

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

THE APPLICATION OF KENTUCKY POWER)	
COMPANY FOR AUTHORITY TO ISSUE)	
AND SELL SECURED OR UNSECURED)	CASE NO. 95-401
PROMISSORY NOTES OF ONE OR MORE)	
NEW SERIES)	

O R D E R

On September 12, 1995, Kentucky Power Company ("Kentucky Power") applied for authority to issue and sell secured or unsecured promissory notes ("Notes") in one or more transactions from time to time through December 31, 1996, the aggregate principal amount of which would not exceed \$125,000,000, and to enter into one or more interest rate hedging arrangements at any time prior to the maturity of the notes. Any fixed interest rate applicable to the Notes would not exceed by more than 3 percent the yield to maturity at the date of pricing on United States Treasury Bonds of comparable maturity. Any initial fluctuating interest rate applicable to the Notes would not exceed 9 percent. The Notes would have a maturity of not less than 9 months and not more than 50 years.

On October 3, 1995, Kentucky Power moved to amend its application to allow for the Notes to be issued in the form of Senior Secured Notes. This represents a third form which is in addition to the First Mortgage Bonds and senior or subordinated debentures set forth in the original application.

The proceeds from the sale of the securities would be used to pay at maturity or refund long-term debt, to repay short-term debt of \$24,650,000, to fund the company's construction program, and for other corporate purposes. Under any interest rate hedging arrangement, the interest rate would not exceed the basic parameters set forth in the application.

The Commission, having considered the evidence of record and being otherwise sufficiently advised, finds that:

1. Kentucky Power's forecast of construction expenditures for 1996 totals \$65,000,000, including \$9,300,000 to construct transmission facilities to reinforce its Inez and Tri-State service areas. Although the need for these transmission facilities is currently under review, no Certificate of Public Convenience and Necessity has yet been issued.¹ Until the need for such facilities is determined, no findings can be made that the associated financing is reasonably necessary and appropriate. Thus, \$9,300,000 should be deleted from Kentucky Power's financing request, leaving \$115,700,000 as the maximum amount to be authorized at this time. Until the need for the transmission facilities is determined, good cause exists to continue that portion of the application requesting authority to finance \$9,300,000.

¹ Case No. 95-403, Application of Kentucky Power Company for a Certificate of Public Convenience and Necessity to Construct and Install Various Facilities to Reinforce the System in the Inez and Tri-State Areas.

2. The issuance and sale by Kentucky Power of up to \$115,700,000 in Notes through December 31, 1996 are for lawful objects within its corporate purposes, are necessary and appropriate for and consistent with the proper performance of its service to the public, are reasonably necessary and appropriate for such purposes, and should, therefore, be approved.

IT IS THEREFORE ORDERED that:

1. Kentucky Power's October 3, 1995 motion to amend be and it hereby is granted.

2. Kentucky Power be and it hereby is authorized to issue and sell up to \$115,700,000 of its secured or unsecured promissory notes in one or more transactions through December 31, 1996 and to enter into one or more interest rate hedging arrangements, within the parameters set forth in the application, at any time prior to the maturity of the notes. The securities will be sold in a public offering through one or more agents or on a negotiated or competitive bid basis with one or more underwriters or agents, or in a private placement transaction utilizing the proper documentation.

3. Kentucky Power shall agree only to such terms and prices that are consistent with the parameters set out in its application. If variable rate bonds are used, Kentucky Power shall prepare on an annual basis an analysis of the relationship between such variable

rate bonds and fixed rate bonds at the time of the analysis. Such analysis shall be available for Commission review on an annual basis beginning with an initial calculation within 30 days after the closing of the financing approved herein.

4. Kentucky Power shall, within 30 days after the issuance of each series of Notes, file with the Commission a statement setting forth the date or dates of issuance, the price paid, the interest rate, purchasers, and all fees and expenses, including underwriting discounts or commission or other compensation, involved in the issuance and distribution and the use of the proceeds.

5. The proceeds from the transactions authorized herein shall be used only for the lawful purposes set out in the application.

6. The request to finance \$9,300,000 to construct transmission facilities shall be continued generally pending a decision on the application for a Certificate of Public Convenience and Necessity to construct such facilities.

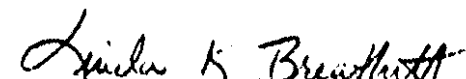
Nothing contained herein shall be construed as a finding of value for any purpose or as a warranty on the part of the Commonwealth of Kentucky or any agency thereof as to the securities authorized herein.

Done at Frankfort, Kentucky, this 8th day of November, 1995.

PUBLIC SERVICE COMMISSION


Chairman


Vice Chairman


Commissioner

ATTEST:


Executive Director