COMMONWEALTH OF KENTUCKY

BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

Electronic Application Of Kentucky Power Company For 1) A Certificate Of Public Convenience And Necessity To Construct A Mechanical Draft Cooling Tower At The Mitchell Plant 2) Approval Of Certain Regulatory And Accounting Treatments, And 3) All Other Required Approvals And Relief	))))))	Case No. 2026-00001

Kentucky Power Company's Notice of Filing of West Virginia Order

In accordance with ordering paragraph 11 the Kentucky Public Service Commission's October 16, 2026 Order in this proceeding, Kentucky Power Company files as **EXHIBIT A** to this Notice a copy of the October 16, 2026 final Order of the West Virginia Public Service Commission granting Appalachian Power Company and Wheeling Power Company a certificate of public convenience to construct a new mechanical-draft cooling tower for Mitchell Unit 2 and partially demolish the existing Unit 2 cooling tower.

Respectfully submitted,



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EXHIBIT A

PUBLIC SERVICE COMMISSION
OF WEST VIRGINIA
CHARLESTON

At a session of the PUBLIC SERVICE COMMISSION OF WEST VIRGINIA in the City of Charleston on the 16th day of October 2026.

CASE NO. 26-0130-E-CN

APPALACHIAN POWER COMPANY and
WHEELING POWER COMPANY
Application for a Certificate of Public Convenience and Necessity to Construct a Mechanical Draft Cooling Tower at the Mitchell Power Plant.

COMMISSION ORDER

The Commission grants Appalachian Power Company (APCo) and Wheeling Power Company (WPCo) (collectively the Companies), a certificate of public convenience and necessity (CPCN) to construct a new mechanical-draft cooling tower for Mitchell Unit 2 and partially demolish the existing Unit 2 cooling tower. The Commission denies the Companies' proposed construction work in progress rate treatment (CWIP) and requires allowance for funds used during construction treatment (AFUDC). The Companies may recover approved project costs through a project-specific surcharge effective no earlier than the date the new cooling tower is completed and placed in service or through their next base rate case. Depreciation of the new cooling tower shall begin when it is completed and placed in service and shall extend over twenty-five years.

BACKGROUND

On February 18, 2026, the Companies filed an application pursuant to W. Va. Code § 24-2-11 for a CPCN to construct a mechanical-draft cooling tower for Mitchell Unit 2 and partially demolish the existing tower. WPCo operates the Mitchell Power Plant and owns an undivided fifty-percent interest. Kentucky Power Company owns the remaining fifty-percent interest. APCo is a co-applicant because APCo and WPCo have common rates.[1]

The existing cooling tower has structural deformations, cracking, and concrete deterioration. The Companies began reinforcement work in 2024 but halted that work in July 2025 after discovering additional deterioration and

[1] Application at Bates 4–5.

difficulties with the proposed repairs. They evaluated expanded reinforcement, retiring Unit 2, building a new mechanical-draft cooling tower, and shortening the existing tower with additional reinforcement. The Companies selected the new mechanical-draft tower and partial demolition of the existing tower.[2]

The original estimated project cost was approximately $191 million, with approximately $95.5 million attributable to WPCo's interest.[3] A $51 million United States Department of Energy (DOE) award reduces the broadly stated net project estimate to approximately $140 million, or $70 million for the West Virginia share.[4] The Companies anticipate placing the new cooling tower in service in the second quarter of 2028 and completing partial demolition of the existing tower in 2029.[5]

The Companies request recovery through a Construction Surcharge, including a return on CWIP. They propose depreciation through 2040.[6]

Commission Staff (Staff) recommends AFUDC and a Mitchell Cooling Tower Surcharge beginning when the project enters service.[7]

West Virginia Energy Users Group (WVEUG) favors AFUDC and recovery through the next base rate case, with post-in-service deferrals.[8]

The Consumer Advocate Division (CAD) opposes accelerated surcharge recovery and favors base-rate recovery and depreciation over the new tower's expected twenty-five-year useful life.[9]

The West Virginia Coal Association (WVCA) supports issuance of the certificate but takes no position on the cost-recovery mechanism.[10]

Sierra Club takes no position on issuance following the DOE award but requests conditions concerning the award, future expenditures, and resource planning.[11]

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[2] Id. at Bates 6-8.
[3] Id. at Bates 10.
[4] Hearing Transcript (TR) at pp. 18-20.
[5] Companies Brief at p. 8.
[6] Id. at p. 3.
[7] Staff's Initial Brief at pp. 5-7.
[8] Brief of the West Virginia Energy Users Group at Bates 17.
[9] CAD's Statement of Position at pp. 4-6.
[10] Brief of the West Virginia Coal Association, Inc. at Bates 9.
[11] Sierra Club's Post-Hearing Brief at pp. 2-6.

The Commission conducted an evidentiary hearing on September 9, 2026. The Companies subsequently filed post-hearing exhibits, and the Companies, Staff, CAD, WVEUG, Sierra Club, and WVCA filed briefs or position statements on September 28, 2026.

DISCUSSION

Project need

The record establishes the need to address structural deficiencies in the existing Unit 2 cooling tower. Staff's engineering witness agreed that the new mechanical-draft tower is the best of the evaluated alternatives and found no reason to dispute the detailed construction estimate.[12]

The Commission finds that public convenience and necessity require the proposed construction and partial demolition. The certificate should be granted. Approval of construction, however, does not establish that every expenditure ultimately incurred is recoverable or approve the Companies' proposed revenue requirement.

Construction financing

The Companies proposed to include CWIP in rate base and collect a return during construction. They argued that this treatment reduces the completed asset's capitalized cost, improves financial metrics, and moderates later rate increases.[13]

The Commission recognizes those asserted benefits, and we have authorized construction surcharges in the past. However, current rate recovery of financing costs during construction allowed in prior cases does not require the Commission to allow such current rate recovery for all construction projects. The Commission has explained its decisions to allow current rate recovery on certain environmental compliance projects and on large and extended construction time projects in prior cases. Specific facts and circumstances guide our decisions, whether the allowance of a current return on CWIP is related to environmental control projects mandated by governmental actions, or on projects that are so large and will be in progress over such a long period of time that we determine that a current return is in the public interest.

[12] Staff JWE-D at pp. 4-8
[13] Companies Brief at pp. 3-4.

In one of the first cases in which the Commission departed from a plant-in-service rate base and allowed a portion of CWIP, the allowance was driven by the magnitude and growth of the non-cash AFUDC that the Commission determined was negatively affecting Appalachian Power Company based on evidence that it was penalized by exclusion of the AFUDC from coverage calculations. We explained the circumstances that led to allowing CWIP in rate base as follows:

> The Commission has observed over the past several years that Appalachian has had net non-operating income, primarily Allowance for Funds Used During Construction (AFUDC), which exceeded 10 percent of net operating income before federal income tax. Since for coverage purposes Appalachian is limited by its mortgage indenture from including in "defined earnings" net non-operating income in excess of 10 percent of pre-tax net operating income, the excess of net non-operating income over 10 percent of pre-tax net operating income has not been available to provide coverage for debt interest, and, to that extent, the company's ability to raise capital externally has been diminished.
>
> Since the company is in the midst of a capital construction program that will increase its total assets by almost two-thirds in a four-year period, a program that has been examined by the Commission and, to the extent necessary, certified by the proper regulatory authorities, and since it needs additional coverage in order to finance its construction program, we will make an exception to the normal rule and allow $30,750,000 of non-pollution control related CWIP in the rate base in this case.
>
> The effect of this inclusion is to allow the company to earn a current cash return on such CWIP which will make the associated return, for the first time, available for coverage purposes...[14]

[14] Commission Case No. 9091, May 3, 1978 Comm'n Order at 9.

In a similar case, the Commission allowed CWIP in rate base due to exigent circumstances and "financial difficulties" facing Monongahela Power Company.

> Although we recognize the serious financial difficulties in which Monongahela Power is presently entangled and we will give the company some assistance in order to aid in its financial recovery, this order today is in no way intended to be interpreted as a departure from the historical ratemaking principles upon which this Commission relies on a regular basis.
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> The Commission is of the opinion and finds that it is necessary to add an additional $35 million of construction work in progress to Monongahela's rate base as of January 1, 1978 (the beginning of the tier II rate period) in view of the company's coverage and cash requirements for early 1979. This unusual step is taken in view of the exigencies of this case and is not to be construed as a change in our historic position on CWIP in all cases. Monongahela will be required to cease capitalization of AFUDC on this undesignated CWIP as of January 1, 1978.[15]

There have been other instances of allowing CWIP in rate base for financial relief purposes, to recognize other factors such as environmental control requirements, or to prevent the accumulation of excessive AFUDC over a long period of time due to an unusually extended construction period, as occurs for some large transmission projects and new power plant projects.

The Commission is not persuaded that current rate recovery of financing costs during construction is warranted for this project. The anticipated period before the new tower enters service is relatively short, and the Companies have not established that use of AFUDC would increase their AFUDC revenue to a level that would significantly reduce interest coverage and prevent them from financing or completing the necessary work. APCo witness Randall Short acknowledged that proceeding without the requested surcharge was an option and that the project would likely proceed because it is necessary.[16]

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[15] Commission Case No. 8809, December 28, 1978 Comm'n Order at 5.
[16] TR at pp. 32-34.

Under the circumstances of this case, accumulating AFUDC in accordance with our accounting requirements, as outlined in the Uniform System of Accounts, reasonably provides recovery of qualifying construction financing costs through the recording of AFUDC income during construction while matching rate recovery from customers through operating income more closely with service from the completed facility. The prior approval of CWIP for other projects does not require the same treatment here. The Commission therefore denies inclusion of this project's CWIP in rate base for current recovery and requires capitalization of qualifying financing costs through AFUDC under applicable accounting requirements.

Recovery after entry into service

The Commission finds that recovery of prudently incurred and used-and-useful project costs may be considered either through a future project-specific Mitchell Cooling Tower rate increment filing or in a future base rate proceeding. The Commission determines that upon completion of the project, the current rate recovery should be allowed. At that time, customers will be receiving the benefit of continued operation of the plant, unhindered by any cooling-related issues. Even if the plant is not economical 100 percent of the time, it provides reliability benefits to customers and capacity that qualifies to meet the companies' PJM capacity requirements, eliminating the need to acquire substitute capacity.

In addition to reliability and meeting PJM capacity requirements, operating the plant, when economical, will result in lower customer rates through lower energy costs and margins earned on sales into the PJM energy market. Those customer benefits do not require waiting for the next base rate case because they will be reflected in Expanded Net Energy Charges (ENEC) rates. Under these circumstances, it is reasonable for the Commission to authorize a rate increment to cover the capital costs related to the cooling tower investment on a current basis and authorize the Companies to file for a current rate increment to cover those capital costs. To reduce the lag between AFUDC and current recovery in rates, the Commission will base the current rate increment on actual costs incurred as of the in-service date, and the Companies may defer depreciation expense on completed construction until the depreciation is included in the current rate recovery increment.

The relevant trigger for recovery of the completed tower investment is the new tower's entry into service, not completion of every demolition activity. The Companies must distinguish the costs of the completed facility from costs associated with work remaining on the existing tower. Any request to recover

demolition or other remaining project costs must separately identify those amounts and their proposed accounting treatment.

If the Companies elect base-rate recovery, they may include eligible costs in their next base rate case, subject to the applicable test-year requirements and Commission review.

Depreciation life

The new mechanical-draft cooling tower has an expected useful life of approximately twenty-five years. CAD proposed that recovery follow that life rather than the existing plant's 2040 depreciation horizon.[17]

The Commission agrees that a twenty-five-year depreciation period is appropriate based on the evidentiary record presently before it and does not constitute a determination regarding the useful life of Mitchell Unit 2 or the ratemaking treatment that may apply if the facility is retired before the end of that period for this new asset. The existing depreciation horizon does not establish that the new tower will cease providing service in 2040. Accelerating depreciation to that date would impose higher charges on customers in the tower's early years of service. The new tower's depreciable cost, including properly capitalized AFUDC and reflecting applicable funding adjustments, shall therefore be depreciated on a straight-line basis over twenty-five years beginning in conjunction with current rate recovery as discussed above.

FINDINGS OF FACT

1. The existing Mitchell Unit 2 cooling tower has structural deficiencies requiring corrective action.[18]

2. Construction of a new mechanical-draft cooling tower with partial demolition of the existing tower is the best reasonable alternative presented in the record for addressing those deficiencies while preserving Unit 2's operation.

3. The Companies' original estimated gross full-project cost is approximately $191 million.

4. The project is expected to receive approximately $51 million in Department of Energy funding, which reduces the amount otherwise required from customers.[19]

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[17] CAD's Statement of Position at p. 4.
[18] Application at Bates 6.
[19] TR at pp. 18-20.

5. The Companies anticipate the new tower will enter into service in the second quarter of 2028 and completion of partial demolition in 2029.[20]

6. AFUDC provides for recognition of qualifying financing costs through capitalizing those costs during construction without current collection from customers.

7. The new mechanical-draft cooling tower has an expected useful life of approximately twenty-five years.[21]

CONCLUSIONS OF LAW

1. The Companies have established public convenience and necessity for the proposed construction and partial demolition under W. Va. Code § 24-2-11. A certificate should be granted for that project.

2. In exercising its authority under W. Va. Code §§ 24-1-1 and 24-2-3, the Commission may determine the appropriate accounting and recovery treatment while considering the interests of current and future customers and the utilities.

3. The Companies have not established that current recovery of a return on CWIP is necessary to finance or complete the project, and the record does not demonstrate a sufficient basis for adopting their requested construction-period recovery.

4. The Companies' proposed CWIP rate treatment should be denied. Qualifying construction financing costs should be capitalized through AFUDC under applicable accounting requirements.

5. The Commission has authority under W. Va. Code §§ 24-1-1 and 24-2-4 to consider future requests for cost recovery through either a Mitchell Cooling Tower current rate increment approved outside of a base rate case, or alternatively, eligible costs may be considered in the Companies' next base rate case

6. Depreciation of the new cooling tower should begin when it is placed in service, and current rate recovery is authorized. Depreciation should be

[20] Companies Brief at p. 8.
[21] Application at Bates 125; APCo/WPCo NMC-D at p. 8.

calculated over twenty-five years. The recovery mechanism does not alter that commencement date or period.

7. Approval of the certificate does not establish a finding that any future project costs are prudent, does not guarantee recovery of any particular investment balance, and does not predetermine the ratemaking treatment of any costs associated with abandonment, impairment, retirement, replacement, or reduced utilization of the facility.

8. Any federal grant proceeds, incentives, reimbursements, insurance recoveries, or similar third-party funding associated with the project shall be reflected as an offset to project costs before determining any amount recoverable from customers.

ORDER

IT IS THEREFORE ORDERED that Appalachian Power Company and Wheeling Power Company are granted a certificate of public convenience and necessity pursuant to W. Va. Code § 24-2-11 to construct a new mechanical-draft cooling tower for Mitchell Unit 2 and partially demolish the existing Unit 2 cooling tower as described in the Application, subject to this Order.

IT IS FURTHER ORDERED that the Companies' request to include project construction work in progress rate treatment in rate base for current recovery of a return during construction is denied.

IT IS FURTHER ORDERED that the Companies shall account for qualifying construction financing costs through allowance for funds used during construction treatment under applicable accounting requirements. Allowance for funds used during construction treatment on the new tower shall cease when the tower is completed and placed in service.

IT IS FURTHER ORDERED that Appalachian Power Company and Wheeling Power Company may file a future petition seeking recovery of prudently eligible project costs through a Mitchell Cooling Tower current rate increment effective no earlier than the date the new mechanical-draft cooling tower is completed and placed in service, or may seek recovery of eligible costs through their next base rate case.

IT IS FURTHER ORDERED that any future cost-recovery filing shall identify all offsetting grants, reimbursements, insurance proceeds, salvage value, and third-party contributions associated with the project and demonstrate that customers receive the full benefit of such offsets.

IT IS FURTHER ORDERED that depreciation of the new mechanical-draft cooling tower shall begin when the tower is completed and placed in service and a current rate recovery has been approved. Depreciation shall be calculated on a straight-line basis over twenty-five years, regardless of the capital cost recovery mechanism, unless the Commission later approves another depreciation period.

IT IS FURTHER ORDERED that Appalachian Power Company and Wheeling Power Company shall promptly file notice of the new tower's entry into service and shall maintain records separately identifying completed tower costs, remaining project work, federal funding, and related accounting entries.

IT IS FURTHER ORDERED that Appalachian Power Company and Wheeling Power Company shall promptly notify the Commission of any material change affecting availability of the Department of Energy award and shall identify the effect on project funding and customer costs.

IT IS FURTHER ORDERED that the Companies shall notify the Commission within thirty days of becoming aware that projected project costs are expected to exceed the currently estimated project cost by ten percent or more. Such filing shall explain the reasons for the increase, provide an updated project schedule, identify impacts to customers, and describe any efforts to mitigate additional costs.

IT IS FURTHER ORDERED that upon entry of this Order this case shall be removed from the Commission docket of open cases.

IT IS FURTHER ORDERED that the Executive Secretary of the Commission serve a copy of this Order by electronic service on all parties of record who have filed an e-service agreement, by United States First Class Mail on all parties of record who have not filed an e-service agreement, and on Commission Staff by hand delivery.

A True Copy, Teste,

Karen Buckley

Karen Buckley, Executive Secretary

RAB/bj
260130cd

Public Service Commission of West Virginia

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October 16, 2026

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RE: Case No. 26-0130-E-CN
Appalachian Power Company and Wheeling Power Company

Gentlemen:

Enclosed is a copy of a Commission Order issued today in the above-styled proceeding. **Please note all other parties have agreed to receive this order via electronic notification.**

Documents submitted to the Public Service Commission of West Virginia may be 1) uploaded to its public website, 2) subject to public disclosure under the West Virginia Freedom of Information Act, and/or 3) subject to disclosure under the West Virginia Open Governmental Proceedings Act. Do not submit personal information with your filings. The Commission is not responsible for confidential or personal information included with your submission. A list of personal information is available here: http://www.psc.state.wv.us/Privacy_Policy/WhatisPII.htm

If you have provided an email address you will automatically receive notifications as documents are filed in this proceeding. The email notifications allow recipients to view a document within an hour from the time the filing is processed. If you have not provided your email address, please send an email to caseinfo@psc.state.wv.us and state the case number in the email subject field. **You are encouraged to file an Electronic Mail Agreement which allows the commission to serve all orders issued in this matter via electronic notification.**

Sincerely,

Karen Buckley

Karen Buckley
Executive Secretary

KB/al
Enc.