

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

ELECTRONIC APPLICATION OF KENTUCKY)	
POWER COMPANY FOR (1) A GENERAL)	
ADJUSTMENT OF ITS RATES FOR ELECTRIC)	
SERVICE; (2) APPROVAL OF TARIFFS AND)	
RIDERS; (3) APPROVAL OF ACCOUNTING	)	CASE NO.
PRACTICES TO ESTABLISH REGULATORY	)	2020-00174
ASSETS AND LIABILITIES; (4) APPROVAL OF A)	
CERTIFICATE OF PUBLIC CONVENIENCE AND)	
NECESSITY; AND (5) ALL OTHER REQUIRED)	
APPROVALS AND RELIEF)	

NOTICE OF FILING

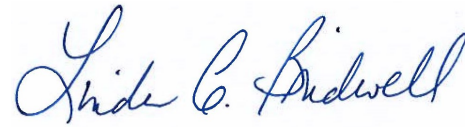
Notice is given to all parties that the following materials have been filed into the record of this proceeding:

- The digital video recording of the evidentiary hearing conducted on November 24, 2020 in this proceeding;
- Certification of the accuracy and correctness of the digital video recording;
- All exhibits introduced at the evidentiary hearing conducted on November 24, 2020 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 November 24, 2020.

A copy of this Notice, the certification of the digital video record, and hearing log have been 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://youtu.be/kjHYFaDrgLY>.

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 8th day of March 2021.

A handwritten signature in blue ink that reads "Linda C. Bridwell". The signature is written in a cursive style with a horizontal line underneath it.

Linda C. Bridwell
Executive Director
Public Service Commission of Kentucky

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ELECTRONIC APPLICATION OF KENTUCKY)
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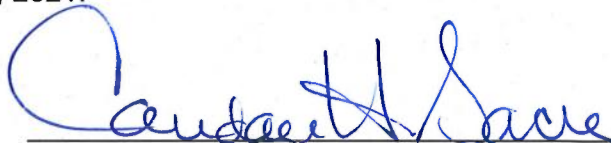
CASE NO.
2020-00174

CERTIFICATION

I, Candace H. Sacre, hereby certify that:

1. The attached DVD contains a digital recording of the Formal Hearing conducted in the above-styled proceeding on November 24, 2020. The Formal Hearing Log, Exhibits, and Exhibit List are included with the recording on November 24, 2020;
2. I am responsible for the preparation of the digital recording;
3. The digital recording accurately and correctly depicts the Formal Hearing of November 24, 2020; and
4. The Formal Hearing Log attached to this Certificate accurately and correctly states the events that occurred at the Formal Hearing of November 24, 2020, and the time at which each occurred.

Signed this 1st day of February, 2021.



Candace H. Sacre
Administrative Specialist III



Stephanie Schweighardt
Notary Public State at Large ID#: 614400
Commission Expires: January 14, 2023



Date:	Type:	Location:	Department:
11/24/2020	Public Hearing\Public Comments	Hearing Room 1	Hearing Room 1 (HR 1)

Witness: Alex E. Vaughan; Justin R. Barnes; Steven Baron; Richard Baudino; Benjamin D. Inskeep; Joshua D. Bills; Lane Kollen; Andrew McDonald; James Owen; Lisa V. Perry; James M. Van Nostrand
 Judge: Kent Chandler; Talina Mathews; Michael Schmitt
 Clerk: Candace Sacre

Event Time	Log Event	
9:04:16 AM	Session Started	
9:04:21 AM	Chairman Schmitt Note: Sacre, Candace	On the record. All lawyers present? (Click on link for further comments.)
9:04:25 AM	Camera Lock Deactivated	
9:05:06 AM	Chairman Schmitt Note: Sacre, Candace	Procedural scheduling, data responses, briefs.(Click on link for further comments.)
9:07:46 AM	Atty Blend Kentucky Power Note: Sacre, Candace	Suggestion, recent Duke rate case, simultaneous briefs, reply.
9:08:04 AM	Chairman Schmitt Note: Sacre, Candace	May have, not like simultaneous brief. Brief, responsive briefs, reply brief.
9:08:41 AM	Chairman Schmitt Note: Sacre, Candace	Other things, finish with Vaughan, procedural. (Click on link for further comments.)
9:09:27 AM	Chairman Schmitt Note: Sacre, Candace	Mr. Fitzgerald conflict?
9:09:35 AM	Atty Fitzgerald Joint Intervenors Note: Sacre, Candace	Manage case as needs managed, scheduling matter, both.
9:10:11 AM	Chairman Schmitt Note: Sacre, Candace	Anything else? Finish today, if possible, or keep going.
9:10:38 AM	Atty Grundman Walmart Note: Sacre, Candace	Vinsel asked parties feedback cross, certain witnesses no one had cross, admit, save time?
9:11:01 AM	Chairman Schmitt Note: Sacre, Candace	No one cross your witness, counsel has cross exam Walmart witness, if no, excused? (Click on link for further comments.)
9:11:32 AM	Chairman Schmitt Note: Sacre, Candace	On today, one way or other.
9:11:41 AM	Chairman Schmitt Note: Sacre, Candace	Ms. Blend?
9:11:49 AM	Chairman Schmitt Note: Sacre, Candace	You may proceed.
9:11:53 AM	Atty Blend Kentucky Power Note: Sacre, Candace	Company Hearing Exhibit 2, page 11 of 25?
9:12:22 AM	Atty Blend Kentucky Power - witness Vaughan Note: Sacre, Candace	Redirect Examination. Recognize document?
9:12:29 AM	Atty Blend Kentucky Power - witness Vaughan Note: Sacre, Candace	What is it?

9:12:56 AM Atty Blend Kentucky Power - witness Vaughan
Note: Sacre, Candace AG and KIUC parties agreement?

9:13:03 AM Atty Blend Kentucky Power - witness Vaughan
Note: Sacre, Candace Page 14, Section III.1.B, read, provision relates \$6.2 million annual additional revenue entitled collect capacity charge 2021-22?

9:13:30 AM Atty Blend Kentucky Power - witness Vaughan
Note: Sacre, Candace Page 15, Section III.F, read?

9:14:34 AM Atty Blend Kentucky Power - witness Vaughan
Note: Sacre, Candace Page 17, read Section VI?

9:15:22 AM Atty Blend Kentucky Power - witness Vaughan
Note: Sacre, Candace \$6.2 million pass-through exception to Section IV.4?

9:15:43 AM Atty Blend Kentucky Power - witness Vaughan
Note: Sacre, Candace AG and KIUC agreed additional revenues capacity charge and ratemaking treatment in settlement?

9:16:17 AM Atty Blend Kentucky Power - witness Vaughan
Note: Sacre, Candace Appropriate parties argue against?

9:16:35 AM Atty Blend Kentucky Power - witness Vaughan
Note: Sacre, Candace Section II, Exhibit E, page 208, questions tariff EDR?

9:17:10 AM Atty Blend Kentucky Power - witness Vaughan
Note: Sacre, Candace Item 3, Availability of Service, 37-1, requirements of service, reading. (Click on link for further comments.)

9:17:46 AM Atty Blend Kentucky Power - witness Vaughan
Note: Sacre, Candace Customer service tariff EDR test period provide statement?

9:17:55 AM Atty Blend Kentucky Power - witness Vaughan
Note: Sacre, Candace Kentucky Power included application customer service under tariff, statement KPC application approval tariff EDR 2018-00387?

9:18:17 AM Atty Blend Kentucky Power - witness Vaughan
Note: Sacre, Candace Commission approved agreement?

9:18:24 AM Atty Blend Kentucky Power - witness Vaughan
Note: Sacre, Candace Net metering customer satisfy Requirement 3 Availability of Service, marginal cost requirement?

9:19:25 AM Atty Blend Kentucky Power - witness Vaughan
Note: Sacre, Candace EEI, discussion membership dues?

9:19:38 AM Atty Blend Kentucky Power - witness Vaughan
Note: Sacre, Candace Describe involvement AEP in EEI?

9:21:04 AM Atty Blend Kentucky Power - witness Vaughan
Note: Sacre, Candace EEI member dues pay for NARUC, other activities provided?

9:21:33 AM Atty Blend Kentucky Power - witness Vaughan
Note: Sacre, Candace Fitzgerald, net metering, KRS 278.465?

9:21:43 AM Atty Blend Kentucky Power - witness Vaughan
Note: Sacre, Candace Bill credit tariff NMS 2 constitutes compensations?

9:21:53 AM Atty Blend Kentucky Power - witness Vaughan
Note: Sacre, Candace Have copy KRS 278.466?

9:21:59 AM Atty Blend Kentucky Power - witness Vaughan
Note: Sacre, Candace First sentence 278.466, Section (3), reading, correct? (Click on link for further comments.)

9:22:16 AM Atty Blend Kentucky Power - witness Vaughan
Note: Sacre, Candace KRS 278.466, Section (4), read first sentence?

9:22:36 AM Atty Blend Kentucky Power - witness Vaughan
Note: Sacre, Candace Company proposing?

9:22:47 AM Atty Blend Kentucky Power - witness Vaughan
Note: Sacre, Candace Word "shall" mandatory or permissive?

9:22:55 AM Atty Fitzgerald Joint Intervenors
Note: Sacre, Candace Objection, (Click on link for further comments.)

9:23:20 AM Atty Blend Kentucky Power
Note: Sacre, Candace Opened line of redirect, (Click on link for further comments.)

9:23:49 AM Chairman Schmitt
Note: Sacre, Candace Objection well taken, let answer.

9:24:26 AM Atty Blend Kentucky Power - witness Vaughan
Note: Sacre, Candace Word "shall" 278.466 mandatory or permission, nonlegal opinion?

9:24:45 AM Atty Blend Kentucky Power - witness Vaughan
Note: Sacre, Candace This case, ratemaking process retail electric supplier?

9:25:02 AM Atty Blend Kentucky Power - witness Vaughan
Note: Sacre, Candace General industry proceeding initiated by Commission constitute ratemaking process retail electric supplier?

9:25:33 AM Atty Blend Kentucky Power - witness Vaughan
Note: Sacre, Candace Familiar Commission docket last year Net Metering Act?

9:25:44 AM Atty Blend Kentucky Power - witness Vaughan
Note: Sacre, Candace Commission recognized determination avoided cost rates net metering done utility-specific basis?

9:26:00 AM Atty Blend Kentucky Power - witness Vaughan
Note: Sacre, Candace VC winter heating customers, discussion?

9:26:07 AM Atty Blend Kentucky Power - witness Vaughan
Note: Sacre, Candace Company proposing benefit winter hearing customers?

9:27:04 AM Atty Blend Kentucky Power - witness Vaughan
Note: Sacre, Candace Winter heating declining block rate reduce customer bill, help?

9:27:31 AM Atty Blend Kentucky Power - witness Vaughan
Note: Sacre, Candace VC discussed DSM programs available high-usage customers?

9:27:43 AM Atty Blend Kentucky Power - witness Vaughan
Note: Sacre, Candace Familiar Commission Jan 18 2018 Order 2017-00097?

9:27:52 AM Atty Blend Kentucky Power - witness Vaughan
Note: Sacre, Candace Summarize Commission directed DSM programs in Order?

9:28:22 AM Atty Blend Kentucky Power - witness Vaughan
Note: Sacre, Candace When company expect capacity position next indicate additional generation serve load?

9:28:38 AM Atty Blend Kentucky Power - witness Vaughan
Note: Sacre, Candace 2017-00097 Order, non-low-income DSM not permitted until 2023?

9:28:55 AM Atty Blend Kentucky Power - witness Vaughan
Note: Sacre, Candace Company Hearing Exhibit 3, page 85, Commission Order 2017-00179, 85 of 122, page 6 stipulation, recognize?

9:29:45 AM Atty Blend Kentucky Power - witness Vaughan
Note: Sacre, Candace Read Section 3(f) stipulation?

9:30:30 AM Atty Blend Kentucky Power - witness Vaughan
Note: Sacre, Candace Exhibit 2 filed with stipulation 2017-00179, familiar with?

9:30:50 AM Atty Blend Kentucky Power - witness Vaughan
Note: Sacre, Candace Walk through how ROE calculated 2023 Rockport fixed cost savings credit?

9:31:30 AM Atty Blend Kentucky Power - witness Vaughan
Note: Sacre, Candace Numerator GAAP net income?

9:31:40 AM Atty Blend Kentucky Power - witness Vaughan
Note: Sacre, Candace Recall discussions VC earned ROE?

9:31:45 AM Atty Blend Kentucky Power - witness Vaughan
Note: Sacre, Candace Whether earned ROE calculated accordance GAAP/SEC rules?

9:32:04 AM Atty Blend Kentucky Power - witness Vaughan
Note: Sacre, Candace Expense items not included test year expense, included calculation earned ROE?

9:32:28 AM	Atty Blend Kentucky Power - witness Vaughan Note: Sacre, Candace	Revenues differed from test year level revenues included calculation ROE?
9:32:46 AM	Atty Blend Kentucky Power - witness Vaughan Note: Sacre, Candace	Revenues below 2017 test year level, impacts included in ROE calculations?
9:33:19 AM	Atty Blend Kentucky Power - witness Vaughan Note: Sacre, Candace	VC asked recent storm deferral filing?
9:33:25 AM	Atty Blend Kentucky Power - witness Vaughan Note: Sacre, Candace	Authority regulatory asset just under \$9.5 million incremental storm-related expense?
9:33:40 AM	Atty Blend Kentucky Power - witness Vaughan Note: Sacre, Candace	Impact earned ROE \$9.5 million expense have?
9:33:57 AM	Atty Blend Kentucky Power - witness Vaughan Note: Sacre, Candace	\$10 million expense represents 100 basis points earned ROE?
9:34:49 AM	Atty Blend Kentucky Power - witness Vaughan Note: Sacre, Candace	Expenses discussed VC not included in 2017 test year expense significant change earned ROE?
9:35:10 AM	Atty Blend Kentucky Power Note: Sacre, Candace	No further.
9:35:15 AM	Chairman Schmitt Note: Sacre, Candace	Step down, excused.
9:35:39 AM	Chairman Schmitt Note: Sacre, Candace	Last company witness?
9:35:45 AM	Atty Blend Kentucky Power Note: Sacre, Candace	He is. Exhibits to address, now?
9:35:57 AM	Chairman Schmitt Note: Sacre, Candace	Now be fine.
9:35:58 AM	Atty Blend Kentucky Power Note: Sacre, Candace	Prefiled Company Exhibit 8 as Company Hearing Exhibit 1, (Click on link for further comments.)
9:36:51 AM	Chairman Schmitt Note: Sacre, Candace	Hearing Exhibit 1/Record Exhibit 8? (Click on link for further comments.)
9:37:49 AM	Atty Blend Kentucky Power Note: Sacre, Candace	Move admission Company Hearing Exhibit 1/Record Exhibit 8.
9:38:00 AM	Chairman Schmitt Note: Sacre, Candace	Sustained.
9:38:01 AM	COMPANY HEARING EXHIBIT 1 (RECORD EXHIBIT 8) Note: Sacre, Candace	REVISIONS TO REVENUE REQUIREMENT TEST YEAR ENDED MARCH 31 2020 ATTY BLEND KENTUCKY POWER - WITNESS VAUGHAN
9:38:02 AM	Atty Blend Kentucky Power Note: Sacre, Candace	Move admission Company Hearing Exhibits 2 and 3.
9:38:08 AM	Chairman Schmitt Note: Sacre, Candace	Sustained.
9:38:09 AM	COMPANY HEARING EXHIBIT 2 Note: Sacre, Candace Note: Sacre, Candace	COMMISSION ORDER 2004-00420 DECEMBER 13 2004 ATTY BLEND KENTUCKY POWER - WITNESS VAUGHAN
9:38:10 AM	COMPANY HEARING EXHIBIT 3 Note: Sacre, Candace Note: Sacre, Candace	COMMISSION ORDER 2017-00179 JANUARY 18 2018 ATTY BLEND KENTUCKY POWER - WITNESS VAUGHAN

9:38:11 AM	Atty Blend Kentucky Power Note: Sacre, Candace	Move admission Company Hearing Exhibit 7, 2019 Project Statistics PJM May 12 2020.
9:38:36 AM	COMPANY HEARING EXHIBIT 7 Note: Sacre, Candace Note: Sacre, Candace	2019 PROJECT STATISTICS PJM MAY 12 2020 ATTY BLEND KENTUCKY POWER - WITNESS VAUGHAN
9:38:37 AM	Chairman Schmitt Note: Sacre, Candace	Sustained.
9:38:43 AM	Atty Blend Kentucky Power Note: Sacre, Candace	Nothing further.
9:38:47 AM	Chairman Schmitt Note: Sacre, Candace	AG's Office, witnesses?
9:38:59 AM	Asst Atty General West Note: Sacre, Candace	Three witnesses, Mr. Kurtz first witness.
9:39:14 AM	Chairman Schmitt Note: Sacre, Candace	Mr. Kurtz?
9:39:17 AM	Atty Kurtz KIUC Note: Sacre, Candace	Lane Kollen.
9:39:21 AM	Chairman Schmitt Note: Sacre, Candace	Witness is sworn.
9:39:33 AM	Atty Kurtz KIUC - witness Kollen Note: Sacre, Candace	Direct Examination. Name, business address?
9:39:50 AM	Atty Kurtz KIUC - witness Kollen Note: Sacre, Candace	File direct testimony, exhibits, data responses?
9:39:58 AM	Atty Kurtz KIUC - witness Kollen Note: Sacre, Candace	Same questions, answers same?
9:40:06 AM	Atty Kurtz KIUC - witness Kollen Note: Sacre, Candace	Correction, additions?
9:42:54 AM	Atty Kurtz KIUC - witness Kollen Note: Sacre, Candace	All corrections?
9:43:02 AM	Atty Kurtz KIUC Note: Sacre, Candace	Tender witness.
9:43:04 AM	Vice Chairman Chandler Note: Sacre, Candace	Errata version reflecting changes?
9:43:25 AM	Atty Kurtz KIUC Note: Sacre, Candace	Make happen.
9:43:26 AM	POST-HEARING DATA REQUEST Note: Sacre, Candace Note: Sacre, Candace	ATTY KURTZ KIUC - WITNESS KOLLEN ERRATA SHEET DIRECT TESTIMONY, RESPONSES
9:43:38 AM	Chairman Schmitt Note: Sacre, Candace	Ms. Frederick?
9:43:47 AM	Staff Atty Frederick PSC Note: Sacre, Candace	Yes.
9:43:53 AM	Staff Atty Frederick PSC - witness Kollen Note: Sacre, Candace	Cross Examination. Short-term debt coal purchases, how allocate Mitchell coal stock adjustment?
9:46:29 AM	Staff Atty Frederick PSC - witness Kollen Note: Sacre, Candace	Suggest adjusting short-term debt balance represent short-term debt balances entire test year?
9:47:14 AM	Staff Atty Frederick PSC - witness Kollen Note: Sacre, Candace	Short-term debt balance adjusted proposed, allocate Mitchell proportionately?

9:48:18 AM	Staff Atty Frederick PSC - witness Kollen Note: Sacre, Candace	Current interest rate, four percent appropriate proxy new debt June 2021?
9:49:36 AM	Staff Atty Frederick PSC Note: Sacre, Candace	No further.
9:49:40 AM	Chairman Schmitt Note: Sacre, Candace	Ms. Grundman?
9:49:44 AM	Atty Grundman Walmart Note: Sacre, Candace	No.
9:49:47 AM	Chairman Schmitt Note: Sacre, Candace	Mr. Spenard?
9:49:50 AM	Atty Spenard KYSEIA Note: Sacre, Candace	No.
9:49:56 AM	Chairman Schmitt Note: Sacre, Candace	Mr. Miller?
9:50:00 AM	Atty Miller Sierra Club Note: Sacre, Candace	None.
9:50:03 AM	Chairman Schmitt Note: Sacre, Candace	Mr. Frye?
9:50:04 AM	Atty Frye SWVA Note: Sacre, Candace	No.
9:50:15 AM	Chairman Schmitt Note: Sacre, Candace	Vice Chairman Chandler?
9:50:21 AM	Vice Chairman Chandler - witness Kollen Note: Sacre, Candace	Examination. Pension/OPEB prepayments, read Whitney rebuttal?
9:50:42 AM	Vice Chairman Chandler - witness Kollen Note: Sacre, Candace	Aware reference discusses Commission not include pension/OPEB, Commission remove ADIT?
9:52:21 AM	Vice Chairman Chandler - witness Kollen Note: Sacre, Candace	Alternative one excluded ADIT offset excluded, no difference recommendation AG/KIUC and company?
9:53:41 AM	Vice Chairman Chandler - witness Kollen Note: Sacre, Candace	Sales Illinois and Michigan, salary expenses West Virginia, company allocated income tax expense, sales, 21 percent income tax expense West Virginia, agree or disagree?
9:55:18 AM	Vice Chairman Chandler Note: Sacre, Candace	All questions.
9:55:23 AM	Chairman Schmitt Note: Sacre, Candace	Dr. Mathews?
9:55:25 AM	Commissioner Mathews Note: Sacre, Candace	Not have any.
9:55:28 AM	Chairman Schmitt Note: Sacre, Candace	Mr. Overstreet?
9:55:32 AM	Atty Overstreet Kentucky Power Note: Sacre, Candace	Yes.
9:55:55 AM	Atty Overstreet Kentucky Power - witness Kollen Note: Sacre, Candace	Cross Examination. Pages 54 - 58 testimony, recommend Commission terminate tariff CC capacity charge and rates?
9:56:48 AM	Atty Overstreet Kentucky Power - witness Kollen Note: Sacre, Candace	Recommend Commission terminate tariff CC and rate base established by tariff?
9:57:17 AM	Atty Overstreet Kentucky Power - witness Kollen Note: Sacre, Candace	Company Exhibit 2 Order Case No. 2004-00420, recognize?

9:57:42 AM Atty Overstreet Kentucky Power - witness Kollen
Note: Sacre, Candace Attached Appendix A, stipulation, agreement?

9:58:19 AM Atty Overstreet Kentucky Power - witness Kollen
Note: Sacre, Candace Agree Order Dec 13 2004 approved stipulation, settlement agreement?

9:58:34 AM Atty Overstreet Kentucky Power - witness Kollen
Note: Sacre, Candace Pg 12 Exhibit, pg 2 stipulation and settlement agreement, whereas clause?

10:00:04 AM Atty Overstreet Kentucky Power - witness Kollen
Note: Sacre, Candace True in whereas clause AG/KIUC recognized Commission directed Kentucky Power continue extensions Rockport 1 and 2?

10:00:37 AM Atty Overstreet Kentucky Power - witness Kollen
Note: Sacre, Candace Whereas clause, scroll down, extension UPSA 195 mW Rockport 1 and 195 mW Rockport 2, reading (Click on link for further comments.), clients agreed to?

10:01:29 AM Atty Overstreet Kentucky Power - witness Kollen
Note: Sacre, Candace Agree next whereas the parties agree additional revenues called for under agreement, reading, (Click on link for further comments.)?

10:02:29 AM Atty Overstreet Kentucky Power - witness Kollen
Note: Sacre, Candace Agree company making offer giving up \$6.2 million year?

10:02:50 AM Atty Overstreet Kentucky Power - witness Kollen
Note: Sacre, Candace Clients giving up nothing?

10:04:19 AM Atty Overstreet Kentucky Power - witness Kollen
Note: Sacre, Candace \$6.2 million Kentucky Power giving up, your clients agreed tariff CC fair, just, reasonable rates?

10:05:53 AM Atty Overstreet Kentucky Power - witness Kollen
Note: Sacre, Candace Nothing agreement makes exceptions \$6.2 million fair, just, and reasonable, where says that?

10:07:01 AM Atty Overstreet Kentucky Power - witness Kollen
Note: Sacre, Candace Pg 6, Order, paragraph starts Commission previously serious concern, reading. (Click on link for further comments), see that?

10:08:01 AM Atty Overstreet Kentucky Power - witness Kollen
Note: Sacre, Candace Believe Commission wrong characterization serious concern?

10:08:18 AM Atty Overstreet Kentucky Power - witness Kollen
Note: Sacre, Candace Below it, excerpts portion Order Administrative Case 387?

10:08:36 AM Atty Overstreet Kentucky Power - witness Kollen
Note: Sacre, Candace Quotation says, reading. (Click on link for further comments), understand AEP-KY be Kentucky Power?

10:09:19 AM Atty Overstreet Kentucky Power - witness Kollen
Note: Sacre, Candace Think Commission when wrote Admin Case 387 mistaken?

10:09:50 AM Atty Overstreet Kentucky Power - witness Kollen
Note: Sacre, Candace Pg 7, Order, reading. (Click on link for further comments), see that?

10:11:05 AM Atty Overstreet Kentucky Power - witness Kollen
Note: Sacre, Candace Pg 6, Order, reading. (Click on link for further comments), understand that?

10:11:47 AM Atty Overstreet Kentucky Power - witness Kollen
Note: Sacre, Candace Reading. (Click on link for further comments), understand Commission found that?

10:12:32 AM Atty Overstreet Kentucky Power - witness Kollen
Note: Sacre, Candace Settlement agreement, AEP Generating Co party to settlement agreement?

10:12:46 AM Atty Overstreet Kentucky Power - witness Kollen
Note: Sacre, Candace Not true amounts paid under tariff CC paid Kentucky Power, not AEP?

10:13:50 AM Atty Overstreet Kentucky Power - witness Kollen
Note: Sacre, Candace Amounts paid to Kentucky Power?

10:14:02 AM Atty Overstreet Kentucky Power - witness Kollen
Note: Sacre, Candace Kentucky Power and AEP Generating separate?

10:14:09 AM Atty Overstreet Kentucky Power - witness Kollen
Note: Sacre, Candace Public Service Commission regulate AEP Generating?

10:14:20 AM Atty Overstreet Kentucky Power - witness Kollen
Note: Sacre, Candace Pgs 31 - 33 testimony, SERP, Supplemental Executive Retirement Plan?

10:15:06 AM Atty Overstreet Kentucky Power
Note: Sacre, Candace 2017-00017, Company Hearing Exhibit 3?

10:15:30 AM Atty Overstreet Kentucky Power - witness Kollen
Note: Sacre, Candace As read testimony, cite four cases?

10:16:09 AM Atty Overstreet Kentucky Power - witness Kollen
Note: Sacre, Candace Pg 16 Order, review this before filing testimony?

10:16:28 AM Atty Overstreet Kentucky Power - witness Kollen
Note: Sacre, Candace True Commission approved SERP expense last rate case?

10:17:37 AM Atty Overstreet Kentucky Power - witness Kollen
Note: Sacre, Candace Relevant cite 30-year-old LG&E case?

10:17:56 AM Atty Overstreet Kentucky Power - witness Kollen
Note: Sacre, Candace Kaiser's rebuttal, pg 12, line 12, reading. (Click on link for further comments), see that?

10:19:28 AM Atty Overstreet Kentucky Power - witness Kollen
Note: Sacre, Candace Did not file study, evidence contrary?

10:19:43 AM Atty Overstreet Kentucky Power - witness Kollen
Note: Sacre, Candace Not think relevant, notwithstanding Commission pointed to fact in 2017 Order?

10:20:52 AM Atty Overstreet Kentucky Power - witness Kollen
Note: Sacre, Candace Line 16, reading. (Click on link for further comments), introduce evidence contrary or have any today?

10:22:42 AM Atty Overstreet Kentucky Power - witness Kollen
Note: Sacre, Candace Agree same formula used, qualified and nonqualified?

10:23:02 AM Atty Overstreet Kentucky Power - witness Kollen
Note: Sacre, Candace Pg 13 testimony, discuss cash working capital?

10:23:51 AM Atty Overstreet Kentucky Power - witness Kollen
Note: Sacre, Candace Commission decides use capitalization, cash working capital and lead lag study, Commission need not address, agree.

10:24:27 AM Atty Overstreet Kentucky Power - witness Kollen
Note: Sacre, Candace Commission direct company perform lead lag study in connection calculation rate base?

10:24:52 AM Atty Overstreet Kentucky Power - witness Kollen
Note: Sacre, Candace Pgs 34 - 36 testimony, discussed with Frederick?

10:25:25 AM Atty Overstreet Kentucky Power - witness Kollen
Note: Sacre, Candace Pg 35 recommend, reading. (Click on link for further comments), correct?

10:27:13 AM Atty Overstreet Kentucky Power - witness Kollen
Note: Sacre, Candace Agree blended state tax rate 5.845 percent used Kentucky Power based on stand alone, appropriate to use?

10:27:31 AM Atty Overstreet Kentucky Power - witness Kollen
Note: Sacre, Candace Kentucky income tax rate applied calculated as if Kentucky Power stand alone?

10:27:55 AM Atty Overstreet Kentucky Power - witness Kollen
Note: Sacre, Candace Disagree Kentucky Power pay income tax other states?

10:28:43 AM	Atty Overstreet Kentucky Power - witness Kollen Note: Sacre, Candace	Agree Kentucky Power operations in West Virginia?
10:29:23 AM	Atty Overstreet Kentucky Power - witness Kollen Note: Sacre, Candace	Your belief, basis for recommendation?
10:30:19 AM	Atty Overstreet Kentucky Power Note: Sacre, Candace	No further.
10:30:22 AM	Chairman Schmitt Note: Sacre, Candace	Mr. Kurtz?
10:30:33 AM	Atty Kurtz KIUC - witness Kollen Note: Sacre, Candace	Redirect Examination. VC pension/OPEB rate base issue, recall?
10:30:42 AM	Atty Kurtz KIUC - witness Kollen Note: Sacre, Candace	Highly unusual accounting treatment, what mean?
10:31:53 AM	Atty Kurtz KIUC - witness Kollen Note: Sacre, Candace	Discussion VC, used phrase "misnomer?"
10:32:49 AM	Atty Kurtz KIUC - witness Kollen Note: Sacre, Candace	No actual cash outlay?
10:33:56 AM	Atty Kurtz KIUC - witness Kollen Note: Sacre, Candace	Capacity charge discussion Overstreet, settlement agreement, Commission disallow \$6.2 million, procedural terms, page 7, reference to that?
10:34:29 AM	Atty Kurtz KIUC - witness Kollen Note: Sacre, Candace	Understanding settlement agreement envisioned Commission disallow \$6.2 million, Kentucky Power pull out terminate unit power agreement?
10:34:52 AM	Atty Kurtz KIUC - witness Kollen Note: Sacre, Candace	Why company not do that?
10:35:44 AM	Atty Kurtz KIUC - witness Kollen Note: Sacre, Candace	SCR part of settlement EPA/Sierra Club brought by owner Unit 2, Wilmington Bank and Trust Company?
10:37:03 AM	Atty Kurtz KIUC - witness Kollen Note: Sacre, Candace	SCR, AG/KIUC position should be recovered rates over 10 years rather than three years?
10:37:59 AM	Atty Kurtz KIUC - witness Kollen Note: Sacre, Candace	Kentucky Power made whole weighted average cost carrying charge?
10:39:12 AM	Atty Kurtz KIUC - witness Kollen Note: Sacre, Candace	Pg 58 testimony, capacity charge, effect of ROE AEP receive 33.81 percent ROE?
10:39:48 AM	Atty Kurtz KIUC - witness Kollen Note: Sacre, Candace	Calculate net present value capacity charge payments received over/above cost of service?
10:40:24 AM	Atty Kurtz KIUC - witness Kollen Note: Sacre, Candace	Commission independent obligation current rates reasonable regardless?
10:41:02 AM	Atty Overstreet Kentucky Power Note: Sacre, Candace	Objection. (Click on link for further comments.)
10:41:21 AM	Chairman Schmitt Note: Sacre, Candace	Continue, understand everybody's position.
10:41:49 AM	Atty Kurtz KIUC - witness Kollen Note: Sacre, Candace	State income tax, apportioned Kentucky Power, what mean?
10:42:35 AM	Atty Kurtz KIUC - witness Kollen Note: Sacre, Candace	Kentucky lowest state income tax, apportioned upward, operating companies states higher income tax apportioned downward?
10:43:05 AM	Atty Kurtz KIUC Note: Sacre, Candace	No further.

10:43:08 AM	Chairman Schmitt Note: Sacre, Candace	May step down.
10:43:15 AM	Chairman Schmitt Note: Sacre, Candace	Recess five till 11.
10:43:45 AM	Session Paused	
10:59:23 AM	Session Resumed	
10:59:32 AM	Chairman Schmitt Note: Sacre, Candace	Back on record.
10:59:42 AM	Camera Lock Deactivated	
11:00:12 AM	Chairman Schmitt Note: Sacre, Candace	Mr. West?
11:00:16 AM	Asst Atty General West Note: Sacre, Candace	Yes.
11:00:30 AM	Chairman Schmitt Note: Sacre, Candace	Witness is sworn.
11:00:43 AM	Chairman Schmitt Note: Sacre, Candace	Mr. West?
11:00:46 AM	Asst Atty General West - witness Baudino Note: Sacre, Candace	Direct Examination. Name?
11:00:51 AM	Asst Atty General West - witness Baudino Note: Sacre, Candace	Business address?
11:01:03 AM	Asst Atty General West - witness Baudino Note: Sacre, Candace	Occupation?
11:01:09 AM	Asst Atty General West - witness Baudino Note: Sacre, Candace	Direct testimony filed?
11:01:15 AM	Asst Atty General West - witness Baudino Note: Sacre, Candace	Additions, corrections?
11:01:50 AM	Asst Atty General West - witness Baudino Note: Sacre, Candace	Sponsor responses data requests?
11:01:57 AM	Asst Atty General West - witness Baudino Note: Sacre, Candace	Same questions, answers same?
11:02:03 AM	Asst Atty General West - witness Baudino Note: Sacre, Candace	Adopt testimony?
11:02:11 AM	Asst Atty General West Note: Sacre, Candace	Available cross.
11:02:13 AM	Chairman Schmitt Note: Sacre, Candace	Ms. Frederick?
11:02:19 AM	Staff Atty Frederick PSC - witness Baudino Note: Sacre, Candace	Cross Examination. Analysis 8.93 to 9.25 percent, recommended ROE 9 percent?
11:03:10 AM	Staff Atty Frederick PSC - witness Baudino Note: Sacre, Candace	Low and high end results average model return?
11:04:14 AM	Staff Atty Frederick PSC - witness Baudino Note: Sacre, Candace	Believe including results skews model?
11:05:17 AM	Staff Atty Frederick PSC - witness Baudino Note: Sacre, Candace	Explain why important include results?
11:06:07 AM	Staff Atty Frederick PSC - witness Baudino Note: Sacre, Candace	Beta values, recently seen increase utility beta values?
11:06:22 AM	Staff Atty Frederick PSC - witness Baudino Note: Sacre, Candace	Betas most investments upward/downward or just utility sector?
11:07:23 AM	Staff Atty Frederick PSC - witness Baudino Note: Sacre, Candace	Repeated question. (Click on link for further comments.
11:09:09 AM	Staff Atty Frederick PSC - witness Baudino Note: Sacre, Candace	Believe permanent adjustment, reaction pandemic?

11:09:50 AM	Staff Atty Frederick PSC - witness Baudino Note: Sacre, Candace	Repeated question. (Click on link for further comments.)
11:11:25 AM	Staff Atty Frederick PSC - witness Baudino Note: Sacre, Candace	Betas, recently uptick COVID cases, restrictions, betas again move, what direction?
11:12:04 AM	Staff Atty Frederick PSC Note: Sacre, Candace	No further.
11:12:08 AM	Chairman Schmitt Note: Sacre, Candace	Ms. Grundman?
11:12:11 AM	Atty Grundman Walmart Note: Sacre, Candace	No.
11:12:14 AM	Chairman Schmitt Note: Sacre, Candace	Mr. Spenard?
11:12:16 AM	Atty Spenard KYSEIA Note: Sacre, Candace	No.
11:12:18 AM	Chairman Schmitt Note: Sacre, Candace	Mr. Fitzgerald?
11:12:20 AM	Atty Fitzgerald Joint Intervenors Note: Sacre, Candace	No.
11:12:22 AM	Chairman Schmitt Note: Sacre, Candace	Mr. Miller?
11:12:24 AM	Atty Miller Sierra Club Note: Sacre, Candace	No.
11:12:27 AM	Chairman Schmitt Note: Sacre, Candace	Mr. Frye?
11:12:29 AM	Atty Frye SWVA Note: Sacre, Candace	No.
11:12:31 AM	Chairman Schmitt Note: Sacre, Candace	Vice Chairman Chandler?
11:12:35 AM	Vice Chairman Chandler - witness Baudino Note: Sacre, Candace	Examination. Watch cross McKenzie?
11:12:49 AM	Vice Chairman Chandler - witness Baudino Note: Sacre, Candace	Testimony Hope standard, language Supreme Court used?
11:13:09 AM	Vice Chairman Chandler - witness Baudino Note: Sacre, Candace	Balancing investor/consumer interest, testimony take balance into consideration or recommendation focus investor interest?
11:14:33 AM	Vice Chairman Chandler - witness Baudino Note: Sacre, Candace	Commission balance the two, recommendation balance two or Commission should balance, you given investor piece?
11:16:12 AM	Vice Chairman Chandler - witness Baudino Note: Sacre, Candace	Insofar balanced, reflection revenue requirement reduction from lower ROE propped?
11:16:40 AM	Vice Chairman Chandler Note: Sacre, Candace	Thank you.
11:16:43 AM	Chairman Schmitt Note: Sacre, Candace	Dr. Mathews?
11:16:45 AM	Commissioner Mathews Note: Sacre, Candace	Not have.
11:16:48 AM	Chairman Schmitt Note: Sacre, Candace	Mr. Garcia?
11:16:55 AM	Atty Garcia-Santana Kentucky Power - witness Baudino Note: Sacre, Candace	Cross Examination. Refer Federal Reserve as Fed, know referring?
11:17:42 AM	Atty Garcia-Santana Kentucky Power - witness Baudino Note: Sacre, Candace	Pg 4, testimony, line 7, Kentucky Power low risk regulated entity?

11:18:13 AM Atty Garcia-Santana Kentucky Power - witness Baudino
Note: Sacre, Candace Moody's credit rating Baa3?

11:18:27 AM Atty Garcia-Santana Kentucky Power - witness Baudino
Note: Sacre, Candace Moody's rates stand alone basis?

11:18:37 AM Atty Garcia-Santana Kentucky Power - witness Baudino
Note: Sacre, Candace Baa3 lower credit rating Baa1?

11:18:54 AM Atty Garcia-Santana Kentucky Power - witness Baudino
Note: Sacre, Candace Baa1 lower A3?

11:19:03 AM Atty Garcia-Santana Kentucky Power - witness Baudino
Note: Sacre, Candace Baa1 lower A3?

11:19:11 AM Atty Garcia-Santana Kentucky Power - witness Baudino
Note: Sacre, Candace A3 lower than A2?

11:19:16 AM Atty Garcia-Santana Kentucky Power - witness Baudino
Note: Sacre, Candace Higher return for higher risk investment?

11:19:28 AM Atty Garcia-Santana Kentucky Power - witness Baudino
Note: Sacre, Candace Higher credit rating lower investment risk?

11:19:40 AM Atty Garcia-Santana Kentucky Power - witness Baudino
Note: Sacre, Candace Higher credit rating lower investment risk?

11:19:48 AM Atty Garcia-Santana Kentucky Power - witness Baudino
Note: Sacre, Candace Lower credit rating higher investment risk?

11:19:58 AM Atty Garcia-Santana Kentucky Power - witness Baudino
Note: Sacre, Candace Moody's credit rating Duke Energy Kentucky?

11:20:07 AM Atty Garcia-Santana Kentucky Power - witness Baudino
Note: Sacre, Candace Kentucky Utilities?

11:20:28 AM Atty Garcia-Santana Kentucky Power - witness Baudino
Note: Sacre, Candace LG&E?

11:21:36 AM Atty Garcia-Santana Kentucky Power - witness Baudino
Note: Sacre, Candace Reference confidential exhibits, familiar with Confidential Company Hearing Exhibit 4?

11:22:30 AM Atty Garcia-Santana Kentucky Power - witness Baudino
Note: Sacre, Candace That is what it is, familiar with document?

11:22:43 AM Atty Garcia-Santana Kentucky Power - witness Baudino
Note: Sacre, Candace Same question Confidential Company Hearing Exhibit 5, what is that?

11:23:12 AM Atty Garcia-Santana Kentucky Power - witness Baudino
Note: Sacre, Candace Familiar with document?

11:23:28 AM Atty Garcia-Santana Kentucky Power - witness Baudino
Note: Sacre, Candace Confidential Company Hearing Exhibit 6, identify document for record, familiar with document?

11:24:04 AM Atty Garcia-Santana Kentucky Power
Note: Sacre, Candace Move admission of three documents.

11:24:16 AM Chairman Schmitt
Note: Sacre, Candace Sustained, be filed 4, 5, and 6.

11:24:35 AM Atty Garcia-Santana Kentucky Power - witness Baudino
Note: Sacre, Candace Pg 10, testimony, reference economic effect COVID March 2020?

11:25:18 AM Atty Garcia-Santana Kentucky Power - witness Baudino
Note: Sacre, Candace Federal Reserve lowered interest rates March 2020?

11:25:30 AM Atty Garcia-Santana Kentucky Power - witness Baudino
Note: Sacre, Candace Prior coronavirus pandemic, disturbances financial markets international trade tensions?

11:26:01 AM Atty Garcia-Santana Kentucky Power - witness Baudino
Note: Sacre, Candace Aware 2019 disturbances financial markets trade tensions?

11:26:17 AM Atty Garcia-Santana Kentucky Power - witness Baudino
Note: Sacre, Candace 2019 Fed lowered rates three times?

11:26:28 AM Atty Garcia-Santana Kentucky Power - witness Baudino
Note: Sacre, Candace Lowering interest rates Fed 2019 related financial market disturbances trade tensions?

11:27:03 AM Atty Garcia-Santana Kentucky Power - witness Baudino
Note: Sacre, Candace Aware 2018 increases interest rates?

11:27:22 AM Atty Garcia-Santana Kentucky Power - witness Baudino
Note: Sacre, Candace March 2020, Fed reaction COVID crisis significantly greater scale than 2018 and 2019?

11:27:55 AM Atty Garcia-Santana Kentucky Power - witness Baudino
Note: Sacre, Candace Agree once levers Fed pulled March 2020 increase holding Treasury securities?

11:28:18 AM Atty Garcia-Santana Kentucky Power - witness Baudino
Note: Sacre, Candace Current Fed holding Treasury securities unprecedented?

11:28:35 AM Atty Garcia-Santana Kentucky Power - witness Baudino
Note: Sacre, Candace Agree double holdings highest point Fed reaction 2008?

11:29:03 AM Atty Garcia-Santana Kentucky Power - witness Baudino
Note: Sacre, Candace Explain VIX is?

11:29:56 AM Atty Garcia-Santana Kentucky Power - witness Baudino
Note: Sacre, Candace March 2020 VIX highest spike since Great Recession?

11:30:57 AM Atty Garcia-Santana Kentucky Power - witness Baudino
Note: Sacre, Candace Indicate pg 13 since March 2020 VIX down somewhat, remains elevated?

11:32:06 AM Atty Garcia-Santana Kentucky Power - witness Baudino
Note: Sacre, Candace Elevated VIX, agree current level more than double approximate 11 points 2017?

11:32:38 AM Atty Garcia-Santana Kentucky Power - witness Baudino
Note: Sacre, Candace Level of 26.38 September 25 2020?

11:32:53 AM Atty Garcia-Santana Kentucky Power - witness Baudino
Note: Sacre, Candace Aware October VIX went over 40 points?

11:33:22 AM Atty Garcia-Santana Kentucky Power - witness Baudino
Note: Sacre, Candace Last Friday, 23 points?

11:33:50 AM Atty Garcia-Santana Kentucky Power - witness Baudino
Note: Sacre, Candace Agree times volatility, risks greater?

11:34:11 AM Atty Garcia-Santana Kentucky Power - witness Baudino
Note: Sacre, Candace Predict VIX remain around 20 points next three years?

11:34:25 AM Atty Garcia-Santana Kentucky Power - witness Baudino
Note: Sacre, Candace Agree nobody predict VIX remain 11 index points averaged 2017?

11:35:11 AM Atty Garcia-Santana Kentucky Power - witness Baudino
Note: Sacre, Candace Nobody predict VIX next three years?

11:35:27 AM Atty Garcia-Santana Kentucky Power - witness Baudino
Note: Sacre, Candace VIX remain stable 11 index points/20 index points, expect same time betas move lower historical levels, two measures somewhat related?

11:36:51 AM Atty Garcia-Santana Kentucky Power - witness Baudino
Note: Sacre, Candace Beta electric utilities, market period stability lower VIX, expect betas go down?

11:37:28 AM Atty Garcia-Santana Kentucky Power - witness Baudino
Note: Sacre, Candace Pg 14 testimony, aware significant portion Kentucky Power load commercial/industrial?

11:37:47 AM Atty Garcia-Santana Kentucky Power - witness Baudino
Note: Sacre, Candace Risk factor Kentucky Power earn authorized ROE?

11:38:17 AM Atty Garcia-Santana Kentucky Power - witness Baudino
Note: Sacre, Candace Kentucky Power more load commercial/industrial increase risk investment in Kentucky Power?

11:38:56 AM Atty Garcia-Santana Kentucky Power - witness Baudino
Note: Sacre, Candace Load commercial/industrial increase risk Kentucky Power?

11:39:17 AM Atty Garcia-Santana Kentucky Power - witness Baudino
Note: Sacre, Candace Kentucky Power not one some companies for which problems COVID not as severe, pg 14?

11:40:04 AM Atty Garcia-Santana Kentucky Power - witness Baudino
Note: Sacre, Candace Repeated. (Click on link for further comments.)

11:42:33 AM Atty Garcia-Santana Kentucky Power - witness Baudino
Note: Sacre, Candace Pg 14 testimony, regulatory proceedings coronavirus?

11:43:09 AM Atty Garcia-Santana Kentucky Power - witness Baudino
Note: Sacre, Candace Familiar Case No. 2020-00085, COVID-19?

11:43:25 AM Atty Garcia-Santana Kentucky Power - witness Baudino
Note: Sacre, Candace Familiar Commission has COVID-19 docket?

11:43:41 AM Atty Garcia-Santana Kentucky Power - witness Baudino
Note: Sacre, Candace Shown data response that docket, agree credit metrics point of view negative double bad debt expense level compared to level base rate last case?

11:45:20 AM Atty Garcia-Santana Kentucky Power - witness Baudino
Note: Sacre, Candace Credit metric FFO to debt ratio, familiar?

11:45:34 AM Atty Garcia-Santana Kentucky Power - witness Baudino
Note: Sacre, Candace Agree bad debt expense \$1.6 million in excess bad debt expense levels erode Kentucky Power FFO to debt ratio?

11:46:31 AM Atty Garcia-Santana Kentucky Power - witness Baudino
Note: Sacre, Candace Agree poor credit metrics, increase in bad debt expense increase investment risk Kentucky Power?

11:48:56 AM Atty Garcia-Santana Kentucky Power - witness Baudino
Note: Sacre, Candace Summarize, risk Kentucky Power not earn authorized ROE?

11:49:46 AM Atty Garcia-Santana Kentucky Power - witness Baudino
Note: Sacre, Candace No guarantee Kentucky Power earn authorized ROE, risk for investors?

11:50:30 AM Chairman Schmitt
Note: Sacre, Candace Technical issues. (Click on link for further comments.)

11:56:06 AM Atty Garcia-Santana Kentucky Power - witness Baudino
Note: Sacre, Candace Agree risk inherent for investors Kentucky Power not guaranteed earn authorized rate of return?

11:57:47 AM Atty Garcia-Santana Kentucky Power - witness Baudino
Note: Sacre, Candace Agree bad customers extended period of time company earns ROE much lower than authorized?

11:58:32 AM Atty Garcia-Santana Kentucky Power - witness Baudino
Note: Sacre, Candace Repeated. (Click on link for further comments.)

12:00:15 PM Atty Garcia-Santana Kentucky Power - witness Baudino
Note: Sacre, Candace Agree bad for customers/company Kentucky Power not able earn authorized ROE?

12:01:39 PM Atty Garcia-Santana Kentucky Power
Note: Sacre, Candace Those are questions cross.

12:01:47 PM Chairman Schmitt
Note: Sacre, Candace Mr. West?

12:01:50 PM Asst Atty General West
Note: Sacre, Candace Briefly.

12:01:52 PM Asst Atty General West - witness Baudino
Note: Sacre, Candace Redirect Examination. AG/KIUC recommended ROE this case?

12:02:12 PM Asst Atty General West - witness Baudino
Note: Sacre, Candace Based on analysis?

12:02:22 PM	Asst Atty General West - witness Baudino Note: Sacre, Candace	Anything heard impacted recommendation?
12:02:52 PM	Asst Atty General West Note: Sacre, Candace	No further.
12:03:14 PM	Chairman Schmitt Note: Sacre, Candace	May be excused.
12:03:19 PM	Chairman Schmitt Note: Sacre, Candace	Recess until 1 p.m.
12:03:27 PM	Session Paused	
1:00:19 PM	Session Resumed	
1:00:22 PM	Chairman Schmitt Note: Sacre, Candace	Back on the record. Mr. Kurtz?
1:00:35 PM	Camera Lock Deactivated	
1:00:51 PM	Atty Kurtz KIUC Note: Sacre, Candace	Steven Baron.
1:00:53 PM	Chairman Schmitt Note: Sacre, Candace	Witness is sworn.
1:01:05 PM	Chairman Schmitt Note: Sacre, Candace	Mr. Kurtz?
1:01:08 PM	Atty Kurtz KIUC - witness Baron Note: Sacre, Candace	Direct Examination. Name, business address?
1:01:27 PM	Atty Kurtz KIUC - witness Baron Note: Sacre, Candace	Direct testimony, exhibits, responses data requests?
1:01:36 PM	Atty Kurtz KIUC - witness Baron Note: Sacre, Candace	Submit updates some exhibits?
1:01:50 PM	Atty Kurtz KIUC - witness Baron Note: Sacre, Candace	Explain what were?
1:02:13 PM	Atty Kurtz KIUC - witness Baron Note: Sacre, Candace	Updated Figure 1?
1:02:28 PM	Atty Kurtz KIUC - witness Baron Note: Sacre, Candace	Go through numbers.
1:04:13 PM	Atty Kurtz KIUC - witness Baron Note: Sacre, Candace	Adopt testimony?
1:04:18 PM	Atty Kurtz KIUC Note: Sacre, Candace	Tender witness cross.
1:04:53 PM	Chairman Schmitt Note: Sacre, Candace	Ms. Frederick?
1:05:00 PM	Staff Atty Frederick PSC - witness Baron Note: Sacre, Candace	Cross Examination. Reviewed Vaughan revised NMS 2 calculations, reasonable?
1:05:27 PM	Staff Atty Frederick PSC Note: Sacre, Candace	No further.
1:05:31 PM	Chairman Schmitt Note: Sacre, Candace	Ms. Grundman?
1:05:33 PM	Atty Grundman Walmart Note: Sacre, Candace	No.
1:05:35 PM	Chairman Schmitt Note: Sacre, Candace	Mr. Spenard?
1:05:38 PM	Atty Spenard KYSEIA Note: Sacre, Candace	No.
1:05:39 PM	Chairman Schmitt Note: Sacre, Candace	Mr. Fitzgerald?
1:05:41 PM	Atty Fitzgerald Joint Intervenors Note: Sacre, Candace	No.

1:05:43 PM	Chairman Schmitt Note: Sacre, Candace	Mr. Miller?
1:05:46 PM	Atty Miller Sierra Club Note: Sacre, Candace	No.
1:05:48 PM	Chairman Schmitt Note: Sacre, Candace	Mr. Frye?
1:05:50 PM	Atty Frye SWVA Note: Sacre, Candace	No.
1:05:53 PM	Chairman Schmitt Note: Sacre, Candace	Vice Chairman Chandler?
1:05:56 PM	Vice Chairman Chandler - witness Baron Note: Sacre, Candace	Examination. \$19 million difference revenue requirement transmission v customers paying allocation transmission agreement/OATT transcos, fair?
1:06:51 PM	Vice Chairman Chandler - witness Baron Note: Sacre, Candace	Clarify difference between Kentucky Power operating company transmission revenue requirement and test year amount OATT LSE or operating company amount plus AEP Kentucky Transco revenue requirement and difference those amounts v company paying LSE OATT test year?
1:07:56 PM	Vice Chairman Chandler - witness Baron Note: Sacre, Candace	Difference filed testimony \$19 million, include October filing transmission revenue requirements either, at least cost Kentucky Transco?
1:08:53 PM	Vice Chairman Chandler - witness Baron Note: Sacre, Candace	Difference between revenue requirement amount Kentucky Power plus revenue requirement AEP-Kentucky Transco \$28 million lower amount allocated LSE OATT expense PJM/FERC tariffs?
1:10:12 PM	Vice Chairman Chandler - witness Baron Note: Sacre, Candace	Allocated 12CP most recent 12CP calculation?
1:10:41 PM	Vice Chairman Chandler - witness Baron Note: Sacre, Candace	Whatever 12CP allocation AEP bill, applied amount to revenue requirement or bill AEP transmission costs next year?
1:11:11 PM	Vice Chairman Chandler - witness Baron Note: Sacre, Candace	Estimate not know 1CP/12CP be next year?
1:11:47 PM	Vice Chairman Chandler - witness Baron Note: Sacre, Candace	Only update \$19 million to \$28 million update FERC-required revenue requirements?
1:12:17 PM	Vice Chairman Chandler - witness Baron Note: Sacre, Candace	Between transco and operating company?
1:12:25 PM	Vice Chairman Chandler Note: Sacre, Candace	All questions.
1:12:28 PM	Chairman Schmitt Note: Sacre, Candace	Dr. Mathews?
1:12:30 PM	Commissioner Mathews Note: Sacre, Candace	Not have any.
1:12:32 PM	Chairman Schmitt Note: Sacre, Candace	Ms. Glass?
1:12:45 PM	Atty Glass Kentucky Power - witness Baron Note: Sacre, Candace	Cross Examination. AG/KIUC supplemental update Baron testimony Nov 12 2020 Figure 1 Table 3 2021 Update Supporting Data, see?
1:13:40 PM	Atty Glass Kentucky Power - witness Baron Note: Sacre, Candace	Prepare?
1:13:46 PM	Atty Glass Kentucky Power - witness Baron Note: Sacre, Candace	Underlying data prepare Figure 1/Table 3 testimony?

1:14:00 PM	Atty Glass Kentucky Power - witness Baron Note: Sacre, Candace	Highlighted figure top right, reads \$2.276 billion, see?
1:14:14 PM	Atty Glass Kentucky Power - witness Baron Note: Sacre, Candace	Calculation AEP transmission revenue requirement 2021?
1:14:46 PM	Atty Glass Kentucky Power - witness Baron Note: Sacre, Candace	RTEP, Regional Transmission Expansion Plan project?
1:15:19 PM	Atty Glass Kentucky Power - witness Baron Note: Sacre, Candace	Highlighted number includes revenue requirement for RTEP projects by AEP?
1:15:21 PM	Atty Glass Kentucky Power - witness Baron Note: Sacre, Candace	Include revenue requirement RTEP projects only built by AEP?
1:15:31 PM	Atty Glass Kentucky Power - witness Baron Note: Sacre, Candace	Include 100 percent costs RTEP projects only AEP built?
1:17:08 PM	Atty Glass Kentucky Power - witness Baron Note: Sacre, Candace	Include cost any RTEP projects built other transmission owners, not AEP?
1:17:59 PM	Atty Glass Kentucky Power Note: Sacre, Candace	All questions.
1:18:04 PM	Chairman Schmitt Note: Sacre, Candace	Mr. Kurtz?
1:18:11 PM	Atty Kurtz KIUC Note: Sacre, Candace	No redirect.
1:18:16 PM	Chairman Schmitt Note: Sacre, Candace	May step down, excused.
1:18:22 PM	Chairman Schmitt Note: Sacre, Candace	Walmart?
1:18:27 PM	Atty Grundman Walmart Note: Sacre, Candace	Call Lisa V. Perry.
1:18:31 PM	Chairman Schmitt Note: Sacre, Candace	Witness is sworn.
1:18:42 PM	Chairman Schmitt Note: Sacre, Candace	May ask.
1:18:45 PM	Atty Grundman Walmart - witness Perry Note: Sacre, Candace	Direct Examination. Name, business address?
1:19:02 PM	Atty Grundman Walmart - witness Perry Note: Sacre, Candace	By whom employed, capacity?
1:19:13 PM	Atty Grundman Walmart - witness Perry Note: Sacre, Candace	Filed testimony, 17 pgs/two exhibits?
1:19:31 PM	Atty Grundman Walmart - witness Perry Note: Sacre, Candace	Corrections, revisions?
1:20:21 PM	Atty Grundman Walmart - witness Perry Note: Sacre, Candace	Any further?
1:20:27 PM	Atty Grundman Walmart - witness Perry Note: Sacre, Candace	Prepared by you, under supervision?
1:20:34 PM	Atty Grundman Walmart - witness Perry Note: Sacre, Candace	Asked same questions, answers same?
1:20:40 PM	Atty Grundman Walmart - witness Perry Note: Sacre, Candace	Sponsor testimony?
1:20:44 PM	Atty Grundman Walmart Note: Sacre, Candace	Ask direct testimony Lisa Perry marked/admitted evidence, available cross.
1:20:54 PM	Chairman Schmitt Note: Sacre, Candace	Sustained, admitted.

1:20:57 PM	Chairman Schmitt Note: Sacre, Candace	Ms. Frederick?
1:20:59 PM	Staff Atty Frederick PSC Note: Sacre, Candace	No.
1:21:02 PM	Chairman Schmitt Note: Sacre, Candace	Mr. West?
1:21:13 PM	Asst Atty General West - witness Perry Note: Sacre, Candace	Cross Examination. Testimony available?
1:21:22 PM	Asst Atty General West - witness Perry Note: Sacre, Candace	Page 11, line 11, read question/answer?
1:22:28 PM	Asst Atty General West - witness Perry Note: Sacre, Candace	Commission approve revenue requirement less proposed company, how Walmart propose difference allocated?
1:22:52 PM	Asst Atty General West - witness Perry Note: Sacre, Candace	Specific number?
1:23:06 PM	Asst Atty General West - witness Perry Note: Sacre, Candace	Fair to say Walmart proposes difference between proposed/granted, it and other members receive greater percent of difference than residential customers?
1:23:34 PM	Asst Atty General West - witness Perry Note: Sacre, Candace	Many Walmart customers/employees also ratepayers?
1:23:43 PM	Asst Atty General West - witness Perry Note: Sacre, Candace	Walmart proposal shift costs to customers/employees?
1:24:03 PM	Asst Atty General West Note: Sacre, Candace	All questions.
1:24:06 PM	Chairman Schmitt Note: Sacre, Candace	Mr. Kurtz?
1:24:15 PM	Atty Kurtz KIUC - witness Perry Note: Sacre, Candace	Cross Examination. Company proposed \$70 million base rate increase?
1:24:38 PM	Atty Kurtz KIUC - witness Perry Note: Sacre, Candace	Company proposed \$70 million base rate increase?
1:24:45 PM	Atty Kurtz KIUC - witness Perry Note: Sacre, Candace	AG/KIUC proposed \$43 million?
1:24:55 PM	Atty Kurtz KIUC - witness Perry Note: Sacre, Candace	Of \$27 million difference, how much not give residential class, specific number?
1:25:53 PM	Atty Kurtz KIUC - witness Perry Note: Sacre, Candace	What value recommendation no specificity?
1:26:32 PM	Atty Kurtz KIUC - witness Perry Note: Sacre, Candace	Make recommendation around countr, basic testimony?
1:26:51 PM	Atty Kurtz KIUC - witness Perry Note: Sacre, Candace	Individually, not have recommendation, general premise?
1:27:03 PM	Atty Kurtz KIUC Note: Sacre, Candace	Thank you.
1:27:06 PM	Chairman Schmitt Note: Sacre, Candace	Mr. Spenard?
1:27:10 PM	Atty Spenard KYSEIA Note: Sacre, Candace	No.
1:27:12 PM	Chairman Schmitt Note: Sacre, Candace	Mr. Fitzgerald?
1:27:15 PM	Atty Fitzgerald Joint Intervenors Note: Sacre, Candace	No.

1:27:17 PM	Chairman Schmitt Note: Sacre, Candace	Mr. Miller?
1:27:19 PM	Atty Miller Sierra Club Note: Sacre, Candace	None.
1:27:21 PM	Chairman Schmitt Note: Sacre, Candace	Mr. Frye?
1:27:23 PM	Atty Frye SWVA Note: Sacre, Candace	No.
1:27:24 PM	Chairman Schmitt Note: Sacre, Candace	Vice Chairman Chandler?
1:27:28 PM	Vice Chairman Chandler Note: Sacre, Candace	No.
1:27:30 PM	Chairman Schmitt Note: Sacre, Candace	Dr. Mathews?
1:27:32 PM	Commissioner Mathews Note: Sacre, Candace	No.
1:27:33 PM	Chairman Schmitt Note: Sacre, Candace	Ms. Glass?
1:27:37 PM	Atty Glass Kentucky Note: Sacre, Candace	Not have.
1:27:41 PM	Chairman Schmitt Note: Sacre, Candace	Ms. Grundman?
1:27:44 PM	Atty Grundman Walmart Note: Sacre, Candace	No.
1:27:47 PM	Chairman Schmitt Note: Sacre, Candace	Stand down, excused.
1:27:56 PM	Chairman Schmitt Note: Sacre, Candace	Mr. Spenard?
1:28:21 PM	Atty Spenard KYSEIA Note: Sacre, Candace	Justin Barnes.
1:28:35 PM	Chairman Schmitt Note: Sacre, Candace	Witness is sworn.
1:29:02 PM	Chairman Schmitt Note: Sacre, Candace	Mr. Spenard?
1:29:09 PM	Atty Spenard KYSEIA - witness Barnes Note: Sacre, Candace	Cross Examination. Name, business address?
1:29:23 PM	Atty Spenard KYSEIA - witness Barnes Note: Sacre, Candace	By whom employed?
1:29:34 PM	Atty Spenard KYSEIA - witness Barnes Note: Sacre, Candace	Prepare prefiled testimony, responses?
1:29:51 PM	Atty Spenard KYSEIA - witness Barnes Note: Sacre, Candace	Prepare errata sheet filed Nov 12?
1:30:05 PM	Atty Spenard KYSEIA - witness Barnes Note: Sacre, Candace	Information errata sheet true/correct?
1:30:18 PM	Atty Spenard KYSEIA - witness Barnes Note: Sacre, Candace	Same questions, answers same?
1:30:34 PM	Atty Spenard KYSEIA Note: Sacre, Candace	Tender for cross.
1:30:41 PM	Chairman Schmitt Note: Sacre, Candace	Ms. Federick?
1:30:45 PM	Staff Atty Frederick PSC Note: Sacre, Candace	Yes.

1:30:47 PM	Staff Atty Frederick PSC - witness Barnes Note: Sacre, Candace	Cross Examination. Recommended minimum contract term ten years qualifying facilities, why appropriate?
1:32:32 PM	Staff Atty Frederick PSC Note: Sacre, Candace	No further.
1:32:49 PM	Chairman Schmitt Note: Sacre, Candace	Mr. Horn?
1:33:00 PM	Asst Atty General Horn Note: Sacre, Candace	Not have.
1:33:03 PM	Chairman Schmitt Note: Sacre, Candace	Mr. Kurtz?
1:33:10 PM	Atty Kurtz KIUC Note: Sacre, Candace	No.
1:33:13 PM	Chairman Schmitt Note: Sacre, Candace	Ms. Grundman?
1:33:16 PM	Atty Grundman Walmart Note: Sacre, Candace	No.
1:33:18 PM	Chairman Schmitt Note: Sacre, Candace	Mr. Fitzgerald?
1:33:20 PM	Atty Fitzgerald Joint Intervenors Note: Sacre, Candace	No.
1:33:21 PM	Chairman Schmitt Note: Sacre, Candace	Mr. Miller?
1:33:25 PM	Atty Miller Sierra Club Note: Sacre, Candace	No.
1:33:27 PM	Chairman Schmitt Note: Sacre, Candace	Mr. Frye?
1:33:29 PM	Atty Frye SWVA Note: Sacre, Candace	No.
1:33:30 PM	Chairman Schmitt Note: Sacre, Candace	Vice Chairman Chandler?
1:33:32 PM	Vice Chairman Chandler Note: Sacre, Candace	No.
1:33:35 PM	Chairman Schmitt Note: Sacre, Candace	Dr. Mathews?
1:33:38 PM	Commissioner Mathews Note: Sacre, Candace	No.
1:33:41 PM	Chairman Schmitt Note: Sacre, Candace	Ms. Blend?
1:33:45 PM	Atty Blend Kentucky Power Note: Sacre, Candace	No.
1:33:48 PM	Chairman Schmitt Note: Sacre, Candace	Redirect?
1:33:52 PM	Atty Spenard KYSEIA Note: Sacre, Candace	No.
1:33:54 PM	Chairman Schmitt Note: Sacre, Candace	Step down, excused.
1:33:59 PM	ChairmanSchmitt Note: Sacre, Candace	Mr. Spenard?
1:34:03 PM	Atty Spenard KYSEIA Note: Sacre, Candace	James M. VanNostrand.
1:34:10 PM	Chairman Schmitt Note: Sacre, Candace	Witness is sworn.

1:34:22 PM Chairman Schmitt
Note: Sacre, Candace Mr. Spenard?

1:34:26 PM Atty Spenard KYSEIA - witness Van Nostrand
Note: Sacre, Candace Direct Examination. Name, business address?

1:34:40 PM Atty Spenard KYSEIA - witness Van Nostrand
Note: Sacre, Candace By whom employed?

1:34:49 PM Atty Spenard KYSEIA - witness Van Nostrand
Note: Sacre, Candace Filed testimony, responses?

1:35:06 PM Atty Spenard KYSEIA - witness Van Nostrand
Note: Sacre, Candace Errata sheet?

1:35:18 PM Atty Spenard KYSEIA - witness Van Nostrand
Note: Sacre, Candace Errata sheet true and correct?

1:35:30 PM Atty Spenard KYSEIA - witness Van Nostrand
Note: Sacre, Candace Same questions, answers same?

1:35:34 PM Atty Spenard KYSEIA - witness Van Nostrand
Note: Sacre, Candace Same questions, same answers?

1:35:46 PM Atty Spenard KYSEIA
Note: Sacre, Candace Tendered cross.

1:35:51 PM Chairman Schmitt
Note: Sacre, Candace Ms. Frederick?

1:35:56 PM Staff Atty Frederick PSC
Note: Sacre, Candace No.

1:36:00 PM Chairman Schmitt
Note: Sacre, Candace Mr. Horn? Mr. West?

1:36:07 PM Asst Atty General Horn - witness Van Nostrand
Note: Sacre, Candace Cross Examination. Agree utility customer installed solar generation benefit regardless utility purchase excess?

1:36:10 PM Asst Atty General Horn - witness Van Nostrand
Note: Sacre, Candace Repeated.

1:36:49 PM Asst Atty General Horn - witness Van Nostrand
Note: Sacre, Candace Agree cost companies providing service customer with solar generation?

1:37:17 PM Asst Atty General Horn - witness Van Nostrand
Note: Sacre, Candace Agree cost utilities receiving/using excess power generated?

1:37:37 PM Asst Atty General Horn - witness Van Nostrand
Note: Sacre, Candace Net metering purely economic, benefit utility offering to customer?

1:38:57 PM Asst Atty General Horn - witness Van Nostrand
Note: Sacre, Candace Agree net metering nonparticipants solar generation subsidizing customers are?

1:39:35 PM Asst Atty General Horn
Note: Sacre, Candace All questions.

1:39:42 PM Chairman Schmitt
Note: Sacre, Candace Mr. Kurtz?

1:39:48 PM Atty Kurtz KIUC - witness Van Nostrand
Note: Sacre, Candace Cross Examination. Investment tax credit rooftop solar installations?

1:40:05 PM Atty Kurtz KIUC - witness Van Nostrand
Note: Sacre, Candace Incentive federal government rooftop solar encourage installation?

1:40:29 PM Atty Kurtz KIUC - witness Van Nostrand
Note: Sacre, Candace How much typical installation cost?

1:40:54 PM Atty Kurtz KIUC - witness Van Nostrand
Note: Sacre, Candace Typical Eastern Ky installation?

1:41:08 PM Atty Kurtz KIUC - witness Van Nostrand
Note: Sacre, Candace Thousands of dollars?

1:41:19 PM Atty Kurtz KIUC - witness Van Nostrand
Note: Sacre, Candace \$8,000, \$9,000, \$10,000, \$12,000 range?

1:41:38 PM Atty Kurtz KIUC - witness VanNostrand
Note: Sacre, Candace Subsidized by other ratepayers, subsidy relatively wealthy afford installation?

1:42:18 PM Atty Kurtz KIUC - witness Van Nostrand
Note: Sacre, Candace Someone mobile home not likely have \$10,000 invest?

1:42:32 PM Atty Kurtz KIUC
Note: Sacre, Candace Thank you.

1:42:35 PM Chairman Schmitt
Note: Sacre, Candace Ms. Grundman?

1:42:40 PM Atty Grundman Walmart
Note: Sacre, Candace No.

1:42:42 PM Chairman Schmitt
Note: Sacre, Candace Mr. Fitzgerald?

1:42:44 PM Atty Fitzgerald Joint Intervenors
Note: Sacre, Candace No.

1:42:47 PM Chairman Miller
Note: Sacre, Candace Mr. Miller?

1:42:50 PM Atty Miller Sierra Club
Note: Sacre, Candace No.

1:42:51 PM Chairman Schmitt
Note: Sacre, Candace Mr. Frye?

1:42:52 PM Atty Frye SWVA
Note: Sacre, Candace No.

1:42:55 PM Chairman Schmitt
Note: Sacre, Candace Vice Chairman Chandler?

1:43:03 PM Vice Chairman Chandler - witness Van Nostrand
Note: Sacre, Candace Examination. How closely read FERC PURPA NOPR docket?

1:43:21 PM Vice Chairman Chandler - witness Van Nostrand
Note: Sacre, Candace Read PSC comments NOPR?

1:43:38 PM Vice Chairman Chandler - witness Van Nostrand
Note: Sacre, Candace Relates change/specific direction whether LMP reasonable measure avoided cost of energy, FERC comments?

1:44:11 PM Vice Chairman Chandler - witness Van Nostrand
Note: Sacre, Candace KYSEIA have position commission use LMP avoided energy cost, appropriate use generator LMP or load LMP?

1:45:00 PM Vice Chairman Chandler - witness Van Nostrand
Note: Sacre, Candace Position given organization concerns Kentucky Power co-gen tariffs?

1:46:07 PM Vice Chairman Chandler - witness Van Nostrand
Note: Sacre, Candace Organization position Kentucky Power proposed tariff, reviewed regulations small power production 807 KAR 5:054

1:46:53 PM Vice Chairman Chandler - witness Van Nostrand
Note: Sacre, Candace Referring sections how rates power offered, reading? (Click on link for further comments.)

1:47:17 PM Vice Chairman Chandler - witness Van Nostrand
Note: Sacre, Candace Commission determines LMP reasonable measure avoided energy cost, utility has LEO, contract term 10 years, recommendation appropriate energy cost entity choose at time LEO incurred?

1:49:08 PM Vice Chairman Chandler - witness Van Nostrand
Note: Sacre, Candace LMP v 1980-something investigation avoided cost rates?

1:49:35 PM	Vice Chairman Chandler - witness Van Nostrand Note: Sacre, Candace	Last sentence, line 10, reading. (Click on link for further comments.) LMP prevailing rate, next kilowatt served. Position distinction between highest unit available and energy cost serve next kilowatt hour demand?
1:51:27 PM	Vice Chairman Chandler - witness Van Nostrand Note: Sacre, Candace	Next generator built, avoided capacity cost?
1:52:00 PM	Vice Chairman Chandler Note: Sacre, Candace	All questions.
1:52:05 PM	Chairman Schmitt Note: Sacre, Candace	Dr. Mathews?
1:52:07 PM	Commissioner Mathews Note: Sacre, Candace	Not have any.
1:52:09 PM	Chairman Schmitt Note: Sacre, Candace	Ms. Blend?
1:52:14 PM	Atty Blend Kentucky Power - witness Van Nostrand Note: Sacre, Candace	Cross Examination. Net metering generators connect behind meter?
1:52:30 PM	Atty Blend Kentucky Power - witness Van Nostrand Note: Sacre, Candace	PURPA QF connects behind meter?
1:52:38 PM	Atty Blend Kentucky Power - witness Van Nostrand Note: Sacre, Candace	Difference point generation and point load, thinking avoided cost of energy Order 877?
1:53:10 PM	Atty Blend Kentucky Power - witness Van Nostrand Note: Sacre, Candace	Discussion LMP at generator v LMP at LSE load?
1:53:20 PM	Atty Blend Kentucky Power - witness Van Nostrand Note: Sacre, Candace	Same point behind meter PURPA QF or net metering?
1:53:38 PM	Atty Blend Kentucky Power - witness Van Nostrand Note: Sacre, Candace	Distinction energy and capacity avoided costs PURPA?
1:53:52 PM	Atty Blend Kentucky Power Note: Sacre, Candace	No further.
1:53:56 PM	Chairman Schmitt Note: Sacre, Candace	Mr. Spenard?
1:53:59 PM	Atty Spenard KYSEIA Note: Sacre, Candace	No.
1:54:03 PM	Chairman Schmitt Note: Sacre, Candace	Step down, excused.
1:54:10 PM	Chairman Schmitt Note: Sacre, Candace	Mr. Spenard?
1:54:16 PM	Atty Spenard KYSEIA Note: Sacre, Candace	Benjamin Inskeep.
1:54:34 PM	Chairman Schmitt Note: Sacre, Candace	Witness is sworn.
1:54:45 PM	Chairman Schmitt Note: Sacre, Candace	You may ask.
1:54:50 PM	Atty Spenard KYSEIA - witness Inskeep Note: Sacre, Candace	Direct Examination. Name, business address?
1:55:05 PM	Atty Spenard KYSEIA - witness Inskeep Note: Sacre, Candace	By whom employed?
1:55:15 PM	Atty Spenard KYSEIA - witness Inskeep Note: Sacre, Candace	Filed testimony, responses?
1:55:32 PM	Atty Spenard KYSEIA - witness Inskeep Note: Sacre, Candace	Same questions, same answers?
1:55:46 PM	Atty Spenard KYSEIA Note: Sacre, Candace	Tender cross.

1:55:52 PM	Chairman Schmitt Note: Sacre, Candace	Ms. Frederick?
1:55:55 PM	Staff Atty Frederick PSC Note: Sacre, Candace	No.
1:55:59 PM	Chairman Schmitt Note: Sacre, Candace	Mr. Horn?
1:56:01 PM	Asst Atty General Horn Note: Sacre, Candace	No.
1:56:04 PM	Chairman Schmitt Note: Sacre, Candace	Mr. Kurtz?
1:56:06 PM	Atty Kurtz KIUC Note: Sacre, Candace	No.
1:56:08 PM	Chairman Schmitt Note: Sacre, Candace	Ms. Grundman?
1:56:10 PM	Atty Grundman Walmart Note: Sacre, Candace	No.
1:56:11 PM	Chairman Schmitt Note: Sacre, Candace	Mr. Fitzgerald?
1:56:13 PM	Atty Fitzgerald Joint Intervenors Note: Sacre, Candace	No.
1:56:16 PM	Chairman Schmitt Note: Sacre, Candace	Mr. Miller?
1:56:18 PM	Atty Miller Sierra Club Note: Sacre, Candace	No.
1:56:21 PM	Chairman Schmitt Note: Sacre, Candace	Mr. Frye?
1:56:23 PM	Atty Frye SWVA Note: Sacre, Candace	No.
1:56:24 PM	Chairman Schmitt Note: Sacre, Candace	Vice Chairman Chandler?
1:56:27 PM	Vice Chairman Chandler Note: Sacre, Candace	No.
1:56:32 PM	Chairman Schmitt Note: Sacre, Candace	Dr. Mathews?
1:56:34 PM	Commissioner Mathews Note: Sacre, Candace	Not have questions.
1:56:37 PM	Chairman Schmitt Note: Sacre, Candace	Ms. Blend?
1:56:40 PM	Atty Blend Kentucky Power Note: Sacre, Candace	No.
1:56:43 PM	Chairman Schmitt Note: Sacre, Candace	May step down, excused.
1:56:59 PM	Chairman Schmitt Note: Sacre, Candace	Mr. Fitzgerald?
1:57:09 PM	Atty Fitzgerald Joint Intervenors Note: Sacre, Candace	Joshua Bills.
1:57:29 PM	Chairman Schmitt Note: Sacre, Candace	Witness is sworn.
1:57:48 PM	Atty Fitzgerald Joint Intervenors - Note: Sacre, Candace	witness Bills Same questions, same answers?
1:57:54 PM	Chairman Schmitt Note: Sacre, Candace	Mr. Fitzgerald?
1:57:58 PM	Atty Fitzgerald Joint Intervenors - Note: Sacre, Candace	witness Bills Direct Examination. Name, employment, business address?

1:58:31 PM	Atty Fitzgerald Joint Intervenors - witness Bills Note: Sacre, Candace	Filed testimony?
1:58:39 PM	Atty Fitzgerald Joint Intervenors - witness Bills Note: Sacre, Candace	Answer data requests?
1:58:47 PM	Atty Fitzgerald Joint Intervenors - witness Bills Note: Sacre, Candace	Same questions/data requests, answers same?
1:59:10 PM	Atty Fitzgerald Joint Intervenors Note: Sacre, Candace	Submit corrected, paginated version conclusion.
1:59:25 PM	Asst Gen Counsel Vinsel PSC Note: Sacre, Candace	Staff would request paginated version filed.
1:59:31 PM	Chairman Schmitt Note: Sacre, Candace	Yes.
1:59:34 PM	Atty Fitzgerald Joint Intervenors Note: Sacre, Candace	Tender witness.
1:59:37 PM	Chairman Schmitt Note: Sacre, Candace	Ms. Frederick?
1:59:41 PM	Staff Atty Frederick PSC Note: Sacre, Candace	No.
1:59:44 PM	Chairman Schmitt Note: Sacre, Candace	Mr. Horn?
1:59:46 PM	Asst Atty General Horn Note: Sacre, Candace	No.
1:59:49 PM	Chairman Schmitt Note: Sacre, Candace	Mr. Kurtz?
1:59:51 PM	Atty Kurtz KIUC Note: Sacre, Candace	No.
1:59:52 PM	Chairman Schmitt Note: Sacre, Candace	Ms. Grundman?
1:59:56 PM	Atty Grundman Walmart Note: Sacre, Candace	No.
1:59:58 PM	Chairman Schmitt Note: Sacre, Candace	Mr. Spenard?
2:00:02 PM	Atty Spenard KYSEIA Note: Sacre, Candace	No.
2:00:04 PM	Chairman Schmitt Note: Sacre, Candace	Mr. Miller?
2:00:07 PM	Atty Miller Sierra Club Note: Sacre, Candace	No.
2:00:09 PM	Chairman Schmitt Note: Sacre, Candace	Mr. Frye?
2:00:12 PM	Atty Frye SWVA Note: Sacre, Candace	No.
2:00:14 PM	Chairman Schmitt Note: Sacre, Candace	Vice Chairman Chandler?
2:00:23 PM	Vice Chairman Chandler - witness Bills Note: Sacre, Candace	Examination. Concern Delta 3-phase customers?
2:00:55 PM	Vice Chairman Chandler - witness Bills Note: Sacre, Candace	Explain concern, reference to increase cost?
2:01:52 PM	Vice Chairman Chandler - witness Bills Note: Sacre, Candace	What Y service?
2:02:21 PM	Vice Chairman Chandler - witness Bills Note: Sacre, Candace	Not residential?
2:02:51 PM	Vice Chairman Chandler - witness Bills Note: Sacre, Candace	Issue reserved commercial?

2:03:23 PM	Vice Chairman Chandler - witness Bills Note: Sacre, Candace	Concern exclusive Kentucky Power?
2:04:44 PM	Vice Chairman Chandler Note: Sacre, Candace	Thank you.
2:04:49 PM	Chairman Schmitt Note: Sacre, Candace	Dr. Mathews?
2:04:53 PM	Commissioner Mathews Note: Sacre, Candace	Not have questions.
2:04:55 PM	Chairman Schmitt Note: Sacre, Candace	Ms. Blend?
2:05:01 PM	Atty Blend Kentucky Power - witness Bills Note: Sacre, Candace	Cross Examination. Rebuttal West Delta three-phase v Y three-phase?
2:05:19 PM	Atty Blend Kentucky Power - witness Bills Note: Sacre, Candace	Dispute safety issue Delta three-phase 120 - 240 interconnection net metering customers?
2:05:54 PM	Atty Blend Kentucky Power - witness Bills Note: Sacre, Candace	Read West rebuttal, dispute statement pg 15, line 3?
2:06:15 PM	Atty Blend Kentucky Power - witness Bills Note: Sacre, Candace	Repeated. (Click on link for further commets.)
2:06:39 PM	Atty Blend Kentucky Power - witness Bills Note: Sacre, Candace	2020-00302 updating Commission net metering interconnection guideline, pg 7 testimony urged Commission hold off implementation NMS 2 tariff phase complete?
2:07:11 PM	Atty Blend Kentucky Power - witness Bills Note: Sacre, Candace	Recommendation Commission delay implementation net metering act until 2020-00302 completed?
2:07:32 PM	Atty Blend Kentucky Power - witness Bills Note: Sacre, Candace	Repeated. (Click on link for further comments.)
2:07:47 PM	Atty Fitzgerald Joint Intervenors Note: Sacre, Candace	Objection, not attorney.
2:08:07 PM	Chairman Schmitt Note: Sacre, Candace	Sustained.
2:08:22 PM	Atty Blend Kentucky Power - witness Bills Note: Sacre, Candace	Recommendation not implement net metering service tariff Kentucky Power until conclusion 2020-00302 stated page 7?
2:08:43 PM	Atty Blend Kentucky Power Note: Sacre, Candace	No further.
2:08:47 PM	Chairman Schmitt Note: Sacre, Candace	Mr. Fitzgerald?
2:08:50 PM	Atty Fitzgerald Joint Intervenors Note: Sacre, Candace	No.
2:08:53 PM	Chairman Schmitt Note: Sacre, Candace	Excused.
2:08:56 PM	Chairman Schmitt Note: Sacre, Candace	Mr. Fitzgerald?
2:09:00 PM	Atty Fitzgerald Joint Intervenors Note: Sacre, Candace	Andrew McDonald.
2:09:04 PM	Chairman Schmitt Note: Sacre, Candace	Witness is sworn.
2:09:18 PM	Chairman Schmitt Note: Sacre, Candace	Mr. Fitzgerald?
2:09:22 PM	Atty Fitzgerald Joint Intervenors - witness McDonald Note: Sacre, Candace	Direct Examination. Name, employment, business address?

2:09:38 PM	Atty Fitzgerald Joint Intervenors - witness McDonald Note: Sacre, Candace	witness McDonald Filed testimony?
2:09:46 PM	Atty Fitzgerald Joint Intervenors - witness McDonald Note: Sacre, Candace	witness McDonald Data requests?
2:09:55 PM	Atty Fitzgerald Joint Intervenors - witness McDonald Note: Sacre, Candace	witness McDonald Same questions/data requests, answers same?
2:10:04 PM	Atty Fitzgerald Joint Intervenors Note: Sacre, Candace	Available cross.
2:10:10 PM	Chairman Schmitt Note: Sacre, Candace	Ms. Frederick?
2:10:12 PM	Staff Atty Frederick PSC Note: Sacre, Candace	No.
2:10:15 PM	Chairman Schmitt Note: Sacre, Candace	Mr. Horn?
2:10:19 PM	Asst Atty General Horn - witness McDonald Note: Sacre, Candace	Cross Examination. Agree utility customer installed solar generation benefit regardless purchase excess power?
2:10:49 PM	Asst Atty General Horn - witness McDonald Note: Sacre, Candace	Agree cost utilities providing service customer solar generation?
2:11:09 PM	Asst Atty General Horn - witness McDonald Note: Sacre, Candace	Agree cost utilities receiving/using excess power customer solar installation?
2:11:27 PM	Asst Atty General Horn - witness McDonald Note: Sacre, Candace	Economic standpoint, benefit utility offering net metering?
2:12:35 PM	Asst Atty General Horn - witness McDonald Note: Sacre, Candace	Net metering, nonparticipants subsidizing those customers participants?
2:13:01 PM	Asst Atty General Horn Note: Sacre, Candace	All questions.
2:13:05 PM	Chairman Schmitt Note: Sacre, Candace	Mr. Kurtz?
2:13:07 PM	Atty Kurtz KIUC Note: Sacre, Candace	No.
2:13:08 PM	Chairman Schmitt Note: Sacre, Candace	Ms. Grundman?
2:13:11 PM	Atty Grundman Walmart Note: Sacre, Candace	No.
2:13:12 PM	Chairman Schmitt Note: Sacre, Candace	Mr. Spenard?
2:13:20 PM	Atty Spenard KYSEIA - witness McDonald Note: Sacre, Candace	Cross Examination. NMS 1, residential solar electricity exported grid credited one-to-one rate?
2:13:34 PM	Atty Spenard KYSEIA - witness McDonald Note: Sacre, Candace	Kentucky Power residential rate 9.8 cents kilowatt hour?
2:13:51 PM	Atty Spenard KYSEIA - witness McDonald Note: Sacre, Candace	Application Kentucky Power proposes residential credit rate 3.66 cents kilowatt hour?
2:14:13 PM	Atty Spenard KYSEIA - witness McDonald Note: Sacre, Candace	Kentucky Power describes current one-to-one rate NMS 1 creating subsidy?
2:14:37 PM	Atty Spenard KYSEIA - witness McDonald Note: Sacre, Candace	Approximate terms subsidy 6.1 to 6.2 cents kilowatt hour?

2:14:57 PM	Atty Spenard KYSEIA - witness McDonald Note: Sacre, Candace	Performed calculation test year monthly cost nonparticipating residential customers subsidy?
2:15:17 PM	Atty Spenard KYSEIA - witness McDonald Note: Sacre, Candace	What monthly cost nonparticipating customers?
2:15:26 PM	Atty Blend Kentucky Power Note: Sacre, Candace	Objection, friendly cross examination.
2:16:11 PM	Chairman Schmitt Note: Sacre, Candace	Understand, overruled. You may ask.
2:16:28 PM	Atty Spenard KYSEIA - witness McDonald Note: Sacre, Candace	What approximate cost nonparticipating residential customer?
2:16:53 PM	Atty Spenard KYSEIA - witness McDonald Note: Sacre, Candace	Calculate annualized basis?
2:17:09 PM	Atty Spenard KYSEIA Note: Sacre, Candace	No further.
2:17:14 PM	Chairman Schmitt Note: Sacre, Candace	Mr. Miller?
2:17:18 PM	Atty Miller Sierra Club Note: Sacre, Candace	No.
2:17:22 PM	Chairman Schmitt Note: Sacre, Candace	Mr. Frye?
2:17:24 PM	Atty Frye SWVA Note: Sacre, Candace	No.
2:17:28 PM	Chairman Schmitt Note: Sacre, Candace	Vice Chairman Chandler?
2:17:30 PM	Vice Chairman Chandler Note: Sacre, Candace	No.
2:17:32 PM	Chairman Schmitt Note: Sacre, Candace	Dr. Mathews?
2:17:34 PM	Commissioner Mathews Note: Sacre, Candace	No.
2:17:36 PM	Chairman Schmitt Note: Sacre, Candace	Ms. Blend?
2:17:47 PM	Atty Blend Kentucky Power - witness McDonald Note: Sacre, Candace	Cross Examination. Analysis you performed or Karl Rabago?
2:18:18 PM	Atty Blend Kentucky Power - witness McDonald Note: Sacre, Candace	Rabago not a witness?
2:18:27 PM	Atty Blend Kentucky Power Note: Sacre, Candace	No further.
2:18:30 PM	Chairman Schmitt Note: Sacre, Candace	Mr. Fitzgerald?
2:18:35 PM	Atty Fitzgerald Joint Intervenors Note: Sacre, Candace	No.
2:18:38 PM	Chairman Schmitt Note: Sacre, Candace	Excused.
2:18:43 PM	Chairman Schmitt Note: Sacre, Candace	Mr. Fitzgerald?
2:18:47 PM	Chairman Schmitt Note: Sacre, Candace	James Owen.
2:19:40 PM	Chairman Schmitt Note: Sacre, Candace	Break, back 2:30.
2:19:56 PM	Session Paused	
2:32:19 PM	Session Resumed	

2:32:32 PM	Chairman Schmitt Note: Sacre, Candace	Back on record. Mr. Fitzgerald?
2:32:33 PM	Camera Lock Deactivated	
2:32:51 PM	Chairman Schmitt Note: Sacre, Candace	Witness is sworn.
2:33:01 PM	Chairman Schmitt Note: Sacre, Candace	Mr. Fitzgerald?
2:33:06 PM	Atty Fitzgerald Joint Intervenors - witness Owen Note: Sacre, Candace	Direct Examination. Name, employment, business address?
2:33:30 PM	Atty Fitzgerald Joint Intervenors - witness Owen Note: Sacre, Candace	Filed testimony?
2:33:39 PM	Atty Fitzgerald Joint Intervenors - witness Owen Note: Sacre, Candace	Answer data requests?
2:33:45 PM	Atty Fitzgerald Joint Intervenors - witness Owen Note: Sacre, Candace	Same questions/data requests, answers same?
2:33:55 PM	Atty Fitzgerald Joint Intervenors Note: Sacre, Candace	Tender witness.
2:33:58 PM	Chairman Schmitt Note: Sacre, Candace	Ms. Frederick?
2:34:10 PM	Staff Atty Frederick PSC Note: Sacre, Candace	No.
2:34:15 PM	Chairman Schmitt Note: Sacre, Candace	Mr. Horn?
2:34:20 PM	Asst Atty General Horn Note: Sacre, Candace	No.
2:34:22 PM	Chairman Schmitt Note: Sacre, Candace	Mr. Kurtz?
2:34:23 PM	Atty Kurtz KIUC Note: Sacre, Candace	No.
2:34:26 PM	Chairman Schmitt Note: Sacre, Candace	Ms. Grundman?
2:34:28 PM	Atty Grundman Walmart Note: Sacre, Candace	No.
2:34:30 PM	Chairman Schmitt Note: Sacre, Candace	Mr. Spenard?
2:34:32 PM	Atty Spenard KYSEIA Note: Sacre, Candace	No.
2:34:34 PM	Chairman Schmitt Note: Sacre, Candace	Mr. Miller?
2:34:36 PM	Atty Miller Sierra Club Note: Sacre, Candace	No.
2:34:38 PM	Chairman Schmitt Note: Sacre, Candace	Mr. Frye?
2:34:40 PM	Atty Frye SWVA Note: Sacre, Candace	No.
2:34:42 PM	Chairman Schmitt Note: Sacre, Candace	Vice Chairman Chandler?
2:34:45 PM	Vice Chairman Chandler Note: Sacre, Candace	No.
2:34:49 PM	Chairman Schmitt Note: Sacre, Candace	Dr. Mathews?
2:34:52 PM	Commissioner Mathews Note: Sacre, Candace	No.

2:34:55 PM	Chairman Schmitt Note: Sacre, Candace	Ms. Blend?
2:34:58 PM	Atty Blend Kentucky Power Note: Sacre, Candace	No.
2:35:11 PM	Chairman Schmitt Note: Sacre, Candace	Excused.
2:35:23 PM	Chairman Schmitt Note: Sacre, Candace	All witnesses Joint Intervenors?
2:35:27 PM	Atty Fitzgerald Joint Intervenors Note: Sacre, Candace	Yes, move direct testimony into evidence.
2:35:39 PM	Chairman Schmitt Note: Sacre, Candace	Sustained. Testimony Rabago. (Click on link for further comments.)
2:36:02 PM	Chairman Schmitt Note: Sacre, Candace	Vice Chairman Chandler recall Mattison.
2:36:17 PM	Vice Chairman Chandler Note: Sacre, Candace	Not have any questions.
2:36:45 PM	Chairman Schmitt Note: Sacre, Candace	May be excused.
2:37:12 PM	Chairman Schmitt Note: Sacre, Candace	Concludes testimony. Ms. Vinsel, motion?
2:37:23 PM	Asst Gen Counsel Vinsel PSC Note: Sacre, Candace	Move record Case 2019-00256 electronic net metering act be incorporated into this proceeding by reference.
2:38:02 PM	Chairman Schmitt Note: Sacre, Candace	Sustained.
2:38:10 PM	Chairman Schmitt Note: Sacre, Candace	Anything else? Mr. Spenard?
2:38:17 PM	Atty Spenard KYSEIA Note: Sacre, Candace	KYSEIA witnesses, move testimony/responses admitted.
2:38:37 PM	Chairman Schmitt Note: Sacre, Candace	All witnesses accepted and admitted.
2:39:06 PM	Chairman Schmitt Note: Sacre, Candace	Anything else?
2:39:17 PM	Atty Blend Kentucky Power Note: Sacre, Candace	Not for company.
2:39:22 PM	Chairman Schmitt Note: Sacre, Candace	Other parties?
2:39:23 PM	Atty Fitzgerald Joint Intervenors Note: Sacre, Candace	Happy Thanksgiving.
2:39:34 PM	Chairman Schmitt Note: Sacre, Candace	Order on scheduling, out tomorrow.
2:40:00 PM	Chairman Schmitt Note: Sacre, Candace	Data requests December 1, Responses December 9, Kentucky Power brief December 8, brief intervenors December 14, reply brief Kentucky Power December 17, case stand submitted 12:01 a.m. December 18.
2:40:52 PM	Chairman Schmitt Note: Sacre, Candace	Hearing adjourned.
2:41:06 PM	Session Ended	



Exhibit List Report

2020-00174 24Nov2020

**Kentucky Power Company
(Kentucky Power)**

Name:	Description:
Company Hearing Exhibit 1 (Record Exhibit 8)	Revisions to Revenue Requirement Test Year Ended March 31, 2020
Company Hearing Exhibit 2	Commission Order 2004-00420 December 13 2004
Company Hearing Exhibit 3	Commission Order 2017-00179 January 18 2018
Company Hearing Exhibit 7	2019 Project Statistics PJM May 12 2020

Kentucky Power Company
Case No. 2020-00174
Test Year Ended March 31, 2020

<u>Ln No.</u>	<u>Reference</u>	<u>Filed Amount</u>	<u>Revised</u>
(1a) Test Year Retail Sales Revenues per Income Statement	Section V, Schedule 4, Cell C7	\$ 531,745,982	
(1b) Remove Capacity Charge and SSC Over/Under (Adj 1&7)		\$ 759,842	
(1) Test Year Retail Sales Revenues		<u>\$ 532,505,823</u>	
(R1) Staff 6-18 Allocation/Direct Assign Item			\$ (211,279.53)
(R2) Staff 4-65 Storm Normalization Adjustment W16 Revision			\$ (97,747)
(2) Proposed Increase to Revenue Requirement	Section V, Schedule 1, Cell I47	\$ 70,096,743	\$ 69,787,717
(3) Proposed Decrease in Capacity Charge	Section II, Exhibit J	\$ (6,200,000)	\$ (6,200,000)
(4) Proposed Grid Modernization Rider	Section II, Exhibit J	\$ 1,105,046	\$ 1,105,046
(5) Total Increase (Ln 2 + Ln 3 + Ln 4)		<u><u>\$ 65,001,789</u></u>	<u><u>\$ 64,692,762</u></u>

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

APPLICATION OF KENTUCKY POWER)	
COMPANY FOR APPROVAL OF A)	
STIPULATION AND SETTLEMENT	)	CASE NO. 2004-00420
AGREEMENT RESOLVING STATE)	
REGULATORY MATTERS)	

O R D E R

On October 25, 2004, Kentucky Power Company ("Kentucky Power") filed an application requesting the Commission to approve the terms and provisions of a Stipulation and Settlement Agreement ("Stipulation") among Kentucky Power, the Office of the Attorney General ("AG"), and Kentucky Industrial Utility Customers, Inc. ("KIUC"). A copy of the Stipulation is attached hereto as Appendix A. The Stipulation provides for: (1) an 18-year extension, through 2022, of a unit power agreement, whereby Kentucky Power purchases 15 percent of two generating units in Rockport, Indiana ("Rockport"); (2) modifications to Kentucky Power's system sales clause tariff to provide for retail rate recovery of supplemental payments incurred to extend the Rockport unit power agreement; (3) modifications to Kentucky Power's system sales clause tariff to reflect as an expense the environmental costs attributable to off-system sales; and (4) establishing a schedule for Kentucky Power to file its next integrated resource plan ("IRP").

The AG and KIUC requested and were granted full intervention. Kentucky Power published notice of the content of its application, as well as the date of the hearing, in

newspapers of general circulation in its service territory. A hearing was held at the Commission's offices on December 7, 2004. No member of the public appeared at the hearing, and no comments have been filed with the Commission in response to Kentucky Power's application.

ROCKPORT PURCHASE POWER CONTRACT

In approximately 1984, Kentucky Power entered into a wholesale power contract to purchase 15 percent of the output of Rockport Unit Nos. 1 and 2. These are coal-fired 1,300 MW generating units owned by an affiliate of Kentucky Power. The contract obligates Kentucky Power to pay for 15 percent of all costs associated with the two Rockport units and entitles Kentucky Power to receive 15 percent of the output of those units. The power purchased from Rockport Unit No. 1 is priced at cost of service, while the power purchased from Rockport Unit No. 2 is priced at the levelized cost of service over approximately 35 years to reflect a sale/leaseback transaction. Since each unit is 1,300 MW, Kentucky Power's 15 percent share equates to 195 MW from each unit, for a total of 390 MW.

Under the terms of the Stipulation, the Rockport purchase power contract will be extended through December 7, 2022. The current wholesale pricing for the power purchase will continue through the extended term of the contract, but there will also be an annual supplemental payment by retail ratepayers to Kentucky Power. This supplemental payment, as set forth in the Stipulation, will be \$5.1 million annually in 2005 through 2009, and then increases to \$6.2 million annually in 2010 through 2021, and then decreases to \$5,792,329 in 2022. Kentucky Power will be entitled to receive these annual supplemental payments in addition to the base retail rates established by

the Commission as being fair, just, and reasonable, and the supplemental payments will not be considered in establishing Kentucky Power's base retail rates.

MODIFICATIONS TO THE SYSTEM SALES CLAUSE TARIFF

Kentucky Power, along with four affiliated utilities, are members of the AEP-East Power Pool. Collectively, the members of this power pool have relatively low-cost coal-fired generation, and at times they are able to make significant quantities of power sales to non-affiliates. The net revenues from these off-system sales are shared on a proportionate basis among the members of the AEP-East Power Pool. Kentucky Power has historically received a relatively high level of revenue from these off-system sales, although the revenue level has varied annually. To ensure that ratepayers receive the benefits from those off-system sales, while also providing an incentive for Kentucky Power to maximize those sales, a system sales clause has been in effect for approximately 15 years. Under Kentucky Power's system sales clause, for each month that its net revenue from off-system sales exceeds the base amount included in base rates, 50 percent of the excess is credited to ratepayers. Similarly, for each month that its net revenue from off-system sales falls below the base amount, 50 percent of the shortfall is charged to ratepayers. On an annual basis, \$11.3 million of net revenue from off-system sales is in Kentucky Power's base rates.

The Stipulation proposes two modifications to the system sales clause. The first modification is to allow Kentucky Power to recover from retail ratepayers the supplemental annual payments tied to the 18-year extension of the Rockport purchase power contract. The supplemental annual payments will be recovered from all customer classes on a monthly kWh basis in accordance with the allocation methodology set forth

in the Stipulation. Due to annual variations in kWh sales, the system sales clause will also include a balancing factor which will be instituted after the first year and will be modified annually thereafter to prevent over-collection or under-collection of the supplemental payments. Kentucky Power will continue to collect the supplemental payments under the terms of the system sales clause until it files its next base rate case. At that time, Kentucky Power will propose a new tariff to collect the supplemental payments. This new tariff will maintain the same allocation methodology used in the system sales clause to collect the supplemental payments, and the AG and KIUC have agreed not to oppose the new tariff. Upon implementation of such a new tariff, the revisions to the system sales clause to recover the supplemental payments will be deleted.

The second modification to the system sales clause is to allow Kentucky Power to deduct as an expense the environmental costs allocated to off-system sales under its environmental surcharge. Kentucky Power previously requested the Commission to amend its environmental surcharge to allow recovery of the environmental costs associated with off-system sales. The Commission denied that amendment upon finding that the environmental surcharge was properly allowing for the recovery of only those environmental costs associated with retail sales.¹ The Commission further found in that case that, if Kentucky Power's net revenues from off-system sales were being

¹ Case No. 2000-00107, An Examination by the Public Service Commission of the Environmental Surcharge Mechanism of Kentucky Power Company d/b/a American Electric Power for the Six-Month Billing Periods Ending December 31, 1998 and December 31, 1999, and for the Two-Year Billing Period Ending June 30, 1999 (Order dated February 8, 2001 at 12, 14).

overstated due to its inability to deduct environmental costs as an expense, the remedy was for Kentucky Power to modify its system sales clause.²

The Stipulation allows Kentucky Power to modify its system sales clause by deducting the environmental costs allocated to off-system sales under the environmental surcharge.

INTEGRATED RESOURCE PLAN

The Stipulation also provides that Kentucky Power will file a new IRP no later than June 30, 2009. This IRP will reflect the resources available to Kentucky Power as a “stand-alone” utility, as well as the resources available to it as a member of any power-pooling arrangement that is anticipated to exist during the period reflected in the IRP. The Stipulation further provides that this IRP will be subject to formal review by the Commission. In the event that authority is requested to change the resources that are currently available to Kentucky Power under the AEP-East Power Pool, Kentucky Power will file a new IRP earlier than June 30, 2009, if requested to do so by the AG, KIUC, or the Commission.

DISCUSSION

Kentucky Power owns two coal-fired generating units at its Big Sandy Generating Station in Louisa, Kentucky. Big Sandy Unit No. 1 has a capacity of 260 MW, while Big Sandy Unit No. 2 has a capacity of 800 MW, for a station total of 1,060 MW. When this capacity is combined with the 390 MW purchased from Rockport Unit Nos. 1 and 2, Kentucky Power has sufficient generation to satisfy its internal load during most of the hours of the year. During those limited hours when Kentucky Power is short on

² Id. at 12.

capacity, it is able to purchase needed generation through the AEP-East Power Pool. The Commission has been concerned for some time about the 2004 expiration of the existing Rockport unit power contract due to the relatively low cost of that power compared to today's cost to either construct new generation or purchase that quantity of power in the wholesale market at competitive prices. Although the existing Rockport unit power contract has been priced at cost of service, the 18-year contract extension will include a supplemental payment to be retained by Kentucky Power.

The Commission previously expressed serious concern about what had been for some time Kentucky Power's intent to meet its native load requirements by purchasing power at market-based prices rather than extending the Rockport unit power contract. In Administrative Case No. 387,³ the Commission found that:

[R]eliance on power purchases that reflect market price volatility is not in the best interests of Kentucky consumers. AEP-KY must plan to meet its load by securing sufficient capacity that is not subject to market price volatility. Only by doing so will AEP-KY be able to maintain reasonable electric rates while mitigating to the extent possible market price and fuel price fluctuations.⁴

Consistent with these Commission findings, Kentucky Power is now proposing a long-term extension of the Rockport unit power contract at a price that is not subject to market volatility. Although the price to be paid by retail customers for this power does reflect market forces since it is priced above cost of service, the price now being fixed will insulate retail ratepayers from the risk of future market price volatility.

³ Administrative Case No. 387, A Review of the Adequacy of Kentucky's Generation Capacity and Transmission System (Order dated December 20, 2001).

⁴ Id. at 34-35.

Based on the evidence of record and being otherwise sufficient advised, the Commission finds that the 18-year extension of the Rockport unit power contract under the terms and conditions set forth in the Stipulation is reasonable and should be approved. Extending the purchase of 390 MW of power from Rockport, when combined with the 1,060 MW from Big Sandy, will provide Kentucky Power sufficient capacity, at reasonable and fixed prices, to meet its native load during most of the hours throughout this decade, with any shortfalls in capacity being met by purchases from affiliates through the AEP-East Power Pool.

The Commission further finds that the proposed modifications to Kentucky Power's system sales clause are reasonable. Kentucky Power had previously indicated that it was unwilling to extend the Rockport unit power contract and, as a wholesale power sale, the Commission has no jurisdiction to require the extension of that contract. Thus, the supplemental payment to Kentucky Power was a requisite for the 18-year contract extension. Even with this supplemental payment, the purchase price for the Rockport power is favorable compared to today's cost to construct new coal-fired generation. In recognition that all parties to this case have agreed that this supplemental payment should be recovered through Kentucky Power's system sales clause, the Commission will approve this modification.

All parties have also agreed that the system sales clause should be modified to recover the environmental costs that are now excluded from recovery under Kentucky Power's environmental surcharge because they are allocated to off-system sales. The Commission previously found, in Case No. 2000-00107, that these environmental costs were more appropriate for recovery under Kentucky Power's system sales clause. The

Commission reaffirms that prior finding and will now approve the recovery of these costs under Kentucky Power's system sales clause.

Finally, the Commission finds the proposal for Kentucky Power to file its next IRP no later than June 30, 2009 to be reasonable. Pursuant to the Commission's December 20, 2001 Order in Administrative Case No. 387, Kentucky Power is required to annually file schedules showing, among other things, its historic and projected peak demand figures, available capacities, and reserve margin. However, since these schedules reflect Kentucky Power on a stand-alone basis, they do not truly present Kentucky Power's ability to meet its native load requirements as a member of the AEP-East Power Pool. Consequently, Kentucky Power agreed, as part of the Stipulation, and subsequently affirmed at the hearing, that its annual filings pursuant to Administrative Case No. 387 will also include schedules showing the current and projected demands, generating resources, and reserve margins for the AEP-East Power Pool. With this information, the Commission will be in a better position to more accurately gauge Kentucky Power's need and timing for additional generating capacity.

IT IS THEREFORE ORDERED that:

1. The terms and provisions of the Stipulation filed by Kentucky Power are approved.
2. Kentucky Power's proposed modifications to its system sales clause tariff set forth in First Revised Sheet Nos. 19-1 and 19-2 are approved for service rendered on and after the date that Kentucky Power receives all necessary regulatory approvals for the 18-year extension of its unit power contract to purchase 15 percent of Rockport.

3. Kentucky Power shall file its next IRP no later than June 30, 2009, reflecting both the resources available to it as a stand-alone company, as well as the resources available to it as a member of any then-anticipated power pool.

4. All future annual responses by Kentucky Power to the December 20, 2001 Order in Administrative Case No. 387 shall include information on both Kentucky Power individually and the AEP-East Power Pool.

Done at Frankfort, Kentucky, this 13th day of December, 2004.

By the Commission

ATTEST:



Executive Director

APPENDIX A

APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE
COMMISSION IN CASE NO. 2004-00420 DATED December 13, 2004.

**COMMONWEALTH OF KENTUCKY
BEFORE THE
PUBLIC SERVICE COMMISSION OF KENTUCKY**

IN THE MATTER OF:

**APPLICATION OF KENTUCKY POWER)
COMPANY FOR APPROVAL OF A STIPULATION)
AND SETTLEMENT AGREEMENT RESOLVING) P.S.C. CASE No. 04-____
STATE REGULATORY MATTERS)**

**STIPULATION AND SETTLEMENT AGREEMENT
AMONG KENTUCKY POWER COMPANY, KENTUCKY INDUSTRIAL
UTILITY CUSTOMERS, INC. AND OFFICE OF ATTORNEY GENERAL,
OFFICE OF RATE INTERVENTION**

This Stipulation and Settlement Agreement is made as of October ^{20~~th~~}, 2004, by and among the Kentucky Office of Attorney General, Office of Rate Intervention ("KOAG"); Kentucky Industrial Utility Customers, Inc. ("KIUC")¹ (the KOAG and KIUC are collectively referred to herein as the "Kentucky Parties"); and Kentucky Power Company ("Kentucky Power.") These entities are sometimes individually referred to herein as a "Party" or collectively as "Parties".

WITNESSETH:

WHEREAS, on December 20, 2001 the Parties and the Public Service Commission of Kentucky ("Kentucky PSC") entered into a Settlement Agreement to resolve two proceedings then pending before the Federal Energy Regulatory Commission ("FERC"): Docket No. EC01-130-000 and Docket No. ER01-2668-000;

WHEREAS, among the issues before FERC in Docket No. EC01-130-000 was a Section 203 Application by American Electric Power Service Corporation to transfer certain jurisdictional assets among American Electric Power Company, Inc. ("AEP") subsidiaries in connection with AEP's proposed restructuring plan;

WHEREAS, in the negotiations leading to the December 20, 2001 Settlement Agreement the Parties addressed state regulatory issues including:

¹ KIUC consists of AK Steel Corporation; Air Products & Chemicals, Inc.; Marathon Ashland Petroleum LLC; Calgon Carbon; and Specialty Metals Corporation.

(a) Kentucky Power's need for additional capacity beyond the December 31, 2004 expiration of the Unit Power Supply Agreement ("UPSA") between American Electric Generating Company ("AEGCo") and Kentucky Power for 195 MW of Rockport Unit No. 1 and 195 MW of Rockport Unit No. 2;

(b) Resolution of Kentucky Power's claim against AK Steel Corporation for late payment charges claimed due then pending in P.S.C. Case No. 2000-428, *Kentucky Power Company d/b/a American Electric Power v. AK Steel Corporation*;

(c) The date for filing by Kentucky Power of its next Integrated Resource Plan pursuant to 807 KAR 5:058;

(d) The amendment of Kentucky Power's System Sales Clause to permit the offset against system sales revenues of the environmental costs currently allocated to Non-Associated Utilities in calculating Kentucky Power's environmental surcharge pursuant to KRS 278.183;

(e) The setting of Kentucky retail rates in connection with the extension of the UPSA for 195 MW of Rockport Unit No. 1 and 195 MW of Rockport Unit No. 2.

WHEREAS, as part of the December 20, 2001 Settlement Agreement the Parties agreed to a settlement of the state regulatory issues, subject to approval by the Kentucky PSC;

WHEREAS, as part of the December 20, 2001 Settlement Agreement the Parties and the Kentucky PSC agreed that extending the UPSA between AEGCo and Kentucky Power for 195 MW of Rockport Unit No. 1 for five years beyond its December 31, 2004 expiration date was in the best interest of Kentucky Power and its ratepayers;

WHEREAS, as a further part of the December 20, 2001 Settlement Agreement the Parties and the Kentucky PSC agreed that extending the UPSA between AEGCo and Kentucky Power for 195 MW of Rockport Unit No. 2 until the December 7, 2022 end of the lease agreement dated as of December 1, 1989 between Wilmington Trust Company as Lessor and AEGCo was in the best interest of Kentucky Power and its ratepayers;

WHEREAS, on December 17, 2002 the Kentucky PSC approved the December 20, 2001 Settlement Agreement, finding that the extension of the UPSA for Rockport Unit No. 1 and Rockport Unit No. 2 was in the best interest of Kentucky Power and its ratepayers;

WHEREAS, the corporate restructuring and transfer of assets was never consummated;

WHEREAS, the Commission in its March 29, 2004 and May 29, 2004 Orders in Administrative Case No. 387, *In the Matter of: A Review of the Capacity of Kentucky's*

Generation and Transmission System, directed Kentucky Power to continue to seek extensions of the UPSA for Rockport Unit No. 1 and Rockport Unit No. 2;

WHEREAS, the Parties believe that extension of the UPSA for 195 MW of Rockport Unit No. 1 and for 195 MW of Rockport Unit No. 2 is in the best interest of Kentucky Power's ratepayers and will enable Kentucky Power to secure long-term low-cost, coal-fired base load generation;

WHEREAS, the Parties agree that the additional revenues set out in Section III(a)(1) and Section III(a)(2) of this Stipulation and Settlement Agreement are fair, just and reasonable consideration for the extension of the UPSA for Rockport Unit No. 1 and Rockport Unit No. 2 and the resolution of the other matters considered herein, and that the rates imposed to recover the additional revenues are fair, just and reasonable rates;

WHEREAS, the Parties agree that the state regulatory issues that were the subject of the December 20, 2001 Settlement Agreement should be resolved;

WHEREAS, the Parties have engaged in good faith negotiations to resolve the matters set forth below;

NOW THEREFORE, the Parties have reached a settlement and agree as follows:

I. ROCKPORT UNIT NO. 1 CAPACITY

1. The UPSA between Kentucky Power and AEGCo for 195 MW of Rockport Unit No. 1 will be extended beyond the current expiration date, which is December 31, 2004. The UPSA for 195 MW of Rockport Unit No. 1 will be extended until the expiration of the lease agreement for Rockport Unit No. 2 between Wilmington Trust Company as Lessor and AEGCo, which expires December 7, 2022. All other terms and provisions of the existing UPSA will continue through December 7, 2022. Except as provided in Section VI(3) of this Stipulation and Settlement Agreement neither Kentucky Power nor any of its affiliates, nor any party to this Stipulation and Settlement Agreement will seek to have the UPSA terminated before its new expiration date of December 7, 2022.

II. ROCKPORT UNIT NO. 2 CAPACITY

1. The UPSA between Kentucky Power and AEGCo for 195 MW of Rockport Unit No. 2 will be extended until the expiration of the lease agreement for Rockport Unit No. 2 between Wilmington Trust Company as Lessor and AEGCo, which expires December 7, 2022. All other terms and provisions of the existing UPSA will continue through December 7, 2022. Except as provided in Section VI(3) of this Stipulation and Settlement Agreement neither Kentucky Power nor any of its affiliates, nor any party to this Stipulation and Settlement Agreement will seek to have the UPSA terminated before its new expiration date of December 7, 2022.

III. ADDITIONAL REVENUES

1. In consideration of the benefits conferred by the extension of the UPSA and other matters resolved herein, all Parties further agree not to oppose an application by Kentucky Power to the Kentucky PSC to amend its retail tariffs to permit Kentucky Power to collect additional retail revenues as follows:

(a) Kentucky Power shall collect \$5.1 million in additional revenue each year of this Stipulation and Settlement Agreement for the five years beginning January 1 of 2005 through 2009;

(b) Kentucky Power shall collect a further increase in additional annual revenues of \$1.1 million (yielding a combined total increase in annual revenue of \$6.2 million) each year for the approximately thirteen years beginning January 1 of 2010 through December 7, 2022, except that the additional revenues for the year beginning January 1, 2022 shall be \$5,792,329 (341/365 of \$6.2 million.)

(c) Following approval of the retail rate adjustments set forth in Section III(1)(a) and Section III(1)(b) of this Stipulation and Settlement Agreement Kentucky Power will:

(i) implement those rate adjustments by revising its monthly System Sales Clause Schedule filed with the Kentucky PSC in the fashion illustrated on Exhibit 1 to this Stipulation and Settlement Agreement. The increased annual revenues will be generated by two different kWh rates. The first rate will be for all customers except the CIP-TOD tariff customers and the second kWh rate will be for the CIP-TOD tariff customers. The kWh rate to be applied to each of these two customer class groups shall be sufficient to generate that portion of the total increase in annual revenues required under this Stipulation and Settlement Agreement equal to the percentage of total annual revenues produced by each of the two customer class groups (CIP-TOD and all other tariffs) for the twelve months ending June 30, 2004 and for each twelve month period thereafter during which the revenues are collected through the system sales tracker.

(ii) calculate each calendar year during the period between January 1, 2005 and the effective date of the Company's next change in retail base rates a Balancing Adjustment Factor (BAF) in the same manner as the Company does for the current Net Merger Savings Credit tariff and include the factor in the combined System Sales Clause factor as shown on Exhibit 1 to this Stipulation and Settlement Agreement.

(d) In any retail rate case pursuant to KRS 278.190 or KRS 278.260 following approval by the Kentucky PSC of the retail rate adjustments set forth in

Section III(1)(a) and Section III(1)(b) of this Stipulation and Settlement Agreement the Parties agree that:

(i) the additional revenues collected by Kentucky Power from the retail rate adjustments set forth in Section III(1)(a) and Section III(1)(b) of this Stipulation and Settlement Agreement will not be considered by the Kentucky Public Service Commission in establishing Kentucky Power's retail base rates. In any such retail rate case Kentucky Power shall be permitted to exclude from the test year period the revenues collected pursuant to Section III(1)(a) and III(1)(b) of this Stipulation and Settlement Agreement;

(ii) Kentucky Power shall collect the additional revenues as set forth Section III(1)(a) and Section III(1)(b) of this Stipulation and Settlement Agreement in addition to such base retail rates established by the Kentucky PSC. The costs associated with the underlying Rockport Unit 1 and 2 UPSA will continue to be included in base rates;

(iii) Kentucky Power will develop, and the other Parties will not oppose, a new tariff that provides for the receipt by Kentucky Power of the additional revenues as described in Section III(1)(a) and III(1)(b) of this Stipulation and Settlement Agreement that will allow the Company to receive the additional revenue amount in addition to its base rates and other charges. Such new tariff will be consistent with the revenue allocation and rate design principles set forth in this Agreement. Such new tariff will include two different rates, one for CIP-TOD tariff customers and one for all other tariff customers. The allocation of the additional revenues to be collected from the CIP-TOD tariff customers and all other tariff customers will be based upon the total annual revenue of each of the two customer classes. Once the additional revenues have been allocated between the two customer classes based upon total annual Kentucky retail revenue, the additional revenue will be collected within the two customer classes (CIP-TOD and all other tariffs) on a kwh basis.

(e) In the first retail base rate case pursuant to KRS 278.190 or KRS 278.260 following approval by the Kentucky PSC of the retail rate adjustments set forth in Section III(1)(a) and Section III(1)(b) of this Stipulation and Settlement Agreement the Parties agree that the modification of the System Sales Clause under Section III(1)(c) of this Stipulation and Settlement Agreement to permit the receipt by Kentucky Power of the additional revenues shall be eliminated upon the implementation by the Kentucky PSC of the provisions of Section III(d) of this Stipulation and Settlement Agreement.

(f) This Stipulation and Settlement Agreement is made upon the express agreement by the Parties that the receipt by Kentucky Power of the additional revenues called for by Section III(1)(a) and III(1)(b) shall be accorded the ratemaking treatment set out in this Section III. In any proceeding affecting

the rates of Kentucky Power during the extension of the UPSA under this Stipulation and Settlement Agreement, the provisions of this Section III are an express exception to Section VI(4) of this Stipulation and Settlement Agreement.

IV. INTEGRATED RESOURCE PLAN

1. The Parties agree that Kentucky Power will submit an Integrated Resource Plan ("IRP") to the Kentucky PSC no later than June 30, 2009. The filing shall reflect the resources available to Kentucky Power. The filing shall also reflect the resources available to Kentucky Power as a member of any pool arrangement that Kentucky Power expects to exist during the period reflected in the IRP. The Kentucky Public Service Commission will initiate a formal review of that IRP and issue an order setting forth its findings and conclusions.

2. Notwithstanding the provisions of Section IV(1) of this Stipulation and Settlement Agreement, within 120 days of filing with FERC an application to amend the AEP-East Interconnection Agreement to change the generation resources available to Kentucky Power under the AEP-East Interconnection Agreement the Parties and the appropriate members of the Staff of the Kentucky PSC shall meet and confer concerning the need for Kentucky Power to file an IRP prior to June 30, 2009. If after such discussions one or more of the Parties or the Staff of the Kentucky PSC in good faith requests that Kentucky Power make an IRP filing in conformity with Section IV(1) of this Stipulation and Settlement Agreement Kentucky Power shall do so within 90 days of receiving such request.

3. During the period of the extension of the Rockport UPSA required under this Stipulation and Settlement Agreement, Kentucky Power shall provide in connection with its annual filing pursuant to the Kentucky PSC's December 20, 2001 Order in Administrative Case No. 387 that information provided in Kentucky Power's Integrated Resource Plan concerning the combined load and resources of the parties to the AEP Interconnection Agreement and Kentucky Power.

V. ENVIRONMENTAL COSTS

1. All Parties agree not to oppose an application by Kentucky Power seeking approval by the Kentucky PSC for the environmental costs currently allocated to Non-Associated Utilities as required by the Kentucky Public Service Commission in Kentucky Power's environmental surcharge pursuant to KRS 278.183 to be reflected in Kentucky Power's monthly filing of the System Sales Clause Schedule as shown on Exhibit 2 to this Stipulation and Settlement Agreement. This change in the recovery of such environmental costs will occur on the effective date of the Kentucky PSC's order approving the terms of this Stipulation and Settlement Agreement. When Kentucky Power's base rates are next changed by order of the Kentucky PSC, the appropriate ratemaking treatment for the environmental costs allocated to Non-Associated Utilities may be addressed by the Kentucky Public Service Commission.

VI. PROCEDURAL TERMS

1. The parties will not oppose in proceedings before the Kentucky PSC or FERC or on appeal the issuance of an Order by the Kentucky PSC or FERC approving the terms of this Stipulation and Settlement Agreement.

2. The terms of this Stipulation and Settlement Agreement are expressly conditioned upon:

(a) the approval by the Kentucky PSC and by any court reviewing such action of the Stipulation and Settlement Agreement and all supporting or related tariff filings without any change or condition that is unacceptable to the Parties;

(b) the approval by FERC and by any court reviewing such action of the extension of the UPSA without any change or condition that is unacceptable to the Parties;

(c) the receipt without any change or condition that is unacceptable to the Parties of all approvals from or non-objections by FERC and any state regulatory bodies exercising jurisdiction over other AEP operating companies, and any court reviewing such action, required to implement the terms of this Stipulation and Settlement Agreement.

3. If at any time prior to the expiration of the extension of the UPSA under this Stipulation and Settlement Agreement the Kentucky PSC or its successor enters an Order that prevents Kentucky Power from charging rates consistent with the provisions of Sections III(1)(a), Section III(1)(b), III(1)(d)(i) and III(1)(d)(ii) of this Stipulation and Settlement Agreement Kentucky Power may, upon 120 days notice to the Commission and the parties to this Stipulation and Settlement Agreement, begin legal or regulatory proceedings necessary to terminate the extension of the UPSA and withdraw from all other obligations under this Agreement. During any such proceedings no Party to this Stipulation and Settlement Agreement shall make any arguments nor take any position inconsistent with the provisions of this Stipulation and Settlement Agreement. During the 120 day notice period the Kentucky PSC shall be authorized to cure any noncompliance with this Agreement.

4. This Stipulation and Settlement Agreement further is made upon the express understanding that it constitutes a negotiated settlement, and except as otherwise expressly provided for herein to effectuate this Stipulation and Settlement Agreement, no Party shall be deemed to have agreed to any ratemaking principle, precedent or policy, nor shall any party be deemed to have agreed or consented to any matter not expressly stated in this Stipulation and Settlement Agreement. Nothing in this Paragraph is intended to prevent the admission of this Stipulation and Settlement Agreement as evidence in any proceeding in which it is relevant.

5. In the event the conditions set forth in Section VI(2) of this Stipulation and Settlement Agreement are not satisfied the Parties, upon notice by any Party, shall meet with appropriate members of the Kentucky PSC Staff and in good faith discuss amendments of this Stipulation and Settlement Agreement, if any, that are satisfactory to the Parties. If, despite such good faith discussions, the Parties are unable to agree upon amendments within 30 days of the commencement of such discussions or such longer period as mutually agreed, then this Stipulation and Settlement Agreement shall become void and of no effect.

IN WITNESS WHEREOF, the Parties have caused this Stipulation and Settlement Agreement to be signed by their duly authorized officers and representatives as of the date first written above.

Agreed to and Accepted:

Kentucky Power Company

By: Errol K Wagner

Name: Errol K Wagner

Title: Assistant Secretary

Agreed to and Accepted:

Kentucky Industrial Utility Customers, Inc.

By: Michael L. Kurtz

Name: Michael L. Kurtz

Title: Attorney

Agreed to and Accepted:

Office of Attorney General, Office of Rate Intervention

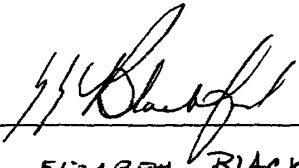
By: 
Name: ELIZABETH BLACKFORD
Title: Assistant Attorney General

Exhibit 1

Exhibit 1 illustrates Page 1 of 2 of the revised monthly System Sales Clause Schedule that Kentucky Power will file with the Public Service Commission of Kentucky to collect \$5.1 million in the first five years and \$6.2 million in years six through eighteen in additional revenues in consideration of the agreements reached in this Stipulation and Settlement Agreement. Collecting \$5.1 million in years 1-5 and \$6.2 million in years 6-18 will result in Kentucky Power collecting approximately \$106.1 over the 18-year period. The revised System Sales Clause Schedule includes three new lines.

Line 8, entitled "State Issues Settlement Factor," will be a fixed amount equal to \$0.000847 for all customers except the CIP-TOD customers and \$0.000500 for CIP-TOD customers. Line 9, entitled "State Issues Settlement BAF," will be calculated once a year until the Company's effective date of a change in base rates. The purpose of the BAF factor is to collect or refund any difference between the actual amount collected and \$5.1 million or \$6.2 million whichever is in effect. Line 10, entitled "Net System Sales Clause Factor - \$ kWh," will be the combined result of line 7 "System Sales Clause Factor", line 8 "State Issues Settlement Factor" and line 9 "State Issues Settlement BAF".

Page 1 of 2 of the revised monthly System Sales Clause Schedule will be in the following format:

Kentucky Power Company
System Sales Clause Schedule
Case No. 9061 and
Stipulation and Settlement Agreement

Line No.				
1	Current Month (Tm) Net Revenue	(+)		
2	Base Month (Tb) Tariff Sheet No. 19-1 Net Revenue Level	(-)		
3	Increase (Decrease) of System Sales Net Revenue			
4	Customer 50% Sharing	(x)	50%	
5	Customer Share of Increase (Decrease) in System Sales Net Revenue			
6	Current Month (Sm) Sales Level	(/)		
7	System Sales Clause Factor - \$/kWh*			
			All Other Customers	CIP-TOD Customers
8	State Issues Settlement Factor	(+)	\$0.000847	\$0.000500
9	States Issues Settlement BAF	(+)	\$0.000000	\$0.000000
10	Net System Sales Clause Factor - \$ kWh	(=)	_____	_____

*This factor is a credit to the customer when current month net revenue levels exceed the base month; and a charge when current month net revenue levels are below the base month.

Effective Date for Billing:

Submitted by:

Signature

Title:

Date Submitted:

Exhibit 2

Exhibit 2 illustrates Page 2 of 2 of the revised monthly System Sales Clause Schedule that Kentucky Power will file with the Public Service Commission to reflect Kentucky Power's environmental surcharge pursuant to KRS 278.183 in accordance with Section V(1) of this Stipulation and Settlement Agreement. Specifically, on page 2 of 2 of the Schedule, Kentucky Power will add a new line (Line 6) entitled "Non-Associated Utilities Monthly Environmental Costs". Line 4 ("Sales for Resale Expense") and Line 5 ("Interchange-Delivered Expense") will be added to Line 6 ("Non-Associated Utilities Monthly Environmental Costs") to arrive at Line 7 ("Total System Sales Expenses"). "Total System Sales Revenues" (Line 3) less "Total System Sales Expenses" (Line 7) will determine "Total System Sales Net Revenue" (Line 8) for the current month. Line 8 will be carried over to Page 1 of 2 of the Schedule, Line 1("Current Month (Tm) Net Revenue Level"), to be used in calculating the monthly "System Sales Clause Factor - \$ kWh" (Line 9) on that page. Page 2 of 2 of the revised monthly System Sales Clause Schedule will be in the following format:

Kentucky Power Company
System Sales Clause Net Revenue

Month Ended _____

Line No.		CURRENT MONTH	PRIOR MO. TRUE-UP ADJUSTMENT	TOTAL
1	Sales for Resale Revenues			
2	Interchange-Delivered Revenues			
3	Total System Sales Revenues			
4	Sales for Resale Expenses			
5	Interchange-Delivered Expenses			
6	<i>Non-Associated Utilities Monthly Environmental Costs*</i>			
7	Total System Sales Expenses			
8	Total System Sales Net Revenue			

*Source: ES Form 1.0, Line 3
ES Form 3.3, Line 4
Non-Associated Environmental Costs

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	)	CASE NO.
SERVICE; (2) AN ORDER APPROVING ITS 2017	)	2017-00179
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)	

ORDER

Kentucky Power Company (“Kentucky Power”), a wholly owned subsidiary of American Electric Power Company, Inc. (“AEP”) is an electric utility that generates, transmits, distributes, and sells electricity to approximately 168,000 consumers in all or portions of 20 counties in eastern Kentucky.¹ Kentucky Power owns and operates a 285-megawatt (“MW”) gas-fired steam-electric generating unit in Louisa, Kentucky, and owns and operates a 50 percent undivided interest in a coal-fired generating station in Moundsville, West Virginia; Kentucky Power’s share consists of 780 MW. Kentucky Power obtains an additional 393 MW from Rockport (Indiana) Plant Generating Units No. 1 and No. 2 under a unit power agreement (“Rockport UPA”). Kentucky Power’s transmission system is operated by PJM Interconnection, LLC (“PJM”), a regional

¹ Application at 2. Kentucky Power also furnishes electric service at wholesale to the Cities of Olive Hill and Vanceburg, Kentucky.

electric grid and market operator. Kentucky Power's most recent general rate increase was granted in June 2015 in Case No. 2014-00396.²

BACKGROUND

On April 26, 2017, Kentucky Power filed notice of its intent to file an Application ("Application") for approval of an increase in its electric rates based on a historical test year ending February 28, 2017. By Order entered May 24, 2017, the Commission granted Kentucky Power's motion to deviate from certain filing requirements, which Kentucky Power requested in order to obtain additional time to review its Application before its proposed filing date of June 28, 2017.

Kentucky Power tendered its Application on June 28, 2017, which included new rates to be effective on or after July 29, 2017, based on a request to increase its electric revenues by \$65,387,987, or 11.80 percent. On August 7, 2017, Kentucky Power supplemented its Application to reflect the impact of refinancing of certain debts in June 2017, which reduced Kentucky Power's requested annual increase in revenues to \$60,397,438. In its Application, Kentucky Power also requested approval of its environmental compliance plan, and proposed to revise, add, and delete various tariffs applicable to its electric service. After Kentucky Power cured filing deficiencies, its Application was deemed filed as of July 20, 2017. To determine the reasonableness of these requests, the Commission suspended the proposed rates for five months from their effective date, pursuant to KRS 278.190(2), up to and including January 18, 2018.

² Case No. 2014-00396, *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* (Ky. PSC June 22, 2015) ("Case No. 2014-00396, Final Order").

The following parties requested and were granted full intervention: the Attorney General of the Commonwealth of Kentucky, by and through his Office of Rate Intervention (“Attorney General”); Kentucky Industrial Utility Customers, Inc. (“KIUC”); Kentucky School Boards Association (“KSBA”); Kentucky League of Cities (“KLC”); Kentucky Commercial Utility Customers, Inc. (“KCUC”); Kentucky Cable Telecommunications Association (“KCTA”); and Wal-Mart Stores East, LP and Sam’s East, Inc. (jointly, “Walmart”).

By order entered on July 17, 2017, the Commission established a procedural schedule that provided for discovery, intervenor testimony, rebuttal testimony from Kentucky Power,³ a formal evidentiary hearing, and an opportunity for the parties to file post hearing briefs.⁴ On October 26, 2017, and November 7, 2017, an informal conference (“IC”) was held at the Commission’s offices to discuss procedural matters and the possible resolution of pending issues. All parties participated in the IC held on October 26, 2017, with the exception of KCTA, who engaged in separate discussions with Kentucky Power regarding possible resolution of issues pertaining to the Cable Television Pole Attachment Tariff (“Tariff C.A.T.V.”) The Attorney General did not attend the November 7, 2017 IC due to a scheduling conflict, but indicated that the IC should proceed as scheduled. At the November 7, 2017 IC, the parties in attendance,

³ On October 11, 2017, the Attorney General filed a motion to amend the procedural schedule to permit him to file rebuttal testimony. Kentucky Power and KLC each filed responses in opposition. By order issued October 24, 2017, the Commission found the Attorney General failed to establish good cause to amend the procedural schedule and denied the Attorney General’s motion.

⁴ The Commission conducted public meetings in Kentucky Power’s service territory on November 2, 2017, in Prestonsburg, Kentucky; on November 6, 2017, in Hazard, Kentucky; and on November 8, 2017, in Ashland, Kentucky.

with the exception of KCUC, arrived at an agreement in principle for the resolution of the issues raised in this case.

On November 22, 2017, Kentucky Power, KIUC, KLC, KSBA, KCTA, and Walmart (“Settling Intervenors”) filed a Settlement Agreement (“Settlement”) that addressed all of the issues raised in this proceeding. The Attorney General and KCUC are not signatories to the Settlement. The Settlement is attached as Appendix A to this Order.

Because the Settlement was not unanimous, the December 6, 2017, evidentiary hearing was held as scheduled for the purposes of hearing testimony in support of the Settlement and on contested issues. On January 5, 2018, Kentucky Power, the Attorney General, KIUC, and KCUC filed their respective post hearing briefs. The matter now stands submitted to the Commission for a decision.

SETTLEMENT AGREEMENT

The Settlement reflects the agreement of the parties, except for the Attorney General and KCUC, on all issues raised in this case. The major substantive areas addressed in the Settlement are as follow:

- Kentucky Power’s electric retail revenues should be increased by \$31,780,734, effective January 19, 2018.⁵ This amount consists of a base rate revenue reduction of \$28,616,704 from the \$60,397,438 requested in Kentucky Power’s August 7, 2017 supplemental filing.

⁵ Settlement, paragraphs 2(a) and 17.

- Establishment of deferral mechanisms for \$50 million in non-fuel, non-environmental Rockport UPA expenses.⁶
- Amendment of the Purchase Power Adjustment tariff (“Tariff P.P.A.”) to recover incremental PJM Open Access Transmission Tariff (“OATT”) Load Serving Entity (“LSE”) charges and credits above or below net PJM OATT LSE charges and credits in base rates.⁷
- Amendment of Tariff P.P.A. as described in the Direct Testimony of Alex E. Vaughan (“Vaughan Direct Testimony”) to collect from, or credit to, customers the amount of purchased power costs that are excluded from recovery through the Fuel Adjustment Clause (“FAC”), and gains and losses from incidental sales of natural gas purchased for use at Big Sandy Unit 1, but not used or stored.⁸
- Establishment of 20-year service life for Big Sandy Unit 1 for depreciation rates.⁹
- Establishment of a return on equity of 9.75 percent.¹⁰
- Agreement to lower the Kentucky Economic Development Surcharge rate (“Tariff K.E.D.S.”) for residential customers and increase the rate for non-residential customers, with matching contribution by Kentucky Power.¹¹

⁶ *Id.* at paragraph 3.

⁷ *Id.* at paragraph 4.

⁸ *Id.* at paragraph 6.

⁹ *Id.* at paragraph 7.

¹⁰ *Id.* at paragraph 8.

¹¹ *Id.* at paragraph 10.

- Agreement to continue Tariff K-12 School as a permanent customer class instead of a pilot rate.¹²
- Agreement that Kentucky Power will not request a general adjustment of base rates for rates that would be effective prior to the January 2021 billing cycle.¹³
- Increase Kentucky Power's customer charge for Residential Service customers to \$14.00 per month.¹⁴

CONTESTED REVENUE REQUIREMENT AND REVENUE ALLOCATION ISSUES

Kentucky Power proposed an annual increase in its electric revenues of \$60,397,438 in its August 7, 2017 supplemental filing. Through testimony, the Attorney General contended that Kentucky Power should be allowed to increase its electric revenues by \$39.9 million.¹⁵ Through testimony, KCUC contended that the revenue allocation contained in the Settlement does not provide fair or reasonable treatment for customers in the Large General Service class ("Tariff L.G.S."). Because the parties have not reached a unanimous settlement on the increase in revenues, the Commission must consider the evidentiary record on these issues as presented by Kentucky Power, the Attorney General, and KCUC, and render a decision based on a determination of Kentucky Power's capital, rate base, operating revenues, operating expenses, and revenue allocation, as would be done in a fully litigated rate case

¹² *Id.* at paragraphs 1213.

¹³ *Id.* at paragraph 5.

¹⁴ *Id.* at paragraph 16.

¹⁵ Direct Testimony of Ralph C. Smith ("Smith Testimony") at 12.

TEST PERIOD

Kentucky Power proposed the 12-month period ending February 28, 2017, as the test period for determining the reasonableness of its proposed rates. None of the Intervenor's contested the use of this period as the test period. The Commission finds it is reasonable to use the 12-month period ending February 28, 2017, as the test period in this case. Due to the timing of Kentucky Power's filing, the 12-month period ending February 28, 2017, is the most recent feasible period to use for setting rates and, except for the adjustments approved herein, the revenues and expenses incurred during that period are neither unusual nor extraordinary.¹⁶ In using this historic test period, the Commission has given full consideration to appropriate known and measurable changes.

RATE BASE

Jurisdictional Rate Base Ratio

Kentucky Power proposed a test-year-end Kentucky jurisdictional rate base of \$1,323,494,246.¹⁷ The Kentucky jurisdictional rate base is divided by Kentucky Power's test-year-end total company rate base to derive the Kentucky jurisdictional rate base ratio ("jurisdictional ratio"). This jurisdictional ratio is then applied to Kentucky Power's total company capitalization to derive the Kentucky jurisdictional capitalization. The jurisdictional ratio uses the test-year-end rate base before any ratemaking adjustments

¹⁶ On May 22, 2017, Kentucky Power filed a motion to deviate from filing requirement 807 KAR 5:001, Section 12(1)(a), which requires the submission of a detailed financial exhibit for the 12-month test period ending not more than 90 days prior to the date of its application. Kentucky Power requested to deviate by filing the required financial exhibit for 12-month period ending 120 days, rather than 90 days, prior to the date of its application. By Order, the Commission approved Kentucky Power's motion to deviate from 807 KAR 5:001, Section 12(1)(a) (Ky. PSC May 24, 2017).

¹⁷ Application, Section V, Exhibit 1, Schedule 4.

applicable to either Kentucky jurisdictional operations or other jurisdictional operations. Kentucky Power used a jurisdictional ratio of 98.3 percent.¹⁸ The Commission finds the calculation of Kentucky Power's test-year electric rate base reasonable for purposes of establishing the jurisdictional ratio.

Pro Forma Jurisdictional Rate Base

Kentucky Power calculated a pro forma jurisdictional rate base of \$1,194,888,447,¹⁹ which reflects the types of adjustments made by the Commission in prior rate cases to determine the pro forma rate base.

The Attorney General proposed one adjustment to Kentucky Power's proposed rate base for the Cash Working Capital ("CWC") allowance. The Attorney General proposed an allowance of \$18,953,980, which is \$740,459 lower than the \$19,694,529 proposed by Kentucky Power in its Application. While indicating a preference for using a lead-lag study, the Attorney General stated that if CWC is to be calculated using the Commission's long-standing 1/8th formula approach, then the proper level of CWC for ratemaking purposes should be based on the pro forma operations and maintenance expenses allowed by the Commission.²⁰ The Attorney General also stated that since Kentucky Power's revenue requirement is calculated based upon its jurisdictional capitalization rather than its adjusted jurisdictional rate base, any adjustment to CWC would have no impact on the revenue requirement.²¹

¹⁸ *Id.* The non-jurisdictional percentage of approximately 1.7 percent is due to the furnishing of electric service at wholesale to the City of Olive Hill and the City of Vanceburg.

¹⁹ *Id.*

²⁰ Smith Testimony at 22.

²¹ *Id.* at 23.

While the Commission agrees with the methodology the Attorney General utilized for calculating the CWC, the Commission does not agree with the Attorney General's proposed CWC. The CWC allowance included in the rate base, as shown below, is based on the adjusted operation and maintenance ("O&M") expenses discussed in this Order, as approved by the Commission. The Commission has determined Kentucky Power's pro forma jurisdictional rate base for ratemaking purposes for the test year to be as follows:

Total Utility Plant in Service	\$2,264,648,845
Add:	
Materials & Supplies	36,344,575
Prepayments	49,905,719
Cash Working Capital Allowance	18,905,292
Subtotal	<u>\$105,155,586</u>
Deduct:	
Accumulated Depreciation	764,544,392
Customer Advances	27,076,876
Accumulated Deferred Income Taxes	384,084,108
Contributions in Aid of Construction	
Subtotal	<u>\$1,175,705,376</u>
Pro Forma Rate Base	<u>\$1,194,099,055</u>

Reproduction Cost Rate Base

KRS 278.290 (1) states, in relevant part, that:

[T]he commission shall give due consideration to the history and development of the utility and its property, original cost, cost of reproduction as a going concern, capital structure, and other elements of value recognized by the law of the land for ratemaking purposes.

Neither Kentucky Power, the Attorney General, nor KCUC provided information regarding Kentucky Power's proposed Kentucky jurisdictional reproduction cost rate

base. Therefore, the Commission finds that using Kentucky Power's historic costs for deriving its rate base is appropriate and consistent with Commission precedent involving Kentucky Power, as well as other Kentucky jurisdictional utilities.

CAPITALIZATION

Kentucky Power proposed an adjusted Kentucky jurisdictional capitalization of \$1,191,785,493.²² This amount was derived through adjustments to exclude certain environmental compliance investments that remain part of the environmental rate base and are included in Kentucky Power's environmental surcharge mechanism.

Kentucky Power determined its electric capitalization by multiplying its total company capitalization by the rate base jurisdictional allocation ratio described earlier in this Order. This is consistent with the approach used in previous Kentucky Power rate cases.

The Attorney General did not recommend any adjustments to Kentucky Power's capitalization. The Attorney General proposed one adjustment to rate base for CWC, since it does not affect Kentucky Power's jurisdictional capitalization, but recommended no change to the amount proposed by Kentucky Power.

The Commission finds the proposed amount of Kentucky Power's jurisdictional capitalization is reasonable.

REVENUES AND EXPENSES

For the test year, Kentucky Power reported actual net operating income from its electric operations of \$85,033,742.²³ Kentucky Power proposed 55 adjustments to

²² Application, Section II, Exhibit L.

²³ Application, Section V, Exhibit 1, Supplemental Schedule 4 (filed Aug. 7, 2017).

revenues and expenses to reflect more current and anticipated operating conditions, resulting in an adjusted net operating income of \$43,690,670.²⁴ With this level of net operating income, Kentucky Power reported an adjusted test year revenue deficiency of \$60,397,438.²⁵

The Attorney General accepted 45 of Kentucky Power's proposed adjustments to its test-year revenues and expenses.

A list of the non-contested adjustments is contained in Appendix B to this Order. The Attorney General proposed 14 additional adjustments to Kentucky Power's operating income relating to: 1) theft recovery revenue; 2) payroll expense – employee merit increase; 3) overtime payroll expense related to employee merit increase; 4) payroll tax expense; 5) incentive compensation expense; 6) stock-based compensation; 7) savings plan expense; 8) supplemental executive retirement program expense; 9) affiliate charge for corporate aviation expense; 10) storm damage expense; 11) relocation expense; 12) gain on sale of utility property; 13) cash surrender value of life insurance policies; and 14) rate case expense.

The Attorney General's proposed adjustments pertain solely to Kentucky Power's base rate revenue requirements. The Commission makes the following determinations regarding the Attorney General's proposed base rate adjustments.

Theft Recovery Revenue

The Attorney General proposed an adjustment to increase Kentucky Power's theft recovery revenue by \$166,698 based upon Kentucky Power's estimate of

²⁴ *Id.*

²⁵ *Id.* at Schedule V, Supplemental Exhibit 2 (filed Aug. 7, 2017).

increased theft recovery revenue.²⁶ Kentucky Power expects to increase theft recovery revenue due to the addition of a new administrative assistant who would allow Kentucky Power's field investigators to spend more time on suspected energy theft.

The Commission finds that the Attorney General's proposed adjustment regarding theft recovery revenue is reasonable, and therefore the proposed adjustment for theft recovery revenue of \$166,698 should be allowed for ratemaking purposes.

Payroll Expenses: Employee Merit Increase, Overtime Payroll Expense, and Payroll Taxes

The Attorney General proposed adjustments to payroll expense for employee merit increases for non-exempt salaried employees, overtime payroll expense related to employee merit increases, and associated payroll taxes in the amount of \$57,205, \$4,148, and \$48,362, respectively. The Attorney General argued that Kentucky Power did not justify basing its proposed payroll expense adjustment on an annual merit increase of 3.5 percent. The Attorney General maintained that the payroll expense adjustment should be based upon a 3.0 percent merit increase.²⁷ Limiting the merit increase to 3.0 percent results in corresponding adjustments to overtime and payroll tax expenses. The payroll tax adjustment includes the impact of limiting the merit increase to 3.0 percent and other adjustments to incentive compensation and stock-based compensation proposed by the Attorney General.

Kentucky Power maintained that the test year wage increases are reasonable. A comparison of Kentucky Power's total target compensation with the 2016 EAPDIS

²⁶ Smith Testimony at 24; Kentucky Power's Response to the Attorney General's First Request for Information ("Attorney General's First Request"), Item 319.

²⁷ *Id.* at 26-30.

Energy, Technical, Craft & Clerical Survey (Southeast region data) reveals that, on average, Kentucky Power's compensation was 5.4 percent below the average for the region.²⁸ Kentucky Power claimed that, in light of the survey results, the test year wage increases were necessary to provide market competitive wages to target and retain employees.

The Commission finds that Kentucky Power's test year wages are reasonable and that the Attorney General's proposed adjustments to payroll expense for employee merit increases for non-exempt salaried employees, overtime payroll expense related to employee merit increase and payroll taxes should be denied.

Incentive Compensation and Stock Based Compensation

Kentucky Power included \$3,900,806 of incentive compensation plan ("ICP") costs²⁹ and \$1,758,874 in Long-Term Incentive Plan ("LTIP") costs in its Kentucky jurisdictional revenue requirement.³⁰ These amounts reflect the adjustments made by Kentucky Power.³¹ In the Settlement, Kentucky Power and the Settling Intervenors agreed to reduce incentive compensation expenses by \$3.15 million, which included incentive compensation and stock-based compensation.

²⁸ Application, Direct Testimony of Andrew J. Carlin ("Carlin Direct Testimony"), Exhibit ARC-4.

²⁹ Kentucky Power's Response to Commission Staff's Second Request for Information (Staff's Second Request"), Item 85; Kentucky Power's Response to KIUC's First Request for Information ("KIUC's First Request"), Item 31.

³⁰ Smith Testimony at 31. This consists of Kentucky Power direct-charged jurisdictional O&M expense of \$2,255,760, AEP allocated amount of \$3,118,781 and charges from other affiliates of \$51,300 less \$1,525,035 that was removed from the revenue requirement per the Application, Section V, Exhibit 2, Workpaper 32.

³¹ Application, Direct Testimony of Tyler H. Ross ("Ross Direct Testimony") at 14.

The Attorney General recommended reducing incentive compensation expense by a total of \$3,096,868. The Attorney General recommended an adjustment of ICP costs that decreased test year expense by \$1,350,120 on a Kentucky jurisdictional basis, which represented the removal of the 25 percent of ICP costs that represent performance measures tied to increasing shareholder value.³² The Attorney General maintained that ratepayers should not be responsible for those costs because Kentucky Power's shareholders are the main beneficiaries of the 25 percent performance measure for quantitative financial objectives, which include earnings per share.³³ Similarly, the Attorney General argued that \$1,746,748 in stock-based compensation costs should be removed because ratepayers should not be required to pay management compensation based on the performance of Kentucky Power's stock price, which primarily benefits Kentucky Power's parent company.³⁴ In support of his argument, the Attorney General pointed to previous cases in which the Commission held that ratepayers should not bear the cost of stock-based compensation programs unless there is clear and definitive quantitative evidence demonstrating a benefit to ratepayers.³⁵

In response, Kentucky Power argued that the Attorney General's adjustment to the proposed incentive compensation expense was not warranted because the

³² Smith Testimony at 35, Exhibit RCS-1, page 3 of 32; Smith Testimony at 30-31. The 2016 ICP was weighted 75 percent to AEP's earnings per share and 25 percent to other metrics

³³ *Id.* at 31.

³⁴ *Id.* at 39.

³⁵ Case No. 2014-00397, Final Order at 27-28; Case No. 2005-00042, *An Adjustment of the Gas Rates of the Union Light, Heat and Power Company* (Ky. PSC Feb. 2, 2006); Case No. 2010-00036, *Application of Kentucky-American Water Company for an Adjustment of Rates Supported by a Fully Forecasted Test Year* (Ky. PSC Dec. 14, 2010).

incentive compensation programs provide benefits to both Kentucky Power's customers and its shareholders.³⁶

The Commission finds that the Settlement provision that reduces incentive compensation by \$3.15 million, which is a greater reduction than the adjustment recommended by the Attorney General, is reasonable and should be approved.

Savings Plan Expense

Kentucky Power included \$1,662,975 in its jurisdictional revenue requirement for savings plan expense for employees who participate in a defined benefit plan and have matching 401(k) contributions from Kentucky Power.³⁷

The Attorney General proposed a Kentucky jurisdictional adjustment of \$1,102,496 for savings plan expense for employees who participate in a defined benefit plan and have matching 401(k) contributions from Kentucky Power.

In rebuttal, Kentucky Power explained that participation in the defined benefit plan ended in 2000 and benefits were frozen in 2010.³⁸ Therefore, Kentucky Power does not contribute to a defined benefit plan and 401(k) matching plan at the same time. The Commission has disallowed such matching contributions when both a defined benefit plan and 401(k) matching contribution exist concurrently. This is not the case with Kentucky Power.

The Commission finds that Kentucky Power's savings plan expense is reasonable and should be allowed for ratemaking purposes.

³⁶ Rebuttal Testimony of Andrew R. Carlin ("Carlin Rebuttal Testimony") at 7.

³⁷ Kentucky Power's Response to Staff's Second Request, Item 56.h. and i.

³⁸ Dec. 7, 2017 H.V.T. at 4:50:20.

Supplemental Executive Retirement Plan (“SERP”)

The Attorney General proposed an adjustment of \$52,453 for the expense associated with Kentucky Power’s Supplemental Executive Retirement Plan (“SERP”). The Attorney General argued that such plans provide benefits to executives that exceed amounts limited in qualified retirement plans by the Internal Revenue Service.³⁹ The Attorney General also maintained that the provision of additional retirement compensation to Kentucky Power’s highest paid executives is not a reasonable expense that should be recovered in rates.

In rebuttal, Kentucky Power stated that the total benefit it provides under both its qualified and non-qualified plan is equal to the benefit that would be produced by the formulas utilized under the qualified plans if these plans were not subject to the benefit limitations imposed on qualified plans.⁴⁰

The Commission finds the SERP expenses reasonable and, therefore, should be allowed for ratemaking purposes.

Affiliate Charge for Corporate Aviation Expense

The Attorney General proposed an adjustment of \$382,769 to remove the cost of the AEP corporate aviation expense charged to Kentucky Power during the test year.⁴¹ The Attorney General argued that AEP corporate aviation is a perquisite for AEP executives and directors and, as such, shareholders should bear the cost, not ratepayers.

³⁹ Smith Testimony at 42.

⁴⁰ Carlin Rebuttal Testimony at R-32.

⁴¹ Smith Testimony at 43-44.

The Commission disagrees with the Attorney General's proposed adjustment for corporate aviation expense. While private jet travel may appear to be an extravagance, legitimate travel expenses would have been incurred through commercial airlines. The Commission finds that the aviation expense proposed by Kentucky Power is reasonable and should be approved.

Storm Damage Expense

Kentucky Power proposed an adjustment of \$595,932 for storm damage expense based upon a three-year average of major storm expense. The Attorney General proposed an adjustment to reduce storm damage expense by \$595,932, arguing that Kentucky Power had not demonstrated a compelling reason to increase test year storm damage expense.⁴²

Kentucky Power explained that it used a three-year average to normalize the level of costs to address the uncertainty regarding when, and how much, a major storm will affect Kentucky Power and because using only the test year amount in a base rate filing could lead to major swings in adjustments for storm damage expense.⁴³

The Commission finds that Kentucky Power's storm damage expense adjustment is reasonable and should be allowed for ratemaking purposes.

Test Year Relocation Expense

Kentucky Power included a \$318,073 adjustment for relocation expense in its test year revenue requirement.⁴⁴ The Attorney General proposed an adjustment to

⁴² *Id.* at 44.

⁴³ Rebuttal Testimony of Ranie K. Wohnhas ("Wohnhas Rebuttal Testimony") at R-18 – R-19.

⁴⁴ Kentucky Power's Response to the Attorney General's First Request, Item 251.

normalize relocation expenses that reduced the test year operating expenses by \$140,972 on a Kentucky jurisdictional basis.⁴⁵

In response to Commission Staff's Post-Hearing Data Request, Item 14, Kentucky Power stated that its relocation expense for the eight-month period March 1, 2017 to October 31, 2017 totaled \$125,736. Annualized over a twelve-month period ending February 28, 2018, relocation expenses are forecasted to total \$188,604. On a Kentucky jurisdictional basis, relocation expenses for the twelve months ending February 28, 2018 amount to \$185,964.

The Commission finds that the relocation expense should be adjusted based upon the Kentucky jurisdictional relocation expenses for the twelve months ending February 28, 2018. This results in a decrease to the Kentucky jurisdictional relocation expense of \$132,109.

Gain on Sale of Utility Property

The Attorney General proposed an adjustment to amortize a \$996,669 gain on the sale of utility property ("Carrs Site") over three years for \$327,240 per year on a Kentucky jurisdictional basis.⁴⁶ The Attorney General maintained that the Kentucky jurisdictional gain on the sale of utility property should flow back to customers.

In rebuttal, Kentucky Power argued that the gain on the sale of the property should not be adjusted to reduce its revenue requirement because the Carrs Site had not been included in rate base, and thus Kentucky Power had not received a return on

⁴⁵ Smith Testimony at 46.

⁴⁶ *Id.* at 47.

the Carrs Site for the last 33 years.⁴⁷ Kentucky Power also noted that it removed \$60,539 in property taxes from its cost of service in this case.⁴⁸

The Commission finds that, since Kentucky Power has not received a return on this investment and has excluded the property taxes from its cost of service, the proposed adjustment by the Attorney General is not reasonable and should be denied.

Cash Surrender Value of Life Insurance

Kentucky Power recorded expense in the test year associated with the cash surrender value of life insurance of former executives in a Kentucky jurisdictional amount of \$26,941.⁴⁹

The Attorney General asserted that Kentucky Power's ratepayers should not be responsible for paying the expenses for the cash surrender value of life insurance for former executives and recommended the \$26,941 of expense be denied for ratemaking purposes.⁵⁰

In rebuttal, Kentucky Power explained that the expense is part of the total compensation/benefit package given to executives (current or former) that should be recovered whether or not the executive is a current or a former employee.⁵¹

The Commission finds that the proposed expense is reasonable, and therefore the Attorney General's proposed adjustment should be denied.

⁴⁷ Wohnhas Rebuttal Testimony at R-20.

⁴⁸ *Id.*

⁴⁹ Smith Testimony at 48.

⁵⁰ *Id.*

Rate Case Expense

The Attorney General proposed an adjustment to remove \$458,333 in rate case expenses.⁵² The Attorney General proposed to remove certain rate case expenses billed by a consultant who conducted witness preparation but did not sponsor testimony on Kentucky Power's behalf. The Attorney General also proposed to remove remaining rate case expenses as a penalty for Kentucky Power not seeking a reduction in the Rockport UPA ROE, which was established by the Federal Energy Regulatory Commission ("FERC").

In rebuttal, Kentucky Power argued that witness preparation is a necessary part of litigating a base rate case and that, regardless of who performs the function, the cost should be recovered.⁵³ Kentucky Power further argued that FERC's determination of the Rockport UPA ROE was fair, just, and reasonable, and that the decision was within FERC's exclusive jurisdiction. Kentucky Power asserted that the Attorney General's proposal to deny rate case expense as a penalty for the Rockport UPA ROE was an unlawful and unconstitutional attempt to overturn a FERC decision.

The Commission finds that the Attorney General's adjustment to remove rate case expenses for witness preparation and as a penalty for the Rockport UPA ROE is unreasonable, and should be denied. Given the type of service provided, the Attorney General's argument to remove the witness preparation consultant's fees is not

⁵¹ Wohnhas Rebuttal Testimony at 17.

⁵² Smith Testimony at 52.

⁵³ Wohnhas Rebuttal Testimony at R-20.

persuasive.⁵⁴ In regard to adjusting the rate case expenses as a penalty not related to ratemaking, as set forth in *South Central Bell v. Utility Reg. Comm'n*, 637 S.W.2d 649, 653 (Ky. 1982), the imposition of penalty that is not germane to the factors that go into the ratemaking process is arbitrary and subjective. If the Attorney General objects to the ROE awarded by FERC, the appropriate forum to address that issue is at FERC, and not the Commission.

COMMISSION ADJUSTMENTS TO REVENUES AND EXPENSES

Off System Sales ("OSS") Margins, System Sales Clause Tariff ("Tariff S.S.C.")

During the test year, Kentucky Power included OSS margins in the amount of \$7,163,948. Kentucky Power operated the converted Big Sandy Unit 1 for only nine months of the test period. While Kentucky Power annualized the plant maintenance expense for Big Sandy Unit 1,⁵⁵ there was no adjustment or annualization to OSS margins.

The Commission finds that OSS margins should be adjusted to reflect an annualized amount. For the 12-month period ending September 30, 2017, Kentucky Power had OSS margins of \$7,650,360.⁵⁶ Therefore, the Commission will utilize the OSS margins of \$7,650,360 for the 12-month period ending September 30, 2017, rather than the test year amount, resulting in an increase in operating revenue of \$486,412. Additionally, the amount of OSS margins to be collected in base rates is \$7,650,360, rather than the \$7,163,948 proposed in the application.

⁵⁴ See Kentucky Power Fifth Supplemental Response to Staff's First Request (filed Jan. 2, 2018), Item 56. The witness preparation fees were \$42,623; Kentucky Power's other legal fees were \$677,547.

⁵⁵ Application, Section V, Exhibit 2, Workpaper 41.

⁵⁶ Response to Commission Staff's Fourth Request for Information, Item 2.

Weather Normalized Commercial Sales

Kentucky Power proposed an adjustment to increase revenues to reflect normal temperatures, but its adjustment applied only to residential customer sales. In discovery, Kentucky Power stated that commercial revenues would have been \$914,000 greater based on weather normalized temperatures.⁵⁷ After the related variable expenses are removed from revenues, the rate increase is reduced by \$400,000.

The Commission finds this adjustment reasonable as temperatures affect the revenues in both the residential and commercial classes. Therefore, the Commission will reduce the rate increase by \$400,000 to reflect this adjustment.

Purchased Power Limitation and Forced Outage Purchase Power Limitation Expense

Kentucky Power proposed adjustments to include the purchased power limitation and forced outage purchase power limitation expense in base rates in its application in the amount of \$3,150,582 and \$882,204, respectively.

As discussed under the FAC Purchase Power Limitation section below, the Commission is denying Kentucky Power's proposal to recover such costs under Tariff P.P.A. Accordingly, the Commission finds these adjustments unreasonable and should be denied.

Net Operating Income Summary

After considering all pro forma adjustments and applicable income taxes, Kentucky Power's adjusted net operating income is as follows:

⁵⁷ Direct Testimony of Lane Kollen at 16-17.

Operating Revenues	\$568,163,551
Operating Expenses	<u>519,965,870</u>
Adjusted Net Operating Income	<u>\$ 48,197,681</u>

RATE OF RETURN

Capital Structure and Cost of Debt

Kentucky Power proposed an adjusted test-year-end capital structure consisting of 54.45 percent long-term debt at 5.32 percent; zero percent short-term debt at 0.80 percent; 3.87 percent accounts receivable financing at 1.95 percent; and 41.68 percent common equity at a return of 10.31 percent.⁵⁸ On August 7, 2017, Kentucky Power filed a supplement to its Application reflecting the results of Kentucky Power's June 2017 refinancing of \$325 million 6.00 percent Senior Unsecured Notes, and \$65 million WVEDA Mitchell Project, Series 2014A Variable Rate Demand Notes as authorized in Case No. 2016-00345.⁵⁹ This refinancing reduced the annual cost of long-term debt to 4.36 percent.⁶⁰ The capital structure proposed by the Settlement downwardly adjusts the long-term debt by one percent and places this percent onto the short-term debt at an interest rate of 1.25 percent.⁶¹

⁵⁸ Application, Direct Testimony of Zachary C. Miller ("Miller Direct Testimony") at 3.

⁵⁹ Case No. 2016-00345 *Electronic Application of Kentucky Power Company for Authority Pursuant to KRS 278.300 to Issue and Sell Promissory Notes of One or More Series and for Other Authorizations* (Ky. PSC Dec. 21, 2016).

⁶⁰ Supplemental Direct Testimony of Zachary C. Miller at 5.

⁶¹ Settlement Testimony of Matthew J. Satterwhite ("Satterwhite Settlement Testimony") at Exhibit 6a.

The Attorney General employed Kentucky Power's proposed capital structure and senior capital cost rates.⁶² KCUC was silent on this topic.

Kentucky Power stated that it sells its receivables to AEP for cost savings due to default risks and to improve cash flow.⁶³ However, Kentucky Power's uncollectible accounts remain with Kentucky Power and are not sold with the accounts receivable.⁶⁴ The Commission notes that the cost of accounts receivable financing is higher than traditional short-term financing. The Commission believes that selling the receivables but maintaining the bad debt places an undue burden onto Kentucky Power's customers. Therefore, the Commission will blend the funds between short-term debt and accounts receivable financing so that the weighted average cost percentage of accounts receivable financing is decreased three basis points and placed on the short-term debt weighted average cost percentage. This reduces the percent of accounts receivable financing to 1.67 percent of the total capital structure and increases the percent of short-term debt to 3.20 percent of the total capital structure. The Commission finds that the cost of long-term debt and short-term debt of 4.36 percent and 1.25 percent, respectively, to be reasonable.

Return on Equity

In its Application, Kentucky Power developed its return on equity ("ROE") using the discounted cash flow method ("DCF"), the capital asset pricing model ("CAPM"), the empirical capital asset pricing model ("ECAPM"), and the utility risk premium ("RP"). In

⁶² Direct Testimony of J. Randall Woolridge, Ph.D. ("Woolridge Testimony") at 3.

⁶³ Dec. 8, 2017 H.V.T. at 12:15:22.

⁶⁴ Dec. 6, 2017 H.V.T. at 5:43:36.

addition, Kentucky Power referenced the expected earnings approach.⁶⁵ Based on the results of the methods employed in its analysis, Kentucky Power recommended an ROE range of 9.71 percent to 10.91 percent, including flotation cost.⁶⁶ Kentucky Power recommended awarding the midpoint of this range, 10.31 percent, to maintain financial integrity and to support additional capital investment.⁶⁷ Kentucky Power further stressed that consideration of all models, not just the DCF model, is important as the DCF model results may reflect the impact from the recent recession and such financial inputs are not representative of what may prevail in the near future.⁶⁸

Direct testimony and analysis regarding ROE was provided by the Attorney General. The Attorney General employed the DCF and CAPM models for his analysis and both models were evaluated using Kentucky Power's proxy group and the Attorney General's own proxy group. This was mostly for comparison purposes, as the Attorney General stated that, on balance, the two proxy groups were similar in risk.⁶⁹ The Attorney General's DCF model results indicated equity cost rates of 8.25 percent and 8.7 percent for the Attorney General and Kentucky Power proxy groups, respectively. The Attorney General disagreed with Kentucky Power's DCF analysis, specifically noting Kentucky Power's elimination of low-end DCF results and the use of growth forecasts that the Attorney General believes are overly optimistic and upwardly biased.⁷⁰

⁶⁵ Application, Direct Testimony of Adrian M. McKenzie, CFA ("McKenzie Direct Testimony") at 6.

⁶⁶ *Id.* at Exhibit AMM-2 at 1.

⁶⁷ *Id.* at 6.

⁶⁸ *Id.* at 7.

⁶⁹ *Id.* at 25.

⁷⁰ *Id.* at 65.

The Attorney General's CAPM results were 7.6 percent for both proxy groups. The Attorney General stated that Kentucky Power's CAPM analysis is flawed as the ECAPM version of the CAPM was used, which the Attorney General claims makes an inappropriate adjustment to the risk-free rate and the market risk premium.⁷¹ Additionally, the Attorney General stated that Kentucky Power's CAPM analysis employed an inflated projected interest rate, an unwarranted size adjustment, and an excessive market or equity risk premium.⁷²

The Attorney General recommended relying primarily on the DCF model, determined the ROE range of the two proxy groups, 8.25 percent and 8.7 percent, to be reasonable, and recommended an ROE of 8.6 percent.⁷³ In support of his recommendation, the Attorney General noted that: as investment risk, Kentucky Power's credit ratings are on par with the proxy groups; capital costs for utilities remain at historical low levels and are likely to remain at low levels; the risk associated with the electric utility industry is among the lowest and, as such, the cost of equity capital is amongst the lowest; and authorized ROEs have been gradually decreasing in recent years.⁷⁴

The Attorney General also disagreed with Kentucky Power's upward adjustment of 0.11 percent to the equity cost rate recommendation to account for flotation costs. The Attorney General argued that Kentucky Power did not identify any flotation costs

⁷¹ *Id.* at 68.

⁷² *Id.*

⁷³ Woolridge Testimony at 58.

⁷⁴ *Id.* at 59.

that are specifically associated with Kentucky Power.⁷⁵ The Attorney General stated that it is commonly argued that a flotation cost adjustment is necessary to recover issuance costs, but should not be recovered through the regulatory process, as these costs are already known to the investor upon buying the stock.⁷⁶

The parties to the Settlement agreed that the revenue requirement increases for Kentucky Power will reflect a 9.75 percent ROE as applied to Kentucky Power's capitalization and capital structure of the proposed revenue requirement increases as modified through discovery. As a result, use of a 9.75 percent ROE reduced Kentucky Power's proposed electric revenue requirement by \$4.7 million.⁷⁷ In his post hearing brief, the Attorney General recognized the significant reduction from the original ROE, but still believes it is in excess of the return shareholders require.⁷⁸ The Attorney General further argued that utilities seem to overstate necessary ROE, and does not support the 9.75 percent.⁷⁹ For the reasons discussed below, the Commission finds a ROE of 9.75 percent to be unreasonable, and for the purpose of base rate revenues and certain tariffs, an ROE of 9.70 percent should be applied.

In his testimony, the Attorney General noted that differing opinions between Kentucky Power and the Attorney General regarding capital market conditions result in differing ROE recommendations.⁸⁰ Kentucky Power's analysis assumes higher interest

⁷⁵ *Id.* at 80.

⁷⁶ *Id.* at 81.

⁷⁷ Settlement at 4.

⁷⁸ Attorney General's Post Hearing Brief ("Attorney General's Brief") (filed Jan. 5, 2018) at 18.

⁷⁹ *Id.* at 19 and 20.

⁸⁰ Woolridge Testimony at 5.

rates and capital costs whereas the Attorney General concludes that interest rates and capital costs are at low levels and likely to remain low for some time.⁸¹ The Commission agrees with the Attorney General that, although interest rates are increasing, they are doing so slowly and are still historically low. In fact, the Federal Reserve noted the following:

The Committee expects that economic conditions will evolve in a manner that will warrant gradual increases in the federal funds rate; the federal funds rate is likely to remain, for some time, below levels that are expected to prevail in the longer run. However, the actual path of the federal funds rate will depend on the economic outlook as informed by incoming data.⁸²

The Commission further agrees that models supporting the low interest rate environment should be given more weight than those supporting high interest rate expectations.

The Commission also agrees with the Attorney General that flotation costs should be excluded from the analysis. The Commission believes that flotation costs are accounted for in the current stock prices, as the price includes the underwriting spread and adding the adjustment amounts to double counting. Removal of the flotation costs from Kentucky Power's initial cost of equity range lowers the range to 9.6 percent from 10.8 percent.⁸³

The 2017 economic environment has shown signs of relative improvement. In response to low inflation and low unemployment, the Federal Reserve increased interest rates a quarter of a percent three times in 2017. Current outlooks for 2018 are

⁸¹ *Id.*

⁸² Testimony of Richard A. Baudino at 8.

⁸³ McKenzie Direct Testimony, Exhibit AMM-2 at 1.

healthy, with gross domestic product growth rates expected to remain between two and three percent, unemployment forecasted to continue at the natural rate, and inflation expected to hover at around two percent.⁸⁴ However, notwithstanding these improvements, the economy of Eastern Kentucky has lagged behind national and state trends. Employment trends have not recovered to pre-recession levels, earnings trends remain stagnant and lag behind the state trends, and poverty rates in the majority of Kentucky Power's service territory are 24.4 percent or higher.⁸⁵

The Commission is cognizant of the risk inherent to Kentucky Power's service territory and load profile. The Commission notes the Attorney General's position that Eastern Kentucky has been economically depressed for the past decade and that the Commission should consider the economic conditions of the region in evaluating the overall rates and rate design.⁸⁶ Therefore, given the adverse economic situation of the service territory of high unemployment, low earnings, and high poverty rates, the Commission finds a lower ROE will allow Kentucky Power to earn a fair return while reflecting the economic situation of its customers.

For 2016, the median ROE of the utilities in the Attorney General's proxy group was 9.3 percent; for Kentucky Power's proxy group, the median ROE was 9.4 percent.⁸⁷ In addition, the average authorized ROE reported by SNL Financial for 2017 is

⁸⁴ <https://www.thebalance.com/us-economic-outlook-3305669>.

⁸⁵ Attorney General's Brief at 12; Dismukes Testimony at 5-6; Dec. 6, 2017 H.V.T., PSC Exhibit 1.

⁸⁶ Dismukes Testimony at 6.

⁸⁷ Woolridge Testimony, Exhibit JRW-4 at 1.

approximately 9.7 percent.⁸⁸ The Commission agrees with Kentucky Power that this is a benchmark worthy of consideration, but disagrees that a downward adjustment will be injurious to customers and the Kentucky economy.⁸⁹ Based on the entire record developed in this proceeding, we find that an ROE of 9.7 falls within the range of the Attorney General's proposed 8.6 percent to the initial proposed ROE of 10.31 percent, and within Kentucky Power's original range of 9.6-10.8 percent, adjusted for flotation costs. Additionally, an ROE of 9.7 is within the range of the benchmarks provided by SNL, the proxy groups, and recent Commission Orders⁹⁰.

Rate-of-Return Summary

Applying the rates of 4.36 percent for long-term debt, 1.25 percent for short-term debt, 1.95 percent for accounts receivable financing, and 9.70 percent for common equity to the Commission adjusted capital structure produces an overall cost of capital of 6.44 percent.⁹¹ The cost of capital produces a return on Kentucky Power's rate base of 6.42 percent.

BASE RATE REVENUE REQUIREMENTS

In the Settlement, Kentucky Power and the Settling Intervenors agreed to a base rate increase of \$31.8 million. The Attorney General's expert witness proposed a base

⁸⁸ Direct Testimony and Exhibits of Gregory W. Tillman on behalf of Wal-Mart Stores East, LP and Sam's East, Inc. at 11.

⁸⁹ Rebuttal Testimony of Adrien M. McKenzie, CFA at 73.

⁹⁰ Case No. 2016-00370 Electronic Application of Kentucky Utilities Company For An Adjustment Of Its Electric Rates and For Certificates of Public Convenience and Necessity (Ky. PSC Jun. 22, 2017) and Case No. 2016-00371 Electronic Application of Louisville Gas and Electric Company For An Adjustment Of Its Electric and Gas Rates and For Certificates Of Public Convenience and Necessity (Ky. PSC Jun. 22, 2017).

rate increase of \$39.8 million. The Commission finds that, subject to the adjustments discussed in this Order, a base rate increase of \$12.35 million is reasonable, as is discussed in the Total Jurisdictional Revenue Requirement section below.

REVENUE REQUIREMENT-RELATED RIDERS AND DEFERRALS

Big Sandy Retirement Rider

In its Application, Kentucky Power proposed to rename the Big Sandy Retirement Rider to the Decommissioning Rider to alleviate customer confusion regarding the purpose of the rider. Pursuant to the settlement agreement approved in Case No. 2014-00396, Kentucky Power recovers the coal-related retirement costs of Big Sandy Unit 1, the retirement costs of Big Sandy Unit 2, and other site-related retirement costs through this rider. Only the rider name will change; the rider will continue to operate in the manner approved by the Commission in Case No. 2014-00396.

The Commission finds the name change reasonable and that it should be approved. The Commission further finds that the carrying charges associated with this rider should be based on the weighted average cost of capital ("WACC"), after reflecting the impacts of the reduction in the federal corporate income tax rates approved in this Order, should become effective as of the date of this Order. However, the monthly amounts collected will not change until Kentucky Power makes its annual filing on or before August 15, 2018, to adjust the amounts collected under this rider.

Big Sandy Unit 1 Operation Rider

In its Application, Kentucky Power proposed to eliminate the Big Sandy Unit 1 Operation Rider ("Tariff B.S.1.O.R.") and to recover through base rates the costs

⁹¹ The Commission adjusted capital structure consists of 54.45 percent long-term debt, 3.2

currently recovered through Tariff B.S.1.O.R. Once new rates become effective in this case, Tariff B.S.1.O.R. will have an under- or over-recovery balance. Therefore, Kentucky Power also requested authority to establish a regulatory asset or liability that will allow Kentucky Power to track and defer any under- or over-recovery balance until its next rate case.

In Case No. 2014-00396, the Commission approved Tariff B.S.1.O.R. to permit Kentucky Power to recover the non-fuel costs of operating Big Sandy Unit 1 as a coal burning unit until its conversion to natural gas, the non-fuel costs of its operation as a natural gas unit and capital investment required for its conversion to natural gas once it is placed in service. Tariff B.S.1.O.R. was designed to be in effect until the rates established in Kentucky Power's next base rate case were implemented.

The Commission has previously approved regulatory assets for other jurisdictional utilities. Such approval has been granted when a utility has incurred: (1) an extraordinary, nonrecurring expense which could not have reasonably been anticipated or included in the utility's planning; (2) an expense resulting from a statutory or administrative directive; (3) an expense in relation to an industry-sponsored initiative; or (4) an extraordinary or nonrecurring expense that over time will result in a saving that fully offsets the cost.⁹² Since Tariff B.S.1.O.R. was approved by the Commission in Case No. 2014-00396, the establishment of a regulatory asset to address the under-

percent of short term debt, 1.67 percent of accounts receivable financing, and 41.68 percent of common equity.

⁹² Case No. 2008-00436, *The Application of East Kentucky Power Cooperative, Inc. for an Order Approving Accounting Practices to Establish a Regulatory Asset Related to Certain Replacement Power Costs Resulting from Generation Forced Outages* (Ky. PSC Dec. 23, 2008), at 4. See also Case No. 2010-00449, *Application of East Kentucky Power Cooperative, Inc. for an Order Approving the Establishment of a Regulatory Asset for the Amount Expended on Its Smith 1 Generating Unit* (Ky. PSC Feb, 28, 2011), at 7.

recovery of Tariff B.S.1.O.R. is consistent with the second example listed above. Regarding a possible regulatory liability, the Commission notes that it is appropriate that Kentucky Power customers be the beneficiaries of any over-recovery of Tariff B.S.1.O.R.

The Commission finds the establishment of a regulatory asset or liability due to the elimination of Tariff B.S.1.O.R. to be reasonable and that it should be approved. This approval is for accounting purposes only, and the appropriate ratemaking treatment for the regulatory asset or liability account will be addressed in Kentucky Power's next general rate case.

Tariff A.T.R.

In its Application, Kentucky Power proposed to eliminate Tariff Asset Transfer Rider ("Tariff A.T.R."). Given that Kentucky Power has recovered the full amount that Tariff A.T.R. was designed to recover, the Commission finds the elimination of Tariff A.T.R. to be reasonable and that it should be approved.

Tariff K.E.D.S.

In its Application, Kentucky Power proposed to increase Tariff K.E.D.S. from \$0.15 per meter per month to \$0.25 per meter per month. In the Settlement, Kentucky Power and the Settling Intervenors agreed to a surcharge of \$0.10 per meter for residential customers and \$1.00 per meter for non-residential customers. KCUC did not provide testimony regarding Tariff K.E.D.S.

Tariff K.E.D.S. imposes an economic development surcharge, which was approved in Kentucky Power's last rate case,⁹³ to fund economic development initiatives

⁹³ Case No. 2014-00396, Final Order at 49-51.

in Kentucky Power's service territory, with funds collected through the surcharge matched equally by Kentucky Power from AEP shareholder funds. As a basis for the increase, Kentucky Power argued that additional economic development funds were needed to grow its load and customer base. One of the reasons for Kentucky Power's proposed rate increase is a significant decline in load and customers since the economic downturn in 2008.⁹⁴ A decrease in customers and load concentrates costs among a smaller customer base, which results in fewer customers paying a larger share of the cost. Correspondingly, a growth in load and customer base spreads costs among a greater number of customers.

The Attorney General recommended that the economic development surcharge be eliminated.⁹⁵ The Attorney General asserted that Kentucky Power failed to provide evidence of a direct tie between Kentucky Power's economic development efforts and increased jobs and electricity sales.⁹⁶ The Attorney General further asserted that the economic development surcharge simply redistributes ratepayer dollars without evidence of an identifiable benefit for ratepayers.

In rebuttal, Kentucky Power countered that it maintains economic development metrics, including job counts, investments, and grants, which it uses to evaluate the

⁹⁴ Application, Direct Testimony of Brad N. Hall ("Hall Direct Testimony") at 5. Between 2008 and 2016, Kentucky Power lost 6,931 customers, and its total annual sales declined from 7.24 GWh to 5.80 GWh.

⁹⁵ Direct Testimony of David E. Dismukes ("Dismukes Testimony") at 4; Direct Testimony of Roger McCann ("McCann Testimony") at 6, 17.

⁹⁶ Dismukes Testimony at 4, 41.

success of its economic development program.⁹⁷ In a subsequent discovery response, Kentucky Power provided its written economic development action plan with strategic goals and metrics set forth in specific detail.⁹⁸ Kentucky Power contended that its economic development program achieves identifiable goals, and that Kentucky Power's customers receive benefits from the economic development surcharge. As an example, Kentucky Power asserted that its economic development efforts are projected to create 1,705 new full-time positions, with an additional 1,000 construction jobs.⁹⁹

The Commission recognizes the importance of economic development efforts, especially given the economic needs of Kentucky Power's service area. However, the Commission also recognizes that 26 percent, or 35,756, of Kentucky Power's residential customers are at or below the poverty level.¹⁰⁰ In 2016, Kentucky Power disconnected more than 11,000 residential customers who could not pay their electric bill.¹⁰¹ In the course of this proceeding, the Commission received a large number of public comments from residential customers who questioned why they are charged for Kentucky Power's economic development efforts, particularly given the difficulty that residential customers have in paying their electric bills. Residential customers, especially those on fixed incomes, cannot pass along their costs; to a certain extent, non-residential customers

⁹⁷ Dec. 8, 2017 H.V.T. at 10:44:56.

⁹⁸ Kentucky Power Response to KCUC's Post Hearing Data Request ("Response to KCUC Post Hearing Request"), Item No. 1, Attachment 1.

⁹⁹ Hall Direct Testimony at 12; Dec. 8, 2017 H.V.T. at 10:31:23. On December 7, 2017, there was an announcement that 875 jobs would result from a business locating in Pikeville, Kentucky. Prior to that announcement, there were 830 projected new jobs created from Kentucky Power economic development efforts.

¹⁰⁰ Dec. 8, 2017 H.V.T. at 11:58:01 and 5:33:49.

¹⁰¹ *Id.* at 11:58:19.

can pass along their costs to their customers. The Commission finds that the residential customer economic development surcharge of \$0.10 per meter per month, as set forth in the Settlement, is unreasonable and therefore should be denied. The Commission further finds that the residential customer economic development surcharge should be eliminated. However, the Commission finds that the economic development surcharge on non-residential customers of \$1.00 per meter per month, as set forth in the Settlement, is reasonable. Therefore, the Commission approves the portion of the Settlement applicable to the economic development surcharge for non-residential customers only.

Home Energy Assistance Program Surcharge

In its Application, Kentucky Power proposed to increase the HEAP surcharge from \$0.15 per residential meter per month to \$0.20 per residential meter per month. Similar to the economic development surcharge, funds collected through the HEAP surcharge are matched equally by Kentucky Power from AEP shareholder funds.

HEAP funds provide subsidies to assist eligible low-income customers in Kentucky Power's service territory to pay electric bills during seven peak heating and cooling months.¹⁰² There is a waiting list of eligible customers because there are not sufficient HEAP funds available to assist all eligible customers.¹⁰³

The Attorney General supported the five-cent increase to \$0.20 per residential meter per month, but argued that the increase was inadequate to keep pace with

¹⁰² McCann Testimony at 5-6, 14. Subsidies are available in January, February, March, July, August, September, and December.

¹⁰³ *Id.* at 15. As of Sept. 20, 2017, there were 1,475 eligible customers on a wait-list for HEAP subsidies.

Kentucky Power's rate increases. The Attorney General proposed that the Commission approve the HEAP surcharge increase and, if the Commission discontinued the economic development surcharge, that the HEAP surcharge be increased in the same amount by which the economic development is reduced.¹⁰⁴

Kentucky Power's President, Matthew J. Satterwhite, testified that, if the Commission modified the Settlement to eliminate the \$0.10 per meter per month economic development surcharge for residential customers, Kentucky Power could agree to a commensurate increase in the HEAP surcharge by \$0.10 per residential meter per month, with matching shareholder funds.¹⁰⁵

The Settlement is silent as to the HEAP surcharge.

The Commission finds that the proposed increase in the HEAP surcharge is insufficient to address the demonstrable need to assist eligible low-income customers with their electric bills. The Commission further finds that the HEAP surcharge should be increased by the corresponding amount that the economic development surcharge for residential customers is reduced. Therefore, the Commission rejects Kentucky Power's proposed increase in the HEAP surcharge to \$0.20 per residential meter per month. The Commission finds an increase of the HEAP surcharge to \$0.30 per residential meter per month is reasonable and should be approved.

Rockport Deferral Mechanism

In the Settlement, Kentucky Power and the Settling Intervenors agreed to defer \$50 million of non-fuel and non-environmental lease expenses from Rockport Unit 2

¹⁰⁴ McCann Testimony at 6, 17; Dismukes Testimony at 4.

over five years, with the establishment of a regulatory asset for later recovery (“Rockport Deferral Regulatory Asset”) of these expenses. This Rockport Deferral Regulatory Asset, plus a carrying charge based on a WACC of 9.11 percent, will be recovered through Kentucky Power’s Tariff P.P.A. over five-years starting in December of 2022. The dates of the end of the deferral period and the start of the five-year amortization period coincide with the anticipated end of the Rockport UPA lease agreement.¹⁰⁶

The Settlement proposed a deferral of \$15 million in 2018 and 2019, \$10 million in 2020, and \$5 million in 2021 and 2022. The Settlement’s annual revenue requirement reflects a decrease to base rates of the 2018 \$15 million adjustment. In 2020, 2021 and 2022 the decrease in the deferral will be offset with an increase in the amount recovered through Tariff P.P.A. Additionally, in 2022, the increase in the amount recovered through Tariff P.P.A. will be prorated through December 8, 2022, as the Rockport UPA will terminate on that date. By utilizing Tariff P.P.A., Kentucky Power is able to reduce the annual deferral amount and concurrently keep base rates unchanged. Beginning in December 2022, the five-year deferral period will end and the recovery of the Rockport Deferral Regulatory Asset will begin. The Rockport Deferral Regulatory Asset will be amortized through 2027 and be subject to carrying charges until it is fully recovered. Kentucky Power estimates that the Rockport Deferral

¹⁰⁵ Dec. 7, 2017 H.V.T. at 10:53:09.

¹⁰⁶ Satterwhite Settlement Testimony at S-10.

Regulatory Asset will total approximately \$59 million in December 2022. That amount will decrease incrementally until fully collected over the five-year amortization period.¹⁰⁷

Neither the Attorney General nor KCUC offered testimony concerning the Rockport Deferral. However, during the hearing and in his post-hearing brief, the Attorney General expressed his concerns about the “very large financing costs” associated with the deferrals, stating that the “\$50M over the entire deferral period is going to have financing costs piled on top of it... [t]hese financing costs are at the weighted average cost of capital including the 9.75 percent return of equity which then gets a tax gross up on top of it.”¹⁰⁸ The Attorney General further stated that a concern that the costs of the deferral will eventually require rate recovery in future rate proceedings.¹⁰⁹ The Attorney General recommended that the carrying charge be reduced to 4.36 percent for Kentucky Power’s current long term debt.¹¹⁰

In response, Kentucky Power argued that the 9.11 percent WACC made Kentucky Power financially whole because of its need to finance the deferral through a combination of debt and equity, and therefore was appropriate.¹¹¹

The recovery period of the proposed Rockport Deferral Mechanism is contingent upon Kentucky Power not renewing the Rockport UPA.¹¹² If the lease is not renewed,

¹⁰⁷ See Appendix A, paragraph 3 for details of the Rockport UPA Expense Deferral.

¹⁰⁸ Dec. 6, 2017 H.V.T. at 04:01:19; See also Attorney General’s Brief at 31.

¹⁰⁹ Dec. 6, 2017 H.V.T. at 04:01:19

¹¹⁰ Attorney General’s Brief at 31.

¹¹¹ Kentucky Power’s Post Hearing Brief (“Kentucky Power’s Brief”) (filed Jan. 5, 2018) at 48.

¹¹² Kentucky Power stated that it is unlikely that the Rockport lease will be renewed. Dec. 6, 2017 H.V.T. at 5:47:44; Kentucky Power Response to Staff’s Second Request, Item 72.

the expenses associated with the Rockport UPA will be removed from rate base, which allows the regulatory asset to be funded without a change in rate base. However, if the lease is renewed, the deferred expenses will have to be recovered from future ratepayers, and possibly through an increase in rate base.¹¹³ The Commission recognizes that there are inherent risks associated with any deferral mechanism, especially since the deferral recovery is contingent upon not renewing the Rockport UPA. Given Kentucky Power's excess capacity and slow load growth, the Commission believes the benefits of the deferral outweigh the associated risks, and approves the Rockport Deferral Mechanism and the associated \$15 million decrease to rate base. The carrying charges associated with this rider shall be based on the WACC approved in this Order and are effective as of the date of this Order. This approval is for accounting purposes only, and the appropriate ratemaking treatment for this regulatory asset account will be addressed in Kentucky Power's next general rate case.

Environmental Surcharge Tariff E.S.

Kentucky Power proposed an addition to its Environmental Compliance Plan to recover the cost of installing Selective Catalytic Reduction ("SCR") technology at Rockport Unit 1, affecting the amounts collected under Tariff E.S. The project is discussed later in the Environmental Compliance Plan section of this Order. Kentucky Power estimated the revenue requirement for the SCR project to be \$3,903,065.¹¹⁴ The Commission finds the Rockport Unit 1 revenue requirement to be reasonable.

¹¹³ Satterwhite Settlement Testimony at S-13.

¹¹⁴ Elliott Testimony, Exhibit AJE-5.

TOTAL JURISDICTIONAL REVENUE REQUIREMENTS

The Commission has found that Kentucky Power's required ROE falls within a range of 8.60 percent to 10.31 percent, and approves an ROE of 9.70 percent. The Settlement proposed a base rate increase of \$31.8 million and environmental surcharge revenues of \$3.9 million, for a total of \$35.7 million. The environmental surcharge is discussed farther below. Because Kentucky Power recovers the costs associated with the decommissioning of coal-related assets at Big Sandy through the Decommissioning Rider, those costs are not included for recovery in the base rates. However, for the twelve months ending September 30, 2018, Kentucky Power will recover approximately \$20.2 million through the Decommissioning Rider,

Due to the modifications the Commission makes to the Settlement and the provision for the reduction in the federal corporate income tax rate from 35 percent to 21 percent in the Tax Cuts and Jobs Act, the Commission finds that an increase in base rate revenues of \$12.35 million, as shown in Appendix F to this Order, exclusive of the environmental surcharge, will result in fair, just, and reasonable electric rates for Kentucky Power and its ratepayers. The Commission utilized Kentucky Power's equity gross up revenue conversion factor ("GRCF"), as provided in Kentucky Power's revised Environmental Surcharge forms filed on January 3, 2018, to reflect the reduction in the federal corporation income tax rate effective with the date of this Order. Additionally, the adjustments the Commission makes to the test year operating income and expense items reflect the income tax rate reduction and change in the GRCF. The excess accumulated deferred income tax ("ADIT") impacts resulting from the reduction federal corporate income tax rate will be addressed in Case No. 2017-00477. The Commission

also finds that Kentucky Power should establish a mechanism to track the over/under-collection of federal income taxes, and that a true-up of any over/under-collections be addressed in Case No. 2017-00477.

Due to the economic conditions in Kentucky Power's service territory, the Commission believes that the impact of the federal corporate income tax reduction on rates should be put into place effective with the date of this Order. In addition, the lower rates should serve as an impetus for economic development through recruiting new businesses as well as maintaining existing business customers.

NONREVENUE REQUIREMENT RIDERS AND TARIFFS

The following sections address riders and a tariff that have no direct impact on Kentucky Power's revenue requirement. The discussion covers both those that have been contested, and those that are included in the Settlement.

Non-Utility Generator Tariff

In its Application, Kentucky Power proposed to revise the Non-Utility Generator Tariff ("Tariff N.U.G.") to eliminate a provision that requires a 30-day written notice to customers taking service under Tariff N.U.G. if a transmission provider implements charges for transmission congestion. Kentucky Power asserted that this clause is no longer necessary because PJM has already created transmission congestion charges.¹¹⁵ Kentucky Power also proposed to revise language in the special terms and conditions section of Tariff N.U.G. to clarify the requirement to take service for remote

¹¹⁵ Application, Vaughan Direct Testimony at 25.

self-supply.¹¹⁶ The Settlement is silent as to Tariff N.U.G. Neither KCUC nor the Attorney General contested the proposed revisions to Tariff N.U.G.

The Commission finds the revisions to Tariff N.U.G. to be reasonable and that they should be approved.

Systems Sales Clause

In its Application, Kentucky Power proposed to reduce monthly bill volatility by revising its Tariff S.S.C. to change from a monthly system sales adjustment factor to an annual sales adjustment factor. Kentucky Power further proposed to set the Tariff S.S.C. rate to \$0, with the difference between actual off-system sales margins and a base amount of \$7,163,948 deferred based on the current 75/25 customer sharing mechanism approved in Case No. 2014-00396.¹¹⁷ The net deferred credit or charge to customers would then be the base for the annual Tariff S.S.C. rate update.¹¹⁸ Kentucky Power proposed to file the required true-up information no later than August 15 of each year, with rates to be effective with Cycle 1 of October. The first filing would be made by August 15, 2018. The Settlement is silent as to Tariff S.S.C. Neither the Attorney General nor KCUC contested the proposed revisions to Tariff S.S.C.

The Commission finds the revisions to Tariff S.S.C., as adjusted to include \$7,650,350 in base rates, to be reasonable and should be approved.

¹¹⁶ Sharp Direct Testimony at 28.

¹¹⁷ Kentucky Power credits 75 percent of the difference between base and actual off system sales margins amounts to customers and retains 25 percent.

¹¹⁸ Vaughan Direct Testimony at 36-37.

PJM Billing Line Items

In the Application, Kentucky Power proposed to include additional PJM Billing Line Items (“BLIs”) for recovery through its FAC. Kentucky Power stated that these BLIs represent items that either require generation resources to be running and online, or are associated with other BLIs that require generation resources to be running and online. Kentucky Power stated that all of the service functions represented by the BLIs are related to fuel-related services previously received by Kentucky Power when it was a member of the AEP East Pool, and that those amounts were previously included in Kentucky Power’s base fuel cost. The Settlement is silent as to the BLIs. Neither the Attorney General nor KCUC contested this proposal.

The Commission has reviewed the additional BLIs and finds that they are appropriate for inclusion in the FAC, as these BLIs represent charges and credits that relate to fuel consumed by resources that are running and online. Furthermore, the Commission finds that when Kentucky Power files its compliance tariff, it should amend its Tariff F.A.C to include PJM BLIs 2211, 2215, and 2415, as those BLIs have replaced BLI 2210.

MODIFICATIONS TO TERMS AND CONDITIONS OF SERVICE TARIFFS

In its Application, Kentucky Power proposed certain revisions to its terms and conditions for service. The revisions include: verification of a customer’s identity and proof of ownership or lease of property where service is requested at the time an application for service is filed; information to be considered when evaluating whether to waive a deposit; payment arrangements; mobile alerts; elimination of the employee discount; modifying the equal payment plan; and denial or discontinuance of service.

Kentucky Power also requested a deviation from 807 KAR 5:006, Section 14(2)(a) to amend when a customer can sign up for the Equal Payment Plan, and the annual settle-up month for certain customers.

Neither the Attorney General nor KCUC contested the revisions.

The Commission finds that the proposed revisions to the terms and conditions of service as contained in the Application are reasonable, with the exception of the denial or discontinuance of service, and should be approved. The Commission further finds that Kentucky Power established good cause to deviate from 807 KAR 5:006, Section 14(2)(a), and that its request for a deviation should be granted.

As to the denial or discontinuance of service, the Commission finds that the proposed revisions as contained in the Application are overbroad and do not comply with Commission precedent.¹¹⁹ In response to Commission Staff's Post Hearing Data Request, Kentucky Power revised the terms for denial or discontinuance of service as follows:

The Company reserves the right to refuse or discontinue service to any customer if the customer is indebted to the Company for any service theretofore rendered at any location. Service will not be supplied or continued to any premises if at the time of application for service the Applicant is merely acting as an agent of a person or former customer who is indebted to the Company for service previously supplied at the same, or other premises, until payment of such indebtedness shall have been made;

The Commission finds that the revised language regarding denial or discontinuance of service as filed on in the Supplemental Response on December 21, 2017, is reasonable and should be approved.

¹¹⁹ See H.V.T., PSC Exhibits 2, 3, 4, and 6.

RATE DESIGN, TARIFFS AND OTHER ISSUES

Rate Design

Kentucky Power filed a fully allocated jurisdictional cost-of-service study (“COSS”) to determine the cost to service each customer class as well as the rate of return on rate base for each class during the test year. The results of the COSS illustrate the amount of cross-subsidization between the rate classes and show that all non-residential rate classes subsidize the residential class. In its Application, Kentucky Power proposed to reduce these subsidies by five percent in its proposed rates. The Settlement modifies this proposed revenue allocation and proposes to use the first \$5.8 million of any Commission-authorized revenue increase to the Industrial General Service (“IGS”) rate class to fully eliminate the subsidy Rate IGS would have paid under the rate increase as originally proposed by Kentucky Power.¹²⁰ The remaining revenue increase is spread uniformly among the rate classes, further reducing interclass subsidies.¹²¹

The Attorney General did not offer any testimony concerning the allocation of any proposed revenue increase, aside from recommending limiting any revenue increase, and stating that Kentucky Power’s customers are unable to afford a rate increase and that a large increase would set the entire economy of Eastern Kentucky back, counteracting any economic expansion.¹²²

¹²⁰ Satterwhite Settlement Testimony at S-9; Dec. 8, 2017 H.V.T. at 2:59:20; Direct Testimony of Stephen J. Baron (“Baron Testimony”) at 15 and Table 2.

¹²¹ Satterwhite Settlement Testimony at S-9.

¹²² Dismukes Testimony at 3.

The KCUC does not support the revenue allocation as set forth in the Settlement, contending that the Settlement does not provide fair or reasonable treatment of the Tariff L.G.S. customer class. KCUC stated that in addition to bearing a subsidy burden associated with the overall rate structure, the L.G.S. class must also absorb an additional \$500,000 subsidy resulting from the Public and Private School service ("PS") tariff.¹²³ To remedy this, the KCUC proposes that the first \$500,000 of any additional Commission-directed decrease in the revenue requirement be applied to the Tariff L.G.S. customer class and any revenue reduction beyond \$500,000 be uniformly spread among all the rate classes in proportion to each class's revenue requirement.¹²⁴

Residential Customer Charge

In its Application, Kentucky Power proposed an increase in the residential customer charge from \$11.00 to \$17.50, an increase of 59 percent. The cost-of-service study filed by Kentucky Power in this proceeding supports a customer charge of \$37.88.¹²⁵ The Settlement allows for an increase in the residential customer charge to \$14.00, an increase of 27 percent.

The Attorney General objected to any increase on the residential customer charge.¹²⁶ The Attorney General contended that shifts towards fixed cost recovery disproportionately hurt low-income customers and Kentucky Power did not provide

¹²³ Settlement Testimony of Kevin Higgins ("Higgins Settlement Testimony") at 2.

¹²⁴ *Id.* at 4.

¹²⁵ Vaughan Direct Testimony, Exhibit AEV-2 at 1.

¹²⁶ Dismukes Testimony at 6.

sufficient evidence to justify an increase.¹²⁷ The Attorney General argued that Kentucky Power's fixed cost calculation of almost \$38.00 is flawed because a portion of demand-related costs are assigned as fixed costs, which the Attorney General argued is fundamentally incorrect.¹²⁸ The Attorney General noted that none of the parties to the proposed Settlement represent the interests of residential ratepayers, and the proposed \$14 would recover too much of any potential revenue increase through the customer charge and undermine future incentives for efficiency, resulting in an erosion of LIHEAP funds.¹²⁹

The Commission believes an increase to the Residential Basic Service Charge is warranted, and finds that the Settlement's increase to \$14.00 is reasonable. The proposed 27 percent increase is consistent with the principle of gradualism that the Commission has long employed. Consistent with this change, the Commission also approves the customer charges of \$14.00 as set forth in the Settlement for the three optional residential tariffs: 1) Residential Service Load Management Time-of-Day; 2) Residential Service Time-of-Day; 3) and Experimental Residential Service Time-of-Day 2. The Commission also approves a customer charge of \$14.50 for the new optional Residential Demand Metered Electric Service ("Tariff R.S.D.").¹³⁰

¹²⁷ *Id.*

¹²⁸ *Id.* at 20.

¹²⁹ Attorney General's Brief at 32-33.

¹³⁰ The Settlement and supporting testimony state that Kentucky Power and the Settling Intervenor agreed to a residential customer charge of \$14.00. Settlement at paragraph 16(a); Satterwhite Settlement Testimony at S-22. The proposed Settlement Tariff R.S.D. filed on Dec. 1, 2017, inadvertently contains a monthly customer charge of \$17.50.

General Service Rate Class

Kentucky Power proposed to combine the Small General Service (“S.G.S.”) and Medium General Service (“M.G.S.”) rate classes into a single General Service (“G.S.”) rate class under which all general service customers with average demands up to 100 kilowatts (“kW”) will take service. Kentucky Power stated that both the S.G.S. and M.G.S. rate classes currently incur a monthly service charge and a blocked energy charge. Additionally, the M.G.S. rate class incurs a demand charge. Due to this current tariff structure, there is movement between the S.G.S. and M.G.S. rate classes as load characteristics vary month to month for many commercial customers. Kentucky Power stated that combining the S.G.S. and M.G.S. into a single tariff allows for administration efficiencies by eliminating this movement between the two rate classes.¹³¹ The new G.S. tariff combines rate design features from the S.G.S. and M.G.S. tariffs, and will include a monthly service charge, two blocked energy charges, and a demand charge for monthly billing demand greater than 10 kW. The blocked energy charge transition point is 4,450 kilowatt hours (“kWh”). Kentucky Power stated that setting the kWh block at 4,450 kWh ensures that almost all usage that was billed under the current S.G.S. tariff will continue to be billed on an energy charge only and such a rate design will minimize bill impact on current S.G.S. and M.G.S. customers.¹³²

Although the proposed rate design minimizes the impact on an average commercial customer, due to the proposed increase in the demand charge from \$1.91

¹³¹ Vaughan Direct Testimony at 21.

¹³² *Id.* at 21.

for all kW to \$7.95 for all kW greater than 10 kW, it negatively affects customers whose load characteristics include low usage coupled with high demand.¹³³ The Commission believes that Kentucky Power's proposed increase in the demand charge of over 300 percent is excessive. For this reason, the Commission will minimize the impact on high demand commercial customers, apply a 2-step phase-in increase of demand rates, and limit the increase in year 2 to \$6.00 per kW. In addition, Kentucky Power must identify and contact G.S. class customers whose average monthly demand is 25 kW or greater to meet to discuss the impacts of the rate increase on those customers' bills and analyze other tariff options, such as time-of-day rates, that may offer relief to these customers. Last, Kentucky Power should file with the Commission, within twelve months of this Order, a report listing the commercial customers who meet this load profile and the results of each meeting.

Rate Adjustment

In setting the rates shown in Appendix C, the Commission maintained the basic service charge for each class that was included in the Settlement. The reduction of Kentucky Power's revenue increase was allocated to the energy charges of those customer classes for which revenue increases were proposed. The reduction to each class's proposed revenue increase was approximately in proportion to the increase set forth in the Settlement.

¹³³ Dec. 8, 2017 H.V.T. at 4:53:40.

Tariff Purchased Power Adjustment

In its Application, Kentucky Power proposed to include the following additional cost of service items to be tracked and recovered through Tariff P.P.A.: (1) PJM OATT charges and credits that it incurs or receives from its participation as a LSE in the organized wholesale power markets of PJM; (2) purchased power costs excluded from recovery through the FAC as a result of the purchased power limitation; and (3) gains and losses from incidental gas sales. In addition, Kentucky Power proposed to change Tariff P.P.A. from a monthly adjusting surcharge to an annually updated surcharge.

The Attorney General filed testimony stating that these cost-of-service items should continue to be collected through base rates as Kentucky Power has not demonstrated a compelling reason to have these items tracked and recovered through Tariff P.P.A.¹³⁴

1. PJM LSE OATT Charges and Credits

Kentucky Power proposed to include the following PJM LSE transmission charges and credits to costs recoverable through Tariff P.P.A.: network integration transmission service (“NITS”); transmission owner scheduling system control and dispatch service (“TO”); regional transmission expansion plan (“RTEP”); point-to-point transmission service; and RTO start-up cost recovery. An adjusted level of the net OATT charges and credits in the amount of \$74,377,364 will be included in base rates.¹³⁵ The amount above or below the base rate level would be tracked monthly and the annual net over- or under-collection would then be collected from or credited to customers through the operation of Tariff P.P.A.

¹³⁴ Smith Testimony at 70.

Kentucky Power stated that the proposed tracking mechanism for PJM OATT LSE Charges is necessary due to the volatility of these PJM charges and credits, which Kentucky Power claimed are largely out of its control. Kentucky Power estimated that its PJM OATT LSE expenses will increase in 2018 by approximately \$14 million, or 19 percent over the test year amount.¹³⁶ Kentucky Power expects increasing investment in the transmission grid by PJM member transmission owners, which will increase transmission charges allocated to LSEs in PJM. Kentucky Power stated that tracking the PJM LSE charges and credits via Tariff P.P.A. could preclude it from seeking more frequent rate cases.¹³⁷

Finally, two proceedings currently before the FERC may affect the level of PJM LSE OATT charges incurred by Kentucky Power. One proceeding is a challenge to the ROE included in the AEP Zone formula, which determines the PJM transmission costs of service for the AEP Transmission Zone. Kentucky Power stated that at this time, any change resulting from this proceeding is not known and measurable. Therefore, an adjustment in this case is not possible. The second proceeding is a pending non-unanimous settlement regarding the cost allocation methodology historically used by PJM to allocate costs of transmission enhancement projects to the LSEs in its footprint. If approved, the proposed stipulation is expected to result in lower PJM LSE OATT

¹³⁵ Vaughan Direct Testimony at 29.

¹³⁶ Satterwhite Settlement Testimony at S-14–S-15.

¹³⁷ Vaughan Direct Testimony at 27-28.

charges. However, the timing or magnitude of the possible cost allocation changes are not currently known.¹³⁸

The Settlement revised the proposal regarding the PJM OATT LSE charges and credits as follows:

- Kentucky Power will recover and collect 80 percent of the annual over- or under-collection of PJM OATT LSE charges, as compared to the annual amount included in base rates, (“Annual PJM OATT LSE Recovery”) through Tariff P.P.A.

- Kentucky Power will credit against the Annual PJM OATT LSE Recovery 100 percent of the difference between the return on its incremental transmission investments calculated using the FERC approved PJM OATT return on equity, and the return on its incremental transmission investments calculated using the 9.75 percent return on equity provided for in the settlement.

- The changes to Tariff P.P.A. to allow for the Annual PJM OATT LSE Recovery will terminate on the effective date when base rates are reset in the next base rate proceeding unless otherwise extended by the Commission.

Due to the volatility of the OATT charges and credits, the Commission finds the proposal to include the PJM LSE transmission charges and credits to the costs recoverable through Tariff P.P.A., as modified in the Settlement, reasonable with one modification. When calculating the credit against the Annual PJM OATT LSE Recovery, the return on equity amounts used to calculate the incremental transmission investments shall be 9.7 percent, the Commission-approved ROE amount.

¹³⁸ *Id.* at 28-29.

In conjunction with approving the PJM OATT LSE tracker, the Commission finds that the three-year stay-out provision in the Settlement is reasonable and should be accepted. In approving the tracker, the Commission addresses Kentucky Power's primary concern, raised in the last rate case and in this case, that an increase in major expenses not directly under Kentucky Power's control would result in more frequent rate cases.

Regarding proposed transmission projects at PJM, the Commission expects Kentucky Power to work through the PJM stakeholder process to protect its customer interests.

2. FAC Purchased Power Limitations.

Kentucky Power proposed to track, on a monthly basis, the amount of purchased power costs excluded for recovery through the FAC over or above the base rate level using deferral accounting. The annual net over- or under-collection of these purchase power costs would be collected from or credited to customers through Tariff P.P.A.¹³⁹

The FAC Purchase Power Limitation is a calculation that caps the amount of purchase power expense to be recovered through the monthly FAC surcharge. The calculation compares the cost of actual purchased power on an hourly basis to the cost of Kentucky Power's highest cost unit or the theoretical peaking unit equivalent, and caps the FAC-recoverable purchase power expense at the cost (\$/MWh) of the highest generating unit (Kentucky Power owned or peaking unit equivalent). Kentucky Power claims that, because it relies on factors outside of its control, the FAC Purchase Power Limitation and the peaking unit equivalent calculation promote variability and volatility.

¹³⁹ *Id.* at 29.

The Commission is not convinced that this issue requires special ratemaking treatment. The Commission has long held that any purchased power costs not recoverable through the FAC are eligible for recovery through base rates. The Commission finds Kentucky Power's proposal to include an estimated amount of FAC Purchased Power Limitation Expense in base rates, and to subsequently true up that amount through Tariff P.P.A., is unreasonable, and therefore should be denied. The Commission notes that Kentucky Power filed this case using a historic test period. The Commission will allow recovery of the test year amount of purchased power reasonably incurred, but excluded from the FAC. To the extent that Kentucky Power incurs any expense due to purchased power that is appropriately incurred after the test year, but excluded from the FAC, it can file a base rate case seeking recovery of those expenses. For the foregoing reasons, adjustments W26 and W27, which total \$4,032,786, are unreasonable and should be removed from the revenue requirement.

3. Peaking Unit Equivalent Calculation

Kentucky Power proposed to change the methodology for calculating the peaking unit equivalent ("PUE") used in determining the FAC Purchased Power Limitation. In its Application, Kentucky Power proposes to include the cost of firm gas service as an expense in the calculation of its PUE. Kentucky Power stated that since the hypothetical combustion turbine ("CT") could be dispatched any day of the year, it requires firm gas service. The Commission disagrees. While firm gas service would certainly allow the CT to be dispatched any day of the year, the Commission is unaware of any jurisdictional utility utilizing firm gas service for a CT. Because CTs typically operate at low capacity factors and are primarily utilized during the summer peaking

months, when pipeline capacity would typically not be constrained, the Commission finds the inclusion of firm gas service in the calculation of the PUE to be unreasonable, and therefore, this change in the PUE calculation should be denied. Kentucky Power's proposal to include startup costs and variable O&M expense is reasonable and should be approved.

4. Gains and Losses from Incidental Gas Sales.

Kentucky Power proposed to recover gains and losses from incidental sales of natural gas through Tariff P.P.A. Kentucky Power nominates Big Sandy Unit 1 in the PJM day-ahead electric power market based in part on the price of natural gas purchased for delivery the next day. If the Big Sandy Unit 1 Day Ahead nomination price is higher than the PJM electric power market clearing price, Big Sandy Unit 1 is not selected to run in the Real Time Market. In such a case, the natural gas purchased must either be stored by Columbia Gas or be sold. Kentucky Power stated that in August, September, and November of 2016, there were days that it was required to sell natural gas that had been purchased for delivery because Big Sandy Unit 1 was not selected by PJM to run.¹⁴⁰

In Case No. 2014-00078, Duke Energy Kentucky ("Duke Energy") proposed similar treatment of gains and losses it experienced in January and February of 2014 from incidental sales of natural gas.¹⁴¹ Duke Energy amended its request to apply to similar losses or gains occurring in the future. The Commission approved the treatment of the January and February 2014 gains and losses. However, the Commission found

¹⁴⁰ Application, Direct Testimony of John A. Rogness at 26-27

¹⁴¹ Case No. 2014-00078, *An Investigation of Duke Energy Kentucky, Inc.'s Accounting Sale of Natural Gas Not Used in Its Combustion Turbines* (Ky. PSC Nov. 25, 2014).

Duke Energy's proposal to apply such treatment to similar losses or gains in the future to be overly broad and did not approve such treatment, finding that such gains and losses should be investigated on a case-by-case basis.

In this case, the Commission finds, as it did in Case No. 2014-00078, that gains and losses from the incidental sale of natural gas should be investigated on a case-by-case basis. If such gains or losses occur in the future, Kentucky Power should notify the Commission so those matters may be addressed in a formal proceeding. For purposes of this case, the Commission finds that the gain on the incidental sale of natural gas of \$13,982 should be utilized to reduce Kentucky Power's revenue requirement.

Tariff K-12 School

In its Application, Kentucky Power proposed to discontinue the pilot Tariff K-12 School under which public schools in Kentucky Power's service territory took service under discounted rates. Kentucky Power stated that its load research and class cost of service study demonstrated that Tariff K-12 School customers would be better off in the Tariff L.G.S. customer class than they were previously a part of prior to the pilot Tariff K-12.

Tariff Pilot K-12 School was approved as part of the settlement agreement in Case No. 2014-00396. In Case No. 2014-00396, KSBA argued, as it does in this proceeding, that public school load characteristics were sufficiently unique to justify a distinct rate class for K-12 schools. Because school load data did not exist, Kentucky Power agreed to establish a pilot tariff with load research meters at 30 K-12 schools.

Kentucky Power further agreed to evaluate whether to continue Tariff K-12 School in its next base rate case using the load research data.

Tariff K-12 School rates were designed to produce an annual revenue requirement that was \$500,000 less than would be produced under the L.G.S. rates from customers eligible to take service under Tariff K-12 School.¹⁴² Tariff L.G.S. and Tariff M.G.S. customers rates were designed to include the \$500,000 subsidy to Tariff K-12 Schools.¹⁴³

Under the Settlement, Tariff K-12 School would cease to be a pilot, and would continue as a separate rate class. The tariff would be available to all K-12 schools, public and private, in Kentucky Power's service territory with normal maximum demands greater than 100 kW. Tariff K-12 School rates continue to be designed with a \$500,000 subsidy absorbed by Tariff L.G.S. customers.

In its Settlement Testimony, KCUC asserted that the Settlement is unfair and unreasonable because L.G.S. customers had to absorb the subsidy to provide a \$500,000 benefit for Tariff K-12 School customers, in addition to a significant inter-class subsidy burden as part of the overall rate structure.¹⁴⁴ KCUC stated that it did not object to the \$500,000 discount to Tariff K-12 School customers, but instead objected that the discount is funded by L.G.S. customers, and not spread out among all customer classes. As a remedy, KCUC proposed that, if the Commission reduced the revenue requirement, that the first \$500,000 of any reduction be applied first to reduce the revenue requirement of the L.G.S. class.

¹⁴² Case No. 2014-00396, Final Order, at 19.

¹⁴³ *Id.*

The Commission finds that load research data collected and analyzed by Kentucky Power demonstrates that a separate, discounted K-12 schools tariff is not justified and that public school usage characteristics do not support the discounted rates paid by Tariff K-12 School customers relative to the L.G.S. class. The Commission finds that it is unreasonable to continue Tariff K-12 School, and therefore rejects this portion of the Settlement.

Green Pricing Option Rider/Renewable Power Option Rider

Kentucky Power proposed to revise its Green Pricing Option Rider to expand the categories of renewable energy credits available, to allow participating customers to purchase their full requirements from renewable energy generators, and to change the name of the rider to the Renewable Power Option Rider ("Rider R.P.O"). The Commission finds that the Rider R.P.O. provision in the Settlement is reasonable and should be approved.

Tariff C.A.T.V.

In its Application, Kentucky Power proposed to increase Tariff C.A.T.V. rates for pole attachments on a two-user pole from \$7.21 per year to \$11.97 per year, and for pole attachments on a three-user pole from \$4.47 per year to \$7.52 per year. In the Settlement, Kentucky Power and the Settling Intervenors agreed to a rate of \$10.82 per year for attachments on a two-user pole, and \$6.71 per year for attachments on a three-user pole.

The Commission finds that the rates for Tariff C.A.T.V. as set forth in the Settlement are reasonable and should be approved.

¹⁴⁴ Higgins Settlement Testimony at 2.

Temporary Service Tariff

In its Application, Kentucky Power proposed to revise its Temporary Service Tariff ("Tariff T.S.") to limit service provided under Tariff T.S. to ensure that customers do not continue to take service under Tariff T.S. even after construction is complete and the facility is occupied. The Commission finds these changes to be reasonable and that they should be approved.

Optional Residential Demand Charge Tariff

Kentucky Power proposed a new optional residential rate schedule ("Tariff R.S.D.") that will be available to up to 1,000 residential customers. The rate structure will consist of a monthly service charge, on-peak and off-peak kWh energy charges, and an on-peak kW demand charge. Kentucky Power stated that the goal of Tariff R.S.D. is to send targeted price signals that will reward customers for shifting usage away from the peak time periods that cause Kentucky Power to incur higher costs. Kentucky Power also stated that certain electric heating customers may benefit from Tariff R.S.D. due to their potentially higher load factor usage characteristics, and that the rate design is revenue neutral to the standard residential tariff.¹⁴⁵

The Commission finds the proposed Tariff R.S.D. to be reasonable, that it should be approved, and that the rates included in Appendix C of this Order should be approved.

Tariff C.S.-Coal, Tariff C.S.-I.R.P. and Tariff E.D.R.

The Settlement extends through December 31, 2018, Tariff C.S.-Coal and the amendments to Tariff C.S.-I.R.P. and Tariff E.D.R., which were due to expire December

¹⁴⁵ Vaughan Direct Testimony at 19

31, 2017. The Commission finds the extension of the tariffs reasonable and that they should be approved. Any financial loss incurred in connection with these tariffs will be deferred for review and recovery in Kentucky Power's next base rate proceeding.

ENVIRONMENTAL COMPLIANCE PLAN

In its Application, Kentucky Power requested Commission approval of an amended environmental Compliance Plan ("2017 Plan") and an amended Environmental Surcharge tariff ("Tariff E.S.").

The 2017 Environmental Compliance Plan

The 2017 Plan includes previously approved projects and two new projects, Project 19 and Project 20. The 20 projects included in the 2017 Plan are listed in Appendix D to this Order.

Project 19 will install SCR technology at Rockport Unit 1 ("Rockport Unit 1 SCR Project"). The Rockport Unit 1 SCR project will reduce the plant's nitrogen oxide emissions, and is required under terms of a 2007 Consent Decree ("Consent Decree") among several AEP entities including Kentucky Power and I&M, and the Environmental Protection Agency and several environmental plaintiffs.

Project 20 seeks to include a return on inventories for consumables used in conjunction with approved projects through Tariff E.S. Kentucky Power currently recovers the cost of the consumption of consumables through Tariff E.S. The return on consumable inventories is currently part of the general rate base. Kentucky Power proposed that the return on consumable inventories be recovered through Tariff E.S. to align that cost with the cost recovery of items consumed.

Kentucky Power stated that the pollution control projects included in the 2017 Plan amendment are necessary to comply with the Federal Clean Air Act ("CAA") and other federal, state, and local regulations that apply to coal combustion wastes and by-products from facilities utilized for the production of energy from coal. Kentucky Power asserted that the costs associated with its 2017 Plan are reasonable, and that the projects are a reasonable and cost-effective means to comply with environmental requirements.

The Attorney General argued that Kentucky Power should not be permitted to recover the cost of the Rockport Unit 1 SCR Project.¹⁴⁶ The Attorney General asserted that Kentucky Power's customers have been paying increasing amounts for environmental costs resulting from the Consent Decree because AEP voluntarily made environmental upgrades at generating stations, including the Rockport generating units, that were not identified in the original EPA litigation that led to the Consent Decree. Because Rockport was not part of the original litigation, the Attorney General asserts Kentucky Power should not recover the costs for the Rockport Unit 1 SCR project from its ratepayers.

In rebuttal, Kentucky Power stated that the decision to include Rockport in the Consent Decree settlement was a way to remove the significant risk of additional litigation at those units not named in any pending complaints, as well as to provide a more favorable outcome than would be expected on an individual basis.¹⁴⁷ Kentucky Power further stated that the Consent Decree provided certainty regarding the timing of

¹⁴⁶ Smith Testimony at 59.

¹⁴⁷ Rebuttal Testimony of John McManus at 3.

additional control installations across the AEP fleet. At the time of the settlement, Kentucky Power was still participating in the AEP Pool, which meant that the outcome of litigation involving all units across the AEP fleet contributing to the pool was in the best interest of Kentucky Power and its customers.

The Settlement was silent on the 2017 Environmental Compliance Plan.

The Commission finds that the 2017 Plan is reasonable as set forth in the Application and should be approved.

ENVIRONMENTAL SURCHARGE TARIFF MODIFICATIONS

Kentucky Power updated its Tariff E.S. to reflect the changes proposed in its Application and the Settlement. Kentucky Power updated the list of projects in the tariff to match the projects included in the 2017 Plan as noted previously in this Order. Kentucky Power updated Tariff ES to reflect the rate of return included in the Settlement to this case. Kentucky Power also updated the tariff to reflect the new monthly base environmental costs based on that rate of return. Kentucky Power determined the annual base revenue requirement level for environmental cost recovery to be \$47,513,461.¹⁴⁸ The Commission has determined that the correct annual base revenue requirement is \$44,379,316, which reflects the Commission authorized return on equity, capital structure changes, reduction of the federal corporate income tax rate from 35 percent to 21 percent and the depreciation rates set forth in Exhibit 5 of the

¹⁴⁸ In the Tariff E.S. filed December 1, 2017, Kentucky Power reflected an annual base revenue requirement of \$47,811,215. Kentucky Power updated this amount to \$47,513,461 to reflect the depreciation rates included in Exhibit 5 to the Settlement Agreement. See Response to Commission Staff's Post-Hearing Request for Information ("Staff's Post-Hearing Request"), Item 20 attachment KPCO_R_KPSC_PH_20_Attachment1.xls.

Settlement.¹⁴⁹ Kentucky Power shall file a revised Tariff ES to reflect the Commission authorized return on equity and capitalization discussed in this Order, and the annual base revenue requirement as shown on Appendix E attached to this order. Per the settlement agreement in Case No. 2012-00578,¹⁵⁰ all costs associated with the Mitchell FGD equipment are excluded from base rates and therefore are not included in the base revenue requirement noted above, but will be included as part of the current period environmental revenue requirement. The Commission finds that Tariff E.S. as discussed and modified in this Order should become effective for service rendered on and after the date of this Order.

Costs Associated with the 2015 Plan

Tariff E.S. revenue requirement is determined by comparing the base period revenue requirement with the current period revenue requirement. Kentucky Power proposed to incorporate the costs associated with the 2017 Plan into the existing surcharge mechanism used for previous compliance plans. Kentucky Power identified the environmental compliance costs for the 2017 Plan projects, which Kentucky Power proposed to recover through its environmental surcharge. Kentucky Power proposed to apply a gross-up factor to environmental expenses to account for uncollectible accounts and the Commission assessment fee. The factor will be applied to the incremental change in operating, maintenance, and other expenses from the base period. The

¹⁴⁹ Response to Staff's Post-Hearing Request, Item 20.

¹⁵⁰ Case No. 2012-00578, *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* (Ky. PSC Oct. 7, 2013).

costs identified by Kentucky Power are eligible for surcharge recovery if they are shown to be reasonable and cost-effective for complying with the environmental requirements specified in KRS 278.183. The Commission finds that the costs identified for the 2017 Plan projects have been shown to be reasonable and cost-effective for environmental compliance. Thus, they are reasonable, and should be approved for recovery through Kentucky Power's environmental surcharge.

Qualifying Costs

As stated previously, the qualifying costs included in Kentucky Power's annual baseline level for environmental cost recovery under the tariff shall be \$44,379,316. The qualifying costs included in the current period revenue requirement will reflect the Commission-approved environmental projects from Kentucky Power's 1997, 2005, 2007, 2015 and 2017 Plans. Per the settlement agreement in Case No 2012-00578, all costs associated with Mitchell Units 1 and 2 FGD equipment have been excluded from base rates and the environmental baseline level and shall be recovered exclusively through Tariff E.S. Should Kentucky Power desire to include other environmental projects in the future, it will have to apply for an amendment to its approved compliance plans.

Rate of Return

Paragraph 8(a) of the Settlement authorizes Kentucky Power to use a 9.75 percent ROE to be utilized in Tariff E.S. to determine the WACC for non-Rockport environmental projects. However as previously noted, the Commission has authorized a 9.70 percent ROE that should be used for all non-Rockport environmental projects.

Kentucky Power's ROE for environmental projects at the Rockport Plant is 12.16 percent as established by the FERC-approved Rockport Unit Power Agreement.

Capitalization and Gross Revenue Conversion Factor

Paragraph 3(c) and Exhibit 6 of the Settlement provide that Kentucky Power shall utilize a WACC of 6.48 percent and a gross revenue conversion factor ("GRCF") of 1.6433 to determine a rate of return of 9.11 percent to be used in the monthly environmental surcharge filings. As a result of the reduction of the federal corporate tax rate from 35 percent to 21 percent, the Commission has determined that Kentucky Power should use a GRCF of 1.352116. Because of the change in the authorized ROE, capitalization, and the GRCF, the WACC to be used for non-Rockport environmental projects is 6.44 percent. Utilizing a WACC of 6.44 percent and a GRCF produces a rate of return of 7.88 percent to be used in the monthly environmental surcharge filings. The WACC and GRCF shall remain constant until the Commission sets base rates in Kentucky Power's next base rate case proceeding.

Surcharge Formulas

The inclusion of the 2017 Plan into Kentucky Power's existing surcharge mechanism will not result in changes to the surcharge formulas. The costs associated with the Mitchell FGD will be excluded from base rates and the base rate revenue requirement of the environmental surcharge at least until June 30, 2020, but will be included in the current period revenue requirement for the environmental surcharge. The Commission finds that the formulas used to determine the environmental surcharge revenue requirement as proposed by Kentucky Power should be approved.

Surcharge Allocation

The retail share of the revenue requirement will be allocated between residential and non-residential customers based upon their respective total revenue during the previous calendar year. The environmental surcharge will be implemented as a percentage of total revenues for the residential class and as a percentage of non-fuel revenues for all other customers.

Monthly Reporting Forms

The inclusion of the 2017 Plan into the existing surcharge mechanism will require modifications to the monthly environmental surcharge reporting forms. Kentucky Power provided its proposed revised forms to be used in the monthly environmental reports. The revised forms include the changes necessary to reflect the proposed 2017 Plan, as well as changes necessitated by the application of a gross-up factor to the incremental operating, maintenance and other expenses. The Commission finds that Kentucky Power's proposed monthly environmental surcharge reporting forms as revised should be approved.

FINDINGS ON SETTLEMENT AGREEMENT

Based upon a review of all the provisions in the Settlement, an examination of the entire record, and being otherwise sufficiently advised, the Commission finds that the provisions of the Settlement are in the public interest and should be approved, subject to the modifications as discussed in this Order. Our approval of the Settlement as modified is based solely on its reasonableness and does not constitute precedent on any issue except as specifically provided for in this Order.

OTHER ISSUES

Vegetation Management

Kentucky Power's current Vegetation Management Plan ("2015 Vegetation Management Plan") was modified from its 2010 Vegetation Management Plan in Kentucky Power's last rate case, Case No. 2014-00396. In Case No. 2014-00396, it was determined that funding for the 2010 Vegetation Management Plan, which was scheduled to move to a four-year cycle within seven years of initial circuit clearing, needed modification. However, the work required to transition to a four-year cycle was significantly greater than initially estimated, and Kentucky Power could not wait until all circuits had an initial clearing ("Task 1") to begin re-clearing the circuits. Thus, the modification was approved allowing the continuation of Task 1 and a simultaneous undertaking of interim re-clearing ("Task 2"). Under this schedule, Task 1 would be completed by December 31, 2018, Task 2 would be completed by June 30, 2019, and on July 1, 2019, Kentucky Power's entire distribution system would commence to be re-cleared on a five-year cycle ("Task 3"), rather than a four-year cycle. Funding was approved for the 2015 Vegetation Management Plan, as well as a provision requiring Kentucky Power to obtain Commission approval prior to modifying its annual projected vegetation management spending on both an aggregate and a district basis if the change is more than 10 percent of the budget.

Kentucky Power is on pace to exceed the December 31, 2018 target for Task 1, and expects to complete Task 1 circuit clearing in the first quarter of 2018. In addition, Task 2 circuit re-clearing is expected to be completed by December 31, 2018, six months sooner than projected. To date, Kentucky Power has exceeded targets on budget as total expenditures are 101 percent of target level.¹⁵¹ Reliability has increased

¹⁵¹ Application, Direct Testimony of Everett G. Phillips ("Phillips Testimony") at 35.

and Kentucky Power customers have seen a 60 percent decrease in interruptions related to rights-of-way trees and vegetation.¹⁵² Task 3 is estimated to begin in January 2019.

Embedded in Kentucky Power's current base rates are annual vegetation management O&M expenses of \$27.661 million. Due to early completion of Tasks 1 and 2, Kentucky Power estimates a reduction of O&M expenses related to Tasks 1 and 2 from \$27.661 million in 2017 to \$21.639 million 2018. According to the 2015 Vegetation Management Plan, at the start of Task 3, O&M expenses are projected to decrease, resulting in a decrease of O&M expenses of \$11.780 million. However, Kentucky Power has determined that the estimates of the annual O&M expenditures for Task 3 as estimated in the 2015 Vegetation Management Plan are undervalued and need to be increased.¹⁵³ Due to the re-clearing in Task 2, Kentucky Power now has a better grasp on regrowth, the effect of higher-than-average rainfall, and growing customer demand to remove tree debris, and proposes to increase the annual O&M expenses for Task 3. This re-estimation calculates costs for Task 3 to increase from the original \$15.880 million to \$21.284 million in 2019, and \$21.473 in 2020.¹⁵⁴ Kentucky Power proposes the amount of vegetation management O&M expenses to be recovered through base rates for the instant case to be equal to the average of the revised estimated annual vegetation management plan O&M spending over 2018-2020, or \$21.465 million.¹⁵⁵

¹⁵² *Id* at 40.

¹⁵³ *Id.*

¹⁵⁴ *Id.* at 46

Kentucky Power also proposes two changes to its current vegetation management reporting requirements. First, Kentucky Power proposes to modify the pre-approval requirement for deviation of 10 or more percent from projected annual vegetation management O&M expenditures to eliminate the district-specific threshold and retain only the requirement for pre-approval if overall Kentucky Power vegetation management expenditures deviate more than 10 percent. Second, Kentucky Power proposes to manage its vegetation work and expenditures on a calendar year basis, as opposed to managing its vegetation work on a fiscal year and expenditures on a calendar year. Kentucky Power stresses that neither modification will change their overall vegetation management obligation, but provides for more flexibility to manage its obligations.¹⁵⁶

The 2015 Vegetation Management Plan included a one-way balancing account. In this balancing account, any annual shortfall or excess in vegetation management O&M expenditures that is over the amount in base rates is added to or subtracted from future expenditures over four years. At the end of the four-year period, Kentucky Power will record a cumulative shortfall as a regulatory liability that will either be refunded to the customers or used to reduce the revenue requirement in its next filed base-rate case. If Kentucky Power has overspent on a cumulative basis during the four-year period, it will not seek recovery of such costs in a future base-rate proceeding. As of the end of November 2017, Kentucky Power testified that cumulative expenditures were slightly over the budgeted amount.¹⁵⁷

¹⁵⁵ Application, Section V, Exhibit 2, page 59.

¹⁵⁶ *Id.* at 43.

The Commission finds that the one-way balancing adjustment should be continued; however due to the change in the annual revenue requirement as noted in the Application, it should be adjusted accordingly. All expenses will be recorded against the annual budget. The annual shortfall or excess will be applied to the balance account. Through 2023, or until Kentucky Power's next base rate application, whichever occurs first, the expenditures will be balanced against the annual projected expenditures as found in the Application.¹⁵⁸

The Commission approves the proposed modifications allowing Kentucky Power to request Commission approval for any spending deviation greater than 10 percent on an aggregate level as opposed to a district level. The Commission also approves Kentucky Power's request to manage its vegetation management program on a calendar year basis to coincide with the budgetary year. The Commission notes that Kentucky Power has exceeded the goals of the 2015 Vegetation Management Plan resulting in a reduction of O&M expenses 24 months earlier than estimated. The Commission approves Kentucky Power's proposed revenue requirement of \$21.465 million. All other provisions of the 2015 Vegetative Management Plan are to remain unchanged.

The Commission will continue to review closely the vegetation management annual work plans and expenditures filed by Kentucky Power. In addition, the Commission will monitor the progress of the five-year maintenance cycle.

Bill Redesign

¹⁵⁷ Dec. 8, 2017 H.V.T. at 2:09:38.

¹⁵⁸ Phillips Testimony, Table 9 at 46.

On June 12, 2017, Kentucky Power filed an Application requesting approval to implement new bill formats that change the bill layout and composition, which is being implemented concurrently for all AEP operating companies, and to combine certain billing line items. That Application was docketed as Case No. 2017-00231.¹⁵⁹ By Order dated July 17, 2017, that case was consolidated into this proceeding. By further Order dated September 12, 2017, the Commission approved Kentucky Power's request to redesign the appearance of its bills, but stated that a decision on the proposed substantive changes to consolidate billing line items would be determined in the final Order in this proceeding.

Kentucky Power proposed to consolidate eight residential billing line items,¹⁶⁰ and seven commercial and industrial billing line items¹⁶¹ into a single "Rate Billing" line item. Kentucky Power explained that customer satisfaction regarding billing correspondence was below the industry average according to a survey commissioned by Kentucky Power.¹⁶² Kentucky Power asserted that its customers found the number of billing line

¹⁵⁹ Case No. 2017-00231, *Electronic Application of Kentucky Power Company for (1) Approval of its Revised Terms and conditions of Service Implementing New Bill Formats; (2) An Order Granting All other Required Approvals and Relief* (filed June 12, 2017).

¹⁶⁰ The residential billing line items Kentucky Power proposes to consolidate into a single line items are Rate Billing, Residential Home Energy Assistance Program Charge, Kentucky Economic Development Surcharge, Capacity charge, Big Sandy 1 Operation Rider, Big Sandy Retirement Rider, Purchased Power Adjustment, and Green Pricing Option. The residential charges that Kentucky Power proposes to continue to display as individual billing line items are the Fuel Adjustment Charge, Demand-Side Management Factor, Environmental Surcharge, School Tax, Franchise Fee, State Sales tax, and HomeServe Warranty.

¹⁶¹ The commercial and industrial billing line items Kentucky Power proposes to consolidate into a single line items are Rate Billing, Kentucky Economic Development Surcharge, Capacity charge, Big Sandy 1 Operation Rider, Big Sandy Retirement Rider, Purchased Power Adjustment, and Green Pricing Option. The commercial and industrial charges that Kentucky Power proposes to continue to display as individual billing line items are the Fuel Adjustment Charge, Demand-Side Management Factor, Environmental Surcharge, School Tax, Franchise Fee, and State Sales tax.

¹⁶² Case No. 2017-00231, Direct Testimony of Stephen L. Sharp, Jr. (filed June 12, 2017) at 2.

items were “unhelpful,” made the bills “difficult to understand,” and obscured the information customers most wanted to know, which was the total amount owed and payment due date.¹⁶³ Kentucky Power further asserted that customers requested that line items be consolidated in order to simplify the bills. Customers who want detailed billing information could contact a Kentucky Power customer service center.

In the Settlement, the Settling Intervenors agreed to Kentucky Power’s proposed consolidation of billing line items.

Neither KCUC nor the Attorney General filed testimony in this proceeding regarding the consolidation of billing line items. However, in a motion filed in Case No. 2017-00231 before it was incorporated into this proceeding, the Attorney General argued that consolidating the billing line items would result in a lack of transparency that impeded customers’ understanding of how rates and their bills are calculated.¹⁶⁴

The Commission finds that Kentucky Power’s proposed consolidation of billing line items is unreasonable and should be denied. The Commission concurs with the Attorney General that displaying discrete billing line items on customer bills promotes transparency and customer understanding of their billing amounts. Further, it is not reasonable to require customers to take additional steps in order to obtain a detailed accounting for their bills. This is especially so given that the billing line items that Kentucky Power wishes to consolidate represent charges in addition to the base rate charge for utility service.

Analysis of Kentucky Power’s Participation in PJM

¹⁶³ *Id.* at 3; *Id.* at Application, paragraph 11.

Kentucky Power currently elects to self-supply its PJM capacity requirements under the Fixed Resource Requirement (“FRR”) alternative. As discussed in testimony at the hearing, AEP conducts regular evaluations to determine whether its operating companies in PJM should elect to participate in the Reliability Pricing Model (“RPM”) capacity market, or to self-supply under FRR.¹⁶⁵

The Commission finds that Kentucky Power should file an annual update of the FRR/RPM election analysis. The Commission recognizes that this information is deemed confidential during the AEP internal decision-making process. However, once PJM is notified of the election, the information becomes public and ceases to be confidential. Kentucky Power should file the annual update after the information becomes public.

Further, the Commission recognizes that Kentucky Power’s interests may not be aligned with the interests of other AEP operating companies. The Commission is aware that PJM bills AEP based on a one-coincident peak methodology, and that AEP subsequently allocates those costs to its operating companies using a twelve-coincident peak methodology. The Commission finds that Kentucky Power should file an annual report with the supporting calculations used by AEP to allocate these costs.

Last, the Commission strongly encourages Kentucky Power to recognize that it must make a determination regarding its participation in PJM that aligns with the interests of Kentucky Power and its ratepayers.

Reduction in Corporate Tax Rates

¹⁶⁴ Case No. 2017-00231, Attorney General’s Motion to Consolidate Cases (filed July 13, 2017) paragraphs 4-5.

¹⁶⁵ Dec. 7, 2017 H.V.T. at 10:43:18, and Kentucky Power Exhibit 9.

Effective January 1, 2018, the federal corporate income tax rate was reduced from 35 percent to 21 percent. Consistent with Kentucky Power's revised gross-up factor calculation in certain riders, the Commission finds that it is reasonable to utilize the 21 percent corporate income tax rate in the gross-up factor calculation. The Commission will address the impact of the recently enacted tax cuts on the excess ADIT and the rates of all investor-owned utilities, including Kentucky Power, on a prospective basis in pending cases that were opened on December 27, 2017.¹⁶⁶

Based on the evidence of record and the findings contained herein, HEREBY ORDERS that:

1. The rates and charges proposed by Kentucky Power are denied.
2. The provisions in the Settlement, as set forth in Appendix A to this Order, are approved, subject to the modifications and deletions set forth in this Order.
3. The rates and charges for Kentucky Power, as set forth in Appendix C to this Order, are the fair, just, and reasonable rates for Kentucky Power, and these rates are approved for service rendered on and after January 19, 2018.
4. Kentucky Power's request to deviate from 807 KAR 5:006, Section 14(2)(a) by limiting enrollment in its Equal Payment Plan to the months of April through December is granted.
5. Kentucky Power's proposed depreciation rates, with the exception of the changes proposed in the Settlement are approved.

¹⁶⁶ Case No. 2017-00477, *Kentucky Industrial Utility Customers, Inc. v. Kentucky Utilities Company, Louisville Gas and Electric Company, Kentucky Power Company, and Duke Energy Kentucky, Inc.* (Ky PSC Dec. 27, 2017); Case No. 2017-00481, *An Investigation of the Impact of the Tax Cuts and Job Act on the Rates of Atmos Energy Corporation, Delta Natural Gas Company, Inc., Columbia Gas of Kentucky, Inc., Kentucky-American Water Company, and Water Service Corporation of Kentucky* (Ky. PSC Dec. 27, 2017).

6. The regulatory asset or liability account established by under- or over-recovery from the elimination of Tariff B.S.1.O.R. is approved for accounting purposes only.

7. The regulatory asset account established by the deferral of Rockport UPA expenses is approved for accounting purposes only.

8. Kentucky Power's 2017 Environmental Compliance Plan is approved.

9. Kentucky Power's environmental surcharge tariff is approved for service rendered on and after the date of this Order.

10. The base period and current period revenue requirements for the environmental surcharge shall be calculated as described in this Order.

11. The environmental reporting formats described in this Order shall be used for the monthly environmental surcharge filings. Previous reporting formats shall no longer be submitted.

12. The Commission approves the sample forms that were filed by Kentucky Power on January 3, 2018.

13. Within three months of the date of this Order, Kentucky Power shall identify and contact GS class customers whose average monthly demand is 25 kW or greater for the purpose of meeting to discuss the impact of the rate increase on their bills and analyze other available tariff options, such as time-of-day rates.

14. Within twelve months of the date of this Order, Kentucky Power shall file a report listing the names of each GS class customers whose average monthly demand is 25 kW or greater, and stating the date and method of contact with the customer, whether Kentucky Power has met with the customer, and the results of each meeting.

15. Kentucky Power's request to revise its billing format to consolidate billing line items, as set forth in the application, is denied.

16. Kentucky Power's Vegetation Management Plan, as set forth in the Application, is approved.

17. Kentucky Power's request to obtain Commission approval for any spending deviation from its Vegetation Management Plan greater than 10 percent on an aggregate level as opposed to a district level is approved.

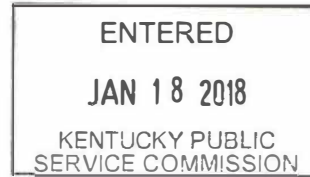
18. Kentucky Power's request to manage its Vegetation Management Plan on a calendar year basis is approved.

19. Kentucky Power shall file an annual update of the FRR/RPM election analysis conducted by AEP and its operating companies within 30 days of notifying PJM of the election.

20. Kentucky Power shall file annually the supporting calculations for allocating PJM bills, which are based on a one-coincident peak methodology, AEP's operating companies using a twelve-coincident-peak methodology.

21. Within 20 days of the date of this Order, Kentucky Power shall, using the Commission's electronic Tariff Filing System, file its revised tariffs setting out the rates authorized herein and reflecting that they were approved pursuant to this Order.

By the Commission



ATTEST:



Executive Director

Case No. 2017-00179

APPENDIX A

APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE
COMMISSION IN CASE NO. 2017-00179 DATED **JAN 18 2018**

**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) Case No. 2017-00179
Riders; (4) An Order Approving Accounting)
Practices To Establish Regulatory Assets Or)
Liabilities; And (5) An Order Granting All Other)
Required Approvals And Relief)

SETTLEMENT AGREEMENT

This Settlement Agreement, made and entered into this 22nd day of November, 2017, by and among Kentucky Power Company (“Kentucky Power” or “Company”); Kentucky Industrial Utility Customers, Inc. (“KIUC”); Kentucky School Boards Association (“KSBA”); Kentucky League of Cities (“KLC”); Wal-Mart Stores East, LP and Sam’s East, Inc. (“Wal-Mart”); and Kentucky Cable Telecommunications Association (“KCTA”); (collectively Kentucky Power, KIUC, KSBA, KLC, Wal-Mart, and KCTA, are “Signatory Parties”).

RECITALS

1. On June 28, 2017 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 (“Commission”), seeking an annual increase in retail electric rates and charges totaling \$69,575,934, seeking approval of its 2017 Environmental Compliance Plan, an order approving accounting practices to establish regulatory assets or liabilities, and further seeking authority to implement or amend certain tariffs (“June 2017 Application”).

2. On August 8, 2017, Kentucky Power supplemented its filing to reflect the impact of subsequent refinancing activities on the Company's Application ("August 2017 Refinancing Update"). The refinancing activities reduced the Company's requested annual increase in retail electric rates and charges from \$69,575,934 to \$60,397,438.

3. KIUC, KSBA, KLC, Wal-Mart, and KCTA filed motions for full intervention in Case No. 2017-00179. The Commission granted the intervention motions. Collectively KIUC, KSBA, KLC, Wal-Mart, and KCTA are referred to in this Settlement Agreement as the "Settling Intervenors."

4. The Attorney General of the Commonwealth of Kentucky ("Attorney General") and Kentucky Commercial Utility Customers, Inc. ("KCUC") also filed motions to intervene. The Attorney General and KCUC, who are not parties to this agreement, were granted leave to intervene.

5. Certain of the Settling Intervenors, KCUC, and the Attorney General filed written testimony in Case No. 2017-00179 raising issues regarding Kentucky Power's Rate Application.

6. Kentucky Power, KCUC, the Attorney General, and the Settling Intervenors have had a full opportunity for discovery, including the filing of written data requests and responses.

7. Kentucky Power offered the Settling Intervenors, KCUC, 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.

8. 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.

9. The Signatory Parties believe that this Settlement Agreement provides for fair, just, and reasonable rates.

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

AGREEMENT

1. **Kentucky Power's Application**

(a) Except as modified in this Settlement Agreement, Kentucky Power's June 2017 Application as updated by the August 2017 Refinancing Update is approved.

2. **Revenue Requirement**

(a) Effective for service rendered on or after January 19, 2018, Kentucky Power shall implement a base rate adjustment sufficient to generate additional annual retail revenues of \$31,780,734. This annual retail revenue amount represents a \$28,616,704 million reduction from the \$60,397,438 sought in the Company's August 2017 Refinancing Update.

(b) The \$28,616,704 million reduction was the result of the following adjustments to the Company's request in the June 2017 Rate Application as modified in the August 2017 Refinancing Update:

Adjustment	Reduction in Revenue Requirement (\$Millions)
Defer a portion of Rockport UPA non-fuel, non-environmental expenses	15.0
Increase revenues to Apply Weather Normalization to Commercial Sales Net of Variable O&M	0.40
Reduce Incentive Compensation	3.15
Reduce Amortization Expense to Recalibrate Storm Damage Amortization	1.22

Reduce Depreciation Expense by Extending Service Life of BS1 to 20 years	2.84
Reduce Depreciation Expense by Removing Terminal Net Salvage for BSU1	0.37
Reduce Depreciation Expense by Removing Terminal Net Salvage for Mitchell	0.57
Increase Short Term Debt to 1% and Set Debt Rate at 1.25%	0.36
Change in Return on Equity from 10.31% to 9.75%	4.70
Total Adjustments	28.6

(c) Kentucky Power agrees to allocate the \$31,780,734 in additional annual revenue as illustrated on **EXHIBIT 1**. The Company will design rates and tariffs consistent with this allocation of additional revenue.

(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 December 1, 2017.

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

3. Rockport UPA Expense Deferral

(a) Kentucky Power is a party to a FERC-approved Unit Power Agreement with AEP Generating Company for capacity and energy produced at the Rockport Plant ("Rockport UPA"). The Rockport UPA expires on December 8, 2022.

(b) Kentucky Power will defer a total of \$50 million in non-fuel, non-environmental Rockport UPA Expense for later recovery as follows:

(i) Kentucky Power will defer \$15M annually of Rockport UPA Expense in 2018 and 2019 for later recovery.

(ii) Kentucky Power will defer \$10M of Rockport UPA Expense in 2020 for later recovery.

(iii) Kentucky Power will defer \$5M annually of Rockport UPA Expense in years 2021 and 2022 for later recovery.

(c) The Rockport UPA Expense of \$50 million described in Paragraph 3(b) above will be deferred into a regulatory asset (“the Rockport Deferral Regulatory Asset”) and will be subject to carrying charges based on a weighted average cost of capital (“WACC”) of 9.11%¹ until the Regulatory Asset is fully recovered. From January 1, 2018 through December 8, 2022, the WACC will be applied to the monthly Rockport Deferral Regulatory Asset principal balance net of accumulated deferred income taxes (“ADIT”). From December 9, 2022 until the Rockport Deferral Regulatory Asset is fully recovered, the WACC will be applied to the monthly Rockport Deferral Regulatory Asset balance including deferred carrying charges net of ADIT. The Rockport Deferral Regulatory Asset shall be recovered on a levelized basis through the demand component of Tariff P.P.A. and amortized over five years beginning on December 9, 2022. Kentucky Power estimates that the regulatory asset balance will total approximately \$59 million on December 8, 2022.

(d) Additional expenses reflecting the declining deferral amount in years 2020 through 2022 will be recovered through the demand component of Tariff P.P.A. as follows:

(i) Kentucky Power will recover \$5 million through Tariff P.P.A. in 2020

(ii) Kentucky Power will recover \$10 million through Tariff P.P.A. in 2021

¹ 6.48% grossed up for applicable State and Federal taxes, uncollectible accounts expense, and the KPSC maintenance fee

(iii) Kentucky Power will recover \$10 million through Tariff P.P.A. in 2022, prorated through December 8, 2022.

(e) The Signatory Parties acknowledge that the Company's decision whether to seek Commission approval to extend the Rockport UPA will be made at a later date. Whether or not the Company seeks to extend the Rockport UPA, beginning December 9, 2022, the Capacity Charge recovered through Tariff C.C., approved in Case No. 2004-00420, will end. Any final over- or under-recovery balance will be included in the subsequent calculation of the purchase power adjustment under Tariff P.P.A. In the event that Kentucky Power elects not to extend the Rockport UPA, it will experience a reduction in Rockport UPA fixed costs ("Rockport Fixed Costs Savings").

(f) If Kentucky Power elects not to extend the Rockport UPA, it will, beginning December 9, 2022, credit the Rockport Fixed Cost Savings through the demand component of Tariff P.P.A. until new base rates are set. However, for 2023 only, the Rockport Fixed Cost Savings credit will be offset by the amount, if any, necessary for the Company to earn its Kentucky Commission-authorized return on equity (ROE) for 2023 ("Rockport Offset"). An example of the calculation of the Rockport Offset is included as EXHIBIT 2.

(g) For the purposes of implementing the Rockport Fixed Costs Savings credit described in Paragraph 3(f) above, the following definitions apply:

(i) "Rockport Fixed Costs Savings" shall mean the annual amount of non-fuel, non-environmental Rockport UPA expense included in base rates for rates effective in November 2022.

(ii) "Estimated Rockport Offset" shall mean the amount of additional annual revenue the Company estimates would be necessary for it to earn the Commission-authorized

return on equity for 2023 considering the termination of the Rockport UPA and the Rockport Fixed Cost Savings.

(iii) “Actual Rockport Offset” shall mean the amount of additional annual revenue that would have been necessary for the Company to earn the Commission-authorized return on equity for 2023 considering the termination of the Rockport UPA and the Rockport Fixed Cost Savings. The Company shall calculate the Actual Rockport Offset using a comparison of the per books return on equity for 2023 to the Commission-approved return on equity. The Actual Rockport Offset cannot exceed the Rockport Fixed Costs Savings.

(iv) “Rockport Offset True-Up” shall mean the difference between the Estimated Rockport Offset and the Actual Rockport Offset.

(h) The Company shall implement the Rockport Fixed Costs Savings credit described in Paragraph 3(f) above as follows:

(i) By November 15, 2022, the Company shall file an updated purchase power adjustment factor under Tariff P.P.A. for rates effective December 9, 2022. This filing shall reflect the impact of the Rockport Fixed Cost Savings and the Estimated Rockport Offset on the purchase power adjustment factor. This filing shall also reflect the commencement of recovery of the Rockport Deferral Regulatory Asset.

(ii) The Company shall make its normal August 15, 2023 Tariff P.P.A. filing for rates effective in October 2023. The Rockport Fixed Cost Savings and the Estimated Rockport Offset will continue to be factored into the calculation of the purchase power adjustment factor through the end of 2023. Beginning in January 2024, the Estimated Rockport Offset will not be factored into the calculation of the purchase power adjustment factor.

(iii) By February 1, 2024, the Company shall file an updated purchase power adjustment factor under Tariff P.P.A. for rates effective March 1, 2024. This filing shall only reflect the impact of the Rockport Offset True-Up on the purchase power adjustment factor. The purchase power adjustment factor shall be established to recover or credit the Rockport Offset True-Up amount in three months.

(iv) Beginning with the August 15, 2024 Tariff P.P.A. filing, the Company will incorporate the Rockport Fixed Cost Savings in its annual calculation of the purchase power adjustment factor.

4. PJM OATT LSE Expense Recovery

(a) As described in the testimony of Company Witness Vaughan, Kentucky Power has included an adjusted test year amount of net PJM OATT LSE charges and credits in base rates. Kentucky Power will track, on a monthly basis, the amount of OATT LSE charges and credits above or below the base rate level using deferral accounting. Kentucky Power will recover and collect 80% of the annual over or under collection of PJM OATT LSE charges, as compared to the annual amount included in base rates, (“Annual PJM OATT LSE Recovery”) through the operation of Tariff P.P.A.

(b) Kentucky Power will credit against the Annual PJM OATT LSE Recovery 100% of the difference between the return on its incremental transmission investments calculated using the FERC-approved PJM OATT return on equity and the return on its incremental transmission investments calculated using the 9.75% return on equity provided for in this settlement (the “Transmission Return Difference”). Kentucky Power shall calculate the Transmission Return Difference as shown in EXHIBIT 3.

(c) These changes to Tariff P.P.A. to allow for the Annual PJM OATT LSE Recovery will terminate on the effective date when base rates are reset in the next base rate proceeding unless otherwise specifically extended by the Commission. Nothing in this Paragraph 4(c) prohibits Kentucky Power or any other Signatory Party from taking any position regarding the extension of the Annual PJM OATT LSE Recovery mechanism or any other treatment of the Company's PJM OATT LSE expenses.

5. Rate Case Stay Out

(a) Kentucky Power will not file an application for a general adjustment of base rates for rates that would be effective prior to the first day of the January 2021 billing cycle. This rate case "stay out" is expressly conditioned on Commission approval of this Settlement Agreement without modification including the recovery of the Rockport Deferral Regulatory Asset as described in Section 3 above and the incremental PJM OATT LSE expense through Tariff P.P.A. as described in Section 4 above.

(b) This stay out will not apply if a change in law occurs that will result in a material adverse effect on the Company's financial condition.

(c) Nothing in this stay out provision should be interpreted as prohibiting the Commission from altering the Company's rates upon its own investigation, or upon complaint, including to reflect changes in the tax code, including the federal corporate income tax rate, depreciation provisions, or upon a request by the Company to seek leave to address an emergency that could adversely impact Kentucky Power or its customers. In the event the Commission initiates an investigation or a complaint is filed with the Commission regarding the Company's rates, the Company retains the right to defend the reasonableness of its rates in such proceedings.

6. Tariff P.P.A.

(a) Kentucky Power's proposed changes to Tariff P.P.A., as set forth in the testimony of Company Witness Vaughan and modified by Sections 2 and 3 above, are approved.

(b) A revised version of Tariff P.P.A. incorporating the modifications described in Sections 2 and 3 above is included as **EXHIBIT 4**.

7. Depreciation Rates

(a) Kentucky Power and the Settling Intervenors agree that Big Sandy Unit 1 has an expected life of 20 years following its conversion from a coal-fired to a natural gas-fired generating unit. The depreciation rates for Big Sandy Unit 1 have been adjusted to reflect the 20 year expected life. Kentucky Power and the Signatory Parties retain the right to propose updated depreciation rates for Big Sandy Unit 1 in future proceedings to reflect updates to the expected life.

(b) Kentucky Power has adjusted depreciation rates for Big Sandy Unit 1 and for the Mitchell Plant to remove terminal net salvage costs. Kentucky Power retains the right to propose updated depreciation rates for Big Sandy Unit 1 and for the Mitchell Plant in future proceedings to include terminal net salvage costs, and the Settling Intervenors retain the right to challenge the inclusion of such costs in future proceedings.

(c) Kentucky Power's updated depreciation rates are included as **EXHIBIT 5**.

8. Return on Equity, Capitalization, WACC, and GRCE

(a) Kentucky Power shall be authorized a 9.75% return on equity. The authorized return on equity of 9.75% will be used in the calculation of the Company's Environmental Surcharge factor (for non-Rockport environmental projects) and the carrying charges for the Rockport Deferral and Decommissioning Rider regulatory assets.

(b) Kentucky Power will update its capitalization to reflect short term debt as 1% of the Company's total capital structure. The annual interest rate for the short term debt will be set at 1.25%.

(c) Kentucky Power shall utilize a weighted average cost of capital ("WACC") of 9.11% including a gross revenue conversion factor ("GRCF") of 1.6433%. The GRCF does not include a Section 199 deduction. This WACC and GRCF shall remain constant (including for the riders and surcharges described in Paragraph 8(a) above) 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 EXHIBIT 6.

9. Storm Damage Expense Amortization

(a) Kentucky Power will recover and amortize the remaining unamortized balance of its deferred storm expense regulatory asset authorized in Case No. 2012-00445 over a period of five years beginning January 1, 2018, consistent with the recommendation of KIUC. The unamortized balance of the regulatory asset authorized in Case No. 2012-00445 will total \$6,087,000 on December 31, 2017 and will be amortized over five years at an annual amount of \$1,217,400.

(b) Kentucky Power will recover and amortize the deferred storm expense regulatory asset authorized in Case No. 2016-00180 over a period of 5 years beginning January 1, 2018 consistent with the testimony of Company Witness Wohnhas. The balance of the regulatory asset authorized in Case No. 2016-00180 totals \$4,377,336 and will be amortized over five years at an annual amount of \$875,467.

(c) The combined balance of the Kentucky Power's deferred storm expense regulatory assets (the remaining unamortized balance authorized in Case No. 2012-00445 and the amount

authorized in Case No. 2016-00180) will total \$10,464,336 on December 31, 2017 and will be amortized over five years at an annual amount of \$2,092,867.

10. Kentucky Economic Development Surcharge

(a) Kentucky Power's new Kentucky Economic Development Surcharge Tariff ("Tariff K.E.D.S.") shall be approved with rates amended as follows:

(i) The KEDS rate for residential customers will be set at \$0.10 per meter instead of \$0.25 as proposed by the Company.

(ii) The KEDS rate for non-residential customers for which the KEDS applies will be set at \$1.00 per meter instead of \$0.25 as proposed by the Company.

(b) All KEDS funds collected by Kentucky Power shall be matched dollar-for-dollar by Kentucky Power from shareholder funds. The proceeds of KEDS and 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 KEDS, and the matching shareholder contribution, shall remain in effect until changed by order of the Commission.

(c) Kentucky Power will continue to file on or before March 31st of each year 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. Backup and Maintenance Service

(a) In order for Marathon Petroleum LP (“Marathon”) to evaluate the economics of self or co-generation, Kentucky Power and Marathon will begin negotiations regarding the terms, conditions and pricing for backup and maintenance service within 30 days of a Commission Order approving this provision and will complete negotiations within the next 120 days. Prior to the start of the 120 day negotiation period, Marathon will provide Kentucky Power with specific information regarding the MW size of a potential self or co-generation facility and the type of generation technology being considered.

(b) If Kentucky Power and Marathon cannot reach an agreement on backup and maintenance service within 120 days, Kentucky Power and Marathon agree to submit the issue to the Commission for resolution.

12. School Energy Manager Program

(a) Kentucky Power shall seek leave from the Commission to include up to \$200,000 for the School Energy Manager Program in its each of its 2018 and 2019 DSM Program offerings.

(b) Kentucky Power and KSBA both expressly acknowledge that there is in Case No. 2017-00097 a currently-pending Commission investigation of the Company’s DSM programs and funding and that the outcome of that investigation could impact the School Energy Manager Program.

13. Tariff K-12 School

(a) Kentucky Power shall continue its current Pilot Tariff K-12 School but shall remove the Pilot designation as set forth in EXHIBIT 7. Tariff K-12 School shall be available for general service to all K-12 schools in the Company’s service territory, public and private, 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 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. Service under Tariff K-12 School shall be optional.

14. Bill Format Changes

(a) The bill formatting changes proposed by the Company in Case No. 2017-00231 and consolidated into this case by Commission Order dated July 17, 2017, to the extent not already approved, are approved.

(b) Within 180 days of a Commission Order approving this Settlement, Kentucky Power will conduct a training session with representatives from its municipal clients and KLC to explain the new bill format and tools available to clients to evaluate their electric usage.

15. Renewable Power Option Rider

(a) The proposed changes to the Company's Green Pricing Option Rider, including renaming the rider to the Renewable Power Option Rider ("Rider R.P.O."), are approved except that the availability of service provision for Option B will state the following:

"Customers who wish to directly purchase the electrical output and all associated environmental attributes from a renewable energy generator may contract bilaterally with the Company under Option B. Option B is available to customers taking metered service under the Company's I.G.S., and C.S.-I.R.P. tariffs, or multiple L.G.S. tariff accounts with common ownership under a single parent company that can aggregate multiple accounts to exceed 1000 kW of peak demand."

A revised version of Rider R.P.O. incorporating the modifications described above is included as **EXHIBIT 8**. Bills for customers receiving service under Rider R.P.O. will include a separate line item for Rider R.P.O. charges.

(b) Beginning no later than March 31, 2018, and no later than each March 31 thereafter, Kentucky Power will file a report with the Commission describing the previous year's activity under Rider R.P.O. This annual report will replace the semi-annual reports filed in Case No. 2008-00151.

16. 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 \$17.50 per month proposed by the Company in its filing in this case.

(b) The Company is extending the termination date for Tariff C.S. – Coal and the amendments to Tariff C.S. – I.R.P. and Tariff E.D.R. approved in Case No. 2017-00099 from December 31, 2017 to December 31, 2018.

(c) The pole attachment rate under Tariff C.A.T.V. shall be \$10.82 for attachments on two-user poles and \$6.71 for attachments on three-user poles for all attachments instead of the \$11.97 for attachments on two-user poles and \$7.42 for attachments on three-user poles proposed by the Company in its filing in this case.

17. Filing Of Settlement Agreement With The Commission And Request For Approval

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 before January 19, 2018.

18. 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. 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.

19. Failure Of Commission To Approve Settlement Agreement

If the Commission does not accept and approve this Stipulation in its entirety, then any adversely affected Party may withdraw from the Stipulation within the statutory periods provided for rehearing and appeal of the Commission's order by (1) giving notice of withdrawal to all other Parties and (2) timely filing for rehearing or appeal. Upon the latter of (1) the expiration of the statutory periods provided for rehearing and appeal of the Commission's order and (2) the conclusion of all rehearing's and appeals, all Parties that have not withdrawn will continue to be bound by the terms of the Stipulation as modified by the Commission's order.

20. 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.

21. 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.

22. 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. Any and all such 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.

23. 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 income of Kentucky Power are unknown and this Settlement Agreement shall be implemented as written.

24. Settlement Agreement And Negotiations Are Not An Admission

(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.

25. Consultation With Counsel

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.

26. Authority To Bind

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.

27. 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.

28. Counterparts


This Settlement Agreement may be executed in multiple counterparts.

29. 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 challenging any adjustment, in any future rate proceeding of Kentucky Power.

IN WITNESS WHEREOF, this Settlement Agreement has been agreed to as of this 22nd day of November 2017.

KENTUCKY POWER COMPANY

By: 
Its: Counsel

KENTUCKY INDUSTRIAL UTILITY
CUSTOMERS, INC.

By: Michael Kurt
Its: Counsel

KENTUCKY SCHOOL BOARDS
ASSOCIATION, INC.

By: Matthew Moore

Its: Legal Counsel


KENTUCKY LEAGUE OF CITIES

By: William M. [Signature]
Its: Director of Municipal Law Training

KENTUCKY CABLE
TELECOMMUNICATION
ASSOCIATION, INC.

By: John K. [Signature]
Its: KCTA Board Chairman

WAL-MART STORES EAST, LP AND
SAM'S EAST, INC.

By: 
Its: Counsel

APPENDIX B

APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE
COMMISSION IN CASE NO. 2017-00179 DATED **JAN 18 2018**

Adjustments	Amounts
Capacity Charge Revenues Removal	(\$6,396,832)
Removal of Effects of Decommissioning Rider Revenue and Expenses	(\$18,512,331)
Eliminate Mitchell FGD Operating Expenses	(\$13,308,197)
Remove Mitchell plant FGD and Consumable inventory from Rate Base	(\$1,610,192)
Removal of Mitchell FGD Environmental Surcharge Rider Revenues	(\$538,417)
Remove Big Sandy Unit 1 Operation Rider Deferrals	(\$4,333,902)
Fuel Under (Over) Revenues	\$4,574,472
Reset OSS Margin Baseline to 2016 Test Year OSS Margins	(\$8,800,856)
PPA Rider Synchronization Adjustment	\$372,542
Remove DSM Revenue Expense	(\$5,503,380)
Remove HEAP Revenue and Expense	(\$246,772)
Remove Economic Development Surcharge Revenue and Expense	(\$303,011)
Tariff Migration Adjustment	\$1,026,263
Customer Annualization Revenue Adjustment	(\$1,342,364)
Weather Normal Load Revenue Adjustment	\$4,080,748
O&M Expense Interest on Customer Deposit	\$67,254
Amortization of Major Storm Cost Deferral	\$874,592
Postage Rate Decrease Adjustment	(\$6,656)
Eliminate Advertising Expense	\$100,444
Adjust Pension and OPEB Expense	\$148,679
Employee Related Group Benefit Expense	\$429,241
Remove PJM BLIs From Base for FAC Inclusions	(\$516,659)
Adjustment to Include Purchase Power Limitation Expense in Rate Base	\$3,150,582
Adjustment to Include Forced Outage Purchase Power Limitation in Base Rates	\$882,204
Annualize NITS/PJM LSE OATT Expense	\$3,825,858
Annualize PJM Admin Charges	\$118,606
Amortization of NERC Cost Deferral	\$14,275
Severance Expense Adjustment	\$2,363
Annualization of Payroll Expense Adjustment	\$244,837
Social Security Tax Base Adjustment	\$26,009
Eliminate Non-Recoverable Business Expenses	\$14,914
Plant Maintenance Normalization	(\$274,334)
Depreciation Annualization Adjustment Electric Plant in Service	\$2,037,359
Decrease ARO Depreciation Expense to an Annualized Level	(\$3,818)
Decrease ARO Accretion Expense to an Annualized Level	(\$109,495)
Annualization of Cable Pole Attachment Revenue	\$532,369
KPSC Maintenance Assessment	(\$1,801)
State Gross Receipts Tax Adjustment	\$78,776

Interest Synchronization Adjustment (Per 8/7/2017 Amendment)	\$6,449,828
AFUDC Offset Adjustment (Per 8/17/2017 Amendment)	\$28,197
Adjustment to Recognize Accrued Surcharge Revenue Differences	(\$62,588)
Mitchell Plant ADSiT Amortization	\$1,292,491
Decrease O&M for Vegetation Management Tree Trimming	(\$6,794,282)
Annualization of Property Taxes	\$595,507

APPENDIX C

APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE
COMMISSION IN CASE NO. 2017-00179 DATED **JAN 18 2018**

The following rates and charges are prescribed for the customers in the area served by Kentucky Power Company. All other rates and charges not specifically mentioned herein shall remain the same as those in effect under authority of this Commission prior to the effective date of this Order.

TARIFF R.S.
RESIDENTIAL SERVICE

Service Charge per month	\$ 14.00
Energy Charge per kWh	\$.09660
Storage Water Heating Provision - Per kWh	\$.06072
Load Management Water Heating Provision - Per kWh	\$.06072
Home Energy Assistance Program Charge Per meter per month	\$.30

TARIFF R.S.-L.M.-T.O.D.
RESIDENTIAL SERVICE LOAD MANAGEMENT TIME-OF-DAY

Service Charge per month	\$ 16.00
Energy Charge per kWh:	
All kWh used during on-peak billing period	\$.14346
All kWh used during off-peak billing period	\$.06072
Separate Metering Provision Per Month	\$ 3.75
Home Energy Assistance Program Charge Per meter per month	\$.30

TARIFF R.S.-T.O.D.
RESIDENTIAL SERVICE TIME-OF-DAY

Service Charge per month	\$ 16.00
Energy Charge per kWh:	
All kWh used during on-peak billing period	\$.14386
All kWh used during off-peak billing period	\$.06072
Home Energy Assistance Program Charge Per meter per month	\$.30

TARIFF R.S.-T.O.D. 2
EXPERIMENTAL RESIDENTIAL SERVICE TIME-OF-DAY 2

Service Charge per month	\$ 16.00
Energy Charge per kWh:	
All kWh used during summer on-peak billing period	\$.17832
All kWh used during winter on-peak billing period	\$.15342
All kWh used during off-peak billing period	\$.08094
Home Energy Assistance Program Charge	
Per meter per month	\$.30

TARIFF R.S.D.
RESIDENTIAL DEMAND-METERED ELECTRIC SERVICE

Service Charge per month	\$ 17.50
Energy Charge per kWh:	
All kWh used during on-peak billing period	\$.09738
All kWh used during off-peak billing period	\$.07029
Demand Charge per kW	\$ 4.02
Home Energy Assistance Program Charge	
Per meter per month	\$.30

TARIFF G.S.
GENERAL SERVICE

<u>Secondary Service:</u>	
Service Charge per month	\$ 22.50
Energy Charge per kWh:	
Phase 1	
First 4,450 kWh per month	\$.10198
Over 4,450 kWh per month	\$.10188
Phase 2	
First 4,450 kWh per month	\$.09807
Over 4,450 kWh per month	\$.09798
Demand Charge per kW greater than 10 kW	
Phase 1	\$ 4.00
Phase 2	\$ 6.00
<u>Primary Service:</u>	
Service Charge per month	\$ 75.00
Energy Charge per kWh:	
First 4,450 kWh per month	\$.08629
Over 4,450 kWh per month	\$.08659
Demand Charge per kW greater than 10 kW	\$ 7.18

<u>Subtransmission Service:</u>	
Service Charge per month	\$ 364.00
Energy Charge per kWh:	
First 4,450 kWh per month	\$.07822
Over 4,450 kWh per month	\$.07855
Demand Charge per kW greater than 10 kW	\$ 5.74

TARIFF G.S.
GENERAL SERVICE
RECREATIONAL LIGHTING SERVICE PROVISION

Service Charge per month	\$ 22.50
Energy Charge per kWh	\$.09968

TARIFF G.S.
GENERAL SERVICE
LOAD MANAGEMENT TIME-OF-DAY PROVISION

Service Charge per month	\$ 22.50
Energy Charge per kWh:	
All kWh used during on-peak billing period	\$.14423
All kWh used during off-peak billing period	\$.06072

TARIFF G.S.
GENERAL SERVICE
OPTIONAL UNMETERED SERVICE PROVISION

Service Charge per month	\$ 14.00
Energy Charge per kWh:	
Phase 1	
First 4,450 kWh per month	\$.10198
Over 4,450 kWh per month	\$.10188
Phase 2	
First 4,450 kWh per month	\$.09807
Over 4,450 kWh per month	\$.09798

TARIFF S.G.S.-T.O.D.
SMALL GENERAL SERVICE TIME-OF-DAY

Service Charge per month	\$ 22.50
Energy Charge per kWh:	
All kWh used during summer on-peak billing period	\$.17034
All kWh used during winter on-peak billing period	\$.14372
All kWh used during off-peak billing period	\$.07511

TARIFF M.G.S.-T.O.D.
MEDIUM GENERAL SERVICE TIME-OF-DAY

Service Charge per month	\$	22.50
Energy Charge per kWh:		
All kWh used during on-peak billing period	\$	.16747
All kWh used during off-peak billing period	\$	.06072

TARIFF L.G.S.
LARGE GENERAL SERVICE

<u>Secondary Service Voltage:</u>		
Service Charge per month	\$	85.00
Energy Charge per kWh	\$	.07712
Demand Charge per kW	\$	7.97
<u>Primary Service Voltage:</u>		
Service Charge per month	\$	127.50
Energy Charge per kWh	\$	.06711
Demand Charge per kW	\$	7.18
<u>Sub-transmission Service Voltage:</u>		
Service Charge per month	\$	660.00
Energy Charge per kWh	\$	.05112
Demand Charge per kW	\$	5.74
<u>Transmission Service Voltage:</u>		
Service Charge per month	\$	660.00
Energy Charge per kWh	\$	.04997
Demand Charge per kW	\$	5.60
<u>All Service Voltages:</u>		
Excess Reactive Charge per KVA	\$	3.46

TARIFF L.G.S.
LARGE GENERAL SERVICE
LOAD MANAGEMENT TIME-OF-DAY PROVISION

Service Charge per month	\$	85.00
Energy Charge per kWh:		
All kWh used during on-peak billing period	\$	.14063
All kWh used during off-peak billing period	\$	.06088

TARIFF L.G.S. – T.O.D.
LARGE GENERAL SERVICE TIME-OF-DAY

Secondary Service Voltage:

Service Charge per month	\$ 85.00
Energy Charge:	
On-Peak Energy Charge per kWh	\$.09670
Off-Peak Energy Charge per kWh	\$.04132
Demand Charge per kW	\$ 10.87

Primary Service Voltage:

Service Charge per month	\$ 127.50
Energy Charge:	
On-Peak Energy Charge per kWh	\$.09300
Off-Peak Energy Charge per kWh	\$.04010
Demand Charge per kW	\$ 7.84

Sub-transmission Service Voltage:

Service Charge per month	\$ 660.00
Energy Charge:	
On-Peak Energy Charge per kWh	\$.09176
Off-Peak Energy Charge per kWh	\$.03970
Demand Charge per kW	\$ 1.52

Transmission Service Voltage:

Service Charge per month	\$ 660.00
Energy Charge:	
On-Peak Energy Charge per kWh	\$.09049
Off-Peak Energy Charge per kWh	\$.03928
Demand Charge per kW	\$ 1.49

All Service Voltages:

Excess Reactive Charge per KVA	\$ 3.46
--------------------------------	---------

TARIFF I.G.S.
INDUSTRIAL GENERAL SERVICE

Secondary Service Voltage:

Service Charge per month	\$ 276.00
Energy Charge per kWh	\$.02663
Demand Charge per kW	
Of Monthly On-Peak Billing Demand	\$ 24.13
Of Monthly Off-Peak Billing Demand	\$ 1.60

Primary Service Voltage:

Service Charge per month	\$ 276.00
Energy Charge per kWh	\$.02553
Demand Charge per kW Of Monthly On-Peak Billing Demand	\$ 20.57

Sub-transmission Service Voltage:

Service Charge per month	\$ 794.00
Energy Charge per kWh	\$.02793
Demand Charge per kW Of Monthly On-Peak Billing Demand Of Monthly Off-Peak Billing Demand	\$ 13.69 \$ 1.51

Transmission Service Voltage:

Service Charge per month	\$1,353.00
Energy Charge per kWh	\$.02792
Demand Charge per kW Of Monthly On-Peak Billing Demand Of Monthly Off-Peak Billing Demand	\$ 13.26 \$ 1.49

All Service Voltages:

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 is \$.69 per KVAR.

Minimum Demand Charge

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

Secondary	\$ 25.83
Primary	\$ 22.21
Subtransmission	\$ 15.30
Transmission	\$ 14.86

TARIFF M.W.
MUNICIPAL WATERWORKS

Service Charge per month	\$ 22.90
Energy Charge - All kWh per kWh	\$.09135

Subject to a minimum monthly charge equal to the sum of the service charge plus \$8.89 per kW as determined from customer's total connected load.

TARIFF O.L.
OUTDOOR LIGHTING

OVERHEAD LIGHTING SERVICE

High Pressure Sodium per Lamp:		
100 Watts (9,500 Lumens)	\$	8.50
150 Watts (16,000 Lumens)	\$	9.30
200 Watts (22,000 Lumens)	\$	10.90
250 Watts (28,000 Lumens)	\$	15.04
400 Watts (50,000 Lumens)	\$	16.01
Mercury Vapor per Lamp:		
175 Watts (7,000 Lumens)	\$	9.04
400 Watts (20,000 Lumens)	\$	14.64

POST-TOP LIGHTING SERVICE

High Pressure Sodium per Lamp:		
100 Watts (9,500 Lumens)	\$	14.05
150 Watts (16,000 Lumens)	\$	23.30
100 Watts Shoe Box (9,500 Lumens)	\$	29.50
250 Watts Shoe Box (28,000 Lumens)	\$	24.99
400 Watts Shoe Box (50,000 Lumens)	\$	36.16
Mercury Vapor per Lamp:		
175 Watts (7,000 Lumens)	\$	10.59

FLOOD LIGHTING SERVICE

High Pressure Sodium per Lamp:		
200 Watts (22,000 Lumens)	\$	13.10
400 Watts (50,000 Lumens)	\$	17.06
Metal Halide		
250 Watts (20,500 Lumens)	\$	15.27
400 Watts (36,000 Lumens)	\$	18.39
1,000 Watts (110,000 Lumens)	\$	30.94
250 Watts Mongoose (19,000 Lumens)	\$	20.57
400 Watts Mongoose (40,000 Lumens)	\$	23.59
Per Month:		
Wood Pole	\$	3.40
Overhead Wire Span not over 150 Feet	\$	2.00
Underground Wire Lateral not over 50 Feet	\$	7.40

Per Lamp plus \$0.02725 x kWh in Sheet No. 14-3 in Company's tariff

TARIFF S.L.
STREET LIGHTING

Rate per Lamp:

Overhead Service on Existing Distribution Poles

High Pressure Sodium	
100 Watts (9,500 Lumens)	\$ 7.02
150 Watts (16,000 Lumens)	\$ 7.55
200 Watts (22,000 Lumens)	\$ 8.95
400 Watts (50,000 Lumens)	\$ 11.71

Service on New Wood Distribution Poles

High Pressure Sodium	
100 Watts (9,500 Lumens)	\$ 10.80
150 Watts (16,000 Lumens)	\$ 11.55
200 Watts (22,000 Lumens)	\$ 12.95
400 Watts (50,000 Lumens)	\$ 16.61

Service on New Metal or Concrete Poles

High Pressure Sodium	
100 Watts (9,500 Lumens)	\$ 27.45
150 Watts (16,000 Lumens)	\$ 28.15
200 Watts (22,000 Lumens)	\$ 26.70
400 Watts (50,000 Lumens)	\$ 27.11

Per Lamp plus \$0.02725 x kWh in Sheet No. 15-2 in Company's tariff

TARIFF C.A.T.V.
CABLE TELEVISION POLE ATTACHMENT

Charge for attachments

On a two-user pole	\$ 10.82
On a three-user pole	\$ 6.71

TARIFF COGEN/SPP I
COGENERATION AND/OR SMALL POWER PRODUCTION
100 KW OR LESS

Monthly Metering Charges:

Single Phase:	
Standard Measurement	\$ 9.25
Time-of-Day Measurement	\$ 9.85

Polyphase:		
Standard Measurement	\$	12.10
Time-of-Day Measurement	\$	12.40
Energy Credit per kWh:		
Standard Meter – All kWh	\$	.03240
Time-of-Day Meter:		
On-Peak kWh	\$	.03860
Off-Peak kWh	\$	.02790
Capacity Credit:		
Standard Meter per kW	\$	3.11
Time-of-Day Meter per kW	\$	7.47

TARIFF COGEN/SPP II
COGENERATION AND/OR SMALL POWER PRODUCTION
OVER 100 KW

Metering Charges:		
Single Phase:		
Standard Measurement	\$	9.25
Time-of-Day Measurement	\$	9.85
Polyphase:		
Standard Measurement	\$	12.10
Time-of-Day Measurement	\$	12.40
Energy Credit per kWh:		
Standard Meter – All kWh	\$	.03240
Time-of-Day Meter:		
On-Peak kWh	\$	.03860
Off-Peak kWh	\$	.02790
Capacity Credit:		
Standard Meter per kW	\$	3.11
Time-of-Day Meter per kW	\$	7.47

TARIFF K.E.D.S.
KENTUCKY ECONOMIC DEVELOPMENT SURCHARGE

Per month per account:		
Residential	\$	.00
All Other	\$	1.00

TARIFF C.C.
CAPACITY CHARGE

Energy Charge per kWh:

Service Tariff

I.G.S.

\$.000749

All Other

\$.001435

RIDER R.P.O.
RENEWABLE POWER OPTION RIDER
OPTION A

Solar RECs:

Block Purchase per 100 kWh per month

\$ 1.00

All Usage Purchase per kWh consumed

\$.01000

Wind RECs:

Block Purchase per 100 kWh per month

\$ 1.00

All Usage per kWh consumed

\$.01000

Hydro & Other RECs:

Block Purchase per 100 kWh per month

\$.30

All Usage per kWh consumed

\$.00300

RIDER A.F.S.
ALTERNATE FEED SERVICE RIDER

Monthly Rate for Annual Test of Transfer Switch/Control Module

\$ 14.67

Monthly Capacity Reservation Demand Charge per kW

\$ 6.29

APPENDIX D

APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE
COMMISSION IN CASE NO. 2017-00179 DATED **JAN 18 2018**

ENVIRONMENTAL COMPLIANCE PLAN

<u>Project</u>	<u>Plant</u>	<u>Pollutant</u>	<u>Description</u>	<u>In-Service Year</u>
<u>Previously Approved Environmental Compliance Projects</u>				
1	Mitchell	NOx, SO2, and SO3	Mitchell Units 1 & 2, Water Injection, Low NOx Burners, Low NOx Burner Modification, SCR, FGD, Landfill, Coal Blending Facilities & SO3 Mitigation	1993-1994-2002-2007
2	Mitchell	SO2, NOx and Gypsum	Mitchell Plant Common CEMS, Replace Burner Barrier Valves & Gypsum Material Handling Facilities	1993-1994-2007
3	Rockport	SO2 / NOx	Continuous Emission Monitors ("CEMS")	1994
4	Rockport	NOx, Fly Ash, & Bottom Ash	Rockport Units 1 & 2 Low NOx Burners, Over Fire Air & Landfill	2003-2008
5	Mitchell & Rockport	SO2, NOx, Particulates & VOC and etc.	Title V Air Emissions Fees at Mitchell and Rockport Plants	Annual
6	Big Sandy, Mitchell & Rockport	NOx	Costs Associated with NOx Allowances	As Needed
7	Big Sandy, Mitchell & Rockport	SO2	Costs Associated with SO2 Allowances	As Needed
8	Big Sandy, Mitchell & Rockport	SO2 / NOx	Costs Associated with the CSAPR Allowances	As Needed
9	Mitchell	Particulates	Mitchell Units 1 & 2 - Precipitator Modifications	2007-2013
10	Mitchell	Particulates	Mitchell Units 1 & 2 - Bottom Ash & Fly Ash Handling	2008-2010
11	Mitchell	Mercury	Mitchell Units 1 & 2 - Mercury Monitoring ("MATS")	2014
12	Mitchell	Selenium	Mitchell Units 1 & 2 - Dry Fly Ash Handling Conversion	2014
13	Mitchell	Fly Ash, Bottom Ash, Gypsum & WWTP Solids	Mitchell Units 1 & 2 - Coal Combustion Waste Landfill	2014
14	Mitchell	Particulates	Mitchell Unit 2 - Electrostatic Precipitator Upgrade	2015
15	Rockport	Particulates	Rockport Units 1 & 2 - Precipitator Modifications	2004-2009
16	Rockport	Mercury	Rockport Units 1 & 2 - Activated Carbon Injection ("ACI") & Mercury Monitoring	2009-2010

17	Rockport	Hazardous Air Pollutants ("HAPS")	Rockport Units 1 & 2 - Dry Sorbent Injection	2015
18	Rockport	Fly Ash & Bottom Ash	Rockport Plant Common - Coal Combustion Waste Landfill Upgrade to Accept Type 1 Ash	2013 & 2015
<u>Proposed Environmental Compliance Projects</u>				
19	Rockport	NOx	Rockport Unit 1 - Selective Catalytic Reduction equipment	2017
20	Mitchell Rockport	SO ₂ / NO _x , Mercury, Particulates, Hazardous Air Pollutants ("HAPS")	Cost of consumables used in conjunction with approved ECP projects including the cost of the consumables used and a return on consumable inventories. Consumables include, but are not limited to sodium bicarbonate, activated carbon, anhydrous ammonia, trona, lime hydrate, limestone, polymer, and urea.	As Needed

APPENDIX E

APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE
COMMISSION IN CASE NO. 2017-00179 DATED **JAN 18 2018**

MONTHLY BASE PERIOD REVENUE REQUIREMENT

<u>Billing Month</u>	<u>Base Period Cost</u>
January	\$ 3,664,681
February	3,581,017
March	3,353,024
April	3,661,574
May	3,595,145
June	3,827,332
July	3,747,320
August	3,888,262
September	3,636,247
October	3,824,697
November	3,717,340
December	<u>3,882,677</u>
	\$ 44,379,316

APPENDIX F

APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE
COMMISSION IN CASE NO. 2017-00179 DATED ~~FEB 15~~ **JAN 18 2018**

Commission Staff Adjustments to the Revenue Requirement in the Settlement Agreement
Case No. 2017-00179
Kentucky Power Company (Kentucky Jurisdiction)

				<u>Staff RR Amount</u>
Increase Per Settlement				31,780,734
	<u>Pre-Tax Operating Income Amount</u>	<u>NOI Amount</u>	<u>GRCF</u>	
Operating Income Issues				
OSS Rider Adjustment	(486,412)	(361,693)	1.352116	\$ (489,051)
Theft Recovery Revenue	(166,198)	(123,584)	1.352116	\$ (167,100)
Purchased Power Adj (WP 26&27)	(4,032,786)	(2,998,755)	1.352116	\$ (4,054,664)
Relocation Expense	(132,109)	(98,235)	1.352116	\$ (132,826)
Cost of Capital Issues				
Total Change in ROE and capitalization		(476,714)	1.352116	\$ (644,573)
Change in GCRF				(13,943,890)
Total Adjustments to the Settlement Agreement				<u>\$ (19,432,104)</u>
<u>Recommended Change in Base Rates</u>				<u>\$ 12,348,630</u>

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2019 Project Statistics

Transmission Expansion Advisory Committee
May 12, 2020



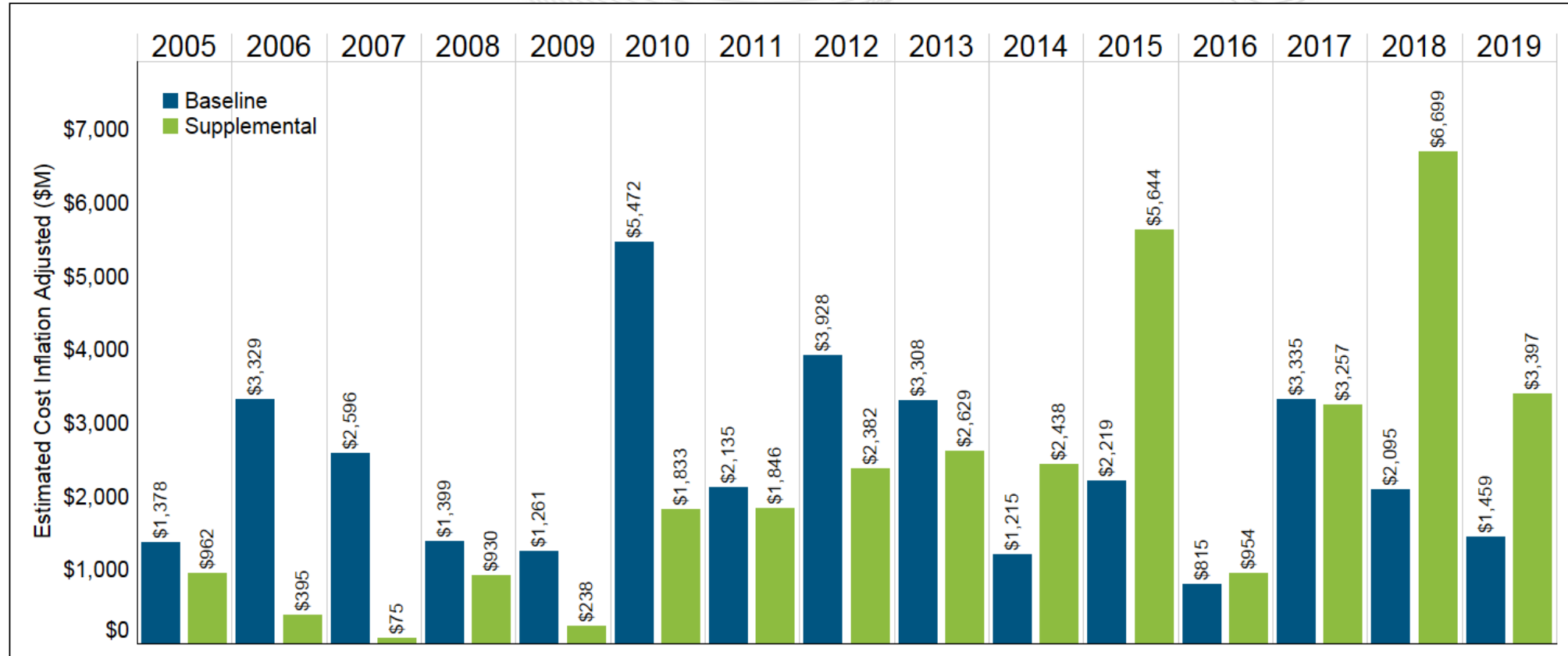
Overview

Each slide summarizes the estimated costs for projects presented at the TEAC or Sub-regional TEAC meetings:

- Baseline project was approved by the PJM Board
- Supplemental Project was presented at the TEAC or Sub-regional TEAC meetings
- Costs are provided by the Designated Entity or Transmission Owners. Cost estimation methods may vary by company. Estimated costs in this document may include cost caps or cost containment even though it isn't specifically noted
- Cost estimates may change over time as new information is known and incorporated into the estimate by the project sponsor, this document reflects the current estimates that are provided to PJM
- A single cost is provided for each project identifier, without any additional breakdown (for example, cost by state)
- Cost is based on estimation in January 2020, and is adjusted by inflation rate of 2.44%

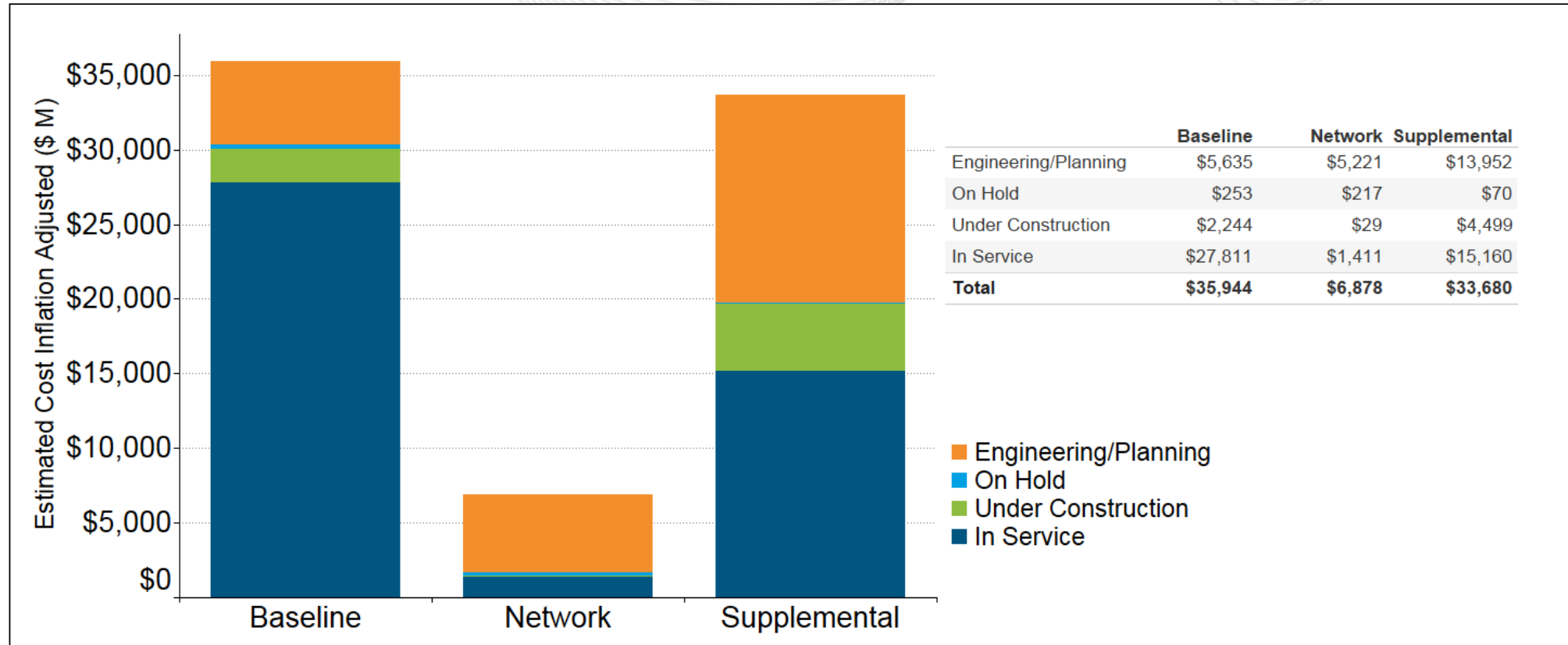


Baseline and Supplemental Projects by Year





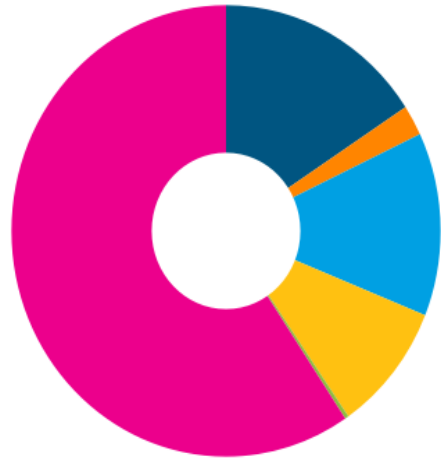
Project Status as of December 31, 2019





2019 Baseline Project Drivers

Project Drivers



Baseline Load Growth Deliverability & Reliability	\$230
Congestion Relief - Economic	\$32
Generator Deactivation	\$192
Operational Performance	\$135
Short Circuit	\$4
TO Criteria Violation	\$866
Total	\$1,459

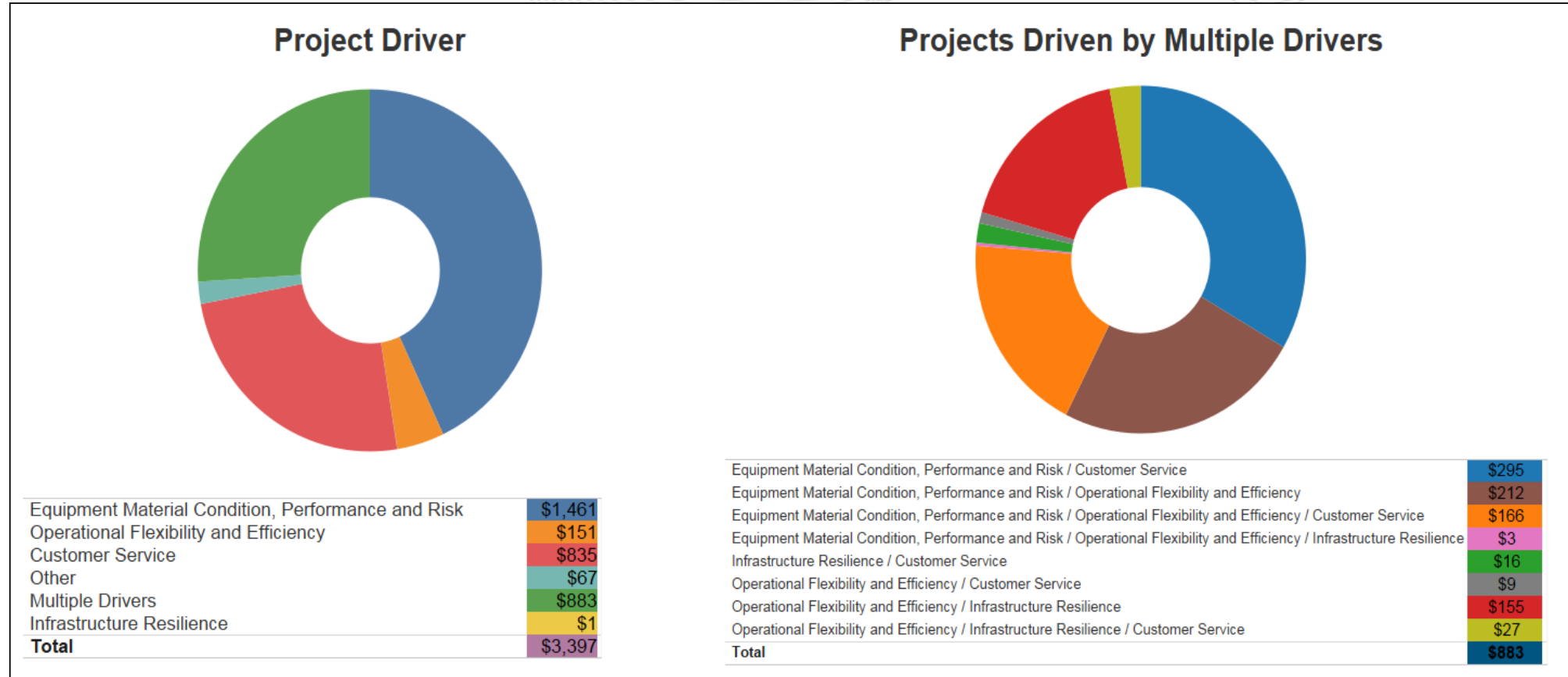
Projects Driven by TO Criteria Violations



Voltage violation	\$280
End of Life	\$243
Thermal violation	\$169
Thermal and Voltage Violation	\$125
MW-Mile Criteria	\$49
Short Circuit	\$1
Stability	\$1
Total	\$866

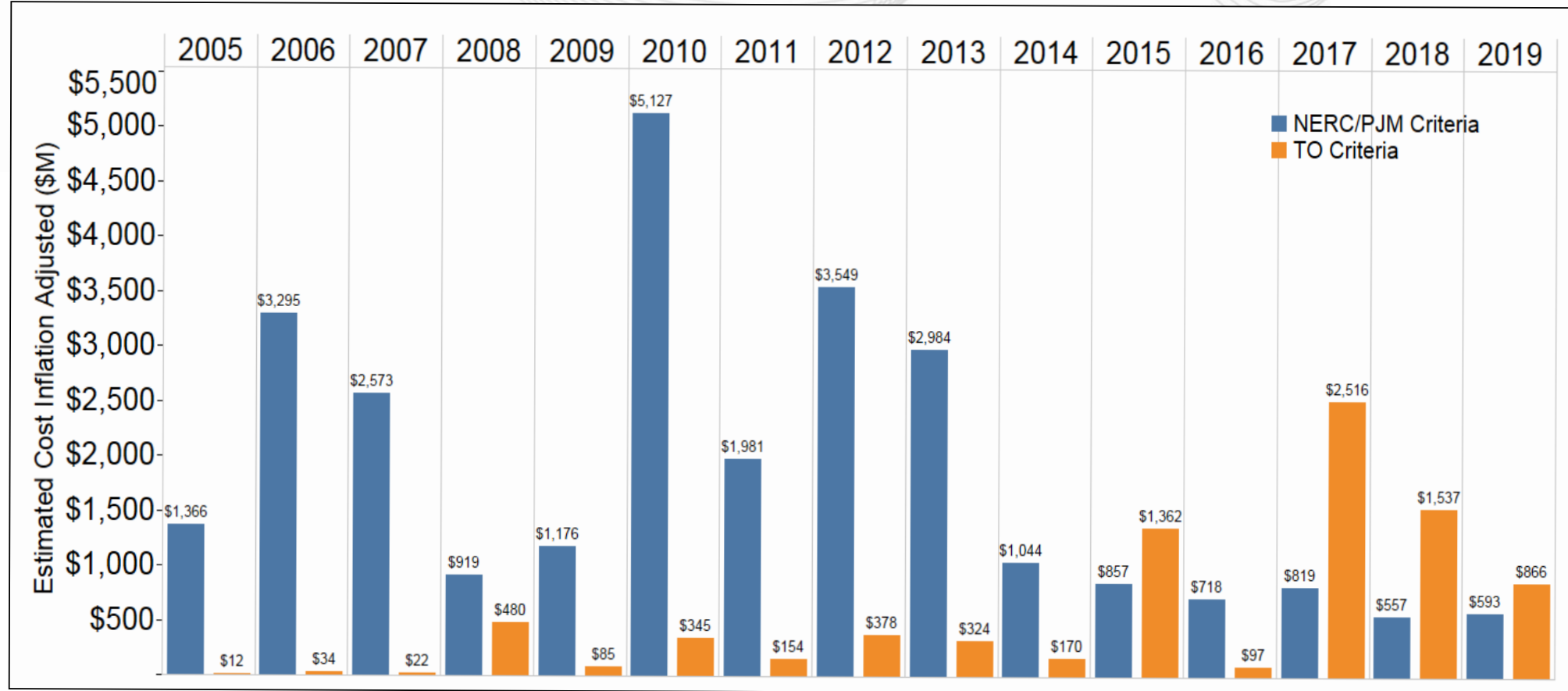


2019 Supplemental Project Drivers



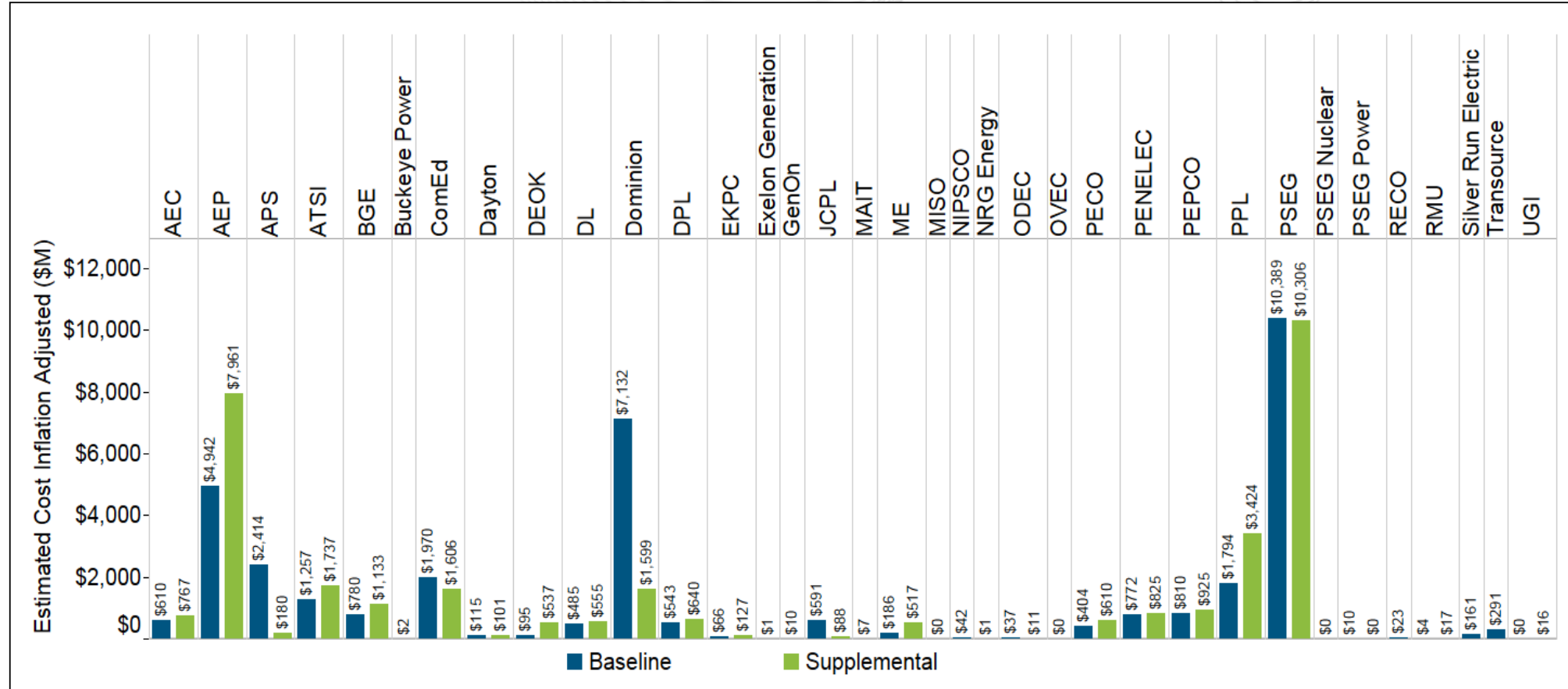


Baseline Project Driver since 2005





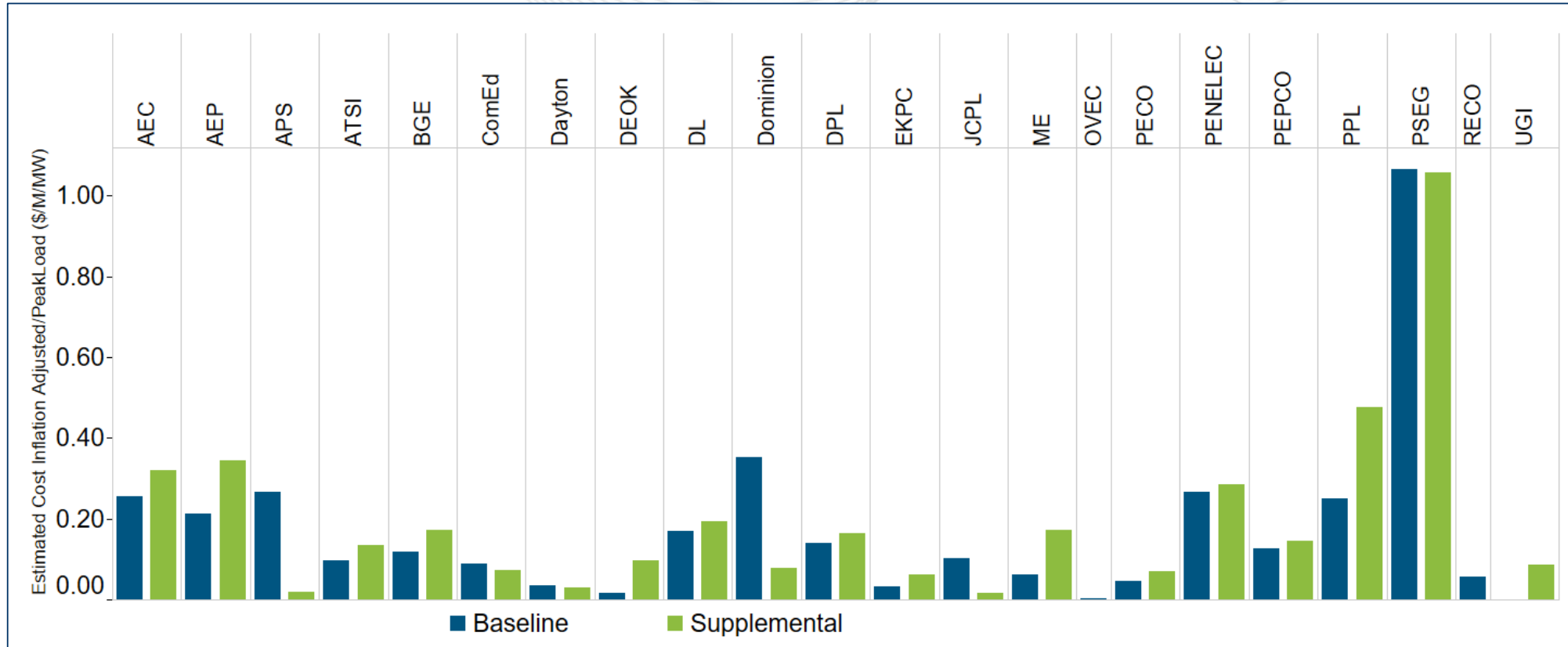
Baseline and Supplemental Project since 2005 by Designated Entity





Baseline & Supplemental Projects since 2005

Adjusted by Peak Load

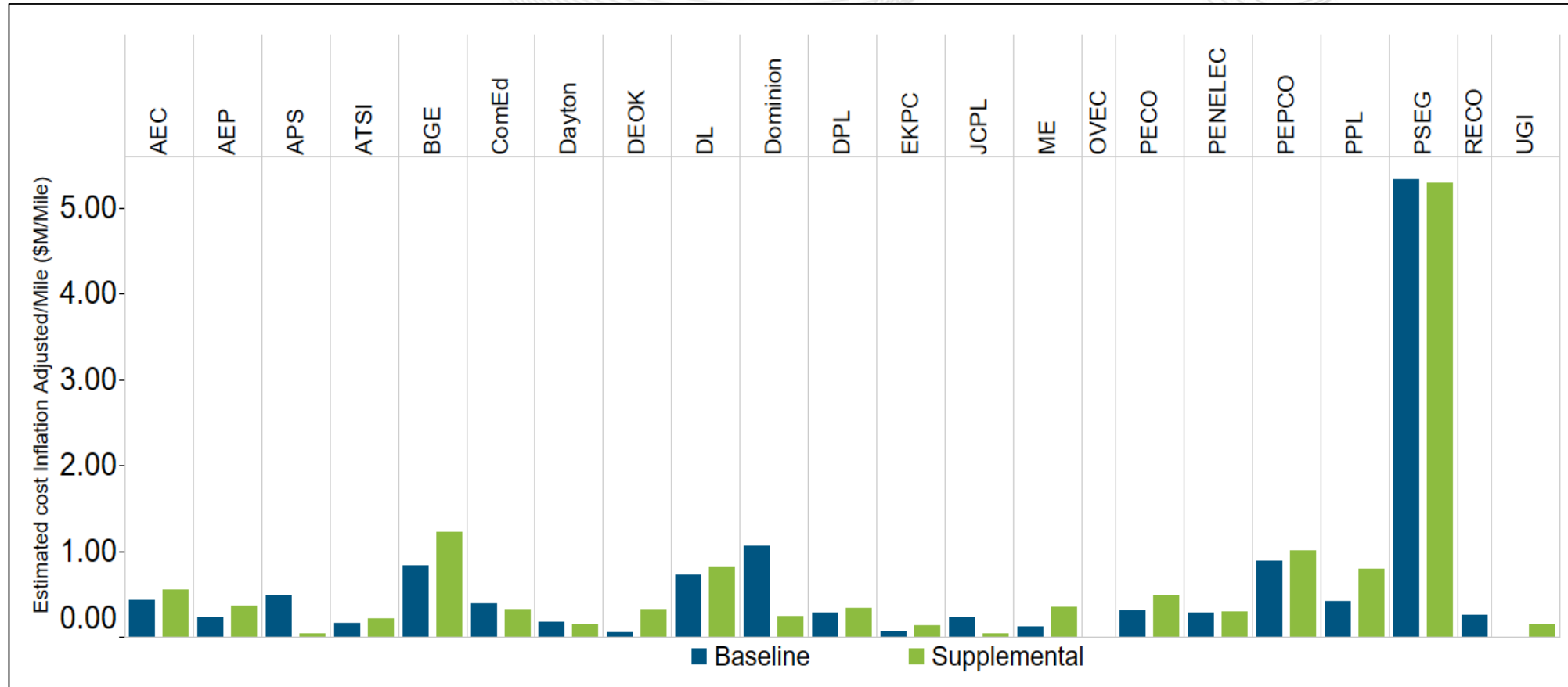


*Peak load is the average of forecasted summer peak load from 2021 to 2024 for each TO



Baseline and Supplemental Project since 2005

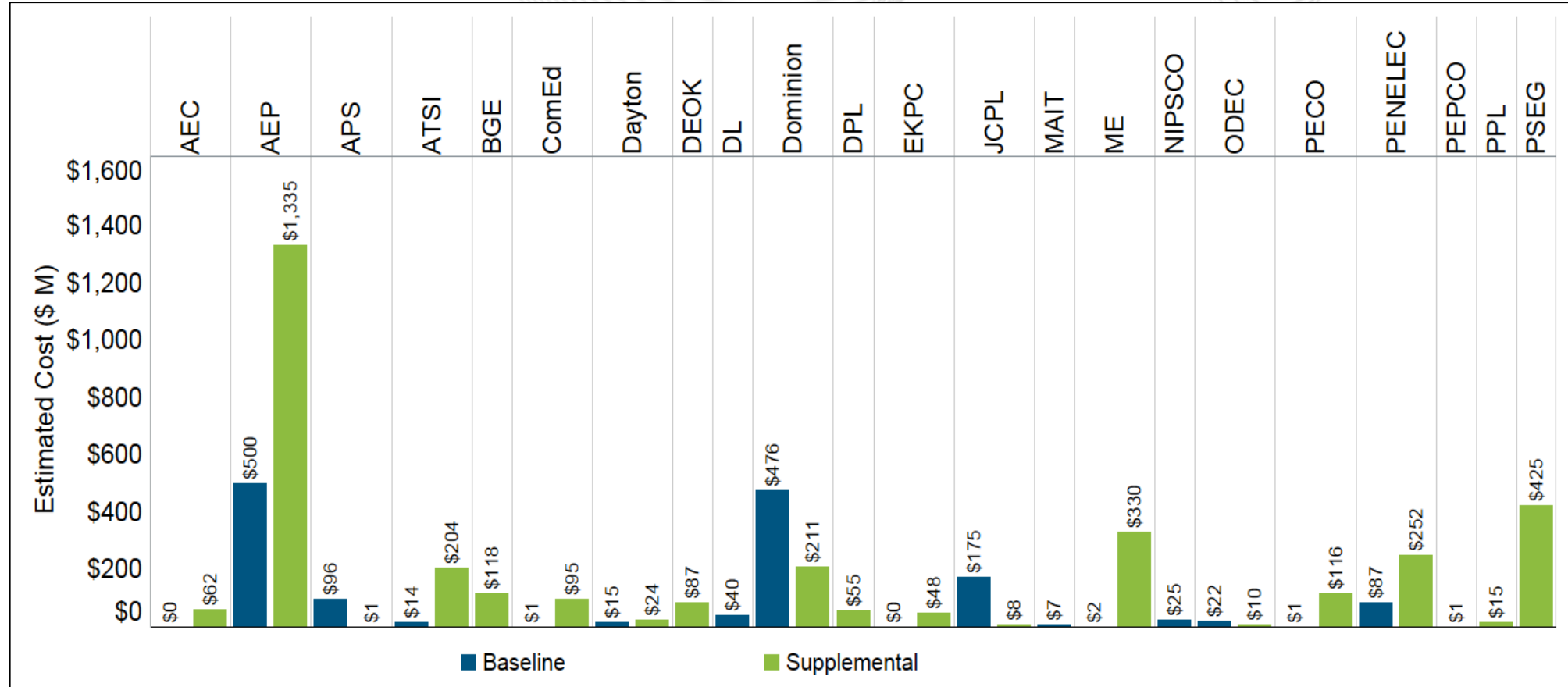
Adjusted by Transmission Line Circuit Miles



*Transmission line circuit mile is based on TO's FERC Form 1 filed in 2019 or EIA-411 Schedule 6A for 2019



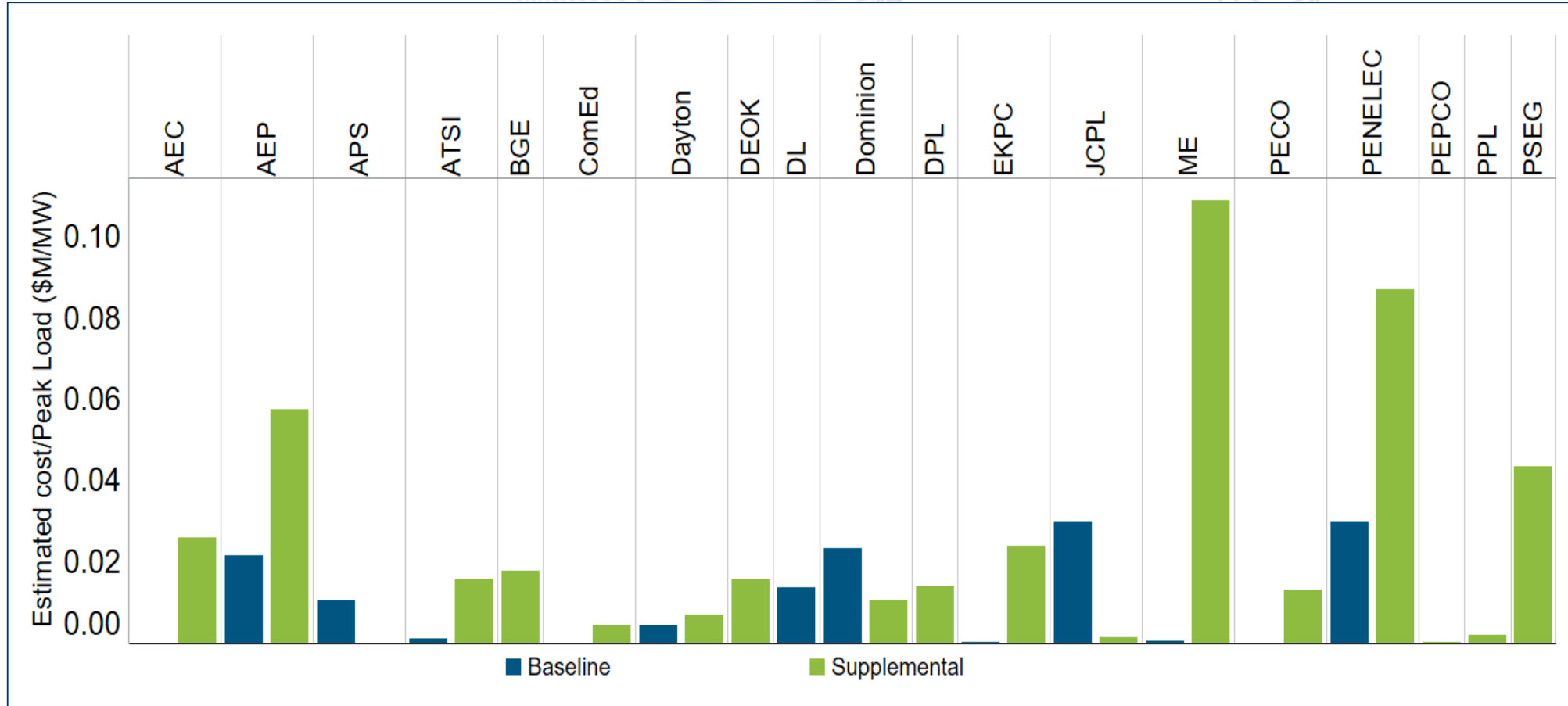
Baseline and Supplemental Project 2019 by Designated Entity





Baseline and Supplemental Project 2019

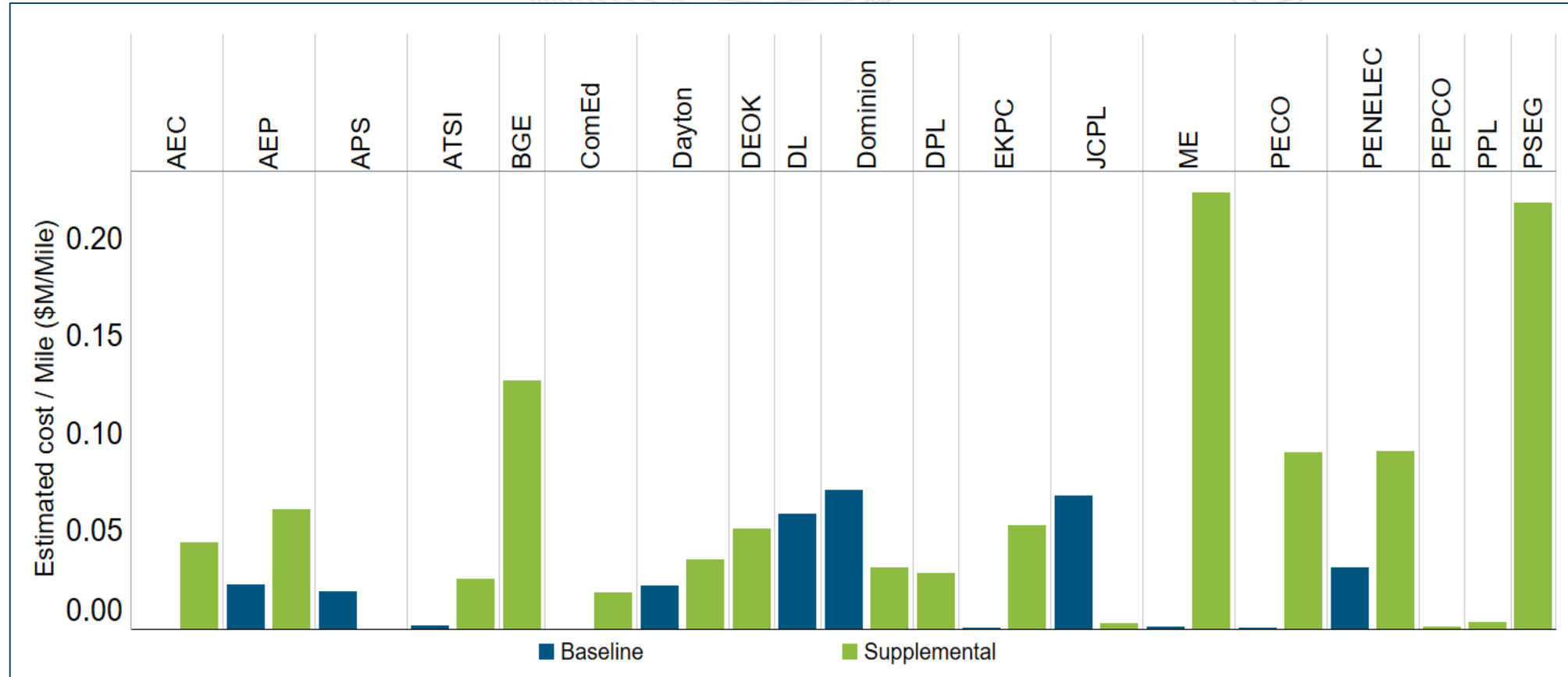
Adjusted by Peak Load





Baseline and Supplemental Project 2019

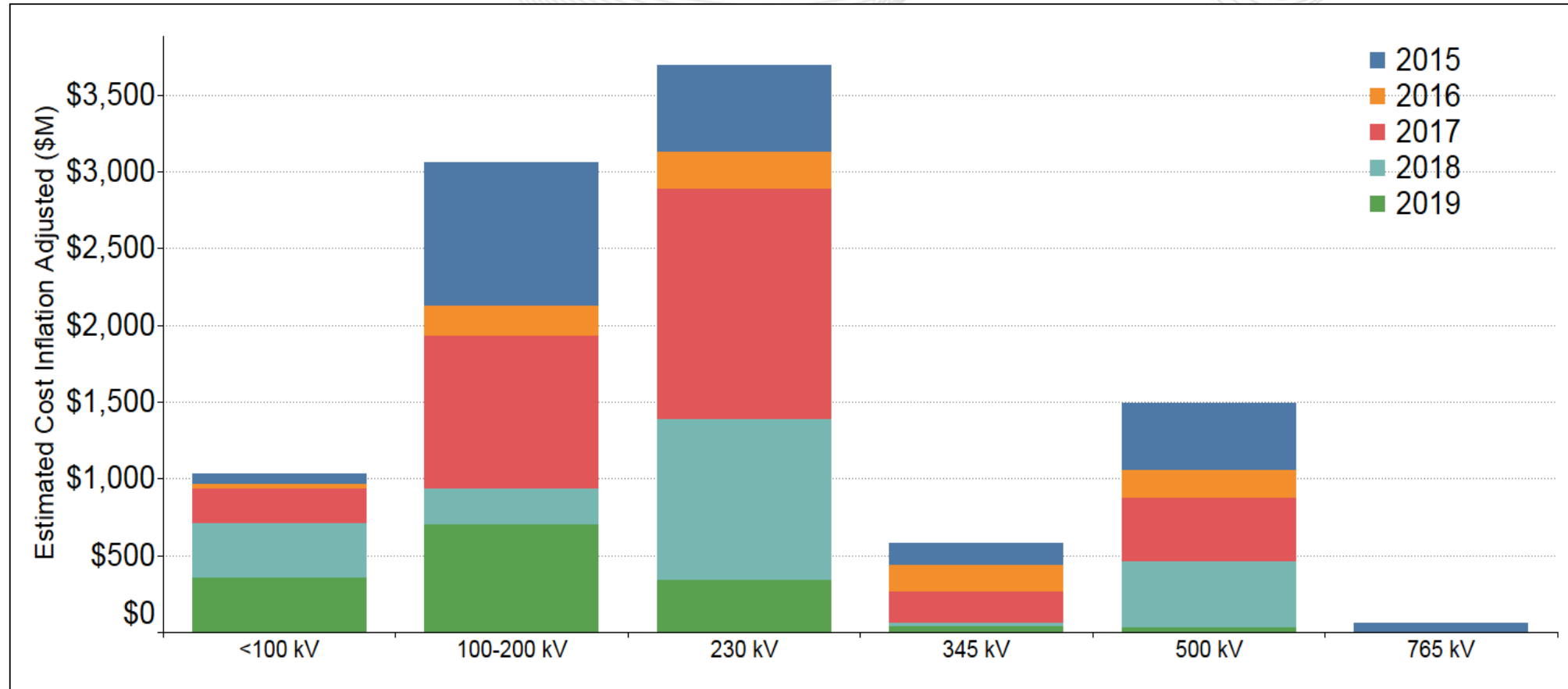
Adjusted by Transmission Line Circuit Miles





Baseline Projects by Voltage

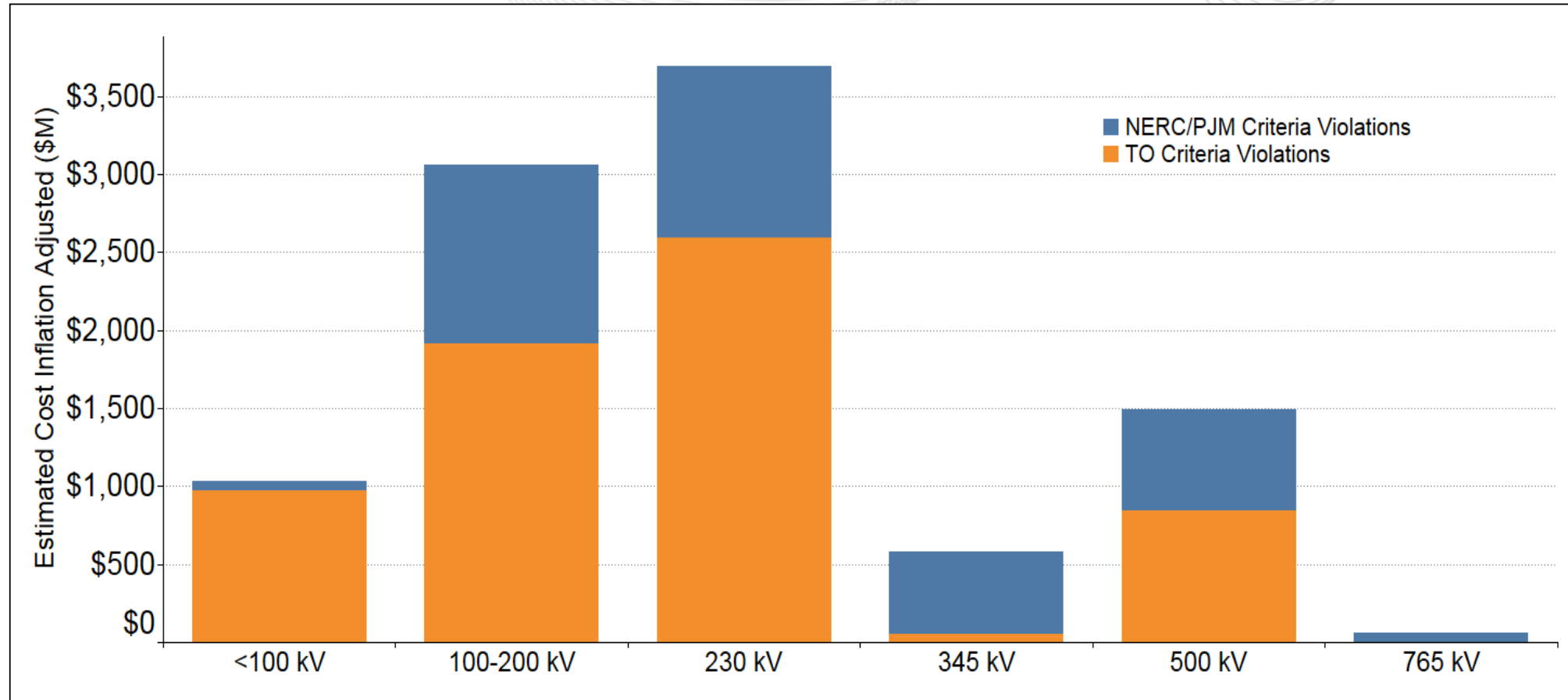
2015 - 2019





Baseline Projects by Voltage

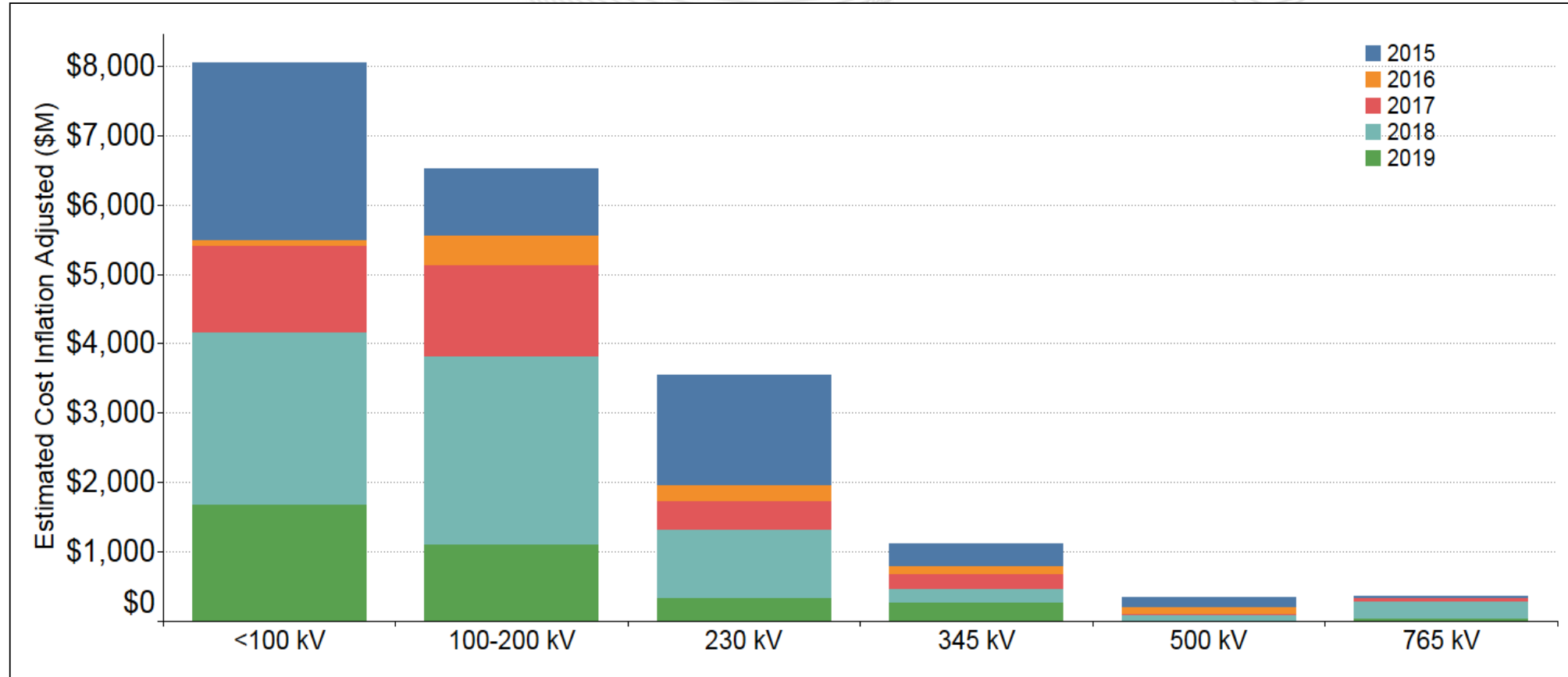
2015 - 2019





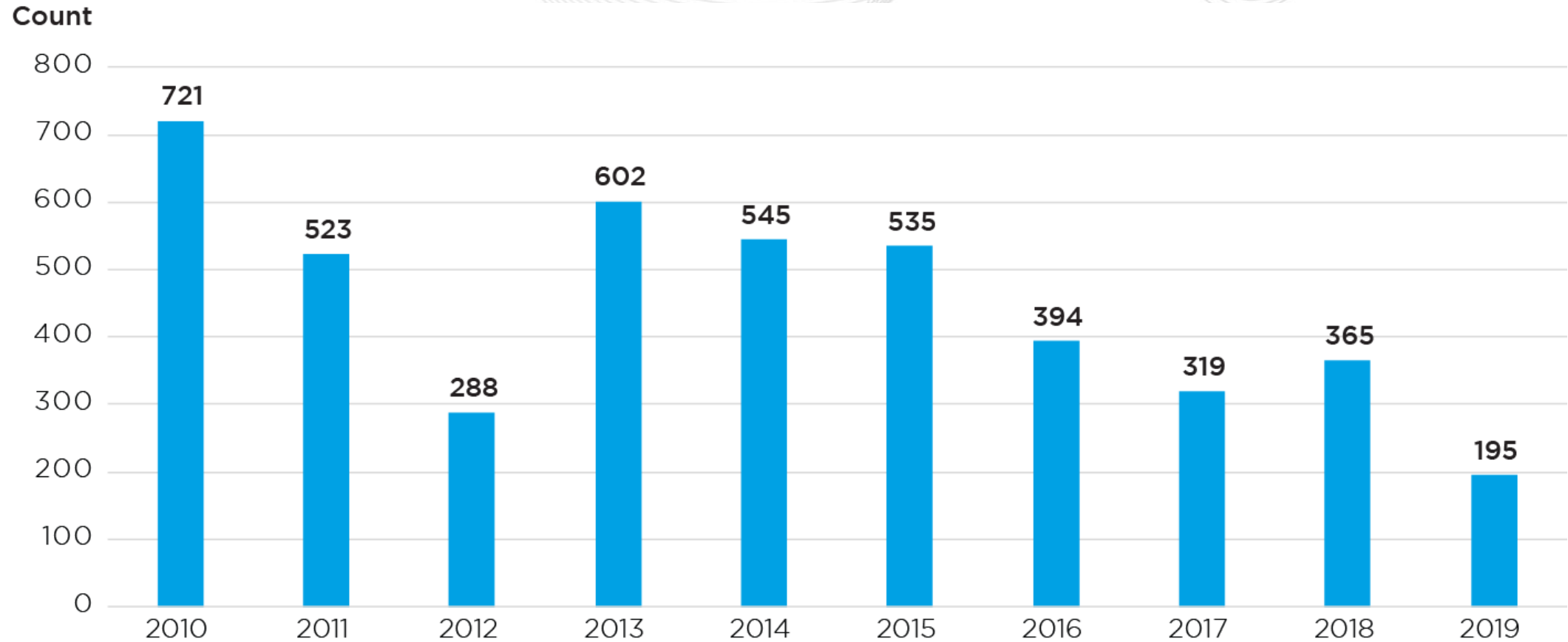
Supplemental Projects by Voltage

2015 - 2019





PCLLRW Count by Year

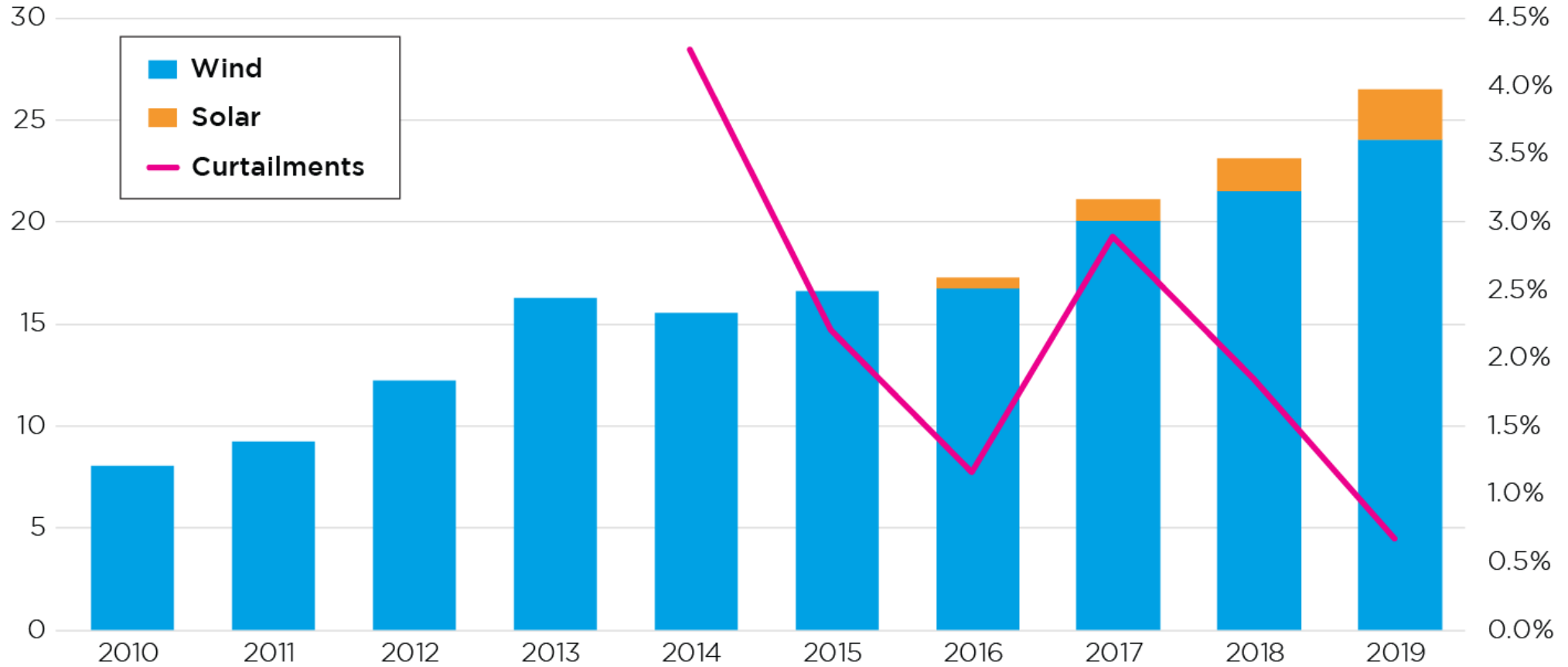




Renewable Production and Wind Curtailments

MWh
(millions)

Curtailments

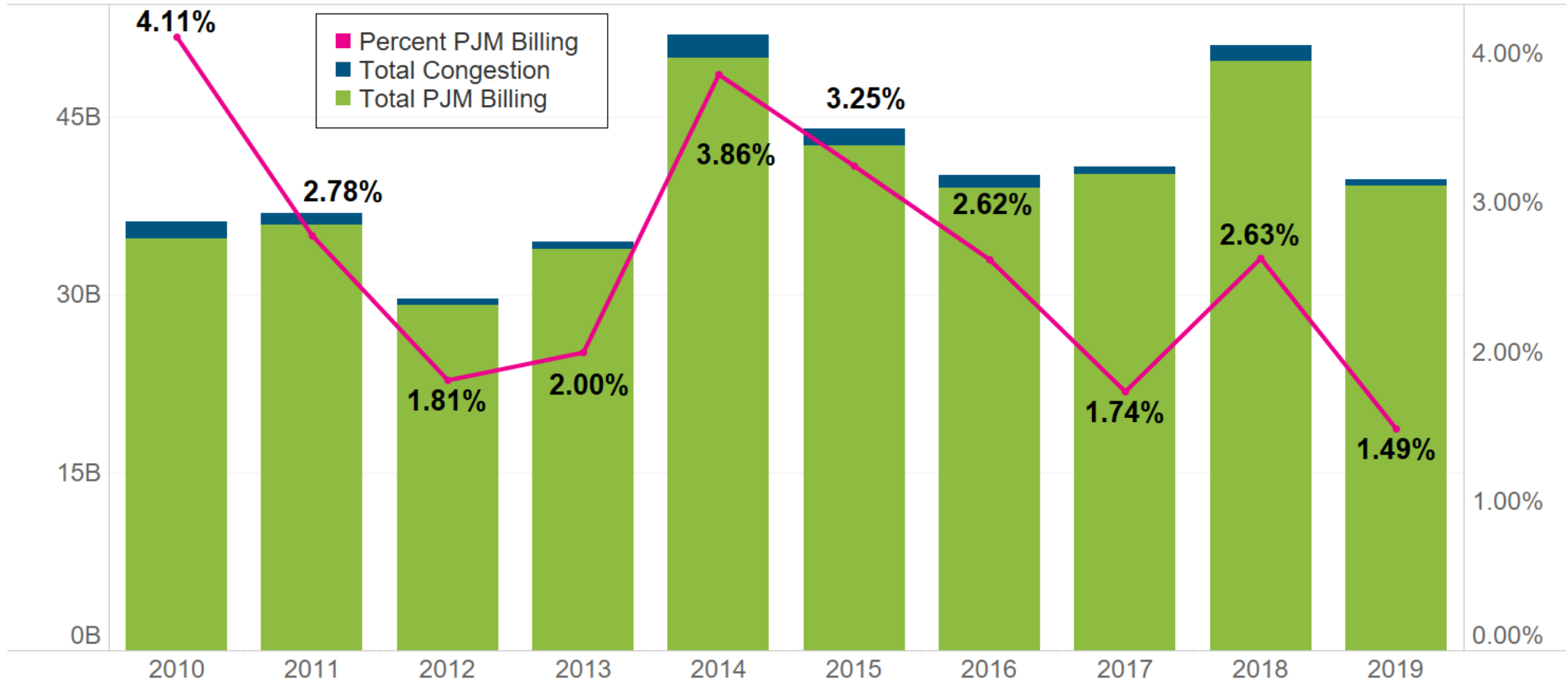




System Congestion Costs

Congestion (\$ billions)

Percent of Billings





Revision History

- V1 - 5/5/2020 – Original slides posted

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