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 PROMISSORY NOTES OF ONE OR MORE NEW SERIES	)))))	CASE NO. 99-013

<u>O R D E R</u>

On January 12, 1999, Kentucky Power Company (Kentucky Power) applied for authority to issue and sell First Mortgage Bonds (Bonds) or, in the alternative, secured or unsecured promissory notes (Notes) in one or more transactions from time to time through December 31, 2000 and to enter into one or more interest rate hedging arrangements in connection with the issuance of the new securities. The aggregate principle amount of the new securities would not exceed $150,000,000.

The proceeds from the sale of the securities would be used to pay at maturity or prepay or purchase outstanding long-term debt, to repay short-term debt of $17,850,000, 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.

In Case No. 97-454,[1] the Commission authorized Kentucky Power to issue and sell up to $50,000,000 of its debt securities in one or more transactions through

[1] Case No. 97-454, The Application of Kentucky Power Company for Authority to Issue and Sell Secured or Unsecured Promissory Notes of One or More New Series, Order dated January 23, 1998.

December 31, 1998. As of the date of this application, Kentucky Power indicated that $30,000,000 aggregate principal amount of debt securities has been issued pursuant to the Case No. 97-454 Order. The authorizations sought by Kentucky Power in this proceeding are similar to those granted in Case No. 97-454.

The Commission is concerned by Kentucky Power s explanations of how the proceeds from this financing will be used. While Kentucky Power has indicated the proceeds could be used to fund its 1999 2000 construction program, it also has acknowledged that it does not have an approved construction budget for 2000. It is not appropriate for the Commission to issue a blank check by approving financing that could be used to fund the construction of projects that are currently not known. In addition, if any of the construction projects require certificates of convenience and necessity, the Commission will not approve their financing until the certificates have been granted. Therefore, Kentucky Power should not use any of the proceeds from this financing to fund its 2000 construction program until that budget has been approved by Kentucky Power s Board of Directors and filed in the record of this case.

Kentucky Power has indicated that other corporate purposes include general operating expenses such as extensions of service in the ordinary course of business and unforeseen costs that may be incurred as a result of extreme weather conditions. As Kentucky Power should be aware, it is inappropriate to fund general operating expenses of the utility with financing proceeds. However, the investment in lines, poles, and meters in conjunction with the extensions of service in the ordinary course of business does not constitute general operating expenses and can be funded with financing proceeds. Kentucky Power should not use the proceeds from this financing to fund general operating expenses.

The Commission, having considered the evidence of record and being otherwise sufficiently advised, finds that the issuance and sale by Kentucky Power of up to $150,000,000 in aggregate principal amount of new Bonds or Notes through December 31, 2000 are for lawful objects within the corporate purposes, are necessary and appropriate for and consistent with the proper performance of its service to the public, will not impair its ability to perform that service, are reasonably necessary and appropriate for such purposes, and should therefore be approved.

IT IS THEREFORE ORDERED that:

1. Kentucky Power is authorized to issue and sell up to $150,000,000 of its new Bonds or Notes in one or more transactions through December 31, 2000 and to enter into one or more interest rate hedging arrangements, within the parameters set forth in the application. The securities will be sold on a negotiated or competitive bid basis with one or more underwriters or agents, or in a private placement transaction with a commercial bank or other institutional investor.

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

3. Kentucky Power shall, within 30 days after the issuance of each series of securities, file with this 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.

4. The proceeds from the transactions authorized herein shall be used only for the lawful purposes set out in the application except that no proceeds shall be used to fund general operating expenses.

5. If Kentucky Power decides to fund any of its 2000 construction budget with the financing proceeds approved herein, Kentucky Power shall first file in this case a copy of that approved budget.

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 31st day of March, 1999.

By the Commission

ATTEST:

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Executive Director