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 Certain Regulatory And Accounting Treatments; and (4) All Other Required Approvals And Relief.	: : : : :	**Case No. 2025-00257**

INITIAL BRIEF OF KENTUCKY INDUSTRIAL UTILITY CUSTOMERS, INC.

Kentucky Industrial Utility Customers, Inc. ("KIUC") submits this Initial Brief in support of the Settlement Agreement filed by Kentucky Power Company ("Kentucky Power" or "Company") on January 9, 2026 ("Settlement").

BACKGROUND

On August 29, 2025, Kentucky Power filed an Application to increase its rates in the above-captioned docket. On September 5, 2025, KIUC filed a motion to intervene, which the Commission granted on September 30, 2025. The Commission accepted the Company's Application for filing on May 30, 2025.

Following the Commission's issuance of a procedural schedule on September 11, 2025, KIUC, other intervenors, and Commission Staff issued several rounds of data requests, to which the Company filed responses into the record. On November 17, 2025, KIUC filed the direct testimony and exhibits of its witnesses, which were sponsored jointly with the Attorney General of the Commonwealth of Kentucky, by and through his Office of Rate Intervention ("AG"). On December 8, 2025, AG-KIUC filed responses to data requests from the Company and Commission Staff. The Company filed its rebuttal testimony on December 22, 2025.

On January 9, 2026, Kentucky Power filed the Settlement, which was joined by KIUC and Kentucky Solar Energy Industries Association, Inc. ("KYSEIA"). An evidentiary hearing was held from January 13, 2026 through January 15, 2026. The record is now before the Commission for its ultimate determination.

ARGUMENT

The Commission Should Approve The Settlement Without Modification.

Under normal circumstances, we would characterize the Settlement as a "*home run*" for consumers, especially residential consumers, because it is more favorable than the litigation position of the AG-KIUC witnesses. KIUC pursued a settlement with Kentucky Power based upon forty years of Commission precedent. However, we recognize that circumstances may not be normal.

The Settlement significantly reduces the rate increase for Kentucky Power's customers, lowering it from the Company's proposed $95.558 million to $77.4 million.[1] This significant reduction is achieved by accepting almost all of the revenue requirement adjustments proposed by the AG-KIUC witnesses. These include adjustments to the Company's rate base (e.g. inventory and vegetation management adjustments as well as net operating loss carryforward exclusions), operating expenses (e.g. depreciation, pension, retirement, incentive compensation, miscellaneous expense, and property tax adjustments), cost of capital (e.g. reducing the Company's return on equity ("ROE") from 10% to 9.8% and a short-term debt correction), and through modifications to the new Generation Rider (e.g. reducing ROE to 9.7% and adjusting depreciation expense and property tax).[2] In total, these stipulated adjustments encompass

[1] Settlement at 3; Testimony of Tanner S. Wolffram on behalf of Kentucky Power Company in Support of Settlement Agreement ("Wolffram Settlement Testimony") at 5:6-6:2 and Settlement at 3-4. Of this increase, $58,730,654 would be recovered through base rates and $18,669,720 would be recovered through the new Generation Rider.
[2] Wolffram Settlement Testimony at 4-8 and 10-11 and Settlement at 4-8 and 21.

nearly all of the revenue requirement recommendations set forth in the intervenor testimony in this case, as shown in the following chart.[3]

Line		KPCo As-Filed	Joint Intervenors[1]	AG-KIUC	Settlement
1	**Company's Filed Position**	**95.558**			
2	Rate Base				
3	Fuel Inventory			(0.914)	(0.914)
4	Materials & Supplies Inventory			(0.207)	(0.207)
5	Deferred Tax Asset Federal NOL ADIT			(4.110)	(4.110)
6	Deficient Federal NOL ADIT			(0.885)	(0.885)
7	Capital Increase to TOR			(1.646)	(1.646)
8	Operating Income				
9	Incentive Compensation Expense Tied to Financial Performance			(1.842)	(1.842)
10	SERP Expense			(0.144)	(0.144)
11	401(k) Matching Expense for Employees Who Also Participate in Pension Plan			(1.943)	(1.943)
12	Correct Property Tax Expense			(0.320)	(0.320)
13	Defer Pension Settlement Accounting Expenses for AEPSC Employees and Amortize Over 12 Years			(0.985)	(0.985)
14	Remove Depreciation Expense - Capital Increase for TOR Vegetation Management			(0.588)	(0.588)
15	Reduce Depreciation Expense to Remove Terminal Net Salvage - Big Sandy			(1.011)	(1.011)
16	Reduce Depreciation Expense to Remove Interim Retirements and Interim Net Salvage - Big Sandy			(0.779)	
17	Reduce Depreciation Expense to Remove Interim Retirements and Interim Net Salvage - Mitchell			(2.793)	(2.793)
18	Reduce Depreciation Expense Removal to Recover in Generation Rider - Mitchell			1.190	1.190
19	Remove EEI and Kentucky Chamber of Commerce Dues			(0.113)	(0.113)
20	Increase Non-Major Storm Expense				2.000
21	Cost of Capital				
22	Correct Small Error of 0.0004% in the Short-Term Debt Rate			(0.075)	(0.075)
23	Reduce Return on Equity from 10% to 9.5%[2]			(5.502)	(2.15)
24	**Total Adjustments to KPCo Base Rate Request**			**(22.667)**	**(16.539)**
25	Generation Rider				
26	Correction to property tax expense - to be recovered through base rates			(0.195)	(0.195)
27	Reduce Depreciation Expense to Remove Interim Retirements and Interim Net Salvage - Mitchell			(1.185)	(1.185)
28	Reduce Return on Equity from 10% to 9.5%[2]			(0.393)	(0.24)
29	**Total Adjustments to Generation Rider Rate Request**			**(1.773)**	**(1.619)**
30	**Total Rate Increase**	**95.558**		**71.118**	**77.400**
31	**DTL amortization of $20M annually**				**(20.000)**
32	**Rate Increase after DTL Credit Rider**				**57.400**
33	**Additional Residential DTL Amortization**				**(5.000)**
34	**Total Rate Increase after Year 1 DTL Amortization/Credit Rider**				**52.400**

1 No revenue requirement recommendations
2 AG-KIUC position reduces ROE to 9.5%, settlement counter includes 9.8% ROE for base rates and 9.7% ROE for the Generation Rider

[3] Wolfram Settlement Testimony, Settlement at 4-8; Hearing Tr. (January 13, 2026) at 3:42 pm. The adjustments not reflected in the Settlement include a reduction in the Company's return on equity to 9.5% in both base rates and the Generation Rider and a reduction in depreciation expense to remove interim retirements and interim net salvage for Big Sandy. The Settlement also increases the non-major storm expense.

The Settlement therefore approximates the testimony position of intervenors with respect to a fair, just, and reasonable revenue requirement for the Company.

Further, the Settlement provides an additional $40 million to customers over two years through the Deferred Tax Liability ("DTL") Rider credits.[4] In year one, there will be a system-wide $20 million DTL Rider credit, plus an additional $5 million directly assigned to the Residential Class. In year two, the DTL Rider credit will be $12.5 million on a system-wide basis, plus an additional $2.5 million directly assigned to the Residential Class. Therefore, over two years, residential customers will receive their proportional share of $37.5 million plus an additional $7.5 million.[5]

These DTL Rider credits are made possible by the Company's agreement to accelerate the flow-through of federal tax credits owed to customers. To facilitate this rate mitigation, Kentucky Power will establish a new DTL Regulatory Asset that will earn a return at the Company's authorized after-tax weighted average cost of capital ("WACC") until incorporated into future base rates.[6] A carrying charge at the WACC rate (7.48%) benefits customers since it is much lower than other borrowing rates that Kentucky Power's customers are subject to more broadly (e.g., credit card interest rates set over 20%).[7] This carrying charge differential means that giving consumers their money back sooner is financially beneficial. And if the DTL Regulatory Asset is ultimately securitized as contemplated by the Settlement, the carrying charge rate would be debt only (not WACC), which would be even lower.[8]

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[4] Wolfftram Settlement Testimony at 12:7-13:11; Settlement at 8-9. The current DTL balance is approximately $60 million, and the Settlement utilizes only $40 million.
[5] Id.
[6] Settlement at 9.
[7] Wolfram Settlement Testimony, TSW-S1 at 27 (Settlement Agreement Ex. 4); Hearing Tr. (January 13, 2026) at 4:02 pm.
[8] Hearing Tr. (January 13, 2026) at 4:03 pm.

The combination of the stipulated revenue requirement adjustments and the DTL Rider credits results in a first year revenue requirement of approximately $52.4 million.[9] For residential customers, the first year rate increase is reduced to less than half of Kentucky Power's as-filed position (7.0% as compared to the Company's proposed 15.0%).[10] In the second year the reduction in the DTL Credit will effectively be a rate increase. For the residential class, the phased-in rate increase in the second year will be 2.1%.[11] The elimination of DTL Rider credits in year three will similarly result in a phased-in rate increase for residential customers of 2.8%.[12] The Settlement, therefore, provides important rate relief for Kentucky Power's customers that may otherwise be unavailable.[13]

The modified Generation Rider recommended in the Settlement benefits customers as well. The Generation Rider will collect the non-environmental Mitchell capital plant balances currently in base rates, as well as the capital costs associated with making the investments necessary to continue receiving capacity and energy from Mitchell beyond December 31, 2028.[14] Using a rider rather than base rates to recover the Mitchell plant costs helps facilitate securitization of those costs. Instead of having to file a new base rate case to reflect the issuance of securitization bonds, the Company could simply cease collection of the securitized costs.[15] The Settlement also includes several nuts-and-bolts ratemaking issues. For example, Kentucky Power agrees to set its Industrial General Service ("IGS") energy rates to recover only variable costs, which is consistent with principles of cost causation.[16] This IGS rate design was recommended by AG-KIUC witness Wellborn, has no impact on other rate schedules, and is

[9] Wolffram Settlement Testimony at 6:3-18; Settlement at 21.
[10] Wolffram Settlement Testimony, TSW-S1 at 26 (Settlement Agreement Ex. 3).
[11] Id.
[12] Id.
[13] Wolffram Settlement Testimony at 16:13-16.
[14] Direct Testimony of Tanner S. Wolffram on behalf of Kentucky Power Company ("Wolffram Direct") at 18:3-25:10; Settlement at 10-11.
[15] Wolffram Direct at 22:16-23:3.
[16] Wolffram Settlement Testimony at 14:8-13; Settlement at 8.

revenue-neutral to the Company.[17] But as high-load-factor IGS customers, this rate design is important to KIUC's members. Additionally, the Company makes several concessions to benefit customers interested in installing distributed generation resources, including cogeneration ("COGEN") and small power production ("SPP") resources. These concessions include removing the COGEN/SPP minimum size threshold, using AMI meters for meter replacements, modifications to Tariff COGEN/SPP enrollment procedures, forms, study requirements, and application fees, establishing a timeline for interconnection studies, and allowing the use of leased systems to participate in net metering and COGEN/SPP.[18] The Settlement, therefore, includes both significant monetary and non-monetary benefits to Kentucky Power's customers and should be approved as filed.

CONCLUSION

The combination of a reduced revenue requirement that adopts almost all of the AG-KIUC witness recommendations; *plus* a phased-in rate increase through the use of DTL Rider credits; *plus* the possibility of rate reductions due to securitization; *plus* the possibility of new large load additions including data centers, may provide the rate relief and ray of hope that the Commission seeks. KIUC recommends that the Settlement be approved without modification.

Respectfully submitted,

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February 3, 2026

[17] Wellborn Direct Testimony at 19-24.
[18] Wolffram Settlement Testimony at 14:14-15:32; Settlement at 11-13.