STITES & HARBISON PLLC

ATTORNEYS

421 West Main Street
Post Office Box 634
Frankfort, KY 40602-0634
[502] 223-3477
[502] 223 4124 Fax
www stites com

Mark R Overstreet
(502) 209-1219
(502) 223-4387 FAX
moverstreet@stites com

RECEIVED
JAN 08 2014
PUBLIC SERVICE COMMISSION

January 8, 2014

HAND DELIVERED

Jeff R. Derouen
Executive Director
Public Service Commission
211 Sower Boulevard
P.O. Box 615
Frankfort, KY 40602-0615

RE: Case No. 2013-00410

Dear Mr. Derouen:

Enclosed please find and accept for filing the original and ten copies of Kentucky Power Company's responses to Commission Staff's December 19, 2013 Data Requests and the Attorney General's December 20, 2013 Data Requests.

Copies of the responses are being served by overnight delivery on ~~counsel for the~~ intervenors as indicated below. Please do not hesitate to contact me if you have any questions.

Very truly yours,

Mark R. Overstreet

MRO

cc: Michael L. Kurtz
Jennifer B. Hans

COMMONWEALTH OF KENTUCKY

BEFORE THE

PUBLIC SERVICE COMMISSION OF KENTUCKY

IN THE MATTER OF

APPLICATION OF KENTUCKY POWER COMPANY	)
FOR AUTHORITY PURSUANT TO KRS 278.300 TO	)
ISSUE AND SELL PROMISSORY NOTES OF ONE OR	)
MORE SERIES, TO ENTER INTO LOAN AGREEMENTS,	)
AND FOR OTHER AUTHORIZATIONS IN	)
CONNECTION WITH THE REFUNDING OF	) Case No. 2013-00410
LIABILITIES ASSUMED BY THE COMPANY IN	)
CONNECTION WITH THE MITCHELL TRANSFER	)

KENTUCKY POWER COMPANY RESPONSES TO
COMMISSION STAFF'S FIRST SET OF DATA REQUESTS

January 8, 2014

VERIFICATION

The undersigned, Marc D. Reitter, being duly sworn, deposes and says he is the Manager, Corporate Finance for American Electric Power Service Corporation and that he has personal knowledge of the matters set forth in the forgoing responses and the information contained therein is true and correct to the best of his information, knowledge and belief.

____
Marc D. Reitter

STATE OF OHIO	)
	) Case No. 2013-00410
County of FRANKLIN	)

Subscribed and sworn to before me, a Notary Public in and before said County and State, by Marc D. Reitter, this the 7th day of January 2014.

Josephine Coner
Notary Public

NOTARIAL SEAL STATE OF OHIO

JOSEPHINE CONER
Notary Public, State of Ohio
My Commission Expires 09-20-16

My Commission Expires: 09/20/2016

VERIFICATION

The undersigned, Ranie K. Wohnhas, being duly sworn, deposes and says he is the Managing Director Regulatory and Finance for Kentucky Power, that he has personal knowledge of the matters set forth in the forgoing responses for which he is the identified witness and that the information contained therein is true and correct to the best of his information, knowledge, and belief

Ranie K. Wohnhas

Ranie K. Wohnhas

COMMONWEALTH OF KENTUCKY)
) Case No. 2013-00410
COUNTY OF FRANKLIN)

Subscribed and sworn to before me, a Notary Public in and before said County and State, by Ranie K. Wohnhas, this the 7th day of January 2014.

Judy K. Rosquist 481393
Notary Public

My Commission Expires: January 23, 2017

Kentucky Power Company

REQUEST

Refer to page 5 of the application. The estimated Paid-in-Capital amount is $319 million as of December 31, 2011.

a. Provide the estimated Paid-in-Capital amount after issuing $275 million in debt, explain how that amount is achieved, and provide the proposed accounting entries.

b. State whether there will be a cost to Kentucky Power and its rate payers associated with the Paid-in-Capital amount after issuance of the proposed $265 million in debt, and if so, provide the cost.

c. Provide the interest rate, based on current capital market projections, of the $265 million debt to be issued, along with a detailed breakdown of the estimated issuance costs.

d. Confirm that the $265 million financing for which Kentucky Power seeks authority in this proceeding is the same $275 million debt issuance referenced in sub-paragraph 44 under paragraph 12, which was contemplated in Case No. 2012-00578. If such is confirmed, explain whether Kentucky Power expects to request authority for another $10 million in financing. If no, explain whether Kentucky Power expects to request authority for financing in greater amounts, and provide details concerning the amounts, at what time in the future Kentucky Power expects to file its request, and provide the estimated debt/equity position.

RESPONSE

a. The actual paid-in-capital amount associated with the Mitchell plant transfer will be known after the accounting records have closed. The Company will supplement this response once the accounting records have closed. Upon reissuance of outstanding debt that is for similar amounts (i.e $200 million credit facility) there is no effect on paid in capital. However, the reissuance of the PCRB held in trust (i.e $65 million) will increase debt outstanding and be subject to the need to maintain a target debt-to-total capital ratio.

Kentucky Power Company

b. The paid-in capital will appear as equity on the Company's balance sheet. Under the terms of the July 2, 2013 Stipulation and Settlement Agreement approved by the Commission, with four unrelated modifications, in its October 7, 2013 Order, Kentucky Power's customers will first begin bearing the cost of that paid-in capital in connection with the rates to be established in the rate case to be filed by Kentucky Power. The "cost" will be based on the cost of equity to be established in that yet-to-be filed case.

c. The $265 million of debt will consist of two separate issuances:

$200 million is Kentucky Power's debt associated with the Mitchell asset transfer. Current new issue pricing for the $200 million portion of this debt is expected to be approximately 4% to 5.50% based upon deal structure.

$65 million is the PCRB associated with the Mitchell plant assumed by the company. The bond is currently held in trust. When the company decides to re-issue the PCRB out of trust, it could issue the bond in multiple products. Tax Exempt securities by nature offer the issuer great flexibility, as the can be issued in multiple modes such as: 1 to 7 year put bonds, 1 to 3 year letter of credit supported variable rate demand notes (VRDN), or fixed rate until maturity. At this time, put bonds could be issued in an approximate range of 1.25% to 3.65%. Letter of credit supported VRDN's estimated costs are 0.80% to 1.50%. Fixed rate to maturity bonds would be issued in an approximate range of 5.00% to 6.00%.

For estimated issuance costs see the response to KPSC 1-5, part h.

d. Kentucky Power confirms that the $265 million in authority being sought in this case relates to and encompasses the $275 million in debt that was described in paragraph 44 of the Company's application in Case No. 2012-00578 and copied into paragraph 12 of its application in this proceeding. Kentucky Power does not anticipate seeking the additional $10 million in authority.

WITNESS: Marc D Reitter

Kentucky Power Company

REQUEST

Refer to pages 5-6 of the application.

a. Provide the cost associated with the anticipated $200 million intercompany note to Kentucky Power.

b. Provide the accounting entries of the anticipated $200 million intercompany note that will be reflected in Kentucky Power's accounting records.

RESPONSE

a. The $200M represents the assigned portion of the OPCo Corporate Separation Term Loan to Kentucky Power payable to third party banks as it relates to Kentucky Power's 50% undivided interest in the Mitchell plant. The cost to Kentucky Power until the term loan matures in May 2015 is LIBOR plus 1.25%.

b. See the response to KPSC 1-9.

WITNESS: Marc D. Reitter/Ranie K. Wohnhas

Kentucky Power Company

REQUEST

Refer to page 6 of the application.

a. Explain whether American Electric Power ("AEP") and Kentucky Power have considered acquiring long-term debt, since interest rates are still low and expected to rise, versus assuming the $65 million in West Virginia Economic Development Authority ("WVEDA") Pollution Control Revenue Bond ("PCRB"), considering the past volatility of interest rates in that market.

b. Provide an estimate of the benefit to Kentucky Power in assuming $65 million of WVEDA PCRBs as proposed, in comparison to refinancing the $65 million through a long-term debt issuance, considering current capital market projections.

c. Describe Kentucky Power's plan for repayment of the WVEDA PCRBs.

d. What is the estimated remaining economic life of the environmental controls at the Mitchell plant?

e. Describe any circumstances which would cause Kentucky Power to reissue the WVEDA PCRBs for a term shorter or longer than the remaining economic life of environmental controls at the Mitchell plant.

RESPONSE

a. Yes, the Company will acquire permanent long-term debt, on or before the maturity date of May 13, 2015, when the Company refinances the $200 million inter-company note. Kentucky Power will issue the $65 million WVEDA bond from trust only if it can do so at terms better than can be achieved through the issuance of the same amount of non-tax exempt debt.

b. Based on today's market rates, the flexibility of tax-exempt securities is what drives the cost efficiency and diversification compared to standard long-term private placement debt. For example, Kentucky Power could issue the tax-exempt securities in a mode such as a 2 year letter of credit supported variable rate demand note (VRDN) at approximately 1.15-1.35%. Compared to the interest rate for a private placement bond of approximately 5.25-5.75% (Benchmark U.S Treasury plus 1.45% credit spread). This could result in a 410 to 440 basis point savings. If the Company were to fix the $65 million bond to maturity, the expectation of the cost would be similar to the cost of a private placement bond. Thus, fixing the $65 million bond to maturity would essentially eliminate the flexibility this type of security offers.

c. Upon receipt of the Commission's order granting authority, the Company still believes the plan to re-issue the bonds within 6 months following the asset transfer to be appropriate. However, issuance could be delayed based on market conditions.

d. The environmental controls at the Mitchell Plant will be depreciated over the remaining life of the plant, currently estimated to retire in 2040.

e. The bonds are available until the legal maturity date of April 1, 2036 regardless if the underlying asset is in service. As discussed previously, the bonds are extremely flexible in that they can be issued in multiple modes across varied tenors. The Company evaluates current market conditions then decides what mode and tenor in which to reissue the bonds.

WITNESS: Marc D. Reitter/Ranie K. Wohnhas

Kentucky Power Company

REQUEST

Refer to paragraph 18 of the application regarding the credit agreement. Identify and explain all costs to be borne by Kentucky Power either directly or indirectly as a result of the credit agreement.

RESPONSE

Kentucky Power will incur interest expense associated with the credit agreement at a rate of LIBOR plus 1.25%. Also, Kentucky Power will be assigned a portion of the unamortized issuance costs (upfront and arranger fees) associated with the credit agreement based on the assumption of debt. Kentucky Power expects its portion of the unamortized balance to be approximately $320,000 which will be amortized monthly until termination in May 2015.

WITNESS: Marc D Reitter

Kentucky Power Company

REQUEST

Refer to paragraphs 20 through 27 of the application regarding the refunding of the Mitchell debt in an amount of up to $200 million.

a. Refer to paragraph 20. Provide the projected date for each placement and explain why each date was selected.

b. Refer to paragraph 21. Explain how Kentucky Power determined the maturity date(s) of the debt to be not less than nine months and not more than 60 years.

c. Provide a pricing grid to show the parameters for the fixed and variable interest rate private placement debt, including the interest rates, issuance expenses, and any other costs under each of the three scenarios identified in paragraph 21 for 9-month and 10-, 20-, 30-, 40-, 50- and 60-year terms. Also, as referenced in paragraph 22, for any fixed-rate debt, include information to show the current yield to maturity for United States Treasury Bonds for the respective terms listed above, and the current yield to maturity plus 500 basis points.

d. Describe Kentucky Power's plan for repayment of the proposed private placement debt. If there are any variances due to the terms of the specific tranche, explain the difference(s).

e. What is the estimated remaining economic life of the Mitchell plant?

f. Describe any circumstances which would cause Kentucky Power to issue any private-placement debt for a term shorter or longer than the remaining economic life of the Mitchell plant.

g. Refer to the last sentence of paragraph 23 wherein it states, "The interest rates and maturity dates of any such borrowing will be designed to parallel the cost of the capital of AEP to comply with any applicable law or regulation." Explain what is meant by the term "cost of capital" as used in this statement.

h. Refer to paragraph 27. Provide a breakdown and explanation of the estimated issuance costs for the Notes of approximately $1,750,000.

RESPONSE

a. The Company expects to refinance the $200 million within six months of the asset transfer pending market conditions. However, the credit agreement does not legally terminate until May 13, 2015.

b. The 9 month to 60 year range provides flexibility to take advantage of market opportunities across the yield curve. History has demonstrated that capital markets are unpredictable and investor demands can shift across the yield curve and across asset classes, thus having the flexibility to address market fundamentals at the time of a debt offering is imperative to competitively source capital at attractive levels.

c. Current indicative pricing suggests Kentucky Power could issue 10 to 30 year fixed rate securities at the treasury benchmark plus 140-145 basis points. Variable rate debt indicative pricing ranges from 0.8% to 6.0% based on maturity.

   The 9 month, 20-, 40-, 50-, 60- year benchmark treasury rates are not published and would have to be obtained from an underwriter. According to Bloomberg, current yields on the 1, 10 and 30 year benchmarks are 0.12%, 2.909% and 3.827% respectively. By adding the 500 basis point credit spread, the 1, 10 and 30 year yield would become 5.12%, 7.909% and 8.827%.

d. Kentucky Power's plan for private placement debt repayment of an issuance approximately 30 years from today depends upon the capital market conditions at the time and the company's capital structure and cash position.

e. The Mitchell Plant is expected to retire in 2040.

f. Length of issuance depends largely on investor demand and market conditions. Typically, private placement notes are long dated because insurance companies generally are the primary buyers of private placement bonds. Insurance companies tend to seek long dated maturities in order to match their mortality projection.

g. If Kentucky Power borrows from AEP, the interest rate that Kentucky Power should expect to pay would approximate the interest rate that AEP pays to acquire the capital it is re-loaning to Kentucky Power. The interest rate is AEP's cost of capital.

h. The estimated issuance costs referenced in paragraph 27 are the approximate amount for both the private placement and WVEDA PCRB issuance. KPSC 1-5 Attachment 1 reflects the approximate issuance costs for a private placement and PCRB.

WITNESS: Marc D. Reitter/Ranie K. Wohnhas

Kentucky Private Placement
$200,000,000

Party	Cost
Underwriters	$ 1,000,000.00
Legal Fees	$ 75,000.00
Paying Agent	$ 2,000.00
Miscellaneous Expense	$ 15,000.00
	$ 1,092,000.00

Kentucky Mitchell PCRB
$65,000,000

Party	Cost
Underwriters	$ 325,000.00
UW-Misc	$ 7,500.00
Legal Fees	$ 65,000.00
Trustee	$ 8,000.00
Auditor Fees	$ 45,000.00
Rating Letters	$ 106,000.00
Printer	$ 9,600.00
	$ 566,000.00

Kentucky Power Company

REQUEST

Refer to paragraph 43 of the application. Identify and explain the determination of each other issuance cost that constitutes the estimated $300,000 cost.

RESPONSE

Referencing KPSC 1-5 Attachment 1, the issuance cost would be $241,000 (the underwriting fees of $325,000 removed from the total of $566,000), rounded up to $300,000.

WITNESS: Marc D Reitter

Kentucky Power Company

REQUEST

Refer to paragraphs 48 through 53 of the application regarding treasury hedge agreements and interest rate management agreements. Identify each type of interest rate management instrument available to Kentucky Power, and the estimated cost stated as a percentage of the underlying obligation involved. Also, explain how any estimated cost was determined.

RESPONSE

The Company may enter into one or more of the following interest rate hedging instruments: treasury locks, forward-starting interest rate swaps, treasury put options or interest rate collar agreements. The costs for each of the products listed are determined by the market at the time of the transaction.

Hedging instruments defined:

1. Treasury Locks (T-Locks): A T-Lock creates a forward sale of Treasury bonds. The T-Lock is cash settled on the bond pricing date; no other payments occur. If Treasury rates are higher than the T-Lock rate agreed upon at the inception of the hedge, the issuer receives a cash settlement which offsets the higher cost of the new issue. If Treasury rates are lower than the T-lock rate agreed upon at the inception of the hedge, the issuer pays a cash settlement which is offset by the lower cost of issue.

2. Forward Starting Swaps: A swap lock is an interest rate swap that starts on, but is executed ahead of, the expected pricing date; the issuer pays a fixed rate based on the anticipated LIBOR rate from the expected pricing date out to the maturity date of the bond, and receives floating payments in the underlying swap position. The cash settlement on the pricing date is the Present Value difference between the swap rate at the bond pricing date and the agreed upon forward fixed rate; no other payments occur.

3. Treasury Options: A hedging tool the return on which depends on future interest rates. The holder of an option has the right, but not the obligation to receive or pay a fixed rate on a predetermined amount. In general, when yield-based option positions are purchased, a call buyer and a put buyer have opposite expectations about interest rate movements. A call buyer anticipates interest rates will go up, increasing the value of the call position. A put buyer anticipates that rates will go down, increasing the value of the put position.

4. Interest Rate Collar: This structure protects against increases in interest rates beyond a predetermined level known as the Cap Rate, while still allowing the issuer to take advantage of falling interest rates down to a predetermined level, known as the Floor Rate. The Cap Rate is also referred to as the "worst case rate" because that is the highest base interest rate to which you can be exposed. Conversely, the Floor Rate is referred to as the "best case rate" as this is the lowest possible base interest rate available once a Collar is established.

WITNESS: Marc D Reitter

Kentucky Power Company

REQUEST

Refer to paragraph 55 of the application wherein it states, "These low cost funds may be used for general corporate purposes and to refinance a portion of the Mitchell Debt at lower interest rates than could be obtained through issuance of the notes." Describe any circumstances which would cause Kentucky Power to use any proceeds from its requested borrowing for general corporate purposes.

RESPONSE

Paragraph 55 is in reference to re-issuing the $65M PCRB. Because this bond is currently held in trust, Kentucky Power will receive cash proceeds when the bond is re-issued to the public. In this case as money is fungible and because Kentucky Power is a participant in the Utility Money Pool (AEP Corporate Borrowing Program) the cash will be received and used to extinguish any short-term debt borrowings Kentucky Power has at that time or used for other maturing debt obligations.

WITNESS: Marc D Reitter

Kentucky Power Company

REQUEST

Provide the accounting entries that are necessary to complete the transfer the 50 percent interest in the Mitchell plant and the subsequent issuances of the private placement debt and the reissue of the WVEDA PCRBs. Also include an ending balance sheet that reflects the assets, liabilities and capital balances of Kentucky Power upon completion of all requested transactions in this application.

RESPONSE

The Company is currently in the process of the 2013 accounting close, which includes the accounting transactions necessary to complete the transfer of the 50 percent undivided interest in the Mitchell plant to Kentucky Power. The requested information thus is not currently available for response. Upon completion of closing the books, which is anticipated to be in mid-January 2014, the Company will update this response with the requested information. The information to be provided in mid-January 2014 will continue to be subject to audit and updates will be provided if necessary.

In regards to the subsequent issuances of the private placement debt and the reissue of the tax-exempt WVEDA PCRBs, the entry would be to record a debt obligation and receipt of cash as shown in KPSC 1-9 Attachment 1.

Please note that upon reissuance of the $200 million and the $65 million, the assigned portion of the OPCo Corporate Separation Term Loan to Kentucky Power payable to third-party banks and the WVEDA PCRBs held in trust will be eliminated, respectively.

WITNESS: Ranie K Wohnhas

Account	Description	Debit	Credit
131	Cash	$XXXXXX	
226	Unamortized discount or	$XXXXXX	
225	Unamortized premium		$XXXXXX
181	Unamortized debt expense	$XXXXXX	
221	Bonds Payable		$XXXXXX

Kentucky Power Company

REQUEST

Provide the date by which Kentucky Power believes it must receive a final Order in this proceeding in order to minimize the cost of the proposed financing.

RESPONSE

A response by March 2014 will be necessary to move forward within six months of the transfer as indicated in the response to KPSC 1-5, part a.

The assumed $200 million of debt matures on May 13, 2015. In order to refinance, the transaction would require approximately 5 to 7 weeks to execute, so the latest an order could be received for this refinancing event would be early March 2015. However, based on the current expectation that benchmark yields will rise through 2014, it would be best for the customers of Kentucky Power if the order is received as soon as practicable in order to manage interest rate risk.

WITNESS: Marc D Reitter