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

JOINT REPLY BRIEF OF ATTORNEY GENERAL AND KENTUCKY INDUSTRIAL UTILITY CUSTOMERS, INC.

The intervenors, the Attorney General of the Commonwealth of Kentucky, through his Office of Rate Intervention ("OAG"), and Kentucky Industrial Utility Customers, Inc. ("KIUC") hereby submit their Joint Reply Brief in the above-styled matter.

1. There is No Evidence That AFUDC Treatment Would Materially Impact the Company's Financial Integrity

For the first time in the prosecution of this docket, Kentucky Power Company ("KPCo" or "the Company") in its Initial Brief claims that AFUDC treatment for funds used during the construction of the proposed new Mitchell Unit 2 Cooling Tower would have a materially adverse effect on the Company's financial condition.[1] This is false. The record contains zero evidence of any such effect, and thus the Company cannot meet its burden of proof in this regard. Furthermore, the Company historically has used the AFUDC accounting treatment for all of its qualifying capital projects in accordance with GAAP, the FERC USOA, and ratemaking precedent, so any change to convert a qualifying CWIP project from AFUDC treatment to CWIP in rate base treatment, such as is sought here, is required to be

[1] KPCo Initial Brief at 25-28.

justified and approved by the Commission. Moreover, any such change from AFUDC to CWIP in rate base is contrary to the actions of Kentucky Utilities Co., Louisville Gas & Electric Co., Duke Energy Kentucky, Inc., and Atmos Energy Corporation, among other utilities in the state, which have been utilizing AFUDC for capital projects because it is lower cost than CWIP in rate base. As OAG-KIUC witness Kollen testified:

> ". . . the Company's historic use of AFUDC is lower-cost than CWIP in rate base without an AFUDC offset on both a nominal and present value basis. This is due to a permanent tax penalty that imposes an unnecessary cost on customers over the service life of the assets. . . . The Company's attempt to transition from an AFUDC company to a CWIP company, at least with respect to the new Mitchell 2 cooling tower, stands in stark contrast to KU and LG&E, both of which have intentionally shifted, with Commission authorization, from CWIP companies to AFUDC companies on all of their new generating unit construction." [2, 3]

2. The Company's Gradualism Argument Fails to Support its Claim for CWIP Treatment

KPCo avers that its proposed CWIP treatment provides a more gradual rate impact for customers. However, this argument fails on several counts. First, regardless of whether there is a more gradual rate impact, the AFUDC approach is lower cost on a nominal and present value basis. Second, the Company's argument fails to address the fact that CWIP requires customers to pay for the financing costs during construction before the asset provides service, instead of as a cost of the asset paid for over the service life of the asset. Third, the CWIP in rate base approach will result in a series of rate increases starting this year and continuing through 2029 instead of a single rate increase in 2029. As discussed by OAG-KIUC witness Kollen, if the present AFUDC approach is maintained, the cumulative bill

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[2] Kollen Direct Testimony at 13-14.

[3] *See, e.g., In the Matters of: Applications of Kentucky Utilities Co. and Louisville Gas & Elec. Co. for an Adjustment of Rates,* etc., Case Nos. 2025-00113 and 2025-00114, Direct Testimony of Andrea M. Fackler, describing AFUDC treatment the Companies afforded to capital projects at their Mercer Solar, Mill Creek 5, Brown 12, Mill Creek 6, and the then-proposed Cane Run BESS projects. In those cases, KU-LG&E also removed the per books CWIP associated with those projects, on Schedules B-4 and B-4.1 since they were receiving AFUDC.

impact on residential rates would be $3.53 per month with no rate increases until 2029, whereas the impact would be $4.78 per month if CWIP in rate base is allowed with the series of rate increases starting this year and subsequent rate increases in 2027, 2028, and 2029:[4]

Kentucky Power Company
Comparison of Tariff G.R. Revenue Increases and Effects on Residential Rates
Kentucky Power Company v AG-KIUC
Mitchell 2 New Cooling Tower And Partial Demolition of Existing Cooling Tower Costs

	Company Requests ($)		AG-KIUC Recommendations ($)	
	Incremental KPCO Tariff G.R. Revenue Increases	Incremental Residential Monthly Bill Increases	Incremental KPCO Tariff G.R. Revenue Increases	Incremental Residential Monthly Bill Increases
2026	1,172,737	0.36	-	-
2027	4,659,384	1.44	-	-
2028	1,189,926	0.36	-	-
2029	8,486,506	2.62	11,466,710	3.53
Cumulative Through 2029	15,508,553	4.78	11,466,710	3.53

3. The Company Draws a False Distinction as to "Qualifying" CWIP Projects

There is no question that the Mitchell Unit 2 Cooling Tower is a qualifying CWIP project eligible for AFUDC. Only small dollar and short duration CWIP projects do not qualify for AFUDC. In the instant case, Mitchell Unit 2 Cooling Tower CWIP qualifies as an AFUDC project with no action required by the Commission. The Company bears the burden of providing sufficient evidence to justify an exception and transition from its current AFUDC treatment to CWIP in rate base for this project. KPCo has utterly failed to demonstrate why this exception is necessary, let alone reasonable. Moreover, the Commission should be hesitant to approve such an unwarranted exception, since it is likely the Company will argue that an exception in this case justifies an exception for larger CWIP projects, such as KPCo's pending application for new generation in Case No. 2026-00103.

[4] Kollen Direct at 5-6. Importantly, the federal grant discussed in the OAG-KIUC Initial Brief will reduce the average bill impact even more.

The Commission should decline the opportunity to fall prey to this likely outcome and defer this important decision to the pending application in Case No. 2026-00103 rather than effectively deciding this issue in the instant proceeding.

4. The Company Has Failed to Correct Tariff G.R.'s Revenue Requirement Formula

The Company's Initial Brief failed to address, let alone correct, the error in the revenue requirement formula in Tariff G.R. The OAG-KIUC demonstrated at hearing and in its Initial Brief that Tariff G.R. does not have the AFUDC offset as an addition to operating income as it agreed to include, and as ordered by the Commission in Case No. 2025-00257.[5] The fact the Company's Initial Brief failed to address this issue is a tacit admission that OAG-KIUC is correct on this issue. The Commission should require the Company to honor its word, and more importantly, to comply with the Commission's order in Case No. 2025-00257.

5. The Company's Initial Brief Also Failed to Address Certain Other Requests

KPCo's Initial Brief also failed to address or provide any support for the following requests included within its Application and/or witness direct testimony in this docket: (1) to defer incremental O&M expense and property tax expense;[6] (2) an accounting order to defer certain costs;[7] and (3) for new and higher depreciation rates solely for the Mitchell Unit 2 Cooling Tower. [8] The Commission should therefore interpret these failures as either a concession of these issues, or a failure by the Company to meet its burden of proof.

[5] OAG-KIUC Initial Brief at 10-13.
[6] OAG-KIUC Initial Brief at 14-15.
[7] OAG-KIUC Initial Brief at 14.
[8] OAG-KIUC Initial Brief at 13-14.

Respectfully submitted,

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Certificate of Service

Pursuant to the Commission's Orders in Case No. 2020-00085, and in accord with all other applicable law, Counsel certifies that an electronic copy of the forgoing was served and filed by e-mail to the parties of record.

This 28th day of August, 2026

Assistant Attorney General