BEFORE THE KENTUCKY PUBLIC SERVICE COMMISSION

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COMMISSION

IN THE MATTER OF:

GENERAL ADJUSTMENT OF ELECTRIC)
RATES OF KENTUCKY POWER COMPANY) CASE NO. 2005 -00341

KENTUCKY POWER COMPANY
RESPONSES TO KIUC FIRST SET OF DATA REQUEST

VOLUME 1 OF 2

November 29, 2005

Kentucky Power Company

REQUEST

Please provide copies of all bond rating agency reports (Standard and Poor's, Moody's, Fitch, etc) for Kentucky Power from 2003 through 2005.

RESPONSE

The material is attached as requested.

WITNESS: Errol K Wagner

KPSC CASE NO. 2005-00341
KIUC 1ST SET
ITEM NO. 1
PAGE 2 OF 64

Return to Regular Format

Research:

Summary: Kentucky Power Co.

Publication date: 25-Jul-2003
Credit Analyst: Todd A. Shipman, CFA, New York (1) 212-438-7676

Credit Rating: BBB/Stable/--

Rationale

Kentucky Power Co. is a subsidiary of electric utility company American Electric Power Co. Inc. (AEP), and the ratings reflect the consolidated credit profile of the entire AEP system. The ratings represent Standard & Poor's Ratings Services' assessment of AEP's foundational credit quality as it transitions to a renewed, strategic focus on core utility operations, from a balanced business model with both regulated and unregulated activities. Although AEP has taken the necessary, near-term steps to address the effect of the write-offs on its balance sheet, the plan proved to be insufficient to produce a credit profile that supports a 'BBB+' rating.

AEP has improved its liquidity and balance sheet by refinancing more than $2 billion in utility debt, extending the terms of bank credit facilities, and issuing more than $1 billion of common equity. In the future, the company intends to use a combination of cost reductions, asset sales, and reduced common dividends to improve earnings and cash flow and reduce balance sheet leverage to continue credit quality restoration. AEP's decisive actions are strong indications of its commitment to credit quality and were instrumental in achieving a stable outlook for the ratings.

Liquidity.

AEP's liquidity is adequate. As of March 31, 2003, the company had $1.8 billion in cash and ample capacity under its bank facility to meet working capital needs. About $1.7 billion of long-term debt comes due in the following year.

Outlook

The stable outlook assumes a reasonable burden of future environmental compliance costs and a continued, strategic emphasis on regulated operations. Maintaining the improving trend in the company's balance sheet and other key credit measures will be necessary for continued ratings stability. Higher ratings are possible over time, if AEP demonstrates consistency in its regulated utility strategy and gradual improvement in its financial profile.

FitchRatings Corporate Finance

Global Power/North America
Credit Update

Kentucky Power Co.

Ratings

Security Class	Current Rating	Previous Rating	Date Changed
Senior Unsecured Notes	BBB	NR	6/1/00
Junior Subordinate Debt	BBB–	NR	2/14/96
Commercial Paper	F2	D-2	6/1/00

NR – Not rated.

Rating Watch........None
Rating Outlook........Stable

Analysts

Denise Furey
1 212 908-0672
denise.furey@fitchratings.com

Robert Hornick
1 212 908-0523
robert.hornick@fitchratings.com

Profile

KPC is a wholly owned subsidiary of AEP and a vertically integrated utility engaged in the generation, transmission and distribution of electric power to approximately 172,000 retail customers in eastern Kentucky.

Related Research

- Indiana Michigan Power Co., Credit Update, Feb. 4, 2003.
- Southwestern Electric Power Co., Credit Update, Feb. 4, 2003.

Key Credit Strengths

- No expectation of retail competition for the foreseeable future.
- Parent AEP's expertise in finance and wholesale electric markets.

Key Credit Concerns

- Leverage is high.
- Heavy industrial load in cyclical industries.

Rating Rationale

Kentucky Power Co.'s (KPC) credit profile is enhanced by a stable earnings stream from regulated electric utility operations, constructive regulation and the expectation that utilities in Kentucky will not be deregulated in the near future. The ratings also reflect leverage that is aggressive for the rating category and a service territory with heavy industrial load in cyclical industries. The ratings take into consideration an automatic fuel adjustment clause with only a two-month lag for fuel price changes that serves to stabilize earnings and cash flow. The company's credit quality also benefits from its participation in the American Electric Power, Inc. (AEP) power pool, and it benefits from AEP's expertise in finance and wholesale energy markets. The ratings of the AEP utilities are constrained and, in the case of KPO, enhanced by the highly centralized management of electric and treasury operations. The Rating Outlook is Stable.

Recent Developments

Retail electric competition is not likely to be enacted in Kentucky in the near future. There has been very little pressure in the state for open access since Kentucky has some of the lowest rates in the United States. The earliest time frame for a restructuring plan to pass through the legislature is 2004, and a commencement date would probably be later.

While KPC has an automatic fuel adjustment clause, KPC's environmental adjustment clause is not automatic. KPC sought an increase in the surcharge for environmental compliance costs of $21 million per year to compensate KPC for an investment of $163 million in pollution control faculties designed to reduce nitrogen oxide emissions, and on April 1, 2003, the company received approval for an increase of $17.1 million per year.

Liquidity and Debt Structure

The company has access to short-term financing through a cash pool managed at the parent level. KPC and the other utility subsidiaries of AEP fulfill short-term financing needs through a centralized pooling system, whereby entities with excess short-term liquidity lend to affiliates with cash needs. In 2002, the company also received a capital injection from the parent of $50 million. These funds were, in part, used to finance unusually high capital expenditure (capex) requirements of $178 million, of which $135 million were for the pollution control facilities. Capex is expected to return to more normal levels in 2003 as the company has completed most of pollution control projects. Measures of liquidity have been traditionally weak for KPC, and in 2002, cash flow from operations (CFO) only covered interest expense 2.0 times. Also, CFO after dividends and adjusted for the capital injection covered only 46.0% of capex. It is anticipated that liquidity levels will improve in 2003 as the rate increases relating to environmental costs should increase free cash flow.

The company's leverage has been deteriorating, as evidenced by the increase in total debt-to-capitalization to 62.0% as of Dec. 31, 2002, from 58.8% as of Dec. 31, 2000. The increase in debt occurred despite the capital injection due to dividend payments to the parent and external borrowings for investments in pollution control facilities. The company has refinanced the remainder of its first-mortgage bonds with unsecured debt in 2002, making the 'BBB' senior unsecured rating the most senior rating of this company.

Financial Summary — Kentucky Power Co.
($ Mil., Fiscal Years Ended Dec. 31)

	2002	2001	2000	1999	1998
Fundamental Ratios					
Operating EBIT/Interest Expense (x)	1.9	2.1	2.2	2.4	2.2
Operating EBITDA/Interest Expense (x)	3.1	3.3	3.2	3.5	3.2
Debt/Operating EBITDA (x)	5.8	4.7	3.9	4.2	4.5
Common Dividend Payout (%)	102.7	140.3	146.2	117.1	130.6
Internal Cash/Capital Expenditures (%)	28.6	8.3	179.6	38.4	29.4
Capital Expenditures/Depreciation (%)	537.7	133.9	106.6	147.5	155.8
Profitability					
Revenues	379	1,659	1,177	918	363
Net Revenues	181	179	186	182	179
O&M Expense	88	82	79	74	78
Operating EBITDA	84	90	100	100	91
Depreciation and Amortization Expense	33	32	31	29	28
Operating EBIT	51	57	69	71	63
Interest Expense	27	27	31	29	28
Net Income for Common	21	22	21	25	22
O&M Expense % of Net Revenues	48.7	45.6	42.5	40.6	43.7
Operating EBIT % of Net Revenues	28.3	31.9	37.0	38.8	35.2
Cash Flow					
Net Operating Cash Flow	72	33	95	47	41
Dividends	(21)	(30)	(30)	(30)	(28)
Capital Expenditures	(179)	(37)	(36)	(44)	(44)
Free Cash Flow	(128)	(34)	29	(27)	(31)
Net Other Investment Cash Flow	0	0	0	0	0
Net Change in Debt	78	34	(27)	16	11
Net Change in Equity	50	0	0	10	20
Capital Structure					
Short-Term Debt	38	164	111	148	84
Long-Term Debt	452	258	282	273	324
Total Debt	490	422	393	421	408
Preferred and Minority Equity	0	0	0	0	0
Common Equity	298	256	267	276	271
Total Capital	788	678	659	697	679
Total Debt/Total Capital (%)	62.0	62.0	58.8	60.4	60.1
Preferred and Minority Equity/Total Capital (%)	0.0	0.0	0.0	0.0	0.0
Common Equity/Total Capital (%)	37.8	37.8	40.4	39.6	39.9

Source: Financial data obtained from SNL Energy Information System, provided under license by SNL Financial, LC of Charlottesville, Va. Operating EBIT – Operating income plus total reported state and federal income tax expense. Operating EBITDA – Operating income plus total reported state and federal income tax expense plus depreciation and amortization expense. O&M – Operations and maintenance. Note: Numbers may not add due to rounding and are adjusted for interest and principal payments on transition property securitization certificates.

Rating Action: Kentucky Power Company

MOODY'S DOWNGRADES AMERICAN ELECTRIC POWER COMPANY (AEP: Sr. Uns. to Baa3 from Baa2) & SUBSIDIARIES. AEP'S COMMERCIAL PAPER DOWNGRADED TO PRIME-3 FROM PRIME-2. RATING REVIEW IS COMPLETED AND RATING OUTLOOK IS STABLE.

Approximately $16 Billion of Debt Securities Affected.

New York, February 10, 2003 -- Moody's Investors Service downgraded American Electric Power Company's (AEP) senior unsecured rating to Baa3 from Baa2, and lowered its short-term rating for commercial paper to Prime-3 from Prime-2. This rating action concludes the review of AEP for possible downgrade.

Moody's also downgraded the long-term ratings of AEP subsidiaries Public Service Company of Oklahoma (PSO: Senior Secured to A3 from A1), Southwestern Electric Power Company (SWEPCO: Sr. Sec. to A3 from A1), AEP Texas Central Company (formerly Central Power and Light Company, Sr. Sec. to Baa1 from A3), AEP Texas North Company (formerly West Texas Utilities Company, Sr. Sec. to A3 from A2), and Appalachian Power Company (Sr Sec. to Baa1 from A3). These ratings are removed from review for possible downgrade.

Additionally, the ratings of subsidiaries Ohio Power Company (Sr. Sec. A3), Columbus Southern Power Company (Sr. Sec. A3), Kentucky Power Company (Sr. Sec. Baa1), and Indiana Michigan Power Company (Sr. Sec. Baa1) are confirmed. The rating outlook for AEP and its subsidiaries is stable.

These rating actions reflect:

(1) Weak operating cash flow relative to consolidated debt levels at AEP;

(2) Modest free cash flow levels expected to be generated from AEP's core utility business;

(3) Continued expectations for poor returns from substantial non-regulated investments, some of which may require additional funding and may prove to be difficult to sell in the current environment;

(4) Execution risk associated with AEP's plan to strengthen the company's balance sheet, particularly as it relates to asset sales;

(5) A continuing financial drag, particularly during 2003, from the large energy trading business while the company winds down its speculative trading activity;

(6) A degree of regulatory uncertainty for AEP's two Texas subsidiaries as these utilities transition to a deregulated marketplace;

(7) A narrowing of the rating range for the AEP operating utilities, given the degree to which AEP manages the utilities as a single system.

AEP's operating results for 2002 were weak, including the large asset impairment taken at year-end, and its cash from operations was significantly lower relative to 2001. These results reflect substantial declines in earnings and cash flow for the wholesale power business, write-downs of investments in the wholesale business, and increased costs. Core operating results for 2003 and 2004 are likely to mirror this past year's results, with the exception that the company's decision to exit the speculative energy trading business should reduce working capital requirements for the company's large energy trading and marketing platform. Moody's notes that the actual unwinding of the bulk of this portfolio will likely occur over next two years, and may require additional funding from AEP to satisfy counter-party obligations, particularly in its natural gas trading book. Free cash flow is anticipated to be approximately $300 million annually over the next two years, a timeframe when the company has substantial debt maturities that will need to be repaid or refinanced. Moody's also notes that a number of AEP's underperforming non-regulated assets, including its investment in Fiddlers Ferry and Ferrybridge, will continue to be a drag on earnings and cash flow during 2003.

The company announced on January 24th that it would be taking actions to strengthen the weakened company's balance sheet. These actions include a recommendation to the board to reduce the common dividend by approximately 40%, a plan to shed non-core assets, and the consideration of common equity issuance. With modest free cash flow anticipated for the next two years, AEP's ability to de-lever will depend upon the improvement initiatives outlined by the company, including asset sales and equity issuance. The stable outlook reflects the expectation that AEP will maintain or increase cash flow from operations relative to its debt, and will also improve its balance sheet. Moody's believes that improvements will entail reductions in O&M expense and capital expenditures, issuance of equity, and substantial asset sales. If improvements in cash flow and balance sheet improvements do not occur, this could have an adverse rating impact.

The rating actions taken on AEP Texas North and AEP Texas Central recognize that both companies will ultimately become transmission and distribution businesses under the company's current plan. The rating action also incorporates a degree of regulatory uncertainty and execution risk as these companies transition to transmission and distribution businesses, particularly as it relates to their plans to exit the generation business and to address remaining stranded costs.

The rating actions relating to PSO, SWEPCO, and Appalachian Power reflect some credit deterioration at each subsidiary along with Moody's view that the rating range of the AEP subsidiaries should narrow since the company substantially manages all of the operating subsidiaries as a single system.

The rating confirmation for Columbus Southern and Ohio Power reflects both companies stable credit profile, and considers the fact that both companies will remain functionally separate while continuing to legally operate as vertical integrated utilities.

The ratings of the following issuers were downgraded:

· AEP, senior unsecured and issuer rating to Baa3 from Baa2, short-term rating for commercial paper to Prime-3 from Prime-2, shelf registration for the issuance of senior unsecured debt and junior subordinate debt to (P)Baa3 from (P)Baa2 and to (P)Ba1 from (P)Baa3, respectively

· AEP Resources (gtd. by AEP), senior unsecured and issuer rating to Baa3 from Baa2

· AEP Texas Central Company (formerly Central Power and Light Company), senior secured to Baa1 from A3, senior unsecured and issuer rating to Baa2 from Baa1, trust preferred issued by CPL Capital to Baa3 from Baa2, preferred stock to Ba1 from Baa3

· AEP Texas North Company (formerly West Texas Utilities Company), senior secured to A3 from A2, issuer rating to Baa1 from A3, preferred stock to Baa3 from Baa2

· Appalachian Power Company, senior secured to Baa1 from A3, senior unsecured and issuer rating to Baa2 from Baa1, preferred stock to Ba1 from Baa3

· Public Service Company of Oklahoma, senior secured to A3 from A1, senior unsecured and issuer rating to Baa1 from A2, junior subordinate debt issued by PSO Capital to Baa2 from A3, preferred stock to Baa3 from Baa1, shelf registration for senior unsecured debt to (P)Baa1 from (P)A2

· Southwestern Electric Power Company, senior secured to A3 from A1, issuer rating to Baa1 from A2, junior subordinate debt issued by SWEPCO Capital to Baa2 from A3, preferred stock to Baa3 from Baa1, shelf registration for senior unsecured debt to (P)Baa1 from (P)A2

The ratings of the following issuers were confirmed.

· Ohio Power Company, senior secured, senior unsecured, and issuer rating at A3, preferred stock at Baa2, shelf registration for preferred stock at (P)Baa2

· Columbus Southern Power Company, senior secured, senior unsecured, and issuer rating at A3, preferred stock at Baa2, shelf registration for the issuance of senior unsecured debt and junior subordinate debt at (P) A3 and (P)Baa1, respectively.

· Indiana Michigan Power Company, senior secured at Baa1, senior unsecured and issuer rating at Baa2, junior subordinate debt at Baa3, preferred stock at Ba1, shelf registration for senior secured, senior unsecured debt, and junior subordinate debt at (P)Baa1, (P)Baa2, and (P)Baa3, respectively.

· Kentucky Power Company, senior secured at Baa1, senior unsecured and issuer rating at Baa2, junior subordinate debt at Baa3, shelf registration for senior secured and senior unsecured debt at (P)Baa1 and (P) Baa2, respectively.

· RGS (I&M) Funding Corporation, senior secured lease obligation bonds at Baa2

· RGS (AEGCO) Funding Corporation, senior secured lease obligation bonds at Baa2

Moody's expects to assign a rating of A3 to Ohio Power Company planned issuance of $500 million of senior unsecured debt and a rating of A3 to Columbus Southern's planned issuance of $500 million of senior unsecured debt. Proceeds from both offerings will be used to retire short-term debt and to retire virtually all of each company's first mortgage bonds, with the near-term expectation to extinguish each company's first mortgage indenture. For this reason, the senior secured debt rating and senior unsecured debt rating are the same for these issuers. Also, to the extent that legal separation occurs, these securities are expected to become obligations of transmission and distribution companies.

Headquartered in Columbus Ohio, AEP is an energy company that owns and operates more than 42,000 megawatts of generating capacity in the US and in certain international markets and is the largest electricity generator in the U.S. It sells electricity to almost 5 million customers linked through the company's 11-state electricity transmission and distribution grid.

New York
Daniel Gates
Managing Director
Corporate Finance
Moody's Investors Service
JOURNALISTS: 212-553-0376
SUBSCRIBERS: 212-553-1653

New York
A.J. Sabatelle
VP - Senior Credit Officer
Corporate Finance
Moody's Investors Service
JOURNALISTS: 212-553-0376
SUBSCRIBERS: 212-553-1653

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Research:

Summary: Kentucky Power Co.

Publication date: 12-Sep-2003
Credit Analyst: Todd A Shipman, CFA, New York (1) 212-438-7676

Credit Rating: BBB/Stable/--

Rationale

Kentucky Power Co. is a subsidiary of electric utility company American Electric Power Co. Inc. (AEP), and the ratings reflect the consolidated credit profile of the entire AEP system. The ratings represent Standard & Poor's Ratings Services' assessment of AEP's foundational credit quality as it transitions to a renewed, strategic focus on core utility operations, from a balanced business model with both regulated and unregulated activities. Although AEP has taken the necessary, near-term steps to address the effect of the write-offs on its balance sheet, the plan proved to be insufficient to produce a credit profile that supports a 'BBB+' rating.

AEP has improved its liquidity and balance sheet by refinancing more than $2 billion in utility debt, extending the terms of bank credit facilities, and issuing more than $1 billion of common equity. In the future, the company intends to use a combination of cost reductions, asset sales, and reduced common dividends to improve earnings and cash flow and reduce balance-sheet leverage to continue credit quality restoration. AEP's decisive actions are strong indications of its commitment to credit quality and were instrumental in achieving a stable outlook for the ratings.

Liquidity.

AEP's liquidity is adequate. As of June 2003, the company had substantial cash on hand and ample capacity under its bank facility to meet working capital needs. About $1.7 billion of long-term debt comes due in the next year.

Outlook

The stable outlook assumes a reasonable burden of future environmental compliance costs and a continued, strategic emphasis on regulated operations. Maintaining the improving trend in the company's balance sheet and other key credit measures will be necessary for continued ratings stability. Higher ratings are possible over time, if AEP demonstrates consistency in its regulated utility strategy and gradual improvement in its financial profile.

Financial Statement Ratios: Kentucky Power Company

Kentucky Power Company

Download Financial Statement Ratios in .csv format

ASHLAND, UNITED STATES

Note:
This data does not reflect adjustments made by Moody's analysts as part of the rating process. The financial statistics shown below are taken directly from public financial statements. For an explanation of how these ratios are calculated, please refer to Moody's Research Guides.

(US$ mil.)	2003	2002	2001	2000	1999
INCOME STATEMENT ($ millions)					
Revenue	416	379	1,659	410	374
Operating Expense	340	328	1,602	344	306
Earnings Before Interest, Taxes, Depr. & Amort.	116	84	90	98	97
Depreciation and Amortization	39	33	32	31	29
Earnings Before Interest & Taxes	77	51	57	66	68
Other Income	-3	5	1	2	-0
Gross Interest Expense	29	27	27	31	29
Pretax Income	33	21	22	21	25
Income Taxes	12	9	9	17	13
Preferred Dividends	0	0	0	0	0
Net Income Available for Common Stock	33	21	22	21	25
Coverage Analysis					
EBITDA Interest Coverage	4.1	3.1	3.3	3.1	3.4
EBITDA Interest Coverage(Incl. Other Income)	4.0	3.3	3.3	3.2	3.3
EBIT Interest Coverage	2.7	1.9	2.1	2.1	2.3
EBIT Interest Coverage(Incl. Other Income)	2.6	2.1	2.1	2.2	2.3
Pretax Interest Coverage	2.6	2.1	2.1	2.2	2.3
FFO Interest Coverage	4.7	2.9	3.1	2.9	2.9
(FFO-Gross Capital Expenditures) Interest Coverage	1.9	-3.8	1.7	1.7	1.4
Fixed Charge Coverage	2.6	2.1	2.1	2.2	2.3
Earnings Analysis					
Operating Margin	15.5	11.1	2.9	12.1	14.6
Return on Equity	10.9	7.4	8.2	7.6	9.3
Return on Asset	2.8	1.8	1.6	1.7	2.7
Return on Capital	7.9	6.9	8.2	8.1	8.1
AFUDC % Net Income	0.0	0.0	0.0	0.0	0.0

BALANCE SHEET ($ millions)					
Cash and Equivalents	4	2	2	2	1
Net Plant and Equipment	968	898	744	742	739
Goodwill	0	0	0	0	0
Total Assets	1,222	1,165	1,153	1,512	987
Current Portion of LT Debt, Leases & Pref.	2	15	95	60	105
Short-Term Debt	0	0	0	0	40
Long-Term Debt	488	452	251	271	261
Total Debt	489	467	346	331	405
Preferred Equity	0	0	0	0	0
Common Equity	317	298	256	267	276
Total Capitalization	806	765	602	598	682
Tangible Capitalization (net worth)	806	765	602	598	682
Market Capitalization (ending period)	0	0	0	0	0
Capital Structure					
Retained Earnings	64	48	49	58	67
Total Debt - Cash and Equivalents	486	464	344	329	405
Deferred Charges % Common Equity	46.8	49.9	73.1	70.1	51.0
STD + Curr. Portion of LTD, Leases & Pref. % Capitalization	0.2	2.0	15.8	10.0	21.2
Total Debt % Capitalization	60.7	61.0	57.5	55.4	59.5
Asset Composition					
Net Plant and Equipment % Total Assets	79.2	77.1	64.5	49.1	74.9
Investments % Total Assets	0.5	0.6	0.6	0.4	2.1
Current Assets % Total Assets	8.1	9.5	18.7	38.1	8.7
Deferred Charges % Total Assets	12.1	12.8	16.2	12.4	14.3
CASH FLOW STATEMENT ($ millions)					
Funds From Operations	107	50	58	59	56
Preferred Dividends	0	0	0	0	0
Common Dividends	16	21	30	30	30
Retained Cash Flow	90	29	27	28	26
Gross Capital Expenditures	82	179	37	36	44
Free Cash Flow	9	-150	-10	-8	-18
Issuance of Long-Term Debt	74	275	75	70	80
Issuance of Preferred Equity	0	0	0	0	0
Debt Retirement & Sink Fund	-55	-154	-60	-105	-83
Net Change in LTD & Pref. Equity	19	120	15	-35	-4
Change in Working Capital	44	-19	19	-35	8
Cash Flow Analysis					
FFO % Gross Capital Expenditures	130.7	28.1	154.9	162.0	125.9
FFO % Total Debt	21.8	10.7	16.7	17.7	13.8
Total Debt / FFO	4.6	9.3	6.0	5.6	7.3
Total Debt / (FFO - Gross Capital Expenditures)	19.5	-3.6	16.9	14.7	35.4
RCF % Gross Capital Expenditures	110.6	16.2	73.6	78.1	58.7
RCF % Total Debt	18.5	6.2	7.9	8.5	6.4

Construction Analysis

Gross Capital Expenditures % Capitalization	10.1	23.4	6.2	6.1	5.5
CWIP % Common Equity	5.5	55.4	6.1	6.2	5.3
OPERATING STATISTICS					
Market Analysis					
Electric % Total Revenue	100.0	100.0	100.0	100.0	100.0
Gas % Total Revenue	0.0	0.0	0.0	0.0	0.0
Other % Total Revenue	0.0	0.0	0.0	0.0	0.0
Residential % Electric Revenue	28.8	31.3	6.6	27.5	28.5
Commercial % Electric Revenue	16.5	17.4	3.8	15.2	16.7
Industrial % Electric Revenue	22.7	25.5	5.6	22.7	25.8
Wholesale % Electric Revenue	27.2	20.4	82.8	29.4	21.5
Residential % Kwh Sales	—	22.5	5.0	19.2	19.0
Commercial % Kwh Sales	—	12.1	2.8	10.3	10.9
Industrial % Kwh Sales	—	28.8	6.8	26.0	27.3
Wholesale % Kwh Sales	—	36.5	85.4	44.4	42.7
Residential Price per Kwh	—	4.8	4.8	4.8	4.9
Commercial Price per Kwh	—	5.0	4.9	5.0	5.1
Industrial Price per Kwh	—	3.1	2.9	2.9	3.1
Wholesale Price per Kwh	—	1.9	3.5	2.2	1.7
Total Price per Kwh	—	3.5	3.6	3.4	3.3
Competitive Position					
Fuel Per Mwhr	0.0	0.0	9.0	10.0	0.0
Non-Fuel Per Mwhr	0.0	0.0	3.0	3.0	0.0
Investment Per Mwhr	0.0	0.0	2.0	2.0	0.0
Total Cost Per Mwhr	0.0	0.0	15.0	16.0	0.0

Note:
The statistics and other information ('Information') contained in this file are generated or obtained from public financial statements and other public sources, and do not reflect any interpretation, selection, adjustment, input, or other analysis by Moody's analysts that would normally occur as part of the rating process.

All Information furnished in this file is obtained by Moody's from sources believed by it to be accurate and reliable. Because of the possibility of human and mechanical error as well as other factors, however, all Information is provided 'AS IS' without warranty of any kind, and MOODY'S AND MOODY'S LICENSORS MAKE NO REPRESENTATION OR WARRANTY, EXPRESS OR IMPLIED, TO SUBSCRIBER OR ANY OTHER PERSON OR ENTITY AS TO THE ACCURACY, TIMELINESS, COMPLETENESS, MERCHANTABILITY OR FITNESS FOR ANY PARTICULAR PURPOSE OF ANY SUCH INFORMATION.

KPSC CASE NO. 2005-00341
KIUC 1ST SET
ITEM NO. 1
PAGE 13 OF 64

Return to Regular Format

Research:

Kentucky Power Co.

Publication date: 24-Dec-2003
Credit Analyst: Todd A Shipman, CFA, New York (1) 212-438-7676

Corporate Credit Rating

BBB/Stable/--

Business Profile

1 2 $\boxed{3}$ 4 5 6 7 8 9 10

Financial policy:
Moderate
Debt maturities:
(For parent American Electric Power Co. Inc. system)
2004 $706 mil
2005 $1.175 bil
2006 $1.498 bil
Bank lines/Liquid assets:
$750 million revolving credit facility expiring May 2004.
$1 billion revolving credit facility expiring May 2005.
$750 million revolving credit facility expiring May 2006.

Outstanding Rating(s)

Kentucky Power Co.	
Sr unsecd debt	
Local currency	BBB
Sr secd debt	
Local currency	BBB
Sub debt	
Local currency	BBB-
American Electric Power Co. Inc.	
Corporate Credit Rating	BBB/Stable/A-2
Sr unsecd debt	
Local currency	BBB
CP	
Local currency	A-2
AEP Resources Inc.	
Corporate Credit Rating	BBB/Stable/--
Sr unsecd debt	
Local currency	BBB
Appalachian Power Co.	
Corporate Credit Rating	BBB/Stable/--
Sr unsecd debt	
Local currency	BBB
Sr secd debt	
Local currency	BBB
Sub debt	
Local currency	BBB-
Junior Subordinated	
Local currency	BBB-
Pfd stk	
Local currency	BB+
Central and South West Corp.	
Corporate Credit Rating	BBB/Stable/NR
Columbus Southern Power Co.	

Corporate Credit Rating	BBB/Stable/--
Sr unsecd debt	
Local currency	BBB
Sr secd debt	
Local currency	BBB
Sub debt	
Local currency	BBB-
Pfd stk	
Local currency	BB+
Indiana Michigan Power Co.	
Corporate Credit Rating	BBB/Stable/--
Sr unsecd debt	
Local currency	BBB
Sr secd debt	
Local currency	BBB
Sub debt	
Local currency	BBB-
Junior Subordinated	
Local currency	BBB-
Pfd stk	
Local currency	BB+
Ohio Power Co.	
Corporate Credit Rating	BBB/Stable/--
Sr unsecd debt	
Local currency	BBB
Sr secd debt	
Local currency	BBB
Sub debt	
Local currency	BBB-
Pfd stk	
Local currency	BB+
RGS (AEGCO) Funding Corp.	
Corporate Credit Rating	BBB/Stable/--
Sr unsecd debt	
Local currency	BBB-
AEP Texas Central Co	
Corporate Credit Rating	BBB/Stable/--
Sr unsecd debt	
Local currency	BBB
Sr secd debt	
Local currency	BBB
Pfd stk	
Local currency	BB+
AEP Texas North Co	
Corporate Credit Rating	BBB/Stable/--
Sr unsecd debt	
Local currency	BBB
Sr secd debt	
Local currency	BBB
Pfd stk	
Local currency	BB+

Corporate Credit Rating History

June 15, 2000	A-
May 23, 2002	BBB+
Mar. 7, 2003	BBB

Company Contact
Wendy Hargus, Treasurer, AEP (1) 614 716-3755

Major Rating Factors

Strengths:

- Large, diverse regulated electric utility operation;
- Low-cost generation asset portfolio; and
- A history of commitment to credit quality.

Weaknesses:

- Marketing and trading operations detract from credit profile;
- Extraneous unregulated assets need to be sold; and
- Company leverage is slightly high for the rating.

Rationale

Ratings for Kentucky Power (KP) reflect parent American Electric Power Co. Inc.'s (AEP) foundational credit quality as the company transitions to a renewed strategic focus on its core utility operations from a balanced business model with both regulated and unregulated activities. The electric utilities comprising the AEP system range from Texas to Ohio and beyond and operate as either low-risk "wires" businesses or fully integrated regulated utilities. Electric generation is housed in both in and out of utility rate bases, but a majority of the capacity is directly or virtually subject to stabilizing regulatory oversight. Trading operations once played a prominent role at AEP, but have ceased to be a strategic focus.

AEP has improved its liquidity and balance sheet by refinancing over $2 billion in utility debt, extending the terms of bank credit facilities, and issuing over $1 billion of common equity. In the future, the company intends to use a combination of cost reductions, asset sales, and reduced common dividends to improve earnings and cash flow and reduce balance-sheet leverage to continue its credit quality restoration. AEP's decisive actions are strong indications of its commitment to credit quality.

Liquidity.

AEP's liquidity is adequate. The company has substantial cash on hand and ample capacity under its bank facility to meet working capital needs. About $1.7 billion of long-term debt comes due in the following year. The company operates a money pool and sells accounts receivables to provide liquidity for the domestic electric subsidiaries.

Liquidity is provided through a commercial paper program at the parent level that lends to subsidiaries through intercompany notes. The commercial paper program is backed by $2.5 billion in bank facilities that mature in 2004 ($750 million), 2005 ($1 billion), and 2006 ($750 million).

AEP has one financing ($525 million) that has a noninvestment-grade ratings trigger, but AEP's access to liquidity should continue to be adequate, based on amounts available under its evolving credit facilities.

The two factors previously identified by Standard & Poor's that threatened liquidity and thus credit quality (specifically energy marketing and trading (EM&T) activities and unusually high levels of short-term debt) were both addressed in 2002 and 2003 and no longer represent a significant risk to the company's ability to access capital and maintain liquidity.

Outlook

The stable outlook assumes a reasonable burden of future environmental compliance costs and a continued strategic emphasis on regulated operations. Maintaining the improving trend in the company's balance sheet and other key credit measures will be necessary for continued ratings stability. Higher ratings would be possible over time if AEP demonstrates consistency in its regulated utility strategy and gradual improvement in its financial profile.

Business Description

KP is a vertically integrated, regulated electric utility operating in Kentucky. Its credit quality is affected by its association with parent company AEP and its business and financial profiles.

AEP is a large, registered public utility holding company that owns directly or indirectly all of the common stock of its electric utility subsidiaries operating in 11 states in the U.S. Midwest and Southwest, as well as unregulated electric generation, EM&T, and natural gas subsidiaries. Subsidiaries' generating and transmission facilities are interconnected, and their operations are coordinated as an integrated electric utility system with two main regions.

Unregulated operations consist of a large portfolio (19,600 MW) of domestic merchant electric generating plants, mainly in Ohio and Texas, more than 4,000 MW of electric generation in the U.K., two lightly regulated intrastate natural gas pipelines in Texas and Louisiana, and coal assets. Above all of these assets is a marketing and trading enterprise that once held a leading position in the U.S. electricity and natural gas wholesale markets. EM&T was de-emphasized as part of a corporate strategy shift in 2002, and the trading activities no longer exert a large influence on the credit profile of AEP. Consistent with the shift, some of the unregulated assets used to support the trading operations are likely to be sold, which would further reduce the company's business risk.

AEP has received approval from the SEC under the Public Utilities Holding Company Act of 1935 (PUHCA) to invest up to 100% of its retained earnings (about $2.8 billion as of Dec. 31, 2002) for investment in exempt wholesale generators and foreign utility companies. The current investment totals $1.8 billion. AEP also has authority under SEC rules to invest up to 15% of its consolidated capital in energy-related companies.

Rating Methodology

KP's corporate credit rating is based on the consolidated credit profile of the entire AEP family of companies, including the U.S. electric distribution companies and integrated utilities, and the unregulated energy operations that include merchant electric generating facilities, natural gas pipelines and storage operations, and EM&T activities. The ratings reflect primarily the stability of the utility operations, marginally offset by the riskier, unregulated business activities. The unsecured debt rating at the holding company level (which is reflected in the ratings of AEP Resources Inc.) is equivalent to the corporate credit rating because the company has taken legal steps through an on-lending arrangement to make the debt pari passu with the operating company debt.

Business Profile

Regulated utility operations AEP owns two types of regulated electric utility companies. Five are traditional vertically-integrated utilities: Appalachian Power Co., Indiana Michigan Power Co., Kentucky Power Co., Public Service Co. of Oklahoma, and Southwestern Electric Power Co. The remaining utilities in states that have deregulated in some fashion and, while still vertically integrated, may eventually become distribution-only utilities.

Together, the integrated utilities exhibit slightly better-than-average risk profiles, with fairly average to below-average service territory economies offset by good operating records, competitive rates, and supportive regulation. The large size of the operations and the geographic and economic diversity of the collective integrated utilities are positive for credit quality. No contentious rate cases are expected for the foreseeable future, and the prospects for comprehensive deregulation in any of the states that have not already taken that step are remote.

AEP's utilities have a reasonable ability to pass through changes in its fuel and purchased-power expenses in a manner that preserves its financial integrity in many regulatory jurisdictions. In those where that ability is limited because of deregulation or rate-freeze agreements, AEP is able to responsibly manage its exposure through contractual arrangements, but some variability is unavoidable. Major expenditures to comply with environmental regulations affected rate-based utility generation have been timely reflected in past rates, but deregulation in AEP's two major states raises questions as to their ability to pass future costs through to customers.

The transmission and distribution operations in Ohio and Texas, the two major AEP states that have introduced competition at the retail level, are characterized by low rates, good operations, and manageable regulatory risk. Ohio and Texas deregulated their electric utilities through legislation in 2001, and retail competition began in 2002. While the deregulation plans expose the transmission and distribution companies to somewhat greater risk, especially during the transition periods (through 2005 in Ohio and 2006 in Texas), the risks are ameliorated by AEP's integrated approach to operating its electric generation, the reliance on relatively stable coal as Ohio's principal fuel source, and the ability to prospectively change the fuel-cost portion of rates in Texas (where natural gas predominates the fuel mix). In 2002, AEP sold its Texas retail business, so that the operations there are mainly now a transmission and generation business. The company plans sell its Texas generation because it is no longer needed to support retail load.

Unregulated operations.

The advent of competition in AEP's primary jurisdictions of Ohio and Texas allowed the company to move a large portion (roughly 19,000 MW out of 38,000 MW) of its total domestic electric generation capacity out of regulated rate base at book value. In addition to the domestic generation fleet, AEP owns more than 4,000 MW of generation in the U.K. (Fiddlers Ferry and Ferrybridge are each 2,000 MW coal-fired plants in the middle of England, and another 200 MW of gas-fired capacity is on the southern coast).

Natural gas assets consist of two intrastate pipelines in Texas and Louisiana and related storage assets. AEP also has coal mining operations in Ohio and Kentucky, acquired in 2001 in a bankruptcy proceeding, and other coal transportation operations. Most of these assets are likely to be sold, as they were part of a now-abandoned wholesale merchant energy strategy.

The bulk of the unregulated segment is concentrated on AEP's electric generation assets, which represent one of the largest and most cost-efficient portfolios of such assets in the U.S. In the East region, centered in Ohio, the plants are almost all large, coal-fired steam generating units that provide stable, base load capacity and energy in the ECAR region. The units are well run, well maintained, and produce very inexpensive electricity.

The West region consists of AEP's Texas plants, which are primarily natural-gas-fired steam-generating units in the Trans-Pecos area of west Texas and along the Gulf Coast. The gas plants are characterized by much lower efficiency and are generally midmerit, load-following units. The West region includes AEP's 630 MW share of the South Texas Project nuclear plant. With the sale of AEP's retail electric business in Texas in 2002, the need for this generation capacity has waned, and it will probably be sold. AEP has a long track record of good operating performance, which is expected to continue and even improve under the unregulated business operations.

Stricter environmental laws and regulation will place financial stress and erode the fleet's competitiveness, but are not expected to completely eliminate the advantages of AEP's coal-fired plants.

Houston Pipe Line Co. and Louisiana Intrastate Gas Co. are the two lightly regulated pipelines in the AEP natural gas portfolio. Both are average in operations and efficiency, with Houston Pipe Line exhibiting a little better credit quality due to a long-term contract (through 2006) to supply the main requirements of local gas distribution utility in Houston. Because the value of the pipelines and the storage assets (128 billion cubic feet) to AEP was tied to natural gas trading activities, these assets are likely to be sold.

The EM&T business is called AEP Energy Services and concentrates on three interrelated commodities: electricity, natural gas, and coal. The trading operations were scaled back significantly in 2002 in the wake of fundamental changes in the industry and issues surrounding AEP's ability to manage the activities in a profitable manner. The much smaller operation now does not have an appreciable effect on credit quality. Financial performance mostly depends on the more stable marketing activities without any proprietary trading, and a very good risk-management process helps the company control the risky trading activities in a manner that emphasizes risk minimization and mitigation.

Financial Profile

AEP has generally followed a moderate financial policy. The company took into account the changing business mix and the effects of industry restructuring as it proposed to restructure the company, and when industry conditions and questions about its merchant energy strategy arose in 2002 after large write-downs were recorded. Management was then quick to restore its balance sheet. AEP management has shown a consistent commitment to credit quality, and the downgrade in 2002 from the 'A' category into the 'BBB' category reflected more of the evolving nature of the energy industry and AEP's corporate strategy rather than management's unwillingness to maintain credit quality.

With a business profile that falls directly in the middle of the risk range, AEP must demonstrate its ability to achieve cash flow and earnings that, on average, will produce interest coverages in the high 4x area and low 3x area, respectively, to maintain ratings. The company must emerge from its corporate restructuring efforts with a balance sheet with less leverage than it has carried in recent years. Total debt, including off-balance-sheet obligations of more than $2 billion, is expected to trend down to the mid-50% area to justify the current ratings.

The poor capital markets experienced in the early 2000s have hit AEP's pension plan, other benefits plans, and nuclear decommissioning trusts such that unfunded liabilities exist for each. No direct accusation of a long-term obligation connected with these liabilities is made by Standard & Poor's, because AEP manages the funds on a long-term basis and valuations are expected to fluctuate over time.

Table 1 American Electric Power Co. Inc.--Competitors

Industry Sector: Diversified - Energy

	American Electric Power Co. Inc.	Cinergy Corp.	Dominion Resources Inc.	Southern Co.
Rating	BBB/Stable/A-2	BBB+/Stable/A-2	BBB+/Negative/A-2	A/Stable/A-1
(Mil. $)				
Sales	29,835.3	11,101.5	9,973.3	10,256.7
Funds from oper. (FFO)	1,943.0	860.4	2,384.8	2,509.0
Net inc. from cont. oper.	442.0	413.2	817.0	1,143.7
Capital expenditures	1,775.7	734.8	2,095.3	2,442.7
Total debt	14,651.7	4,640.6	14,503.3	10,507.3
Preferred stock	479.3	123.1	1,589.3	2,658.7
Common equity	8,285.3	3,008.0	8,524.7	9,128.0
Total capital	23,416.3	7,771.6	24,617.3	22,294.0
Ratios				
EBIT interest coverage (x)	1.8	2.9	2.1	3.7
FFO interest coverage (x)	2.6	3.7	3.0	5.0
FFO/avg. total debt (%)	11.8	13.9	15.9	21.3
NCF/capex (%)	64.8	77.6	80.1	65.1
Total debt/capital (%)	66.4	71.1	62.9	52.6
Return on common equity (%)	5.7	13.9	9.7	11.6
Common dividend payout (%)	179.2	72.0	92.5	86.0

Table 2 Kentucky Power Co.--Financial Summary

Industry Sector: Electric

	--Average of past three fiscal years--		--Fiscal year ended Dec. 31--				
Rating history			BBB+/Stable/--	A-/Stable/--	A-/Stable/--	BBB+/Positive/--	BBB+/Positive/--
	Sector median	Issuer	2002	2001	2000	1999	1998
(Mil. $)							
Sales	1,594.5	816.2	378.7	1,659.4	410.4	374.0	363.0
Funds from oper. (FFO)	228.7	49.1	47.8	40.7	58.6	55.8	45.0
Net inc. from cont. oper.	81.7	21.0	20.6	21.6	20.8	25.4	21.7
Capital expenditures	151.5	84.0	178.7	37.2	36.2	44.3	43.8
Total debt	1,143.7	404.9	490.0	346.1	378.5	405.4	389.2
Preferred stock	41.2	0.0	0.0	0.0	0.0	0.0	0.0
Common equity	880.2	273.6	298.0	256.1	266.7	276.3	270.7
Total capital	2,134.7	678.5	788.0	602.2	645.2	681.8	659.8
EBIT interest coverage (x)	3.1	2.1	2.1	2.0	2.1	2.3	2.0

FFO interest coverage (x)	4.1	2.6	2.7	2.3	2.6	3.0	2.6
FFO/avg. total debt (%)	23.3	11.4	10.7	9.7	13.9	14.0	11.7
NCF/capex (%)	94.7	26.0	14.9	28.2	78.1	82.3	38.3
Total debt/capital (%)	54.8	61.9	62.4	61.0	62.2	59.5	59.0
Return on common equity (%)	12.0	7.8	7.4	8.2	7.6	9.3	8.2
Common dividend payout (%)	79.1	130.0	102.7	140.3	146.2	76.0	130.6

KPSC CASE NO. 2005-00341
KIUC 1ST SET
ITEM NO. 1
PAGE 19 OF 64

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Rating Action: Kentucky Power Company

MOODY'S CHANGES AMERICAN ELECTRIC POWER COMPANY'S RATING OUTLOOK TO POSITIVE FROM STABLE

Approximately $2 Billion in Debt Securities Affected

New York, August 02, 2004 – Moody's Investors Service has revised the rating outlook for American Electric Power Company (AEP: senior unsecured Baa3) to positive from stable. There is no change in the ratings or the ratings outlook for the subsidiaries of AEP.

The revision of AEP's rating outlook to positive is a reflection of a series of actions taken by AEP to improve its credit profile, including the sale of non-core assets, reducing the size of its energy trading activities, the issuance of equity, and deleveraging its balance sheet. The change in outlook also recognizes AEP's management team's strategy of focusing on its lower risk utility business. An upgrade in AEP's ratings could be considered if AEP demonstrates further deleveraging and a sustainable improvement in cash flow generation while maintaining a relatively stable business risk profile.

AEP has taken actions to address the poor returns on its non-regulated investments, some of which have required considerable funding in the past several years. On July 30th, AEP announced the sale of its Fiddlers Ferry and Ferry Bridge (FFF) UK generation, which is expected to result in net proceeds of $456 million. The FFF facilities have historically been weak contributors to cash flow and earnings due to unfavorable and volatile wholesale markets in the UK. Other divestitures in 2003 through the second quarter of 2004 include the sale of the LIG pipeline, four domestic independent power projects, various Texas generation facilities, AEP Coal and the Pushan plant in China. Upon the completion of other announced divestitures, after-tax proceeds of approximately $1.7 billion are expected.

Additionally, the company has significantly reduced its proprietary trading book. Trading now centers on marketing activities that are related to its owned generating assets. Further unwinding of this portfolio will likely occur over the next year, although some continued funding from AEP to satisfy counter-party collateral obligations may be required.

Proceeds from the sale of assets and the reduction in its speculative trading portfolio are major factors in the company's deleveraging strategy. Adjusted debt to capitalization levels are projected to be in the 60% range by 2005. Funds from operations (FFO) coverage of interest expense is anticipated to be above four times and FFO to debt is expected to be at the 15% level.

The outlook change also reflects Moody's expectation that the outcome of regulatory decisions in Texas and Ohio operations are unlikely to cause a material change in the company's credit profile. Issues being considered by state regulatory commissions include the amount of stranded cost recovery upon completion of the sale of AEP Texas Central's generation, as well as the recently filed rate stabilization plan in Ohio. Resolution of the Texas stranded cost issues will likely occur in 2005, given the delayed sale of the STP nuclear unit and the Oklaunion Power Station unit following the co-owners' exercise of their rights of first refusal. The Ohio commission is expected to provide a ruling on AEP's rate stabilization filing by the end of 2004. Moody's does not expect an adverse ruling in Ohio because AEP continues to be a low cost provider of power.

American Electric Power Company's senior unsecured rating of Baa3 reflects the relatively stable operating performance of its utility subsidiaries and the diversity of its low cost generation fleet across 11 service territories. AEP continues to maintain a strong liquidity profile of approximately $3.6 billion in cash and/or availability under its committed bank facilities. While capital expenditures related to environmental compliance through 2010 are substantial, these outlays are expected to ultimately be largely recovered through the company's regulated rate base.

Headquartered in Columbus Ohio, AEP is an energy company that owns and operates more than 42,000 megawatts of generating capacity in the US and in certain international markets and is the largest electricity generator in the U.S. It sells electricity to almost 5 million customers linked through the company's 11-state electricity transmission and distribution grid.

New York
Daniel Gates
Managing Director

Corporate Finance Group
Moody's Investors Service
JOURNALISTS: 212-553-0376
SUBSCRIBERS: 212-553-1653

New York
Richard E. Donner
Vice President - Senior Analyst
Corporate Finance Group
Moody's Investors Service
JOURNALISTS: 212-553-0376
SUBSCRIBERS: 212-553-1653

KPSC CASE NO. 2005-00341
KIUC 1ST SET
ITEM NO. 1
PAGE 22 OF 64

Return to Regular Format

Research:

Summary: Kentucky Power Co.

Publication date: 24-Dec-2003
Credit Analyst: Todd A Shipman, CFA, New York (1) 212-438-7676

Credit Rating: BBB/Stable/--

Rationale

Ratings for Kentucky Power Co. (KP) reflect parent American Electric Power Co. Inc.'s (AEP) foundational credit quality as the company transitions to a renewed strategic focus on its core utility operations from a balanced business model with both regulated and unregulated activities. The electric utilities comprising the AEP system range from Texas to Ohio and beyond and operate as either low-risk "wires" businesses or fully integrated regulated utilities. Electric generation is housed in both in and out of utility rate bases, but a majority of the capacity is directly or virtually subject to stabilizing regulatory oversight. Trading operations once played a prominent role at AEP, but have ceased to be a strategic focus.

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Accordingly, any user of the information contained herein should not rely on any credit rating or other opinion contained herein in making any investment decision. Ratings are based on information received by Ratings Services. Other divisions of Standard & Poor's may have information that is not available to Ratings Services. Standard & Poor's has established policies and procedures to maintain the confidentiality of non-public information received during the ratings process.

KPSC CASE NO. 2005-00341
KIUC 1ST SET
ITEM NO. 1
PAGE 23 OF 64

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Credit Opinion: Kentucky Power Company

Kentucky Power Company

Ashland, Kentucky, United States

Ratings

Category	Moody's Rating
Outlook	Stable
Issuer Rating	Baa2
Senior Unsecured	Baa2
Parent: American Electric Power Company, Inc.	
Outlook	Stable
Sr Unsec Bank Credit Facility	Baa2
Senior Unsecured	Baa2
Jr Subordinate Shelf	(P)Baa3
Commercial Paper	P-2

Contacts

Analyst	Phone
Richard E. Donner/New York	1.212.553.1653
A.J. Sabatelle/New York	
Daniel Gates/New York	

Key Indicators

Kentucky Power Company

	LTM 2Q2005	2004	2003	2002	2001
Adj. FFO / Debt [1][2]	13.1%	16.0%	17.6%	9.5%	9.4%
Adj. RCF / Debt [2]	11.8%	12.3%	14.5%	5.3%	2.4%
Adj. Div / NI (Payout)	31.0%	75.3%	50.9%	102.7%	140.3%
Adj. FFO / Interest [1][3]	3.25	3.81	4.26	2.76	2.46
Adj. Debt / Cap [2][4]	60.2%	62.0%	63.0%	62.9%	62.9%
Adj. NI / Equity (ROE)	6.8%	8.1%	10.2%	6.9%	8.4%

[1] Adjusted FFO deducts all annual payments for preferred securities [2] Adjusted debt includes trust preferred securities, 8x next year's operating lease expenses (excluding railcar leases), and synthetic leases [3] Adjusted interest includes all payments for preferred securities and synthetic lease payments [4] Adjusted capitalization includes adjusted debt, preferred securities and equity

Note: For definitions of Moody's most common ratio terms please see the accompanying User's Guide.

Opinion

Credit Strengths

Environmental compliance costs are somewhat mitigated by a provision in Kentucky legislation allowing recovery through an environmental surcharge.

Measured approach towards deregulation, which isn't expected in the near to intermediate future due to already low rates enjoyed by customers.

Participation in the American Electric Power Company system.

Credit Challenges

Potentially large capital expenditure funding requirements related to environmental compliance.

Rating Rationale

Kentucky Power Company's (KP) Baa2 senior unsecured rating reflects its competitive generating costs and its affiliation with the American Electric Power Company, Inc, (AEP: Senior Unsecured Debt - Baa2; stable outlook) system. The rating also reflects the company's relatively high leverage and generating asset concentration in the coal-fired Big Sandy plant. KP's high percentage of industrial and wholesale customers is somewhat mitigated as Kentucky is not expected to deregulate in the near to intermediate future as a result of already low retail rates.

The company expects that over the next five years, capital expenditures will be met through internal cash flow, the money pool of participating regulated utility affiliates and the parent and the capital markets. Proposed air quality standards may require material AEP system capital costs in the longer term. However, KP's environmental costs are mitigated because utilities operating in Kentucky may request an environmental surcharge to recover costs associated with the installation of emission control equipment, however requiring approval from the Kentucky Public Service Commission.

On September 14, 2005, Moody's upgraded AEP's senior unsecured rating to Baa2 from Baa3 and upgraded its commercial paper rating to P-2 from P-3. The rating action recognized reduced business risk and an improved financial profile at the holding company level. Improvements include the sale of under-performing non-core assets, a reduction in the level of unregulated business activities, including an exit from speculative energy trading, and substantial debt reduction at the parent holding company level. The rating action also considers positive regulatory developments for several utility subsidiaries, especially in the states of Ohio and Texas, which have resulted in greater certainty of future consolidated cash flows.

Since there is no change in the subsidiaries' ratings, the upgrade of AEP represents a narrowing of the notching between the holding company and its utility subsidiaries. This reflects the fact that a substantial portion of the debt reduction ($1.7 billion in long-term debt since 2002) has occurred at the parent holding company level and at the unregulated businesses. Over the last three years, AEP has taken steps to address the poor returns for its non-regulated investments. The company has nearly completed the sale of its non-core assets, including various international assets, its HPL and LIG pipelines, and domestic independent power plants. In addition, the Texas Central subsidiary has sold most of its power generation assets in the deregulated Texas market. Proceeds were primarily used to reduce debt.

The upgrade also reflected AEP's fairly strong liquidity position, which includes the $2.7 billion in syndicated bank credit facilities. While capital expenditures related to environmental compliance through 2009 are forecast to be substantial, the regulatory response is expected to provide for the timely recovery of these outlays from ratepayers.

Rating Outlook

The rating outlook is stable and incorporates the actions taken by AEP to strengthen its balance sheet and maintain liquidity.

What Could Change the Rating - UP

Sustainable free cash flow generation from KP's operations that is largely retained at the entity, although it does participate in the overall AEP system, and permanent reduction in financial leverage to levels comparable to more highly rated peers.

What Could Change the Rating - DOWN

It is highly unlikely that the rating would go down unless there were to be a change in strategy that resulted in a significant increase in the business risk of AEP and its subsidiaries.

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KPSC CASE NO. 2005-00341
KIUC 1ST SET
ITEM NO. 1
PAGE 27 OF 64

Return to Regular Format

Research:

Summary: Kentucky Power Co.

Publication date: 30-Mar-2004
Credit Analyst: Todd A. Shipman, CFA, New York (1) 212-438-7676

Credit Rating: BBB/Stable/--

Rationale

The ratings on Kentucky Power Co. reflect parent American Electric Power Co. Inc.'s (AEP) foundational credit quality as the company transitions to a renewed strategic focus on its core utility operations from a balanced business model with both regulated and unregulated activities. The electric utilities comprising the AEP system range from Texas to Ohio and beyond and operate as either low-risk "wires" businesses or fully integrated regulated utilities. Electric generation is housed in and out of utility rate bases, but a majority of the capacity is directly or virtually subject to stabilizing regulatory oversight. Trading operations once played a prominent role at AEP, but have ceased to be a strategic focus and exert a smaller influence on the company's credit profile.

Electric utility operations are slightly above average, characterized by competitive rates, good reliability, a strong collection of low-cost, coal-fired generation in the eastern part of the system, and mostly supportive regulatory relationships. Service territories vary widely, ranging from rust-belt and rural areas that exhibit less-than-favorable economic profiles to higher-growth, service economy-oriented regions like Columbus, Ohio that are much more resistant to economic cycles. For AEP, the diversity in markets and regulation improves credit quality. In the two primary states that have introduced competition (Texas and Ohio) the transition is being managed in a fairly low-risk fashion, but the development of competition has been spotty, especially in Ohio, and some uncertainty exists about the future of deregulation.

AEP has improved its liquidity and balance sheet by refinancing over $2 billion in utility debt, extending the terms of bank credit facilities, and issuing more than $1 billion of common equity. In the future, the company intends to use a combination of cost reductions, asset sales, and reduced common dividends to improve earnings and cash flow and reduce balance-sheet leverage to continue its credit quality restoration. Given AEP's business profile, financial expectations are for debt leverage to approach 50%, cash flow coverage of around 3.5x, and earnings coverage of about 3x.

Liquidity.

AEP's liquidity is adequate. The company has substantial cash on hand and ample capacity under its bank facility to meet working capital needs. About $1.7 billion of long-term debt comes due in the following year. The company operates a money pool and sells accounts receivables to provide liquidity for the domestic electric subsidiaries.

Liquidity is provided through a commercial paper program at the parent that lends to subsidiaries through intercompany notes. The commercial paper program is backed by $2.5 billion in bank facilities that mature in 2004 ($750 million), 2005 ($1 billion), and 2006 ($750 million).

AEP has one financing ($525 million) that has a noninvestment-grade ratings trigger, but AEP's access to liquidity should continue to be adequate, based on amounts available under its evolving credit facilities.

The two factors previously identified that threatened liquidity and thus credit quality (specifically trading activities and unusually high levels of short-term debt) were addressed in 2003 and no longer represent a significant risk to the company's ability to access capital and maintain liquidity. However, trading activities still impose a lot of liquidity requirements despite the efforts to contain trading risk.

Outlook

The stable outlook for Kentucky Power assumes a reasonable burden of future environmental compliance costs and a continued strategic emphasis on regulated operations by AEP. Maintaining the improving trend in the company's balance sheet and other key credit measures will be necessary for continued ratings stability. Higher ratings would be possible over time, if AEP demonstrates consistency in its regulated utility strategy and gradual improvement in its financial profile.

KPSC CASE NO. 2005-00341
KIUC 1ST SET
ITEM NO. 1
PAGE 28 OF 64

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Return to Regular Format

Research:

Summary: Kentucky Power Co.

Publication date: 02-Aug-2004
Credit Analyst: Todd A. Shipman, CFA, New York (1) 212-438-7676

Credit Rating: BBB/Stable/--

Rationale

The ratings on Kentucky Power Co. are based on the consolidated credit quality of its parent American Electric Power Co. Inc. (AEP). AEP's ratings reflect the company's transition to a renewed strategic focus on its core utility operations from a business model that balanced regulated and unregulated activities. The electric utilities comprising the AEP system range from Texas to Ohio and beyond and operate as either low-risk "wires" businesses or fully integrated regulated utilities. Electric generation is housed in and out of utility rate bases, but a majority of the capacity is directly or virtually subject to stabilizing regulatory oversight. Trading operations once played a prominent role at AEP, but have ceased to be a strategic focus and exert a smaller influence on the company's credit profile.

Electric utility operations are slightly above average, characterized by competitive rates, good reliability, a strong collection of low-cost, coal-fired generation in the eastern part of the system, and mostly supportive regulatory relationships. Service territories vary widely, ranging from rust-belt and rural areas that exhibit less-than-favorable economic profiles, to higher-growth, service economy-oriented regions like Columbus, Ohio, which are much more resistant to economic cycles. For AEP, the diversity in markets and regulation improves credit quality. In the two primary states that have introduced competition (Texas and Ohio), the transition is being managed in a fairly low-risk fashion, but the development of competition has been spotty, especially in Ohio, and some uncertainty exists about the future of deregulation.

AEP has improved its liquidity and balance sheet by refinancing more than $2 billion in utility debt, extending the terms of bank credit facilities, and issuing more than $1 billion of common equity. The company is employing a combination of cost reductions, asset sales, and reduced common dividends to improve earnings and cash flow and reduce balance-sheet leverage to continue its credit quality restoration. Given AEP's business profile, financial expectations are for debt leverage to approach 50%, cash flow coverage of around 3.5x, and earnings coverage of about 3x.

Short-term credit factors.

AEP's short-term rating is 'A-2'. For the short term, AEP is expected to have an adequate level of liquidity, with substantial cash on hand of around $1 billion, stable regulated businesses that can reliably produce respectable operating cash flow, and sufficient capacity under its bank facility to meet working-capital needs. About $1.7 billion of long-term debt comes due in 2004. The company operates a money pool and sells accounts receivables to provide liquidity for the domestic electric subsidiaries.

Liquidity is provided through a commercial paper program at the parent that lends to subsidiaries through intercompany notes. The commercial paper program is backed by $2.5 billion in bank facilities that mature in 2004 ($750 million), 2005 ($1 billion), and 2006 ($750 million).

The two factors previously identified that threatened liquidity and thus credit quality (specifically, trading activities and unusually high levels of short-term debt) were addressed in 2003 and no longer represent a significant risk to the company's ability to access capital and maintain liquidity. However, trading activities still impose many liquidity requirements despite efforts to contain trading risk. Preliminary analysis of AEP's trading-related liquidity requirements indicates that the company carries sufficient liquidity to cover those needs.

Outlook

The stable outlook for AEP and subsidiaries assumes a reasonable burden of future environmental compliance costs and a continued, strategic emphasis on regulated operations. Maintaining the improving trend in the company's balance sheet and other key credit measures will be necessary for continued ratings stability. Higher ratings would be possible, if AEP demonstrates consistency in its regulated utility strategy and gradual improvement in its financial profile.

KPSC CASE NO. 2005-00341
KIUC 1ST SET
ITEM NO. 1
PAGE 30 OF 64

KPSC CASE NO. 2005-00341
KIUC 1ST SET
ITEM NO. 1
PAGE 31 OF 64

Return to Regular Format

Research:

Summary: Kentucky Power Co.

Publication date: 07-Feb-2005
Primary Credit Analyst: Todd A Shipman, CFA, New York (1) 212-438-7676; mailto:todd_shipman@standardandpoors.com

Credit Rating: BBB/Stable/--

Rationale

The ratings on Kentucky Power Co. are based on the consolidated credit quality of its parent, American Electric Power Co. Inc. (AEP). AEP's ratings reflect the company's now-complete transition to a renewed focus on its core utility operations from a business model that emphasized unregulated activities. The electric utilities comprising the AEP system range from Texas to Ohio and beyond and operate as either low-risk "wires" businesses or fully integrated regulated utilities. Electric generation is housed in and out of utility rate bases, but a majority of the capacity is directly or virtually subject to stabilizing regulatory oversight. Trading operations once played a prominent role at AEP, but have ceased to be a strategic focus and exert a small influence on the company's credit profile.

Electric utility operations are slightly above average, characterized by competitive rates, good reliability, a strong collection of low-cost, coal-fired generation in the eastern part of the system, and mostly supportive regulatory relationships. Service territories vary widely, ranging from rust-belt and rural areas that exhibit less-than-favorable economic profiles, to higher-growth, service economy-oriented regions like Columbus, Ohio, which are much more resistant to economic cycles. For AEP, the diversity in markets and regulation improves credit quality. In the two primary states that have introduced competition (Texas and Ohio), the transition is being managed in a fairly low-risk fashion, but the development of competition has been spotty, especially in Ohio, and some uncertainty exists about the future of deregulation.

AEP has improved its liquidity and balance sheet by refinancing billions in utility debt, extending the terms of bank credit facilities, and issuing significant amounts of common equity. The company has employed a combination of cost reductions, asset sales, and reduced common dividends to improve earnings and cash flow and reduce balance-sheet leverage to continue its credit quality restoration. Given AEP's business profile, financial expectations are for debt leverage to approach 50%, cash flow coverage of around 3.5x, and earnings coverage of about 3x.

A large and complex environmental compliance program looms as AEP's greatest credit-related issue. The company projects an environmental capital-expenditure program totaling $3.5 billion through 2010 to meet stricter air quality standards. AEP also intends to spend substantial amounts of capital on its transmission and distribution system to improve reliability. The elevated spending levels mean the company will experience negative cash flow for several years, and can be expected to lower utility returns to the point that AEP will need to request higher rates in many of its jurisdictions. Greater regulatory risk and less-competitive rates could affect AEP's business risk profile.

Short-term credit factors.

AEP's short-term rating is 'A-2'. For the short term, AEP is expected to have an adequate level of liquidity, with substantial cash on hand of more than $1 billion, stable regulated businesses that can reliably produce respectable operating cash flow, and sufficient capacity under its bank facility to meet working-capital needs. About $1.3 billion of long-term debt comes due in 2005. The company operates a money pool and sells accounts receivables to provide liquidity for the domestic electric subsidiaries.

Liquidity is provided through a commercial paper program at the parent that lends to subsidiaries through intercompany notes. The commercial paper program is backed by $2.75 billion in bank facilities that mature in 2005 ($1 billion), 2006 ($750 million), and 2007 ($1 billion).

The two factors previously identified that threatened liquidity and thus credit quality (specifically, trading activities and unusually high levels of short-term debt) were positively addressed and no longer represent a significant risk to the company's ability to access capital and maintain liquidity. However, trading activities still impose substantial liquidity requirements despite the efforts to contain trading risk. Preliminary analysis of AEP's trading-related liquidity requirements indicates that the company carries sufficient liquidity to cover those needs. Liquidity will also be affected by an underfunded pension plan that AEP will contribute cash to throughout 2005 to bring up to fully funded status.

KPSC CASE NO. 2005-00341
KIUC 1ST SET
ITEM NO. 1
PAGE 32 OF 64

Outlook

The stable outlook for AEP and its subsidiaries assumes timely recovery of future environmental compliance costs and a continued strategic emphasis on regulated operations. Maintaining the improving trend in the company's balance sheet and other key credit measures will be necessary for continued ratings stability. Higher ratings would be possible over time if AEP demonstrates consistency in its regulated utility strategy and gradual improvement in its financial profile. Higher-than-expected environmental costs or a series of harmful regulatory decisions that thwart the company's recovery of those costs could lead to a negative stance or lower ratings.

KPSC CASE NO. 2005-00341
KIUC 1ST SET
ITEM NO. 1
PAGE 33 OF 64

Return to Regular Format

Research:

Kentucky Power Co.

Publication date: 02-Mar-2005
Primary Credit Analyst: Todd A Shipman, CFA, New York (1) 212-438-7676; mailto:todd_shipman@standardandpoors.com

Corporate Credit Rating	
	BBB/Stable/--
Outstanding Rating(s)	
Kentucky Power Co.	
Sr unsecd debt	
Local currency	BBB
Sub debt	
Local currency	BBB-
American Electric Power Co. Inc.	
Corporate Credit Rating	BBB/Stable/A-2
Sr unsecd debt	
Local currency	BBB
CP	
Local currency	A-2
AEP Texas Central Co	
Corporate Credit Rating	BBB/Stable/--
Sr unsecd debt	
Local currency	BBB
Sr secd debt	
Local currency	BBB
Pfd stk	
Local currency	BB+
AEP Texas North Co	
Corporate Credit Rating	BBB/Stable/--
Sr unsecd debt	
Local currency	BBB
Sr secd debt	
Local currency	BBB
Pfd stk	
Local currency	BB+
Appalachian Power Co.	
Corporate Credit Rating	BBB/Stable/--
Sr unsecd debt	
Local currency	BBB
Sr secd debt	
Local currency	BBB
Sub debt	
Local currency	BBB-
Junior Subordinated	
Local currency	BBB-
Pfd stk	
Local currency	BB+
Columbus Southern Power Co.	
Corporate Credit Rating	BBB/Stable/--
Sr unsecd debt	
Local currency	BBB
Sub debt	
Local currency	BBB-

Pfd stk	
Local currency	BB+
Indiana Michigan Power Co.	
Corporate Credit Rating	BBB/Stable/--
Sr unsecd debt	
Local currency	BBB
Sub debt	
Local currency	BBB-
Junior Subordinated	
Local currency	BBB-
Pfd stk	
Local currency	BB+
Ohio Power Co.	
Corporate Credit Rating	BBB/Stable/--
Sr unsecd debt	
Local currency	BBB
Sub debt	
Local currency	BBB-
Pfd stk	
Local currency	BB+
Public Service Co. of Oklahoma	
Corporate Credit Rating	BBB/Stable/--
Sr unsecd debt	
Local currency	BBB
Sr secd debt	
Local currency	A-
Pfd stk	
Local currency	BB+
RGS (AEGCO) Funding Corp.	
Corporate Credit Rating	BBB/Stable/--
Sr unsecd debt	
Local currency	BBB-
Southwestern Electric Power Co.	
Corporate Credit Rating	BBB/Stable/--
Sr unsecd debt	
Local currency	BBB
Sr secd debt	
Local currency	A-
Pfd stk	
Local currency	BB+
Columbus & Southern Ohio Electric Co.	
Corporate Credit Rating	BBB/Stable/--
Sr unsecd debt	
Local currency	BBB
RGS (I&M) Funding Corp.	
Corporate Credit Rating	BBB/Stable/--
Sr unsecd debt	
Local currency	BBB-

Corporate Credit Rating History	
June 15, 2000	A-
May 23, 2002	BBB+
Mar. 7, 2003	BBB

Major Rating Factors

Strengths:

- Parent American Electric Power Co. Inc. has a large, diverse regulated electric utility

operation;
- A low-cost generation asset portfolio; and
- A history of commitment to credit quality.

Weaknesses:

- AEP's marketing operations, though relatively small, detract from credit profile; and
- AEP's leverage is slightly high for the rating.

Rationale

The ratings on Kentucky Power Co. are based on the consolidated credit profile of its parent, American Electric Power Co. Inc. (AEP). The ratings on AEP reflect the company's now-complete transition to a renewed focus on its core utility operations from a business model that emphasized unregulated activities. The electric utilities comprising the AEP system range from Texas to Ohio and beyond and operate as either low-risk "wires" businesses or fully integrated regulated utilities. Electric generation is housed in and out of utility rate bases, but a majority of the capacity is directly or virtually subject to stabilizing regulatory oversight. Trading operations once played a prominent role at AEP, but have ceased to be a strategic focus and exert only a small influence on the company's credit profile.

Electric utility operations are slightly above average, characterized by competitive rates, good reliability, a strong collection of low-cost, coal-fired generation in the eastern part of the system, and mostly supportive regulatory relationships. Service territories vary widely, ranging from rust-belt and rural areas that exhibit less-than-favorable economic profiles, to higher-growth, service economy-oriented regions like Columbus, Ohio, which are much more resistant to economic cycles. For AEP, the diversity in markets and regulation improves credit quality. In the two primary states that have introduced competition (Texas and Ohio), the transition is being managed in a fairly low-risk fashion, but the development of competition has been spotty, especially in Ohio, and some uncertainty exists about the future of deregulation.

AEP has improved its liquidity and balance sheet by refinancing billions in utility debt, extending the terms of bank credit facilities, and issuing significant amounts of common equity. The company has employed a combination of cost reductions, asset sales, and reduced common dividends to improve earnings and cash flow and reduce balance-sheet leverage to continue its credit quality restoration. Given AEP's business profile, financial expectations are for debt leverage to approach 50%, cash flow coverage of around 3.5x, and earnings coverage of about 3x.

A large and complex environmental compliance program looms as AEP's greatest credit-related issue. The company projects an environmental capital-expenditure program totaling $3.5 billion through 2010 to meet stricter air-quality standards. AEP also intends to spend substantial amounts of capital on its transmission and distribution system to improve reliability. The elevated spending levels mean the company will experience negative cash flow for several years, and can be expected to lower utility returns to the point that AEP will need to request higher rates in many of its jurisdictions. Greater regulatory risk and less-competitive rates could affect AEP's business risk profile.

Liquidity

Kentucky Power's liquidity is viewed on a consolidated basis with parent AEP. AEP's short-term rating is 'A-2'. For the short term, AEP is expected to have an adequate level of liquidity, with substantial cash on hand of more than $1 billion, stable regulated businesses that can reliably produce respectable operating cash flow, and sufficient capacity under its bank facility to meet working-capital needs. About $1.3 billion of long-term debt comes due in 2005. The company operates a money pool and sells accounts receivables to provide liquidity for the domestic electric subsidiaries.

Liquidity is provided through a commercial paper program at the parent that lends to subsidiaries through intercompany notes. The commercial paper program is backed by $2.75 billion in bank facilities that mature in 2005 ($1 billion), 2006 ($750 million), and 2007 ($1 billion).

The two factors previously identified that threatened liquidity and thus credit quality (specifically, trading activities and unusually high levels of short-term debt) were positively addressed and no longer represent a significant risk to the company's ability to access capital and maintain liquidity. However, trading activities still impose substantial liquidity requirements despite the efforts to contain trading risk. Preliminary analysis of AEP's trading-related liquidity requirements indicates that the company carries sufficient liquidity to cover those needs. Liquidity will also be affected by an underfunded pension plan that AEP will contribute cash to throughout 2005 to bring up to fully funded status.

Outlook

The stable outlook for AEP and subsidiaries assumes timely recovery of future environmental compliance costs and a continued strategic emphasis on regulated operations. Maintaining the improving trend in the company's balance sheet and other key credit measures will be necessary for continued ratings stability. Higher ratings would be possible over time if AEP demonstrates consistency in its regulated utility strategy and gradual improvement in its financial profile. Higher-than-expected environmental costs or a series of harmful regulatory decisions that thwart the company's recovery of those costs could lead to a negative stance or lower ratings.

Business Description

AEP is a large, registered public utility holding company that owns directly or indirectly all of the common stock of its electric utility subsidiaries operating in 11 states in the U.S. Midwest and Southwest. Unregulated operations in areas such as unregulated electric generation, energy marketing and trading (EM&T), and natural gas pipeline subsidiaries have been largely sold or are in the process of being sold. The company's generating and transmission facilities are interconnected, and their operations are coordinated as an integrated electric utility system with two main regions.

Unregulated operations consist of a large portfolio of domestic merchant electric generating plants, mainly in Ohio, that are primarily used to serve AEP's retail utility customers. Above all of these assets is a marketing and trading enterprise that once held a leading and active position in the U.S. electricity and natural gas wholesale markets, but now is essentially contained to marketing the excess electric capacity and energy of its domestic fleet. The large size of its electric generation portfolio ensures that AEP will continue to be a prominent electricity marketer, but EM&T was de-emphasized as part of a corporate strategy shift in 2002, and the trading activities no longer exert a large influence on AEP's credit profile. Consistent with the shift, most of the unregulated assets that used to support the trading operations have been sold.

AEP has received approval from the SEC under the Public Utilities Holding Company Act of 1935 (PUHCA) to invest up to 100% of its retained earnings (about $2.1 billion as of Dec. 31, 2003) for investment in exempt wholesale generators and foreign utility companies. The current investment totals $1.7 billion. AEP also has authority under SEC rules to invest up to 15% of its consolidated capital in energy-related companies.

Rating Methodology

Kentucky Power's corporate credit rating is based on the consolidated credit profile of the entire AEP family of companies, including the U.S. electric distribution companies and integrated utilities, and the unregulated energy operations that include merchant electric generating facilities, natural gas pipelines and storage operations, and EM&T activities. The ratings reflect primarily the stability of the utility operations, marginally offset by the more risky, unregulated business activities.

Business Profile

Regulated utility operations

AEP owns two types of regulated electric utility companies. Five are traditional vertically integrated utilities: Appalachian Power Co., Indiana Michigan Power Co., Kentucky Power Co., Public Service Co. of Oklahoma, and Southwestern Electric Power Co. The remaining utilities are in states that have deregulated in some fashion; some are still virtually vertically integrated, while others have become distribution-only utilities.

Together, the integrated utilities exhibit slightly better-than-average risk profiles, with fairly average to below-average service territory economies offset by good operating records, competitive rates, and supportive regulation. The large size of the operations and the geographic and economic diversity of the collective integrated utilities are positive for credit quality. The prospects for comprehensive deregulation in any of the states that have not already taken that step are remote.

AEP's utilities have a reasonably good ability to pass through changes in its fuel and purchased-power expenses in a manner that preserves its financial integrity in many regulatory jurisdictions. In those where that ability is limited because of deregulation or rate-freeze agreements, AEP is able to responsibly manage its exposure through contractual arrangements, but some variability is unavoidable. Major expenditures to comply with environmental regulations affected rate-based utility generation have been timely reflected in past rates, but deregulation in AEP's two major states raises questions as to their ability to pass future costs through to customers in a timely and thorough manner.

KPSC CASE NO. 2005-00341
KIUC 1ST SET
ITEM NO. 1
PAGE 37 OF 64

The transmission and distribution operations in Ohio and Texas, the two major AEP states that have introduced competition at the retail level, are characterized by low rates, good operations, and manageable regulatory risk. Both Ohio and Texas deregulated their electric utilities through legislation in 2001, and retail competition began in 2002. Although the deregulation plans expose the transmission and distribution companies to somewhat greater risk, especially during the transition periods (through 2005 in Ohio and 2006 in Texas), the risks are ameliorated by AEP's integrated approach to operating its electric generation, its reliance on relatively stable coal as Ohio's principal fuel source, and the company's ability to prospectively change the fuel-cost portion of rates in Texas (where natural gas predominates the fuel mix). AEP sold its Texas retail business in 2002 and most of its Texas generation in 2004, so that the operations there are mainly now a transmission and distribution business.

As with many other utility holding companies that have shrunk back from unregulated ventures, AEP is now concentrating on its once-neglected regulated returns and regulatory relationships. The company's success in managing its regulatory risk is a key driver of credit quality because of the current high level of rate case activity is expected to persist for years as spending on environmental compliance and reliability-related transmission and distribution upgrades is folded into customer rates. As of the beginning of 2005, AEP had active rate proceedings in Ohio, Texas, and Oklahoma, and plans to file cases in all of its East region states and at the FERC in the next few years. In addition, an important stranded cost recovery case is pending in Texas. The rate stabilization case in Ohio has been resolved, with the commission accepting AEP's proposed plan with no major modifications. The cases in Texas and Oklahoma have experienced more resistance.

Table 1 American Electric Power Co. Inc. Operating Information

	2003	2002	2001	2000	1999
Generation (MWh)					
Net generation	195,910,729	193,749,619	192,694,227	196,827,623	187,527,799
Total purchases	87,556,346	75,344,258	531,825,717	76,300,846	54,441,282
Total sources	283,396,700	269,119,553	724,564,040	273,262,831	242,109,328
Total retail	134,626,999	137,697,119	158,838,745	160,428,685	162,591,379
Total wholesale sales	138,340,610	122,190,636	554,537,113	98,579,031	66,623,882
Revenue ($ mil.)					
Residential	2,893.9	2,862.8	3,551.6	3,511.5	3,289.7
Commercial	2,040.2	1,944.5	2,534.7	2,451.1	2,287.7
Industrial	1,928.0	1,905.5	2,395.3	2,455.2	2,527.1
Public street and highway	37.2	49.8	66.8	64.9	60.3
Public authority	130.7	99.3	146.1	148.7	128.8
Total retail	7,030.1	6,861.9	8,694.5	8,631.3	8,293.6
Wholesale sales	4,294.6	3,433.0	24,265.4	3,176.9	1,953.1
Total sales	11,324.7	10,294.9	32,960.0	11,808.2	10,246.7
Generation by segment (MWh)					
Residential	45,307,654	46,735,006	53,145,176	52,539,438	50,604,240
Commercial	36,797,124	36,537,162	42,494,751	41,649,539	40,095,413
Industrial	49,495,930	51,560,620	59,760,129	62,793,781	68,583,326
Public street and highway	425,511	557,018	690,447	687,430	671,393
Public authority	2,600,780	2,307,313	2,748,242	2,758,497	2,637,007
Total	272,967,609	259,887,754	713,375,858	259,007,716	229,215,258
Customers					

KPSC CASE NO. 2005-00341
KIUC 1ST SET
ITEM NO. 1
PAGE 38 OF 64

Residential	3,541,566	4,258,015	4,233,179	4,201,384	4,150,651
Commercial	494,038	610,513	603,115	591,068	577,673
Industrial	36,413	44,009	43,321	43,641	43,952
Public street and highway	8,037	9,245	9,878	9,886	9,772
Public authority	13,507	21,778	18,252	17,880	17,493
Total	4,093,561	4,943,560	4,907,745	4,863,859	4,799,541
MWh–Megawatt-hour.					

Table 2 American Electric Power Co. Inc. Market Segments					
	2003	2002	2001	2000	1999
Sales					
Total retail (GWh)	134,627	137,697	158,839	160,429	162,591
Residential (%)	34	34	33	33	31
Commercial (%)	27	27	27	26	25
Industrial (%)	37	37	38	39	42
Other (%)	2	2	2	2	2
Wholesale (GWh)	138,341	122,191	554,537	98,579	66,624
Total Sales (GWh)	272,968	259,888	713,376	259,008	229,215
Revenue					
Total retail (mil. $)	7,030	6,862	8,695	8,631	8,294
Residential (%)	41	42	41	41	40
Commercial (%)	29	28	29	28	28
Industrial (%)	27	28	28	28	30
Other (%)	2	1	2	2	2
Wholesale (mil. $)	4,295	3,433	24,265	3,177	1,953
Total Revenue (mil. $)	11,325	10,295	32,960	11,808	10,247
Annual sales growth (%)					
Residential	(3)	(12)	1	4	1
Commercial	1	(14)	2	4	2
Industrial	(4)	(14)	(5)	(8)	(0)
Total retail	(2)	(13)	(1)	(1)	1
Standard & Poor's retail average	18	35	23	19	19
Wholesale	13	(78)	463	48	(6)
Total sales growth	5	(64)	175	13	(1)
Retail customer growth	(17)	1	1	1	1
GWh–Gigawatt-hour.					

Unregulated operations

The advent of competition in AEP's primary jurisdictions of Ohio and Texas allowed the company to move a large portion (roughly half of its 38,000 MW) of its total domestic electric generation capacity out of regulated rate base at book value. The bulk of the unregulated segment is concentrated on AEP's electric generation assets, which represent one of the largest and most cost-efficient portfolios of such assets in the U.S. In the East region, centered in Ohio, the plants are almost all large, coal-fired steam-generating units that provide stable, base-load capacity and energy in the ECAR region. The units are well-run, well-maintained, and produce very inexpensive electricity. Almost all of them will require further investment to maintain compliance with impending new environmental standards. The West region plants, including AEP's share of the South Texas Project nuclear plant, were sold in 2004. AEP has a long track record of solid operating performance, which is expected to continue and even improve under the unregulated business operations.

Stricter environmental laws and regulation will place financial stress and erode the fleet's competitiveness, but are not expected to completely eliminate the advantages of AEP's coal-fired plants.

The EM&T business is now a much smaller operation that does not have an appreciable effect on credit quality. Financial performance is mostly dependent on the more stable marketing activities without any proprietary trading, and a very good risk-management process helps the company control the inherently risky trading activities through risk minimization and mitigation.

Financial Profile

AEP has generally followed a moderate financial policy. The company took into account the changing business mix and the effects of industry restructuring as it proposed to restructure the company and when industry conditions and questions about its merchant energy strategy arose in 2002 after large write-downs were recorded. Management was then quick to begin to repair its balance sheet. AEP's management has shown a consistent commitment to credit quality, and the downgrade in 2002 from the 'A' category into the 'BBB' category reflected more of the evolving nature of the energy industry and AEP's corporate strategy rather than management's unwillingness to maintain credit quality.

Profitability and cash flow

With a business profile that falls directly in the middle of the risk range, AEP must demonstrate its ability to achieve cash flow and earnings that, on average, will produce interest coverages in the high 4x area and low 3x area, respectively, to maintain the ratings.

Capital structure and financial flexibility

The company must also follow through with the progress it has made in strengthening its balance sheet. Total debt, including off-balance-sheet obligations, must trend down to the mid-50% area to justify the current ratings.

The poor capital markets experienced in the early 2000s has hit AEP's pension plan, other benefits plans, and nuclear decommissioning trusts such that unfunded liabilities exist for each. Standard & Poor's does not impute these liabilities to the company's long-term obligations because AEP manages the funds on a long-term basis and valuations are expected to fluctuate over time. The company has been making significant cash contributions to bring those liabilities under control.Accounting

AEP's financial statements are prepared under U.S. GAAP and audited by independent auditors Deloite & Touche LLP. As a company with a primary focus on regulated utility operations, AEP's accounting policies are fairly conservative. Most subsidiaries are regulated by federal and state regulatory commissions that establish the rates each company can charge for its services based on the cost of providing those services. Any sustained effort to improperly accelerate revenues or defer expense recognition would generally serve only to justify lower rates.

Standard & Poor's makes several adjustments to the company's reported financial numbers in conducting its analysis. Operating lease adjustments add a significant amount of debt equivalency and corresponding interest expense to AEP's financial profile. Standard & Poor's also adds a debt equivalent related to AEP's trading and marketing activities in an effort to reflect the risks (market, operating, and credit) the company is exposed to in conducting that business. When AEP was a large and active trader, that adjustment played a marginally important part in describing the company's financial position. However, with the pullback in that sector, which has greatly reduced market (commodity) risk in particular, the adjustment no longer has a meaningful impact.

Otherwise, accounting issues for AEP are unremarkable, as regulatory accounting under SFAS No. 71 applies to most of the company's operations. It has been discontinued for generation assets residing in Ohio, Virginia, and Texas. It had been discontinued in West Virginia and Arkansas at one point, but has been reapplied in those jurisdictions as regulation resurfaced in those states. As of Sept. 30, 2004, AEP had about $3.5 billion of regulatory assets on a balance sheet that contained $35 billion in total assets.

KPSC CASE NO. 2005-00341
KIUC 1ST SET
ITEM NO. 1
PAGE 40 OF 64

Table 3 American Electric Power Co. Inc. Peer Comparison				
	--Average of past three fiscal years--			
	American Electric Power Co. Inc.	Cinergy Corp.	Dominion Resources Inc.	Southern Co.
Corporate credit rating	BBB/Stable/A-2	BBB+/Stable/A-2	BBB+/Negative/A-2	A/Stable/A-1
(Mil. $)				
Sales	30,112.7	9,766.2	10,951.3	10,325.0
Net income from cont. oper.	515.3	428.0	951.7	1,285.3
Funds from oper. (FFO)	2,556.3	904.6	2,955.6	2,554.6
Capital expenditures	1,637.3	802.5	2,376.0	1,872.3
Total debt	14,671.0	5,259.4	15,984.6	12,523.9
Preferred stock	120.7	62.8	1,389.7	2,420.7
Common equity	7,722.3	3,311.9	9,706.3	8,780.7
Total capital	23,017.0	8,634.1	27,080.6	21,418.6
Ratios				
Adj. EBIT interest coverage (x)	2.4	3.0	2.3	3.4
Adj. FFO interest coverage (x)	3.4	3.9	3.3	4.2
Adj. FFO/avg. total debt (%)	15.5	17.9	16.6	20.4
Net cash flow/capital expenditures (%)	111.6	75.1	83.1	89.6
Adj. total debt/capital (%)	67.0	60.9	61.5	58.8
Return on common equity (%)	6.6	13.4	9.4	14.2
Common dividend payout (%)	141.7	71.2	78.7	75.4

Table 4 American Electric Power Co. Inc. Financial Summary					
	--Fiscal year ended Dec. 31--				
	2003	2002	2001	2000	1999
Rating history	BBB/Stable/A-2	BBB+/Stable/A-2	A-/Stable/A-2	A-/Stable/A-2	A-/Positive/--
(Mil. $)					
Sales	14,545	14,536	61,257	13,694	6,916
Net income from cont. oper.	522	21	1,003	302	520
Funds from oper. (FFO)	2,513	2,817	2,339	1,304	1,022
Capital expenditures	1,358	1,722	1,832	1,773	867
Cash and equivalents	1,182	1,213	333	437	333
Total debt	14,503	13,981	15,529	15,421	8,426
Preferred stock	61	145	156	161	164
Common equity	7,874	7,064	8,229	8,054	5,006
Total capital	22,438	21,949	24,664	23,636	13,596
Ratios					
Adj. EBIT interest coverage (x)	2.6	2.4	2.3	1.7	2.1
Adj. FFO interest coverage (x)	3.4	3.9	2.9	2.0	2.4
Adj. FFO/avg. total debt (%)	16.3	16.9	13.4	9.7	10.7
Net cash flow/capital expenditures (%)	139.5	117.5	85.2	28.1	64.4
Adj. total debt/capital (%)	67.3	66.6	67.0	67.9	66.6
Return on common equity (%)	7.0	0.3	12.3	4.6	10.6
Common dividend payout (%)	118.4	3,776.2	77.5	266.6	89.2

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Research:

Kentucky Power Co.

Publication date: 02-Mar-2005
Primary Credit Analyst: Todd A Shipman, CFA, New York (1) 212-438-7676; mailto:todd_shipman@standardandpoors.com

Corporate Credit Rating	BBB/Stable/--
Outstanding Rating(s)	
Kentucky Power Co.	
Sr unsecd debt	
Local currency	BBB
Sub debt	
Local currency	BBB-
American Electric Power Co. Inc.	
Corporate Credit Rating	BBB/Stable/A-2
Sr unsecd debt	
Local currency	BBB
CP	
Local currency	A-2
AEP Texas Central Co	
Corporate Credit Rating	BBB/Stable/--
Sr unsecd debt	
Local currency	BBB
Sr secd debt	
Local currency	BBB
Pfd stk	
Local currency	BB+
AEP Texas North Co	
Corporate Credit Rating	BBB/Stable/--
Sr unsecd debt	
Local currency	BBB
Sr secd debt	
Local currency	BBB
Pfd stk	
Local currency	BB+
Appalachian Power Co.	
Corporate Credit Rating	BBB/Stable/--
Sr unsecd debt	
Local currency	BBB
Sr secd debt	
Local currency	BBB
Sub debt	
Local currency	BBB-
Junior Subordinated	
Local currency	BBB-
Pfd stk	
Local currency	BB+
Columbus Southern Power Co.	
Corporate Credit Rating	BBB/Stable/--
Sr unsecd debt	
Local currency	BBB
Sub debt	
Local currency	BBB-

Pfd stk	
Local currency	BB+
Indiana Michigan Power Co.	
Corporate Credit Rating	BBB/Stable/--
Sr unsecd debt	
Local currency	BBB
Sub debt	
Local currency	BBB-
Junior Subordinated	
Local currency	BBB-
Pfd stk	
Local currency	BB+
Ohio Power Co.	
Corporate Credit Rating	BBB/Stable/--
Sr unsecd debt	
Local currency	BBB
Sub debt	
Local currency	BBB-
Pfd stk	
Local currency	BB+
Public Service Co. of Oklahoma	
Corporate Credit Rating	BBB/Stable/--
Sr unsecd debt	
Local currency	BBB
Sr secd debt	
Local currency	A-
Pfd stk	
Local currency	BB+
RGS (AEGCO) Funding Corp.	
Corporate Credit Rating	BBB/Stable/--
Sr unsecd debt	
Local currency	BBB-
Southwestern Electric Power Co.	
Corporate Credit Rating	BBB/Stable/--
Sr unsecd debt	
Local currency	BBB
Sr secd debt	
Local currency	A-
Pfd stk	
Local currency	BB+
Columbus & Southern Ohio Electric Co.	
Corporate Credit Rating	BBB/Stable/--
Sr unsecd debt	
Local currency	BBB
RGS (I&M) Funding Corp.	
Corporate Credit Rating	BBB/Stable/--
Sr unsecd debt	
Local currency	BBB-

Corporate Credit Rating History

June 15, 2000	A-
May 23, 2002	BBB+
Mar. 7, 2003	BBB

Major Rating Factors

Strengths:

- Parent American Electric Power Co. Inc. has a large, diverse regulated electric utility

operation;
- A low-cost generation asset portfolio; and
- A history of commitment to credit quality.

Weaknesses:
- AEP's marketing operations, though relatively small, detract from credit profile; and
- AEP's leverage is slightly high for the rating.

Rationale

The ratings on Kentucky Power Co. are based on the consolidated credit profile of its parent, American Electric Power Co. Inc. (AEP). The ratings on AEP reflect the company's now-complete transition to a renewed focus on its core utility operations from a business model that emphasized unregulated activities. The electric utilities comprising the AEP system range from Texas to Ohio and beyond and operate as either low-risk "wires" businesses or fully integrated regulated utilities. Electric generation is housed in and out of utility rate bases, but a majority of the capacity is directly or virtually subject to stabilizing regulatory oversight. Trading operations once played a prominent role at AEP, but have ceased to be a strategic focus and exert only a small influence on the company's credit profile.

Electric utility operations are slightly above average, characterized by competitive rates, good reliability, a strong collection of low-cost, coal-fired generation in the eastern part of the system, and mostly supportive regulatory relationships. Service territories vary widely, ranging from rust-belt and rural areas that exhibit less-than-favorable economic profiles, to higher-growth, service economy-oriented regions like Columbus, Ohio, which are much more resistant to economic cycles. For AEP, the diversity in markets and regulation improves credit quality. In the two primary states that have introduced competition (Texas and Ohio), the transition is being managed in a fairly low-risk fashion, but the development of competition has been spotty, especially in Ohio, and some uncertainty exists about the future of deregulation.

AEP has improved its liquidity and balance sheet by refinancing billions in utility debt, extending the terms of bank credit facilities, and issuing significant amounts of common equity. The company has employed a combination of cost reductions, asset sales, and reduced common dividends to improve earnings and cash flow and reduce balance-sheet leverage to continue its credit quality restoration. Given AEP's business profile, financial expectations are for debt leverage to approach 50%, cash flow coverage of around 3.5x, and earnings coverage of about 3x.

A large and complex environmental compliance program looms as AEP's greatest credit-related issue. The company projects an environmental capital-expenditure program totaling $3.5 billion through 2010 to meet stricter air-quality standards. AEP also intends to spend substantial amounts of capital on its transmission and distribution system to improve reliability. The elevated spending levels mean the company will experience negative cash flow for several years, and can be expected to lower utility returns to the point that AEP will need to request higher rates in many of its jurisdictions. Greater regulatory risk and less-competitive rates could affect AEP's business risk profile.

Liquidity

Kentucky Power's liquidity is viewed on a consolidated basis with parent AEP. AEP's short-term rating is 'A-2'. For the short term, AEP is expected to have an adequate level of liquidity, with substantial cash on hand of more than $1 billion, stable regulated businesses that can reliably produce respectable operating cash flow, and sufficient capacity under its bank facility to meet working-capital needs. About $1.3 billion of long-term debt comes due in 2005. The company operates a money pool and sells accounts receivables to provide liquidity for the domestic electric subsidiaries.

Liquidity is provided through a commercial paper program at the parent that lends to subsidiaries through intercompany notes. The commercial paper program is backed by $2.75 billion in bank facilities that mature in 2005 ($1 billion), 2006 ($750 million), and 2007 ($1 billion).

The two factors previously identified that threatened liquidity and thus credit quality (specifically, trading activities and unusually high levels of short-term debt) were positively addressed and no longer represent a significant risk to the company's ability to access capital and maintain liquidity. However, trading activities still impose substantial liquidity requirements despite the efforts to contain trading risk. Preliminary analysis of AEP's trading-related liquidity requirements indicates that the company carries sufficient liquidity to cover those needs. Liquidity will also be affected by an underfunded pension plan that AEP will contribute cash to throughout 2005 to bring up to fully funded status.

Outlook

The stable outlook for AEP and subsidiaries assumes timely recovery of future environmental compliance costs and a continued strategic emphasis on regulated operations. Maintaining the improving trend in the company's balance sheet and other key credit measures will be necessary for continued ratings stability. Higher ratings would be possible over time if AEP demonstrates consistency in its regulated utility strategy and gradual improvement in its financial profile. Higher-than-expected environmental costs or a series of harmful regulatory decisions that thwart the company's recovery of those costs could lead to a negative stance or lower ratings.

Business Description

AEP is a large, registered public utility holding company that owns directly or indirectly all of the common stock of its electric utility subsidiaries operating in 11 states in the U.S. Midwest and Southwest. Unregulated operations in areas such as unregulated electric generation, energy marketing and trading (EM&T), and natural gas pipeline subsidiaries have been largely sold or are in the process of being sold. The company's generating and transmission facilities are interconnected, and their operations are coordinated as an integrated electric utility system with two main regions.

Unregulated operations consist of a large portfolio of domestic merchant electric generating plants, mainly in Ohio, that are primarily used to serve AEP's retail utility customers. Above all of these assets is a marketing and trading enterprise that once held a leading and active position in the U.S. electricity and natural gas wholesale markets, but now is essentially contained to marketing the excess electric capacity and energy of its domestic fleet. The large size of its electric generation portfolio ensures that AEP will continue to be a prominent electricity marketer, but EM&T was de-emphasized as part of a corporate strategy shift in 2002, and the trading activities no longer exert a large influence on AEP's credit profile. Consistent with the shift, most of the unregulated assets that used to support the trading operations have been sold.

AEP has received approval from the SEC under the Public Utilities Holding Company Act of 1935 (PUHCA) to invest up to 100% of its retained earnings (about $2.1 billion as of Dec. 31, 2003) for investment in exempt wholesale generators and foreign utility companies. The current investment totals $1.7 billion. AEP also has authority under SEC rules to invest up to 15% of its consolidated capital in energy-related companies.

Rating Methodology

Kentucky Power's corporate credit rating is based on the consolidated credit profile of the entire AEP family of companies, including the U.S. electric distribution companies and integrated utilities, and the unregulated energy operations that include merchant electric generating facilities, natural gas pipelines and storage operations, and EM&T activities. The ratings reflect primarily the stability of the utility operations, marginally offset by the more risky, unregulated business activities.

Business Profile

Regulated utility operations

AEP owns two types of regulated electric utility companies. Five are traditional vertically integrated utilities: Appalachian Power Co., Indiana Michigan Power Co., Kentucky Power Co., Public Service Co. of Oklahoma, and Southwestern Electric Power Co. The remaining utilities are in states that have deregulated in some fashion; some are still virtually vertically integrated, while others have become distribution-only utilities.

Together, the integrated utilities exhibit slightly better-than-average risk profiles, with fairly average to below-average service territory economies offset by good operating records, competitive rates, and supportive regulation. The large size of the operations and the geographic and economic diversity of the collective integrated utilities are positive for credit quality. The prospects for comprehensive deregulation in any of the states that have not already taken that step are remote.

AEP's utilities have a reasonably good ability to pass through changes in its fuel and purchased-power expenses in a manner that preserves its financial integrity in many regulatory jurisdictions. In those where that ability is limited because of deregulation or rate-freeze agreements, AEP is able to responsibly manage its exposure through contractual arrangements, but some variability is unavoidable. Major expenditures to comply with environmental regulations affected rate-based utility generation have been timely reflected in past rates, but deregulation in AEP's two major states raises questions as to their ability to pass future costs through to customers in a timely and thorough manner.

The transmission and distribution operations in Ohio and Texas, the two major AEP states that have introduced competition at the retail level, are characterized by low rates, good operations, and manageable regulatory risk. Both Ohio and Texas deregulated their electric utilities through legislation in 2001, and retail competition began in 2002. Although the deregulation plans expose the transmission and distribution companies to somewhat greater risk, especially during the transition periods (through 2005 in Ohio and 2006 in Texas), the risks are ameliorated by AEP's integrated approach to operating its electric generation, its reliance on relatively stable coal as Ohio's principal fuel source, and the company's ability to prospectively change the fuel-cost portion of rates in Texas (where natural gas predominates the fuel mix). AEP sold its Texas retail business in 2002 and most of its Texas generation in 2004, so that the operations there are mainly now a transmission and distribution business.

As with many other utility holding companies that have shrunk back from unregulated ventures, AEP is now concentrating on its once-neglected regulated returns and regulatory relationships. The company's success in managing its regulatory risk is a key driver of credit quality because of the current high level of rate case activity is expected to persist for years as spending on environmental compliance and reliability-related transmission and distribution upgrades is folded into customer rates. As of the beginning of 2005, AEP had active rate proceedings in Ohio, Texas, and Oklahoma, and plans to file cases in all of its East region states and at the FERC in the next few years. In addition, an important stranded cost recovery case is pending in Texas. The rate stabilization case in Ohio has been resolved, with the commission accepting AEP's proposed plan with no major modifications. The cases in Texas and Oklahoma have experienced more resistance.

Table 1 American Electric Power Co. Inc. Operating Information

	2003	2002	2001	2000	1999
Generation (MWh)					
Net generation	195,910,729	193,749,619	192,694,227	196,827,623	187,527,799
Total purchases	87,556,346	75,344,258	531,825,717	76,300,846	54,441,282
Total sources	283,396,700	269,119,553	724,564,040	273,262,831	242,109,328
Total retail	134,626,999	137,697,119	158,838,745	160,428,685	162,591,379
Total wholesale sales	138,340,610	122,190,636	554,537,113	98,579,031	66,623,882
Revenue ($ mil.)					
Residential	2,893.9	2,862.8	3,551.6	3,511.5	3,289.7
Commercial	2,040.2	1,944.5	2,534.7	2,451.1	2,287.7
Industrial	1,928.0	1,905.5	2,395.3	2,455.2	2,527.1
Public street and highway	37.2	49.8	66.8	64.9	60.3
Public authority	130.7	99.3	146.1	148.7	128.8
Total retail	7,030.1	6,861.9	8,694.5	8,631.3	8,293.6
Wholesale sales	4,294.6	3,433.0	24,265.4	3,176.9	1,953.1
Total sales	11,324.7	10,294.9	32,960.0	11,808.2	10,246.7
Generation by segment (MWh)					
Residential	45,307,654	46,735,006	53,145,176	52,539,438	50,604,240
Commercial	36,797,124	36,537,162	42,494,751	41,649,539	40,095,413
Industrial	49,495,930	51,560,620	59,760,129	62,793,781	68,583,326
Public street and highway	425,511	557,018	690,447	687,430	671,393
Public authority	2,600,780	2,307,313	2,748,242	2,758,497	2,637,007
Total	272,967,609	259,887,754	713,375,858	259,007,716	229,215,258
Customers					

Residential	3,541,566	4,258,015	4,233,179	4,201,384	4,150,651
Commercial	494,038	610,513	603,115	591,068	577,673
Industrial	36,413	44,009	43,321	43,641	43,952
Public street and highway	8,037	9,245	9,878	9,866	9,772
Public authority	13,507	21,778	18,252	17,880	17,493
Total	4,093,561	4,943,560	4,907,745	4,863,859	4,799,541
MWh--Megawatt-hour.					

Table 2 American Electric Power Co. Inc. Market Segments					
	2003	2002	2001	2000	1999
Sales					
Total retail (GWh)	134,627	137,697	158,839	160,429	162,591
Residential (%)	34	34	33	33	31
Commercial (%)	27	27	27	26	25
Industrial (%)	37	37	38	39	42
Other (%)	2	2	2	2	2
Wholesale (GWh)	138,341	122,191	554,537	98,579	66,624
Total Sales (GWh)	272,968	259,888	713,376	259,008	229,215
Revenue					
Total retail (mil. $)	7,030	6,862	8,695	8,631	8,294
Residential (%)	41	42	41	41	40
Commercial (%)	29	28	29	28	28
Industrial (%)	27	28	28	28	30
Other (%)	2	1	2	2	2
Wholesale (mil. $)	4,295	3,433	24,265	3,177	1,953
Total Revenue (mil. $)	11,325	10,295	32,960	11,808	10,247
Annual sales growth (%)					
Residential	(3)	(12)	1	4	1
Commercial	1	(14)	2	4	2
Industrial	(4)	(14)	(5)	(8)	(0)
Total retail	(2)	(13)	(1)	(1)	1
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The advent of competition in AEP's primary jurisdictions of Ohio and Texas allowed the company to move a large portion (roughly half of its 38,000 MW) of its total domestic electric generation capacity out of regulated rate base at book value. The bulk of the unregulated segment is concentrated on AEP's electric generation assets, which represent one of the largest and most cost-efficient portfolios of such assets in the U.S. In the East region, centered in Ohio, the plants are almost all large, coal-fired steam-generating units that provide stable, base-load capacity and energy in the ECAR region. The units are well-run, well-maintained, and produce very inexpensive electricity. Almost all of them will require further investment to maintain compliance with impending new environmental standards. The West region plants, including AEP's share of the South Texas Project nuclear plant, were sold in 2004. AEP has a long track record of solid operating performance, which is expected to continue and even improve under the unregulated business operations.

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