

Kentucky Power Company
KPSC Case No. 2024-00016
Commission Staff's First Set of Data Requests
Dated February 19, 2024
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DATA REQUEST

KPSC 1_1 Refer to Kentucky Power Company's Notice to Implement Rates. Explain how Kentucky Power will determine what amount of the Rockport Deferral should be securitized.

RESPONSE

As an initial matter, the Rockport Offset True-Up and the Rockport Deferral Regulatory Asset are two separate, distinct items to be collected from customers via different avenues of collection. Rather, the Company has requested and the Commission has approved in Case No. 2023-00159 the Company to securitize the Rockport Deferral Regulatory Asset.

Notwithstanding, in accordance with ordering paragraph 2. of the Financing Order in Case No. 2023-00159 dated January 10, 2024 (pg. 97), Kentucky Power is authorized to securitize the Rockport Deferral Regulatory Asset balance at the time the securitized bonds are issued, which will be the Rockport Deferral Regulatory Asset balance as of the most recent month-end accounting close. The Rockport Deferral Regulatory Asset balance is only available as of month-end dates as a result of the Company's monthly accounting close process.

The Company does not know the date the securitized bonds will be issued. However, because collection of the Rockport Deferral Regulatory Asset through Tariff P.P.A. ceased for services rendered on and after January 16, 2024, the Company can calculate an estimate of the expected month-end balances of the Rockport Deferral Regulatory Asset which was authorized to accrue a carrying charge the Company's authorized pre-tax weighted average cost of capital. The table below provides the estimated Rockport Deferral Regulatory Asset balances for the months ended February 2024 through December 2024.

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Month	Estimated Balance Rockport Deferral (in millions)
Feb-24	\$ 47.0
Mar-24	\$ 47.3
Apr-24	\$ 47.5
May-24	\$ 47.8
Jun-24	\$ 48.1
Jul-24	\$ 48.3
Aug-24	\$ 48.6
Sep-24	\$ 48.9
Oct-24	\$ 49.2
Nov-24	\$ 49.4
Dec-24	\$ 49.7

The Company is further providing background on the Rockport Deferral Mechanism. Please refer to the Direct Testimony of Brian K. West, and Exhibit BKW-1 to that testimony beginning at page 4 (which is comprised of the 2017 Settlement Agreement), for a detailed explanation of the creation of the Rockport Deferral Mechanism and its distinct parts, including the Rockport Deferral Regulatory Asset and the Rockport Offset True-Up. Below is a supplemental description:

The Rockport UPA and the 2017 Settlement Agreement:

The Company contracted for capacity and energy from the Rockport Plant under the Rockport Unit Power Agreement (“UPA”) until December of 2022. Kentucky Power paid for its share of capacity and energy under that agreement and those non-fuel, non-environmental costs were recovered from customers through base rates. It was anticipated that the Company would not renew the Rockport UPA after its term expired in December 2022. In the Company’s 2017 Rate Case (Case No. 2017-00179), the Company and several of the intervenors agreed to create the Rockport Deferral Mechanism, which was comprised of several different parts including the Rockport Deferral Regulatory Asset and the Rockport Offset True-Up.¹

¹ See West Direct Test. At 5.

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Rockport Deferral Regulatory Asset:

In an effort to reduce the rate impact on customers, the Company and the settling intervenors in the 2017 Rate Case agreed to defer a total of \$50 million of non-fuel, non-environmental expenses incurred under the Rockport UPA beginning in 2018 until the end of the Rockport UPA in December 2022. Specifically, the Company would defer \$15 million of Rockport UPA expense in 2018 and 2019, \$10 million of Rockport UPA expense in 2020, and \$5 million of Rockport UPA Expense in 2021 and 2022. This \$50 million total of Rockport UPA expense would be deferred in a regulatory asset, would accrue a carrying charge, and would not be collected from customers until after the Rockport UPA expired in December 2022. Thus, the Rockport Deferral Regulatory Asset (totaling a principal amount of \$50 million) was created.²

In Case No. 2022-00283, the Commission authorized Kentucky Power to begin collecting the Rockport Deferral Regulatory Asset through Tariff P.P.A. over a five-year period beginning December 9, 2022. Kentucky Power did, in fact, begin collecting the Rockport Deferral Regulatory asset through Tariff P.P.A. beginning December 9, 2022. As part of the Company's 2023 Rate Case, Kentucky Power requested to remove the non-fuel, non-environmental Rockport UPA costs from base rates, and requested to securitize the remaining uncollected portion of the Rockport Deferral Regulatory Asset, both of which the Commission granted. Kentucky Power also has temporarily suspended the collection of the Rockport Deferral Regulatory Asset until that regulatory asset can be securitized. Currently, the Rockport Deferral Regulatory Asset is continuing to accrue a carrying charge, and will not be collected from customers until the regulatory asset is securitized and the securitized surcharges begin to be collected. This case does not concern any aspect of the securitization or collection of the Rockport Deferral Regulatory Asset.³

Rockport Offset True-Up:

The Rockport Deferral Mechanism was made up of several parts in addition to the Rockport Deferral Regulatory Asset. Those other parts include the Rockport Fixed Cost Savings, the Rockport Offset, and the Rockport Offset True-Up.

Because the non-fuel, non-environmental costs of the Rockport UPA were embedded in base rates (otherwise known as the Rockport Fixed Costs), customers would continue to pay these amounts, even after the Rockport UPA expired, until base rates could be re-set. So that the Company would not have to file a base rate case to address this specific issue

² *Id.* at 5-6.

³ *Id.* at 7-8.

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after the Rockport UPA expired, the settling parties in the 2017 Settlement Agreement agreed that those Rockport Fixed Costs embedded in base rates would be credited back to customers through Tariff P.P.A. until new base rates were set. The Settlement Agreement called these amounts the Rockport Fixed Cost Savings.⁴

The settling parties also agreed that, in exchange for the customer benefits made possible by the creation of the Rockport Deferral Regulatory Asset, the Company would be entitled to use the Rockport Fixed Cost Savings that otherwise would be credited to customers through Tariff P.P.A. in 2023 to help the Company earn its 2023 authorized return on equity ("ROE") for that calendar year. Put another way, the Company would not credit back a certain portion of the Rockport Fixed Costs Savings in 2023 and instead would retain those amounts to help close the gap between Kentucky Power's authorized ROE and its actual ROE in 2023. This was called the Rockport Offset. The Rockport Offset was capped at \$40.8 million, the amount of non-fuel, non-environmental Rockport UPA costs included in base rates.⁵

The settling parties agreed that the collection of the Rockport Offset would be effectuated through a two-step process, which included collecting an estimated amount first and then collecting the actual amount at a later date through a true-up process. First, the Company would determine an estimated ROE for 2023 and would use that ROE for purposes of determining the amount of the Estimated Rockport Offset that would be subtracted from the Rockport Fixed Costs Savings and retained by Kentucky Power in calendar year 2023. Second, after the end of 2023, the Company would determine its actual earned ROE for calendar year 2023, and would compare it to the estimated ROE for 2023. Any difference between the estimated ROE and the actual ROE would be trued-up and collected through Tariff P.P.A. beginning March 1, 2023. This trued-up amount represents the Rockport Offset True-Up proposed to be collected in this proceeding.⁶

In Case No. 2022-00283, the Commission approved the Company's proposed Estimated Rockport Offset to be collected through Tariff P.P.A. in 2023. The Company actually collected the approximately \$22.8 million Estimated Rockport Offset through Tariff P.P.A. in 2023.⁷ The Company now has determined its actual ROE for 2023 and has filed this application to effectuate the final piece of the Rockport Deferral Mechanism to collect the Rockport Offset True-Up (approximately \$18 million) over 12 months beginning March 1, 2024.⁸

⁴ *Id.* at 6, 9.

⁵ *Id.*

⁶ *Id.* at 6-7.

⁷ *Id.* at 8.

⁸ *Id.* at 9-10.

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Witness: Brian K. West

Witness: Heather M. Whitney

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DATA REQUEST

KPSC 1_2 Provide the amount of the Rockport Deferral that will be securitized pursuant to the Financing Order issued by the Commission on January 10, 2024

RESPONSE

Please see the Company's response to KPSC 1-1.

Witness: Heather M. Whitney

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DATA REQUEST

KPSC 1_3 Explain how Kentucky Power intends to maintain the correct amount for refund given the Commission has not issued a final Order in Case No. 2023-00318.

RESPONSE

The Company filed its Notice of Intent to Implement Rates Subject to Change in Case No. 2023-00318 on September 29, 2023. Kentucky Power then implemented the rates proposed in Case No. 2023-00318 for service rendered on and after September 29, 2023, subject to the provisions of KRS 278.190(2).⁹

The Company's billing system maintains customer billing information for three years. Kentucky Power therefore has access to all information required to accurately rebill if required.

Should the Commission's final order in Case No. 2023-00318 approve rates that are different than those implemented by the Company for service rendered on and after September 29, 2023, the Company would rebill using the aforementioned customer billing information.

Should the Commission's final order in this case approve rates that are different than those implemented by the Company for service rendered on and after March 2, 2024, then the Company would again rebill using the aforementioned customer billing information.

Witness: Lerah M. Kahn

⁹ Placing the Tariff P.P.A. rates proposed in Case No. 2023-00318 into effect was to the benefit of customers. By doing so, the Company implemented rates that are slightly lower than they otherwise would be if the Company had continued to calculate the Tariff P.P.A. rate under the previously-existing mechanism.

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DATA REQUEST

KPSC 1_4 Refer to the Application, Exhibit HMW-1, Tab "Q4 2023." Provide a detailed explanation of the monthly changes in Shareholder's Equity.

RESPONSE

As shown in the rollforward schedule provided at KPCO_R_KPSC_1_4_Attachment1, the monthly changes in shareholders' equity are attributable to Kentucky Power's monthly net income/(loss) and Kentucky Power's parent company loss benefit allocation.

Witness: Heather M. Whitney

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DATA REQUEST

KPSC 1_5 Refer to the Application, Exhibit HMW-1, Tab “Rockport Savings-Offset.”

- a. Explain whether the net income includes expenses that were removed for ratemaking purposes in Case No. 2023-00159 or expenses which utilities, including Kentucky Power, routinely remove for ratemaking purposes.
- b. Provide an itemized estimate of these costs.

RESPONSE

a. and b. Kentucky Power maintains its books and records in accordance with Generally Accepted Accounting Principles (“GAAP”). The Company respectfully maintains that the Commission-approved 2017 Settlement Agreement makes clear that the Rockport Offset True-Up should be calculated using the Company’s actual 2023 per books net income prepared in accordance with GAAP.¹⁰ Per books net income is not adjusted to remove expenses for ratemaking purposes. For this reason, the Company’s per books net income amount included in Exhibit HMW-1, Tab “Rockport Savings Offset” has not had any such expenses removed from it.

Notwithstanding, please refer to KPCO_R_KPSC_1_5_Attachment1 for the requested information.

Witness: Heather M. Whitney

Witness: Brian K. West

¹⁰ See Exhibit BKW-1 to the West Direct Testimony at 7 (Actual Rockport Offset definition); *see also* Kentucky Power’s response to KPSC 2-2, *In The Matter Of: Electronic Investigation Of Kentucky Power Company Rockport Deferral Mechanism*, Case No. 2022-00283 (filed October 20, 2022); *id.*, November 28, 2022 Hearing Video Record at 9:56:51 – 9:59:12.

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DATA REQUEST

KPSC 1_6 Refer to the Application, Exhibit LMK-1, Tab “PPA Form 3.0a.” Provide the amount of the under-recovery regulatory asset that will be securitized pursuant to the Financing Order issued by the Commission on January 10, 2024.

RESPONSE

The Tariff P.P.A. Under-Recovery Regulatory Asset balance does not impact the calculation of the Rockport Offset True Up amount.¹¹

In accordance with ordering paragraph 2. of the Financing Order in Case No. 2023-00159 dated January 10, 2024 (pg. 97), Kentucky Power is authorized to securitize the Tariff P.P.A. Under-Recovery Regulatory Asset balance at the time the securitized bonds are issued, which will be the Tariff P.P.A. Under-Recovery Regulatory Asset balance as of the most recent month-end accounting close. The Tariff P.P.A. Under-Recovery Regulatory Asset balance is only available as of month-end dates, as a result of the Company’s monthly accounting close process.

As of January 31, 2024, the balance of the Tariff P.P.A. Under-Recovery Regulatory Asset was \$60,126,737. Neither the date the securitized bonds will be issued nor the final amount of the Tariff P.P.A. Under-Recovery Regulatory Asset balance to be securitized are known at this time. The Tariff P.P.A. Under-Recovery Regulatory Asset balance will fluctuate each month going forward as a result of the Company’s monthly process to record Tariff P.P.A. over/under recoveries in accordance with the approved tariff.

Witness: Brian K. West

Witness: Heather M. Whitney

¹¹ The Company’s original application and testimony utilized preliminary, unaudited 2023 GAAP financial statements to calculate the expected Rockport Offset True-Up at \$18,045,496. On February 28, 2024, the Company filed its final, audited 2023 GAAP financial statements. There was no change to the Rockport Offset True-Up amount resulting from this.

VERIFICATION

The undersigned, Lerah M. Kahn, being duly sworn, deposes and says she is the Manager of Regulatory Services for Kentucky Power, that she has personal knowledge of the matters set forth in the foregoing responses and the information contained therein is true and correct to the best of her information, knowledge, and belief.

Lerah Kahn

Lerah M. Kahn

Commonwealth of Kentucky)
)
County of Boyd)

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Subscribed and sworn to before me, a Notary Public in and before said County and State, by Lerah M. Kahn, on February 29, 2024.

Marilyn Michelle Caldwell
Notary Public

My Commission Expires May 5, 2027

Notary ID Number KYNP 71841



VERIFICATION

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



Brian K. West

Commonwealth of Kentucky)
)
County of Boyd)

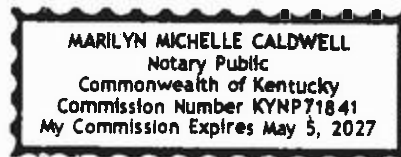
Case No. 2024-00016

Subscribed and sworn to before me, a Notary Public in and before said County and State, by Brian K. West, on February 28, 2024.

Marilyn Michelle Caldwell
Notary Public

My Commission Expires May 5, 2027

Notary ID Number KYNP71841





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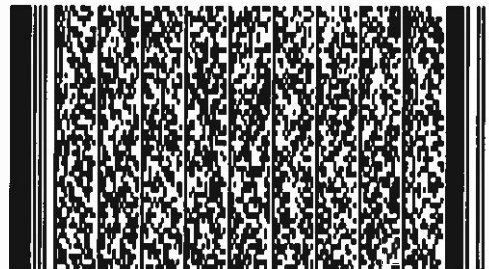
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E-Signature Summary

E-Signature 1: Heather M. Whitney (HMW)
 February 28, 2024 07:50:11 -8:00 [290AC7B2A352] [167.239.221.107]
 hmwhitney@aep.com (Principal) (Personally Known)

E-Signature Notary: Marilyn Michelle Caldwell (MMC)
 February 28, 2024 07:50:11 -8:00 [145CF8A3657B] [167.239.221.101]
 mmcaldwel@aep.com
 I, Marilyn Michelle Caldwell, did witness the participants named above electronically sign this document.



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VERIFICATION

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

Heather M. Whitney
Signed on 2024.02.28 02:56:11 -0500

Heather M. Whitney

Commonwealth of Kentucky)
)
County of Boyd)

Case No. 2024-00016

Subscribed and sworn to before me, a Notary Public in and before said County and State, by Heather M. Whitney, on February 28, 2024.

Marilyn Caldwell
Signed on 2024.02.28 02:56:11 -0500

Notary Public

MARILYN MICHELLE CALDWELL
ONLINE NOTARY PUBLIC
STATE AT LARGE KENTUCKY
Commission # KYNP71841
My Commission Expires May 05, 2027
Notary Stamp 2024.02.28 02:56:11 PST

Notarial act performed by audio-visual communication

My Commission Expires May 5, 2027

Notary ID Number KYNP71841

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