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FILED VIA ELECTRONIC TARIFF FILING SYSTEM

Justin M. McNeil
Executive Director
Public Service Commission
211 Sower Boulevard
P.O. Box 615
Frankfort, KY 40602-0615

RE: **Kentucky Power Company's Second Revised Tariff Sheet 31-2**
Tariff Purchase Power Adjustment ("Tariff P.P.A.")

Dear Mr. McNeil:

Kentucky Power Company hereby files a redline and annotated version of P.S.C. KY. NO. 14 2nd Revised Tariff Sheet 31-2 (Tariff P.P.A.) to reflect updated annual Tariff P.P.A. rates.

"**KPCo_PPA_2026_Annual_Update**" also is being uploaded with the tariff sheet. It includes the calculations supporting the updated Tariff P.P.A. rates.

These updated Tariff P.P.A. rates are effective for service rendered on and after September 29, 2026. These revised tariff sheets and supporting files also are being filed in Case No. 2025-00257.

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

The Commission's March 4, 2025 Order in Case No. 2023-00318 required the Company to provide additional information with this 2026 annual filing, including:

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

- The impact of using forecasted billings determinants and their role in mitigating under-recoveries.[1]

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

The Company provides the following information in response:

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

The Company's inability to track and recover actual PJM LSE OATT expense through Tariff P.P.A. results in a negative financial impact to Kentucky Power. Because these expenses continue to increase year-over-year, the difference in the actual expenses and the amount collected through base rates results in stranded costs. The amount of such stranded costs from July 2025 through June 2026 is $7.4 million. Please see "**Attachment1**" for the monthly breakdown of this amount.

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

a) An erosion of net income;

b) The erosion of net income in turn results in a reduction to the Company's earned return on equity ("ROE"), which can increase the risk profile of the Company to investors, including debt holders or lenders. PJM LSE OATT costs that are above the amount in base rates represents an approximate 57 basis point reduction to the Company's ROE (4.06% at close of June 2026);

c) An approximate 63 basis point negative impact to the Company's funds from operation ("FFO") to debt ratio; and

d) Continued erosion of net income could result in more frequent rate cases and an increased cost of borrowing, both of which ultimately result in increased costs to customers.

In Kentucky Power's most recent base rate case (Case No. 2025-00257) the Commission denied the PJM LSE OATT expense adjustment. This denial was premised on the concern that actual costs did not ultimately align with the previously forecasted adjustment. The denial of this adjustment remains subject to rehearing. In testimony supporting rehearing, Kentucky Power stated that the Commission's concern would be reasonably addressed by authorizing the Company to recover its actual PJM LSE OATT expense through a rider. The PJM LSE OATT expenses are material to the Company's financial metrics, volatile, and largely outside of the Company's control. It is reasonable for such costs to be tracked and recovered through a rider. Rider recovery ensures the Company is recovering its actual PJM LSE OATT expense and prevents customers from paying more than actual costs.

2. <u>The impact of using forecasted billings determinants and their role in mitigating under-recoveries.</u>

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

A comparison of historical vs. forecasted billing units is provided on the "Input Sheet" tab of "KPCo_PPA_2026_Annual_Update." Whether the forecasted units are an increase or reduction compared to historical depends on the customer class. For those customer classes with forecasted billing units that are less than the historical billing units, the rates produced by using forecasted units is higher – as the revenue requirement is being "spread" over less units. Conversely, for those customer classes with forecasted billing units that are more than the historical billing units, the rates produced by using forecasted billing units is less – as the revenue requirement is being "spread" over more units.

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

<u>Information Required by the Commission's May 28, 2026 Order in Case No. 2025-00307</u>

The Commission's May 28, 2026 Order in Case No. 2025-00307 required the Company to provide information on the impact of changing the deferral accounting methodology with this 2026 annual filing. Kentucky Power sought and the Commission granted rehearing to review the Commission's Order in Case No. 2025-00307. Rehearing is pending.

In response to the Commission's directive, tab "PPA Form 3.0a" has been modified and provides the going forward deferral accounting methodology (rows 6 through 9) and the resultant monthly and cumulative profit or loss (rows 36 and 37 respectively) that result from the ordered change. As of June 2026 close, there is a cumulative loss of $627,798. As result of the change in deferral accounting methodology, either the Company or customers bear the risk associated with the variable and unpredictable expenses recovered through Tariff P.P.A.

On June 25, 2026 an informal conference was held, and Kentucky Power provided additional explanation regarding the deferral accounting methodology under the previously authorized methodology and as modified by the May 28, 2026 Order.

The Company offers to meet with Commission Staff via an informal conference to the extent it would be helpful.

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

Very truly yours,

STITES & HARBISON PLLC

Kenneth J. Gish, Jr.

KJG