

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

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

COMMISSION STAFF'S FIRST REQUEST FOR INFORMATION
TO KENTUCKY POWER COMPANY

Kentucky Power Company ("Kentucky Power"), pursuant to 807 KAR 5:001, is to file with the Commission the original and ten copies of the following information, with a copy to all parties of record. The information requested herein is due by January 8, 2014. Responses to requests for information shall be appropriately bound, tabbed and indexed. Each response shall include the name of the witness responsible for responding to the questions related to the information provided.

Each response shall be answered under oath or, for representatives of a public or private corporation or a partnership or association or a governmental agency, be accompanied by a signed certification of the preparer or person supervising the preparation of the response on behalf of the entity that the response is true and accurate to the best of that person's knowledge, information, and belief formed after a reasonable inquiry.

Kentucky Power shall make timely amendment to any prior response if it obtains information which indicates that the response was incorrect when made or, though correct when made, is now incorrect in any material respect. For any request to which Kentucky Power fails or refuses to furnish all or part of the requested information, Kentucky Power shall provide a written explanation of the specific grounds for its failure to completely and precisely respond.

Careful attention should be given to copied material to ensure that it is legible. When the requested information has been previously provided in this proceeding in the requested format, reference may be made to the specific location of that information in responding to this request.

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

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

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

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

d. Confirm that the \$265 million financing for which Kentucky Power seeks authority in this proceeding is the same \$275 million debt issuance referenced in

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

2. Refer to pages 5-6 of the application.

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

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

3. Refer to page 6 of the application.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

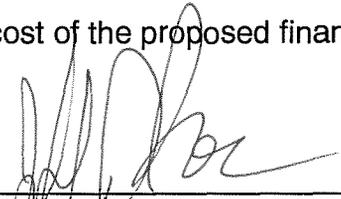
7. Refer to paragraphs 48 through 53 of the application regarding treasury hedge agreements and interest rate management agreements. Identify each type of interest rate management instrument available to Kentucky Power, and the estimated cost stated as a percentage of the underlying obligation involved.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

8. Refer to paragraph 55 of the application wherein it states, "These low cost funds may be used for general corporate purposes and to refinance a portion of the Mitchell Debt at lower interest rates than could be obtained through issuance of the

notes.” Describe any circumstances which would cause Kentucky Power to use any proceeds from its requested borrowing for general corporate purposes.

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

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



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DATED DEC 19 2013

cc: Parties of Record

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