COMMONWEALTH OF KENTUCKY

BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

THE APPLICATION OF KENTUCKY POWER COMPANY FOR AUTHORITY TO ISSUE AND SELL UNSECURED PROMISSORY NOTES OF ONE OR MORE NEW SERIES	))))	CASE NO. 2008-00442

ORDER

Kentucky Power Company ("Kentucky Power") has applied for authority to issue up to $300 million of unsecured promissory notes. Having considered the application and evidence of record and being otherwise sufficiently advised, the Commission finds that:

1. Kentucky Power proposes to issue, in one or more new series and in one or more transactions before December 31, 2010, unsecured promissory notes with a total aggregate principal amount not to exceed $300 million.

2. Kentucky Power proposes to issue the proposed promissory notes in the form of Senior Notes or other unsecured promissory notes.

3. The proposed promissory notes will have maturity periods ranging between 9 months and 60 years.

4. Kentucky Power proposes to sell the proposed promissory notes by auction, through underwriters or agents, or by direct placement with a commercial bank or institutional investor.

5. The proposed promissory notes may have a fixed or variable interest rate. Any fixed rate of interest will be at a yield to maturity not to exceed 550 basis points the yield to maturity on United States Treasury bonds of comparable maturity at the time of

pricing. Any initial fluctuating rate of interest will not exceed 10 percent per annum at the time of issuance of the note.

6. The use of a 550 basis points maximum spread is significantly higher than the 400 basis point maximum spread used in Kentucky Power's last debt issuance.[1]

7. Kentucky Power states that current credit market conditions require the increased maximum spread. As a result of current market uncertainty, investors have increasingly purchased U.S. Treasury securities, which has resulted in a decline in U.S. Treasury yields. In contrast, utility bond yields have increased to attract investors and compensate for perceived market risks.[2]

8. The proposed promissory 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.

9. The proceeds of the proposed issuance 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] to fund Kentucky Power's construction program,[5] or for other corporate purposes.

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[1] Case No. 2006-00034, The Application of Kentucky Power Company for Authority to Issue and Sell Secured or Unsecured Promissory Notes of One or More New Series (Ky. PSC Mar. 10, 2006).

[2] Kentucky Power Company's Response to Commission Staff's First Data Request, Items 1 and 2.

[3] Long-term debt maturing in 2008 totals $30 million.

[4] This includes approximately $65,092,480 in outstanding short-term debt as of September 30, 2008.

[5] Kentucky Power's construction program has budgeted expenditures of $89,293,068 for 2009 and $106,166,085 for 2010.

10. Kentucky Power states that one or more series of the proposed promissory notes may be issued 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.

11. Kentucky Power will likely issue any unsecured promissory notes under a new indenture or the September 1, 1997 Indenture with Deutsche Bank Trust Company Americas, Trustee.[6]

12. Kentucky Power proposes to utilize interest rate management techniques and enter into Interest Rate Management Agreements through December 31, 2010. Such arrangement would permit Kentucky Power the flexibility to adjust its financing program to best suit the developments of the markets for debt securities and obtain the best price, interest rates, and terms for the proposed promissory notes.

13. Subject to the conditions set forth in Ordering paragraphs 2 through 6, the proposed issuance of promissory notes as set out in Kentucky Power's application is for the lawful objects within Kentucky Power's corporate purposes, is necessary and appropriate for and consistent with the proper performance by Kentucky Power of its service to the public and will not impair its ability to perform that service, and is reasonably necessary and appropriate for such purpose.

[6] Successor to Bankers Trust Company, Trustee.

IT IS THEREFORE ORDERED that:

1. Subject to the conditions set forth in Ordering paragraphs 2 through 6, Kentucky Power is authorized to issue promissory notes in an amount not to exceed $300 million upon the terms and conditions set forth in its application.

2. Kentucky Power shall use the proceeds of the promissory notes whose issuance is authorized in this Order only for the lawful purposes set forth in its application.

3. Kentucky Power shall not use any of the proceeds of the promissory notes whose issuance is authorized in this Order for the construction of any facility that requires a Certificate of Public Convenience and Necessity until the Commission has issued a Certificate for such facility.

4. Kentucky Power shall not issue any of the promissory notes whose issuance is authorized in this Order if, at the time of issuance, the stated interest rate of such note is greater than AEP's cost of capital and is greater than the interest rate available to Kentucky Power from a non-affiliate.

5. Kentucky Power shall not use the proceeds of any of the promissory notes whose issuance is authorized in this Order to prepay currently outstanding long-term debt unless such prepayment results in cost savings from interest rate reductions and such savings fully offset any prepayment premiums.

6. Within 30 days of the date of the issuance of any promissory notes authorized by this Order, Kentucky Power shall file with the Commission:

   a. A statement setting forth the date or dates of issuance of the promissory notes, the price paid, the interest rate, and all fees and expenses (including underwriting discounts, commissions, and other compensation) involved in the issuance and distribution of the promissory notes;

b. A copy of any new indentures issued; and,

c. If any of the proceeds of the promissory notes whose issuance is authorized in this Order are used to prepay currently outstanding long-term debt, a schedule showing the cost savings from interest rate reductions and listing all 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 15th day of December, 2008.

By the Commission

Vice Chairman Gardner Abstains.

ATTEST:

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