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. 2006-00034

O R D E R

On January 23, 2006, Kentucky Power Company ("Kentucky Power") filed an application for authority to issue and sell long-term promissory notes ("Notes"). Upon approval, Kentucky Power intends to issue, in one or more transactions through December 31, 2007, up to $500 million of unsecured Notes in one or more new series. The Notes may be issued in the form of Senior Notes, Senior or Subordinated Debentures, including Junior Subordinated Debentures, Trust Preferred Securities, or other unsecured promissory notes.

Each series of the Notes will mature in between 9 months and 60 years. The Notes are to be sold by auction, through underwriters or agents, or by direct placement with a commercial bank or institutional investor. It is undetermined whether the interest rate will be fixed or variable. Any fixed rate of interest on the Notes will be at a yield to maturity of no greater than 4 percent of the yield to maturity of United States Treasury Bonds of comparable maturity at the time of issuance. These Notes may be provided with some form of credit enhancement in the form of a letter of credit, bond insurance, standby purchase agreement, security bond, or similar instrument.

Kentucky Power may also issue one or more Notes in connection with long-term borrowings from its parent, American Electric Power Company, Inc. ("AEP"), or any entity owning all of the outstanding common stock of Kentucky Power. The rates and maturity dates of these Notes will parallel the cost of capital of AEP.

Kentucky Power seeks flexibility to adjust its financing program to best suit the developments of the markets for debt securities. This ability would allow Kentucky Power to obtain the best price, interest rates, and terms for its Notes. As part of this flexibility, Kentucky Power proposes to utilize interest rate management techniques and enter into Interest Rate Management Agreements through December 31, 2007.

Any Junior Subordinated Debentures will be issued under an Indenture dated April 1, 1995 with JP Morgan Chase Bank, N.A.,[1] as Trustee. Any unsecured Notes other than Junior Subordinated Debentures or Trust Preferred Securities will likely be issued under a new Indenture or the September 1, 1997 Indenture with Deutsche Bank Trust Company Americas, Trustee.[2] Trust Preferred Securities would be issued by financing entities that Kentucky Power would organize and own exclusively for the purpose of facilitating certain types of financings such as the issuance of tax advantaged preferred securities. These financing entities would issue Trust Preferred Securities to third parties.

Kentucky Power describes Trust Preferred Securities as a type of security that possesses characteristics of both equity and debt. Kentucky Power compares Trust Preferred Securities to preferred stock issued by a corporation, whereas the holder of

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[1] Formerly The First National Bank of Chicago.

[2] Successor to Bankers Trust Company, Trustee.

both are generally entitled to pre-defined cash distributions at regular intervals, subject to the issuing entity's right to defer distributions. Kentucky Power would create a trust and would retain the right to manage it. The newly created trust would sell preferred securities to the public and then loan the proceeds of those sales to Kentucky Power. Kentucky Power would pay interest on the loan to the trust and the trust would disburse those interest payments as dividends to the public purchasers of the securities. The trust would essentially act as a pass-through. For accounting purposes, the loan is eliminated through consolidation and the debtor is deemed the obligor on the securities. The Internal Revenue Service and Generally Accepted Accounting Procedures treat these securities as debt, while rating agencies apply some equity characteristics to the securities. Kentucky Power would consider issuance of these Trust Preferred Securities when ratings of such securities would be higher than the ratings on securities which are entirely debt or equity. At the current time, issuing Trust Preferred Securities would be approximately 1 percent more expensive than debt securities.

Kentucky Power states that the proceeds of the Notes will be used to pay at maturity or prepay or purchase directly or indirectly currently outstanding long-term debt,[3] to repay short-term debt,[4] and to fund Kentucky Power's construction program,[5] or for other corporate purposes.

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[3] Long-term debt maturing in 2006 and 2007 totals $363 million.

[4] This includes approximately $6,039,878 in outstanding short-term debt as of December 31, 2005.

[5] Kentucky Power's construction program has budgeted expenditures of $100,601,511 for 2006 and $128,470,483 for 2007.

The Commission, having considered the evidence of record and being otherwise advised, finds that the issuance of the proposed Notes, except for the Trust Preferred Securities, as set out in Kentucky Power's application and as modified herein, is for lawful objects within the corporate purposes of its utility operations, is necessary, appropriate for, and consistent with the proper performance of its service to the public, will not impair its ability to perform that service, is reasonably necessary and appropriate for such purposes, and should therefore be approved subject to the terms and conditions set forth herein.

Kentucky Power may issue one or more Notes to an affiliate when: (1) the interest rate is no more than the cost of capital of AEP; and (2) the interest rate is equal to or lower than the interest rate available to Kentucky Power from a non-affiliate at the time of issuance. The Notes may be issued to prepay currently outstanding long-term debt only when there will be cost savings from interest rate reductions and those cost savings fully offset any prepayment premiums. None of the proceeds of the Notes authorized herein may be used to fund the construction of any facility that is not an ordinary extension of Kentucky Power's system in the usual course of business unless a Certificate of Public Convenience and Necessity has been issued for construction of the facility pursuant to KRS 278.020(1).

Kentucky Power has provided insufficient information in this case to justify the issuance of Trust Preferred Securities. Since the cost of Trust Preferred Securities is approximately 1 percent greater than that of debt securities, Kentucky Power should be utilizing the lowest cost source of financing absent specific reasons to justify the issuance of higher cost financing. In addition, Kentucky Power has not demonstrated the reasons why it would need to issue this type of debt security upon which the interest payments can be deferred.

IT IS THEREFORE ORDERED that:

1. Kentucky Power is authorized to issue, sell, and deliver the Notes, except Trust Preferred Securities, in an amount not to exceed $500 million upon the terms and conditions set forth in its application subject to the modifications set forth in this Order.

2. The proceeds from the Notes authorized herein shall be used only for the lawful purposes set forth in Kentucky Power's application, except that none of the proceeds shall be used to fund the construction of a facility that requires a Certificate of Public Convenience and Necessity pursuant to KRS 278.020(1), until such a certificate has been issued.

3. The denial of authority to issue Trust Preferred Securities is without prejudice to Kentucky Power's right to file in a new application sufficient information to justify such authority.

4. The Notes authorized herein shall not be issued to an affiliate unless the interest rate is no more than the cost of capital of AEP and the interest rate is equal to or lower than the interest rate available to Kentucky Power from a non-affiliate at the time of issuance.

5. Kentucky Power shall, within 30 days of the date of issuance, file with the Commission a statement setting forth the date or dates of issuance of the Notes, the price paid, the interest rate, all fees and expenses, including underwriting discounts or commissions or other compensation, involved in the issuance and distribution, and a copy of any new Indenture. In addition, if any of the Notes are issued to prepay

currently outstanding long-term debt, Kentucky Power shall file a schedule showing that there will be cost savings from interest rate reductions and that those cost savings fully offset any prepayment premiums.

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 10th day of March, 2006.

By the Commission

ATTEST:

Executive Director