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) AN ORDER APPROVING ITS 2017 ENVIRONMENTAL COMPLIANCE PLAN; (3) AN ORDER APPROVING ITS TARIFFS AND RIDERS; (4) AN ORDER APPROVING ACCOUNTING PRACTICES TO ESTABLISH REGULATORY ASSETS AND LIABILITIES; AND (5) AN ORDER GRANTING ALL OTHER REQUIRED APPROVALS AND RELIEF	)	CASE NO. 2017-00179

NOTICE OF FILING

Notice is given to all parties that the following materials have been filed into the record of this proceeding:

- The digital video recording of the evidentiary hearing conducted on December 6, 2017, December 7, 2017 and December 8, 2017 in this proceeding;

- Certification of the accuracy and correctness of the digital video recording;

- All exhibits introduced at the evidentiary hearing conducted on December 6, 2017, December 7, 2017 and December 8, 2017 in this proceeding;

- A written log listing, *inter alia*, the date and time of where each witness' testimony begins and ends on the digital video recording of the evidentiary hearing conducted on December 6, 2017, December 7, 2017 and December 8, 2017.

A copy of this Notice, the certification of the digital video record, and hearing log have been electronically served upon all persons listed at the end of this Notice. Parties desiring to view the digital video recording of the hearing may do so at:

https://psc.ky.gov/av_broadcast/2017-00179/2017-00179_06Dec17_Inter.asx

https://psc.ky.gov/av_broadcast/2017-00179/2017-00179_07Dec17_Inter.asx

https://psc.ky.gov/av_broadcast/2017-00179/2017-00179_08Dec17_Inter.asx.

Parties wishing an annotated digital video recording may submit a written request by electronic mail to pscfilings@ky.gov. A minimal fee will be assessed for a copy of this recording.

Done at Frankfort, Kentucky, this 15th day of December 2017.

Gwen R. Pinson

Gwen R. Pinson
Executive Director
Public Service Commission of Kentucky

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CERTIFICATE

I, Pamela Hughes, hereby certify that:

1. The attached DVD contains a digital recording of the Hearing conducted in the above-styled proceeding on December 6, 2017. Hearing Log, Exhibit List and Witness List are included with the recording on December 6, 2017.

2. I am responsible for the preparation of the digital recording.

3. The digital recording accurately and correctly depicts the Hearing of December 6, 2017.

5. The "Hearing Log" attached to this Certificate, accurately and correctly states the events that occurred at the Hearing of December 6, 2017, and the time at which each occurred.

Signed this 14th day of December, 2017.

Pamela Hughes

Pamela Hughes, Notary Public
State at Large
My Commission Expires: April 22, 2019

Date:	Type:	Location:	Department:
12/6/2017	General Rates	Hearing Room 1	Hearing Room 1 (HR 1)

Judge: Bob Cicero; Talina Mathews; Michael Schmitt
Witness: Stephen Barron; Richard Baudino; Douglas Buck; Andrew Carlin; Jason Cash; Curt Cooper; David Dismukes; Amy Elliott; Brad Hall; Kevin Higgins; J. Randall Woolridge; Lane Kollen; Roger McCann; Adrien McKenzie; John McManus; Zachary Miller; Debra Osborne; Everett Phillips; Mark Pyle; Tyler Ross; Matthew Satterwhite; Stephen Sharp; Ralph Smith; Alex Vaughan; Ronald Willhite; Ranie Wohnhas
Clerk: Pam Hughes

Event Time	Log Event	
8:24:27 AM	Session Started	
8:24:29 AM	Session Paused	
8:59:19 AM	Session Resumed	
8:59:23 AM	Chairman Schmitt preliminary remarks	
	Note: Hughes, Pam	Introduction of Commissioners - Vice Chairman Cicero and Commissioner Talina Mathews.
	Note: Hughes, Pam	2017-00179 Kentucky Power Company: for General increase in rates; Order approving its 2017 Environmental Compliance Plan; Order approving its Tariff and Riders; Order approving Accounting Practices to establish Regulatory Assets and Liabilities, and Order granting all other required approvals and relief.
9:00:17 AM	Counsel introductions	
	Note: Hughes, Pam	Ky Power Co, -Mark Overstreet, Ken Gish, Katie Glass and Hector Garcia. Attorney General: Larry Cook, Kent Chandler, Justin McNeil and Rebecca Goodman. KIUC: Mike Kurtz and Jody Cohen. KCUC: Jim Gardner and Todd Osterloh. KSBA: Matt Malone. KY League of Cities: Greg Dutton and Morgan Sprague. Walmart - Kerry Harris and Don Parker. KCTA-Larryt Zielke. PSC Nancy Vinsel, Quang Nguyen, Richard Raff and Jenny Sanders.
9:00:52 AM	Camera Lock PTZ Activated	
9:01:09 AM	Camera Lock Deactivated	
9:02:31 AM	Camera Lock PTZ Activated	
9:03:08 AM	Camera Lock Deactivated	
9:03:11 AM	Camera Lock PTZ Activated	
9:03:22 AM	Camera Lock Deactivated	
9:03:29 AM	Camera Lock PTZ Activated	
9:03:41 AM	Camera Lock Deactivated	
9:03:48 AM	Camera Lock PTZ Activated	
9:04:05 AM	Camera Lock Deactivated	
9:04:09 AM	Camera Lock PTZ Activated	
9:04:22 AM	Camera Lock Deactivated	
9:04:46 AM	Chairman Schmitt states that public notice has been given	
9:05:00 AM	Public Comment	
	Note: Hughes, Pam	Kevin Sinette, Boyd Co State Representative. Comments about how his district will be affected by the rate increases.
9:13:27 AM	Public Comment	
	Note: Hughes, Pam	Freddy Coleman - customer of Ky Power. Regarding the plants that they pay for and that they can't afford to pay anymore.
9:14:52 AM	Chairman notes 7 motions for Confidentiality	

9:15:42 AM	Chairman Schmitt	
	Note: Hughes, Pam	Pending motions to strike testimony of Kevin Higgins. Todd Osterloh for KSBA would like to argue this point.
	Note: Hughes, Pam	Overstreet asks about the motion for deviation. No Objection to the deviation. Motion sustained
9:17:42 AM	Atty. Mark Overstreet - Ky. Power Co. remarks	
	Note: Hughes, Pam	Regarding Kevin Higgins testimony that was filed and Ky Power motioned for it to be stricken from the record.
9:19:49 AM	Atty. Malone- KSBA - agrees with Ky Power Co	
	Note: Hughes, Pam	Concerning testimony of Kevin Higgins being stricken from the record.
9:20:02 AM	Atty. Todd Osterloh - KCUC - remarks	
	Note: Hughes, Pam	Regarding the motion to strike Kevin Higgins testimony.
9:20:08 AM	Camera Lock PTZ Activated	
9:26:04 AM	Camera Lock Deactivated	
9:26:09 AM	Atty Malone KSBA - remarks	
	Note: Hughes, Pam	Regarding the striking of Kevin Higgins testimony
9:26:21 AM	Camera Lock PTZ Activated	
9:26:57 AM	Chairman Schmitt remarks	
	Note: Hughes, Pam	Concerning the application and motion to strike Kevin Higgins testimony and positions changing during negotiaions. Not all intervenors agreed with the settlement agreement. Motion to strike testimony is overruled.
9:26:58 AM	Camera Lock Deactivated	
9:30:01 AM	Chairman Schmitt remarks	
	Note: Hughes, Pam	Regarding witnesses being called due to availability.
9:31:19 AM	Atty Mark Overstreet remarks concerning calling of witnesses	
	Note: Hughes, Pam	Atty Mike Kurtz remarks about his witnesses being here tomorrow
9:32:07 AM	Chairman remarks about time frame for today's hearing.	
9:32:44 AM	Chairman Schmitt remarks about court reporter	
	Note: Hughes, Pam	Copies to be provided to all intervenors that want it
9:33:17 AM	Atty Mark Overstreet calls John McManus to the stand	
	Note: Hughes, Pam	Sworn in by the Chairman
	Note: Hughes, Pam	Atty Gish direct exam -VP Environmental Services for AEPSC - filed responses and testimony. One correction, page 6 of testimony line 9 - 4 modifications not 3. Update to section of testimony on page 8, 3 regulations - EPA has taken action on all rules, he explains the rulings.
9:37:38 AM	Atty Gish direct exam of Witness McManus	
	Note: Hughes, Pam	Adopts his testimony
9:38:03 AM	Chairman remarks that all parties participating in the partial settlement have waived cross examination of witnesses.	
9:39:05 AM	Atty Vinsel cross of Witness McManus	
	Note: Hughes, Pam	Regarding the modifications that were made.
	Note: Hughes, Pam	Regarding brief overview of the New Source Review consent decree AEP entered into.
9:42:50 AM	Atty Vinsel cross of Witness McManus	
	Note: Hughes, Pam	Regarding Ralph Smith argued about the consent decree, the retirement of the Big Sandy Unit 2 and purchase of 50% undivided interest in the Mitchell plant by KY Power might not have been necessary. Explain what considerations are involved in regarding retirement of facilities in vertically regulated states versus non regulated statues.
9:45:13 AM	Atty Gish remarks	
	Note: Hughes, Pam	Questions better for Mr. Smith

9:45:35 AM	VC Cicero cross of Witness McManus	
	Note: Hughes, Pam	Regarding how often they go through this process. "Couple times a year". Looks very closely as to coal generation, how would AEP look at this 3 or 4 years from now? Evaluate coal versus Gas on an economic basis.
	Note: Hughes, Pam	Rules by the EPA and decisions to operate. How the EPA looks at coal for future plans.
9:50:40 AM	Atty Gish recross of Witness McManus	
	Note: Hughes, Pam	Regarding retirement of Big Sandy Unit 2 and the consent decree.
9:52:24 AM	Atty Kurtz cross of Witness McManus	
	Note: Hughes, Pam	Regarding high or low sulpher coal and the scrubber used.
9:53:13 AM	AG cross of Witness McManus	
	Note: Hughes, Pam	Regarding Ky Power being involved in the consent decree. Ky Power was not named as defendents in general complaints.
9:54:36 AM	Atty Vinsel cross of Witness McManus	
	Note: Hughes, Pam	Regarding the units and risk of full litigation concerning Big Sandy and Rockport.
9:56:12 AM	Witness McManus excused	
9:56:33 AM	Atty Cook remarks about monitors not working	
	Note: Hughes, Pam	Chairman states we will break to see about getting that issue taken care of.
9:57:15 AM	Break	
9:57:23 AM	Session Paused	
10:03:08 AM	Session Resumed	
10:03:13 AM	Atty Overstreet calls Witness Satterwhite	
	Note: Hughes, Pam	Sworn in by the Chairman
	Note: Hughes, Pam	Matthew J Satterwhite, President and COO of Kentucky Power Co.
	Note: Hughes, Pam	Filed direct testimony, rebutttal and supplemental testimony and responses to Data Requests.
10:04:43 AM	Atty Kurtz cross of Witness Satterwhite	
	Note: Hughes, Pam	Regarding his belief that the Commission should approve the settlement. Concerning balance of areas. Regarding If 100% given to customers would they object to that.
10:06:34 AM	Atty Gardner cross of Witness Satterwhite	
	Note: Hughes, Pam	Mark Overstreet objects to discussions of settlement because of confidentiality.
	Note: Hughes, Pam	Regarding his participation in the settlement and was he present and actively involved.
10:08:18 AM	Atty Gardner cross of Witness Satterwhite	
	Note: Hughes, Pam	Regarding 2nd testimony, page 5 - last sentence, line 19. Reads this line.
10:09:02 AM	Atty Gardner KCUC exhibit 1	
	Note: Hughes, Pam	Any reason to doubt that this came from the PSC?
	Note: Hughes, Pam	Annual report statistics for 2016, by the PSC. Ky Power customers and the amounts for each different types of customers. Does he have any dispute to these numbers?
10:11:59 AM	Atty Gardner cross of Witness Satterwhite	
	Note: Hughes, Pam	Any objections to saying approx. 30,000 residential and 100,000 industrial customers in your territory. Agrees, Subject to check.
	Note: Hughes, Pam	Regarding who at Ky Power Co would have submitted this information to the PSC.
10:13:25 AM	KCUC exhibit 2	
	Note: Hughes, Pam	Tariff G.S. and Tariff sheet for industrial General Service
10:14:42 AM	Atty Gardner cross of Witness Satterwhite	
	Note: Hughes, Pam	2nd page of exhibit- large general service, reads highlighted part.

	Note: Hughes, Pam	Regarding how these tariffs will work. Maximum limit of availability for service. 100kw
	Note: Hughes, Pam	3rd page of exhibit 2- reads highlighted part.
10:18:08 AM	Atty Gardner cross of Witness Satterwhite	
	Note: Hughes, Pam	Regarding reason why a manufacturer that is smaller that has a load but doesnt reach above the maximum kw service.
	Note: Hughes, Pam	Regarding if Tarriffs are set up by the actual normal maximum demands.
10:20:22 AM	Atty Gardner cross of Witness Satterwhite	
	Note: Hughes, Pam	Regarding 3rd page of exhibit 2. Industrial general service availability and how they would be served.
10:21:35 AM	Atty Gardner cross of Witness Satterwhite	
	Note: Hughes, Pam	Regarding these Tariffs are looking at load.
	Note: Hughes, Pam	Regarding retail customers being served under different loads and tariffs. IGS Tariff
	Note: Hughes, Pam	Tariffs are the Format Ky Power uses already.
10:24:20 AM	Atty Gardner cross of Witness Satterwhite	
	Note: Hughes, Pam	Regarding the importance of manufacturing jobs but not all end up in the industrial class. IGS customer could be more mobile.
10:26:08 AM	Atty Gardner cross of Witness Satterwhite	
	Note: Hughes, Pam	Regarding economic development being vital to the company.
	Note: Hughes, Pam	Regarding the Tariff structure being a way to look at the different classes. It is based on usage and how they will fit.
10:28:25 AM	Atty Gardner cross of Witness Satterwhite	
	Note: Hughes, Pam	Regarding him speaking at a leadership Ky event
10:28:47 AM	KCUC exhibit 3	
	Note: Hughes, Pam	Aware not under industrial but in customer class. Data centers were not included because they don't provide many jobs to the area.
	Note: Hughes, Pam	Un-numbered page 7 of this exhibit. Skills that exist and transition into those industries, aerospace, automobile and wood product manufacturing. Questions if he is aware of one of the members of KCUC is active in that area (wood manufacturer).
	Note: Hughes, Pam	Economic Development in Coal Country, by Matthew Satterwhite on Nov. 10, 2017 (KCUC exhibit 3)
10:32:46 AM	Atty Gardner cross of Witness Satterwhite	
	Note: Hughes, Pam	Regarding recruiting for manufacturers, education is important. High quaility health care has not come up in any conversations.
10:35:21 AM	Atty Gardner cross of Witness Satterwhite	
	Note: Hughes, Pam	KIUC had witness Barry Kornstein. Asks if he read his testimony. He indicates in testimony that manufacturing is important, also mentions (page 6 of testimony, lines 16-20) wood product processing. His report attached to the exhibit, last line in first paragraph.
10:39:08 AM	Atty Gardner cross of Witness Satterwhite	
	Note: Hughes, Pam	Regarding some taking tariffs under IGS do not have lots of jobs. All recieved a decrease in costs through the settlement. Working to bring in more IGS customers. Removing a subsidy, started with the largest class.
	Note: Hughes, Pam	Regarding Mr. Satterwhite's settlement testimopny, page 9. Witness reads from this page, and explains the unique opportunity for the settlement. Settlement made Industrial class was reduced to cost.
10:45:45 AM	Atty Gardner cross of Witness Satterwhite	
	Note: Hughes, Pam	Regarding his testimony, page 2 and 3. Line 18 page 2. Summerizes major terms. 3rd page is economic surcharge. He explains this program and is 10 cents for residential customers.

10:47:47 AM	KCUC exhibit 4	
	Note: Hughes, Pam	Kentucky Power Co. Settlement Agreement -exhibit 1 Revenue Allocation.
10:48:43 AM	Atty Gardner cross of Witness Satterwhite	
	Note: Hughes, Pam	KCUC exhibit 4 - HEAP KEDS. Total in GS is $316,830.00 increase. Total increase to IGS is $694.00 He believes this is fair, just and reasonable.
10:51:16 AM	Atty Gardner cross of Witness Satterwhite	
	Note: Hughes, Pam	Regarding LGS not getting to participate, it was added in the settlement to increase subsidy. $500.000,00. arose from the settlement agreement.
	Note: Hughes, Pam	RegardingSettlement agreement, pages 13-14. Reads the last sentence on page 13, concerning schools tariffs.
10:54:25 AM	Atty Gardner cross of Witness Satterwhite	
	Note: Hughes, Pam	Regarding major terms and bulletts in his testimony. Para 10, school energy manager in schools K-12. Included later in the testimony.
10:55:48 AM	Atty Gardner cross of Witness Satterwhite	
	Note: Hughes, Pam	Regarding his Testimony, page 23. Two Tariffs Coal and IRP.
10:56:37 AM	KCUC exhibit 5	
	Note: Hughes, Pam	Currently filed Tariffs in the settlement. Two different tariffs. Contract service -coal power and Contract Service -Interruptible power
10:58:03 AM	Atty Gardner cross of Witness Satterwhite	
	Note: Hughes, Pam	Regarding if company has 750kw and they are small, would they quailify as an IGS or how would they be defined in a tariff. Regarding Rate differences and making exceptions.
	Note: Hughes, Pam	Regarding Tarriff C.S. - IRP reads from this about interruptible amount contracted for, be less thas 1000 kW at any delivery point.
	Note: Hughes, Pam	Line 16 of testimony, coal operations not served under the 1000 kw Tariff IGS.
11:09:53 AM	Atty Gardner cross of Witness Satterwhite	
	Note: Hughes, Pam	Regarding his beliefs notwithstanding there are coal companies that are serviced under the Large commercial tariff in the future.
11:11:28 AM	Break	
11:11:36 AM	Session Paused	
11:26:03 AM	Session Resumed	
11:26:05 AM	Chairman states recess for lunch at 1 p.m.	
11:27:17 AM	KCUC exhibt 6	
	Note: Hughes, Pam	KCUC exhibit 6 , attached to Ky Powers supplemental request to Commissions DR2. Done by Witness D. Buck. Proposed Revenue Allocation, 12 month ended Feb. 28, 2017.
11:27:34 AM	Atty Gardner cross of Witness Satterwhite	
	Note: Hughes, Pam	KCUC exhibit 6 , attached to Ky Powers supplemental request to Commissions DR2. Done by Witness D. Buck. Proposed Revenue Allocation, 12 month ended Feb. 28, 2017. Income recieving from commercial class.
11:30:03 AM	Atty Gardner cross of Witness Satterwhite	
	Note: Hughes, Pam	30,000 customers confirmed from earlier question.
11:30:43 AM	KCUC exhibits 1-6 introduced into evidence	
	Note: Hughes, Pam	Chairman Schmitt allows.
11:30:57 AM	AG cross of Witness Satterwhite	
	Note: Hughes, Pam	Hands out binder with exhibits , some are introduced and some will not be.

11:32:25 AM	AG cross of Witness Satterwhite	
	Note: Hughes, Pam	Regarding how long been in current position. First rate case, was filed after he became President of Ky Power Co. Initiated before but he took another look at all financials before it was filed.
11:35:59 AM	AG cross of Witness Satterwhite	
	Note: Hughes, Pam	Regarding the company gave a lot of figures and documents in going into filing this rate case. AG goes over some of these things provided.
11:38:06 AM	AG cross of Witness Satterwhite	
	Note: Hughes, Pam	Regarding where in the case did the company provide studies on customers impact on the rate increase. Were studies filed in data requests concerning customers ability to pay these rate increases.
11:40:32 AM	AG cross of Witness Satterwhite	
	Note: Hughes, Pam	Studied the affect of IGS rates and the impact have on the customers and Marathon Co. No formal study, just talks with customers.
11:41:56 AM	AG cross of Witness Satterwhite	
	Note: Hughes, Pam	Regarding if Studies done on impact of overall increase in rates and what affect that would have on average customer in each class. Increase in base rates. Actual dollar or % change to total bill...Has company provided an actual payment to customers after this rate case.
	Note: Hughes, Pam	Regarding analysis to what uncollectibles are.
11:45:13 AM	AG cross of Witness Satterwhite	
	Note: Hughes, Pam	How will a 9% rate increase help with these customers. 10 cents per meter, subject to check. Company matches this amount per shareholder dollar for heat
	Note: Hughes, Pam	Has the company looked into Low Income Advocates to explore impact on low income customers.
11:48:31 AM	AG cross of Witness Satterwhite	
	Note: Hughes, Pam	Regarding coal plus tariffs, modifications that apply to a specific class. How did these modifications come about?
11:51:07 AM	AG exhibit 1 - tab A in binder	
	Note: Hughes, Pam	Application of Ky Power, filed Feb 23, 2017
11:51:56 AM	AG cross of Witness Satterwhite	
	Note: Hughes, Pam	Regarding the application including request to have certain accounting treatments that are different than the ones the Company has.
11:52:48 AM	AG cross of Witness Satterwhite	
	Note: Hughes, Pam	Page 4, para 7, line 3-4, the application sites company wages and benefits in coal producing counties.
	Note: Hughes, Pam	Regarding if the application is supported by economc data, page 2 - 9 of the application. AG exhibit 1, Paragraph 3.
11:55:27 AM	AG cross of Witness Satterwhite	
	Note: Hughes, Pam	Accounting treatment of tariffs would be Mr. Wohnas. Witness supported the settlement. Approved Tariffs
	Note: Hughes, Pam	Page 8 of application. AG exhibit 1.
11:57:07 AM	AG cross of Witness Satterwhite	
	Note: Hughes, Pam	KCUC exhibit 4, aware if any customers have taken advantage of the CS IRP tariff.
	Note: Hughes, Pam	Regarding tariffs being temporary because of a potential loss associated with them.
	Note: Hughes, Pam	Tab B AG exhibit 2 - Order 2017-00099. Witness reads part of the Order into the record about Tariff EDR, Tarriff CS-IRP, and Tariff CS Coal.

12:00:33 PM	AG cross of Witness Satterwhite	
	Note: Hughes, Pam	Can KY Power enter into contracts with coal customers without the Tariff CS Coal (catch-all Tariff).
	Note: Hughes, Pam	Talks to customers on focusing on success, the tariffs are filed so they would know where they stood.
12:03:20 PM	AG cross of Witness Satterwhite	
	Note: Hughes, Pam	Direct testimony, page 14, line 8. Impact the rate increase would have on customers. Regarding what was this based on.
12:06:42 PM	AG cross of Witness Satterwhite	
	Note: Hughes, Pam	Page 19, direct testimony. Reads into the record line 6 and first sentence of his answer.
	Note: Hughes, Pam	Have there been evidence into the record in form of studies or analysis to support this?
	Note: Hughes, Pam	Have there been any studies to show they did this?
12:10:22 PM	AG cross of Witness Satterwhite	
	Note: Hughes, Pam	Regarding Page 19, line 12, testimony. Increased economic development
12:11:23 PM	AG cross of Witness Satterwhite	
	Note: Hughes, Pam	Regarding to what has agreed to with Marathon.
	Note: Hughes, Pam	Refers to the Stipulation, page 13, para 11. Backup and maintenance service. Asks the companies need to have this in the stipulation.
	Note: Hughes, Pam	Regarding the company talking to its customers. Do they need a stipulation to bring customers to the table to initiate conversations.
12:16:20 PM	AG cross of Witness Satterwhite	
	Note: Hughes, Pam	Regarding if Marathon builds a combined CHP? It would lesson the amount it buys from Ky Power.
	Note: Hughes, Pam	Mr. Levis' testimony, page 3. Marathon is currently largest customer of Ky Power Co. Regarding Marathon blessing this agreement.
12:19:30 PM	AG cross of Witness Satterwhite	
	Note: Hughes, Pam	How will increase in rates effect economic development efforts?
	Note: Hughes, Pam	Regarding the goals of the company in his testimony.
12:21:49 PM	AG cross of Witness Satterwhite	
	Note: Hughes, Pam	KCUC exhibit 4-Heap and Keds funds combined is increase of 326,000?
	Note: Hughes, Pam	Regarding rates being a factor in getting companies to come to their area to get new jobs.
12:24:50 PM	AG cross of Witness Satterwhite	
	Note: Hughes, Pam	Regarding Keds funds used for the KPEGG program. Some from company. One reason for the rate increase is for economic development and increase load. Regarding anyone else helping that is not with the company.
12:26:57 PM	AG exhibit 3	
	Note: Hughes, Pam	Tab E - Data response from Mr. Hall to AG's 1st DR, dated 8-14-17. Reads first AG-1-395 question and the resonse given to 1.b.
12:30:20 PM	AG cross of Witness Satterwhite	
	Note: Hughes, Pam	Only involvement customers have besides economic development, witness states No. Concerns as to how the money is used. Customers are involved in informal meetings by talking to him.
	Note: Hughes, Pam	Funding for KPEGG is in front of the Commission currently. Funding is up for modification by the Commission.
	Note: Hughes, Pam	30,000 commercial customers in KY Power's region. For economic development why are customers not talked to about these issues. Confidentiality of the issues is one reason they can't involve the customers.

12:35:26 PM	AG cross of Witness Satterwhite	
	Note: Hughes, Pam	Regarding to company cutting costs to survive. (Any company)
	Note: Hughes, Pam	Regarding customer base shrinking over past few years. Fixed costs over fewer remaining customers.
12:36:52 PM	AG cross of Witness Satterwhite	
	Note: Hughes, Pam	Regarding the Numerator in the equations for costs.
	Note: Hughes, Pam	Has company looked at reducing number of contractors that do work for them.
12:39:16 PM	AG cross of Witness Satterwhite	
	Note: Hughes, Pam	Confirm company is looking to add 5 more employees.
12:40:02 PM	AG cross of Witness Satterwhite	
	Note: Hughes, Pam	Direct testimony, page 4-5. Reads from this page about adding 5 employees to insure safety and efficiency needs. Revenue recovery for fraud on the system.
12:42:15 PM	AG cross of Witness Satterwhite	
	Note: Hughes, Pam	Regarding request to increase wages. How are they increasing with other employers around them in the area.
	Note: Hughes, Pam	Regarding meeting with customers; does he hear them talk about raising wages.
12:44:13 PM	AG cross of Witness Satterwhite	
	Note: Hughes, Pam	Regarding if a formal study of all of its expenses and formal plan to reduce those expenses has been done.
12:45:18 PM	AG cross of Witness Satterwhite	
	Note: Hughes, Pam	Referring to him coming in new, has he initiated an outside audit for the company. He has done that himself. Has the company ever had an independent audit?
	Note: Hughes, Pam	Regarding when Witness came to be President of Ky. Power and processes that have been done to streamline these concerning customers complaints.
12:48:30 PM	AG cross of Witness Satterwhite	
	Note: Hughes, Pam	Historical test year, company moved from Frankfort to Ashland. Will they relocate in next year? NO
	Note: Hughes, Pam	Referring to test year relocation expense. Tab G- direct testimony from Ralph Smith.
12:50:36 PM	AG exhibit 4	
	Note: Hughes, Pam	Tab I - 11 documents from Commission's website. Companies annual report. What the revenues number is: Total Sales to Ultimate Customers is 572,810,777.00. Line on last page of this exhibit- corresponding amount in 2006 is $391,934,420.00. Witness Wohnas should answer this question. Roughly 180 million dollars difference.
12:57:03 PM	VC statement	
	Note: Hughes, Pam	Typically cost will increase
12:57:22 PM	AG cross of Witness Satterwhite	
	Note: Hughes, Pam	46% increase
	Note: Hughes, Pam	Stipulated the difference is 180 million
12:58:06 PM	AG cross of Witness Satterwhite	
	Note: Hughes, Pam	Ag Exhibit 4. 1st page for 2016. Amount is 5,862,697,815.00 corresponding line on last page is 7,122,459.00 1.25 billion kw difference. 17.7% difference.
12:59:33 PM	Break	
12:59:45 PM	Session Paused	
1:59:10 PM	Session Resumed	
2:00:46 PM	Conferring about Mr. Smith testifying.	
2:01:08 PM	Witness Satterwhite excused temporarily	

2:01:42 PM	AG calls Witnes Smith to the stand	
	Note: Hughes, Pam	Sworn in by the Chairman
	Note: Hughes, Pam	Ralph C. Smith. Changes to his testimony and another filing.
2:03:05 PM	Atty Overstreet cross of Witness Smith	
	Note: Hughes, Pam	Big Sandy Unit not a part of this claim (Rockport lease back). Big Sandy units not mentioned in the opinion.
	Note: Hughes, Pam	Testimony, line 5. Reads two sentences from this. Referring to Big Sandy Unit 2 in 2015. FN 25 - supports that sentence, 6th circuits decision Williamson Trust (attachment). Ky Power was not a party to that litigation, it was about Rockport units. Page 3 of RCS-20, 1st paragraph- dispute and core of owners claims, other was timing of addt'l environmental controls.
2:08:12 PM	Atty Overstreet cross of Witness Smith	
	Note: Hughes, Pam	Referring to impact of Big Sandy. 2011-401 sought a CPCN to scrub Big Sandy Unit 2. Aware that the AG opposed scrubbing of Big Sandy Unit.
	Note: Hughes, Pam	Pages 68-69 of same order. Page 69, reads final sentence above heading of consent decree.
	Note: Hughes, Pam	Referring to 2014-00396. He gave testimony in that case. Hands out Order and attachment to Commission and attorneys. 1st page of small document, last sentence of last paragraph on page 67. Witness reads this into the record. Big Sandy 2 was retired.
2:14:40 PM	KY Power exhibit 1	
	Note: Hughes, Pam	Case No. 2014-00396 Index. 4 pages
2:17:30 PM	Ky Power exhibit 2	
	Note: Hughes, Pam	Case No. 2011-00401 AG's Post Hearing Brief
2:18:09 PM	Atty Cook objects to Ky Power exhibit 2	
2:18:32 PM	Atty Overstreet cross of Witness Smith	
	Note: Hughes, Pam	Statement from testimony that Big Sandy provided as a whole, pages 9-10 of AG's Brief. Witness reads last sentence on page 9 that continues onto page 10.
2:19:55 PM	Atty Overstreet cross of Witness Smith	
	Note: Hughes, Pam	Page 62 of direct testimony. Line 13, consequences of consent decree is 50% of Mitchell plant. 2012-00578 case
2:21:21 PM	AG objects to this	
2:21:34 PM	Ky Power exhibit 3 -	
	Note: Hughes, Pam	Case No. 2012-00578 Order of the Commission
2:23:14 PM	Atty Overstreet cross of Witness Smith	
	Note: Hughes, Pam	Exhibit 3, page 31. Witness reads 1st paragraph on page 31 and the last several sentences on same page 31.
2:25:10 PM	Atty Overstreet cross of Witness Smith	
	Note: Hughes, Pam	Ky Power exhibit 2 - AG's brief in Case No. 2011-00401, page 14. Reads top paragraph on page.
2:27:30 PM	Atty Overstreet cross of Witness Smith	
	Note: Hughes, Pam	Data request 4 in 2017-00179.
	Note: Hughes, Pam	Pages 63-66 of direct testimony. Proposal of Big Sandy Riders, retirement rider in particular.
2:29:45 PM	Ky Power exhibit 4	
	Note: Hughes, Pam	AG's response to data requests of the PSC
2:30:37 PM	Atty Overstreet cross of Witness Smith	
	Note: Hughes, Pam	Ky Power exhibit 4 data request. Question 4.
2:31:34 PM	Overstreet strikes to remove this from the record	
2:31:49 PM	Ag objects to the motion to strike	
2:32:08 PM	Atty Overstreet cross of Witness Smith	
	Note: Hughes, Pam	Regarding to witness reading all the references.

2:32:27 PM	Overstreet moves to strike again.		
		Note: Hughes, Pam	AG states it's Ky Power's task to read and understand this.
2:33:32 PM	Chairman statement about cross of Witness Smith on these responses		
2:34:47 PM	Ky Power exhibit 5		
		Note: Hughes, Pam	Case No. 9613 Index .Big Rivers Electric dated March 11, 1987.
2:35:36 PM	Atty Overstreet cross of Witness Smith		
		Note: Hughes, Pam	Case No. 9613- Big Rivers Electric dated March 11, 1987. Was Wilson plant excluded in this Case?
2:39:48 PM	AG stipulates that number 10 was written in error and wants to strike		
		Note: Hughes, Pam	Chairman strikes no. 10 from the document
2:40:58 PM	Atty Overstreet cross of Witness Smith		
		Note: Hughes, Pam	Referring to the Wilson Unit. Witness reads from the document
2:41:39 PM	Ky. Power exhibit 6		
		Note: Hughes, Pam	From the Columbus Business First: AEP takes $2.3B write-down of coal plants to avoid Ohio's deregulation debacle.
2:43:17 PM	Atty Overstreet cross of Witness Smith		
		Note: Hughes, Pam	Referring to Ky Power's exhibit 6. Witness footnoted from his document. Ohio Public Utility Commission was deregulated by the legislature.
2:44:58 PM	Atty Overstreet cross of Witness Smith		
		Note: Hughes, Pam	Referring to remaining 16 responses in data request. (Exhibit 4 of Ky Power) Financing component needs to be reduced.
		Note: Hughes, Pam	Does the AG know of any other cases where any state that has disallowed cost recovery.
		Note: Hughes, Pam	Proposal in his testimony that the Big Sandy cost be denied in this proceeding. 2012-00578 Mitchell plant. Regulatory assett of Big Sandy plants. 2014-00396 last rate case. Big Sandy 1 went into production in 1963 It continues to provide service as a gas powered unit. 1969 Big Sandy 2 then retired in 2015, provided service for 46 years. Identify which of the 18 responses where this commission or another required a public utility to write off of the Big Sandy
2:52:42 PM	AG objects to question		
		Note: Hughes, Pam	Chairman agrees, and sustains objection.
2:53:18 PM	Atty Overstreet responds with statement		
2:54:52 PM	Atty Overstreet cross of Witness Smith		
		Note: Hughes, Pam	Referring to characteristics of questions he previously asked. The units components costs that went into regulatory asset are no longer in service.?
2:55:56 PM	Atty Overstreet cross of Witness Smith		
		Note: Hughes, Pam	No. 8 - Trimble Co unit 1. of AG"s response to PSC DR
		Note: Hughes, Pam	No. 14 of AG's response to PSC DR. New Hampshire Commission, CWIP cost
		Note: Hughes, Pam	NO. 15 of AG's response to Staff's DR . Citizens Action Coalition v. NIPSCO
3:01:14 PM	Atty Overstreet cross of Witness Smith		
		Note: Hughes, Pam	Page 10 of direct testimony. Line 3. Reads purpose of his testimony. Line 6 on same page. Page 11, numbered para 3.
3:04:30 PM	Ky. Power exhibit 7		
		Note: Hughes, Pam	Direct testimony of J, Randall Woolridge, PH.D.
3:05:41 PM	Atty Overstreet cross of Witness Smith		
		Note: Hughes, Pam	Direct testimony of J, Randall Woolridge, PH.D. Bluefield and Hope, fair rate of equity. Agrees with what he read in testimony
3:07:07 PM	Atty Overstreet cross of Witness Smith		
		Note: Hughes, Pam	Line 3, page 12 of testimony.

	Note: Hughes, Pam	Pages 10-12 of Witness Smith's testimony. Regarding questionable things in this filing. Witness doesn't believe anything was questionable. Pages 22-23 of testimony
	Note: Hughes, Pam	Witness in AG's response , question 2.b. Refers to David Dismukes testimony that he quoted. Concerns about affordability.
3:14:45 PM	Atty Overstreet cross of Witness Smith	
	Note: Hughes, Pam	Referring to his testimony in response to AG's DR 1-2b. 39.9 million calculated when he filed his testimony without adjustments. Pages 23-52 of his testimony-what KY Powers return on equity would be if Commission denied the rate increase in its entirety.
3:17:56 PM	AG objects	
	Note: Hughes, Pam	Chairman overrules
3:18:46 PM	Ky Powers exhibits entered into the record 1-7	
3:19:14 PM	Atty Kurtz cross of Witness Smith	
	Note: Hughes, Pam	Concerning the 39.9 million increase. Settlement agreement is 9.75% return on equity. If 9.75% ROE was kept it would be 49.2 million.
3:26:46 PM	Atty Nguyen cross of Witness Smith	
	Note: Hughes, Pam	Refers to FERC
3:27:04 PM	Atty Nguyen cross of Witness Smith	
	Note: Hughes, Pam	Corporate aviation expenses. RCS-1 Schedule A page 2 of 2. Line 18. Regarding the basis for allowing this disallowance. Majority was not Ky Power related business.
3:30:33 PM	Overstreet objects to questions about corporate flights	
	Note: Hughes, Pam	Chairman overrules
3:31:19 PM	VC Cicero cross of Witness Smith	
	Note: Hughes, Pam	Referral costs not in the future. Rate filing disallowance of the rate case expense. Witness defers to Dr. Woolridge.
	Note: Hughes, Pam	Refers to the review of the 39.9 million and adjustments included.
3:34:52 PM	VC Cicero cross of Witness Smith	
	Note: Hughes, Pam	Referring to him saying economic consideration in this rate case.
	Note: Hughes, Pam	Regarding statutorely what does the PSC have authority to do. Witness speaks of rate design and subset of residential customers that meet income requirements (low income). Does he believe the rest of the rate class be subject to the 39.9 million. Talks about options to help low income customers.
	Note: Hughes, Pam	Referring to him reading Mr. Woolridges's testimony before completing his report.
3:40:18 PM	VC Cicero cross of Witness Smith	
	Note: Hughes, Pam	Refers to the Big Sandy costs. Cutting of costs is valid way of going forward. Continues to talk about ideas to help low income customers.
3:43:23 PM	AG cross of Witness Smith	
	Note: Hughes, Pam	Regarding Ky Power exhibit 1 - Page 69 paragraph titled Consent decree. Referring to WItness McManus testimony about the plants included that led to the Consent Decree. Reads first sentence into the record.
3:45:54 PM	AG cross of Witness Smith	
	Note: Hughes, Pam	Ky Power exhibit 2 - AG's Brief. Last sentence is read into the record.
	Note: Hughes, Pam	Stipulation filed in this case. Did this use any of the amounts that he provided in his direct testimony.
	Note: Hughes, Pam	Page 64 of his direct testimony. Read 1st paragraph line 1 to line 11. He doesn't use the term "reccomend".

3:49:18 PM	Atty Kurtz cross of Witness Smith	
	Note: Hughes, Pam	Settlement of Rockport cost over a period of five years. 59 million deferral balance. Fixed costs in contract is 54 million dollars.
3:54:42 PM	Atty Kurtz cross of Witness Smith	
	Note: Hughes, Pam	Regarding two elements of tax reductions. Current income tax rate reduced and excess ADIT.
	Note: Hughes, Pam	Aware that the Commission lowered rates for all investor owned utilities in 1986.
3:56:08 PM	Atty Nguyen cross of Witness Smith	
	Note: Hughes, Pam	Regarding his expertise, does he think the settlement is fair, just and reasonable. No he doesn't think it goes far enough in reducing the rate increase and future deferrals. Explains his position.
	Note: Hughes, Pam	AG objects
	Note: Hughes, Pam	Regarding Mr. Satterwhite's testimony about the public schools under the settlement agreement. Do you support or oppose the 500,000 subsidy provided to the schools.
4:01:19 PM	VC Cicero cross of Witness Smith	
	Note: Hughes, Pam	Witness explains some of his concerns.
	Note: Hughes, Pam	Regarding his response to staff about deferrals. What is his standpoint? Major concern is reducing rates, deferrals are going to cost rate recovery in future proceedings. Financing costs, etc.
	Note: Hughes, Pam	Main objective is to have a fair, just and reasonable agreement for all parties.
4:07:02 PM	Atty Overstreet cross of Witness Smith	
	Note: Hughes, Pam	In response to KIUC DR. Rockport unit agreement and billing statements. Exhibit RCS-15. Regarding what the company actually paid.
4:10:09 PM	AG cross of Witness Smith	
	Note: Hughes, Pam	Regarding his testimony-any accountability of the increase.
4:10:44 PM	Witness Smith excused	
4:10:56 PM	Break	
4:11:11 PM	Session Paused	
4:26:49 PM	Session Resumed	
4:26:56 PM	Chairman Schmitt remarks Ky Power needs to put Mr. Phillips on stand	
4:28:17 PM	Atty Overstreet calls Witness Phillips to the stand	
	Note: Hughes, Pam	Sworn in by the Chairman
4:28:41 PM	Atty Overstreet cross of Witness Phillips	
	Note: Hughes, Pam	Everett Phillips, Managing Director of vegetation management
	Note: Hughes, Pam	Adopts his testimony with 1 corrrection, Page 54, 24 months should read 18 months Line item 9.
4:30:12 PM	Atty Vinsel cross of Witness Phillips	
	Note: Hughes, Pam	Referring to reduction of the O&M expense due to the vegetation plan being finished earlier. Explains task 1, task 2 and task 3.
	Note: Hughes, Pam	Regarding the Vegetation management plan from what was done in the last rate case.
	Note: Hughes, Pam	Referring to the impact on the current vegetation plan.
4:33:49 PM	Atty Vinsel cross of Witness Phillips	
	Note: Hughes, Pam	Looking at each of the three areas in the aggregate. All three districts completed at the same time.
	Note: Hughes, Pam	Regarding change to modify the Commissions pre-approval for deviations of more than 10% when expenditure anticipated to deviate from forecasted projections by more than 10%.

4:37:44 PM	Atty Vinsel cross of Witness Phillips	
	Note: Hughes, Pam	Regarding another proposed changes, Reporting of expenditures, VM year doesn't line up with the calendar year. Explain breifly what the benefits are to change it to a calendar year.
4:40:28 PM	Atty Vinsel cross of Witness Phillips	
	Note: Hughes, Pam	Regarding if the Commission approves the VM plan, under-collection of the monies will be refunded or credited to the customers. He can't testify to this.
4:42:03 PM	Atty Vinsel cross of Witness Phillips	
	Note: Hughes, Pam	Regarding the re-planting of trees.
4:42:50 PM	Atty Vinsel cross of Witness Phillips	
	Note: Hughes, Pam	Regarding one option that was a 5 year cycle to the VM plan that was talked about in this case.
4:44:35 PM	Atty Vinsel cross of Witness Phillips	
	Note: Hughes, Pam	Regarding the 6 year cycle and changes to the plan verses the five year plan of the VMP.
4:45:58 PM	Atty Vinsel cross of Witness Phillips	
	Note: Hughes, Pam	Regarding the one way balancing account in the last rate case. Give a description of what the one way balance account is.
4:48:15 PM	VC Cicero cross of Witness Phillips	
	Note: Hughes, Pam	Regarding deviation
4:48:39 PM	Atty Overstreet cross of Witness Phillips	
	Note: Hughes, Pam	Regarding the deviation being more than 12 months ago.
4:49:19 PM	Witness Phillips excused	
4:49:31 PM	Witness Satterwhite is called back to the stand.	
	Note: Hughes, Pam	Still under oath.
4:51:58 PM	AG cross of Witness Satterwhite	
	Note: Hughes, Pam	Regarding companies annual reports. Tab I, AG exhibit 4. The change to first year for Column revenues and line total sales to customers is 46%. He can't testify to the meaning.
4:55:26 PM	AG cross of Witness Satterwhite	
	Note: Hughes, Pam	Regarding the numbers of 2008 and 2009, 2010,2011,2012, 2013, 2014. Line total sales to customers from 2006 Kw hours sold to 2016
	Note: Hughes, Pam	2006 numbers column revenues compared to 2007
4:57:49 PM	Atty Overstreet remarks	
	Note: Hughes, Pam	AG has no more issues on this.
4:58:24 PM	AG cross of Witness Satterwhite	
	Note: Hughes, Pam	Direct testimony, page 18.
4:59:14 PM	AG cross of Witness Satterwhite	
	Note: Hughes, Pam	Regarding filed a historic test year but asked for a tracker. Explain.
	Note: Hughes, Pam	Does this include the test year? No, anticipated coming year. Why is it not in the test year.
	Note: Hughes, Pam	In 2018 transmission costs to be 14,000,000 estimate.
5:01:28 PM	AG cross of Witness Satterwhite	
	Note: Hughes, Pam	Regarding dealing with a vendor and thinks cost is too high. He can renegotiate or bid with a different vendor. These are PJM costs and determined at FERC.
5:02:55 PM	AG cross of Witness Satterwhite	
	Note: Hughes, Pam	Regarding how many times has Ky Power been a Plaintiff at FERC to lower its transmission costs. Witness not aware of that. Complaint pending about the ROE to the transmission costs.
	Note: Hughes, Pam	Regarding who gets 11% ROE at FERC.

5:06:25 PM	AG cross of Witness Satterwhite	
	Note: Hughes, Pam	Stipulation notes that KY Power would only get the 9.75% ROE. Is this a reasonable amount for transmission. WItness states that they need more and is a risk.
	Note: Hughes, Pam	6% would only be a baseline for PJM.
	Note: Hughes, Pam	Regarding if he thinks the 11.4% is reasonable for the customers to pay. He states that is up to FERC.
5:11:04 PM	AG cross of Witness Satterwhite	
	Note: Hughes, Pam	Agreement ends up the Rockport ends the Company is getting it's 54 million amount a year later. Some costs will be refunded to customers and some will be held. Exhibit in his testimony that does the math on that.
	Note: Hughes, Pam	Regarding the Stipulation, testimony page 13. Rockport credit and offset. Read line 14 sentence into the record. Absent this agreement the company would recieve 54 million in excess in base rates. Where in Stipulation does it talk abut the expenses in that year are reasonable. Witnesss states that the Commission can call them in any time to look at their rates.
5:21:25 PM	AG cross of Witness Satterwhite	
	Note: Hughes, Pam	Regulatory compact guarantees a return. Expenses, capitol investment, etc.
5:23:01 PM	AG exhibit 4	
	Note: Hughes, Pam	Line 6 response. He referenced KRS 278.040 in AG exhibit 4 it is KRS 278.040. Witness explains it was to provide the general jurisdiction of the Commission.
	Note: Hughes, Pam	Tab K in AG binder- In his direct testimony, page 20, AG exhibit 4
5:26:59 PM	Atty Vinsel cross of Witness Satterwhite	
	Note: Hughes, Pam	Proposed provision in Tariff sheet 210. Steve Sharp is witness that needs to answer.
5:28:28 PM	Atty Vinsel cross of Witness Satterwhite	
	Note: Hughes, Pam	AG exhibit 2, 2017-00099 Order. How many entities are taking service. Witness Wohnas can speak to this. 2 provisions to filing with the Commission in this Order, para 7 and para 6. Verify how many entities are taking service.
5:31:00 PM	Atty Vinsel cross of Witness Satterwhite	
	Note: Hughes, Pam	Regarding KY Power tariff NUG to remote startup.
5:31:43 PM	Atty Vinsel cross of Witness Satterwhite	
	Note: Hughes, Pam	In settlement he discussed interclass subsidies. What effect does this have on the interclass subsidies. Is there still a 5% subsidy in the rate design. Witness Vaughn can explain this in more detail.
5:33:49 PM	Atty Vinsel cross of Witness Satterwhite	
	Note: Hughes, Pam	KCUC exhibit 3. His Powerpoint, economic master plan. Is there a master plan that is written down.
5:36:28 PM	Atty Vinsel cross of Witness Satterwhite	
	Note: Hughes, Pam	Regarding page 9 in the exhibit. Total 3.7 million investment for shareholder funds or customer funds. Mr. Hall would be better to answer.
5:38:35 PM	Atty Vinsel cross of Witness Satterwhite	
	Note: Hughes, Pam	Regarding other investments and where they come from; customer funds or others.
5:39:45 PM	Atty Vinsel cross of Witness Satterwhite	
	Note: Hughes, Pam	Regarding criteria that determines K-PEGG. 3 criteria and capacity of partners.
5:42:14 PM	Atty Vinsel cross of Witness Satterwhite	
	Note: Hughes, Pam	Regarding corporate planes. Does AEP own or lease planes? He guesses that they own 2. Is AEP sole owner or shared ownership.

5:43:36 PM	Atty Vinsel cross of Witness Satterwhite	
	Note: Hughes, Pam	Accounts receivable sale. Uncollectable, bad debts stay with Ky Power.
5:44:39 PM	Overstreet states it is Mr. Ross that can answer that.	
5:44:50 PM	PHDR	
	Note: Hughes, Pam	Schedules with express cost amonts and calculations in excel spreadsheets for costs charged to and allocated by KY Power to AEPSC and costs charged to and allocated by AEPSC to KY Power for test year.
5:46:38 PM	Atty Vinsel cross of Witness Satterwhite	
	Note: Hughes, Pam	Are schools currently on Tariff LGS? Witness Vaughn to speak to this.
	Note: Hughes, Pam	Regarding Tariff K-12. Public and private schools.
5:47:44 PM	Atty Vinsel cross of Witness Satterwhite	
	Note: Hughes, Pam	Window for making the decsion for the Rockport UPA?
	Note: Hughes, Pam	Regarding Rockport deferral renewal. What will happen with the deferral mechanism. No decision has been made to renew the Rockport lease formerly.
	Note: Hughes, Pam	If no decison is made what will happen. It ends.
5:50:54 PM	PHDR	
	Note: Hughes, Pam	Specific info if no decision is made concerning Rockport agreement.
5:51:27 PM	PSC exhibit 1	
	Note: Hughes, Pam	Did he attend all public meetings. No only two. Does he agree that an overwhelming customers were opposed to any increase of rates.
	Note: Hughes, Pam	Subject to check, we have rec'd over 100 public comments in this case. They have all been read. Does he have any reason to believe the validity of these people to pay an increase.
	Note: Hughes, Pam	Does he agree that this depicts that it is a 25% poverty rate in the area served by KY Power.
	Note: Hughes, Pam	Lexington Herald Leader article published on Dec 3rd, 2017. Poverty rates in Eastern Kentucky. 9 of poorest counties in the nation are in Ky Power's service territory.
5:56:44 PM	Atty Vinsel cross of Witness Satterwhite	
	Note: Hughes, Pam	A number of comments made reference to AEP's strong financial position. Does he have an opinion to the commission regulating and setting rates. He gives his opinion.
5:58:34 PM	Atty Vinsel cross of Witness Satterwhite	
	Note: Hughes, Pam	PHDR for this information.
	Note: Hughes, Pam	What time of year is that decision made. When was last time detailed review conducted.
	Note: Hughes, Pam	Excess capacity of Ky Power, have they given any evaluation regarding its participation in PJM to under Fixed Resource Requirement v. Reliability Pricing Model.
6:01:44 PM	Atty Vinsel cross of Witness Satterwhite	
	Note: Hughes, Pam	Given load has decreased why will they incur addt'l transmission expense.
	Note: Hughes, Pam	Estimate how much addt'l transmission expense they will incur over next 5 years.
	Note: Hughes, Pam	How much will be for projects in the KY Power service territory.
6:04:03 PM	Atty Vinsel cross of Witness Satterwhite	
	Note: Hughes, Pam	How much the AEP parent company is going to spend on projects in next 5 years?
	Note: Hughes, Pam	Within the AEP system, who is the decision maker?
6:05:38 PM	Breaking and restarting at 9:00 a.m. tomorrow	
6:06:19 PM	Adjourned for the day and will continue tomorrow, Dec. 7, 2017	

6:06:30 PM	Session Paused
6:06:50 PM	Session Ended

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) AN ORDER APPROVING ITS 2017 ENVIRONMENTAL COMPLIANCE PLAN; (3) AN ORDER APPROVING ITS TARIFFS AND RIDERS; (4) AN ORDER APPROVING ACCOUNTING PRACTICES TO ESTABLISH REGULATORY ASSETS OR LIABILITIES; AND (5) AN ORDER GRANTING ALL OTHER REQUIRED APPROVALS AND RELIEF	)	CASE NO. 2017-00179

CERTIFICATE

I, Pamela Hughes, hereby certify that:

1. The attached DVD contains a digital recording of the Hearing conducted in the above-styled proceeding on December 7, 2017. Hearing Log, Exhibit List and Witness List are included with the recording on December 7, 2017.

2. I am responsible for the preparation of the digital recording.

3. The digital recording accurately and correctly depicts the Hearing of December 7, 2017.

5. The "Hearing Log" attached to this Certificate, accurately and correctly states the events that occurred at the Hearing of December 7, 2017, and the time at which each occurred.

Signed this 14th day of December, 2017.

Pamela Hughes

Pamela Hughes, Notary Public
State at Large
My Commission Expires: April 22, 2019

Judge: Bob Cicero; Talina Mathews; Michael Schmitt
Clerk: Pam Hughes

Date:	Type:	Location:	Department:
12/7/2017	General Rates	Hearing Room 1	Hearing Room 1 (HR 1)

Event Time	Log Event	
8:14:35 AM	Session Started	
8:14:37 AM	Session Paused	
8:59:20 AM	Session Resumed	
8:59:23 AM	Chairman Schmitt remarks	
	Note: Hughes, Pam	2017-00179 Ky Power Co. Continued hearing from Dec 6, 2017.
8:59:46 AM	Atty Vinsel cross of Witness Satterwhite	
	Note: Hughes, Pam	Mr. Satterwhite is still umder oath.
	Note: Hughes, Pam	Tariff's CS Coal contract, all 3 contracts found.
9:00:17 AM	Atty Vinsel cross of Witness Satterwhite	
	Note: Hughes, Pam	PSC exhibit 3 -PSC Administrative Case from 1984, Order. Page 2, Para 2, 4th line down. Atty Vinsel reads this into the record.
	Note: Hughes, Pam	PSC exhibit 2 - Order in Case No, 2001-00248.
	Note: Hughes, Pam	PSC exhibit 4 - Customer Bill of Rights.
	Note: Hughes, Pam	Regarding Proposed Tariff about denial of service. Ist page already in the record. No. 18. Denial of Service.
9:11:30 AM	VC Cicero cross of Witness Satterwhite	
	Note: Hughes, Pam	Clarification of denial of service based on a person being a member of a household that was delinquent, then moves out of the household and tries to get service himself.
9:13:26 AM	Atty Vinsel cross of Witness Satterwhite	
	Note: Hughes, Pam	Regarding if KY Power would change language in this denial of service.
9:13:53 AM	Atty Vinsel cross of Witness Satterwhite	
	Note: Hughes, Pam	Regarding the HEAP surcharge and how it works. Community Action uses these funds to help low income customers. Regarding if this is for year round or just winter months. Referring to the LIHEAP funds.
	Note: Hughes, Pam	Regarding if administrative fee in the HEAP
9:16:29 AM	Atty Vinsel cross of Witness Satterwhite	
	Note: Hughes, Pam	Regarding as to why it's a huge number and a viotale number.
	Note: Hughes, Pam	Regarding if Commission denied the PJM OATT LSE expense recovery, KY Power would have to come in for another rate case.
9:19:03 AM	Atty Vinsel cross of Witness Satterwhite	
	Note: Hughes, Pam	Regarding why KY Power didnt file a forecasted test year instead of a historical test year to capture anticipated PJM OATT LSE costs.
9:21:44 AM	Atty Vinsel cross of Witness Satterwhite	
	Note: Hughes, Pam	AEP news releases investing in transmission system.
9:22:31 AM	PSC exhibit 5	
	Note: Hughes, Pam	Printout from AEP's website. News release
9:23:25 AM	Atty Vinsel cross of Witness Satterwhite	
	Note: Hughes, Pam	PSC exhibit 5- page 2 of 4, 3rd paragraph. Plans to invest 9 million in transmission over the next 3 years. Released Nov 1, 2016. Regarding how this contributes to the viotility.

9:27:13 AM	Atty Vinsel cross of Witness Satterwhite	
	Note: Hughes, Pam	Regarding consequences if Ky Power had not requested the tracker in this case but had come back in the future.
9:28:38 AM	Atty Vinsel cross of Witness Satterwhite	
	Note: Hughes, Pam	Referring the financial benefits of being a PJM member. How do the OATT costs save customers money
	Note: Hughes, Pam	How does the PJM OATT help to keep customer costs down.
	Note: Hughes, Pam	Regarding the benefits to Ky Power as being a member of PJM. How do they counteract the OATT cost that will be passed on to customers.
9:33:07 AM	Atty Vinsel cross of Witness Satterwhite	
	Note: Hughes, Pam	6% is part of the PJM
9:33:44 AM	Atty Vinsel cross of Witness Satterwhite	
	Note: Hughes, Pam	If Commission lowered revenue requirement that is in the settlement, does KY. Power have any suggestions of how the lower revenue requirement should be allocated.
9:35:49 AM	PSC exhibits 1-5 entered in the record	
9:36:08 AM	VC cross of Witness Satterwhite	
	Note: Hughes, Pam	Referring 6% of spending is 60 million dollars.
	Note: Hughes, Pam	6% v. 94%, zones. What is average spending KY Power is contributing the 6%.
9:38:12 AM	VC cross of Witness Satterwhite	
	Note: Hughes, Pam	Regarding poorest areas in the country that Ky Power services and they have both a 401k and a defined dollar benefit plan for their employees. Mr. Carlin can give further details. Talks about all kinds of jobs that are hazardous and utilities can charge rate payers for them paying their workers by letting them double dip in benefit plans.
	Note: Hughes, Pam	Regards to if the President (Mr. Satterwhite) has a defined dollar pension or 401k plan.
	Note: Hughes, Pam	Referring to all KY Power employees is to make sure nothing is spent that should not be spent. Defined Pension program. Are participants being admitted in program now or they get a 401k plan. Defers to Mr. Carlin to answer.
9:48:43 AM	VC cross of Witness Satterwhite	
	Note: Hughes, Pam	Refers to Accounts Recievable. Selling recievables to the parent company but not tranferring the bad debt with it. Witness states that Mr. Ross would be able to answer this.
	Note: Hughes, Pam	Table that is set up with funds borrowed, funds loaned. Premuim being paid on a significant amount of money
9:51:48 AM	VC cross of Witness Satterwhite	
	Note: Hughes, Pam	Speaks about a leadership conference and cancelling it because of the lack of funds because the weather has been so fair and people aren't using as much energy. 17 customers per mile.
	Note: Hughes, Pam	Refers to cost occurance and how to control that cost. Aviation costs and how that is discussed from KY Power to corporate office. They lease 3 planes (correction from testimony yesterday).
	Note: Hughes, Pam	Portion of AEP and how allocated. Wants to see what the allocations are and what control he has over this. Formula that is in place and conversations take place about this issue.
10:00:43 AM	Comm Mathews cross of Witness Satterwhite	
	Note: Hughes, Pam	How projects are chosen within PJM. Are projects AEP is building in the zone in regional transmission plan or nominated projects based on need. Projects to renew renewable energy.

	Note: Hughes, Pam	Referring to the OATT - renewable energy across the footprint. Different states and if they have one.
10:03:21 AM	Comm Mathews cross of Witness Satterwhite	
	Note: Hughes, Pam	Dan Snyder heads up PJM with service core, KY Power doesn't have their own people.
	Note: Hughes, Pam	Cost containment on the PJM projects.
10:04:56 AM	Comm Mathews cross of Witness Satterwhite	
	Note: Hughes, Pam	Referring to projects that are not being funded that he would like to have but spent here in Ky. How are projects chosen to be built? Where are the transmission problems in Kentucky?
	Note: Hughes, Pam	Referring to without the tracker, not as successful in getting development in Kentucky.
	Note: Hughes, Pam	Criteria for transmission. Plans to provide better customer service
10:09:11 AM	Comm Mathews cross of Witness Satterwhite	
	Note: Hughes, Pam	How are admisitrative costs of PJM. Multiple line items.
	Note: Hughes, Pam	Regarding transmission owner, how is the revenue coming back to Ky customers.
10:10:26 AM	Comm Mathews cross of Witness Satterwhite	
	Note: Hughes, Pam	K-12 subsidy and where is this being allocated now.
10:10:52 AM	Atty Overstreet re cross of Witness Satterwhite	
	Note: Hughes, Pam	PSC exhibit 1, 5 highest poorest counties. 3 are in his service territory. Witnes points out top of map that Greenup and Boyd county are in the blue.
10:12:57 AM	Atty Overstreet re cross of Witness Satterwhite	
	Note: Hughes, Pam	PSC exhibit 5 - AEP to spend 9 million over next 5 years. Transmission is all over the country. Windcatcher project out west for renewable energy.
10:14:51 AM	Atty Overstreet re cross of Witness Satterwhite	
	Note: Hughes, Pam	Referring the % increases and when pulled apart what is the increase that the PS class gets. It is above the 6.1% overall.
	Note: Hughes, Pam	Exhibit 1 to Settlement agreement and the public school line. What does this show as the base rate-5.4% Average base rate for all classes -6.1%.
10:17:08 AM	Atty Overstreet re cross of Witness Satterwhite	
	Note: Hughes, Pam	Referring to Ky. Power and his involvement if they will be a FRR or RPM in the PJM. Decison is to stay an FRR.
10:20:02 AM	Atty Overstreet re cross of Witness Satterwhite	
	Note: Hughes, Pam	If KY Power not member of PJM would it have costs outside the footprint. Extreme costs to leave PJM.
10:20:44 AM	Atty Overstreet re cross of Witness Satterwhite	
	Note: Hughes, Pam	Regarding the Rockport unit power agreement and 12.16% provided. ROE of 8.18% was actually charged to KY Power. Why did it pay a lesser amount?
	Note: Hughes, Pam	Regarding an exhibit about what the 12.16 reflects compared to what
10:24:19 AM	Ky Power exhibit 8	
	Note: Hughes, Pam	Test year Rockport ROE charge
10:25:01 AM	Atty Overstreet re cross of Witness Satterwhite	
	Note: Hughes, Pam	KY Power exhibit 8 - Estimated monthly ROE. March 2016 9.12 ROE was highest. Lowest was 7.64 in Dec 2016
10:26:14 AM	Atty Gardner re cross of Witness Satterwhite	
	Note: Hughes, Pam	Referring to KCUC exhibit 4 about different %. Talked to Mr. Vaughn

10:27:18 AM	Atty Gardner re cross of Witness Satterwhite	
	Note: Hughes, Pam	Settlement agreement, item 13. Tariff K-12 schools 500,000 amount. Exhibit 3 to Mr. Vaughns testiomony
10:30:05 AM	AG re cross of Witness Satterwhite	
	Note: Hughes, Pam	Regarding who determines the amounts Ky Power pays for transmission. FERC jurisdictional. Proposal in the stipulation to pass costs 80% and how they come up with these costs. PPA
10:32:25 AM	AG re cross of Witness Satterwhite	
	Note: Hughes, Pam	Regarding hard to compare people that work at a utility with other people that work elsewhere.
	Note: Hughes, Pam	KCUC exhibit 3. Page 8 (unnumbered) Confirm that these are atributes of Eastern Ky.
	Note: Hughes, Pam	Regarding his statement that the Nature of a test year is lag. Regarding the 2018 14 million OATT charges and different test years.
	Note: Hughes, Pam	Option to Filing taxes on a stand alone basis or joiunt with AEP.
10:36:45 AM	AG re cross of Witness Satterwhite	
	Note: Hughes, Pam	Regarding studies or information that has been provided in this case. Had he conducted a study of customers being able to afford a rate increase. Where in application does it show customers can afford rate increase?
10:40:56 AM	AG re cross of Witness Satterwhite	
	Note: Hughes, Pam	Transition from FRR or PM
	Note: Hughes, Pam	Reffering to 168,000 customer accounts. KY Power does not have someone at PJM, but has someone involved that helps them. KY Power has 550 direct employees.
10:42:31 AM	AG re cross of Witness Satterwhite	
	Note: Hughes, Pam	Hazard Wooten line. Defers to another witness
	Note: Hughes, Pam	Amounts on annual reports
10:43:18 AM	Atty Vinsel re cross of Witness Satterwhite	
	Note: Hughes, Pam	Recalls PHDR in regard when a decision was conducted to stay a FRR.
	Note: Hughes, Pam	Regarding staying a FRR in PJM report. Report is handed out but it is not confidential. KY Power exhibit 9
10:46:09 AM	Atty Vinsel re cross of Witness Satterwhite	
	Note: Hughes, Pam	Regarding decision by PJM for Ky Power allocations. Transmission revenues and decisions are tied to investments.
10:48:21 AM	Chairman Schmitt re cross of Witness Satterwhite	
	Note: Hughes, Pam	Regarding poverty levels in service areas. Only 3 counties are in his service area and number of customers in each counties. Testimony of Roger McCann, page 7. Poverty rate low of 19.7% to 42.4%. 18 counties in KY Power service area below 20%. Chairman continues to read from testimony.
10:53:09 AM	Chairman Schmitt re cross of Witness Satterwhite	
	Note: Hughes, Pam	Regarding his testimony about KY economic surcharge. Charge on customers meters gave them opportunity to particiapte. HEAP program has been 15 cents and hasn't been raised in 11 years.
	Note: Hughes, Pam	Regarding statistics about customers are at or below the poverty level. 11,438.00 customers were diconnected because of non-payment in 2016.
	Note: Hughes, Pam	If Commission did away with the meter charge on economic development and put it on the HEAP funds. Shareholder match.
10:58:46 AM	Comm re cross of Witness Satterwhite	
	Note: Hughes, Pam	Reserve margins of other 3 companies and are they winter or summer> PHDR

	Note: Hughes, Pam	FRR or PM- was decision made with all four comapnies as a whole. KY Power exhibit 9.
11:00:50 AM	Break	
11:00:58 AM	Session Paused	
11:15:21 AM	Session Resumed	
11:15:25 AM	AG Motion to introduce exhibits 1-5	
	Note: Hughes, Pam	Overstreet objects to exhibit 4. Chairman will rule on 4 later.
11:16:39 AM	Exhibits 8-9 KY Power introduced into the record	
11:16:57 AM	Chairman Schmitt swears in Witness Woolridge	
11:17:13 AM	AG direct of Witness Woolridge	
	Note: Hughes, Pam	J. Randall Woolridge. No changes to his testimony
11:17:48 AM	Atty Garcia cross of WItness Woolridge	
	Note: Hughes, Pam	Regarding higher ROE risk investment. More equity is less risky.
11:18:52 AM	Atty Garcia cross of WItness Woolridge	
	Note: Hughes, Pam	Credit ratings Baa2
11:19:09 AM	Ky Power exhibits 10 and 11	
	Note: Hughes, Pam	KU 10 LGE 11
11:20:01 AM	Atty Garcia direct of Witness Woolridge	
	Note: Hughes, Pam	Regarding comparing credit ratings . A3 to Baa1 to Baa2. A3 is less risky
11:20:53 AM	Atty Garcia directs of Witness Woolridge	
	Note: Hughes, Pam	Referring credit opinions marked Ky Power 10 and 11. Agree these documents are A3? Capitol structure for these entities are more higher ratio than in this present case.
11:22:48 AM	Atty Garcia cross of Witness Woolridge	
	Note: Hughes, Pam	Regarding benefit for customers for a company to have less equity and more debt. Trade off in credit ratings
11:24:19 AM	Atty Nguyen cross of Witness Woolridge	
	Note: Hughes, Pam	Regarding Dr. McKenzie's rebuttal testimony. ie., ROE that Witness reccomended would be lowest in recent history.
	Note: Hughes, Pam	PHDR - Case No and document that shows the lower ROE
11:26:53 AM	Atty Nguyen cross of Witness Woolridge	
	Note: Hughes, Pam	Regarding impact on investors expectations if Commisssion accepted an 8.6% for Ky Power.
	Note: Hughes, Pam	Regarding that Illinois proceeding, Risks associated with KY Power and investor's expectation supports an ROE of 8.6%.
11:31:12 AM	Atty Nguyen cross of Witness Woolridge	
	Note: Hughes, Pam	Do you support an ROE of 8.6% given recent indications by Fed Reserve of a December interest rate increase which in turn can imply higher long-term capitol costs?
11:34:07 AM	Atty Nguyen cross of Witness Woolridge	
	Note: Hughes, Pam	Refers to Dr. McKenzie's rebuttal testimony. Exhibit 14 and page 12, lines 14-18. How ROE's are based on the expected earning approach.
	Note: Hughes, Pam	Why is this criteria for inclusion
	Note: Hughes, Pam	Criteria that should be in the proxy group is 11.9 % should be regulated activities. Why factor to consider 50% from the regulated group.
11:40:37 AM	VC cross of Witness Woolridge	
	Note: Hughes, Pam	Regadring factors based on inflation. Regarding if Short term rate impacts inflation.
	Note: Hughes, Pam	More short term rate increases and long term rate increases will be impacted because the FED.
	Note: Hughes, Pam	Regadring from a historical perspective.

11:44:31 AM	AG re cross of Witness Woolridge	
	Note: Hughes, Pam	Regarding case in Illinios that he mentioned. Amerd moody's rating. KY Powers exhibit 11, moody rating is A3
	Note: Hughes, Pam	Stock prices rising, has the proxy group risen since testimony was given.
11:47:24 AM	Atty Garcia re cross of Witness Woolridge	
	Note: Hughes, Pam	Ky Powers credit rating and how to get them. AEP controls everthing that Ky Power does.
	Note: Hughes, Pam	Regarding Credit ratings from Ky Power done from the corporate level. Moody's rating more company specific.
11:50:27 AM	Atty Garcia re cross of Witness Woolridge	
	Note: Hughes, Pam	Regarding KY Power credit rating stayed the same
	Note: Hughes, Pam	in 2014, Moody's general electric rating. Testimony page 61, credit utility upgrades and down grades. Upgrades have been 70% but in 2014 it was up because it was less risky.
11:52:04 AM	Atty Garcia re cross of Witness Woolridge	
	Note: Hughes, Pam	Ky Power exhibits 10 and 11. Table includes the ultimate parent rating of KU and LG&E. PPL. Moody gives them a rating also in this document.
11:54:24 AM	Witness Woolridge excused	
11:54:47 AM	Break	
11:54:54 AM	Session Paused	
12:00:13 PM	Session Resumed	
12:00:17 PM	AG calls Witness Dismukes to the stand	
	Note: Hughes, Pam	Sworn in by the Chairman
12:00:41 PM	AG direct to Witness Dismukes	
	Note: Hughes, Pam	Changed editorial revisions in his testimony and exhibit that was provided yesterday
	Note: Hughes, Pam	David Dismukes PH.D.
12:01:48 PM	Atty Gish cross of Witness Dismukes	
	Note: Hughes, Pam	AG's response to Ky Powers DR, question 15. Exhibits DED-4 and DED-6. Explains what he means to particular focus.
	Note: Hughes, Pam	Regarding Ky Power Service Territory, subject to check Ashland is largest city. Pikeville is 2nd subject to check.
	Note: Hughes, Pam	Page 22 of testimony. Companies proposed residential customer charge. Line 19, page 22.
12:05:10 PM	Atty Gish cross of Witness Dismukes	
	Note: Hughes, Pam	AG's response to Ky Power DR -Exhibit DED-6. page 1 of 1.
12:07:38 PM	Atty Gish cross of Witness Dismukes	
	Note: Hughes, Pam	Page 3 of handout. Exhibit AEV R2 by Witness Vaughn. Comparison of KY residential Basic Service Charges. Average is $14.00
	Note: Hughes, Pam	Regarding need to look at population density according to Dr. Dismukes. The peer groups he used were much larger areas than Ky Power Co. Customer charges across the board.
12:11:28 PM	AG objects	
	Note: Hughes, Pam	Chairman overrules.
12:11:45 PM	Atty Gish cross of Witness Dismukes	
	Note: Hughes, Pam	Page 30 of direct testimony, line 3. HEAP program in Kentucky. Analysis of use of electricity. Reads first two sentences on line 5. DED7 and DED8.
	Note: Hughes, Pam	Regarding if the Commission should rely on a 12 year old data
12:14:55 PM	Atty Nguyen cross of Witness Dismukes	
	Note: Hughes, Pam	Witness reccommended to reject any increase to the economic surcharge and elimination of the total charge and said that the program shifts performance risk onto the ratepayer.

	Note: Hughes, Pam	Any reccommendations for litigation about this? No metrics that can be used?
12:18:33 PM	VC cross of Witness Dismukes	
	Note: Hughes, Pam	Regarding economic development- moving the 10 cent over to the HEAP program. Witness says this is different if it is shifted into the HEAP to help lower income rate payers.
	Note: Hughes, Pam	Regarding the $1.00 remaining in the settlement. Witness defends his position. Specifically about the economic development and the benefit to customers.
12:24:45 PM	Comm cross of Witness Dismuke	
	Note: Hughes, Pam	Regarding Service charge was on customer charge and investment related cost also.
	Note: Hughes, Pam	14.00 agreed to is that higher than the fixed cost to serve the customers. Still a 27% increase customer charge.
12:26:52 PM	AG re direct of Witness Dismuke	
	Note: Hughes, Pam	Page 22 of his testimony. How Ky Power use to determine proposed customer charge.
12:27:44 PM	AG re direct of Witness Dismuke	
	Note: Hughes, Pam	Refer to DED-6 . All companies are investor owned utilities. Mr. Vaughn's R2 exhibit.
12:30:48 PM	AG hands out Order in Case No. 2016-00365	
	Note: Hughes, Pam	Does Ky Power have a demand side management surcharge that it recovers.
	Note: Hughes, Pam	Farmers RECC for an increase in retail rates. Is Farmers on the comparison chart. Read page 13
12:32:59 PM	AG exhibit 6 2016-00365 Order	
12:33:50 PM	Atty Gardner cross of Witness Dismukes	
	Note: Hughes, Pam	KCUC exhibit 4- chart. GS category and LGS category have greatest % of total dollars. Commercial customers have not entered into the stipulation
12:35:10 PM	Witness Dismukes excused	
12:35:18 PM	Atty Osterloh calls Witness Higgins	
	Note: Hughes, Pam	Sworn in by Chairman
12:36:07 PM	Atty Osterloh direct Witness Higgins	
	Note: Hughes, Pam	Direct testimony and settlemnet testimony. No changes
	Note: Hughes, Pam	Kevin C Higgins.
12:36:51 PM	Atty Gish cross of Witness Higgins	
	Note: Hughes, Pam	Regarding In his settlement testimony, the first 500,000 should go to the LGS customers. No testimpony about the revenue requirement.
	Note: Hughes, Pam	Regarding any testimony about the settlement about the revenue requirement.
	Note: Hughes, Pam	Direct testimony page 2. Reccommends reducing the residential subsidy 50%. He no longer takes this position.
12:40:17 PM	Atty Kurtz cross of Witness Higgins	
	Note: Hughes, Pam	Regarding cost-of-service studies in his testimony. Page 16 of original testimony, line 3. Witness reads to end.
12:42:31 PM	Atty Malone cross of Witness Higgins	
	Note: Hughes, Pam	Calculated what the benefit would be for the saw mill?
	Note: Hughes, Pam	Regarding the direct settlement testimony. KCUC represents saw mills, witness suggested that other benefits should be found to support the 500,000. What is he suggesting?
	Note: Hughes, Pam	If Commission did a 100,000 benefit and the saw mill used 100,000, what would that mean for the saw mill.

12:45:58 PM	Atty Malone cross of Witness Higgins		
		Note: Hughes, Pam	Commercial class is more favorable because of diversity in load profile.
		Note: Hughes, Pam	Regarding determining Rate design.
		Note: Hughes, Pam	Regarding Load profiles at the schools.
12:47:30 PM	Atty Malone cross of Witness Higgins		
		Note: Hughes, Pam	Settlement testimony, public policy concerns supporting schools. Spread discount across the system rather than a single class of customers. Objection is how it is funded.
12:49:10 PM	Atty Sanders cross of Witness Higgins		
		Note: Hughes, Pam	Clarification that the residential subsidy not be reduced
12:49:39 PM	Atty Sanders cross of Witness Higgins		
		Note: Hughes, Pam	2 clients under KCUC. Which rates are each on?
		Note: Hughes, Pam	For each one, what is the % of their power bill between the classes.
12:51:07 PM	Atty Osterloh clarification		
		Note: Hughes, Pam	Witness clarifies his 1%. If BPM lumber runs more than one in area
		Note: Hughes, Pam	About reduction being a 1% reduction to current rates.
12:53:04 PM	Witness Higgins excused		
12:53:12 PM	Break		
12:53:20 PM	Session Paused		
1:58:07 PM	Session Resumed		
1:58:12 PM	Session Paused		
1:58:49 PM	Session Resumed		
1:58:57 PM	Atty Kurtz calls Witness Kollen to the stand		
		Note: Hughes, Pam	Chairman swears in Witness
		Note: Hughes, Pam	Lane Kollen
		Note: Hughes, Pam	Clerk Stephanie Schweighardt takes over.
1:59:30 PM	Atty Kurtz Direct exam of Witness Kollen		
		Note: Hughes, Pam	States name and business address. Has no changes to testimony.
2:00:27 PM	Atty Nguyen cross of Witness Kollen		
		Note: Hughes, Pam	Referring to KIUC's response to Staff's Data Request
2:01:36 PM	Atty Nguyen cross of Witness Kollen		
		Note: Hughes, Pam	1 A - Revenue requirement being reduced by 20%
		Note: Hughes, Pam	Recommendation is focused on Rockport 2
2:02:46 PM	Atty Nguyen cross of Witness Kollen		
		Note: Hughes, Pam	Referring to Witness response to Part B of data request
2:04:29 PM	Atty Nguyen cross of Witness Kollen		
		Note: Hughes, Pam	Referring to 1 b, would the reduction be a signaficatin reduction
		Note: Hughes, Pam	This would be a signaficant reduction.
2:06:14 PM	Atty Kurtz ReDirect of Witness Kollen		
		Note: Hughes, Pam	Regarding the retail recovery and debt only return
2:09:11 PM	Atty Chandler cross of Witness Kollen		
		Note: Hughes, Pam	Include anything in testimony thats an offset.
2:10:28 PM	Atty Nguyen cross of Witness Kollen		
		Note: Hughes, Pam	In your response to PSC Staff request 1 b - no limitation for KY Power to fully recover.
2:13:10 PM	Atty Kurtz		
		Note: Hughes, Pam	Witness Kollen is excused. Calls Witness Baron to the stand.
		Note: Hughes, Pam	Chairman swears in Witness
2:13:40 PM	Atty Kurtz Direct exam of Witness Stephen Baron		
		Note: Hughes, Pam	State name and address
		Note: Hughes, Pam	No questions, witness excused

2:15:15 PM	Chairman Schmitt	
	Note: Hughes, Pam	Swears in Witness Richard Baudino
2:15:37 PM	Atty Kurtz Direct exam of Witness Baudino	
	Note: Hughes, Pam	State name and business address
2:17:27 PM	Atty Chandler cross of Witness Baudino	
	Note: Hughes, Pam	Confirming Witness provided tesitimony on return equity of 8.85%
2:18:34 PM	Atty Chandler cross of Witness Baudino	
	Note: Hughes, Pam	Referring to tab b of provided binder, page 29 of Witness testimony.
2:19:19 PM	Atty Chandler cross of Witness Baudino	
	Note: Hughes, Pam	Provide results of 6.9 - 7.5% and if any weights were given to these amounts.
	Note: Hughes, Pam	Only used for Commission's information
2:20:31 PM	Atty Chandler cross of Witness Baudino	
	Note: Hughes, Pam	If weight was given would it be higher or lower
	Note: Hughes, Pam	Lower
2:21:01 PM	Atty Chandler cross of Witness Baudino	
	Note: Hughes, Pam	No, not concerned it is too low
	Note: Hughes, Pam	Referring to page 29, line 9, If witness is concerned this rate is too low.
2:22:16 PM	Atty Chandler cross of Witness Baudino	
	Note: Hughes, Pam	Witness states that is correct.
	Note: Hughes, Pam	Referring to page 30, line 4-7, short term debt, was it corporated in settlement.
2:22:56 PM	Atty Chandler cross of Witness Baudino	
	Note: Hughes, Pam	Referring to tab C and direct testimony. Asking Witness if he agrees with Mr. McKenzie's testimony.
2:25:03 PM	Atty Chandler cross of Witness Baudino	
	Note: Hughes, Pam	Asking Witness if he agress with Mr. McKenzie's application and expected market return
2:27:29 PM	Atty Chandler cross of Witness Baudino	
	Note: Hughes, Pam	Asking why witness does not agree with Mr. McKenzie's expected earnings amounts
2:28:28 PM	Atty Chandler cross of Witness Baudino	
	Note: Hughes, Pam	Asking Witness about book value and market value
2:29:56 PM	Atty Chandler cross of Witness Baudino	
	Note: Hughes, Pam	Page 43 - Asking Witness why he does not agree with Mr. McKenzie's Non utility benchmark approach
2:31:17 PM	Atty Nguyen cross of Witness Baudino	
	Note: Hughes, Pam	Regarding Dr. McKenizes testimony and review of dividend data
2:33:39 PM	Atty Nguyen cross of Witness Baudino	
	Note: Hughes, Pam	Asking Witness to provide his view of the cash flow analysis
2:35:33 PM	Atty Kurtz ReDirect of Witness Baudino	
	Note: Hughes, Pam	Regarding how many rate cases the WItness has testified in.
2:36:36 PM	Atty Kurtz ReDirect of Witness Baudino	
	Note: Hughes, Pam	Content of the settlement of 9.75% and it being in the range of recommendation
2:37:16 PM	Witness Baudino Excused	
2:37:48 PM	Atty Overstreet calls Witness McKenzie to the stand	
2:38:06 PM	Chairman Schmitt	
	Note: Hughes, Pam	Swears in Witness McKenzie
2:38:22 PM	Atty Garcia Direct Exam of Witness McKenzie	
	Note: Hughes, Pam	State name and business address-Adrien McKenzie, Consultant.
2:39:02 PM	Atty Garcia Direct Exam of Witness McKenzie	
	Note: Hughes, Pam	One correction, page 24 line13 - second 1 should be a 2.

	Note: Hughes, Pam	Regarding submitted testimony and any changes
2:40:58 PM	Atty Chandler Cross of Witness McKenzie	
	Note: Hughes, Pam	Distributes documents
2:42:35 PM	Atty Chandler Cross of Witness McKenzie	
	Note: Hughes, Pam	Regarding provided testimony of return equity.
2:43:04 PM	Atty Chandler Cross of Witness McKenzie	
	Note: Hughes, Pam	Company's last rate case, Witness recommended ROE, page 4 of testimony - being 10.62%
2:44:11 PM	Atty Chandler Cross of Witness McKenzie	
	Note: Hughes, Pam	Referring to Tab C, page 16- 23 of testimony -
2:45:22 PM	Atty Chandler Cross of Witness McKenzie	
	Note: Hughes, Pam	Page 21 - Blue Chip finanical forecast, provide figures as to what they suggest
2:46:32 PM	Atty Chandler Cross of Witness McKenzie	
	Note: Hughes, Pam	Page 23 - Ask Witness to read paragraph on line 12 to line 17.
2:47:23 PM	Atty Chandler Cross of Witness McKenzie	
	Note: Hughes, Pam	Tab D, page 2 - risk free rate used in witness' analysis
2:48:36 PM	Atty Chandler Cross of Witness McKenzie	
	Note: Hughes, Pam	Regarding Tab E - current 30 year treasury bond
2:50:09 PM	Atty Chandler Cross of Witness McKenzie	
	Note: Hughes, Pam	Asking Witness about using his risk free rate,
2:51:46 PM	Atty Chandler Cross of Witness McKenzie	
	Note: Hughes, Pam	Corporated Uitility Bonds
	Note: Hughes, Pam	Referring to Tab F - Page 1, cost of equity, under b, what percentage does that represent
2:53:07 PM	Atty Chandler Cross of Witness McKenzie	
	Note: Hughes, Pam	Asking what the 6.28% represents
2:53:54 PM	Atty Chandler Cross of Witness McKenzie	
	Note: Hughes, Pam	Do you feel the adjustment you made was reasonable
	Note: Hughes, Pam	Yes, I do
2:54:17 PM	Atty Chandler Cross of Witness McKenzie	
	Note: Hughes, Pam	Witness states no, this is not incorrect.
	Note: Hughes, Pam	Tab G - page 2 - note what the Sept 2017 BAA was.
	Note: Hughes, Pam	Asks Witness if there is any reason to belive this is incorrect.
	Note: Hughes, Pam	4.24%
2:56:16 PM	Atty Chandler Cross of Witness McKenzie	
	Note: Hughes, Pam	Yes, thats my recommendation
	Note: Hughes, Pam	Your recommendation is for Higher capital cost
2:57:09 PM	Atty Chandler Cross of Witness McKenzie	
	Note: Hughes, Pam	Ask Witness to read line 12 - 18.
2:58:24 PM	Atty Chandler Cross of Witness McKenzie	
	Note: Hughes, Pam	Tab I - Exhibit from last rate case, Witness agrees, Ask witness to provide number used in current rate case.
3:00:11 PM	Atty Chandler Cross of Witness McKenzie	
	Note: Hughes, Pam	Regarding the current risk free rate used of 2.8% and Bluechip financial forecast
3:01:59 PM	Camera Lock PTZ Activated	
3:02:11 PM	Camera Lock Deactivated	
3:02:14 PM	Camera Lock PTZ Activated	
3:02:19 PM	Atty Chandler Cross of Witness McKenzie	
	Note: Hughes, Pam	Witness' ROE recommendation of last rate case.
3:02:37 PM	Atty Chandler Cross of Witness McKenzie	
	Note: Hughes, Pam	Referring to Tab J - Exhibit from previous rate case, page 2.
3:03:10 PM	Camera Lock Deactivated	

3:03:20 PM	Camera Lock PTZ Activated	
3:03:39 PM	Camera Lock Deactivated	
3:03:49 PM	Camera Lock PTZ Activated	
3:04:22 PM	Camera Lock Deactivated	
3:04:36 PM	Camera Lock PTZ Activated	
3:04:45 PM	Camera Lock Deactivated	
3:04:53 PM	Camera Lock PTZ Activated	
3:05:03 PM	Atty Chandler Cross of Witness McKenzie	
	Note: Hughes, Pam	Tab F, Page 3 - regarding the investment risk having gone up and studies as to why it has gone up.
3:05:26 PM	Camera Lock Deactivated	
3:06:16 PM	Camera Lock PTZ Activated	
3:06:30 PM	Atty Chandler Cross of Witness McKenzie	
	Note: Hughes, Pam	Regarding the risk measures used for KY Power and used to compare two different utilities together.
3:06:59 PM	Camera Lock Deactivated	
3:07:43 PM	Atty Chandler Cross of Witness McKenzie	
	Note: Hughes, Pam	Tab M - Natural Gas, Water Utility, Electric Utility West and East - Average Betas
3:07:52 PM	Camera Lock PTZ Activated	
3:08:15 PM	Camera Lock Deactivated	
3:08:21 PM	Camera Lock PTZ Activated	
3:08:45 PM	Camera Lock Deactivated	
3:10:04 PM	Camera Lock PTZ Activated	
3:10:10 PM	Camera Lock Deactivated	
3:10:39 PM	Camera Lock PTZ Activated	
3:10:40 PM	Atty Chandler Cross of Witness McKenzie	
	Note: Hughes, Pam	Tab L - Credit Upgrades and credit rating changes
3:12:15 PM	Atty Chandler Cross of Witness McKenzie	
	Note: Hughes, Pam	Tab F - page 3, row A - Current Equity Risk Premium and 9.7% used was an overall average
3:13:13 PM	Camera Lock Deactivated	
3:15:12 PM	Atty Vinsel Cross of Witness McKenzie	
	Note: Hughes, Pam	Distributes package that contains information for all witness that may come to the stand.
3:16:39 PM	Atty Vinsel Cross of Witness McKenzie	
	Note: Hughes, Pam	Tab 14 - last page - 10.31 recommendation and general analysis of the 9.75 return.
3:18:27 PM	Atty Vinsel Cross of Witness McKenzie	
	Note: Hughes, Pam	Asking Witness of his opnion of the 9.75 ROE
3:19:44 PM	Atty Vinsel Cross of Witness McKenzie	
	Note: Hughes, Pam	Asking Witness if the 9.75 ROE alines with the current conditions and interest rates
3:21:17 PM	Atty Vinsel Cross of Witness McKenzie	
	Note: Hughes, Pam	Tab 14 - supplemental testimony and asked to explain what the earnings approach measures.
3:23:27 PM	Atty Vinsel Cross of Witness McKenzie	
	Note: Hughes, Pam	According to chart, average ROE is 11.8% and how this compares to the 8.6 and 8.85% ROE.
3:24:45 PM	Atty Vinsel Cross of Witness McKenzie	
	Note: Hughes, Pam	Does the 9.75% settlement allow for investment
3:26:21 PM	Vice Chairman Cicero Cross of Witness McKenzie	
	Note: Hughes, Pam	Regarding the Virgina ROEs and earned returns

3:27:35 PM	Vice Chairman Cicero Cross of Witness McKenzie	
	Note: Hughes, Pam	Asking Witness if the Return of 8.4 and 8.6% should be considered
3:31:13 PM	Atty Garcia ReDirect of Witness McKenzie	
	Note: Hughes, Pam	Regarding ROE in case in Illinois
3:32:29 PM	Atty Garcia ReDirect of Witness McKenzie	
	Note: Hughes, Pam	Regarding the ROE of 10.25 that was approved last rate case, and resulting in settlement of 9.8% range.
3:34:04 PM	Atty Garcia ReDirect of Witness McKenzie	
	Note: Hughes, Pam	Regarding comparable risk investments
3:35:13 PM	Atty Garcia ReDirect of Witness McKenzie	
	Note: Hughes, Pam	Regarding the 9.75% ROE provided in settlement of KU and LGE case
3:35:47 PM	Atty Garcia ReDirect of Witness McKenzie	
	Note: Hughes, Pam	Illustrate why these are not being used outside measurable return for the company.
3:39:27 PM	Atty Garcia ReDirect of Witness McKenzie	
	Note: Hughes, Pam	Regarding Corporate bond averages for 2017, tab G and take into consideration from historical field or taken by investors
3:41:21 PM	Atty Garcia ReDirect of Witness McKenzie	
	Note: Hughes, Pam	Regarding capital market conditions and how they may effect the investors
3:44:34 PM	Atty Garcia introduces Ky Power exhibit 12	
	Note: Hughes, Pam	Chairman Schmitt accepts as KY Power Exhibit #12
3:45:57 PM	Atty Garcia ReDirect of Witness McKenzie	
	Note: Hughes, Pam	Ask Witness to describe document
3:47:42 PM	Atty Garcia ReDirect of Witness McKenzie	
	Note: Hughes, Pam	Regarding Exhibit 12 - 4.06% and how it relates to the 9.75 ROE
	Note: Hughes, Pam	Asking how the 5.22% is calculated
3:50:52 PM	Atty Kurtz cross of Witness McKenzie	
	Note: Hughes, Pam	Regarding the 9.75% ROE and 1% of total capitalization
3:53:21 PM	Atty Chandler cross of Witness McKenzie	
	Note: Hughes, Pam	Requesting to enter documents as OAG exhibits.
	Note: Hughes, Pam	Atty Garcia objects
	Note: Hughes, Pam	Chairman Schmitt overrules and accepts as OAG Exhibits #7, #8, #9 and #10
3:56:50 PM	Atty Chandler cross of Witness McKenzie	
	Note: Hughes, Pam	Tab T/G - AG exhibit #8 - bond yields being 5 1/2% at the end of the year and now 4.4%. Asking what causing these bonds to go down.
3:59:08 PM	Atty Chandler cross of Witness McKenzie	
	Note: Hughes, Pam	Regarding capital markets and if different capital markets in the U.S. and if everyone is getting their money by investors.
4:01:11 PM	Atty Chandler cross of Witness McKenzie	
	Note: Hughes, Pam	Expected Earnings Approach and when it was used by the Supreme Court.
4:03:49 PM	Atty Chandler cross of Witness McKenzie	
	Note: Hughes, Pam	Regarding LGE settlement offered to PSC being a global settlement.
4:04:54 PM	Atty Garcia ReDirect of Witness McKenzie	
	Note: Hughes, Pam	Regarding answer to expected choice of investments of 10.8 and 10.2%, witness asked to correct his answer.
4:07:18 PM	Witness McKenzie Excused	
4:07:24 PM	Break	
4:07:33 PM	Session Paused	
4:21:35 PM	Session Resumed	

4:21:40 PM	Witness Carlin called to the stand.	
	Note: Hughes, Pam	Sworn in by the chairman
	Note: Hughes, Pam	Clerk Pam Hughes takes over.
4:22:02 PM	Atty Garcia direct of Witness Carlin	
	Note: Hughes, Pam	Adopts his testimony and Data requests without changes
	Note: Hughes, Pam	AEP - Director of Compensation and executive benefits
4:23:43 PM	AG hands out 2 documents that are already in the record	
4:24:43 PM	AG cross of Witness Carlin	
	Note: Hughes, Pam	Regarding studies being competition and benefits expenses
	Note: Hughes, Pam	Regarding Mr. Satterwhite's testimony. Has company prepared any studies for benefits and expenses, "not for customers ablity to pay for costs."
4:26:42 PM	AG cross of Witness Carlin	
	Note: Hughes, Pam	Regarding Witnesses Rebuttal testimony, lines 11 and 12.
	Note: Hughes, Pam	Tab 1 of documents that are in the record. (Handed out by AG) 1st page is 15 and 16 of Mr, Ross's testimony. Page 15, line 18 - cost-of-service adjustment. Page 16 lines 3 to 6- adjustment for savings plan expense and changes in incentives.
4:32:12 PM	AG cross of Witness Carlin	
	Note: Hughes, Pam	Refer to 3rd page of Tab 1- W32 page 33 of 60.Line 29 Combined adjustment to Incentive Compensation Costs
	Note: Hughes, Pam	Tab 2 - Page 24 of 2014-00396 Order in Ky Power's last rate case.
	Note: Hughes, Pam	Page 37 of 60- W36 - Line 1 Change in Incentives - 4% Savings Plan Loading Rate. Regarding this contradicting his rebuttal testimony.
4:36:51 PM	AG cross of Witness Carlin	
	Note: Hughes, Pam	Regarding the stipulation that excludes compensation. This was a Management decision. Total amount of that portion- 3.51 million
4:38:35 PM	Atty Vinsel cross of Witness Carlin	
	Note: Hughes, Pam	Regarding the Defined benefit and defined compensation plans overview. Witness states Mr. Cooper is best person to ask. He goes forward with his overview.
	Note: Hughes, Pam	Regarding if there are employees quailified in the defined benefits and defined compensation benefits.
4:40:53 PM	Atty Vinsel cross of Witness Carlin	
	Note: Hughes, Pam	Regarding to the compensation lag playing a role in salary increases in recent years.
	Note: Hughes, Pam	ARC-4 exhibit to his direct testimony. Total compensation for technical, craft, and clerical jobs lag behind survey medians. Witness explains why this is.
4:43:15 PM	Atty Vinsel cross of Witness Carlin	
	Note: Hughes, Pam	Overall salary structure to reward performance. Is there a lag in incentive compensation.
4:44:02 PM	Atty Vinsel cross of Witness Carlin	
	Note: Hughes, Pam	Regarding most recent salary surveys, 2016 werer used in this case. Incentive surveys were 2010.
4:44:59 PM	Atty Vinsel cross of Witness Carlin	
	Note: Hughes, Pam	Regarding having third party conduct salary surveys.
4:45:52 PM	VC cross of Witness Carlin	
	Note: Hughes, Pam	Wage increases have been same for utility as the general industry for years. Wages on ARC-3, page 20 of his testimony. Specific to utilities. Went back to 2009. Witness refers to ARC-4 exhibit where they stand.
	Note: Hughes, Pam	Regarding last survey for incentive plans are designed in 2010. Benchmark wages annually, by utility industry data.

4:50:27 PM	VC cross of Witness Carlin	
	Note: Hughes, Pam	Turnover rate for Ky Power, 3 to 4%. VC talks more about having two pension plans and that is excessive. Witness talks more about the plans the company has in place for its employees.
	Note: Hughes, Pam	Regarding defined dollar benefit- put in place for at least 2 decades. Two formulas in companies current program. Locked and frozen at this point. Not earning any other addt'l benefit in that plan. Now a new 401k plan is in place. Total amount of companies contribution to employees is market competitive plan.
5:06:15 PM	VC cross of Witness Carlin	
	Note: Hughes, Pam	Regarding the healthcare benefits for the company. Company pays the same rate for everyone. WItness says Mr. Cooper can answer.
5:07:14 PM	Atty Garcia recross of Witness Carlin	
	Note: Hughes, Pam	Regarding employee benefits by the company and the market value of compensation. Looks at everything as a whole and individually also.
	Note: Hughes, Pam	Market competitve is broader.
5:09:57 PM	AG re cross of Witness Carlin	
	Note: Hughes, Pam	Specific to the Ky Power territory what is this based on (wages).
	Note: Hughes, Pam	Provide PHDR info for the 3% wage raises in the service territory. Regarding in Perry County, Ky. Is there a study to support this, "he doesn't have one specific to Ky."
	Note: Hughes, Pam	Regarding wages rising by 3 % in the service territory.
5:15:29 PM	Atty Gardner re cross of Witness Carlin	
	Note: Hughes, Pam	Regarding how many of the 30,000 customers could afford a pension plan that is comparible to KY Powers
5:16:17 PM	VC re cross of Witness Carlin	
	Note: Hughes, Pam	In his testimony, PHDR- cost savings dollar amounts for these programs. Witness doesn't know if there are any documents to show this. Regarding how the company manages its cost if they don't keep records to go back and review.
	Note: Hughes, Pam	Regarding a target when a program is implemented. Do those target dollars exist? Witness gives an example. VC states a controlled compensation list is what it states.
5:22:15 PM	Witness Carllin excused	
5:22:25 PM	Witness Cooper is called to the stand	
	Note: Hughes, Pam	Adopts his testimony with no changes
	Note: Hughes, Pam	Sworn in by the Chairman
	Note: Hughes, Pam	Curt Cooper-AEP Director of employee benefits
5:24:17 PM	Atty Vinsel cross of Witness Cooper	
	Note: Hughes, Pam	Column 3, blended funding. Lines 3-6. Medical benefit costs, Ky Power pays same amount for single coverage, employee and spouse, employee and child, and employee and family. Witness states that it is different as to how they pay for medical plans and how they come to the cost, and gives explanation as to how the company contributes on each different plans.
	Note: Hughes, Pam	Hands out filing but not an exhibit - updated schedule that was filed by Mr. Ross on Staff's 4th DR.
5:31:08 PM	Atty Vinsel cross of Witness Cooper	
	Note: Hughes, Pam	Regarding rebuttal testimony , Witness Smith spoke to exclude certain retirement benefit costs. Benefit costs are not duplicative and can be distingushed from 3 recent cases for KU/LGE where Commisssion disallowed retirement benefit costs. Witness explains the differences in the retirement plans of Kentucky Power.

	Note: Hughes, Pam	Witness explains the KU/LGE plan and differences to Ky Power's plans.
5:37:03 PM	VC cross of Witness Cooper	
	Note: Hughes, Pam	Regarding witnesses explanation to KU/LGE and Cumberland Valley's plans compared to Ky. Power's retirement plans. 1/1/2001 defined plan was frozen and no new employees could join this plan and no more money was put into this plan.
5:45:27 PM	VC cross of Witness Cooper	
	Note: Hughes, Pam	Regarding the PHDR list total cost of employeer and total cost of employee by class for health insurance.
5:47:46 PM	Atty Garcia re-cross of Witness Cooper	
	Note: Hughes, Pam	Regarding the calculations in Mr. Carlton's direct testimony, ARC-10 exhibit. 3rd and 4th pages is where the plan designs are laid out. He goes over the plans and costs.
5:52:41 PM	AG recross of Witness Cooper	
	Note: Hughes, Pam	Savings to medical plan costs, is it evidenced anywhere in the record? Mr. Carlin's testimony. Refers to Witness Ross
5:54:38 PM	VC Cicero recross to Witness Cooper	
	Note: Hughes, Pam	Regarding plans for helping with deductibles
5:55:19 PM	Atty Garcia recross to Witness Cooper	
	Note: Hughes, Pam	Premiums effected by the claims cost and admisitrative costs.
5:56:07 PM	Witness Cooper excused	
5:56:17 PM	Adjourned for the day,Hearing will start back on Dec. 8, 2017	
5:56:28 PM	Session Paused	
5:57:54 PM	Session Ended	

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) AN ORDER APPROVING ITS 2017 ENVIRONMENTAL COMPLIANCE PLAN; (3) AN ORDER APPROVING ITS TARIFFS AND RIDERS; (4) AN ORDER APPROVING ACCOUNTING PRACTICES TO ESTABLISH REGULATORY ASSETS OR LIABILITIES; AND (5) AN ORDER GRANTING ALL OTHER REQUIRED APPROVALS AND RELIEF	)	CASE NO. 2017-00179

CERTIFICATE

I, Pamela Hughes, hereby certify that:

1. The attached DVD contains a digital recording of the Hearing conducted in the above-styled proceeding on December 8, 2017. Hearing Log, Exhibit List and Witness List are included with the recording on December 8, 2017.

2. I am responsible for the preparation of the digital recording.

3. The digital recording accurately and correctly depicts the Hearing of December 8, 2017.

5. The "Hearing Log" attached to this Certificate, accurately and correctly states the events that occurred at the Hearing of December 8, 2017, and the time at which each occurred.

Signed this 14th day of December, 2017.

Pamela Hughes

Pamela Hughes, Notary Public
State at Large
My Commission Expires: April 22, 2019

Judge: Bob Cicero; Talina Mathews; Michael Schmitt
Clerk: Pam Hughes

Date:	Type:	Location:	Department:
12/8/2017	General Rates	Hearing Room 1	Hearing Room 1 (HR 1)

Event Time	Log Event	
8:17:39 AM	Session Started	
8:17:41 AM	Session Paused	
8:57:25 AM	Session Resumed	
8:57:27 AM	Chairman back on record in Case No. 2017-00179	
	Note: Hughes, Pam	Continued from December 6th and 7th, 2017.
8:57:38 AM	Doug Buck callled to the stand	
	Note: Hughes, Pam	Sworn in by the Chairman
8:57:50 AM	Atty Overstreet direct of Witness Buck	
	Note: Hughes, Pam	Douglous Buck, Regulatory Case Manager for AEPSC
8:58:40 AM	Atty Vinsel cross of Witness Buck	
	Note: Hughes, Pam	Regarding the affect the reduction of the interclass subsidies to the residential class. Deferred to another
8:59:54 AM	Witness Buck excused	
9:00:02 AM	Witness Pyle called to the stand	
	Note: Hughes, Pam	Sworn in by the Chairman
9:00:16 AM	Atty Garcia direct of Witness Pyle	
	Note: Hughes, Pam	Mark Pyle - VP Tax for AEPSC
	Note: Hughes, Pam	Adopts his testimony and responses with no changes, along with Jeff Bartsch's.
9:02:14 AM	Atty Cook cross of Witness Pyle	
	Note: Hughes, Pam	Regarding the revenue requirement based on the gross revenue factor GRCF. Income tax rate; federal, state, and local paid by Ky. Power.
	Note: Hughes, Pam	If tax cut from 35% to 20% would make a significant impact. Could it result in excess deferred income taxes?
9:04:56 AM	Atty Cook cross of Witness Pyle	
	Note: Hughes, Pam	Settlement agreement doesn't provide for flowing back to customers if the rate is changed, if Congress changes the tax bill.
	Note: Hughes, Pam	Regarding deferring tax flowed back to the customers.
	Note: Hughes, Pam	Only if Commission initates an investigation or a complaint is filed would the tax flowing back to customers get looked at.
9:07:19 AM	Atty Cook cross of Witness Pyle	
	Note: Hughes, Pam	Stipulation, page 9. Para 5.c. -rate case stay out. Sub para c. Reads into the record about the Commission initiating an ivestigation about rates.
9:09:53 AM	Atty Cook cross of Witness Pyle	
	Note: Hughes, Pam	Regarding if a significant tax reform went through, and money going back to the rate-payers.
	Note: Hughes, Pam	Regarding tax reform and the likelihood of some kind of reform coming out of Congress.
9:12:08 AM	VC cross of Witness Pyle	
	Note: Hughes, Pam	Regarding Bad debts and accounts receivable. The percentage going away.

9:13:38 AM	Atty Kurtz cross of Witness Pyle	
	Note: Hughes, Pam	Regarding Mr. Kollen's testimony, page 49 of his testimony. Verify calculation. Excess accumulated deferred income taxes of 286,000,000. Witness thinks this number was the balance.
9:15:57 AM	Witness Pyle excused	
9:16:05 AM	Debra Osborne called to the stand	
	Note: Hughes, Pam	Sworn in by the Chairman
9:16:37 AM	Atty. Overstreet direct of Witness Osborne	
	Note: Hughes, Pam	Debra Osborne- VP Generating Assets for Appalchian Power and KY Power
9:17:40 AM	Atty Vinsel cross of Witness Osborne	
	Note: Hughes, Pam	Regarding useful life of Big Sandy Unit 1. Placed in service in 1963.
	Note: Hughes, Pam	Regarding her testimony in detemining useful life of Big Sandy unit 1, she compared Clinch River 1 and 2. All previously coal fired that were converted to gas. Estimated service life to the units after the conversion of gas powered and how it is determined.
9:21:18 AM	Atty Vinsel cross of Witness Osborne	
	Note: Hughes, Pam	Regarding 2026 for useful life of Clinch River. Gives a service life since conversion to gas power of 10 years. Big Sandy 1 is 15 years.
9:22:30 AM	Atty Overstreet re-direct of Witness Osborne	
	Note: Hughes, Pam	Page 2 of her rebuttal testimony - Reflect Ky Power's best current estimate
	Note: Hughes, Pam	Page 3, service life is sometimes adjusted. Reasonable to use 20 year life for Big Sandy 1
9:24:07 AM	Atty Chandler cross of Witness Osborne	
	Note: Hughes, Pam	Integrated resource procress
9:24:35 AM	Atty Vinsel recross of Witness Osborne	
	Note: Hughes, Pam	Why is Clinch River depreciating faster than Big Sandy Unit 1
	Note: Hughes, Pam	Useful life after the conversion, 15 years for Big Sandy 1 and 10 for Clinch River. Why the difference in the 10 years v. the 15 years.
9:26:15 AM	Atty Overstreet recross of Witness Osborne	
	Note: Hughes, Pam	Regarding the years of Big Sandy and Clinch River useful life. Cloinch went into 5 years
9:27:05 AM	Witness Osborne excused	
9:27:12 AM	Witness Cash called to the stand	
	Note: Hughes, Pam	Staff Accountant
	Note: Hughes, Pam	Sworn in by the Chairman
9:27:31 AM	Atty Glass dierct of Witness Cash	
	Note: Hughes, Pam	Jason Cash- Adopts his testimony and respnses
9:28:33 AM	Atty Vinsel cross of Witness Cash	
	Note: Hughes, Pam	Regarding the extension of service life of Big Sandy Unit 1 and Clinch River. It is not being depreciated faster, it's because W. Virginia and VIrgina have different rates. It was a coal fired unit
9:30:07 AM	Atty Vinsel cross of Witness Cash	
	Note: Hughes, Pam	Settlement agreement regarding Question 1 for him
9:30:49 AM	VC cross of Witness Cash	
	Note: Hughes, Pam	Regarding useful life of coal powered plant. 63 was Big Sandy and 15 for Clinch River. Why is the coal fired depreciation rate used when they have been moved to a gas powered units.
9:32:34 AM	Atty Glass re cross of Witness Cash	
	Note: Hughes, Pam	Next West Virginia case
9:32:58 AM	Witness Cash excused	
9:33:06 AM	Witness Sharp callled to the stand	
	Note: Hughes, Pam	Sworn in by the CHairman

9:33:34 AM	Atty Gish direct of Witness Sharp	
	Note: Hughes, Pam	Stephen Sharp - Regulatory Consultant
	Note: Hughes, Pam	Adopts his testimonies
9:34:44 AM	Atty Vinsel cross of Witness Sharp	
	Note: Hughes, Pam	Regarding LiHEAP; Money remains with Ky Power, then goes to the customers for the assistance to pay bills. 10% fee for the CAC agencies. Pilot program in 2005.
	Note: Hughes, Pam	Regarding the HEAP program, logistics of the program. What is role of local agencies in this program?
9:38:08 AM	Atty Vinsel cross of Witness Sharp	
	Note: Hughes, Pam	Proposed tariff in denial of service in packet that was handed out yesterday. Atty Vinsel reads out No. 18, concerning refusing service to customers. 4 scenarios for refusing service. PHDR to help clarify the language.
	Note: Hughes, Pam	In packet, PSC exhibit 2 - Commission Order of 2002 for language of denying service to customers. Tab 3 - 1983-84 case language about denying service. Tab 4 - customer bill of rights.
9:44:07 AM	Atty Vinsel hands out a Commission Order marked PSC exhibit 6	
	Note: Hughes, Pam	Case No. 2000-369 Huff vs. LG&E
	Note: Hughes, Pam	Last sentence of last page.
9:46:06 AM	Atty Vinsel cross of Witness Sharp	
	Note: Hughes, Pam	If Commission did not approve consolidation of line items on the bills would they incur addt'l costs?
	Note: Hughes, Pam	Regarding customer charge on bills and customers wanted less information on their bills. Number of customers that have made that request - he doesn't know.
9:48:07 AM	Atty Vinsel cross of Witness Sharp	
	Note: Hughes, Pam	Any other AEP operating companies consolidating their bills.
	Note: Hughes, Pam	Regarding if KY Power not have chosen to be included on the bill format change project.
9:49:07 AM	VC cross of Witness Sharp	
	Note: Hughes, Pam	Line items on the bills for customers. Customers didn't understand what these meant. Description and number of line items.
9:50:55 AM	Chairman cross of Witness Sharp	
	Note: Hughes, Pam	Regarding HEAP program not been updated, no addt'l money? It did go up some. Program doesn't run out of money in his opinion during the winter months. Why do they want to increase the funding for the program. Regarding Mr. McCann's testimony about it not being adequate.
9:53:14 AM	Chairman cross of Witness Sharp	
	Note: Hughes, Pam	Regarding who drafted the tariff? He states Legal did. Asks him to explain the "any location" clause in this Tariff. Witness states confusion about the language in the Tariff.
9:54:58 AM	Chairman cross of Witness Sharp	
	Note: Hughes, Pam	Regarding the bill format. Surveys of line items on the customer bills for Ky. Power Co. Workshops held in different areas in the service territory. Comments in meetings that the PSC held in these areas not many customers spoke of wanting less line items on their bills.
9:57:49 AM	Atty Chandler cross of Witness Sharp	
	Note: Hughes, Pam	Advisory panels and the name and who is on these panels. How do they become members of these panels. When were the workshops held? Last time was in May 2017, but not sure. Is this going to be ongoing for the customers, yes.

	Note: Hughes, Pam	Regarding denials of service. Tracking of these denials, and if no, why not?
9:58:45 AM	Camera Lock PTZ Activated	
9:58:49 AM	Camera Lock Deactivated	
9:59:58 AM	Camera Lock PTZ Activated	
10:00:08 AM	Camera Lock Deactivated	
10:01:31 AM	Atty Chandler cross of Witness Sharp	
	Note: Hughes, Pam	Regarding plans to use new format to educate customers about HEAP or CAC help that they can get. Will this be put on the new bill.
	Note: Hughes, Pam	Ky Powers take away from these workshops was that customers wanted less line items on their bills. Amounts recovered inside or outside of base rates? Is the DSM amount recovered on the bill or on the tracker. Flucuation on the bill, customers wouldn't know unless they called in to find out why.
10:05:02 AM	Atty Chandler cross of Witness Sharp	
	Note: Hughes, Pam	Regarding the annual reports filed with the Commission. AG exhibit 4. First page of exhibit. Year 2016 annual report. Last page of exhibit - year 2006. Total sales to ultimate customers, what does this refer to? First page Line 1. Kw's sold on last page. 2016 that amount is 5.8 million.
10:05:29 AM	Camera Lock PTZ Activated	
10:05:45 AM	Camera Lock Deactivated	
10:06:09 AM	Camera Lock PTZ Activated	
10:06:35 AM	Camera Lock Deactivated	
10:07:20 AM	Camera Lock PTZ Activated	
10:07:36 AM	Camera Lock Deactivated	
10:08:19 AM	AG cross of Witness Sharp	
	Note: Hughes, Pam	Atty Gish stipulates to what these numbers are. - Chairman overrules
10:08:45 AM	Atty Chandler cross of Witness Sharp	
	Note: Hughes, Pam	Satterwhite's testimony - decreasing customer base is what is driving the rate case.
	Note: Hughes, Pam	Revenue's on last page- total retail revenues in 2006. First page in 2016 total retail revenues. 46% increase.
10:10:47 AM	Atty Gish objects to this document as an exhibit.	
	Note: Hughes, Pam	Chairman wants to wait until Witness Wohnas testify's before making a decision. 2006 and 2016 reports
10:12:43 AM	Atty Gish re cross of Witness Sharp	
	Note: Hughes, Pam	Regarding billing lines. Testimony page 6. Billing format and the DSM charge is separated from the line item.
10:13:56 AM	Witness Sharp excused	
10:14:04 AM	Witness Elliott is called to the stand	
	Note: Hughes, Pam	Sworn in by the Chairman
10:14:52 AM	Atty Gish direct of Witness Elliott	
	Note: Hughes, Pam	Regulatory Consultant Principle
	Note: Hughes, Pam	Amy Elliott, one update to Tariff filed with Settlement agreement. Environmental surcharge need to reflect 9.75 ROE per Settlement Agreement.
10:16:27 AM	Atty Vinsel cross of Witness Elliott	
	Note: Hughes, Pam	Do any other AEP operating companies have environmental surcharges? Do they also gross-up these expenses? Staff's DR 2.
	Note: Hughes, Pam	2017-00179 handout - tab 9. Direct testimony, second page (page 14) Lines 11-13. Regarding what factors prompted Ky Power to gross up factor.

10:20:44 AM	Atty Vinsel cross of Witness Elliott	
	Note: Hughes, Pam	Direct testimony, tab 10-reponses to Staff's DR. 7.a. and 7.c. Is there a change. Witness states it was more of a clarification .
	Note: Hughes, Pam	Staff's DR 4 - line 8 explains where the costs currently are. Witness explains.
10:23:39 AM	Atty Vinsel cross of Witness Elliott	
	Note: Hughes, Pam	If the Commission approved proposal to apply the gross-up factor only to the O&M expenses incremental to base rate amounts, will KY Power remove this gross-up factor when calculating the incremental amounts rolled into base rates in the next base rate case.
	Note: Hughes, Pam	Regarding if there would be double recovery.
10:25:53 AM	Atty Vinsel cross of Witness Elliott	
	Note: Hughes, Pam	Tariff to reflect 9.75. Tariff sheet 29-2 environmental base period revenue. AJE-1S is reflected 48.9 million base period revenue requirement. Can provide this calculation.
10:28:15 AM	Witness Elliot excused	
10:28:23 AM	Witness Hall called to stand	
	Note: Hughes, Pam	Sworn in by the Chairman
10:28:47 AM	Atty Gish direct of Witness Hall	
	Note: Hughes, Pam	No changes to testimony
	Note: Hughes, Pam	Brad Hall External Affairs Manager
10:29:36 AM	Atty Kurtz cross of Witness Hall	
	Note: Hughes, Pam	Regarding the types of companies he recruits Economic development efforts.
10:31:23 AM	Atty Kurtz cross of Witness Hall	
	Note: Hughes, Pam	Regarding press release on December 7, 2017. Inter-blue, create 875 jobs within the region. How much energy will they use, estimate 25mw
10:32:32 AM	Atty Gardner cross of Witness Hall	
	Note: Hughes, Pam	Regarding how many jobs associated with 30,000 customers in his territory.
10:33:33 AM	Atty Gardner cross of Witness Hall	
	Note: Hughes, Pam	Refering to KCUC exhibt 3 - Unnumbered page 7. Wood products jobs that they would like to create.
10:36:16 AM	Atty Gardner cross of Witness Hall	
	Note: Hughes, Pam	Testimony and BHN-1 Regional blueprint for economic development. Report was done in 2013. Page 9 of the report, assets for the area. Hospital and access to medical care, it is important in recruiting industries to locate in their territory.
10:38:28 AM	Atty Gardner cross of Witness Hall	
	Note: Hughes, Pam	Regarding Ky Power's tariffs. Regular demand of 1000 kw is industial companies 100 kw to 1000 kw are what types of businesses?
10:41:50 AM	Atty Gardner cross of Witness Hall	
	Note: Hughes, Pam	Regarding Mr. Satterwhite's testimony. No master plan for economic development, Witness states they do have a plan and composed every year.
10:44:56 AM	Atty Gardner cross of Witness Hall	
	Note: Hughes, Pam	Regarding metrics in the economic develoment in determing how successful they are. Track job counts, investments, grants, etc.
10:45:38 AM	Camera Lock PTZ Activated	
10:45:42 AM	Camera Lock Deactivated	
10:46:25 AM	Camera Lock PTZ Activated	
10:46:48 AM	Camera Lock Deactivated	

10:46:49 AM	Chairman asks question to Atty Gish	
	Note: Hughes, Pam	Concerning businesses in the LGS lower end.
10:48:26 AM	2006 and 2016 annual reports to be distributed	
10:49:13 AM	Witness Hall gave the answer that there is no one size fits all in the LGS end.	
	Note: Hughes, Pam	Chairman makes a statement as to why this information would be helpful.
10:50:36 AM	Atty Gardner cross of Witness Hall	
	Note: Hughes, Pam	Regarding the annual basis reporting of economic dev. K_PEGG program and KEAP program filed in March of each year.
	Note: Hughes, Pam	PHDR- last 5 years of analysis or economic dev. activities. 2013-14,15,16. PHDR's need to be in writing according to the Chairman.
10:50:42 AM	Camera Lock PTZ Activated	
10:52:45 AM	Atty Gardner cross of Witness Hall	
	Note: Hughes, Pam	Regarding annual report describing the metrics, or more general.
10:53:23 AM	Atty Gardner cross of Witness Hall	
	Note: Hughes, Pam	PHDR - list the 2000 jobs with the exception of Inter-Blue. Asks about the facilities and if they are in operation.
	Note: Hughes, Pam	Settlement adds addt'l dollars for economic dev. Adds more on the customer class. How do they measure the succes of the rate payer funded economic development program.
10:59:16 AM	Atty Overstreet asks about PHDR	
10:59:34 AM	Break	
10:59:40 AM	Session Paused	
11:13:14 AM	Session Resumed	
11:13:18 AM	Chairman remarks	
	Note: Hughes, Pam	When breaking for lunch they will have the sworn settlement
11:13:56 AM	Atty Chandler cross of Witness Hall	
	Note: Hughes, Pam	Regarding economic dev. and historically charging customers for that. In PHDR would like this information in support
11:14:58 AM	Atty Chandler cross of Witness Hall	
	Note: Hughes, Pam	Regarding groundbreaking of Inter Blue. No official date set for beginning construction.
11:15:00 AM	Camera Lock Deactivated	
11:15:48 AM	Atty Chandler cross of Witness Hall	
	Note: Hughes, Pam	Regarding his opinion, is it KY Powers ultimate goal of economic development to create jobs or just to sale more electricity.
	Note: Hughes, Pam	Ky Power is in business to provide utility service. KEDS surcharge to customer, used as grant money in the K-PEGG program. Benefits to customers paying that KEDS surcharge.
11:18:41 AM	Atty Chandler cross of Witness Hall	
	Note: Hughes, Pam	Regarding if economic dev changes the denominator, it would lead to lower rates to energy but not to customer charge. Witness can't answer.
11:19:37 AM	Atty Chandler cross of Witness Hall	
	Note: Hughes, Pam	When did Ky Power begin charging customers for economic development.
11:20:39 AM	Atty Chandler cross of Witness Hall	
	Note: Hughes, Pam	Regarding if one item that KY Power tracks is increase in load?
	Note: Hughes, Pam	Was plan load presented in the rate case? Witness states "NO". Who would answer this? Witness Vaughn.
11:22:27 AM	Atty Gish	
	Note: Hughes, Pam	Stated this answer is in record already in response to a Data Request. Tab D, section 1; response a or b-c. Which response he or Mr. Vaughn was responsible for this response.

	Note: Hughes, Pam	Did not provide in the record of planned load for economic development for every company. AG DR 1-387 list of planned amounts of expansion. PHDR for those 1-387 companies
11:26:51 AM	Atty Vinsel cross of Witness Hall	
	Note: Hughes, Pam	Regarding Dr. Dismukes testimony stating that no metrics that can be used/ Witness Hall disagrees with this and explains why.
11:28:37 AM	Atty Vinsel cross of Witness Hall	
	Note: Hughes, Pam	Clarify metrics that Atty Gardner questioned him about.
11:29:41 AM	Atty Vinsel cross of Witness Hall	
	Note: Hughes, Pam	Regarding the Suncoke energy plant that was supposed to be in Southshore. Project now dead.
11:30:22 AM	Atty Vinsel cross of Witness Hall	
	Note: Hughes, Pam	KCUC exhibit 3 - Page 9, Total investments since 2012. Other investments and what that consists of and how much of that is grants from AEP. AEP Corporate Economic Development.
11:33:09 AM	Atty Vinsel cross of Witness Hall	
	Note: Hughes, Pam	Regarding criteria for deciding which project would get a K-PEGG grant.
	Note: Hughes, Pam	Can K-PEGG grants be used for work force training and have they been used for this?
11:36:50 AM	Atty Gish redirect to Witness Hall	
	Note: Hughes, Pam	Test year dollars in base rates. K-PEGG funds.
	Note: Hughes, Pam	Satterwhite's testimony - transferring money from the KEDS to HEAP program. Witness thinks it shouldn't happen
	Note: Hughes, Pam	Regarding other utilities involved in economic development.
11:40:49 AM	Atty Gardner cross of Witness Hall	
	Note: Hughes, Pam	Regarding Socializing costs to create economic development. Does KY Power track expansion that are the result of the companies programs.
11:42:35 AM	Atty Chandler cross of Witness Hall	
	Note: Hughes, Pam	Page 9 of slide. How much of the money from KEAP program is from customer and how much from shareholder. 100% from shareholders
11:43:41 AM	Atty Chandler cross of Witness Hall	
	Note: Hughes, Pam	K-PEGG funds and company money 1.7 million
	Note: Hughes, Pam	Amount in K-PEGG over a million dollars is from company and customers; 50% from each.
11:45:09 AM	Atty Chandler cross of Witness Hall	
	Note: Hughes, Pam	Discover needs for these out of the insight study? Insight study was paid for by other investments.
	Note: Hughes, Pam	Regarding insight study, labor analysis project, aero ready program, and others.
11:48:14 AM	Atty Kurtz cross of Witness Hall	
	Note: Hughes, Pam	10 cent per month per customer charge. $1.20 a year. What is this money to be used for? Residential customers and business customers and charge for economic development.
	Note: Hughes, Pam	Hands out a paper that is in the record already.
11:51:23 AM	Atty Kurtz cross of Witness Hall	
	Note: Hughes, Pam	Regarding 2000 new jobs and this will create spin off jobs. Talks about other manufacturers and how all jobs create more spin off jobs.
11:54:09 AM	Atty Kurtz cross of Witness Hall	
	Note: Hughes, Pam	Regarding Kentucky is 2nd most energy intensive state.
11:55:35 AM	Atty Kurtz cross of Witness Hall	
	Note: Hughes, Pam	Regarding increasing the denominator, lower costs.

11:56:07 AM	Comm cross of Witness Hall	
	Note: Hughes, Pam	Any analysis to see which falls in the GS or IGS tariff
	Note: Hughes, Pam	PHDR for this information
11:57:00 AM	Chairman cross of WItness Hall	
	Note: Hughes, Pam	Chairman Schmitt reads aloud letters in the record about this rate case.
	Note: Hughes, Pam	Regarding cities in the Ky Power territories. 136,344 residential customers, 26% or more are below the povery level. Service was discontinued in 2016 to 11, 438 customers because people couldn't pay their bill. 60 cents with company match wouldn't hurt the company.
12:02:09 PM	Witness Hall excused	
12:02:20 PM	Witness Ross called to the stand	
	Note: Hughes, Pam	Sworn in by the Chairman
12:02:46 PM	Atty Gish direct of Witness Ross	
	Note: Hughes, Pam	Tyler Ross Director of Regulatory Accounting Service for AEPSC.
12:03:42 PM	Atty Vinsel cross of Witness Hall	
	Note: Hughes, Pam	Staff's 4th DR response. Item 6. Does info contained in this contain medical costs allocated to Ky Power from AEPSC.
	Note: Hughes, Pam	Blended funding column - PHDR, revise this schedule to actual employer contribution
12:05:46 PM	Atty Vinsel cross of Witness Hall	
	Note: Hughes, Pam	Regarding selling Accounts Receivable and bad debts remain with Ky Power, explain why. $3 is in the income statement but adjustment was made
12:08:23 PM	Atty Vinsel cross of Witness Hall	
	Note: Hughes, Pam	Short-term financing available instead of selling the account recievable. Why do they pay the premium.
12:09:40 PM	VC cross of Witness Hall	
	Note: Hughes, Pam	Regarding accounts receivable and factoring the bad debt.
	Note: Hughes, Pam	147 basis points but bad debt is only 44 basis points
12:12:53 PM	Ag recross of Witness Ross	
	Note: Hughes, Pam	Accelerate cash flow. Lead lag study.
12:13:36 PM	Witness Ross excused	
12:13:44 PM	Witness Miller is called to the stand	
	Note: Hughes, Pam	Sworn in by Chairman
12:14:14 PM	Atty Garcia direct of Witness Miller	
	Note: Hughes, Pam	No changes
	Note: Hughes, Pam	Zachary Miller - Principal Coprorate Finance Analyst for APSC
12:15:22 PM	Atty Vinsel cross of Witness Miller	
	Note: Hughes, Pam	Accounts recieveable- explain the financing strategy
	Note: Hughes, Pam	Why not finance with short-term debt.
	Note: Hughes, Pam	Limits are 180 million dollars. Are there 180 million in short term debt right now?
	Note: Hughes, Pam	How many times in last 12 months has KY Power hit its limit of 180 million.
12:17:51 PM	VC cross of Witness Miller	
	Note: Hughes, Pam	If not used accounts recievable how many times would KY Power have hit the 180 million? What is the premium being paid for if it's cheaper to get short term financing. Exhibit R page 60 of 138. Where does 150 basis points go? Discount rate the receivables are factored how? Explains the premium that Ky Power pays.
	Note: Hughes, Pam	PHDR

12:22:51 PM	Atty Chandler cross of Witness Miller	
	Note: Hughes, Pam	Regarding what causes bad debts. Why those amounts go uncollected. Can't answer that question.
12:23:40 PM	Atty Vinsel cross of Witness Miller	
	Note: Hughes, Pam	Why can't Ky Power go to the short term debt itself?
12:24:57 PM	VC comment about fees	
	Note: Hughes, Pam	Witness Miller makes statement to this.
12:26:13 PM	Witness Miller excused	
12:26:36 PM	Witness Wohnhas called to stand	
	Note: Hughes, Pam	Sworn in by Chairman
12:27:00 PM	Chairman asks about AG exhibt 4 being entered in the record	
	Note: Hughes, Pam	Admits into the record
12:27:33 PM	Atty Overstreet direct of WitnessWohnas	
	Note: Hughes, Pam	Ranie Wohnas- Managing Director of Regulatory and Finance
12:28:47 PM	Atty Gardner cross of Witness Wohnhas	
	Note: Hughes, Pam	Prior case of 2014. Was KCUC in existance at that time. Rates were raised in Final Order. Large reduction in customer base and why they are here asking for another rate increase. Loss of customers in excess of 1000. Price elasticity of demand- Witness explains this. Studies of these and occur in the utility industry. Did KY Power prepare such study before filing this case.
	Note: Hughes, Pam	Regarding how long he has been in his position. Regarding schools and classes on ratemaking. 1000 kw differences in that border. Regarding rate making principle that would support the company talking to it's customers to see if they could do something for them without going to the Commission.
	Note: Hughes, Pam	Regarding settlement agreement exhibit 1 to this case. (KCUC exhibt 4) Settlement Revenue Allocation. Referring to changes made. RS and MGS are combined into GS. Ratemaking principal. In Settlement agreement 1 -classes and funds for schools. Refers to Witness Higgin's testimony about the 500,000.
12:30:35 PM	Camera Lock PTZ Activated	
12:30:47 PM	Camera Lock Deactivated	
12:42:37 PM	Atty Gardner cross of Witness Wohnhas	
	Note: Hughes, Pam	Regarding process of settlement. Did settlement give residential customers a special benefit or harmed more? 300,000 that went to them not in settlement. 10 cent increase that was proposed.
12:46:47 PM	Atty Cook cross of Witness Wohnhas	
	Note: Hughes, Pam	Residential rate to be increased in current case. In his rebuttal testimony , page 8, Rockport UPA.
	Note: Hughes, Pam	Why did he agree with the settlement that would lower the companies credit ratings?
	Note: Hughes, Pam	2017-00099 Coal plus tariff case. Requested for deferred costs. Do the Tariffs in stipulation discuss current CS IRP's?
	Note: Hughes, Pam	Bad debt is a function of a customer not paying their costs on electric bill. No lead lag study doen. 1/8th O&M
12:52:42 PM	Atty Cook cross of Witness Wohnhas	
	Note: Hughes, Pam	Rebuttal testimony, page 12. Decommissioning Rider for Big Sandy units. Costs should be recovered according to Witness.
	Note: Hughes, Pam	What return on equity is equitable on the Big Sandy Rider?
12:54:53 PM	Atty Cook cross of Witness Wohnhas	
	Note: Hughes, Pam	Regarding to the Rockport deferral.
12:55:11 PM	Overstreet objects to this question	
	Note: Hughes, Pam	Chairnan states this question will be deferred for 1 hour.

12:56:24 PM	Chairman statement about sworn testimony	
	Note: Hughes, Pam	All parties that agree with the proposed Settlement agreement come forward and swear to the oath of the settlement agreement as the Chairman reads.
12:56:49 PM	Camera Lock PTZ Activated	
12:58:11 PM	Break	
12:58:15 PM	Camera Lock Deactivated	
12:58:22 PM	Session Paused	
1:55:55 PM	Session Resumed	
1:56:00 PM	Ms Harris requests to be released form the remainder of the hearing on behalf of Wlmart	
	Note: Hughes, Pam	Chairman allows
1:56:26 PM	Camera Lock PTZ Activated	
1:56:34 PM	Camera Lock Deactivated	
1:56:52 PM	Atty Cook cross of Witness Wohnhas	
	Note: Hughes, Pam	Did the company request or recieve any opinions from moodys or any other regarding credit rating
1:57:39 PM	AG hands out packet	
	Note: Hughes, Pam	One will be an exhibit
1:58:34 PM	Atty Cook cross of Witness Wohnhas	
	Note: Hughes, Pam	Did Ky Power do studies to see if customers could pay the Big Sandy retirement surcharge.
1:59:16 PM	Atty Cook cross of Witness Wohnhas	
	Note: Hughes, Pam	Tab 1 of packet- page 18 of his rebuttal testimony. Lines 11-12 Responses to DR.
2:01:35 PM	Laptops Activated	
2:01:54 PM	Kurtz statement impressed by AG skills	
2:02:11 PM	Atty Cook cross of Witness Wohnhas	
	Note: Hughes, Pam	Tab 3 of handout - Listing of AEP Officers and Directors who have used the corporate aviation. Costs allocated in regards to using the corporate planes.
	Note: Hughes, Pam	Cost relating to Ky Power is 53, 522,00. These are once a year meetings. Split costs
	Note: Hughes, Pam	Showing document on projector showing total amount of aviation cost. Company is requesting 388,355,000 to be recovered from rate payers
	Note: Hughes, Pam	Cost of using the airpalnes.
2:09:02 PM	VC wants to see a list of all the people that used the airplane	
2:09:38 PM	Atty Vinsel cross of Witness Wohnhas	
	Note: Hughes, Pam	Regarding what does KY Power feel should happen to this VM program and funds they have.
	Note: Hughes, Pam	Vegetation Management plan. If annual shortfall or excess is being balanced, shortfall is a liablity and refunded to customers. If overspent they would not seek recovery.
2:09:43 PM	Laptops Deactivated	
2:13:33 PM	Atty Vinsel cross of Witness Wohnhas	
	Note: Hughes, Pam	Recommendation towards the VM program funds according to KY Power.
2:14:27 PM	Atty Vinsel cross of Witness Wohnhas	
2:14:33 PM	Atty Vinsel cross of Witness Wohnhas	
	Note: Hughes, Pam	Mr. Vaughns testimony and the Tariff NUG.
	Note: Hughes, Pam	Proposed changes to the NUG Tariff was done by who?
	Note: Hughes, Pam	Explain why the clarifying language was made. Defers to Mr. Vaughn

2:16:39 PM	Atty Vinsel cross of Witness Wohnhas	
	Note: Hughes, Pam	Startup and station power to a non utility generator, the rate is KY Powers open transmission rate filed with FERC. Defers to Vaughn
2:17:47 PM	VC cross of Witness Wohnhas	
	Note: Hughes, Pam	Defining bad debt and process to collect before it goes to bad debt.
	Note: Hughes, Pam	Time frame between when it goes to the accounting and when it is written off. 6 month period of time even after its been finaled out. 6 mos for the credit agency to collect debt. Written off after goes to the credit company
2:20:57 PM	VC cross of Witness Wohnhas	
	Note: Hughes, Pam	Process of aviation usage for the corporate jets.
	Note: Hughes, Pam	PHDR needed to find out.
2:22:13 PM	VC cross of Witness Wohnhas	
	Note: Hughes, Pam	Crews that travel to help with storm damage, how are those costs charged to the AEP system. It is just a cost
	Note: Hughes, Pam	3 planes leased 100% to AEP.
	Note: Hughes, Pam	How many crews assigned to those planes. AEP employees. PHDR to see how many crews asssigned.
2:25:25 PM	Atty Overstreet re direct of Witness Wohnhas	
	Note: Hughes, Pam	1/8 O&M useage.
2:26:05 PM	Atty Overstreet re direct of Witness Wohnhas	
	Note: Hughes, Pam	Credit metrics and concerns with the settlement deferral.
	Note: Hughes, Pam	Amortized over was 10 years in Collins testimony , settlement is 5 years.
	Note: Hughes, Pam	Rebuttal testimony, R7 - bottom of R10. Mr. Collin proposed in his testimony is this the same Rockport deferral. Collin was talking about Rockport unit 2. 50 million in the settlement. How it was structured annually - 15 million. 15 million 10 million, then 5 million. Recovered through Tariff PPA.
2:32:14 PM	Atty Overstreet re direct of Witness Wohnhas	
	Note: Hughes, Pam	Total deferral amount a lesser amount and a step down over the deferred amount and regulatory amoritized period.
	Note: Hughes, Pam	Bottome of page 10 of rebuttal testimony. Is a defferal always without merit. Rockport
2:34:14 PM	Atty Cook recross of Witness Wohnhas	
	Note: Hughes, Pam	Mr. Collin propose the company earn its ordered ROE before or after the Rockport decision . No Does the stipulation provide for that with the credit and offset? Does the de-esculating amount reduce the retail rates in year 3 and four of the deferral?
2:35:54 PM	Atty Vinsel cross of Witness Wohnhas	
	Note: Hughes, Pam	Riverside referenced being served by Tariff NUG. Dec. 6th Riverside filed into the record a public comment. Atty Vinsel reads part into the record. Riverside is a current customer.
2:37:26 PM	Atty Overstreet re direct of Witness Wohnhas	
	Note: Hughes, Pam	Annual reports - AG exhibt 4. 2016, what was company's ROE that year? Doesn't have it exactly. 4.21 5.1
2:39:00 PM	AG exhibit 11	
	Note: Hughes, Pam	AEP leadership
2:40:22 PM	Witness Vaughan called to the stand	
	Note: Hughes, Pam	Sworn in by the Chairman

2:40:56 PM	Atty Gish direct of Witness Vaughan	
	Note: Hughes, Pam	Adopts his testimony and responses. Changes in direct testimony- 2 references to test year PJM OATT,. Page 29, line $74038517, same change on page 45, line 19. Settlement testimony, exhibit 3, summary page. 1st page SGS metered- all correct on summary but the tariff page was not correct.
	Note: Hughes, Pam	Alex Vaughan - Manager, Regulated Pricing and Analysis AEPSC
2:44:29 PM	Chairman cross of Witness Vaughan	
	Note: Hughes, Pam	Revenue shortfall if they getthe benefit they want. NO, no shortfall to other customers.
	Note: Hughes, Pam	Size from a customer that used the 100kw to the 1000 kw, what types of schools or businesses are in that class. He reads some into the record. 161 school accounts. Settlement applied to schools with 100kw's or above. Why did the company recommend eliminating the k-12 accounts.
2:52:37 PM	Atty Kurtz cross of Witness Vaughan	
	Note: Hughes, Pam	Any other states eliminating subsidies for industrial customers.
	Note: Hughes, Pam	Settlement proposal that the LGS be eliminated?
2:54:39 PM	Atty Kurtz cross of Witness Vaughan	
	Note: Hughes, Pam	Reductions for all the classes. Settlement agreement
2:55:33 PM	Atty Kurtz hands out a paper called Settlement agreement 1	
	Note: Hughes, Pam	Total bill under rate increases. 6.22% LGS below average for public schools. LGS increase is 5.17% Public schools get 6.5% Non fuel base revenue increase - GS and LGS public schools are about the same. Without fuel IGS does worse. Middle- ROR 6.4% IGS 7.71% Subsidy built in the IGS rates. Residential subsidy reduced by 5%.
3:01:42 PM	Atty Kurtz cross of Witness Vaughan	
	Note: Hughes, Pam	Reducing the KEDS on residentiials help.
3:02:32 PM	Atty Dutton cross of Witness Vaughan	
	Note: Hughes, Pam	Settlement agreement - 3 classes get lower revenue rate increases but will still be paying the highest rate.
3:02:51 PM	Camera Lock PTZ Activated	
3:03:22 PM	Camera Lock Deactivated	
3:03:33 PM	Atty Osterloh cross of Witness Vaughan	
	Note: Hughes, Pam	Rebuttal testimony, page R15 - Line 8 Reads aloud. Consolidated with the LGS but two rate classes. Intra-class with LGS.
	Note: Hughes, Pam	Testimony page 22, position of the company whether the public school system would stay in the Tariff. Page 24, line 2 and 3 didn't justify the school rate in comparison to the LGS customer. Reads from his testimony about school tariff customers and LGS customers.
	Note: Hughes, Pam	Regarding toatla bill increase 5.17%, includes an extra 500,000. Based on cost of study and settlement agreement.
	Note: Hughes, Pam	According to settlement agreement in last rate case. Who had higher rates? The LGS class.
3:11:07 PM	KCUC exhibit 7	
	Note: Hughes, Pam	2014-00396 Settlement Agreement
3:12:12 PM	Atty Osterloh cross of Witness Vaughan	
	Note: Hughes, Pam	Page 19 of 2014-396 settlement agreement. Atty Osterloh reads from this agreement. Inter-class subsidy. KCUC was not a party.
3:13:31 PM	Atty Osterloh cross of Witness Vaughan	
	Note: Hughes, Pam	Inter-class subsidies combined subsidy reduction is 5% of the LGS. Stand alone LGS would still be 5%.

3:14:46 PM	Atty Osterloh cross of Witness Vaughan	
	Note: Hughes, Pam	If classes are conolidated there is a demand charge. If go over 10Kw current tariff average
	Note: Hughes, Pam	Consolidation of the LGS and the MGS classes. Identify distingushing factors in those classes.
3:19:41 PM	Atty Osterloh cross of Witness Vaughan	
	Note: Hughes, Pam	Demand meter when a MGS customer has a 4000 kw or greater. When can company install that meter.
3:21:32 PM	Atty Osterloh cross of Witness Vaughan	
	Note: Hughes, Pam	Types of customers in the LGS group. Whole class.
3:22:18 PM	Atty Cook cross of Witness Vaughan	
	Note: Hughes, Pam	Relative revenue increase in the last rate case 2014-00396. % increase to the RS class divided by the system % increase. Recieving 60% of the rate increase.
3:25:17 PM	Atty Cook cross of Witness Vaughan	
	Note: Hughes, Pam	Settlement stipulation Tab 1 Exhibit AEV-1S 20.97 million Total bill 9%
	Note: Hughes, Pam	Did company do any studies to see if the customers could afford these rates.
3:28:50 PM	Atty Cook cross of Witness Vaughan	
	Note: Hughes, Pam	Studies done to see if customers afford Tariff PPA? No studies
	Note: Hughes, Pam	Supplemental projects, outside the zone they don't pay a piece of that. PJM allocations. Both go through the stakeholders process, goes through FERC, etc.
	Note: Hughes, Pam	AEP transmission zone-east
	Note: Hughes, Pam	Ky Power and AEP engage in numerous supplemental projects. Supplemental and baseline projects difference.
3:33:27 PM	Atty Cook cross of Witness Vaughan	
	Note: Hughes, Pam	AEP east company operating agreement - PHDR
	Note: Hughes, Pam	Not a formula rate. Cost allocation agreement
	Note: Hughes, Pam	Ky Power rate payers can be allocated to pay for a supplemental project.
3:38:40 PM	Atty Cook cross of Witness Vaughan	
	Note: Hughes, Pam	In that case, Ky Power and east operating companies and AEP non regulated transmission companies are in. Has anyone gone to FERC to contest the ROE.
	Note: Hughes, Pam	In last rate case Commission disallowed the PJM tracker. What are AEP and KY Power doing to control transmission costs.
	Note: Hughes, Pam	AEP east transmission agreement ROE...11.49
3:42:49 PM	Atty Cook cross of Witness Vaughan	
	Note: Hughes, Pam	Regarding if Ky Power makes more or pays more on OATT.
3:44:29 PM	Atty Cook cross of Witness Vaughan	
	Note: Hughes, Pam	Regarding the Tariff PPA mechanism and if people can see these costs.
3:45:51 PM	Atty Cook cross of Witness Vaughan	
	Note: Hughes, Pam	Despite losing customers, revenues continue to grow. Witness explains why this is.
	Note: Hughes, Pam	Tab 2 - rebuttal testimony. Not approved, no opportunity.
3:48:57 PM	Atty Cook cross of Witness Vaughan	
	Note: Hughes, Pam	PHDR - whether dollars can be detailed.
	Note: Hughes, Pam	OATT charges to affiliates and non affiliates/ PHDR
	Note: Hughes, Pam	How much was paid for baseline upgrades, network upgrades, supplemental projects etc.

3:51:18 PM	Atty Cook cross of Witness Vaughan	
	Note: Hughes, Pam	RTEP dollars
3:51:54 PM	Atty Cook cross of Witness Vaughan	
	Note: Hughes, Pam	PHDR for this updated
	Note: Hughes, Pam	Responses to DR's from PSC about typical bill BSRR excel sheet. AG Updates this sheet with the figures which are in the stipulation., with the help of the Witness.
3:52:41 PM	Laptops Activated	
3:58:52 PM	Break	
3:58:59 PM	Session Paused	
4:09:31 PM	Session Resumed	
4:09:37 PM	Atty Cook cross of Witness Vaughan	
	Note: Hughes, Pam	It filed its annual BSRR true-up in August 2017.
	Note: Hughes, Pam	Tab 6 - KY Powers response to DR 2017 BSSR Annual Report
	Note: Hughes, Pam	3 items calculated with a sub total of the bill. One is the BSRR factor, 4%
4:09:38 PM	Laptops Activated	
4:11:59 PM	Laptops Deactivated	
4:13:10 PM	Atty Cook cross of Witness Vaughan	
	Note: Hughes, Pam	Factors considered to SPP1 and SPP2
4:14:20 PM	Atty Cook cross of Witness Vaughan	
	Note: Hughes, Pam	Refer to tab 3 Rebuttal R-13 Inadvertantly left out the IOU's. Dated Oct 12, 2017
	Note: Hughes, Pam	Increase of 14.00 for residential customers. Any study done of affordability.
4:16:30 PM	Atty Cook cross of Witness Vaughan	
	Note: Hughes, Pam	Tab 5 Investor owned Electric utilties in Kentucky rates effective 10-12-17
	Note: Hughes, Pam	Calculations used in proposing residential customer charge.
	Note: Hughes, Pam	AVR-2 non jurisdictional to Commission.
4:20:26 PM	Atty Malone cross of Witness Vaughan	
	Note: Hughes, Pam	Testimony of Mr. higgins yesterday. He wanted 500,000 to remain
4:21:43 PM	Atty Vinsel cross of Witness Vaughan	
	Note: Hughes, Pam	Oct. 28 modified adjustment rate will change companies WAC
4:25:40 PM	Atty Vinsel cross of Witness Vaughan	
	Note: Hughes, Pam	PHDR - Provide copy revised AEV 3S in excel format.
4:26:36 PM	Atty Vinsel cross of Witness Vaughan	
	Note: Hughes, Pam	Tariff NUG - rate for start up and station power. Riverside is on IGS rates on Tariff NUG.
4:28:51 PM	Atty Vinsel passes out two items	
4:30:33 PM	AG exhibits 12 and 13 entered into the record	
4:30:50 PM	Atty Vinsel cross of Witness Vaughan	
	Note: Hughes, Pam	PSC exhibit 7 AEP Allocation Process. Include an adjustment level OATT rate
4:34:01 PM	Atty Vinsel cross of Witness Vaughan	
	Note: Hughes, Pam	Regarding PJM revenue expenses- Transmission loss of service. PJM bills on Tariffs, take total amount and apply FERC approved transmission agreement. Reflected in the PJM LSE OATT charges and credits by month.
4:36:34 PM	Atty Vinsel cross of Witness Vaughan	
	Note: Hughes, Pam	Test year PJM LSE OATT timeline. (Handout from PSC)
	Note: Hughes, Pam	Explains each account on this page (handout)
4:41:15 PM	Atty Vinsel cross of Witness Vaughan	
	Note: Hughes, Pam	Does this reflect the test year amount in KY Powers base rates. No

4:42:00 PM	Atty Vinsel cross of Witness Vaughan	
	Note: Hughes, Pam	9.7 ROE and a 9.1 WAC, what are transmission cost of rates. PHDR
4:42:57 PM	Atty Vinsel cross of Witness Vaughan	
	Note: Hughes, Pam	Settlement agreement, page 11 para. 8.c. Current federal income tax rate in the WAC
	Note: Hughes, Pam	If federal income tax is reduced, would it be appropriate for the Commission to adjust?
4:45:07 PM	Atty Vinsel cross of Witness Vaughan	
	Note: Hughes, Pam	Para 8.c and para 5.c, rate case stay-out. Weighted average cost of capitol shall remain constant...
4:46:20 PM	Atty Vinsel cross of Witness Vaughan	
	Note: Hughes, Pam	Tariff NUG - direct testimony, no customers on this tariff.
4:47:17 PM	Atty Vinsel cross of Witness Vaughan	
	Note: Hughes, Pam	Discussions with Riverside and the status of the discussions.
4:48:02 PM	Atty Vinsel cross of Witness Vaughan	
	Note: Hughes, Pam	On 1st or 2nd day Commission introduced exhibit 5, PHDR- proposed investments that make up the 9 billion for those inside and those outside the AEP zone. KIUC 7
4:49:38 PM	Atty Vinsel cross of Witness Vaughan	
	Note: Hughes, Pam	Regarding aviation expense. PHDR- total amount allocated to Ky Power for the two years preceding and following test year
4:50:17 PM	Atty Vinsel cross of Witness Vaughan	
	Note: Hughes, Pam	PHDR - Relocation expenses
4:50:34 PM	Atty Vinsel cross of Witness Vaughan	
	Note: Hughes, Pam	Test year ended Feb. 2017
	Note: Hughes, Pam	Big Sandy only 9 ,months of test year. 7 months in the calendar year. Were offset margins annualized in the test year.
4:52:40 PM	Atty Vinsel cross of Witness Vaughan	
	Note: Hughes, Pam	Ky Power recorded a gain on selling land in the test year. What was done with the proceeds of the gain.
4:53:40 PM	Atty Vinsel cross of Witness Vaughan	
	Note: Hughes, Pam	Tariff GS - 450kw hours for demand charge. What was load factor.
	Note: Hughes, Pam	Demand rate increased from 1.91 under Tariff MGS to 7.97 under Tariff GS. Explain the increase.
4:57:25 PM	Atty Vinsel cross of Witness Vaughan	
	Note: Hughes, Pam	KY Power would reach out to this particular customer that filed this letter.
	Note: Hughes, Pam	Reactive situation for customers to reach out. has Ky Power reached out to those class of customers?
	Note: Hughes, Pam	Public comment rec'd on November 20, 2017. Did KY Power calculate how it would affect that type of customer.
5:01:07 PM	Atty Vinsel cross of Witness Vaughan	
	Note: Hughes, Pam	Coal plus Tariffs- Has there been any financial losses with these three tariffs. CS-Coal, CS_IRP, EDR.
5:02:34 PM	Atty Vinsel cross of Witness Vaughan	
	Note: Hughes, Pam	Refers to handout by PSC Tab 2. His exhibit AEV-4S filed with Settlement agreement. Refer to line 10. Equation in parenthesis and what it should read. Refer to line 12, confirm equation is incorrect. Line 24, gross up factor, confirm that is wrong reference
5:04:33 PM	VC cross of Witness Vaughan	
	Note: Hughes, Pam	Regarding Virginia and W. Virginia to reduce subsidies for industrial rates. Tariff rate is higher than in KY Power's rates.

5:06:15 PM	VC cross of Witness Vaughan	
	Note: Hughes, Pam	Regarding allocations and how they are made from AEP down to KY Power. What is the piece that KY Power gets and how it happens.
5:10:16 PM	Comm cross of Witness Vaughan	
	Note: Hughes, Pam	Network integration 6% page 16 of 32 Exhibit AVR 31
5:12:18 PM	Comm cross of Witness Vaughan	
	Note: Hughes, Pam	Stakeholder process at PJM- no he doesn't participate.
5:13:33 PM	Atty Gish re direct of Witness Vaughan	
	Note: Hughes, Pam	AEV 1S to testimony. Split out of revenue increase as LGS as ther own and Schools on there own. Has a document that breaks this down. Atty Overstreet hands it out. KY Power Co exhibit 13
5:16:41 PM	Atty Osterloh re cross of Witness Vaughan	
	Note: Hughes, Pam	Ky Power exhibit 13 - Settlement agreement exhibit 1. Settlement Revenue Allocation. Bottom of page concerning LGS rates.
5:18:54 PM	Atty Osterloh re cross of Witness Vaughan	
	Note: Hughes, Pam	7th lowest for industial rates. 20th for commercial customers
5:19:25 PM	Witness Vaughan excused	
5:19:38 PM	Atty Overstreet clarification	
	Note: Hughes, Pam	140 customers at the 125kw level. He talks about some of these.
5:20:56 PM	AG calls Roger McCann to witness stnd	
	Note: Hughes, Pam	Sworn in by the Chairman
5:21:33 PM	AG direct of Witness McCann	
	Note: Hughes, Pam	Roger McCann - Community Action Kentucky, Exec. Director. No changes to testimony
5:22:31 PM	Chairman cross of Witness McCann	
	Note: Hughes, Pam	How are the slots allocated. His testimony Page 15, figure 7 shows last years slot. 336 for non heating customers and 932 of the heating customers. There is a waitlist because the slots get taken and then they stop taking applications. 1,475 people on the waitlist. The Heap program was instituted in 2006 but no increase in funding since then. Ky Power proposed increasing it to 20 cents.
	Note: Hughes, Pam	This 20 cent increase doesn't come close to helping the number of people under the poverty level in the service territories. He explains what could happen if this was doubled.
	Note: Hughes, Pam	Intervention denied because of untimely filing. Present state of the HEAP Program.
	Note: Hughes, Pam	Any other comment on the HEAP program or on the rate increase. They are opposed to the rate increase and the service charge increase.
5:33:49 PM	Chairman cross of Witness McCann	
	Note: Hughes, Pam	Chairman states this is by statute of the state of Kentucky. Ky Power should consider those in poverty.
5:36:05 PM	AG re cross of WItness McCann	
	Note: Hughes, Pam	Slot is $65 or $33 a month.
5:37:01 PM	Comm cross of Witness McCann	
	Note: Hughes, Pam	How many households did last years subsidy help? Page 8 of his testimony. PHDR
5:39:58 PM	Witness McCann excused	
5:40:13 PM	Witness Willhite is called to the stand	
	Note: Hughes, Pam	Sworn in by the Chairman
5:40:34 PM	Atty Malone direct of Witness Willihite	
	Note: Hughes, Pam	Director of School energy management project, adopts his testimony

5:41:40 PM	Chairman cross of Witness Willhite	
	Note: Hughes, Pam	Cost-of-study done and that schools better off in the LGS class. Witness disagrees and explains why.
	Note: Hughes, Pam	Page 6 of his testimony, list of types of customers who are on the LGS class. Schools can only raise money with property taxes.
5:46:59 PM	Witness Willhite excused	
5:47:09 PM	Chairman statement on PHDR	
	Note: Hughes, Pam	DR's will be filed on Dec 13th. KY Power and AG will answer by Dec 22, Parties to file briefs (if desire) by Jan 5, 2018.
5:48:27 PM	Adjourned	
	Note: Hughes, Pam	This concludes the 3 day hearing in Case No. 2017-00179. December 6, 7, and 8, 2017.
5:48:35 PM	Session Paused	
5:49:36 PM	Session Ended	

Exhibit List Report

2017-00179_6DEC2017

Kentucky Power Company

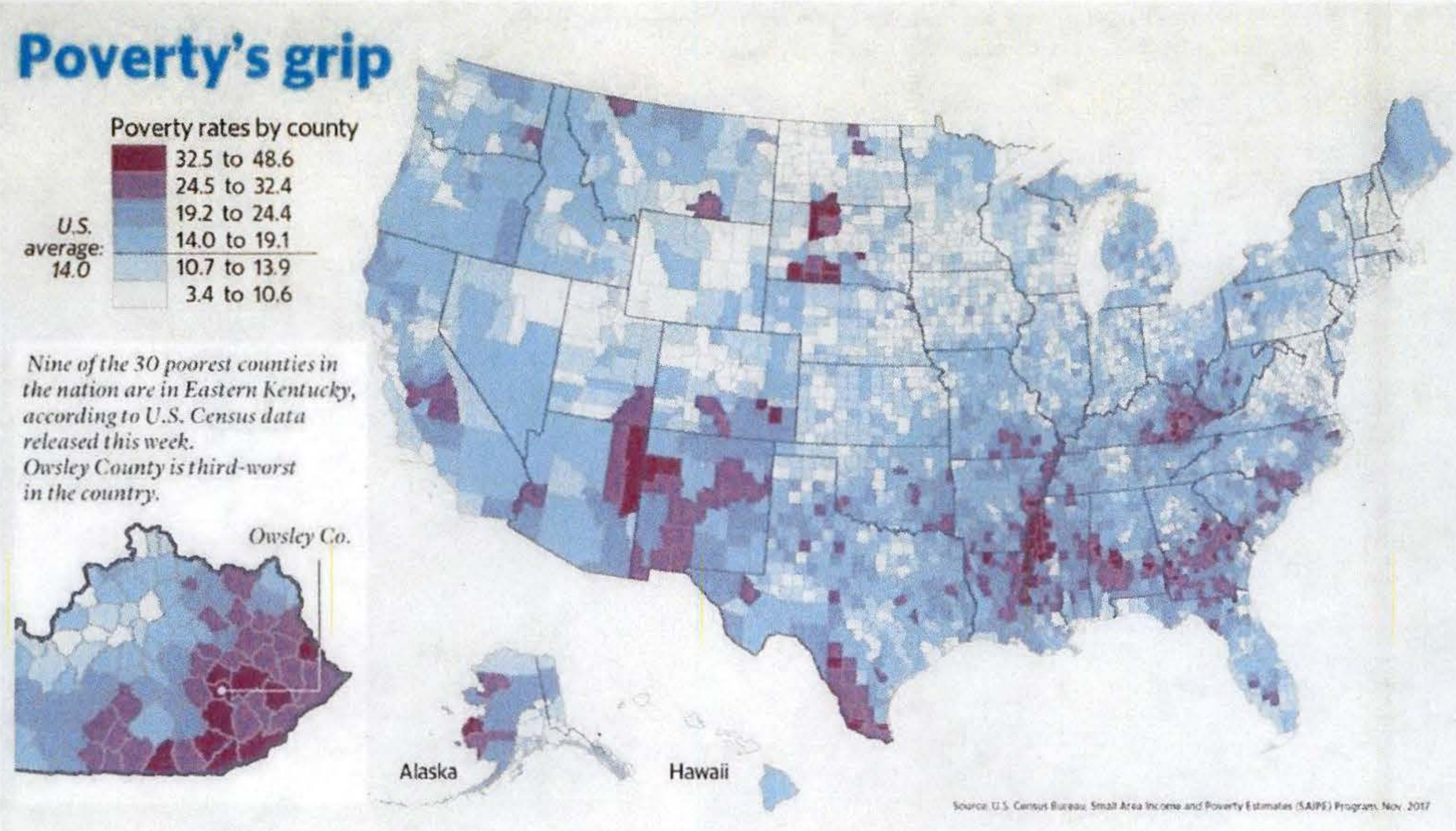
Judge: Bob Cicero; Talina Mathews; Michael Schmitt

Witness: Stephen Barron; Richard Baudino; Douglas Buck; Andrew Carlin; Jason Cash; Curt Cooper; David Dismukes; Amy Elliott; Brad Hall; Kevin Higgins; J. Randall Woolridge; Lane Kollen; Roger McCann; Adrien McKenzie; John McManus; Zachary Miller; Debra Osborne; Everett Phillips; Mark Pyle; Tyler Ross; Matthew Satterwhite; Stephen Sharp; Ralph Smith; Alex Vaughan; Ronald Willhite; Ranie Wohnhas

Clerk: Pam Hughes

Name:	**Description:**
AG Exhibit 01	Application of Ky. Power Co. for Interim Relief to Assist Coal Eaction and Pessing Operations in Kentucky. Case No. 2017-00099 Rec'd on Feb. 23,2017
AG Exhibit 02	Commission Order in Case No. 2017-00099
AG Exhibit 03	Attorney General's First Set of Data Requests, dated 8-14-17 (AG_1_395 w/ response)
AG Exhibit 04	Supplemental Electric Information- Ky eCo. 1/1/16 - 12/31/16
AG Exhibit 05	248.04 PSC - Jurisdiction - Regulations: 1, 2, and 3.
AG Exhibit 06	Case No. 2016-00365 Commission Order in Farmers RECC.
AG Exhibit 07	Daily Treasury Yield Curve Rates
AG Exhibit 08	MergeBond Record - October2017 Vol. 84, No 10
AG Exhibit 09	AVERA/MCKENZIE -19 Lines 1 - 25
AG Exhibit 10	Empirical Capm -Crrent Bond Yield Electric Group
AG Exhibit 11	AEP Leadership - Nick Akins, BBrian x. Tierney, David M. Feinberg
AG Exhibit 12	Investor - owned Electric Utilities in Kentucky - Rates in effect as of 10/12/17
AG Exhibit 13	Ky Power Co Case No. 2014-00396 Post Case Correspondence, dated 9/7/17 2017 BSRR Annual Report -Data Request KPSC_1_002
KCUC Exhibit 01	Public Service Commission - Annual Report Statistics - 2016:
KCUC Exhibit 02	Kentucky Power Company - Tariff GS
KCUC Exhibit 03	Economic Development in Coal Country - Leadership Kentucky Presentation by Matthew J. Satterwhite President/COO of Ky PowCo. 11-10-17
KCUC Exhibit 04	Ky Power Co, Settlement Agreement Exhibit 1; Case No. 2017-00179 - Settlement Revenue Allocation
KCUC Exhibit 05	Kentucky Power Co. Tariff C.S. - Coal (Contract Service - Coal Power)
KCUC Exhibit 06	Kentucky Power Co. Proposed Revenue Allocation , 12 months ended February 28, 2017 (Exhib No. DRB-2, Page 2 of 3, Witness: D. Buck)
KCUC Exhibit 07	Case No. 2014-00396 Kentucky Power Co. Settlement Agreement
KIUC Exhibit 01	Kentucky Power Company - Exhibit AEV-1S/Settlement Agreement Exhibit 1
Ky Power Exhibit 02	Caso. 2011-00401 AG'S POST-HEARING BRIEF (Public Version)
Ky Power Exhibit 03	Order in Case No. 2012-00578
Ky Power Exhibit 04	Case No. 2017-00179 AG's Response to Data Requests of the PSC
Ky Power Exhibit 05	Case No. 9613 Big Rivers, Index and Order
Ky Power Exhibit 06	Article from Columbus Business First: AEP takes $2.3B write-down of coal plants to avoid Ohio's Deregulation debacle.
Ky Power Exhibit 07	Case No. 2017-00179 -Direct testimony of J. Randall Woolridge
Ky Power Exhibit 08	Test Year Rockport ROE Charge
Ky Power Exhibit 09	Power Coordination Agreement (PCA) Proposal to the Operating Committee, dated March 3, 2017

Ky Power Exhibit 10	Moody's Investors Service Credit Opinion 28 October 2016 Kentuckyilities Co.
Ky Power Exhibit 11	Moody's Investor Service - Credi inion 28 October 2016 - Louisville Gas & Electric Co.
Ky Power Exhibit 12	Regulatory Research Assoc., Major Rate Case Decisions, Regulla Focus (Oct. 26, 2017) Kentucky Power Settlement 4.06% and Kentucky Utlities 5.22%
Ky Power Exhibit 13	Kentucky Power Settlement Agreement Exhibit 1, Case No. 2017-00179 Settllement Revenue Allocation
Ky. Power Exhibit 01	Case No. 2014-00396 Pages index, 67, 68, 69
PSC Exhibit 01	Article in Kentucky.com titled "Not enough jobs".
PSC Exhibit 02	Order in Case No. 2001-00248 LG&E
PSC Exhibit 03	Order in Administrative Case No. 276 "Joint Liability Of Husband And Wife For Payment Of Utility BIlls."
PSC Exhibit 04	Customer Bill of Rights
PSC Exhibit 05	AEP News Release - "AEP to fuel growth with increased investment in Regulated Operations and Renewables".
PSC Exhibit 06	Order in Case No. 2000-369 Wilhite v. LG&E
PSC Exhibit 07	AEP ALLOCATON PROCESS (Exhibit AEV R1 pag21 of 32)



STATE

'Not enough jobs.' Nine of the 30 poorest counties in U.S. are in Eastern Kentucky.

BY BILL ESTEP
bestep@herald-leader.com

DECEMBER 03, 2017 11:45 AM
UPDATED 3 HOURS 0 MINUTES AGO

The poverty rates in nine Eastern Kentucky counties were among the 30 highest in the nation in 2016, according to new U.S. Census Bureau estimates.

The rate in Owsley County was third-highest in the country, at 45.2 percent, the agency estimated.

The highest rate in the U.S. was in Todd County, S.D., at 48.6 percent, and next was Crowley County, Col., at 48 percent, according to the report released Thursday.

The other Kentucky counties in the group with the highest estimated poverty rates were Clay, Martin, McCreary, Knox, Lee, Bell, Knott and Harlan.

Several have been hit hard by a sharp downturn in the coal industry, which has wiped out more than two-thirds of the coal jobs in Eastern Kentucky since 2011.

The estimates illustrate the challenge as officials, educators and business people work to diversify the economy and counteract the downturn.

PSC
Exhibit

There are some promising developments, such as growth in work-from-home jobs and projects to improve roads, but still not enough economic opportunity in the region, said Owsley County Judge-Executive Cale Turner.

"There's not enough jobs, definitely not," said Turner, a Democrat.

How America's big and small counties differ

The 325 million people in the United States live in two very different areas: Big-county America and small-county America.

U.S. Census Bureau

The Census Bureau's report, which it does annually, is the only source of single-year estimates on poverty and median household income at the county and school-district levels, according to the agency.

Other estimates consider multiple years.

The report, which covers 3,141 counties, is important because it is used in allocating federal aid to local governments and school districts.

The lowest estimated poverty rate in the country in 2016 was in Douglas County, Col., at 3.4 percent.

The report said that from 2015 to 2016, more U.S. counties saw a decrease in the poverty rate than an increase.

But taking a longer view, the poverty rate went up in more counties than it went down between 2007 and 2016.

Of all the people in the country considered poor, 41.5 percent live in the South; 23.3 percent in the West; 19.7 percent in the Midwest; and 15.4 percent in the Northeast.

Nearly 40 percent of the counties in the South had a poverty rate above 20 percent in 2016.

The report also estimated median household income — the point with half of households making more and half making less.

Again, several counties in Eastern Kentucky were in the group of 30 with the lowest figures.

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The median household income in Owsley County was $23,115. The top number was in Loudoun County, Va., in the Washington, D.C metro area, at $134,609, according to the report.

Kentucky as a whole had the fifth-highest poverty rate at 18.2 percent, behind Mississippi, Louisiana, New Mexico and Washington, D.C.

The state's median household income was sixth-lowest in the country, at $46,610, according to the Census report.

Turner said such estimates give only a partial picture of life in a county because they don't take into account factors such as a lower cost of living.

And he said the county's numbers would likely be better now than the period covered in the report.

He pointed to more than 100 residents who have gotten jobs since mid-2016 through a program called Teleworks USA, which trains people to work from home in customer-service jobs such as taking reservations for UHaul or orders for products.

That has been possible because Peoples Rural Telephone Cooperative installed fiber-optic lines to make internet speeds up of up to one gigabit per second available to very home and business in Owsley and Jackson counties.

"I've talked to a lot of people that have these jobs and they're thrilled," Turner said.

The teleworks jobs will be one piece of diversifying the region's economy, but it will take other approaches as well, Turner said, including training so people can qualify for higher-paying online jobs.

"There has to be more," Turner said.

Bill Estep: 606-678-4655, @billestep1

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COMMONWEALTH OF KENTUCKY

BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

LOUISVILLE GAS AND ELECTRIC COMPANY AND KENTUCKY UTILITIES COMPANY TARIFF FILINGS AUTHORIZING CERTAIN TRANSFERS OF UNPAID BALANCES OF FINAL BILLS	)))))	CASE NO. 2001-00248

O R D E R

Louisville Gas and Electric Company (LG&E) and Kentucky Utilities Company (KU) filed with the Commission on July 10, 2001 revised tariff sheets that would change their ability to transfer the balances of unpaid bills to any LG&E or KU customer who received benefit of service under the unpaid account. Likewise, LG&E or KU would be able to refuse service to similarly indebted prospective customers. The Commission suspended the implementation of the proposed tariff amendments and initiated Case No. 2001-248.

The Commonwealth of Kentucky ex. rel. A.B. Chandler, III, Attorney General, by and through the Utility and Rate Intervention Division (Attorney General), Metro Human Needs Alliance (MHNA), and People Organized and Working for Energy Reform (POWER) intervened.

Of particular concern to the intervenors was LG&E s and KU s provisions that a person who received the benefit of service under a previous account would be liable for the unpaid balance of that account. The concern was that benefit of service was too

PSC Exhibit 2

broad and could result in LG&E s and KU s attempt to transfer balances to people who were not, and could not be, legally responsible for the unpaid balances.

All parties met in an informal conference on November 26, 2001. After negotiations, LG&E and KU proposed a provision from The Union Light, Heat and Power Company s (ULH&P) tariff regarding the transfer of unpaid balances in lieu of the currently proposed tariff amendments. The ULH&P tariff provision allows the utility to transfer the unpaid balance of an account to the account of an individual who was responsible for the previous account, rather than to a party who received the benefit of service.

LG&E, KU, the Attorney General, MHNA and POWER entered into a Settlement Agreement. The Settlement Agreement provides that the intervenors, LG&E, and KU agree that the proposed language is acceptable and that LG&E and KU will file the proposed language after the Commission approves the Settlement Agreement.

After due consideration of the proposed Settlement Agreement and being otherwise sufficiently advised, the Commission finds that the Settlement Agreement is fair and reasonable and should be approved.

IT IS THEREFORE ORDERED that:

1. The Settlement Agreement, attached hereto as Appendix A, is incorporated into this Order as if fully set forth herein.

2. Within 15 days of the date of this Order, LG&E and KU shall file with the Commission the proposed tariff sheets as contained in the attached Settlement Agreement.

3. This case is dismissed and removed from the Commission s docket.

Done at Frankfort, Kentucky, this 30th day of January, 2002.

By the Commission

ATTEST:

Executive Director

COMMONWEALTH OF KENTUCKY

BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

JOINT LIABILITY OF HUSBAND AND WIFE FOR PAYMENT OF UTILITY BILLS	)))	ADMINISTRATIVE CASE NO. 276

O R D E R

On April 6, 1984, the Commission issued an Order inviting public comment on the recurring issue of whether the husband and wife should share the liability for payment of a utility bill where the contract for the utility service was made by only one spouse. Comments were specifically invited from all jurisdictional utilities, the Attorney General, interested consumer groups, and the Kentucky Commission on Women. Comments were received from the Attorney General, the Kentucky Commission on Women, Kentucky Legal Services and 24 utilities.[1]

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[1] South Central Bell, Cincinnati Bell, General Telephone, Kentucky Utilities, LG&E, Kentucky Power, Columbia Gas, Western Kentucky Gas, Delta Natural Gas, Green River Electric, Big Sandy RECC, Blue Grass RECC, Licking Valley RECC, Jackson County RECC, Owen County RECC, Cumberland Valley RECC, Kenton County Water District, Pendleton County Water and Gas, Hardin County Water Districts 1 and 2, Edmonson County Water District, Foothills Rural Telephone, Brandenburg Telephone, and Duo County Telephone Cooperative.

PSC Exhibit 3

The majority of the comments filed recommended that any rule established by the Commission regarding payment liability be based on the quasi-contract theory of benefit received. However, most commenting parties also urged the Commission not to adopt any hard and fast rule at this time and, instead, continue to review these problems on a case by case basis.

After considering the comments as filed, the Commission finds that it is in the best interests of the utility customers to not adopt general regulations at this time but to continue resolving these complaints on a case by case basis. The factual situations that give rise to payment liability problems among family members are virtually infinite, and it is the Commission's opinion that no specific regulation could possibly address even the majority of these problems. Instead, a flexible case by case approach in resolving these complicated situations is often fairer to both the customer and the utility. For these reasons, the Commission will not adopt a specific regulation concerning liability for payment of utility bills at this time.

The Commission HEREBY ORDERS that this matter be, and it hereby is, dismissed.

Done at Frankfort, Kentucky, this 24th day of September, 1984.

PUBLIC SERVICE COMMISSION

Richard D. Hemenway

Chairman

Vice Chairman

Commissioner

ATTEST:

Secretary

CUSTOMER BILL OF RIGHTS

As a residential customer of a regulated public utility in Kentucky, you are guaranteed the following rights subject to Kentucky Revised Statutes and the provisions of the Kentucky Public Service Commission Administrative Regulations:

- You have the right to service, provided you (or a member of your household whose debt was accumulated at your address) are not indebted to the utility.
- You have the right to inspect and review the utility's rates and tariffed operating procedures during the utility's normal office hours.
- You have the right to be present at any routine utility inspection of your service conditions.
- You must be provided a separate, distinct disconnect notice alerting you to a possible disconnection of your service if payment is not received.
- You have the right to dispute the reasons for any announced termination of your service.
- You have the right to negotiate a partial payment plan when your service is threatened by disconnection for non-payment.
- You have the right to participate in equal, budget payment plans for your natural gas and electric service.
- You have the right to maintain your utility service for up to thirty (30) days upon presentation of a medical certificate issued by a health official.
- You have the right to prompt (within 24 hours) restoration of your service when the cause for discontinuance of the service has been corrected.
- If you have not been disconnected, you have the right to maintain your natural gas and electric service for up to thirty (30) days if you present a Certificate of Need issued by the Kentucky Cabinet for Human Resources between November and the end of March.
- If you have been disconnected due to nonpayment, you have the right to have your natural gas or electric service reconnected between the months of November through March provided you:

    1. Present a Certificate of Need issued by the Kentucky Cabinet for Human Resources, and
    2. Pay one third (1/3) of your outstanding bill ($200 maximum), and
    3. Accept referral to the Human Resources' Weatherization Program, and
    4. Agree to a repayment schedule that will cause your bill to become current by October 15.

- You have the right to contact the Public Service commission regarding any dispute that you have been unable to resolve with your utility (Call Toll Free 1-800-772-4636).

The Customer Bill of Rights is referenced in 807 KAR 5:006 Section 14 (1) (c) 1 .

AEP To Fuel Growth With Increased Investment In Regulated Operations and Renewables

COLUMBUS, Ohio, Nov. 1, 2016 – American Electric Power (NYSE: AEP) is increasing capital investment in its core operations over the next three years to support a higher operating earnings growth range of 5 to 7 percent from the previous 4 to 6 percent growth rate. AEP management will discuss the company's financial outlook and earnings growth strategy with financial analysts today during a meeting in New York.

AEP increased and narrowed its 2016 operating earnings guidance range to $3.75 to $3.85 per share from the previous range of $3.60 to $3.80 per share. The company announced operating earnings guidance for 2017 of $3.55 to $3.75 per share, reflecting dilution from the competitive generation asset sale. AEP's operating earnings guidance range is forecast at $3.75 to $3.95 per share for 2018 and $4.00 to $4.20 per share for 2019.

A table at the end of this release reconciles 2016 operating earnings guidance and estimated earnings per share on a GAAP basis that reflects special items recorded through the third quarter.

Operating earnings could differ from those prepared in accordance with Generally Accepted Accounting Principles (GAAP) for matters such as impairments, divestitures or changes in accounting principles. Other than an expected after-tax gain of approximately $150 million from the competitive generation asset sale in 2017, AEP management is not able to forecast if any of these items will occur or any amounts that may be reported for future periods. Therefore, AEP is not able to provide a corresponding GAAP equivalent for earnings guidance.

To support earnings growth, AEP plans to invest approximately $17.3 billion over the period 2017 to 2019 in its core regulated operations and contracted renewables. AEP's increased capital investment plan includes reinvestment of $2.2 billion in levered proceeds after the expected completion of the sale of part of its competitive generation portfolio. AEP announced an agreement in September to sell 5,200 megawatts of competitive generation assets to a joint venture of Blackstone and ArcLight Capital Partners LLC.

The company also took a pre-tax impairment charge of $2.3 billion in third-quarter 2016 largely to write-down AEP's remaining competitive generation assets in Ohio to their estimated fair value.

PSC Exhibit 5

"AEP has successfully refocused our business with 97 percent of our forecasted earnings coming from our regulated operations. We are in a unique position because we have the ability to fuel solid earnings growth through organic investment in our regulated businesses. That organic growth will provide enhanced reliability for our customers along with stable, positive returns for our shareholders," said Nicholas K. Akins, AEP chairman, president and chief executive officer.

"In our transmission business alone, we have at least a 10-year runway of low-risk investment opportunities that include projects to refurbish and replace existing, aging infrastructure, supplemented by new transmission investments that support resiliency, lower energy costs and facilitate renewable generation development," Akins said.

AEP plans to invest approximately $9 billion in its transmission business over the next three years, more than half of the company's total capital investment forecast, to enhance customer reliability. AEP Transmission Holding Co. is expected to become one of AEP's largest subsidiary companies by 2019, contributing approximately 90 cents per share to AEP's total regulated earnings by 2019. AEP's annual planned transmission investment constitutes about 14 percent of the total annual forecasted transmission investment for all investor-owned utilities in the nation.

AEP's earnings growth strategy also includes incremental investment in renewable generation projects throughout the United States. AEP recently formed new subsidiaries – AEP OnSite Partners and AEP Renewables – to invest in renewable generation, energy storage and combined heat and power projects that provide cleaner energy under long-term contracts for cities, schools, companies, utilities and municipalities. AEP OnSite Partners and AEP Renewables already have projects in nine states with a strong pipeline of additional opportunities. AEP expects to invest approximately $1 billion in renewable energy projects from 2017 through 2019.

AEP's regulated business investment strategy supports dividend growth consistent with earnings and within the targeted 60 to 70 percent payout ratio. In October, the company increased its dividend by 5.4 percent on a quarterly basis from 56 cents per share to 59 cents per share. AEP has paid a cash dividend on its common stock for 426 consecutive quarters, since July 1910.

American Electric Power is one of the largest electric utilities in the United States, delivering electricity and custom energy solutions to nearly 5.4 million customers in 11 states. AEP owns the nation's largest electricity transmission system, a more than 40,000-mile network that includes more 765-kilovolt extra-high voltage transmission lines than all other U.S. transmission systems combined. AEP also operates 224,000 miles of distribution lines. AEP ranks among the nation's largest generators of electricity, owning approximately 31,000 megawatts of generating capacity in the U.S. AEP also supplies 3,200 megawatts of renewable energy to customers. AEP's utility units operate as AEP Ohio, AEP Texas, Appalachian Power (in Virginia and West Virginia), AEP Appalachian Power (in Tennessee), Indiana Michigan Power, Kentucky Power, Public Service Company of Oklahoma, and Southwestern Electric Power Company (in Arkansas, Louisiana and east Texas). AEP's headquarters are in Columbus, Ohio.

This report made by American Electric Power and its Registrant Subsidiaries contains forward-looking statements within the meaning of Section 21E of the Securities Exchange Act of 1934. Although AEP and each of its Registrant Subsidiaries believe that their expectations are based on reasonable assumptions, any such statements may be influenced by factors that could cause actual outcomes and results to be materially different from those projected. Among the factors that could cause actual results to differ materially from those in the forward-looking statements are: the economic climate, growth or contraction within and changes in market demand and demographic patterns in AEP's service territory; inflationary or deflationary interest rate trends; volatility in the financial markets, particularly developments affecting the availability or cost of capital to finance new capital projects and refinance existing debt; the availability and cost of funds to finance working capital and capital needs, particularly during periods when the time lag between incurring costs and recovery is long and the costs are material; electric load, customer growth and the impact of competition, including competition for retail customers; weather conditions, including storms and drought conditions, and AEP's ability to recover significant storm restoration costs; the cost of fuel and its transportation and the creditworthiness and performance of fuel suppliers and transporters; availability of necessary generating capacity and the performance of AEP's generating plants; AEP's ability to recover fuel and other energy costs through regulated or competitive electric rates; AEP's ability to build transmission lines and facilities (including the ability to obtain any necessary regulatory approvals and permits) when needed at acceptable prices and terms and to recover those costs; new legislation, litigation and government regulation, including oversight of nuclear generation, energy commodity trading and new or heightened requirements for reduced emissions of sulfur, nitrogen, mercury, carbon, soot or particulate matter and other substances that could impact the continued operation, cost recovery, and/or profitability of AEP's generation plants and related assets; evolving public perception of the risks associated with fuels used before, during and after the generation of electricity, including nuclear fuel; a reduction in the federal statutory tax rate that could result in an accelerated return of deferred federal income taxes to customers; timing and resolution of pending and future rate cases, negotiations and other regulatory decisions, including rate or other recovery of new investments in generation, distribution and transmission service and environmental compliance; resolution of litigation; AEP's ability to constrain operation and maintenance costs; AEP's ability to develop and execute a strategy based on a view regarding prices of electricity and gas; prices and demand for power generated and sold at wholesale; changes in technology, particularly with respect to energy storage and new, developing, alternative or distributed sources of generation; AEP's ability to recover through rates or market prices any remaining unrecovered investment in generating units that may be retired before the end of their previously projected useful lives; volatility and changes in markets for capacity and electricity, coal, and other energy-related commodities, particularly changes in the price of natural gas and capacity auction returns; changes in utility regulation and the allocation of costs within regional transmission organizations, including ERCOT, PJM and SPP; the market for generation in Ohio and PJM and the ability to recover investments in Ohio generation assets; AEP's ability to successfully and profitably manage competitive generation assets, including the evaluation and execution of strategic alternatives for these assets as some of the alternatives could result in a loss; changes in the creditworthiness of the counterparties with whom AEP has contractual arrangements, including participants in the energy trading market; actions of rating agencies, including changes in the ratings of AEP debt; the impact of volatility in the capital markets on the value of the investments held by AEP's pension, other postretirement benefit plans, captive insurance entity and nuclear decommissioning trust and the impact of such volatility on future funding requirements; accounting pronouncements periodically issued by accounting standard-setting bodies; and other risks and unforeseen events, including wars, the effects of terrorism (including increased security costs), embargoes, cyber security threats and other catastrophic events.

Reflecting special items recorded through the third quarter 2016, the estimated earnings per share on a GAAP basis would be $0.96 to $1.06. See the table below for a full reconciliation.

2016 EPS Guidance Reconciliation

	\$0.96	**to**	**\$1.06**
Impairment of certain merchant generation fleet assets		2.98	
Disposition of Commercial Barge Operations		0.01	
Capital Loss Valuation Adjustment		(0.09)	

	$0.96	**to**	**$1.06**
Federal Tax Audit Settlement		(0.11)	
Operating EPS Guidance	$3.75	to	$3.85

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2001 WL 36415838 (Ky.P.S.C.)
Slip Copy

In the Matter of: SANDRA HUFF WILHITE COMPLAINANT
v.
LOUISVILLE GAS AND ELECTRIC COMPANY DEFENDANT

Case No. 2000-369

Kentucky Public Service Commission

February 8, 2001
ORDER

BY THE COMMISSION.

*1 On July 19, 2000, Sandra Huff Wilhite ("Complainant") filed a formal complaint against Louisville Gas and Electric Company ("LG&E") alleging that LG&E had wrongfully terminated her service because she refused to pay balances owed to LG&E by her estranged husband and her son. Complainant requests that the aforementioned balances be removed from her account and that she be allowed to receive service. Complainant further requested that damages be awarded to compensate her for food spoiled due to LG&E discontinuing service to her residence.

LG&E filed its answer on August 18, 2000, claiming that Complainant is responsible for her estranged husband's unpaid balance because she was the spouse of Mr. Wilhite, resided at 3229 Northwestern Parkway and 637 South 39 th Street with Mr. Wilhite while LG&E provided services, and therefore received the benefits of LG&E services to those addresses. LG&E originally claimed that, since Complainant also lived with her son at 630 East Breckenridge Street, Apt. 2FFT, she is therefore responsible for her son's unpaid balances because she received the benefit of LG&E's services at her son's address.

In response to a data request from the Commission, LG&E admits that it has no proof that Complainant resided at her son's apartment or that she received the benefits of LG&E's service while a guest or a resident at her son's apartment. Accordingly, LG&E reduced its claim against Ms. Wilhite by removing $94.95 charged for the period she allegedly resided with her son.

It is clear that LG&E is entitled to collect for any unpaid balances Complainant accrued while she had service in her name. It is unclear, however, how Complainant is responsible for the unpaid balances that were incurred when service was in her estranged husband's name. LG&E argues that Complainant is responsible for the charges incurred under her husband's name because "as a spouse of Mr. Wilhite, Ms. Wilhite is jointly responsible with her husband for bills rendered for service...." (LG&E's Answer, page 3.) However, LG&E cites no authority in support of this proposition.

In Administrative Case No. 276, [1] the Commission sought comment from utilities and other parties about the joint liability of husband and wife for payment of utility bills. The Commission concluded that it would not adopt any hard and fast rules relating to joint liability for husband and wife. Instead, the Commission will decide each such dispute on a case-by-case basis. Additionally, in Case No. 95-362, [2] the Commission found that the mother who rented a house to her son was not liable for bills incurred by her son. In that case LG&E, the defendant, argued that the mother was liable for the bills because she had the "benefit of service" [3] from LG&E to her son. The Commission found for the Complainant, stating: "[w]hile "benefit of service" criteria has never been accepted by the Commission as a policy suitable for all utilities to follow in collecting past due accounts, it is considered on a case to case basis where applicable." [4]

PSC Exhibit 6

***2** LG&E asserts that Complainant is responsible for her husband's past due account because she was his wife and because she allegedly lived at the residences. LG&E does not allege that Complainant signed a contract with LG&E to receive service at 3229 Northwest Parkway, 637 South 39 th Street, and 630 East Breckenridge Street, Apt 2FFT. LG&E advances no further argument or reason to support its assertion of liability. Pursuant to Administrative Case No. 276, the Commission has adopted no rules automatically providing for liability of a spouse when the other spouse fails to pay a utility bill.

LG&E also has adopted no rules in its tariff addressing the liability of a person who lives in the same residence as the ratepayer whose account has fallen delinquent. LG&E's tariff does contain provisions for the discontinuance or refusal of service for delinquent accounts, [5] but these sections do not contain any language which ascribes any sort of liability to the spouse or cohabitant of the person in whose name the utility bill is registered.

In Case No. 10233, [6] the Commission found that Grayson Rural Electric Cooperative Corporation ("Grayson RECC") correctly refused to provide electric service to the wife of the bill-payer whose account was delinquent. The central issue presented in the case was that Walter Callihan's wife, Goldie Callihan, had applied to receive service from Grayson RECC, which Grayson RECC refused to provide because her husband's account was several thousand dollars in arrears. In finding for Grayson RECC, the Commission noted that Grayson RECC's tariff contained a provision [7] that allowed it to refuse service to a person residing with a delinquent bill-payer on the theory that the person applying for service should be treated as an agent of the delinquent bill-payer. [8] In light of the aforementioned tariff provision, the Commission found that "[a]ccordingly, any debt owed by Walter Callihan to Grayson RECC may be imputed to Goldie Callihan and serve as a proper basis for refusing service to her." [9] Grayson RECC was able, therefore, by virtue of its tariff and as a matter of law, to hold Mr. Callihan's wife liable for the debts that he had incurred.

***3** LG&E's tariff does not contain a similar provision regarding the liability of a person who lives, or has lived, with a delinquent bill-payer. LG&E does not allege that Complainant was a signatory to Mr. Wilhite's service agreement with LG&E, nor does LG&E allege that Complainant signed a contract or otherwise agreed to assume the liability for her estranged husband's accounts. Absent a specific tariff provision or an agreement between Complainant and LG&E, the Commission is reluctant to assign the liability of Mr. Wilhite's unpaid accounts to Complainant. Accordingly, the Commission finds as follows:

1. As there is no dispute of any material fact, there is no compelling public interest to conduct an evidentiary hearing.

2. LG&E has failed to provide any support for its assertion that Complainant is responsible for the delinquent accounts of her son, Michael Wilhite, or of her husband, Willie Wilhite.

3. It is not within the Commission's jurisdiction to award damages for the food Complainant alleges was spoiled due to LG&E discontinuing service to her residence.

IT IS THEREFORE ORDERED that:

1. LG&E may not attempt to collect from Complainant for the unpaid balances owed by her son and estranged husband.

2. Within 30 days of the issuance of this Order, LG&E must refund any monies paid by Complainant in excess of the amount she owes for service received by her from LG&E. This includes any late fees, disconnect charges, and reconnect charges incurred by Complainant as a result of LG&E's attempt to bill her for her estranged husband's and son's accounts.

3. At the time LG&E refunds the above-mentioned charges and monies, it shall supply to the Commission a copy of the bills showing the refund, accompanied by an attachment explaining the nature of the various charges.

Done at Frankfort, Kentucky, this 8 th day of February, 2001.

Footnotes

1 Administrative Case No. 276, Joint Liability of Husband and Wife for Payment of Utility Bills. Final Order dated September 24, 1984.

2 Case No. 95-362, Norma Jean Kumer v. Louisville Gas and Electric Company.

3 Case No. 95-362, final Order at 4.

4 Case No. 95-362, final Order at 4.

5 LG&E Tariff, Tariff Sheet No. 48, Rules 22 (D and G).

6 Case No. 10233, Walter Callihan and Goldie Callihan, His Wife vs. Grayson Rural Electric Cooperative Corporation. Decided May 1, 1989.

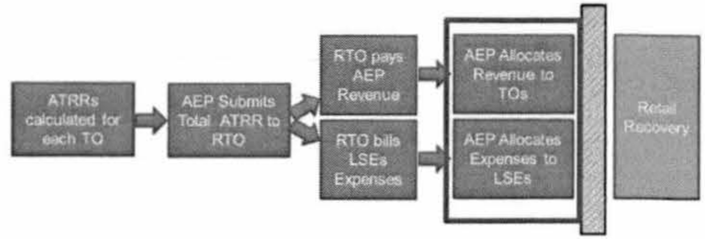
7 The relevant tariff provision states: "[i]f an application is received by a person residing with a delinquent member at the premises where power was supplied to the delinquent member, the application will be denied on the grounds that the applicant is applying as the agent of the delinquent member." Grayson RECC Tariff, Tariff Sheet No. 18, Rule 5.

8 Case No. 10233, final Order, Page 2, Footnote 2.

9 *Id.*

End of Document

AEP ALLOCATION PROCESS



- AEP receives the PJM Bill
  - Includes both charges and credits
- AEP allocates transmission charges and credits to its companies based on the Transmission Agreement (TA)
  - Allocation factors are in Appendix I of the TA

AEP Transmission Agreement
Allocation of Transmission Related Costs and Revenues

#	Item	FERC Account*	PJM Billing Basis	AEP Allocation Basis
	AEP as Transmission Owner (Revenues)			
1	Transmission Owner Scheduling, System Control and Dispatch Service (PJM Schedule 1A)	456.1	NSPL	ARR S1A
2	NITS (AEP LSE)	456.1	NSPL	ATRR
3	NITS (Non-Affiliates)	456.1	NSPL	ATRR
4	Grandfathered PTP (CPL & NCEMC)	456.0	Contract	ATRR
5	PJM Expansion Cost Recovery Charge (ECRC)	456.1	NSPL	ARR EC
6	RTO Startup Cost Recovery Charge (SCRC)	456.1	NSPL	ARR SC
	AEP as LSE (Expenses)			
7	Transmission Owner Scheduling, System Control and Dispatch Service (PJM Schedule 1A)	456.1	MWh	MWh
8	NITS Charges (for AEP Retail Load)	456.1	NSPL	12CP
9	NITS Charges for AEP FR Customers	447.0	NSPL	DA
10	NITS Reimbursement from AEP FR Customers	447.0	NSPL	DA
11	Schedule 1A Charge for AEP FR Customers	447.0	NSPL	DA
12	Schedule 1A Reimbursement from AEP FR Customers	447.0	NSPL	DA
13	Firm Point-to-Point Credits (for AEP Retail Load)	456.1	NSPL	12CP
14	Non-Firm Point-to-Point Credits (AEP Retail Load)	456.1	NSPL	12CP
15	Transmission Enhancement (Schedule 12)	565.0	NSPL	12CP
16	PJM Expansion Cost Recovery Charge (ECRC)	456.1	NSPL	12CP
17	RTO Startup Cost Recovery Charge (SCRC)	456.1	NSPL	12CP

AEP East

Company	12 CP Load
APCo	30.0%
I&M	16.7%
KPCo	6.5%
KgPCo	1.9%
OPCo	43.1%
WPCo	1.9%

Kentucky Power Company
Exhibit AEV-1S/Settlement Agreement Exhibit-1
Case No. 2017-00179
Settlement Revenue Allocation

Customer Class	Base Rate Case Settlement Increase						Increase Incorporating Surcharge Changes			Return on Rate Base		Settlement
	Settlement Base Rate Increase	ECP	HEAP KEDS	Total Increase	Test Year Rev	% Increase	Carrying Charge Savings in ES	Net Increase	Total Bill % Increase	Current ROR	Proposed ROR	Proposed Non-Fuel Base Revenue Increase
	a	b	c	d = a+b+c	e	= d/e	f	g = d+f	= g/e			
RS	$ 20,076,436	$1,734,600	594	21,811,630	$232,952,481	9.36%	($835,019)	$20,976,611	9.00%	1.90%	3.77%	14.15%
~~SGS~~	~~$ 984,981~~	~~$164,183~~	~~247,506~~	~~1,416,670~~	~~$21,371,729~~	~~6.63%~~	~~($88,664)~~	~~$1,328,006~~	~~6.21%~~	~~11.30%~~	~~12.90%~~	~~7.19%~~
~~MGS~~	~~$ 3,421,623~~	~~$500,403~~	~~69,324~~	~~3,991,350~~	~~$60,245,787~~	~~6.63%~~	~~($240,889)~~	~~$3,750,461~~	~~6.23%~~	~~9.14%~~	~~10.96%~~	~~9.24%~~
GS*	$ 4,406,604	$ 684,586	$ 316,830	$ 5,408,020	$ 81,617,516	6.63%	($329,553)	$5,078,467	6.22%	9.67%	11.43%	8.68%
LGS/PS	$ 3,520,149	$549,861	8,467	4,078,477	$70,567,216	5.78%	($264,698)	$3,813,779	5.40%	8.78%	10.46%	8.61%
IGS	$ 3,534,466	$836,950	694	4,372,110	$157,911,866	2.77%	($402,899)	$3,969,211	2.51%	6.82%	7.71%	5.85%
MW	$ 4,956	$1,620	102	6,678	$221,405	3.02%	($780)	$5,898	2.66%	12.12%	13.02%	3.94%
OL	$ 201,254	$82,080	0	283,334	$8,984,564	3.15%	($39,512)	$243,822	2.71%	15.03%	15.68%	2.87%
SL	$ 36,869	$13,751	0	50,620	$1,645,931	3.08%	($6,620)	$44,000	2.67%	15.92%	16.84%	3.29%
Total	$ 31,780,734	$ 3,903,448	$ 326,687	$ 36,010,869	$ 553,900,979	6.50%	($1,879,080)	$34,131,789	6.16%	4.85%	6.48%	9.47%

* GS is the combination of the SGS and MGS classes

Movants KIUC
Exhibit 1

RECEIVED

FEB 23 2017

PUBLIC SERVICE COMMISSION

COMMONWEALTH OF KENTUCKY

BEFORE THE PUBLIC SERVICE COMMISSION

In The Matter Of:

Application Of Kentucky Power Company For (1) Authority To Amend Temporarily Tariff C.S. - I.R.P. And Tariff E.D.R.; (2) To Establish Temporarily Tariff C.S. - Coal; (3) For Leave To Deviate From The Notice Requirements Of 807 KAR 5:011, Section 8; (4) For Related Accounting Relief; And 5) For All Other Required Approvals and Relief	)	Case No. 2017-00099

APPLICATION OF KENTUCKY POWER COMPANY FOR INTERIM RELIEF TO ASSIST COAL EXTRACTION AND PROCESSING OPERATIONS IN KENTUCKY

Kentucky Power Company applies to the Public Service Commission of Kentucky pursuant to 807 KAR 5:011, Section 6(2)(a), 807 KAR 5:011, Section 15, and KRS 278.220 for an Order: (1) temporarily authorizing Kentucky Power to amend Tariff C.S. - I.R.P. and Tariff E.D.R. to include provisions for customers engaged in coal mining and coal processing activities; (2) to temporarily establish a new Tariff C.S. - Coal for customers engaged in coal mining and coal processing activities; (3) granting Kentucky Power leave as necessary to deviate from the notice requirements of 807 KAR 5:001, Section 8; and (4) granting all other required relief or approvals. In support thereof Kentucky Power states:

APPLICANT

1. Kentucky Power was organized in 1919 under the laws of the Commonwealth of Kentucky.[1] The Company's mailing address is 855 Central Avenue, Suite 200, Ashland, KY

[1] A certified copy of the Company's Articles of Incorporation and all amendments thereto was attached to the Joint Application in *In the Matter Of: The Joint Application Of Kentucky Power Company, American Electric Power Company, Inc. And Central And South West Corporation Regarding A Proposed Merger*, P.S.C. Case No. 99-149. The Company's February 20, 2017 Certificate of Existence is attached as **EXHIBIT 1**.

AG EXH. NO 1

41101. Its electronic mail address is kentucky_regulatory_services@aep.com . Kentucky Power is engaged in the generation, purchase, transmission, distribution and sale of electric power. The Company serves approximately 168,000 retail customers in the following 20 counties of eastern Kentucky: Boyd, Breathitt, Carter, Clay, Elliott, Floyd, Greenup, Johnson, Knott, Lawrence, Leslie, Letcher, Lewis, Magoffin, Martin, Morgan, Owsley, Perry, Pike and Rowan. In addition, the Company also supplies electric power at wholesale to other utilities and municipalities in Kentucky for resale. Kentucky Power is a utility as that term is defined at KRS 278.010. [807 KAR 5:001, Section 14].

2. Kentucky Power is a direct, wholly-owned subsidiary of American Electric Power Company, Inc.

Coal Extraction And Processing Activity In Kentucky Power's Service Territory

3. In 2015 Kentucky was the third largest coal-producing state in the United States.[2] As recently as 1988 Kentucky was the largest coal-producing state in the union; it remained the second largest coal producing state until 1994.[3] The 61,414,000 tons of coal produced in Kentucky in 2015 constituted 6.8% of total United States coal production that year.[4]

4. Thirty one counties in Kentucky commercially produced coal in 2015, including 13 of the 20 counties in Kentucky Power's service territory.[5] Kentucky Power's service territory includes 12 of the top 18 2015 coal-producing counties in the Eastern Kentucky Coal Field:[6]

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[2] KY. ENERGY AND ENV'T CABINET, DEP'T FOR ENERGY DEV. AND INDEP., *Kentucky Coal Facts* at 15 (16th Ed. 2016) http://energy.ky.gov/Coal%20Facts%20Library/Kentucky%20Coal%20Facts%20-%2016th%20Edition%20(2016).pdf ("2016 Coal Facts").

[3] *Id.* at 12.

[4] *Id.*

[5] KY. CABINET FOR ECON. DEV., OFFICE OF RESEARCH AND PUB. AFFAIRS, *Kentucky Coal Mining Annual 2015 Economic Impact Estimate* (March 11, 2016) ("2015 Economic Impact Estimate").

[6] 2016 Coal Facts at 16.

Rank (Ky. Coal Producing Counties)	County	Production (Millions of Tons)	Percentage of Total 2015 Kentucky Coal Production
2	Pike	6.926	11.28%
5	Perry	6.652	10.83%
9	Floyd	2.148	3.50%
10	Knott	2.133	3.47%
11	Martin	1.578	2.57%
12	Leslie	1.437	2.34%
15	Letcher	0.523	0.85%
16	Lawrence	0.373	0.61%
18	Magoffin	0.258	1.42%
20	Breathitt	0.251	0.41%
22	Johnson	0.122	0.20%
25	Clay	0.009	<0.01%

5. In 2015 Kentucky had the second largest number of direct coal mining jobs in the United States.[7] The 9,557 Kentucky 2015 direct coal mining jobs constitute 14.3% of total direct coal mining jobs in the United States.[8]

6. Fourteen of the 20 counties in Kentucky Power's service territory enjoyed direct coal employment in 2015[9]:

Rank (E. Ky. Coal Producing Counties)	County	2015 Surface Or Underground Miners	2015 Mine Office And Coal Preparation Plant Employment	2015 Total Direct Coal Mining Jobs	2015 Direct Coal Mining Jobs As A Percentage of Total 2015 County Employment
1	Pike	1339	252	1,591	8.4%
2	Perry	829	137	966	11.7%
4	Floyd	353	79	432	4.1%
5	Martin	279	122	401	13.4%
7	Knott	222	30	252	5.7%
8	Leslie	233	12	245	9.2%

[7] 2016 Coal Facts at 29. Direct coal mining jobs are defined as jobs located at the mine site or coal preparation plant. *Id.*44

[8] *Id.* 17

[9] *Id.* at 31.

Rank (E. Ky. Coal Producing Counties)	County	2015 Surface Or Underground Miners	2015 Mine Office And Coal Preparation Plant Employment	2015 Total Direct Coal Mining Jobs	2015 Direct Coal Mining Jobs As A Percentage of Total 2015 County Employment
9	Letcher	134	51	185	3.0%
12	Lawrence	73	0	73	1.6%
13	Magoffin	44	8	52	1.7%
14	Johnson	43	8	51	1.7%
15	Breathitt	31	17	48	1.3%
16	Boyd	0	44	44	0.3%
18	Clay	7	17	24	0.5%
22	Owsley	3	0	3	0.3%

7. Coal mining and related activities provide a substantial economic benefit to the 31 counties where the coal is extracted and prepared. In 2015, direct coal mining-related employment in the 31 Kentucky coal-producing counties yielded $764 million in total wages and benefits, and added $2.862 billion to the gross domestic product of the 31 coal producing counties.[10] The indirect and induced economic benefits of coal extraction and preparation yielded an additional 12,699 jobs, $586.4 million in total wages and benefits, and $1.01 billion in gross domestic product.[11] 2014 coal severance tax receipts produced by the Eastern Coal Field counties totaled $104.5 million.[12]

8. The economic effects of coal extraction and preparation activity extend beyond the 31 coal-producing counties. The 2015 Economic Impact Estimate indicates coal-related direct, indirect, and induced economic activity produced 1,499 jobs, $84 million in total wages

[10] *Id.* at 34. Information was not available on a per-county basis or by region. In addition, the source document indicates different methodologies and data sources were used to compute these values than was used in connection with the compilation of the data appearing in the table in paragraph 6.

[11] *Id.*

[12] *Id.* at 35.

and benefits, and $141 million in additional gross domestic product in the 89 non-coal-producing counties.[13]

9. Coal mining activity, particularly in the Eastern Coal Field, which includes Kentucky Power's service territory, faces unprecedented challenges:

> Since the year 2000, however, diminishing reserves of thick and easily accessible coal seams in eastern Kentucky have made coal more difficult, labor-intensive, and costly to mine, which has resulted in reductions in price competitiveness of Kentucky coal in comparison to coal from other regions and alternative energy sources. Kentucky coal has been under increased competition from cheaper Powder River Basin coal since the 1980s and from natural gas produced through advances in hydrologic fracturing and horizontal drilling since the 2010s. Federal environmental regulations targeting mercury, sulfur dioxide, nitrogen dioxide, and recently carbon dioxide, have further impeded the market competitiveness of coal for domestic electricity versus alternative energy sources.[14]

10. From a peak of 131 million tons in 1990, eastern Kentucky coal production declined 78.5% to 28.09 million tons in 2015.[15] In 2001 eastern Kentucky coal production was 110 million tons;[16] as recently as 2006 eastern Kentucky coal production totaled 95 million tons.[17] The rate of decline accelerated in recent years. Between 1990 and 2000 eastern Kentucky coal production declined at an average annual rate of 1.9% per year.[18] Between 2000 and 2006 the annual rate of decline in production was 2.1%;[19] the annual rate of decline in Eastern Coal Field production between 2006 and 2015 accelerated to 7.81%.[20]

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[13] 2015 Economic Impact Estimate at 3.

[14] 2016 Coal Facts at 9.

[15] *Id.* at 123.

[16] *Id.*

[17] *Id.*

[18] *Id.*

[19] *Id.*

[20] *Id.*

11. Recent declines in production in the coal-producing counties in Kentucky Power's service territory have been particularly steep. Between the fourth quarter of 2014 and the fourth quarter of 2015, production declines varied from a low -11.01% (Perry) to a high of -95.12% (Clay) for the 10 of the 12 counties in Kentucky Power's service territory for which data was provided by 2016 Coal Facts and that experienced a decline in production:[21]

County	Percentage Change In Production
Breathitt	-55.55%
Clay	-95.12%
Floyd	-15.00%
Johnson	-39.5%
Knott	+7.18
Lawrence	-52.36%
Leslie	+2.40%
Letcher	-68.30%
Magoffin	-78.58%
Martin	-22.76%
Perry	-11.01%
Pike	-33.69%

Seven of the ten counties in Kentucky Power's service territory with falling production between 2014 and 2015 experienced declines in excess of 33.33%;[22] five of the ten counties saw coal production decline between 2014 and 2015 by more than 50%.[23]

12. Coal production and processing employment likewise declined in eastern Kentucky. In addition to significantly reduced production, automation and mechanization have depressed coal-related employment.[24] In 1948, coal production employment totaled 66,410

[21] *Id.* at 72, 74, 78, 86, 88, 93, 94, 96, 100, 102, 110, 112.

[22] *Id.*

[23] *Id.*

[24] *Id.* at 9.

persons in the Eastern Coal Fields region.[25] By 1990 coal production employment in eastern Kentucky was 24,912.[26] In 2008 coal production employment in eastern Kentucky minimally increased year-over-year in comparison to the 2007 employment level to 15,418 person.[27]

13. Since 2008, coal-related employment in the Eastern Coal Fields has declined each year but two.[28] Consistent with the increasing rate of production decline, the rate of decline in coal production employment has accelerated. From 1948 until 1989 the annual rate of employment decline averaged 1.65%.[29] Between 1990 and 2007 the average annual rate of decline in employment was 6.97%.[30] Between 2008 and 2015, coal-related employment in eastern Kentucky declined 61.4% for an average annual rate of decline of approximately 8.8%.[31]

14. Recent declines in coal-related employment in Kentucky Power's service territory have been steep. Between the fourth quarter of 2014 and the fourth quarter of 2015 production declines in coal extraction and processing employment varied from a low -12.43% (Perry) to a high of -65.56% (Magoffin) in the 12 counties in Kentucky Power's service territory for which data was provided by 2016 Coal Facts[32]:

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[25] *Id.* at 123.

[26] *Id.*

[27] *Id.*

[28] *Id.*

[29] *Id.*

[30] *Id.*

[31] *Id.*

[32] *Id.* at 72, 74, 78, 86, 88, 93, 94, 96, 100, 102, 110, 112.

County	Percentage Change In Employment
Breathitt	-31.65%
Clay	-45.07%
Floyd	-56.97%
Johnson	-13.89%
Knott	-35.54%
Lawrence	-18.92%
Leslie	-15.52%
Letcher	-50.90%
Magoffin	-65.56%
Martin	-15.01%
Perry	-12.43%
Pike	-16.45%

15. Six of the 12 counties in Kentucky Power's service territory experienced coal production and processing employment declines in excess of 30%;[33] three of the 12 counties saw coal related employment decline by more than 50%.[34]

16. The effect of declining coal mining and processing employment extends throughout Kentucky Power's service territory:

> The impact of the sustained loss of coal jobs ripples through the local economy. While the rest of the state and nation recovered from the Great Recession, eastern Kentucky didn't, and it has been declining the past 4 years [2010-2014]. Incomes have been impacted too. In 2014, the average annual income in eastern Kentucky was $35,982, while the average coal miner earned $72,809, nearly double the region's average. The loss of thousands of high paying coal mining jobs represents a significant decline in local spending power.[35]

17. The 20 counties comprising Kentucky Power's service territory are among the least wealthy in the Commonwealth. The median household income in all but two (Boyd and Greenup counties) of the 20 counties in the Company's service territory is below Kentucky's

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[33] *Id.*

[34] *Id.*

[35] Fed. Reserve Bank of Cleveland, 7 *Forefront* 105 (May 2, 2016), https://www.clevelandfed.org/newsroom-and-events/publications/forefront/ff-v7n01/ff-20160302-v7n0105-eastern-kentucky-a-region-in-flux.aspx .

household median.[36] Ten of the 20 counties in the Company's service territory rank among the least wealthy quartile of Kentucky counties; three counties in Kentucky Power's service territory are among the ten least wealthy counties in the Commonwealth, including Owsley County which is the least wealthy county as measured by median family income.[37]

18. Recent years also have seen an outflow of population from eastern Kentucky. From 2011 to 2014, a period that coincides with the most recent decline in coal production and employment, eastern Kentucky population has declined on average by 1,100 persons per year.[38]

19. Kentucky Power likewise has been affected by the decline in the coal industry in its service territory. Between 2010 and 2016 the number of Kentucky Power coal extraction and processing customers declined by 38% from 449 to 279. During the same period, the Company's kWh sales to coal extraction and processing customers declined by 63% from 979,812,619 kWh to 366,834,904 kWh. During the single year ended December 31, 2016 the number of coal mining customers declined 14.15% from 325 to 279 customers. Sales to coal mining customers declined 30.75% during the same one-year period from 529,746,944 kWh to 366,834,904 kWh.

INTERIM MEASURES TO AID COAL MINING AND PROCESSING ACTIVITY IN KENTUCKY POWER COMPANY'S SERVICE TERRITORY

20. On February 16, 2017 President Trump signed H.J. Res. 38 nullifying the Stream Protection Rule finalized by the Department of the Interior's Office of Surface Mining Reclamation and Enforcement on December 20, 2016.

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[36] http://www.indexmundi.com/facts/united-states/quick-facts/kentucky/median-household-income#chart

[37] *Id.*

[38] Fed. Reserve Bank of Cleveland, 7 *Forefront* 105 (May 2, 2016), https://www.clevelandfed.org/newsroom-and-events/publications/forefront/ff-v7n01/ff-20160302-v7n0105-eastern-kentucky-a-region-in-flux.aspx .

21. To further supplement its existing economic development efforts in its service territory, Kentucky Power proposes to amend two existing tariffs and to establish a third tariff. The proposed amendments and the new tariff are aimed at supporting the revitalization of the coal extraction and processing industry in the Company's service territory. The tariff amendments and new tariff are temporary and will expire by their terms on December 31, 2017.

1. <u>Tariff C.S. - I.R.P. (Sheet 12-1 to 12-3)</u>.

22. Tariff C.S. - I.R.P. is an existing tariff. Service is available to customers who contract for interruptible service subject to certain minimum requirements. Customers taking service under Tariff C.S. - I.R.P. designate interruptible load that qualifies under PJM's rules as capacity for the purpose of Kentucky Power's PJM FRR obligation. In return, the customer is entitled to a credit in the amount of $3.68/kw/month.

23. The existing Tariff C.S. - I.R.P. requires that customers taking service under the tariff contract for a minimum period of four years. During the term of the minimum four-year contract, the interruptible portion of the customer's load may be reduced by no more than 20%.

24. Kentucky Power proposes to amend the contract term and termination provisions of Tariff C.S. - I.R.P. for customers who are engaged in coal extraction or processing and who otherwise meet the tariff minimums. The tariff will be amended by adding the following provision to Sheet 12-1:

> *SPECIAL PROVISION FOR CUSTOMERS ENGAGED IN COAL EXTRACTION OR PROCESSING ACTIVITIES.*
>
> *Notwithstanding other provisions of this Tariff, customers engaged in the extraction or processing of coal must be able to provide interruptible load (not including behind the meter diesel generation) of at least one (1) MW at a single site and commit to a minimum two (2) year contract term. Following the permanent cessation of coal extraction or processing activity, or both as applicable, for a continuous period of six (6) months, the contract may be terminated by the Customer upon written notice to the Company. The minimum period for the Customer to give written notice of termination following the*

permanent cessation of coal extraction or processing activity, or both as applicable, for a continuous period of six (6) months shall be the lesser of: (a) the remaining term of the contract; or (b) two months.

This Special Provision for Customers Engaged In Coal Extraction Or Processing Activities shall expire on December 31, 2017.

A copy of the complete proposed tariff is attached as **EXHIBIT 2** to this application.

25. Tariff C.S. – I.R.P. also will be amended as follows to identify the tariff codes associated with the voltage under which service is delivered. The Company is not changing the amount of the credit received under Tariff C.S. – I.R.P:

RATE. ~~(Tariff Code 321)~~

Credits under this tariff of $3.68/kW/month will be provided for interruptible load that qualifies under PJM's rules as capacity for the purpose of the Company's *Fixed Resource Requirement (*FRR*)* obligation.

Tariff	*Tariff Type*	*Tariff Code Description*	*Tariff Description*
321	*IR*	*CS-IRP SEC*	*IRP-IGS SECONDARY*
330	*IR*	*CS-IRP PR*	*IRP-IGS PRIMARY*
331	*IR*	*CS-IRP-ST*	*IRP-IGS SUBTRANSMSN*
332	*IR*	*CS-IRP TR*	*IRP-IGS TRANSMISSION*

26. The proposed amendment reduces the minimum contract term for customers engaged in coal extraction and processing from four years to two years. In addition, the amendment provides for the early termination of the contract upon the permanent cessation of coal extraction or processing activity. Under the amended tariff, qualifying customers engaged in coal extraction or processing may, after permanently ceasing coal extraction or processing activities, terminate the agreement upon the lesser of two months' notice or the remaining term of the contract.

27. Customers engaged in coal extraction or processing who take service under Tariff C.S. - I.R.P. will qualify for the $3.68 kw/month credit during the term of the contract. The cost

of the credits, as with other credits under Tariff C.S. - I.R.P., will be recovered by Kentucky Power through Tariff P.P.A.

28. The reduced contract term, along with the provision permitting the termination of the contract following permanent cessation of coal extraction or processing activity for six months, are intended to encourage coal extraction and processing customers to reopen closed facilities or to establish new operations in the Company's service territory.

2. <u>Tariff E.D.R. (Sheet No. 37-1 to 37-6)</u>.

29. Tariff E.D.R. is an existing tariff approved by the Commission's Order dated March 4, 2015 in Case No. 2014-00336.[39] The tariff as approved provides new commercial (Tariff L.G.S.) and industrial (Tariff I.G.S.) customers, with a monthly maximum billing demand of at least 500 kW, and existing commercial and industrial customers who contract to increase their monthly maximum billing demand by at least 500 kW, with limited term reductions in billing demand charges.

30. The existing tariff requires qualifying customers to contract for service for ten, eight, six, four, or two year terms. The limited term reduction in billing demand charges is provided through a declining incremental billing demand discount ("IBDD") for one-half of the contract term. For example, a customer entering into a ten-year contract would receive the declining IBDD for the first five years of the contract term. The initial year's IBDD is equal to the term of the contract divided by two and multiplied by 10%. The IBDD declines by 10% each subsequent year of the discount period. Thus, a qualifying customer entering into a ten-year contract would receive a reduction in the billing demand charge as follows:

[39] Order, *In the Matter of: Application Of Kentucky Power Company For (1) Approval Of An Economic Development Rider; (2) For Any Required Deviation From The Commission's Order In Administrative Case No. 327; And (3) All Other Required Approvals And Relief*, Case No. 2014-00336 (March 4, 2015).

Contract Year	IBDD
1	50%
2	40%
3	30%
4	20%
5	10%

Under the current tariff, the qualifying customer contracting for ten years would pay the full minimum demand charge for the final five years of the contract.

31. Kentucky Power proposes to amend Tariff E.D.R. to permit customers engaged in coal extraction and processing activities to receive IBDD under modified terms and conditions. Kentucky Power proposed to modify the existing tariff by adding the following provision to Tariff Sheet 37-6:

> *SPECIAL PROVISION FOR CUSTOMERS ENGAGED IN COAL EXTRACTION OR PROCESSING ACTIVITIES.*
>
> *Customers engaged in coal extraction or processing activities may receive IBDD for a one-year period or a two-year period upon the terms and conditions of this tariff, except as expressly provided below, by executing a special economic development rider agreement:*

One-Year Economic Development Rider Agreement	
Contract Year	*IBDD*
1	*10%*

Two-Year Economic Development Rider Agreement	
Contract Year	*IBDD*
1	*20%*
2	*10%*

> *Customers may reduce in whole or part the incremental billing demand that is the subject of the Economic Development Rider agreement at the expiration of the term of the Economic Development Rider agreement without further obligation.*

Customers wishing to maintain in whole or part the Economic Development Rider agreement billing demand following the expiration of the agreement shall enter into a new agreement for the incremental billing demand. Such incremental billing demand shall be subject to the applicable full tariff billing demand rate.

Nothing in this provision shall prevent the Company from entering into a special contract, subject to Commission approval, addressing requests to maintain existing load.

This Special Provision for Customers Engaged In Coal Extraction Or Processing Activities shall expire on December 31, 2017.

A copy of the complete proposed tariff is attached as **EXHIBIT 3** to this application.

32. The proposed amendment permits customers engaged in coal extraction or processing activities to receive the IBDD for incremental billing demand for a one-year or two-year term without the obligation of maintaining the incremental billing demand at full billing demand rates for an equal period.

33. The proposed amendment of Tariff E.D.R. is contrary to certain of the requirements established by the Commission in its September 24,1990 Order in Administrative Case No. 327 for economic development riders:

> 14. The term of an EDR contract should be for a period twice the length of the discount period, with the discount period not exceeding five years. During the second half of an EDR contract, the rates charged to the customer should be identical to those contained in a standard rate schedule that is applicable to the customer's rate class and usage characteristics.[40]

34. The proposed amendment allows customers to contract for a term equal to the discount period. To date, Companies engaged in the extraction or processing of coal have been unwilling or unable to meet the requirement that the contract term be twice the discount period. As a result, the current Tariff E.D.R. has not served to encourage coal extraction and processing customers to open mining or processing facilities or to increase the load of minimum billing

[40] Order, *In the Matter Of: An Investigation Into The Implementation Of Economic Development Rates By Electric And Gas Utilities*, Administrative Case No. 327 at 26 (Ky. P.S.C. September 24, 1990).

demand of their existing facilities. Good cause exists to permit the requested deviation from the requirements of Administrative Case No. 327.

35. The proposed amendment of Tariff E.D.R. is intended to encourage coal extraction and processing customers to reopen closed facilities or to establish new operations in the Company's service territory at this time.

3. Tariff C.S. - Coal (Sheet 11-1 to 11-3).

36. Kentucky Power seeks authority to establish Tariff C.S. - Coal. A copy of the complete proposed tariff is attached as **EXHIBIT 4** to this application. The tariff will be applicable to customers engaged in coal extraction and processing activities who contract for at least 1,000 kW of capacity. The tariff limits the total contract capacity of customers taking service under this tariff to 60,000 kW.

37. Eligible customers may contract to take service from Kentucky Power on rates, terms, or conditions different from those established by the Company's tariffs, including, but not limited to, those terms governing deposits, minimum billing demand, and hours and days of operation. For example, if acceptable to the Commission, an eligible customer may be served under an alternative demand structure. Kentucky Power may also consider an alternative deposit payment schedule to assist an eligible customer, which removes a potential barrier to re-entry to the market. The Company will also consider other alternative arrangements. Nothing in this tariff proposal impedes the ability of existing operation to explore alternative arrangements acceptable to the Commission.

38. If an agreement is reached between Kentucky Power and an eligible customer, the contract will be submitted to the Commission for approval pursuant to 807 KAR 5:011, Section 13. The contract will not become effective unless and until it is approved by the Commission.

39. Tariff C.S. - Coal is intended to encourage coal extraction and processing customers to reopen closed facilities or to establish new operations in the Company's service territory by permitting the Company the flexibility to provide service to such customers upon terms that may vary from those contained in the Company's existing tariffs.

4. **Term Of Tariff C.S. - Coal And The Proposed Amendments To Tariff C.S. - I.R.P. And Tariff E.D.R.**

40. Tariff C.S. - Coal and the amendments to Tariff C.S. - I.R.P. and Tariff E.D.R. are temporary, interim measures designed to address in part the conditions challenging the coal extraction and processing industry in the Company's service territory. Approval of the proposed tariffs will not increase the Company's current tariffed rates.[41]

41. Kentucky Power proposes that Tariff C.S. - Coal and the amendments to Tariff C.S. - I.R.P. and Tariff E.D.R., if approved, remain in effect until December 31, 2017.

REQUEST FOR LEAVE TO DEVIATE FROM THE NOTICE REQUIREMENTS OF 807 KAR 5:011, SECTION 8

1. **807 KAR 5:011, Section 8(b)(3).**

42. Kentucky Power seeks leave pursuant to 807 KAR 5:011, Section 15 to deviate from that portion of the notice requirements of 807 KAR 5:011, Section 8(b)(3) requiring that the Company publish notice "once a week for three (3) consecutive weeks in a prominent manner in a newspaper of general circulation in the utility's service area, ***the first publication to be made no later than the date the tariff filing is submitted to the Commission.***"[42] The Company seeks leave only to the extent required to permit it to begin publishing the three weekly notices of the

[41] The cost of the $3.68 kw/month credit payable under Tariff C.S. - I.R.P., up to a maximum contract load of 75,000 kW for all customers taking service under the tariff, is recovered by the Company through its existing Tariff P.P.A. The proposed amendment will not alter the maximum amount payable under Tariff C.S. - I.R.P. or the formula used to calculate the monthly purchase power adjustment factor. To the extent, the tariff amendment increases the amount of interruptible load nominated by customers engaged in coal extraction and processing that otherwise would not or could not nominate load, it will change the purchase power adjustment factor.

[42] (Emphasis supplied).

proposed tariff and tariff revisions described in this Application *after* the date this application is filed with the Commission.

43. To provide notice to its entire service territory, Kentucky Power must publish notice of the proposed changes in twenty different newspapers. Because the publication schedule varies for each of these newspapers, the Company must submit its notice to the Kentucky Press Association, the entity that coordinates publication for the Company, approximately ten days prior to the conclusion of the first weekly publication cycle.

44. Good cause exists to deviate from the notice publication timing requirements of 807 KAR 5:011, Section 8(b)(3). The precipitous decline in the coal industry has had a dramatic and on-going negative impact on the Company and its customers. The tariff changes proposed by Kentucky Power in this application are required to provide flexibility to customers engaged in coal extraction and processing in the region. Complying with the requirement that the notice be published at least one time prior to the filing of this application will delay the benefits to be provided by the proposed changes. In addition the proposed changes do not increase the current applicable rates. Kentucky Power is informed by the Kentucky Press Association that the notice will first be published in each of the 20 newspapers no later than March 3, 2017.

45. The actions proposed by the Company in this Application are narrowly focused to changes in the way certain coal producing and processing customers can contract for service. These actions do not change any of the existing rates paid by customers in any customer class. In light of the scope of the proposed action and the absence of rate changes, the limited delay in publication sought by the Company will not materially affect any interested party's ability to review the proposed changes or seek intervention in the case.

2. **807 KAR 5:011, Section 8(4)(b)-(d).**

46. 807 KAR 5:011, Section 8(4)(b)-(d) require that the identified information be provided for each customer classification.

47. The proposed amendments to Tariff C.S. - I.R.P. and Tariff E.D.R. are limited to customers engaged in the extraction and processing of coal. There currently are no such customers taking service under either tariff. Moreover, the rate effect of each tariff amendment on customers engaged in the extraction and processing of coal will vary based upon the incremental billing demand (Tariff E.D.R.) and interruptible demand (Tariff C.S. - I.R.P.) nominated under each tariff.

48. It thus is impracticable to provide the information required by 807 KAR 5:011, Section 8(4)(b)-(d) with respect to customers to which the proposed tariff changes will apply.

49. Further, the proposed amendment to Tariff E.D.R. will not affect the published tariff rate paid by any other customer classification.

50. The cost of the $3.68 kw/month credit payable under Tariff C.S. - I.R.P., up to a maximum contract load of 75,000 kW for all customers taking service under the tariff, is recovered by the Company through its existing Tariff P.P.A. The proposed amendment will not alter the maximum amount payable under Tariff C.S. - I.R.P. or the formula used to calculate the monthly purchase power adjustment factor.

51. The amount of the additional $3.68 per kW/month credit recovered through Tariff P.P.A. will vary based upon the amount of interruptible load nominated by customers engaged in coal extraction or processing activity that elect to take service under the amendment that otherwise would not have taken service under Tariff C.S. - I.R.P..

52. Customers engaged in coal extraction and processing may nominate interruptible load in any amount, subject to a one MW minimum, up to a maximum contract load of 75,000

kW for all customers taking service under the tariff. There currently is 31,900 kW of interruptible load subject to the tariff, leaving customers the ability to nominate any portion of the balance of 43,100 kW, subject to the minimum, under the tariff. Because the amount of load to be nominated under the tariff is not knowable, it is not practicable to estimate the effect of the proposed amendment on the amounts paid by customers subject to Tariff P.P.A.

53. Tariff C.S. - Coal is a new tariff recognizing the ability of customers engaged in coal extraction and processing to contract for service from Kentucky Power on rates, terms, or conditions different from those established by the Company's tariffs, including, but not limited to, those terms governing deposit arrangements, minimum billing demand, and hours and days of operation. Any agreement will become effective only upon approval by the Commission pursuant to 807 KAR 5:011, Section 13.

54. Any changes in minimum billing demand, deposit arrangements, or hours or days of operation will not affect the amounts paid by other customers. Further, because the terms of any contract to be negotiated pursuant to Tariff C.S. - Coal are not now known, it is not possible to determine the effect, if any, of the proposed tariff on customers engaged in coal extraction or mining or other customers.

55. The impracticability of providing the required information concerning Tariff C.S. - Coal constitutes good cause for the requested deviation.

RELATED ACCOUNTING RELIEF

56. The proposed amended tariffs and the new tariff, including particularly, but not limited to, the deposit provisions of Tariff C.S. – Coal, expose Kentucky Power to a heightened risk of customer default. In accordance with FASB Codification 980-340-25-1, Kentucky Power requests the Commission to exercise its authority under KRS

278.220 to prescribe the manner in which the Company keeps its accounts by entering an order authorizing Kentucky Power to accumulate and defer for review and recovery in its next base rate proceeding any financial loss incurred in connection with the proposed amendments to Tariff C.S. - I.R.P. and Tariff E.D.R. and proposed Tariff C.S. – Coal.

CUSTOMER NOTICE

57. The required customer notice is and will be given by publication, subject to the requested deviation, by posting the required notice at the Company's offices, and by posting the required notice on the Company's website (https://www.kentuckypower.com) in compliance with 807 KAR 5:001, Section 17 and 807 KAR 5:011, Section 8(2), and all other applicable regulations. A copy of the notice is attached as **EXHIBIT 5** to this application.

EXHIBITS

58. The exhibits listed in the Appendix to this Application are attached to and made a part of this Application.

COMMUNICATIONS

59. The Applicant respectfully requests that communications in this matter be transmitted electronically to:

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Kentucky Power Company
Kentucky_regulatory_services@aep.com

WHEREFORE, Kentucky Power Company requests that the Commission issue an Order:

(1) Authorizing the proposed amendment of Tariff Sheet 12-1;

(2) Authorizing the proposed amendment of Tariff Sheet 37-6;

(3) Authorizing proposed Tariff Sheets 11-1 to 11-3;[43]

(4) Authorizing leave to deviate from the requirements of the Commission's September 24, 1990 Order in Administrative Case No. 327 to the extent they are contrary to the proposed amendment of Tariff Sheet 37-6;

(5) Authorizing leave to deviate from the publication requirements of 807 KAR 5:011, Section 8;

(6) Authorizing Kentucky Power to accumulate and defer for review and recovery in its next base rate proceeding any financial loss incurred in connection with the proposed amendments to Tariff C.S. - I.R.P. and Tariff E.D.R. and proposed Tariff C.S. – Coal.

(7) Granting all other required relief or approvals.

This 23rd day of February, 2017.

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[43] Tariff Sheets 1-1 and 1-2, which are a part of the index, also are being amended to reflect the proposed amendments and the new tariff. See, **EXHIBIT 6**.

Respectfully submitted,

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COUNSEL FOR:
KENTUCKY POWER COMPANY

COMMONWEALTH OF KENTUCKY

BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

APPLICATION OF KENTUCKY POWER COMPANY (1) FOR AUTHORITY TO AMEND TEMPORARILY TARIFF C.S. - I.R.P. AND TARIFF E.D.R.; (2) TO ESTABLISH TEMPORARILY TARIFF C.S. - COAL; (3) FOR LEAVE TO DEVIATE FROM THE NOTICE REQUIREMENTS OF 807 KAR 5:011, SECTION 8; (4) FOR RELATED ACCOUNTING RELIEF; AND (5) FOR ALL OTHER REQUIRED APPROVALS AND RELIEF	)	CASE NO. 2017-00099

ORDER

On February 23, 2017, Kentucky Power Company ("Kentucky Power") filed an application ("Application") requesting Commission authority to 1) amend temporarily its Contract Service – Interruptible Power tariff ("Tariff CS-IRP") and Economic Development Rider tariff ("Tariff EDR"); 2) establish temporarily a Contract Service – Coal Power tariff ("Tariff CS-Coal"); 3) deviate from the notice requirements of 807 KAR 5:011, Section 8; and 4) defer for review and recovery in its next base rate proceeding any financial loss incurred in connection with the proposed amendments to Tariff CS-IRP and Tariff EDR and proposed new Tariff CS-Coal. The proposed tariffs were filed with an effective date of March 25, 2017.

The Attorney General of the Commonwealth of Kentucky, by and through his Office of Rate Intervention ("AG"), and Kentucky Industrial Utility Customers, Inc. ("KIUC") sought and were granted intervention in this matter on March 9, 2017, and March 10, 2017, respectively. An informal conference ("IC") was held on March 8,

AG EXH. NO 2

2017. On March 9, 2017, Kentucky Power filed 1) a cover letter stating that it did not object to amending the effective date of the tariffs to April 2, 2017,[1] 2) a Motion for Leave to File Substitute Paragraph 52 to Application ("Motion"), and 3) its response to a Commission Staff information request made at the IC. On March 20, 2017, Kentucky Power filed a motion for leave to publish notices out of time in two newspapers that failed to timely publish all of the schedule notices. The matter is now before the Commission for a decision on the record.

BACKGROUND

Kentucky Power provides electric utility service to approximately 168,000 retail customers in 20 eastern Kentucky counties.[2] Kentucky Power states that 31 counties in Kentucky produce coal commercially, and 13 of those counties are in its service territory.[3] According to Kentucky Power, coal mining provides a significant economic benefit in the counties where coal is extracted and processed. In 2015, direct coal-mining-related employment yielded $764 million in total wages and benefits in the 31 Kentucky coal-producing counties.[4] In addition, coal severance tax receipts produced by counties in the Eastern Coal Field (which includes counties within Kentucky Power's service territory) totaled $104.5 million in 2014.[5]

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[1] Although Kentucky Power stated it did not object to amending the effective date of the proposed tariffs, it did not file revised proposed tariffs with an effective date of April 2, 2017.

[2] Kentucky Power also supplies electric power at wholesale to other utilities and municipalities in Kentucky for resale.

[3] Application at 4.

[4] *Id.*

[5] *Id.*

Kentucky Power asserts that coal mining, particularly in the Eastern Coal Field, is currently facing unprecedented challenges, including: diminishing coal seams resulting in increased costs; competition from cheaper Powder River Basin coal and natural gas produced through advances in hydrologic fracturing and horizontal drilling; and federal environmental regulations.[6] Kentucky Power states that eastern Kentucky coal production has declined from a peak of 131 million tons in 1990 to 28.09 million tons in 2015, a decline of 78.5 percent. This decline in coal production has resulted in a decrease in coal production employment from 24,912 in 1990 to 5,947 in 2015.[7] Kentucky Power maintains that the counties that make up its service territory are among the least wealthy in Kentucky and have seen an outflow of population in recent years.[8] Therefore, in order to supplement its existing economic development efforts, Kentucky Power is proposing the following temporary changes to its tariffs, all of which are proposed to expire on December 31, 2017.

Tariff CS-IRP

Tariff CS-IRP allows customers to receive a credit of $3.68 per kilowatt ("kW") per month for load designated as interruptible. Currently, customers taking service under Tariff CS-IRP must contract to take service for a minimum of four years. Kentucky Power proposes to amend this tariff to include a special provision limited to customers engaged in coal extraction or processing. The provision reduces the minimum term for qualifying customers engaged in coal extraction or processing from

[6] *Id*. at 5.

[7] *Id*. at 7 and Kentucky Energy and Environment Cabinet, *Kentucky Coal Facts, 16th Edition 2016* at 123.

[8] Application at 8–9.

four to two years. In addition, it provides for the early termination of the contract upon permanent cessation of coal extraction or processing, allowing qualifying customers to terminate the contract upon the lesser of two months' notice or the remaining term of the contract.

As previously stated, customers taking service under Tariff CS-IRP receive a credit of $3.68 per kW per month for load designated as interruptible. These credits are recovered by Kentucky Power through its Purchase Power Adjustment Tariff ("Tariff PPA"). As with the credits received by current customers taking service under Tariff CS-IRP, any credits received by qualifying customers under the proposed amendment would also be recovered by Kentucky Power through its Tariff PPA. The maximum potential monthly impact on Tariff PPA of the proposed amendment is $230,368.[9] Any agreement reached between Kentucky Power and a qualifying customer would be submitted to the Commission for approval.

Tariff EDR

Tariff EDR provides limited term reductions in billing demand charges for 1) existing commercial and industrial customers who contract to increase their monthly maximum billing demand by at least 500 kW, and 2) new commercial and industrial customers with a monthly maximum billing demand of at least 500 kW. Currently, Tariff EDR requires that customers contract for service under a contract of either two, four, six, eight, or ten years, with a declining incremental billing demand discount ("IBDD") for the first half of the contract term. This is in accordance with the Commission's

[9] Tariff CS-IRP has a maximum contract load of 75,000 kW for all customers taking service under the tariff. According to Kentucky Power's Motion, there is interruptible load of 12,400 kW subject to the tariff, leaving a remaining amount of 62,600. 62,600 multiplied by $3.68 is $230,368.

requirement in Administrative Case No. 327, which stated, "[t]he term of an EDR contract should be for a period twice the length of the discount period, with the discount period not exceeding five years. During the second half of an EDR contract, the rates charged to the customer should be identical to those contained in a standard rate schedule that is applicable to the customer's rate class and usage characteristics."[10]

Kentucky Power is proposing to add a provision to Tariff EDR which allows customers engaged in coal extraction and processing activities to receive an IBDD under a one-year contract with a 10 percent IBDD or under a two-year contract with an IBDD of 20 percent in the first year and 10 percent in the second year. There would be no requirement for the qualifying customers to maintain the incremental billing demand at full billing rates for an equal period. Kentucky Power contends that "[c]ompanies engaged in the extraction or processing of coal have been unwilling or unable to meet the requirement that the contract term be twice the discount period."[11] Kentucky Power maintains that good cause exists to permit the deviation from the Commission's Order in Administrative Case No. 327. Any agreement reached between Kentucky Power and a qualifying customer under the amended provision would be submitted to the Commission for approval.

Tariff CS-Coal

Kentucky Power is proposing to implement Tariff CS-Coal, which would be available to customers engaged in coal extraction and processing activities. Qualifying customers would be required to contract for at least 1,000 kW of capacity, with a

[10] Administrative Case No. 327, *An Investigation in the Implementation of Economic Development Rates by Electric and Gas Utilities*, (Ky. PSC Sept. 24, 1990) at 27.

[11] Application at 14.

60,000-kW limit for all customers taking service under the tariff. According to Kentucky Power, qualifying customers may contract for rates, terms, or conditions that are different from its existing tariffs, including, but not limited to, hours and days of operation, minimum billing demand, and terms governing deposits. Kentucky Power asserts that Tariff CS-Coal is being proposed to encourage qualifying customers to reopen closed facilities or establish new operations in Kentucky Power's territory.[12] Any agreement reached between Kentucky Power and a qualifying customer would be submitted to the Commission for approval.

Deferral Accounting

As mentioned earlier, Kentucky Power requests authority to defer for review and recovery in its next base rate proceeding any financial loss incurred in connection with the proposed amendments to Tariff CS-IRP and Tariff EDR and proposed new Tariff CS-Coal. At the March 8, 2017 IC, KIUC offered its support for Kentucky Power's proposed temporary tariff changes, but stated its belief that "financial losses" should be offset by the "financial gains" or profits Kentucky Power might realize under the temporary tariff changes or temporary tariffs it is proposing. Kentucky Power indicated that it disagreed with including such an offset as a part of its proposed accounting relief. The AG did not express support for, or opposition to, the deferral accounting request or the proposed tariff changes at the IC, but indicated by electronic mail on March 9, 2017, that he would not request a procedural schedule in this proceeding.[13]

---

[12] *Id.* at 16.

[13] See e-mail from Kent Chandler to parties of record attached as an appendix to this order.

Deviation

Kentucky Power has requested to deviate from the notice requirements of 807 KAR 5:011, Section 8(2)(b)(3), which requires publication of notice in a newspaper of general circulation in its service territory once a week for three consecutive weeks, and that "the first publication to be made no later than the date the tariff filing is submitted to the Commission." Kentucky Power requests to deviate only to the extent required to permit it to begin publishing the notices after the date the application is filed with the Commission. Kentucky Power argues that good cause exists to grant the deviation because complying with the regulation would delay the benefits of the proposed tariff changes.

Kentucky Power also requests a deviation from 807 KAR 5:011, Section 8(4)(b)-(d), which requires that the notice contain: the present rates and proposed rates for each customer classification to which the proposed rates will apply; the amount of the change requested in both dollar amounts and percentage change for each customer classification to which the proposed rates will apply; and the amount of the average usage and the effect upon the average bill for each customer classification to which the proposed rates will apply. Kentucky Power states that application of the proposed amendments to Tariff CS-IRP and Tariff EDR is limited to customers engaged in the extraction and processing of coal, and that there are no such customers currently taking service under either tariff. Kentucky Power also states that the rate effect of each tariff amendment on customers engaged in the extraction and processing of coal will vary based upon the incremental billing demand and interruptible demand nominated under Tariff EDR and Tariff CS-IRP respectively. Thus, Kentucky Power contends that it would be impracticable to provide the information required by 807 KAR 5:011, Section 8(4)(b)-(d), and that the proposed amendment to Tariff EDR would not affect the published tariffed rated paid by any other customer classification.

With respect to Tariff CS-Coal, Kentucky Power asserts that any changes in minimum billing demand, deposit arrangements, or hours or days of operation will not affect the amounts paid by other customers. Kentucky Power further asserts that because the terms of any contract to be negotiated pursuant to Tariff CS-Coal are not now known, it would be impossible for Kentucky Power to determine the effect, if any, of the proposed tariff on customers engaged in coal extraction or mining or other customers.

Motion for Leave to Publish Out of Time

Pursuant to 807 KAR 5:011, Section 8(2)(b)(3), notice of the proposed tariff should be published once a week for three consecutive weeks in a newspaper of general circulation in a utility's service territory. Kentucky Power had arranged to publish notice of the proposed tariffs in 20 newspapers of general circulation in its service territory during the weeks of February 27, 2017; March 6, 2017; and March 13, 2017. The notices were published as scheduled in 18 newspapers. However, the Leslie County News failed to publish the required second and third notices due to staffing issues, and the third notice published in the Troublesome Creek Times was illegible. Kentucky Power states that the Leslie County News will publish the required additional notices on March 23, 2017, and March 30, 2017. Kentucky Power further states that Troublesome Creek Times is scheduled to republish the illegible notice on March 23, 2017. Kentucky Power asserts that, under the modified publication schedule, residents of Leslie County will receive notice of the proposed tariffs two times prior to the tariffs' effective date through publication in the Leslie County News, and that residents of Knott County will receive notice of the proposed tariffs three times prior to the tariffs' effective date through publication in the Troublesome Creek Times. Kentucky Power further asserts that it exercised due care in arranging for the publication of notice in the Leslie County News and the Troublesome Creek Times, and that it relied in good faith on the commitments that the required notices would be timely published.

DISCUSSION AND FINDINGS

As discussed in its Application, Kentucky Power is proposing temporary tariff changes in order to assist the deteriorating coal industry in its service territory. The Commission is aware of the decline in coal production and employment in Kentucky Power's service territory, as well as the low median household income for the residents in its service territory. Kentucky Power also proposes that the changes be temporary, with all proposed changes scheduled to expire on December 31, 2017. Kentucky Power states that the termination date for its proposed tariff changes is based on its desire to have some measures in place to be able to provide economic incentives to assist the ailing coal industry, yet, to retain some flexibility in offering those incentives and to have a specific end date for such incentives.[14]

Given the temporary nature of the proposed changes and the considerable need for economic development in Kentucky Power's service territory, especially as it relates to the coal industry, the Commission finds that Kentucky Power's Application is

[14] IC memorandum dated March 9, 2017, at 1.

reasonable and should be approved. The Commission also finds that good cause exists to allow Kentucky Power to deviate from the Commission's Order in Administrative Case No. 327 for changes related to its Tariff EDR. The Commission further finds that Kentucky Power should be able to defer any financial loss incurred in connection with the proposed amendments to Tariff CS-IRP and Tariff EDR and the proposed new Tariff CS-Coal for review and recovery in its next base rate proceeding. The amount of any such deferral should be reviewed for reasonableness in a future proceeding. Finally, the Commission finds that Kentucky Power's request to deviate from the notice requirements of 807 KAR 5:011, Section 8, and its motion for leave to publish notices out of time should be granted.

IT IS THEREFORE ORDERED that:

1. Kentucky Power's requests to make temporary changes to Tariff CS-IRP and Tariff EDR and to implement temporary Tariff CS-Coal are granted effective as of March 25, 2017, with an expiration date of December 31, 2017.

2. Kentucky Power's request to defer any financial loss incurred in connection with the proposed amendments to Tariff CS-IRP and Tariff EDR and proposed new Tariff CS-Coal for review and recovery in its next base rate proceeding is granted. The amount of any such deferral shall be reviewed for reasonableness in a future proceeding.

3. Kentucky Power's request to deviate from the notice requirements of 807 KAR 5:011, Sections 8(2)(b)(3) and 8(4)(b)-(d), is granted.

4. Kentucky Power's Motion for Leave to File Substitute Paragraph 52 to Application is granted.

5. Kentucky Power's Motion for Leave to Publish Out of Time is granted.

6. All contracts related to tariff CS-IRP, Tarriff EDR, and Tariff CS-Coal shall be submitted to the Commission for approval.

7. Every six months until the expiration of all executed contracts, Kentucky Power shall file with the Commission a report of the activity generated as a result of the tariff changes approved herein. The first report shall include activity through June 30, 2017, and be filed no later than July 31, 2017. Each subsequent report shall be filed no later than one month after the six-month reporting period.

8. Within 20 days of the date of this Order, Kentucky Power shall file with this Commission, using the Commission's electronic Tariff Filing System, revised tariff sheets setting out the amendments to Tariff CS-IRP and Tariff EDR and the implementation of Tariff CS-Coal approved herein and reflecting that they were approved pursuant to this Order.

By the Commission

ENTERED
MAR 23 2017
KENTUCKY PUBLIC SERVICE COMMISSION

ATTEST:

Aaron D. Greenwell for

Executive Director

APPENDIX

APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE COMMISSION IN CASE NO. 2017-00099 DATED MAR 2 3 2017

Whelan, Chris (PSC)

From: Chandler, Kent A (KYOAG)
Sent: Thursday, March 09, 2017 2:41 PM
To: Nguyen, Quang D (PSC)
Cc: 'Overstreet, Mark R.'; mkurtz@BKLlawfirm.com; Fell, Jennifer (PSC); jkylercohn@BKLlawfirm.com; Goodman, Rebecca (KYOAG)
Subject: 2017-00099

Quang,

The Attorney General will not be requesting a procedural Order in this matter.

Thank you,

Kent

******The Office of Rate Intervention has recently moved offices. Please update your records with the information provided below.******

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Kentucky Power Company
KPSC Case No. 2017-00179 General Rate Adjustment
Attorney General's First Set of Data Requests
Dated August 14, 2017

DATA REQUEST

AG_1_395 Refer to the testimony of Brad Hall, p. 14.
a. How was the K-PEGG program review team chosen?
b. Were customers provided the opportunity to nominate or choose any members of the team?
c. Did the Public Service Commission approve the positions to be represented or the individuals chosen to be representatives?

RESPONSE

a. The Company selected the K-PEGG review team to ensure a mix of Company leaders who represent various departments and geographical areas of Kentucky Power's service territory. In addition, the Company included on the review team representatives from the Kentucky Association for Economic Development and the Kentucky Cabinet for Economic Development. The review team was selected to provide a breadth of insight and knowledge to evaluate each application's merit with regard to the program's mission of economic advancement.

b. No. The Company selected the team based on experience and understanding of community and economic development as well as availability to participate in the process confidentially, frequently, and reliably. Economic development and community development are technical processes and require understanding of the process to evaluate applications appropriately.

c. No. The K-PEGG review team is an internal committee. Kentucky Power submits annual reports to the Commission describing the amount collected through the KEDS, the amount matched by the Company, and the amount, recipients, and purposes of expenditures of funds through the K-PEGG program.

Witness: Brad N. Hall

AG EXH. NO 3

300 Kentucky Power Company 01/01/2016 - 12/31/2016

Supplemental Electric Information

	Revenues	KWHs Sold	Customers
Residential (440)	$254,059,898.00	2,128,530,289	137,013
Commercial and Industrial Sales			
Small (or Comercial)	$156,542,122.00	1,315,496,589	30,293
Large (or Industrial)	$160,233,948.00	2,408,194,103	1,191
Public St and Hwy Lighting (444)	$1,974,809.00	10,475,834	351
Other Sales to Public Authorities (445)			
Sales to Railroads and Railways (446)			
Interdepartmental Sales (448)			
Total Sales to Ultimate Customers	$572,810,777.00	5,862,696,815	168,848
Sales For Resale (447)	$51,246,008.00	1,413,349,909	31
Total Sales of Electricity	$624,056,785.00	7,276,046,724	168,879

AG EXH. NO 4

300 Kentucky Power Company 01/01/2015 - 12/31/2015

Supplemental Electric Information

	Revenues	KWHs Sold	Customers
Residential (440)	$227,938,316.00	2,192,126	137,944
Commercial and Industrial Sales			
Small (or Comercial)	$141,395,643.00	1,322,718	30,458
Large (or Industrial)	$165,925,395.00	2,693,461	1,258
Public St and Hwy Lighting (444)	$1,796,458.00	10,496	360
Other Sales to Public Authorities (445)			
Sales to Railroads and Railways (446)			
Interdepartmental Sales (448)			
Total Sales to Ultimate Customers	$537,055,812.00	6,218,801	170,020
Sales For Resale (447)	$96,827,042.00	2,482,185	44
Total Sales of Electricity	$633,882,854.00	8,700,986	170,064

300 Kentucky Power Company 01/01/2014 - 12/31/2014

Supplemental Electric Information

	Revenues	KWHs Sold	Customers
Residential (440)	$237,174,718.00	2,350,431,000	138,958
Commercial and Industrial Sales			
Small (or Comercial)	$148,091,606.00	1,360,775,000	30,387
Large (or Industrial)	$169,912,260.00	2,810,191,000	1,296
Public St and Hwy Lighting (444)	$1,255,493.00	10,507,000	370
Other Sales to Public Authorities (445)			
Sales to Railroads and Railways (446)			
Interdepartmental Sales (448)			
Total Sales to Ultimate Customers	$556,434,077.00	6,531,904,000	171,011
Sales For Resale (447)	$220,112,981.00	5,462,029,000	57
Total Sales of Electricity	$776,547,058.00	11,993,933,000	171,068

300 Kentucky Power Company 01/01/2013 - 12/31/2013

Supplemental Electric Information

	Revenues	KWHs Sold	Customers
Residential (440)	$215,884,709.00	2,311,805,000	140,164
Commercial and Industrial Sales			
Small (or Comercial)	$128,311,276.00	1,345,467,000	30,265
Large (or Industrial)	$166,444,950.00	2,869,662,000	1,324
Public St and Hwy Lighting (444)	$1,560,346.00	10,587,000	385
Other Sales to Public Authorities (445)			
Sales to Railroads and Railways (446)			
Interdepartmental Sales (448)			
Total Sales to Ultimate Customers	$512,201,281.00	6,537,521,000	172,138
Sales For Resale (447)	$122,418,742.00	3,396,006,000	82
Total Sales of Electricity	$634,620,023.00	9,933,527,000	172,220

300 Kentucky Power Company 01/01/2012 - 12/31/2012

Supplemental Electric Information

	Revenues	KWHs Sold	Customers
Residential (440)	$205,798,905.00	2,240,727,000	140,929
Commercial and Industrial Sales			
Small (or Comercial)	$125,717,218.00	1,349,653,000	30,059
Large (or Industrial)	$167,974,954.00	3,059,752,000	1,368
Public St and Hwy Lighting (444)	$1,545,674.00	10,524,000	401
Other Sales to Public Authorities (445)			
Sales to Railroads and Railways (446)			
Interdepartmental Sales (448)			
Total Sales to Ultimate Customers	$501,036,751.00	6,660,656,000	172,757
Sales For Resale (447)	$100,941,442.00	2,936,231,000	102
Total Sales of Electricity	$601,978,193.00	9,596,887,000	172,859

300 Kentucky Power Company 01/01/2011 - 12/31/2011

Supplemental Electric Information

	Revenues	KWHs Sold	Customers
Residential (440)	$226,169,378.00	2,342,021,000	141,860
Commercial and Industrial Sales			
Small (or Comercial)	$135,517,406.00	1,380,707,000	29,964
Large (or Industrial)	$195,863,609.00	3,249,891,000	1,406
Public St and Hwy Lighting (444)	$1,618,697.00	10,544,000	411
Other Sales to Public Authorities (445)			
Sales to Railroads and Railways (446)			
Interdepartmental Sales (448)			
Total Sales to Ultimate Customers	$559,169,090.00	6,983,163,000	173,641
Sales For Resale (447)	$155,806,427.00	4,152,046,000	115
Total Sales of Electricity	$714,975,517.00	11,135,209,000	173,756

300 Kentucky Power Company 01/01/2010 - 12/31/2010

Supplemental Electric Information

	Revenues	KWHs Sold	Customers
Residential (440)	$225,937,614.00	2,613,510,000	142,971
Commercial and Industrial Sales			
Small (or Comercial)	$129,946,413.00	1,468,960,000	29,791
Large (or Industrial)	$183,743,138.00	3,255,731,000	1,426
Public St and Hwy Lighting (444)	$1,452,301.00	10,328,000	391
Other Sales to Public Authorities (445)			
Sales to Railroads and Railways (446)			
Interdepartmental Sales (448)			
Total Sales to Ultimate Customers	$541,079,466.00	7,348,529,000	174,579
Sales For Resale (447)	$151,261,573.00	3,854,136,000	103
Total Sales of Electricity	$692,341,039.00	11,202,665,000	174,682

300 Kentucky Power Company 01/01/2009 - 12/31/2009

Supplemental Electric Information

	Revenues	KWHs Sold	Customers
Residential (440)	$192,262,524.00	2,425,612	143,628
Commercial and Industrial Sales			
Small (or Comercial)	$115,966,273.00	1,426,264	29,555
Large (or Industrial)	$178,452,707.00	3,206,312	1,438
Public St and Hwy Lighting (444)	$1,316,086.00	10,268	373
Other Sales to Public Authorities (445)			
Sales to Railroads and Railways (446)			
Interdepartmental Sales (448)			
Total Sales to Ultimate Customers	$487,997,590.00	7,068,456	174,994
Sales For Resale (447)	$149,551,657.00	3,939,203	104
Total Sales of Electricity	$637,549,247.00	11,007,659	175,098

300 Kentucky Power Company 01/01/2008 - 12/31/2008

Supplemental Electric Information

	Revenues	KWHs Sold	Customers
Residential (440)	$189,933,625.00	2,481,169	144,105
Commercial and Industrial Sales			
Small (or Comercial)	$112,339,794.00	1,428,742	29,730
Large (or Industrial)	$172,680,788.00	3,321,760	1,432
Public St and Hwy Lighting (444)	$1,281,420.00	10,231	379
Other Sales to Public Authorities (445)			
Sales to Railroads and Railways (446)			
Interdepartmental Sales (448)			
Total Sales to Ultimate Customers	$476,235,627.00	7,241,902	175,646
Sales For Resale (447)	$208,027,416.00	4,630,761	84
Total Sales of Electricity	$684,263,043.00	11,872,663	175,730

300 Kentucky Power Company 01/01/2007 - 12/31/2007

Supplemental Electric Information

	Revenues	KWHs Sold	Customers
Residential (440)	$166,818,286.00	2,484,564,538	144,207
Commercial and Industrial Sales			
Small (or Comercial)	$99,471,412.00	1,445,808,883	29,687
Large (or Industrial)	$138,650,866.00	3,174,047,332	1,436
Public St and Hwy Lighting (444)	$1,162,099.00	10,084,894	375
Other Sales to Public Authorities (445)			
Sales to Railroads and Railways (446)			
Interdepartmental Sales (448)			
Total Sales to Ultimate Customers	$406,102,663.00	7,114,505,647	175,705
Sales For Resale (447)	$189,932,938.00	5,305,636,283	101
Total Sales of Electricity	$596,035,601.00	12,420,141,930	175,806

300 Kentucky Power Company 01/01/2006 - 12/31/2006

Supplemental Electric Information

	Revenues	KWHs Sold	Customers
Residential (440)	$156,547,007.00	2,409,237,000	144,447
Commercial and Industrial Sales			
Small (or Comercial)	$93,658,625.00	1,392,233,000	29,283
Large (or Industrial)	$140,627,107.00	3,311,180,000	1,461
Public St and Hwy Lighting (444)	$1,101,681.00	9,809,000	380
Other Sales to Public Authorities (445)			
Sales to Railroads and Railways (446)			
Interdepartmental Sales (448)			
Total Sales to Ultimate Customers	$391,934,420.00	7,122,459,000	175,571
Sales For Resale (447)	$181,168,530.00	5,283,270,000	108
Total Sales of Electricity	$573,102,950.00	12,405,729,000	175,679

278.040 Public Service Commission -- Jurisdiction -- Regulations.

(1) The Public Service Commission shall regulate utilities and enforce the provisions of this chapter. The commission shall be a body corporate, with power to sue and be sued in its corporate name. The commission may adopt a seal bearing the name "Public Service Commission of Kentucky," which seal shall be affixed to all writs and official documents, and to such other instruments as the commission directs, and all courts shall take judicial note of the seal.

(2) The jurisdiction of the commission shall extend to all utilities in this state. The commission shall have exclusive jurisdiction over the regulation of rates and service of utilities, but with that exception nothing in this chapter is intended to limit or restrict the police jurisdiction, contract rights or powers of cities or political subdivisions.

(3) The commission may adopt, in keeping with KRS Chapter 13A, reasonable regulations to implement the provisions of KRS Chapter 278 and investigate the methods and practices of utilities to require them to conform to the laws of this state, and to all reasonable rules, regulations and orders of the commission not contrary to law.

Effective: July 15, 1982

History: Amended 1982 Ky. Acts ch. 82, sec. 7, effective July 15, 1982. -- Amended 1978 Ky. Acts ch. 379, sec. 8, effective April 1, 1979. -- Amended 1976 Ky. Acts ch. 88, sec. 2, effective March 29, 1976. -- Recodified 1942 Ky. Acts ch. 208, sec. 1, effective October 1, 1942, from Ky. Stat. secs. 3952-2, 3952-12, 3952-13, 3952-27.

AG EXH. NO 5

COMMONWEALTH OF KENTUCKY

BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

APPLICATION OF FARMERS RURAL ELECTRIC COOPERATIVE CORPORATION FOR AN INCREASE IN RETAIL RATES	))))	CASE NO. 2016-00365

ORDER

On November 15, 2016, Farmers Rural Electric Cooperative Corporation ("Farmers") filed an application seeking approval to adjust its base electric rates and to make changes to certain nonrecurring charges. Farmers proposes to adjust its base electric rates to increase its operating revenues by $1,873,993.[1] Finding that an investigation would be necessary to determine the reasonableness of Farmers' proposed increase, the Commission issued an Order on December 13, 2016, suspending the effective date of the proposed rates for five months, up to and including May 14, 2017, and establishing a procedural schedule for the processing of this matter.

The procedural schedule provided for, among other things, a deadline for intervention requests, two rounds of discovery upon Farmers and a formal evidentiary hearing. There are no intervenors in this proceeding. Farmers responded to four rounds of discovery from Commission Staff ("Staff") and two rounds of post-hearing requests for information issued by Staff. The formal evidentiary hearing was conducted on March 29, 2017. Farmers submitted responses to post-hearing

[1] In response to Commission Staff's Third Request for Information ("Staff's Third Request"), the proposed increase was reduced from $1,893,805 due to the removal of unallowable operating expenses for ratemaking purposes identified in discovery.

AG EXH. NO 6

information requests on April 10, 2017, and April 17, 2017. The matter now stands submitted for a decision.

BACKGROUND

Farmers is a member-owned rural electric cooperative corporation, organized under KRS Chapter 279. It is engaged in the distribution and sale of electric energy to approximately 25,045 member-consumers in Adair, Barren, Edmonson, Grayson, Green, Hart, Larue, and Metcalfe counties, Kentucky.[2] Farmers does not own any electric generating facilities, but purchases its total power requirements from East Kentucky Power Cooperative, Inc.[3] Farmers' last general rate adjustment was based on a settlement and was approved in June 2009.[4]

TEST PERIOD

Farmers proposed, and the Commission accepts, a historical 12-month period ended December 31, 2015, as the test period for determining the reasonableness of the proposed rates. In utilizing the historical test year, the Commission considers appropriate known and measurable changes.

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[2] Annual Report of Farmers Rural Electric Cooperative Corporation to the Public Service Commission of the Commonwealth of Kentucky for the Calendar Year Ended December 31, 2015 (filed Mar. 30, 2016), at 45 and 53.

[3] *Id.* at 40 and 43.

[4] Case No. 2008-00030, *Application of Farmers Rural Electric Cooperative Corporation for an Adjustment in Rates* (Ky. PSC June 10, 2009).

VALUATION

Rate Base

Farmers determined a net investment rate base of $63,277,446[5] based on the adjusted test-year-end value of plant in service and construction work in progress ("CWIP"), the 13-month average balances for materials and supplies and prepayments, plus a cash working capital allowance, minus the adjusted accumulated depreciation and the test-year-end level of customer advances for construction ("Customer Advances").

The Commission concurs with Farmers' proposed rate base with the exception that working capital has been adjusted to reflect the pro forma adjustments to operation and maintenance expenses. With this adjustment, Farmers' net investment rate base for ratemaking purposes is as follows:

Utility Plant in Service	$ 86,525,960
CWIP	662,102
Total Utility Plant	87,188,062
Add:	
Materials & Supplies	779,564
Prepayments	286,943
Cash Working Capital	651,182
Total Additions	1,717,689
Deduct:	
Accumulated Depreciation	(25,640,619)
Customer Advances	(347,450)
Total Deductions:	(25,988,069)
Net Investment Rate Base	$ 62,917,682

[5] Application, Exhibit K at 2.

Capitalization and Capital Structure

The Commission finds that Farmers' capital structure at test-year-end was, for ratemaking purposes, $65,871,228.[6] This capital structure consisted of $14,622,497 in equity and $51,248,731 in long-term debt.[7] The Commission excluded generation and transmission capital credits ("GTCCs") of $24,003,706.[8] Using this capital structure, Farmers' year-end ratio of equity to total capitalization was 22.20 percent.[9]

REVENUE AND EXPENSES

Twenty-four adjustments (ten were included in payroll-related expenses per the application) were proposed by Farmers to normalize its test-year operating revenues and expenses based upon Commission practice and precedent. The Commission finds the following adjustments proposed by Farmers are reasonable and should be accepted without change. Those adjustments are shown in the following table:

Salaries and Wages	$ 105,044
Payroll Taxes (Excluding Benefits)	$ 8,219
Depreciation	$ 213,136
Retirement & Security Plan Costs	$ 6,108
FAS 106 Costs	$ 26,735
G&T Capital Credits	$ 2,372,445
Normalize Revenue	$ 119,608
Normalize Purchased Power	$ 2,716,606
Remove FAC Revenue	$ 1,910,752
Remove ESR Revenue	$(4,802,473)
Property Tax Expense	$ 28,332
Dues (Accts. 921.00 and 165.20)	$ 2,490
Outside Services (Acct. 923.00)	$ 24,281

[6] Application, Exhibit K at 1.

[7] *Id.*

[8] *Id.*

[9] $14,622,497 ÷ $65,875,228 = 22.20%.

The Commission finds that the remaining proposed adjustments should be modified as discussed in more detail below.

Other Revenue

In its response to Commission Staff's First Request for Information, Item 49, Farmers stated that $1,578 of compensation expense was charged to its subsidiary, Farmers Energy Services Corporation. However, Farmers did not have a corresponding adjustment to its revenue requirement in the application. Therefore, the Commission finds that an adjustment shall be made to reduce Farmers' revenue requirement by $1,578, as proposed by Farmers,[10] to other revenue account.

Life and Dental Insurance

Farmers pays life insurance on behalf of its employees. Commission precedent requires that cooperatives be allowed to deduct the cost of coverage only up to $50,000 per employee for ratemaking purposes. Based on the response to Commission Staff's Fourth Request for Information, Item 2.a., Farmers paid $8,406 for life insurance coverage above the $50,000 threshold, and the Commission finds this amount shall be denied for ratemaking purposes. The Commission encourages Farmers to collaborate with its employees to bring their contributions for life insurance to the levels discussed herein.

[10] Farmers response to Commission Staff's First Post-Hearing Data Request (Staff's First Post-Hearing Request"), Item 10.

With respect to dental insurance, the Commission finds that Farmers' expenses should be reduced to reflect all employees contributing a 60 percent to the total dental premium. This is consistent with national employee participation averages.[11] Therefore, the Commission finds that Farmers dental insurance expense shall be decreased by $30,116 to reflect this finding.

401(k)

Farmers has maintained the National Rural Electric Cooperative Retirement and Security Plan ("R&S") for employees who were hired before January 1, 2012. This plan was closed to new participants on December 31, 2011, and was replaced with a Defined Contribution 401(k) plan ("401(k)") in order to reduce costs. The cooperative pays 100 percent of the cost of the R&S plan. Employees under the R&S plan may also be allowed to participate in the 401(k), with Farmers matching up to 1 percent of the employee's contribution. For employees under the 401(k) plan only, Farmers provides a 6 percent contribution. If the employee contributes up to an additional 4 percent, Farmers will match the 4 percent up to a 10 percent maximum.

For ratemaking purposes, the Commission finds that Farmers should not be permitted to include matching contributions to the 401(k) plan, for employees already participating under the R & S plan as it creates an inequity among employees in the different plans. Accordingly, the Commission denies rate recovery of $28,512 for the voluntary 401(k) plan for those employees already participating in the R & S plan.

[11] The Willis Benchmarking Survey, 2015, at 62–63. (http:/willis.com/mwg-internal/de5fs23hu73ds/progress?od=lozsydmbJ6UUSxKxrjVJW5NDCRkgZEZps6-AgHEVM_Y,)

Employee Contribution for Health Insurance

Farmers' employee health insurance plan provides for Single, Family, Employee and Spouse and Employee and Child(ren) coverage.[12] Farmers pays the monthly premiums for its employees with single coverage and requires employees with other types of coverage to pay $149 per month or $1,788 annually toward the premium cost.[13]

The Commission expects Farmers to continue its efforts to rein in expenses for employee benefits by establishing a policy limiting Farmers' contribution to health insurance premiums and requiring that all employees pay some portion of the premium. The Commission finds that Farmers should limit its contributions to its employees' health plans to percentages that are market competitive with other businesses. Accordingly, the Commission will for ratemaking purposes adjust test-year health expense for all employees based on the Bureau of Labor Statistics national average employee contribution rates.[14]

The Commission has reduced health insurance expense $92,430,[15] based on a 32 percent employee contribution rate for family, employee and spouse, and employee and child(ren) coverage and 21 percent employee contribution rate for single coverage.

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[12] Application, Exhibit F, Schedule D, page 33 of 74.

[13] Farmers' response to Commission Staff's Third Request for Information, Item 2.

[14] Case No. 2016-00174, Electronic Application of Licking Valley Electric Cooperative Corporation for a General Rate Increase (Ky. PSC Mar 1, 2017).

[15] Farmers' response to Commission Staff's Second Post-Hearing Information Request, Item 2.

Miscellaneous Expenses

Based on information provided by Farmers, the Commission Staff made the following adjustments to miscellaneous expenses for expenses that are not allowable for ratemaking purposes. Account 930.20, Miscellaneous General Expense was reduced by $500,[16] Account 930.23, Annual Meeting Expense was reduced by $19,082,[17] Account 426.10, Other Income Deductions was reduced by $2,520[18] and Account 930.30, Directors Expenses was reduced by $992.[19]

Rate Case Expense

Farmers estimated its rate case expense at $143,620 in its application.[20] It proposed to recover this expense through a three-year amortization period. In response to Staff's First Post-Hearing Information Request, Item 1, Farmers stated that its total rate case expense as of that date was $157,941. The Commission finds this amount reasonable and that a three-year amortization of these expenses will result in an increase in operating expense of $4,774 over the $47,873 proposed in the application.

Public Service Company Assessment Fee ("Fee")

After adjusting the test year for the normalized Fee, the Commission finds that Farmers shall be allowed an increase in revenue to cover the cost of the Fee based on the increase granted herein. Accordingly, the Commission hereby grants an increase in revenue $3,251 for this cost.

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[16] Farmers' response to Staff's Third Request, Item 9.b.

[17] *Id.*, Item 9.c.

[18] *Id.*, Item 10.

[19] *Id.*, Item 19.

[20] Application, Exhibit F, Schedule G, at 42.

Depreciation Expense

Farmers requested a depreciation deduction of $2,987,384 in its application. This included a proposed change to the depreciation rate for its Distribution Account 370, Automated Meter Reading ("AMR"), based upon a 15-year life. The Commission finds the depreciation requested is reasonable and approves the request including the change in the depreciation rate for the AMR based upon Commission precedent.[21] However, in response to inquiries by Staff, Farmers states that it has not had a depreciation study conducted since its inception.[22] While Farmers generally follows Rural Utilities Service ("RUS") guidelines for depreciation rates, the Commission finds that Farmers should perform a depreciation study by the earlier of five years from the date of this Order or the filing of its next base rate case.

Interest Expense

Farmers proposed $1,769,176 for interest expense on long-term debt in its application.[23] Farmers maintained that this amount should be used for ratemaking purposes due to the variable interest rates on its Federal Financing Bank debt. In response to Commission Staff's Fourth Request for Information, Item 4., Farmers provided an update to its annualized cost of debt as of that date in the amount of $1,730,638. Given that Commission precedent requires that actual rates be utilized in computing the annualized cost of debt, it finds that interest expense on long-term debt should be reduced by $38,538 to reflect the current costs of its debt.

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[21] Case No. 2011-00096, *Application of South Kentucky Rural Electric Cooperative Corporation for an Adjustment of Rates* (Ky. PSC Mar. 30, 2012).

[22] Farmers' response to Commission Staff's Second Request for Information, Item 4, and Farmers' response to Staff's First Post-Hearing Request, Item 4.

[23] Application, Exhibit F, at 1.

Pro Forma Adjustments Summary

The effect of the pro forma adjustments on Farmers' net income is as follows:

	Actual Test Period	Pro Forma Adjustments	Adjusted Test Period
Operating Revenues	$ 46,700,668	$ 1,578	$ 46,702,246
Cost of Electric Service			
Operating Expenses	$ 41,597,629	$ (161,505)	$ 41,436,124
Depreciaiton	$ 2,744,248	$ 213,316	$ 2,957,564
Taxes - Other	$ 662,286	$ 26,410	$ 688,696
Interest on Long-Term Debt	$ 1,769,176	$ (38,538)	$ 1,730,638
Interest Expense - Other	$ 11,144	$ -	$ 11,144
Other Deductions	$ 2,830	$ -	$ 2,830
Total Cost of Electric Service	$ 46,787,313	$ 39,683	$ 46,826,996
Utility Operating Margins	$ (86,645)	$ (38,105)	$ (124,750)
Non-operating Margins, Interest	$ 52,038	$ -	$ 52,038
Income from Equity Investments	$ (12,108)	$ -	$ (12,108)
Non-operating Margins - Other	$ 14,373	$ -	$ 14,373
Patronage Capital Credits	$ 98,868	$ -	$ 98,868
NET INCOME	$ 66,526	$ (38,105)	$ 28,421

REVENUE REQUIREMENTS

The actual rate of return earned on Farmers' net investment rate base established for the test year was 2.66 percent.[24] Farmers requests rates that would result in a Times Interest Earned Ratio ("TIER") excluding GTCCs of 2.0X[25] and a rate of return of 5.35 percent[26] on its proposed rate base of $63,277,446. Farmers proposes

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[24] ($86,645) (Utility Operating Margins)+$1,769,176 (Cost of Long-Term Debt) = $1,605,888 ÷ $63,277,446 = 2.66%.

[25] Direct Testimony of Lance C. Schafer at 4.

[26] $3,385,181 (Requested Margin before deduction of interest expense on Long-Term Debt) ÷ $63,277,446 (Net Investment Rate Base) = 5.35%.

an increase in base electric rates of $1,873,993 to achieve a 2.0X TIER excluding GTCCs.

Farmers' actual TIER excluding GTCCs for the test period was 1.07X. Farmers' Operating Times Interest Earned Ratio ("OTIER") for the test period was 0.98X.[27] Farmers requests this rate adjustment in order to properly maintain and operate its distribution system, meet the terms of its mortgage agreement and to maintain its financial stability and integrity.[28]

The TIER method for determining margins has been the approach utilized in the calculation of revenue requirement used by the Commission in electric distribution cooperative rate cases. Farmers is requesting a 2.0X TIER because of its deteriorating financial position and cost increases in its vegetation management program, labor costs, construction materials, maintenance costs, property taxes and depreciation.[29]

Farmers' mortgage agreements with the RUS require the cooperative to maintain a TIER of 1.25X and an OTIER of 1.1X using the best ratios for two years out the three most recent years. Farmers has been compliant with its RUS mortgage covenants, but the test-year TIER and OTIER were below the thresholds listed above. Farmers also has debt with the National Rural Utilities Cooperative Finance Corporation ("CFC") which require a modified debt service coverage ratio ("modified DSC") of 1.35, based on the best ratios for two years out the three most recent years. Farmers is still compliant

[27] Application, Exhibit G-2, at 3.

[28] Application, Exhibit G-1, at 2.

[29] *Id.*

with its modified DSC requirement, but the test-year as well as calendar year 2016 ratios were below the threshold in the CFC mortgage covenant.

Based upon the pro forma adjustments found reasonable herein, the Commission has determined that an increase in Farmers' revenues from base rates of $1,705,468 would result in a TIER of 2.00X. This additional revenue should produce net income of $1,730,638. The Commission has determined that the above increase in revenues should result in an OTIER of 1.91X, which should allow Farmers to meet its mortgage requirements and service its mortgage debts. Based on the net investment rate base of $62,917,682 found reasonable herein, this additional revenue should result in a rate of return on rate base of 5.3 percent.[30]

PRICING AND TARIFF ISSUES

Cost of Service

Farmers filed a fully allocated cost-of-service study ("COSS") in order to determine the cost to serve each customer class and the amount of revenue to be allocated to each customer class. Having reviewed Farmers' COSS, the Commission finds it to be acceptable for use as a guide in allocating the revenue increase granted herein.

Revenue Allocation

The proposed rate design uses the COSS as a general guide for Farmers' rate class increases. Farmers proposed that all rate classes would see some type of increase, even if they were providing revenues in excess of the costs to serve, and that

[30] $1,577,467 (Granted Margin) + $1,730,638 (Normalized Interest on Long-Term Debt) = $3,308,105 ÷ $62,917,682 (Net Investment Rate Base) = 5.3%.

the increase for the residential rate class was not to exceed 5 percent.[31] The results of the COSS indicated that Schedule C - Commercial & Industrial Service Rate > 50 kW, Schedule C - Time-of-Day Commercial Service, Schedule E - Large Industrial Rate, Schedule LPC-2 Large Power, and Schedule LPE-4 - Large Power Time-of-Day provide revenues in excess of the costs to serve. All other rate classes produce revenues approximately at or below their class cost to serve.[32] Additionally, Farmers proposed to increase demand rates for rate classes whose demand rates were below East Kentucky Power Cooperative's ("EKPC") Schedule E-2 wholesale rate.

Rate Design

Farmers is proposing to allocate the proposed increase to all its rate classes with the increase placed on the customer and demand charges only. Farmers states that increasing the customer charge better matches the customer-related costs but the increase in the customer charge is still significantly less than the full cost recovery of the customer-related costs.[33] The only classes whose energy rate is increased are Schedule RM – Residential Off-Peak Marketing – Electric Thermal Storage ("ETS") and Rate Schedule CM – Small Commercial Off-Peak Marketing – ETS.

The Commission concludes that, for an electric cooperative that is strictly a distribution utility, there is merit to the argument that there is a need for a means to guard against the revenue erosion that often occurs due to the decrease in sales volumes that accompanies poor regional economics, changes in weather patterns, and the implementation or expansion of demand-side management and energy-efficiency

[31] Application, Exhibit G-3, at 3.

[32] *Id.*, Exhibit G-4, at 18.

[33] *Id.*, Exhibit G-3, at 5.

programs. Farmers' proposed increase in the residential customer charge from $9.35 to $14.00 results in a 50 percent increase, which supports the general principle of gradualism. All proposed customer charges are approved. The table below shows the current and proposed/approved customer charges for those classes with customers, along with the amounts supported by the COSS.

	Current	Proposed	COSS Results
Schedule R – Residential Service	$9.35	$14.00	$31.19
Schedule R – Residential Service (Prepay)	$9.35	$14.00	$31.19
Schedule C – Comm. & Indust. Service <50kW	$11.42	$21.32	$47.95
Schedule C – Comm. & Indust. Service >50kW	$51.93	$105.00	$93.88
Schedule C – Time-of-Day Commercial Service	$60.26	$105.00	$93.88
Schedule D – Large Comm/Ind Opt Time-of-Day	$51.93	$105.00	$86.50
Schedule E – Large Industrial Rate	$1,142.46	$1,142.46	$93.88
Schedule LPC-2 – Large Power	$1,088.00	$1,288.00	$86.50
Schedule LPE-4 – Large Power TOD Tariff	$3,015.00	$3,215.00	$93.88

The Commission approves the proposed increases to demand rates for those rate classes whose demand rates are below EKPC's so as to match EKPC's Schedule E-2 Wholesale Rate. Due to lowering of the revenue requirement, as found through discovery, the decrease should be applied to the volumetric charges and the Commission finds it reasonable to allocate it proportionally across the rate classes. The two ETS rates are set at 60 percent of the energy rate for each respective class. Several of the LPC and LPE classes have no customers currently taking service. For those classes with no customers, a small decrease was applied to the energy charges in the same proportion as was applied to the LPC and LPE classes that have customers. Based on Farmers' average monthly residential usage of 1,092 kWh, the average monthly bill for residential customers will increase by $4.49, from $106.46 to $110.95, or 4.22 percent.

Farmers' Management

The Commission commends Farmers' management for taking advantage of opportunities to reduce costs through personnel reductions, streamlined operations, future costs savings related to prepayment of its Retirement and Security Plan, and reductions in medical insurance cost. Other cooperatives should follow Farmers' example to ensure the safe and reliable delivery of electricity at the lowest possible cost.

SUMMARY

The Commission, after consideration of the evidence of record and being otherwise sufficiently advised, finds that:

1. The rates proposed by Farmers would produce revenues in excess of the amount found reasonable herein and should be denied.

2. The rates set forth in the Appendix to this Order are the fair, just, and reasonable and should be approved.

3. The rate of return and TIER granted herein will provide for Farmers' financial obligations.

IT IS THEREFORE ORDERED that:

1. The rates proposed by Farmers are denied.

2. The rates set forth in the Appendix to this Order are approved for services rendered by Farmers on and after the date of this Order.

3. Within 20 days of the date of this Order, Farmers shall file with this Commission, using the Commission's electronic Tariff Filing System, new tariff sheets

setting forth the rates and charges approved herein and reflecting their effective date and that they were authorized by this Order.

4. Farmers shall perform a depreciation study within five years from the date of this Order, or with the filing of its next rate case, whichever is earlier.

By the Commission

ENTERED

MAY 12 2017

KENTUCKY PUBLIC SERVICE COMMISSION

ATTEST:

Talina R. Mathews

Executive Director

APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE COMMISSION IN CASE NO. 2016-00365 DATED MAY 12 2017

SCHEDULE R
RESIDENTIAL SERVICE

Customer Charge	$	14.00
Energy Charge per kWh	$	0.088779
Prepay Charge	$	3.18

SCHEDULE R
RESIDENTIAL TIME-OF-DAY

Customer Charge	$	19.65
On-Peak Energy Charge per kWh	$	0.104529
Off-Peak Energy Charge per kWh	$	0.060000

SCHEDULE C
COMM & INDUST SERVICE RATE <50 kW

Customer charge	$	21.32
Energy Charge per kWh	$	0.084055

SCHEDULE C
COMM & INDUST SERVICE RATE >50 kW

Customer Charge	$	105.00
Demand Charge per kW	$	7.89
Energy Charge per kWh	$	0.064965

SCHEDULE C
COMMERCIAL TIME-OF-DAY

Customer Charge		
Single Phase	$	21.32
Three Phase	$	105.00
On-Peak Energy Charge per kWh	$	0.117840
Off-Peak Energy Charge per kWh	$	0.060000

SCHEDULE D
LARGE COMM/IND TIME-OF-DAY

Customer Charge	$	105.00
Demand Charge per kW	$	7.89
Energy Charge per kWh	$	0.064880

SCHEDULE E
LARGE INDUSTRIAL

Customer Charge	$1,142.46
Demand Charge per kW	$ 7.89
Energy Charge per kWh	$ 0.051512

SCHEDULE OL
OUTDOOR LIGHTING SERVICE

Monthly Rate:

175 Watt MV	$ 9.72
175 Watt, shared MV	$ 3.43
250 Watt MV	$ 11.13
400 Watt MV	$ 16.94
1000 Watt SV	$ 30.12
100 Watt SV	$ 9.99
150 Watt SV	$ 11.70
250 Watt SV	$ 15.94
400 Watt SV	$ 20.60
1000 Watt SV	$ 44.68
LED Lighting	$ 9.88

SCHEDULE SL
STREET LIGHTING

Energy Charge per kWh	$ 0.058840

SCHEDULE LPC-1
LARGE POWER

Customer Charge	$1,016.00
Demand Charge per kW	$ 7.77
Energy Charge per kWh	$ 0.057741

SCHEDULE LPC-2
LARGE POWER

Customer Charge	$1,288.00
Demand Charge per kW	$ 7.77
Energy Charge per kWh	$ 0.055746

SCHEDULE LPC-3
LARGE POWER

Customer Charge	$2,937.00
Demand Charge per kW	$ 7.77
Energy Charge per kWh	$ 0.054250

SCHEDULE LPC-4
LARGE POWER

Customer Charge	$3,215.00
Demand Charge per kW	$ 7.77
Energy Charge per kWh	$ 0.051756

SCHEDULE LPC-5
LARGE POWER

Customer Charge	$4,501.00
Demand Charge per kW	$ 7.77
Energy Charge per kWh	$ 0.049262

SCHEDULE LPB-1
LARGE POWER

Customer Charge	$1,016.00
Demand Charge per kW	$ 7.77
Demand Charge in excess of contract	$ 9.98
Energy Charge per kWh	$ 0.057882

SCHEDULE LPB-2
LARGE POWER

Customer Charge	$1,288.00
Demand Charge per kW	$ 7.77
Demand Charge in excess of contract	$ 9.98
Energy Charge per kWh	$ 0.055882

SCHEDULE LPB-3
LARGE POWER

Customer Charge	$2,937.00
Demand Charge per kW	$ 7.77
Demand Charge in excess of contract	$ 9.98
Energy Charge per kWh	$ 0.054382

SCHEDULE LPB-4
LARGE POWER

Customer Charge	$3,215.00
Demand Charge per kW	$ 7.77
Demand Charge in excess of contract	$ 9.98
Energy Charge per kWh	$ 0.051882

SCHEDULE LPB-5
LARGE POWER

Customer Charge	$4,501.00
Demand Charge per kW	$ 7.77
Demand Charge in excess of contract	$ 9.98
Energy Charge per kWh	$ 0.049382

SCHEDULE LPE-1
LARGE POWER TIME-OF-DAY

Customer Charge	$1,016.00
Demand Charge per kW	$ 6.62
On-Peak Energy Charge per kWh	$ 0.067951
Off-Peak Energy Charge per kWh	$ 0.059554

SCHEDULE LPE-2
LARGE POWER TIME-OF-DAY

Customer Charge	$1,288.00
Demand Charge per kW	$ 6.62
On-Peak Energy Charge per kWh	$ 0.065961
Off-Peak Energy Charge per kWh	$ 0.057554

SCHEDULE LPE-3
LARGE POWER TIME-OF-DAY

Customer Charge	$2,937.00
Demand Charge per kW	$ 6.62
On-Peak Energy Charge per kWh	$ 0.064468

Off-Peak Energy Charge per kWh	$ 0.056054

SCHEDULE LPE-4
LARGE POWER TIME-OF-DAY

Customer Charge	$3,215.00
Demand Charge per kW	$ 6.62
On-Peak Energy Charge per kWh	$ 0.061980
Off-Peak Energy Charge per kWh	$ 0.053554

SCHEDULE LPE-5
LARGE POWER TIME-OF-DAY

Customer Charge	$4,501.00
Demand Charge per kW	$ 6.62
On-Peak Energy Charge per kWh	$ 0.059492
Off-Peak Energy Charge per kWh	$ 0.051054

SCHEDULE RM
RESIDENTIAL OFF-PEAK MARKETING - ETS

Energy Charge per kWh	$	0.053267

SCHEDULE CM
SMALL COMMERCIAL OFF-PEAK MARKETING - ETS

Energy Charge per kWh	$	0.050433

SCHEDULE NM
NET METERING

Customer Charge	$	14.00
Energy Charge per kWh (purchased)	$	0.08895

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12/01/17	1.14	1.27	1.45	1.62	1.78	1.90	2.13	2.28	2.37	2.58	2.76
12/04/17	1.16	1.29	1.45	1.66	1.80	1.93	2.15	2.29	2.37	2.58	2.77

* 30-year Treasury constant maturity series was discontinued on February 18, 2002 and reintroduced on February 9, 2006. From February 18, 2002 to February 8, 2006, Treasury published alternatives to a 30-year rate. See Long-Term Average Rate for more information.

Treasury discontinued the 20-year constant maturity series at the end of calendar year 1986 and reinstated that series on October 1, 1993. As a result, there are no 20-year rates available for the time period January 1, 1987 through September 30, 1993.

Treasury Yield Curve Rates. These rates are commonly referred to as "Constant Maturity Treasury" rates, or CMTs. Yields are interpolated by the Treasury from the daily yield curve. This curve, which relates the yield on a security to its time to maturity is based on the closing market bid yields on actively traded Treasury securities in the over-the-counter market. These market yields are calculated from composites of quotations obtained by the Federal Reserve Bank of New York. The yield values are read from the yield curve at fixed maturities, currently 1, 3 and 6 months and 1, 2, 3, 5, 7, 10, 20, and 30 years. This method provides a yield for a 10 year maturity, for example, even if no outstanding security has exactly 10 years remaining to maturity.

Treasury Yield Curve Methodology. The Treasury yield curve is estimated daily using a cubic spline model. Inputs to the model are primarily bid-side yields for on-the-run Treasury securities. See our Treasury Yield Curve Methodology page for details.

Negative Yields and Nominal Constant Maturity Treasury Series Rates (CMTs). Current financial market conditions, in conjunction with extraordinary low levels of interest rates, have resulted in negative yields for some Treasury securities trading in the secondary market. Negative yields for Treasury securities most often reflect highly technical factors in Treasury markets related to the cash and repurchase agreement markets, and are at times unrelated to the time value of money.

As such, Treasury will restrict the use of negative input yields for securities used in deriving interest rates for the Treasury nominal Constant Maturity Treasury series (CMTs). Any CMT input points with negative yields will be reset to zero percent prior to use as inputs in the CMT derivation. This decision is consistent with Treasury not accepting negative yields in Treasury nominal security auctions.

In addition, given that CMTs are used in many statutorily and regulatory determined loan and credit programs as well as for setting interest rates on non-marketable government securities, establishing a floor of zero more accurately reflects borrowing costs related to various programs.

For more information regarding these statistics contact the Office of Debt Management by email at debt.management@do.treas.gov.

AG Hearing Exhibit No. 7

MERGENT BOND RECORD

MERGENT

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AG EXH. NO 8

Corporate Bond Yield Averages

	AV.	CORPORATE BY RATINGS				CORPORATE BY GROUPS				PUBLIC UTILITY BONDS					INDUSTRIAL BONDS					RAILROAD BONDS			
	CORP.	Aaa	Aa	A	Baa	P.U.	IND.	R.R.		Aaa	Aa	A	Baa		Aaa	Aa	A	Baa		Aaa	Aa	A	Baa
2011																							
Jan.	5.56	5.04	5.26	5.53	6.09	5.64	5.46	—	Jan.	—	5.29	5.57	6.06	Jan.	5.04	5.22	5.48	6.11	Jan.	—	—	—	—
Feb.	5.66	5.22	5.37	5.64	6.15	5.73	5.58	—	Feb.	—	5.42	5.68	6.10	Feb.	5.22	5.31	5.59	6.19	Feb.	—	—	—	—
Mar.	5.55	5.13	5.28	5.52	6.03	5.62	5.48	—	Mar.	—	5.33	5.56	5.97	Mar.	5.13	5.22	5.48	6.09	Mar.	—	—	—	—
Apr.	5.56	5.16	5.29	5.52	6.02	5.62	5.49	—	Apr.	—	5.32	5.55	5.98	Apr.	5.16	5.25	5.48	6.06	Apr.	—	—	—	—
May	5.33	4.96	5.06	5.29	5.78	5.38	5.27	—	May	—	5.08	5.32	5.74	May	4.96	5.04	5.26	5.81	May	—	—	—	—
June	5.30	4.99	5.04	5.26	5.75	5.33	5.27	—	June	—	5.04	5.26	5.67	June	4.99	5.02	5.25	5.82	June	—	—	—	—
July	5.30	4.93	5.03	5.26	5.76	5.34	5.25	—	July	—	5.05	5.27	5.70	July	4.93	4.99	5.25	5.81	July	—	—	—	—
Aug.	4.79	4.37	4.47	4.74	5.36	4.78	4.79	—	Aug.	—	4.44	4.69	5.22	Aug.	4.37	4.50	4.79	5.49	Aug.	—	—	—	—
Sept.	4.60	4.09	4.23	4.54	5.27	4.61	4.58	—	Sept.	—	4.24	4.48	5.11	Sept.	4.09	4.21	4.59	5.42	Sept.	—	—	—	—
Oct.	4.60	3.98	4.16	4.54	5.37	4.66	4.54	—	Oct.	—	4.21	4.52	5.24	Oct.	3.98	4.11	4.56	5.50	Oct.	—	—	—	—
Nov.	4.39	3.87	3.97	4.34	5.14	4.37	4.41	—	Nov.	—	3.92	4.25	4.93	Nov.	3.87	4.01	4.43	5.34	Nov.	—	—	—	—
Dec.	4.47	3.93	4.03	4.40	5.25	4.47	4.47	—	Dec.	—	4.00	4.33	5.07	Dec.	3.93	4.06	4.46	5.43	Dec.	—	—	—	—
2012																							
Jan.	4.45	3.85	4.01	4.39	5.23	4.48	4.41	—	Jan.	—	4.03	4.34	5.06	Jan.	3.85	3.98	4.43	5.39	Jan.	—	—	—	—
Feb.	4.42	3.85	3.99	4.39	5.14	4.47	4.37	—	Feb.	—	4.02	4.36	5.02	Feb.	3.85	3.96	4.41	5.26	Feb.	—	—	—	—
Mar.	4.54	3.99	4.14	4.51	5.23	4.59	4.50	—	Mar.	—	4.16	4.48	5.13	Mar.	3.99	4.12	4.53	5.33	Mar.	—	—	—	—
Apr.	4.49	3.96	4.08	4.44	5.19	4.53	4.44	—	Apr.	—	4.10	4.40	5.11	Apr.	3.96	4.06	4.48	5.27	Apr.	—	—	—	—
May	4.33	3.80	3.91	4.26	5.07	4.36	4.30	—	May	—	3.92	4.20	4.97	May	3.80	3.90	4.32	5.17	May	—	—	—	—
June	4.22	3.64	3.78	4.14	5.02	4.26	4.18	—	June	—	3.79	4.08	4.91	June	3.64	3.77	4.18	5.13	June	—	—	—	—
July	4.03	3.40	3.54	3.93	4.87	4.12	3.93	—	July	—	3.58	3.93	4.85	July	3.40	3.49	3.93	4.89	July	—	—	—	—
Aug.	4.09	3.48	3.61	3.99	4.91	4.18	3.99	—	Aug.	—	3.65	4.00	4.88	Aug.	3.48	3.57	3.98	4.93	Aug.	—	—	—	—
Sept.	4.09	3.49	3.68	4.01	4.84	4.17	4.00	—	Sept.	—	3.69	4.02	4.81	Sept.	3.49	3.66	4.00	4.87	Sept.	—	—	—	—
Oct.	3.97	3.47	3.63	3.90	4.58	4.05	3.89	—	Oct.	—	3.68	3.91	4.54	Oct.	3.47	3.58	3.89	4.62	Oct.	—	—	—	—
Nov.	3.92	3.50	3.57	3.87	4.51	3.95	3.88	—	Nov.	—	3.60	3.84	4.42	Nov.	3.50	3.54	3.89	4.60	Nov.	—	—	—	—
Dec.	4.05	3.65	3.70	3.98	4.63	4.10	3.99	—	Dec.	—	3.75	4.00	4.56	Dec.	3.65	3.65	3.96	4.70	Dec.	—	—	—	—
2013																							
Jan.	4.19	3.80	3.87	4.14	4.73	4.24	4.14	—	Jan.	—	3.90	4.15	4.66	Jan.	3.80	3.84	4.13	4.81	Jan.	—	—	—	—
Feb.	4.27	3.90	3.95	4.19	4.85	4.29	4.25	—	Feb.	—	3.95	4.18	4.74	Feb.	3.90	3.95	4.20	4.95	Feb.	—	—	—	—
Mar.	4.29	3.93	3.97	4.23	4.85	4.29	4.29	—	Mar.	—	3.95	4.20	4.72	Mar.	3.93	3.98	4.25	4.99	Mar.	—	—	—	—
Apr.	4.07	3.73	3.77	4.03	4.59	4.08	4.07	—	Apr.	—	3.74	4.00	4.49	Apr.	3.73	3.79	4.05	4.69	Apr.	—	—	—	—
May	4.23	3.89	3.94	4.19	4.73	4.24	4.22	—	May	—	3.91	4.17	4.65	May	3.89	3.97	4.20	4.80	May	—	—	—	—
June	4.63	4.27	4.32	4.56	5.19	4.63	4.63	—	June	—	4.27	4.53	5.08	June	4.27	4.36	4.58	5.29	June	—	—	—	—
July	4.76	4.34	4.46	4.69	5.32	4.78	4.74	—	July	—	4.44	4.68	5.21	July	4.34	4.47	4.69	5.43	July	—	—	—	—
Aug.	4.88	4.54	4.63	4.78	5.42	4.85	4.92	—	Aug.	—	4.53	4.73	5.28	Aug.	4.54	4.72	4.83	5.57	Aug.	—	—	—	—
Sept.	4.95	4.64	4.69	4.85	5.47	4.90	4.99	—	Sept.	—	4.58	4.80	5.31	Sept.	4.64	4.80	4.90	5.62	Sept.	—	—	—	—
Oct.	4.82	4.53	4.59	4.73	5.31	4.78	4.86	—	Oct.	—	4.48	4.70	5.17	Oct.	4.53	4.69	4.76	5.44	Oct.	—	—	—	—
Nov.	4.91	4.63	4.67	4.82	5.38	4.86	4.95	—	Nov.	—	4.56	4.77	5.24	Nov.	4.63	4.79	4.85	5.52	Nov.	—	—	—	—
Dec.	4.92	4.62	4.68	4.85	5.38	4.89	4.95	—	Dec.	—	4.59	4.81	5.25	Dec.	4.62	4.76	4.89	5.51	Dec.	—	—	—	—
2014																							
Jan.	4.76	4.49	4.53	4.69	5.19	4.72	4.78	—	Jan.	—	4.44	4.63	5.09	Jan.	4.49	4.62	4.74	5.29	Jan.	—	—	—	—
Feb.	4.68	4.45	4.46	4.60	5.10	4.64	4.71	—	Feb.	—	4.38	4.53	5.01	Feb.	4.45	4.54	4.66	5.19	Feb.	—	—	—	—
Mar.	4.65	4.38	4.44	4.56	5.06	4.63	4.65	—	Mar.	—	4.40	4.51	5.00	Mar.	4.38	4.49	4.60	5.13	Mar.	—	—	—	—
Apr.	4.52	4.24	4.33	4.45	4.90	4.52	4.51	—	Apr.	—	4.30	4.41	4.85	Apr.	4.24	4.36	4.48	4.96	Apr.	—	—	—	—
May	4.38	4.16	4.20	4.31	4.76	4.37	4.40	—	May	—	4.16	4.26	4.69	May	4.16	4.24	4.35	4.83	May	—	—	—	—
June	4.44	4.25	4.26	4.35	4.80	4.42	4.45	—	June	—	4.23	4.29	4.73	June	4.25	4.29	4.41	4.86	June	—	—	—	—
July	4.37	4.16	4.20	4.28	4.73	4.35	4.39	—	July	—	4.16	4.23	4.66	July	4.16	4.23	4.34	4.80	July	—	—	—	—
Aug.	4.29	4.08	4.10	4.20	4.69	4.29	4.30	—	Aug.	—	4.07	4.13	4.65	Aug.	4.08	4.13	4.26	4.72	Aug.	—	—	—	—
Sept.	4.39	4.11	4.19	4.30	4.80	4.40	4.37	—	Sept.	—	4.18	4.24	4.79	Sept.	4.11	4.19	4.35	4.82	Sept.	—	—	—	—
Oct.	4.22	3.92	3.99	4.13	4.69	4.24	4.20	—	Oct.	—	3.98	4.06	4.67	Oct.	3.92	4.00	4.20	4.70	Oct.	—	—	—	—
Nov.	4.28	3.92	4.04	4.18	4.79	4.29	4.26	—	Nov.	—	4.03	4.09	4.75	Nov.	3.92	4.04	4.27	4.82	Nov.	—	—	—	—
Dec.	4.17	3.79	3.89	4.05	4.74	4.18	4.15	—	Dec.	—	3.90	3.95	4.70	Dec.	3.79	3.89	4.15	4.77					
2015																							
Jan.	3.84	3.46	3.54	3.70	4.45	3.83	3.84	—	Jan.	—	3.52	3.58	4.39	Jan.	3.46	3.55	3.82	4.51	Jan.	—	—	—	—
Feb.	3.93	3.61	3.64	3.81	4.51	3.91	3.94	—	Feb.	—	3.62	3.67	4.44	Feb.	3.61	3.65	3.94	4.57	Feb.	—	—	—	—
Mar.	3.98	3.64	3.70	3.85	4.54	3.97	3.97	—	Mar.	—	3.67	3.74	4.51	Mar.	3.64	3.72	3.96	4.56	Mar.	—	—	—	—
Apr.	3.93	3.52	3.64	3.82	4.48	3.96	3.88	—	Apr.	—	3.63	3.75	4.51	Apr.	3.52	3.65	3.89	4.45	Apr.	—	—	—	—
May	4.35	3.98	4.07	4.24	4.89	4.38	4.31	—	May	—	4.05	4.17	4.91	May	3.98	4.09	4.30	4.86	May	—	—	—	—
June	4.56	4.19	4.27	4.45	5.13	4.60	4.52	—	June	—	4.29	4.39	5.13	June	4.19	4.25	4.51	5.12	June	—	—	—	—
July	4.57	4.15	4.25	4.44	5.20	4.63	4.51	—	July	—	4.27	4.40	5.22	July	4.15	4.22	4.49	5.18	July	—	—	—	—
Aug.	4.48	4.04	4.13	4.32	5.19	4.54	4.42	—	Aug.	—	4.13	4.25	5.23	Aug.	4.04	4.11	4.39	5.15	Aug.	—	—	—	—
Sept.	4.59	4.07	4.21	4.43	5.34	4.68	4.49	—	Sept.	—	4.25	4.39	5.42	Sept.	4.07	4.16	4.46	5.25	Sept.	—	—	—	—
Oct.	4.52	3.95	4.11	4.33	5.34	4.63	4.40	—	Oct.	—	4.13	4.29	5.47	Oct.	3.95	4.08	4.37	5.21	Oct.	—	—	—	—
Nov.	4.62	4.06	4.21	4.43	5.46	4.73	4.51	—	Nov.	—	4.22	4.40	5.57	Nov.	4.06	4.20	4.45	5.34	Nov.	—	—	—	—
Dec.	4.58	3.97	4.16	4.38	5.46	4.69	4.47	—	Dec.	—	4.16	4.35	5.55	Dec.	3.97	4.16	4.40	5.36	Dec.	—	—	—	—
2016																							
Jan.	4.56	4.00	4.12	4.35	5.45	4.62	4.50	—	Jan.	—	4.09	4.27	5.49	Jan.	4.00	4.16	4.42	5.40	Jan.	—	—	—	—
Feb.	4.44	3.96	3.98	4.22	5.34	4.44	4.43	—	Feb.	—	3.94	4.11	5.28	Feb.	3.96	4.02	4.33	5.39	Feb.	—	—	—	—
Mar.	4.33	3.82	3.91	4.16	5.13	4.40	4.25	—	Mar.	—	3.93	4.16	5.12	Mar.	3.82	3.89	4.16	5.14	Mar.	—	—	—	—
Apr.	4.09	3.62	3.71	3.98	4.79	4.16	4.01	—	Apr.	—	3.74	4.00	4.75	Apr.	3.62	3.67	3.95	4.82	Apr.	—	—	—	—
May	4.04	3.65	3.70	3.94	4.68	4.06	4.02	—	May	—	3.65	3.93	4.60	May	3.65	3.73	3.95	4.75	May	—	—	—	—
June	3.91	3.50	3.60	3.80	4.53	3.93	3.88	—	June	—	3.56	3.78	4.47	June	3.50	3.63	3.82	4.58	June	—	—	—	—
July	3.67	3.28	3.39	3.58	4.22	3.70	3.64	—	July	—	3.36	3.57	4.16	July	3.28	3.42	3.58	4.27	July	—	—	—	—
Aug.	3.70	3.32	3.42	3.60	4.24	3.73	3.66	—	Aug.	—	3.39	3.59	4.20	Aug.	3.32	3.45	3.61	4.27	Aug.	—	—	—	—
Sept.	3.78	3.41	3.50	3.68	4.31	3.80	3.75	—	Sept.	—	3.47	3.66	4.27	Sept.	3.41	3.53	3.69	4.35	Sept.	—	—	—	—
Oct.	3.87	3.51	3.61	3.78	4.38	3.90	3.84	—	Oct.	—	3.59	3.77	4.34	Oct.	3.51	3.63	3.79	4.40	Oct.	—	—	—	—
Nov.	4.20	3.86	3.94	4.11	4.71	4.21	4.19	—	Nov.	—	3.91	4.08	4.64	Nov.	3.86	3.97	4.14	4.77	Nov.	—	—	—	—
Dec.	4.36	4.06	4.12	4.28	4.83	4.39	4.33	—	Dec.	—	4.11	4.27	4.79	Dec.	4.06	4.13	4.29	4.85	Dec.	—	—	—	—
2017																							
Jan.	4.22	3.92	3.98	4.16	4.66	4.24	4.20	—	Jan.	—	3.96	4.14	4.62	Jan.	3.92	4.00	4.17	4.70	Jan.	—	—	—	—
Feb.	4.23	3.95	4.01	4.18	4.64	4.25	4.21	—	Feb.	—	3.99	4.18	4.58	Feb.	3.95	4.02	4.19	4.70	Feb.	—	—	—	—
Mar.	4.28	4.01	4.06	4.23	4.68	4.30	4.27	—	Mar.	—	4.04	4.23	4.62	Mar.	4.01	4.07	4.23	4.74	Mar.	—	—	—	—
Apr.	4.16	3.87	3.93	4.12	4.57	4.19	4.13	—	Apr.	—	3.93	4.12	4.51	Apr.	3.87	3.92	4.11	4.62	Apr.	—	—	—	—
May	4.15	3.85	3.93	4.11	4.55	4.19	4.12	—	May	—	3.94	4.12	4.50	May	3.85	3.92	4.09	4.60	May	—	—	—	—
June	3.98	3.68	3.78	3.93	4.37	4.01	3.95	—	June	—	3.77	3.94	4.32	June	3.68	3.78	3.92	4.41	June	—	—	—	—
July	4.01	3.70	3.80	3.98	4.39	4.06	3.96	—	July	—	3.82	3.99	4.36	July	3.70	3.78	3.95	4.41	July	—	—	—	—
Aug.	3.92	3.63	3.72	3.88	4.31	3.92	3.92	—	Aug.	—	3.67	3.86	4.23	Aug.	3.63	3.76	3.90	4.38	Aug.	—	—	—	—
Sept.	3.92	3.63	3.73	3.88	4.30	3.93	3.91	—	Sept.	—	3.70	3.87	4.24	Sept.	3.63	3.75	3.89	4.37	Sept.	—	—	—	—

Notes: Moody's® Long-Term Corporate Bond Yield Averages have been published daily since 1929. They are derived from pricing data on a regularly-replenished population of over 100 seasoned corporate bonds in the US market, each with current outstandings over $100 million. The bonds have maturities as close as possible to 30 years, with an average maturity of 28 years. They are dropped from the list if their remaining life falls below 20 years or if their ratings change. Bonds with deep discounts or steep premiums to par are generally excluded. All yields are yield-to-maturity calculated on a semi-annual compounding basis. Each observation is an unweighted average, with Average Corporate Yields representing the unweighted average of the corresponding Average Industrial and Average Public Utility observations. Because of the dearth of Aaa -rated railroad term bond issues, Moody's® Aaa railroad bond yield average was discontinued as of December 18, 1967. Moody's® Aaa public utility average was suspended from Jan. 1984 thru Sept. 1984. Oct. 1984 figure for last 14 business days only. The Railroad Bond Averages were discontinued as of July 17, 1989 because of insufficient frequently tradable bonds. The July figures were based on 8 business days.
Because of the dearth of Aaa rated public utility bond issues, Moody's® Aaa public utility bond yield average was discontinued as of December 10, 2001.

> [W]e also understand that any DCF analysis may be affected by potentially unrepresentative financial inputs to the DCF formula, including those produced by historically anomalous capital market conditions. Therefore, while the DCF model remains the Commission's preferred approach to determining allowed rate of return, the Commission may consider the extent to which economic anomalies may have affected the reliability of DCF analyses …[13]

This conclusion is supported by comparisons of current conditions to the historical record and independent forecasts. As demonstrated earlier, recognized economic forecasting services project that long-term capital costs will increase from present levels.

Given investors' expectations for rising interest rates and capital costs, the KPSC should consider near-term forecasts for public utility bond yields in assessing the reasonableness of individual cost of equity estimates and in evaluating a fair ROE for Kentucky Power from within the range of reasonableness. The use of these near-term forecasts for public utility bond yields is supported below by economic studies that show that equity risk premiums are higher when interest rates are at very low levels.

IV. COMPARABLE RISK PROXY GROUP

Q. HOW DID YOU IMPLEMENT QUANTITATIVE METHODS TO ESTIMATE THE COST OF COMMON EQUITY FOR KENTUCKY POWER?

A. Application of quantitative methods to estimate the cost of common equity requires observable capital market data, such as stock prices. Moreover, even for a firm with publicly traded stock, the cost of common equity can only be estimated. As a result, applying quantitative models using observable market data

[13] Opinion No. 531, 147 FERC ¶ 61,234 at P 41 (2014).

AG Hearing Exhibit No. 9

EMPIRICAL CAPM - CURRENT BOND YIELD

ELECTRIC GROUP

		(a)	(b)		(c)		(d)		(e)	(d)				(f)	(g)	
		Market Return (R_m)				Market										Size
		Div	Proj.	Cost of	Risk-Free	Risk	Unadjusted RP		Beta Adjusted RP			Total	Unadjusted	Market	Size	Adjusted
	Company	Yield	Growth	Equity	Rate	Premium	Weight	RP^1	Beta	Weight	RP^2	RP	K_e	Cap	Adjustment	K_e
1	Ameren Corp.	2.3%	10.8%	13.1%	3.3%	9.8%	25%	2.5%	0.75	75%	5.5%	8.0%	11.3%	$ 10,329.9	0.80%	12.1%
2	American Elec Pwr	2.3%	10.8%	13.1%	3.3%	9.8%	25%	2.5%	0.70	75%	5.1%	7.6%	10.9%	$ 28,507.2	-0.33%	10.6%
3	Black Hills Corp.	2.3%	10.8%	13.1%	3.3%	9.8%	25%	2.5%	0.90	75%	6.6%	9.1%	12.4%	$ 2,437.4	1.72%	14.1%
4	CMS Energy Corp.	2.3%	10.8%	13.1%	3.3%	9.8%	25%	2.5%	0.75	75%	5.5%	8.0%	11.3%	$ 9,015.0	0.93%	12.2%
5	Entergy Corp.	2.3%	10.8%	13.1%	3.3%	9.8%	25%	2.5%	0.70	75%	5.1%	7.6%	10.9%	$ 15,125.6	0.80%	11.7%
6	FirstEnergy Corp.	2.3%	10.8%	13.1%	3.3%	9.8%	25%	2.5%	0.70	75%	5.1%	7.6%	10.9%	$ 15,764.4	0.80%	11.7%
7	Great Plains Energy	2.3%	10.8%	13.1%	3.3%	9.8%	25%	2.5%	0.85	75%	6.2%	8.7%	12.0%	$ 4,135.3	1.19%	13.2%
8	Hawaiian Elec.	2.3%	10.8%	13.1%	3.3%	9.8%	25%	2.5%	0.80	75%	5.9%	8.3%	11.6%	$ 2,846.7	1.72%	13.4%
9	IDACORP, Inc.	2.3%	10.8%	13.1%	3.3%	9.8%	25%	2.5%	0.80	75%	5.9%	8.3%	11.6%	$ 3,176.4	1.72%	13.4%
10	PG&E Corp.	2.3%	10.8%	13.1%	3.3%	9.8%	25%	2.5%	0.65	75%	4.8%	7.2%	10.5%	$ 23,655.5	-0.33%	10.2%
11	SCANA Corp.	2.3%	10.8%	13.1%	3.3%	9.8%	25%	2.5%	0.75	75%	5.5%	8.0%	11.3%	$ 7,702.6	0.93%	12.2%
12	Sempra Energy	2.3%	10.8%	13.1%	3.3%	9.8%	25%	2.5%	0.75	75%	5.5%	8.0%	11.3%	$ 27,146.1	-0.33%	10.9%
13	Westar Energy	2.3%	10.8%	13.1%	3.3%	9.8%	25%	2.5%	0.75	75%	5.5%	8.0%	11.3%	$ 4,869.7	1.19%	12.5%
	Average												11.3%			12.2%
	Midpoint (h)												11.4%			12.2%

(a) Weighted average dividend yield for the dividend paying firms in the S&P 500 from www.valueline.com (Retreived Sep. 19, 201

(b) Weighted average of IBES earnings growth rates for the dividend paying firms in the S&P 500 from http://finance.yahoo.com (retrieved Sep. 22, 2014).

(c) Average yield on 30-year Treasury bonds for the six-months ending Oct. 2014 based on data from the http://www.federalreserve.gov/releases/h15/data.ht

(d) Morin, Roger A., "New Regulatory Finance,"*Public Utilities Reports, Inc.* at 190 (2006).

(e) The Value Line Investment Survey (Aug. 22, Sep. 19, & Oct. 31, 2014)

(f) www.valueline.com (retrieved Nov. 5, 2014)

(g) Morningstar, "2014 Ibbotson SBBI Market Report," at Table 10 (2014).

(h) Average of low and high values

Exhibit WEA/AMM 8

AG Hearing Exhibit No. 10

EMPIRICAL CAPM - PROJECTED BOND YIELD

ELECTRIC GROUP

		(a)	(b)		(c)		(d)		(e)	(d)				(f)	(g)	
		Market Return (R_m)				Market										Size
		Div	Proj.	Cost of	Risk-Free	Risk	Unadjusted RP		Beta Adjusted RP			Total	Unadjusted	Market	Size	Adjusted
	Company	Yield	Growth	Equity	Rate	Premium	Weight	RP^1	Beta	Weight	RP^2	RP	K_e	Cap	Adjustment	K_e
1	Ameren Corp.	2.3%	10.8%	13.1%	4.7%	8.4%	25%	2.1%	0.75	75%	4.7%	6.8%	11.5%	$ 10,329.9	0.80%	12.3%
2	American Elec Pwr	2.3%	10.8%	13.1%	4.7%	8.4%	25%	2.1%	0.70	75%	4.4%	6.5%	11.2%	$ 28,507.2	-0.33%	10.9%
3	Black Hills Corp.	2.3%	10.8%	13.1%	4.7%	8.4%	25%	2.1%	0.90	75%	5.7%	7.8%	12.5%	$ 2,437.4	1.72%	14.2%
4	CMS Energy Corp.	2.3%	10.8%	13.1%	4.7%	8.4%	25%	2.1%	0.75	75%	4.7%	6.8%	11.5%	$ 9,015.0	0.93%	12.5%
5	Entergy Corp.	2.3%	10.8%	13.1%	4.7%	8.4%	25%	2.1%	0.70	75%	4.4%	6.5%	11.2%	$ 15,125.6	0.80%	12.0%
6	FirstEnergy Corp.	2.3%	10.8%	13.1%	4.7%	8.4%	25%	2.1%	0.70	75%	4.4%	6.5%	11.2%	$ 15,764.4	0.80%	12.0%
7	Great Plains Energy	2.3%	10.8%	13.1%	4.7%	8.4%	25%	2.1%	0.85	75%	5.4%	7.5%	12.2%	$ 4,135.3	1.19%	13.3%
8	Hawaiian Elec.	2.3%	10.8%	13.1%	4.7%	8.4%	25%	2.1%	0.80	75%	5.0%	7.1%	11.8%	$ 2,846.7	1.72%	13.6%
9	IDACORP, Inc.	2.3%	10.8%	13.1%	4.7%	8.4%	25%	2.1%	0.80	75%	5.0%	7.1%	11.8%	$ 3,176.4	1.72%	13.6%
10	PG&E Corp.	2.3%	10.8%	13.1%	4.7%	8.4%	25%	2.1%	0.65	75%	4.1%	6.2%	10.9%	$ 23,655.5	-0.33%	10.6%
11	SCANA Corp.	2.3%	10.8%	13.1%	4.7%	8.4%	25%	2.1%	0.75	75%	4.7%	6.8%	11.5%	$ 7,702.6	0.93%	12.5%
12	Sempra Energy	2.3%	10.8%	13.1%	4.7%	8.4%	25%	2.1%	0.75	75%	4.7%	6.8%	11.5%	$ 27,146.1	-0.33%	11.2%
13	Westar Energy	2.3%	10.8%	13.1%	4.7%	8.4%	25%	2.1%	0.75	75%	4.7%	6.8%	11.5%	$ 4,869.7	1.19%	12.7%
	Average												11.6%			12.4%
	Midpoint (h)												11.7%			12.4%

(a) Weighted average dividend yield for the dividend paying firms in the S&P 500 from www.valueline.com (Retreived Sep. 19, 201

(b) Weighted average of IBES earnings growth rates for the dividend paying firms in the S&P 500 from http://finance.yahoo.com (retrieved Sep. 22, 2014).

(c) Average yield on 30-year Treasury bonds for 2015-2019 based on data from the Value Line Investment Survey, Forecast for the U.S. Economy (Aug. 22, 2014); IHS Global Insight, U.S. Econom Outlook at 79 (May 2014); & Blue Chip Financial Forecasts, Vol. 33, No. 6 (Jun. 1, 2014).

(d) Morin, Roger A., "New Regulatory Finance,"*Public Utilities Reports, Inc.* at 190 (2006).

(e) The Value Line Investment Survey (Aug. 22, Sep. 19, & Oct. 31, 2014)

(f) www.valueline.com (retrieved Nov. 5, 2014)

(g) Morningstar, "2014 Ibbotson SBBI Market Report," at Table 10 (2014).

(h) Average of low and high values

AEP Leadership

Nicholas K. Akins

Chairman, President and Chief Executive Officer

Nick Akins is AEP's 11th chairman, 10th president, and sixth CEO in the company's more than 100-year history. He is a member of AEP's board of directors and is the only management representative on the board.

READ MORE

Brian X. Tierney

Executive Vice President and Chief Financial Officer

Brian X. Tierney is responsible for corporate accounting, finance, fleet services, investor relations, planning and strategy, procurement/supply chain, and risk management.

READ MORE

David M. Feinberg

Executive Vice President, General Counsel and Secretary

David M. Feinberg is responsible for all corporate legal affairs and supervision of AEP's Legal Department.

READ MORE

Lana L. Hillebrand

Lisa M. Barton

Paul Chodak III

AG
Exhibit 11

INVESTOR-OWNED ELECTRIC UTILITIES IN KENTUCKY
Rates in Effect as of 10/12/17

Duke Energy-Kentucky	$4.50
LG&E	$12.25
KU	$12.25
KPCo	$11.00
AVERAGE	**$10.00**

AG Hearing Exhibit 12

Kentucky Power Company
Case No. 2014-00396 General Rate Adjustment
Post Case Correspondence Dated September 7, 2017
2017 BSRR Annual Report

DATA REQUEST

KPSC_1_002 On the 'WACC" tab in the spreadsheet entitled" BSRR_2017 Support_1_Components", footnote 7 states:

The weighted average cost of capital used in these calculations will be updated coincident with Commission orders affecting the

Company's WACC and capital structure. The rate will next be update with the Company's August 15, 2018 filing.

Indicate whether, upon a Commission Order affecting the weighted average cost of capital and capital structure, Kentucky Power would immediately update the weighted average cost of capital used in the calculation or whether it would wait until the August 15, 2018 filing.

RESPONSE

The pre-tax weighted average cost of capital ("WACC") carrying charge used in the calculation of Retirement Costs identified in paragraph 1 of Tariff B.S.R.R. will be modified for accounting purposes to reflect any changes to the Company's WACC as a result of the Commission's final order in Case No. 2017-00179 coincident with the effective date of the rates approved by the Commission's final order in Case No. 2017-00179. The B.S.R.R. adjustment rate will not be modified coincident with the effective date of the rates approved by the Commission's final order in Case No. 2017-00179.

Consistent with paragraph 5 of Tariff B.S.R.R., and paragraph 6(e) of the Settlement Agreement approved by the Commission's June 22, 2015 Order in Case No. 2014-00396, the B.S.R.R. adjustment rate will be modified effective Cycle 1 of the Company's October 2018 billing cycle. The October 2018 modified B.S.R.R. adjustment rate will reflect, as of the effective date of the rates approved by the Commission's final order in Case No. 2017-00179, any changes to the Company's WACC as a result of the Commission's final order in Case No. 2017-00179.

Witness: Amy J Elliott

AG
Exhibit 13

KCUC
Exhibit 1

Commonwealth of Kentucky
Public Service Commission
ANNUAL REPORT STATISTICS - 2016

Investor-Owned Electric Utilities		Residential	Commercial	Industrial	Other	Total
Duke Energy Kentucky, Inc.						
	Customers	124,307	13,932	371	1,405	140,015
	Revenues	$130,486,547.00	$115,657,305.00	$53,901,107.00	$43,542,681.00	$343,587,640.00
	KWHs	1,472,994,000	1,500,730,000	815,042,000	884,221,000	4,672,987,000
	Cost Per KWH	0.0886	0.0771	0.0661	0.0492	0.0735
	Monthly Bill	$87.48	$691.80	$12,107.17	$2,582.60	$204.49
	Monthly Usage	987	8,977	183,073	52,445	2,781
Kentucky Power Company						
	Customers	137,013	30,293	1,191	382	168,879
	Revenues	$254,059,898.00	$156,542,122.00	$160,233,948.00	$53,220,817.00	$624,056,785.00
	KWHs	2,128,530,000	1,315,497,000	2,408,194,000	1,423,826,000	7,276,047,000
	Cost Per KWH	0.1194	0.119	0.0665	0.0374	0.0858
	Monthly Bill	$154.52	$430.63	$11,211.44	$11,610.13	$307.94
	Monthly Usage	1,295	3,619	168,499	310,608	3,590
Kentucky Utilities Company						
	Customers	449,845	84,259	2,921	10,068	547,093
	Revenues	$633,811,482.00	$391,730,928.00	$415,695,730.00	$278,381,589.00	$1,719,619,729.00
	KWHs	6,416,653,000	4,041,728,000	6,733,922,000	4,245,660,000	21,437,963,000
	Cost Per KWH	0.0988	0.0969	0.0617	0.0656	0.0802
	Monthly Bill	$117.41	$387.43	$11,859.40	$2,304.18	$261.93
	Monthly Usage	1,189	3,997	192,112	35,142	3,265
Louisville Gas and Electric Company						
	Customers	356,424	42,914	580	4,838	404,756
	Revenues	$438,833,400.00	$373,019,337.00	$176,634,496.00	$130,949,863.00	$1,119,437,096.00
	KWHs	4,215,244,000	3,942,673,000	2,639,668,000	2,358,908,000	13,156,493,000
	Cost Per KWH	0.1041	0.0946	0.0669	0.0555	0.0851
	Monthly Bill	$102.60	$724.35	$25,378.52	$2,255.58	$230.48
	Monthly Usage	986	7,656	379,263	40,632	2,709
Totals for 4 Investor-Owned Electric Utilities						
	Customers	1,067,589	171,398	5,063	16,693	1,260,743
	Revenues	$1,457,191,327.00	$1,036,949,692.00	$806,465,281.00	$506,094,950.00	$3,806,701,250.00
	KWHs	14,233,421,000	10,800,628,000	12,596,826,000	8,912,615,000	46,543,490,000
	Cost Per KWH	0.1024	0.096	0.064	0.0568	0.0818

N

TARIFF G.S.
(General Service)

AVAILABILITY OF SERVICE.

Available for general service customers. Customers may continue to qualify for service under this tariff until their normal maximum demand exceeds 100 kW. (excluding the demand served by the Load Management Time-of-Day provision).

Existing customers not meeting the above criteria will be permitted to continue service under present conditions only for continuous service at the premises occupied on or prior to December 5, 1984.

RATE.

Tariff Code	Service Voltage	Demand Charge ($/kW)	First 4,450 kWh (¢/kWh)	Over 4,450 kWh (¢/kWh)	Monthly Service Charge ($)
211.212. 215, 216, 218	Secondary	7.97	9.865	9.897	22.50
217, 220	Primary	7.18	8.804	8.834	75.00
236	Subtransmission	5.74	7.154	7.184	364.00

The Demand Charge shall apply to all monthly billing demand in excess of 10 kW.

MINIMUM CHARGE.

This tariff is subject to a minimum charge equal to the sum of the service charge plus the demand charge multiplied by the monthly billing demand in excess of 10 kW.

ADJUSTMENT CLAUSES.

The bill amount computed at the charges specified above shall be increased or decreased in accordance with the following:

Fuel Adjustment Clause	Sheet No. 5
System Sales Clause	Sheet No. 19
Franchise Tariff	Sheet No. 20
Demand-Side Management Adjustment Clause	Sheet No. 22
Kentucky Economic Development Surcharge	Sheet No. 24
Capacity Charge	Sheet No. 28
Environmental Surcharge	Sheet No. 29
School Tax	Sheet No. 33
Purchase Power Adjustment	Sheet No. 35
Decommissioning Rider	Sheet No. 38

DELAYED PAYMENT CHARGE.

This tariff is due and payable in full on or before the due date stated on the bill. On all accounts not so paid, an additional charge of 5% of the unpaid balance will be made.

N

(Cont'd on Sheet No. 7-2)

DATE OF ISSUE:

DATE EFFECTIVE: Service Rendered On And After January 19, 2018

ISSUED BY: Ranie K Wohnhas

TITLE: Managing Director Regulatory/Finance

By Authority Of an Order of the Public Service Commission

In Case No. 2017-00179 Dated XXXXXXX

KCUC
Exhibit 2

TARIFF L.G.S.
(Large General Service)

AVAILABILITY OF SERVICE.

Available for general service to customers with normal maximum demands greater than 100 KW but not more than 1,000 KW (excluding the demand served by the Load Management Time-of-Day provision).

Existing customers not meeting the above criteria will be permitted to continue service under present conditions only for continuous service at the premises occupied on or prior to December 5, 1984.

RATE.

	Service Voltage				
	Secondary	Primary	Subtransmission	Transmission	
Tariff Code	240, 242, 260	244, 246, 264	248, 268	250, 270	TTTT
Service Charge per Month	$ 85.00	$ 127.50	$ 660.00	$ 660.00	II
Demand Charge per KW	$ 7.97	$ 7.18	$ 5.74	$ 5.60	IIII
Excess Reactive Charge per KVA	$ 3.46	$ 3.46	$ 3.46	$ 3.46	
Energy Charge per KWH	8.134¢	7.152¢	5.535¢	5.429¢	IIII

MINIMUM CHARGE.

Bills computed under the above rate are subject to a monthly minimum charge comprised of the sum of the service charge and the minimum demand charge. The minimum demand charge is the product of the demand charge per KW and the monthly billing demand.

ADJUSTMENT CLAUSES. T

The bill amount computed at the charges specified above shall be increased or decreased in accordance with the following:

Fuel Adjustment Clause	Sheet No. 5
System Sales Clause	Sheet No. 19
Franchise Tariff	Sheet No. 20
Demand-Side Management Adjustment Clause	Sheet No. 22
Kentucky Economic Development Surcharge	Sheet No. 24
Capacity Charge	Sheet No. 28
Environmental Surcharge	Sheet No. 29
School Tax	Sheet No. 33
Purchase Power Adjustment	Sheet No. 35
Decommissioning Rider	Sheet No. 38 T

DELAYED PAYMENT CHARGE.

This tariff is due and payable in full on or before the due date stated on the bill. On all accounts not so paid, an additional charge of 5% of the unpaid balance will be made.

METERED VOLTAGE.

The rates set forth in this tariff are based upon the delivery and measurement of energy at the same voltage, thus measurement will be made the metered KWH and KW values will be adjusted for billing purposes. If the Company elects to adjust KWH and KW based on multipliers, the adjustment shall be in accordance with the following:

(1) Measurements taken at the low-side of a customer-owned transformer will be multiplied by 1.01.

(2) Measurements taken at the high-side of a Company-owned transformer will be multiplied by 0.98.

(Cont'd. On Sheet No. 9-2)

DATE OF ISSUE:

DATE EFFECTIVE: Service Rendered On And After January 19, 2018

ISSUED BY: Ranie K Wohnhas

TITLE: Managing Director Regulatory/Finance

By Authority Of an Order of the Public Service Commission
In Case No. 2017-00179 Dated XXXXXXX

TARIFF I.G.S.
(Industrial General Service)

AVAILABILITY OF SERVICE.

Available for commercial and industrial customers with contract demands of at least 1,000 KW. Customers shall contract for a definite amount of electrical capacity in kilowatts, which shall be sufficient to meet normal maximum requirements.

RATE.

	Secondary	Primary	Service Voltage Subtransmission	Transmission	
Tariff Code	356	358/370	359/371	360/372	TTT
Service Charge per month	$ 276.00	$ 276.00	$ 794.00	$ 1,353.00	IIII
Demand Charge per KW					
Of monthly on-peak billing demand	$ 24.13	$ 20.57	$ 13.69	$ 13.26	IIII
Of monthly off-peak billing demand	$ 1.60	$ 1.55	$ 1.51	$ 1.49	IIII
Energy Charge per KWH	3.005¢	2.891¢	2.852¢	2.813¢	RRRR

Reactive Demand Charge for each kilovar of maximum leading or lagging reactive demand in excess of 50 percent of the KW of monthly metered demand .... $0.69/ KVAR

For the purpose of this tariff, the on-peak billing period is defined as 7:00 AM to 9:00 PM for all weekdays, Monday through Friday. The off-peak billing period is defined as 9:00 PM to 7:00 AM for all weekdays and all hours of Saturday and Sunday.

MINIMUM DEMAND CHARGE.

The minimum demand charge shall be equal to the minimum billing demand times the following minimum demand rates:

Secondary	Primary	Subtransmission	Transmission	
$25.83/KW	$ 22.21 /KW	$15.30/KW	$14.86/KW	IIII

The minimum billing demand shall be the greater of 60% of the contract capacity set forth on the contract for electric service or 60% of the highest billing demand, on-peak or off-peak, recorded during the previous eleven months.

MINIMUM CHARGE.

This tariff is subject to a minimum charge equal to the Service Charge plus the Minimum Demand Charge.

(Cont'd. on Sheet No. 10-2)

DATE OF ISSUE:

DATE EFFECTIVE: Service Rendered On And After January 19, 2018

ISSUED BY: Ranie K Wohnhas

TITLE: Managing Director Regulatory/Finance

By Authority Of an Order of the Public Service Commission

In Case No. 2017-00179 Dated XXXXXXX

KCUC
Exhibit ____

Economic Development in Coal Country

Matthew J. Satterwhite
President/COO
November 10, 2017
Leadership Kentucky Presentation

KENTUCKY POWER
An AEP Company

Kentucky Power
Economic & Business Development
www.aeped.com/kentucky

KCUC
Exhibit 3

The War on Poverty Was Not Successful In The Appalachian Sky Region

High-Poverty Counties in the Appalachian Region

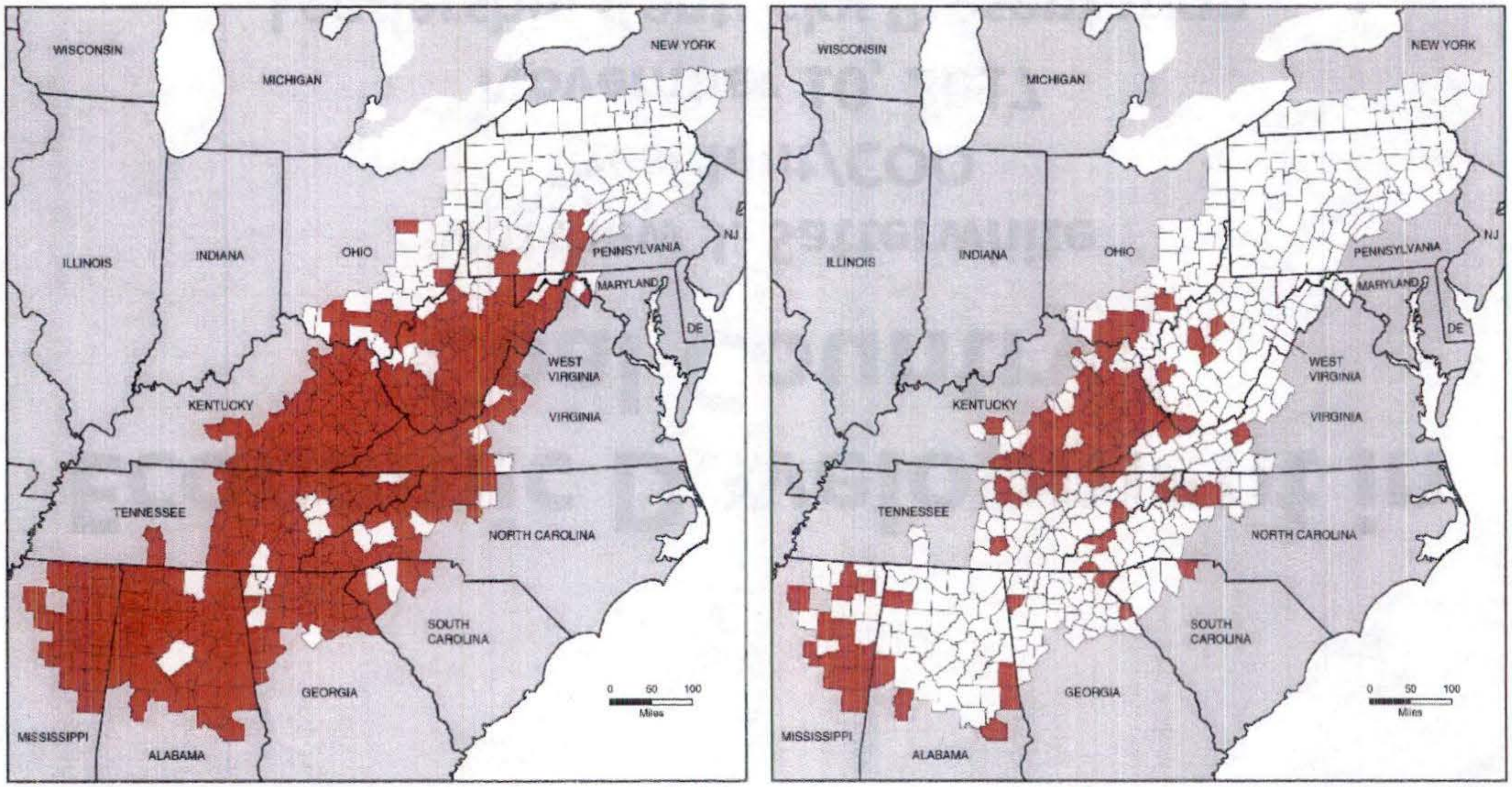
(Counties with Poverty Rates At Least 1.5 Times the U.S. Average)

1960

295 High-Poverty Counties

2010–2014

91 High-Poverty Counties

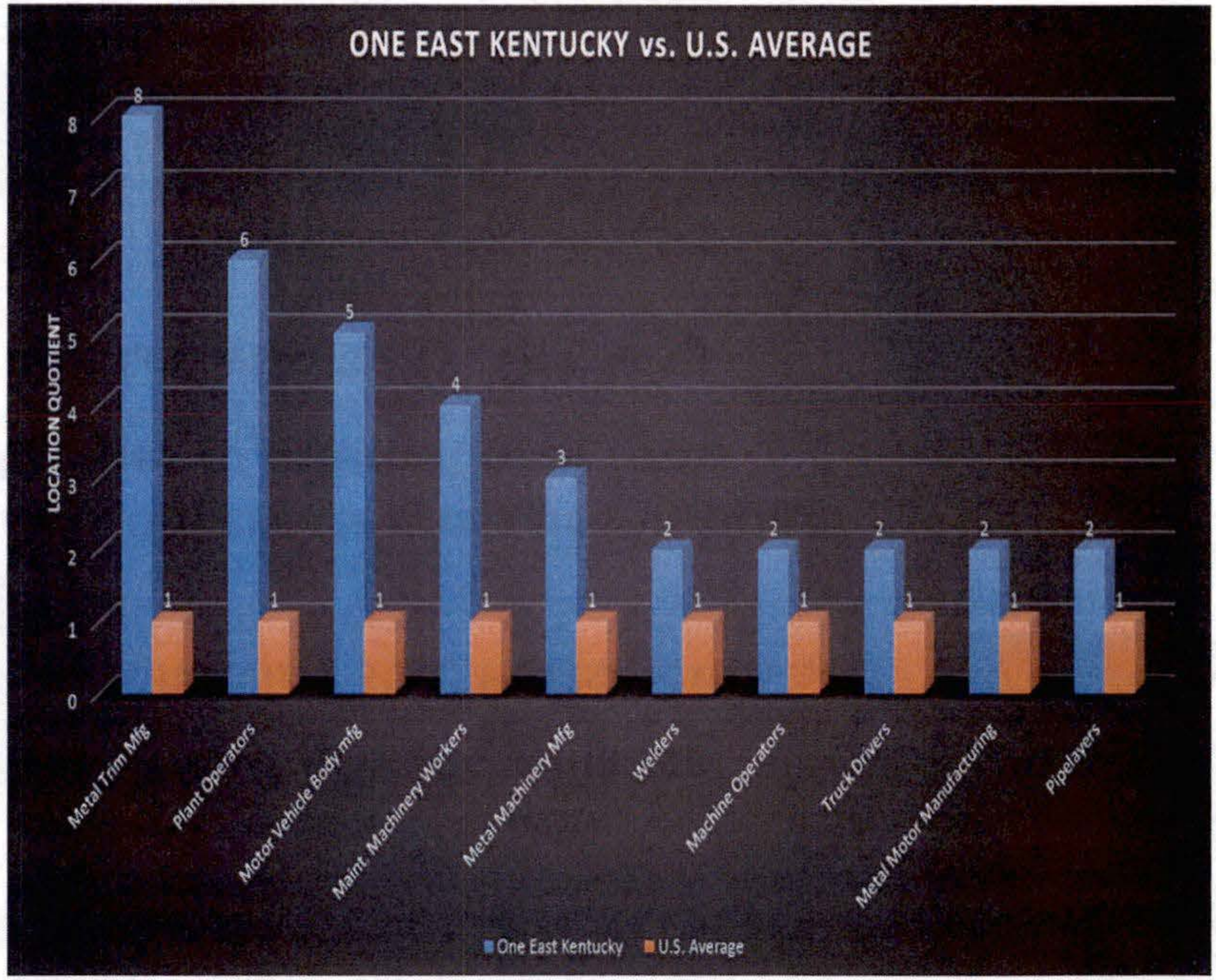


Data Source: Office of Economic Opportunity data from U.S. Dept. of Agriculture, Economic Research Service, 1960.

Data Source: U.S. Census Bureau, American Community Survey, 5-Year Estimates, 2010–2014.

Available. Skilled. Workforce.

- #1 skill need of aerospace is metalworking
- #1 skill need of a coal & steelworker is metalworking
- Appalachia has **<u>8x the national average</u>** of metal workers



AERO*ready*™ REGION

Regionally Focused Preparation

AeroReady CERTIFICATION

COMMON SENSE
ECONOMIC DEVELOPMENT

COMMON SENSE
ECONOMIC DEVELOPMENT

- **Certification for One East KY and Ashland Alliance**
- **Two adjacent regions are following suit: Portsmouth and Huntington**
- **Consultants believe this could create cross promotional and marketing opportunities to international firms**
- **Creating a Tri-State / AEP Led effort (KY, OH, WV)**

CITY OF HUNTINGTON

ASHLAND KENTUCKY ALLIANCE
Chamber & Economic Development

ONE EAST KENTUCKY

CITY OF PORTSMOUTH OHIO 1803

KENTUCKY POWER
An AEP Company

Kentucky Power
Economic & Business Development
www.aeped.com/kentucky

The Appalachian Sky Region Counties Are Aerospace & Aviation Certified

AEROready™ REGION

The consulting team of Common Sense Economic Development, LLC and Tucson/Atlantic Consulting has surveyed and examined the *Ashland Alliance* region, and its potential to target, recruit and support aerospace-related business and industry. Fourteen essential qualities in aerospace site location searches were evaluated, and many secondary aviation support criteria were evaluated to determine the potential for aerospace corporations to operate successfully in the nine-county region.

These include, but are not limited to, the following:

1. Airport(s) with at least 10 acres of available land for economic development, supporting navigation aids for corporate aircraft and a minimum 5,000-foot runway;
2. Availability of local training of technical skills often needed by aerospace companies;
3. An FAA certified A&P (airframe and power plant) training facility located within the State;
4. Available industrial building(s) or hangar(s) suitable for aviation development;
5. An available skilled workforce suitable for aviation employment;
6. Adequate infrastructure to support the aviation industry;
7. Aviation support service business and industry;
8. A community pro-business environment;
9. Proximity to University- based aerospace programs and research;
10. Quality of Life assets in the region, which are essential to attracting executive talent.

It is our opinion that the area possesses the resources needed to attract and sustain aerospace- related companies, including those that require airport support services and infrastructure, as well as those that simply need high-quality sites or buildings.

The regional public and private leadership have shown a strong commitment to grow their market area and we are proud to endorse their aerospace recruiting efforts by certifying the *Ashland Kentucky* Region as an AEROready™ Region, signifying its ability to successfully support the critical needs of the aerospace industry. This certification authorizes the *Ashland Alliance* and its aerospace partners to utilize the AEROready™ Region logo in its marketing efforts and to publicize its AEROready™ Region status as needed to recruit aerospace related business and industry.

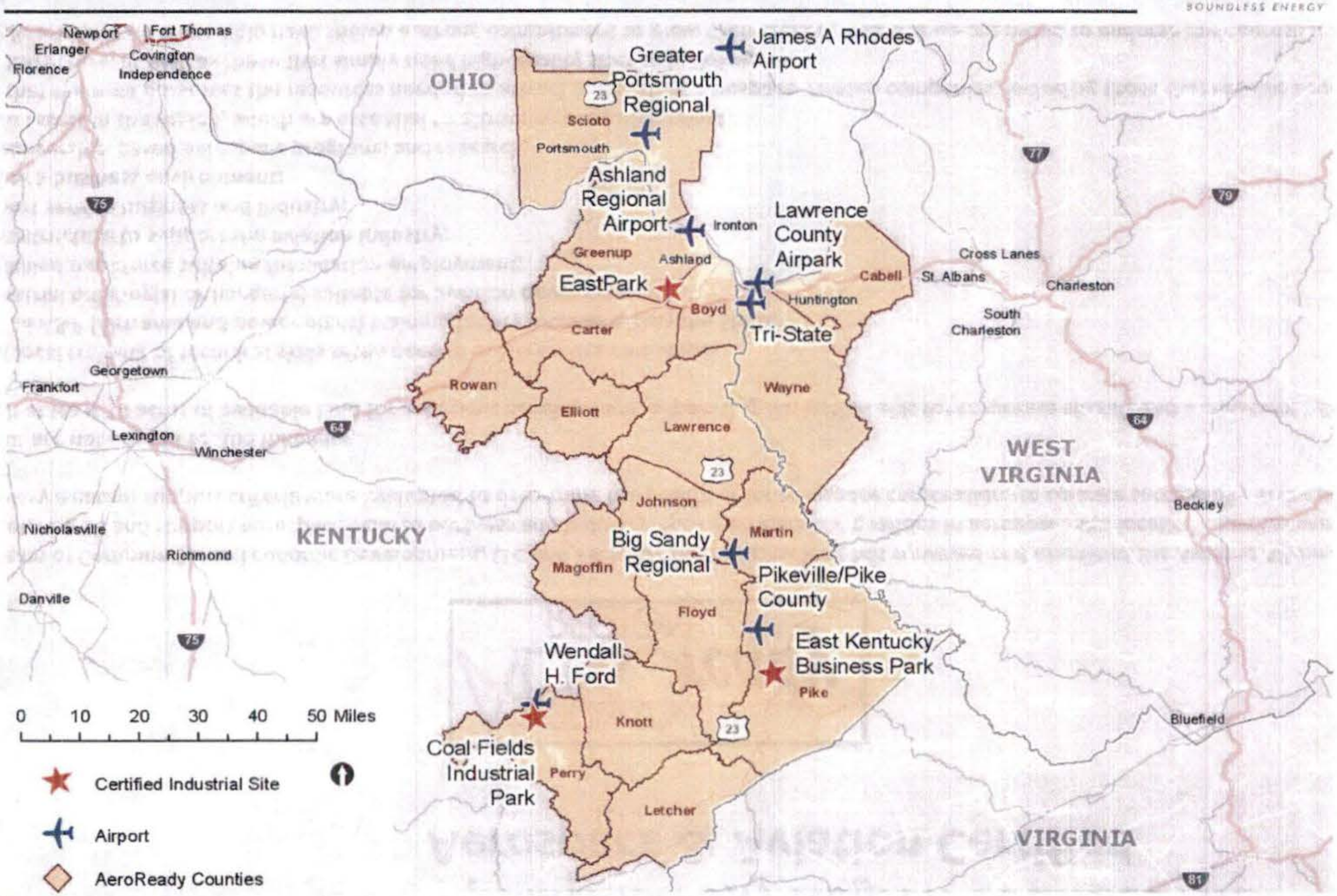
Robert Ingram
Robert Ingram
Common Sense Economic Development, LLC

Tucson Roberts
Tucson Roberts
Tucson/Atlantic Consulting

The Appalachian Sky Region Counties Are Aerospace & Aviation Certified

AVIATION/AERONAUTICS TARGET AREA

TRI-STATE REGION - KENTUCKY, OHIO & WEST VIRGINIA



Defense & Aviation + Coal +Steel = Economic Diversity in Appalachia

- **Private Sector Employment**
- **Leveraging High Skill Workforce**
- **Re-employing miners & steelworkers**
- **Building and Creating Essential Aviation/Aerospace Products in the U.S.**
- **Creating New Industry to Diversify the Economy**

KENTUCKY POWER
An AEP Company

Appalachian Sky

Promise: Put Coal Miners & Steelworkers Back To Work

Solution: Appalachian Sky

Aerospace, Aviation, Defense is the fastest growing sector in U.S.

The marriage of skillsets with ready sites can put these folks back to work

KENTUCKY POWER
An AEP Company

Total Investment Since 2012

KEAP	$931,150
K-PEGG	$1,045,370
Other Investments	$1,700,000
Total KY Power Investment	**$3,676,520**

K-PEGG = .15 for each customer bill matched by shareholders. Rate case seeks to increase to .25

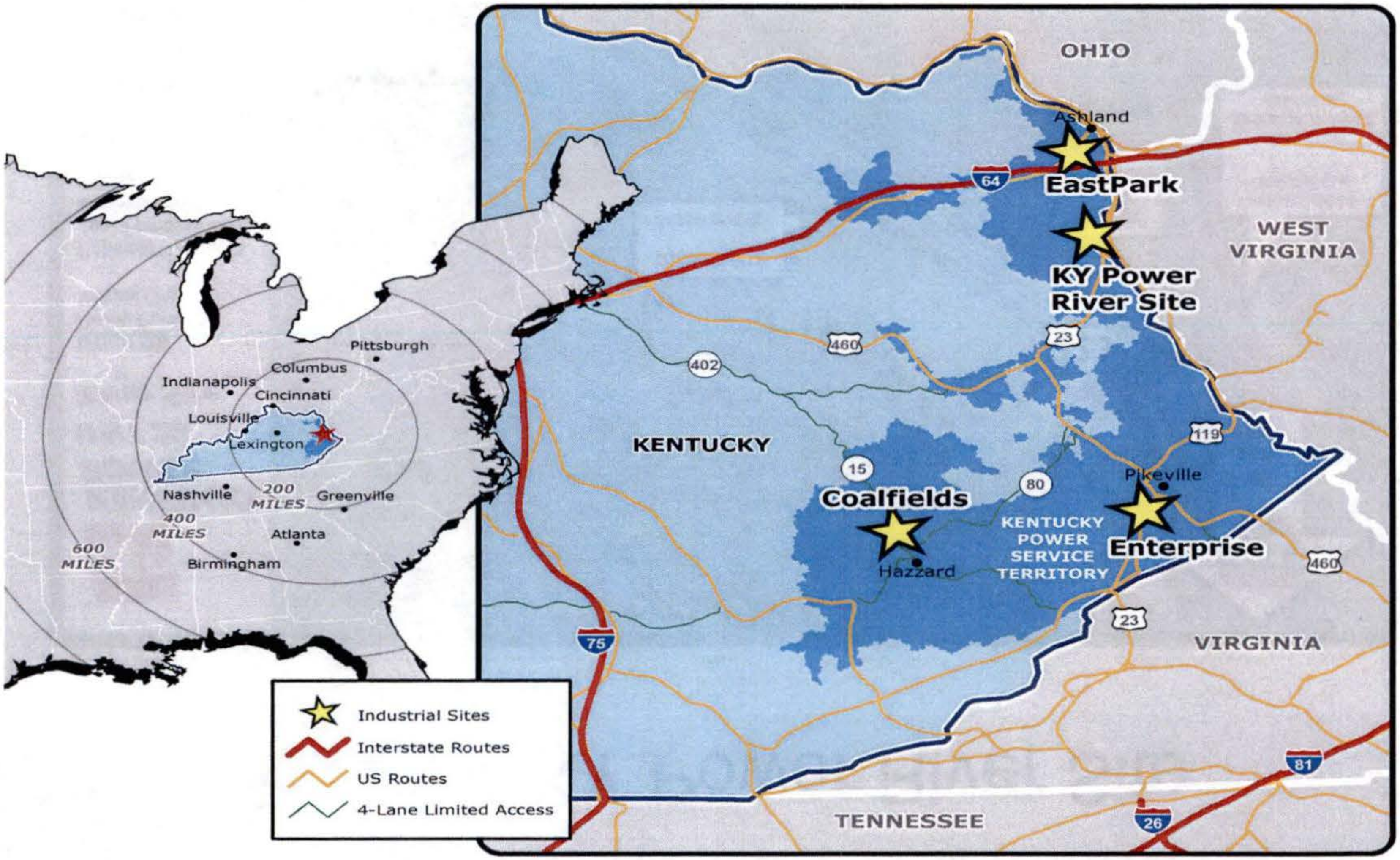
Coal PLUS Initiative

KPSC approved request by Kentucky Power

One Goal = Remove Barriers

- Discounted demand charges;
- Alternative deposit payment schedules;
- Interruptible rate opportunities;
- Access to K-PEGG program;
- Access to the Economic Development Rider

Kentucky Power Master Plan



KENTUCKY POWER
An AEP Company

KY Power River Site

AEP
KENTUCKY POWER
HWY 23
River Site

UTILITIES
Heavy Power & Natural Gas

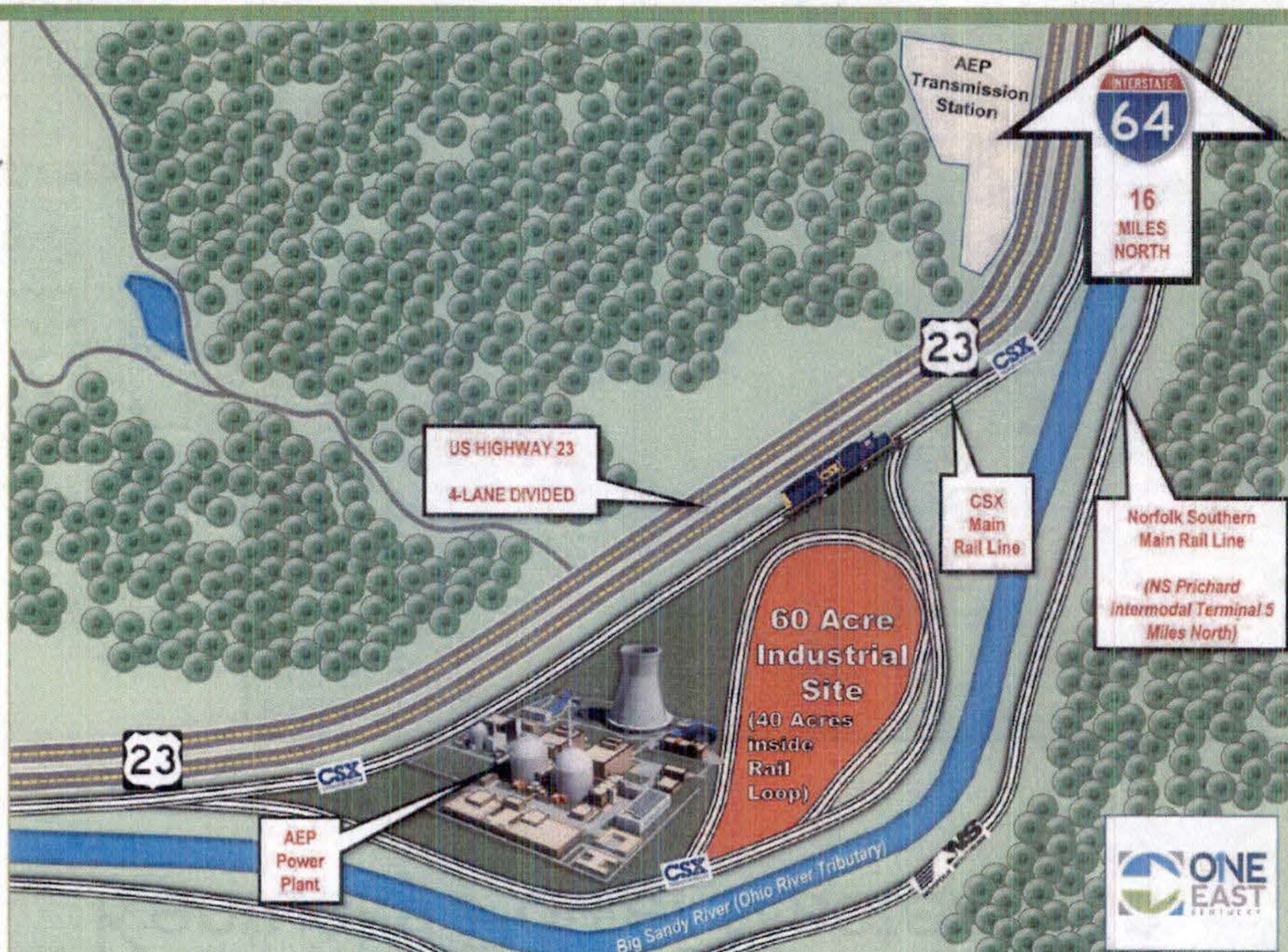
Potential for shared use of process water and other heavy utilities

ROAD:
US HWY 23 (4-Lane) adjacent to Site.

Located 16 Miles South of Interstate 64

RAIL:
CSX Main Line is adjacent and loops industrial site

Norfolk Southern located across river



KENTUCKY POWER
An AEP Company

KY Power River Site

KENTUCKY POWER
An AEP Company

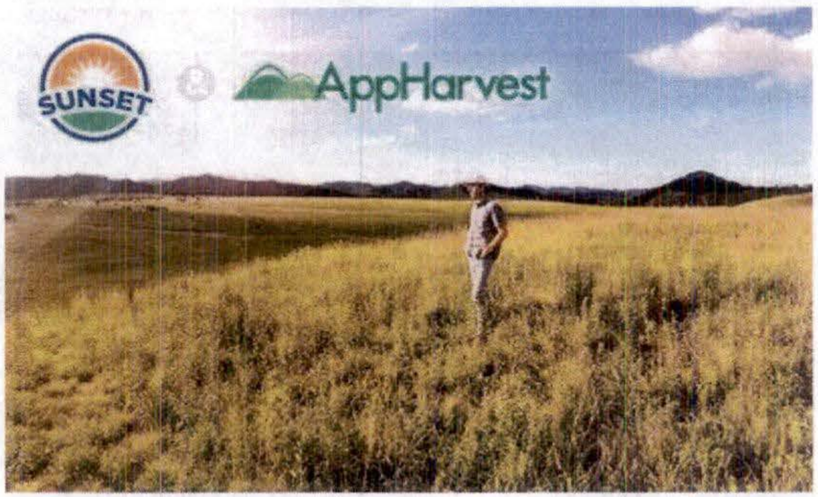
It takes a ~~village~~ region!

- One East Kentucky and the Corporate Sponsors
- Ashland Alliance
- East Kentucky Concentrated Employment Program
- Ashland, Hazard, and Big Sandy Community and Technical Colleges
- Coalfields, Big Sandy and Appalachian Industrial Authority
- Local county and city governments (Comm. Sandra Dunahoo is a rock star)
- Kentucky Economic Development Cabinet
- Chambers of Commerce
- Open-minded elected and appointed officials
- Kentucky Association of Economic Development
- Media
- eKAMI Advanced Manufacturing School
- Kentucky Power Customers

2017 Successes

- **Silver Liner**
  - Tanker Truck Manufacturer
  - $12 Million Investment
  - 300 full-time jobs
  - $50K avg. wage
  - 60,000 sq. ft. facility

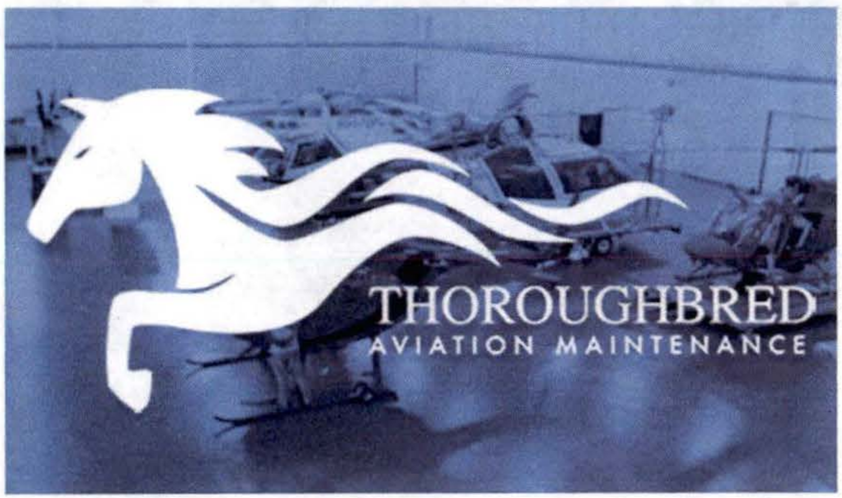
2017 Successes



- **AppHarvest**
  - Agricultural Grow Operation
  - $50 Million Investment
  - 140 full-time jobs
  - $15/hr avg. wage
  - 2 million sq. ft. facility

KENTUCKY POWER
An AEP Company

2017 Successes

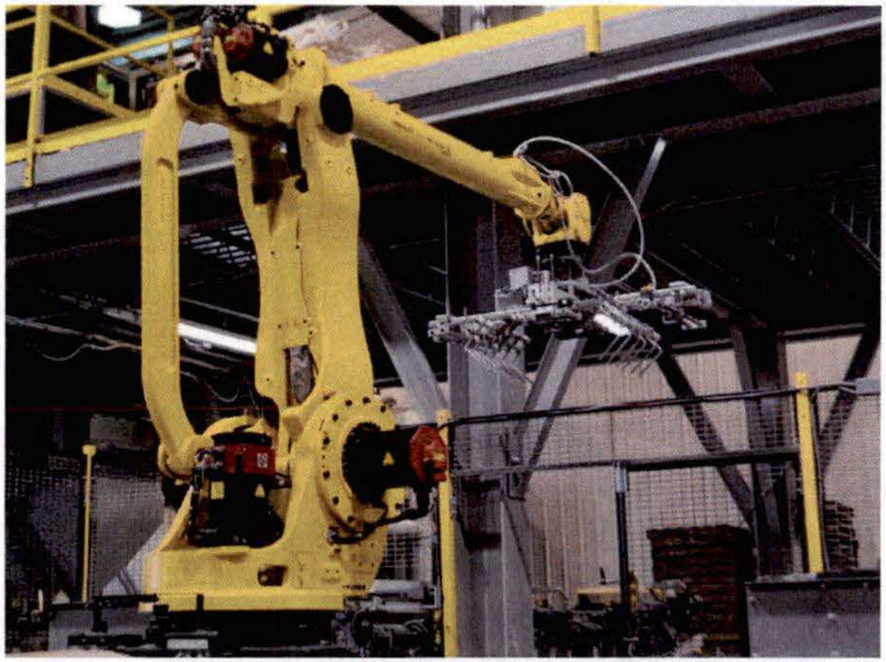


- **Thoroughbred Aviation**
  - Aircraft maintenance, avionics, painting and structural repair, along with overhauling and refurbishment
  - $284,000 Investment
  - 15 full-time jobs
  - $25-30/hour avg. wage

2017 Successes

- **Braidy Industries**
  - Corporate HQ - Ashland
  - Aluminum Rolling Mill
  - Automotive & Aerospace Quality Aluminum
  - $1.3B Investment
  - 1000+ construction
  - 550 full-time
  - $38/hour avg. wage

2017 Successes



- **Wright-Mix Materials**
- Products include:
  - Liquid based chemicals
  - Grouts
  - Thin-skin liners
  - + Cement-based products
- $8.5M Investment
- 130 full-time
- $16/hour avg. wage

2017 Successes

- **New Pikeville Project?**
  - Stay tuned
  - Hoping for commitment
  - Sean Cochran is nervous I am talking about this!

Open Discussion

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I can help you move your company to the **most promising growth corridor** in the country……

Central Appalachia!

Mjsatterwhite@aep.com

Kentucky Power Company
Settlement Agreement Exhibit-1
Case No. 2017-00179
Settlement Revenue Allocation

Customer Class	Base Rate Case Settlement Increase						Increase Incorporating Surcharge Changes			Return on Rate Base		Settlement
	Settlement Base Rate Increase	ECP	HEAP KEDS	Total Increase	Test Year Rev	% Increase	Carrying Charge Savings in ES	Net Increase	Total Bill % Increase	Current ROR	Proposed ROR	Proposed Non-Fuel Base Revenue Increase
	a	b	c	d = a+b+c	e	= d/e	f	g = d+f	= g/e			
RS	$ 20,076,436	$1,734,600	594	21,811,630	$232,952,481	9.36%	($835,019)	$20,976,611	9.00%	1.90%	3.77%	14.15%
SGS	$ 984,981	$184,183	247,506	1,416,670	$21,371,729	6.63%	($88,664)	$1,328,006	6.21%	11.30%	12.90%	7.19%
MGS	$ 3,421,623	$500,403	69,324	3,991,350	$60,245,787	6.63%	($240,889)	$3,750,461	6.23%	9.14%	10.96%	9.24%
GS*	$ 4,406,604	$ 684,586	$ 316,830	$ 5,408,020	$ 81,617,516	6.63%	($329,553)	$5,078,467	6.22%	9.67%	11.43%	8.68%
LGS/PS	$ 3,520,149	$649,861	8,467	4,078,477	$70,567,216	5.78%	($264,698)	$3,813,779	5.40%	8.78%	10.46%	8.61%
IGS	$ 3,534,466	$836,950	694	4,372,110	$157,911,886	2.77%	($402,899)	$3,969,211	2.51%	6.82%	7.71%	5.85%
MW	$ 4,956	$1,620	102	6,678	$221,405	3.02%	($780)	$5,898	2.66%	12.12%	13.02%	3.94%
OL	$ 201,254	$82,080	0	283,334	$8,984,564	3.15%	($39,512)	$243,822	2.71%	15.03%	15.68%	2.87%
SL	$ 36,869	$13,751	0	50,620	$1,646,931	3.08%	($6,620)	$44,000	2.67%	15.92%	16.84%	3.29%
Total	$ 31,780,734	$ 3,903,448	$ 326,687	$ 36,010,869	$ 553,800,979	6.50%	($1,879,080)	$34,131,789	6.16%	4.85%	6.48%	9.47%

* GS is the combination of the SGS and MGS classes

KCUC
Exhibit 4

TARIFF C.S.-COAL
(Contract Service – Coal Power)

AVAILABILITY OF SERVICE.

Available for service to customers engaged in the extraction or processing of coal. This tariff is available for new customers and for load expansions of existing customers who contract for service with the Company. The Company reserves the right to limit the total contract capacity for all customers served under this Tariff to 60,000 kW.

CONDITIONS OF SERVICE.

The Company will offer eligible customers the option to receive service pursuant to a contract agreed to by the Company and the Customer. Any such contract will be filed with the Commission and is subject to approval by the Commission. The Company will work with the Customer to provide limited exceptions to tariff provisions in areas of, but not limited to, demand charges and hours or days of operation.

Upon receipt of a request from the Customer for new or additional service, the Company will provide the Customer with a written offer containing the rates and related terms and conditions of service under which such service will be provided by the Company. If the parties reach an agreement based upon the offer provided to the Customer by the Company, such written contract will be filed with the Commission. The contract shall provide full disclosure of all rates, terms and conditions of service under this Tariff, and any and all agreements related thereto, subject to the designation of the terms and conditions of the contract as confidential, as set forth herein. The contract will become effective only upon approval by the Commission.

The Customer shall contract for capacity sufficient to meet normal maximum power requirements, but in no event will the amount contracted for be less than 1,000 KW at any delivery point.

RATE.

Charges for service under this Tariff will be set forth in the written agreement between the Company and the Customer.

ADJUSTMENT CLAUSES. T

The bill amount computed at the charges specified above shall be increased or decreased in accordance with the following:

Fuel Adjustment Clause	Sheet No. 5
System Sales Clause	Sheet No. 19
Franchise Tariff	Sheet No. 20
Demand-Side Management Adjustment Clause	Sheet No. 22
Kentucky Economic Development Surcharge	Sheet No. 24
Capacity Charge	Sheet No. 28
Environmental Surcharge	Sheet No. 29
School Tax	Sheet No. 33
Purchase Power Adjustment	Sheet No. 35
Decommissioning Rider	Sheet No. 38 T

(Cont'd. On Sheet No. 11-2)

DATE OF ISSUE:

DATE EFFECTIVE: Service Rendered On and After January 19, 2018

ISSUED BY: Ranie K Wohnhas

TITLE: Managing Director Regulatory/Finance

By Authority Of an Order of the Public Service Commission

In Case No. 2017-00179 Dated XXXXXXX

KCUC
Exhibit 5

TARIFF C.S.-COAL
(Contract Service – Coal Power)

DELAYED PAYMENT CHARGE.

Bills under this tariff are due and payable within fifteen (15) days of the mailing date. On all accounts not paid in full by the next billing date, an additional charge of 5% of the unpaid portion will be made.

TERM OF CONTRACT.

The length of the agreement and the terms and conditions of service will be stated in the agreement between the Company and the Customer.

CONFIDENTIALITY.

All terms and conditions of any written contract under this Tariff shall be protected from disclosure as confidential, proprietary trade secrets, if either the Customer or the Company requests a Commission determination of confidentiality pursuant to 807KAR 5:001, Section 7 and the request is granted.

SPECIAL TERMS AND CONDITIONS.

Except as otherwise provided in the written agreement, this Tariff is subject to the Company's Terms and Conditions of Service.

Should a new or additional deposit be required pursuant to the Company's Terms and Conditions of Service, Customers receiving service under this Tariff have the option to pay such deposit by making twelve equally monthly payments of one-twelfth of the deposit during the first year of service under this Tariff.

A Customer's plant is considered as one or more buildings, which are served by a single electrical distribution system provided and operated by the Customer. When the size of the Customer's load necessitates the delivery of energy to the Customer's plant over more than one circuit, the Company may elect to connect its circuits to different points on the Customer's system irrespective of contrary provisions in Terms and Conditions of Service.

This tariff is also available to Customers having other sources of energy supply, but who desire to purchase standby or back-up electric service from the Company. Where such conditions exist, the Customer shall contract for the maximum amount of demand in KW, which the Company might be required to furnish, but not less than 1,000 KW.

Customers with PURPA Section 210 qualifying cogeneration and/or small power production facilities shall take service under Tariff COGEN/SPP II or by special agreement with the Company.

Tariff C.S.-Coal shall expire on December 31, 2018.

DATE OF ISSUE:

DATE EFFECTIVE: Service Rendered On and After January 19, 2018

ISSUED BY: Ranie K Wohnhas

TITLE: Managing Director Regulatory/Finance

By Authority Of an Order of the Public Service Commission

In Case No. 2017-00179 Dated XXXXXXX

TARIFF C.S.-I.R.P.
(Contract Service - Interruptible Power)

AVAILABILITY OF SERVICE.

Available for service to customers who contract for service under the Company's Industrial General Service (I.G.S.) tariff. The Company reserves the right to limit the total contract capacity for all customers served under this Tariff to 75,000kW. T T

Loads of new customers locating within the Company's service area or load expansions by existing customers may be offered interruptible service as part of an economic development incentive. Such interruptible service shall not be counted toward the limitation on total interruptible power contract capacity, as specified above, and will not result in a change to the limitation on total interruptible power contract capacity.

CONDITIONS OF SERVICE.

The Company will offer eligible customers the option to receive interruptible power service. This interruptible service will be consistent with PJM's Limited Demand Response, Emergency – Capacity Only Program, subject to any limitations on the availability of that Program by PJM. If insufficient MWs are available for PJM enrollment by Kentucky Power, the Company shall offer to substitute one of the other PJM Emergency Demand Response Programs that is available. To be eligible for the credit, customers must be able to provide interruptible load (not including behind the meter diesel generation) of at least one (1) MW at a single site and commit to a minimum four (4) year contract term. The contract shall provide that 90 days prior to each contract anniversary date, the customer shall re-nominate the amount of interruptible load for the upcoming contract year, except that the cumulative reductions over the life of the contract shall not exceed 20% of the original interruptible load nominated under the contract. If no re-nomination is received at least 90 days prior to the contract anniversary date, the prior year's interruptible load shall apply for the forthcoming contract year.

Upon receipt of a request from the Customer for interruptible service, the Company will provide the Customer with a written offer containing the rates and related terms and conditions of service under which such service will be provided by the Company. If the parties reach an agreement based upon the offer provided to the Customer by the Company, such written contract will be filed with the Commission. The contract shall provide full disclosure of all rates, terms and conditions of service under this Tariff, and any and all agreements related thereto, subject to the designation of the terms and conditions of the contract as confidential, as set forth herein.

The Customer shall provide reasonable evidence to the Company that the Customer's electric service can be interrupted in accordance with the provisions of the written agreement including, but not limited to, the specific steps to be taken and equipment to be curtailed upon a request for interruption.

The Customer shall contract for capacity sufficient to meet normal maximum interruptible power requirements, but in no event will the interruptible amount contracted for be less than 1,000 KW at any delivery point.

SPECIAL PROVISIONS FOR COAL MINING CUSTOMERS

Notwithstanding other provisions of this Tariff, customers engaged in the extraction or processing of coal must be able to provide interruptible load (not including behind the meter diesel generation) of at least one (1) MW at a single site and commit to a minimum two (2) year contract term. Following the permanent cessation of coal extraction or processing activity, or both as applicable, for a continuous period of six (6) months, the contract may be terminated by the Customer upon written notice to the Company. The minimum period for the Customer to give written notice of termination following the permanent cessation of coal extraction or processing activity, or both as applicable, for a continuous period of six (6) months shall be the lesser of: (a) the remaining term of the contract; or (b) two months.

This Special Provision for Customers Engaged in Coal Extraction or Processing Activities shall expire in December 31, 2018.

(Cont'd on Sheet No. 12-2)

DATE OF ISSUE

DATE EFFECTIVE: Service Rendered On And After January 19, 2018

ISSUED BY: Ranie K Wohnhas

TITLE: Managing Director Regulatory/Finance

By Authority Of An Order By The Public Service Commission

In Case No. 2017-00179 Dated XXXX

TARIFF C.S.-I.R.P.
(Contract Service - Interruptible Power) (Cont'd.)

RATE.

Credits under this tariff of $3.68/kW/month will be provided for interruptible load that qualifies under PJM's rules as capacity for the purpose of the Company's Fixed Resource Requirement (FRR) obligation. T

Tariff	Tariff Type	Tariff Code Description	Tariff Description
321	IR	CS-IRP SEC	IRP-IGS SECONDARY
330	IR	CS-IRP PR	IRP-IGS PRIMARY
331	IR	CS-IRP-ST	IRP-IGS SUBTRANSMISSION
332	IR	CS-IRP TR	IRP-IGS TRANSMISSION

Charges for service under this Tariff will be set forth in the written agreement between the Company and the Customer and will reflect the firm service rates otherwise available to the Customer.

ADJUSTMENT CLAUSES. T

The bill amount computed at the charges specified above shall be increased or decreased in accordance with the following:

Fuel Adjustment Clause	Sheet No. 5
System Sales Clause	Sheet No. 19
Franchise Tariff	Sheet No. 20
Demand-Side Management	Sheet No. 22
Kentucky Economic Development Surcharge	Sheet No. 24
Capacity Charge	Sheet No. 28
Environmental Surcharge	Sheet No. 29
School Tax	Sheet No. 33
Purchase Power Adjustment	Sheet No. 35
Decommissioning Rider	Sheet No. 38 T

DELAYED PAYMENT CHARGE.

This tariff is due and payable in full on or before the due date stated on the bill. On all accounts not so paid, an additional charge of 5% of the unpaid balance will be made.

(Cont'd on Sheet No. 12-3)

DATE OF ISSUE

DATE EFFECTIVE: Service Rendered On And After January 19, 2018

ISSUED BY: Ranie K Wohnhas

TITLE: Managing Director Regulatory/Finance

By Authority Of An Order By The Public Service Commission

In Case No. 2017-00179 Dated XXXX

TARIFF C.S.-I.R.P.
(Contract Service - Interruptible Power) (Cont'd.)

CONFIDENTIALITY.

All terms and conditions of any written contract under this Tariff shall be protected from disclosure as confidential, proprietary trade secrets,if either the Customer or the Company requests a Commission determination of confidentiality pursuant to 807 KAR 5:001 Section 7 and the request is granted.

SPECIAL TERMS AND CONDITIONS

Except as otherwise provided in the written agreement, this Tariff is subject to the Company's Terms and Conditions of Service.

A Customer's plant is considered as one or more buildings, which are served by a single electrical distribution system provided and operated by the Customer. When the size of the Customer's load necessitates the delivery of energy to the Customer's plant over more than one circuit, the Company may elect to connect its circuits to different points on the Customer's system irrespective of contrary provisions in Terms and Conditions of Service.

This tariff is also available to Customers having other sources of energy supply, but who desire to purchase standby or back-up electric service from the Company. Where such conditions exist, the Customer shall contract for the maximum amount of demand in KW, which the Company might be required to furnish, but not less than 1,000 KW.

Customers with PURPA Section 210 qualifying cogeneration and/or small power production facilities shall take service under Tariff COGEN/SPP II or by special agreement with the Company.

DATE OF ISSUE

DATE EFFECTIVE: Service Rendered On And After January 19, 2018

ISSUED BY: Ranie K Wohnhas

TITLE: Managing Director Regulatory/Finance

By Authority Of An Order By The Public Service Commission

In Case No. 2017-00179 Dated XXXX

Kentucky Power Company
Proposed Revenue Allocation
Twelve Months Ended February, 28, 2017

					Current Equalized Rate of Return							
Current Class (1)	**Current Revenue** (2)	**Rate Base** (3)	**Current Income** (4)	**Current ROR %** (5)	**Percent Increase** (6)	**Revenue Increase** (7)	**Income Increase** (8)	**Income** (9)	**ROR %** (10)	**Sales Revenue** (11)	**Current Subsidy** (12)=(11)-(2)	**Relative ROR**
RS	215,744,788	652,486,197	5,322,853	0.82	14.12	30,457,775	18,535,074	23,857,927	3.66	246,202,563	30,457,775	0.22
SGS	18,576,461	37,514,380	3,847,421	10.26	-21.90	(4,068,230)	(2,475,721)	1,371,700	3.66	14,508,231	(4,068,230)	2.80
MGS	53,330,702	114,971,831	9,170,566	7.98	-15.30	(8,161,470)	(4,966,661)	4,203,905	3.66	45,169,232	(8,161,470)	2.18
LGS	51,375,193	101,363,367	8,100,926	7.99	-14.06	(7,221,447)	(4,394,610)	3,706,316	3.66	44,153,746	(7,221,447)	2.18
IGS	138,769,640	240,509,541	12,495,658	5.20	-4.38	(6,082,510)	(3,701,511)	8,794,147	3.66	132,687,130	(6,082,510)	1.42
PS	11,504,476	26,428,694	1,557,459	5.89	-8.44	(971,331)	(591,103)	966,356	3.66	10,533,145	(971,331)	1.61
MW	194,343	337,885	36,783	10.89	-20.65	(40,141)	(24,428)	12,355	3.66	154,202	(40,141)	2.98
OL	8,231,794	18,839,282	2,784,416	14.78	-41.83	(3,443,536)	(2,095,564)	688,852	3.66	4,788,258	(3,443,536)	4.04
SL	1,407,108	2,437,114	374,589	15.37	-33.34	(469,110)	(285,477)	89,112	3.66	937,998	(469,110)	4.20
Total	499,134,505	1,194,888,292	43,690,670	3.66	0.00	0	0	43,690,670	3.66	499,134,505	0	1.00

Gross Rev Conversion Factor: 1.643251

KCUC
Exhibit 6

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

The Application of Kentucky Power Company for: (1) A General Adjustment of Its Rates for Electric Service; (2) An Order Approving Its 2014 Environmental Compliance Plan; (3) An Order Approving Its Tariffs and Riders; and (4) An Order Granting All Other Required Approvals and Relief	)	Case No. 2014-00396

SETTLEMENT AGREEMENT

This Settlement Agreement, made and entered into this 30th day of April, 2015, by and among Kentucky Power Company ("Kentucky Power"); Kentucky Industrial Utility Customers, Inc. ("KIUC"); and Kentucky School Boards Association ("KSBA") (collectively Kentucky Power, KSBA, and KIUC are "Signatory Parties").

W I T N E S S E T H:

WHEREAS, on December 23, 2014 Kentucky Power filed an application pursuant to KRS 278.190, KRS 278.183, and the rules and regulations of the Public Service Commission of Kentucky, seeking an annual increase in retail electric rates and charges totaling $69,977,002, seeking approval of its 2014 Environmental Compliance Plan, and further seeking authority to implement or amend certain tariffs; and

WHEREAS, KIUC and KSBA filed motions for full intervention in P.S.C. Case No. 2014-00396. The Commission granted the intervention motions. Collectively the KIUC and KSBA are referred to in this Settlement Agreement as the "Settling Intervenors;"

WHEREAS, the Attorney General, Commonwealth of Kentucky filed a motion to intervene. The Attorney General, who is not a party to this agreement, also was granted leave to intervene; and

KCUC
Exhibit 7

WHEREAS, Wal-Mart Stores East, LP and Sam's East, Inc. ("Wal-Mart") filed a motion to intervene and were granted full intervention. Although not a signatory to this agreement, Wal-Mart has indicated it intends to file a statement in the record indicating that it has no objection to the Settlement Agreement, and that it is unaware of any reason the Commission should not adopt and approve this Agreement in its entirety;

WHEREAS, certain of the Settling Intervenors, Wal-Mart, and the Attorney General in P.S.C. Case No. 2014-00396 filed written testimony raising issues regarding Kentucky Power's Rate Application;

WHEREAS, Kentucky Power, the Attorney General, Wal-Mart, and the Settling Intervenors have had a full opportunity for discovery, including the filing of written data requests and responses;

WHEREAS, Kentucky Power offered the Settling Intervenors, Wal-Mart, and the Attorney General, along with Commission Staff, the opportunity to meet and review the issues presented by Kentucky Power's application in this proceeding and for purposes of settlement;

WHEREAS, by Order dated August 31, 2014, the Commission initiated Case No. 2014-00225 to review of the operation of Kentucky Power's fuel adjustment clause during the period November 1, 2013 through April 30, 2014. KIUC and the Attorney General were granted leave to intervene in Case No. 2014-00225, took discovery, filed testimony, and participated fully in Case No. 2014-00225;

WHEREAS, the Commission on January 22, 2015 entered its Order in Case No. 2014-00225;

WHEREAS, Kentucky Power (Civil Action No. 15-CI-00168), the Attorney General (Civil Action No. 15-CI-00180), and KIUC (Civil Action No. 15-CI-00190) filed appeals to the

Franklin Circuit Court challenging aspects of the Commission's January 22, 2015 Order in Case No. 2014-00225. In addition, KIUC and the Attorney General each filed counterclaims in Kentucky Power's appeal (Civil Action No. 15-CI-00168) raising in that action the issues raised in their separate appeals. Further, the Attorney General also filed a cross-claim in the KIUC appeal (Civil Action No. 15-CI-00168) raising the issues raised in its original appeal;

WHEREAS, there currently is pending before the Commission Case No. 2014-00450. Commission Case No. 2014-00450 is a two-year review of the operation of the Company's fuel adjustment clause, and includes the six-month period at issue in Commission Case No. 2014-00225;

WHEREAS, the Signatory Parties have reviewed the issues raised in P.S.C. Case No. 2014-00396, and the Signatory Parties have reached a settlement of the case, including the issues raised therein;

WHEREAS, Kentucky Power and KIUC are desirous of resolving the issues raised in their appeals of the Commission's January 22, 2015 Order in Case No. 2014-00225, as well as the matters before the Commission in Case No. 2014-00450, in connection with the resolution of this case;

WHEREAS, although not a signatory to this agreement, the Attorney General has indicated he is willing to resolve his appeal of the January 22, 2015 Order of the Commission in Case No. 2014-00225 in accordance with the agreement reached herein by KIUC and Kentucky Power to resolve their appeals of that Order;

WHEREAS, the Signatory Parties execute this Settlement Agreement for purposes of submitting it to the Kentucky Public Service Commission for approval pursuant to KRS 278.190

and KRS 278.183, and for further approval by the Commission of the rate increase, rate structure and tariffs as described herein; and

WHEREAS, the Signatory Parties believe that this Settlement Agreement provides for fair, just and reasonable rates,

NOW, THEREFORE, for and in consideration of the mutual premises set forth above, and the agreements and covenants set forth herein, Kentucky Power and the Settling Intervenors hereby agree as follows:

1. <u>General Rate Change</u>.

Effective for service rendered on or after June 30, 2015 (the first day of the July 2015 billing cycle) Kentucky Power shall implement a rate adjustment sufficient to generate additional annual retail revenues of $45.4 million based on the September 30, 2014 test year used by Kentucky Power in the Rate Application. The $45.4 million rate adjustment represents the net effect of the decrease in base rates described below and the establishment or modification of Tariff B.S.1.O.R., Tariff B.S.R.R., Tariff E.S., and the Economic Development Surcharge ("K.E.D.S.")

(a) The new base retail rates to be effective June 30, 2015 result in a decrease of $23.0 million in the amount to be recovered through base rates as illustrated on **EXHIBIT 1** to this Settlement Agreement. The $23.0 million decrease in base retail rates was allocated across all tariff classes.

(b) Kentucky Power agrees to design rates and tariffs, including the addition or modification of Tariff B.S.1.O.R., Tariff B.S.R.R., K.E.D.S., and Tariff E.S, that will generate an additional $45.4 million in retail rates, as illustrated on **EXHIBIT 1** to this Settlement

Agreement, based on the September 30, 2014 test year used by Kentucky Power in the Rate Application.

(i) As part of the Commission's consideration of the reasonableness of this Settlement Agreement, the tariffs designed in accordance with this subparagraph shall be filed with the Commission and served on counsel for all parties to this case no later than April 30, 2015.

(ii) Within ten days of the entry of the Commission's Order approving without modification this Settlement Agreement and the rates and thereunder, Kentucky Power shall file with the Commission signed copies of the tariffs in conformity with 807 KAR 5:011.

(c) Except as provided in Paragraph 8(f), the new base retail rates reflecting the $23.0 million decrease in base retail rates shall remain in effect until the Commission's Order modifying the Company's base retail rates in Kentucky Power's next base rate case. The rates established in Tariff B.S.1.O.R., Tariff B.S.R.R., and Tariff E.S, as further described below, shall be modified from time to time in accordance with the provisions of those tariffs.

2. Rate of Return On Equity For Certain Purposes.

Kentucky Power shall be authorized a 10.25% return on equity that will be utilized in Tariff E.S., Tariff B.S.R.R., Tariff B.S.1.O.R., for purposes of determining the Weighted Average Cost of Capital ("WACC"), and accounting for the allowance for funds used during construction ("AFUDC").

3. Capitalization and Gross Revenue Conversion Factor.

Kentucky Power shall utilize a WACC of 7.34% and a gross revenue conversion factor ("GRCF") of 1.616424. The calculation of the WACC reflects no short term debt. This WACC and GRCF shall remain constant until such time as the Commission sets base rates in the

Company's next base rate case proceeding. The calculations of the WACC and GRCF are shown on **EXHIBITS 2 AND 3**, respectively.

4. Kentucky Power's Tariff E.S.

Kentucky Power's 2014 Environmental Compliance Plan is approved. The annual baseline level for environmental cost recovery under the tariff shall be $34,902,677, and the monthly baseline amounts shall be as set forth in **EXHIBIT 4** to this Settlement Agreement. In accordance with paragraph 6 of the July 2, 2013 Stipulation and Settlement Agreement in Case No. 2012-00578, as approved by the Commission's October 7, 2013 Order, all costs associated with Mitchell Units 1 and 2 Flue Gas Desulfurization equipment have been excluded from base rates and the environmental baseline level and shall be recovered exclusively through Tariff E.S. Except as modified herein, Tariff E.S. is approved as filed.

5. Kentucky Power's Tariff S.S.C.

Tariff S.S.C. is approved as filed with the Company's application in this case, effective the first billing cycle of July, 2015 with the following modifications:

(a) Effective for service rendered in the first billing cycle of July 2015 (beginning June 30, 2015), any over or under difference between each month's actual off-system sales margins and the monthly baseline shall be shared between the customers and Kentucky Power on a 75% (customer)/25% (Kentucky Power) basis.

(b) Effective for service rendered in the first billing cycle of July 2015 (beginning June 30, 2015), the sharing of off-system sales margins shall be calculated using an annual baseline of $15,136,000. Tariff S.S.C., as conformed to reflect the modifications described herein is attached as **EXHIBIT 5** and shall be approved. The monthly amounts shall be as set forth in **EXHIBIT 5** of this Settlement Agreement. The monthly off-system sales margin baseline amounts include and monthly actual off-system sales margins shall be calculated utilizing the methodology for allocating no load costs described in Paragraph 11 of this Agreement.

(c) Consistent with the practice prior to the suspension of the sharing of system sales margins effective January 1, 2014, the Tariff S.S.C. credit (charge) applicable to customers' bills in any month shall be calculated using the actual off-system sales margins for the calendar month two months prior to the billing month. For purposes of clarity, the off-system sales margins for the July 2015 and August 2015 billing cycles shall be calculated using the May 2015 and the June 2015 actual off-system sales margins, respectively.

6. Tariff B.S.R.R.

(a) The Company's Big Sandy Retirement Rider ("Tariff B.S.R.R.") as set forth in **Exhibit 6** to this Settlement Agreement shall be approved.

(b) The initial B.S.R.R. revenue requirement shall not include any estimated Big Sandy Retirement Costs. The calculation of the initial B.S.R.R. revenue requirement is set forth in **Exhibit 7** to this Settlement Agreement.

(c) Subject to review by the Commission as set forth below, the B.S.R.R. rate shall be modified annually effective cycle 1 of the October billing cycle of each year.

(d) Actual retirement related costs incurred subsequent to June 30, 2015 shall be deferred and added as they are incurred to the unamortized B.S.R.R. regulatory asset. The calculation of the pre-tax carrying charge on the unamortized balance of the B.S.R.R. regulatory asset will be determined net of related B.S.R.R. Accumulated Deferred Incomes Taxes ("ADIT"). The monthly B.S.R.R. revenues that exceed the current month pre-tax WACC carrying charges on the unamortized balance of the B.S.R.R. regulatory asset (including both the unamortized B.S.R.R. costs initially included in the B.S.R.R. revenue requirement and the post-

June 30, 2015 actual retirement-related costs subsequently deferred) will be used to reduce the unamortized B.S.R.R. costs to be recovered. The pre-tax WACC rate initially used to develop the pre-tax WACC carrying charges shall be as set forth in **EXHIBIT 2**; the pre-tax WACC rate used to develop the pre-tax WACC carrying charges shall be re-established in each of the Company's base rate cases. The calculation of the B.S.R.R. revenue requirement, and corresponding rate as shown on **EXHIBIT 6**, will be performed in a manner to recover all actual B.S.R.R. incurred costs including related pre-tax WACC carrying charges on the unamortized B.S.R.R. balance over the remaining life of the 25-year amortization period (2040).

(e) The Company shall file for review by the Commission no later than August 15 of each year the amount of actual Big Sandy Retirement Costs, including the pre-tax WACC carrying charge, incurred between July 1 of the prior year and June 30 of the current year, and supporting documentation. A copy of the annual filing shall be served on counsel for all parties to this proceeding. The Company's annual filing shall also provide the June 30 current year unamortized balance of the B.S.R.R. regulatory asset and the corresponding rate as shown on **EXHIBIT 6**. The annual B.S.R.R. filings will reflect revised B.S.R.R. rates to recover the unamortized B.S.R.R. costs, including the pre-tax WACC carrying charges, over the remaining life of the 25-year amortization period (2040). The amended B.S.R.R. rate shall become effective cycle 1 of the October billing cycle of each year, subject to any adjustments made by the Commission.

(f) If required at the conclusion of the final year of the 25-year collection period to recover completely any remaining unamortized balance of the B.S.R.R. regulatory asset, to recover all actual retirement costs in the final year of the 25 year collection period, and to true-up any over or under-recovery, a final one-year B.S.R.R. rate shall be established.

7. Tariff B.S.1.O.R.

The Company's Tariff B.S.1.O.R. attached as **Exhibit 8** shall be approved.

8. Distribution System Reliability –Vegetation Management.

Effective July 1, 2015, Kentucky Power's existing Distribution Vegetation Management Plan (approved by the Commission's June 29, 2010 Order in Case No. 2009-00459) shall be modified as described below, and the Company shall make the following expenditures for Distribution Vegetation Management with respect to distribution system reliability:

(a) Kentucky Power agrees to implement Scenario 2 as described at pages 25-26 of the direct testimony of Company Witness Everett G. Phillips in this case, as further modified as described in the Company's response to KPSC 3-7 and to align the expenditures to match the increased revenues to be provided beginning approximately July 1, 2015 as a result of the Commission's Order approving this Settlement Agreement. The effect of the alignment of the increased revenues with increased expenditures is to shift the expenditures six months into the future from that illustrated in the Company's response to KPSC 3-7. The Company projects it will be on a five-year maintenance cycle beginning July 1, 2019. Beginning July 2015 Kentucky Power shall make operation and maintenance expenditures for distribution system vegetation management in the sums shown on **Exhibit 9** to this Settlement Agreement. The mileage targets for the three phases (2010 Unanimous Settlement Agreement, Interim Clear, and Maintenance (5-years growth)) are shown on **Exhibit 10**.

(b) In calculating the allocations set forth in **Exhibit 1** to this Settlement Agreement, $10,655,900 of the increase in revenue requirements that is associated with the increased reliability spending described in this paragraph 8 of this Settlement Agreement was allocated solely to tariff classes with primary and secondary service offerings.

(c) On or before September 30, 2015, and each September 30 thereafter, Kentucky Power shall file with the Commission a reliability work plan outlining the planned Distribution Vegetation Management expenditures for the following calendar year. The work plan shall identify on a circuit-by-circuit basis the Distribution Vegetation Management work to be performed during the relevant calendar year and the projected operation and maintenance expenditures during the relevant period to carry out the planned work.

(d) On April 1, 2016, and each April 1 thereafter, Kentucky Power shall file with the Commission the following reports concerning system reliability and the expenditure of the funds described in subparagraphs (a) and (b) of this paragraph:

(i) the Kentucky Power Customer Average Interruption Duration Index for the reporting period;

(ii) the Kentucky Power System Average Interruption Frequency Index for the reporting period;

(iii) the Kentucky Power System Average Interruption Duration Index for the reporting period;

(iv) a description on a circuit-by-circuit basis of the Distribution Vegetation Management work performed by Kentucky Power during the reporting period;

(v) a description on a circuit-by-circuit basis of the operation and maintenance expenditures for Distribution Vegetation Management performed by Kentucky Power during the reporting period; and

(vi) any unanticipated problems or further information useful to the Commission's review of the report. In the event Kentucky Power is unable to complete a material portion of the planned work on a circuit during a reporting period, Kentucky Power shall provide an explanation for its inability to do so.

(e) Kentucky Power shall use reasonable and prudent efforts to adhere to and carry out any work plan filed in connection with this subparagraph.

(i) Kentucky Power may alter its proposed spending as detailed in its annual September 30 filing upon discovery of a more pressing need for Distribution Vegetation Management expenditures relating to system reliability purposes. Kentucky Power shall notify the Commission in writing within 30 days of any material deviation from the work plans filed in connection with this subparagraph.

(ii) In the event that the Company's expenditures in any Vegetation Management Year are either greater than or less than the $27,661,060 included in annual base rates, the annual shortfall or excess shall be added to or removed, respectively, from the scheduled future expenditures. To reflect the commencement of additional funding effective June 30, 2015, the Vegetation Management Year shall be July 1 through June 30. If the cumulative Company annual expenditures during any single Vegetation Management Year are less than the $27,661,060 included in annual base rates, the Company shall defer on its books any such shortfall as a regulatory liability. This deferral is a one-way balancing account. Such regulatory liability deferrals shall continue to be recorded on the Company's books until the Commission sets base rates in the Company's next base rate case. If Kentucky Power has underspent during the four Vegetation Management Year periods ending June 30, 2019 the $27,661,060 of annual vegetation management costs on a cumulative basis (4 x $27,661,060 or $110,640,240) at the time the Commission sets base rates in the Company's next base rate case after June 30, 2019, the amount underspent will either be refunded to customers or used to reduce the revenue requirement in that case. Alternatively, if Kentucky Power has overspent the $27,661,060 of annual vegetation management costs on a cumulative basis, the Company will not be entitled to seek recovery of such costs in a future base rate proceeding. The Company's expected vegetation management expenditures are shown on **EXHIBIT 9**.

(f) Beginning cycle 1 of the July 2019 billing cycle, which is the approximate date the Company anticipates commencing the five-year maintenance cycle, and until the Company's base rates are established in the first base rate case after June 30, 2019, the Company shall reduce the base retail rates for those tariff classes with primary and secondary service offerings by $11,780,408. The reductions shall be allocated solely to tariff classes with primary and secondary service offerings, and in the same fashion as the $10,655,900 increase in revenue requirements to fund the Distribution Vegetation Management Program described in this paragraph 8 was allocated, as shown on **EXHIBIT 9**. Kentucky Power agrees to the make the tariff filings required to implement the rate reduction described in this subparagraph (f), and further shall include in its tariff the provision shown on page 2 of **EXHIBIT 9** recognizing the reduction.

(g) A copy of any report or notice filed with the Commission under this paragraph 8 shall concurrently be served upon counsel for all parties to this proceeding.

9. Depreciation And Amortization of Deferred Costs.

(a) Kentucky Power shall continue to include in the calculation of its annual distribution depreciation expense the depreciation rates currently approved by the Commission in, and utilized by Kentucky Power since, its 1991 rate case (P.S.C. Case No. 91-066.) The Company shall include in the calculation of its annual depreciation expense the Company's proposed depreciation rates for transmission and general plant. The Company shall include in the calculation of its annual generation depreciation expense the Company's proposed depreciation rates for generation, except as modified with respect to Mitchell Production Plant Account No. 311 (Structures & Improvements), 312 (Boiler Plant Equipment), 312 (Boiler Plant Equipment (SCR Catalyst), 314 (Turbogenerator Units), 315 (Accessory Electrical Equipment), and 316 (Miscellaneous Power Plant Equipment) in Exhibit LK-16 of the testimony of KIUC Witness Lane Kollen. A complete schedule of the depreciation rates to be approved by the Commission for use by Kentucky Power in calculating its annual depreciation expense is set forth in **EXHIBIT 11.**

(b) Kentucky Power shall recover and amortize the $12,146,000 in deferred costs associated with the 2012 storms, as approved by the Commission in its January 7, 2013 Order in Case No. 2012-00445. The deferred costs shall be amortized over a five year period at an annual amount of $2,429,200.

(c) Kentucky Power shall amortize the $4,657,731 jurisdictional balance of Accumulated Deferred State Income Tax ("ADSIT") related to the acquisition of the Mitchell Plant. The Company shall amortize the ADSIT balance over a three year period at an annual amount of $1,552,577.

10. Economic Development Surcharge.

(a) The Company shall collect from all customers an economic development surcharge of $0.15 per meter per month. All economic development surcharge funds collected by Kentucky Power shall be matched dollar-for-dollar by Kentucky Power from shareholder funds. The proceeds of the economic development surcharge and the Kentucky Power's shareholder contribution shall be used by Kentucky Power for economic development projects, including the training of local economic development officials, in the Company's service territory. The economic development surcharge, and the matching shareholder contribution, shall remain in effect until changed by order of the Commission.

(b) The Company shall modify its tariffs to provide for the collection of the $0.15 per meter per month economic development surcharge.

(c) Kentucky Power shall file on or before March 31, 2016, and each March 31st thereafter, a report with the Commission describing: (i) the amount collected through the Economic Development Surcharge; and (ii) the matching amount contributed by Kentucky Power from shareholder funds. The annual report to be filed by the Company shall also describe the amount, recipients, and purposes of its expenditure of the funds collected through the Economic Development Surcharge and shareholder contribution.

(d) Kentucky Power shall serve a copy of the annual report to be filed with the Commission in accordance with subparagraph (c) on counsel for all parties to this proceeding.

11. No Load Cost Allocation.

Upon the Order of Commission in Case No. 2014-00396 approving this Settlement Agreement without modification becoming final and non-appealable, and there having been no modification to this Settlement Agreement as a result of any rehearing or appeal:

(a) The Company shall withdraw and dismiss with prejudice its pending appeal before the Franklin Circuit Court in Civil Action No. 15-CI-00168 of the Commission's January 22, 2015 order in Case No. 2014-00225;

(b) KIUC shall withdraw and dismiss with prejudice its pending appeal before the Franklin Circuit Court in Civil Action Nos. 15-CI-168 (counterclaim) and 15-CI-190 of the Commission's January 22, 2015 order in Case No. 2014-00225. By separate agreement embodying the terms of this paragraph 11, the Attorney General, who is not a signatory to this

Settlement Agreement, KIUC, and Kentucky Power have agreed the Attorney General shall withdraw and dismiss with prejudice his appeal in Civil Action Nos. 2015-CI-168 (counterclaim) 2015-CI-180 (original appeal by Attorney General), and 2015-CI-00190 (cross-claim by Attorney General) in consideration of the Company withdrawing and dismissing its appeal in Civil Action No. 2015-CI-168 in accordance with this paragraph 11;

(c) The Company shall not recover any Mitchell no load costs incurred during the period from January 1, 2014 through May 31, 2015 (the "Overlap Period"). Those Mitchell no load costs already recovered by the Company during the Overlap Period shall be refunded without interest consistent with the terms of the Commission's January 22, 2015 Order in Case No. 2014-00225. The Signatory Parties agree the refund of Mitchell no loads costs required by the Commission's January 22, 2015 Order in Case No. 2012-00225 resolves all issues relating to the recovery through the fuel adjustment clause of the Company's no load costs in Case No. 2014-00450, and any subsequent fuel adjustment clause review proceedings reviewing the Company's recovery of fuel costs during the Overlap Period.

(d) KIUC shall withdraw the joint testimony of Lane Kollen filed in Case No. 2014-00450 on behalf of the Attorney General and KIUC.

(e) Following the end of the Overlap Period, the Company shall allocate fuel costs to off system sales utilizing supply curves for each of the Company's units and any purchases. The Company will then assign the highest dollar per Megawatt-hour incremental variable costs of all of these resources to off system sales down to the applicable minimum of the units on an hourly basis. This method will continue until fuel and/or purchase costs have been allocated to all off system sales. All other fuel and purchase power costs, including no load fuel costs, will remain with internal load. In the event that the sum of the unit minimums exceeds

Kentucky Power's internal load, the sum of all of the units remaining costs, excluding the no load costs, is computed on a $/MWh basis, and this cost is assigned to the MWhs of any remaining off-system sales.

(f) The Company shall inform the Commission of proposed prospective changes in the allocation of fuel costs to Kentucky retail customers prior to implementing the change. Any such change shall remain subject to Commission review and approval pursuant to 807 KAR 5:056.

12. Biomass Energy Rider.

(a) The Company's Biomass Energy Rider ("Tariff B.E.R.") shall be revised as set forth in **EXHIBIT 12**. Under the revised Tariff B.E.R., total charges to be recovered shall include an energy charge and a demand charge. The energy charge shall be determined by the metered energy output of the generating facility at the annual average PJM AEP Zone Locational Marginal Price ("LMP"). The demand charge shall be calculated by subtracting the energy charge from the total annual charges. For residential customers, the total charges under Tariff B.E.R. (energy and demand) shall continue to be based on residential energy use recorded at customer meters. For non-residential customers, the residual energy value (total energy charge less the energy charge for residential customers) will be allocated based on energy. The residual demand costs (total demand costs less the demand cost for residential customers) will be allocated among the non-residential customers based on a percentage of non-fuel revenues.

(b) This Settlement Agreement and the revision to Tariff B.E.R. shall in no way affect: (i) the validity of the Commission's October 10, 2013 Order in Case No. 2013-0144 approving the ecoPower Renewable Energy Purchase Agreement; (ii) Kentucky Power's right under KRS 278.271 to full cost recovery with respect to the ecoPower Renewable Energy

Purchase Agreement; or (iii) the current appeal by KIUC of the Commission's October 10, 2013 Order.

13. PJM Cost Deferral.

(a) In the event the Company's calendar year return on equity falls below 10.00%, calculated as a thirteen month average on a per books basis, the Company will be authorized to defer for future recovery through creation of a regulatory asset that portion, if any, of PJM costs incurred during that calendar year in excess of the amount of PJM costs included in base rates ($74,856,675) so as to increase the Company's return on equity for the calendar year to no more than 10.00%.

(b) The PJM costs to be deferred for future recovery through this mechanism are those categories of charges and credits identified on page 15 of the direct testimony of Company Witness Vaughan, and any new PJM LSE charges or credits that may arise and be billed to the Company per the PJM tariffs. A copy of page 15 of the direct testimony of Company Witness Vaughan is attached as **Exhibit 13**. Subject to Commission review and approval, the Company shall be authorized to recover and amortize the Incremental PJM Costs over five years and begin recovery of the Incremental PJM Costs beginning when the Commission sets base rates in the Company's next base rate case.

(c) The Company agrees that it shall not book a carrying charge or earn a return on any amounts deferred pursuant to this Paragraph 13, including during any deferral or amortization periods.

(d) Kentucky Power agrees beginning on or before March 31, 2016, and each March 31st thereafter, it shall make an informational filing with the Commission quantifying and describing the amounts deferred in accordance with this paragraph 13. A copy of this annual informational filing shall be served by Kentucky Power upon counsel for all parties to this proceeding.

14. NERC Compliance and Cybersecurity Deferral.

(a) The Company shall track and defer for future review by the Commission and recovery by the Company any post-June 30, 2015 incremental costs incurred by the Company in complying with new NERC compliance or cybersecurity requirements.

(b) The NERC compliance and cybersecurity costs to be deferred for future recovery through this mechanism are those categories of costs identified on pages 28 and 29 of the direct testimony of Company Witness Wohnhas. A copy of pages 28 and 29 of the direct testimony of Company Witness Wohnhas is attached as **EXHIBIT 14.** The Company shall recover and amortize these costs, subject to Commission review and approval, over five years and begin recovery of the costs when the Commission sets base rates in the Company's next base rate case.

(c) Kentucky Power agrees beginning on or before March 31, 2016, and each March 31st thereafter, it shall make an informational filing with the Commission quantifying and describing the amounts deferred in accordance with this paragraph 14. A copy of this annual informational filing shall be served by Kentucky Power upon counsel for all parties to this proceeding.

15. School Energy Manager Program.

(a) Kentucky Power shall file an application to amend Tariff D.S.M. to expand its current School Energy Manager Program by an amount not to exceed $200,000 per year for two years to (1) fund up to an additional six school energy managers as part of the expansion of the School Energy Manager Program to the Company's entire service territory; and

(2) to the extent funds are available, to fund school energy efficiency projects. In order for the school districts to properly budget for the upcoming school years, the Company will request an order on the Company's application by June 30, 2015.

(b) Beginning on or before March 31, 2016, and each March 31st thereafter, Kentucky Power agrees to make an informational filing with the Commission describing the manner in which the additional funds described in subparagraph (a) were expended. KSBA agrees to cooperate with the Company by providing the information required to make the annual report. A copy of this annual informational filing shall be served by Kentucky Power upon counsel for all parties to this proceeding.

16. Tariff K-12 School.

(a) The Company shall establish a new pilot Tariff K-12 School as set forth in **EXHIBIT 15**. Tariff K-12 School shall be available for general service to K-12 schools subject to KRS 160.325 with normal maximum demands greater than 100 kW. Tariff K-12 School shall reflect rates for customers taking service under the tariff designed to produce annually in the aggregate $500,000 less from Tariff K-12 School customers than would be produced under the new L.G.S. rates to be established under this Settlement Agreement from customers eligible to take service under Tariff K-12 School. The aggregate total revenues to be produced by Tariff K-12 School, Tariff M.G.S., and Tariff L.G.S. shall be equal to the revenues that would be produced in the aggregate by the new rates in the absence of Tariff K-12 School.

(b) Service under Tariff K-12 School shall be optional. Tariff K-12 shall remain in effect until a final order is issued in the Company's next general base rate case, at which time this Tariff will be reviewed using the then available load research data to evaluate its continuance thereafter.

(c) Tariff K-12 School attached as **Exhibit 15** is approved.

17. Tariff C.S. – I.R.P.

The Company agrees that it will amend Tariff C.S.-I.R.P., if necessary, to be consistent with the revised PJM criteria in the event PJM revises its criteria governing what interruptible load qualifies as capacity for the purpose of the Company's FRR obligation.

18. New Tariff I.G.S.

The Company's new Industrial General Service Tariff ("Tariff I.G.S.") as set forth in **Exhibit 16** to this Settlement Agreement shall be approved.

19. Modifications To Kentucky Power's Rate Tariffs.

In addition to the rate and tariff changes described and agreed to above, Kentucky Power and the Settling Intervenors agree that the following tariffs shall be modified or implemented as described below:

(a) The Customer charge for the Residential Class ("Tariff R.S.") shall be increased to $14.00 per month instead of the $16.00 per month proposed by the Company in its filing in this case.

(b) Tariff Q.P.; Tariff C.I.P.-T.O.D.; Rider E.C.S., Emergency Curtailable Service – Capacity and Energy; Rider E.P.C.S., Energy Curtailable Service Rider; and Tariff R.T.P. shall be removed from the Company's filed tariffs.

(c) Tariff C.C. shall be amended to reflect an updated charge and to incorporate an annual true up mechanism as described in the direct testimony of Company Witness Rogness.

(d) Tariff C.S.-I.R.P. shall be amended to incorporate a new credit rate and to expand the total contract capacity authorized under this tariff as described in the direct testimony of Company Witness Rogness.

(e) Tariff A.T.R. shall be amended to allow a temporary extension of the asset transfer rider to allow the Company to recover the full amount of the authorized revenue requirement as described in the direct testimony of Company Witness Rogness.

(f) Tariff P.P.A. shall be amended to amend the monthly rate formula to include a variable to allow the Company to recover the cost of power purchased unrelated to forced generation or transmission outages that are calculated in accordance with the Company's peaking unit equivalent methodology as described in the direct testimony of Company Witness Rogness. Kentucky Power agrees the costs recovered through Tariff P.P.A. shall be subject to periodic review and approval by the Commission.

(g) The Terms and Conditions shall be amended to reflect changes to the Company's schedule of special or non-recurring charges as described in the direct testimony of Company Witness Rogness.

20. Non-Rate Tariff Changes.

Kentucky Power and the Intervenors agree that the non-rate terms of the following tariffs may be modified or implemented as described in the direct testimony of Company Witness Rogness:

Tariff Modified or Implemented

Terms and Conditions of Service

R.S.

R.S.-L.M.-T.O.D.

R.S.-T.O.D.

R.S.-T.O.D.2

<u>Tariff Modified or Implemented</u>

S.G.S.
S.G.S.-T.O.D.
M.G.S.
C.A.T.V.
O.L.
COGEN/SPP I
COGEN/SPP II
T.S.
N.U.G.
N.M.S.
MGS TOD
MW
SL
AFS
GPO
LGS
LGS TOD
DSM

Kentucky Power and the Intervenors also agree that the incidental, non-rate text changes identified on Exhibit JAR-9 shall be implemented.

21. <u>Filing Of Settlement Agreement With The Commission And Request For Approval</u>.

Following the execution of this Settlement Agreement, Kentucky Power and the Settling Intervenors shall file this Settlement Agreement with the Commission along with a joint request to the Commission for consideration and approval of this Settlement Agreement so that Kentucky Power may begin billing under the approved adjusted rates for service rendered on or after the first billing cycle of July, 2015 (June 30, 2015).

22. Good Faith And Best Efforts To Seek Approval.

(a) This Settlement Agreement is subject to approval by the Public Service Commission.

(b) Kentucky Power and the Settling Intervenors shall act in good faith and use their best efforts to recommend to the Commission that this Settlement Agreement be approved in its entirety and without modification, and that the rates and charges set forth herein be implemented.

(c) Kentucky Power and the Settling Intervenors filed testimony in this case. Kentucky Power also filed testimony in support of the Settlement Agreement. For purposes of any hearing, the Settling Intervenors and Kentucky Power waive all cross-examination of the other Signatory Parties' witnesses except for purposes of supporting this Settlement Agreement, unless the Commission disapproves this Settlement Agreement, and each further stipulates and recommends that the Notice of Intent, Application, testimony, pleadings, and responses to data requests filed in this proceeding be admitted into the record.

(d) The Signatory Parties further agree to support the reasonableness of this Settlement Agreement before the Commission, and to cause their counsel to do the same, including in connection with any appeal from the Commission's adoption or enforcement of this Settlement Agreement.

(e) No party to this Settlement Agreement shall challenge any Order of the Commission approving the Settlement Agreement in its entirety and without modification.

23. Failure Of Commission To Approve Settlement Agreement.

If the Commission does not accept and approve this Settlement Agreement in its entirety and without modification, and absent agreement to the modification by the party affected thereby, this Settlement Agreement shall be void and withdrawn by Kentucky Power and the Settling Intervenors from further consideration by the Commission and none of the parties to this Settlement Agreement shall be bound by any of the provisions herein.

24. Continuing Commission Jurisdiction.

This Settlement Agreement shall in no way be deemed to divest the Commission of jurisdiction under Chapter 278 of the Kentucky Revised Statutes.

25. Effect of Settlement Agreement.

This Settlement Agreement shall inure to the benefit of and be binding upon the parties to this Settlement Agreement, their successors and assigns.

26. Complete Agreement.

This Settlement Agreement constitutes the complete agreement and understanding among the parties to this Settlement Agreement, and any and all oral statements, representations or agreements made prior hereto or contained contemporaneously herewith shall be null and void and shall be deemed to have been merged into this Settlement Agreement.

27. Independent Analysis.

The terms of this Settlement Agreement are based upon the independent analysis of the parties to this Settlement Agreement, are the product of compromise and negotiation, and reflect a fair, just and reasonable resolution of the issues herein. Notwithstanding anything contained in this Settlement Agreement, Kentucky Power and the Settling Intervenors recognize and agree that the effects, if any, of any future events upon the operating income of Kentucky Power are unknown and this Settlement Agreement shall be implemented as written.

28. <u>Settlement Agreement And Negotiations Are Not An Admission</u>.

(a) This Settlement Agreement shall not be deemed to constitute an admission by any party to this Settlement Agreement that any computation, formula, allegation, assertion or contention made by any other party in these proceedings is true or valid. Nothing in this Settlement Agreement shall be used or construed for any purpose to imply, suggest or otherwise indicate that the results produced through the compromise reflected herein represent fully the objectives of the Signatory Parties.

(b) Neither the terms of this Settlement Agreement nor any statements made or matters raised during the settlement negotiations shall be admissible in any proceeding, or binding on any of the parties to this Settlement Agreement, or be construed against any of the parties to this Settlement Agreement, **except that** in the event of litigation or proceedings involving the approval, implementation or enforcement of this Agreement, the terms of this Settlement Agreement shall be admissible. This Settlement Agreement shall not have any precedential value in this or any other jurisdiction.

29. <u>Consultation With Counsel</u>.

The parties to this Settlement Agreement warrant that they have informed, advised, and consulted with their respective counsel with regard to the contents and significance of this Settlement Agreement and are relying upon such advice in entering into this agreement.

30. <u>Authority To Bind</u>.

Each of the signatories to this Settlement Agreement hereby warrant they are authorized to sign this agreement upon behalf of, and bind, their respective parties.

31. Construction Of Agreement.

This Settlement Agreement is a product of negotiation among all parties to this Settlement Agreement, and no provision of this Settlement Agreement shall be construed in favor of or against any party hereto. This Settlement Agreement is submitted for purposes of this case only and is not to be deemed binding upon the parties hereto in any other proceeding, nor is it to be offered or relied upon in any other proceeding involving Kentucky Power or any other utility.

32. Counterparts.

This Settlement Agreement may be executed in multiple counterparts.

33. Future Rate Proceedings.

Nothing in this Settlement Agreement shall preclude, prevent or prejudice any party to this Settlement Agreement from raising any argument or issue, or challenge any adjustment, in any future rate proceeding of Kentucky Power.

IN WITNESS WHEREOF, this Settlement Agreement has been agreed to as of this 30th day of April 2015.

KENTUCKY POWER COMPANY

By: Mark R. Overstreet

Its: Attorney

KENTUCKY INDUSTRIAL UTILITY
CUSTOMERS, INC.

By: Michael L. Kurtz
Michael L. Kurtz
Its: Attorney

KENTUCKY SCHOOL BOARDS
ASSOCIATION

By: Matthew M. Coke

Its: Attorney on behalf of KSBA

CASE NO. 2014-00396 SETTLEMENT AGREEMENT EXHIBITS

1. Allocation of $23.0 million base rate decrease and $45.4 million increase in annual retail revenues.
2. Calculation of Weighted Average Cost of Capital
3. Calculation of Gross Revenue Conversion Factor
4. Calculation of Monthly Base Amount of Environmental Costs
5. Revised Tariff S.S.C.
6. Revised Tariff B.S.R.R.
7. Calculation of Initial B.S.R.R. Revenue Requirement
8. Tariff B.S.1.O.R.
9. Schedule of Annual Vegetation Management Expenses
10. Vegetation Management Mileage Targets
11. Schedule of Depreciation Rates
12. Revised Tariff B.E.R.
13. Page 15 of the direct testimony of Company Witness Vaughan
14. Pages 28-29 of the direct testimony of Company Witness Wohnhas
15. Tariff K-12 School
16. Tariff I.G.S.

Movants Kentucky Power
Exhibit 1

COMMONWEALTH OF KENTUCKY

BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

APPLICATION OF KENTUCKY POWER COMPANY FOR: (1) A GENERAL ADJUSTMENT OF ITS RATES FOR ELECTRIC SERVICE; (2) AN ORDER APPROVING ITS 2014 ENVIRONMENTAL COMPLIANCE PLAN; (3) AN ORDER APPROVING ITS TARIFFS AND RIDERS; AND (4) AN ORDER GRANTING ALL OTHER REQUIRED APPROVALS AND RELIEF	)	CASE NO. 2014-00396

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projects at the Mitchell and Rockport generating stations billed to Kentucky Power under the AEP Pool are included in the 2015 Plan as noted above.

Kentucky Power removed previously-approved environmental projects at its Big Sandy generating stations from the 2015 Plan with the exception of emission allowances. Because of the planned conversion of Big Sandy Unit 1 to natural gas by June 30, 2016, Kentucky Power is proposing to recover all costs associated with Big Sandy Unit 1 through the BS1OR. The BS1OR would recover all of the operations and maintenance expenses for Big Sandy Unit 1, including those costs which would otherwise be recovered through the environmental surcharge. Due to the planned retirement of Big Sandy Unit 2 by June 1, 2015, to comply with the Mercury and Air Toxics Standards ("MATS") Rule, Kentucky Power removed the Big Sandy Unit 2 projects it previously recovered through the environmental surcharge.[184]

Kentucky Power states that the pollution control projects included in the 2015 Plan are necessary for Kentucky Power to comply with the CAA and other federal, state, and local regulations which apply to coal combustion wastes and by-products from facilities utilized for the production of energy from coal. Kentucky Power contends that the costs associated with its 2015 Plan are reasonable and that the projects are reasonable and cost-effective means to comply with environmental requirements.[185] The Commission finds that the projects proposed by Kentucky Power to be included in the 2015 Plan are reasonable and cost-effective for environmental compliance and should be approved.

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[184] Kentucky Power retired Big Sandy 2 in May 2015.

[185] Application at 17.

ENVIRONMENTAL REQUIREMENTS

Clean Air Interstate Rule ("CAIR") and CSAPR

The CAIR and CSAPR are regional rules that set standards for the emission of sulfur dioxide ("SO_2") and nitrogen oxides ('NO_x") from electric generating units.[186] Phase 1 of CSAPR will effectively replace CAIR in 2015. Under both rules, the United States Environmental Protection Agency ("EPA") establishes emission budgets for each state and SO_2 and NO_x allowances are allocated to emitting units. The allowances permit holders to emit one ton of the covered pollutants and are traded regionally. Kentucky Power records emission allowances on a per-company basis and carries them on an average-cost basis.[187] The allowances are allocated to Kentucky Power by the EPA at zero cost, but subsequent prices are determined by the market for specific allowances with other electric generating units.[188] Whether Kentucky Power will need to purchase additional allowances will be determined by the generation output of pollutants and the sufficiency of allocated allowances.

MATS

The MATS Rule creates environmental requirements for coal- and oil-fired electric generating units regarding the emission of the hazardous air pollutants ("HAPs") of mercury; non-mercury metals such as arsenic, lead, cadmium, and selenium; acid gases, including hydrochloric acid; and many organic HAPs.[189] While MATS is being reviewed by the Supreme Court, the rule will remain in effect; a ruling is expected by the

[186] Direct Testimony of John M. McManus ("McManus Testimony") at 4.

[187] Elliott Testimony at 6 and 10.

[188] *Id.* at 12.

[189] McManus Testimony at 6.

end of June 2015. Compliance was required by April 16, 2015, with a 45-day extension available. Mercury monitoring equipment and activated carbon-injection systems are necessary for MATS compliance at the Mitchell and Rockport units and will be installed and upgraded under the 2015 Plan. The closure of Big Sandy Unit 2 and the conversion of Big Sandy Unit 1 to a natural gas-fired generating facility were precipitated by the MATS compliance deadline.[190]

Consent Decree

Kentucky Power's generating units are subject to requirements imposed by the Consent Decree entered by the United States District Court for the Southern District of New York in an action arising under the CAA, *United States v. American Electric Power Service Corp.*, Civil Action C2-99-1250, and all modifications thereto (the "Consent Decree").[191] The Consent Decree outlines emission control and monitoring standards, schedules compliance for SO_2, NO_x, and particulate matter for Kentucky Power's generating units, and stipulates penalties for noncompliance. The Third Joint Modification of the Consent Decree authorized the retirement of Big Sandy Unit 2 and the installation of dry sorbent injection equipment at both Rockport units instead of the previously-required installation of FGD equipment by these three units.[192]

TARIFF ES MODIFICATIONS

Kentucky Power proposed several changes to its Tariff ES to reflect the changes in its generation portfolio and compliance plan. Kentucky Power proposed to eliminate

[190] Direct Testimony of Gregory G. Pauley at 4.

[191] Application at 11.

[192] McManus Testimony at 7, and Exhibit JMM-2.

Movants Kentucky Power
Exhibit 2

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

RECEIVED
MAY 11 2012
PUBLIC SERVICE COMMISSION

In the Matter of:

APPLICATION OF KENTUCKY POWER COMPANY FOR APPROVAL OF ITS 2011 ENVIRONMENTAL COMPLIANCE PLAN, FOR APPROVAL OF ITS AMENDED ENVIRONMENTAL COST RECOVERY SURCHARGE TARIFF, AND FOR THE GRANT OF A CERTIFICATE OF PUBLIC CONVENIENCE AND NECESSITY FOR THE CONSTRUCTION AND ACQUISITION OF RELATED FACILITIES	CASE NO. 2011-00401

ATTORNEY GENERAL'S POST-HEARING BRIEF

PUBLIC REDACTED VERSION

Comes now the intervenor, the Attorney General of the Commonwealth of Kentucky, by and through his Office of Rate Intervention, and tenders his post-hearing brief in the above-styled matter. For the reasons set forth in this brief, the Attorney General states that the application does not meet the relevant standards required under KRS Chapter 278 and, therefore, should be denied.

STATEMENT OF THE CASE

On September 30, 2011, Kentucky Power Company ("KPCo") filed its original notice of intent in this matter, and its application was filed on December 5, 2011. The application sets forth KPCo's request for approval of its 2012 Environmental Cost Recovery ("ECR") plan, and for permission to construct environmental containment facilities with a cost estimate in excess of $1 billion. The following parties sought and were granted full intervention: The Attorney General of the Commonwealth of application were to be approved. Specifically, it is beyond dispute that the instant case has the potential to be one of the most major rate increases which KPCo customers have faced in the past several decades. The potential ramifications are so great, in fact, that they would likely carry a significant impact on the viability of the economy of the counties comprising KPCo's dedicated service territory. Indeed, there is the potential for major industrial customers to leave KPCo's territory if the Big Sandy Retrofit is approved as filed.

It is likewise beyond dispute that the counties comprising KPCo's certified service territory are among the most economically deprived regions of the Commonwealth, and are on average 28% below the federal poverty line.[6] This fact was graphically illustrated in the map of Kentucky counties entered into evidence as Attorney General Hearing Exhibit 3. Mr. Wohnas acknowledged this fact in his cross-examination.[7] Nonetheless, AEP's profitability strategy includes the goal of "grow[ing] rate base and earnings through adding environmental controls."[8] KPCo's customers can thus ill-afford, if at all, the whopping the $1.65 billion (pre-tax)[9] bill for the proposed Big Sandy Retrofit promises to bring.

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[6] *See* Attorney General Hearing Exhibit 3, map of counties depicting poverty level in KPCo's service territory; data source: Kentucky Data Center.

[7] April 30, 2012 VTE beginning at approximately 11:12:10.

[8] *See* KIUC Hearing Exhibit No. 5, p. 6; see also Wohnhas cross examination, April 30, 2012 VTE beginning at approximately 11:55:20.

[9] Based on the 16.55% pre-tax ROR as set forth in Munsey direct exhibit 3 (*see also* Munsey cross-examination, April 30, 2012 VTE at approximately 18:09:00). *See also* Kollen direct testimony.

witness Wohnhas also highlighted the fact that the Big Sandy plant consumed a significant amount of Kentucky coal, he acknowledged two important facts: (a) only thirty percent (30%) of that coal was mined in Kentucky;[20] and more importantly, (b) if the Big Sandy Retrofit is approved and constructed, KPCo would likely expand the types of coal that it uses at the plant, thus using less low-sulphur Eastern Kentucky coal, and replacing it with more higher-sulphur varieties such as Illinois Basin coal.[21] Additionally, KPCo's statement that the Big Sandy Retrofit would bring socio-economic benefit to the region was done only on the basis of gross benefit; in other words, it fails to net-out the cost that its ratepayers pay for coal.[22] The Commission can take administrative notice that even if it orders the company to pursue the natural gas option, jobs will still be created for the construction of new plant, and many other workers would be needed maintain the plant once constructed. While it seems clear that the PSC should at least consider socio-economic effects and impacts, they clearly must be weighed against the socio-economic impact which the massive rate hike will have for this impoverished region. As such, it is clear that whatever economic benefits the Big Sandy Retrofit option could or may maintain are insufficient factors in determining

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[20] *Id.* at approximately 11:15 and 14:53. As was brought out in cross examination of Sierra Club witness Dr. Fisher, Kentucky's coal exports have been steadily increasing over the past few years. May 1, 2012 VTE beginning at approximately 10:37:30. However, only 46 hours prior to the time that final post-hearing briefs are due, the company issued a response to a post-hearing data request that its witnesses were mistaken, and in essence had somehow transposed these figures so that in actuality, 70% of the coal used at its Big Sandy units is mined in Eastern Kentucky, while 30% comes from other sources. None of this updated information changes the fact that if the proposed Big Sandy Retrofit is approved, it would allow the company to use up to 50% of higher-sulphur coal, non-East Kentucky coal, such as from the Illinois Basin.

[21] April 20, 2012 VTE at approx. 10:23:30 through 10:24:00.

[22] *Id.* at approximately 11:32:20.

whether the instant ECR plan and the accompanying CPCN petition meet the clear legal standards set forth in KRS 278.183 and 278.020.

Given these facts of record, it is abundantly clear that KPCo should have conducted some sort of economic feasibility study along the lines of that mandated in *In Re: The Application of Kentucky-American Water, supra,* in order to determine whether the Big Sandy Retrofit option could be afforded by its ratepayers without significantly reducing the demand for KPCo's services.[23] KPCo's ratepayers simply cannot afford the gargantuan increase in rates, especially when other feasible, lower cost options exist and were not fully explored.[24]

KPCo has therefore failed to meet its burden of proving that the massive proposed Big Sandy Retrofit project is reasonable, cost-effective, and publicly convenient and necessary, within the meanings of KRS 278.183 and 278.020, and as interpreted in *Kentucky Utilities, supra,* and *In Re: The Application of Kentucky-American Water, supra.* As such, its petition must be denied.

III. Other Feasible And Reasonable Options Were Either Not Explored, Or Received Insufficient Analysis

a. Company's Use of Modeling was Skewed and Outcome Determinative

Witness Weaver testified that KPCo assumed it had only four options available.[25] Although KPCo's own model indicates option 1 is the least cost option, the company did not model what option would be the least cost if Big Sandy 2 retired in 2030, which

[23] *In Re: The Application of Kentucky-American Water, supra,* p. 30.
[24] *See* Argument, Section III, *infra.*
[25] Weaver direct, pp. 7-8.

The option of obtaining power from the Mitchell plant is very important and highly relevant for several reasons, none of which is more important than the fact it is already fully compliant with all of the new EPA standards.[40] Additionally, Mitchell's power cost is only $640 kw (on a net book value basis) as contrasted with the projected $1175/kw cost of power from Big Sandy 2 following the proposed retrofit. [41] Despite the fact that purchasing power generated at the Mitchell plant is an attractive and highly viable option, {**BEGIN CONFIDENTIAL**} [redacted] {**END CONFIDENTIAL**} removed it from KPCo's mix of possible options.[42]

c. **Natural Gas-Fired Generation Received Inadequate Consideration**

An existing single-cycle combustion turbine natural gas-fired electric generation facility owned by Riverside Generating Co., LLC is located less than three miles from the Big Sandy generation site. However, neither KPCo nor AEP conducted a {**BEGIN CONFIDENTIAL**} [redacted][43]

{**END CONFIDENTIAL**}

During the hearing, KIUC introduced its Hearing Exhibit 10, which depicts natural gas price futures on Henry Hub for 2016. Those prices average approximately

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[40] April 30, 2012 VTE at approximately 12:04:17.
[41] *See* KIUC Hearing Exhibit 5; and April 30, 2012 VTE at approximately 11:51.
[42] Thomas confidential cross-examination at approximately 4:30 p.m., April 30, 2012.
[43] Confidential cross-examination of KPCo witness Thomas, April 30, 2012 at approximately 5:30 p.m.

Movants Kentucky Power
Exhibit 3

COMMONWEALTH OF KENTUCKY

BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

APPLICATION OF KENTUCKY POWER COMPANY FOR (1) A CERTIFICATE OF PUBLIC CONVENIENCE AND NECESSITY AUTHORIZING THE TRANSFER TO THE COMPANY OF AN UNDIVIDED FIFTY PERCENT INTEREST IN THE MITCHELL GENERATING STATION AND ASSOCIATED ASSETS; (2) APPROVAL OF THE ASSUMPTION BY KENTUCKY POWER COMPANY OF CERTAIN LIABILITIES IN CONNECTION WITH THE TRANSFER OF THE MITCHELL GENERATING STATION; (3) DECLARATORY RULINGS; (4) DEFERRAL OF COSTS INCURRED IN CONNECTION WITH THE COMPANY'S EFFORTS TO MEET FEDERAL CLEAN AIR ACT AND RELATED REQUIREMENTS; AND (5) ALL OTHER REQUIRED APPROVALS AND RELIEF	CASE NO. 2012-00578

ORDER

On December 19, 2012, Kentucky Power Company ("Kentucky Power") filed an Application seeking a Certificate of Public Convenience and Necessity ("CPCN"), pursuant to KRS 278.020, in connection with the proposed transfer of an undivided 50 percent interest in the Mitchell Generating Station ("Mitchell Station") and related assets currently owned by an affiliate, Ohio Power Company ("Ohio Power"). The 1,560-MW Mitchell Station is located in Moundsville, West Virginia, and is comprised of two coal-fired units. Kentucky Power also requests authorization pursuant to KRS 278.300 to assume certain liabilities in connection with the transfer. Kentucky Power further seeks authority to accumulate and defer for review and recovery in its next base rate case

Mitchell assets and its fair market value. The evidentiary record contained other means through which one could quantitatively assess the reasonableness of the proposed Mitchell acquisition; for example, Kentucky Power's stacking analysis of the Big Sandy Unit 1 RFP indicative responses and the impairment analysis.

Lastly, the Commission finds that Kentucky Power's comprehensive economic analysis sufficiently supports the company's conclusion that the Mitchell acquisition is the least-cost alternative and would not result in wasteful duplication. We note that the economic analysis evaluated various resource options to address the mandatory environmental standards applicable to Big Sandy Units 1 and 2 over a 30-year study period. Options included the Mitchell transfer, retrofitting Big Sandy Unit 2, constructing a new gas unit, converting Big Sandy Unit 1 to gas, and purchasing power from the market. The modeling assumed Kentucky Power as a stand-alone utility and relied upon inputs related to price forecasts for coal, natural gas, market prices for on- and off-peak energy, market capacity, emissions allowances, and carbon. In addition to a base commodity price scenario, Kentucky Power also used four additional pricing scenarios to reflect the effects of higher fuel costs, lower fuel costs, an earlier carbon-pricing date, and no carbon pricing. The economic analysis showed that the Mitchell proposal, combined with the conversion of Big Sandy Unit 1 to gas, was the least-cost alternative by a wide margin. Sensitivity and break-even analyses also demonstrated that the Mitchell acquisition is the least-cost option. Accordingly, we conclude that the proposed Mitchell acquisition represents the least-cost alternative to meeting Kentucky Power's capacity and energy needs and would not result in wasteful duplication of facilities.

Movants Kentucky Power
Exhibit 4

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) An Order Approving Its 2017 Environmental Compliance Plan; (3) An Order Approving Its Tariffs and Riders; (4) An Order Approving Accounting Practices to Establish a Regulatory Asset or Liability Related to the Big Sandy 1 Operation Rider; and (5) An Order Granting All Other Required Approvals and Relief	)	CASE No. 2017-00179

ATTORNEY GENERAL'S RESPONSES TO DATA REQUESTS OF THE KENTUCKY PUBLIC SERVICE COMMISSION STAFF

Comes now the intervenor, the Attorney General of the Commonwealth of Kentucky, by and through his Office of Rate Intervention, and submits the following responses to data requests of the Kentucky Public Service Commission Staff in the above-styled matter.

Respectfully submitted,

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ATTORNEY GENERAL

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WITNESS/RESPONDENT RESPONSIBLE:
Ralph C. Smith

QUESTION No. 2
Page 1 of 1

Refer to the Smith Testimony, page 12.

a. Page 12, lines 4-5, State "Company has an annual base rate revenue requirement excess of approximately $39.9 million". Explain whether the approximately $39.9 million is an excess or a deficiency.

b. Reconcile the Attorney General's support for a revenue increase of approximately $40.0 million, or 8.00 percent, with the Attorney General's October 4, 2017 press release in which he proposes that Kentucky Power Company ("Kentucky Power") "forgo the requested increase on ratepayers by implementing stronger controls on spending and by decreasing the amount returned to its shareholders." A copy of the October 4, 2017 press release is attached as an Appendix.

RESPONSE:

a. The $39.9 million is a deficiency.

b. The Attorney General's position is that KPCo's customers cannot afford any increase, as made clear in Mr. David Dismukes' testimony. Mr. Dismukes stated on p. 3 of his testimony that, "KPCo's customers are unable to afford any rate increase…" Indeed, even Mr. Smith directed the Commission and other intevenors to Mr. Dismukes testimony, and noted that his own testimony did not address affordability. Having made his position clear, the Attorney General also has a duty to point out to the Commission that KPCo's requested increase is unreasonable and unsubstantiated even if customers could afford it (which they cannot). As such, Mr. Smith's testimony provided evidence that the Company's request was unsupported and unreasonable.

WITNESS/RESPONDENT RESPONSIBLE:
Ralph C. Smith

QUESTION No. 4
Page 1 of 5

Refer to the Smith Testimony, pages 59-66, regarding the costs associated with the Rockport environmental surcharge and the Big Sandy retirement costs.

a. State whether the Attorney General is aware of any case(s) in which this Commission or another state public utility regulatory agency has denied the recovery of costs that are similar to the Rockport and Big Sandy costs that the Attorney General proposes be denied in this proceeding.

b. If the answer to a. above is affirmative, provide the authority, case law or other documentation that supports the denial.

c. Confirm that the Attorney General's revenue requirement removes only the costs associated with Rockport environmental surcharge.

RESPONSE:

a. – b. Yes. The Attorney General presents the following instances:

(1) In Case No. 2013-00199, the Kentucky PSC denied immediate recovery of depreciation costs associated with Big Rivers' Coleman and Wilson generating stations, and instead ordered that those costs be deferred in a regulatory asset (final order dated April 25, 2014, pp. 49-50).

(2) When AEP-owned electric generating resources were deregulated/subject to competition in Ohio, AEP recorded large tax write-offs ,[1] indicating that some of the embedded historical costs associated with the previously regulated generating resources was being borne by AEP and its shareholders.

(3) *In Re Kentucky American Water Co.*, Case No. 8571, the Commission found that because Kentucky-American had an excess capacity of 6 MGD, shareholders should share $903,037 of the cost of this excess capacity with the

[1] See, e.g., https://www.bizjournals.com/columbus/news/2016/11/01/aep-takes-2-3b-write-down-of-coal-plants-to-avoid.html

Company's ratepayers, and thus removed that sum from rate base (Final Order dated Feb. 17, 1983, p. 8).

(4) *In Re Kentucky Utilities*, Case No. 8624,[2] in which the Commission excluded $6.425 million in jurisdictional CWIP from ratebase. Order dated March 18, 1983, p. 23.

(5) *An Investigation of The Necessity and Usefulness of the Cost Responsibility For the Hanging Rock-Jefferson 765 Kv Transmission Line Under Construction by Kentucky Power Company,* Case No. 8904, in which the Commission excluded the cost of transmission facilities greatly in excess of jurisdictional needs, and which were constructed to meet the needs of non-jurisdictional customers. Order Denying Rehearing, dated Sept. 11, 1984, pp. 6-7.[3]

(6) *Blue Grass State Telephone Co. v. Public Service Comm'n,* Ky., 382 S.W.2d 81, 82-83 (1964), the Court adjusted the rate base to exclude facilities "not entirely usable."

(7) *Fern Lake Co. v. Public Service Comm'n*, Ky., 357 S.W.2d 701, 704-705 (1962), the Court of Appeals held that excess facilities were not used or useful so as to be a proper factor in establishing a rate base and that over-adequate facilities should be excluded for ratemaking purposes as a matter of law.

(8) *In re: A Formal Review of the Current Status of Trimble County Unit No. 1*, Case No. 9934, in which the Commission disallowed 25% of Louisville Gas & Electric Co.'s interest in Trimble Unit 1. Order dated July 1, 1988, p. 33.

(9) *In re General Adjustment of Electric Rates of Kentucky Power Co.*, Case No. 8734. KPCo tried to include into ratebase the $6.302 million value of land located in Lewis County [the "Carrs Site"] which it was holding for future use. Attorney General witness Henkes testified that the value of the land should be excluded from ratebase due to its speculative nature. The Commission found KPCo's plans to be questionable, and given that KPCo then had a 43% reserve

[2] 1983 WL 913532 (Ky.P.S.C.), 52 P.U.R.4th 408.
[3] Aff'd, In Re Kentucky Power, Case No. 9061, 64 P.U.R. 4th 56, 66 (1984).

capacity, removed the entire value of that land from rate base (Order dated Sept. 20, 1983, pp. 8-9). In Case No. 2014-00396, KPCo attempted to recover $103,330 in costs for preliminary engineering and site design at the Carrs Site, despite the fact that it never built any facilities at that site. The Commission denied that request, and ordered KPCo to remove the $2.619 million deferred costs from its books and charge that sum to expense (Case No. 2014-00396, Order dated June 22, 2015, p. 20).

(10) *In re Big Rivers Electric Corp.'s Notice of Changes in Rates and Tariffs for Wholesale Electric Service and a Financial Workout Plan,* Case No. 9613, in which the Commission excluded the costs of the Wilson plant from ratebase. Order dated March 17, 1987.

(11) *In the Matter of the Application of Sunflower Electric Cooperative, Inc., for approval of the State Corporation Commission to make certain changes in its charges for sale of electricity to its member cooperatives;* Docket No. 143,069-U, in which the Kansas Corporation Commission disallowed 43% of the costs of the company's Holcomb generating unit from ratebase because the excess capacity was not used and required to be used, and because it would have resulted in excessive rates to residential and industrial customers. Order dated April 2, 1985, pp. 6-7, 13-14.

(12) *Wabash Valley Power Ass'n, Inc. v. Rural Electrification Admin.*, 713 F. Supp. 1260 (S.D. Ind. 1989),[4] affirming a ruling by the then-Indiana Public Service Commission[5] which excluded $480 million from the utility's ratebase, representing costs to finance the abandoned Marble Hill nuclear power plant.

(13) *Duquesne Light Co. v. Barasch*, 109 S. Ct. 609, 615-620 (1989). In this case, two utilities sought recovery of costs associated with cancelling the construction of four nuclear power plants. The state PUC granted the recovery in rate proceedings. However, prior to the conclusion of those proceedings, a state statute was enacted barring inclusion of costs for generating facilities that are not used and useful. The Pennsylvania Office of the Consumer Advocate appealed the case to the state Supreme Court, which: (i) upheld the statute,

[4] Aff'd, 903 F.2d 445, 7th Cir. 1990.
[5] In Re Wabash Valley Power Ass'n, Inc., Case No. 37472 (Jan. 14, 1987).

finding it did not constitute an unlawful taking of the utilities' property under the Takings Clause of the 5th Amendment to the U.S. Constitution; and (ii) remanded the case to the PUC with instructions to remove the relevant costs from ratebase. The U.S. Supreme Court affirmed that ruling.

(14) *Petition of Public Service Co. of New Hampshire,* 539 A.2d 263 (N.H. 1988), the utility owning a 35% stake in the Seabrook unit 1 nuclear power plant sought emergency rate relief due to rapidly escalating costs. The state Supreme Court upheld the constitutionality if an anti-CWIP statute which precluded the construction costs from being included in ratebase, thus allocating the risk of construction not being completed to investors rather than ratepayers.

(15) *Citizens Action Coalition v. NIPSCO,* 485 N.E.2d 610 (Ind. 1985).[6] Northern Indiana Public Serv. Co., Inc. spent over $205 million on the proposed Bailey 1 nuclear power generating unit before cancelling the project. The then-Public Service Commission allowed the company to amortize the sunk costs in base rates. However, the Supreme Court upheld a state Court of Appeals ruling reversing the PSC's decision, finding that the facility was not used and useful and provided no benefit to ratepayers.

(16) *In Re Application of Kentucky Power for a General Adjustment of Rates, etc.*, Case No. 2014-00396, in which KPCo sought to recover $28.024 million in costs incurred for engineering and design work related to potentially installing FGD systems at its retired Big Sandy Unit 2. In Case No. 2012-00578, the Commission found these costs unreasonable and struck a provision from the settlement reached in that case which would have authorized that cost recovery. In Case No. 2014-00396, the Commission once again denied recovery of these costs, and further ordered KPCo to remove the deferred asset in that amount from its books and charge that item to expense (Order dated June 22, 2015, pp. 21-22).

(17) In 2015, the Indiana Utility Regulatory Commission approved a settlement [7] that capped construction and financing costs for the Duke Energy,

[6] Cert. den. 476 U.S. 1137 (1986).
[7] Accessible at: http://www.in.gov/oucc/files/2016_IGCC_Settlement_Agreement.pdf

Indiana Edwardsport IGCC power plant, which prevented nearly $900 million from entering into ratebase. Cause No. 43114 IGCC 11-15.

(18) *In re Construction Monitoring Proceeding for Georgia Power Company's Plant Vogtle Units 3 and 4; Supplemental Information, Staff Review, and Opportunity for Settlement,* Docket No. 29849, in which the Georgia Public Service Commission approved a settlement which: (i) deferred costs for these plants until after they are placed in service and thus providing benefits to ratepayers; (ii) provided significant reductions in ROE if the project is not completed by Dec. 31, 2020; and provided a total of $325 million in projected savings to ratepayers during the construction period, $185 million of which would be permanent savings. Order Adopting Stipulation dated Dec. 20, 2016.

c. The Attorney General confirms that Exhibit RCS-1, Schedule A, line 10, removes only the Environmental Surcharge Related to Rockport Unit 1 SCR of $3,903,056 that has been requested by Kentucky Power Company. Please note that in other adjustments other costs requested by Kentucky Power for other items are being removed.

Movants Kentucky Power
Exhibit 5

COMMONWEALTH OF KENTUCKY

BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

BIG RIVERS ELECTRIC CORPORATION'S NOTICE OF CHANGES IN RATES AND TARIFFS FOR WHOLESALE ELECTRIC SERVICE AND OF A FINANCIAL WORKOUT PLAN)	CASE NO. 9613

INDEX

COMMONWEALTH OF KENTUCKY

BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

BIG RIVERS ELECTRIC CORPORATION'S NOTICE OF CHANGES IN RATES AND TARIFFS FOR WHOLESALE ELECTRIC SERVICE AND OF A FINANCIAL WORKOUT PLAN	))))	CASE NO. 9613

O R D E R

PREFACE

On August 7, 1986, Big Rivers Electric Corporation ("Big Rivers") filed an application with the Commission requesting authority to increase its rates for wholesale electric service rendered on and after September 6, 1986, based on a restructuring of its debts. The application states that the proposed rates would increase Big Rivers' annual revenues by approximately $7.5 million, an increase of 3.58 percent over normalized revenues.

The Commission suspended the proposed rates until February 6, 1987, in order to conduct an investigation and hold public hearings on the reasonableness of the proposed rates. By agreement of the parties, in response to the Commission's request, the suspension period was extended to March 17, 1987. Motions for full intervention were filed by the Utility and Rate Intervention Division of the Office of the Attorney General ("Attorney General"), National Southwire Aluminum Company ("NSA"), Alcan Aluminum Corporation ("Alcan"), Utility Rate Cutters of Kentucky ("URCK"), Hancock County, Kentucky, City of Hawesville, Kentucky, Willamette Industries, Inc. ("Willamette"), Commonwealth Aluminum Corporation ("Commonwealth"), and Alumax Aluminum Corporation ("Alumax"). Firestone Steel Products Company ("Firestone") moved for limited intervenor status. All motions to intervene were granted by the Commission.

Public hearings were held at the Commission's offices in Frankfort, Kentucky, commencing on December 2, 1986, and concluding on December 18, 1986. During the public comment portion of the hearing, statements were presented by Honorable Danny Boling, Hancock County Judge Executive, Thomas McCord, International Representative of Aluminum, Glass and Brick Workers International Union, Vicki Basham, Superintendent of Hancock County Schools, and Honorable Josephine Hagin, Mayor of Lewisport, Kentucky. Statements were also presented by counsel for Hancock County and Firestone. The parties sponsored testimony at the hearing by the following witnesses:

Big Rivers	William H. Thorpe - General Manager
	Paul A. Schmitz - Vice General Manager, Finance
	Joe Craig - Fuels Manager
	Ron Johnson - Vice General Manager, Corporate Services and Labor Relations
	Joseph Dolezal - Vice General Manager, Energy Supply
	Frederick L. McCoy - Ernst and Whinney Utility Group
	Herbert Vander Veen - Ernst and Whinney Utility Group
	Herbert F. Jacobs - Vice President, Manufacturers Hanover Trust Co.

	Thomas B. Heath - Assistant to Deputy Administrator, Rural Electrification Administration
	Phillip B. Layfield - Ernst and Whinney
	Paul H. Raab - Ernst and Whinney
	Bernard L. Uffelman - Peat, Marwick, Mitchell and Company
	Douglas P. Sumner - Peat, Marwick, Mitchell and Company
	Robert F. McCullough - Manager of Regulatory Finance at Portland General Electric
	John D. Hightower, Jr. - Southern Engineering Co.
	Bernard J. Duroc-Danner - Arthur D. Little, Inc.
NSA	Howard W. Pifer, III - Putnam, Hayes & Bartlett, Inc.
	Joseph S. Graves - Putnam, Hayes & Bartlett, Inc.
	Allan J. Schultz - Casazza, Schultz & Associates
	Roger M. Whelan - Verner, Hiipfert, Bernhard, McPherson and Hand
	Robert P. Matusiak - Director of Planning and Analysis, National Intergroup, Inc.
	Kenneth T. Wise - Putnam, Hayes & Bartlett, Inc.
Alcan	Paul D. Belanger - Manager, Alcan Sebree Plant
	Maurice Brubaker - Drazen-Brubaker Associates, Inc.
	Christian K. Albrecht - Drazen-Brubaker Associates, Inc.
	H. Clyde Allen - Drazen-Brubaker Associates, Inc.
	James A. Ross - Drazen-Brubaker Associates, Inc.
	Stewart R. Spector - President, The Spector Report, Inc.
NSA & Alcan	Sam F. Rhodes - Touche Ross & Co.

Attorney General	Randall J. Falkenberg - Kennedy and Associates Lane Kollen - Kennedy and Associates
Alumax and Commonwealth	Charles F. Phillips, Jr. - Professor at Washington and Lee University
Alumax	Clyde M. Griggs - Manager, Alumax Hawesville Rolling Mill
URCK	David H. Kinloch - Consultant

Initial briefs were filed on January 21, 1987, and reply briefs on February 2, 1987. The Commission incorporated by reference and made a part of the record in this case Big Rivers' past two rate applications, Case No. 9006[1] and 9163,[2] and the D. B. Wilson Generating Station certificate proceeding, Case No. 7557.[3]

Big Rivers is a non-profit cooperative corporation engaged in the generation, transmission and sale of electricity, through four

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1 Case No. 9006, Big Rivers Electric Corporation's: (1) Notice of Change In Its Rates And Fuel Adjustment Clause Base For Electricity Sold To Member Cooperatives, and (2) Application For Authority To Issue Notes Or Other Evidences Of Indebtedness, and (3) Application For Approval Of Sale And Leaseback Of Its D.B. Wilson Station Generating Unit 1 And Associated Facilities.

2 Case No. 9163, Big Rivers Electric Corporation's Notice Of Change In Its Rates For Electricity Sold To Member Cooperatives.

3 Case No. 7557, Application Of Big Rivers Electric Corporation For: (1) A Certificate Of Convenience And Necessity Under KRS 278.20 And 807 KAR 1:010, Section 7 And 8 To Construct And Operate The Following Facilities: (a) Two Additional Generating Units, Each Having A Net Rated Capability of 395 MW To Be Known As The "D.B. Wilson Generating Station" And To Be Located In Ohio County, Kentucky. (b) Any And All Appurtenant
(Footnote continued)

distribution cooperatives, to approximately 75,000 customers in 22 counties in Western Kentucky. Big Rivers derives approximately 70 percent of its member revenues from two industrial customers, NSA and Alcan, both engaged in the smelting of aluminum.[4]

BACKGROUND OF D. B. WILSON GENERATING STATION

Big Rivers' 1977 Power Requirements Study indicated that rural load would continue to increase at 9.97 percent through 1991 and industrial load would increase by 167 megawatts (MW) over the 1976 level of 665 MW. Total demand on the system was expected to be 1509 MW by 1986 and 1832 MW by 1991. With the two generating units at the Green Generating Station scheduled to be in service in 1979 and 1981, respectively, total plant capacity would be 1235 MW. This study predicted capacity shortages of 274 MW in 1986 and 597 MW in 1991 excluding any reserve capacity needed to maintain system reliability.[5]

In February 1978, Southern Engineering Company was employed by Big Rivers to determine its capacity needs and make expansion recommendations. The study was completed in 1979 and Southern

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3(continued)
And Related Equipment And Facilities, (2) A Certificate Of Environmental Compatibility Under KRS 278.025 For The Facilities Described In Paragraph (1) Hereof. (3) Authority To Borrow From The United States Of America, Through The Rural Electrification Administration (REA), Or The Federal Financing Bank Or The Eligible Lender The Sum Of $928,754,200 To Be Used For The Construction Of The Facilities As Further Described In The Application And Record.

4 $82,654,460 from NSA plus $60,908,446 from Alcan divided by $208,296,183, total member revenue, Exhibit 4, page 2.

5 Big Rivers' Response to NSA's Second Request for Information, Item 264, pages 2-3.

recommended that two 395 MW steam electric generating units be added to the system, one in 1984 and the other in 1986.[6] In June 1978, prior to completion of the study, Big Rivers requested a proposal from Burns and Roe to design a generating unit of approximately 350 MW to be scheduled for commercial operation in 1984. In December 1978, Big Rivers entered into a contract with Burns and Roe to design a 440 MW gross, 395 MW net, output rated unit. In May 1979, Big Rivers contracted with Westinghouse to purchase a turbine generator. The contract with Westinghouse gave Big Rivers 6 months to cancel before incurring any large cancellation penalties. Big Rivers stated that this provision was necessary to allow it adequate time to complete loan studies and make any necessary changes in the unit rating.[7]

On June 17, 1980, the Commission entered its Order in Case No. 7557, granting Big Rivers a Certificate of Public Convenience and Necessity to construct Wilson units 1 and 2. Shortly thereafter, Big Rivers began another comprehensive load forecast, the 1980 Power Requirements Study, which was completed in March 1981. The new forecast showed that load growth would increase at an annual rate of 3 percent, not the 9.97 percent predicted in the 1977 Power Requirements Study.[8] Based on the results of this forecast Big Rivers' Board of Directors voted to suspend the

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6 Ibid., page 4.

7 Thorpe Rebuttal Testimony, Volume I, pages 15-18.

8 Big Rivers' Response to NSA's Second Request for Information, Item 264, pages 6-7.

construction of the Wilson Unit No. 2 in April 1981, and ultimately cancelled it. Big Rivers subsequently decided to continue construction of Wilson Unit No. 1 ("Wilson") based on the potential increase in loads due primarily to the addition of a fourth potline by ARCO [predecessor of Alcan] and, an analysis indicating that the cost to delay commercial operation was approximately $90 million per year.[9]

During 1982-83 aluminum prices took an unexpectedly deep and prolonged drop which led both aluminum smelters to shut down one of their potlines. The record reflects that during this period Big Rivers' Board of Directors and Rural Electrification Administration ("REA") representatives were regularly advised of Wilson's construction progress.[10] By late 1983, aluminum prices rebounded and the smelters' load returned to normal.

In an attempt to reduce the rate impact from Wilson, Big Rivers attempted to execute a sale/leaseback (leveraged lease) of the Wilson Plant in 1984. The sale/leaseback arrangement with the General Electric Credit Corporation would purportedly have resulted in savings of approximately $700 million over a 35-year period. The savings were to be attributable to provisions of the Internal Revenue Code which would have allowed the purchaser of the property to share tax benefits with Big Rivers resulting from accelerated depreciation, energy credits, and investment tax

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9 Ibid., Item 264, page 7.

10 Ibid., page 9, and Rural Electrification Administration Field Activities Report of Mike Norman to Vincent Kaminski, dated October 9, 1982.

credits. Under this arrangement, Big Rivers' effective interest cost would have been lowered from an estimated 11.5 percent to 7.9 percent.[11] This was expected to save ratepayers $700 million over the plant's life.[12] However, Big Rivers was unable to resolve a number of major points and the sale/leaseback was abandoned.

In April 1984, Big Rivers filed a rate application, Case No. 9006, requesting additional revenue of $48 million under the scenario of a sale/leaseback for Wilson or, alternatively, $57.6 million without a sale/leaseback. Due to Big Rivers' financial inability to consummate the sale/leaseback and strong opposition to the rate increase voiced by NSA and Alcan, the application was voluntarily withdrawn.[13] Aluminum prices again sharply declined in 1984 and Big Rivers took the position that higher rates could result in the shutdown of the smelters.[14]

In November, 1984, Big Rivers filed another rate application, Case No. 9163, requesting a $16.7 million increase in rates. Big Rivers did not seek to recover any of the costs associated with Wilson except those related to two high voltage transmission lines tying Wilson into Big Rivers' system.[15] Mr. Thorpe testified that the Wilson costs were excluded in that case because Big Rivers

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11 Case No. 9006, Big Rivers' Application.

12 Big Rivers' Response to NSA's Second Request for Information, Item 264, page 9-10.

13 Case No. 9163, Order issued May 6, 1985, page 3.

14 Big Rivers' Response to NSA's Second Request for Information, Item 264, page 10.

15 Case No. 9163, Order issued May 6, 1985, page 1.

recognized that: (1) no economically viable solution had been reached to solve its financial problems; and (2) NSA and Alcan might go out of business if their rates increased.[16]

In November 1984, REA refused to advance any additional committed loan funds to Big Rivers. According to Big Rivers this rendered the utility incapable of using loan funds to pay the contractors for work completed at the Wilson Plant. Big Rivers subsequently filed suit against REA to release the committed loan funds.[17] In order to complete construction of Wilson, Big Rivers used internally generated funds and suspended its loan payments to REA. Big Rivers contended that having an income-producing asset was preferable to abandoning that asset and writing off approximately $700 million.[18]

On January 3, 1985, REA notified Big Rivers that it was in default on loan payments as of November 23, 1984, and asked for full payment of indebtedness of approximately $1.1 billion.[19] On January 18, 1985, the Justice Department, acting on REA's behalf, filed a foreclosure action against Big Rivers in the U.S. District Court, Western District of Kentucky.[20]

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16 Thorpe Direct Prepared Testimony, pages 6-7.

17 Big Rivers v. Harold Hunter, Administrator of the Rural Electrification Administration, Civil Action No. 84-0317-O(J), U.S. District Court (W.D. KY.)

18 Big Rivers' Response to NSA's Second Request for Information, Item 264, pages 12-13.

19 Ibid., page 13.

20 United States of America v. Big Rivers Electric Corporation, Civil Action No. C85-0012-O(J), U.S. District Court (W.D.KY.).

By Order entered May 6, 1985, the Commission denied Big Rivers' proposed rate increase, recognized that a financially viable solution for Wilson costs would need to be developed, and directed Big Rivers to negotiate with NSA and Alcan to develop flexible power rates that would reflect the market price of aluminum.

In early August, 1986, Big Rivers negotiated a Debt Restructuring Agreement (workout plan) with its creditors in an attempt to solve its financial problems and resolve the pending litigation with REA.[21]

REVENUE INCREASE

Big Rivers' rate application states that the proposed rates will increase annual revenues by $7,452,524 or 3.58 percent based on a 1985 test year.[22] In calculating this revenue increase, however, Big Rivers offset the proposed increase by a $15,462,514 reduction in its fuel expense.[23] This significant reduction in fuel expense was achieved in 1986 by renegotiating existing coal contracts and executing new, lower cost coal contracts. While Big Rivers should be commended for taking the initiative to reduce its largest operating expense, the Commission is concerned that Big Rivers' rate application does not accurately reflect the magnitude

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21 Big Rivers' Response to NSA's Second Request for Information, Item 264, page 15.

22 Application, Exhibit 4, page 1.

23 The $15,462,514 consists of a $12,635,946 reduction in Fuel Adjustment Clause expense and a $2,826,568 reduction in base fuel revenue. See Application, Exhibit 5, page 1, Pro Forma Adjustments.

of the proposed rate increase. All of these savings from reductions in coal costs are required to be flowed back to the ratepayers through the prior reduction of base rates under fuel adjustment clause regulation, 807 KAR 5:056. The ratepayers have and will continue to benefit from these reduced fuel expenses independently of this rate case.[24] Consequently, the offsetting of a proposed increase in rates by a required decrease in fuel revenue is misleading and impermissible. Once the fuel revenue is disregarded, as it must be, Big Rivers' rate application actually seeks a $22,915,038 or 11 percent annual revenue increase.[25] Further, the workout plan requires additional rate increases in 1989 and 1991.[26]

NSA COMPLAINT

On October 2, 1985, NSA filed a formal complaint against Big Rivers, Case No. 9437, National-Southwire Aluminum Company v. Big Rivers, requesting a reduction in the rates that had been approved by the Commission on May 6, 1985, in Case No. 9163.

The complaint states two grounds in support of reduced rates: (1) revenues from a 54 megawatt off-system sale to the Municipal Energy Agency of Mississippi ("MEAM"), which had been excluded for rate-making purposes in Case No. 9163 and attributed to the Wilson Plant, should now be considered for rate-making purposes because

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24 Hearing Transcript, Volume II, pages 33-34.

25 $7,452,524 plus $15,462,514 divided by 1985 actual revenues of $208,296,183 as shown on application, Exhibit 4, page 2.

26 Big Rivers' Response to NSA's Second Request for Information, Item 281, page 9.

Big Rivers has the generating capacity to accommodate that sale; and (2) Big Rivers' failure to reduce its per-ton cost of coal by either renegotiating existing contracts or filing bankruptcy to void the contracts. NSA requested that any rate reduction granted be first applied to reduce NSA's rate from approximately 28 mills to 22 mills due to: (1) its need for a 22 mill rate to insure its continued financial viability; (2) its prior subsidization of Alcan and its predecessors resulting from Big Rivers' 1981 rate increases to include the costs of the Green 2 generating unit constructed to serve Alcan's predecessors; and (3) the willingness of NSA's corporate parents to guarantee performance by NSA of its long term power supply contract.

NSA subsequently amended its complaint to allege that while Big Rivers has been collecting rates that were designed to recover the debt service requirement for its system excluding Wilson, little if any debt service payment has been made. An investigation was sought into the "diversion of revenues intended for debt service to other undisclosed purposes...."[27] A Second Amended Complaint was filed by NSA to delete its request for a 22 mill preferential rate and seek reduced rates for all customers. After a period of extensive discovery and the filing of prepared testimony, NSA's complaint was consolidated with Big Rivers' rate application by Commission Order entered August 14, 1986. The consolidation was pursuant to a motion by Big Rivers filed on August 7, 1986, in Case No. 9437.

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27 NSA Amended Complaint, page 5.

NSA MOTIONS TO DISMISS

NSA filed a motion and a supplement thereto to dismiss Big Rivers' rate application on multiple grounds attacking the merits of the workout plan. Big Rivers opposed NSA's motions and stated that the issues were more appropriate for resolution in the rate case hearing.

By Order entered September 16, 1986, the Commission held the motions in abeyance, finding that they raised substantial issues of fact not readily determinable prior to the scheduled evidentiary hearing. Based on the Commission's findings on the workout plan, set forth in detail below, NSA's motions are rendered moot and should be denied.

COMMISSION CONCERNS

This case presents some of the most difficult and momentous issues ever considered by this Commission. Despite all parties' appeal to traditional rate-making principles, this is clearly no ordinary rate case. The repercussions of our decision on the economic life of Western Kentucky have weighed heavily in our deliberations in this case.

The uneven load distribution of the Big Rivers system is an inescapable fact that is deeply disturbing to us. Nearly seventy percent of Big Rivers' member revenues comes from two aluminum smelters: NSA and Alcan. This overwhelming dependence on two huge customers creates a tremendous risk for the utility. If the aluminum industry goes sour, the result for Big Rivers and its 75,000 customers will be catastrophic. When the aluminum industry entered a deep recession beginning in 1983, Big Rivers found itself in a nightmarish position. To add to its misery, the utility's remaining load growth had leveled off, the prospect of a synthetic fuels industry had evaporated, and the $900 million Wilson Unit No. 1 was nearly completed. Big Rivers was paying the price for being basically a one-industry utility.

The Commission's awareness of this problem was an important element in establishing our statewide planning docket.[28] In that docket we are examining, among other things, the long-term prospects of sharing capacity among the state's electric utilities, rather than permitting utilities to continue the traditional practice of adding new capacity based primarily on forecasts of their internal loads. That docket offers hope that Big Rivers' one-industry problem can be mitigated in the long run.

In the near term, if Big Rivers, its creditors, and customers can agree on a plan to stabilize the utility, it is incumbent on both the public and private sectors to immediately begin seeking new industries to locate in Big Rivers' territory and encouraging existing employers to expand. This is an important first step in the long and difficult process of diversifying the utility's load. But in the current climate, this step is difficult if not impossible. It is to this climate of uncertainty that we now turn.

The financial condition of the aluminum smelters is a matter of controversy in this case. Of significant importance is the

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28 Administrative Case No. 308, An Inquiry Into Kentucky's Present And Future Electric Needs And The Alternatives For Meeting Those Needs.

issue raised by Big Rivers that its proposed rates are competitive rates for aluminum smelters. The Commission ruled at the hearing that it would not consider evidence on the costs and profitability of particular smelters, although it would consider evidence on the economic conditions of the aluminum industry in general.[29] We find it difficult to evaluate the arguments and counter-arguments on this issue. An aluminum company is in a vastly different position than a regulated utility. There is no monopoly franchise and no obligation to serve. Even a relatively profitable plant can be closed if its owner decides that other considerations outweigh its continued operation. One such consideration is uncertainty about the cost of its major raw material: electricity.

It is important to note four points that have emerged from the thousands of pages of testimony in this proceeding:

- The aluminum industry has made a major investment in Western Kentucky and would like that investment to succeed.

- If the uncertainty can be lifted from the Big Rivers system and some reasonable compromise reached among all parties, then there is still hope that the aluminum industry will decide to stay, and perhaps even grow.

- If the aluminum industry leaves, the chances of the Big Rivers' creditors ever recouping their investment dramatically decline.

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29 Hearing Transcript, Volume I, page 116.

• Wilson is not a half-finished nuclear station. It is a revenue-producing, state-of-the-art coal-fired unit that may be capable in the long run of producing enough revenue as part of the Big Rivers system to repay a substantial portion or possibly all of the creditors' investment.

COMMISSION CONCLUSIONS

With this as background, the Commission has reached the following conclusions:

The overriding issue in this case is the workout plan, not a proposed rate increase. The workout plan as it now stands is filled with unrealistic assumptions and unspecified targets. The Commission is disappointed with the bargaining position taken by Big Rivers in the negotiations with its creditors. After meeting with the REA and being advised that the REA's policy was no bailouts under any circumstances,[30] Big Rivers attempted to negotiate a workout plan to insure the repayment to REA and the banks of all outstanding principal and interest. The workout plan was thus achieved by merely deferring present financial obligations to future periods and thereby committing Big Rivers' ratepayers to two projected rate increases, in 1989 and 1991, and an indeterminable number thereafter.

Rather than provide a workable solution, the plan would intensify the climate of uncertainty. The result would very likely be a severe erosion in the economic base -- including the aluminum industry -- that supports the Big Rivers system. This

30 Hearing Transcript, Volume I, page 148.

would be a disastrous result not only for Big Rivers and its customers, but also for its creditors.

Since our approval of this rate increase would trigger the operation of the workout plan, we reject the rate increase as unreasonable. We will not be drawn inch by inch into approving so important a workout plan. In reviewing any future workout plan, we will likewise vigorously assert our statutory right and responsibility to examine and approve the complete proposal, including all assumptions and supporting data. In so doing, the Commission will seek to insure that the interests of all parties are balanced and that the interests of all classes of Big Rivers' ratepayers are preserved. There is a heavy burden of responsibility on the primary negotiators of the workout plan to incorporate those interests in a workable solution.

We are today on our own motion establishing an investigation into the reasonableness of the rates of Big Rivers. In this case we are ordering Big Rivers to conduct over the next four months a series of negotiations aimed at reaching an acceptable solution to this problem. First, Big Rivers will seek to negotiate a revised workout plan with its creditors similar to the one approved by the REA in the Sunflower Electric Cooperative case. Next, Big Rivers will begin meeting with the aluminum companies to negotiate a flexible rate plan that recognizes both the cyclical nature of the aluminum industry and the needs of the utility. The Commission is interested in the results of these negotiations even if agreement can be reached with only one aluminum company. Finally, Big Rivers is to meet with the Attorney General and other interested parties to explain the negotiations and discuss how the interests of the non-aluminum customers are being protected. We strongly urge all participants to enter these discussions promptly and in a spirit of good faith. If the participants deem it helpful, the Commission will offer its assistance in facilitating the discussions. We would hope that one outcome of these negotiations would be the settlement of all pending civil litigation.

If the participants cannot agree on an acceptable workout plan and associated flexible rate plan in the next four months, the Commission will move quickly thereafter to set just and reasonable rates for Big Rivers. The evidentiary record on which these rates will be set will include the record in this case, which will be incorporated by reference into Case No. 9885, An Investigation Of Big Rivers Electric Corporation's Rates For Wholesale Electric Service.

We do not accept NSA's contention that Big Rivers' customers are entitled to a rate decrease because the utility has commingled assets of the existing system and the Wilson system. In this case, we decline to cut the Big Rivers system in two. The Commission finds that the expenditure of funds to complete Wilson was in the discretion of Big Rivers' management. Therefore, that aspect of NSA's complaint is denied. The issue of the allocation of off-system sales remains before the Commission in its investigation of Big Rivers' rates. In the further negotiations, all the participants should focus on the potential cash flow of the entire Big Rivers system under a revised workout plan and how that will affect the fairness of rates to Big Rivers' customers.

We emphatically reject the claim of REA, the banks, and Big Rivers that the members of the cooperative ultimately bear the total risk and responsibility for the utility's debts. The distribution cooperatives and their members do not stand in the same position as shareholders of an investor-owned company. The REA, with its oversight and monitoring responsibility, bears a substantial amount of the risk associated with Big Rivers' actions. The creditor banks are compensated for the risks they take. Cooperative members must shoulder a portion of the risk, too, since they have a say in the affairs of the utility. Nor are the aluminum companies exempt from responsibility. Until the downturn of recent years, these companies or their predecessors were in frequent contact with Big Rivers' management. Rather than allocate the risk among all parties now, we have chosen to give the participants an opportunity to discuss the allocation among themselves as a revised workout plan is negotiated.

ISSUES

Commission Jurisdiction Over Workout Plan

Big Rivers has not sought Commission approval of the workout plan itself. Approval is being sought only for the proposed rates which are based on the workout plan. However, the workout plan will directly impact Big Rivers' financial stability. Since the proposed rates will produce revenues less than Big Rivers' full cost of service, they can only be found to meet the statutory criteria of fair, just, and reasonable if the workout plan itself is economically feasible and reasonable. Consequently, the Commission cannot accede to Big Rivers' request that the proposed rates be reviewed in a vacuum. The Commission concludes that Big Rivers and its creditors expect that an Order approving the proposed rates and activating the workout plan will equitably bind the Commission to all the plan's provisions. It is for these reasons that the Commission is compelled to review the economic feasibility of the workout plan at this time.

Workout Plan

Big Rivers, in an effort to resolve its financial problems, has negotiated a workout plan with its creditors. The plan, as filed on August 13, 1986, has four key elements:

1. Debt deferral.

2. Interest rate reduction.

3. Additional funds loaned by the banks to reduce high interest government debt.

4. Settlement of REA's foreclosure suit against Big Rivers.[31]

The workout plan is conditioned upon Big Rivers' submission of this rate case requesting authority to increase capacity charges to $7.50 per KW, to modify billing demand to provide for a peak demand ratchet, to restructure its debt as provided in the plan, and to limit annual capital expenditures to specified levels.[32] Additionally, the plan provides that if the Commission approves the rate proposal as submitted, the REA and the banks

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31 Schmitz Direct Prepared Testimony, page 4.

32 Big Rivers Debt Restructuring, July 21, 1986, Section A, (Revised July 29, 1986.)

will attempt to agree on future financial and other relevant targets which Big Rivers must attain.[33]

After an affirmative decision by the Commission with respect to the rate case and an agreement by the creditors on the targets, the workout plan further provides that the REA will withdraw its foreclosure action. In addition, the interest rate on Big Rivers' arrearage to the federal government ("government arrearage") will be reduced to 8 percent from a composite rate of 10.33 percent and additional debt restructuring will occur.[34] Further, the banks will loan Big Rivers $24 million.[35]

As a result of the additional debt restructuring, Big Rivers will begin paying the accrued as well as current interest on interest drawings, purchase price drawings and principal drawings associated with pollution control bonds.[36] Cash flow in excess of the amount necessary to pay operating expenses and the obligations to the banks will be used to pay interest and principal on, first, REA debt, Federal Financing Bank ("FFB") debt and then government arrearage debt. If cash flow is insufficient, REA will advance Big Rivers sufficient funds ("shortfall debt") to service the FFB debt. The shortfall debt will accrue interest at rates matching the FFB obligations and will have various maturities. The

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33 *Ibid.*, Section C.

34 Big Rivers' Response to NSA's Second Request for Information, Item 96, page 1.

35 Schmitz Direct Prepared Testimony, pages 6-7.

36 *Ibid.*, page 7.

government arrearage debt will convert to 30-year, 8 percent mortgage debt when cash flow is sufficient.[37] The amount due on pollution control bonds will be amortized following payment of the government arrearage debt and the unsecured arrearages.[38] Finally, neither the REA nor the banks will be obligated to proceed if Big Rivers does not meet its targets, if an affirmative rate decision is not sustained or is unfavorably modified,[39] or if the Commission does not approve the rate case as submitted.[40]

According to Big Rivers,

> The central idea behind the restructuring plan is that all of Big Rivers' cash flow beyond that needed for operating expenses and minimal capital improvements will be used to service Big Rivers' debt. In return, the creditors will defer sufficient debt to enable Big Rivers to add the D.B. Wilson plant to its system without causing "rate shock" to its customers and without increasing rates to the aluminum smelters over 1985 levels. In addition, should Big Rivers not achieve its sales targets and consequently be unable to fully meet payments scheduled in the debt restructuring plan, the creditors will further defer those amounts.[41]

Big Rivers stated in its application that the proposed rates are the initial step in the workout plan. Mr. Thorpe stated that the proposed rates are below the full cost-of-service[42] and Mr. Schmitz stated that without the workout plan demand rates would be

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37 Big Rivers Debt Restructuring, Section D(6).

38 *Ibid.*, Section D(7).

39 *Ibid.*, Section D(9).

40 *Ibid.*, Section C.

41 Schmitz Direct Prepared Testimony, page 8.

42 Thorpe Direct Prepared Testimony, page 12.

$10.75 rather than the proposed $7.50 to meet the cost-of-service.[43] Mr. Jacobs of Manufacturers Hanover and Mr. Heath of the REA submitted rebuttal testimony and presented oral testimony at the public hearing on behalf of Big Rivers in support of the workout plan.

It is the position of the intervenors that the workout plan is neither a long-range solution to Big Rivers' financial problems nor in the best interests of Big Rivers' consumers. The issues arising from the plan with which the intervenors take exception are:

1. Future financial targets.
2. Off-system sales levels.
3. Future rate increases.
4. Allocation of risk.

Future Financial Targets

Both NSA and Alcan maintain that the workout plan lacks specificity in that the plan provides that Big Rivers must attain financial targets to be determined by the creditors after a favorable Commission decision on the rate case as submitted.[44] Upon cross-examination, Mr. Thorpe testified that he had no idea whether any targets were being discussed, that he thought all the targets were included in the plan, and that he was unaware of other targets.[45]

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43 Schmitz Direct Prepared Testimony, page 9.

44 Big Rivers Debt Restructuring, Section C.

45 Hearing Transcript, Volume I, page 191.

With respect to the targets, Mr. Jacobs testified that measures of cash flow and the level of off-system sales were items to be considered, but the most important consideration was cash flow.[46] Mr. Heath testified that the concept of targets was included in the workout plan as an attempt to assure its long-term viability, recognizing that there will be changes in the future, such as the level of sales.[47]

In summary, Big Rivers and the creditors maintain that the plan recognizes the need for flexibility. The intervenors, however, maintain that since the creditors will not be obligated to proceed if Big Rivers fails to attain the unspecified targets, the workout plan lacks information sufficient for evaluation.

Off-System Sales and Future Rate Increases

In addition to future targets, the intervenors challenged the feasibility of the workout plan based upon the financial projections submitted by Big Rivers as support for the reasonableness of the plan. Those projections are contained in Item No. 281, Big Rivers' response to NSA's Second Information Request.

Sam F. Rhodes, testifying at the public hearing on behalf of NSA and Alcan, enumerated the key assumptions incorporated in Item No. 281 and described them as extremely optimistic.[48] According to the intervenors, the elements of Item No. 281 which render the

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46 *Ibid.*, Volume IX, page 119.

47 *Ibid.*, Volume VIII, page 159.

48 *Ibid.*, Volume VII, page 133.

workout plan questionable are the amount of off-system sales and future revenue increases.

The amount of off-system sales incorporated in the workout plan includes continuing firm sales to MEAM and future firm sales of 200 MW to unspecified parties. Mr. Rhodes testified that, based on historical results, it is not reasonable to assume that Big Rivers can achieve the forecasted level of off-system sales.[49] In 1988 and 1991, Big Rivers has projected off-system sales of 4,947,085 MWH and 4,919,141 MWH,[50] respectively. The actual annual off-system sales for the past 4 years have averaged 2,547,947 MWH.[51] Mr. Rhodes further testified that based on his understanding of the workout plan, shortfall debt arising from Big Rivers' inability to achieve the projected off-system sales would increase to a level of from half a billion to three-quarters of a billion dollars. He stated that given the abundant supplies of electricity in the region, Big Rivers should have been conservative in projecting the amount of off-system sales.[52]

In his testimony on behalf of Big Rivers, Bernard Uffelman stated that, based on corrected financial projections, Mr. Rhodes had overstated shortfall debt by approximately $300 to $331

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49 Rhodes Prefiled Testimony, page 13.

50 Big Rivers' Response to NSA's Second Request for Information, Item No. 281, page 6.

51 Rhodes Prefiled Testimony, Schedule 10.

52 Hearing Transcript, Volume VII, page 155.

million.[53] Mr. Heath, testifying with regard to the prudency and reasonableness of the projections, stated that the assumptions were cautiously chosen and that REA believes that a sales level greater than projected could be achieved.[54] Mr. Heath further testified that REA's own projections were "representative of" the conclusions shown by Big Rivers in Item No. 281.[55] Mr. Jacobs agreed that the forecasts were reasonable and prudently made.[56]

Upon cross-examination Mr. Thorpe testified that:

> It's going to be difficult to make the $90 million something sales that we projected. Of course, a fear that we had at the time that we filed the case, we'd rather be on the high side than on the low side because the staff may increase the sales and reduce the rates. So, if we do not reach the projected sales that we have, it's going to be more of a shortfall on the part of the creditors, which they've agreed to pick up, so it's not going to affect Big Rivers' financial condition any more than it already is.[57]

Mr. Schmitz testified that Big Rivers' projections were optimistic but were made in order to avoid an argument as to the appropriate level of off-system sales.[58] Further, Mr. Heath testified that the market for power is now a buyer's market and that REA views

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53 Uffelman Rebuttal Testimony, page 9.

54 Hearing Transcript, Volume VIII, page 178.

55 Ibid., page 186.

56 Ibid., Volume IX, page 127.

57 Ibid., Volume I, pages 237-238.

58 Ibid., Volume II, page 161.

the market as being "a little more favorable" to the seller in 5 years.[59]

The intervenors further maintain that this proceeding is the first step to including all of Wilson in the rate base. In support of this position NSA and Alcan cited the fact that the cash flow projections in Item No. 281 include all Wilson operating costs and project rate increases in 1989 and 1991.[60]

Mr. Thorpe stated that if the Commission approves the rates in this case, this does not guarantee Commission approval of rate cases to be filed in the future.[61] However, Mr. Thorpe testified that if the projections are accurate Big Rivers will seek rate relief in 1989 and 1991. Further, Mr. Thorpe testified that the pro forma test year expenses include all Wilson expenses except for the amount being deferred under the workout plan.[62]

Allocation of Risk

In addition to unspecified future targets and unreasonable financial projections, the intervenors maintain that the workout plan unfairly imposes the risk of loss on the ratepayers and not on the creditors.

Mr. McCoy and Mr. Heath both testified on behalf of Big Rivers that the ratepayers, as the owners of Big Rivers, should

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59 *Ibid.*, Volume IX, pages 11-12.

60 NSA's Initial Brief, pages 62-63, Hearing Transcript, pages 54-55.

61 *Ibid.*, page 126.

62 *Ibid.*, page 241.

pay for Wilson even if it represents excess capacity. Mr. McCoy stated that the ratepayers of a rural electric cooperative are the owners and are in a similar position to shareholders; therefore, costs cannot be shifted from one group to another.[63] Thus, according to Mr. McCoy, the used and useful standard, a method for allocating risk between shareholders and ratepayers, is not applicable in this case.[64] Mr. Heath testified that the debt related to Wilson was part of Big Rivers' "entire legitimate indebtedness" and should be repaid by the members of the cooperative.[65]

Mr. Schmitz testified that Big Rivers did not seek forgiveness of debt.[66] However, he did state that the creditors are at risk for any shortfall debt that may accrue because the Commission may not approve future rates to recover the shortfall debt as included in the financial projections.[67] Mr. Heath, when addressing the concept of targets, concurred with Mr. Schmitz regarding the extent of the creditors' risk.[68] Finally, Mr. Thorpe testified that the workout plan was not a solution benefiting the creditors which was thrust upon Big Rivers, pointing out that the creditors had agreed to defer any shortfall and

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63 Ibid., Volume III, page 68.

64 Ibid.

65 Ibid., Volume IX, pages 47-48, 83.

66 Ibid., Volume II, page 91.

67 Ibid., Volume II, page 168.

68 Ibid., Volume IX, page 77.

that the banks will make an additional loan of $24 million to Big Rivers.[69] Further, Big Rivers argues in its initial brief that the interest reduction is, in effect, a writedown of debt.[70]

The intervenors, however, maintain that all the risk has been placed on the ratepayers in that the creditors will ultimately be repaid their entire debt with interest.[71] Alcan argues in its reply brief that, "REA and creditor control over Big Rivers will be enhanced, while this Commission's ability to effectively regulate will be hamstrung by the yet-to-be-disclosed targets."[72]

Dr. Charles F. Phillips, on behalf of Commonwealth and Alumax, testified extensively with regard to the allocation of risk. Dr. Phillips pointed out that the workout plan was not a true restructuring of debt in that there was no writedown.[73] Dr. Phillips further stated that Big Rivers' ratepayers were not analogous to shareholders because if they live in a cooperative's service area they must become members of the cooperative in order to receive electric service. Finally, Dr. Phillips testified that the creditors and not the Commission were obligated to rescue a company from poor decisions.[74]

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69 Thorpe Rebuttal Testimony, pages 2-4.

70 Big Rivers' Initial Brief, page 101.

71 NSA's Initial Brief, page 60.

72 Alcan's Reply Brief, page 8.

73 Hearing Transcript, Volume VIII, page 29.

74 Ibid., page 49.

Upon cross-examination, Mr. McCoy admitted that Big Rivers' ratepayers, unlike shareholders in an investor-owned utility, could not vote their stock in proportion to their economic interest[75] nor could they sell their stock if they disagreed with management decisions.[76] Although NSA and Alcan provide approximately 70 percent of Big Rivers' member revenues, each has only one vote "the same as any other customer has."[77]

Sunflower Debt Restructure Plan

During the course of this proceeding, other cooperatives with financial problems were referenced. Chief among those was Sunflower Electric Cooperative, Inc., ("Sunflower") of Hays, Kansas. A copy of Sunflower's workout plan was submitted by REA on December 19, 1986. Sunflower's plan, unlike that of Big Rivers, is not contingent upon regulatory approval of a rate increase and does incorporate the possibility of the forgiveness of principal.

In this case, the intervenors argued that Big Rivers should have sought forgiveness of a portion of principal and maintained that a rate increase would be harmful to the ratepayers, especially the aluminum smelters. Mr. Thorpe stated that Big Rivers was informed early in the negotiations that there was no possibility of a write-off.[78] Mr. Heath stated that REA expects no write-off

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75 Ibid., Volume III, page 97.

76 Ibid., page 102.

77 Ibid., Volume VIII, page 68-69.

78 Ibid., Volume I, page 148.

under the Sunflower plan[79] and that REA does not deal in grants.[80] Big Rivers further argues that the smelters can afford this rate increase[81] and that the creditors felt the increase should be greater.[82]

The Commission is of the opinion that the speculative nature of the provisions regarding off-system sales, future rate increases, and financial targets clearly tips the balance of the present agreement in favor of the creditors. In contrast to Big Rivers' workout plan is the Sunflower plan which is not contingent upon an immediate rate increase, speculative off-system sales, or unspecified future targets. In addition, the Sunflower workout plan incorporates the possibility that debt may be written off in the future.

When cross-examined by NSA's counsel regarding the possible write-off of debt, Mr. Heath stated that there were more dissimilarities than similarities between Big Rivers and Sunflower due to Sunflower's past "efforts in rate remedies and their present rate structure."[83] The Commission cannot concur with Mr. Heath's assessment of the situation. Sunflower is a financially troubled cooperative that has attempted to remedy its problems through rate increases. Its rates are presently more than double those of Big

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79 Ibid., Volume VIII, page 204.

80 Ibid., Volume IX, page 53.

81 Big Rivers' Reply Brief, page 5.

82 Jacobs Rebuttal Testimony, pages 7-8.

83 Hearing Transcript, Volume VIII, pages 205-206.

Rivers.[84] Both Big Rivers and Sunflower have unique characteristics. Nevertheless there are striking similarities between the two.

Like Sunflower, the ability of Big Rivers' ratepayers to bear an increase is questionable, but for different reasons. Big Rivers is unique in that approximately 70 percent of its member revenues is derived from the aluminum industry which is in an economically depressed condition. Further, the collapse of the aluminum companies would have a devastating affect on the economy of Western Kentucky. Therefore to compare the rate levels and rate structure of Big Rivers and Sunflower is inappropriate.

The Commission is not endorsing the Sunflower plan in its entirety. The Commission, however, notes that the Sunflower plan, by not requiring immediate rate increases and not guaranteeing full recovery of debt, presents a more equitable balancing of interests. Further, the severe economic condition of the aluminum industry and Big Rivers' unique load configuration place Big Rivers in a financial position similar to that which nearly led to Sunflower's collapse.

Prudency

NSA and Alcan have raised the question of whether Big Rivers' decision to build Wilson and complete it in 1984 was prudent. Their concerns relate primarily to two points. First, Big Rivers relied heavily on a Southern Engineering Company study entitled "Power Cost Study" to determine the capacity of the planned

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84 Ibid., page 204.

generating unit. Secondly, they questioned Big Rivers' decision in 1981 to continue with the construction of Wilson in light of reduced demand. In its analysis, Alcan concluded that 39 percent of the Big Rivers' Wilson investment should be excluded from rates. On the other hand, NSA determined that the entire investment should be excluded.

H. Clyde Allen, witness for Alcan, testified that the Southern Engineering study, which was the basis for the decision to build the 395 MW Wilson unit, relied on another study by Black and Veatch entitled "Report on Power Supply Reliability". The Black and Veatch study computed reserve requirements for "varying sizes of additions" to the Big Rivers system.[85] The study showed that, "based on the loads for 1985 forecast in the 1977 Power Requirements Study, (1,450 MW), if 200-MW units are added, a reserve margin of 16.4 percent would be needed and an additional 400 MW (two units) would be needed. On the other hand, if 400-MW units were to be installed, a reserve margin of 42.5 percent would be required and 780 MW (two units) would be needed."[86] Southern Engineering, using a similar reliability criterion, found that "if 200-MW units are added, a reserve of about 20 percent is appropriate, whereas if 400-MW units are added, a reserve of approximately 50 percent is appropriate."[87] The concern raised by Mr. Allen was that both studies initially show similar reliability

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85 Allen's Prefiled Testimony, page 4.

86 Ibid.

87 Ibid., page 5.

problems with 400 MW units, yet the final plan adopted by Big Rivers called for the installation of only 400 MW units.[88] Mr. Allen testified that Southern Engineering, after evaluating several alternatives, revised its report and recommended "an expansion plan based on installing 395 MW coal-fired steam plants."[89] It is Mr. Allen's opinion that given the superiority of the expansion plan based on installing 210 MW units "from a cost standpoint, a reliability standpoint and a flexibility standpoint," he "would have rejected the consultants' recommendation."[90] Maurice Brubaker, witness for Alcan, testified that since Big Rivers was imprudent, approximately 39 percent of the Wilson investment should be excluded from rates.[91]

In response, Mr. Thorpe testified that the final decision to build the 400 MW Wilson units was not a simple one but involved a complex planning process which lasted from 1977 to 1980.[92] He further stated that during this period there were public hearings before the Commission and, in addition, REA was involved in an ongoing review of the decision making process of Big Rivers.[93]

Dr. Howard W. Pifer, III, witness for NSA, testified that Big Rivers initially relied on obsolete forecasts made in 1977 but

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88 Ibid.

89 Ibid., page 9.

90 Ibid.

91 Brubaker's Prefiled Testimony, pages 11 and 12.

92 Thorpe Rebuttal Testimony, page 14.

93 Ibid.

then changed its emphasis to industrial demand after experiencing rapid erosion of its rural demand in early 1980. This included 95 MW for a fourth potline to be added by ARCO (predecessor of Alcan) but not yet under contractual agreement, 110 MW in synthetic fuels load in 1985, plus an unidentified potential load of 180 MW in 1985 for a total of 385 MW. Dr. Pifer concluded that such reliance on potentially large but uncommitted industrial loads was imprudent.[94] Dr. Pifer's analysis led him to conclude that all of Big Rivers' Wilson investment should be excluded from rates.

Mr. Thorpe testified that while the 1980 Power Requirements Study did include the expansion by ARCO, it did not contain any allowances for the synthetic fuel loads. He further stated that in 1981 if the largest unit was off-line, the combustion turbine was running, and 40 MW of SEPA power was purchased, the system could serve a load of 1126 MW.[95] He stated that this would have been about 45 MW short of the expected load of 1170 MW in 1984, when Jackson Purchase Electric Cooperative was to be added to the system and about 200 MW short of that needed in 1987 with the ARCO expansion.[96] These factors led Big Rivers to continue with the construction of the Wilson plant.

The Commission concludes that the evidence in this case does not clearly demonstrate that Big Rivers was imprudent in building

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94 Pifer Supplemental Prefiled Testimony on Prudence Issues, pages 43, 45, and 48.

95 Southeastern Power Administration.

96 Thorpe Rebuttal Testimony, pages 21-22.

Wilson. Like many utilities around the country, Big Rivers experienced an unanticipated flattening of its load growth. Coupled with that was a drastic decline in the fortunes of its major customers, the aluminum companies. Although the outcome of Big Rivers' decisions on Wilson has been difficult, the decisions themselves under the circumstances at the times they were made cannot be said to be clearly imprudent.

Used and Useful

A major issue in this rate case is whether the capacity of Wilson is needed on the Big Rivers system. The issue of the need for Wilson has been extensively addressed by all parties on both an engineering and economic basis. Basically, the intervenors' position is that the Commission is bound to employ the used and useful standard to determine whether the Wilson facilities are needed on Big Rivers' system and should be included in rate base for rate-making purposes. On the other hand, Big Rivers argues that undue reliance should not be placed on the used and useful standard because the Commission is obligated by statute to establish rates that are fair, just, and reasonable. The Commission is of the opinion that it is under no statutory obligation to apply a used and useful standard exclusively, or any other single, rigid standard.

KRS 278.290(1) provides that:

> [T]he commission may ascertain and fix the value of the whole or any part of the property of any utility in so far as the value is material to the exercise of the jurisdiction of the commission, and may make revaluations from time to time and ascertain the value of all new construction, extensions and additions to the property of the utility.

In determining the value of a utility's property, this statute grants the Commission significantly more latitude than is available to those commissions that are constrained by a statutorily mandated used and useful criteria. The establishment of fair, just, and reasonable rates involves a balancing of utility and ratepayer interests. After balancing these interests, the Commission may conclude in a given case that rates should be based upon prudent investments even where facilities are cancelled prior to completion of construction. On the other hand, in considering the need for facilities on an economic basis, the Commission may decide that it is not in the customers' interest to pay rates that include the cost of unneeded facilities.

The controlling statutory standard for the establishment of utility rates is set forth in KRS 278.030(1): "Every utility may demand, collect and receive fair, just and reasonable rates for the services rendered or to be rendered by it to any person." A relevant Kentucky decision on valuing utility facilities is Fern Lake Co. v. Public Service Commission, Ky., 357 S.W.2d 701 (1962).

In Fern Lake, the Commission refused to permit a water utility, Kentucky Water Service Co., to increase the booked original cost of its water facilities despite its claim that the facilities had been intentionally undervalued as a convenience and conservative accounting practice. The Commission upheld the use of the book value on finding that the water facilities were substantially in excess of that needed to render service and, consequently, the lower book value accounted for this excess.

In affirming the Commission's decision, the Kentucky Court of Appeals held that:

> [T]here was also evidence that since this water system was designed to serve an expected population far greater than the number of customers it has ever had, its facilities are far in excess of those needed; and hence the excess facilities are not used or useful so as to be a proper factor in establishing a rate base.... Furthermore, as a matter of law, we believe the Commission properly refused to include the cost of over-adequate facilities in the rate base. Fern Lake at 704-705.

Of significant note is the Court's statement that "the excess facilities are not used or useful." (Emphasis added.) While this language has led Big Rivers to argue that facilities can only be excluded from rate base if found to be neither used nor useful, such an argument is inconsistent with the totality of the Court's decision to focus on the adequacy and need for facilities.

In determining the need for facilities, such as an electric generating plant, the Commission must consider not only whether it is used and useful, but also the need for improved reliability, the system's load characteristics, the potential for growth of both system load and load factor, and other relevant economic and engineering factors. In establishing rates that are fair, just, and reasonable, the Commission must (1) determine the appropriate level of operating expenses; (2) fix a value on the utility's property; and (3) establish a rate of return for the rate base to produce a fair return on the investment of an investor-owned utility or establish a times interest earned ratio to allow the payment of interest and principle by a cooperative utility. The rate of return/times interest earned ratio is directly related to the rate base determined. As the Court stated in Commonwealth ex re. Hancock v. South Central Bell, Ky., 528 S.W.2d 659, 662, (1975), "[T]he reasonableness of the rate of return cannot be decided in isolation from the rate base to which the rate of return will be applied, because the reasonableness of the rate of return will vary in accordance with the method or formula employed in fixing the rate base." (Emphasis in original.)

Rate base and debt service coverage for a cooperative utility must be determined by applying the same standards applicable to investor-owned utilities. Cooperatives, organized under KRS Chapter 279, "shall be subject to the general supervision of the Energy Regulatory Commission [predecessor of the Public Service Commission] and shall be subject to all the provisions of KRS 278.010 to 278.410(1)." KRS 279.210(1). A cooperative's system is defined as consisting of "any plant, works, facilities and properties...used or useful in the generation, production, transmission or distribution of electric energy." KRS 279.010(8). In balancing the equities to determine just and reasonable rates, the used and useful standard must be applied to cooperatives in the same manner as it is applied to investor-owned utilities.

In examining the results of the negotiations on a revised workout plan, the Commission will be guided by an evaluation of what is fair, just, and reasonable for Big Rivers, its customers, and its creditors. We do not believe that the statutes or the court in Fern Lake have shackled us to a mechanical application of the used and useful standard. We must carry out a complex balancing of equities and allocation of risk.

Reliability

The extensive debate over whether the Wilson unit is essential to the reliability of the Big Rivers' system starkly illustrates the fact that this case involves considerations other than a mechanical application of the used and useful test. We do not at this point have to accept the simple chain of logic presented by the parties which would follow from a determination with respect to reliability. Rather, the Commission is seeking a solution that would fairly balance the interests of all parties. Since we have found the proposed workout plan unreasonable and unacceptable, we have not had to settle the argument over the parameters of reliability. However, the issue of reliability as it relates to the used and useful concept remains before the Commission in its investigation of Big Rivers' rates. Thus, if the participants do not arrive at an acceptable agreement, the Commission will further evaluate the evidence on this issue.

Certificate of Convenience and Necessity

The Commission granted Big Rivers a certificate of convenience and necessity to construct Wilson on June 17, 1980, in Case No. 7557. Relying on that certificate, Big Rivers moved to strike portions of the testimony filed by NSA and Alcan on the grounds that the testimony was a collateral attack on the certificate. NSA and Alcan responded by stating that the testimony was not offered for purposes of rehearing or revoking the certificate but to address Big Rivers' prudency in planning and constructing the Wilson facilities. These prudency issues relate to whether Wilson should now be included in rate base. By

Order entered November 25, 1986, the Commission denied the motion to strike based on the findings that testimony addressing Big Rivers' prudency in planning and construction of Wilson was highly relevant to the fundamental issue of whether Wilson should be included in Big Rivers' rate base.

Big Rivers has continued to argue that the Commission's issuance in 1980 of a certificate to construct Wilson now bars any prudency review of Big Rivers' planning and construction decisions prior to 1980. The Commission does not intend to revoke the certificate in this rate case. In carrying out its statutory duty to value Big Rivers' property for rate-making purposes, the Commission must review and weigh all evidence surrounding Big Rivers' decision to construct Wilson.

Other Issues

Testimony and evidence which suggested that Big Rivers should give serious consideration to the option of filing bankruptcy to alleviate its financial problems was presented to the Commission. The Commission does not see bankruptcy as a preferable option for Big Rivers. Bankruptcy would prolong the corrosive uncertainty in the Big Rivers service territory. It could prove unfortunate for both customers and creditors.

Considerable evidence and testimony was presented concerning the proposed rate design in this case. The controversial point was the application of a ratchet demand provision in Big Rivers' tariff. Since no increase in revenue has been granted in this case, there is no reason to modify Big Rivers' tariffs at this time. However, this issue remains before the Commission in its further investigation of Big Rivers' rates.

FURTHER PROCEEDINGS

The Commission is of the opinion that the serious financial problems now facing Big Rivers must be resolved quickly. The fate of Big Rivers, the aluminum smelters, and the economy of Western Kentucky cannot be left in doubt. The gravity of this situation demands that extraordinary steps be taken by the Commission to effectuate a fair solution.

Based on the decision herein to reject the workout plan and require Big Rivers to renegotiate with its creditors, the Commission will initiate a further proceeding to review the revised workout plan to be submitted pursuant to the provisions of this Order. A docket will be established for this purpose simultaneously with the issuance of this Order. In that docket the Commission will have before it all the issues in this case but not finally decided. We will consider these issues in the context of a revised workout plan, or, in the event an acceptable revision is not submitted, the Commission will make definitive determinations with respect to these issues.

Also to be considered will be the flexible power rates to be negotiated by Big Rivers with NSA and Alcan. The parties need to be aware during this negotiating process that should they be unable to resolve the rate issues surrounding Wilson and the smelters' economic viability, the Commission will move rapidly in the new docket to adjudicate those issues and establish fair, just, and reasonable rates for Big Rivers.

The Commission recognizes that the prior negotiations between Big Rivers and its creditors were protracted. However, there must now be an intensive effort among all participants to work together and expend their best efforts. The negotiations must proceed expeditiously, and the Commission will be available to assist in the process.

The Order initiating the new proceeding will provide that:

1. A revised workout plan and flexible power rates for NSA and Alcan should be submitted no later than July 17, 1987;

2. A hearing will be held on July 28, 1987, for the purpose of receiving testimony and cross-examination concerning the revised workout plan and the flexible rates;

3. The record of evidence in this rate case will be incorporated by reference in the new docket and all parties in the rate case will be designated parties therein.

GUIDELINES FOR REVISED WORKOUT PLAN

The Big Rivers power system is a valuable resource to the citizens of Western Kentucky and the Commission is looking for a reasonable, workable, long-term solution to Big Rivers' problems. In this Order the Commission has asserted its statutory right to review and approve a revised workout plan. The overall goal of the revised workout plan should be to stabilize the Big Rivers service area and provide for economic growth to diversify Big Rivers' load. The plan must offer an equitable balance among all interests. Any acceptable revised workout plan must seriously consider the following guidelines.

1. It is the opinion of the Commission that a good starting point for negotiation is the Sunflower Electric Cooperative Debt Restructure Plan. Recognizing the disturbing lack of load diversity and Big Rivers' dependence upon a sluggish aluminum industry, provisions similar to the Sunflower Plan which are not contingent upon an immediate rate increase and guaranteed full repayment of debt are desirable.

2. The immediate and primary source for debt service is off-system sales. Therefore, an agreement on off-system sales should be used in calculating any schedule of debt repayment. Big Rivers' ratepayers should not have unlimited responsibility for the payment of Big Rivers' debt. Furthermore, they should not be required to provide all the revenues required to offset shortfalls arising from insufficient off-system sales.

3. The interests of all affected parties must be considered: rural consumers, industrial customers and creditors. Big Rivers should meet with the creditors to negotiate a revised workout plan. Big Rivers and the aluminum companies should negotiate a flexible rate plan that recognizes the cyclical nature of the industry and the revenue requirements of the utility. Big Rivers, the Attorney General, and other interested parties should meet to discuss the negotiation and determine how the interests of customers other than NSA and Alcan can best be protected.

4. While the Commission expects and the public interest requires that all participants negotiate expeditiously and in good faith, the Commission will make the ultimate decision as to a reasonable long-term solution and no participant will have a veto.

The Commission wishes to see the results of negotiations within the time frame established herein.

5. The payment of Big Rivers' obligations to its creditors should take into consideration longer terms, reduced interest rates, deferral of principal and interest payments, preferred stock options, payments tied to off-system sales, and reduction of principal.

6. Consideration should be given to sale or disposal of Wilson to another entity or through establishment of a generating subsidiary as a possible long-term solution.

7. The plan should include well documented projections of system and off-system sales and cash flow over both the short and long term. Documentation should include a thorough explanation of all assumptions, reasonable specificity of targets, and detailed work papers supporting the long and short run cash flow projections.

8. A revised workout plan must contain much more affirmative support by REA of Big Rivers' efforts to achieve off-system sales. The current workout plan states only that "the REA will not unreasonably withhold its consent to power sales agreements proposed by BREC [Big Rivers] or to "non-disturbance" provisions with power purchasers in appropriate cases."

9. Priority of disbursements with regard to principal and interest should be clearly established.

10. Big Rivers is currently involved in litigation with REA and the Justice Department, Alcan, and NSA. The revised workout plan should include a settlement of all outstanding litigation.

SUMMARY OF FINDINGS

Based on the evidence of record and being advised, the Commission is of the opinion and hereby finds that:

1. The workout plan has a direct and immediate impact on Big Rivers' financial stability, thus rendering the workout plan subject to the jurisdiction of the Commission.

2. The workout plan will not provide for a workable, long-term solution to Big Rivers' financial problems and the workout plan should be denied.

3. The rates proposed by Big Rivers pursuant to the workout plan are unfair, unjust, and unreasonable and should be denied.

4. Big Rivers' expenditure of funds to complete Wilson was within management's discretion and that aspect of NSA's complaint should be denied. The issue of the allocation of off-system sales remains before the Commission in its investigation of Big Rivers' rates.

5. The Commission's 1980 Order in Case No. 7557 granting Big Rivers a certificate of convenience and necessity to construct the D.B. Wilson Generating Station does not estop the Commission, in a rate-making proceeding, from reviewing all issues surrounding Big Rivers' prudency in planning and constructing Wilson and deciding if Wilson should be included in rate base.

6. The evidence of record is insufficient to support any findings that Big Rivers was clearly imprudent in its decision to build Wilson and complete it in 1984.

7. Big Rivers should negotiate a revised workout plan with its creditors and negotiate flexible power rate schedules with NSA

and Alcan in accordance with the guidelines set forth in this Order. Big Rivers should discuss with the Attorney General and other interested parties how the interests of customers other than NSA and Alcan can best be protected.

8. A further proceeding should be initiated immediately to review the reasonableness of Big Rivers wholesale power rates and the results of Big Rivers' negotiations with its creditors and with NSA and Alcan. All issues not finally decided herein will be before the Commission in the further proceeding; the evidence of record herein should be incorporated by reference in the further proceeding; and all parties herein should be designated as parties in the further proceeding.

ORDERS

IT IS THEREFORE ORDERED that:

1. The rates proposed by Big Rivers be and they hereby are denied and Big Rivers shall continue to charge the rates set forth in its existing tariffs until further Order of the Commission.

2. The aspect of NSA's complaint alleging the diversion of funds for the completion of Wilson be and it hereby is denied.

3. Big Rivers' workout plan be and it hereby is rejected.

4. Big Rivers shall negotiate a revised workout plan with its creditors and negotiate flexible power rate schedules with NSA and Alcan in accordance with the guidelines set forth in this Order.

5. An investigative proceeding shall be initiated for the purposes set forth in Finding No. 8, above.

Done at Frankfort, Kentucky, this 17th day of March, 1987.

PUBLIC SERVICE COMMISSION

Richard D. Heman Jr.

Chairman

Vice Chairman

Commissioner

ATTEST:

Executive Director

Movants Kentucky Power
Exhibit 6

MENU

From the Columbus Business First:
https://www.bizjournals.com/columbus/news/2016/11/01/aep-takes-2-3b-write-down-of-coal-plants-to-avoid.html

AEP takes $2.3B write-down of coal plants to avoid Ohio's 'deregulation debacle'

Nov 1, 2016, 11:13am EDT

American Electric Power Company Inc. CEO Nick Akins often peppers his public comments with references to music or movies.

It's a way to translate complicated public policy and energy issues through the lens of popular culture. On Tuesday, his quote previewed the theme of comments by executives of the Columbus-based electric utility.

"When you stop chasing the wrong things, you give the right things the chance to catch you," Akins said from New York City after AEP released its third-quarter earnings and addressed analysts and investors.

TOM KNOX

Columbus-based AEP is one of the biggest electric utilities in the U.S., with more than 5 million customers in 11 states.

'A repositioning'

The wrong things to AEP are its unregulated operations, centered in Ohio, which it has worked in recent years to move away from, through either divestiture or re-regulation. Its power plants here compete against other companies, often underperform, and contribute volatility to the company's otherwise stable earnings.

Since 1999 Ohio's power generation has been unregulated, giving power customers the opportunity to choose who supplies their electricity. Distribution remains regulated and controlled by the state's utilities.

AEP (NYSE:AEP) partially unbundled that stockholder volatility in September when it sold four power plants, including three in Ohio, for $2.17 billion.

It signaled a finish to the job Tuesday – what Akins repeatedly labeled as a "de-risking" – in announcing a $2.3 billion pre-tax impairment charge to write down the value of the rest of its unregulated power plants.

The charge led to a $766 million loss on revenue of $4.7 billion for the quarter, compared with a $518 million profit on $4.4 billion in revenue in the same quarter last year. AEP's write-down includes its remaining Ohio coal-fired plants – more than 2,600 megawatts of power in the Cardinal, Conesville, Stuart and Zimmer plants– plus some operations in Texas.

But CFO Brian Tierney said AEP's balance sheet can withstand the impairment. It puts the financial impact of what he calls Ohio's "deregulation debacle" behind the company, leading to a "significantly smaller financial footprint in Ohio."

"It definitely is a repositioning," Akins said.

Focus on regulated operations like never before

AEP, one of the country's larger utilities with operations in 11 states, is almost exclusively focused on its regulated operations – especially transmission, the large structures that move electricity across long distances.

The utility is the largest transmission developer in the country, and has seen a stark shift in its business segments since 2006: A decade ago, 64 percent of its capital focused on generation, 23 percent on distribution and 13 percent on transmission. Its forecast for 2017 to 2019 spins that around to 58 percent on transmission, 24 percent on distribution and just 18 percent on generation.

It plans to spend $17.3 billion from 2017 to 2019. All that capital will be invested in its regulated businesses. Nearly all – 97 percent – of its earnings are projected to come from that side of its business, up from 79 percent in 2014.

Where AEP's remaining Ohio power plants stand

AEP is not alone in its displeasure with Ohio's power market. Akron-based FirstEnergy Corp. (NYSE:FE) last month won a rate increase of nearly $400 million, the finale to a long debate it and AEP had with regulators. Both utilities tried to convince the Public Utilities Commission of Ohio to provide subsidies, arguing they were needed to keep their uncompetitive Ohio-based plants under their ownership.

The many opponents, including independent power producers like Dynegy Inc. (NYSE:DYN), maintain that any subsidies give the utilities unfair advantages. Akins says AEP would be happy to build power plants in Ohio if only it would re-regulate the state, but companies who are actually building natural-gas fired plants in Ohio say that would be unfair.

Though written off and referred to as an afterthought, AEP still owns the four remaining coal-fired plants. Since summer lobbyists have worked the Ohio Statehouse to convince lawmakers to enact a re-regulated solution that it says would let it maintain ownership.

Otherwise, it will sell them, either to other power companies who are co-owners of the plant or to others, Tierney said. There is interest from both types, executives said.

Perhaps re-regulation won't take on the same sense of urgency now. Akins often bemoaned how much time executives spent talking about the company's Ohio operations.

"Now we don't have to talk about that anymore," he said of the plants.

Tom Knox
Reporter
Columbus Business First

Movants Kentucky Power
Exhibit 7

KENTUCKY PUBLIC SERVICE COMMISSION

Case No. 2017-00179

KENTUCKY POWER COMPANY

COST OF CAPITAL

DIRECT TESTIMONY

OF

J. RANDALL WOOLRIDGE, PH.D.

ON BEHALF OF
KENTUCKY OFFICE OF ATTORNEY GENERAL
October 3, 2017

I provide an overview of the concept of the cost of equity capital, and then estimate the equity cost rate for the Company. Finally, I critique KPC's rate of return analysis and testimony. A table of contents is provided just after the title page.

Q. WHAT COMPRISES A UTILITY'S "RATE OF RETURN"?

A. A company's overall rate of return consists of three main categories: (1) capital structure (*i.e.*, ratios of short-term debt, long-term debt, preferred stock and common equity); (2) cost rates for short-term debt, long-term debt, and preferred stock; and (3) common equity cost, otherwise known as Return on Equity ("ROE").

Q. WHAT IS A UTILITY'S ROE INTENDED TO REFLECT?

A. An ROE is most simply described as the allowed rate of profit for a regulated company. In a competitive market, a company's profit level is determined by a variety of factors, including the state of the economy, the degree of competition a company faces, the ease of entry into its markets, the existence of substitute or complementary products/services, the company's cost structure, the impact of technological changes, and the supply and demand for its services and/or products. For a regulated monopoly, the regulator determines the level of profit available to the public utility. The United States Supreme Court established the guiding principles for determining an appropriate level of profitability for regulated public utilities in two cases: (1) *Bluefield* and (2) *Hope*.[2] In those cases, the Court recognized that the fair rate of return on equity should be: (1) comparable to returns investors expect to earn on other investments of similar

[2] *Federal Power Commission v. Hope Natural Gas Co.*, 320 U.S. 591 (1944) ("*Hope*") and *Bluefield Water Works and Improvement Co. v. Public Service Commission of West Virginia*, 262 U.S. 679 (1923) ("*Bluefield*").

risk; (2) sufficient to assure confidence in the company's financial integrity; and (3) adequate to maintain and support the company's credit and to attract capital.

Thus, the appropriate ROE for a regulated utility requires determining the market-based cost of capital. The market-based cost of capital for a regulated firm represents the return investors could expect from other investments, while assuming no more and no less risk. The purpose of all of the economic models and formulas in cost of capital testimony (including those presented later in my testimony) is to estimate, using market data of similar-risk firms, the rate of return on equity investors require for that risk-class of firms in order to set an appropriate ROE for a regulated firm.

Q. PLEASE REVIEW THE ALTERNATIVE RECOMMENDATIONS REGARDING THE APPROPRIATE RATE OF RETURN FOR THE COMPANY.

A. The Company's proposed capital structure includes 0.0% short-term debt, 3.87% account receivable financing, 54.45% long-term debt, and 41.68% common equity. The Company has proposed a long-term debt cost rate of 4.36% and an account receivable financing rate of 1.95%.[3] I have employed the Company's proposed capital structure and senior capital cost rates.

Mr. Adrien M. McKenzie has recommended a common equity cost rate of 10.31% for the Company. I have applied the Discounted Cash Flow Model ("DCF") and the Capital Asset Pricing Model ("CAPM") to a proxy group of publicly-held

[3] This capital structure includes 56.64% long-term debt and 43.36% common equity from investor-supplied capital.

Movants Kentucky Power
Exhibit 8

Test Year Rockport ROE Charge

If AEG Rockport Earned the Allowed 12.16%

	Mar-16	Apr-16	May-16	Jun-16	Jul-16	Aug-16	Sep-16	Oct-16	Nov-16	Dec-16	Jan-17	Feb-17	Total
Total at 12.16%													
Return on Common Equity	1,201,957	1,223,410	1,227,178	1,197,901	1,207,061	1,216,348	1,225,874	1,239,881	1,247,632	1,252,014	1,264,019	1,270,384	14,773,659
Return of Interest	272,022	250,771	267,787	333,178	303,634	309,077	313,510	309,558	363,956	338,013	361,689	334,936	3,758,131
Total Return Component	1,473,979	1,474,181	1,494,965	1,531,079	1,510,695	1,525,425	1,539,384	1,549,439	1,611,588	1,590,027	1,625,708	1,605,320	18,531,790
I&M Portion	1,031,785	1,031,927	1,046,476	1,071,755	1,057,487	1,067,798	1,077,569	1,084,607	1,128,112	1,113,019	1,137,996	1,123,724	12,972,253
KY Portion	442,194	442,254	448,490	459,324	453,209	457,628	461,815	464,832	483,476	477,008	487,712	481,596	5,559,537

Actual Amount Billed Out - Limited by Operating Ratio

	Mar-16	Apr-16	May-16	Jun-16	Jul-16	Aug-16	Sep-16	Oct-16	Nov-16	Dec-16	Jan-17	Feb-17	Total
Total AEG Bill													
Return on Common Equity	901,644	888,132	866,416	785,407	844,866	818,688	822,593	823,462	785,063	786,749	819,297	793,239	9,935,556
Return of Interest	204,056	182,047	189,064	218,449	212,524	208,030	210,374	205,591	229,016	212,366	234,435	209,137	2,515,089
Total Return Component	1,105,700	1,070,179	1,055,480	1,003,856	1,057,390	1,026,718	1,032,967	1,029,053	1,014,079	999,115	1,053,732	1,002,376	12,450,645
I&M Portion	773,990	749,125	738,836	702,699	740,173	718,703	723,077	720,337	709,855	699,381	737,612	701,663	8,715,452
KY Portion	331,710	321,054	316,644	301,157	317,217	308,015	309,890	308,716	304,224	299,735	316,120	300,713	3,735,194

	Mar-16	Apr-16	May-16	Jun-16	Jul-16	Aug-16	Sep-16	Oct-16	Nov-16	Dec-16	Jan-17	Feb-17
Estimated Operating Ratio	75.01%	72.59%	70.60%	65.57%	69.99%	67.31%	67.10%	66.41%	62.92%	62.84%	64.82%	62.44%
Estimated Monthly ROE	9.12%	8.83%	8.59%	7.97%	8.51%	8.18%	8.16%	8.08%	7.65%	7.64%	7.88%	7.59%

For the test year period, Kentucky received a $1,824,343 benefit due to the reduction of the AEG Rockport ROE due to the limiter.

Movants Kentucky Power
Exhibit 9

Power Coordination Agreement (PCA)
Proposal to the Operating Committee

Date: March 3, 2017
Subject: 2020/2021 PJM FRR / RPM Capacity Election

Background

AEPSC, on behalf of APCo, I&M, KPCo and WPCo (collectively "Companies") must advise PJM whether these Companies will participate in the Reliability Pricing Model ("RPM" or "Auctions") capacity market individually or will self-supply their PJM capacity requirements under the Fixed Resource Requirement ("FRR" or "self-supply") alternative, either individually or jointly, for the PJM Planning Year ("PY") 2020/2021 ("20/21") which runs from June 1, 2020 through May 31, 2021. PJM must be notified of this decision no later than March 11, 2017[1].

Besides each operating company's decision to participate in RPM or self-supply under FRR, the PCA allows the option for two or more of these operating companies to enter into a joint FRR plan, whereby these companies are under a combined, common FRR Plan.

Recommendation

It is recommended that APCo, I&M, KPCo and WPCo all elect FRR under a joint plan for PY 20/21.

Support for Recommendation

1) The FRR election is anticipated to result in a lower reserve margin requirement for the companies than the reserve margin anticipated to occur in the 20/21 RPM Base Residual Auction (BRA). Past BRAs have resulted in an averaged reserve margin requirement of approximately 20%.

2) FERC, in its Order dated June 9, 2015 in Docket No.ER15-623-000, approved the new PJM Capacity Performance (CP) market and associated rules and requirements. As a result, severe charges can be incurred during an emergency event ("performance assessment hours") if CP units have outages or derates. Under RPM, a financial settlement of these charges is required. Under FRR, an entity is allowed to select, prior to the delivery year, the same financial settlement or, for the year following the delivery year, provide additional MWs if the entity has elected to remain FRR. The replacement option is expected to be much

[1] In addition, I&M has a contractual obligation to notify a wholesale customer one week or five business days before the deadline of its FRR or RPM election decision.

lower cost (e.g., approximately one-third of CPP) based on historical auction settlement prices.

3) If any or all of the Companies were to elect RPM, the existing PJM rules would require that those Companies remain RPM for a minimum of five PYs -- extending out through May 2025. Remaining FRR for the 20/21 PY provides the Companies with the additional optionality of assessing the FRR/RPM decision next year.

4) By combining APCo, I&M, KPCo and WPCo into a combined FRR Plan, the companies' capacity position can be managed collectively during the 20/21 delivery year, providing potential additional flexibility and risk sharing.

Movants Kentucky Power
Exhibit 10

MOODY'S
INVESTORS SERVICE

CREDIT OPINION
28 October 2016

Update

Rate this Research

RATINGS

Kentucky Utilities Co.

Domicile	Lexington, Kentucky, United States
Long Term Rating	A3
Type	LT Issuer Rating
Outlook	Stable

Please see the ratings section at the end of this report for more information. The ratings and outlook shown reflect information as of the publication date.

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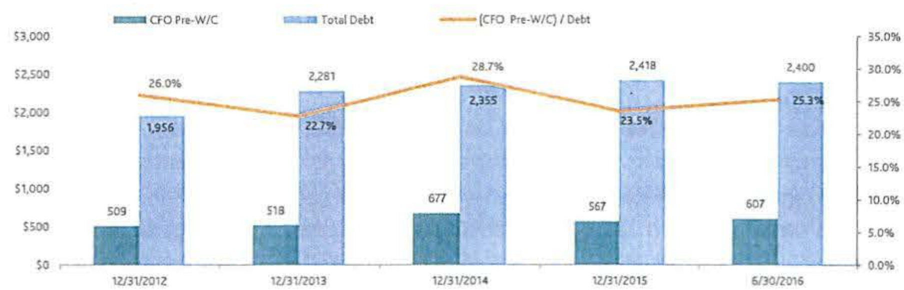
Kentucky Utilities Co.

Regulated Vertically Integrated Utility Subsidiary of PPL Corporation

Summary Rating Rationale

Kentucky Utilities' (KU, A3 stable) issuer rating reflects its sound financial performance and the credit supportive regulatory environments in Kentucky and Virginia where it operates, offset, in part, by a large capital expenditure program and, to a lesser extent, a lack of fuel and geographic diversity.

Exhibit 1
Ratio of CFO pre-W/C to Debt Historical Trend



Source: Moody's Investors Service

Credit Strengths

» Supportive regulatory environment in Kentucky and Virginia

» Strong and stable financial metrics

Credit Challenges

» Large capital expenditure program over the next five years

» High coal concentration in its generation fuel mix

Rating Outlook

KU's stable outlook reflects its supportive regulatory environments and consistent financial performance.

Factors that Could Lead to an Upgrade

It is unlikely that KU's rating will be upgraded while the company executes on its large capital investment program. However, ratings could be upgraded if the company receives more favorable regulatory recovery mechanisms for non-environmental related capital expenditures or maintains its CFO Pre-WC to debt ratio at 26% or above on a sustained basis.

Factors that Could Lead to a Downgrade

KU's ratings could be downgraded should the company experience materially unfavorable regulatory developments or unanticipated changes are made to the regulatory compact that currently provides for timely recovery of costs. A downgrade could also be considered if the company's ratios of CFO pre-WC to debt and retained cash flow to debt decline below 20% and 15%, respectively, for an extended period of time.

Key Indicators

Exhibit 2

KEY INDICATORS [1]

Kentucky Utilities Co. -Private

	6/30/2016(L)	12/31/2015	12/31/2014	12/31/2013	12/31/2012
CFO pre-WC + Interest / Interest	7.6x	7.8x	9.6x	8.2x	8.2x
CFO pre-WC / Debt	25.3%	23.5%	28.7%	22.7%	26.0%
CFO pre-WC – Dividends / Debt	17.6%	17.1%	22.5%	17.3%	20.9%
Debt / Capitalization	35.1%	35.8%	36.6%	38.1%	36.7%

[1]All ratios are based on 'Adjusted' financial data and incorporate Moody's Global Standard Adjustments for Non-Financial Corporations. Source: Moody's Financial Metrics™
Source: Moody's Investors Service

Detailed Rating Considerations

- Supportive regulatory environments provide for timely investment cost recovery

We consider the Kentucky Public Service Commission (KPSC) to be supportive of long term credit quality. The KPSC has approved various tracker mechanisms, allowing timely cost recovery for utility investments outside of a rate case. KU's tracker mechanisms include a Fuel Adjustment Clause (FAC), an Environmental Cost Recovery Surcharge (ECR) and a Demand-Side Management (DSM) Cost Recovery Mechanism. KU does not have a decoupling mechanism in place, which subjects KU's net revenue to weather volatilities. The lack of a decoupling mechanism is less of an issue for non-weather related demand fluctuations because KU has the DSM mechanism and expects to have modest load growth in 2017.

In January 2016, KU and affiliate utility Louisville Gas & Electric Company (LG&E, A3 stable) submitted applications to the KPSC, requesting ECR rate treatment for projects related to the EPA's regulations addressing the handling of coal and combustion by products and MATS (mercury and air toxics standards). The projects are expected to commence in the second half of 2016 and will cost approximately $316 million and $678 million, respectively, for LG&E and KU. On 8 August 2016, the KPSC approved the settlement and authorized a 9.8% return on equity (ROE) for the projects.

The last general rate case in Kentucky concluded in June 2015 when a settlement was reached. In the settlement, KU was authorized a $125 million electric revenue increase. The settlement did not specify the ROE, however, it authorized a 10% allowed ROE for the ECR rider. In addition, the settlement provided deferred cost recovery for a portion of pension costs and the cost related to the Green River power plant retirement.

In Virginia, KU's last rate case was settled and approved by the Virginia State Corporation Commission (SCC) on 2 February 2016. In this rate case, KU requested an approximate $7 million increase in base revenue. The primary reason for the filing was to recover environmental compliance investments and O&M costs necessary to remain compliant with the US Environmental Protection Agency (EPA) emissions regulations. The settlement agreement provided a $6 million annual increase in base revenues and established an authorized allowed ROE range between 9.5% and 10.5%.

- Large capital expenditure planned over the next five years

KU's total capital expenditures over the next five years are estimated to be $2.6 billion, with $1.0 billion related to environmental investments. Between 2011 and 2015, KU's total capex was approximately $2.7 billion. The total projected capex represents about 39% of KU's net book value of property, plant and equipment, which stood at about $6.6 billion at the end of the second quarter of 2016.

We expect the regulatory lag related to KU's large capital expenditures to be meaningfully moderated by Kentucky's supportive regulatory environment, especially regarding the environmental expenditures through the ECR. The KPSC is also authorized to grant return on construction work in progress (CWIP) in rate case proceedings, a credit positive. Moreover, the ECR minimizes any regulatory lag for investments associated with complying with the Clean Air Act compliance and coal combustion waste and by-product environmental requirements. The terms of the ECR allow KU to receive a return on and of investments two months after the capital is deployed. We view this to be credit supportive compared to the traditional rate-making process where there would be longer regulatory lag due to the length of the construction period and subsequent rate case proceeding.

- Stable financial profile

KU's financial metrics have been strong for its rating. As of 30 June 2016, the ratio of consolidated cash flow before changes in working capital (CFO pre-WC) to debt was 25% for the last twelve months and on average of the past three years. Its debt to capitalization ratio was 35% for the last twelve months and 37% on average over the past three years. We expect KU's financial metrics to remain flat, but stable, as it benefits from the extension of bonus depreciation and continues its large capital expenditure program. We expect KU's financial metrics to remain supportive of its rating levels based on the company's targeted capital structure of 52% equity, which is calculated net of goodwill and Moody's standard adjustments. KU's goodwill amounted to $607 million at the end of June 2016 and in comparison total equity, including the goodwill, was $3.3 billion.

- High reliance on coal as fuel for generation

KU's current generation capacity heavily relies on coal. Of its 5.0 GW of generating capacity, 3.1 GW (61%) is coal-fired, which provides the majority (82%) of the electricity generation output. The remaining 39% of the generating capacity is comprised mainly of gas- or oil- fired facilities. KU's generation fuel mix became more diversified when a new gas-fired power plant replaced its older coal-fired power plants. When Cane Run 7, a new 640-MW power plant, became operational in June 2015, it replaced three older coal-fired plants which had a combined generating capacity of 555-MW.

Fuel concentration, especially in coal, is normally considered to be a significant credit negative. However, we do not view KU's high reliance on coal to be as negative as some other companies because the state of Kentucky is very supportive of the coal industry. This support is evidenced by the ECR, which provides the company with credit supportive terms for its investments in coal-related environmental expenditures. Kentucky is also one of the states that filed lawsuits to overturn the Clean Power Plan (CPP), which the Supreme Court stayed on 9 February 2016. Both KU and LG&E have decided not to incorporate their CPP spending in their current capital plan as the issue continues to be litigated.

Liquidity Analysis

KU's short-term rating is P-2 and we expect the utility to maintain adequate liquidity over the next 12-18 months.

KU has a $400 million syndicated credit facility expiring in December 2020 and a $198 million letter of credit facility expiring in October 2017. As of 30 June 2026, KU had issued $29 million of commercial paper and had $371 million of unused capacity under its syndicated credit facility. Its $198 million of letter of credit facility was fully used. For the past twelve months ending 30 June 2016, KU had negative free cash flow of $67 million which is likely to remain negative in coming years given its large capital expenditure program. KU's next debt maturity is $500 million of Secured Notes maturing in 2020.

LG&E and KU Energy (LKE, Baa1 stable), the intermediate parent company of KU, manages the liquidity of its utility operations through its two subsidiaries on a consolidated basis, although each utility has a separate credit facility. Also, LKE has a $75 million syndicated credit facility that expires in October 2018. As of 30 June 2016, LKE had the entire $75 million available. Each facility contains a financial covenant requiring that the companies' debt to total capitalization not exceed 70%. All entities were in compliance as of 30 June 2016.

Profile

Kentucky Utilities (KU, A3 stable) is a regulated public utility engaged in the generation, transmission and distribution of electricity. KU provides electric service to approximately 518,000 customers in Kentucky and 28,000 customers in Virginia. Its service territory covers approximately 4,800 square miles.

KU is a wholly-owned subsidiary of LG&E and KU Energy LLC (LKE, Baa1 stable). KU and its affiliate, Louisville Gas and Electric Company (LG&E, A3 stable), are the two main operating entities of LKE. LKE, in turn, is wholly owned by PPL Corporation (PPL, Baa2 stable), a diversified energy holding company headquartered in Allentown, PA.

Rating Methodology and Scorecard Factors

Exhibit 3

Rating Factors

Kentucky Utilities Co. -Private

Regulated Electric and Gas Utilities Industry Grid [1][2]	Current LTM 6/30/2016		Moody's 12-18 Month Forward View As of Date Published [3]	
Factor 1 : Regulatory Framework (25%)	Measure	Score	Measure	Score
a) Legislative and Judicial Underpinnings of the Regulatory Framework	A	A	A	A
b) Consistency and Predictability of Regulation	A	A	A	A
Factor 2 : Ability to Recover Costs and Earn Returns (25%)				
a) Timeliness of Recovery of Operating and Capital Costs	Baa	Baa	Baa	Baa
b) Sufficiency of Rates and Returns	A	A	A	A
Factor 3 : Diversification (10%)				
a) Market Position	Baa	Baa	Baa	Baa
b) Generation and Fuel Diversity	Baa	Baa	Baa	Baa
Factor 4 : Financial Strength (40%)				
a) CFO pre-WC + Interest / Interest (3 Year Avg)	8.5x	Aaa	6x - 8x	Aa
b) CFO pre-WC / Debt (3 Year Avg)	26.1%	A	22% - 26%	A
c) CFO pre-WC – Dividends / Debt (3 Year Avg)	19.3%	A	16% - 19%	A
d) Debt / Capitalization (3 Year Avg)	36.0%	A	35% - 40%	A
Rating:				
Grid-Indicated Rating Before Notching Adjustment		A2		A2
HoldCo Structural Subordination Notching		0	0	0
a) Indicated Rating from Grid		A2		A2
b) Actual Rating Assigned		A3		A3

[1]All ratios are based on 'Adjusted' financial data and incorporate Moody's Global Standard Adjustments for Non-Financial Corporations.
[2]As of 6/30/2016(L); Source: Moody's Financial Metrics™
[3]This represents Moody's forward view; not the view of the issuer; and unless noted in the text, does not incorporate significant acquisitions and divestitures.
Source: Moody's Investors Service

Ratings

Exhibit 4

Category	Moody's Rating
KENTUCKY UTILITIES CO.	
Outlook	Stable
Issuer Rating	A3
Bkd Senior Secured	A1
Sr Unsec Bank Credit Facility	A3
Commercial Paper	P-2
Bkd Other Short Term	P-2
ULT PARENT: PPL CORPORATION	
Outlook	Stable
Issuer Rating	Baa2
PARENT: LG&E AND KU ENERGY LLC	
Outlook	Stable
Issuer Rating	Baa1
Senior Unsecured	Baa1

Source: Moody's Investors Service

REPORT NUMBER 1038224

Moody's
INVESTORS SERVICE

Movants Kentucky Power
Exhibit 11

MOODY'S
INVESTORS SERVICE

CREDIT OPINION
28 October 2016

Update

Rate this Research

RATINGS

Louisville Gas & Electric Company

Domicile	Louisville, Kentucky, United States
Long Term Rating	A3
Type	LT Issuer Rating
Outlook	Stable

Please see the ratings section at the end of this report for more information. The ratings and outlook shown reflect information as of the publication date.

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Louisville Gas & Electric Company

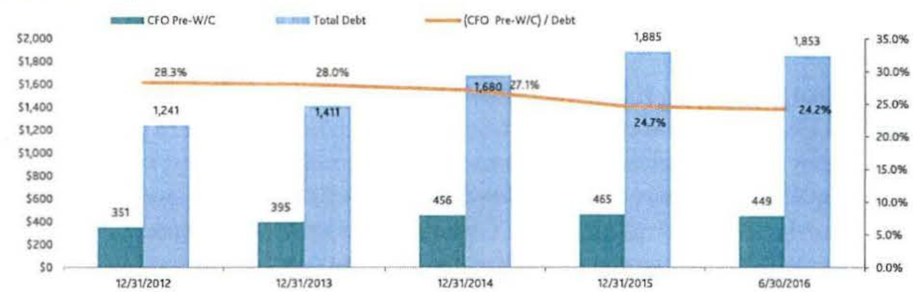
Regulated Vertically Integrated Utility Subsidiary of PPL Corporation

Summary Rating Rationale

Louisville Gas & Electric Company's (LG&E, A3 stable) Issuer Rating reflects its sound financial performance and the credit supportive Kentucky regulatory environment in which it operates, offset in part by a large capital expenditure program and, to a lesser extent, a lack of fuel and geographic diversity.

Exhibit 1

Ratio of CFO pre-WC to Debt Historical Trend



Source: Moody's Investors Service

Credit Strengths

» Supportive regulatory environment in Kentucky

» Strong and stable financial metrics

Credit Challenges

» Large capital expenditure program

» High coal concentration in its generation fuel mix

Rating Outlook

LG&E's stable outlook reflects its supportive regulatory environment in Kentucky and stable financial performance.

Factors that Could Lead to an Upgrade

It is unlikely that LG&E's rating will be upgraded in the near-term, given its large upcoming capital expenditure program and funding needs. However, ratings could be upgraded if the company received more favorable regulatory recovery mechanisms for non-environmental related capital expenditures and maintained its CFO Pre-WC to debt ratio at 26% or above on a sustained basis.

Factors that Could Lead to a Downgrade

LG&E's ratings could be downgraded should there be any materially unfavorable regulatory developments or unanticipated changes are made to the regulatory compact that currently provides for timely recovery of costs, resulting in the company's CFO pre-WC to debt and retained cash flow to debt ratios declining below 20% and 15%, respectively, for an extended period of time.

Key Indicators

Exhibit 2

KEY INDICATORS [1]

Louisville Gas & Electric Company -Private

	6/30/2016(L)	12/31/2015	12/31/2014	12/31/2013	12/31/2012
CFO pre-WC + Interest / Interest	7.5x	8.8x	10.1x	11.9x	8.9x
CFO pre-WC / Debt	24.2%	24.7%	27.1%	28.0%	28.3%
CFO pre-WC – Dividends / Debt	17.7%	18.4%	20.5%	21.0%	22.2%
Debt / Capitalization	36.1%	37.5%	37.0%	35.7%	34.5%

[1]All ratios are based on 'Adjusted' financial data and incorporate Moody's Global Standard Adjustments for Non-Financial Corporations. Source: Moody's Financial Metrics™
Source: Moody's Investors Service

Detailed Rating Considerations

- Supportive regulatory environment provides timely cost recovery

We consider the Kentucky Public Service Commission (KPSC) to be supportive of long-term credit quality and note that it has approved various tracker mechanisms that provide for timely cost recovery outside of a rate case, shortening regulatory lag. LG&E's tracker mechanisms include a Fuel Adjustment Clause (FAC), an Environmental Cost Recovery Surcharge (ECR), a Gas Supply Clause (GSC), a Gas Line Tracker (GLT) and a Demand-Side Management (DSM) Cost Recovery Mechanism. LG&E does not have a decoupling mechanism in place, which subjects LG&E's net revenue to weather volatilities. The lack of a decoupling mechanism is less of an issue for non-weather related demand fluctuations because LG&E has the DSM mechanism and expects to have modest load growth in 2017.

In January 2016, LG&E and affiliate utility Kentucky Utilities (KU, A3 stable) submitted applications to the KPSC, requesting the ECR rate treatment for projects related to the US Environmental Protection Agency's (EPA) regulations addressing the handling of coal and combustion by-products and MATS (mercury and air toxics standards). The projects are expected to commence in the second half of 2016 and are estimated to cost approximately $316 million and $678 million, respectively, for LG&E and KU. On 8 August 2016 the KPSC approved the settlement and authorized a 9.8% return on equity (ROE) for the projects.

LG&E's last general rate case concluded in June 2015 when its case was settled. Although the settlement did not provide any revenue increase for LG&E's electric operations, it authorized a $7 million revenue increase for its gas operations. In addition, the settlement agreed to a 10% ROE for the ECR and GLT riders. It also provided for deferred cost recovery of a portion of the costs related to pensions.

- High capital expenditure planned over the next five years

LG&E's 2016-2020 capital expenditure plan is estimated to be $2.3 billion compared to $2.4 billion spent between 2011 and 2015. Of the $2.3 billion planned capex, approximately $900 million will be related to its environmental investments. The total estimated amount represents about 47% of the company's net book value of property, plant and equipment, which stood at about $4.9 billion at the end of the second quarter of 2016.

We expect the potential disallowance risk associated with large capital expenditures to be meaningfully moderated by Kentucky's supportive regulatory environment, especially regarding the environmental expenditures through the ECR. The KPSC is also authorized to grant return on construction work in progress (CWIP) in rate case proceedings, a credit positive. Moreover, the ECR minimizes regulatory lag for investments associated with complying with the Clean Air Act compliance and coal combustion waste and by-product environmental requirements. The terms of the ECR allows LG&E to receive the return of and a return on the investment starting two months after making the investment. This is more credit supportive compared to the traditional process where there would be longer regulatory lag due to the length of the construction period plus the rate case proceeding.

- High reliance on coal as fuel for generation

LG&E's current generation fuel mix is heavily biased towards coal. Of its 2.9 GW of generating capacity, 2.1 GW (71%) is coal-fired, which provides the majority (89%) of the electricity generation output. The remaining 29% of the generating capacity is comprised mainly of gas- or oil- fired facilities. LG&E's fuel mix improved recently with the addition of a new gas-fired combined-cycle power plant. In June 2015, the 640-MW gas plant at Cane Run started its commercial operations, replacing a retired coal-fired plant at Cane Run.

The fuel concentration in coal, though a credit negative, is acceptable for its rating level because Kentucky is very supportive of the coal industry. This support is evidenced by the passage of the ECR, which provides the company with credit supportive terms and cost recovery for its investments in coal-related environmental expenditures. Kentucky is also one of the 30 states that filed lawsuits to overturn the Clean Power Plan (CPP), which the Supreme Court stayed on 9 February 2016. LG&E has decided not to incorporate its CPP spending in its current capital plan as the issue continues to be litigated.

- Stable financial profile supports robust capex

LG&E's financial metrics have been strong for its rating. As of 30 June 2016, the ratio of consolidated cash flow before changes in working capital (CFO pre-WC) to debt was 24% for the last twelve months and averaged 27% for the past three years. Debt to capitalization was 36% for the last twelve months and averaged 37% for the past three years. We expect LG&E's financial metrics to remain at similar levels over the next few years as it benefits from the extension of bonus depreciation tax credit while the large capital expenditure program continues. We expect LG&E's financial metrics to remain supportive of its rating levels based on the targeted capital structure of 52% equity, which is calculated net of goodwill and Moody's standard adjustments. LG&E's goodwill amounted to $389 million at the end of June 2016 and in comparison total equity, including the goodwill, was $2.4 billion.

Liquidity Analysis

LG&E's short-term rating is P-2 and we expect LG&E to maintain adequate liquidity over the next 12-18 months.

LG&E has a $500 million syndicated credit facility maturing in December 2020. As of 30 June 2016, after accounting for all commercial paper and letter of credits issued, LG&E had $390 million of the revolving facility available. For the past twelve months ending June 2016, LG&E had negative free cash flow of $261 million, which is likely to remain negative in coming years given its large capital expenditure program. LG&E's next debt maturity is $300 million of Secured Notes maturing in 2025.

LG&E and KU Energy LLC (LKE, Baa1 stable), the intermediate parent company of LG&E, manages the liquidity of its Kentucky utility operations on a consolidated basis. In addition to the credit facility at LKE, LG&E and KU have separate stand-alone revolving credit facilities. Also, LKE has its own $75 million of syndicated credit facility that expires in October 2018. Each facility contains a financial covenant requiring the companies' debt to total capitalization not to exceed 70%. All entities were in compliance as of 30 June 2016.

Profile

Louisville Gas and Electric Company (LG&E, A3 stable) is a regulated public utility engaged in the generation, transmission and distribution of electricity and the storage, distribution and sale of natural gas in Kentucky. It provides electricity to approximately 403,000 customers in Louisville and adjacent areas and delivers natural gas service to approximately 322,000 customers in its electric service area and eight additional counties in Kentucky. LG&E's service area covers approximately 700 square miles.

LG&E is a wholly-owned subsidiary of LG&E and KU Energy LLC (LKE, Baa1 stable). LG&E and its affiliate, Kentucky Utilities (KU, A3 stable), are the two main operating entities of LKE. LKE, in turn, is wholly owned by PPL Corporation (PPL, Baa2 stable), a diversified energy holding company headquartered in Allentown, PA.

Rating Methodology and Scorecard Factors

Exhibit 3

Rating Factors

Louisville Gas & Electric Company -Private				
Regulated Electric and Gas Utilities Industry Grid [1][2]	Current LTM 6/30/2016		Moody's 12-18 Month Forward View As of Date Published[3]	
Factor 1 : Regulatory Framework (25%)	Measure	Score	Measure	Score
a) Legislative and Judicial Underpinnings of the Regulatory Framework	A	A	A	A
b) Consistency and Predictability of Regulation	A	A	A	A
Factor 2 : Ability to Recover Costs and Earn Returns (25%)				
a) Timeliness of Recovery of Operating and Capital Costs	Baa	Baa	Baa	Baa
b) Sufficiency of Rates and Returns	A	A	A	A
Factor 3 : Diversification (10%)				
a) Market Position	Baa	Baa	Baa	Baa
b) Generation and Fuel Diversity	Baa	Baa	Baa	Baa
Factor 4 : Financial Strength (40%)				
a) CFO pre-WC + Interest / Interest (3 Year Avg)	9.7x	Aaa	5x - 7x	Aa
b) CFO pre-WC / Debt (3 Year Avg)	28.0%	A	20% - 26%	A
c) CFO pre-WC – Dividends / Debt (3 Year Avg)	21.2%	A	15% - 20%	A
d) Debt / Capitalization (3 Year Avg)	36.0%	A	35% - 40%	A
Rating:				
Grid-Indicated Rating Before Notching Adjustment		A2		A2
HoldCo Structural Subordination Notching		0	0	0
a) Indicated Rating from Grid		A2		A2
b) Actual Rating Assigned		A3		A3

[1]All ratios are based on 'Adjusted' financial data and incorporate Moody's Global Standard Adjustments for Non-Financial Corporations.
[2]As of 6/30/2016(L); Source: Moody's Financial Metrics™
[3]This represents Moody's forward view; not the view of the issuer; and unless noted in the text, does not incorporate significant acquisitions and divestitures.
Source: Moody's Investors Service

Ratings

Exhibit 4

Category	Moody's Rating
LOUISVILLE GAS & ELECTRIC COMPANY	
Outlook	Stable
Issuer Rating	A3
Senior Secured	A1
Sr Unsec Bank Credit Facility	A3
Commercial Paper	P-2
Bkd Other Short Term	P-2
ULT PARENT: PPL CORPORATION	
Outlook	Stable
Issuer Rating	Baa2
PARENT: LG&E AND KU ENERGY LLC	
Outlook	Stable
Issuer Rating	Baa1
Senior Unsecured	Baa1

Source: Moody's Investors Service

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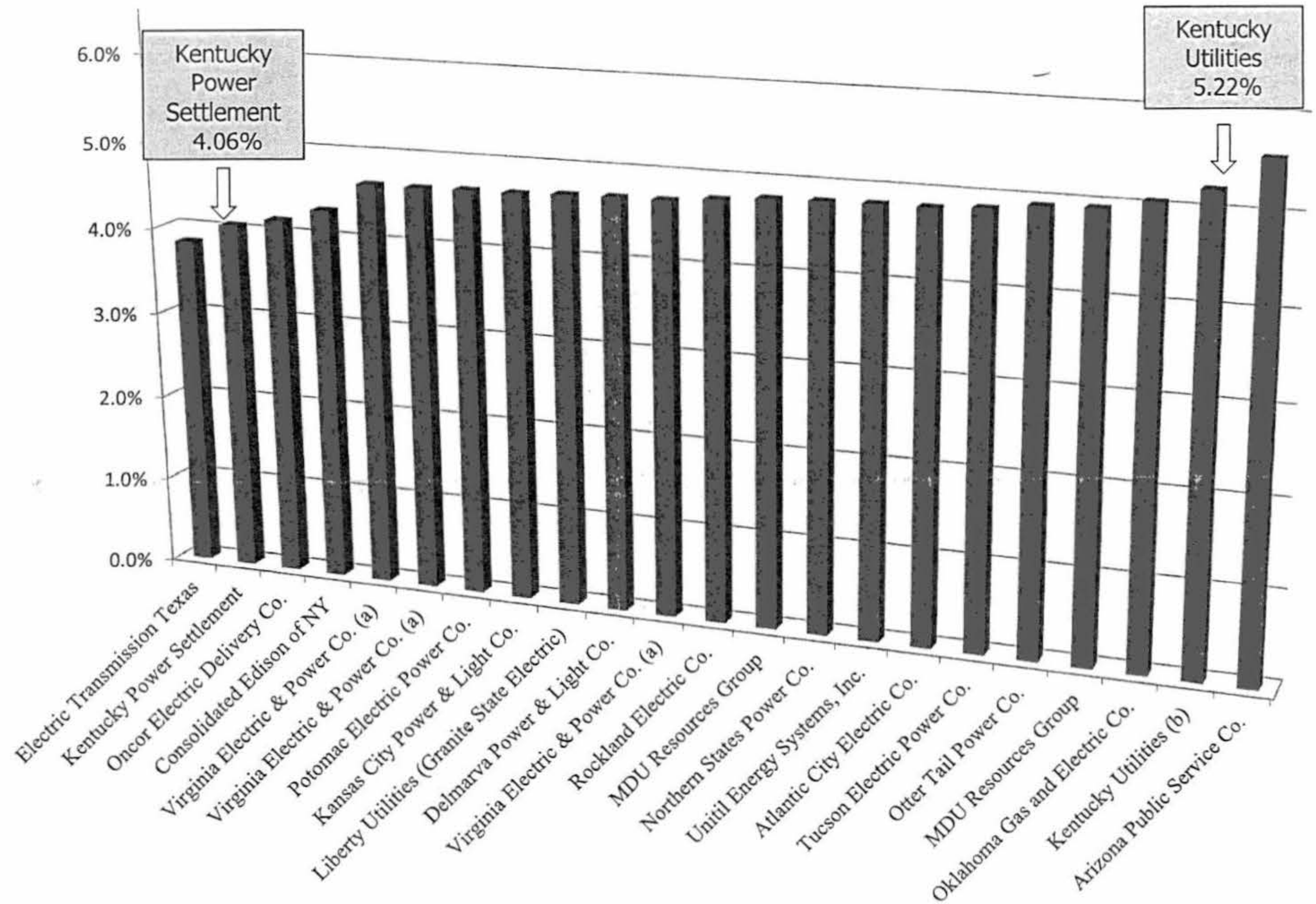
Moody's
INVESTORS SERVICE



Source: Regulatory Research Associates, "Major Rate Case Decisions," *Regulatory Focus* (Oct. 26, 2017).
Authorized Return on Equity * Common Equity/Total Capital. Excludes decisions where a data element was not disclosed or where capital structure contained cost-free items or tax credit balances.
(a) Condenses multiple decisions and removes limited-issue adders. (b) Calculated using requested equity ratio of 53.85%.

Movants Kentucky Power
Exhibit 12

Kentucky Power Company
Settlement Agreement Exhibit-1
Case No. 2017-00179
Settlement Revenue Allocation

Customer Class	Base Rate Case Settlement Increase: Settlement Base Rate Increase	ECP	HEAP KEDS	Total Increase	Test Year Rev	% Increase	Increase Incorporating Surcharge Changes: Carrying Charge Savings in ES	Net Increase	Total Bill % Increase	Return on Rate Base: Current ROR	Proposed ROR	Settlement: Proposed Non-Fuel Base Revenue Increase
	a	b	c	d = a+b+c	e	= d/e	f	g = d+f	= g/e			
RS	$ 20,076,436	$1,734,600	594	21,811,630	$232,952,481	9.36%	($835,019)	$20,976,611	**9.00%**	1.90%	3.77%	14.15%
SGS	$ 984,981	$184,183	247,506	1,416,670	$21,371,729	6.63%	($88,664)	$1,328,006	**6.21%**	11.30%	12.90%	7.19%
MGS	$ 3,421,623	$500,403	69,324	3,991,350	$60,245,787	6.63%	($240,889)	$3,750,461	**6.23%**	9.14%	10.96%	9.24%
GS*	$ 4,406,604	$ 684,586	$ 316,830	$ 5,408,020	$ 81,617,516	6.63%	($329,553)	$5,078,467	**6.22%**	9.67%	11.43%	8.68%
LGS/PS	$ 3,520,149	$549,861	8,467	4,078,477	$70,567,216	5.78%	($264,698)	$3,813,779	**5.40%**	8.78%	10.46%	8.61%
IGS	$ 3,534,466	$836,950	694	4,372,110	$157,911,866	2.77%	($402,899)	$3,969,211	**2.51%**	6.82%	7.71%	5.85%
MW	$ 4,956	$1,620	102	6,678	$221,405	3.02%	($780)	$5,898	**2.66%**	12.12%	13.02%	3.94%
OL	$ 201,254	$82,080	0	283,334	$8,984,564	3.15%	($39,512)	$243,822	**2.71%**	15.03%	15.68%	2.87%
SL	$ 36,869	$13,751	0	50,620	$1,645,931	3.08%	($6,620)	$44,000	**2.67%**	15.92%	16.84%	3.29%
Total	$ 31,780,734	$ 3,903,448	$ 326,687	$ 36,010,869	$ 553,900,979	6.50%	($1,879,080)	$34,131,789	**6.16%**	4.85%	6.48%	9.47%

* GS is the combination of the SGS and MGS classes

LGS	$ 2,729,120	$446,244	6,814	3,182,178	$57,443,992	5.54%	($214,817)	$2,967,361	**5.17%**
PS	$ 791,029	$103,617	1,652	896,299	$13,123,224	6.83%	($49,880)	$846,418	**6.45%**
Total	$ 3,520,149	$ 549,861	$ 8,467	4,078,477	$70,567,216	5.78%	($264,698)	$3,813,779	**5.40%**

Movants Kentucky Power
Exhibit 13

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