COMMONWEALTH OF KENTUCKY

BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

ELECTRONIC APPLICATION OF KENTUCKY POWER COMPANY FOR AUTHORITY PURSUANT TO KRS 278.300 TO ISSUE AND SELL PROMISSORY NOTES OF ONE OR MORE SERIES AND FOR OTHER AUTHORIZATION	)))))	CASE NO. 2025-00059

O R D E R

On March 12, 2025, Kentucky Power Company (Kentucky Power) filed an application, pursuant to KRS 278.300, requesting authority to issue and sell promissory notes of one or more series, and for any other relief or approvals required to complete the proposed transactions. Kentucky Power stated that the financing would consist of (1) the issuance of up to $300 million in new unsecured promissory notes for its general corporate purposes and, (2) the refinancing of two $150 million term loans due in 2025 and 2026.[1] There are no intervenors. Kentucky Power requested the Commission enter an Order no later than May 12, 2025, to minimize costs and provide it the flexibility to act on advantageous financing terms and conditions.[2] On March 31, 2025, Kentucky Power partially responded to a request for information from Commission Staff,[3] and simultaneously filed a motion for an extension of time through April 3, 2025, to file its

[1] Application at 3.

[2] Application at 10.

[3] Kentucky Power's Response to Commission Staff's First Request for Information (Staff's First Request) (filed Mar. 31, 2025).

remaining responses to the request for information.[4] Kentucky Power filed its supplemental responses to Staff's First Request on April 3, 2025.[5] This case now stands submitted for a decision based on the evidentiary record.

LEGAL STANDARD

KRS 278.300 requires Commission approval before a utility may "issue any securities or evidence of indebtedness or assume any obligation or liability in respect to the securities or evidence of indebtedness of any other person."[6] The legal standard contained in KRS 278.300(3) establishes the purview of Commission review, stating:

> The commission shall not approve any issue or assumption unless, after investigation of the purposes and uses of the proposed issue and the proceeds thereof, or of the proposed assumption of obligation or liability, the commission finds that the issue or assumption is for some lawful object within the corporate purposes of the utility, is necessary or appropriate for or consistent with the proper performance by the utility 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.

PROPOSED EVIDENCE OF INDEBTEDNESS

Kentucky Power is seeking authority to issue indebtedness and engage in financings in an amount not to exceed $600 million.[7] Kentucky Power intends to utilize $300 million of the proposed funding to refinance two $150 million term loans due in 2025 and 2026.[8] Kentucky Power also seeks approval to employ up to $300 million of the

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[4] Kentucky Power's Motion for Extension of Time (filed Mar. 31, 2025).

[5] Kentucky Power's Supplemental Response to Staff's First Request (filed Apr. 3, 2025).

[6] KRS 278.300(1).

[7] Application at 3.

[8] Application at 3.

proposed financings for its general corporate purposes.[9] The general corporate purposes include the "construction, acquisition, and upgrade of environmental, generation, transmission, distribution, technology, and communication facilities[.]"[10] Kentucky Power explained that it has not allocated the proceeds to specific projects, and that the proceeds would be used for extensions of existing systems and may be used for projects requiring future Commission approval in the form of a certificate of public convenience and necessity (CPCN).[11]

Kentucky Power noted that the $300 million in previously executed term notes were issued to reduce Kentucky Power's elevated short-term debt position, and as interim financing, until securitization proceeds are received, at which point the term loans would be repaid.[12] Kentucky Power stated that when the securitization process is finalized,[13] it would shift approximately $446.7 million in debt and allow Kentucky Power to use this financing to repay other indebtedness or for general corporate purposes, similar to the circumstances surrounding indebtedness approved during the pendency of the sale to Liberty Utilities.[14]

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[9] Application at 3.

[10] Application at 3.

[11] Application at 3.

[12] Kentucky Power's Response to Staff's First Request, Item 1.

[13] Case No. 2023-00159, *Electronic Application of Kentucky Power Company For (1) A General Adjustment of Its Rates for Electric Service; (2) Approval of Tariffs and Riders; (3) Approval of Accounting Practices to Establish Regulatory Assets and Liabilities; (4) A Securitization Financing Order; and (5) All Other Required Approvals and Relief* (filed June 29, 2023).

[14] Kentucky Power's Response to Staff's First Request, Item 1. Case No. 2023-00029, *Electronic Application of Kentucky Power Company for Authority Pursuant to KRS 278.300 to Issue and Sell Promissory Notes of One or More Series and For Other Authorizations* (Ky. PSC Mar. 30, 2023) (The sale to Liberty Utilities did not go through.).

Kentucky Power proposed, with the consent and approval of the Commission, to execute the proposed financing by issuing and selling, in one or more transactions from time to time through December 31, 2026, up to $300 million aggregate principal amount of unsecured promissory notes in one or more new series (Notes).[15] The Notes may be issued in the form of Senior Notes, loans, or other unsecured promissory notes, and in no event will the amount of the Notes issued in the transaction exceed the principal amount of $600 million.[16] Kentucky Power anticipates issuing the first of the Notes in June 2025, when a $150 million term loan matures.[17] Kentucky Power stated that each series of Notes will not mature in less than nine months and no more than 60 years, and the Notes will be sold either by competitive bidding, through negotiation with underwriters or by agents in private placement offerings, or by direct placement with a commercial bank or other institutional investor.

Kentucky Power asserted that the Notes' interest rates may be fixed or variable as determined to be most advantageous to it at the time of issuance and sale of the Notes.[18] Kentucky Power noted that any fixed rate of interest on the Notes will be at yield to maturity which shall not exceed by more than 500 basis points the yield to maturity on United States Treasury bonds of comparable maturity at the time of pricing, and any initial fluctuating rate of interest on the Notes will not exceed eight percent per annum at the time of issuance.[19] Additionally, Kentucky Power explained that it may issue one or more

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[15] Application at 4.

[16] Application at 4.

[17] Application at 4.

[18] Application at 4.

[19] Application at 4.

Notes to its parent company, American Electric Power (AEP), or any entity owning, directly or indirectly, all of the outstanding common stock.[20] The interest rates and maturity dates of such borrowings will be designed to parallel the cost of the capital of AEP to comply with any applicable law or regulation.[21]

Additionally, Kentucky Power requested to enter into Treasury Hedge Agreements and Interest Rate Management Agreements, including but not limited to treasury lock agreements; forward-starting interest rate swaps; treasury put options; or interest rate collar agreements, to protect against future interest rate movements in connection with the issuance of the Notes.[22] If Kentucky Power utilizes Interest Rate Management Agreements, then Kentucky Power's annual long-term interest charges could change.[23] Additionally, the Interest Rate Management techniques may assist in removing variability of interest rate fluctuations prior to debt issuances and protect customers from a rise in interest rate costs.[24] Kentucky Power stated that such authority would allow sufficient alternatives and flexibility to reduce its effective interest cost and manage interest cost on financings.[25]

In connection with the sale of the Notes, Kentucky Power may agree to restrictive covenants which prohibit it from, among other things, the following: creating or permitting to exist any liens on its property, with certain stated exceptions; creating indebtedness

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[20] Application at 5.

[21] Application at 5.

[22] Application at 7.

[23] Application at 9.

[24] Kentucky Power's Supplemental Response to Staff's First Request, Item 21.

[25] Application at 8.

except as specified therein; failing to maintain a specified financial condition; entering into certain mergers, consolidations, and dispositions of assets; and permitting certain events to occur in connection with pension plans.[26] Additionally, Kentucky Power may permit the holder of the Notes to require Kentucky Power to prepay the Notes holder after certain specified events, including an ownership change.[27]

Present market conditions make it difficult to determine whether it would be more advantageous to Kentucky Power and its customers to sell its Notes with a 60-year or some shorter maturity.[28]

Kentucky Power estimated that the issuance costs for the notes would total approximately $5.2 million, but the actual cost of the notes would be determined at the time of the sale or sales.[29] Kentucky Power explained that it may purchase any outstanding securities through tender offer, negotiated, open market, or other form of purchase or otherwise by means other than redemption, if they can be refunded at a lower effective cost.[30] Kentucky Power also stated that it intends to utilize deferred tax accounting for the premium expense, to properly match the amortization of the expense and the related tax effect.[31]

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[26] Application at 5.

[27] Application at 5.

[28] Application at 5.

[29] Application at 6-7.

[30] Application at 6.

[31] Application at 6.

DISCUSSION AND FINDINGS

Having considered the evidence of record and being otherwise sufficiently advised, the Commission finds that Kentucky Power's proposed financing satisfies KRS 278.300 and may therefore issue indebtedness and engage in financings in an amount not to exceed $600 million. However, the Commission continues to note its concern about Kentucky Power's capital structure and cautions Kentucky Power to be extraordinarily judicious in its exercise of this indebtedness approval.

Lawful Object

The Commission finds that the proposed financing is for lawful objects within the corporate purposes of Kentucky Power to provide adequate, efficient, and reasonable service at fair, just, and reasonable rates. Kentucky Power has two $150 million term loans due in June 2025 and February 2026, respectively.[32] The proceeds of the proposed financing will be used to repay these two term loans, as well as to issue $300 million of new indebtedness to fund its general corporate purposes. However, the Commission notes that indebtedness is not intended to supplant cash flow and should not be used for everyday transactions or routine or monthly expenditures. t

Necessary and Appropriate

The Commission also finds that the proposed financing is necessary and appropriate for, and consistent with, the proper performance by the utility of its service to the public and will not impair Kentucky Power's ability to perform that service. The authority to determine at a subsequent date whether there will be more than one series, and the maturity of each series of the Notes affords Kentucky Power the necessary

[32] Kentucky Power's Response to Staff's First Request, Item 3.

flexibility to adjust its financing program to developments in the markets for medium and long-term debt securities when and as they occur, to obtain the best possible price, interest rate, and terms for its Notes.[33] Additionally, the authority to utilize interest rate management techniques and enter into Interest Rate Management Agreements through December 31, 2026, will give Kentucky Power flexibility and the opportunity to explore alternatives in order to reduce its effective interest cost and manage interest cost on financings.[34] Flexibility in the issuance and terms provides opportunities for Kentucky Power to seek the best terms for ratepayers at the time of the issuance

Finally, the Commission finds that the proposed financing is reasonably necessary and appropriate for Kentucky Power to meet its statutory duty to provide adequate, efficient, and reasonable service. In Case No. 2023-00159, Kentucky Power requested a securitization financing order.[35] As of March 27, 2025, Kentucky Power had borrowed $18 million against its authorized limit of $250 million of short-term debt.[36] Because of its short-term debt level and two $150 million term loans due in 2025 and 2026, if the securitization process currently being undertaken by Kentucky Power is incomplete or not occur, Kentucky Power would be at risk of exceeding its short-term debt authority.[37] Additionally, as Kentucky Power's stated, the request for the $300 million not necessary

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[33] Application at 5.

[34] Application at 8.

[35] Case No. 2023-00159, July 14, 2023 Application.

[36] Kentucky Power's Response to Staff's First Request, Item 3.

[37] Kentucky Power's Response to Staff's First Request, Item 3.

to service existing debt will likely not be needed if its request for securitization does occur.[38]

CONCLUSION

For the reasons described above, the Commission finds that Kentucky Power's request to incur indebtedness of up to $600 million to repay term loans due in 2025 and 2026, and to fund its general corporate purpose should be approved. However, while the Commission recognizes the need for this financing approval, the Commission is deeply concerned by how much debt Kentucky Power has incurred over the past decade to finance its operations. In its 2014 application for a general adjustment of rates, Kentucky Power requested a capital structure including 52.98 percent long-term debt.[39] However, the Commission approved a capital structure including 51.49 percent long-term debt.[40] In 2017, when Kentucky Power requested a rate increase, Kentucky Power requested a capital structure including 54.45 percent long-term debt. However, the final Order in that case, authorized a capital structure including 53.45 percent.[41] In its most recent application for a general base rate adjustment in 2023, Kentucky Power requested a

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[38] Kentucky Power's Response to Staff's First Request, Item 1.

[39] Case No. 2014-00396, *Application of Kentucky Power Company For: (1) A General Adjustment of Its Rates for Electric Service; (2) An Order Approving Its 2014 Environmental Compliance Plan; (3) An Order Approving Its Tariffs and Riders; And (4) An Order Granting All Other Required Approvals and Relief* (Ky PSC June 26, 2015).

[40] Case 2014-00396, (Ky. PSC Jun. 26, 2015), Order at 35-36.

[41] Case No. 2017-00179 *Electronic Application of Kentucky Power Company For (1) A General Adjustment of Its Rates for Electric Service; (2) An Order Approving Its 2017 Environmental Compliance Plan; (3) An Order Approving Its Tariffs And Riders; (4) An Order Approving Accounting Practices To Establish Regulatory Assets And Liabilities; And (5) An Order Granting All Other Required Approvals And Relief* (Ky PSC Jan. 18, 2018), Order at 23, 75.

capital structure consisting of 53.10 percent long-term debt; however, the Commission ultimately approved a capital structure amount of 52.62.[42]

Despite the recency of Kentucky Power's 2023 rate case, prior to receiving approval in this matter, Kentucky Power's long-term debt had already increased to 56.52 percent of the company's capital structure.[43] To be clear, a capital structure comprised of 56.42 percent long-term debt is not "generally consistent" with the Commission's final Order in Case No. 2023-00159.[44] However, the Commission recognizes that Kentucky Power's capital structure is expected to meaningfully change with the finalization of securitization and approves this application in recognition of that fact. "The Commission has an expectation that utilities in Kentucky should have a capital structure that is reasonably balanced such that it does not over burden its ratepayers to the benefit of shareholders or engage in excess risk."[45] The Commission notes that in at least two prior Orders, Kentucky Power was put on notice that any further indebtedness would be closely

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[42] Case No. 2023-00159, (Ky PSC Jan. 16, 2024), Order at 47-50, 99.

[43] Kentucky Power's Supplemental Response to Staff's First Request, Item 14 (filed Apr. 12, 2025).

[44] Kentucky Power's Supplemental Response to Staff's First Request, Item 14.

[45] Case No. 2022-00432, *Electronic Application of Bluegrass Water Utility Operating Company, LLC For an Adjustment of Sewage Rates (*Ky. PSC Feb. 14, 2024) Order at 53.

examined to ensure a balanced capital structure as the balance appears to be slowly shifting further away from a balanced capital structure.[46]

The Commission reminds Kentucky Power that the additional debt would not result in a balanced capital structure if not for the ongoing securitization process. Kentucky Power provided a response to a request for information that indicated Kentucky Power intended to use the indebtedness for general corporate purposes but stated, "[t]he cash will be allocated across the Company's distribution, generation, and transmission functions on an as-required basis to support the Company's day-to-day operations."[47] When asked for additional information related to usage of indebtedness for capital expenditures,[48] Kentucky Power referred to Exhibit D of the application with no additional information. Kentucky Power has the burden to demonstrate that its information and application meet the standards set forth in KRS 278.300 for approval of financing and in light of recent rate case Orders, is put on further notice that additional, specific information may be necessary to approve financing in the future.

The Commission encourages Kentucky Power to attempt to minimize its use of this indebtedness and review its debt-to-equity ratio as soon as possible after the

[46] Case No. 2023-00159, (Ky PSC Jan. 16, 2024), Order at 50 "In addition, the Commission will closely monitor Kentucky Power's proposed increased capital spending over the next few years. The Commission notes that Kentucky Power has control over its capital spending and is able to improve its funds from operations to debt credit metric, in part by adjusting its capital spending and debt levels. Additionally, Kentucky Power stated that a downgrade in its investment rating results in an increase in its borrowing costs which may negatively impact customers. The Commission expects Kentucky Power to find cost-effective measures to improve its current credit rating of Baa3 and corporate credit rating of BBB while keeping its capital structure reasonably balanced so that it does not over burden its ratepayers to the benefit of shareholders, but that Kentucky Power would nevertheless have the ability to reasonably attract capital." (cites omitted).

[47] Kentucky Power's Response to Staff's First Request, Item 6.

[48] Kentucky Power's Response to Staff's First Request, Item 5.

securitization process completion, and file any appropriate applications with the Commission to do so.

IT IS THEREFORE ORDERED that:

1. Kentucky Power is authorized to issue indebtedness and engage in financings in an amount not to exceed $300 million for the purposes of refinancing of the two $150 million term loans due in 2025 and 2026 and up to $300 million in new unsecured promissory notes for its general corporate purposes.

2. Kentucky Power shall agree only to such terms and conditions that are proposed in its application.

3. Kentucky Power is authorized to enter into Treasury Hedge Agreements and Interest Rate Management Agreements as described in the application.

4. Kentucky Power is authorized to determine the subsequent date of whether there will be more than one series, and the maturity of each series of Notes.

5. The proceeds from the transaction authorized in this Order shall be used solely for the lawful purpose set out in Kentucky Power's application.

6. Kentucky Power shall file, within 30 days from the date of issuance of the securities, with the Commission a statement setting forth the date or dates of issuance of the securities authorized herein, the date of maturity, the price paid, and the proceeds of such issuances, the interest rate, costs or gains from the use of hedging agreements, and all fees and expenses, including underwriting discounts, commissions, or other compensations involved in the issuance and distribution. Kentucky Power shall also file documentation showing the quotes that it relied upon to determine the lowest interest rates.

7. If Kentucky Power engages in refinancing or remarketing of this indebtedness Kentucky Power shall file, within 30 days from the date of issuance, with the Commission a statement setting forth the date or dates of issuance of the securities authorized herein, the date of maturity, the price paid, and proceeds of such issuances, the interest rate, costs or gains from the use of hedging agreements, and all fees and expenses, including underwriting discounts, commissions, or other compensations involved in the issuance and distribution. Kentucky Power shall also file documentation showing the quotes that it relied upon to determine the lowest interest rates.

8. Any documents filed in the future pursuant to ordering paragraph 6 or ordering paragraph 7 of this Order shall reference this case number and shall be retained in Kentucky Power's post-case correspondence file.

9. The Executive Director is delegated authority to grant reasonable extensions of time for filing of any documents required by this Order upon Kentucky Power's showing of good cause for such extension.

10. This case is closed and removed from the Commission's docket.

Nothing contained in this Order shall be deemed a warranty of the Commonwealth of Kentucky, or any agency thereof, of the financing, herein approved.

PUBLIC SERVICE COMMISSION

Chairman

Vice Chairman

Mary Pat Regan

Commissioner

ATTEST:

Linda C. Bridwell

Executive Director

ENTERED

MAY 09 2025

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