might occur sometime in the future, should be treated any differently than Kentucky Power's hypothetical liability with respect to any of the assets acquired through the Mitchell Settlement.²²³

While the Commission may share some of the AG's concerns, it does not agree with the AG on this matter. Kentucky Power acquired a 50-percent interest in the Mitchell generating station which required it to assume all assets and liabilities associated with the Mitchell Settlement. As to Kentucky Power's liability associated with a scenario such as the AG has described, the facts and circumstances surrounding

²¹⁹ Case No. 2012-00578, *Kentucky Power Company* (Ky. PSC Oct. 7, 2013).

²²⁰ Wohnhas Rebuttal at R 14-R 15.

²²¹ *Id.* at 15.

²²² *Id.* Additionally, an IC was held with Commission Staff and Intervenors on March 31, 2015, to discuss Kentucky Power's plans for the Conner Run Impoundment.

²²³ *Id.*

such an occurrence would have to be known before a decision could be reached as to what, if any, liability Kentucky ratepayers would have. For the Commission to address such a scenario in this Order would be speculative and premature.

Rockport Plant Unit Power Sales Agreement ("Sales Agreement") – Return on Equity of 12.16 Percent

Kentucky Power has a FERC-approved Sales Agreement with AEP Generating Company ("AEGCO") under which it receives 30 percent of the output and is charged 30 percent of the costs of the Rockport plant. In the test year, the total charges were approximately \$118.2 million, including \$68.8 million for fuel (account 5550046) and \$43.4 million for non-fuel (account 5550027) charges.²²⁴ AEGCO receives a 12.16-percent ROE under the terms of the Sales Agreement. Any purchaser, state regulatory commission having jurisdiction over the retail rates of purchasers under the agreement, or other entity representing customers' interest may file a complaint with FERC with respect to the specified ROE.

The AG recommends that the Commission and any other parties that are concerned that the 12.16-percent ROE being used as the basis for charges to Kentucky Power in this affiliated contract is excessive address the matter before FERC as soon as possible. In addition, he recommends the Commission also consider establishing an affiliate Charge-ROE-Reduction Rider for Kentucky Power in order to flow back to ratepayers the impact of the cost reductions to Kentucky Power that could be achieved by having the 12.16-percent ROE in the affiliated contract reduced by FERC. The AG also recommends that the Commission require Kentucky Power to present an accounting of the return-of-common equity portion of the AEGCO charges to Kentucky

²²⁴ Smith Testimony at.79.

accounting of the return-of-common equity portion of the AEGCO charges to Kentucky Power that are related to an ROE reduction, and to report on any refunds from AEGCO to Kentucky Power related to such a reduced affiliated contract ROE.²²⁵

The Commission finds that the AG's recommendations to address at FERC the 12.16 ROE being used in the Sales Agreement and the establishment of an affiliate Charge-ROE-Reduction Rider should be denied. As with the Commission, FERC is mandated to set rates that are fair, just, and reasonable. While the Commission may not agree with the manner in which FERC establishes ROE, we take note that the terms of a FERC-approved contract have been found to legally constitute a fair, just, and reasonable rate. We also note that FERC's methods of setting an ROE have withstood prior challenges.

Under the terms of the Sales Agreement, the AG has the same authority as the Commission to file a complaint with FERC to address the ROE, should it chose to do so.

ORDERING PARAGRAPHS

The Commission, based on the evidence of record and the findings contained herein, HEREBY ORDERS that:

1. The rates and charges proposed by Kentucky Power are denied.
2. The provisions in the Settlement Agreement, as set forth in Appendix A hereto, are approved, subject to the modifications and deletions set forth in this Order.
3. Within seven days of the date of this Order, the President of Kentucky Power shall file written notice with the Commission indicating whether Kentucky Power

²²⁵ *Id.* at 82.

accepts and agrees to be bound by the modifications to the Stipulation as set forth in Appendix B to this Order.

4. The rates and charges for Kentucky Power, as set forth in Appendix B hereto, are the fair, just, and reasonable rates for Kentucky Power, and these rates are approved for service rendered on and after June 30, 2015.

5. Kentucky Power shall establish a separate PJM subaccount for Big Sandy Unit 1 costs no later than July 1, 2015.

6. Kentucky Power's request to amortize its deferred IGCC costs is approved.

7. Kentucky Power's request to amortize its deferred CCS FEED study costs is approved.

8. Kentucky Power's request to amortize its deferred Carrs site costs is denied.

9. Kentucky Power's request to amortize its deferred preliminary Big Sandy FGD costs is denied.

10. Kentucky Power's 2015 Environmental Compliance Plan is approved.

11. Kentucky Power's environmental surcharge tariff is approved for service rendered on and after the date of this Order.

12. The environmental base-period and current-period revenue requirements shall be calculated as described in this Order.

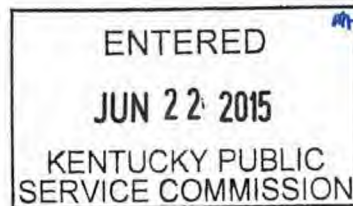
13. The environmental reporting formats described in this Order shall be used for the monthly environmental surcharge filings. Previous reporting formats shall no longer be submitted.

14. The Commission approves the draft forms that were provided by Kentucky Power at the May 28, 2015 IC and revised as filed on June 5, 2015.²²⁶

15. For the first six FAC filings made subsequent to the date of this Order, Kentucky Power shall credit \$2,979,617.49 to customers through the FAC.

16. Within 20 days of the date of this Order, Kentucky Power shall, using the Commission's electronic Tariff Filing System, its revised tariffs setting out the rates authorized herein and reflecting that they were approved pursuant to this Order. Kentucky Power shall include in its Tariff BS1OR, the date by which it will make its annual filing each year.

By the Commission



ATTEST:



Executive Director

²²⁶ The forms presented at the May 28, 2015 IC were included in the June 1, 2015 IC Memorandum and are available at: http://psc.ky.gov/pscscf/2014%20cases/2014-00396//20150601_PSC_IC%20Memo.pdf. The BS1OR Forms were revised on June 5, 2015, in Kentucky Power's supplemental response to Staff's Third Request, Item 33.

APPENDIX A

APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE
COMMISSION IN CASE NO. 2014-00396 DATED **JUN 22 2015**

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

In the Matter of:

The Application of Kentucky Power Company for:)
(1) A General Adjustment of Its Rates for Electric)
Service; (2) An Order Approving Its 2014) Case No. 2014-00396
Environmental Compliance Plan; (3) An Order)
Approving Its Tariffs and Riders; and (4) An Order)
Granting All Other Required Approvals and Relief)

SETTLEMENT AGREEMENT

This Settlement Agreement, made and entered into this 30th day of April, 2015, by and among Kentucky Power Company (“Kentucky Power”); Kentucky Industrial Utility Customers, Inc. (“KIUC”); and Kentucky School Boards Association (“KSBA”) (collectively Kentucky Power, KSBA, and KIUC are “Signatory Parties”).

WITNESSETH:

WHEREAS, on December 23, 2014 Kentucky Power filed an application pursuant to KRS 278.190, KRS 278.183, and the rules and regulations of the Public Service Commission of Kentucky, seeking an annual increase in retail electric rates and charges totaling \$69,977,002, seeking approval of its 2014 Environmental Compliance Plan, and further seeking authority to implement or amend certain tariffs; and

WHEREAS, KIUC and KSBA filed motions for full intervention in P.S.C. Case No. 2014-00396. The Commission granted the intervention motions. Collectively the KIUC and KSBA are referred to in this Settlement Agreement as the “Settling Intervenors;”

WHEREAS, the Attorney General, Commonwealth of Kentucky filed a motion to intervene. The Attorney General, who is not a party to this agreement, also was granted leave to intervene; and

WHEREAS, Wal-Mart Stores East, LP and Sam's East, Inc. ("Wal-Mart") filed a motion to intervene and were granted full intervention. Although not a signatory to this agreement, Wal-Mart has indicated it intends to file a statement in the record indicating that it has no objection to the Settlement Agreement, and that it is unaware of any reason the Commission should not adopt and approve this Agreement in its entirety;

WHEREAS, certain of the Settling Intervenors, Wal-Mart, and the Attorney General in P.S.C. Case No. 2014-00396 filed written testimony raising issues regarding Kentucky Power's Rate Application;

WHEREAS, Kentucky Power, the Attorney General, Wal-Mart, and the Settling Intervenors have had a full opportunity for discovery, including the filing of written data requests and responses;

WHEREAS, Kentucky Power offered the Settling Intervenors, Wal-Mart, and the Attorney General, along with Commission Staff, the opportunity to meet and review the issues presented by Kentucky Power's application in this proceeding and for purposes of settlement;

WHEREAS, by Order dated August 31, 2014, the Commission initiated Case No. 2014-00225 to review of the operation of Kentucky Power's fuel adjustment clause during the period November 1, 2013 through April 30, 2014. KIUC and the Attorney General were granted leave to intervene in Case No. 2014-00225, took discovery, filed testimony, and participated fully in Case No. 2014-00225;

WHEREAS, the Commission on January 22, 2015 entered its Order in Case No. 2014-00225;

WHEREAS, Kentucky Power (Civil Action No. 15-CI-00168), the Attorney General (Civil Action No. 15-CI-00180), and KIUC (Civil Action No. 15-CI-00190) filed appeals to the

Franklin Circuit Court challenging aspects of the Commission's January 22, 2015 Order in Case No. 2014-00225. In addition, KIUC and the Attorney General each filed counterclaims in Kentucky Power's appeal (Civil Action No. 15-CI-00168) raising in that action the issues raised in their separate appeals. Further, the Attorney General also filed a cross-claim in the KIUC appeal (Civil Action No. 15-CI-00168) raising the issues raised in its original appeal;

WHEREAS, there currently is pending before the Commission Case No. 2014-00450. Commission Case No. 2014-00450 is a two-year review of the operation of the Company's fuel adjustment clause, and includes the six-month period at issue in Commission Case No. 2014-00225;

WHEREAS, the Signatory Parties have reviewed the issues raised in P.S.C. Case No. 2014-00396, and the Signatory Parties have reached a settlement of the case, including the issues raised therein;

WHEREAS, Kentucky Power and KIUC are desirous of resolving the issues raised in their appeals of the Commission's January 22, 2015 Order in Case No. 2014-00225, as well as the matters before the Commission in Case No. 2014-00450, in connection with the resolution of this case;

WHEREAS, although not a signatory to this agreement, the Attorney General has indicated he is willing to resolve his appeal of the January 22, 2015 Order of the Commission in Case No. 2014-00225 in accordance with the agreement reached herein by KIUC and Kentucky Power to resolve their appeals of that Order;

WHEREAS, the Signatory Parties execute this Settlement Agreement for purposes of submitting it to the Kentucky Public Service Commission for approval pursuant to KRS 278.190

and KRS 278.183, and for further approval by the Commission of the rate increase, rate structure and tariffs as described herein; and

WHEREAS, the Signatory Parties believe that this Settlement Agreement provides for fair, just and reasonable rates,

NOW, THEREFORE, for and in consideration of the mutual premises set forth above, and the agreements and covenants set forth herein, Kentucky Power and the Settling Intervenors hereby agree as follows:

1. General Rate Change.

Effective for service rendered on or after June 30, 2015 (the first day of the July 2015 billing cycle) Kentucky Power shall implement a rate adjustment sufficient to generate additional annual retail revenues of \$45.4 million based on the September 30, 2014 test year used by Kentucky Power in the Rate Application. The \$45.4 million rate adjustment represents the net effect of the decrease in base rates described below and the establishment or modification of Tariff B.S.1.O.R., Tariff B.S.R.R., Tariff E.S., and the Economic Development Surcharge ("K.E.D.S.")

(a) The new base retail rates to be effective June 30, 2015 result in a decrease of \$23.0 million in the amount to be recovered through base rates as illustrated on **EXHIBIT 1** to this Settlement Agreement. The \$23.0 million decrease in base retail rates was allocated across all tariff classes.

(b) Kentucky Power agrees to design rates and tariffs, including the addition or modification of Tariff B.S.1.O.R., Tariff B.S.R.R., K.E.D.S., and Tariff E.S, that will generate an additional \$45.4 million in retail rates, as illustrated on **EXHIBIT 1** to this Settlement

Agreement, based on the September 30, 2014 test year used by Kentucky Power in the Rate Application.

(i) As part of the Commission's consideration of the reasonableness of this Settlement Agreement, the tariffs designed in accordance with this subparagraph shall be filed with the Commission and served on counsel for all parties to this case no later than April 30, 2015.

(ii) Within ten days of the entry of the Commission's Order approving without modification this Settlement Agreement and the rates and thereunder, Kentucky Power shall file with the Commission signed copies of the tariffs in conformity with 807 KAR 5:011.

(c) Except as provided in Paragraph 8(f), the new base retail rates reflecting the \$23.0 million decrease in base retail rates shall remain in effect until the Commission's Order modifying the Company's base retail rates in Kentucky Power's next base rate case. The rates established in Tariff B.S.1.O.R., Tariff B.S.R.R., and Tariff E.S, as further described below, shall be modified from time to time in accordance with the provisions of those tariffs.

2. Rate of Return On Equity For Certain Purposes.

Kentucky Power shall be authorized a 10.25% return on equity that will be utilized in Tariff E.S., Tariff B.S.R.R., Tariff B.S.1.O.R., for purposes of determining the Weighted Average Cost of Capital ("WACC"), and accounting for the allowance for funds used during construction ("AFUDC").

3. Capitalization and Gross Revenue Conversion Factor.

Kentucky Power shall utilize a WACC of 7.34% and a gross revenue conversion factor ("GRCF") of 1.616424. The calculation of the WACC reflects no short term debt. This WACC and GRCF shall remain constant until such time as the Commission sets base rates in the

Company's next base rate case proceeding. The calculations of the WACC and GRCF are shown on **EXHIBITS 2 AND 3**, respectively.

4. Kentucky Power's Tariff E.S.

Kentucky Power's 2014 Environmental Compliance Plan is approved. The annual baseline level for environmental cost recovery under the tariff shall be \$34,902,677, and the monthly baseline amounts shall be as set forth in **EXHIBIT 4** to this Settlement Agreement. In accordance with paragraph 6 of the July 2, 2013 Stipulation and Settlement Agreement in Case No. 2012-00578, as approved by the Commission's October 7, 2013 Order, all costs associated with Mitchell Units 1 and 2 Flue Gas Desulfurization equipment have been excluded from base rates and the environmental baseline level and shall be recovered exclusively through Tariff E.S. Except as modified herein, Tariff E.S. is approved as filed.

5. Kentucky Power's Tariff S.S.C.

Tariff S.S.C. is approved as filed with the Company's application in this case, effective the first billing cycle of July, 2015 with the following modifications:

(a) Effective for service rendered in the first billing cycle of July 2015 (beginning June 30, 2015), any over or under difference between each month's actual off-system sales margins and the monthly baseline shall be shared between the customers and Kentucky Power on a 75% (customer)/25% (Kentucky Power) basis.

(b) Effective for service rendered in the first billing cycle of July 2015 (beginning June 30, 2015), the sharing of off-system sales margins shall be calculated using an annual baseline of \$15,136,000. Tariff S.S.C., as conformed to reflect the modifications described herein is attached as **EXHIBIT 5** and shall be approved. The monthly amounts shall be as set forth in **EXHIBIT 5** of this Settlement Agreement. The monthly off-system sales margin

baseline amounts include and monthly actual off-system sales margins shall be calculated utilizing the methodology for allocating no load costs described in Paragraph 11 of this Agreement.

(c) Consistent with the practice prior to the suspension of the sharing of system sales margins effective January 1, 2014, the Tariff S.S.C. credit (charge) applicable to customers' bills in any month shall be calculated using the actual off-system sales margins for the calendar month two months prior to the billing month. For purposes of clarity, the off-system sales margins for the July 2015 and August 2015 billing cycles shall be calculated using the May 2015 and the June 2015 actual off-system sales margins, respectively.

6. Tariff B.S.R.R.

(a) The Company's Big Sandy Retirement Rider ("Tariff B.S.R.R.") as set forth in **EXHIBIT 6** to this Settlement Agreement shall be approved.

(b) The initial B.S.R.R. revenue requirement shall not include any estimated Big Sandy Retirement Costs. The calculation of the initial B.S.R.R. revenue requirement is set forth in **EXHIBIT 7** to this Settlement Agreement.

(c) Subject to review by the Commission as set forth below, the B.S.R.R. rate shall be modified annually effective cycle 1 of the October billing cycle of each year.

(d) Actual retirement related costs incurred subsequent to June 30, 2015 shall be deferred and added as they are incurred to the unamortized B.S.R.R. regulatory asset. The calculation of the pre-tax carrying charge on the unamortized balance of the B.S.R.R. regulatory asset will be determined net of related B.S.R.R. Accumulated Deferred Incomes Taxes ("ADIT"). The monthly B.S.R.R. revenues that exceed the current month pre-tax WACC carrying charges on the unamortized balance of the B.S.R.R. regulatory asset (including both the unamortized B.S.R.R. costs initially included in the B.S.R.R. revenue requirement and the post-

June 30, 2015 actual retirement-related costs subsequently deferred) will be used to reduce the unamortized B.S.R.R. costs to be recovered. The pre-tax WACC rate initially used to develop the pre-tax WACC carrying charges shall be as set forth in **EXHIBIT 2**; the pre-tax WACC rate used to develop the pre-tax WACC carrying charges shall be re-established in each of the Company's base rate cases. The calculation of the B.S.R.R. revenue requirement, and corresponding rate as shown on **EXHIBIT 6**, will be performed in a manner to recover all actual B.S.R.R. incurred costs including related pre-tax WACC carrying charges on the unamortized B.S.R.R. balance over the remaining life of the 25-year amortization period (2040).

(e) The Company shall file for review by the Commission no later than August 15 of each year the amount of actual Big Sandy Retirement Costs, including the pre-tax WACC carrying charge, incurred between July 1 of the prior year and June 30 of the current year, and supporting documentation. A copy of the annual filing shall be served on counsel for all parties to this proceeding. The Company's annual filing shall also provide the June 30 current year unamortized balance of the B.S.R.R. regulatory asset and the corresponding rate as shown on **EXHIBIT 6**. The annual B.S.R.R. filings will reflect revised B.S.R.R. rates to recover the unamortized B.S.R.R. costs, including the pre-tax WACC carrying charges, over the remaining life of the 25-year amortization period (2040). The amended B.S.R.R. rate shall become effective cycle 1 of the October billing cycle of each year, subject to any adjustments made by the Commission.

(f) If required at the conclusion of the final year of the 25-year collection period to recover completely any remaining unamortized balance of the B.S.R.R. regulatory asset, to recover all actual retirement costs in the final year of the 25 year collection period, and to true-up any over or under-recovery, a final one-year B.S.R.R. rate shall be established.

7. Tariff B.S.1.O.R.

The Company's Tariff B.S.1.O.R. attached as **EXHIBIT 8** shall be approved.

8. Distribution System Reliability –Vegetation Management.

Effective July 1, 2015, Kentucky Power's existing Distribution Vegetation Management Plan (approved by the Commission's June 29, 2010 Order in Case No. 2009-00459) shall be modified as described below, and the Company shall make the following expenditures for Distribution Vegetation Management with respect to distribution system reliability:

(a) Kentucky Power agrees to implement Scenario 2 as described at pages 25-26 of the direct testimony of Company Witness Everett G. Phillips in this case, as further modified as described in the Company's response to KPSC 3-7 and to align the expenditures to match the increased revenues to be provided beginning approximately July 1, 2015 as a result of the Commission's Order approving this Settlement Agreement. The effect of the alignment of the increased revenues with increased expenditures is to shift the expenditures six months into the future from that illustrated in the Company's response to KPSC 3-7. The Company projects it will be on a five-year maintenance cycle beginning July 1, 2019. Beginning July 2015 Kentucky Power shall make operation and maintenance expenditures for distribution system vegetation management in the sums shown on **EXHIBIT 9** to this Settlement Agreement. The mileage targets for the three phases (2010 Unanimous Settlement Agreement, Interim Clear, and Maintenance (5-years growth)) are shown on **EXHIBIT 10**.

(b) In calculating the allocations set forth in **EXHIBIT 1** to this Settlement Agreement, \$10,655,900 of the increase in revenue requirements that is associated with the increased reliability spending described in this paragraph 8 of this Settlement Agreement was allocated solely to tariff classes with primary and secondary service offerings.

(c) On or before September 30, 2015, and each September 30 thereafter, Kentucky Power shall file with the Commission a reliability work plan outlining the planned Distribution Vegetation Management expenditures for the following calendar year. The work plan shall identify on a circuit-by-circuit basis the Distribution Vegetation Management work to be performed during the relevant calendar year and the projected operation and maintenance expenditures during the relevant period to carry out the planned work.

(d) On April 1, 2016, and each April 1 thereafter, Kentucky Power shall file with the Commission the following reports concerning system reliability and the expenditure of the funds described in subparagraphs (a) and (b) of this paragraph:

(i) the Kentucky Power Customer Average Interruption Duration Index for the reporting period;

(ii) the Kentucky Power System Average Interruption Frequency Index for the reporting period;

(iii) the Kentucky Power System Average Interruption Duration Index for the reporting period;

(iv) a description on a circuit-by-circuit basis of the Distribution Vegetation Management work performed by Kentucky Power during the reporting period;

(v) a description on a circuit-by-circuit basis of the operation and maintenance expenditures for Distribution Vegetation Management performed by Kentucky Power during the reporting period; and

(vi) any unanticipated problems or further information useful to the Commission's review of the report. In the event Kentucky Power is unable to complete a

material portion of the planned work on a circuit during a reporting period, Kentucky Power shall provide an explanation for its inability to do so.

(e) Kentucky Power shall use reasonable and prudent efforts to adhere to and carry out any work plan filed in connection with this subparagraph.

(i) Kentucky Power may alter its proposed spending as detailed in its annual September 30 filing upon discovery of a more pressing need for Distribution Vegetation Management expenditures relating to system reliability purposes. Kentucky Power shall notify the Commission in writing within 30 days of any material deviation from the work plans filed in connection with this subparagraph.

(ii) In the event that the Company's expenditures in any Vegetation Management Year are either greater than or less than the \$27,661,060 included in annual base rates, the annual shortfall or excess shall be added to or removed, respectively, from the scheduled future expenditures. To reflect the commencement of additional funding effective June 30, 2015, the Vegetation Management Year shall be July 1 through June 30. If the cumulative Company annual expenditures during any single Vegetation Management Year are less than the \$27,661,060 included in annual base rates, the Company shall defer on its books any such shortfall as a regulatory liability. This deferral is a one-way balancing account. Such regulatory liability deferrals shall continue to be recorded on the Company's books until the Commission sets base rates in the Company's next base rate case. If Kentucky Power has underspent during the four Vegetation Management Year periods ending June 30, 2019 the \$27,661,060 of annual vegetation management costs on a cumulative basis (4 x \$27,661,060 or \$110,640,240) at the time the Commission sets base rates in the Company's next base rate case after June 30, 2019, the amount underspent will either be refunded to customers or used to

reduce the revenue requirement in that case. Alternatively, if Kentucky Power has overspent the \$27,661,060 of annual vegetation management costs on a cumulative basis, the Company will not be entitled to seek recovery of such costs in a future base rate proceeding. The Company's expected vegetation management expenditures are shown on **EXHIBIT 9**.

(f) Beginning cycle 1 of the July 2019 billing cycle, which is the approximate date the Company anticipates commencing the five-year maintenance cycle, and until the Company's base rates are established in the first base rate case after June 30, 2019, the Company shall reduce the base retail rates for those tariff classes with primary and secondary service offerings by \$11,780,408. The reductions shall be allocated solely to tariff classes with primary and secondary service offerings, and in the same fashion as the \$10,655,900 increase in revenue requirements to fund the Distribution Vegetation Management Program described in this paragraph 8 was allocated, as shown on **EXHIBIT 9**. Kentucky Power agrees to make the tariff filings required to implement the rate reduction described in this subparagraph (f), and further shall include in its tariff the provision shown on page 2 of **EXHIBIT 9** recognizing the reduction.

(g) A copy of any report or notice filed with the Commission under this paragraph 8 shall concurrently be served upon counsel for all parties to this proceeding.

9. Depreciation And Amortization of Deferred Costs.

(a) Kentucky Power shall continue to include in the calculation of its annual distribution depreciation expense the depreciation rates currently approved by the Commission in, and utilized by Kentucky Power since, its 1991 rate case (P.S.C. Case No. 91-066.) The Company shall include in the calculation of its annual depreciation expense the Company's proposed depreciation rates for transmission and general plant. The Company shall include in

the calculation of its annual generation depreciation expense the Company's proposed depreciation rates for generation, except as modified with respect to Mitchell Production Plant Account No. 311 (Structures & Improvements), 312 (Boiler Plant Equipment), 312 (Boiler Plant Equipment (SCR Catalyst), 314 (Turbogenerator Units), 315 (Accessory Electrical Equipment), and 316 (Miscellaneous Power Plant Equipment) in Exhibit LK-16 of the testimony of KIUC Witness Lane Kollen. A complete schedule of the depreciation rates to be approved by the Commission for use by Kentucky Power in calculating its annual depreciation expense is set forth in **EXHIBIT 11**.

(b) Kentucky Power shall recover and amortize the \$12,146,000 in deferred costs associated with the 2012 storms, as approved by the Commission in its January 7, 2013 Order in Case No. 2012-00445. The deferred costs shall be amortized over a five year period at an annual amount of \$2,429,200.

(c) Kentucky Power shall amortize the \$4,657,731 jurisdictional balance of Accumulated Deferred State Income Tax ("ADSIT") related to the acquisition of the Mitchell Plant. The Company shall amortize the ADSIT balance over a three year period at an annual amount of \$1,552,577.

10. Economic Development Surcharge.

(a) The Company shall collect from all customers an economic development surcharge of \$0.15 per meter per month. All economic development surcharge funds collected by Kentucky Power shall be matched dollar-for-dollar by Kentucky Power from shareholder funds. The proceeds of the economic development surcharge and the Kentucky Power's shareholder contribution shall be used by Kentucky Power for economic development projects, including the training of local economic development officials, in the Company's service

territory. The economic development surcharge, and the matching shareholder contribution, shall remain in effect until changed by order of the Commission.

(b) The Company shall modify its tariffs to provide for the collection of the \$0.15 per meter per month economic development surcharge.

(c) Kentucky Power shall file on or before March 31, 2016, and each March 31st thereafter, a report with the Commission describing: (i) the amount collected through the Economic Development Surcharge; and (ii) the matching amount contributed by Kentucky Power from shareholder funds. The annual report to be filed by the Company shall also describe the amount, recipients, and purposes of its expenditure of the funds collected through the Economic Development Surcharge and shareholder contribution.

(d) Kentucky Power shall serve a copy of the annual report to be filed with the Commission in accordance with subparagraph (c) on counsel for all parties to this proceeding.

11. No Load Cost Allocation.

Upon the Order of Commission in Case No. 2014-00396 approving this Settlement Agreement without modification becoming final and non-appealable, and there having been no modification to this Settlement Agreement as a result of any rehearing or appeal:

(a) The Company shall withdraw and dismiss with prejudice its pending appeal before the Franklin Circuit Court in Civil Action No. 15-CI-00168 of the Commission's January 22, 2015 order in Case No. 2014-00225;

(b) KIUC shall withdraw and dismiss with prejudice its pending appeal before the Franklin Circuit Court in Civil Action Nos. 15-CI-168 (counterclaim) and 15-CI-190 of the Commission's January 22, 2015 order in Case No. 2014-00225. By separate agreement embodying the terms of this paragraph 11, the Attorney General, who is not a signatory to this

Settlement Agreement, KIUC, and Kentucky Power have agreed the Attorney General shall withdraw and dismiss with prejudice his appeal in Civil Action Nos. 2015-CI-168 (counterclaim) 2015-CI-180 (original appeal by Attorney General), and 2015-CI-00190 (cross-claim by Attorney General) in consideration of the Company withdrawing and dismissing its appeal in Civil Action No. 2015-CI-168 in accordance with this paragraph 11;

(c) The Company shall not recover any Mitchell no load costs incurred during the period from January 1, 2014 through May 31, 2015 (the "Overlap Period"). Those Mitchell no load costs already recovered by the Company during the Overlap Period shall be refunded without interest consistent with the terms of the Commission's January 22, 2015 Order in Case No. 2014-00225. The Signatory Parties agree the refund of Mitchell no loads costs required by the Commission's January 22, 2015 Order in Case No. 2012-00225 resolves all issues relating to the recovery through the fuel adjustment clause of the Company's no load costs in Case No. 2014-00450, and any subsequent fuel adjustment clause review proceedings reviewing the Company's recovery of fuel costs during the Overlap Period.

(d) KIUC shall withdraw the joint testimony of Lane Kollen filed in Case No. 2014-00450 on behalf of the Attorney General and KIUC.

(e) Following the end of the Overlap Period, the Company shall allocate fuel costs to off system sales utilizing supply curves for each of the Company's units and any purchases. The Company will then assign the highest dollar per Megawatt-hour incremental variable costs of all of these resources to off system sales down to the applicable minimum of the units on an hourly basis. This method will continue until fuel and/or purchase costs have been allocated to all off system sales. All other fuel and purchase power costs, including no load fuel costs, will remain with internal load. In the event that the sum of the unit minimums exceeds

Kentucky Power's internal load, the sum of all of the units remaining costs, excluding the no load costs, is computed on a \$/MWh basis, and this cost is assigned to the MWhs of any remaining off-system sales.

(f) The Company shall inform the Commission of proposed prospective changes in the allocation of fuel costs to Kentucky retail customers prior to implementing the change. Any such change shall remain subject to Commission review and approval pursuant to 807 KAR 5:056.

12. Biomass Energy Rider.

(a) The Company's Biomass Energy Rider ("Tariff B.E.R.") shall be revised as set forth in **EXHIBIT 12**. Under the revised Tariff B.E.R., total charges to be recovered shall include an energy charge and a demand charge. The energy charge shall be determined by the metered energy output of the generating facility at the annual average PJM AEP Zone Locational Marginal Price ("LMP"). The demand charge shall be calculated by subtracting the energy charge from the total annual charges. For residential customers, the total charges under Tariff B.E.R. (energy and demand) shall continue to be based on residential energy use recorded at customer meters. For non-residential customers, the residual energy value (total energy charge less the energy charge for residential customers) will be allocated based on energy. The residual demand costs (total demand costs less the demand cost for residential customers) will be allocated among the non-residential customers based on a percentage of non-fuel revenues.

(b) This Settlement Agreement and the revision to Tariff B.E.R. shall in no way affect: (i) the validity of the Commission's October 10, 2013 Order in Case No. 2013-0144 approving the ecoPower Renewable Energy Purchase Agreement; (ii) Kentucky Power's right under KRS 278.271 to full cost recovery with respect to the ecoPower Renewable Energy

Purchase Agreement; or (iii) the current appeal by KIUC of the Commission's October 10, 2013 Order.

13. PJM Cost Deferral.

(a) In the event the Company's calendar year return on equity falls below 10.00%, calculated as a thirteen month average on a per books basis, the Company will be authorized to defer for future recovery through creation of a regulatory asset that portion, if any, of PJM costs incurred during that calendar year in excess of the amount of PJM costs included in base rates (\$74,856,675) so as to increase the Company's return on equity for the calendar year to no more than 10.00%.

(b) The PJM costs to be deferred for future recovery through this mechanism are those categories of charges and credits identified on page 15 of the direct testimony of Company Witness Vaughan, and any new PJM LSE charges or credits that may arise and be billed to the Company per the PJM tariffs. A copy of page 15 of the direct testimony of Company Witness Vaughan is attached as **EXHIBIT 13**. Subject to Commission review and approval, the Company shall be authorized to recover and amortize the Incremental PJM Costs over five years and begin recovery of the Incremental PJM Costs beginning when the Commission sets base rates in the Company's next base rate case.

(c) The Company agrees that it shall not book a carrying charge or earn a return on any amounts deferred pursuant to this Paragraph 13, including during any deferral or amortization periods.

(d) Kentucky Power agrees beginning on or before March 31, 2016, and each March 31st thereafter, it shall make an informational filing with the Commission quantifying and describing the amounts deferred in accordance with this paragraph 13. A copy of this annual

informational filing shall be served by Kentucky Power upon counsel for all parties to this proceeding.

14. NERC Compliance and Cybersecurity Deferral.

(a) The Company shall track and defer for future review by the Commission and recovery by the Company any post-June 30, 2015 incremental costs incurred by the Company in complying with new NERC compliance or cybersecurity requirements.

(b) The NERC compliance and cybersecurity costs to be deferred for future recovery through this mechanism are those categories of costs identified on pages 28 and 29 of the direct testimony of Company Witness Wohnhas. A copy of pages 28 and 29 of the direct testimony of Company Witness Wohnhas is attached as **EXHIBIT 14**. The Company shall recover and amortize these costs, subject to Commission review and approval, over five years and begin recovery of the costs when the Commission sets base rates in the Company's next base rate case.

(c) Kentucky Power agrees beginning on or before March 31, 2016, and each March 31st thereafter, it shall make an informational filing with the Commission quantifying and describing the amounts deferred in accordance with this paragraph 14. A copy of this annual informational filing shall be served by Kentucky Power upon counsel for all parties to this proceeding.

15. School Energy Manager Program.

(a) Kentucky Power shall file an application to amend Tariff D.S.M. to expand its current School Energy Manager Program by an amount not to exceed \$200,000 per year for two years to (1) fund up to an additional six school energy managers as part of the expansion of the School Energy Manager Program to the Company's entire service territory; and

(2) to the extent funds are available, to fund school energy efficiency projects. In order for the school districts to properly budget for the upcoming school years, the Company will request an order on the Company's application by June 30, 2015.

(b) Beginning on or before March 31, 2016, and each March 31st thereafter, Kentucky Power agrees to make an informational filing with the Commission describing the manner in which the additional funds described in subparagraph (a) were expended. KSBA agrees to cooperate with the Company by providing the information required to make the annual report. A copy of this annual informational filing shall be served by Kentucky Power upon counsel for all parties to this proceeding.

16. Tariff K-12 School.

(a) The Company shall establish a new pilot Tariff K-12 School as set forth in **EXHIBIT 15**. Tariff K-12 School shall be available for general service to K-12 schools subject to KRS 160.325 with normal maximum demands greater than 100 kW. Tariff K-12 School shall reflect rates for customers taking service under the tariff designed to produce annually in the aggregate \$500,000 less from Tariff K-12 School customers than would be produced under the new L.G.S. rates to be established under this Settlement Agreement from customers eligible to take service under Tariff K-12 School. The aggregate total revenues to be produced by Tariff K-12 School, Tariff M.G.S., and Tariff L.G.S. shall be equal to the revenues that would be produced in the aggregate by the new rates in the absence of Tariff K-12 School.

(b) Service under Tariff K-12 School shall be optional. Tariff K-12 shall remain in effect until a final order is issued in the Company's next general base rate case, at which time this Tariff will be reviewed using the then available load research data to evaluate its continuance thereafter.

(c) Tariff K-12 School attached as **EXHIBIT 15** is approved.

17. Tariff C.S. – I.R.P.

The Company agrees that it will amend Tariff C.S.-I.R.P., if necessary, to be consistent with the revised PJM criteria in the event PJM revises its criteria governing what interruptible load qualifies as capacity for the purpose of the Company's FRR obligation.

18. New Tariff I.G.S.

The Company's new Industrial General Service Tariff ("Tariff I.G.S.") as set forth in **EXHIBIT 16** to this Settlement Agreement shall be approved.

19. Modifications To Kentucky Power's Rate Tariffs.

In addition to the rate and tariff changes described and agreed to above, Kentucky Power and the Settling Intervenors agree that the following tariffs shall be modified or implemented as described below:

(a) The Customer charge for the Residential Class ("Tariff R.S.") shall be increased to \$14.00 per month instead of the \$16.00 per month proposed by the Company in its filing in this case.

(b) Tariff Q.P.; Tariff C.I.P.-T.O.D.; Rider E.C.S., Emergency Curtailable Service – Capacity and Energy; Rider E.P.C.S., Energy Curtailable Service Rider; and Tariff R.T.P. shall be removed from the Company's filed tariffs.

(c) Tariff C.C. shall be amended to reflect an updated charge and to incorporate an annual true up mechanism as described in the direct testimony of Company Witness Rogness.

(d) Tariff C.S.-I.R.P. shall be amended to incorporate a new credit rate and to expand the total contract capacity authorized under this tariff as described in the direct testimony of Company Witness Rogness.

(e) Tariff A.T.R. shall be amended to allow a temporary extension of the asset transfer rider to allow the Company to recover the full amount of the authorized revenue requirement as described in the direct testimony of Company Witness Rogness.

(f) Tariff P.P.A. shall be amended to amend the monthly rate formula to include a variable to allow the Company to recover the cost of power purchased unrelated to forced generation or transmission outages that are calculated in accordance with the Company's peaking unit equivalent methodology as described in the direct testimony of Company Witness Rogness. Kentucky Power agrees the costs recovered through Tariff P.P.A. shall be subject to periodic review and approval by the Commission.

(g) The Terms and Conditions shall be amended to reflect changes to the Company's schedule of special or non-recurring charges as described in the direct testimony of Company Witness Rogness.

20. Non-Rate Tariff Changes.

Kentucky Power and the Intervenors agree that the non-rate terms of the following tariffs may be modified or implemented as described in the direct testimony of Company Witness Rogness:

Tariff Modified or Implemented

Terms and Conditions of Service

R.S.

R.S.-L.M.-T.O.D.

R.S.-T.O.D.

R.S.-T.O.D.2

Tariff Modified or Implemented

S.G.S.
S.G.S.-T.O.D.
M.G.S.
C.A.T.V.
O.L.
COGEN/SPP I
COGEN/SPP II
T.S.
N.U.G.
N.M.S.
MGS TOD
MW
SL
AFS
GPO
LGS
LGS TOD
DSM

Kentucky Power and the Intervenors also agree that the incidental, non-rate text changes identified on Exhibit JAR-9 shall be implemented.

21. Filing Of Settlement Agreement With The Commission And Request For Approval.

Following the execution of this Settlement Agreement, Kentucky Power and the Settling Intervenors shall file this Settlement Agreement with the Commission along with a joint request to the Commission for consideration and approval of this Settlement Agreement so that Kentucky Power may begin billing under the approved adjusted rates for service rendered on or after the first billing cycle of July, 2015 (June 30, 2015).

22. Good Faith And Best Efforts To Seek Approval.

(a) This Settlement Agreement is subject to approval by the Public Service Commission.

(b) Kentucky Power and the Settling Intervenors shall act in good faith and use their best efforts to recommend to the Commission that this Settlement Agreement be approved in its entirety and without modification, and that the rates and charges set forth herein be implemented.

(c) Kentucky Power and the Settling Intervenors filed testimony in this case. Kentucky Power also filed testimony in support of the Settlement Agreement. For purposes of any hearing, the Settling Intervenors and Kentucky Power waive all cross-examination of the other Signatory Parties' witnesses except for purposes of supporting this Settlement Agreement, unless the Commission disapproves this Settlement Agreement, and each further stipulates and recommends that the Notice of Intent, Application, testimony, pleadings, and responses to data requests filed in this proceeding be admitted into the record.

(d) The Signatory Parties further agree to support the reasonableness of this Settlement Agreement before the Commission, and to cause their counsel to do the same, including in connection with any appeal from the Commission's adoption or enforcement of this Settlement Agreement.

(e) No party to this Settlement Agreement shall challenge any Order of the Commission approving the Settlement Agreement in its entirety and without modification.

23. Failure Of Commission To Approve Settlement Agreement.

If the Commission does not accept and approve this Settlement Agreement in its entirety and without modification, and absent agreement to the modification by the party affected

thereby, this Settlement Agreement shall be void and withdrawn by Kentucky Power and the Settling Intervenor from further consideration by the Commission and none of the parties to this Settlement Agreement shall be bound by any of the provisions herein.

24. Continuing Commission Jurisdiction.

This Settlement Agreement shall in no way be deemed to divest the Commission of jurisdiction under Chapter 278 of the Kentucky Revised Statutes.

25. Effect of Settlement Agreement.

This Settlement Agreement shall inure to the benefit of and be binding upon the parties to this Settlement Agreement, their successors and assigns.

26. Complete Agreement.

This Settlement Agreement constitutes the complete agreement and understanding among the parties to this Settlement Agreement, and any and all oral statements, representations or agreements made prior hereto or contained contemporaneously herewith shall be null and void and shall be deemed to have been merged into this Settlement Agreement.

27. Independent Analysis.

The terms of this Settlement Agreement are based upon the independent analysis of the parties to this Settlement Agreement, are the product of compromise and negotiation, and reflect a fair, just and reasonable resolution of the issues herein. Notwithstanding anything contained in this Settlement Agreement, Kentucky Power and the Settling Intervenor recognize and agree that the effects, if any, of any future events upon the operating income of Kentucky Power are unknown and this Settlement Agreement shall be implemented as written.

28. Settlement Agreement And Negotiations Are Not An Admission.

(a) This Settlement Agreement shall not be deemed to constitute an admission by any party to this Settlement Agreement that any computation, formula, allegation, assertion or contention made by any other party in these proceedings is true or valid. Nothing in this Settlement Agreement shall be used or construed for any purpose to imply, suggest or otherwise indicate that the results produced through the compromise reflected herein represent fully the objectives of the Signatory Parties.

(b) Neither the terms of this Settlement Agreement nor any statements made or matters raised during the settlement negotiations shall be admissible in any proceeding, or binding on any of the parties to this Settlement Agreement, or be construed against any of the parties to this Settlement Agreement, **except that** in the event of litigation or proceedings involving the approval, implementation or enforcement of this Agreement, the terms of this Settlement Agreement shall be admissible. This Settlement Agreement shall not have any precedential value in this or any other jurisdiction.

29. Consultation With Counsel.

The parties to this Settlement Agreement warrant that they have informed, advised, and consulted with their respective counsel with regard to the contents and significance of this Settlement Agreement and are relying upon such advice in entering into this agreement.

30. Authority To Bind.

Each of the signatories to this Settlement Agreement hereby warrant they are authorized to sign this agreement upon behalf of, and bind, their respective parties.

31. Construction Of Agreement.

This Settlement Agreement is a product of negotiation among all parties to this Settlement Agreement, and no provision of this Settlement Agreement shall be construed in favor of or against any party hereto. This Settlement Agreement is submitted for purposes of this case only and is not to be deemed binding upon the parties hereto in any other proceeding, nor is it to be offered or relied upon in any other proceeding involving Kentucky Power or any other utility.

32. Counterparts.

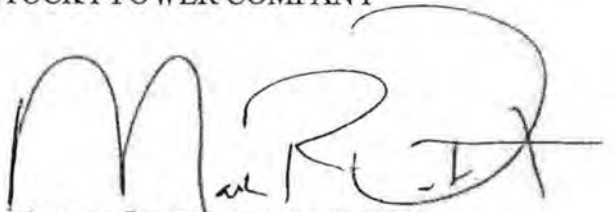
This Settlement Agreement may be executed in multiple counterparts.

33. Future Rate Proceedings.

Nothing in this Settlement Agreement shall preclude, prevent or prejudice any party to this Settlement Agreement from raising any argument or issue, or challenge any adjustment, in any future rate proceeding of Kentucky Power.

IN WITNESS WHEREOF, this Settlement Agreement has been agreed to as of this 30th day of April 2015.

KENTUCKY POWER COMPANY

By: 
MARK R. OVERSTREET

Its: Attorney

KENTUCKY INDUSTRIAL UTILITY
CUSTOMERS, INC.

By: Michael C. Kurtz
Michael C. Kurtz
Its: Attorney

KENTUCKY SCHOOL BOARDS
ASSOCIATION

By: Walter M. Gue

Its: Attorney in behalf of KSBAA

CASE NO. 2014-00396 SETTLEMENT AGREEMENT
EXHIBITS

1. Allocation of \$23.0 million base rate decrease and \$45.4 million increase in annual retail revenues.
2. Calculation of Weighted Average Cost of Capital
3. Calculation of Gross Revenue Conversion Factor
4. Calculation of Monthly Base Amount of Environmental Costs
5. Revised Tariff S.S.C.
6. Revised Tariff B.S.R.R.
7. Calculation of Initial B.S.R.R. Revenue Requirement
8. Tariff B.S.1.O.R.
9. Schedule of Annual Vegetation Management Expenses
10. Vegetation Management Mileage Targets
11. Schedule of Depreciation Rates
12. Revised Tariff B.E.R.
13. Page 15 of the direct testimony of Company Witness Vaughan
14. Pages 28-29 of the direct testimony of Company Witness Wohnhas
15. Tariff K-12 School
16. Tariff I.G.S.

Exhibit 1

<u>Tariff</u>	<u>Number of Customers</u>	<u>Current Revenue</u>	<u>Settlement Base Revenue</u>	<u>Settlement Rider Revenue</u>	<u>Settlement Total Revenue</u>	<u>Net Settlement Increase</u>	<u>Settlement ROR %</u>	<u>% Increase</u>
Residential	138,300	\$230,140,567	\$224,394,156	\$28,515,690	\$252,909,845	\$22,769,279	4.25%	9.89%
SGS	23,823	\$19,611,846	\$18,711,833	\$2,634,305	\$21,346,138	\$1,734,293	13.31%	8.84%
MGS	7,297	\$59,677,592	\$57,105,498	\$7,857,059	\$64,962,557	\$5,284,965	14.15%	8.86%
Schools	183	\$13,648,403	\$12,598,231	\$1,749,853	\$14,348,085	\$699,681	10.64% *	5.13%
LGS	673	\$56,921,244	\$54,650,948	\$7,309,445	\$61,960,394	\$5,039,150		8.85%
JGS	88	\$171,550,109	\$161,500,720	\$19,197,129	\$180,697,850	\$9,147,741	7.70%	5.33%
OL	**	\$7,256,320	\$6,905,967	\$920,785	\$7,826,752	\$570,432	10.44%	7.86%
SL	56	\$1,422,709	\$1,357,690	\$178,894	\$1,536,584	\$113,876	15.57%	8.00%
MW	11	\$364,284	\$348,257	\$45,354	\$393,612	\$29,328	12.99%	8.05%
Total	170,431	\$560,593,073	\$537,573,301	\$68,408,515	\$605,981,816	\$45,388,743	6.96%	8.10%

* Schools part of LGS class in cost-of-service study, separate rate of return is not available

** Customers included in count for tariff of main (non-lighting) account.

EXHIBIT 2

KENTUCKY POWER COMPANY
 COST OF CAPITAL
 TEST YEAR ENDED 9/30/2014

Line No. (1)	Description (2)	Reapportioned Kentucky Jurisdictional Capital (3)	Percentage of Total (4)	Annual Cost Percentage Rate (5)	Weighted Average Cost Percent (6) = (4) X (5)	Gross-Up Factor (7)	Pre-Tax Weighted Average Cost Percent (8) = (6) X (7)
1	Long Term Debt	\$585,086,099	51.51%	5.41%	2.79%	1.004977	2.8039%
2	Short Term Debt	0	0.00%	0.26%	0.00%	1.004977	0.0000%
3	Accounts Receivable Financing	51,835,808	4.56%	1.07%	0.05%	1.004977	0.0502%
4	Common Equity	498,888,221	43.93%	10.25%	4.50%	1.818424	7.2739%
5	Total	\$1,135,810,128	100.00%		7.34%		10.1280%

EXHIBIT 3

Kentucky Power Company
 Computation of the Gross Revenue
 Conversion Factor
 Test Year Twelve Ended 9/30/2014

Line No. (1)	Description (2)		Percent of Incremental Gross Revenues (3)
1	Operating Revenues		100.00%
2	Less: Uncollectible Accounts Expense		0.30%
3	KPSC Maintenance Fee		0.20%
4	Income Before income Taxes		99.50%
5	Less: State Income Taxes (L4 X 5.7348%)	5.7348%	5.71%
6	Income Before Federal Income Taxes		93.80%
6b	Section 199 Deduction		2.56%
6c	Taxable Income for Federal Income Taxes		91.24%
7	Less: Federal income Taxes (L6c X 35.00%)	35.00%	31.93%
8	Operating Income Percentage (L6 - L7)		61.86%
9	Gross Revenue Conversion Factor (100% / L8)		<u>1.616424</u>

Exhibit 4

Kentucky Power Company
 Calculation of Monthly Base Amount of Environmental Costs
 October 1, 2013 to September 30, 2014

Ln No (1)	Month / Year (2)	Monthly Environmental Costs (3)	Adjustment for Pool Termination (4)	Adjustment to Remove Big Sandy (5)	#	Leaves only Test Year Rockport Expenses and Gains on Allowances (6) #	(3) + (4) + (5)	#	Include Mitchell Non- FGD (7) #	#	Rockport Additional Test Year Expenses for O & M, Depreciation, and Return (8) #	#	Adjusted Environmental Base (9)
1	October 2013	\$2,588,033	-\$884,674	-\$1,672,931		\$30,426					\$137,763		\$2,982,958
2	November 2013	\$2,574,766	-\$873,779	-\$1,686,320		\$14,867					\$65,935		\$2,895,369
3	December 2013	\$3,956,730	-\$921,717	-\$3,000,383		\$34,630					\$27,591		\$2,876,988
4	January 2014	\$2,819,234	\$0	-\$2,789,805		\$29,429					\$29,919		\$2,646,292
5	February 2014	\$2,727,758	\$0	-\$2,688,504		\$39,254					\$31,777		\$2,624,660
6	March 2014	\$2,361,529	\$0	-\$2,321,728		\$39,801					\$71,957		\$2,736,994
7	April 2014	\$2,844,327	\$0	-\$2,804,712		\$39,615					\$83,860		\$2,795,854
8	May 2014	\$2,450,433	\$0	-\$2,409,658		\$40,775					\$86,233		\$2,782,209
9	June 2014	\$2,788,301	\$0	-\$2,749,455		\$38,846					\$64,756		\$2,723,098
10	July 2014	\$2,675,318	\$0	-\$2,638,192		\$37,126					\$36,490		\$3,416,840
11	August 2014	\$2,796,292	\$0	-\$2,758,034		\$38,258					\$33,058		\$3,184,443
12	September 2014	\$2,146,708	\$0	-\$2,108,067		\$38,641					\$34,665		\$3,236,974
	Total	\$32,729,430	-\$2,680,170	-\$29,827,789		\$421,471					\$704,005		\$34,902,677

TARIFF S. S. C.
(System Sales Clause)

APPLICABLE

To Tariffs R.S., R.S.-L.M.-T.O.D., R.S.-T.O.D., Experimental R.S.-T.O.D.2, S.G.S., Experimental S.G.S.-T.O.D., M.G.S., M.G.S.-T.O.D., L.G.S., L.G.S.-T.O.D., *K-12 School*, Q.P., C.I.P., T.O.D., I.G.S., C.S.-I.R.P., M.W., O.L. and S.L.

RATE

~~In accordance with the Stipulation and Settlement Agreement approved as modified by the Commission by its Order dated October 7, 2013 in Case No. 2012-00578, the System Sales Adjustment Factor will be fixed and maintained at 0.0000 mills/kWh until new base rates are first established by Commission after the effective date of this tariff without regard to the calculation of the Monthly System Sales Adjustment Factor under paragraphs 1 through 6 below.~~

1. When the monthly net revenues from system sales are above or below the monthly base net revenues from system sales, as provided in paragraph 2 below, an additional credit or charge equal to the product of the KWHs and a system sales adjustment factor (A) shall be made, where "A", calculated to the nearest 0.0001 mill per kilowatt-hour, is defined as set forth below.

$$\text{System Sales Adjustment Factor (A)} = (.6 .75 [Tm - Tb]) / Sm$$

In the above formulas "T" is Kentucky Power Company's (KPCo) monthly net revenues from system sales in the current (m) and base (b) periods, and "S" is the KWH sales in the current (m) period, all defined below.

2. The net revenue from KPCo's sales to non-associated companies as reported in the FERC Energy Regulatory Commission's Uniform System of Accounts under Account 447, Sales for Resale, shall consist of and be derived as follows:

- a. KPCo's total revenues from system sales as recorded in Account 447, less b. and c. below,
- b. KPCo's total out-of-pocket costs incurred in supplying the power and energy for the sales in a. above.
The out-of-pocket costs include all operating, maintenance, kv, transmission losses and other expenses that would not have been incurred if the power and energy had not been supplied for such sales, including demand and energy charges for power and energy supplied by Third Parties.
- c. KPCo's environmental costs allocated to non-associated utilities in the Company's Environmental Surcharge Report.

(Cont'd on Sheet No. 19-2)

DATE OF ISSUE: December 23, 2014

DATE EFFECTIVE: Service Rendered On And After January 22, 2015

ISSUED BY: JOHN A. ROGNESS III

TITLE: Director Regulatory Services

By Authority Of Order By The Public Service Commission

In Case No. 2014-00396 Dated XXXXXXXX

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TARIFF S. S. C. (Cont'd.)
(System Sales Clause)

3. The base monthly net revenues from system sales are as follows:

Billing Month	System Sales (Total Company Basis)	
January	\$ 528,886	1,651,585
February	335,167	1,413,908
March	1,530,489	1,372,664
April	1,371,521	1,219,883
May	1,307,472	1,238,911
June	767,124	1,171,190
July	616,234	1,399,696
August	2,136,652	1,019,614
September	1,850,577	1,099,550
October	1,739,665	1,151,741
November	1,538,455	1,188,760
December	1,568,121	1,136,496
	<u>\$15,290,363</u>	<u>\$15,136,000</u>

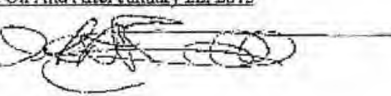
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4. Sales (S) shall be equated to the sum of (a) generation (including energy produced by generating plant during the construction period), (b) purchase, and (c) interchange-in, less (d) energy associated with pumped storage operations, less (e) inter-system sales and less (f) total system losses.
5. The system sales adjustment factor shall be based upon estimated monthly revenues and costs for system sales, subject to subsequent adjustment upon final determination of actual revenues and costs.
6. The monthly System Sales Clause shall be filed with the Commission ten (10) days before it is scheduled to go into effect, along with all the necessary supporting data to justify the amount of the adjustments, which shall include data, and information as may be required by the Commission.
7. Copies of all documents required to be filed with the Commission under this regulation shall be open and made available for public inspection at the office of the Public Service Commission pursuant to the provisions of KRS 61.870 to 61.884.

DATE OF ISSUE: December 23, 2014

DATE EFFECTIVE: Service Rendered On And After January 22, 2015

ISSUED BY: JOHN A. ROGNESS III



TITLE: Director Regulatory Services

By Authority Of Order By The Public Service Commission

In Case No. 2014-00396 Dated XXXXXXXX

**BIG SANDY RETIREMENT RIDER
(B.S.R.R.)**

APPLICABLE

To Tariffs R.S., R.S.-L.M.-T.O.D., R.S.-T.O.D., Experimental R.S.-T.O.D.2, S.G.S., S.G.S.-T.O.D., M.G.S., M.G.S.-T.O.D., L.G.S., L.G.S.-T.O.D., K-12-School, L.G.S., C.S.-LRP., M.W., O.L. and S.L.

RATE

- 1 Pursuant to the final order of the Kentucky Public Service Commission in Case No. 2012-00578 and the Stipulation and Settlement Agreement dated July 2, 2013 as filed and approved by the Commission, Kentucky Power Company is to recover from retail ratepayers the coal-related retirement costs of Big Sandy Unit 1, the retirement costs of Big Sandy Unit 2 and other site-related retirement costs that will not continue in use on a levelized basis, including a weighted average cost of capital (WACC) carrying cost over a 25 year period beginning when new base rates are set for the Company that include Mitchell Units 1 and 2. The term "Retirement Costs" as used in this agreement are defined as and shall include the net book value, materials and supplies that cannot be used economically at other plants owned by Kentucky Power, and removal costs and salvage credits, net of related ADIT. Related ADIT shall include the tax benefits from tax abandonment losses.
- 2 The allocation of the actual revenue requirement (ARR) between residential and all other customers shall be based upon their respective contribution to total retail revenues for the most recent twelve month period, ending June 30 according to the following formula:

$$\text{Residential Allocation RA}(y) = \text{ARR}(y) \times \frac{\text{KY Residential Retail Revenue RR}(b)}{\text{KY Retail Revenue R}(b)}$$

$$\text{All Other Allocation OA}(y) = \text{ARR}(y) \times \frac{\text{KY All Other Classes Retail Revenue OR}(b)}{\text{KY Retail Revenue R}(b)}$$

Where:

(y) = the expense year;

(b) = Most recent available twelve month period ended June 30.

- 3 The Residential B.S.R.R. Adjustment shall provide for annual adjustments based on a percent of total revenues, according to the following formula:

$$\text{Residential B.S.R.R. Adjustment Factor} = \frac{\text{Net Annual Residential Allocation NRA}(y)}{\text{Residential Retail Revenue RR}(b)}$$

Where:

$$\text{Net Annual Residential Allocation NRA}(b) = \text{Annual Residential Allocation RA}(y), \text{ net of Over/ (Under) Recovery Adjustment;}$$

$$\text{Residential Retail Revenue RR}(b) = \text{Annual Retail Revenue for all KY residential classes for the year (b).}$$

(Cont'd on Sheet No. 38-2)

DATE OF ISSUE: December 23, 2014

DATE EFFECTIVE: Service Rendered On And After January 23, 2015

ISSUED BY: JOHN A. ROGNESS III

TITLE: Director Regulatory Services

By Authority Of Order By The Public Service Commission

In Case No. 2014-00396 Dated XXXXXXXX

BIG SANDY RETIREMENT RIDER (CONT'D)
(B.S.R.R.)**RATE (Cont'd)**

4. *The All Other Classes B.S.R.R. Adjustment shall provide for annual adjustments based on a percent of non-fuel revenues, according to the following formula:*

$$\text{All Other Classes B.S.R.R. Adjustment Factor} = \frac{\text{Net Annual All Other Allocation NOA (y)}}{\text{All Other Classes Non-Fuel Retail Revenue ONR(b)}}$$

Where:

$$\begin{aligned} \text{Net Annual All Other Allocation NOA (y)} &= \text{Annual All Other Allocation OAB(y), not of Over/} \\ &\quad \text{(Under) Recovery Adjustment;} \\ \text{All Other Classes Non-Fuel Retail Revenue ONR(b)} &= \text{Annual Non-Fuel Retail Revenue for all classes} \\ &\quad \text{other than residential for the year (b).} \end{aligned}$$

5. *The annual Big Sandy Retirement Rider adjustments shall be filed with the Commission no later than August 15th of each year before it is scheduled to go into effect on Cycle 1 of the October billing cycle, along with all the necessary supporting data to justify the amount of the adjustments, which shall include data, and information as may be required by the Commission.*
6. *Copies of all documents required to be filed with the Commission shall be open and made available for public inspection at the office of the Public Service Commission pursuant to the provisions of KRS 61.870 to 61.884.*

DATE OF ISSUE: December 23, 2014

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By Authority Of Order By The Public Service Commission

In Case No. 2014-00396 Dated XXXXXXXX

Monthly WACC Calculation

WACC	10.1280%
Monthly	0.8440%
Monthly Payment	1,413,412

Exhibit 7

Recovery of Estimated June 30, 2015 Reg Asset Balance

Year	Additions	Carrying Charges	Levelized Payment	Calculated Change in RA	Estimated June 30, 2015 Reg Asset Balance	ADIT on RA	ADIT Balance	Balance of Components Subject to WACC
					\$207,727,914		(\$72,704,770)	\$135,023,144
1		\$13,574,166	\$16,960,949	(\$3,386,783)	\$204,341,131	\$1,185,374	(\$71,519,396)	\$132,821,735
2		\$13,344,355	\$16,960,949	(\$3,616,593)	\$200,724,538	\$1,265,808	(\$70,253,588)	\$130,470,949
3		\$13,098,951	\$16,960,949	(\$3,861,998)	\$196,862,540	\$1,351,699	(\$68,901,889)	\$127,960,651
4		\$12,836,895	\$16,960,949	(\$4,124,054)	\$192,738,486	\$1,443,419	(\$67,458,470)	\$125,280,016
5		\$12,557,056	\$16,960,949	(\$4,403,892)	\$188,334,594	\$1,541,362	(\$65,917,108)	\$122,417,486
6		\$12,258,230	\$16,960,949	(\$4,702,719)	\$183,631,875	\$1,645,952	(\$64,271,156)	\$119,360,719
7		\$11,939,126	\$16,960,949	(\$5,021,822)	\$178,610,052	\$1,757,638	(\$62,513,518)	\$116,096,534
8		\$11,598,370	\$16,960,949	(\$5,362,579)	\$173,247,474	\$1,876,903	(\$60,636,616)	\$112,610,858
9		\$11,234,491	\$16,960,949	(\$5,726,457)	\$167,521,016	\$2,004,260	(\$58,632,356)	\$108,888,661
10		\$10,845,922	\$16,960,949	(\$6,115,027)	\$161,405,990	\$2,140,259	(\$56,492,096)	\$104,913,893
11		\$10,430,986	\$16,960,949	(\$6,529,963)	\$154,875,027	\$2,285,487	(\$54,206,609)	\$100,669,417
12		\$9,987,894	\$16,960,949	(\$6,973,054)	\$147,902,973	\$2,440,569	(\$51,766,040)	\$96,136,932
13		\$9,514,737	\$16,960,949	(\$7,446,212)	\$140,456,761	\$2,606,174	(\$49,159,866)	\$91,296,895
14		\$9,009,473	\$16,960,949	(\$7,951,475)	\$132,505,286	\$2,783,016	(\$46,376,850)	\$86,128,436
15		\$8,469,925	\$16,960,949	(\$8,491,024)	\$124,014,263	\$2,971,858	(\$43,404,992)	\$80,609,271
16		\$7,893,766	\$16,960,949	(\$9,067,183)	\$114,947,080	\$3,173,514	(\$40,231,478)	\$74,715,602
17		\$7,278,511	\$16,960,949	(\$9,682,438)	\$105,264,642	\$3,388,853	(\$36,842,625)	\$68,422,017
18		\$6,621,508	\$16,960,949	(\$10,339,441)	\$94,925,201	\$3,618,804	(\$33,223,820)	\$61,701,381
19		\$5,919,924	\$16,960,949	(\$11,041,025)	\$83,884,176	\$3,864,359	(\$29,359,462)	\$54,524,714
20		\$5,170,734	\$16,960,949	(\$11,790,215)	\$72,093,961	\$4,126,575	(\$25,232,886)	\$46,861,075
21		\$4,370,707	\$16,960,949	(\$12,590,242)	\$59,503,719	\$4,406,585	(\$20,826,302)	\$38,677,418
22		\$3,516,395	\$16,960,949	(\$13,444,554)	\$46,059,166	\$4,705,594	(\$16,120,708)	\$29,938,458
23		\$2,604,113	\$16,960,949	(\$14,356,836)	\$31,702,330	\$5,024,893	(\$11,095,815)	\$20,606,514
24		\$1,629,928	\$16,960,949	(\$15,331,021)	\$16,371,309	\$5,365,857	(\$5,729,958)	\$10,641,351
25		\$589,640	\$16,960,949	(\$16,371,309)	(\$0)	\$5,729,958	(\$0)	(\$0)
Total		\$216,295,801	\$424,023,715	(\$207,727,914)		\$72,704,770		

**BIG SANDY UNIT 1 OPERATION RIDER
(B.S.I.O.R.)**

APPLICABLE.

To Tariffs R.S., R.S.-L.M.-T.O.D., R.S.-T.O.D., Experimental R.S.-T.O.D. 2, S.G.S., S.G.S.-T.O.D., M.G.S., M.G.S.-T.O.D., L.G.S., L.G.S.-T.O.D., K-12-School, I.G.S., C.S.-I.R.P., M.W., O.L., and S.L.

RATES.

Tariff Class	\$/kWh	\$/kW
R.S., R.S.-L.M.-T.O.D., R.S.-T.O.D., and Experimental R.S.-T.O.D. 2	\$0.00330	—
S.G.S. and S.G.S.-T.O.D.	\$0.00272	--
M.G.S.	\$0.00141	\$0.34
M.G.S. Recreational Lighting, M.G.S.-L.M.-T.O.D., and M.G.S.-T.O.D.	\$0.00283	—
L.G.S. and L.G.S.-T.O.D. and K-12 School	\$0.00139	\$0.45
L.G.S.-L.M.-T.O.D.	\$0.00276	—
I.G.S. and C.S.-I.R.P.	\$0.00139	\$0.55
M.W.	\$0.00248	--
O.L.	\$0.00147	--
S.L.	\$0.00147	--

Tariff BS1OR includes all non-fuel operating expenses related to Big Sandy Unit 1 not otherwise included in Tariff S.S.C. or Tariff FAC. Tariff BS1OR shall also include a return on and of Big Sandy Unit 1 gas conversion capital when placed in service.

The kWh factor as calculated above will be applied to all billing kilowatt-hours for those tariff classes listed above. The kW factor as calculated above will be applied to all on-peak and minimum billing demand kW for the MGS, LGS and IGS tariff classes.

The Big Sandy Unit 1 Operation Rider factors shall be modified annually to collect the approved annual level of Kentucky retail jurisdictional Big Sandy Unit 1 revenue requirement and any prior review period (over)/under recovery.

The Big Sandy Unit 1 Operation Rider factors shall be determined as follows:

For all tariff classes without demand billing:

$$kWh \text{ Factor} = \frac{BS1E \times (BE_{Class} / BE_{Total}) + BS1D \times (CP_{Class} / CP_{Total})}{BE_{Class}}$$

$$kW \text{ Factor} = 0$$

For all tariff classes with demand billing:

$$kWh \text{ Factor} = \frac{BS1E \times (BE_{Class} / BE_{Total})}{BE_{Class}}$$

$$kW \text{ Factor} = \frac{BS1D \times (CP_{Class} / CP_{Total})}{BD_{Class}}$$

(Cont'd on Sheet No. 39-2)

DATE OF ISSUE: December 23, 2014

DATE EFFECTIVE: Service Rendered On And After January 23, 2015

ISSUED BY: JOHN A. ROGNESS III

TITLE: Director Regulatory Services

By Authority Of Order By The Public Service Commission

In Case No. 2014-00396 Dated XXXXXXXXX

BIG SANDY UNIT 1 OPERATION RIDER (CONT'D)
(B.S.I.O.R)

RATES. (Cont'd)

Where:

1. "BSID" is the actual annual retail Big Sandy Unit 1 demand-related costs, plus any prior review period (over)/under recovery.
2. "BSIE" is the actual annual retail Big Sandy Unit 1 energy-related costs, plus any prior review period (over)/under recovery.
3. "BE_{Class}" is the historic annual retail jurisdictional billing kWh for each tariff class for the current year.
4. "BD_{Class}" is the historic annual retail jurisdictional billing kW for each applicable tariff class for the current year.
5. "CP_{Class}" is the coincident peak demand for each tariff class estimated as follows:

Tariff Class	BE _{Class}	CP/kWh Ratio	CP _{Class}
(1)	(2)	(3)	(4)=(2)x(3)
R.S., R.S.-L.M.-T.O.D., R.S.-T.O.D., and Experimental R.S.-T.O.D.		0.0236060%	
S.G.S and S.G.S.-T.O.D.		0.0163937%	
M.G.S.		0.0177002%	
M.G.S. Recreational Lighting, M.G.S.-L.M.-T.O.D., and M.G.S.-T.O.D.		0.0177002%	
L.G.S. and L.G.S.-T.O.D. and K-12 School		0.0169381%	
L.G.S.-L.M.-T.O.D.		0.0169381%	
L.G.S. and C.S.-I.R.P		0.0130626%	
M.W.		0.0134057%	
O.L.		0.0009431%	
S.L.		0.0009890%	
	BE _{Total}		CP _{Total}

6. "BE_{Total}" is the sum of the BE_{Class} for all tariff classes.
7. "CP_{Total}" is the sum of the CP_{Class} for all tariff classes.

The factors as computed above are calculated to allow the recovery of Uncollectible Accounts Expense of 0.3% and the KPSC Maintenance Fee of 0.1952% and other similar revenue based taxes or assessments occasioned by the Big Sandy Unit 1 Operation Rider revenues.

The annual Big Sandy Unit 1 Operation Rider factors shall be filed with the Commission ten (10) days before it is scheduled to go into effect, along with all necessary supporting data to justify the amount of the adjustments, which shall include data and information as may be required by the Commission.

Copies of all documents required to be filed with the Commission shall be open and made available for public inspection at the office of the Public Service Commission pursuant to the provisions of KRS 61.870 to 61.884.

DATE OF ISSUE: December 23, 2014

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By Authority Of Order By The Public Service Commission

In Case No. 2014-00396 Dated XXXXXXXX

Year	Scenario Cost Comparison for 4 Year Cycle				Scenario 2 on 5 yr Cycle	Scenario 2 on 5 yr Cycle Revised on 04202015
	Scenario 1	Scenario 2	Scenario 3	Scenario 4	Scenario 5	Scenario 5 Revised
2010	\$8,950,346	\$8,950,346	\$8,950,346	\$8,950,346	\$8,950,346	\$8,950,346
2011	\$17,261,128	\$17,261,128	\$17,261,128	\$17,261,128	\$17,261,128	\$17,261,128
2012	\$17,029,248	\$17,029,248	\$17,029,248	\$17,029,248	\$17,029,248	\$17,029,248
2013	\$17,466,579	\$17,466,579	\$17,466,579	\$17,466,579	\$17,466,579	\$17,466,579
2014	\$17,237,965	\$17,237,965	\$17,237,965	\$17,237,965	\$17,237,965	\$17,237,965
2015	\$17,237,965	\$27,661,060	\$28,467,336	\$40,801,455	\$27,661,060	\$22,327,777
2016	\$17,237,965	\$27,664,598	\$28,182,662	\$41,125,000	\$27,664,598	\$27,664,598
2017	\$17,237,965	\$27,661,949	\$34,371,345	\$29,775,649	\$27,661,949	\$27,661,949
2018	\$17,237,965	\$27,664,089	\$40,459,059	\$21,456,386	\$27,664,089	\$27,664,089
2019	\$38,462,690	\$20,251,822	\$40,054,468	\$20,251,822	\$16,201,457	\$21,534,740
2020	\$38,078,063	\$20,049,303	\$39,653,924	\$20,049,303	\$16,039,443	\$16,039,443
2021	\$37,697,283	\$19,848,810	\$27,696,470	\$19,848,810	\$15,879,048	\$15,879,048
2022	\$37,320,310	\$19,650,322	\$19,650,322	\$19,650,322	\$15,720,258	\$15,720,258
2023	\$19,453,819	\$19,453,819	\$19,453,819	\$19,453,819	\$15,563,055	\$15,563,055
Totals	\$317,909,291	\$287,851,038	\$355,934,672	\$310,357,832	\$268,000,223	\$268,000,223

Annual Level included in Settlement Base Rates	\$27,661,060
Average Yearly Level beginning July 2019	\$15,880,652
Base Rate Reduction Beginning July 2019	\$11,780,408

Class Allocation of Base Rate Reduction *

Class	Voltage		Total
	Secondary	Primary	
Residential	\$8,168,487		\$8,168,487
SGS	\$376,607		\$376,607
MGS	\$1,213,717	\$15,540	\$1,229,257
LGS and K-12 Schools	\$1,280,582	\$184,399	\$1,464,981
IGS	\$44,413	\$451,811	\$496,224
OL	\$31,131		\$31,131
SL	\$6,668		\$6,668
MW	\$7,053		\$7,053
Total	\$11,128,658	\$651,750	\$11,780,408

* Allocation of Vegetation Management Costs As-Filed

Addition to Terms and Conditions of Service – Sheet No. 2-11

20. **DISTRIBUTION SYSTEM RELIABILITY – VEGETATION MANAGEMENT ADJUSTMENT**

Pursuant to the final order of the Kentucky Public Service Commission in Case No. 2014-00396 and the Settlement Agreement dated April __, 2015 as filed and approved by the Commission, Kentucky Power shall reduce the base retail rates for those tariff classes with primary and secondary service offerings by an aggregate amount equal to \$11,780,408 beginning July 1, 2019 when the Company commences the five-year maintenance cycle. The reduced base rates shall be designed using the tariff class allocation as shown in Exhibit 9 to that Settlement Agreement and the test year billing units as filed by the Company in Case No. 2014-00396 to produce \$11,780,408 less revenue annually. The \$11,780,408 reduction is the difference between the \$27,661,060 built into base rates and the \$15,880,652 average on-going annual spending after the interim clearance program period is complete.

Table 11: Scenario 5 (Mileage Required for 5 Year Cycle)														
	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Yr 1 Miles	463					371								
Yr 2 Miles		463					771							
Yr 3 Miles			826					788						
Yr 4 Miles				826					812					
Yr 5 Miles					1008					370				
Yr 6 Miles						987								
Yr 7 Miles							986							
Yr 8 Miles								986						
Yr 9 Miles									986					
Program Miles	463	932	891	826	1008	1728	1757	1774	1798	1983	1613	1613	1613	1613
	Task 1 - # Miles (Unanimous Settlement Agreement)													
	Task 2 - # Miles Interim Clear at Maintained Cost (4 - 5 to 5 1/2 yrs growth)													
	Task 3 - # Miles at Maintained Cost (5 yrs growth)													

KENTUCKY POWER COMPANY
DEPRECIATION RATES
FROM THE SETTLEMENT AGREEMENT IN CASE NO. 2014-00396

Acct. No.	Account Title	DEPRECIATION RATES
STEAM PRODUCTION PLANT		
BIG SANDY PLANT (a)		
311	Structures & Improvements	3.78%
312	Boiler Plant Equipment	3.78%
312	Boiler Plant Equip SCR Catalyst	4.78%
314	Turbogenerator Units	3.78%
315	Accessory Electrical Equipment	3.78%
316	Misc. Power Plant Equip.	3.78%
MITCHELL PLANT - (b)		
311	Structures & Improvements	2.66%
312	Boiler Plant Equipment	3.05%
312	Boiler Plant Equip SCR Catalyst	12.50%
314	Turbogenerator Units	1.76%
315	Accessory Electrical Equipment	1.56%
316	Misc. Power Plant Equip.	2.72%
TRANSMISSION PLANT (a)		
350.1	Land Rights	1.44%
352	Structures & Improvements	2.06%
353	Station Equipment	2.15%
354	Towers & Fixtures	2.01%
355	Poles & Fixtures	3.95%
356	OH Conductor & Devices	2.91%
357	Underground Conduit	2.99%
358	Underground Conductor & Devices	2.62%
DISTRIBUTION PLANT (c)		
360.1	Land Rights	3.52%
361	Structures & Improvements	3.52%
362	Station Equipment	3.52%
364	Poles, Towers, & Fixtures	3.52%
365	Overhead Conductor & Devices	3.52%
366	Underground Conduit	3.52%
367	Underground Conductor	3.52%
368	Line Transformers	3.52%
369	Services	3.52%
370	Meters	3.52%
371	Installations on Custs. Prem.	3.52%
373	Street Lighting & Signal Sys.	3.52%
GENERAL PLANT (a)		
389.1	Land Rights	1.59%
390	Structures & Improvements	3.97%
391	Office Furniture & Equipment	3.20%
392	Transportation Equipment	3.62%
393	Stores Equipment	4.15%
394	Tools Shop & Garage Equipment	4.20%
395	Laboratory Equipment	6.78%
396	Power Operated Equipment	5.43%
397	Communication Equipment	6.98%
398	Miscellaneous Equipment	6.73%

Notes:

(a) As per the Settlement Agreement in Case No. 2014-00396, the Company's recommended depreciation rates are to be used for Big Sandy Plant, Transmission and General Plant.

(b) Mitchell Plant depreciation rates are based on the Company's calculation as modified by KIUC witness Kellen.

(c) Distribution Plant depreciation remain unchanged from the Kentucky Power 1991 case (Case No. 91-889).

**TARIFF B.E.R.
(Biomass Energy Rider)**

APPLICABLE.

To Tariffs R.S., R.S.-L.M.-T.O.D., R.S.-T.O.D., Experimental R.S.-T.O.D.2, S.G.S., S.G.S.-T.O.D., M.G.S., M.G.S.-T.O.D., L.G.S., L.G.S.-T.O.D., K-12 School, I.G.S., C.S.-I.R.P., M.W., O.L. and S.L.

RATE.

1. When energy is generated and sold to the Company from the ecopower biomass facility, an additional monthly charge shall be assessed. The allocation of the revenue requirement between residential and all other customers shall be based upon their respective contribution to total retail kWh sales during the most recently available 12 month period, according to the following formula:

$$\text{Residential Allocation } RA(m) = [R * P(m)] * [RS(b) / S(b)]$$

$$\text{All Other Allocation } OA(m) = [R * P(m)] * [OS(b) / S(b)]$$

Where:

(m) = the expense month;

(b) = the most recently available calendar twelve month period.

In the above formulas "R" is the rate for the current calendar year approved by this commission in the REPA between ecopower and Kentucky Power Company, "P" is the amount of kWh purchased by Kentucky Power in the current (m) period, and "S" is the kWh sales, all defined below.

2. Rate (R) shall be the dollar per MWh as defined in the REPA between ecopower and Kentucky Power Company, including any applicable escalation factor as defined in the REPA.
3. Produced energy (P) shall be the MWh produced and sold to Kentucky Power Company.
4. Sales (S) shall be all kWh sold, excluding intersystem sales. Utility used energy shall not be excluded in the determination of sales (S). Residential Sales (RS) shall be all kWh sold to the residential class. All Other Sales (OS) shall be all kWh sold to all other classes, where $(OS) = (S) - (RS)$.
5. The residential biomass adjustment factor (RBAF) shall be calculated to the nearest 0.0001 mil per kilowatt-hour, as set forth below.

$$\text{Residential Biomass Adjustment Factor (RBAF)} = RA(m) / RS(m)$$

DATE OF ISSUE: December 23, 2014

DATE EFFECTIVE: Service Rendered On And After January 23, 2015

ISSUED BY: JOHN A. ROGNESS III

TITLE: Director Regulatory Services

By Authority Of Order By The Public Service Commission

In Case No. 2014-00396 Dated XXXXXXXX

**TARIFF B.E.R.
(Biomass Energy Rider)**

RATE. (Cont'd)

6. The commercial and industrial biomass adjustment factor applicable to all non-residential tariffs shall consist of two separate rate components: an energy charge per kilowatt-hour (CIBEAF) and a non-energy charge expressed as a percentage of non-fuel revenues (CIBNAF), as set forth below.

$$CIBEAF = OA(m) * \frac{LMP(b)}{R} / OS(m)$$

$$CIBNAF = OA(m) * \frac{R - LMP(b)}{R} / NFR(m)$$

Where:

- (m) = the expense month;
- (b) = the most recently available calendar twelve month period.

In the above formulas "R" is the rate for the current calendar year approved by this commission in the REPA between ecopower and Kentucky Power Company, "LMP" is the annual average LMP for the most recently available calendar year (b), "NFR" is the non-fuel revenue for all non-residential classes in the current (m) period, and "OS" is the kWh sales, all defined either above or below.

7. Locational Marginal Price (LMP) shall be the average day-ahead location marginal price for the AEP load zone as published by PJM Interconnection, LLC for the most recently available calendar twelve month period;
8. Non-Fuel Revenue (NFR) shall be non-fuel retail revenue for all classes other than residential for the expense month (m).
9. Any over/under recovery will be reflected in the monthly filing for the second billing month following the month the cost is incurred.
10. The monthly biomass energy rider shall be filed with the Commission ten (10) days before it is scheduled to go into effect, along with all the necessary supporting data to justify the amount of the adjustment, which shall include data, and information as may be required by the Commission.
11. Copies of all documents required to be filed with the Commission shall be open and made available for public inspection at the office of the Public Service Commission pursuant to the provisions of KRS61.870 to 61.884.

DATE OF ISSUE: December 23, 2014

DATE EFFECTIVE: Service Rendered On And After January 23, 2015

ISSUED BY: JOHN A. ROGNESS III

TITLE: Director Regulatory Services

By Authority Of Order By The Public Service Commission

In Case No. 2014-00396 Dated XXXXXXXXX

RESERVED FOR FUTURE USE

DATE OF ISSUE: December 23, 2014

DATE EFFECTIVE: Service Rendered On And After January 23, 2015

ISSUED BY: JOHN A. ROGNESS III

TITLE: Director Regulatory Services

By Authority Of Order By The Public Service Commission

In Case No. 2014-00396 Dated XXXXXXXX

IV. PJM RIDER

1 **Q. WHAT DOES THE COMPANY PROPOSE TO INCLUDE IN THE PJM RIDER?**

2 A. The Company is proposing to include various PJM Open Access Transmission Tariff
3 (OATT), energy, ancillary and administrative service charges and credits that it incurs
4 from its participation as a load serving entity (LSE) and generation resource owner in the
5 organized wholesale power markets of the PJM RTO.

6 **Q. WHAT SPECIFIC PJM CHARGE AND CREDIT ITEMS IS THE COMPANY
7 PROPOSING TO INCLUDE IN THE PJM RIDER?**

8 A. The Company is proposing to include all of its PJM LSE charges and credits which are
9 currently made up of but not limited to the following items: congestion, Financial
10 Transmission Rights (FTRs), meter corrections, operating reserve, inadvertent energy,
11 economic load response, synchronous condensing, reactive service, black start service,
12 regulation, synchronized reserve, day ahead scheduling reserve, peak hour PJM capacity
13 availability charges, market defaults and administrative services. PJM LSE marginal loss
14 charges and the marginal loss over collection credits will not be included since they are
15 included in the Company's fuel clause.

16 The Company is also proposing to include the following PJM LSE transmission
17 items: network integration transmission service (NITS) charges, transmission owner
18 scheduling system control and dispatch service (TO) charges, regional transmission
19 expansion plan (RTEP) charges, point-to-point (PTP) transmission service credits, RTO
20 start-up cost recovery charges and expansion cost recovery (ECRC) charges. In addition
21 to the above, the Company also proposes to include any new PJM LSE charges or credits
22 that may arise and be billed to the Company per the PJM tariffs.

EXHIBIT 14

PAGE 1 OF 2

1 to AEP and the excellent work it has been doing for not only its companies, but
2 for the entire utility network across the country.

3 **Q. WHY IS THE NCCR NECESSARY?**

4 A. As detailed in the testimony of Company Witness Stogran, NERC continues to
5 revise existing reliability standards and issue new reliability standards, and a
6 similar or increased level of activity in the future would be difficult to continue to
7 absorb and recover only through base rates. Cybersecurity needs also continue to
8 grow as new threats emerge and new vulnerabilities are identified. The NCCR
9 provides a mechanism for Kentucky Power to recover compliance costs for
10 cybersecurity in a timely fashion.

11 **Q. WHAT WILL BE RECOVERED THROUGH THE NCCR?**

12 A. The NCCR initially would be established at zero as a placeholder. Going
13 forward, the NCCR is intended to recover capital related costs and O&M
14 compliance costs associated with items such as information technology
15 infrastructure, physical security, workforce training, supervisory control and data
16 acquisition (SCADA) systems, smart grid security systems, internal and external
17 audits, external reporting, and recordkeeping. For example, program costs to
18 perform vulnerability assessments due to a specific identified threat could be a
19 type of cost proposed for inclusion in the NCCR. The Company would ensure
20 that only NERC-related capital and O&M costs are recovered through this
21 mechanism.

22 AEP is at the forefront of industry efforts to plan and prepare for these
23 types of NERC compliance and cybersecurity obligations. Kentucky Power

EXHIBIT 14
PAGE 2 OF 2

1 intends to continue planning and preparing for future compliance and
2 cybersecurity obligations, but unforeseen increases in compliance costs cannot
3 simply be absorbed within existing budgets. If new NERC compliance and
4 cybersecurity costs materialize, Kentucky Power will propose to the Commission,
5 in a rider application, recovery of these identified costs through the NCCR.
6 Company witness Rogness discusses the mechanics of how the NCCR will
7 recover the costs associated with these compliance activities in the event that
8 recovery is pursued.

9 Q. DOES THIS CONCLUDE YOUR DIRECT TESTIMONY?

10 A. Yes.

KENTUCKY POWER COMPANY

P.S.C. KY. NO. 10 ORIGINAL SHEET NO. 9-9
CANCELLING P.S.C. KY. NO. 10 SHEET NO. 9-9

**TARIFF K-12 SCHOOL
(Public School)**

AVAILABILITY OF SERVICE.

Available for general service to K-12 School customers subject to KRS 160.325 with normal maximum demands greater than 100 KW but not more than 1,000 KW.

RATE.

Tariff Code	Service Voltage			
	Secondary	Primary	Subtransmission	Transmission
Service Charge per Month	\$ 85.00	\$ 127.50	\$ 628.50	\$ 628.50
Demand Charge per KW	\$ 4.67	\$ 4.53	\$ 4.48	\$ 4.41
Excess Reactive Charge per KVA	\$ 3.46	\$ 3.46	\$ 3.46	\$ 3.46
Energy Charge per KWH	7.692¢	6.535¢	4.517¢	4.425¢

MINIMUM CHARGE.

Bills computed under the above rate are subject to a monthly minimum charge comprised of the sum of the service charge and the minimum demand charge. The minimum demand charge is the product of the demand charge per KW and the monthly billing demand.

FUEL ADJUSTMENT CLAUSE.

Bills computed according to the rates set forth herein will be increased or decreased by a Fuel Adjustment Factor per KWH calculated in compliance with the Fuel Adjustment Clause contained in Sheet Nos. 5-1 and 5-2 of this Tariff Schedule.

SYSTEM SALES CLAUSE.

Bills computed according to the rates set forth herein will be increased or decreased by a System Sales Factor per KWH calculated in compliance with the System Sales Clause contained in Sheet Nos. 19-1 and 19-2 of this Tariff Schedule.

DEMAND-SIDE MANAGEMENT ADJUSTMENT CLAUSE.

Bills computed according to the rates set forth herein will be increased or decreased by an Demand-Side Management Adjustment Clause Factor per KWH calculated in compliance with the Demand-Side Management Adjustment Clause contained in Sheet Nos. 22-1 through 22-13 of this Tariff Schedule, unless the customer is an industrial who has elected to opt-out in accordance with the terms pursuant to the Commission's Order in Case No. 95-427.

ASSET TRANSFER RIDER.

Bills computed according to the rates set forth herein will be increased or decreased by an Asset Transfer Adjustment Factor based on a percent of revenue in compliance with the Asset Transfer Rider contained in Sheet No. 36-1 through 36-2 of this Tariff Schedule. The Asset Transfer Adjustment Factor will be applied to bills until such time as the pro rata amount (computed on a 365-day annual basis) authorized to be recovered via Tariff A.T.R. in the Stipulation and Settlement Agreement, approved as modified by the Commission by its order dated October 7, 2013 in Case No. 2012-00578, has been recovered.

(Cont'd. On Sheet No. 9-10)

DATE OF ISSUE: December 23, 2014

DATE EFFECTIVE: Service Rendered On And After January 22, 2015

ISSUED BY: JOHN A. ROGNESS III

TITLE: Director Regulatory Services

By Authority Of Order By The Public Service Commission

In Case No. 2014-00396 Dated XXXXXXXX

TARIFF K-12 SCHOOL (Cont'd)
(Public School)

DELAYED PAYMENT CHARGE.

This tariff is due and payable in full on or before the due date stated on the bill. On all accounts not so paid, an additional charge of 5% of the unpaid balance will be made.

METERED VOLTAGE.

The rates set forth in this tariff are based upon the delivery and measurement of energy at the same voltage, thus measurement will be made at or compensated to the delivery voltage. At the sole discretion of the Company, such compensation may be achieved through the use of loss compensating equipment, the use of formulas to calculate losses or the application of multipliers to the metered quantities. In such cases, the metered KWH and KW values will be adjusted for billing purposes. If the Company elects to adjust KWH and KW based on multipliers, the adjustment shall be in accordance with the following:

- (1) *Measurements taken at the low-side of a customer-owned transformer will be multiplied by 1.01.*
- (2) *Measurements taken at the high-side of a Company-owned transformer will be multiplied by 0.98.*

MONTHLY BILLING DEMAND.

Billing demand in KW shall be taken each month as the highest 15-minute integrated peak in kilowatts as registered during the month by a 15-minute integrating demand meter or indicator, or at the Company's option as the highest registration of a thermal type demand meter or indicator. The monthly billing demand so established shall in no event be less than 60% of the greater of (a) the customer's contract capacity or (b) the customer's highest previously established monthly billing demand during the past 11 months.

DETERMINATION OF EXCESS KILOVOLT-AMPERE (KVA) DEMAND.

The maximum KVA demand shall be determined by the use of a multiplier equal to the reciprocal of the average power factor recorded during the billing month, leading or lagging, applied to the metered demand. The excess KVA demand, if any, shall be the amount by which the maximum KVA demand established during the billing period exceeds 115% of the kilowatts of metered demand.

(Cont'd on Sheet No. 9-12)

DATE OF ISSUE: December 23, 2014

DATE EFFECTIVE: Service Rendered On And After January 22, 2015

ISSUED BY: JOHN A. ROGNESS III

TITLE: Director Regulatory Services

By Authority Of Order By The Public Service Commission

In Case No. 2014-00396 Dated XXXXXXXX

TARIFF K-12 SCHOOL (Cont'd)
(Public School)**BIG SANDY RETIREMENT RIDER.**

Bills computed according to the rates set forth herein will be increased or decreased by a Big Sandy Retirement Rider Adjustment Factor based on a percent of revenue in compliance with the Big Sandy Retirement Rider contained in Sheet No. 38-1 through 38-2 of this Tariff Schedule.

BIG SANDY I OPERATION RIDER.

Bills computed according to the rates set forth herein will be increased or decreased by a Big Sandy I Operation Rider Adjustment Factor per kW and/or kWh calculated in compliance with the Big Sandy I Operation Rider contained in Sheet Nos. 39-1 through 39-2 of this Tariff Schedule.

PURCHASE POWER ADJUSTMENT.

Bills computed according to the rates set forth herein will be increased or decreased by a Purchase Power Adjustment Factor based on a percent of revenue in compliance with the Purchase Power Adjustment contained in Sheet No. 35-1 of this Tariff Schedule.

ENVIRONMENTAL SURCHARGE.

Bills computed according to the rates set forth herein will be increased or decreased by an Environmental Surcharge Adjustment based on a percent of revenue in compliance with the Environmental Surcharge contained in Sheet Nos. 29-1 through 29-5 of this Tariff Schedule.

CAPACITY CHARGE.

Bills computed according to the rates set forth herein will be increased by a Capacity Charge Factor per KWH calculated in compliance with the Capacity Charge Tariff contained in Sheet No. 28-1 through 28-2 of this Tariff Schedule.

KENTUCKY ECONOMIC DEVELOPMENT SURCHARGE.

Applicable to all customers. Bills computed according to the rates set forth herein shall be increased by a KEDS charge of \$0.15 per month and shall be shown on the customers' bills as a separate line item. The KEDS charge will be applied to all customer electric bills rendered during the billing cycles commencing July 2015 and continue until otherwise directed by the Public Service Commission.

HOME ENERGY ASSISTANCE PROGRAM (HEAP) CHARGE.

Applicable to all residential customers. Bills computed according to the rates set forth herein shall be increased by a HEAP charge of 15¢ per meter per month and shall be shown on the residential customers bill as a separate line item. The Home Energy Assistance Program charge will be applied to all residential electric bills rendered during the billing cycles commencing July 2010 and continue until otherwise directed by the Public Service Commission.

(Cont'd on Sheet No. 9-11)

DATE OF ISSUE: December 23, 2014

DATE EFFECTIVE: Service Rendered On And After January 22, 2015

ISSUED BY: JOHN A. ROGNESS III

TITLE: Director Regulatory Services

By Authority Of Order By The Public Service Commission

In Case No. 2014-00396 Dated XXXXXXXX

TARIFF K-12 SCHOOL (Cont'd)
(Public School)

TERM OF CONTRACT.

Contracts under this tariff will be made for customers requiring a normal maximum monthly demand between 500 KW and 1,000 KW and be made for an initial period of not less than 1 (one) year and shall remain in effect thereafter until either party shall give at least 6 months written notice to the other of the intention to terminate the contract. The Company reserves the right to require initial contracts or periods greater than 1 (one) year. For customers with demands less than 500 KW, a contract may, at the Company's option, be required.

Where new Company facilities are required, the Company reserves the right to require initial contracts for periods greater than one year for all customers served under this tariff.

A new initial contract period will not be required for existing customers who change their contract requirements after the original initial period unless new or additional facilities are required.

CONTRACT CAPACITY.

The Customer shall set forth the amount of capacity contracted for (the "contract capacity") in an amount up to 1,000 KW. Contracts will be made in multiples of 25 KW. The Company is not required to supply capacity in excess of such contract capacity except with express written consent of the Company.

SPECIAL TERMS AND CONDITIONS.

This tariff is subject to the Company's Terms and Conditions of Service.

This tariff is also available to Customers having other sources of energy supply but who desire to purchase standby or back-up electric service from the Company. Where such conditions exist the customer shall contract for the maximum amount of demand in KW, which the Company might be required to furnish, but not less than 100 KW nor more than 1,000 KW. The Company shall not be obligated to supply demands in excess of the contract capacity. Where service is supplied under the provisions of this paragraph, the billing demand each month shall be the highest determined for the current and previous two billings periods, and the minimum charge shall be as set forth under paragraph "Minimum Charge" above.

This tariff is available for resale service to mining and industrial customers who furnish service to customer-owned camps or villages where living quarters are rented to employees and where the customer purchases power at a single point for both his power and camp requirements.

Customers with PURPA Section 210 qualifying cogeneration and/or small power production facilities shall take service under Tariff COGEN/SPP I or II or by special agreement with the Company.

DATE OF ISSUE: December 23, 2014

DATE EFFECTIVE: Service Rendered On And After January 22, 2015

ISSUED BY: JOHN A. ROGNESS III

TITLE: Director Regulatory Services

By Authority Of Order By The Public Service Commission

In Case No. 2014-00396 Dated XXXXXXXX

TARIFF I.G.S.
(Industrial General Service)

AVAILABILITY OF SERVICE.

Available for commercial and industrial customers with contract demands of at least 1,000 KW. Customers shall contract for a definite amount of electrical capacity in kilowatts, which shall be sufficient to meet normal maximum requirements.

RATE.

	<u>Secondary</u>	<u>Primary</u>	<u>Service Voltage Subtransmission</u>	<u>Transmission</u>
Tariff Code	356	358/370	359/371	360/372
Service Charge per month	\$ 276.00	\$ 276.00	\$ 794.00	\$ 1,353.00
Demand Charge per KW				
Of monthly on-peak billing demand	\$ 18.23	\$ 15.21	\$ 10.02	\$ 9.75
Of monthly off-peak billing demand	\$ 1.10	\$ 1.07	\$ 1.05	\$ 1.04
Energy Charge per KWH	3.357¢	3.241¢	3.205¢	3.167¢

Reactive Demand Charge for each kilovar of maximum leading or lagging reactive demand in excess of 50 percent of the KW of monthly metered demand \$0.69/ KVAR

For the purpose of this tariff, the on-peak billing period is defined as 7:00 AM to 9:00 PM for all weekdays, Monday through Friday. The off-peak billing period is defined as 9:00 PM to 7:00 AM for all weekdays and all hours of Saturday and Sunday.

MINIMUM DEMAND CHARGE.

The minimum demand charge shall be equal to the minimum billing demand times the following minimum demand rates:

<u>Secondary</u>	<u>Primary</u>	<u>Subtransmission</u>	<u>Transmission</u>
\$19.59/KW	\$16.53 /KW	\$11.32/KW	\$11.03/KW

The minimum billing demand shall be the greater of 60% of the contract capacity set forth on the contract for electric service or 60% of the highest billing demand, on-peak or off-peak, recorded during the previous eleven months.

MINIMUM CHARGE.

This tariff is subject to a minimum charge equal to the Service Charge plus the Minimum Demand Charge.

FUEL ADJUSTMENT CLAUSE.

Bills computed according to the rates set forth herein will be increased or decreased by a Fuel Adjustment Factor per KWH calculated in compliance with the Fuel Adjustment Clause contained in Sheet Nos. 5-1 and 5-2 of this Tariff Schedule.

SYSTEM SALES CLAUSE.

Bills computed according to the rates set forth herein will be increased or decreased by a System Sales Factor per KWH calculated in compliance with the System Sales Clause contained in Sheet Nos. 19-1 and 19-2 of this Tariff Schedule.

(Cont'd on Sheet No. 10-2)

DATE OF ISSUE: December 23, 2014

DATE EFFECTIVE: Service Rendered On And After January 22, 2015

ISSUED BY: JOHN A. ROGNESS III

TITLE: Director Regulatory Services

By Authority Of Order By The Public Service Commission

In Case No. 2014-00396 Dated XXXXXXXX

TARIFF I.G.S.
(Industrial General Service)**DEMAND-SIDE MANAGEMENT ADJUSTMENT CLAUSE.**

Bills computed according to the rates set forth herein will be increased or decreased by a Demand-Side Management Adjustment Clause Factor per KWH calculated in compliance with the Demand-Side Management Adjustment Clause contained in Sheet Nos. 22-1 through 22-13 of this Tariff Schedule, unless the customer is an industrial who has elected to opt-out in accordance with the terms pursuant to the Commission's Order in Case No. 95-427.

ASSET TRANSFER RIDER.

Bills computed according to the rates set forth herein will be increased or decreased by an Asset Transfer Adjustment Factor based on a percent of revenue in compliance with the Asset Transfer Rider contained in Sheet No. 36-1 through 36-2 of this Tariff Schedule. The Asset Transfer Adjustment Factor will be applied to bills until such time as the pro rata amount (computed on a 365-day annual basis) authorized to be recovered via Tariff A.T.R. in the Stipulation and Settlement Agreement, approved as modified by the Commission by its order dated October 7, 2013 in Case No. 2012-00578, has been recovered.

BIG SANDY RETIREMENT RIDER.

Bills computed according to the rates set forth herein will be increased or decreased by a Big Sandy Retirement Rider Adjustment Factor based on a percent of revenue in compliance with the Big Sandy Retirement Rider contained in Sheet No. 38-1 through 38-2 of this Tariff Schedule.

BIG SANDY I OPERATION RIDER.

Bills computed according to the rates set forth herein will be increased or decreased by a Big Sandy I Operation Rider Adjustment Factor per kW and/or kWh calculated in compliance with the Big Sandy I Operation Rider contained in Sheet Nos. 39-1 through 39-2 of this Tariff Schedule.

PURCHASE POWER ADJUSTMENT.

Bills computed according to the rates set forth herein will be increased or decreased by a Purchase Power Adjustment Factor based on a percent of revenue in compliance with the Purchase Power Adjustment contained in Sheet No. 35-1 of this Tariff Schedule.

ENVIRONMENTAL SURCHARGE.

Bills computed according to the rates set forth herein will be increased or decreased by an Environmental Surcharge adjustment based on a percent of revenue in compliance with the Environmental Surcharge contained in Sheet Nos. 29-1 through 29-5 of the Tariff Schedule.

CAPACITY CHARGE.

Bills computed according to the rates set forth herein will be increased by a Capacity Charge Factor per KWH calculated in compliance with the Capacity Charge Tariff contained in Sheet No. 28-1 through 28-2 of this Tariff Schedule.

(Cont'd on Sheet No. 10-3)

DATE OF ISSUE: December 23, 2014

DATE EFFECTIVE: Service Rendered On And After January 22, 2015

ISSUED BY: JOHN A. ROGNESS III

TITLE: Director Regulatory Services

By Authority Of Order By The Public Service Commission

In Case No. 2014-00396 Dated XXXXXXXX

KENTUCKY POWER COMPANY

P.S.C. KY. NO. 10 ORIGINAL SHEET NO. 10-4
CANCELLING P.S.C. KY. NO. 10 _____ SHEET NO. 10-4

TARIFF I.G.S.
(Industrial General Service)

TERM OF CONTRACT.

Contracts under this tariff will be made for an initial period of not less than two years and shall remain in effect thereafter until either party shall give at least 12 months' written notice to the other of the intention to terminate the contract. The Company reserves the right to require initial contracts for periods greater than two years.

A new initial contract period will not be required for existing customers who change their contract requirements after the original initial period unless new or additional facilities are required.

CONTRACT CAPACITY

The Customer shall set forth the amount of capacity contracted for ("the contract capacity") in an amount equal to or greater than 1,000 KW in multiples of 100 KW. The Company is not required to supply capacity in excess of such contract capacity except with express written consent of the Company.

SPECIAL TERMS AND CONDITIONS.

This tariff is subject to the Company's Terms and Conditions of Service.

This tariff is available for resale service to mining and Industrial Customers who furnish service to Customer-owned camps or villages where living quarters are rented to employees and where the Customer purchases power at a single point for both the power and camp requirements.

This tariff is also available to Customers having other sources of energy supply, but who desire to purchase standby or back-up electric service from the Company. Where such conditions exist the Customer shall contract for the maximum amount of demand in KW which the Company might be required to furnish, but not less than 1,000 KW. The Company shall not be obligated to supply demands in excess of that contracted capacity. Where service is supplied under the provisions of this paragraph, the billing demand each month shall be the highest determined for the current and previous two billing periods, and the minimum charge shall be as set forth under paragraph "Minimum Charge" above.

A Customer's plant is considered as one or more buildings, which are served by a single electrical distribution system provided and operated by the Customer. When the size of the Customer's load necessitates the delivery of energy to the Customer's plant over more than one circuit, the Company may elect to connect its circuits to different points on the Customer's system irrespective of contrary provisions in Terms and Conditions of Service.

Customer with PURPA Section 210 qualifying cogeneration and/or small power production facilities shall take service under Tariff COGEN/SPP II or by special agreement with the Company.

DATE OF ISSUE: December 23, 2014

DATE EFFECTIVE: Service Rendered On And After January 22, 2015

ISSUED BY: JOHN A. ROGNESS III

TITLE: Director Regulatory Services

By Authority Of Order By The Public Service Commission

In Case No. 2014-00396 Dated XXXXXXXXX

TARIFF I.G.S.
(Industrial General Service)

KENTUCKY ECONOMIC DEVELOPMENT SURCHARGE.

Applicable to all customers. Bills computed according to the rates set forth herein shall be increased by a KEDS charge of \$0.15 per month and shall be shown on the customers' bills as a separate line item. The KEDS charge will be applied to all customer electric bills rendered during the billing cycles commencing July 2015 and continue until otherwise directed by the Public Service Commission.

HOME ENERGY ASSISTANCE PROGRAM (HEAP) CHARGE.

Applicable to all residential customers. Bills computed according to the rates set forth herein shall be increased by a HEAP charge of 15¢ per meter per month and shall be shown on the residential customers bill as a separate line item. The Home Energy Assistance Program charge will be applied to all residential electric bills rendered during the billing cycles commencing July 2010 and continue until otherwise directed by the Public Service Commission.

DELAYED PAYMENT CHARGE.

Bills under this tariff are due and payable within fifteen (15) days of the mailing date. On all accounts not paid in full by the next billing date, an additional charge of 5% of the unpaid portion will be made.

METERED VOLTAGE.

The rates set forth in this tariff are based upon the delivery and measurement of energy at the same voltage, thus measurement will be made at or compensated to the delivery voltage. At the sole discretion of the Company, such compensation may be achieved through the use of loss compensating equipment, the use of formulas to calculate losses or the application of multipliers to the metered quantities. In such cases, the metered KWH and KVA values will be adjusted for billing purposes. If the Company elects to adjust KWH and KW based on multipliers, the adjustment shall be in accordance with the following:

- (1) Measurements taken at the low-side of a Customer-owned transformer will be multiplied by 1.01.*
- (2) Measurements taken at the high-side of a Company-owned transformer will be multiplied by 0.98.*

MONTHLY BILLING DEMAND.

The monthly on-peak and off-peak billing demands in KW shall be taken each month as the highest single 15-minute integrated peak in KW as registered by a demand meter during the on-peak and off-peak billing periods, respectively.

The reactive demand in KVARs shall be taken each month as the highest single 15-minute integrated peak in KVARs as registered during the month by a demand meter or indicator.

(Cont'd on Sheet No. 10-4)

DATE OF ISSUE: December 23, 2014

DATE EFFECTIVE: Service Rendered On And After January 22, 2015

ISSUED BY: JOHN A. ROGNESS III

TITLE: Director Regulatory Services

By Authority Of Order By The Public Service Commission

In Case No. 2014-00396 Dated XXXXXXXX

APPENDIX B

APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE
COMMISSION IN CASE NO. 2014-00396 DATED **JUN 22 2015**

The following rates and charges are prescribed for the customers in the area served by Kentucky Power Company. All other rates and charges not specifically mentioned herein shall remain the same as those in effect under authority of this Commission prior to the effective date of this Order.

TARIFF R.S.
RESIDENTIAL SERVICE

Service Charge per month	\$ 11.00
Energy Charge per kWh	\$.08910
Storage Water Heating Provision - per kWh	\$.05209
Load Management Water Heating Provision - per kWh	\$.05209
Home Energy Assistance Program Charge per meter per month	\$.15

TARIFF R.S.-L.M.-T.O.D.
RESIDENTIAL SERVICE LOAD MANAGEMENT TIME-OF-DAY

Service Charge per month	\$ 13.60
Energy Charge per kWh:	
All kWh used during on-peak billing period	\$.13509
All kWh used during off-peak billing period	\$.05209
Separate Metering Provision per Month	\$ 3.75
Home Energy Assistance Program Charge per meter per month	\$.15

TARIFF R.S.-T.O.D.
RESIDENTIAL SERVICE TIME-OF-DAY

Service Charge per month	\$ 13.60
Energy Charge per kWh:	
All kWh used during on-peak billing period	\$.13509
All kWh used during off-peak billing period	\$.05209
Home Energy Assistance Program Charge per meter per month	\$.15

TARIFF R.S.-T.O.D. 2
EXPERIMENTAL RESIDENTIAL SERVICE TIME-OF-DAY 2

Service Charge per month	\$ 13.60
Energy Charge per kWh:	
All kWh used during summer on-peak billing period	\$.10833
All kWh used during winter on-peak billing period	\$.12009
All kWh used during off-peak billing period	\$.0801
Home Energy Assistance Program Charge per meter per month	\$.15

S.G.S.
SMALL GENERAL SERVICE

Service Charge per month	\$ 17.50
Energy Charge per kWh:	
First 500 kWh per month	\$.11826
All over 500 kWh per month	\$.07382

S.G.S.
SMALL GENERAL SERVICE
LOAD MANAGEMENT TIME-OF-DAY PROVISION

Service Charge per month	\$ 17.50
Energy Charge per kWh:	
All kWh used during on-peak billing period	\$.14475
All kWh used during off-peak billing period	\$.05215

S.G.S.
SMALL GENERAL SERVICE
OPTIONAL UNMETERED SERVICE PROVISION

Service Charge per month	\$ 13.50
Energy Charge per kWh:	
First 500 kWh per month	\$.11826
All over 500 kWh per month	\$.07382

TARIFF S.G.S.-T.O.D.
SMALL GENERAL SERVICE TIME-OF-DAY

Service Charge per month	\$ 17.50
Energy Charge per kWh:	
All kWh used during summer on-peak billing period	\$.11510
All kWh used during winter on-peak billing period	\$.12430
All kWh used during off-peak billing period	\$.08782

M.G.S.
MEDIUM GENERAL SERVICE

Secondary Service Voltage:

Service Charge per month	\$ 17.50
Energy Charge per kWh:	
kWh equal to 200 times kW of monthly billing demand	\$.10313
kWh in excess of 200 times kW of monthly billing demand	\$.08851
Demand Charge per kW	\$ 1.91

Primary Service Voltage:

Service Charge per month	\$ 50.00
Energy Charge per kWh:	
kWh equal to 200 times kW of monthly billing demand	\$.09472
kWh in excess of 200 times kW of monthly billing demand	\$.08475
Demand Charge per kW	\$ 1.87

Sub-transmission Service Voltage:

Service Charge per month	\$ 364.00
Energy Charge per kWh:	
kWh equal to 200 times kW of monthly billing demand	\$.08749
kWh in excess of 200 times kW of monthly billing demand	\$.08218
Demand Charge per kW	\$ 1.83

The minimum monthly charge for industrial and coal mining customers contracting for 3-phase service after October 1, 1959, shall be \$7.95 per kW of monthly billing demand.

M.G.S.
MEDIUM GENERAL SERVICE
RECREATIONAL LIGHTING SERVICE PROVISION

Service Charge per month	\$ 17.50
Energy Charge per kWh	\$.09381

M.G.S.
MEDIUM GENERAL SERVICE
LOAD MANAGEMENT TIME-OF-DAY PROVISION

Service Charge per month	\$ 3.75
Energy Charge per kWh:	
All kWh used during on-peak billing period	\$.16070
All kWh used during off-peak billing period	\$.05456

TARIFF M.G.S.-T.O.D.
MEDIUM GENERAL SERVICE TIME-OF-DAY

Service Charge per month	\$ 17.50
Energy Charge per kWh:	
All kWh used during on-peak billing period	\$.16070
All kWh used during off-peak billing period	\$.05456

L.G.S.
LARGE GENERAL SERVICE

<u>Secondary Service Voltage:</u>	
Service Charge per month	\$ 85.00
Energy Charge per kWh	\$.08081
Demand Charge per kW	\$ 4.67

<u>Primary Service Voltage:</u>	
Service Charge per month	\$ 127.50
Energy Charge per kWh	\$.06924
Demand Charge per kW	\$ 4.53

<u>Sub-transmission Service Voltage:</u>	
Service Charge per month	\$ 628.50
Energy Charge per kWh	\$.04906
Demand Charge per kW	\$ 4.48

<u>Transmission Service Voltage:</u>	
Service Charge per month	\$ 628.50
Energy Charge per kWh	\$.04814
Demand Charge per kW	\$ 4.41

<u>All Service Voltages:</u>	
Excess Reactive Charge per KVA	\$ 3.46

L.G.S.
LARGE GENERAL SERVICE
LOAD MANAGEMENT TIME-OF-DAY PROVISION

Service Charge per month	\$ 85.00
Energy Charge per kWh:	
All kWh used during on-peak billing period	\$.13251
All kWh used during off-peak billing period	\$.05440

L.G.S.-T.O.D.
LARGE GENERAL SERVICE TIME-OF-DAY

<u>Secondary Service Voltage:</u>	
Service Charge per month	\$ 85.00
Energy Charge:	
On-Peak Energy Charge per kWh	\$.08657
Off-Peak Energy Charge per kWh	\$.04502
Demand Charge per kW	\$ 9.55
 <u>Primary Service Voltage:</u>	
Service Charge per month	\$ 127.50
Energy Charge:	
On-Peak Energy Charge per kWh	\$.08356
Off-Peak Energy Charge per kWh	\$.04381
Demand Charge per kW	\$ 6.85
 <u>Sub-transmission Service Voltage:</u>	
Service Charge per month	\$ 628.50
Energy Charge:	
On-Peak Energy Charge per kWh	\$.08265
Off-Peak Energy Charge per kWh	\$.04344
Demand Charge per kW	\$ 1.06
<u>Transmission Service Voltage:</u>	
Service Charge per month	\$ 628.50
Energy Charge:	
On-Peak Energy Charge per kWh	\$.08167
Off-Peak Energy Charge per kWh	\$.04305
Demand Charge per kW	\$ 1.05
 <u>All Service Voltages:</u>	
Excess Reactive Charge per KVA	\$ 3.46

TARIFF K-12 SCHOOL
PUBLIC SHCOOL

<u>Secondary Service Voltage:</u>	
Service Charge per month	\$ 85.00
Energy Charge per kWh	\$.07692
Demand Charge per kW	\$ 4.67
 <u>Primary Service Voltage:</u>	
Service Charge per month	\$ 127.50
Energy Charge per kWh	\$.06535
Demand Charge per kW	\$ 4.53

<u>Sub-transmission Service Voltage:</u>	
Service Charge per month	\$ 628.50
Energy Charge per kWh	\$.04517
Demand Charge per kW	\$ 4.48

<u>Transmission Service Voltage:</u>	
Service Charge per month	\$ 628.50
Energy Charge per kWh	\$.04425
Demand Charge per kW	\$ 4.41

<u>All Service Voltages:</u>	
Excess Reactive Charge per KVA	\$ 3.46

TARIFF M.W.
MUNICIPAL WATERWORKS

Service Charge per month	\$ 22.90
Energy Charge - All kWh per kWh	\$.08630

Subject to a minimum monthly charge equal to the sum of the service charge plus \$8.20 per KVA as determined from customer's total connected load.

TARIFF C.S. – I.R.P.
CONTRACT SERVICE – INTERRUPTIBLE POWER

Credits under this tariff of \$3.68/kW/month will be provided for interruptible load that qualifies under PJM's rules as capacity for the purpose of Kentucky Power's Fixed Resource Requirement obligations.

TARIFF I.G.S.
INDUSTRIAL GENERAL SERVICE

<u>Secondary Service Voltage:</u>	
Service Charge per month	\$ 276.00
Energy Charge per kWh	\$.03357
Demand Charge per kW	
Of Monthly On-Peak Billing Demand	\$ 18.23
Of Monthly Off-Peak Billing Demand	\$ 1.10

<u>Primary Service Voltage:</u>	
Service Charge per month	\$ 276.00
Energy Charge per kWh	\$.03241
Demand Charge per kW	
Of Monthly On-Peak Billing Demand	\$ 15.21
Of Monthly Off-Peak Billing Demand	\$ 1.07

Sub-transmission Service Voltage:

Service Charge per month	\$ 794.00
Energy Charge per kWh	\$.03205
Demand Charge per kW	
Of Monthly On-Peak Billing Demand	\$ 10.02
Of Monthly Off-Peak Billing Demand	\$ 1.05

Transmission Service Voltage:

Service Charge per month	\$1,353.00
Energy Charge per kWh	
	\$.03167
Demand Charge per kW	
Of Monthly On-Peak Billing Demand	\$ 9.75
Of Monthly Off-Peak Billing Demand	\$ 1.04

All Service Voltages:

Reactive demand charge for each kilovar of maximum leading or lagging reactive demand in excess of 50 percent of the kW of monthly metered demand is \$.69 per KVAR.

Minimum Demand Charge

The minimum demand charge shall be equal to the minimum billing demand times the following minimum demand rates per kW:

Secondary	\$ 19.59
Primary	\$ 16.53
Subtransmission	\$ 11.32
Transmission	\$ 11.03

TARIFF O.L.
OUTDOOR LIGHTING

OVERHEAD LIGHTING SERVICE

High Pressure Sodium per Lamp:

100 Watts (9,500 Lumens)	\$ 9.35
150 Watts (16,000 Lumens)	\$ 10.65
200 Watts (22,000 Lumens)	\$ 12.40
250 Watts (28,000 Lumens)	\$ 17.75
400 Watts (50,000 Lumens)	\$ 19.20

Mercury Vapor per Lamp:

175 Watts (7,000 Lumens)	\$ 10.55
400 Watts (20,000 Lumens)	\$ 18.25

POST-TOP LIGHTING SERVICE

High Pressure Sodium per Lamp:	
100 Watts (9,500 Lumens)	\$ 14.15
150 Watts (16,000 Lumens)	\$ 23.20
100 Watts Shoe Box (9,500 Lumens)	\$ 32.90
250 Watts Shoe Box (28,000 Lumens)	\$ 25.95
400 Watts Shoe Box (50,000 Lumens)	\$ 43.15
Mercury Vapor per Lamp:	
175 Watts (7,000 Lumens)	\$ 12.10

FLOOD LIGHTING SERVICE

High Pressure Sodium per Lamp:	
200 Watts (22,000 Lumens)	\$ 14.50
400 Watts (50,000 Lumens)	\$ 20.35
Metal Halide:	
250 Watts (20,500 Lumens)	\$ 18.00
400 Watts (36,000 Lumens)	\$ 22.75
1,000 Watts (110,000 Lumens)	\$ 41.50
250 Watts Mongoose (19,000 Lumens)	\$ 24.75
400 Watts Mongoose (40,000 Lumens)	\$ 29.60
Per Month:	
Wood Pole	\$ 3.10
Overhead Wire Span not over 150 Feet	\$ 1.80
Underground Wire Lateral not over 50 Feet	\$ 6.75

TARIFF S.L. STREET LIGHTING

Rate per Lamp:	
Overhead Service on Existing Distribution Poles	
High Pressure Sodium	
100 Watts (9,500 Lumens)	\$ 7.85
150 Watts (16,000 Lumens)	\$ 8.95
200 Watts (22,000 Lumens)	\$ 10.80
400 Watts (50,000 Lumens)	\$ 16.15
Service on New Wood Distribution Poles	
High Pressure Sodium	
100 Watts (9,500 Lumens)	\$ 11.10
150 Watts (16,000 Lumens)	\$ 12.30
200 Watts (22,000 Lumens)	\$ 14.25
400 Watts (50,000 Lumens)	\$ 19.95

Service on New Metal or Concrete Poles

High Pressure Sodium	
100 Watts (9,500 Lumens)	\$ 20.45
150 Watts (16,000 Lumens)	\$ 21.45
200 Watts (22,000 Lumens)	\$ 27.30
400 Watts (50,000 Lumens)	\$ 29.65

TARIFF COGEN/SPP I
COGENERATION AND/OR SMALL POWER PRODUCTION
100 KW OR LESS

Monthly Metering Charges:

Single Phase:

Standard Measurement	\$ 8.15
Time-of-Day Measurement	\$ 8.70

Polyphase:

Standard Measurement	\$ 10.65
Time-of-Day Measurement	\$ 10.95

Energy Credit per kWh:

Standard Meter – All kWh	\$.03790
Time-of-Day Meter:	
On-Peak kWh	\$.04640
Off-Peak kWh	\$.03180

Capacity Credit:

Standard Meter per kW	\$ 3.54
Time-of-Day Meter per kW	\$ 8.49

TARIFF COGEN/SPP II
COGENERATION AND/OR SMALL POWER PRODUCTION
OVER 100 KW

Metering Charges:

Single Phase:

Standard Measurement	\$ 8.15
Time-of-Day Measurement	\$ 8.70

Polyphase:

Standard Measurement	\$ 10.65
Time-of-Day Measurement	\$ 10.95

Energy Credit per kWh:		
Standard Meter – All kWh	\$	.03790
Time-of-Day Meter:		
On-Peak kWh	\$	.04640
Off-Peak kWh	\$	.03180
Capacity Credit:		
Standard Meter per kW	\$	3.54
Time-of-Day Meter per kW	\$	8.49

TARIFF C.C.
CAPACITY CHARGE

Energy Charge per kWh:		
Service Tariff		
I.G.S.	\$	.000656
All Other	\$	.001185

RIDER A.F.S.
ALTERNATE FEED SERVICE RIDER

Monthly Rate for Annual Test of Transfer Switch/Control Module	\$	14.25
Monthly Capacity Reservation Demand Charge per kW	\$	5.76

ECONOMIC DEVELOPMENT SURCHARGE

Applicable to All Rate Classes per meter per month	\$.15
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B.S.1.O.R.
BIG SANDY UNIT 1 OPERATION RIDER

Residential Service		
Residential Service Load Management Time-of-Day		
Residential Service Time-of-Day		
Experimental Residential Service Time-of-Day 2 Charge per kWh	\$	0.00330
Small General Service		
Small General Service Time-of-Day Charge per kWh	\$	0.00272
Medium General Service		
Charge per kWh	\$	0.00141
Charge per kW	\$	0.34

Medium General Service Recreational Lighting Service Provision		
Medium General Service Load Management Time-of-Day Provision		
Medium Service Time-of-Day		
Charge per kWh	\$	0.00283
Large General Service		
Large General Service Time-of-Day		
Public Schools		
Charge per kWh	\$	0.00139
Charge per kW	\$	0.45
Large General Service Load Management Time-of-Day Provision		
Charge per kWh	\$	0.00276
Industrial General Service		
Curtailable Service – Interruptible Power		
Charge per kWh	\$	0.00139
Charge per kW	\$	0.55
Municipal Water Works		
Charge per kWh	\$	0.00248
Outdoor Lighting		
Charge per kWh	\$	0.00147
Street Lighting		
Charger per kWh	\$	0.00147

NONRECURRING CHARGES

Reconnect for non-payment – regular hours	\$	21.00
Reconnect for non-payment – overtime hours	\$	30.00
Reconnect for non-payment – call out	\$	95.00
Reconnect for non-payment – double time	\$	124.00
Termination or field trip	\$	13.00
Returned Check Charge	\$	18.00
Meter Test Charge	\$	48.00
Meter Reading Check	\$	21.00

APPENDIX C

APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE
COMMISSION IN CASE NO. 2014-00396 DATED **JUN 22 2015**

NON-CONTESTED ADJUSTMENTS TO REVENUES AND EXPENSES

Adjustments	Amount
Capacity Charge Revenues Rockport Unit Power Agreement	(\$5,719,968)
Weather Normalization (overall)	(\$2,380,420)
Eliminate Environmental Surcharge Revenues	\$2,812,947
Customer Migration Adjustment	\$149,766
Customer Annualization Adjustment	(\$160,351)
Miscellaneous Service Charges	\$251,903
Fuel Under (Over) Revenues	(\$5,298,776)
Asset Transfer Rider Gross-Up	\$10,014,069
Remove AEP Pool Costs	(\$10,480,841)
System Sales Margin	\$60,722,845
O&M Expense Interest on Customer Deposit	(\$2,422)
Normalization / Elimination of Commission Mandated Consultant Cost	\$84,864
Normalization Major Storms Adjustment	(\$647,763)
Amortization Storm Cost Deferral	(\$2,237,475)
Rate Case Expense	\$258,037
Postage Rate Increase Adjustment	\$12,219
Eliminate Advertising Expense	(\$30,610)
Annualization of Lease Costs	\$72,974
Reliability Adjustment	\$10,655,900
Annualization of Employee Benefit Plan Costs	(\$206,580)
Annualization Employee Related Expense	\$36,587
PJM Charges and Credits Adjustment to Reflect Pool Termination & Mitchell Transfer	\$7,584,302
Adjustments to Include Test Year Mitchell Plant O&M and Rate Base	\$10,712,560
Eliminate Mitchell O&M FGD	(\$14,879,350)
Cost of Removal Adjustment 2014	\$69,695
Kentucky Power Company Depreciation Annualization Expense	\$12,771,261
Amortization of Intangible Expense	\$209,475
Mitchell Depreciation Annualization Expense	\$3,764,718
Removal of Big Sandy Depreciation	(\$17,212,456)
ARO Depreciation	\$237,400
Remove RTO Amortization	(\$149,718)
ARO Accretion	\$363,539
Annualization of Property Tax Expense	\$314,531
KPSC Maintenance Assessment	\$92,475
Sales & Use Tax	\$116,430
State Franchise Tax	\$9,020

APPENDIX D

APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE
COMMISSION IN CASE NO. 2014-00396 DATED **JUN 22 2015**

Environmental Compliance Plan

<u>Project</u>	<u>Plant</u>	<u>Pollutant</u>	<u>Description</u>	<u>In-Service Year</u>
<u>Kentucky Power Company's Previously Approved Environmental Compliance Projects</u>				
1	Mitchell	NOx, SO2, and SO3	Mitchell Units 1 & 2 Water Injection, Low NOx Burners, Low NOx Burner Modification, SCR, FGD, Landfill, Coal Blending Facilities & SO3 Mitigation	1993- 1994- 2002- 2007
2	Mitchell	SO2, NOx and Gypsum	Mitchell Plant Common CEMS, Replace Burner Barrier Valves & Gypsum Material Handling Facilities	1993- 1994- 2007
3	Rockport	SO2 / NOx	Continuous Emission Monitors ("CEMS")	1994
4	Rockport	NOx, Fly Ash, & Bottom Ash	Rockport Units 1 & 2 Low NOx Burners, Over Fire Air & Landfill	2003- 2008
5	Mitchell & Rockport	SO2, NOx, Particulates & VOC and etc.	Title V Air Emissions Fees at Mitchell and Rockport Plants	Annual
6	Big Sandy, Mitchell and Rockport	NOx	Costs Associated with NOx Allowances	As Needed
7	Big Sandy, Mitchell and Rockport	SO2	Costs Associated with SO2 Allowances	As Needed
<u>Kentucky Power Company's Proposed Environmental Compliance Projects</u>				
8	Big Sandy, Mitchell and Rockport	SO2 / NOx	Costs Associated with the CSAPR Allowances	As Needed

9	Mitchell	Particulates	Mitchell Units 1 & 2 - Precipitator Modifications	2007-2013
10	Mitchell	Particulates	Mitchell Units 1 & 2 - Bottom Ash & Fly Ash Handling	2008-2010
11	Mitchell	Mercury	Mitchell Units 1 & 2 - Mercury Monitoring ("MATS")	2014
12	Mitchell	Selenium	Mitchell Units 1 & 2 - Dry Fly Ash Handling Conversion	2014
13	Mitchell	Fly Ash, Bottom Ash, Gypsum & WWTP Solids	Mitchell Units 1 & 2 - Coal Combustion Waste Landfill	2014
14	Mitchell	Particulates	Mitchell Unit 2 - Electrostatic Precipitator Upgrade	2015
15	Rockport	Particulates	Rockport Units 1 & 2 - Precipitator Modifications	2004-2009
16	Rockport	Mercury	Rockport Units 1 & 2 - Activated Carbon Injection ("ACI") & Mercury Monitoring	2009-2010
17	Rockport	Hazardous Air Pollutants ("HAPS")	Rockport Units 1 & 2 - Dry Sorbent Injection	2015
18	Rockport	Fly Ash & Bottom Ash	Rockport Plant Common - Coal Combustion Waste Landfill Upgrade to Accept Type 1 Ash	2013 & 2015

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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	)	CASE NO.
SERVICE; (2) AN ORDER APPROVING ITS 2017	)	2017-00179
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)	

ORDER

Kentucky Power Company ("Kentucky Power"), a wholly owned subsidiary of American Electric Power Company, Inc. ("AEP") is an electric utility that generates, transmits, distributes, and sells electricity to approximately 168,000 consumers in all or portions of 20 counties in eastern Kentucky.¹ Kentucky Power owns and operates a 285-megawatt ("MW") gas-fired steam-electric generating unit in Louisa, Kentucky, and owns and operates a 50 percent undivided interest in a coal-fired generating station in Moundsville, West Virginia; Kentucky Power's share consists of 780 MW. Kentucky Power obtains an additional 393 MW from Rockport (Indiana) Plant Generating Units No. 1 and No. 2 under a unit power agreement ("Rockport UPA"). Kentucky Power's transmission system is operated by PJM Interconnection, LLC ("PJM"), a regional

¹ Application at 2. Kentucky Power also furnishes electric service at wholesale to the Cities of Olive Hill and Vanceburg, Kentucky.

electric grid and market operator. Kentucky Power's most recent general rate increase was granted in June 2015 in Case No. 2014-00396.²

BACKGROUND

On April 26, 2017, Kentucky Power filed notice of its intent to file an Application ("Application") for approval of an increase in its electric rates based on a historical test year ending February 28, 2017. By Order entered May 24, 2017, the Commission granted Kentucky Power's motion to deviate from certain filing requirements, which Kentucky Power requested in order to obtain additional time to review its Application before its proposed filing date of June 28, 2017.

Kentucky Power tendered its Application on June 28, 2017, which included new rates to be effective on or after July 29, 2017, based on a request to increase its electric revenues by \$65,387,987, or 11.80 percent. On August 7, 2017, Kentucky Power supplemented its Application to reflect the impact of refinancing of certain debts in June 2017, which reduced Kentucky Power's requested annual increase in revenues to \$60,397,438. In its Application, Kentucky Power also requested approval of its environmental compliance plan, and proposed to revise, add, and delete various tariffs applicable to its electric service. After Kentucky Power cured filing deficiencies, its Application was deemed filed as of July 20, 2017. To determine the reasonableness of these requests, the Commission suspended the proposed rates for five months from their effective date, pursuant to KRS 278.190(2), up to and including January 18, 2018.

² Case No. 2014-00396, *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* (Ky. PSC June 22, 2015) ("Case No. 2014-00396, Final Order").

The following parties requested and were granted full intervention: the Attorney General of the Commonwealth of Kentucky, by and through his Office of Rate Intervention ("Attorney General"); Kentucky Industrial Utility Customers, Inc. ("KIUC"); Kentucky School Boards Association ("KSBA"); Kentucky League of Cities ("KLC"); Kentucky Commercial Utility Customers, Inc. ("KCUC"); Kentucky Cable Telecommunications Association ("KCTA"); and Wal-Mart Stores East, LP and Sam's East, Inc. (jointly, "Walmart").

By order entered on July 17, 2017, the Commission established a procedural schedule that provided for discovery, intervenor testimony, rebuttal testimony from Kentucky Power,³ a formal evidentiary hearing, and an opportunity for the parties to file post hearing briefs.⁴ On October 26, 2017, and November 7, 2017, an informal conference ("IC") was held at the Commission's offices to discuss procedural matters and the possible resolution of pending issues. All parties participated in the IC held on October 26, 2017, with the exception of KCTA, who engaged in separate discussions with Kentucky Power regarding possible resolution of issues pertaining to the Cable Television Pole Attachment Tariff ("Tariff C.A.T.V.") The Attorney General did not attend the November 7, 2017 IC due to a scheduling conflict, but indicated that the IC should proceed as scheduled. At the November 7, 2017 IC, the parties in attendance,

³ On October 11, 2017, the Attorney General filed a motion to amend the procedural schedule to permit him to file rebuttal testimony. Kentucky Power and KLC each filed responses in opposition. By order issued October 24, 2017, the Commission found the Attorney General failed to establish good cause to amend the procedural schedule and denied the Attorney General's motion.

⁴ The Commission conducted public meetings in Kentucky Power's service territory on November 2, 2017, in Prestonsburg, Kentucky; on November 6, 2017, in Hazard, Kentucky; and on November 8, 2017, in Ashland, Kentucky.

with the exception of KCUC, arrived at an agreement in principle for the resolution of the issues raised in this case.

On November 22, 2017, Kentucky Power, KIUC, KLC, KSBA, KCTA, and Walmart ("Settling Intervenor") filed a Settlement Agreement ("Settlement") that addressed all of the issues raised in this proceeding. The Attorney General and KCUC are not signatories to the Settlement. The Settlement is attached as Appendix A to this Order.

Because the Settlement was not unanimous, the December 6, 2017, evidentiary hearing was held as scheduled for the purposes of hearing testimony in support of the Settlement and on contested issues. On January 5, 2018, Kentucky Power, the Attorney General, KIUC, and KCUC filed their respective post hearing briefs. The matter now stands submitted to the Commission for a decision.

SETTLEMENT AGREEMENT

The Settlement reflects the agreement of the parties, except for the Attorney General and KCUC, on all issues raised in this case. The major substantive areas addressed in the Settlement are as follow:

- Kentucky Power's electric retail revenues should be increased by \$31,780,734, effective January 19, 2018.⁵ This amount consists of a base rate revenue reduction of \$28,616,704 from the \$60,397,438 requested in Kentucky Power's August 7, 2017 supplemental filing.

⁵ Settlement, paragraphs 2(a) and 17.

- Establishment of deferral mechanisms for \$50 million in non-fuel, non-environmental Rockport UPA expenses.⁶
- Amendment of the Purchase Power Adjustment tariff (“Tariff P.P.A.”) to recover incremental PJM Open Access Transmission Tariff (“OATT”) Load Serving Entity (“LSE”) charges and credits above or below net PJM OATT LSE charges and credits in base rates.⁷
- Amendment of Tariff P.P.A. as described in the Direct Testimony of Alex E. Vaughan (“Vaughan Direct Testimony”) to collect from, or credit to, customers the amount of purchased power costs that are excluded from recovery through the Fuel Adjustment Clause (“FAC”), and gains and losses from incidental sales of natural gas purchased for use at Big Sandy Unit 1, but not used or stored.⁸
- Establishment of 20-year service life for Big Sandy Unit 1 for depreciation rates.⁹
- Establishment of a return on equity of 9.75 percent.¹⁰
- Agreement to lower the Kentucky Economic Development Surcharge rate (“Tariff K.E.D.S.”) for residential customers and increase the rate for non-residential customers, with matching contribution by Kentucky Power.¹¹

⁶ *Id.* at paragraph 3.

⁷ *Id.* at paragraph 4.

⁸ *Id.* at paragraph 6.

⁹ *Id.* at paragraph 7.

¹⁰ *Id.* at paragraph 8.

¹¹ *Id.* at paragraph 10.

- Agreement to continue Tariff K-12 School as a permanent customer class instead of a pilot rate.¹²
- Agreement that Kentucky Power will not request a general adjustment of base rates for rates that would be effective prior to the January 2021 billing cycle.¹³
- Increase Kentucky Power's customer charge for Residential Service customers to \$14.00 per month.¹⁴

CONTESTED REVENUE REQUIREMENT AND REVENUE ALLOCATION ISSUES

Kentucky Power proposed an annual increase in its electric revenues of \$60,397,438 in its August 7, 2017 supplemental filing. Through testimony, the Attorney General contended that Kentucky Power should be allowed to increase its electric revenues by \$39.9 million.¹⁵ Through testimony, KCUC contended that the revenue allocation contained in the Settlement does not provide fair or reasonable treatment for customers in the Large General Service class ("Tariff L.G.S."). Because the parties have not reached a unanimous settlement on the increase in revenues, the Commission must consider the evidentiary record on these issues as presented by Kentucky Power, the Attorney General, and KCUC, and render a decision based on a determination of Kentucky Power's capital, rate base, operating revenues, operating expenses, and revenue allocation, as would be done in a fully litigated rate case

¹² *Id.* at paragraphs 1213.

¹³ *Id.* at paragraph 5.

¹⁴ *Id.* at paragraph 16.

¹⁵ Direct Testimony of Ralph C. Smith ("Smith Testimony") at 12.

TEST PERIOD

Kentucky Power proposed the 12-month period ending February 28, 2017, as the test period for determining the reasonableness of its proposed rates. None of the intervenors contested the use of this period as the test period. The Commission finds it is reasonable to use the 12-month period ending February 28, 2017, as the test period in this case. Due to the timing of Kentucky Power's filing, the 12-month period ending February 28, 2017, is the most recent feasible period to use for setting rates and, except for the adjustments approved herein, the revenues and expenses incurred during that period are neither unusual nor extraordinary.¹⁶ In using this historic test period, the Commission has given full consideration to appropriate known and measurable changes.

RATE BASE

Jurisdictional Rate Base Ratio

Kentucky Power proposed a test-year-end Kentucky jurisdictional rate base of \$1,323,494,246.¹⁷ The Kentucky jurisdictional rate base is divided by Kentucky Power's test-year-end total company rate base to derive the Kentucky jurisdictional rate base ratio ("jurisdictional ratio"). This jurisdictional ratio is then applied to Kentucky Power's total company capitalization to derive the Kentucky jurisdictional capitalization. The jurisdictional ratio uses the test-year-end rate base before any ratemaking adjustments

¹⁶ On May 22, 2017, Kentucky Power filed a motion to deviate from filing requirement 807 KAR 5:001, Section 12(1)(a), which requires the submission of a detailed financial exhibit for the 12-month test period ending not more than 90 days prior to the date of its application. Kentucky Power requested to deviate by filing the required financial exhibit for 12-month period ending 120 days, rather than 90 days, prior to the date of its application. By Order, the Commission approved Kentucky Power's motion to deviate from 807 KAR 5:001, Section 12(1)(a) (Ky. PSC May 24, 2017).

¹⁷ Application, Section V, Exhibit 1, Schedule 4.

applicable to either Kentucky jurisdictional operations or other jurisdictional operations. Kentucky Power used a jurisdictional ratio of 98.3 percent.¹⁸ The Commission finds the calculation of Kentucky Power's test-year electric rate base reasonable for purposes of establishing the jurisdictional ratio.

Pro Forma Jurisdictional Rate Base

Kentucky Power calculated a pro forma jurisdictional rate base of \$1,194,888,447,¹⁹ which reflects the types of adjustments made by the Commission in prior rate cases to determine the pro forma rate base.

The Attorney General proposed one adjustment to Kentucky Power's proposed rate base for the Cash Working Capital ("CWC") allowance. The Attorney General proposed an allowance of \$18,953,980, which is \$740,459 lower than the \$19,694,529 proposed by Kentucky Power in its Application. While indicating a preference for using a lead-lag study, the Attorney General stated that if CWC is to be calculated using the Commission's long-standing 1/8th formula approach, then the proper level of CWC for ratemaking purposes should be based on the pro forma operations and maintenance expenses allowed by the Commission.²⁰ The Attorney General also stated that since Kentucky Power's revenue requirement is calculated based upon its jurisdictional capitalization rather than its adjusted jurisdictional rate base, any adjustment to CWC would have no impact on the revenue requirement.²¹

¹⁸ *Id.* The non-jurisdictional percentage of approximately 1.7 percent is due to the furnishing of electric service at wholesale to the City of Olive Hill and the City of Vanceburg.

¹⁹ *Id.*

²⁰ Smith Testimony at 22.

²¹ *Id.* at 23.

While the Commission agrees with the methodology the Attorney General utilized for calculating the CWC, the Commission does not agree with the Attorney General's proposed CWC. The CWC allowance included in the rate base, as shown below, is based on the adjusted operation and maintenance ("O&M") expenses discussed in this Order, as approved by the Commission. The Commission has determined Kentucky Power's pro forma jurisdictional rate base for ratemaking purposes for the test year to be as follows:

Total Utility Plant in Service	\$2,264,648,845
Add:	
Materials & Supplies	36,344,575
Prepayments	49,905,719
Cash Working Capital Allowance	18,905,292
Subtotal	<u>\$105,155,586</u>
Deduct:	
Accumulated Depreciation	764,544,392
Customer Advances	27,076,876
Accumulated Deferred Income Taxes	384,084,108
Contributions in Aid of Construction	
Subtotal	<u>\$1,175,705,376</u>
Pro Forma Rate Base	<u>\$1,194,099,055</u>

Reproduction Cost Rate Base

KRS 278.290 (1) states, in relevant part, that:

[T]he commission shall give due consideration to the history and development of the utility and its property, original cost, cost of reproduction as a going concern, capital structure, and other elements of value recognized by the law of the land for ratemaking purposes.

Neither Kentucky Power, the Attorney General, nor KCUC provided information regarding Kentucky Power's proposed Kentucky jurisdictional reproduction cost rate

base. Therefore, the Commission finds that using Kentucky Power's historic costs for deriving its rate base is appropriate and consistent with Commission precedent involving Kentucky Power, as well as other Kentucky jurisdictional utilities.

CAPITALIZATION

Kentucky Power proposed an adjusted Kentucky jurisdictional capitalization of \$1,191,785,493.²² This amount was derived through adjustments to exclude certain environmental compliance investments that remain part of the environmental rate base and are included in Kentucky Power's environmental surcharge mechanism.

Kentucky Power determined its electric capitalization by multiplying its total company capitalization by the rate base jurisdictional allocation ratio described earlier in this Order. This is consistent with the approach used in previous Kentucky Power rate cases.

The Attorney General did not recommend any adjustments to Kentucky Power's capitalization. The Attorney General proposed one adjustment to rate base for CWC, since it does not affect Kentucky Power's jurisdictional capitalization, but recommended no change to the amount proposed by Kentucky Power.

The Commission finds the proposed amount of Kentucky Power's jurisdictional capitalization is reasonable.

REVENUES AND EXPENSES

For the test year, Kentucky Power reported actual net operating income from its electric operations of \$85,033,742.²³ Kentucky Power proposed 55 adjustments to

²² Application, Section II, Exhibit L.

²³ Application, Section V, Exhibit 1, Supplemental Schedule 4 (filed Aug. 7, 2017).

revenues and expenses to reflect more current and anticipated operating conditions, resulting in an adjusted net operating income of \$43,690,670.²⁴ With this level of net operating income, Kentucky Power reported an adjusted test year revenue deficiency of \$60,397,438.²⁵

The Attorney General accepted 45 of Kentucky Power's proposed adjustments to its test-year revenues and expenses.

A list of the non-contested adjustments is contained in Appendix B to this Order. The Attorney General proposed 14 additional adjustments to Kentucky Power's operating income relating to: 1) theft recovery revenue; 2) payroll expense – employee merit increase; 3) overtime payroll expense related to employee merit increase; 4) payroll tax expense; 5) incentive compensation expense; 6) stock-based compensation; 7) savings plan expense; 8) supplemental executive retirement program expense; 9) affiliate charge for corporate aviation expense; 10) storm damage expense; 11) relocation expense; 12) gain on sale of utility property; 13) cash surrender value of life insurance policies; and 14) rate case expense.

The Attorney General's proposed adjustments pertain solely to Kentucky Power's base rate revenue requirements. The Commission makes the following determinations regarding the Attorney General's proposed base rate adjustments.

Theft Recovery Revenue

The Attorney General proposed an adjustment to increase Kentucky Power's theft recovery revenue by \$166,698 based upon Kentucky Power's estimate of

²⁴ *Id.*

²⁵ *Id.* at Schedule V, Supplemental Exhibit 2 (filed Aug. 7, 2017).

increased theft recovery revenue.²⁶ Kentucky Power expects to increase theft recovery revenue due to the addition of a new administrative assistant who would allow Kentucky Power's field investigators to spend more time on suspected energy theft.

The Commission finds that the Attorney General's proposed adjustment regarding theft recovery revenue is reasonable, and therefore the proposed adjustment for theft recovery revenue of \$166,698 should be allowed for ratemaking purposes.

Payroll Expenses: Employee Merit Increase, Overtime Payroll Expense, and Payroll Taxes

The Attorney General proposed adjustments to payroll expense for employee merit increases for non-exempt salaried employees, overtime payroll expense related to employee merit increases, and associated payroll taxes in the amount of \$57,205, \$4,148, and \$48,362, respectively. The Attorney General argued that Kentucky Power did not justify basing its proposed payroll expense adjustment on an annual merit increase of 3.5 percent. The Attorney General maintained that the payroll expense adjustment should be based upon a 3.0 percent merit increase.²⁷ Limiting the merit increase to 3.0 percent results in corresponding adjustments to overtime and payroll tax expenses. The payroll tax adjustment includes the impact of limiting the merit increase to 3.0 percent and other adjustments to incentive compensation and stock-based compensation proposed by the Attorney General.

Kentucky Power maintained that the test year wage increases are reasonable. A comparison of Kentucky Power's total target compensation with the 2016 EAPDIS

²⁶ Smith Testimony at 24; Kentucky Power's Response to the Attorney General's First Request for Information ("Attorney General's First Request"), Item 319.

²⁷ *Id.* at 26-30.

Energy, Technical, Craft & Clerical Survey (Southeast region data) reveals that, on average, Kentucky Power's compensation was 5.4 percent below the average for the region.²⁸ Kentucky Power claimed that, in light of the survey results, the test year wage increases were necessary to provide market competitive wages to target and retain employees.

The Commission finds that Kentucky Power's test year wages are reasonable and that the Attorney General's proposed adjustments to payroll expense for employee merit increases for non-exempt salaried employees, overtime payroll expense related to employee merit increase and payroll taxes should be denied.

Incentive Compensation and Stock Based Compensation

Kentucky Power included \$3,900,806 of incentive compensation plan ("ICP") costs²⁹ and \$1,758,874 in Long-Term Incentive Plan ("LTIP") costs in its Kentucky jurisdictional revenue requirement.³⁰ These amounts reflect the adjustments made by Kentucky Power.³¹ In the Settlement, Kentucky Power and the Settling Intervenors agreed to reduce incentive compensation expenses by \$3.15 million, which included incentive compensation and stock-based compensation.

²⁸ Application, Direct Testimony of Andrew J. Carlin ("Carlin Direct Testimony"), Exhibit ARC-4.

²⁹ Kentucky Power's Response to Commission Staff's Second Request for Information (Staff's Second Request"), Item 85; Kentucky Power's Response to KIUC's First Request for Information ("KIUC's First Request"), Item 31.

³⁰ Smith Testimony at 31. This consists of Kentucky Power direct-charged jurisdictional O&M expense of \$2,255,760, AEP allocated amount of \$3,118,781 and charges from other affiliates of \$51,300 less \$1,525,035 that was removed from the revenue requirement per the Application, Section V, Exhibit 2, Workpaper 32.

³¹ Application, Direct Testimony of Tyler H. Ross ("Ross Direct Testimony") at 14.

The Attorney General recommended reducing incentive compensation expense by a total of \$3,096,868. The Attorney General recommended an adjustment of ICP costs that decreased test year expense by \$1,350,120 on a Kentucky jurisdictional basis, which represented the removal of the 25 percent of ICP costs that represent performance measures tied to increasing shareholder value.³² The Attorney General maintained that ratepayers should not be responsible for those costs because Kentucky Power's shareholders are the main beneficiaries of the 25 percent performance measure for quantitative financial objectives, which include earnings per share.³³ Similarly, the Attorney General argued that \$1,746,748 in stock-based compensation costs should be removed because ratepayers should not be required to pay management compensation based on the performance of Kentucky Power's stock price, which primarily benefits Kentucky Power's parent company.³⁴ In support of his argument, the Attorney General pointed to previous cases in which the Commission held that ratepayers should not bear the cost of stock-based compensation programs unless there is clear and definitive quantitative evidence demonstrating a benefit to ratepayers.³⁵

In response, Kentucky Power argued that the Attorney General's adjustment to the proposed incentive compensation expense was not warranted because the

³² Smith Testimony at 35, Exhibit RCS-1, page 3 of 32; Smith Testimony at 30-31. The 2016 ICP was weighted 75 percent to AEP's earnings per share and 25 percent to other metrics

³³ *Id.* at 31.

³⁴ *Id.* at 39.

³⁵ Case No. 2014-00397, Final Order at 27-28; Case No. 2005-00042, *An Adjustment of the Gas Rates of the Union Light, Heat and Power Company* (Ky. PSC Feb. 2, 2006); Case No. 2010-00036, *Application of Kentucky-American Water Company for an Adjustment of Rates Supported by a Fully Forecasted Test Year* (Ky. PSC Dec. 14, 2010).

incentive compensation programs provide benefits to both Kentucky Power's customers and its shareholders.³⁶

The Commission finds that the Settlement provision that reduces incentive compensation by \$3.15 million, which is a greater reduction than the adjustment recommended by the Attorney General, is reasonable and should be approved.

Savings Plan Expense

Kentucky Power included \$1,662,975 in its jurisdictional revenue requirement for savings plan expense for employees who participate in a defined benefit plan and have matching 401(k) contributions from Kentucky Power.³⁷

The Attorney General proposed a Kentucky jurisdictional adjustment of \$1,102,496 for savings plan expense for employees who participate in a defined benefit plan and have matching 401(k) contributions from Kentucky Power.

In rebuttal, Kentucky Power explained that participation in the defined benefit plan ended in 2000 and benefits were frozen in 2010.³⁸ Therefore, Kentucky Power does not contribute to a defined benefit plan and 401(k) matching plan at the same time. The Commission has disallowed such matching contributions when both a defined benefit plan and 401(k) matching contribution exist concurrently. This is not the case with Kentucky Power.

The Commission finds that Kentucky Power's savings plan expense is reasonable and should be allowed for ratemaking purposes.

³⁶ Rebuttal Testimony of Andrew R. Carlin ("Carlin Rebuttal Testimony") at 7.

³⁷ Kentucky Power's Response to Staff's Second Request, Item 56.h. and i.

³⁸ Dec. 7, 2017 H.V.T. at 4:50:20.

Supplemental Executive Retirement Plan (“SERP”)

The Attorney General proposed an adjustment of \$52,453 for the expense associated with Kentucky Power’s Supplemental Executive Retirement Plan (“SERP”). The Attorney General argued that such plans provide benefits to executives that exceed amounts limited in qualified retirement plans by the Internal Revenue Service.³⁹ The Attorney General also maintained that the provision of additional retirement compensation to Kentucky Power’s highest paid executives is not a reasonable expense that should be recovered in rates.

In rebuttal, Kentucky Power stated that the total benefit it provides under both its qualified and non-qualified plan is equal to the benefit that would be produced by the formulas utilized under the qualified plans if these plans were not subject to the benefit limitations imposed on qualified plans.⁴⁰

The Commission finds the SERP expenses reasonable and, therefore, should be allowed for ratemaking purposes.

Affiliate Charge for Corporate Aviation Expense

The Attorney General proposed an adjustment of \$382,769 to remove the cost of the AEP corporate aviation expense charged to Kentucky Power during the test year.⁴¹ The Attorney General argued that AEP corporate aviation is a perquisite for AEP executives and directors and, as such, shareholders should bear the cost, not ratepayers.

³⁹ Smith Testimony at 42.

⁴⁰ Carlin Rebuttal Testimony at R-32.

⁴¹ Smith Testimony at 43-44.

The Commission disagrees with the Attorney General's proposed adjustment for corporate aviation expense. While private jet travel may appear to be an extravagance, legitimate travel expenses would have been incurred through commercial airlines. The Commission finds that the aviation expense proposed by Kentucky Power is reasonable and should be approved.

Storm Damage Expense

Kentucky Power proposed an adjustment of \$595,932 for storm damage expense based upon a three-year average of major storm expense. The Attorney General proposed an adjustment to reduce storm damage expense by \$595,932, arguing that Kentucky Power had not demonstrated a compelling reason to increase test year storm damage expense.⁴²

Kentucky Power explained that it used a three-year average to normalize the level of costs to address the uncertainty regarding when, and how much, a major storm will affect Kentucky Power and because using only the test year amount in a base rate filing could lead to major swings in adjustments for storm damage expense.⁴³

The Commission finds that Kentucky Power's storm damage expense adjustment is reasonable and should be allowed for ratemaking purposes.

Test Year Relocation Expense

Kentucky Power included a \$318,073 adjustment for relocation expense in its test year revenue requirement.⁴⁴ The Attorney General proposed an adjustment to

⁴² *Id.* at 44.

⁴³ Rebuttal Testimony of Ranie K. Wohnhas ("Wohnhas Rebuttal Testimony") at R-18 – R-19.

⁴⁴ Kentucky Power's Response to the Attorney General's First Request, Item 251.

normalize relocation expenses that reduced the test year operating expenses by \$140,972 on a Kentucky jurisdictional basis.⁴⁵

In response to Commission Staff's Post-Hearing Data Request, Item 14, Kentucky Power stated that its relocation expense for the eight-month period March 1, 2017 to October 31, 2017 totaled \$125,736. Annualized over a twelve-month period ending February 28, 2018, relocation expenses are forecasted to total \$188,604. On a Kentucky jurisdictional basis, relocation expenses for the twelve months ending February 28, 2018 amount to \$185,964.

The Commission finds that the relocation expense should be adjusted based upon the Kentucky jurisdictional relocation expenses for the twelve months ending February 28, 2018. This results in a decrease to the Kentucky jurisdictional relocation expense of \$132,109.

Gain on Sale of Utility Property

The Attorney General proposed an adjustment to amortize a \$996,669 gain on the sale of utility property ("Carrs Site") over three years for \$327,240 per year on a Kentucky jurisdictional basis.⁴⁶ The Attorney General maintained that the Kentucky jurisdictional gain on the sale of utility property should flow back to customers.

In rebuttal, Kentucky Power argued that the gain on the sale of the property should not be adjusted to reduce its revenue requirement because the Carrs Site had not been included in rate base, and thus Kentucky Power had not received a return on

⁴⁵ Smith Testimony at 46.

⁴⁶ *Id.* at 47.

the Carrs Site for the last 33 years.⁴⁷ Kentucky Power also noted that it removed \$60,539 in property taxes from its cost of service in this case.⁴⁸

The Commission finds that, since Kentucky Power has not received a return on this investment and has excluded the property taxes from its cost of service, the proposed adjustment by the Attorney General is not reasonable and should be denied.

Cash Surrender Value of Life Insurance

Kentucky Power recorded expense in the test year associated with the cash surrender value of life insurance of former executives in a Kentucky jurisdictional amount of \$26,941.⁴⁹

The Attorney General asserted that Kentucky Power's ratepayers should not be responsible for paying the expenses for the cash surrender value of life insurance for former executives and recommended the \$26,941 of expense be denied for ratemaking purposes.⁵⁰

In rebuttal, Kentucky Power explained that the expense is part of the total compensation/benefit package given to executives (current or former) that should be recovered whether or not the executive is a current or a former employee.⁵¹

The Commission finds that the proposed expense is reasonable, and therefore the Attorney General's proposed adjustment should be denied.

⁴⁷ Wohnhas Rebuttal Testimony at R-20.

⁴⁸ *Id.*

⁴⁹ Smith Testimony at 48.

⁵⁰ *Id.*

Rate Case Expense

The Attorney General proposed an adjustment to remove \$458,333 in rate case expenses.⁵² 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. The Attorney General also proposed to remove remaining rate case expenses as a penalty for Kentucky Power not seeking a reduction in the Rockport UPA ROE, which was established by the Federal Energy Regulatory Commission ("FERC").

In rebuttal, Kentucky Power 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.⁵³ Kentucky Power further argued that FERC's determination of the Rockport UPA ROE was fair, just, and reasonable, and that the decision was within FERC's exclusive jurisdiction. Kentucky Power asserted that the Attorney General's proposal to deny rate case expense as a penalty for the Rockport UPA ROE was an unlawful and unconstitutional attempt to overturn a FERC decision.

The Commission finds that the Attorney General's adjustment to remove rate case expenses for witness preparation and as a penalty for the Rockport UPA ROE is unreasonable, and should be denied. Given the type of service provided, the Attorney General's argument to remove the witness preparation consultant's fees is not

⁵¹ Wohnhas Rebuttal Testimony at 17.

⁵² Smith Testimony at 52.

⁵³ Wohnhas Rebuttal Testimony at R-20.

persuasive.⁵⁴ In regard to adjusting the rate case expenses as a penalty not related to ratemaking, as set forth in *South Central Bell v. Utility Reg. Comm'n*, 637 S.W.2d 649, 653 (Ky. 1982), the imposition of penalty that is not germane to the factors that go into the ratemaking process is arbitrary and subjective. If the Attorney General objects to the ROE awarded by FERC, the appropriate forum to address that issue is at FERC, and not the Commission.

COMMISSION ADJUSTMENTS TO REVENUES AND EXPENSES

Off System Sales ("OSS") Margins, System Sales Clause Tariff ("Tariff S.S.C.")

During the test year, Kentucky Power included OSS margins in the amount of \$7,163,948. Kentucky Power operated the converted Big Sandy Unit 1 for only nine months of the test period. While Kentucky Power annualized the plant maintenance expense for Big Sandy Unit 1,⁵⁵ there was no adjustment or annualization to OSS margins.

The Commission finds that OSS margins should be adjusted to reflect an annualized amount. For the 12-month period ending September 30, 2017, Kentucky Power had OSS margins of \$7,650,360.⁵⁶ Therefore, the Commission will utilize the OSS margins of \$7,650,360 for the 12-month period ending September 30, 2017, rather than the test year amount, resulting in an increase in operating revenue of \$486,412. Additionally, the amount of OSS margins to be collected in base rates is \$7,650,360, rather than the \$7,163,948 proposed in the application.

⁵⁴ See Kentucky Power Fifth Supplemental Response to Staff's First Request (filed Jan. 2, 2018), Item 56. The witness preparation fees were \$42,623; Kentucky Power's other legal fees were \$677,547.

⁵⁵ Application, Section V, Exhibit 2, Workpaper 41.

⁵⁶ Response to Commission Staff's Fourth Request for Information, Item 2.

Weather Normalized Commercial Sales

Kentucky Power proposed an adjustment to increase revenues to reflect normal temperatures, but its adjustment applied only to residential customer sales. In discovery, Kentucky Power stated that commercial revenues would have been \$914,000 greater based on weather normalized temperatures.⁵⁷ After the related variable expenses are removed from revenues, the rate increase is reduced by \$400,000.

The Commission finds this adjustment reasonable as temperatures affect the revenues in both the residential and commercial classes. Therefore, the Commission will reduce the rate increase by \$400,000 to reflect this adjustment.

Purchased Power Limitation and Forced Outage Purchase Power Limitation Expense

Kentucky Power proposed adjustments to include the purchased power limitation and forced outage purchase power limitation expense in base rates in its application in the amount of \$3,150,582 and \$882,204, respectively.

As discussed under the FAC Purchase Power Limitation section below, the Commission is denying Kentucky Power's proposal to recover such costs under Tariff P.P.A. Accordingly, the Commission finds these adjustments unreasonable and should be denied.

Net Operating Income Summary

After considering all pro forma adjustments and applicable income taxes, Kentucky Power's adjusted net operating income is as follows:

⁵⁷ Direct Testimony of Lane Kollen at 16-17.

Operating Revenues	\$568,163,551
Operating Expenses	<u>519,965,870</u>
Adjusted Net Operating Income	<u>\$ 48,197,681</u>

RATE OF RETURN

Capital Structure and Cost of Debt

Kentucky Power proposed an adjusted test-year-end capital structure consisting of 54.45 percent long-term debt at 5.32 percent; zero percent short-term debt at 0.80 percent; 3.87 percent accounts receivable financing at 1.95 percent; and 41.68 percent common equity at a return of 10.31 percent.⁵⁸ On August 7, 2017, Kentucky Power filed a supplement to its Application reflecting the results of Kentucky Power's June 2017 refinancing of \$325 million 6.00 percent Senior Unsecured Notes, and \$65 million WVEDA Mitchell Project, Series 2014A Variable Rate Demand Notes as authorized in Case No. 2016-00345.⁵⁹ This refinancing reduced the annual cost of long-term debt to 4.36 percent.⁶⁰ The capital structure proposed by the Settlement downwardly adjusts the long-term debt by one percent and places this percent onto the short-term debt at an interest rate of 1.25 percent.⁶¹

⁵⁸ Application, Direct Testimony of Zachary C. Miller ("Miller Direct Testimony") at 3.

⁵⁹ Case No. 2016-00345 *Electronic Application of Kentucky Power Company for Authority Pursuant to KRS 278.300 to Issue and Sell Promissory Notes of One or More Series and for Other Authorizations* (Ky. PSC Dec. 21, 2016).

⁶⁰ Supplemental Direct Testimony of Zachary C. Miller at 5.

⁶¹ Settlement Testimony of Matthew J. Satterwhite ("Satterwhite Settlement Testimony") at Exhibit 6a.

The Attorney General employed Kentucky Power's proposed capital structure and senior capital cost rates.⁶² KCUC was silent on this topic.

Kentucky Power stated that it sells its receivables to AEP for cost savings due to default risks and to improve cash flow.⁶³ However, Kentucky Power's uncollectible accounts remain with Kentucky Power and are not sold with the accounts receivable.⁶⁴ The Commission notes that the cost of accounts receivable financing is higher than traditional short-term financing. The Commission believes that selling the receivables but maintaining the bad debt places an undue burden onto Kentucky Power's customers. Therefore, the Commission will blend the funds between short-term debt and accounts receivable financing so that the weighted average cost percentage of accounts receivable financing is decreased three basis points and placed on the short-term debt weighted average cost percentage. This reduces the percent of accounts receivable financing to 1.67 percent of the total capital structure and increases the percent of short-term debt to 3.20 percent of the total capital structure. The Commission finds that the cost of long-term debt and short-term debt of 4.36 percent and 1.25 percent, respectively, to be reasonable.

Return on Equity

In its Application, Kentucky Power developed its return on equity ("ROE") using the discounted cash flow method ("DCF"), the capital asset pricing model ("CAPM"), the empirical capital asset pricing model ("ECAPM"), and the utility risk premium ("RP"). In

⁶² Direct Testimony of J. Randall Woolridge, Ph.D. ("Woolridge Testimony") at 3.

⁶³ Dec. 8, 2017 H.V.T. at 12:15:22.

⁶⁴ Dec. 6, 2017 H.V.T. at 5:43:36.

addition, Kentucky Power referenced the expected earnings approach.⁶⁵ Based on the results of the methods employed in its analysis, Kentucky Power recommended an ROE range of 9.71 percent to 10.91 percent, including flotation cost.⁶⁶ Kentucky Power recommended awarding the midpoint of this range, 10.31 percent, to maintain financial integrity and to support additional capital investment.⁶⁷ Kentucky Power further stressed that consideration of all models, not just the DCF model, is important as the DCF model results may reflect the impact from the recent recession and such financial inputs are not representative of what may prevail in the near future.⁶⁸

Direct testimony and analysis regarding ROE was provided by the Attorney General. The Attorney General employed the DCF and CAPM models for his analysis and both models were evaluated using Kentucky Power's proxy group and the Attorney General's own proxy group. This was mostly for comparison purposes, as the Attorney General stated that, on balance, the two proxy groups were similar in risk.⁶⁹ The Attorney General's DCF model results indicated equity cost rates of 8.25 percent and 8.7 percent for the Attorney General and Kentucky Power proxy groups, respectively. The Attorney General disagreed with Kentucky Power's DCF analysis, specifically noting Kentucky Power's elimination of low-end DCF results and the use of growth forecasts that the Attorney General believes are overly optimistic and upwardly biased.⁷⁰

⁶⁵ Application, Direct Testimony of Adrian M. McKenzie, CFA ("McKenzie Direct Testimony") at 6.

⁶⁶ *Id.* at Exhibit AMM-2 at 1.

⁶⁷ *Id.* at 6.

⁶⁸ *Id.* at 7.

⁶⁹ *Id.* at 25.

⁷⁰ *Id.* at 65.

The Attorney General's CAPM results were 7.6 percent for both proxy groups. The Attorney General stated that Kentucky Power's CAPM analysis is flawed as the ECAPM version of the CAPM was used, which the Attorney General claims makes an inappropriate adjustment to the risk-free rate and the market risk premium.⁷¹ Additionally, the Attorney General stated that Kentucky Power's CAPM analysis employed an inflated projected interest rate, an unwarranted size adjustment, and an excessive market or equity risk premium.⁷²

The Attorney General recommended relying primarily on the DCF model, determined the ROE range of the two proxy groups, 8.25 percent and 8.7 percent, to be reasonable, and recommended an ROE of 8.6 percent.⁷³ In support of his recommendation, the Attorney General noted that: as investment risk, Kentucky Power's credit ratings are on par with the proxy groups; capital costs for utilities remain at historical low levels and are likely to remain at low levels; the risk associated with the electric utility industry is among the lowest and, as such, the cost of equity capital is amongst the lowest; and authorized ROEs have been gradually decreasing in recent years.⁷⁴

The Attorney General also disagreed with Kentucky Power's upward adjustment of 0.11 percent to the equity cost rate recommendation to account for flotation costs. The Attorney General argued that Kentucky Power did not identify any flotation costs

⁷¹ *Id.* at 68.

⁷² *Id.*

⁷³ Woolridge Testimony at 58.

⁷⁴ *Id.* at 59.

that are specifically associated with Kentucky Power.⁷⁵ The Attorney General stated that it is commonly argued that a flotation cost adjustment is necessary to recover issuance costs, but should not be recovered through the regulatory process, as these costs are already known to the investor upon buying the stock.⁷⁶

The parties to the Settlement agreed that the revenue requirement increases for Kentucky Power will reflect a 9.75 percent ROE as applied to Kentucky Power's capitalization and capital structure of the proposed revenue requirement increases as modified through discovery. As a result, use of a 9.75 percent ROE reduced Kentucky Power's proposed electric revenue requirement by \$4.7 million.⁷⁷ In his post hearing brief, the Attorney General recognized the significant reduction from the original ROE, but still believes it is in excess of the return shareholders require.⁷⁸ The Attorney General further argued that utilities seem to overstate necessary ROE, and does not support the 9.75 percent.⁷⁹ For the reasons discussed below, the Commission finds a ROE of 9.75 percent to be unreasonable, and for the purpose of base rate revenues and certain tariffs, an ROE of 9.70 percent should be applied.

In his testimony, the Attorney General noted that differing opinions between Kentucky Power and the Attorney General regarding capital market conditions result in differing ROE recommendations.⁸⁰ Kentucky Power's analysis assumes higher interest

⁷⁵ *Id.* at 80.

⁷⁶ *Id.* at 81.

⁷⁷ Settlement at 4.

⁷⁸ Attorney General's Post Hearing Brief ("Attorney General's Brief") (filed Jan. 5, 2018) at 18.

⁷⁹ *Id.* at 19 and 20.

⁸⁰ Woolridge Testimony at 5.

rates and capital costs whereas the Attorney General concludes that interest rates and capital costs are at low levels and likely to remain low for some time.⁸¹ The Commission agrees with the Attorney General that, although interest rates are increasing, they are doing so slowly and are still historically low. In fact, the Federal Reserve noted the following:

The Committee expects that economic conditions will evolve in a manner that will warrant gradual increases in the federal funds rate; the federal funds rate is likely to remain, for some time, below levels that are expected to prevail in the longer run. However, the actual path of the federal funds rate will depend on the economic outlook as informed by incoming data.⁸²

The Commission further agrees that models supporting the low interest rate environment should be given more weight than those supporting high interest rate expectations.

The Commission also agrees with the Attorney General that flotation costs should be excluded from the analysis. The Commission believes that flotation costs are accounted for in the current stock prices, as the price includes the underwriting spread and adding the adjustment amounts to double counting. Removal of the flotation costs from Kentucky Power's initial cost of equity range lowers the range to 9.6 percent from 10.8 percent.⁸³

The 2017 economic environment has shown signs of relative improvement. In response to low inflation and low unemployment, the Federal Reserve increased interest rates a quarter of a percent three times in 2017. Current outlooks for 2018 are

⁸¹ *Id.*

⁸² Testimony of Richard A. Baudino at 8.

⁸³ McKenzie Direct Testimony, Exhibit AMM-2 at 1.

healthy, with gross domestic product growth rates expected to remain between two and three percent, unemployment forecasted to continue at the natural rate, and inflation expected to hover at around two percent.⁸⁴ However, notwithstanding these improvements, the economy of Eastern Kentucky has lagged behind national and state trends. Employment trends have not recovered to pre-recession levels, earnings trends remain stagnant and lag behind the state trends, and poverty rates in the majority of Kentucky Power's service territory are 24.4 percent or higher.⁸⁵

The Commission is cognizant of the risk inherent to Kentucky Power's service territory and load profile. The Commission notes the Attorney General's position that Eastern Kentucky has been economically depressed for the past decade and that the Commission should consider the economic conditions of the region in evaluating the overall rates and rate design.⁸⁶ Therefore, given the adverse economic situation of the service territory of high unemployment, low earnings, and high poverty rates, the Commission finds a lower ROE will allow Kentucky Power to earn a fair return while reflecting the economic situation of its customers.

For 2016, the median ROE of the utilities in the Attorney General's proxy group was 9.3 percent; for Kentucky Power's proxy group, the median ROE was 9.4 percent.⁸⁷ In addition, the average authorized ROE reported by SNL Financial for 2017 is

⁸⁴ <https://www.thebalance.com/us-economic-outlook-3305669>.

⁸⁵ Attorney General's Brief at 12; Dismukes Testimony at 5-6; Dec. 6, 2017 H.V.T., PSC Exhibit 1.

⁸⁶ Dismukes Testimony at 6.

⁸⁷ Woolridge Testimony, Exhibit JRW-4 at 1.

approximately 9.7 percent.⁸⁸ The Commission agrees with Kentucky Power that this is a benchmark worthy of consideration, but disagrees that a downward adjustment will be injurious to customers and the Kentucky economy.⁸⁹ Based on the entire record developed in this proceeding, we find that an ROE of 9.7 falls within the range of the Attorney General's proposed 8.6 percent to the initial proposed ROE of 10.31 percent, and within Kentucky Power's original range of 9.6-10.8 percent, adjusted for flotation costs. Additionally, an ROE of 9.7 is within the range of the benchmarks provided by SNL, the proxy groups, and recent Commission Orders⁹⁰.

Rate-of-Return Summary

Applying the rates of 4.36 percent for long-term debt, 1.25 percent for short-term debt, 1.95 percent for accounts receivable financing, and 9.70 percent for common equity to the Commission adjusted capital structure produces an overall cost of capital of 6.44 percent.⁹¹ The cost of capital produces a return on Kentucky Power's rate base of 6.42 percent.

BASE RATE REVENUE REQUIREMENTS

In the Settlement, Kentucky Power and the Settling Intervenors agreed to a base rate increase of \$31.8 million. The Attorney General's expert witness proposed a base

⁸⁸ Direct Testimony and Exhibits of Gregory W. Tillman on behalf of Wal-Mart Stores East, LP and Sam's East, Inc. at 11.

⁸⁹ Rebuttal Testimony of Adrien M. McKenzie, CFA at 73.

⁹⁰ Case No. 2016-00370 Electronic Application of Kentucky Utilities Company For An Adjustment Of Its Electric Rates and For Certificates of Public Convenience and Necessity (Ky. PSC Jun. 22, 2017) and Case No. 2016-00371 Electronic Application of Louisville Gas and Electric Company For An Adjustment Of Its Electric and Gas Rates and For Certificates Of Public Convenience and Necessity (Ky. PSC Jun. 22, 2017).

rate increase of \$39.8 million. The Commission finds that, subject to the adjustments discussed in this Order, a base rate increase of \$12.35 million is reasonable, as is discussed in the Total Jurisdictional Revenue Requirement section below.

REVENUE REQUIREMENT-RELATED RIDERS AND DEFERRALS

Big Sandy Retirement Rider

In its Application, Kentucky Power proposed to rename the Big Sandy Retirement Rider to the Decommissioning Rider to alleviate customer confusion regarding the purpose of the rider. Pursuant to the settlement agreement approved in Case No. 2014-00396, Kentucky Power recovers the coal-related retirement costs of Big Sandy Unit 1, the retirement costs of Big Sandy Unit 2, and other site-related retirement costs through this rider. Only the rider name will change; the rider will continue to operate in the manner approved by the Commission in Case No. 2014-00396.

The Commission finds the name change reasonable and that it should be approved. The Commission further finds that the carrying charges associated with this rider should be based on the weighted average cost of capital ("WACC"), after reflecting the impacts of the reduction in the federal corporate income tax rates approved in this Order, should become effective as of the date of this Order. However, the monthly amounts collected will not change until Kentucky Power makes its annual filing on or before August 15, 2018, to adjust the amounts collected under this rider.

Big Sandy Unit 1 Operation Rider

In its Application, Kentucky Power proposed to eliminate the Big Sandy Unit 1 Operation Rider ("Tariff B.S.1.O.R.") and to recover through base rates the costs

⁹¹ The Commission adjusted capital structure consists of 54.45 percent long-term debt, 3.2

currently recovered through Tariff B.S.1.O.R. Once new rates become effective in this case, Tariff B.S.1.O.R. will have an under- or over-recovery balance. Therefore, Kentucky Power also requested authority to establish a regulatory asset or liability that will allow Kentucky Power to track and defer any under- or over-recovery balance until its next rate case.

In Case No. 2014-00396, the Commission approved Tariff B.S.1.O.R. to permit Kentucky Power to recover the non-fuel costs of operating Big Sandy Unit 1 as a coal burning unit until its conversion to natural gas, the non-fuel costs of its operation as a natural gas unit and capital investment required for its conversion to natural gas once it is placed in service. Tariff B.S.1.O.R. was designed to be in effect until the rates established in Kentucky Power's next base rate case were implemented.

The Commission has previously approved regulatory assets for other jurisdictional utilities. Such approval has been granted when a utility has incurred: (1) an extraordinary, nonrecurring expense which could not have reasonably been anticipated or included in the utility's planning; (2) an expense resulting from a statutory or administrative directive; (3) an expense in relation to an industry-sponsored initiative; or (4) an extraordinary or nonrecurring expense that over time will result in a saving that fully offsets the cost.⁹² Since Tariff B.S.1.O.R. was approved by the Commission in Case No. 2014-00396, the establishment of a regulatory asset to address the under-

percent of short term debt, 1.67 percent of accounts receivable financing, and 41.68 percent of common equity.

⁹² Case No. 2008-00436, *The Application of East Kentucky Power Cooperative, Inc. for an Order Approving Accounting Practices to Establish a Regulatory Asset Related to Certain Replacement Power Costs Resulting from Generation Forced Outages* (Ky. PSC Dec. 23, 2008), at 4. See also Case No. 2010-00449, *Application of East Kentucky Power Cooperative, Inc. for an Order Approving the Establishment of a Regulatory Asset for the Amount Expended on Its Smith 1 Generating Unit* (Ky. PSC Feb, 28, 2011), at 7.

recovery of Tariff B.S.1.O.R. is consistent with the second example listed above. Regarding a possible regulatory liability, the Commission notes that it is appropriate that Kentucky Power customers be the beneficiaries of any over-recovery of Tariff B.S.1.O.R.

The Commission finds the establishment of a regulatory asset or liability due to the elimination of Tariff B.S.1.O.R. to be reasonable and that it should be approved. This approval is for accounting purposes only, and the appropriate ratemaking treatment for the regulatory asset or liability account will be addressed in Kentucky Power's next general rate case.

Tariff A.T.R.

In its Application, Kentucky Power proposed to eliminate Tariff Asset Transfer Rider ("Tariff A.T.R."). Given that Kentucky Power has recovered the full amount that Tariff A.T.R. was designed to recover, the Commission finds the elimination of Tariff A.T.R. to be reasonable and that it should be approved.

Tariff K.E.D.S.

In its Application, Kentucky Power proposed to increase Tariff K.E.D.S. from \$0.15 per meter per month to \$0.25 per meter per month. In the Settlement, Kentucky Power and the Settling Intervenors agreed to a surcharge of \$0.10 per meter for residential customers and \$1.00 per meter for non-residential customers. KCUC did not provide testimony regarding Tariff K.E.D.S.

Tariff K.E.D.S. imposes an economic development surcharge, which was approved in Kentucky Power's last rate case,⁹³ to fund economic development initiatives

⁹³ Case No. 2014-00396, Final Order at 49-51.

in Kentucky Power's service territory, with funds collected through the surcharge matched equally by Kentucky Power from AEP shareholder funds. As a basis for the increase, Kentucky Power argued that additional economic development funds were needed to grow its load and customer base. One of the reasons for Kentucky Power's proposed rate increase is a significant decline in load and customers since the economic downturn in 2008.⁹⁴ A decrease in customers and load concentrates costs among a smaller customer base, which results in fewer customers paying a larger share of the cost. Correspondingly, a growth in load and customer base spreads costs among a greater number of customers.

The Attorney General recommended that the economic development surcharge be eliminated.⁹⁵ The Attorney General asserted that Kentucky Power failed to provide evidence of a direct tie between Kentucky Power's economic development efforts and increased jobs and electricity sales.⁹⁶ The Attorney General further asserted that the economic development surcharge simply redistributes ratepayer dollars without evidence of an identifiable benefit for ratepayers.

In rebuttal, Kentucky Power countered that it maintains economic development metrics, including job counts, investments, and grants, which it uses to evaluate the

⁹⁴ Application, Direct Testimony of Brad N. Hall ("Hall Direct Testimony") at 5. Between 2008 and 2016, Kentucky Power lost 6,931 customers, and its total annual sales declined from 7.24 GWh to 5.80 GWh.

⁹⁵ Direct Testimony of David E. Dismukes ("Dismukes Testimony") at 4; Direct Testimony of Roger McCann ("McCann Testimony") at 6, 17.

⁹⁶ Dismukes Testimony at 4, 41.

success of its economic development program.⁹⁷ In a subsequent discovery response, Kentucky Power provided its written economic development action plan with strategic goals and metrics set forth in specific detail.⁹⁸ Kentucky Power contended that its economic development program achieves identifiable goals, and that Kentucky Power's customers receive benefits from the economic development surcharge. As an example, Kentucky Power asserted that its economic development efforts are projected to create 1,705 new full-time positions, with an additional 1,000 construction jobs.⁹⁹

The Commission recognizes the importance of economic development efforts, especially given the economic needs of Kentucky Power's service area. However, the Commission also recognizes that 26 percent, or 35,756, of Kentucky Power's residential customers are at or below the poverty level.¹⁰⁰ In 2016, Kentucky Power disconnected more than 11,000 residential customers who could not pay their electric bill.¹⁰¹ In the course of this proceeding, the Commission received a large number of public comments from residential customers who questioned why they are charged for Kentucky Power's economic development efforts, particularly given the difficulty that residential customers have in paying their electric bills. Residential customers, especially those on fixed incomes, cannot pass along their costs; to a certain extent, non-residential customers

⁹⁷ Dec. 8, 2017 H.V.T. at 10:44:56.

⁹⁸ Kentucky Power Response to KCUC's Post Hearing Data Request ("Response to KCUC Post Hearing Request"), Item No. 1, Attachment 1.

⁹⁹ Hall Direct Testimony at 12; Dec. 8, 2017 H.V.T. at 10:31:23. On December 7, 2017, there was an announcement that 875 jobs would result from a business locating in Pikeville, Kentucky. Prior to that announcement, there were 830 projected new jobs created from Kentucky Power economic development efforts.

¹⁰⁰ Dec. 8, 2017 H.V.T. at 11:58:01 and 5:33:49.

¹⁰¹ *Id.* at 11:58:19.

can pass along their costs to their customers. The Commission finds that the residential customer economic development surcharge of \$0.10 per meter per month, as set forth in the Settlement, is unreasonable and therefore should be denied. The Commission further finds that the residential customer economic development surcharge should be eliminated. However, the Commission finds that the economic development surcharge on non-residential customers of \$1.00 per meter per month, as set forth in the Settlement, is reasonable. Therefore, the Commission approves the portion of the Settlement applicable to the economic development surcharge for non-residential customers only.

Home Energy Assistance Program Surcharge

In its Application, Kentucky Power proposed to increase the HEAP surcharge from \$0.15 per residential meter per month to \$0.20 per residential meter per month. Similar to the economic development surcharge, funds collected through the HEAP surcharge are matched equally by Kentucky Power from AEP shareholder funds.

HEAP funds provide subsidies to assist eligible low-income customers in Kentucky Power's service territory to pay electric bills during seven peak heating and cooling months.¹⁰² There is a waiting list of eligible customers because there are not sufficient HEAP funds available to assist all eligible customers.¹⁰³

The Attorney General supported the five-cent increase to \$0.20 per residential meter per month, but argued that the increase was inadequate to keep pace with

¹⁰² McCann Testimony at 5-6, 14. Subsidies are available in January, February, March, July, August, September, and December.

¹⁰³ *Id.* at 15. As of Sept. 20, 2017, there were 1,475 eligible customers on a wait-list for HEAP subsidies.

Kentucky Power's rate increases. The Attorney General proposed that the Commission approve the HEAP surcharge increase and, if the Commission discontinued the economic development surcharge, that the HEAP surcharge be increased in the same amount by which the economic development is reduced.¹⁰⁴

Kentucky Power's President, Matthew J. Satterwhite, testified that, if the Commission modified the Settlement to eliminate the \$0.10 per meter per month economic development surcharge for residential customers, Kentucky Power could agree to a commensurate increase in the HEAP surcharge by \$0.10 per residential meter per month, with matching shareholder funds.¹⁰⁵

The Settlement is silent as to the HEAP surcharge.

The Commission finds that the proposed increase in the HEAP surcharge is insufficient to address the demonstrable need to assist eligible low-income customers with their electric bills. The Commission further finds that the HEAP surcharge should be increased by the corresponding amount that the economic development surcharge for residential customers is reduced. Therefore, the Commission rejects Kentucky Power's proposed increase in the HEAP surcharge to \$0.20 per residential meter per month. The Commission finds an increase of the HEAP surcharge to \$0.30 per residential meter per month is reasonable and should be approved.

Rockport Deferral Mechanism

In the Settlement, Kentucky Power and the Settling Intervenor agreed to defer \$50 million of non-fuel and non-environmental lease expenses from Rockport Unit 2

¹⁰⁴ McCann Testimony at 6, 17; Dismukes Testimony at 4.

over five years, with the establishment of a regulatory asset for later recovery (“Rockport Deferral Regulatory Asset”) of these expenses. This Rockport Deferral Regulatory Asset, plus a carrying charge based on a WACC of 9.11 percent, will be recovered through Kentucky Power’s Tariff P.P.A. over five-years starting in December of 2022. The dates of the end of the deferral period and the start of the five-year amortization period coincide with the anticipated end of the Rockport UPA lease agreement.¹⁰⁵

The Settlement proposed a deferral of \$15 million in 2018 and 2019, \$10 million in 2020, and \$5 million in 2021 and 2022. The Settlement’s annual revenue requirement reflects a decrease to base rates of the 2018 \$15 million adjustment. In 2020, 2021 and 2022 the decrease in the deferral will be offset with an increase in the amount recovered through Tariff P.P.A. Additionally, in 2022, the increase in the amount recovered through Tariff P.P.A. will be prorated through December 8, 2022, as the Rockport UPA will terminate on that date. By utilizing Tariff P.P.A., Kentucky Power is able to reduce the annual deferral amount and concurrently keep base rates unchanged. Beginning in December 2022, the five-year deferral period will end and the recovery of the Rockport Deferral Regulatory Asset will begin. The Rockport Deferral Regulatory Asset will be amortized through 2027 and be subject to carrying charges until it is fully recovered. Kentucky Power estimates that the Rockport Deferral

¹⁰⁵ Dec, 7, 2017 H.V.T. at 10:53:09.

¹⁰⁶ Satterwhite Settlement Testimony at S-10.

Regulatory Asset will total approximately \$59 million in December 2022. That amount will decrease incrementally until fully collected over the five-year amortization period.¹⁰⁷

Neither the Attorney General nor KCUC offered testimony concerning the Rockport Deferral. However, during the hearing and in his post-hearing brief, the Attorney General expressed his concerns about the “very large financing costs” associated with the deferrals, stating that the “\$50M over the entire deferral period is going to have financing costs piled on top of it... [t]hese financing costs are at the weighted average cost of capital including the 9.75 percent return of equity which then gets a tax gross up on top of it.”¹⁰⁸ The Attorney General further stated that a concern that the costs of the deferral will eventually require rate recovery in future rate proceedings.¹⁰⁹ The Attorney General recommended that the carrying charge be reduced to 4.36 percent for Kentucky Power’s current long term debt.¹¹⁰

In response, Kentucky Power argued that the 9.11 percent WACC made Kentucky Power financially whole because of its need to finance the deferral through a combination of debt and equity, and therefore was appropriate.¹¹¹

The recovery period of the proposed Rockport Deferral Mechanism is contingent upon Kentucky Power not renewing the Rockport UPA.¹¹² If the lease is not renewed,

¹⁰⁷ See Appendix A, paragraph 3 for details of the Rockport UPA Expense Deferral.

¹⁰⁸ Dec. 6, 2017 H.V.T. at 04:01:19; See also Attorney General’s Brief at 31.

¹⁰⁹ Dec. 6, 2017 H.V.T. at 04:01:19

¹¹⁰ Attorney General’s Brief at 31.

¹¹¹ Kentucky Power’s Post Hearing Brief (“Kentucky Power’s Brief”) (filed Jan. 5, 2018) at 48.

¹¹² Kentucky Power stated that it is unlikely that the Rockport lease will be renewed. Dec. 6, 2017 H.V.T. at 5:47:44; Kentucky Power Response to Staff’s Second Request, Item 72.

the expenses associated with the Rockport UPA will be removed from 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.¹¹³ The Commission recognizes that there are inherent risks associated with any deferral mechanism, especially since 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. This approval is for accounting purposes only, and the appropriate ratemaking treatment for this regulatory asset account will be addressed in Kentucky Power's next general rate case.

Environmental Surcharge Tariff E.S.

Kentucky Power proposed an addition to its Environmental Compliance Plan to recover the cost of installing Selective Catalytic Reduction ("SCR") technology at Rockport Unit 1, affecting the amounts collected under Tariff E.S. The project is discussed later in the Environmental Compliance Plan section of this Order. Kentucky Power estimated the revenue requirement for the SCR project to be \$3,903,065.¹¹⁴ The Commission finds the Rockport Unit 1 revenue requirement to be reasonable.

¹¹³ Satterwhite Settlement Testimony at S-13.

¹¹⁴ Elliott Testimony, Exhibit AJE-5.

TOTAL JURISDICTIONAL REVENUE REQUIREMENTS

The Commission has found that Kentucky Power's required ROE falls within a range of 8.60 percent to 10.31 percent, and approves an ROE of 9.70 percent. The Settlement proposed a base rate increase of \$31.8 million and environmental surcharge revenues of \$3.9 million, for a total of \$35.7 million. The environmental surcharge is discussed farther below. Because Kentucky Power recovers the costs associated with the decommissioning of coal-related assets at Big Sandy through the Decommissioning Rider, those costs are not included for recovery in the base rates. However, for the twelve months ending September 30, 2018, Kentucky Power will recover approximately \$20.2 million through the Decommissioning Rider.

Due to the modifications the Commission makes to the Settlement and the provision for the reduction in the federal corporate income tax rate from 35 percent to 21 percent in the Tax Cuts and Jobs Act, the Commission finds that an increase in base rate revenues of \$12.35 million, as shown in Appendix F to this Order, exclusive of the environmental surcharge, will result in fair, just, and reasonable electric rates for Kentucky Power and its ratepayers. The Commission utilized Kentucky Power's equity gross up revenue conversion factor ("GRCF"), as provided in Kentucky Power's revised Environmental Surcharge forms filed on January 3, 2018, to reflect the reduction in the federal corporation income tax rate effective with the date of this Order. Additionally, the adjustments the Commission makes to the test year operating income and expense items reflect the income tax rate reduction and change in the GRCF. The excess accumulated deferred income tax ("ADIT") impacts resulting from the reduction federal corporate income tax rate will be addressed in Case No. 2017-00477. The Commission

also finds that Kentucky Power should establish a mechanism to track the over/under-collection of federal income taxes, and that a true-up of any over/under-collections be addressed in Case No. 2017-00477.

Due to the economic conditions in Kentucky Power's service territory, the Commission believes that the impact of the federal corporate income tax reduction on rates should be put into place effective with the date of this Order. In addition, the lower rates should serve as an impetus for economic development through recruiting new businesses as well as maintaining existing business customers.

NONREVENUE REQUIREMENT RIDERS AND TARIFFS

The following sections address riders and a tariff that have no direct impact on Kentucky Power's revenue requirement. The discussion covers both those that have been contested, and those that are included in the Settlement.

Non-Utility Generator Tariff

In its Application, Kentucky Power proposed to revise the Non-Utility Generator Tariff ("Tariff N.U.G.") to eliminate a provision that requires a 30-day written notice to customers taking service under Tariff N.U.G. if a transmission provider implements charges for transmission congestion. Kentucky Power asserted that this clause is no longer necessary because PJM has already created transmission congestion charges.¹¹⁵ Kentucky Power also proposed to revise language in the special terms and conditions section of Tariff N.U.G. to clarify the requirement to take service for remote

¹¹⁵ Application, Vaughan Direct Testimony at 25.

self-supply.¹¹⁶ The Settlement is silent as to Tariff N.U.G. Neither KCUC nor the Attorney General contested the proposed revisions to Tariff N.U.G.

The Commission finds the revisions to Tariff N.U.G. to be reasonable and that they should be approved.

Systems Sales Clause

In its Application, Kentucky Power proposed to reduce monthly bill volatility by revising its Tariff S.S.C. to change from a monthly system sales adjustment factor to an annual sales adjustment factor. Kentucky Power further proposed to set the Tariff S.S.C. rate to \$0, with the difference between actual off-system sales margins and a base amount of \$7,163,948 deferred based on the current 75/25 customer sharing mechanism approved in Case No. 2014-00396.¹¹⁷ The net deferred credit or charge to customers would then be the base for the annual Tariff S.S.C. rate update.¹¹⁸ Kentucky Power proposed to file the required true-up information no later than August 15 of each year, with rates to be effective with Cycle 1 of October. The first filing would be made by August 15, 2018. The Settlement is silent as to Tariff S.S.C. Neither the Attorney General nor KCUC contested the proposed revisions to Tariff S.S.C.

The Commission finds the revisions to Tariff S.S.C., as adjusted to include \$7,650,350 in base rates, to be reasonable and should be approved.

¹¹⁶ Sharp Direct Testimony at 28.

¹¹⁷ Kentucky Power credits 75 percent of the difference between base and actual off system sales margins amounts to customers and retains 25 percent.

¹¹⁸ Vaughan Direct Testimony at 36-37.

PJM Billing Line Items

In the Application, Kentucky Power proposed to include additional PJM Billing Line Items (“BLIs”) for recovery through its FAC. Kentucky Power stated that these BLIs represent items that either require generation resources to be running and online, or are associated with other BLIs that require generation resources to be running and online. Kentucky Power stated that all of the service functions represented by the BLIs are related to fuel-related services previously received by Kentucky Power when it was a member of the AEP East Pool, and that those amounts were previously included in Kentucky Power’s base fuel cost. The Settlement is silent as to the BLIs. Neither the Attorney General nor KCUC contested this proposal.

The Commission has reviewed the additional BLIs and finds that they are appropriate for inclusion in the FAC, as these BLIs represent charges and credits that relate to fuel consumed by resources that are running and online. Furthermore, the Commission finds that when Kentucky Power files its compliance tariff, it should amend its Tariff F.A.C to include PJM BLIs 2211, 2215, and 2415, as those BLIs have replaced BLI 2210.

MODIFICATIONS TO TERMS AND CONDITIONS OF SERVICE TARIFFS

In its Application, Kentucky Power proposed certain revisions to its terms and conditions for service. The revisions include: verification of a customer’s identity and proof of ownership or lease of property where service is requested at the time an application for service is filed; information to be considered when evaluating whether to waive a deposit; payment arrangements; mobile alerts; elimination of the employee discount; modifying the equal payment plan; and denial or discontinuance of service.

Kentucky Power also requested a deviation from 807 KAR 5:006, Section 14(2)(a) to amend when a customer can sign up for the Equal Payment Plan, and the annual settle-up month for certain customers.

Neither the Attorney General nor KCUC contested the revisions.

The Commission finds that the proposed revisions to the terms and conditions of service as contained in the Application are reasonable, with the exception of the denial or discontinuance of service, and should be approved. The Commission further finds that Kentucky Power established good cause to deviate from 807 KAR 5:006, Section 14(2)(a), and that its request for a deviation should be granted.

As to the denial or discontinuance of service, the Commission finds that the proposed revisions as contained in the Application are overbroad and do not comply with Commission precedent.¹¹⁹ In response to Commission Staff's Post Hearing Data Request, Kentucky Power revised the terms for denial or discontinuance of service as follows:

The Company reserves the right to refuse or discontinue service to any customer if the customer is indebted to the Company for any service theretofore rendered at any location. Service will not be supplied or continued to any premises if at the time of application for service the Applicant is merely acting as an agent of a person or former customer who is indebted to the Company for service previously supplied at the same, or other premises, until payment of such indebtedness shall have been made;

The Commission finds that the revised language regarding denial or discontinuance of service as filed on in the Supplemental Response on December 21, 2017, is reasonable and should be approved.

¹¹⁹ See H.V.T., PSC Exhibits 2, 3, 4, and 6.

RATE DESIGN, TARIFFS AND OTHER ISSUES

Rate Design

Kentucky Power filed a fully allocated jurisdictional cost-of-service study ("COSS") to determine the cost to service each customer class as well as the rate of return on rate base for each class during the test year. The results of the COSS illustrate the amount of cross-subsidization between the rate classes and show that all non-residential rate classes subsidize the residential class. In its Application, Kentucky Power proposed to reduce these subsidies by five percent in its proposed rates. The Settlement modifies this proposed revenue allocation and proposes to use the first \$5.8 million of any Commission-authorized revenue increase to the Industrial General Service ("IGS") rate class to fully eliminate the subsidy Rate IGS would have paid under the rate increase as originally proposed by Kentucky Power.¹²⁰ The remaining revenue increase is spread uniformly among the rate classes, further reducing interclass subsidies.¹²¹

The Attorney General did not offer any testimony concerning the allocation of any proposed revenue increase, aside from recommending limiting any revenue increase, and stating that Kentucky Power's customers are unable to afford a rate increase and that a large increase would set the entire economy of Eastern Kentucky back, counteracting any economic expansion.¹²²

¹²⁰ Satterwhite Settlement Testimony at S-9; Dec. 8, 2017 H.V.T. at 2:59:20; Direct Testimony of Stephen J. Baron ("Baron Testimony") at 15 and Table 2.

¹²¹ Satterwhite Settlement Testimony at S-9.

¹²² Dismukes Testimony at 3.

The KCUC does not support the revenue allocation as set forth in the Settlement, contending that the Settlement does not provide fair or reasonable treatment of the Tariff L.G.S. customer class. KCUC stated that in addition to bearing a subsidy burden associated with the overall rate structure, the L.G.S. class must also absorb an additional \$500,000 subsidy resulting from the Public and Private School service (“PS”) tariff.¹²³ To remedy this, the KCUC proposes that the first \$500,000 of any additional Commission-directed decrease in the revenue requirement be applied to the Tariff L.G.S. customer class and any revenue reduction beyond \$500,000 be uniformly spread among all the rate classes in proportion to each class’s revenue requirement.¹²⁴

Residential Customer Charge

In its Application, Kentucky Power proposed an increase in the residential customer charge from \$11.00 to \$17.50, an increase of 59 percent. The cost-of-service study filed by Kentucky Power in this proceeding supports a customer charge of \$37.88.¹²⁵ The Settlement allows for an increase in the residential customer charge to \$14.00, an increase of 27 percent.

The Attorney General objected to any increase on the residential customer charge.¹²⁶ The Attorney General contended that shifts towards fixed cost recovery disproportionately hurt low-income customers and Kentucky Power did not provide

¹²³ Settlement Testimony of Kevin Higgins (“Higgins Settlement Testimony”) at 2.

¹²⁴ *Id.* at 4.

¹²⁵ Vaughan Direct Testimony, Exhibit AEV-2 at 1.

¹²⁶ Dismukes Testimony at 6.

sufficient evidence to justify an increase.¹²⁷ The Attorney General argued that Kentucky Power's fixed cost calculation of almost \$38.00 is flawed because a portion of demand-related costs are assigned as fixed costs, which the Attorney General argued is fundamentally incorrect.¹²⁸ The Attorney General noted that none of the parties to the proposed Settlement represent the interests of residential ratepayers, and the proposed \$14 would recover too much of any potential revenue increase through the customer charge and undermine future incentives for efficiency, resulting in an erosion of LIHEAP funds.¹²⁹

The Commission believes an increase to the Residential Basic Service Charge is warranted, and finds that the Settlement's increase to \$14.00 is reasonable. The proposed 27 percent increase is consistent with the principle of gradualism that the Commission has long employed. Consistent with this change, the Commission also approves the customer charges of \$14.00 as set forth in the Settlement for the three optional residential tariffs: 1) Residential Service Load Management Time-of-Day; 2) Residential Service Time-of-Day; 3) and Experimental Residential Service Time-of-Day 2. The Commission also approves a customer charge of \$14.50 for the new optional Residential Demand Metered Electric Service ("Tariff R.S.D.").¹³⁰

¹²⁷ *Id.*

¹²⁸ *Id.* at 20.

¹²⁹ Attorney General's Brief at 32-33.

¹³⁰ The Settlement and supporting testimony state that Kentucky Power and the Settling Intervenors agreed to a residential customer charge of \$14.00. Settlement at paragraph 16(a); Satterwhite Settlement Testimony at S-22. The proposed Settlement Tariff R.S.D. filed on Dec. 1, 2017, inadvertently contains a monthly customer charge of \$17.50.

General Service Rate Class

Kentucky Power proposed to combine the Small General Service (“S.G.S.”) and Medium General Service (“M.G.S.”) rate classes into a single General Service (“G.S.”) rate class under which all general service customers with average demands up to 100 kilowatts (“kW”) will take service. Kentucky Power stated that both the S.G.S. and M.G.S. rate classes currently incur a monthly service charge and a blocked energy charge. Additionally, the M.G.S. rate class incurs a demand charge. Due to this current tariff structure, there is movement between the S.G.S. and M.G.S. rate classes as load characteristics vary month to month for many commercial customers. Kentucky Power stated that combining the S.G.S. and M.G.S. into a single tariff allows for administration efficiencies by eliminating this movement between the two rate classes.¹³¹ The new G.S. tariff combines rate design features from the S.G.S. and M.G.S. tariffs, and will include a monthly service charge, two blocked energy charges, and a demand charge for monthly billing demand greater than 10 kW. The blocked energy charge transition point is 4,450 kilowatt hours (“kWh”). Kentucky Power stated that setting the kWh block at 4,450 kWh ensures that almost all usage that was billed under the current S.G.S. tariff will continue to be billed on an energy charge only and such a rate design will minimize bill impact on current S.G.S. and M.G.S. customers.¹³²

Although the proposed rate design minimizes the impact on an average commercial customer, due to the proposed increase in the demand charge from \$1.91

¹³¹ Vaughan Direct Testimony at 21.

¹³² *Id.* at 21.

for all kW to \$7.95 for all kW greater than 10 kW, it negatively affects customers whose load characteristics include low usage coupled with high demand.¹³³ The Commission believes that Kentucky Power's proposed increase in the demand charge of over 300 percent is excessive. For this reason, the Commission will minimize the impact on high demand commercial customers, apply a 2-step phase-in increase of demand rates, and limit the increase in year 2 to \$6.00 per kW. In addition, Kentucky Power must identify and contact G.S. class customers whose average monthly demand is 25 kW or greater to meet to discuss the impacts of the rate increase on those customers' bills and analyze other tariff options, such as time-of-day rates, that may offer relief to these customers. Last, Kentucky Power should file with the Commission, within twelve months of this Order, a report listing the commercial customers who meet this load profile and the results of each meeting.

Rate Adjustment

In setting the rates shown in Appendix C, the Commission maintained the basic service charge for each class that was included in the Settlement. The reduction of Kentucky Power's revenue increase was allocated to the energy charges of those customer classes for which revenue increases were proposed. The reduction to each class's proposed revenue increase was approximately in proportion to the increase set forth in the Settlement.

¹³³ Dec. 8, 2017 H.V.T. at 4:53:40.

Tariff Purchased Power Adjustment

In its Application, Kentucky Power proposed to include the following additional cost of service items to be tracked and recovered through Tariff P.P.A.: (1) PJM OATT charges and credits that it incurs or receives from its participation as a LSE in the organized wholesale power markets of PJM; (2) purchased power costs excluded from recovery through the FAC as a result of the purchased power limitation; and (3) gains and losses from incidental gas sales. In addition, Kentucky Power proposed to change Tariff P.P.A. from a monthly adjusting surcharge to an annually updated surcharge.

The Attorney General filed testimony stating that these cost-of-service items should continue to be collected through base rates as Kentucky Power has not demonstrated a compelling reason to have these items tracked and recovered through Tariff P.P.A.¹³⁴

1. PJM LSE OATT Charges and Credits

Kentucky Power proposed to include the following PJM LSE transmission charges and credits to costs recoverable through Tariff P.P.A.: network integration transmission service ("NITS"); transmission owner scheduling system control and dispatch service ("TO"); regional transmission expansion plan ("RTEP"); point-to-point transmission service; and RTO start-up cost recovery. An adjusted level of the net OATT charges and credits in the amount of \$74,377,364 will be included in base rates.¹³⁵ The amount above or below the base rate level would be tracked monthly and the annual net over- or under-collection would then be collected from or credited to customers through the operation of Tariff P.P.A.

¹³⁴ Smith Testimony at 70.

Kentucky Power stated that the proposed tracking mechanism for PJM OATT LSE Charges is necessary due to the volatility of these PJM charges and credits, which Kentucky Power claimed are largely out of its control. Kentucky Power estimated that its PJM OATT LSE expenses will increase in 2018 by approximately \$14 million, or 19 percent over the test year amount.¹³⁶ Kentucky Power expects increasing investment in the transmission grid by PJM member transmission owners, which will increase transmission charges allocated to LSEs in PJM. Kentucky Power stated that tracking the PJM LSE charges and credits via Tariff P.P.A. could preclude it from seeking more frequent rate cases.¹³⁷

Finally, two proceedings currently before the FERC may affect the level of PJM LSE OATT charges incurred by Kentucky Power. One proceeding is a challenge to the ROE included in the AEP Zone formula, which determines the PJM transmission costs of service for the AEP Transmission Zone. Kentucky Power stated that at this time, any change resulting from this proceeding is not known and measurable. Therefore, an adjustment in this case is not possible. The second proceeding is a pending non-unanimous settlement regarding the cost allocation methodology historically used by PJM to allocate costs of transmission enhancement projects to the LSEs in its footprint. If approved, the proposed stipulation is expected to result in lower PJM LSE OATT

¹³⁵ Vaughan Direct Testimony at 29.

¹³⁶ Satterwhite Settlement Testimony at S-14–S-15.

¹³⁷ Vaughan Direct Testimony at 27-28.

charges. However, the timing or magnitude of the possible cost allocation changes are not currently known.¹³⁸

The Settlement revised the proposal regarding the PJM OATT LSE charges and credits as follows:

- Kentucky Power will recover and collect 80 percent of the annual over- or under-collection of PJM OATT LSE charges, as compared to the annual amount included in base rates, (“Annual PJM OATT LSE Recovery”) through Tariff P.P.A.

- Kentucky Power will credit against the Annual PJM OATT LSE Recovery 100 percent of the difference between the return on its incremental transmission investments calculated using the FERC approved PJM OATT return on equity, and the return on its incremental transmission investments calculated using the 9.75 percent return on equity provided for in the settlement.

- The changes to Tariff P.P.A. to allow for the Annual PJM OATT LSE Recovery will terminate on the effective date when base rates are reset in the next base rate proceeding unless otherwise extended by the Commission.

Due to the volatility of the OATT charges and credits, the Commission finds the proposal to include the PJM LSE transmission charges and credits to the costs recoverable through Tariff P.P.A., as modified in the Settlement, reasonable with one modification. When calculating the credit against the Annual PJM OATT LSE Recovery, the return on equity amounts used to calculate the incremental transmission investments shall be 9.7 percent, the Commission-approved ROE amount.

¹³⁸ *Id.* at 28-29.

In conjunction with approving the PJM OATT LSE tracker, the Commission finds that the three-year stay-out provision in the Settlement is reasonable and should be accepted. In approving the tracker, the Commission addresses Kentucky Power's primary concern, raised in the last rate case and in this case, that an increase in major expenses not directly under Kentucky Power's control would result in more frequent rate cases.

Regarding proposed transmission projects at PJM, the Commission expects Kentucky Power to work through the PJM stakeholder process to protect its customer interests.

2. FAC Purchased Power Limitations.

Kentucky Power proposed to track, on a monthly basis, the amount of purchased power costs excluded for recovery through the FAC over or above the base rate level using deferral accounting. The annual net over- or under-collection of these purchase power costs would be collected from or credited to customers through Tariff P.P.A.¹³⁹

The FAC Purchase Power Limitation is a calculation that caps the amount of purchase power expense to be recovered through the monthly FAC surcharge. The calculation compares the cost of actual purchased power on an hourly basis to the cost of Kentucky Power's highest cost unit or the theoretical peaking unit equivalent, and caps the FAC-recoverable purchase power expense at the cost (\$/MWh) of the highest generating unit (Kentucky Power owned or peaking unit equivalent). Kentucky Power claims that, because it relies on factors outside of its control, the FAC Purchase Power Limitation and the peaking unit equivalent calculation promote variability and volatility.

¹³⁹ *Id.* at 29.

The Commission is not convinced that this issue requires special ratemaking treatment. The Commission has long held that any purchased power costs not recoverable through the FAC are eligible for recovery through base rates. The Commission finds Kentucky Power's proposal to include an estimated amount of FAC Purchased Power Limitation Expense in base rates, and to subsequently true up that amount through Tariff P.P.A., is unreasonable, and therefore should be denied. The Commission notes that Kentucky Power filed this case using a historic test period. The Commission will allow recovery of the test year amount of purchased power reasonably incurred, but excluded from the FAC. To the extent that Kentucky Power incurs any expense due to purchased power that is appropriately incurred after the test year, but excluded from the FAC, it can file a base rate case seeking recovery of those expenses. For the foregoing reasons, adjustments W26 and W27, which total \$4,032,786, are unreasonable and should be removed from the revenue requirement.

3. Peaking Unit Equivalent Calculation

Kentucky Power proposed to change the methodology for calculating the peaking unit equivalent ("PUE") used in determining the FAC Purchased Power Limitation. In its Application, Kentucky Power proposes to include the cost of firm gas service as an expense in the calculation of its PUE. Kentucky Power stated that since the hypothetical combustion turbine ("CT") could be dispatched any day of the year, it requires firm gas service. The Commission disagrees. While firm gas service would certainly allow the CT to be dispatched any day of the year, the Commission is unaware of any jurisdictional utility utilizing firm gas service for a CT. Because CTs typically operate at low capacity factors and are primarily utilized during the summer peaking

months, when pipeline capacity would typically not be constrained, the Commission finds the inclusion of firm gas service in the calculation of the PUE to be unreasonable, and therefore, this change in the PUE calculation should be denied. Kentucky Power's proposal to include startup costs and variable O&M expense is reasonable and should be approved.

4. Gains and Losses from Incidental Gas Sales.

Kentucky Power proposed to recover gains and losses from incidental sales of natural gas through Tariff P.P.A. Kentucky Power nominates Big Sandy Unit 1 in the PJM day-ahead electric power market based in part on the price of natural gas purchased for delivery the next day. If the Big Sandy Unit 1 Day Ahead nomination price is higher than the PJM electric power market clearing price, Big Sandy Unit 1 is not selected to run in the Real Time Market. In such a case, the natural gas purchased must either be stored by Columbia Gas or be sold. Kentucky Power stated that in August, September, and November of 2016, there were days that it was required to sell natural gas that had been purchased for delivery because Big Sandy Unit 1 was not selected by PJM to run.¹⁴⁰

In Case No. 2014-00078, Duke Energy Kentucky ("Duke Energy") proposed similar treatment of gains and losses it experienced in January and February of 2014 from incidental sales of natural gas.¹⁴¹ Duke Energy amended its request to apply to similar losses or gains occurring in the future. The Commission approved the treatment of the January and February 2014 gains and losses. However, the Commission found

¹⁴⁰ Application, Direct Testimony of John A. Rogness at 26-27

¹⁴¹ Case No. 2014-00078, *An Investigation of Duke Energy Kentucky, Inc.'s Accounting Sale of Natural Gas Not Used in Its Combustion Turbines* (Ky. PSC Nov. 25, 2014).

Duke Energy's proposal to apply such treatment to similar losses or gains in the future to be overly broad and did not approve such treatment, finding that such gains and losses should be investigated on a case-by-case basis.

In this case, the Commission finds, as it did in Case No. 2014-00078, that gains and losses from the incidental sale of natural gas should be investigated on a case-by-case basis. If such gains or losses occur in the future, Kentucky Power should notify the Commission so those matters may be addressed in a formal proceeding. For purposes of this case, the Commission finds that the gain on the incidental sale of natural gas of \$13,982 should be utilized to reduce Kentucky Power's revenue requirement.

Tariff K-12 School

In its Application, Kentucky Power proposed to discontinue the pilot Tariff K-12 School under which public schools in Kentucky Power's service territory took service under discounted rates. Kentucky Power stated that its load research and class cost of service study demonstrated that Tariff K-12 School customers would be better off in the Tariff L.G.S. customer class than they were previously a part of prior to the pilot Tariff K-12.

Tariff Pilot K-12 School was approved as part of the settlement agreement in Case No. 2014-00396. In Case No. 2014-00396, KSBA argued, as it does in this proceeding, that public school load characteristics were sufficiently unique to justify a distinct rate class for K-12 schools. Because school load data did not exist, Kentucky Power agreed to establish a pilot tariff with load research meters at 30 K-12 schools.

Kentucky Power further agreed to evaluate whether to continue Tariff K-12 School in its next base rate case using the load research data.

Tariff K-12 School rates were designed to produce an annual revenue requirement that was \$500,000 less than would be produced under the L.G.S. rates from customers eligible to take service under Tariff K-12 School.¹⁴² Tariff L.G.S. and Tariff M.G.S. customers rates were designed to include the \$500,000 subsidy to Tariff K-12 Schools.¹⁴³

Under the Settlement, Tariff K-12 School would cease to be a pilot, and would continue as a separate rate class. The tariff would be available to all K-12 schools, public and private, in Kentucky Power's service territory with normal maximum demands greater than 100 kW. Tariff K-12 School rates continue to be designed with a \$500,000 subsidy absorbed by Tariff L.G.S. customers.

In its Settlement Testimony, KCUC asserted that the Settlement is unfair and unreasonable because L.G.S. customers had to absorb the subsidy to provide a \$500,000 benefit for Tariff K-12 School customers, in addition to a significant inter-class subsidy burden as part of the overall rate structure.¹⁴⁴ KCUC stated that it did not object to the \$500,000 discount to Tariff K-12 School customers, but instead objected that the discount is funded by L.G.S. customers, and not spread out among all customer classes. As a remedy, KCUC proposed that, if the Commission reduced the revenue requirement, that the first \$500,000 of any reduction be applied first to reduce the revenue requirement of the L.G.S. class.

¹⁴² Case No. 2014-00396, Final Order, at 19.

¹⁴³ *Id.*

The Commission finds that load research data collected and analyzed by Kentucky Power demonstrates that a separate, discounted K-12 schools tariff is not justified and that public school usage characteristics do not support the discounted rates paid by Tariff K-12 School customers relative to the L.G.S. class. The Commission finds that it is unreasonable to continue Tariff K-12 School, and therefore rejects this portion of the Settlement.

Green Pricing Option Rider/Renewable Power Option Rider

Kentucky Power proposed to revise its Green Pricing Option Rider to expand the categories of renewable energy credits available, to allow participating customers to purchase their full requirements from renewable energy generators, and to change the name of the rider to the Renewable Power Option Rider ("Rider R.P.O"). The Commission finds that the Rider R.P.O. provision in the Settlement is reasonable and should be approved.

Tariff C.A.T.V.

In its Application, Kentucky Power proposed to increase Tariff C.A.T.V. rates for pole attachments on a two-user pole from \$7.21 per year to \$11.97 per year, and for pole attachments on a three-user pole from \$4.47 per year to \$7.52 per year. In the Settlement, Kentucky Power and the Settling Intervenors agreed to a rate of \$10.82 per year for attachments on a two-user pole, and \$6.71 per year for attachments on a three-user pole.

The Commission finds that the rates for Tariff C.A.T.V. as set forth in the Settlement are reasonable and should be approved.

¹⁴⁴ Higgins Settlement Testimony at 2.

Temporary Service Tariff

In its Application, Kentucky Power proposed to revise its Temporary Service Tariff ("Tariff T.S.") to limit service provided under Tariff T.S. to ensure that customers do not continue to take service under Tariff T.S. even after construction is complete and the facility is occupied. The Commission finds these changes to be reasonable and that they should be approved.

Optional Residential Demand Charge Tariff

Kentucky Power proposed a new optional residential rate schedule ("Tariff R.S.D.") that will be available to up to 1,000 residential customers. The rate structure will consist of a monthly service charge, on-peak and off-peak kWh energy charges, and an on-peak kW demand charge. Kentucky Power stated that the goal of Tariff R.S.D. is to send targeted price signals that will reward customers for shifting usage away from the peak time periods that cause Kentucky Power to incur higher costs. Kentucky Power also stated that certain electric heating customers may benefit from Tariff R.S.D. due to their potentially higher load factor usage characteristics, and that the rate design is revenue neutral to the standard residential tariff.¹⁴⁵

The Commission finds the proposed Tariff R.S.D. to be reasonable, that it should be approved, and that the rates included in Appendix C of this Order should be approved.

Tariff C.S.-Coal, Tariff C.S.-I.R.P. and Tariff E.D.R.

The Settlement extends through December 31, 2018, Tariff C.S.-Coal and the amendments to Tariff C.S.-I.R.P. and Tariff E.D.R., which were due to expire December

¹⁴⁵ Vaughan Direct Testimony at 19

31, 2017. The Commission finds the extension of the tariffs reasonable and that they should be approved. Any financial loss incurred in connection with these tariffs will be deferred for review and recovery in Kentucky Power's next base rate proceeding.

ENVIRONMENTAL COMPLIANCE PLAN

In its Application, Kentucky Power requested Commission approval of an amended environmental Compliance Plan ("2017 Plan") and an amended Environmental Surcharge tariff ("Tariff E.S.").

The 2017 Environmental Compliance Plan

The 2017 Plan includes previously approved projects and two new projects, Project 19 and Project 20. The 20 projects included in the 2017 Plan are listed in Appendix D to this Order.

Project 19 will install SCR technology at Rockport Unit 1 ("Rockport Unit 1 SCR Project"). The Rockport Unit 1 SCR project will reduce the plant's nitrogen oxide emissions, and is required under terms of a 2007 Consent Decree ("Consent Decree") among several AEP entities including Kentucky Power and I&M, and the Environmental Protection Agency and several environmental plaintiffs.

Project 20 seeks to include a return on inventories for consumables used in conjunction with approved projects through Tariff E.S. Kentucky Power currently recovers the cost of the consumption of consumables through Tariff E.S. The return on consumable inventories is currently part of the general rate base. Kentucky Power proposed that the return on consumable inventories be recovered through Tariff E.S. to align that cost with the cost recovery of items consumed.

Kentucky Power stated that the pollution control projects included in the 2017 Plan amendment are necessary to comply with the Federal Clean Air Act (“CAA”) and other federal, state, and local regulations that apply to coal combustion wastes and by-products from facilities utilized for the production of energy from coal. Kentucky Power asserted that the costs associated with its 2017 Plan are reasonable, and that the projects are a reasonable and cost-effective means to comply with environmental requirements.

The Attorney General argued that Kentucky Power should not be permitted to recover the cost of the Rockport Unit 1 SCR Project.¹⁴⁶ The Attorney General asserted that Kentucky Power’s customers have been paying increasing amounts for environmental costs resulting from the Consent Decree because AEP voluntarily made environmental upgrades at generating stations, including the Rockport generating units, that were not identified in the original EPA litigation that led to the Consent Decree. Because Rockport was not part of the original litigation, the Attorney General asserts Kentucky Power should not recover the costs for the Rockport Unit 1 SCR project from its ratepayers.

In rebuttal, Kentucky Power stated that the decision to include Rockport in the Consent Decree settlement was a way to remove the significant risk of additional litigation at those units not named in any pending complaints, as well as to provide a more favorable outcome than would be expected on an individual basis.¹⁴⁷ Kentucky Power further stated that the Consent Decree provided certainty regarding the timing of

¹⁴⁶ Smith Testimony at 59.

¹⁴⁷ Rebuttal Testimony of John McManus at 3.

additional control installations across the AEP fleet. At the time of the settlement, Kentucky Power was still participating in the AEP Pool, which meant that the outcome of litigation involving all units across the AEP fleet contributing to the pool was in the best interest of Kentucky Power and its customers.

The Settlement was silent on the 2017 Environmental Compliance Plan.

The Commission finds that the 2017 Plan is reasonable as set forth in the Application and should be approved.

ENVIRONMENTAL SURCHARGE TARIFF MODIFICATIONS

Kentucky Power updated its Tariff E.S. to reflect the changes proposed in its Application and the Settlement. Kentucky Power updated the list of projects in the tariff to match the projects included in the 2017 Plan as noted previously in this Order. Kentucky Power updated Tariff ES to reflect the rate of return included in the Settlement to this case. Kentucky Power also updated the tariff to reflect the new monthly base environmental costs based on that rate of return. Kentucky Power determined the annual base revenue requirement level for environmental cost recovery to be \$47,513,461.¹⁴⁸ The Commission has determined that the correct annual base revenue requirement is \$44,379,316, which reflects the Commission authorized return on equity, capital structure changes, reduction of the federal corporate income tax rate from 35 percent to 21 percent and the depreciation rates set forth in Exhibit 5 of the

¹⁴⁸ In the Tariff E.S. filed December 1, 2017, Kentucky Power reflected an annual base revenue requirement of \$47,811,215. Kentucky Power updated this amount to \$47,513,461 to reflect the depreciation rates included in Exhibit 5 to the Settlement Agreement. See Response to Commission Staff's Post-Hearing Request for Information ("Staff's Post-Hearing Request"), Item 20 attachment KPCO_R_KPSC_PH_20_Attachment1.xls.

Settlement.¹⁴⁹ Kentucky Power shall file a revised Tariff ES to reflect the Commission authorized return on equity and capitalization discussed in this Order, and the annual base revenue requirement as shown on Appendix E attached to this order. Per the settlement agreement in Case No. 2012-00578,¹⁵⁰ all costs associated with the Mitchell FGD equipment are excluded from base rates and therefore are not included in the base revenue requirement noted above, but will be included as part of the current period environmental revenue requirement. The Commission finds that Tariff E.S. as discussed and modified in this Order should become effective for service rendered on and after the date of this Order.

Costs Associated with the 2015 Plan

Tariff E.S. revenue requirement is determined by comparing the base period revenue requirement with the current period revenue requirement. Kentucky Power proposed to incorporate the costs associated with the 2017 Plan into the existing surcharge mechanism used for previous compliance plans. Kentucky Power identified the environmental compliance costs for the 2017 Plan projects, which Kentucky Power proposed to recover through its environmental surcharge. Kentucky Power proposed to apply a gross-up factor to environmental expenses to account for uncollectible accounts and the Commission assessment fee. The factor will be applied to the incremental change in operating, maintenance, and other expenses from the base period. The

¹⁴⁹ Response to Staff's Post-Hearing Request, Item 20.

¹⁵⁰ Case No. 2012-00578, *Application of Kentucky Power Company for (1) a Certificate of Public Convenience and Necessity Authorizing the Transfer to the Company of an Undivided Fifty Percent Interest in the Mitchell Generating Station and Associated Assets; (2) Approval of the Assumption by Kentucky Power Company of Certain Liabilities in Connection with the Transfer of the Mitchell Generating Station; (3) Declaratory Rulings; (4) Deferral of Costs Incurred in Connection with the Company's Efforts to Meet Federal Clean Air Act and Related Requirements; and (5) All Other Required Approvals and Relief* (Ky. PSC Oct. 7, 2013).

costs identified by Kentucky Power are eligible for surcharge recovery if they are shown to be reasonable and cost-effective for complying with the environmental requirements specified in KRS 278.183. The Commission finds that the costs identified for the 2017 Plan projects have been shown to be reasonable and cost-effective for environmental compliance. Thus, they are reasonable, and should be approved for recovery through Kentucky Power's environmental surcharge.

Qualifying Costs

As stated previously, the qualifying costs included in Kentucky Power's annual baseline level for environmental cost recovery under the tariff shall be \$44,379,316. The qualifying costs included in the current period revenue requirement will reflect the Commission-approved environmental projects from Kentucky Power's 1997, 2005, 2007, 2015 and 2017 Plans. Per the settlement agreement in Case No 2012-00578, all costs associated with Mitchell Units 1 and 2 FGD equipment have been excluded from base rates and the environmental baseline level and shall be recovered exclusively through Tariff E.S. Should Kentucky Power desire to include other environmental projects in the future, it will have to apply for an amendment to its approved compliance plans.

Rate of Return

Paragraph 8(a) of the Settlement authorizes Kentucky Power to use a 9.75 percent ROE to be utilized in Tariff E.S. to determine the WACC for non-Rockport environmental projects. However as previously noted, the Commission has authorized a 9.70 percent ROE that should be used for all non-Rockport environmental projects.

Kentucky Power's ROE for environmental projects at the Rockport Plant is 12.16 percent as established by the FERC-approved Rockport Unit Power Agreement.

Capitalization and Gross Revenue Conversion Factor

Paragraph 3(c) and Exhibit 6 of the Settlement provide that Kentucky Power shall utilize a WACC of 6.48 percent and a gross revenue conversion factor ("GRCF") of 1.6433 to determine a rate of return of 9.11 percent to be used in the monthly environmental surcharge filings. As a result of the reduction of the federal corporate tax rate from 35 percent to 21 percent, the Commission has determined that Kentucky Power should use a GRCF of 1.352116. Because of the change in the authorized ROE, capitalization, and the GRCF, the WACC to be used for non-Rockport environmental projects is 6.44 percent. Utilizing a WACC of 6.44 percent and a GRCF produces a rate of return of 7.88 percent to be used in the monthly environmental surcharge filings. The WACC and GRCF shall remain constant until the Commission sets base rates in Kentucky Power's next base rate case proceeding.

Surcharge Formulas

The inclusion of the 2017 Plan into Kentucky Power's existing surcharge mechanism will not result in changes to the surcharge formulas. The costs associated with the Mitchell FGD will be excluded from base rates and the base rate revenue requirement of the environmental surcharge at least until June 30, 2020, but will be included in the current period revenue requirement for the environmental surcharge. The Commission finds that the formulas used to determine the environmental surcharge revenue requirement as proposed by Kentucky Power should be approved.

Surcharge Allocation

The retail share of the revenue requirement will be allocated between residential and non-residential customers based upon their respective total revenue during the previous calendar year. The environmental surcharge will be implemented as a percentage of total revenues for the residential class and as a percentage of non-fuel revenues for all other customers.

Monthly Reporting Forms

The inclusion of the 2017 Plan into the existing surcharge mechanism will require modifications to the monthly environmental surcharge reporting forms. Kentucky Power provided its proposed revised forms to be used in the monthly environmental reports. The revised forms include the changes necessary to reflect the proposed 2017 Plan, as well as changes necessitated by the application of a gross-up factor to the incremental operating, maintenance and other expenses. The Commission finds that Kentucky Power's proposed monthly environmental surcharge reporting forms as revised should be approved.

FINDINGS ON SETTLEMENT AGREEMENT

Based upon a review of all the provisions in the Settlement, an examination of the entire record, and being otherwise sufficiently advised, the Commission finds that the provisions of the Settlement are in the public interest and should be approved, subject to the modifications as discussed in this Order. Our approval of the Settlement as modified is based solely on its reasonableness and does not constitute precedent on any issue except as specifically provided for in this Order.

OTHER ISSUES

Vegetation Management

Kentucky Power's current Vegetation Management Plan ("2015 Vegetation Management Plan") was modified from its 2010 Vegetation Management Plan in Kentucky Power's last rate case, Case No. 2014-00396. In Case No. 2014-00396, it was determined that funding for the 2010 Vegetation Management Plan, which was scheduled to move to a four-year cycle within seven years of initial circuit clearing, needed modification. However, the work required to transition to a four-year cycle was significantly greater than initially estimated, and Kentucky Power could not wait until all circuits had an initial clearing ("Task 1") to begin re-clearing the circuits. Thus, the modification was approved allowing the continuation of Task 1 and a simultaneous undertaking of interim re-clearing ("Task 2"). Under this schedule, Task 1 would be completed by December 31, 2018, Task 2 would be completed by June 30, 2019, and on July 1, 2019, Kentucky Power's entire distribution system would commence to be re-cleared on a five-year cycle ("Task 3"), rather than a four-year cycle. Funding was approved for the 2015 Vegetation Management Plan, as well as a provision requiring Kentucky Power to obtain Commission approval prior to modifying its annual projected vegetation management spending on both an aggregate and a district basis if the change is more than 10 percent of the budget.

Kentucky Power is on pace to exceed the December 31, 2018 target for Task 1, and expects to complete Task 1 circuit clearing in the first quarter of 2018. In addition, Task 2 circuit re-clearing is expected to be completed by December 31, 2018, six months sooner than projected. To date, Kentucky Power has exceeded targets on budget as total expenditures are 101 percent of target level.¹⁵¹ Reliability has increased

¹⁵¹ Application, Direct Testimony of Everett G. Phillips ("Phillips Testimony") at 35.

and Kentucky Power customers have seen a 60 percent decrease in interruptions related to rights-of-way trees and vegetation.¹⁵² Task 3 is estimated to begin in January 2019.

Embedded in Kentucky Power's current base rates are annual vegetation management O&M expenses of \$27.661 million. Due to early completion of Tasks 1 and 2, Kentucky Power estimates a reduction of O&M expenses related to Tasks 1 and 2 from \$27.661 million in 2017 to \$21.639 million 2018. According to the 2015 Vegetation Management Plan, at the start of Task 3, O&M expenses are projected to decrease, resulting in a decrease of O&M expenses of \$11.780 million. However, Kentucky Power has determined that the estimates of the annual O&M expenditures for Task 3 as estimated in the 2015 Vegetation Management Plan are undervalued and need to be increased.¹⁵³ Due to the re-clearing in Task 2, Kentucky Power now has a better grasp on regrowth, the effect of higher-than-average rainfall, and growing customer demand to remove tree debris, and proposes to increase the annual O&M expenses for Task 3. This re-estimation calculates costs for Task 3 to increase from the original \$15.880 million to \$21.284 million in 2019, and \$21.473 in 2020.¹⁵⁴ Kentucky Power proposes the amount of vegetation management O&M expenses to be recovered through base rates for the instant case to be equal to the average of the revised estimated annual vegetation management plan O&M spending over 2018-2020, or \$21.465 million.¹⁵⁵

¹⁵² *Id* at 40.

¹⁵³ *Id.*

¹⁵⁴ *Id.* at 46

Kentucky Power also proposes two changes to its current vegetation management reporting requirements. First, Kentucky Power proposes to modify the pre-approval requirement for deviation of 10 or more percent from projected annual vegetation management O&M expenditures to eliminate the district-specific threshold and retain only the requirement for pre-approval if overall Kentucky Power vegetation management expenditures deviate more than 10 percent. Second, Kentucky Power proposes to manage its vegetation work and expenditures on a calendar year basis, as opposed to managing its vegetation work on a fiscal year and expenditures on a calendar year. Kentucky Power stresses that neither modification will change their overall vegetation management obligation, but provides for more flexibility to manage its obligations.¹⁵⁶

The 2015 Vegetation Management Plan included a one-way balancing account. In this balancing account, any annual shortfall or excess in vegetation management O&M expenditures that is over the amount in base rates is added to or subtracted from future expenditures over four years. At the end of the four-year period, Kentucky Power will record a cumulative shortfall as a regulatory liability that will either be refunded to the customers or used to reduce the revenue requirement in its next filed base-rate case. If Kentucky Power has overspent on a cumulative basis during the four-year period, it will not seek recovery of such costs in a future base-rate proceeding. As of the end of November 2017, Kentucky Power testified that cumulative expenditures were slightly over the budgeted amount.¹⁵⁷

¹⁵⁵ Application, Section V, Exhibit 2, page 59.

¹⁵⁶ *Id.* at 43.

The Commission finds that the one-way balancing adjustment should be continued; however due to the change in the annual revenue requirement as noted in the Application, it should be adjusted accordingly. All expenses will be recorded against the annual budget. The annual shortfall or excess will be applied to the balance account. Through 2023, or until Kentucky Power's next base rate application, whichever occurs first, the expenditures will be balanced against the annual projected expenditures as found in the Application.¹⁵⁸

The Commission approves the proposed modifications allowing Kentucky Power to request Commission approval for any spending deviation greater than 10 percent on an aggregate level as opposed to a district level. The Commission also approves Kentucky Power's request to manage its vegetation management program on a calendar year basis to coincide with the budgetary year. The Commission notes that Kentucky Power has exceeded the goals of the 2015 Vegetation Management Plan resulting in a reduction of O&M expenses 24 months earlier than estimated. The Commission approves Kentucky Power's proposed revenue requirement of \$21.465 million. All other provisions of the 2015 Vegetative Management Plan are to remain unchanged.

The Commission will continue to review closely the vegetation management annual work plans and expenditures filed by Kentucky Power. In addition, the Commission will monitor the progress of the five-year maintenance cycle.

Bill Redesign

¹⁵⁷ Dec. 8, 2017 H.V.T. at 2:09:38.

¹⁵⁸ Phillips Testimony, Table 9 at 46.

On June 12, 2017, Kentucky Power filed an Application requesting approval to implement new bill formats that change the bill layout and composition, which is being implemented concurrently for all AEP operating companies, and to combine certain billing line items. That Application was docketed as Case No. 2017-00231.¹⁵⁹ By Order dated July 17, 2017, that case was consolidated into this proceeding. By further Order dated September 12, 2017, the Commission approved Kentucky Power's request to redesign the appearance of its bills, but stated that a decision on the proposed substantive changes to consolidate billing line items would be determined in the final Order in this proceeding.

Kentucky Power proposed to consolidate eight residential billing line items,¹⁶⁰ and seven commercial and industrial billing line items¹⁶¹ into a single "Rate Billing" line item. Kentucky Power explained that customer satisfaction regarding billing correspondence was below the industry average according to a survey commissioned by Kentucky Power.¹⁶² Kentucky Power asserted that its customers found the number of billing line

¹⁵⁹ Case No. 2017-00231, *Electronic Application of Kentucky Power Company for (1) Approval of Its Revised Terms and conditions of Service Implementing New Bill Formats; (2) An Order Granting All other Required Approvals and Relief* (filed June 12, 2017).

¹⁶⁰ The residential billing line items Kentucky Power proposes to consolidate into a single line items are Rate Billing, Residential Home Energy Assistance Program Charge, Kentucky Economic Development Surcharge, Capacity charge, Big Sandy 1 Operation Rider, Big Sandy Retirement Rider, Purchased Power Adjustment, and Green Pricing Option. The residential charges that Kentucky Power proposes to continue to display as individual billing line items are the Fuel Adjustment Charge, Demand-Side Management Factor, Environmental Surcharge, School Tax, Franchise Fee, State Sales tax, and HomeServe Warranty.

¹⁶¹ The commercial and industrial billing line items Kentucky Power proposes to consolidate into a single line items are Rate Billing, Kentucky Economic Development Surcharge, Capacity charge, Big Sandy 1 Operation Rider, Big Sandy Retirement Rider, Purchased Power Adjustment, and Green Pricing Option. The commercial and industrial charges that Kentucky Power proposes to continue to display as individual billing line items are the Fuel Adjustment Charge, Demand-Side Management Factor, Environmental Surcharge, School Tax, Franchise Fee, and State Sales tax.

¹⁶² Case No. 2017-00231, Direct Testimony of Stephen L. Sharp, Jr. (filed June 12, 2017) at 2.

items were “unhelpful,” made the bills “difficult to understand,” and obscured the information customers most wanted to know, which was the total amount owed and payment due date.¹⁶³ Kentucky Power further asserted that customers requested that line items be consolidated in order to simplify the bills. Customers who want detailed billing information could contact a Kentucky Power customer service center.

In the Settlement, the Settling Intervenors agreed to Kentucky Power’s proposed consolidation of billing line items.

Neither KCUC nor the Attorney General filed testimony in this proceeding regarding the consolidation of billing line items. However, in a motion filed in Case No. 2017-00231 before it was incorporated into this proceeding, the Attorney General argued that consolidating the billing line items would result in a lack of transparency that impeded customers’ understanding of how rates and their bills are calculated.¹⁶⁴

The Commission finds that Kentucky Power’s proposed consolidation of billing line items is unreasonable and should be denied. The Commission concurs with the Attorney General that displaying discrete billing line items on customer bills promotes transparency and customer understanding of their billing amounts. Further, it is not reasonable to require customers to take additional steps in order to obtain a detailed accounting for their bills. This is especially so given that the billing line items that Kentucky Power wishes to consolidate represent charges in addition to the base rate charge for utility service.

Analysis of Kentucky Power’s Participation in PJM

¹⁶³ *Id.* at 3; *Id.* at Application, paragraph 11.

Kentucky Power currently elects to self-supply its PJM capacity requirements under the Fixed Resource Requirement (“FRR”) alternative. As discussed in testimony at the hearing, AEP conducts regular evaluations to determine whether its operating companies in PJM should elect to participate in the Reliability Pricing Model (“RPM”) capacity market, or to self-supply under FRR.¹⁶⁵

The Commission finds that Kentucky Power should file an annual update of the FRR/RPM election analysis. The Commission recognizes that this information is deemed confidential during the AEP internal decision-making process. However, once PJM is notified of the election, the information becomes public and ceases to be confidential. Kentucky Power should file the annual update after the information becomes public.

Further, the Commission recognizes that Kentucky Power’s interests may not be aligned with the interests of other AEP operating companies. The Commission is aware that PJM bills AEP based on a one-coincident peak methodology, and that AEP subsequently allocates those costs to its operating companies using a twelve-coincident peak methodology. The Commission finds that Kentucky Power should file an annual report with the supporting calculations used by AEP to allocate these costs.

Last, the Commission strongly encourages Kentucky Power to recognize that it must make a determination regarding its participation in PJM that aligns with the interests of Kentucky Power and its ratepayers.

Reduction in Corporate Tax Rates

¹⁶⁴ Case No. 2017-00231, Attorney General’s Motion to Consolidate Cases (filed July 13, 2017) paragraphs 4-5.

¹⁶⁵ Dec. 7, 2017 H.V.T. at 10:43:18, and Kentucky Power Exhibit 9.

Effective January 1, 2018, the federal corporate income tax rate was reduced from 35 percent to 21 percent. Consistent with Kentucky Power's revised gross-up factor calculation in certain riders, the Commission finds that it is reasonable to utilize the 21 percent corporate income tax rate in the gross-up factor calculation. The Commission will address the impact of the recently enacted tax cuts on the excess ADIT and the rates of all investor-owned utilities, including Kentucky Power, on a prospective basis in pending cases that were opened on December 27, 2017.¹⁶⁶

Based on the evidence of record and the findings contained herein, HEREBY ORDERS that:

1. The rates and charges proposed by Kentucky Power are denied.
2. The provisions in the Settlement, as set forth in Appendix A to this Order, are approved, subject to the modifications and deletions set forth in this Order.
3. The rates and charges for Kentucky Power, as set forth in Appendix C to this Order, are the fair, just, and reasonable rates for Kentucky Power, and these rates are approved for service rendered on and after January 19, 2018.
4. Kentucky Power's request to deviate from 807 KAR 5:006, Section 14(2)(a) by limiting enrollment in its Equal Payment Plan to the months of April through December is granted.
5. Kentucky Power's proposed depreciation rates, with the exception of the changes proposed in the Settlement are approved.

¹⁶⁶ Case No. 2017-00477, *Kentucky Industrial Utility Customers, Inc. v. Kentucky Utilities Company, Louisville Gas and Electric Company, Kentucky Power Company, and Duke Energy Kentucky, Inc.* (Ky PSC Dec. 27, 2017); Case No. 2017-00481, *An Investigation of the Impact of the Tax Cuts and Job Act on the Rates of Atmos Energy Corporation, Delta Natural Gas Company, Inc., Columbia Gas of Kentucky, Inc., Kentucky-American Water Company, and Water Service Corporation of Kentucky* (Ky. PSC Dec. 27, 2017).

6. The regulatory asset or liability account established by under- or over-recovery from the elimination of Tariff B.S.1.O.R. is approved for accounting purposes only.

7. The regulatory asset account established by the deferral of Rockport UPA expenses is approved for accounting purposes only.

8. Kentucky Power's 2017 Environmental Compliance Plan is approved.

9. Kentucky Power's environmental surcharge tariff is approved for service rendered on and after the date of this Order.

10. The base period and current period revenue requirements for the environmental surcharge shall be calculated as described in this Order.

11. The environmental reporting formats described in this Order shall be used for the monthly environmental surcharge filings. Previous reporting formats shall no longer be submitted.

12. The Commission approves the sample forms that were filed by Kentucky Power on January 3, 2018.

13. Within three months of the date of this Order, Kentucky Power shall identify and contact GS class customers whose average monthly demand is 25 kW or greater for the purpose of meeting to discuss the impact of the rate increase on their bills and analyze other available tariff options, such as time-of-day rates.

14. Within twelve months of the date of this Order, Kentucky Power shall file a report listing the names of each GS class customers whose average monthly demand is 25 kW or greater, and stating the date and method of contact with the customer, whether Kentucky Power has met with the customer, and the results of each meeting.

15. Kentucky Power's request to revise its billing format to consolidate billing line items, as set forth in the application, is denied.

16. Kentucky Power's Vegetation Management Plan, as set forth in the Application, is approved.

17. Kentucky Power's request to obtain Commission approval for any spending deviation from its Vegetation Management Plan greater than 10 percent on an aggregate level as opposed to a district level is approved.

18. Kentucky Power's request to manage its Vegetation Management Plan on a calendar year basis is approved.

19. Kentucky Power shall file an annual update of the FRR/RPM election analysis conducted by AEP and its operating companies within 30 days of notifying PJM of the election.

20. Kentucky Power shall file annually the supporting calculations for allocating PJM bills, which are based on a one-coincident peak methodology, AEP's operating companies using a twelve-coincident-peak methodology.

21. Within 20 days of the date of this Order, Kentucky Power shall, using the Commission's electronic Tariff Filing System, file its revised tariffs setting out the rates authorized herein and reflecting that they were approved pursuant to this Order.

By the Commission

ENTERED
JAN 18 2018
KENTUCKY PUBLIC
SERVICE COMMISSION

ATTEST:



Executive Director

Case No. 2017-00179

APPENDIX A

APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE
COMMISSION IN CASE NO. 2017-00179 DATED **JAN 18 2018**

**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) An Order)	
Approving Its 2017 Environmental Compliance)	
Plan; (3) An Order Approving Its Tariffs And	)	Case No. 2017-00179
Riders; (4) An Order Approving Accounting)	
Practices To Establish Regulatory Assets Or)	
Liabilities; And (5) An Order Granting All Other)	
Required Approvals And Relief)	

SETTLEMENT AGREEMENT

This Settlement Agreement, made and entered into this 22nd day of November, 2017, by and among Kentucky Power Company (“Kentucky Power” or “Company”); Kentucky Industrial Utility Customers, Inc. (“KIUC”); Kentucky School Boards Association (“KSBA”); Kentucky League of Cities (“KLC”); Wal-Mart Stores East, LP and Sam’s East, Inc. (“Wal-Mart”); and Kentucky Cable Telecommunications Association (“KCTA”); (collectively Kentucky Power, KIUC, KSBA, KLC, Wal-Mart, and KCTA, are “Signatory Parties”).

RECITALS

1. On June 28, 2017 Kentucky Power filed an application pursuant to KRS 278.190, KRS 278.183, and the rules and regulations of the Public Service Commission of Kentucky (“Commission”), seeking an annual increase in retail electric rates and charges totaling \$69,575,934, seeking approval of its 2017 Environmental Compliance Plan, an order approving accounting practices to establish regulatory assets or liabilities, and further seeking authority to implement or amend certain tariffs (“June 2017 Application”).

2. On August 8, 2017, Kentucky Power supplemented its filing to reflect the impact of subsequent refinancing activities on the Company's Application ("August 2017 Refinancing Update"). The refinancing activities reduced the Company's requested annual increase in retail electric rates and charges from \$69,575,934 to \$60,397,438.

3. KIUC, KSBA, KLC, Wal-Mart, and KCTA filed motions for full intervention in Case No. 2017-00179. The Commission granted the intervention motions. Collectively KIUC, KSBA, KLC, Wal-Mart, and KCTA are referred to in this Settlement Agreement as the "Settling Intervenors."

4. The Attorney General of the Commonwealth of Kentucky ("Attorney General") and Kentucky Commercial Utility Customers, Inc. ("KCUC") also filed motions to intervene. The Attorney General and KCUC, who are not parties to this agreement, were granted leave to intervene.

5. Certain of the Settling Intervenors, KCUC, and the Attorney General filed written testimony in Case No. 2017-00179 raising issues regarding Kentucky Power's Rate Application.

6. Kentucky Power, KCUC, the Attorney General, and the Settling Intervenors have had a full opportunity for discovery, including the filing of written data requests and responses.

7. Kentucky Power offered the Settling Intervenors, KCUC, and the Attorney General, along with Commission Staff, the opportunity to meet and review the issues presented by Kentucky Power's application in this proceeding and for purposes of settlement.

8. The Signatory Parties execute this Settlement Agreement for purposes of submitting it to the Kentucky Public Service Commission for approval pursuant to KRS 278.190 and KRS 278.183 and for further approval by the Commission of the rate increase, rate structure, and tariffs as described herein.

9. The Signatory Parties believe that this Settlement Agreement provides for fair, just, and reasonable rates.

NOW, THEREFORE, for and in consideration of the mutual promises set forth above, and the agreements and covenants set forth herein, Kentucky Power and the Settling Intervenors hereby agree as follows:

AGREEMENT

1. Kentucky Power's Application

(a) Except as modified in this Settlement Agreement, Kentucky Power's June 2017 Application as updated by the August 2017 Refinancing Update is approved.

2. Revenue Requirement

(a) Effective for service rendered on or after January 19, 2018, Kentucky Power shall implement a base rate adjustment sufficient to generate additional annual retail revenues of \$31,780,734. This annual retail revenue amount represents a \$28,616,704 million reduction from the \$60,397,438 sought in the Company's August 2017 Refinancing Update.

(b) The \$28,616,704 million reduction was the result of the following adjustments to the Company's request in the June 2017 Rate Application as modified in the August 2017 Refinancing Update:

Adjustment	Reduction in Revenue Requirement (\$Millions)
Defer a portion of Rockport UPA non-fuel, non-environmental expenses	15.0
Increase revenues to Apply Weather Normalization to Commercial Sales Net of Variable O&M	0.40
Reduce Incentive Compensation	3.15
Reduce Amortization Expense to Recalibrate Storm Damage Amortization	1.22

Reduce Depreciation Expense by Extending Service Life of BS1 to 20 years	2.84
Reduce Depreciation Expense by Removing Terminal Net Salvage for BSU1	0.37
Reduce Depreciation Expense by Removing Terminal Net Salvage for Mitchell	0.57
Increase Short Term Debt to 1% and Set Debt Rate at 1.25%	0.36
Change in Return on Equity from 10.31% to 9.75%	4.70
Total Adjustments	28.6

(c) Kentucky Power agrees to allocate the \$31,780,734 in additional annual revenue as illustrated on **EXHIBIT 1**. The Company will design rates and tariffs consistent with this allocation of additional revenue.

(i) As part of the Commission's consideration of the reasonableness of this Settlement Agreement, the tariffs designed in accordance with this subparagraph shall be filed with the Commission and served on counsel for all parties to this case no later than December 1, 2017.

(ii) Within ten days of the entry of the Commission's Order approving without modification this Settlement Agreement and the rates thereunder, Kentucky Power shall file with the Commission signed copies of the tariffs in conformity with 807 KAR 5:011.

3. Rockport UPA Expense Deferral

(a) Kentucky Power is a party to a FERC-approved Unit Power Agreement with AEP Generating Company for capacity and energy produced at the Rockport Plant ("Rockport UPA"). The Rockport UPA expires on December 8, 2022.

(b) Kentucky Power will defer a total of \$50 million in non-fuel, non-environmental Rockport UPA Expense for later recovery as follows:

(i) Kentucky Power will defer \$15M annually of Rockport UPA Expense in 2018 and 2019 for later recovery.

(ii) Kentucky Power will defer \$10M of Rockport UPA Expense in 2020 for later recovery.

(iii) Kentucky Power will defer \$5M annually of Rockport UPA Expense in years 2021 and 2022 for later recovery.

(c) The Rockport UPA Expense of \$50 million described in Paragraph 3(b) above will be deferred into a regulatory asset (“the Rockport Deferral Regulatory Asset”) and will be subject to carrying charges based on a weighted average cost of capital (“WACC”) of 9.11%¹ until the Regulatory Asset is fully recovered. From January 1, 2018 through December 8, 2022, the WACC will be applied to the monthly Rockport Deferral Regulatory Asset principal balance net of accumulated deferred income taxes (“ADIT”). From December 9, 2022 until the Rockport Deferral Regulatory Asset is fully recovered, the WACC will be applied to the monthly Rockport Deferral Regulatory Asset balance including deferred carrying charges net of ADIT. The Rockport Deferral Regulatory Asset shall be recovered on a levelized basis through the demand component of Tariff P.P.A. and amortized over five years beginning on December 9, 2022. Kentucky Power estimates that the regulatory asset balance will total approximately \$59 million on December 8, 2022.

(d) Additional expenses reflecting the declining deferral amount in years 2020 through 2022 will be recovered through the demand component of Tariff P.P.A. as follows:

(i) Kentucky Power will recover \$5 million through Tariff P.P.A. in 2020

(ii) Kentucky Power will recover \$10 million through Tariff P.P.A. in 2021

¹ 6.48% grossed up for applicable State and Federal taxes, uncollectible accounts expense, and the KPSC maintenance fee

(iii) Kentucky Power will recover \$10 million through Tariff P.P.A. in 2022, prorated through December 8, 2022.

(e) The Signatory Parties acknowledge that the Company's decision whether to seek Commission approval to extend the Rockport UPA will be made at a later date. Whether or not the Company seeks to extend the Rockport UPA, beginning December 9, 2022, the Capacity Charge recovered through Tariff C.C., approved in Case No. 2004-00420, will end. Any final over- or under-recovery balance will be included in the subsequent calculation of the purchase power adjustment under Tariff P.P.A. In the event that Kentucky Power elects not to extend the Rockport UPA, it will experience a reduction in Rockport UPA fixed costs ("Rockport Fixed Costs Savings").

(f) If Kentucky Power elects not to extend the Rockport UPA, it will, beginning December 9, 2022, credit the Rockport Fixed Cost Savings through the demand component of Tariff P.P.A. until new base rates are set. However, for 2023 only, the Rockport Fixed Cost Savings credit will be offset by the amount, if any, necessary for the Company to earn its Kentucky Commission-authorized return on equity (ROE) for 2023 ("Rockport Offset"). An example of the calculation of the Rockport Offset is included as EXHIBIT 2.

(g) For the purposes of implementing the Rockport Fixed Costs Savings credit described in Paragraph 3(f) above, the following definitions apply:

(i) "Rockport Fixed Costs Savings" shall mean the annual amount of non-fuel, non-environmental Rockport UPA expense included in base rates for rates effective in November 2022.

(ii) "Estimated Rockport Offset" shall mean the amount of additional annual revenue the Company estimates would be necessary for it to earn the Commission-authorized

return on equity for 2023 considering the termination of the Rockport UPA and the Rockport Fixed Cost Savings.

(iii) “Actual Rockport Offset” shall mean the amount of additional annual revenue that would have been necessary for the Company to earn the Commission-authorized return on equity for 2023 considering the termination of the Rockport UPA and the Rockport Fixed Cost Savings. The Company shall calculate the Actual Rockport Offset using a comparison of the per books return on equity for 2023 to the Commission-approved return on equity. The Actual Rockport Offset cannot exceed the Rockport Fixed Costs Savings.

(iv) “Rockport Offset True-Up” shall mean the difference between the Estimated Rockport Offset and the Actual Rockport Offset.

(h) The Company shall implement the Rockport Fixed Costs Savings credit described in Paragraph 3(f) above as follows:

(i) By November 15, 2022, the Company shall file an updated purchase power adjustment factor under Tariff P.P.A. for rates effective December 9, 2022. This filing shall reflect the impact of the Rockport Fixed Cost Savings and the Estimated Rockport Offset on the purchase power adjustment factor. This filing shall also reflect the commencement of recovery of the Rockport Deferral Regulatory Asset.

(ii) The Company shall make its normal August 15, 2023 Tariff P.P.A. filing for rates effective in October 2023. The Rockport Fixed Cost Savings and the Estimated Rockport Offset will continue to be factored into the calculation of the purchase power adjustment factor through the end of 2023. Beginning in January 2024, the Estimated Rockport Offset will not be factored into the calculation of the purchase power adjustment factor.

(iii) By February 1, 2024, the Company shall file an updated purchase power adjustment factor under Tariff P.P.A. for rates effective March 1, 2024. This filing shall only reflect the impact of the Rockport Offset True-Up on the purchase power adjustment factor. The purchase power adjustment factor shall be established to recover or credit the Rockport Offset True-Up amount in three months.

(iv) Beginning with the August 15, 2024 Tariff P.P.A. filing, the Company will incorporate the Rockport Fixed Cost Savings in its annual calculation of the purchase power adjustment factor.

4. PJM OATT LSE Expense Recovery

(a) As described in the testimony of Company Witness Vaughan, Kentucky Power has included an adjusted test year amount of net PJM OATT LSE charges and credits in base rates. Kentucky Power will track, on a monthly basis, the amount of OATT LSE charges and credits above or below the base rate level using deferral accounting. Kentucky Power will recover and collect 80% of the annual over or under collection of PJM OATT LSE charges, as compared to the annual amount included in base rates, (“Annual PJM OATT LSE Recovery”) through the operation of Tariff P.P.A.

(b) Kentucky Power will credit against the Annual PJM OATT LSE Recovery 100% of the difference between the return on its incremental transmission investments calculated using the FERC-approved PJM OATT return on equity and the return on its incremental transmission investments calculated using the 9.75% return on equity provided for in this settlement (the “Transmission Return Difference”). Kentucky Power shall calculate the Transmission Return Difference as shown in **EXHIBIT 3**.

(c) These changes to Tariff P.P.A. to allow for the Annual PJM OATT LSE Recovery will terminate on the effective date when base rates are reset in the next base rate proceeding unless otherwise specifically extended by the Commission. Nothing in this Paragraph 4(c) prohibits Kentucky Power or any other Signatory Party from taking any position regarding the extension of the Annual PJM OATT LSE Recovery mechanism or any other treatment of the Company's PJM OATT LSE expenses.

5. Rate Case Stay Out

(a) Kentucky Power will not file an application for a general adjustment of base rates for rates that would be effective prior to the first day of the January 2021 billing cycle. This rate case "stay out" is expressly conditioned on Commission approval of this Settlement Agreement without modification including the recovery of the Rockport Deferral Regulatory Asset as described in Section 3 above and the incremental PJM OATT LSE expense through Tariff P.P.A. as described in Section 4 above.

(b) This stay out will not apply if a change in law occurs that will result in a material adverse effect on the Company's financial condition.

(c) Nothing in this stay out provision should be interpreted as prohibiting the Commission from altering the Company's rates upon its own investigation, or upon complaint, including to reflect changes in the tax code, including the federal corporate income tax rate, depreciation provisions, or upon a request by the Company to seek leave to address an emergency that could adversely impact Kentucky Power or its customers. In the event the Commission initiates an investigation or a complaint is filed with the Commission regarding the Company's rates, the Company retains the right to defend the reasonableness of its rates in such proceedings.

6. Tariff P.P.A.

(a) Kentucky Power's proposed changes to Tariff P.P.A., as set forth in the testimony of Company Witness Vaughan and modified by Sections 2 and 3 above, are approved.

(b) A revised version of Tariff P.P.A. incorporating the modifications described in Sections 2 and 3 above is included as **EXHIBIT 4**.

7. Depreciation Rates

(a) Kentucky Power and the Settling Intervenors agree that Big Sandy Unit 1 has an expected life of 20 years following its conversion from a coal-fired to a natural gas-fired generating unit. The depreciation rates for Big Sandy Unit 1 have been adjusted to reflect the 20 year expected life. Kentucky Power and the Signatory Parties retain the right to propose updated depreciation rates for Big Sandy Unit 1 in future proceedings to reflect updates to the expected life.

(b) Kentucky Power has adjusted depreciation rates for Big Sandy Unit 1 and for the Mitchell Plant to remove terminal net salvage costs. Kentucky Power retains the right to propose updated depreciation rates for Big Sandy Unit 1 and for the Mitchell Plant in future proceedings to include terminal net salvage costs, and the Settling Intervenors retain the right to challenge the inclusion of such costs in future proceedings.

(c) Kentucky Power's updated depreciation rates are included as **EXHIBIT 5**.

8. Return on Equity, Capitalization, WACC, and GRCF

(a) Kentucky Power shall be authorized a 9.75% return on equity. The authorized return on equity of 9.75% will be used in the calculation of the Company's Environmental Surcharge factor (for non-Rockport environmental projects) and the carrying charges for the Rockport Deferral and Decommissioning Rider regulatory assets.

(b) Kentucky Power will update its capitalization to reflect short term debt as 1% of the Company's total capital structure. The annual interest rate for the short term debt will be set at 1.25%.

(c) Kentucky Power shall utilize a weighted average cost of capital ("WACC") of 9.11% including a gross revenue conversion factor ("GRCF") of 1.6433%. The GRCF does not include a Section 199 deduction. This WACC and GRCF shall remain constant (including for the riders and surcharges described in Paragraph 8(a) above) until such time as the Commission sets base rates in the Company's next base rate case proceeding. The calculations of the WACC and GRCF are shown on **EXHIBIT 6**.

9. Storm Damage Expense Amortization

(a) Kentucky Power will recover and amortize the remaining unamortized balance of its deferred storm expense regulatory asset authorized in Case No. 2012-00445 over a period of five years beginning January 1, 2018, consistent with the recommendation of KIUC. The unamortized balance of the regulatory asset authorized in Case No. 2012-00445 will total \$6,087,000 on December 31, 2017 and will be amortized over five years at an annual amount of \$1,217,400.

(b) Kentucky Power will recover and amortize the deferred storm expense regulatory asset authorized in Case No. 2016-00180 over a period of 5 years beginning January 1, 2018 consistent with the testimony of Company Witness Wohnhas. The balance of the regulatory asset authorized in Case No. 2016-00180 totals \$4,377,336 and will be amortized over five years at an annual amount of \$875,467.

(c) The combined balance of the Kentucky Power's deferred storm expense regulatory assets (the remaining unamortized balance authorized in Case No. 2012-00445 and the amount

authorized in Case No. 2016-00180) will total \$10,464,336 on December 31, 2017 and will be amortized over five years at an annual amount of \$2,092,867.

10. Kentucky Economic Development Surcharge

(a) Kentucky Power's new Kentucky Economic Development Surcharge Tariff ("Tariff K.E.D.S.") shall be approved with rates amended as follows:

(i) The KEDS rate for residential customers will be set at \$0.10 per meter instead of \$0.25 as proposed by the Company.

(ii) The KEDS rate for non-residential customers for which the KEDS applies will be set at \$1.00 per meter instead of \$0.25 as proposed by the Company.

(b) All KEDS funds collected by Kentucky Power shall be matched dollar-for-dollar by Kentucky Power from shareholder funds. The proceeds of KEDS and Kentucky Power's shareholder contribution shall be used by Kentucky Power for economic development projects, including the training of local economic development officials, in the Company's service territory. The KEDS, and the matching shareholder contribution, shall remain in effect until changed by order of the Commission.

(c) Kentucky Power will continue to file on or before March 31st of each year a report with the Commission describing: (i) the amount collected through the Economic Development Surcharge; and (ii) the matching amount contributed by Kentucky Power from shareholder funds. The annual report to be filed by the Company shall also describe the amount, recipients, and purposes of its expenditure of the funds collected through the Economic Development Surcharge and shareholder contribution.

(d) Kentucky Power shall serve a copy of the annual report to be filed with the Commission in accordance with subparagraph (c) on counsel for all parties to this proceeding.

11. Backup and Maintenance Service

(a) In order for Marathon Petroleum L.P (“Marathon”) to evaluate the economics of self or co-generation, Kentucky Power and Marathon will begin negotiations regarding the terms, conditions and pricing for backup and maintenance service within 30 days of a Commission Order approving this provision and will complete negotiations within the next 120 days. Prior to the start of the 120 day negotiation period, Marathon will provide Kentucky Power with specific information regarding the MW size of a potential self or co-generation facility and the type of generation technology being considered.

(b) If Kentucky Power and Marathon cannot reach an agreement on backup and maintenance service within 120 days, Kentucky Power and Marathon agree to submit the issue to the Commission for resolution.

12. School Energy Manager Program

(a) Kentucky Power shall seek leave from the Commission to include up to \$200,000 for the School Energy Manager Program in its each of its 2018 and 2019 DSM Program offerings.

(b) Kentucky Power and KSBA both expressly acknowledge that there is in Case No. 2017-00097 a currently-pending Commission investigation of the Company’s DSM programs and funding and that the outcome of that investigation could impact the School Energy Manager Program.

13. Tariff K-12 School

(a) Kentucky Power shall continue its current Pilot Tariff K-12 School but shall remove the Pilot designation as set forth in **EXHIBIT 7**. Tariff K-12 School shall be available for general service to all K-12 schools in the Company’s service territory, public and private, with normal maximum demands greater than 100 kW. Tariff K-12 School shall reflect rates for

customers taking service under the tariff designed to produce annually in the aggregate \$500,000 less from Tariff K-12 School customers than would be produced under the new L.G.S. rates to be established under this Settlement Agreement from customers eligible to take service under Tariff K-12 School. The aggregate total revenues to be produced by Tariff K-12 School and Tariff L.G.S. shall be equal to the revenues that would be produced in the aggregate by the new rates in the absence of Tariff K-12 School. Service under Tariff K-12 School shall be optional.

14. Bill Format Changes

(a) The bill formatting changes proposed by the Company in Case No. 2017-00231 and consolidated into this case by Commission Order dated July 17, 2017, to the extent not already approved, are approved.

(b) Within 180 days of a Commission Order approving this Settlement, Kentucky Power will conduct a training session with representatives from its municipal clients and KLC to explain the new bill format and tools available to clients to evaluate their electric usage.

15. Renewable Power Option Rider

(a) The proposed changes to the Company's Green Pricing Option Rider, including renaming the rider to the Renewable Power Option Rider ("Rider R.P.O."), are approved except that the availability of service provision for Option B will state the following:

"Customers who wish to directly purchase the electrical output and all associated environmental attributes from a renewable energy generator may contract bilaterally with the Company under Option B. Option B is available to customers taking metered service under the Company's I.G.S., and C.S.-I.R.P. tariffs, or multiple L.G.S. tariff accounts with common ownership under a single parent company that can aggregate multiple accounts to exceed 1000 kW of peak demand."

A revised version of Rider R.P.O. incorporating the modifications described above is included as **EXHIBIT 8**. Bills for customers receiving service under Rider R.P.O. will include a separate line item for Rider R.P.O. charges.

(b) Beginning no later than March 31, 2018, and no later than each March 31 thereafter, Kentucky Power will file a report with the Commission describing the previous year's activity under Rider R.P.O. This annual report will replace the semi-annual reports filed in Case No. 2008-00151.

16. Modifications To Kentucky Power's Rate Tariffs

In addition to the rate and tariff changes described and agreed to above, Kentucky Power and the Settling Intervenors agree that the following tariffs shall be modified or implemented as described below:

(a) The Customer charge for the Residential Class ("Tariff R.S.") shall be increased to \$14.00 per month instead of the \$17.50 per month proposed by the Company in its filing in this case.

(b) The Company is extending the termination date for Tariff C.S. – Coal and the amendments to Tariff C.S. – I.R.P. and Tariff E.D.R. approved in Case No. 2017-00099 from December 31, 2017 to December 31, 2018.

(c) The pole attachment rate under Tariff C.A.T.V. shall be \$10.82 for attachments on two-user poles and \$6.71 for attachments on three-user poles for all attachments instead of the \$11.97 for attachments on two-user poles and \$7.42 for attachments on three-user poles proposed by the Company in its filing in this case.

17. Filing Of Settlement Agreement With The Commission And Request For Approval

Following the execution of this Settlement Agreement, Kentucky Power and the Settling Intervenors shall file this Settlement Agreement with the Commission along with a joint request to the Commission for consideration and approval of this Settlement Agreement so that Kentucky

Power may begin billing under the approved adjusted rates for service rendered on or before January 19, 2018.

18. Good Faith And Best Efforts To Seek Approval

(a) This Settlement Agreement is subject to approval by the Public Service Commission.

(b) Kentucky Power and the Settling Intervenors shall act in good faith and use their best efforts to recommend to the Commission that this Settlement Agreement be approved in its entirety and without modification and that the rates and charges set forth herein be implemented.

(c) Kentucky Power and the Settling Intervenors filed testimony in this case. Kentucky Power also filed testimony in support of the Settlement Agreement. For purposes of any hearing, the Settling Intervenors and Kentucky Power waive all cross-examination of the other Signatory Parties' witnesses except for purposes of supporting this Settlement Agreement unless the Commission disapproves this Settlement Agreement. Each further stipulates and recommends that the Notice of Intent, Application, testimony, pleadings, and responses to data requests filed in this proceeding be admitted into the record.

(d) The Signatory Parties further agree to support the reasonableness of this Settlement Agreement before the Commission, and to cause their counsel to do the same, including in connection with any appeal from the Commission's adoption or enforcement of this Settlement Agreement.

(e) No party to this Settlement Agreement shall challenge any Order of the Commission approving the Settlement Agreement in its entirety and without modification.

19. Failure Of Commission To Approve Settlement Agreement

If the Commission does not accept and approve this Stipulation in its entirety, then any adversely affected Party may withdraw from the Stipulation within the statutory periods provided for rehearing and appeal of the Commission's order by (1) giving notice of withdrawal to all other Parties and (2) timely filing for rehearing or appeal. Upon the latter of (1) the expiration of the statutory periods provided for rehearing and appeal of the Commission's order and (2) the conclusion of all rehearing's and appeals, all Parties that have not withdrawn will continue to be bound by the terms of the Stipulation as modified by the Commission's order.

20. Continuing Commission Jurisdiction

This Settlement Agreement shall in no way be deemed to divest the Commission of jurisdiction under Chapter 278 of the Kentucky Revised Statutes.

21. Effect of Settlement Agreement

This Settlement Agreement shall inure to the benefit of, and be binding upon, the parties to this Settlement Agreement, their successors, and assigns.

22. Complete Agreement

This Settlement Agreement constitutes the complete agreement and understanding among the parties to this Settlement Agreement, and any and all oral statements, representations, or agreements. Any and all such oral statements, representations, or agreements made prior hereto or contained contemporaneously herewith shall be null and void and shall be deemed to have been merged into this Settlement Agreement.

23. Independent Analysis

The terms of this Settlement Agreement are based upon the independent analysis of the parties to this Settlement Agreement, are the product of compromise and negotiation, and reflect

a fair, just, and reasonable resolution of the issues herein. Notwithstanding anything contained in this Settlement Agreement, Kentucky Power and the Settling Intervenors recognize and agree that the effects, if any, of any future events upon the income of Kentucky Power are unknown and this Settlement Agreement shall be implemented as written.

24. Settlement Agreement And Negotiations Are Not An Admission

(a) This Settlement Agreement shall not be deemed to constitute an admission by any party to this Settlement Agreement that any computation, formula, allegation, assertion, or contention made by any other party in these proceedings is true or valid. Nothing in this Settlement Agreement shall be used or construed for any purpose to imply, suggest or otherwise indicate that the results produced through the compromise reflected herein represent fully the objectives of the Signatory Parties.

(b) Neither the terms of this Settlement Agreement nor any statements made or matters raised during the settlement negotiations shall be admissible in any proceeding, or binding on any of the parties to this Settlement Agreement, or be construed against any of the parties to this Settlement Agreement, **except that** in the event of litigation or proceedings involving the approval, implementation or enforcement of this Agreement, the terms of this Settlement Agreement shall be admissible. This Settlement Agreement shall not have any precedential value in this or any other jurisdiction.

25. Consultation With Counsel

The parties to this Settlement Agreement warrant that they have informed, advised, and consulted with their respective counsel with regard to the contents and significance of this Settlement Agreement and are relying upon such advice in entering into this agreement.

26. Authority To Bind

Each of the signatories to this Settlement Agreement hereby warrant they are authorized to sign this agreement upon behalf of, and bind, their respective parties.

27. Construction Of Agreement

This Settlement Agreement is a product of negotiation among all parties to this Settlement Agreement, and no provision of this Settlement Agreement shall be construed in favor of or against any party hereto. This Settlement Agreement is submitted for purposes of this case only and is not to be deemed binding upon the parties hereto in any other proceeding, nor is it to be offered or relied upon in any other proceeding involving Kentucky Power or any other utility.

28. Counterparts

This Settlement Agreement may be executed in multiple counterparts.

29. Future Rate Proceedings

Nothing in this Settlement Agreement shall preclude, prevent, or prejudice any party to this Settlement Agreement from raising any argument or issue, or challenging any adjustment, in any future rate proceeding of Kentucky Power.

IN WITNESS WHEREOF, this Settlement Agreement has been agreed to as of this 22nd day of November 2017.

KENTUCKY POWER COMPANY

By: 

Its: Counsel

KENTUCKY INDUSTRIAL UTILITY
CUSTOMERS, INC.

By: Michael Kurt

Its: Counsel

KENTUCKY SCHOOL BOARDS
ASSOCIATION, INC.


By: Matthew Malone

Its: Legal Counsel

KENTUCKY LEAGUE OF CITIES

By: William H. H. H. H.
Its: Director of Municipal Law Training

KENTUCKY CABLE
TELECOMMUNICATION
ASSOCIATION, INC.

By: 

Its: KCTA Board Chairman

WAL-MART STORES EAST, LP AND
SAM'S EAST, INC.

By: CMJ

Its: Counsel

APPENDIX B

APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE
COMMISSION IN CASE NO. 2017-00179 DATED JAN 18 2018

Adjustments	Amounts
Capacity Charge Revenues Removal	(\$6,396,832)
Removal of Effects of Decommissioning Rider Revenue and Expenses	(\$18,512,331)
Eliminate Mitchell FGD Operating Expenses	(\$13,308,197)
Remove Mitchell plant FGD and Consumable inventory from Rate Base	(\$1,610,192)
Removal of Mitchell FGD Environmental Surcharge Rider Revenues	(\$538,417)
Remove Big Sandy Unit 1 Operation Rider Deferrals	(\$4,333,902)
Fuel Under (Over) Revenues	\$4,574,472
Reset OSS Margin Baseline to 2016 Test Year OSS Margins	(\$8,800,856)
PPA Rider Synchronization Adjustment	\$372,542
Remove DSM Revenue Expense	(\$5,503,380)
Remove HEAP Revenue and Expense	(\$246,772)
Remove Economic Development Surcharge Revenue and Expense	(\$303,011)
Tariff Migration Adjustment	\$1,026,263
Customer Annualization Revenue Adjustment	(\$1,342,364)
Weather Normal Load Revenue Adjustment	\$4,080,748
O&M Expense Interest on Customer Deposit	\$67,254
Amortization of Major Storm Cost Deferral	\$874,592
Postage Rate Decrease Adjustment	(\$6,656)
Eliminate Advertising Expense	\$100,444
Adjust Pension and OPEB Expense	\$148,679
Employee Related Group Benefit Expense	\$429,241
Remove PJM BLIs From Base for FAC Inclusions	(\$516,659)
Adjustment to Include Purchase Power Limitation Expense in Rate Base	\$3,150,582
Adjustment to Include Forced Outage Purchase Power Limitation in Base Rates	\$882,204
Annualize NITS/PJM LSE OATT Expense	\$3,825,858
Annualize PJM Admin Charges	\$118,606
Amortization of NERC Cost Deferral	\$14,275
Severance Expense Adjustment	\$2,363
Annualization of Payroll Expense Adjustment	\$244,837
Social Security Tax Base Adjustment	\$26,009
Eliminate Non-Recoverable Business Expenses	\$14,914
Plant Maintenance Normalization	(\$274,334)
Depreciation Annualization Adjustment Electric Plant in Service	\$2,037,359
Decrease ARO Depreciation Expense to an Annualized Level	(\$3,818)
Decrease ARO Accretion Expense to an Annualized Level	(\$109,495)
Annualization of Cable Pole Attachment Revenue	\$532,369
KPSC Maintenance Assessment	(\$1,801)
State Gross Receipts Tax Adjustment	\$78,776

Interest Synchronization Adjustment (Per 8/7/2017 Amendment)	\$6,449,828
AFUDC Offset Adjustment (Per 8/17/2017 Amendment)	\$28,197
Adjustment to Recognize Accrued Surcharge Revenue Differences	(\$62,588)
Mitchell Plant ADSIT Amortization	\$1,292,491
Decrease O&M for Vegetation Management Tree Trimming	(\$6,794,282)
Annualization of Property Taxes	\$595,507

APPENDIX C

APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE
COMMISSION IN CASE NO. 2017-00179 DATED **JAN 18 2018**

The following rates and charges are prescribed for the customers in the area served by Kentucky Power Company. All other rates and charges not specifically mentioned herein shall remain the same as those in effect under authority of this Commission prior to the effective date of this Order.

TARIFF R.S.
RESIDENTIAL SERVICE

Service Charge per month	\$ 14.00
Energy Charge per kWh	\$.09660
Storage Water Heating Provision - Per kWh	\$.06072
Load Management Water Heating Provision - Per kWh	\$.06072
Home Energy Assistance Program Charge Per meter per month	\$.30

TARIFF R.S.-L.M.-T.O.D.
RESIDENTIAL SERVICE LOAD MANAGEMENT TIME-OF-DAY

Service Charge per month	\$ 16.00
Energy Charge per kWh:	
All kWh used during on-peak billing period	\$.14346
All kWh used during off-peak billing period	\$.06072
Separate Metering Provision Per Month	\$ 3.75
Home Energy Assistance Program Charge Per meter per month	\$.30

TARIFF R.S.-T.O.D.
RESIDENTIAL SERVICE TIME-OF-DAY

Service Charge per month	\$ 16.00
Energy Charge per kWh:	
All kWh used during on-peak billing period	\$.14386
All kWh used during off-peak billing period	\$.06072
Home Energy Assistance Program Charge Per meter per month	\$.30

TARIFF R.S.-T.O.D. 2
EXPERIMENTAL RESIDENTIAL SERVICE TIME-OF-DAY 2

Service Charge per month	\$ 16.00
Energy Charge per kWh:	
All kWh used during summer on-peak billing period	\$.17832
All kWh used during winter on-peak billing period	\$.15342
All kWh used during off-peak billing period	\$.08094
Home Energy Assistance Program Charge	
Per meter per month	\$.30

TARIFF R.S.D.
RESIDENTIAL DEMAND-METERED ELECTRIC SERVICE

Service Charge per month	\$ 17.50
Energy Charge per kWh:	
All kWh used during on-peak billing period	\$.09738
All kWh used during off-peak billing period	\$.07029
Demand Charge per kW	\$ 4.02
Home Energy Assistance Program Charge	
Per meter per month	\$.30

TARIFF G.S.
GENERAL SERVICE

<u>Secondary Service:</u>	
Service Charge per month	\$ 22.50
Energy Charge per kWh:	
Phase 1	
First 4,450 kWh per month	\$.10198
Over 4,450 kWh per month	\$.10188
Phase 2	
First 4,450 kWh per month	\$.09807
Over 4,450 kWh per month	\$.09798
Demand Charge per kW greater than 10 kW	
Phase 1	\$ 4.00
Phase 2	\$ 6.00
<u>Primary Service:</u>	
Service Charge per month	\$ 75.00
Energy Charge per kWh:	
First 4,450 kWh per month	\$.08629
Over 4,450 kWh per month	\$.08659
Demand Charge per kW greater than 10 kW	\$ 7.18

<u>Subtransmission Service:</u>	
Service Charge per month	\$ 364.00
Energy Charge per kWh:	
First 4,450 kWh per month	\$.07822
Over 4,450 kWh per month	\$.07855
Demand Charge per kW greater than 10 kW	\$ 5.74

TARIFF G.S.
GENERAL SERVICE
RECREATIONAL LIGHTING SERVICE PROVISION

Service Charge per month	\$ 22.50
Energy Charge per kWh	\$.09968

TARIFF G.S.
GENERAL SERVICE
LOAD MANAGEMENT TIME-OF-DAY PROVISION

Service Charge per month	\$ 22.50
Energy Charge per kWh:	
All kWh used during on-peak billing period	\$.14423
All kWh used during off-peak billing period	\$.06072

TARIFF G.S.
GENERAL SERVICE
OPTIONAL UNMETERED SERVICE PROVISION

Service Charge per month	\$ 14.00
Energy Charge per kWh:	
Phase 1	
First 4,450 kWh per month	\$.10198
Over 4,450 kWh per month	\$.10188
Phase 2	
First 4,450 kWh per month	\$.09807
Over 4,450 kWh per month	\$.09798

TARIFF S.G.S.-T.O.D.
SMALL GENERAL SERVICE TIME-OF-DAY

Service Charge per month	\$ 22.50
Energy Charge per kWh:	
All kWh used during summer on-peak billing period	\$.17034
All kWh used during winter on-peak billing period	\$.14372
All kWh used during off-peak billing period	\$.07511

TARIFF M.G.S.-T.O.D.
MEDIUM GENERAL SERVICE TIME-OF-DAY

Service Charge per month	\$ 22.50
Energy Charge per kWh:	
All kWh used during on-peak billing period	\$.16747
All kWh used during off-peak billing period	\$.06072

TARIFF L.G.S.
LARGE GENERAL SERVICE

<u>Secondary Service Voltage:</u>	
Service Charge per month	\$ 85.00
Energy Charge per kWh	\$.07712
Demand Charge per kW	\$ 7.97
<u>Primary Service Voltage:</u>	
Service Charge per month	\$ 127.50
Energy Charge per kWh	\$.06711
Demand Charge per kW	\$ 7.18
<u>Sub-transmission Service Voltage:</u>	
Service Charge per month	\$ 660.00
Energy Charge per kWh	\$.05112
Demand Charge per kW	\$ 5.74
<u>Transmission Service Voltage:</u>	
Service Charge per month	\$ 660.00
Energy Charge per kWh	\$.04997
Demand Charge per kW	\$ 5.60
<u>All Service Voltages:</u>	
Excess Reactive Charge per KVA	\$ 3.46

TARIFF L.G.S.
LARGE GENERAL SERVICE
LOAD MANAGEMENT TIME-OF-DAY PROVISION

Service Charge per month	\$ 85.00
Energy Charge per kWh:	
All kWh used during on-peak billing period	\$.14063
All kWh used during off-peak billing period	\$.06088

TARIFF L.G.S. – T.O.D.
LARGE GENERAL SERVICE TIME-OF-DAY

<u>Secondary Service Voltage:</u>	
Service Charge per month	\$ 85.00
Energy Charge:	
On-Peak Energy Charge per kWh	\$.09670
Off-Peak Energy Charge per kWh	\$.04132
Demand Charge per kW	\$ 10.87
<u>Primary Service Voltage:</u>	
Service Charge per month	\$ 127.50
Energy Charge:	
On-Peak Energy Charge per kWh	\$.09300
Off-Peak Energy Charge per kWh	\$.04010
Demand Charge per kW	\$ 7.84
<u>Sub-transmission Service Voltage:</u>	
Service Charge per month	\$ 660.00
Energy Charge:	
On-Peak Energy Charge per kWh	\$.09176
Off-Peak Energy Charge per kWh	\$.03970
Demand Charge per kW	\$ 1.52
<u>Transmission Service Voltage:</u>	
Service Charge per month	\$ 660.00
Energy Charge:	
On-Peak Energy Charge per kWh	\$.09049
Off-Peak Energy Charge per kWh	\$.03928
Demand Charge per kW	\$ 1.49
<u>All Service Voltages:</u>	
Excess Reactive Charge per KVA	\$ 3.46

TARIFF I.G.S.
INDUSTRIAL GENERAL SERVICE

<u>Secondary Service Voltage:</u>	
Service Charge per month	\$ 276.00
Energy Charge per kWh	\$.02663
Demand Charge per kW	
Of Monthly On-Peak Billing Demand	\$ 24.13
Of Monthly Off-Peak Billing Demand	\$ 1.60

<u>Primary Service Voltage:</u>	
Service Charge per month	\$ 276.00
Energy Charge per kWh	\$.02553
Demand Charge per kW	
Of Monthly On-Peak Billing Demand	\$ 20.57

<u>Sub-transmission Service Voltage:</u>	
Service Charge per month	\$ 794.00
Energy Charge per kWh	\$.02793
Demand Charge per kW	
Of Monthly On-Peak Billing Demand	\$ 13.69
Of Monthly Off-Peak Billing Demand	\$ 1.51

<u>Transmission Service Voltage:</u>	
Service Charge per month	\$1,353.00
Energy Charge per kWh	\$.02792
Demand Charge per kW	
Of Monthly On-Peak Billing Demand	\$ 13.26
Of Monthly Off-Peak Billing Demand	\$ 1.49

All Service Voltages:
 Reactive demand charge for each kilovar of maximum leading or lagging reactive demand in excess of 50 percent of the kW of monthly metered demand is \$.69 per KVAR.

Minimum Demand Charge
 The minimum demand charge shall be equal to the minimum billing demand times the following minimum demand rates per kW:

Secondary	\$ 25.83
Primary	\$ 22.21
Subtransmission	\$ 15.30
Transmission	\$ 14.86

TARIFF M.W.
MUNICIPAL WATERWORKS

Service Charge per month	\$ 22.90
Energy Charge - All kWh per kWh	\$.09135

Subject to a minimum monthly charge equal to the sum of the service charge plus \$8.89 per kW as determined from customer's total connected load.

TARIFF O.L.
OUTDOOR LIGHTING

OVERHEAD LIGHTING SERVICE

High Pressure Sodium per Lamp:	
100 Watts (9,500 Lumens)	\$ 8.50
150 Watts (16,000 Lumens)	\$ 9.30
200 Watts (22,000 Lumens)	\$ 10.90
250 Watts (28,000 Lumens)	\$ 15.04
400 Watts (50,000 Lumens)	\$ 16.01
Mercury Vapor per Lamp:	
175 Watts (7,000 Lumens)	\$ 9.04
400 Watts (20,000 Lumens)	\$ 14.64

POST-TOP LIGHTING SERVICE

High Pressure Sodium per Lamp:	
100 Watts (9,500 Lumens)	\$ 14.05
150 Watts (16,000 Lumens)	\$ 23.30
100 Watts Shoe Box (9,500 Lumens)	\$ 29.50
250 Watts Shoe Box (28,000 Lumens)	\$ 24.99
400 Watts Shoe Box (50,000 Lumens)	\$ 36.16
Mercury Vapor per Lamp:	
175 Watts (7,000 Lumens)	\$ 10.59

FLOOD LIGHTING SERVICE

High Pressure Sodium per Lamp:	
200 Watts (22,000 Lumens)	\$ 13.10
400 Watts (50,000 Lumens)	\$ 17.06
Metal Halide	
250 Watts (20,500 Lumens)	\$ 15.27
400 Watts (36,000 Lumens)	\$ 18.39
1,000 Watts (110,000 Lumens)	\$ 30.94
250 Watts Mongoose (19,000 Lumens)	\$ 20.57
400 Watts Mongoose (40,000 Lumens)	\$ 23.59
Per Month:	
Wood Pole	\$ 3.40
Overhead Wire Span not over 150 Feet	\$ 2.00
Underground Wire Lateral not over 50 Feet	\$ 7.40

Per Lamp plus \$0.02725 x kWh in Sheet No. 14-3 in Company's tariff

TARIFF S.L.
STREET LIGHTING

Rate per Lamp:

Overhead Service on Existing Distribution Poles

High Pressure Sodium	
100 Watts (9,500 Lumens)	\$ 7.02
150 Watts (16,000 Lumens)	\$ 7.55
200 Watts (22,000 Lumens)	\$ 8.95
400 Watts (50,000 Lumens)	\$ 11.71

Service on New Wood Distribution Poles

High Pressure Sodium	
100 Watts (9,500 Lumens)	\$ 10.80
150 Watts (16,000 Lumens)	\$ 11.55
200 Watts (22,000 Lumens)	\$ 12.95
400 Watts (50,000 Lumens)	\$ 16.61

Service on New Metal or Concrete Poles

High Pressure Sodium	
100 Watts (9,500 Lumens)	\$ 27.45
150 Watts (16,000 Lumens)	\$ 28.15
200 Watts (22,000 Lumens)	\$ 26.70
400 Watts (50,000 Lumens)	\$ 27.11

Per Lamp plus \$0.02725 x kWh in Sheet No. 15-2 in Company's tariff

TARIFF C.A.T.V.
CABLE TELEVISION POLE ATTACHMENT

Charge for attachments

On a two-user pole	\$ 10.82
On a three-user pole	\$ 6.71

TARIFF COGEN/SPP I
COGENERATION AND/OR SMALL POWER PRODUCTION
100 KW OR LESS

Monthly Metering Charges:

Single Phase:	
Standard Measurement	\$ 9.25
Time-of-Day Measurement	\$ 9.85

Polyphase:		
Standard Measurement	\$	12.10
Time-of-Day Measurement	\$	12.40
Energy Credit per kWh:		
Standard Meter – All kWh	\$	.03240
Time-of-Day Meter:		
On-Peak kWh	\$	.03860
Off-Peak kWh	\$	.02790
Capacity Credit:		
Standard Meter per kW	\$	3.11
Time-of-Day Meter per kW	\$	7.47

TARIFF COGEN/SPP II
COGENERATION AND/OR SMALL POWER PRODUCTION
OVER 100 KW

Metering Charges:		
Single Phase:		
Standard Measurement	\$	9.25
Time-of-Day Measurement	\$	9.85
Polyphase:		
Standard Measurement	\$	12.10
Time-of-Day Measurement	\$	12.40
Energy Credit per kWh:		
Standard Meter – All kWh	\$	.03240
Time-of-Day Meter:		
On-Peak kWh	\$	.03860
Off-Peak kWh	\$	.02790
Capacity Credit:		
Standard Meter per kW	\$	3.11
Time-of-Day Meter per kW	\$	7.47

TARIFF K.E.D.S.
KENTUCKY ECONOMIC DEVELOPMENT SURCHARGE

Per month per account:		
Residential	\$	.00
All Other	\$	1.00

TARIFF C.C.
CAPACITY CHARGE

Energy Charge per kWh:

Service Tariff

I.G.S.

All Other

\$.000749

\$.001435

RIDER R.P.O.
RENEWABLE POWER OPTION RIDER
OPTION A

Solar RECs:

Block Purchase per 100 kWh per month

\$ 1.00

All Usage Purchase per kWh consumed

\$.01000

Wind RECs:

Block Purchase per 100 kWh per month

\$ 1.00

All Usage per kWh consumed

\$.01000

Hydro & Other RECs:

Block Purchase per 100 kWh per month

\$.30

All Usage per kWh consumed

\$.00300

RIDER A.F.S.
ALTERNATE FEED SERVICE RIDER

Monthly Rate for Annual Test of Transfer Switch/Control Module

\$ 14.67

Monthly Capacity Reservation Demand Charge per kW

\$ 6.29

APPENDIX D

APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE COMMISSION IN CASE NO. 2017-00179 DATED **JAN 18 2018**

ENVIRONMENTAL COMPLIANCE PLAN

Project	Plant	Pollutant	Description	In-Service Year
<u>Previously Approved Environmental Compliance Projects</u>				
1	Mitchell	NOx, SO2, and SO3	Mitchell Units 1 & 2, Water Injection, Low NOx Burners, Low NOx Burner Modification, SCR, FGD, Landfill, Coal Blending Facilities & SO3 Mitigation	1993-1994- 2002-2007
2	Mitchell	SO2, NOx and Gypsum	Mitchell Plant Common CEMS, Replace Burner Barrier Valves & Gypsum Material Handling Facilities	1993-1994- 2007
3	Rockport	SO2 / NOx	Continuous Emission Monitors ("CEMS")	1994
4	Rockport	NOx, Fly Ash, & Bottom Ash	Rockport Units 1 & 2 Low NOx Burners, Over Fire Air & Landfill	2003-2008
5	Mitchell & Rockport	SO2, NOx, Particulates & VOC and etc.	Title V Air Emissions Fees at Mitchell and Rockport Plants	Annual
6	Big Sandy, Mitchell & Rockport	NOx	Costs Associated with NOx Allowances	As Needed
7	Big Sandy, Mitchell & Rockport	SO2	Costs Associated with SO2 Allowances	As Needed
8	Big Sandy, Mitchell & Rockport	SO2 / NOx	Costs Associated with the CSAPR Allowances	As Needed
9	Mitchell	Particulates	Mitchell Units 1 & 2 - Precipitator Modifications	2007-2013
10	Mitchell	Particulates	Mitchell Units 1 & 2 - Bottom Ash & Fly Ash Handling	2008-2010
11	Mitchell	Mercury	Mitchell Units 1 & 2 - Mercury Monitoring ("MATS")	2014
12	Mitchell	Selenium	Mitchell Units 1 & 2 - Dry Fly Ash Handling Conversion	2014
13	Mitchell	Fly Ash, Bottom Ash, Gypsum & WWTP Solids	Mitchell Units 1 & 2 - Coal Combustion Waste Landfill	2014
14	Mitchell	Particulates	Mitchell Unit 2 - Electrostatic Precipitator Upgrade	2015
15	Rockport	Particulates	Rockport Units 1 & 2 - Precipitator Modifications	2004-2009
16	Rockport	Mercury	Rockport Units 1 & 2 - Activated Carbon Injection ("ACI") & Mercury Monitoring	2009-2010

17	Rockport	Hazardous Air Pollutants ("HAPS")	Rockport Units 1 & 2 - Dry Sorbent Injection	2015
18	Rockport	Fly Ash & Bottom Ash	Rockport Plant Common - Coal Combustion Waste Landfill Upgrade to Accept Type 1 Ash	2013 & 2015

Proposed Environmental Compliance Projects

19	Rockport	NOx	Rockport Unit 1 - Selective Catalytic Reduction equipment	2017
20	Mitchell Rockport	SO ₂ / NO _x , Mercury, Particulates, Hazardous Air Pollutants ("HAPS")	Cost of consumables used in conjunction with approved ECP projects including the cost of the consumables used and a return on consumable inventories. Consumables include, but are not limited to sodium bicarbonate, activated carbon, anhydrous ammonia, trona, lime hydrate, limestone, polymer, and urea.	As Needed

APPENDIX E

APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE
COMMISSION IN CASE NO. 2017-00179 DATED **JAN 18 2018**

MONTHLY BASE PERIOD REVENUE REQUIREMENT

<u>Billing Month</u>	<u>Base Period Cost</u>
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	<u>3,882,677</u>
	\$ 44,379,316

APPENDIX F

APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE
 COMMISSION IN CASE NO. 2017-00179 DATED JAN 18 2018

Commission Staff Adjustments to the Revenue Requirement in the Settlement Agreement
 Case No. 2017-00179
 Kentucky Power Company (Kentucky Jurisdiction)

	Pre-Tax Operating Income Amount	NOI Amount	GRCF	Staff RR Amount
Increase Per Settlement				31,780,734
Operating Income Issues				
OSS Rider Adjustment	(486,412)	(361,693)	1.352116	\$ (489,051)
Theft Recovery Revenue	(166,198)	(123,584)	1.352116	\$ (167,100)
Purchased Power Adj (WP 26&27)	(4,032,786)	(2,998,755)	1.352116	\$ (4,054,664)
Relocation Expense	(132,109)	(98,235)	1.352116	\$ (132,826)
Cost of Capital Issues				
Total Change in ROE and capitalization		(476,714)	1.352116	\$ (644,573)
Change in GCRF				(13,943,890)
Total Adjustments to the Settlement Agreement				\$ (19,432,104)
Recommended Change in Base Rates				\$ 12,348,630

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Exhibit 5

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. 2023-00159
Regulatory Assets And Liabilities; (4) A)	
Securitization Financing Order; And (5) All Other)	
Required Approvals And Relief)	

FINANCING ORDER

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Appendix A Form of Issuance Advice Letter

Appendix B Form of Tariff (Securitization Financing Rider)

Appendix C Projected Up-Front and Ongoing Financing Costs

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. 2023-00159
Regulatory Assets And Liabilities; (4) A)	
Securitization Financing Order; And (5) All Other)	
Required Approvals And Relief)	

FINANCING ORDER

This Financing Order (“Financing Order”) addresses the application of Kentucky Power Company (“Kentucky Power”) under Chapter 278¹ of Title XXIV Public Utilities and Chapter 65² of Title IX Counties, Cities, and Other Local Units of the act relating to investor-owned electric utilities (collectively, the “Act”): (1) to securitize the balance of (a) certain securitized costs as described in Table I titled “Regulatory Assets to be Securitized” plus (b) carrying costs accruing on the applicable portions of such balance at the weighted average cost of capital approved in this case through the date the securitized bonds are issued minus (c) all insurance, scrap, and salvage proceeds, applicable unamortized regulatory liabilities for excess deferred income taxes; and the present value of return on all accumulated deferred income taxes related to pretax costs with respect to a retired or abandoned facility and related facilities, including those due to bonus and accelerated tax depreciation and abandonment losses (such balance, the “Securitizable Balance”);³ (2) to securitize certain up-front financing costs⁴ incurred in connection with such securitization as further defined and described below; (3) for approval of the proposed securitization financing structure and issuance of securitized bonds; (4) for approval of securitized surcharges sufficient to recover principal of and interest on the securitized bonds plus ongoing financing costs to be

¹ Ky. Rev. Stat. Ann. (“KRS”) §§ 278.010, 278.670-.696.

² KRS § 65.114.

³ KRS § 278.670(15), (18).

⁴ KRS § 278.670(6).

imposed on all existing and future retail customers receiving electrical service from Kentucky Power or its successors or assignees; and (5) for approval of a tariff to implement such securitized surcharges.

On June 29, 2023, Kentucky Power submitted an application for a financing order to securitize the securitized costs, plus certain other financing costs associated with the proposed securitization (the “Application”). As discussed in this Financing Order, the Public Service Commission of Kentucky⁵ (the “Commission”) finds that Kentucky Power’s Application for approval of the securitization transaction should be approved. The Commission also finds that the securitization approved in this Financing Order meets all applicable requirements of the Act.

Accordingly, in accordance with the terms of this Financing Order, the Commission: (1) approves the securitization of the sum of (i) the Securitizable Balance, plus (ii) the financing costs as described in Ordering Paragraph 2; (2) approves the structure of the proposed securitization financing and issuance of securitized bonds in one or more series; (3) approves a securitized surcharge in an amount to be calculated as provided in this Financing Order; (4) approves the form of tariff as provided in this Financing Order to implement the securitized surcharge; (5) finds that the proposed issuance of the securitized bonds and the imposition and collection of the resulting estimated securitized surcharge and associated rates are fair, just and reasonable, in the public interest, and expected to provide quantifiable net present value benefits to customers as compared to recovery of the components of securitized costs that would have been incurred absent the issuance of securitized bonds; and (6) finds that the proposed structuring and pricing of the securitized bonds are reasonably expected to result in the lowest securitized surcharges consistent with market conditions at the time the securitized bonds are priced under the terms of this Financing Order.

In order to approve the securitization described herein, the Commission must find that the proposed securitization meets the requirements set forth in the Act.⁶ A financing order issued by the Commission must include: (1) the amount of securitized costs to be financed using securitized bonds and a finding by the Commission that the amount of securitized costs to be financed using securitized bonds is fair, just, and reasonable and in the public interest; (2) a description and

⁵ KRS § 278.010(15).

⁶ KRS § 278.676.

estimate of the amount of financing costs that may be recovered through securitized surcharges and the period over which securitized costs and financing costs may be recovered; (3) a finding that the proposed issuance of securitized bonds and the imposition and collection of a securitized surcharge are fair, just, and reasonable, in the public interest, and expected to provide quantifiable net present value benefits to customers as compared to recovery of the components of securitized costs that would have been incurred absent the issuance of securitized bonds; (4) a finding that the proposed structuring and pricing of the securitized bonds are reasonably expected to result in the lowest securitized surcharges consistent with market conditions at the time the securitized bonds are priced under the terms of the financing order; (5) a requirement that, for so long as the securitized bonds are outstanding and until all financing costs have been paid in full, the imposition and collection of securitized surcharges authorized under a financing order shall be nonbypassable and paid by all existing and future retail customers receiving electric service from the utility, its successors, or assignees under Commission-approved rate schedules even if a retail customer elects to purchase electricity from an alternative electric supplier following a fundamental change in regulation of public utilities in the Commonwealth of Kentucky; (6) a formula-based true-up mechanism for making (i) at least annually, expeditious periodic adjustments in the securitized surcharges that customers are required to pay pursuant to the financing order; and (ii) any adjustments that are necessary to correct for any over collection or under collection of the surcharges and to ensure the timely payment of securitized bonds and financing costs and other required amounts and surcharges payable under the securitized bonds; (7) a requirement that the securitized property (i) is created or shall be created in favor of an utility, its successors, or assignees and (ii) shall be used to pay or secure securitized bonds and approved financing costs; (8) a statement regarding the degree of flexibility to be afforded to the utility in establishing, (i) the terms and conditions of the securitized bonds, including but not limited to repayment schedules, expected interest rates, and other financing costs, (ii) subject to the issuance advice letter process, the terms and conditions for the securitized bonds to accommodate changes in market conditions, including repayment schedules, interest rates, financing costs, collateral requirements, required debt service, and other reserves, and (iii) at its option, the issuance or a series of issuances of securitized bonds and correlated assignments, sales, pledges, or other transfers of securitized property; (9) a requirement as to how securitized surcharges will be allocated among retail customer classes; (10) a requirement that, after the final terms of a proposed

issuance of securitized bonds has been established but before the issuance of the securitized bonds, the utility shall determine the initial securitized surcharge in the manner required by and consistent with the financing order – the initial securitized surcharge shall be final and effective upon the issuance of the securitized bonds, with the surcharge to be reflected on a compliance tariff and filing bearing the surcharge and the calculation thereof; (11) a method of, (i) tracing funds collected as securitized surcharges or other proceeds of securitized property and authorization to change the method of tracing funds from time to time in accordance with the financing documents, and (ii) determining that the method, as amended from time to time, shall be used for tracing the funds and the identifiable cash proceeds of any securitized property subject to a financing order under applicable law; (12) a statement specifying the details of a future ratemaking process used to reconcile any differences between the actual securitized costs financed by the utility, its successor, or assignee provided that any reconciliation shall not affect the amount of securitized bonds or the associated securitized surcharges paid by customers; (13) a procedure that shall allow the utility to earn a return at its weighted average cost of capital authorized by the Commission in the utility's rate proceedings, and subject to changes in interest rates, any moneys advanced by the utility to fund reserves, if any, or capital accounts established under the terms of any indenture, ancillary agreement, or other financing documents pertaining to the securitized bonds; (14) an outside date, which shall not be earlier than one (1) year after the date the financing order is no longer subject to appeal, when the authority to issue securitized bonds granted in the financing order expires; and (15) a statement that accumulated deferred income taxes and regulatory liabilities for excess deferred income taxes used in calculating retired generation costs shall be excluded from the rate base in future general rate cases and that no amortization of those excess deferred income taxes shall be reflected in future general rate cases.⁷

Kentucky Power's evidence shows that the securitization approved by this Financing Order is expected to provide quantifiable net present value benefits to customers as compared to recovery of the components of securitized costs that would have been incurred absent the issuance of securitized bonds. Based on the amount that Kentucky Power seeks, Kentucky Power's financial

⁷ KRS § 278.676.

analysis indicated that such retail customers will realize benefits estimated to be approximately \$74.4 million on a present value basis in the expected scenario.⁸

Kentucky Power provided a general description of the proposed transaction structure in its Application and in the evidence submitted in support of the Application. The proposed transaction structure does not contain every relevant detail and, in certain places, uses only approximations of certain costs and requirements. The final transaction structure will depend, in part, upon the requirements of the nationally-recognized credit rating agencies which will rate the securitized bonds and, in part, upon the market conditions that exist at the time the securitized bonds are taken to the market.

While the Commission recognizes the need for some degree of flexibility with regard to the final details of the securitization transaction approved in this Financing Order, its primary focus is upon the statutory requirements that must be met prior to issuing a financing order.

In view of these obligations, the Commission has established certain criteria in this Financing Order that must be met in order for the approvals and authorizations granted in this Financing Order to become effective. This Financing Order grants authority to issue securitized bonds and to impose, bill, charge, collect and receive securitized surcharges only if the final structure of the securitization transaction complies in all material respects with these criteria. The authority and approval granted in this Financing Order is effective as to each issuance upon, but only upon, Kentucky Power filing with the Commission an issuance advice letter demonstrating compliance of that issuance with the provisions of this Financing Order. If market conditions make it desirable to issue the securitized bonds in more than one series, then the authority and approval in this Financing Order is effective as to each issuance, but only upon Kentucky Power providing to the Commission a separate issuance advice letter for that issuance demonstrating compliance with the provisions of this Financing Order.

I. Discussion and Statutory Overview

The Kentucky Legislature amended KRS Chapters 65 and 278 in 2023 to permit electric utilities to use securitization financing to recover deferred costs and retired generation costs,

⁸ See Direct Testimony of Franz D. Messner at 7, Exhibit FDM-1.

including associated financing costs, incurred by public utilities within the Commonwealth of Kentucky.⁹ As a precondition to the use of securitization, the Legislature required that the Commission must ensure that the securitization will provide greater quantifiable net present value benefits to customers than would have been achieved without issuance of the securitized bonds.¹⁰ Consequently, a basic purpose of securitization financing—the recovery of a utility’s deferred costs and retired generation costs—is conditioned upon the other basic purpose—providing economic benefits to retail customers in this state.

Pursuant to the Act, the costs eligible for securitization by Kentucky Power include the Securitizable Balance plus certain up-front financing costs¹¹ incurred in connection with such securitization as further defined and described below. The deferred costs for regulatory assets comprising the Securitizable Balance are described on, and estimates of which are set forth in, Table I below.

⁹ KRS §§ 278.010, 278.670-.696, 65.114.

¹⁰ KRS § 276.676(1)(c).

¹¹ KRS § 278.670(6).

Table I – Regulatory Assets To Be Securitized

Line No.	Regulatory Asset Description	Case No.	FERC Subaccount(s)	Expected Balance as of June 30, 2023
1	Decommissioning Rider Regulatory Asset	Please Refer to Application Exhibit 4	1823376	\$ 289,193,517
2			1823378	
3			1823379	
4			1823380	
5			1823517	
6			1823518	
7	January 2020 Wind Storm	2020-00368	1823620	\$ 646,479
8	April 2020 Thunderstorm			\$ 474,856
9	April 2020 Wind Storm			\$ 9,843,199
10	December 2020 Snow Storm	2021-00135	1823620	\$ 1,043,892
11	2020 Storm Incremental O&M			\$ 12,008,426
12	Less: Amount in Base Rates			\$ (1,498,582)
13	2020 Storm Expense Deferral Regulatory Asset			\$ 10,509,844
14	February 2021 Ice and Snow Storms	2021-00129	1823623	\$ 46,199,297
15	February 2021 Major Flood	2021-00402		\$ 826,495
16	2021 Storm Incremental O&M			\$ 47,025,792
17	Less: Amount in Base Rates			\$ (1,029,789)
18	2021 Storm Expense Deferral Regulatory Asset			\$ 45,996,003
19	June 2022 Thunderstorm and Wind Storm	2022-00293	1823698	\$ 3,401,582
20	July 2022 Historic Flood			\$ 11,449,177
21	2022 Storm Incremental O&M			\$ 14,850,759
22	Less: Amount in Base Rates			\$ (1,012,476)
23	2022 Storm Expense Deferral Regulatory Asset			\$ 13,838,283
24	March 2023 Wind Storm (March 3, 2023)	2023-00137	1823722	\$ 3,295,455
25	March 2023 Wind Storm (March 25, 2023)			\$ 1,028,326
26	April 2023 Wind Storm			\$ 5,643,197
27	2023 Storm Incremental O&M - Estimate			\$ 9,966,978
28	Less: Amount in Base Rates			\$ (1,012,476)
29	2023 Storm Expense Deferral Regulatory Asset - Estimate			\$ 8,954,502
30	Rockport Deferral Regulatory Asset	2017-00179 2020-00174 2022-00283	1823430 1823431	\$ 52,253,087
31	Tariff P.P.A. Under-Recovery Regulatory Asset (Under-Recovered Since January 2020)	2017-00179 2020-00174 2022-00416	1823557	\$ 50,453,564
32	Total Regulatory Assets Requested for Securitization			\$ 471,198,800

To allow for securitization of a utility's securitized costs and associated financing costs, the Commission may authorize the issuance of bonds known as securitized bonds. Securitized bonds are generally defined as evidences of indebtedness or ownership that are issued under a financing order, are limited to a term of not longer than 30 years, and are secured by or payable from the securitized property, which includes (i) all rights and interests of a utility, its successor or assignee under a financing order, including the right to impose, bill, charge, collect, and receive securitized surcharges authorized under the financing order and to obtain periodic adjustments to such charges authorized under the Act as provided in the financing order and (ii) all revenues, collections, claims, rights to payments, payments, moneys, or proceeds arising from the rights and interests specified in the financing order, regardless of whether such revenues, collections, claims, rights to payment, payments, moneys, or proceeds are imposed, billed, received, collected, or maintained together with or commingled with other revenues, collections, rights to payment, payments, moneys, or proceeds, at the time such rights are transferred to an assignee or pledged in connection with the issuance of securitized bonds.¹² If securitized bonds are approved and issued, retail customers must pay the principal, interest, and related charges of the securitized bonds through securitized surcharges.¹³ Securitized surcharges must be approved by the Commission pursuant to a financing order.¹⁴ For so long as the securitized bonds are outstanding and until all financing costs have been paid in full, the imposition and collection of securitized surcharges authorized under a financing order will be nonbypassable and paid by all existing and future retail customers receiving electric service from the electric utility, its successors, or assignees under Commission-approved rate schedules even if a retail customer elects to purchase electricity from an alternative electric supplier following a fundamental change in regulation of public utilities in the Commonwealth of Kentucky.¹⁵

The Commission may adopt a financing order if it finds that (1) that the recovery of securitized costs is fair, just and reasonable and in the public interest,¹⁶ (2) securitization provides quantifiable net present value benefits to customers greater than would have been achieved absent

¹² KRS § 278.670(17); KRS § 278.670(19).

¹³ KRS § 276.676(1)(b).

¹⁴ KRS § 276.676(1).

¹⁵ KRS § 278.676(1)(e).

¹⁶ KRS § 278.676(1)(a).

the issuance of the securitized bonds,¹⁷ and (3) the structuring and pricing of the securitized bonds are reasonably expected to result in the lowest securitized surcharges consistent with market conditions at the time the securitized bonds are priced under the terms of a financing order.¹⁸ All of these statutory requirements are designed to ensure that securitization will provide real benefits to customers.

An essential finding by the Commission that is needed to issue a financing order is that securitization will provide quantifiable net present value benefits to customers as compared to recovery of the components of securitized costs that would have been incurred absent the issuance of securitized bonds. An economic analysis is necessary to recognize the time value of money in evaluating whether and the extent to which benefits accrue from securitization. Moreover, an economic analysis recognizes the concept that the timing of a payment can be as important as the magnitude of a payment in determining the value of the payment. Thus, an analysis showing an economic benefit is necessary to quantify a benefit to customers.

The precise interest rate at which securitized bonds can be sold in a future market, however, is not yet known. Nevertheless, benefits can be calculated based upon certain known facts (*e.g.*, the amount of assets to be securitized and the cost of the alternative to securitization) and assumptions (*e.g.*, the interest rate of the securitized bonds, the term of the securitized bonds and the amount of other securitized costs and financing costs). By analyzing the proposed securitization based upon those facts and assumptions, a determination can be made as to whether quantifiable net present value benefits result. To ensure that benefits are realized, the securitization transaction must conform to the structure ordered by the Commission, and an issuance advice letter must be provided to the Commission no later than three (3) business days after pricing of the securitized bonds that (a) reports the initial securitized surcharges and other information specific to the securitized bonds as required by the Commission, (b) is in the form attached as Appendix A, (c) indicates the final structure of the securitized bonds, and (d) provides the best available estimate of total ongoing financing costs.

¹⁷ KRS § 278.676(1)(c).

¹⁸ KRS § 278.676(1)(d).

Securitized surcharges will be collected by the utility, its successors, an assignee, or other collection agents as provided for in this Financing Order. The securitized surcharges will be allocated among retail customer classes.¹⁹

Under the Act, the rights to impose, bill, charge, collect and receive securitized surcharges are present, intangible property rights which will be created simultaneously when such rights are first transferred to an assignee and pledge in connection with the issuance of securitized bonds.²⁰ Upon the pledge, sale or transfer of those rights, they become securitized property and, as such, are afforded certain statutory protections to ensure that the charges are available for bond retirement.²¹

This Financing Order contains terms, as it must, ensuring that the imposition and collection of securitized surcharges authorized herein shall be nonbypassable.²² This Financing Order also includes a mechanism requiring that securitized surcharges be reviewed and adjusted at least semiannually, to correct any overcollections or undercollection of the surcharges and to ensure the timely payment of the securitized bonds and financing costs and other required amounts and surcharges payable under the securitized bonds.²³ Such semiannual update to its monthly surcharge shall be based on estimates of consumption for each rate class and other mathematical factors, to ensure that the amount of the securitized surcharges is sufficient to provide for payment of principal, interest, acquisition, defeasance, financing costs, or redemption of premium and other fees, costs, and charges with respect to securitized bonds approved under this Financing Order.²⁴ Interim true-up adjustments may also be made under the circumstances set forth in this Financing Order and consistent with the Act.²⁵ These provisions will help to ensure that the amount of securitized surcharges paid by customers does not exceed the amounts necessary to cover the costs of this securitization. To encourage utilities to undertake securitization financing, other benefits and assurances are provided.

¹⁹ KRS § 278.676(1)(i).

²⁰ KRS § 278.676(3).

²¹ KRS § 278.676(3).

²² KRS §278.676(1)(e).

²³ KRS § 278.676(1)(f).

²⁴ KRS § 278.678(3).

²⁵ KRS § 278.676(1)(f)(2).

Upon the earlier of a transfer of securitized property to an assignee or the issuance of securitized bonds authorized by this Financing Order, the Commission shall not be permitted to amend, modify or terminate this Financing Order by any subsequent action or reduce, impair, postpone, terminate, or otherwise adjust securitized surcharges approved in this Financing Order, except for changes made pursuant to the formula-based true-up mechanism made pursuant to KRS § 278.678(3).²⁶

The Commonwealth of Kentucky has pledged that the Commonwealth of Kentucky and its agencies, including the Commission, pledge and agree with bondholders, the owners of the securitized property, and other financing parties that the Commonwealth of Kentucky and its agencies shall not: (1) alter the provisions of KRS §§ 278.670 to 278.696 and 65.114 which authorize the Commission to create an irrevocable contract right or right to sue by the issuance of a financing order creating securitized property, making the securitized surcharges imposed by a financing order irrevocable, binding, or affecting the nonbypassable charges for all existing and future retail customers of the electric utility; (2) take or permit any action that impairs or would impair the value of securitized property or the security for the securitized bonds or revises the securitized costs for which recovery is authorized; (3) in any way impair the rights and remedies of the bondholders, assignees, and other financing parties; and (4) except for changes made pursuant to the formula-based true-up mechanism authorized under KRS § 278.678, reduce, alter, or impair securitized surcharges that are to be imposed, billed, charge, collected, and remitted for the benefit of the bondholders, any assignee, and any other financing parties until any and all principal, interest, premium, financing costs, and other fees, expenses, or charges incurred, and any contracts to be performed, in connection with the related securitized bonds have been paid and performed in full.²⁷

All securitized property (whether associated with a single bond series covering the entire amount authorized to be securitized or with one of multiple bond series covering only a portion of the total amount authorized to be securitized) that is specified in this Financing Order constitutes an existing, present, intangible property right for purposes of contracts concerning the sale or pledge of property, and the property will continue to exist for the duration of the pledge of the

²⁶ KRS § 278.678(8).

²⁷ KRS § 65.114(2).

Commonwealth of Kentucky as described in the preceding paragraph. In addition, the interests of a transferee, purchaser, acquirer, assignee or pledgee in securitized property (as well as the revenues and collections arising from the property) specified in this Financing Order are not subject to setoff, counterclaim, surcharge, or defense by the utility or any other person or in connection with the reorganization, bankruptcy, or other insolvency of the utility or any other entity.²⁸ The creation, perfection, priority, and enforcement of any security interest or lien in securitized property to secure the repayment of the principal and interest and other amounts payable in respect of securitized bonds, amounts payable under any ancillary agreement, and other financing costs are governed by KRS §§ 278.670 to 278.696 and 65.114 and not by the provisions of the code or other law, except as otherwise provided in KRS §§ 278.670 to 278.696 and 65.114.²⁹

The Commission may, at the request of an electric utility, open a proceeding and subsequently issue a financing order providing for the refinancing, retiring or refunding of securitized bonds issued pursuant to this Financing Order only upon making a finding that the subsequent financing order satisfies all the criteria specified in KRS §§ 278.670 to 278.969 and 65.114.³⁰ Kentucky Power has not requested and this Financing Order does not grant any authority to refinance the securitized bonds authorized by this Financing Order.

To facilitate compliance and consistency with applicable statutory provisions, this Financing Order adopts the definitions in KRS §§ 278.670.

II. Description of Proposed Transaction

A description of the transaction proposed by Kentucky Power is contained in its Application and the evidence submitted in support of the Application. A brief summary of the proposed transaction is provided in this section. A more detailed description is included in Section III. C, titled “Structure of the Proposed Securitization” and in the Application and evidence submitted in support of the Application.

To facilitate the proposed securitization, Kentucky Power has proposed that (depending on whether more than one series of securitized bonds are issued) one or more special purpose entities

²⁸ KRS § 278.684(6).

²⁹ KRS § 278.686(1).

³⁰ KRS § 278.680(2).

(each referred to as “BondCo”) be created to which Kentucky Power will transfer the rights to impose, bill, charge, collect and receive securitized surcharges along with the other rights arising pursuant to this Financing Order, in each case allocable to the series of securitized bonds the BondCo is issuing. Upon transfer of the securitized property to a BondCo, the rights in the securitized property will pass from transferor to BondCo as provided by KRS § 270.670(19). If securitized bonds are issued in more than one series, then the securitized property transferred as a result of each issuance shall be only those rights associated with that portion of the total amount authorized to be securitized by this Financing Order which is securitized by a particular bond issuance. The rights to impose, bill, charge, collect and receive securitized surcharges, along with the other rights arising pursuant to this Financing Order as they relate to any portion of the total amount authorized to be securitized that remains unsecuritized, shall remain with Kentucky Power and shall not become securitized property until transferred to a BondCo in connection with a subsequent issuance of securitized bonds.

The rights, obligations, structure and restrictions described in this Financing Order with respect to “BondCo” are applicable to each such purchaser of securitized property to the extent of the securitized property transferred and sold to it and the securitized bonds issued by it. BondCo will issue securitized bonds and will transfer the net proceeds from the sale of the securitized bonds to Kentucky Power in consideration for the transfer of the corresponding securitized property. BondCo will be organized and managed in a manner designed to achieve the objective of maintaining BondCo as a bankruptcy-remote entity that would not be affected by the bankruptcy of Kentucky Power or any other affiliates of Kentucky Power or any of their respective successors. In addition, BondCo will have at least one independent manager whose approval will be required for certain major actions or organizational changes by BondCo.

The securitized bonds will be issued pursuant to an indenture and administered by an indenture trustee.³¹ The securitized bonds will be secured by and payable solely out of the securitized property created pursuant to this Financing Order and other collateral described in

³¹ If more than one series of securitized bonds is issued, each series will be issued pursuant to a separate indenture and be subject to its own set of basic agreements (e.g., Securitized Property Purchase and Sale Agreement, Securitized Property Servicing Agreement, Administration Agreement). For purposes of this Financing Order, the description of the securitized bonds applies to each series of securitized bonds.

Kentucky Power's Application. That collateral will be pledged to the indenture trustee for the benefit of the holders of the securitized bonds and to secure payment of such securitized bonds.

The servicer of the securitized property will collect the securitized surcharges and remit those amounts to the indenture trustee on behalf of BondCo. The servicer will be responsible for filing any required or allowed true-ups of the securitized charges. If the servicer defaults on its obligations under the servicing agreement, the indenture trustee may, on behalf of the holders of securitized bonds, appoint a successor servicer. Kentucky Power will act as the initial servicer for the securitized bonds.

Securitized surcharges will be calculated to ensure the collection of an amount sufficient to service the principal, interest, and related charges for the securitized bonds and in a manner that allocates this amount to the various classes of retail customers in the same manner as the corresponding facilities and related expenses are allocated among customers in Kentucky Power's current base rates. The securitized surcharges will be calculated pursuant to the method described in the Securitization Financing Rider (the "Securitization Financing Rider"), a pro forma copy of which is contained in Appendix B. A formula based true-up mechanism for making, at least annually, periodic adjustments in the securitized surcharges as required by KRS § 278.676(1)(f) is necessary to ensure that the amount collected from securitized surcharges is sufficient to service the securitized bonds and may be performed at other times as provided in this Financing Order. The methodology for making true-ups and allocation adjustments and the circumstances under which each shall be made are described in the pro forma Rider, attached to this Financing Order as Appendix B. If securitized bonds are issued in more than one series, then each series will be subject to a separate true-up pursuant to the Act and this Financing Order; provided, however, that more than one series may be trued-up in a single proceeding.

The Commission determines that Kentucky Power's proposed structure for the securitized surcharges should be utilized. This structure provides for substantially leveled annual revenue requirements over the expected life of the securitized bonds. This structure offers the benefit of not relying upon customer growth and will allow the resulting securitized surcharges to remain level or decline over time, if billing determinants remain level or grow. Further, Kentucky Power's proposed securitized surcharge tariff applies consistent allocation factors across rate classes,

subject to modification in accordance with the true-up mechanisms adopted in this Financing Order.

Kentucky Power requested approval of securitized surcharges sufficient to recover the principal and interest on the securitized bonds plus ongoing securitized costs (and associated required financing costs) as described in this Financing Order and Appendix C attached hereto. Such securitized surcharges shall explicitly state on the retail customer's bill the portion of securitized surcharges applicable to the rate class as approved in this Financing Order issued to the electric utility and include the securitized surcharge on each retail customer's bill as a separate line item and include both the base rate for the retail customer's electricity and the amount of the surcharge.

Kentucky Power requested in the Application that its financing costs, including up-front and ongoing costs of issuing and maintaining the securitized bonds, be recovered respectively through the securitized bonds and securitized surcharges approved in this Financing Order. Kentucky Power's estimated up-front costs total approximately \$6.3 million, while estimated ongoing costs of servicing the securitized bonds total approximately \$1 million per year for each year of the term of the bonds. The estimates were based on assumptions regarding a number of variables that will directly affect the level of up-front and ongoing financing costs including (1) the total Securitizable Balance will be \$440,389,797; (2) only one series of securitized bonds will be issued; (3) this Financing Order proceeding will not be contested; and (4) Kentucky Power acts as servicer.

The Commission's analysis of Kentucky Power's request begins with the finding that Kentucky Power's up-front financing costs are permitted to be securitized and that the ongoing financing costs that Kentucky Power proposes to recover directly through securitized surcharges are permitted to be recovered through securitized surcharges.

The Commission finds that Kentucky Power should be permitted to securitize its up-front financing costs of issuance in accordance with the terms of this Financing Order. As set forth in Ordering Paragraph 2 of this Financing Order, up-front financing costs are estimated to be \$6.3 million, plus (i) if applicable, the cost of original issue discount, credit enhancements and other arrangements to enhance marketability as discussed in Ordering Paragraphs 4 and 21, plus (ii) the cost of the Commission's financial advisors and other consultants, if any, and any additional costs

incurred by Kentucky Power to comply with the requests and recommendations of the Commission's financial advisor and other consultants, plus (iii) any costs incurred by Kentucky Power if this Financing Order is appealed. In the issuance advice letter Kentucky Power will report the updated up-front financing costs being securitized.

Kentucky Power is authorized to recover directly through the securitized surcharges its actual ongoing costs of servicing the bonds and providing administrative services to BondCo. The annual servicing fees are expected to be 0.10% of the original principal amount of the securitized bonds plus out of pocket third-party costs, and the annual administrative fees are expected to be \$100,000 per annum per BondCo plus out of pocket third-party costs. The estimated ongoing financing costs should be updated in the issuance advice letter to reflect more current information then available to Kentucky Power. In accordance with the terms of this Financing Order and subject to the approval of the indenture trustee, the Commission will permit a successor servicer to Kentucky Power to recover a higher servicer fee if Kentucky Power ceases to service the securitized property.

Kentucky Power does not anticipate incurring costs of retiring or refunding debt or equity in connection with the use of the proceeds from the issuance of the securitized bonds.³² Kentucky Power should be authorized to record such costs as a regulatory asset included on its books and to accrue carrying costs on such regulatory asset using the average weighted interest rate on the securitized bonds, until the costs are included in Kentucky Power's next base rate case, and that the costs, together with carrying costs, be considered for recovery in Kentucky Power's next base rate case, subject to a showing that such costs were prudently incurred and are reasonable and necessary.

III. Findings of Fact

A. Identification and Procedure

1. Identification of Applicant and Background

1. Kentucky Power is a public utility principally engaged in the provision of electricity in the Commonwealth of Kentucky. Kentucky Power is a direct, wholly-owned subsidiary of

³² Direct Testimony of Franz D. Messner at 10.

American Electric Power Company, Inc., which is a public utility holding company under the Public Utility Holding Company Act of 2005.

2. Procedural History

2. On June 29, 2023, Kentucky Power filed the Application for this Financing Order under the Act to permit securitization of an amount equal to the sum of (1) the Securitizable Balance as of the date of issuance of the securitized bonds, plus (2) up-front financing costs. The Application includes exhibits, schedules, attachments, and testimony.
3. An intervention deadline of _____ was established by the Order issued on _____.
4. The following parties requested and were granted intervention: _____.
5. An evidentiary hearing was held on _____, 2023. By Order issued January __, 2024, the Commission approved Kentucky Power's Application and rendered its final order which (a) approved the securitization of the Securitizable Balance (estimated to be \$440,389,797) and up-front financing costs; (b) authorized the issuance of securitized bonds in one or more series in an aggregate principal amount not to exceed the sum of (i) the Securitizable Balance plus (ii) up-front financing costs as described herein; (c) approved the structure of the proposed securitization financing and issuance of securitized bonds; (d) approved securitized surcharges in an amount to be calculated as provided in this Financing Order; and (e) approved the form of tariff as provided in this Financing Order to implement those securitized surcharges.

B. Costs to be Securitized

1. Identification

6. Financing costs are defined in KRS § 278.670(6) to include (a) the interest and acquisition, defeasance, or redemption premiums payable on securitized bonds; (b) any payment required under an ancillary agreement and any amount required to fund or replenish a reserve account or other accounts established under the terms of any indenture, ancillary agreement, or other financing document pertaining to securitized bonds; (c) any other cost related to issuing, supporting, repaying, refunding, or servicing securitized bonds, including the following fees and costs without limitation: (i) servicing fees, accounting and

auditing fees, trustee fees, consulting fees, structuring adviser fees, financial advisor fees, administrative fees, placement and underwriting fees, independent director and manager fees, rating agency fees, stock exchange listing and compliance fees, security registration fees, and filing fees; (ii) capitalized interest and information technology programming costs; and (iii) any other costs necessary to otherwise ensure the timely payment of securitized bonds or other amounts or charges payable in connection with the bonds, including costs related to obtaining the financing order; (d) any taxes and license fees or other fees imposed on the revenues generated from the collection of the securitized surcharge or otherwise resulting from the collection of securitized surcharges, in any such case whether paid, payable, or accrued; (e) any state or local taxes, franchise taxes, gross receipts, and other taxes or similar charges, including Commission assessment fees, whether paid payable, or accrued; and (f) any costs associated with performance of the Commission's responsibilities under KRS §§ 278.670 to 278.696 and 65.114 in connection with: (i) approving, approving subject to conditions, or rejecting an application for a financing order; and (ii) retaining counsel, one (1) or more financial advisors, or other consultants as deemed appropriate by the Commission and paid pursuant to KRS §§ 278.670 to 278.696 and 65.114, for the issuance advice letter process.

7. The actual costs of issuing and supporting the securitized bonds will not be known until the securitized bonds are issued, and certain ongoing financing costs relating to the securitized bonds may not be known until such costs are incurred. The amount of the up-front financing costs shall be shown in the issuance advice letter to ensure compliance with all statutory requirements.
8. Kentucky Power intends to use the proceeds from the sale of the securitized property to reduce recoverable securitized costs, and thereafter to repay outstanding short-term debt at Kentucky Power and to fund capital expenditures to support utility operations and services; accordingly, it does not anticipate incurring costs of retiring or refunding debt or equity in connection with the proceeds from the issuance of the securitized bonds.³³ However, if costs of retiring or refunding debt are incurred, the Commission authorizes Kentucky Power to record such costs as a regulatory asset included on its books. Kentucky Power is

³³ See Direct Testimony of Franz D. Messner at 10.

allowed to accrue carrying costs on such regulatory asset using the weighted-average interest rate on the securitized bonds. The accrual of carrying costs will continue until the costs are included in Kentucky Power's next base rate case, and the costs, together with carrying costs, will be considered for recovery in Kentucky Power's next base rate case, subject to a showing that such costs were prudently incurred and are reasonable and necessary.

2. Balance to be Securitized

9. Kentucky Power should be authorized to cause securitized bonds to be issued in an aggregate principal amount equal to the Securitizable Balance at the time of issuance plus up-front financing costs as described in Ordering Paragraph 2. The "Securitizable Balance" as of any given date is equal to the balance of securitized costs as is approved in this case plus carrying costs accruing on the applicable portions of such balance at the weighted average cost of capital approved in this case through the date the securitized bonds are issued, as reduced by all corresponding insurance, scrap, and salvage proceeds, applicable unamortized regulatory liabilities for excess deferred income taxes; and the present value of return on all accumulated deferred income taxes related to pretax costs with respect to a retired or abandoned facility and related facilities, including those due to bonus and accelerated tax depreciation and abandonment losses. In the issuance advice letter, Kentucky Power shall update the amounts to reflect the Securitizable Balance on the date of issuance and the amount of up-front financing costs securitized.
10. It is appropriate for Kentucky Power to recover the annual ongoing servicing fees and the annual fixed operating costs directly through securitized surcharges. It is also appropriate for the initial annual servicing fees incurred when Kentucky Power serves as servicer to be 0.10% of the initial principal balance of the securitized bonds plus out of pocket third-party costs and for the initial administrative fees incurred when Kentucky Power is the administrator to be \$100,000 per year for each BondCo plus out of pocket third-party costs as shown in Appendix C. The annual servicing fee payable to a servicer not affiliated with Kentucky Power shall not at any time exceed 0.60% of the initial principal balance of the securitized bonds unless such higher rate is approved by the Commission. Ongoing financing costs are estimated in Appendix C to this Financing Order. The servicing and

administrative fees collected by Kentucky Power, or any affiliate of Kentucky Power, acting as servicer or administrator under the servicing agreement or administration agreement shall be included as a revenue credit and reduce revenue requirements in each subsequent rate case. The expenses incurred by Kentucky Power or such affiliate to perform obligations under the servicing agreement should be included in each Kentucky Power base rate case.

3. Issuance Advice Letter

11. Because the actual structure and pricing of the securitized bonds will not be known at the time this Financing Order is issued, following determination of the final terms of the securitized bonds and prior to issuance of the securitized bonds, Kentucky Power will provide with the Commission for each series of securitized bonds issued, and no later than the end of the third (3rd) business day after the pricing date for that series of securitized bonds, an issuance advice letter. The issuance advice letter (a form of which is included as Appendix A to this Financing Order in accordance with the Act) will report the initial securitized surcharges and other information specific to the securitized bonds, including the final structure, terms of the securitized bond issuance and best estimates of total ongoing financing costs for such issuance. The estimated total up-front financing costs in the issuance advice letter will be included in the principal amount securitized. The issuance advice letter will report the actual dollar amount of the initial securitized surcharges and other information specific to the securitized bonds to be issued. All amounts that require computation will be computed using the mathematical formulas contained in the form of the issuance advice letter in Appendix A to this Financing Order and the Securitization Financing Rider. The securitized surcharges and the final terms of the securitized bonds set forth in the issuance advice letter shall become effective on the date of issuance of the securitized bonds unless prior to noon on the fourth business day after pricing the Commission issues a disapproval order directing that the securitized bonds as proposed not be issued and stating the basis for the disapproval.
12. If the actual up-front financing costs are less than the up-front financing costs included in the principal amount securitized, the Periodic Billing Requirement, defined below, for the first semiannual true-up adjustment shall be reduced by the amount of such unused funds

(together with interest, if any, earned on the investment of such funds). If the actual up-front financing costs are more than the up-front financing costs included in the principal amount securitized, Kentucky Power may request recovery of the remaining up-front financing costs through a surcharge to Kentucky Power's rates for distribution service.

13. Kentucky Power will provide a draft issuance advice letter to the Commission staff for review not later than two weeks prior to the expected date of commencement of marketing each series of securitized bonds. Within one week after receipt of the draft issuance advice letter, Commission staff will provide Kentucky Power comments and recommendations regarding the adequacy of the information provided and as may be necessary to assure the accuracy of the calculations and that the requirements of the Act and of this Financing Order have been met.
14. The proposed final issuance advice letter for a series of securitized bonds shall be provided to the Commission not later than the end of the third (3rd) business day after the pricing of such series of securitized bonds. The initial securitized surcharges and the final terms of the securitized bonds set forth in the issuance advice letter shall become effective on the date of issuance of the securitized bonds (which shall not occur prior to the fifth business day after pricing) unless prior to noon on the fourth business day after pricing the Commission issues a disapproval order directing that the securitized bonds as proposed not be issued and stating the basis for the disapproval.
15. The completion of an issuance advice letter in the form of the issuance advice letter attached as Appendix A, is necessary to ensure that any securitization actually undertaken by Kentucky Power complies with the terms of this Financing Order and the Act.

4. Quantifiable Net Present Value Benefit

16. The Commission is required to find that the imposition and collection of a securitized surcharge are fair, just, and reasonable, in the public interest, and expected to provide quantifiable net present value benefits to customers as compared to recovery of the components of securitized costs that would have been incurred absent the issuance of securitized bonds.³⁴

³⁴ KRS § 278.676(1)(c).

17. The financial analysis presented by Kentucky Power indicates that securitization of the Securitizable Balance and other financing costs as requested by Kentucky Power would result in approximately \$74.4 million of quantifiable net present value benefits to customers on a present value basis if the securitized bonds are issued at an average weighted average interest rate of 5.166% allowed by this Financing Order and with a 20-year expected scheduled life. These estimates use Kentucky Power's Securitizable Balance as of June 30, 2023 (\$440,389,797) and assume that updated up-front and ongoing financing costs will be as shown on Appendix C to this Financing Order. Kentucky Power's evidence presented estimated expected quantifiable net present value benefits to customers greater than would be achieved absent the issuance of securitized bonds; however, the actual benefit to customers will depend upon market conditions on the date of issuance of the securitized bonds, the actual scheduled maturity of the securitized bonds, and the amount actually securitized.

C. Structure of the Proposed Securitization

1. BondCo

18. For purposes of this securitization, Kentucky Power will create one or more BondCos, each of which will be a Delaware limited liability company with Kentucky Power as its sole member. If more than one series of securitized bonds are issued, Kentucky Power may create a separate BondCo for the issuance of a particular series of securitized bonds and the rights, structure and restrictions described in this Financing Order with respect to BondCo will be applicable to each such purchaser of securitized property to the extent of the securitized property sold to it and the securitized bonds issued by it. BondCo will be formed for the limited purpose of acquiring securitized property, issuing securitized bonds in one or more series consisting of one or more tranches, and performing other activities relating thereto or otherwise authorized by this Financing Order. BondCo will not be permitted to engage in any other activities and will have no assets other than securitized property and related assets to support its obligations under the securitized bonds. Obligations relating to the securitized bonds will be BondCo's only significant liabilities. These restrictions on the activities of BondCo and restrictions on the ability of Kentucky Power to take action on BondCo's behalf are imposed to achieve the objective that BondCo

will be bankruptcy remote and not affected by a bankruptcy of Kentucky Power. BondCo will be managed by a board of managers with rights and duties similar to those of a board of directors of a corporation. As long as the securitized bonds remain outstanding, BondCo will have at least one independent manager with no organizational affiliation with Kentucky Power other than acting as independent manager for any other bankruptcy-remote subsidiary of Kentucky Power or its affiliates. BondCo will not be permitted to amend the provisions of the organizational documents that relate to bankruptcy-remoteness of BondCo without the consent of the independent manager. Similarly, BondCo will not be permitted to institute bankruptcy or insolvency proceedings or to consent to the institution of bankruptcy or insolvency proceedings against it, or to dissolve, liquidate, consolidate, convert, or merge without the consent of the independent manager. Other restrictions to facilitate bankruptcy-remoteness may also be included in the organizational documents of BondCo as required by the rating agencies.

19. The initial capital of BondCo is expected to be not less than 0.5% of the original principal amount of the securitized bonds issued by BondCo. Adequate funding of BondCo at this level is intended to protect the bankruptcy remoteness of BondCo. A sufficient level of capital is necessary to minimize this risk and, therefore, assist in achieving the lowest securitized surcharges possible.
20. BondCo will issue one or more series of securitized bonds consisting of one or more tranches. The aggregate amount of all tranches of all series of securitized bonds issued pursuant to this Financing Order shall not exceed the principal amount approved by this Financing Order. BondCo will pledge to the indenture trustee, as collateral for payment of the securitized bonds, the securitized property, including BondCo's right to receive the securitized surcharges as and when collected, and certain other collateral described in Kentucky Power's Application.
21. Concurrent with the issuance of any of the securitized bonds, Kentucky Power will transfer to BondCo all of Kentucky Power's rights under this Financing Order related to the amount of securitized bonds BondCo is issuing, including rights to impose, bill, charge, collect, and receive securitized surcharges approved in this Financing Order. This transfer will be structured so that it will qualify as a true sale within the meaning of KRS § 278.688(1) and

the rights, title and interest of Kentucky Power in, to and under the “securitized property” will transfer concurrently with the sale to BondCo as provided in KRS § 278.670(19). By virtue of the transfer, BondCo will acquire all of the right, title, and interest of Kentucky Power in the securitized property arising under this Financing Order that is related to the amount of securitized bonds BondCo is issuing.

22. The use and proposed structure of BondCo and the limitations related to its organization and management are necessary to minimize risks related to the proposed securitization transactions and to minimize the securitized surcharges. Therefore, the use and proposed structure of BondCo should be approved.

2. Credit Enhancement and Arrangements to Enhance Marketability

23. Kentucky Power should be permitted to recover the ongoing costs of credit enhancements and arrangements to enhance marketability, provided that such enhancements and arrangements provide benefits greater than their tangible and intangible costs. If the use of original issue discount, credit enhancements, or other arrangements is proposed by Kentucky Power, Kentucky Power shall provide the designated Commission staff and any financial advisor copies of all cost/benefit analyses performed by or for Kentucky Power that support the request to use such arrangements. This finding does not apply to the collection account or its subaccounts approved in this Financing Order.
24. Kentucky Power’s proposed use of credit enhancements and other arrangements to enhance credit quality and/or marketability is reasonable and should be approved, provided that the enhancements or arrangements provide benefits greater than their cost.

3. Securitized Property

25. Under KRS § 278.684(1), the property right or interest therein in the securitized property exists regardless (a) of whether the revenues or proceeds arising from the property have been billed, accrued, or collected; and (b) that the value or amount of the property is dependent on the future provision of service to customers by Kentucky Power, its successors, or assignees and on the future consumption of electricity by its customers.
26. The rights to impose, bill, charge, collect, and receive the securitized surcharges approved in this Financing Order along with the other rights arising pursuant to this Financing Order

will become securitized property of BondCo upon the transfer of such rights by Kentucky Power to BondCo.³⁵ If securitized bonds are issued in more than one series, then the securitized property transferred as a result of each issuance shall be only those rights associated with that portion of the total amount authorized to be securitized by this Financing Order which is securitized by such issuance. The rights to impose, bill, charge, collect and receive securitized surcharges along with the other rights arising pursuant to this Financing Order as they relate to any portion of the total amount authorized to be securitized that remains unsecuritized shall remain with Kentucky Power and shall not become securitized property unless and until transferred to a BondCo in connection with a subsequent issuance of securitized bonds.

27. Securitized property and all other collateral will be held and administered by the indenture trustee pursuant to the indenture, as described in Kentucky Power's Application. This proposal will help ensure the lowest securitized surcharges and should be approved.
28. Under KRS § 278.684, securitized property constitutes an existing, present, intangible property right or interest therein for purposes of contracts concerning the sale, transfer or pledge of property, notwithstanding the fact that the imposition and collection of securitized surcharges depends on the electric utility performing its servicing functions relating to the collection of securitized surcharges and on future electricity consumption.

4. Servicer and the Servicing Agreement

29. Kentucky Power will execute a servicing agreement with BondCo. The servicing agreement may be amended, renewed or replaced by another servicing agreement. The entity responsible for carrying out the servicing obligations under any servicing agreement is the servicer. Kentucky Power will be the initial servicer but may be succeeded as servicer by another entity under certain circumstances detailed in the servicing agreement and as authorized by the Commission. Pursuant to the servicing agreement, the servicer is required, among other things, to impose and collect the applicable securitization surcharges for the benefit and account of BondCo, to make the periodic true-up adjustments of securitized surcharges required or allowed by this Financing Order, and to account for and

³⁵ KRS §§ 278.684 and 278.688.

remit the applicable securitized surcharges to or for the account of BondCo in accordance with the remittance procedures contained in the servicing agreement without any charge, deduction or surcharge of any kind (other than the servicing fee specified in the servicing agreement). Under the terms of the servicing agreement, if any servicer fails to perform its servicing obligations in any material respect, the indenture trustee acting under the indenture to be entered into in connection with the issuance of the securitized bonds, or the indenture trustee's designee, may, or, upon the instruction of the requisite percentage of holders of the outstanding amount of securitized bonds, shall, appoint an alternate party to replace the defaulting servicer, in which case the replacement servicer will perform the obligations of the servicer under the servicing agreement. The obligations of the servicer under the servicing agreement and the circumstances under which an alternate servicer may be appointed are more fully described in the servicing agreement. The rights of BondCo under the servicing agreement will be included in the collateral pledged to the indenture trustee under the indenture for the benefit of holders of the securitized bonds.

30. The servicing agreement negotiated as part of this securitization shall contain a recital clause that the Commission, or its attorney, will enforce the servicing agreement for the benefit of Kentucky customers to the extent permitted by law.
31. The obligations to continue to provide service and to collect and account for securitized surcharges will be binding upon Kentucky Power and any other entity that provides electrical services to a person that was, or becomes, a retail customer of Kentucky Power, its successors or assignees under commission-approved rate schedules, even if a retail customer elects to purchase electricity from an alternative electricity supplier following a fundamental change in regulation of public utilities in the Commonwealth of Kentucky. The Commission will enforce the obligations imposed by this Financing Order, its applicable substantive rules, and statutory provisions.
32. To the extent that any interest in the securitized property created by this Financing Order is assigned, sold or transferred to an assignee,³⁶ Kentucky Power will enter into a contract

³⁶ The term "assignee" means "means a legally recognized entity to which an electric utility assigns, sells, or transfers, other than as security, all or a portion of its interest in or right to securitized property. The term "assignee" includes a corporation, limited liability company, general or limited partnership, public authority, trust, and financing

with that assignee that will require Kentucky Power to continue to operate its transmission and distribution system in order to provide electric services to Kentucky Power's customers. This provision does not prohibit Kentucky Power from selling, assigning or otherwise divesting its transmission and distribution system or any part thereof so long as the entity acquiring such facilities agrees to continue operating the facilities to provide electric services to Kentucky Power's customers.

33. The provisions described in Findings of Fact Nos. 29 through 32 are reasonable, will reduce risk associated with the proposed securitization and will, therefore, result in lower securitized surcharges and greater net present value benefits to customers and should be approved.

5. Securitized Bonds

34. BondCo will issue and sell securitized bonds in one or more series consisting of one or more tranches. The legal final maturity date of any series of securitized bonds will not exceed 22 years from the date of issuance of such series. The legal final maturity date of each series and tranche within a series and amounts in each series will be finally determined by Kentucky Power consistent with market conditions and indications of the rating agencies, at the time the securitized bonds are priced, but subject to ultimate Commission review through the issuance advice letter process. Kentucky Power will retain sole discretion regarding whether or when to assign, sell, or otherwise transfer any rights concerning securitized property arising under this Financing Order, or to cause the issuance of any securitized bonds authorized in this Financing Order, subject to the right of the Commission to issue a disapproval order in connection with the issuance advice letter process. BondCo will issue the securitized bonds on or after the fifth business day after pricing of the securitized bonds unless, prior to noon on the fourth business day following pricing of the bonds, the Commission issues a disapproval order directing that the securitized bonds as proposed not be issued and stating the basis for the disapproval.
35. The Commission finds that the proposed structure—providing for substantially levelized annual revenue requirements over the expected life of the securitized bonds—is in the

entity to which an assignee assigns, sells or transfers, other than as security, its interest in or right to securitized property.” See KRS 278.670(2).

public interest and should be used. This structure offers the benefit of not relying upon customer growth and will allow the resulting securitized charges to remain level or decline over time, if billing determinants remain level or grow. The approved structure is reasonable and should be approved.

6. Security for Securitized Bonds

36. The payment of the securitized bonds and related charges authorized by this Financing Order is to be secured by the securitized property created by this Financing Order and by certain other collateral as described in the Application. The securitized bonds will be issued pursuant to an indenture administered by the indenture trustee (any such indenture, the “indenture,” and the trustee under an indenture, the “indenture trustee”). The indenture will include provisions for a collection account for the series and subaccounts for the collection and administration of the securitized surcharges and payment or funding of the principal and interest on the securitized bonds and other costs, including fees and expenses, in connection with the securitized bonds, as described in Kentucky Power’s Application. Pursuant to the indenture, BondCo will establish a collection account as a trust account to be held by the indenture trustee as collateral to ensure the payment of the principal, interest, and other costs approved in this Financing Order related to the securitized bonds in full and on a timely basis. The collection account will include the general subaccount, the capital subaccount, and the excess funds subaccount, and may include other subaccounts.

a. The General Subaccount

37. The indenture trustee will deposit the securitized surcharge remittances that the servicer remits to the indenture trustee for the account of BondCo into one or more segregated trust accounts and allocate the amount of those remittances to the general subaccount. The indenture trustee will on a periodic basis apply moneys in this subaccount to pay expenses of BondCo, to pay principal of and interest on the securitized bonds, and to meet the funding requirements of the other subaccounts. The funds in the general subaccount will be invested by the indenture trustee in short-term high-quality investments, and such funds will be applied by the indenture trustee to pay principal of and interest on the securitized bonds and all other components of the PPR (as defined in Finding of Fact No. 48), and otherwise in accordance with the terms of the indenture.

b. The Capital Subaccount

38. When a series of securitized bonds is issued, Kentucky Power will make a capital contribution to BondCo for that series, which BondCo will deposit into the capital subaccount. The amount of the capital contribution is expected to be not less than 0.5% of the original principal amount of each series of securitized bonds, although the actual amount will depend on tax and rating agency requirements. The capital subaccount represents the equity capital of BondCo. The capital subaccount will serve as collateral to ensure timely payment of principal of and interest on the securitized bonds and all other components of the PPR. Any funds drawn from the capital subaccount to pay these amounts due to a shortfall in the securitized charge remittances will be replenished through future securitized surcharge remittances. The funds in this subaccount will be invested by the indenture trustee in short-term high-quality investments, and, if necessary, such funds will be used by the indenture trustee to pay principal and interest on the securitized bonds and all other components of the PPR. For any capital contribution made by Kentucky Power into the capital subaccount, Kentucky Power will be authorized to receive an annual return at the authorized pre-tax weighted average cost of capital established in Kentucky Power's most recent base rate case on the remainder of the capital contribution for such series. The required revenue, if any, to provide the annual return at the pre-tax weighted average cost of capital established in Kentucky Power's most recent base rate case is an ongoing financing cost. Upon payment of the principal amount of all securitized bonds and the discharge of all obligations that may be paid by use of securitized surcharges, all amounts in the capital subaccount will be released to BondCo for payment to Kentucky Power.

c. The Excess Funds Subaccount

39. The excess funds subaccount will hold any securitized surcharge remittances and investment earnings on the collection account (other than earnings attributable to the capital subaccount and released under the terms of the indenture) in excess of the amounts needed to pay current principal of and interest on the securitized bonds and to pay other PPRs (including, but not limited to, replenishing the capital subaccount). Any balance in or amounts allocated to the excess funds subaccount on a true-up adjustment date will be subtracted from the Periodic Billing Requirement ("PBR") for the purposes of the true-up

adjustment. The money in this subaccount will be invested by the indenture trustee in short-term high-quality investments, and such money will be used by the indenture trustee to pay principal and interest on the securitized bonds and other PPRs.

d. Other Subaccounts

40. Other credit enhancements in the form of subaccounts, such as an over-collateralization account, may be utilized for the transaction provided that such enhancements provide benefits greater than their tangible and intangible costs.

7. General Provisions

41. The collection account and the subaccounts described above are intended to provide for full and timely payment of scheduled principal of and interest on the securitized bonds and all other components of the PPR (defined in Findings of Fact Paragraph 48). If the amount of securitized surcharges remitted to the general subaccount is insufficient to make all scheduled payments of principal of and interest on the securitized bonds and to make payment on all of the other components of the PPR, the excess funds subaccount and the capital subaccount will be drawn down, in that order, to make those payments. Any deficiency in the capital subaccount due to such withdrawals must be replenished to the capital subaccount on a periodic basis through the true-up process. In addition to the foregoing, there may be such additional accounts and subaccounts as are necessary to segregate amounts received from various sources, or to be used for specified purposes. Such accounts will be administered and utilized as set forth in the servicing agreement and the indenture. Upon the maturity of the securitized bonds and the discharge of all obligations in respect thereof, remaining amounts in the collection account, other than amounts that were in the capital subaccount, will be released to BondCo and equivalent amounts will be credited by Kentucky Power to customers as provided in Ordering Paragraph No. 19. Upon the maturity of the securitized bonds and the discharge of all obligations in respect thereof, remaining amounts in the collection account, other than amounts that were in the capital subaccount, will be released to BondCo and equivalent amounts will be credited by Kentucky Power to customers consistent with KRS § 278.676(1)(m).

42. The use of a collection account and its subaccounts in the manner proposed by Kentucky Power is reasonable, will lower risks associated with the securitization and thus lower the costs to customers, and should, therefore, be approved.

8. Securitized Surcharges—Imposition and Collection, and Nonbypassability

43. Kentucky Power seeks authorization to impose on and collect from customers the securitized surcharges under this Financing Order or the tariffs approved hereby, in an amount sufficient to provide for the timely recovery of its securitized costs and any financing costs approved in this Financing Order (including payment of principal and interest on the securitized bonds and ongoing costs related to the securitized bonds).

44. Securitized surcharges will appear as a separate line-item on customer bills, in accordance with KRS § 278.682(1)(b).

45. The securitized bonds may not have a maturity date exceeding 30 years under KRS § 278.670(17). Kentucky Power proposes a scheduled final payment date for the securitized bonds to be approximately 20 years from date of issuance of a series of securitized bonds. However, amounts may still need to be recovered after the expiration of the scheduled final payment date, but prior to the legal maturity date. Kentucky Power proposed that the securitized surcharges related to a series of securitized bonds will be recovered over a period of not more than approximately 22 years from the date of issuance of that series of the securitized bonds but that amounts due at or before the end of that period for securitized surcharges allocable to the approximate 22-year period may be collected after the conclusion of the 22-year period.

46. Kentucky Power will collect securitized surcharges from all existing and future retail customers receiving electric service from Kentucky Power, its successors, or assignees under Commission-approved rate schedules even if a retail customer elects to purchase electricity from an alternative electric supplier following a fundamental change in regulation of public utilities in the Commonwealth of Kentucky. Any such existing or future retail customer may not avoid securitized surcharges by switching to another electric utility, electric cooperative, or municipally-owned utility on or after the date this Financing Order is issued.

47. Kentucky Power's proposal related to imposition, billing, charging and collection of securitized surcharges is reasonable and is necessary to ensure collection of securitized surcharges sufficient to support recovery of the securitized costs and financing costs approved in this Financing Order and should be approved. It is reasonable to approve the form of Kentucky Power's Securitization Financing Rider in this Financing Order and require that these tariff provisions be filed before any securitized bonds are issued pursuant to this Financing Order.

9. Allocation Among Customers

48. The "PPR" is the required periodic payment for a given period (*e.g.*, annually, semiannually, or quarterly) due under the securitized bonds. Each PPR includes: (a) the principal amortization of the securitized bonds in accordance with the expected amortization schedule (including deficiencies of previously scheduled principal for any reason); (b) periodic interest on the securitized bonds (including any accrued and unpaid interest); (c) ongoing financing costs consisting of the servicing fee, rating agencies' fees, trustee fees, legal and accounting fees, other ongoing fees and expenses, and the costs, if any, of maintaining any credit enhancement; and (d) funds needed to replenish the capital subaccount. The initial PPR for the securitized bonds issued pursuant to this Financing Order should be updated in the issuance advice letter.
49. The PBR represents the aggregate dollar amount of securitized charges that must be billed during a given period (*e.g.*, annually, semiannually, or quarterly) so that the securitized surcharge collections will be sufficient to meet the sum of all PPR for that period, given: (i) forecast usage data for the period; (ii) forecast uncollectibles for the period; and (iii) forecast lags in collection of billed securitized surcharges for the period.
50. The securitized costs and financing costs which will be recovered through the securitized surcharges authorized by this Financing Order are allocated among the customer classes on a percent of revenue basis by residential and all other rate schedules.

10. True-Up of Securitized Surcharges

51. Pursuant to KRS § 278.676(1)(f), the servicer of the securitized bonds will make at least semiannually, adjustments to the securitized surcharges to:

- (a) correct any undercollections or overcollections during the preceding 6 months; and
- (b) ensure the billing of securitized surcharges necessary to generate the collection of amounts sufficient to timely provide all scheduled payments of principal and interest (or deposits to sinking funds in respect of principal and interest) and any other amounts due in connection with the securitized bonds (including ongoing fees and expenses and amounts required to be deposited in or allocated to any collection account or subaccount, trustee indemnities, payments due in connection with any expenses incurred by the indenture trustee or the servicer to enforce bondholder rights and all other payments that may be required pursuant to the waterfall of payments set forth in the indenture) during the period for which such adjusted securitized surcharges are to be in effect.

With respect to any series of securitized bonds, the servicer will make true-up adjustment filings with the Commission at least semiannually.

- 52. True-up filings will be based upon the cumulative differences, regardless of the reason, between the PPR (including scheduled principal and interest payments on the securitized bonds) and the amount of securitized surcharge remittances to the indenture trustee. True-up mechanisms are necessary to correct for any overcollection or undercollection of the surcharges and to ensure the timely payment of securitized bonds and financing costs and other required amounts and surcharges payable under the securitized bonds. In order to assure adequate securitized surcharge revenues to fund the PPR and to avoid large overcollections and undercollections over time, the servicer will reconcile the securitized surcharges using Kentucky Power's most recent forecast of electricity deliveries (i.e., forecasted billing units) and estimates of transaction-related expenses. The calculation of the securitized surcharges will also reflect both a projection of uncollectible securitized surcharges and a projection of payment lags between the billing and collection of securitized surcharges based upon Kentucky Power's most recent experience regarding collection of securitized surcharges.
- 53. The servicer will make true-up adjustments in the following manner:
 - (a) allocate the upcoming period's PBR based on the allocation factors approved in this Financing Order;

- (b) calculate undercollections or overcollections, from the preceding period in each class by subtracting the previous period's securitized surcharge revenues collected from each class from the PBR determined for that class for the same period;
- (c) sum the amounts allocated to each customer class in steps (a) and (b) to determine an adjusted PBR for each securitized surcharge customer class; and
- (d) divide the amount assigned to each customer class in step (c) above by the appropriate forecasted billing units to determine the securitized surcharge rate by class for the upcoming period.

11. Interim True-Up

- 54. In addition to the semiannual true-up adjustments, true-up adjustments may be made by the servicer more frequently at any time during the term of the securitized bonds to correct any undercollection or overcollection, as provided for in this Financing Order, in order to assure timely payment of securitized bonds based on rating agency and bondholder considerations. Beginning 12 months prior to the scheduled final payment date for the latest maturing tranche of securitized bonds of a particular series, the required true-up adjustments should be done on a quarterly basis.
- 55. In the event an interim true-up is necessary, the interim true-up adjustment shall use the methodology utilized in the most recent semiannual true-up and be filed not less than 15 days prior to the first billing cycle of the month in which the revised securitized charges will be in effect.

12. Additional True-Up Provisions

- 56. The true-up adjustment filing will set forth the servicer's calculation of the true-up adjustment to the securitized surcharges. The Commission will have 10 days after the date of a true-up adjustment filing in which to confirm the mathematical accuracy of the servicer's adjustment.³⁷ Any true-up adjustment filed with the Commission should be effective on its proposed effective date, which shall be not less than 10 days after filing.³⁸ Any necessary corrections to the true-up adjustment, due to mathematical errors in the

³⁷ KRS § 278.678(5).

³⁸ *See id.*

calculation of such adjustment or otherwise, will be made in future true-up adjustment filings.

57. The true-up procedures contained in the proposed Securitization Financing Rider are reasonable and will reduce risks related to the securitized bonds, resulting in lower securitized surcharges and greater net present value benefits to customers and should be approved.

13. Designated Commission Staff

58. The Commission may designate one (1) or more representatives from Commission staff who may be advised by one (1) or more financial advisors contracted with the Commission to provide: (a) input to and collaboration with the electric utility during the process undertaken to place the securitized bonds to market; and (b) an opinion to the Commission on the reasonableness of the pricing, terms, and conditions of the securitized bonds on an expedited basis.³⁹
59. The designated Commission staff and any financial advisor providing advice to the Commission staff shall: (a) have no authority to direct how Kentucky Power places the bonds to market; and (b) be permitted to attend meetings convened by Kentucky Power to address placement of the bonds to market.⁴⁰

14. Securitized Surcharges Lowest Cost Consistent With Market Conditions

60. Kentucky Power has proposed a transaction structure that is expected to include (but is not limited to):
- (a) the use of BondCo as issuer of the securitized bonds, limiting the risks to securitized bond holders of any adverse impact resulting from a bankruptcy proceeding of its parent or any affiliate;
 - (b) the right to impose, bill, charge, collect and receive securitized surcharges that are nonbypassable and which must be trued-up at least semiannually, but may be trued-

³⁹ KRS § 278.674(4).

⁴⁰ KRS § 278.674(5).

up more frequently under certain circumstances, in order to assure the timely payment of the debt service and other ongoing financing costs;

- (c) additional collateral in the form of a collection account which includes a capital subaccount funded in cash in an amount equal to not less than 0.5% of the original principal amount of the securitized bonds and other subaccounts resulting in greater certainty of payment of interest and principal to investors and that are consistent with the IRS requirements that must be met to receive the desired federal income tax treatment for the securitized bond transaction;
- (d) protection of securitized bondholders against potential defaults by Kentucky Power as servicer or any successor servicer;
- (e) benefits for federal income tax purposes including: (i) the transfer of the rights under this Financing Order to BondCo not resulting in gross income to Kentucky Power and the future revenues under the securitized surcharges being included in Kentucky Power's gross income under its usual method of accounting, (ii) the issuance of the securitized bonds and the transfer of the proceeds of the securitized bonds to Kentucky Power not resulting in gross income to Kentucky Power, and (iii) the securitized bonds constituting obligations of Kentucky Power; and
- (f) the securitized bonds will be marketed using proven underwriting and marketing processes, through which market conditions and investors' preferences, with regard to the timing of the issuance, the terms and conditions, related maturities, and other aspects of the structuring and pricing will be determined, evaluated and factored into the structuring and pricing of the securitized bonds.

61. Kentucky Power's proposed transaction structure is necessary to enable the securitized bonds to obtain the highest possible bond credit rating, ensures that the structuring and pricing of the securitized bonds will result in securitized surcharges are fair, just, and reasonable, in the public interest, and expected to provide quantifiable net present value benefits to customers as compared to recovery of the components of securitized costs that would have been incurred absent the issuance of securitized bonds.

62. To ensure that customers receive the quantifiable net present value benefits due from the proposed securitization and so that the proposed securitized bond transaction will be consistent with the standards set forth in KRS §§ 278.670 to 278.696 and 65.114, it is necessary that (i) the issuance advice letter demonstrates that the transaction is expected to provide quantifiable net present value benefits to customers compared to collection of the Securitizable Balance through conventional financing; (ii) the legal final maturity date of the last tranche of securitized bonds will not exceed 22 years, (iii) the amortization of the securitized bonds is structured to be consistent with Findings of Fact Nos. 34 and 35, and (iv) Kentucky Power otherwise satisfies the requirements of this Financing Order.

D. Use of Proceeds

63. Upon the issuance of securitized bonds, BondCo will use the net proceeds from the sale of the securitized bonds (after payment of up-front financing costs) to pay to Kentucky Power the purchase price of the securitized property. The proceeds from the sale of the securitized property will be applied by Kentucky Power to reduce its recoverable securitized costs. The proposed accounting entries will result in removal of the regulatory asset representing the distribution portion of recoverable securitized costs from Kentucky Power's books. Thereafter, bond proceeds will be used to repay any outstanding term loans and short-term debt at Kentucky Power and to fund capital expenditures to support utility operations and services. The specific application of the proceeds will be determined by market conditions and Kentucky Power's expected future expenditures at the time the proceeds are received.

IV. Conclusions of Law

1. Kentucky Power is a utility, as defined in KRS §§ 278.670(21) and 278.010(3)(a), and an electric utility, as such term is used in KRS § 278.672(1).
2. Kentucky Power is entitled to file an application for a financing order under KRS § 278.672(1).

3. The Commission has jurisdiction and authority over Kentucky Power's Application pursuant to KRS §§ 278.674 and 278.680.⁴¹
4. The Commission has authority to approve this Financing Order under the Act.
5. The Act allows Kentucky Power to securitize its deferred costs and retired generation costs (and associated financing costs thereto).
6. BondCo will be an assignee, as defined in KRS § 278.670(2), when an interest in the securitized property created under this Financing Order is transferred, other than as security, to BondCo.
7. The holders of the securitized bonds and the indenture trustee will each be a financing party as defined in KRS § 278.670(8).
8. BondCo may issue securitized bonds in accordance with this Financing Order.
9. The securitization approved in this Financing Order results in the removal of the regulatory asset representing the securitized costs from Kentucky Power's books and satisfies the requirement of KRS § 278.670(17) dictating that the proceeds of the securitized bonds shall be used to directly or indirectly recover, finance, or refinance capitalized costs assets and financing costs that are secured by or payable from securitized property.
10. The securitization approved in this Financing Order satisfies the requirement of KRS § 278.676(1)(c) mandating that the securitization be fair, just, and reasonable and in the public interest.
11. The securitization approved in this Financing Order satisfies the requirement of KRS § 278.676(1)(c) mandating that the securitization is expected to provide quantifiable net present value benefits to customers as compared to recovery of the components of securitized costs that would have been incurred absent the issuance of securitized bonds.
12. BondCo's issuance of the securitized bonds approved in this Financing Order in compliance with the criteria established by this Financing Order satisfies the requirement of KRS § 278.676(1)(d) prescribing that the proposed structuring and pricing of the securitized bonds are reasonably expected to result in the lowest securitized surcharges

⁴¹ KRS § 278.040.

consistent with market conditions at the time the securitized bonds are priced under the terms of this Financing Order.

13. This Financing Order details that for so long as the securitized bonds are outstanding and until all financing costs have been paid in full, the imposition and collection of securitized surcharges authorized under this Financing Order shall be nonbypassable and paid by all existing and future retail customers receiving electric service from the electric utility, its successors, or assignees under Commission-approved rate schedules even if a retail customer elects to purchase electricity from an alternative electric supplier following a fundamental change in regulation of public utilities in the Commonwealth of Kentucky.
14. The method approved in this Financing Order for collecting and allocating the securitized surcharges satisfies the requirements of KRS §§ 278.676(1)(i) and (k). The securitization approved in this Financing Order satisfies the requirements of KRS § 278.676(1)(k) directing that the total amount of revenues to be collected under this Financing Order include a method of tracing funds collected as securitized surcharges or other proceeds of securitized property and that a method has been determined for tracing the funds and the identifiable cash proceeds of any securitized property subject to a financing order under applicable law.
15. As provided in KRS § 278.678, this Financing Order, together with the securitized surcharges authorized by this Financing Order, is irrevocable and not subject to reduction, impairment, postponement or otherwise any adjustment by further act of the Commission, except for the true-up procedures approved in this Financing Order, as required by application of the formula-based true-up mechanism as provided in KRS §§ 278.670 to 278.696 and 65.114.
16. As provided in KRS § 278.688(4), the rights and interests of Kentucky Power or its successor under this Financing Order, including the right to impose, bill, charge, collect and receive the securitized surcharges authorized in this Financing Order, are assignable and shall be securitized property when they are first transferred to BondCo.
17. The rights, interests and property that will be conveyed to BondCo in the Securitized Property Purchase and Sale Agreement and the related Bill of Sale, including the irrevocable right to impose, collect and receive securitized surcharges and the revenues and

collections from securitized surcharges are “securitized property” within the meaning of KRS § 278.670(19).

18. Securitized property will constitute a present, intangible property right for purposes of contracts concerning the sale or pledge of property, notwithstanding the fact that the imposition and collection of the securitized surcharges depends on Kentucky Power performing its servicing functions relating to the collection of securitized surcharges and on future electricity consumption, as provided by KRS § 278.684(1).
19. All revenues and collections resulting from the securitized surcharges will constitute proceeds only of the securitized property arising from this Financing Order, as provided by KRS § 278.670(19)(b).
20. Upon the transfer by Kentucky Power of securitized property to a BondCo, the BondCo will have all of the rights, title and interest of Kentucky Power with respect to such securitized property including the right to impose, bill, charge, collect and receive the securitized surcharges authorized by this Financing Order.
21. The securitized bonds issued pursuant to this Financing Order will be “securitized bonds” within the meaning of KRS § 278.670(17) and the securitized bonds and holders thereof are entitled to all of the protections provided under the Act.
22. Amounts that are required to be paid to the servicer as securitized surcharges under this Financing Order or the tariffs approved hereby are “securitized surcharges” as defined in KRS § 278.670(20), and the amounts collected from retail customers with respect to such securitized surcharges are “securitized surcharges” as defined in KRS § 278.670(20), whether or not such surcharges are set out as a separate line item on the retail customer’s bill.
23. As provided in KRS § 278.684(6), the interests of an assignee, the holders of securitized bonds, and the indenture trustee in securitized property and in the revenues and collections arising from that property are not subject to setoff, counterclaim, surcharge, or defense by Kentucky Power or any other person or in connection with the bankruptcy of Kentucky Power or any other entity.

24. The true-up mechanism approved in this Financing Order to adjust the securitized surcharges satisfies the requirements of KRS §§ 278.676 and 278.678.
25. If and when Kentucky Power transfers to a BondCo the right to impose, bill, charge, collect, and receive the securitized surcharges and to issue the securitized bonds, the servicer will be able to recover the securitized surcharges associated with such securitized property only for the benefit of the BondCo and the holders of the securitized bonds in accordance with the servicing agreement.
26. If and when Kentucky Power transfers its rights under this Financing Order to a BondCo under an agreement that expressly states that the transfer is a sale or other absolute transfer in accordance with the true-sale provisions of KRS § 278.688, then, pursuant to that statutory provision, that transfer will be a true sale of an interest in securitized property and not a secured transaction or other financing arrangement and title, legal and equitable, to the securitized property will pass to the BondCo. As provided by KRS § 278.688, this true sale shall apply regardless of whether the purchaser has any recourse against the seller, or any other term of the parties' agreement, including the seller's retention of an equity interest, whether direct or indirect, or whether subordinate or otherwise, in the securitized property, Kentucky Power's role as the collector of securitized surcharges relating to the secured property, or the treatment of the transfer as a financing for tax, financial reporting, or other purposes.
27. As provided in KRS § 278.686, a valid and enforceable lien and security interest in the secured property in favor of the holders of the securitized bonds or a trustee on their behalf will be created by this Financing Order and the execution and delivery of a security agreement with the holders of the securitized bonds or a trustee on their behalf in connection with the issuance of the securitized bonds. The lien and security interest will attach automatically without any physical delivery of collateral or other act from the time that value is received for the securitized bonds and, on perfection through the filing of notice with the Secretary of State in accordance with the rules prescribed under KRS § 278.692, will be a continuously perfected lien and security interest in the securitized property and all proceeds of the securitized property, whether accrued or not, will have

priority in the order of filing and will take precedence over any subsequent judicial or other lien creditor.

28. As provided in KRS § 278.688(4)(d), the transfer of an interest in securitized property to an assignee will be perfected against all third parties, including subsequent judicial or other lien creditors, when this Financing Order becomes effective, transfer documents have been delivered to that assignee, and a notice of that transfer has been filed in accordance with the rules prescribed by the Secretary of State under KRS § 278.692. The transfer to a BondCo of Kentucky Power's rights under this Financing Order will be a transfer of an interest in securitized property for purposes of the Act.
29. As provided in KRS § 278.690, the priority of transfer perfected under KRS §§ 278.686, 278.688, 278.690, and 278.692 shall not be impaired by any later modification of this Financing Order or securitized property or by the commingling of funds arising from securitized property with other funds.
30. As provided in KRS § 278.690(1), if securitized property is transferred to an assignee, any proceeds of the securitized property will be treated as held in trust for the assignee.
31. As provided in KRS § 278.686(7), if a default or termination occurs under the securitized bonds, the financing parties or their representatives may exercise the rights and remedies available to a secured party under the Uniform Commercial Code, including the rights and remedies available under Article 9, Part 6 of the Uniform Commercial Code. The Commission also may order amounts arising from securitized charges be transferred to a separate account for the benefit of the financing party, to which their lien and security interest shall apply. On application by or on behalf of the financing parties, the Circuit Court for the county or city in which the electric utility's headquarters is located shall order the sequestration and payment of revenues arising from the securitized charges to the financing parties.
32. As provided by KRS § 278.694(2), the securitized bonds authorized by this Financing Order are not a debt or obligation of the Commonwealth of Kentucky and are not a charge on its full faith and credit or taxing power.

33. Pursuant to KRS § 278.678(8), the Commission is prohibited from taking any action that would amend, modify, or terminate this Financing Order by any subsequent action and the Commission may not reduce, impair, postpone, terminate, or otherwise adjust securitized surcharges approved by this Financing Order.
34. Pursuant to KRS § 65.114, the Commonwealth of Kentucky has pledged for the benefit and protection of all financing parties and Kentucky Power, that the Commonwealth of Kentucky and its agencies, including the Commission shall not: (1) alter the provisions of KRS §§ 278.670 to 278.696 and 65.114 which authorize the Commission to create an irrevocable contract right or right to sue by the issuance of a financing order creating securitized property, making the securitized surcharges imposed by a financing order irrevocable, binding, or affecting the nonbypassable charges for all existing and future retail customers of the electric utility; (2) take or permit any action that impairs or would impair the value of securitized property or the security for the securitized bonds or revises the securitized costs for which recovery is authorized; (3) in any way impair the rights and remedies of the bondholders, assignees, and other financing parties; and (4) except for changes made pursuant to the formula-based true-up mechanism authorized under KRS § 278.678, reduce, alter, or impair securitized surcharges that are to be imposed, billed, charge, collected, and remitted for the benefit of the bondholders, any assignee, and any other financing parties until any and all principal, interest, premium, financing costs, and other fees, expenses, or charges incurred, and any contracts to be performed, in connection with the related securitized bonds have been paid and performed in full.⁴² A BondCo, in issuing securitized bonds, is authorized pursuant to KRS § 65.114(3) and this Financing Order to include this pledge in any documentation relating to the securitized bonds.
35. This Financing Order will remain in full force and effect and unabated notwithstanding the bankruptcy of Kentucky Power, its successors, or assignees.
36. Kentucky Power retains sole discretion regarding whether or when to assign, sell or otherwise transfer the rights and interests created by this Financing Order or any interest therein, or to cause the issuance of any securitized bonds authorized by this Financing

⁴² KRS § 65.114(2).

Order, subject to the right of the Commission to designate one (1) or more representatives from commission staff who may be advised by one (1) or more financial advisors contracted with the commission to provide input to and collaborate with the electric utility during the process undertaken to place the securitized bonds to market.

37. This Financing Order is final, is not subject to rehearing by this Commission, and is not subject to review or appeal except as expressly provided in KRS § 278.674(2). The finality of this Financing Order is not impaired in any manner by the participation of the designated Commission staff or any financial advisor or by the Commission's review of or decision to issue a disapproval order, directing that the securitized bonds, as proposed, not be issued and stating the basis for the disapproval.
38. This Financing Order meets the requirements for a financing order under the Act.

V. Ordering Paragraphs

Based upon the record, the Findings of Fact and Conclusions of Law set forth herein, and for the reasons stated above, this Commission orders:

A. Approval

1. **Approval of Application.** The Application of Kentucky Power for the issuance of a financing order under the Act is approved, as provided in this Financing Order.
2. **Authority to Securitize.** Kentucky Power is authorized in accordance with this Financing Order to securitize and to cause the issuance of securitized bonds with a principal amount equal to the sum of (a) the Securitizable Balance at the time the securitized bonds are issued plus (b) up-front financing costs (which are estimated to be \$6.3 million) plus, (i) if applicable, the cost of original issue discount, credit enhancements and other arrangements to enhance marketability as discussed in Ordering Paragraphs 4 and 21, (ii) the cost of the Commission's financial advisor, if any, and any additional costs incurred by Kentucky Power to comply with the requests and recommendations of the Commission's financial advisor, and (iii) any costs incurred by Kentucky Power if this Financing Order is appealed. The "Securitizable Balance" as of any given date is equal to the balance of securitized costs as is approved in this case plus carrying costs accruing on the applicable portions of such

balance at the weighted average cost of capital approved in this case through the date the securitized bonds are issued, as reduced by all corresponding insurance, scrap, and salvage proceeds, applicable unamortized regulatory liabilities for excess deferred income taxes; and the present value of return on all accumulated deferred income taxes related to pretax costs with respect to a retired or abandoned facility and related facilities, including those due to bonus and accelerated tax depreciation and abandonment losses. If the actual up-front financing costs are less than the up-front financing costs included in the principal amount securitized, the Periodic Billing Requirement for the first semiannual true-up adjustment shall be reduced by the amount of such unused funds. If the final up-front financing costs are more than the up-front financing costs included in the principal amount securitized, Kentucky Power may defer the amounts for recovery in a future base rate proceeding.

3. **Recovery of Securitized Surcharges.** Kentucky Power shall act as the initial servicer and impose on and collect securitized surcharges from all existing and future retail customers receiving electrical service from Kentucky Power or its successors or assignees under Commission-approved rate schedules, even if a retail customer elects to purchase electricity from an alternative electricity supplier following a fundamental change in regulation of public utilities in the Commonwealth of Kentucky, in an amount sufficient to provide for the timely recovery of its aggregate securitized costs detailed in this Financing Order (including payment of principal and interest on the securitized bonds).
4. **Issuance Advice Letter.** For each series of securitized bonds issued, Kentucky Power shall provide an issuance advice letter to the Commission following the determination of the final terms of the series of securitized bonds no later than three (3) business days after the pricing of the securitized bonds. This issuance advice letter shall: (a) report the initial securitized surcharges and other information specific to the secured bonds as required by the Commission; (b) indicate the final structure of the securitized bonds; and (c) provide the best available estimate of total ongoing financing costs. The issuance advice letter shall be completed, shall evidence the actual dollar amount of the initial securitized surcharges and other information specific to the securitized bonds to be issued. In addition, if original issue discount, additional credit enhancements, or arrangements to enhance marketability are used, the issuance advice letter shall include such information. All amounts which

require computation shall be computed using the mathematical formulas contained in the form of the issuance advice letter in Appendix A to this Financing Order and the Securitization Financing Rider approved in this Financing Order. Electronic spreadsheets with the formulas supporting the schedules contained in the issuance advice letter shall be included with such letter. The Commission's review of the issuance advice letter shall be limited to the arithmetic accuracy of the calculations and to compliance with the Act, this Financing Order, and the specific requirements that are contained in the issuance advice letter. The initial securitized surcharges and the final terms of the securitized bonds set forth in the issuance advice letter shall become effective on the date of issuance of the securitized bonds (which shall not occur prior to the fifth business day after pricing) unless prior to noon on the fourth business day after the pricing of the securitized bonds, the Commission issues a disapproval order, directing that the securitized bonds, as proposed, not be issued and stating the basis for the disapproval.

5. **Approval of Tariff.** The form of the Securitization Financing Rider attached as Appendix B to this Financing Order is approved. Prior to the issuance of any securitized bonds under this Financing Order, Kentucky Power shall file a tariff that conforms to the form of the Securitization Financing Rider tariff provisions attached to this Financing Order.

B. Securitized Surcharges

6. **Imposition and Collection.** Kentucky Power is authorized to impose on, and the servicer is authorized to collect from, all existing and future retail customers receiving electrical service from Kentucky Power or its successors or assignees under Commission-approved rate schedules, even if a retail customer elects to purchase electricity from an alternative electricity supplier following a fundamental change in regulation of public utilities in the Commonwealth of Kentucky, securitized surcharges in an amount sufficient to provide for the timely recovery of the aggregate PPR (including payment of principal and interest on the securitized bonds), as approved in this Financing Order. If there is a shortfall in payment of an amount billed, the amount paid shall first be apportioned ratably between the securitized surcharges and other fees and charges, other than late fees, and second, any remaining portion of the payment shall be allocated to late fees.

7. **BondCo's Rights and Remedies.** Upon the transfer by Kentucky Power of the securitized property to a BondCo, the BondCo shall have all of the rights, title and interest of Kentucky Power with respect to such securitized property, including, without limitation, the right to exercise any and all rights and remedies with respect thereto, including the right to authorize disconnection of electric service and to assess and collect any amounts payable by any retail customer in respect of the securitized property. If securitized bonds are issued in more than one series, then the securitized property transferred as a result of each issuance shall be only those rights associated with that portion of the total amount authorized to be securitized pursuant to this Financing Order which is securitized by such issuance. The rights to impose, bill, charge, collect and receive securitized surcharges along with the other rights arising pursuant to this Financing Order as they relate to any portion of the total amount authorized to be securitized that remains unsecuritized shall remain with Kentucky Power until transferred to a BondCo in connection with a subsequent issuance of securitized bonds.
8. **Collector of Securitized Surcharges.** Kentucky Power or any subsequent servicer of the securitized property shall bill retail customers, or other entity which, under the terms of this Financing Order or the tariffs approved hereby, is required to bill, or collect securitized surcharges, for the securitized surcharges attributable to that customer.
9. **Collection Period.** The securitized surcharges related to a series of securitized bonds shall be designed to be collected over the scheduled life of the securitized bonds. However, to the extent that any amounts are not recovered by the end of the scheduled life of the securitized bonds, Kentucky Power may continue to bill and collect securitized surcharges over a period ending not more than 22 years from the date of the issuance of the securitized bonds, and any amounts due at or before the end of that period for securitized surcharges allocable to the 22-year period may be collected after the conclusion of the 22-year period.
10. **Allocation.** Kentucky Power shall allocate the securitized surcharges among customer classes in the manner described in this Financing Order.
11. **Nonbypassability.** Kentucky Power and any other entity providing electric services or acting as servicer to any existing and future retail customers receiving electric service from Kentucky Power, its successors, or assignees under Commission-approved rate schedules

are entitled to collect and must remit, consistent with this Financing Order, the securitized surcharges from such existing and future retail customers even if a retail customer elects to purchase electricity from an alternative electric supplier following a fundamental change in regulation of public utilities in the Commonwealth of Kentucky. The Commission will ensure that such obligations are undertaken and performed by Kentucky Power and any other entity providing electric services or acting as servicer to such retail customers.

12. **True-Ups.** True-ups of the securitized surcharges shall be undertaken and conducted as described in the Securitization Financing Rider. The servicer shall file the true-up adjustments in a compliance docket and shall give notice of the filing to all parties in this docket. If securitized bonds are issued in more than one series, then each series will be subject to separate true-up adjustments pursuant to the Act and this Financing Order, provided, however, that more than one series may be true-up in a single proceeding.
13. **Ownership Notification.** Any entity that bills securitized surcharges to retail customers shall include on the customer bill a statement that (i) the securitized surcharges are the property of BondCo and not of the entity issuing such bill and (ii) such entity is acting as a collection agent or servicer for such BondCo.

C. Securitized Bonds

14. **Issuance.** Kentucky Power is authorized through one or more BondCos to issue one or more series of securitized bonds as specified in this Financing Order. The securitized costs and ongoing financing costs described in Appendix C may be recovered directly through the securitized surcharges. The securitized bonds shall be denominated in U.S. Dollars.
15. **Up-Front Financing Costs.** Kentucky Power may securitize up-front financing costs in accordance with the terms of this Financing Order (which are estimated to be \$6.3 million) plus, (i) if applicable, the cost of original issue discount, credit enhancements and other arrangements to enhance marketability as discussed in Ordering Paragraphs 4 and 21, (ii) the cost of the Commission's financial advisor(s) and other consultant(s), if any, and any additional costs incurred by Kentucky Power to comply with the requests and recommendations of the Commission's financial advisor(s) and other consultant(s), and (iii) any costs incurred by Kentucky Power if this Financing Order is appealed.

16. **Ongoing Financing Costs.** Kentucky Power may recover its actual ongoing financing costs through its securitized surcharges, subject to the caps on the servicing fees and administrative fees (which are applicable as long as Kentucky Power serves as servicer or administrator, as applicable) set forth in this Financing Order. Ongoing financing costs, other than the servicing fee and the administrative fees of Kentucky Power as servicer and administrator, are not capped by this Financing Order. Ongoing financing costs also include an annual return at the authorized pre-tax return weighted average cost of capital as discussed in Finding of Fact No. 38. The amount of ongoing financing costs is subject to updating in the issuance advice letter to reflect a change in the size of the securitized bond issuance and any decision to issue the bonds in more than one series and other information available at the time of submission of the issuance advice letter. As provided in Ordering Paragraph No. 26, as servicer, Kentucky Power may collect a servicing fee higher than that set forth in Appendix C to this Financing Order, if such higher fee is approved by the Commission and the indenture trustee.
17. **Refinancing.** Kentucky Power or any assignee may apply for one or more new financing orders pursuant KRS § 278.680(2).
18. **Collateral.** All securitized property and other collateral shall be held and administered by the indenture trustee pursuant to the indenture as described in Kentucky Power's Application. BondCo shall establish a collection account under the indenture as described in Findings of Fact Nos. 37 through 44. Upon payment of the principal amount of all securitized bonds authorized in this Financing Order and the discharge of all obligations in respect thereof, all amounts in the collection account, other than amounts in the capital subaccount, shall be released by the indenture trustee to BondCo for distribution in accordance with Ordering Paragraph No. 19. Kentucky Power shall notify the Commission within 30 days after the date that these funds are eligible to be released of the amount of funds available for crediting to the benefit of customers.
19. **Distribution Following Repayment.** Following repayment of the securitized bonds authorized in this Financing Order and release of the funds held by the trustee, the servicer, on behalf of BondCo, shall distribute to Kentucky Power or any successor servicer responsible for collection of securitized surcharges from retail customers, the final balance

of the general, excess funds, and all other subaccounts (except the capital subaccount), whether such balance is attributable to principal amounts deposited in such subaccounts or to interest thereon, remaining after all other financing costs have been paid. BondCo or its successor in interest to the securitized property shall, to the extent the capital subaccount is not depleted below its original amount, also distribute to the servicer and each other entity responsible for collection of securitized surcharges from retail customers any subsequently collected securitized surcharges.

20. **Funding of Capital Subaccount.** The capital contribution by Kentucky Power to be deposited into the capital subaccount shall, with respect to each BondCo and series of securitized bonds, be funded by Kentucky Power and not from the proceeds of the sale of securitized bonds. Upon payment of the principal amount of all securitized bonds and the discharge of all obligations in respect thereof, all amounts in the capital subaccount and any amounts required to replenish the capital subaccount to the level of Kentucky Power's capital contribution and any unpaid authorized return on capital contributions for a series of securitized bonds shall be released to BondCo for payment to Kentucky Power.
21. **Credit Enhancement.** Kentucky Power may provide original issue discount or provide for various forms of credit enhancement, including letters of credit, an overcollateralization subaccount or other reserve accounts, surety bonds, and other mechanisms designed to promote the credit quality or marketability of the securitized bonds to the extent not prohibited by this Financing Order. Kentucky Power may not enter into an interest rate swap, currency hedge, or interest rate hedging arrangement. Kentucky Power may include the costs of original issue discount, credit enhancements or other arrangements to promote credit quality or marketability as financing costs only if such arrangements are reasonably expected to provide net quantifiable benefits greater than their cost. Kentucky Power shall not be required to enter any arrangements to promote credit quality or marketability unless all related costs and liabilities can be included in financing costs. Kentucky Power shall evaluate the relative benefits of the arrangements in the same way that quantifiable net present value benefits are qualified under this Financing Order. This Ordering Paragraph does not apply to the collection account or its subaccounts approved in this Financing Order.

22. **Life of Bonds.** The legal final maturity date of the securitized bonds authorized by this Financing Order shall not exceed 30 years.
23. **Amortization Schedule.** The Commission approves, and the securitized bonds shall be structured to provide a securitized surcharge that is based on substantially levelized annual revenue requirements over the expected life of the securitized bonds and utilize consistent allocation factors across rate classes, subject to modification in accordance with the true-up mechanisms adopted in this Financing Order. The structure employing substantially levelized annual revenue requirements will allow the resulting securitized surcharges to remain level or decline over time, if billing determinants remain level or grow. If the securitized bonds are issued in more than one series, each series must meet the requirement of substantially levelized annual revenue requirements.
24. **Commission Participation in Bond Issuance.** The Commission may designate one (1) or more representatives from commission staff who may be advised by one (1) or more financial advisors contracted with the commission to provide input to and collaboration with Kentucky Power during the process undertake to place the securitized bonds to market and an opinion to the Commission of the reasonableness of the pricing, terms, and condition of the securitized bonds on an expedited basis; provided, however, that the designated Commission staff and any financial advisor shall: (a) have no authority to direct how Kentucky Power places the securitized bonds to market; and (b) be permitted to attend meetings convened by Kentucky Power to address placement of the securitized bonds to market (see KRS § 278.674(5)). Although this Financing Order is written in the context of an underwritten offering, nothing herein shall be construed to preclude issuance of the securitized bonds through a competitive bid offering or private placement if Kentucky Power believes it should do so and such determination is reasonable, providing the representative with the opportunity to provide input.
25. **Use of BondCo.** Kentucky Power shall use BondCo, a bankruptcy remote special purpose funding entity as proposed in its Application, in conjunction with the issuance of a series of securitized bonds authorized under this Financing Order. BondCo shall be funded with an amount of capital that is sufficient for BondCo to carry out its intended functions and to avoid the possibility that Kentucky Power would have to extend funds to BondCo in a

manner that could jeopardize the bankruptcy remoteness of BondCo. Kentucky Power may create more than one BondCo in which event, the rights, structure, and restrictions described in this Financing Order with respect to BondCo would be applicable to each purchaser of securitized property to the extent of the securitized property sold to it and the securitized bonds issued by it.

D. Servicing

26. **Servicing Agreement.** The Commission authorizes Kentucky Power to enter into a servicing agreement with BondCo and to perform the servicing duties approved in this Financing Order. Without limiting the foregoing, in its capacity as initial servicer of the securitized property, Kentucky Power is authorized to calculate, bill and collect for the account of BondCo, the securitized surcharges initially authorized in this Financing Order, as adjusted from time to time to meet the PPR as provided in this Financing Order; and to make such filings and take such other actions as are required or permitted by this Financing Order in connection with the periodic true-ups described in this Financing Order. The servicer shall be entitled to collect servicing fees in accordance with the provisions of the servicing agreement, provided that, as set forth in Appendix C, the annual servicing fee payable to Kentucky Power while it is serving as servicer (or to any other servicer affiliated with Kentucky Power) shall initially be 0.10% of the original principal amount of the securitized bonds plus out of pocket third-party costs. The annual servicing fee payable to a servicer not affiliated with Kentucky Power shall not at any time exceed 0.60% of the initial principal balance of the securitized bonds unless such higher rate is approved by the Commission.
27. **Administration Agreement.** The Commission authorizes Kentucky Power to enter into an administration agreement with each BondCo to provide the services covered by the administration agreements. The fee charged by Kentucky Power as administrator under that agreement shall initially be \$100,000 per annum per BondCo plus out of pocket third-party costs.
28. **Servicing and Administration Agreement Revenues.** The servicing and administrative fees collected by Kentucky Power, or any affiliate of Kentucky Power, acting as either the servicer or the administrator under the servicing agreement or administration agreement,

shall be included as a revenue credit and reduce revenue requirements in each Kentucky Power base rate case. The expenses incurred by Kentucky Power or such affiliate to perform obligations under the servicing agreement and the administration agreement shall likewise be included as a cost of service in each Kentucky Power base rate case.

29. **Replacement of Kentucky Power as Servicer.** Upon the occurrence of an event of default under the servicing agreement relating to servicer's performance of its servicing functions with respect to the securitized surcharges, the financing parties may replace Kentucky Power as the servicer in accordance with the terms of the servicing agreement. If the servicing fee of the replacement servicer will exceed the applicable maximum servicing fee specified in Ordering Paragraph No. 26, the replacement servicer shall not begin providing service until (i) the date the Commission approves the appointment of such replacement servicer or (ii) if the Commission does not act to either approve or disapprove the appointment, the date which is 45 days after notice of appointment of the replacement servicer is provided to the Commission. No entity may replace Kentucky Power as the servicer in any of its servicing functions with respect to the securitized surcharges and the securitized property authorized by this Financing Order, if the replacement would cause any of the then current credit ratings of the securitized bonds to be suspended, withdrawn, or downgraded.
30. **Collection Terms.** The servicer shall remit collections of the securitized surcharges to BondCo or the indenture trustee for BondCo's account in accordance with the terms of the servicing agreement.
31. **Contract to Provide Service.** To the extent that any interest in the securitized property created by this Financing Order is assigned, sold or transferred to an assignee, Kentucky Power shall enter into a contract with that assignee that requires Kentucky Power to continue to operate its transmission and distribution system in order to provide electric services to Kentucky Power's customers; provided, however, that this provision shall not prohibit Kentucky Power from selling, assigning, or otherwise divesting its transmission and distribution systems or any part thereof so long as the entities acquiring such system agree to continue operating the facilities to provide electric service to Kentucky Power's customers.

E. Structure of the Securitization

32. **Structure.** Kentucky Power shall structure the securitization as proposed in Kentucky Power's Application. This structure shall be consistent with Findings of Fact Nos. 60 through 62.

F. Use of Proceeds

33. **Use of Proceeds.** Upon the issuance of securitized bonds, BondCo shall pay the net proceeds from the sale of the securitized bonds (after payment of transaction costs) to Kentucky Power for the purchase price of the securitized property. Kentucky Power will apply these net proceeds to reduce recoverable securitized costs. Thereafter, bond proceeds will be used to repay any outstanding short-term debt at Kentucky Power and to fund capital expenditures to support utility operations and services.

G. Miscellaneous Provisions

34. **Continuing Issuance Right.** Kentucky Power has the continuing irrevocable right to cause the issuance of securitized bonds in one or more series in accordance with this Financing Order for a period commencing with the date of this Financing Order and extending one (1) year following the later of (i) the date on which this Financing Order becomes final and no longer subject to any appeal and (ii) the date on which any other regulatory approvals necessary to issue the securitized bonds are obtained and no longer subject to any appeal.
35. **Internal Revenue Service Private Letter or Other Rulings.** Kentucky Power is not required by this Financing Order to obtain a ruling from the IRS; however, if it elects to do so, then upon receipt, Kentucky Power shall promptly deliver to the Commission a copy of each private letter or other ruling issued by the IRS with respect to the proposed transaction, the securitized bonds or any other matter related thereto. Kentucky Power shall also include a copy of every such ruling by the IRS it has received as an attachment to each issuance advice letter required to be filed by this Financing Order. Kentucky Power may cause securitized bonds to be issued without a private letter ruling if it obtains an opinion of tax counsel sufficient to support the issuance of the bonds.

36. **Binding on Successors.** This Financing Order, together with the securitized surcharges authorized in it, shall be binding on Kentucky Power and any successor to Kentucky Power, and such successor shall perform and satisfy all obligations of, and have the same rights under this Financing Order as, Kentucky Power under this Financing Order in the same manner and to the same extent as Kentucky Power, including collecting and paying to the person entitled to receive the revenues, collections, payments, or proceeds of the securitized property. This Financing Order is also binding on any other entity responsible for billing and collecting securitized surcharges on behalf of BondCo and on any successor to the Commission. In this paragraph, a “successor” means any entity that succeeds by any means whatsoever to any interest or obligation of its predecessor, including by way of bankruptcy, reorganization or other insolvency proceeding, merger, consolidation, conversion, assignment, pledge or other security, by operation of law or otherwise.
37. **Flexibility.** Subject to compliance with the requirements of this Financing Order, Kentucky Power and BondCo shall be afforded flexibility in establishing the terms and conditions of the securitized bonds, including the final structure of BondCo, repayment schedules, term, payment dates, collateral, credit enhancement, required debt service, reserves, interest rates, use of original issue discount, and other financing costs and the ability of Kentucky Power, at its option, to cause one or more series of securitized bonds to be issued.
38. **Effectiveness of Order.** This Financing Order is effective upon issuance and is not subject to rehearing by the Commission. Notwithstanding the foregoing, Kentucky Power shall not be authorized to impose, collect, and receive securitized surcharges, until concurrently with the transfer of Kentucky Power’s rights hereunder to BondCo in conjunction with the issuance of the securitized bonds.
39. **Regulatory Approvals.** All regulatory approvals within the jurisdiction of the Commission that are necessary for the securitization of the securitized surcharges associated with the costs that are the subject of the Application, and all related transactions contemplated in the Application, are granted.
40. **Payment of Commission’s Costs for Professional Services.** In accordance with KRS § 278.670(6)(f), Kentucky Power shall pay the costs to the Commission of acquiring

professional services for the purpose of evaluating Kentucky Power's proposed transaction, including, but not limited to, the Commission's outside attorneys' fees in the amounts specified in this Financing Order.

41. **Effect.** This Financing Order constitutes a legal financing order for Kentucky Power under the Act. The Commission finds this Financing Order complies with the provisions of the Act. A financing order gives rise to rights, interests, obligations and duties as expressed in the Act. It is the Commission's express intent to give rise to those rights, interests, obligations and duties by issuing this Financing Order. Kentucky Power and any successor servicer is directed to take all actions as are required to effectuate the transactions approved in this Financing Order, subject to compliance with the criteria established in this Financing Order.
42. **Further Commission Action.** The Commission will act pursuant to this Financing Order as expressly authorized by the Act to ensure that expected securitized surcharge revenues are sufficient to pay on a timely basis scheduled principal of and interest on the securitized bonds issued pursuant to this Financing Order and other costs, including fees and expenses, in connection with the securitized bonds.
43. **All Other Motions, etc., Denied.** All motions, requests for entry of specific findings of fact and conclusions of law, and any other requests for general or specific relief not expressly granted herein, are denied.

SIGNED AT FRANKFORT, KENTUCKY on the _____ day of January, 2024.

PUBLIC SERVICE COMMISSION OF KENTUCKY

KENT A. CHANDLER, CHAIRMAN

ANGELA C. HATTON, VICE CHAIR

MARY PAT REGAN, COMMISSIONER

FORM OF ISSUANCE ADVICE LETTER

_____ day, _____, 20__

Docket No. _____

PUBLIC SERVICE COMMISSION OF KENTUCKY**SUBJECT: ISSUANCE ADVICE LETTER FOR SECURITIZED BONDS**

Pursuant to the Financing Order adopted in *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) A Securitization Financing Order; And (5) All Other Required Approvals And Relief*, Case No. 2023-00159 (the "Financing Order"), KENTUCKY POWER COMPANY (the "Applicant") hereby provides, no later than the end of the third (3) business day after the pricing date of this series of the Securitized Bonds, the information referenced below. This Issuance Advice Letter is for the 20[] Securitized Bonds, tranche[s] A-1 [through A-]. Any capitalized terms not defined in this letter have the meanings ascribed to them in the Financing Order.

PURPOSE

This filing establishes the following:

- (a) the total amount of Securitized Costs and Financing Costs being securitized;
- (b) confirmation of compliance with issuance standards;
- (c) the actual terms and structure of the Securitized Bonds being issued;
- (d) the initial Securitized Surcharges for existing and future retail customers; and
- (e) the identification of the special purpose entity / issuer (the "BondCo").

FINANCING COSTS BEING SECURITIZED

The total amount of Securitized Costs and Financing Costs being securitized is presented in Attachment 1.

COMPLIANCE WITH ISSUANCE STANDARDS

The Financing Order requires the actual terms of the Securitized Bonds result in compliance with the standards set forth in the Financing Order. These standards are:

1. The transaction is expected to provide quantifiable net present value benefits to customers as compared to recovery of the components of Securitized Costs that would have been incurred absent the issuance of securitized bonds (See Attachment 2, Schedule D);
2. The total amount of revenues to be collected under the Financing Order is less than the revenue requirement that would be absent the issuance of securitized bonds (See Attachment 2, Schedule C and D);
3. The Securitized Bonds will be issued in one or more series comprised of one or more tranches having scheduled final payment of [●] years and legal final maturities not exceeding [●] years from the date of issuance of such series (See Attachment 2, Schedule A);
4. The Securitized Bonds may be issued with an original issue discount, additional credit enhancements, or arrangements to enhance marketability provided that the original issue discount is reasonably expected to provide benefits greater than its cost; and
5. The structuring and pricing of the Securitized Bonds is reasonably expected to result in the lowest Securitized Surcharges consistent with market conditions and the terms at the time the Securitized Bonds are priced under the terms of the Financing Order.

ACTUAL TERMS OF ISSUANCE

Securitized Bond Series: _____

Securitized Bond Issuer: [**BondCo**]

Indenture Trustee: _____

Closing Date: _____, 20[]

Bond Ratings: S&P [AAA], Moody's [Aaa]

Amount Issued: \$ _____

Securitized Bond Up-Front Financing Costs: See Attachment 1, Schedule B.

Securitized Bond Ongoing Financing Costs: See Attachment 2, Schedule B.

Tranche	Coupon Rate	Expected Final Payment	Legal Final Maturity
A-1	%		
A-2	%		

Effective Annual Weighted Average Interest Rate of the Securitized Bonds:	| | %
Life of Series:	_____ years
Weighted Average Life of Series:	_____ years
Call provisions (including premium, if any):	
Target Amortization Schedule:	Attachment 2, Schedule A
Scheduled Final Payment Dates:	Attachment 2, Schedule A
Legal Final Maturity Dates:	Attachment 2, Schedule A
Payments to Investors:	Semiannually Beginning _____, 20[]
Initial annual servicing fee as a percent of original Securitized Bond principal balance:	0.10%

INITIAL SECURITIZED SURCHARGE

Table I below shows the current assumptions for each of the variables used in the calculation of the initial Securitized Surcharges.

TABLE I	
Input Values For Initial Securitized Surcharges	
Applicable period: from _____ to _____	
Forecasted retail kWh/kW sales for the applicable period:	_____
Securitized Bond debt service for the applicable period:	\$ _____
Percent of billed amounts expected to be charged-off:	_____ %
Forecasted % of billing paid in the applicable period:	_____ %
Forecasted retail kWh/kW sales billed and collected for the applicable period.	_____
Forecasted annual ongoing transaction expenses (Excluding Securitized Bond principal and interest):	\$ _____
Initial Securitized Bond outstanding balance:	\$ _____
Target Securitized Bond outstanding balance as of: / / :	\$ _____
Total PBR for applicable period:	\$ _____

Allocation of the PBR among customer classes: See Attachment 3.

Based on the foregoing, the initial Securitized Surcharges calculated for retail customers are as follows:

TABLE II	
<u>Rate Class</u>	<u>Initial Securitized Surcharge</u>
[]	\$ /kWh
[]	\$ /kWh

IDENTIFICATION OF BONDCO

The owner of the Securitized Property will be: _____ [BondCo].

EFFECTIVE DATE

In accordance with the Financing Order, the Securitized Surcharge shall be automatically effective upon the Applicant’s receipt of payment in the amount of \$_____ from [BondCo], following Applicant’s execution and delivery to [BondCo] of the Bill of Sale transferring Applicant’s rights and interests under the Financing Order and other rights and interests that will become Securitized Property upon transfer to [BondCo] as described in the Financing Order.

NOTICE

Copies of this filing are being furnished to the parties on the attached service list. Notice to the public is hereby given by filing and keeping this filing open for public inspection at Applicant's corporate headquarters.

AUTHORIZED OFFICER

The undersigned is an officer of Applicant and authorized to provide this Issuance Advice Letter on behalf of Applicant.

Respectfully submitted,

KENTUCKY POWER COMPANY

By: _____
Name: _____
Title: _____

ATTACHMENT 1
SCHEDULE A
CALCULATION OF SECURITIZED COSTS AND FINANCING COSTS

Securitizable Balance to be securitized:	\$ _____
Up-front Financing Costs	\$ _____
TOTAL SECURITIZED COSTS AND FINANCING COSTS	\$ _____

ATTACHMENT 1
SCHEDULE B
ESTIMATED UP-FRONT FINANCING COSTS

UP-FRONT FINANCING COSTS	
	\$ _____
Legal Fees (Kentucky Power, Issuer, and Underwriter)	\$ _____
Accountant's Fees	\$ _____
Indenture Trustee's and Indenture Trustee Counsel's Fees and Expenses	\$ _____
Servicer's Set-up Costs	\$ _____
Printing/Edgarizing	\$ _____
Kentucky Power's Advisor's Fee	\$ _____
BondCo Setup Costs	\$ _____
Securitization Proceeding Expenses	\$ _____
Miscellaneous Administrative Costs	\$ _____
Underwriters' Fees	\$ _____
Rating Agency Fees	\$ _____
SEC Registration Fee	\$ _____
Commission's Financial Advisor Fees	\$ _____
Legal Fees for Counsel to the Commission's Advisor	\$ _____
Original Issue Discount	\$ _____
Cost of Other Credit Enhancements	\$ _____
Rounding/Contingency	\$ _____
TOTAL UP-FRONT FINANCING COSTS SECURITIZED	\$ _____

Note: Differences that result from the estimated up-front financing costs securitized being less than the actual up-front costs incurred will be resolved in a future proceeding as described in the Financing Order.

ATTACHMENT 2
SCHEDULE B
ESTIMATED ONGOING FINANCING COSTS

	ANNUAL AMOUNT
Servicing Fee	\$ _____
Administration Fee	\$ _____
Accountant's Fee	\$ _____
Legal Fees/Expenses for Kentucky Power's/Issuer's Counsel	\$ _____
Indenture Trustee's and Indenture Trustee's Counsel's Fees and Expenses	\$ _____
Independent Manager's Fees	\$ _____
Rating Agency Fees	\$ _____
Printing/Edgarizing Fees	\$ _____
Miscellaneous	\$ _____
TOTAL ESTIMATED ONGOING FINANCING COSTS (Kentucky Power as Servicer)	\$ _____
Ongoing Servicers Fee (Third Party as Servicer) (0.60% of principal amount)	\$ _____
TOTAL ESTIMATED ONGOING FINANCING COSTS (Third Party as Servicer)	\$ _____

Note: The amounts shown for each category of operating expense on these attachments are the expected expenses for the first year of the securitized bonds. Securitized surcharges will be adjusted at least semiannually to reflect any changes in ongoing financing costs through the true-up process described in the Financing Order.

ATTACHMENT 2
SCHEDULE C
CALCULATION OF SECURITIZED SURCHARGES

Year	Securitized Bond Payments¹	Ongoing Costs²	Present Value of Securitized Surcharges³
1	\$ _____	\$ _____	\$ _____
2	\$ _____	\$ _____	\$ _____
3	\$ _____	\$ _____	\$ _____
4	\$ _____	\$ _____	\$ _____
5	\$ _____	\$ _____	\$ _____
6	\$ _____	\$ _____	\$ _____
7	\$ _____	\$ _____	\$ _____
8	\$ _____	\$ _____	\$ _____
9	\$ _____	\$ _____	\$ _____
10	\$ _____	\$ _____	\$ _____
11	\$ _____	\$ _____	\$ _____
12	\$ _____	\$ _____	\$ _____
13	\$ _____	\$ _____	\$ _____
14	\$ _____	\$ _____	\$ _____
Total	\$ _____	\$ _____	\$ _____

¹ From Attachment 2, Schedule A.

² From Attachment 2, Schedule B.

³ The discount rate used is the weighted average effective annual interest rate of the Securitized Bonds.

ATTACHMENT 2
SCHEDULE D
COMPLIANCE WITH KRS §§ 278.672 AND 278.676

Demonstration of quantifiable net present value benefits to customers (a) greater than would be achieved absent the issuance of securitized bonds and (b) as compared to collection of the Securitizable Balance through alternative means of financing, determined using an economic analysis to account for the time value of money:⁴

	Alternative Means of Financing	Securitization Financing ⁵	Savings/(Cost) of Securitization Financing
Present Value	\$ _____ million	\$ _____ million	\$ _____ million

⁴ Calculated in accordance with the methodology cited in the Financing Order.

⁵ From Attachment 2, Schedule C.

ATTACHMENT 3

INITIAL ALLOCATION OF COSTS TO RATE CLASSES

(1) RATE Class	(2) Allocation ⁶	(3) Periodic Billing Requirement	(4) Billing Requirement per Rate Class	(5) Forecasted Billing Determinants	(6) Rate Charge
[]	%	\$	\$		\$ /kWh
[]	%	\$	\$		\$ /kWh
Total	100.0000 %	\$	\$		

⁶ Determined in accordance with the methodology set forth in the Financing Order and the Securitization Financing Rider.

Securitization Financing Rider
(S.F.R.)

Applicable

To Tariffs R.S., R.S.D., R.S.-L.M.-T.O.D., R.S.-T.O.D., Experimental R.S.-T.O.D.2, G.S., S.G.S.-T.O.D., M.G.S.-T.O.D., L.G.S., L.G.S.-T.O.D., I.G.S., C.S.- I.R.P., M.W., O.L., and S.L..

Rate

1. Pursuant to the final order of the Kentucky Public Service Commission in Case No. 2023-00159, Kentucky Power Company is to recover from retail ratepayers the costs approved for securitization by the Commission.

This rider is designed to recover from customers the amounts necessary to service, repay and administer customer-backed bonds associated with the approved securitized costs pursuant to the terms of the financing order of the Kentucky Public Service Commission in Case No. 202#-#####.

This rider shall remain in effect until the complete repayment and retirement of any customer-backed bonds, or refunding bonds, associated with the approved securitized costs. This schedule is irrevocable and nonbypassable for the full term during which it applies.

The applicable rates for service rendered on and after XXXXXXXXX ##, 202# to be applied to the revenues described in paragraph 5 of this tariff are:

$$\begin{array}{rcl} \text{Residential Adjustment} & = & \frac{\$X}{\$X} = X.X\% \\ \text{Factor} & & \\ \\ \text{All Other Classes} & = & \frac{\$X}{\$X} = X.X\% \\ \text{Adjustment Factor} & & \end{array}$$

2. The allocation of the actual revenue requirement (ARR) between residential and all other customers shall be based upon their respective contribution to total retail revenues for the most recent twelve-month period ending December 31 or June 30, according to the following formula:

$$\begin{array}{rcl} \text{Residential Allocation RA(y)} & = & \text{ARR(y)} \times \frac{\text{KY Residential Retail Revenue RR(b)}}{\text{KY Retail Revenue R(b)}} \\ \\ \text{All Other Allocation OA(y)} & = & \text{ARR(y)} \times \frac{\text{KY All Other Classes Retail Revenue OR(b)}}{\text{KY Retail Revenue R(b)}} \end{array}$$

Where:

(y) = the expense year;
(b) = Most recent available twelve month period ended December 31 or June 30.

Continued on Sheet 35-2

DATE OF ISSUE: June 29, 2023
DATE EFFECTIVE: January 1, 2024
ISSUED BY: /s/ Brian K. West
TITLE: Vice President, Regulatory & Finance
By Authority of an Order of the Public Service Commission
In Case No.: 2023-00159 Dated XXXX XX, XXXX

Securitization Financing Rider Continued
(S.F.R.)

3. The Residential S.F.R. Adjustment shall provide for annual adjustments based on a percent of total revenues, according to the following formula:

$$\text{Residential S.F.R. Adjustment Factor} = \frac{\text{Net Annual Residential Allocation NRA(y)}}{\text{Residential Retail Revenue RR(b)}}$$

Where:

$$\begin{aligned} \text{Net Annual Residential Allocation NRA(y)} &= \text{Annual Residential Allocation RA(y), net of} \\ &\quad \text{Over/(Under) Recovery Adjustment;} \\ \text{Residential Retail Revenue RR(b)} &= \text{Annual Retail Revenue for all KY residential classes} \\ &\quad \text{for the year (b).} \end{aligned}$$

4.4. The All Other Classes S.F.R. Adjustment shall provide for annual adjustments based on a percent of non-fuel revenues, according to the following formula:

$$\text{All Other Classes S.F.R. Adjustment Factor} = \frac{\text{Net Annual All Other Allocation NOA(y)}}{\text{All Other Classes Non-Fuel Retail Revenue ONR(b)}}$$

Where:

$$\begin{aligned} \text{Net Annual All Other Allocation NOA(y)} &= \text{Annual All Other Allocation OA(y), net of} \\ &\quad \text{Over/(Under) Recovery Adjustment;} \\ \text{All Other Classes Non-Fuel Retail Revenue} &= \text{Annual Non-Fuel Retail Revenue for all classes} \\ \text{ONR(b)} &= \text{other than residential for the year (b).} \end{aligned}$$

5. The Revenues to which the residential Securitization Financing Rider factor are applied is the sum of the customer's Service Charge, Demand Charge, Energy Charge(s), Fuel Adjustment Clause, System Sales Clause, Demand-Side Management Adjustment Clause, Federal Tax Change, Residential Energy Assistance, Purchase Power Adjustment and Distribution Reliability Rider.

The Revenues to which the all other customer Securitization Financing Rider factor are applied is the sum of the customer's Service Charge, Demand Charge, Energy Charge(s) less Base Fuel, Minimum Charge, Reactive Charge, System Sales Clause, Demand-Side Management Adjustment Clause, Federal Tax Change, Kentucky Economic Development Surcharge, Purchase Power Adjustment and Distribution Reliability Rider.

6. The initial Securitization Financing Rider rates shall be file on the day following the pricing of the bonds and shall become effective the first billing cycle following the closing of the bonds. All subsequent Rider rate adjustments shall be semi-annual (every six months).

The semi-annual Securitization Financing Rider adjustments shall be filed with the Commission no later than February 15 and August 15th of each year before it is scheduled to go into effect on Cycle 1 of the April and October billing cycles, respectively, along with all the necessary supporting data to justify the amount of the adjustments, which shall include data, and information as may be required by the Commission.

Interim Securitization Financing Rider adjustments may be filed with the Commission outside of the standard semi-annual timeframe in order to correct for over- or under-collection to be submitted no later than 10 days before the rate is to be effective.

2. Copies of all documents required to be filed with the Commission shall be open and made available for public inspection at the office of the Public Service Commission pursuant to the provisions of KRS 61.870 to 61.884.

DATE OF ISSUE: June 29, 2023
DATE EFFECTIVE: January 1, 2024
ISSUED BY: /s/ Brian K. West
TITLE: Vice President, Regulatory & Finance
By Authority of an Order of the Public Service Commission
In Case No.: 2023-00159 Dated XXXX XX, XXXX

APPENDIX C**ESTIMATED UP-FRONT FINANCING COSTS**

	AMOUNT
Legal Fees (Kentucky Power and Issuer)	\$2,750,000
Accountant's Fees	\$150,000
Indenture Trustee's and Indenture Trustee Counsel's Fees and Expenses	\$25,000
Servicer's Set-up Costs	\$125,000
Printing/Edgarizing	\$75,000
Commission and Kentucky Power's Advisor's Fee	\$750,000
Miscellaneous Administrative Costs	\$31,242
Underwriters' Fees	\$1,787,066
Rating Agency Fees	\$591,965
SEC Registration Fee	\$24,930
TOTAL ESTIMATED UP-FRONT FINANCING COSTS SECURITIZED	\$6,310,203

ESTIMATED ONGOING FINANCING COSTS

	ANNUAL AMOUNT
Servicing Fee	\$446,766
Administration Fee	\$100,000
Accountant's Fee	\$75,000
Legal Fees/Expenses for Kentucky Power's/Issuer's Counsel	\$50,000
Indenture Trustee's and Indenture Trustee's Counsel's Fees and Expenses	\$10,000
Independent Manager's Fees	\$2,750
Rating Agency Fees	\$75,000
Return on Capital Account	\$188,027
Miscellaneous	\$25,000
TOTAL ESTIMATED ONGOING FINANCING COSTS	\$972,543

Exhibit 6

<u>Term</u>	<u>Abbreviation</u>	<u>Term</u>	<u>Abbreviation</u>
12 Month Average Peak Demand	12CP	Day Ahead Local Marginal Price	DA LMP
Accounting Standards Codification	ASC	Debt to Earnings Before Interest, Taxes, Depreciation and Amortization	Debt/EBITDA
Accumulated Deferred Income Tax	ADFIT or ADIT	Decommissioning Rider	Tariff D.R.
Adjusted Financial Statement Income	AFSI	Deferred Tax Asset	DTA
Administrative and General	A&G	Demand Side Management	DSM
Advanced Metering Infrastructure	AMI	Discounted Cash Flow	DCF
AEP Generation Resources Inc.	AEP Generation Resources	Distribution Automation Circuit Reconfiguration	DACR
AEP Kentucky Transmission Company	Kentucky Transco	Distribution Factors	DFAX
AEP System-East Zone	AEP Zone	Distribution Reliability Rider	DRR
Allowance for Funds Used During Construction	AFUDC	Distribution Remote Terminal Units	DRTU
American Electric Power	AEP	Dividends Per Share	DPS
American Electric Power Service Corporation	AEPSC	Dry Sorbent Injection	DSI
Appalachian Power Company	Appalachian Power	Earning Per Share	EPS
Asset Backed Securities	ABS	Edison Electric Institute	EEI
Asset Retirement Obligation	ARO	Effluent Limitation Guidelines	ELG
Attorney General and KIUC	AG-KIUC	Electricity Subsection Coordinating Council	ESCC
Automated Meter Reading	AMR	Electrostatic Precipitators	ESP
Average Monthly Payment Plan	AMP	Empirical CAPM	ECAPM
Average Rate Assumption Method	ARAM	Energy Allocation Factor	EAF
Big Sandy Unit 1 Operations Rider	BSIOR	Entergy New Orleans	ENO
Capacity Charge Tariff	Tariff C.C.	Environmental Compliance Plan	ECP
Capital Asset Pricing Model	CAPM	Environmental Surcharge Tariff	Tariff E.S.
Cash Working Capital	CWC	Environmental, social, governance and sustainability	ESG
Centers for Disease Control and Prevention	CDC	Equivalent Availability Factor	EAF
Clean Energy Demonstration Program on Current and Form Mine Land	CEML	Equivalent Forced Outage Rate	EFOR
Coal Combustion Residuals	CCR	Equivalent Unplanned Outage Rate	EUOR
Coincident Peak	CP	Estimated Time of Restoration	ETR
Community Action Agencies	CAA	Federal Low Income Home Energy Assistance Program	LIHEAP
Community Action Kentucky	CAK	Federal Open Market Committee	FOMC
Consent Decree and Cross-State Air Pollution Rule	CSAPR	Federal Regulatory Commission	FERC
Consolidated Transmission Owners Agreement	CTOA	Federal Tax Change Rider	FTC
Consolidated Edison of New York	Con Ed	Financial Accounting Standards Board's	FASB
Construction Work In Progress	CWIP	Financial Concepts and Applications, Inc.	FINCAP
Consumer Price Index	CPI	Fitch, Inc.	Fitch
Contributions in Aid of Construction	CIAC	Fixed Resource Requirement	FRR
Corporate Alternative Minimum Tax	CAMT	Flue Gas Desulfurization	FGD
Cost Allocation Manual	CAM	Franchise Tariff	FTC
Cost of Removal	COR	Funds from Operations to Debt	FFO/Debt
Customer Average Interruption Duration Index	CAIDI	Generally Accepted Accounting Principles	GAAP
Customer Interruptions	CI	Gigawatt-hours	GWh
Customer Minutes of Interruption	CMI	Gigawatts	GW

<u>Term</u>	<u>Abbreviation</u>	<u>Term</u>	<u>Abbreviation</u>
Goldman Sachs & Co.	Goldman	Long-Term Disability	LTD
Grid Resilience and Innovation Partnerships	GRIP	Long-term Incentive Compensation	LTI
Gross Domestic Product	GDP	Major Event Day	MED
Gross Plant Distribution	GP-DIST	Mark to Market	MTM
Gross Plant Production, Transmission, and Distribution Factor	GP-PTD	Maryland Public Service Commission	MDPSC
Gross Plant Total Allocation Factor	GP-TOT	Megawatt	MW
Gross Plant Transmission	GP-TRANS	Megawatt Hours	MWh
Gross Revenue Conversion Factor	GRCF	Mercury and Air Toxics	MATS
Home Efficiency Rating	HER	Michigan Public Service Commission	Michigan PSC
Home Energy Assistance	HEA	Miles per Hour	mph
Home Energy Assistance Program	HEAP	Mitchell Generating Station	Mitchell
Homer Energy Assistance in Reduced Temperatures	HEART	Moody's Investor Service	Moody's
Housing Development Alliance	HAD	National Association of Regulatory Utility Commissioners	NARUC
Human Resources Committee of AEP's Board of Directors	HR Committee	National Electric Safety Code	NESC
Incentive Compensation Plan	ICP	National Regulatory Research Institute	NRRRI
Incident Command System	ICS	Net Capacity Factor	NCF
Independent System Operator	ISO	Net Operating Loss	NOL
Indiana Michigan Power Company	I&M	Net Operating Loss Carryforward	NOLC
Inflation Reduction Act	IRA	Net Present Value	NPV
Innovation Mattress Solutions	IMS	Network Integration Transmission Service	NITS
Input-output	I-O	New Source Review	NSR
Installed Capacities	ICAP	Nitrogen Oxide	NOx
Institutional Brokers' Estimate System	IBES	Non-Utility Generator	NUG
Internal Revenue Code	Code	North American Electric Reliability Corporation	NERC
Investment Tax Credits	ITC	Off System Sales	OSS
Investor-Owned Utility	IOU	Operating Earnings Per Share	Operating EPS
Issuance Advice Letter	IAL	Operation and Maintenance Labor	OML
Jurisdictional Cost of Service	JCOS	Operations and Maintenance	O&M
Kentucky Association for Economic Development	KAED	Original Issue Discount	OID
Kentucky Economic Development Surcharge Tariff	Tariff K.E.D.S.	Other Post Employment Benefits	OPEB
Kentucky Industrial Utility Customers, Inc.	KIUC	Outdoor Lighting	OL
Kentucky Power Company	Kentucky Power or the Company	Peaking Unit Equivalent	PUE
Kentucky Power Economic Growth Grant	K-PEGG	Performance Assessment Intervals	PAIs
Kentucky Product Development Initiative	KPDI	Performance Share Units	PSU
Kentucky Public Service Commission	Commission	Personal Consumption Expenditure Price Index	PCE
kilovolt-amperes	kVA	PJM Interconnection, LLC	PJM
Kilowatt	kW	PJM Open Access Transmission Tariff	PJM OATT or OATT
Kilowatt-hours	kWh	Power Coordination Agreement	PCA
Liberty Utilities Company	Liberty	Private Letter Rulings	PLRs
Limited Liability Company	LLC	Production Demand Allocation Factor	PDAF
Load Serving Entity	LSE	Production Plant Blanket	PPB

<u>Term</u>	<u>Abbreviation</u>	<u>Term</u>	<u>Abbreviation</u>
Production Tax Credit	PTC	Total Shareholder Return	TSR
Public Convenience and Necessity	CPCN	Transmission Demand Allocation Factor	TDAF
Rate of Return	ROR	Transmission Expansion Advisory Committee	TEAC
Regional Mutual Assistance Groups	RMAGs	Transmission Owner	TO
Regional Service Organization	RSO	Trees Inside of Rights-of-Way	TIR
Regional Transmission Expansion Plan	RTEP	Trees Outside of Rights-of-Way	TOR
Regional Transmission Organizations	RTOs	Uniform System of Accounts	USofA
Regulatory Research Associates	RRA	Unit Power Agreement	UPA
Reliability Pricing Model	RPM	Value Line Investment Survey	Value Line
Renewable Energy Certificate	REC	Vice President	VP
Residential Energy Assistance	REA	Weighted Average Cost of Capital	WACC
Residential Energy Assistance Tariff	Tariff R.E.A.	Weighted Average Life	WAL
Restricted Stock Unit	RSU	West Virginia Public Service Commission	WVPSC
Return on Equity	ROE	Wheeling Power Company	Wheeling Power
Rider Demand Response Service	D.R.S.	Winter Storm Elliott	Elliott
Rights-of-Way	ROW	Zacks Investment Research	Zacks
RRA Regulatory Focus	RRA		
Securities and Exchange Commission	SEC		
Securitization Financing Rider	SFR		
Selective Catalytic Converter Reduction	SCR		
Short-term Incentive Compensation	STI		
Spare Transformer Equipment Program	STEP		
Special Purpose Entity	SPE		
Standard & Poor's	S&P		
Statement of Financial Accounting Standards	SFAS		
Storm Outage Prediction Model	SOPM		
Strategic Capital Prioritization Process	SCPP		
Street Lighting	SL		
Strengths, weaknesses, opportunities, and threats	SWOT		
Supervisory Control and Data Acquisition	SCADA		
System Average Interruption Duration Index	SAIDI		
System Average Interruption Frequency Index	SAIFI		
System Sales Clause	SSC		
Tariff Contract Service - Interruptible Power	C.S.-I.R.P.		
Tariff Demand-Side Management Adjustment Clause	Tariff D.S.M.C.		
Tariff Fuel Adjustment Clause	F.A.C.		
Tariff Purchase Power Adjustment	Tariff P.P.A.		
Tax Cut and Jobs Act	TCJA		
Temporary Heating Assistance in Winter	THAW		
Terms and Conditions	T&Cs		
Total Case Compensation	TCC		