MOODY'S
INVESTORS SERVICE

Credit Opinion: Kentucky Power Company

Global Credit Research - 05 Feb 2015

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
Senior Unsecured	Baa1
Jr Subordinate Shelf	(P)Baa2
Commercial Paper	P-2

Contacts

Analyst	Phone
Susana Vivares/New York City	212.553.4694
William L. Hess/New York City	212.553.3837

Key Indicators

[1]**Kentucky Power Company**

	9/30/2014(LTM)	12/31/2013	12/31/2012	12/31/2011	12/31/2010
CFO pre-WC + Interest / Interest	5.3x	4.2x	3.8x	3.8x	3.4x
CFO pre-WC / Debt	19.0%	18.4%	16.4%	17.7%	14.6%
CFO pre-WC - Dividends / Debt	6.8%	15.9%	12.5%	13.3%	11.3%
Debt / Capitalization	41.1%	36.6%	40.9%	44.0%	45.7%

[1] All ratios are based on 'Adjusted' financial data and incorporate Moody's Global Standard Adjustments for Non-Financial Corporations. Source: Moody's Financial Metrics

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

Opinion

Rating Drivers

Regulatory support, with sufficient cost recoveries, is most critical rating driver

Service territory's slow economic recovery at-risk by low natural gas prices

Financial metrics pressured by significant leverage and capital investments

CORPORATE PROFILE

Kentucky Power Company (KPCo, Baa2 stable) is a vertically integrated electric utility company headquartered in Frankfort, Kentucky, a wholly owned subsidiary of American Electric Power Company (AEP, Baa1 stable), with about $1.5 billion in rate base (6% of AEP's state jurisdictional total) a pro-forma rate base ROE of 5.1% and is primarily regulated by the Kentucky Public Service Commission (KPSC).

KPCo's total owned generation capacity of 2,248 MW, is 100% coal and consists of two units at the Big Sandy plant and a 50% ownership in the Mitchell plant. It also purchases approximately 390MW from its affiliate AEP Generating Company's share of the Rockport plant under a long-term unit power agreement. KPCo's 2014 peak demand was reported as 1,645 MW. KPCo has the highest electricity costs in Kentucky with a typical bill of $107 a month, based on 1,000 kWh of residential usage.

SUMMARY RATING RATIONAL

KPCo's Baa2 rating reflects a vertically integrated utility with a historically constructive relationship with the KPSC and financial metrics that are consistent with the grid-indicated category. However, KPCo will be facing some challenges in the next 18-24 months including, financial metrics that will be materially stressed by increased leverage due to an asset acquisition to comply with environmental mandates, and regulatory support that will be tested due to the sluggish service territory's economy and KPCo's higher rates relative to in-state peers.

DETAILED RATING CONSIDERATIONS

REGULATORY SUPPORT, WITH SUFFICIENT COST RECOVERIES, IS MOST CRITICAL RATING DRIVER

Moody's views the regulatory environment in Kentucky as reasonably supportive to long-term credit quality, a credit positive. The KPSC has a suite of cost recovery mechanisms that help reduce regulatory lag including a fuel adjustment clause, energy efficiency and environmental recovery riders and construction work in progress (CWIP), which allows a utility to earn a return on essentially all construction work in progress. Utilities can also start to collect interim rates approximately six months after filing a rate case if the KPSC has not acted on it.

In December 2014, KPCo filed an electric base rate reduction of almost $5.0 million premised upon a 10.6% ROE. KPCo also filed for an incremental $74.8 million through various riders, namely the "Big Sandy Retirement Rider", for costs related to the Big Sandy Unit 2 retirement by May 2015, and conversion to a gas-fired plant of Unit 1 by June 2016; certain non-fuel-related costs; environmental surcharge rider (mostly for the construction of emissions-control equipment at the coal-fired Mitchell Units 1 and 2 in West Virginia); and lastly the "Kentucky Economic Development Surcharge". A final KPSC decision is expected in June 2015.

In January 2015 the KPSC issued an order prohibiting KPCo from charging its customers for about $54 million in fuel costs. As part of this order KPCo was directed to refund $13 million in fuel costs the company had collected during the first four months of 2014, and to forgo collection of an estimated $41 million in additional fuel costs that was collected for the rest of 2014 through the end of May 2015. This order stemmed from the approval of the Mitchell plant transfer which has led to a surplus of capacity at KPCo and additional costs to the rate payers. The impact of this order on cash flow metrics will be credit negative.

The KPSC approved an application for a 59 MW PPA from a biomass plant; however, it cannot move forward because of an intervener's appeal to the Franklyn County Appeal Court, a ruling is yet to be made. In addition, KPCo will be responsible for a portion of the Rockport upgrades forecasted to represent approximately $87M through 2019, but the company will pay these costs over time through higher capacity costs.

Post the Big Sandy Unit 2 retirement in May 2015, a reserve margin deficit is expected at KPCo. This deficit issue will likely be resolved once the conversion of Big Sandy Unit 1 is complete in June 2016; however, until that time KPCo will have to meet its power needs by purchasing it from various affiliates at market prices.

SERVICE TERRITORY'S SLOW ECONOMIC RECOVERY AT-RISK BY LOW NATURAL GAS PRICES AND FEDERAL GOVERNMENT BUDGET CUTS

KPCo's service territory is highly dependent on a staggered Appalachian coal business which is negatively affected by higher production costs, environmental mandates and low natural gas prices. This has led to weak economic times for businesses in eastern Kentucky (KPCo's service territory) which rely heavily on the circulation from coal income.

According to Moody's Economy, Kentucky will outperform in 2015 before falling behind due to a lack of dynamic drivers.

FINANCIAL METRICS PRESSURE BY LEVERAGE AND CAPITAL INVESTMENTS

KPCo's key financial credit metrics have been appropriate for the grid-indicated rating category, with the interest coverage ratio at 3.8x and 4.2x, CFO pre-WC to debt (Leverage ratio) at 16.4% and 18.4%, CFO pre-WC minus dividends to debt (RCF ratio) at 12.5% and 15.9% and debt to capitalization at 41% and 37%; for 2012 and 2013 respectively. For the period 2011-2013, KPCo generated approximately $400 million in of cash from operations pre-working capital (CFO pre-WC) and invested $340 million in capital expenditures.

For LTM third-quarter 2014 key credit financial credit metrics were 5.3x interest coverage ratio, 19% Leverage ratio, 7% RCF ratio and 41% debt to capitalization.

For the next 18-24 months Moody's does not expect reductions in capital investments or leverage at KPCo causing financial metrics to be pressured, with the interest coverage ratio ranging from 4.2x - 4.7x; leverage ratio from 15% - 20%; RCF ratio from 7% - 12%; and debt to capitalization from 50% - 55%.

Liquidity

KPCo's liquidity is adequate. KPCo participates in the AEP Utility Money Pool with a borrowing limit of $250 million, which provides access to the parent company's liquidity. As of third-quarter 2014, KPCo had $10 million in borrowings from the Money Pool. KPCo also utilizes AEP's receivable securitization facility. KPCo has no maturities until September of 2017 when $325 million of senior notes come due.

For the LTM third-quarter 2014, KPCo generated approximately $260 million of cash from operations (CFO), invested $120 million in capital expenditures and up streamed $110 million in dividend payments to parent AEP, resulting in a positive free cash flow (FCF) of approximately $30 million. In 2013 KPCo generated CFO of approximately $135 million, invested $145 million in capital expenditures and up streamed $20 million in dividend payments, resulting in a negative FCF of $30 million. Prospectively we see KPCo generating a CFO ranging from $150 - 175 million, investing approximately $100 million and maintaining a prudent dividend policy.

AEP's liquidity is adequate. AEP has two syndicated credit facilities totaling $3.5 billion, one is a $1.75 billion facility expiring June 2016, and the other is also a $1.75 billion facility (upsized from $1.5 billion) expiring in July 2017. The AEP is not required to make a representation with respect to either material adverse change or material litigation in order to borrow under the facility. Default provisions exclude payment defaults and insolvency/bankruptcy of subsidiaries that are not significant subsidiaries per the SEC definition (in general, this would exclude subsidiaries representing less than 10% of assets or income). The facilities contain a covenant requiring that AEP's consolidated debt to capitalization (as defined) will not exceed 67.5%. AEP states the actual ratio was 49.9% at third-quarter 2014, indicating substantial headroom.

Rating Outlook

The stable rating outlook is primarily based on our expectation that KPCo will maintain a constructive relationship with the KPSC and a prudent financial policy to preserve financial credit metrics that support the rating. These metrics include a ratio of CFO to debt in the mid-teen's range

What Could Change the Rating - Up

Rating upgrades appear unlikely over the near to intermediate term, primarily due to KPCo's increased leverage and capital investments. However, KPCo could be considered for a rating upgrade if its key financial metrics, including interest coverage above 4.5x and CFO pre-WC to debt above 20% were achieved on a sustainable basis.

What Could Change the Rating - Down

Ratings could be downgraded if KPCo were to encounter a contentious regulatory environment in Kentucky. Specifically, if the lack of recovery on current filings were to cause a material decrease in cash flow leading to the deterioration of key financial metrics such that the interest coverage ratio falls below 3.5x, or CFO Pre-WC to debt falls below 13% for a sustained period of time.

Rating Factors

Kentucky Power Company

Regulated Electric and Gas Utilities Industry Grid [1][2]	Current LTM 9/30/2014		[3]Moody's 12-18 Month Forward ViewAs of February 2015	
Factor 1 : Regulatory Framework (25%)	**Measure**	**Score**	**Measure**	**Score**
a) Legislative and Judicial Underpinnings of the Regulatory Framework	A	A	A	A
b) Consistency and Predictability of Regulation	A	A	A	A
Factor 2 : Ability to Recover Costs and Earn Returns (25%)				
a) Timeliness of Recovery of Operating and Capital Costs	Baa	Baa	Baa	Baa
b) Sufficiency of Rates and Returns	Baa	Baa	Baa	Baa
Factor 3 : Diversification (10%)				
a) Market Position	Ba	Ba	Ba	Ba
b) Generation and Fuel Diversity	B	B	B	B
Factor 4 : Financial Strength (40%)				
a) CFO pre-WC + Interest / Interest (3 Year Avg)	4.2x	Baa	4.2x - 4.7x	A
b) CFO pre-WC / Debt (3 Year Avg)	20.9%	Baa	15% - 20%	Baa
c) CFO pre-WC - Dividends / Debt (3 Year Avg)	13.1%	Baa	7% - 12%	Baa
d) Debt / Capitalization (3 Year Avg)	42.0%	A	50% - 55%	Baa
Rating:				
Grid-Indicated Rating Before Notching Adjustment		Baa2		Baa2
HoldCo Structural Subordination Notching				
a) Indicated Rating from Grid		Baa2		Baa2
b) Actual Rating Assigned		Baa2		Baa2

[1] All ratios are based on 'Adjusted' financial data and incorporate Moody's Global Standard Adjustments for Non-Financial Corporations. [2] As of 9/30/2014(L); Source: Moody's Financial Metrics [3] This represents Moody's forward view; not the view of the issuer; and unless noted in the text, does not incorporate significant acquisitions and divestitures.

This publication does not announce a credit rating action. For any credit ratings referenced in this publication, please see the ratings tab on the issuer/entity page on http://www.moodys.com for the most updated credit rating action information and rating history.

MOODY'S
INVESTORS SERVICE

© 2015 Moody's Corporation, Moody's Investors Service, Inc., Moody's Analytics, Inc. and/or their licensors and affiliates (collectively, "MOODY'S"). All rights reserved.

CREDIT RATINGS ISSUED BY MOODY'S INVESTORS SERVICE, INC. ("MIS") AND ITS AFFILIATES ARE MOODY'S CURRENT OPINIONS OF THE RELATIVE FUTURE CREDIT RISK OF ENTITIES, CREDIT COMMITMENTS, OR DEBT OR DEBT-LIKE SECURITIES, AND CREDIT RATINGS AND RESEARCH

PUBLICATIONS PUBLISHED BY MOODY'S ("MOODY'S PUBLICATION") MAY INCLUDE MOODY'S CURRENT OPINIONS OF THE RELATIVE FUTURE CREDIT RISK OF ENTITIES, CREDIT COMMITMENTS, OR DEBT OR DEBT-LIKE SECURITIES. MOODY'S DEFINES CREDIT RISK AS THE RISK THAT AN ENTITY MAY NOT MEET ITS CONTRACTUAL, FINANCIAL OBLIGATIONS AS THEY COME DUE AND ANY ESTIMATED FINANCIAL LOSS IN THE EVENT OF DEFAULT. CREDIT RATINGS DO NOT ADDRESS ANY OTHER RISK, INCLUDING BUT NOT LIMITED TO: LIQUIDITY RISK, MARKET VALUE RISK, OR PRICE VOLATILITY. CREDIT RATINGS AND MOODY'S OPINIONS INCLUDED IN MOODY'S PUBLICATIONS ARE NOT STATEMENTS OF CURRENT OR HISTORICAL FACT. MOODY'S PUBLICATIONS MAY ALSO INCLUDE QUANTITATIVE MODEL-BASED ESTIMATES OF CREDIT RISK AND RELATED OPINIONS OR COMMENTARY PUBLISHED BY MOODY'S ANALYTICS, INC. CREDIT RATINGS AND MOODY'S PUBLICATIONS DO NOT CONSTITUTE OR PROVIDE INVESTMENT OR FINANCIAL ADVICE, AND CREDIT RATINGS AND MOODY'S PUBLICATIONS ARE NOT AND DO NOT PROVIDE RECOMMENDATIONS TO PURCHASE, SELL, OR HOLD PARTICULAR SECURITIES. NEITHER CREDIT RATINGS NOR MOODY'S PUBLICATIONS COMMENT ON THE SUITABILITY OF AN INVESTMENT FOR ANY PARTICULAR INVESTOR. MOODY'S ISSUES ITS CREDIT RATINGS AND PUBLISHES MOODY'S PUBLICATIONS WITH THE EXPECTATION AND UNDERSTANDING THAT EACH INVESTOR WILL, WITH DUE CARE, MAKE ITS OWN STUDY AND EVALUATION OF EACH SECURITY THAT IS UNDER CONSIDERATION FOR PURCHASE, HOLDING, OR SALE.

MOODY'S CREDIT RATINGS AND MOODY'S PUBLICATIONS ARE NOT INTENDED FOR USE BY RETAIL INVESTORS AND IT WOULD BE RECKLESS FOR RETAIL INVESTORS TO CONSIDER MOODY'S CREDIT RATINGS OR MOODY'S PUBLICATIONS IN MAKING ANY INVESTMENT DECISION. IF IN DOUBT YOU SHOULD CONTACT YOUR FINANCIAL OR OTHER PROFESSIONAL ADVISER.

ALL INFORMATION CONTAINED HEREIN IS PROTECTED BY LAW, INCLUDING BUT NOT LIMITED TO, COPYRIGHT LAW, AND NONE OF SUCH INFORMATION MAY BE COPIED OR OTHERWISE REPRODUCED, REPACKAGED, FURTHER TRANSMITTED, TRANSFERRED, DISSEMINATED, REDISTRIBUTED OR RESOLD, OR STORED FOR SUBSEQUENT USE FOR ANY SUCH PURPOSE, IN WHOLE OR IN PART, IN ANY FORM OR MANNER OR BY ANY MEANS WHATSOEVER, BY ANY PERSON WITHOUT MOODY'S PRIOR WRITTEN CONSENT.

All information contained herein is obtained by MOODY'S from sources believed by it to be accurate and reliable. Because of the possibility of human or mechanical error as well as other factors, however, all information contained herein is provided "AS IS" without warranty of any kind. MOODY'S adopts all necessary measures so that the information it uses in assigning a credit rating is of sufficient quality and from sources MOODY'S considers to be reliable including, when appropriate, independent third-party sources. However, MOODY'S is not an auditor and cannot in every instance independently verify or validate information received in the rating process or in preparing the Moody's Publications.

To the extent permitted by law, MOODY'S and its directors, officers, employees, agents, representatives, licensors and suppliers disclaim liability to any person or entity for any indirect, special, consequential, or incidental losses or damages whatsoever arising from or in connection with the information contained herein or the use of or inability to use any such information, even if MOODY'S or any of its directors, officers, employees, agents, representatives, licensors or suppliers is advised in advance of the possibility of such losses or damages, including but not limited to: (a) any loss of present or prospective profits or (b) any loss or damage arising where the relevant financial instrument is not the subject of a particular credit rating assigned by MOODY'S.

To the extent permitted by law, MOODY'S and its directors, officers, employees, agents, representatives, licensors and suppliers disclaim liability for any direct or compensatory losses or damages caused to any person or entity, including but not limited to by any negligence (but excluding fraud, willful misconduct or any other type of liability that, for the avoidance of doubt, by law cannot be excluded) on the part of, or any contingency within or beyond the control of, MOODY'S or any of its directors, officers, employees, agents, representatives, licensors or suppliers, arising from or in connection with the information contained herein or the use of or inability to use any such information.

NO WARRANTY, EXPRESS OR IMPLIED, AS TO THE ACCURACY, TIMELINESS, COMPLETENESS, MERCHANTABILITY OR FITNESS FOR ANY PARTICULAR PURPOSE OF ANY SUCH RATING OR OTHER OPINION OR INFORMATION IS GIVEN OR MADE BY MOODY'S IN ANY FORM OR MANNER WHATSOEVER.

MIS, a wholly-owned credit rating agency subsidiary of Moody's Corporation ("MCO"), hereby discloses that most issuers of debt securities (including corporate and municipal bonds, debentures, notes and commercial paper) and preferred stock rated by MIS have, prior to assignment of any rating, agreed to pay to MIS for appraisal and rating services rendered by it fees ranging from $1,500 to approximately $2,500,000. MCO and MIS also maintain policies and procedures to address the independence of MIS's ratings and rating processes. Information regarding certain affiliations that may exist between directors of MCO and rated entities, and between entities who hold ratings from MIS and have also publicly reported to the SEC an ownership interest in MCO of more than 5%, is posted annually at www.moodys.com under the heading "Shareholder Relations — Corporate Governance — Director and Shareholder Affiliation Policy."

For Australia only: Any publication into Australia of this document is pursuant to the Australian Financial Services License of MOODY'S affiliate, Moody's Investors Service Pty Limited ABN 61 003 399 657AFSL 336969 and/or Moody's Analytics Australia Pty Ltd ABN 94 105 136 972 AFSL 383569 (as applicable). This document is intended to be provided only to "wholesale clients" within the meaning of section 761G of the Corporations Act 2001. By continuing to access this document from within Australia, you represent to MOODY'S that you are, or are accessing the document as a representative of, a "wholesale client" and that neither you nor the entity you represent will directly or indirectly disseminate this document or its contents to "retail clients" within the meaning of section 761G of the Corporations Act 2001. MOODY'S credit rating is an opinion as to the creditworthiness of a debt obligation of the issuer, not on the equity securities of the issuer or any form of security that is available to retail clients. It would be dangerous for "retail clients" to make any investment decision based on MOODY'S credit rating. If in doubt you should contact your financial or other professional adviser.

MOODY'S
INVESTORS SERVICE

Credit Opinion: Kentucky Power Company

Global Credit Research - 10 Feb 2014

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
Senior Unsecured	Baa1
Jr Subordinate Shelf	(P)Baa2
Commercial Paper	P-2

Contacts

Analyst	**Phone**
Vivares, Susana/New York City	1.212.553.4694
William L. Hess/New York City	212.553.3837

Key Indicators

[1]**Kentucky Power Company**

	12/31/2009	12/31/2010	12/31/2011	12/31/2012	9/30/2013
CFO pre-WC + Interest / Interest	3.9x	3.4x	3.8x	3.8x	4.1x
CFO pre-WC / Debt	17.6%	14.6%	17.7%	17.2%	18.7%
CFO pre-WC - Dividends / Debt	14.5%	11.3%	13.3%	12.0%	14.4%
Debt / Capitalization	46.1%	45.7%	44.0%	42.8%	42.9%

[1] All ratios are based on 'Adjusted' financial data and incorporate Moody's Global Standard Adjustments for Non-Financial Corporations. Source: Moody's Financial Metrics

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

Opinion

Rating Drivers

Acquisition of 50% interest in Mitchell plant will help address expected capacity shortfall

Constructive regulatory environment

Maintenance of current ratings will depend on capital injections from the parent

Historically strong industrial sales remain flat in 2013

Recently stabilized key financial metrics will be materially pressured by plant acquisitions

CORPORATE PROFILE

Kentucky Power Company (KPCo, Baa2 senior unsecured, stable outlook) is a vertically integrated electric utility company headquartered in Frankfort, Kentucky and is a wholly owned subsidiary of American Electric Power Company (AEP, Baa1 senior unsecured, stable outlook). KPCo is one of AEP's smaller subsidiaries, with about $1.8 billion in rate base (6% of AEP's state jurisdictional total) and $1.6 billion assets (3% of AEP consolidated). KPCo's primary regulator is the Kentucky Public Service Commission (KPSC). KPCo's total owned generation capacity is 1,858 MW, consisting of two units at the Big Sandy plant, and a 50% ownership in the Mitchell plant. It also purchases approximately 195MW from its affiliate AEP Generating Company's share of the Rockport plant under a long-term unit power agreement. KPCo's total capacity of approximately 1,858 MW is 100% coal. KPCo's 2012 peak demand was reported as 1,378 MW, resulting in a negative reserve margin, which KPCo has primarily met with purchases from its market affiliates.

SUMMARY RATING RATIONAL

KPCo's Baa2 senior unsecured rating primarily reflect its reasonably constructive relationship with the KPSC, historical financial metrics that have improved to a consistent level with the rating, and the company's position as one of the smaller members the AEP family, balanced against a reserve deficit that will need to be addressed in serial rate filings, rates that are already high relative to in-state peers, and financial metrics that will likely be materially stressed as a result of asset acquisitions and other capacity purchases/construction that will be required to replace Big Sandy.

DETAILED RATING CONSIDERATIONS

MAKING PROGRESS IN REPLACING BIG SANDY CAPACITY AND ADDRESSING NEGATIVE RESERVE MARGINS

We view the settlement to move forward with the Mitchell Plant acquisition in lieu of the more expensive and operationally riskier Big Sandy retrofit as a credit positive.

Big Sandy, Unit 2 (800 MW) is expected to cease operation as a coal-fired plant in mid-2015. In May 2012, KPCo withdrew its application for a proposed $940 million environmental retrofit project at Big Sandy Unit 2, opting instead to retire the unit in 2015 and acquire a 50% ownership share in the Mitchell Plant from its affiliate Ohio Power Company (OPCo, Baa1, stable outlook), representing 780 MW for an estimated cost of $536 million, half of the asset's projected net book value. The Mitchell Plant consists of two environmentally controlled coal-fired units with a total capacity of 1,560 MW. The other 50% interest is currently owned by AEP Generation Resources. The West Virginia PSC deferred making a decision to transfer the remaining 50% interest in Mitchell Plant to APCo.

In October 2013, the KPSC approved the transfer of the 50% interest in Mitchell Plant. The approved settlement requires a freeze in KPCo's utility base rates until May 31, 2015, withdrawing KPCo's previous rate case application, and a $44 million annual limit on the recovery of costs associate with the transfer. On December 2013, KPCo filed an application with the PSCK to convert the 278 MW Big Sandy coal Unit 1 to a 268 MW natural gas fired unit which is expected to cost $50 million and to be in service around 2015. Currently, KPCo could possibly meet its additional capacity needs by continuing to purchase power from various affiliates and there is a pending application for a 59 MW PPA for a biomass plant.

However, on a forward-looking basis, according to the PJM UCAP, after the Mitchell transfer and conversion of Unit 1 at Big Sandy, KPCo will not have a negative reserve margin. In addition, KPCo will also be responsible for a portion of the Rockport upgrades, but the company will pay these costs over time through higher capacity costs. In addition to regulatory approvals to increase rates commensurate with its higher rate base and capacity expenses, KPCo will require additional equity injections from AEP (the last received was in 2009) to maintain an appropriate capital structure.

After Big Sandy Unit 2 retires in 2015, KPCo will have approximately 1,058 MW of owned capacity.

APPROVAL OF THE POWER COORDIANTION AGREEMENT ADDS A MODICUM OF UNCERTAINTY

Effective January 2014, under the Power Coordination Agreement (PCA) KPCo, Indiana Michigan (I&M, Baa1, stable outlook), and Appalachian Power Company (APCo, Baa1, stable outlook) will coordinate capacity, with American Electric Power Service Corporation (AEPSC, not rated) acting as agent (including review of procedures for cost and benefit allocations). Each operating company will be required to own or contract for sufficient

generation to meet its respective load and reserve obligations. There is no obligation for the utilities to first sell their energy or capacity to each other before selling to third parties, from which Moody's infers that sales to affiliates will mostly occur at a market price. The PAC is designed to provide the AEP East Utilities with the opportunity to (a) participate collectively under a common FRR capacity plan in PJM, and (b) to participate in specified collective off-system sales and purchase activities.

For its part, KPCo will need to address its current capacity shortfall through asset acquisitions and/or capacity purchases at market prices. KPCo's purchases from third parties at less advantageous market prices rather than affiliate transactions at cost-based costs could add pressure to the fuel/purchased power component of rates.

CONSTRUCTIVE REGULATORY ENVIRONMENT A CREDIT POSITIVE

Moody's views the regulatory environment in Kentucky as reasonably supportive to long-term credit stability, contributing to predictability of cash flows, a material credit positive. Utilities can start to collect interim rates approximately six months after filing a rate case if the KPSC has not acted on it. Electric utilities have generally been allowed to earn a return on essentially all construction work in progress (CWIP). There are also various riders and cost recovery mechanisms that help to reduce regulatory lag, including a fuel adjustment clause, an energy efficiency rider and, most significantly, an environmental cost recovery rider. Proceedings from the latter are conducted every two years. The KPSC has authorized significant amounts of environmental spending for some of the state's other investor-owned utilities, and Moody's expects that KPCo would be granted similar treatment for reasonable costs incurred to replace capacity that could not economically meet federally mandated environmental standards.

In June 2010, the KPSC approved a not overly-generous rate settlement agreement for KPCo authorizing a $64 million rate increase, based on a 10.5% authorized ROE with 43% equity, and recovery of $23 million of storm costs over five years. KPCo will have frozen base rates until May 31, 2015. However, later in the year, KPCo will file a base rate case for the transfer of Mitchell Plant to KPco under the asset transfer rider (ATR), which went into effect on January 1, 2014 and will allow KPCo some recovery of Mitchell's costs for 18 months while Big Sandy Unit 2 is still operational. After Big Sandy Unit 2 is retired, the full recovery of Mitchell will begin July 1, 2015 when new base rates go into effect. KPCo expects to file by the end of 2014. Environmental costs not recovered in base rates will be recovered in a ES Rider (Environmental Surcharge) that will goes into effect July 1, 2015.

HISTORICALLY STRONG INDUSTRIAL SALES CONTINUE TO BE FLAT IN 2013

Although KPCo's service territory is in the easternmost part of the state, with few urban areas other than Ashland, industrial sales represent a high percentage of total production - about 4% of retail KWh sales and 3% of retail revenues. Of the ten largest industrial customers, which represent 67% of industrial sales, there are six coal mining companies, two steel manufacturers, one refinery, and one chemical company per Moody's Analytics. Industrial sales were remarkably stable from 2006-2011, even during the recession, in part because coal prices have been generally been sufficient to keep the mines active. KPCo's territory is on the western edge of the Utica shale formation, which may spur further energy development in the longer term.

RECENTLY STABILIZED CREDIT METRICS WILL BE WEAKEN DUE TO HIGH CAPITAL EXPENDITURES AND NEW CAPACITY NEEDS

On balance, KPCo's financial credit metrics have mostly been appropriate for its Baa2 rating category over the past four years, after rebounding from a low point in 2008. On a three-year average basis through third-quarter 2013, KPCO's ratios were barely in line with mid-Baa scoring. The cash from operations before working capital adjustments to debt (Leverage ratio) is at 18%, its ratio of CFO pre-WC minus dividends to debt (RCF ratio) is at 13.5%, and its ratio of CFO pre-WC plus interest to interest (Coverage ratio) is at 3.9x. Whereas the debt to capitalization ratio is at 43.2% was more in line with a low-A scoring.

On a one-year basis LTM third-quarter 2013 ratios were all stronger than the three-year average ratios, Leverage ratio at 18.7%, RCF ratio at 14%, Coverage ratio at 4.1x, and debt to capitalization at 43%. Going forward, Moody's expects material deterioration in KPCo's metrics following the acquisition of the Mitchell plant, since about $265 million of debt will be assumed. In addition, since KPCo decided to re-power Big Sandy Unit 1, it will have additional construction expenditures during this period. Thus, our expectation that AEP will provide sufficient equity capital to maintain an appropriate capital structure is crucial to the continuance of the current ratings.

Liquidity

KPCo's liquidity is adequate. KPCo participates in the AEP Utility Money Pool with a borrowing limit of $250 million,

which provides access to the parent company's liquidity. As of Third-quarter 2013, KPCo had a no borrowings from the Money Pool. KPCo also utilizes AEP's receivable securitization facility.

For the twelve months ending September 2013, KPCo generated approximately $78 million of cash from operations, invested approximately $86million in capital expenditures and made $27 million in upstream dividend payments to AEP, resulting in approximately $35 million of negative free cash flow. In 2014, we expect KPCo to generate between $100-140 million of cash from operations, invest approximately $100-120 million in capital expenditures and pay dividends between $20-30 to its parent. As of Sept 30th, KPCo has no long-term debt maturities until 2017. KPCo assumed a portion of the term loan maturity May 2015 with the Mitchell assets.

AEP's liquidity is adequate. AEP has two syndicated credit facilities totaling $3.5 billion that were renewed and extended in mid-2011. One is a $1.75 billion facility expiring June 2016, and the other is also a $1.75 billion facility (upsized from $1.5 billion) expiring in July 2017. The facilities permit same-day borrowing and have a combined letter of credit sub-limit of $1.2 billion. The facilities contain a covenant requiring that AEP's consolidated debt to capitalization (as defined) will not exceed 67.5%. AEP states the actual ratio was 50.9% at Third-quarter 2013, indicating substantial headroom. AEP is not required to make a representation with respect to either material adverse change or material litigation in order to borrow under the facility. Default provisions exclude payment defaults and insolvency/bankruptcy of subsidiaries that are not significant subsidiaries per the SEC definition (in general, this would exclude subsidiaries representing less than 10% of assets or income, but AEP Texas Central and Southwestern Electric Power Company are also effectively excluded as significant subsidiaries due to definitional adjustments in the credit facilities. In July 2013, AEP Generating Resources (AEPGenCo, not rated), APCo, KPCo, and OPCo entered into a $1 billion term credit facility due in May 2015 to fund certain OPCo maturities on an interim basis and to facility its corporate separation of generation assets from transmission and distribution. As of third-quarter 2013, the outstanding position is $600 million

As of LTM third-quarter 2013, AEP had $147 million of cash on hand and approximately $2.8 billion of availability under its two syndicated revolving credit facilities after giving effect to $518 million of commercial paper outstanding and $185 million of issued letters of credit. In June 2012, AEP renewed its $700 million accounts receivable securitization, of which only the $315 million multi-year portion is included as an available source in our liquidity testing. On a consolidated basis for LTM third-quarter 2013, AEP generated approximately $4.2 billion in CFO pre-WC, made approximately $3.7 billion in capital investments and net asset purchases, and paid about $938 million in dividends, resulting in roughly $438 million of negative free cash flow. Including securitization bonds, put bonds and other amortizations, AEP has debt maturities of $1140 in 2014. Over the next two years, Moody's estimates (based on adjusted company projections) that AEP will generate roughly average $4 billion annually in CFO pre-WC, spend about average of 4 billion annually in capital expenditures, and assuming $1 billion in dividends annually, yielding negative free cash flow of average $950 million per year.

Rating Outlook

The stable rating outlook for KPCo is primarily based on our expectation that the company will continue to maintain a constructive relationship with the KPSC following the transfer of the 50% interest in the Mitchell Plant and that AEP will provide the capital injections needed for KPCo to maintain the stabilized key financial credit metrics that support the current rating.

What Could Change the Rating - Up

Rating upgrades appear unlikely over the near to intermediate term horizon, primarily due to our expectation that KPCo will be challenged to maintain its financial profile in light of its recent plant acquisition. However, KPCo could be considered for a rating upgrade if it were to achieve key financial credit metrics, including CFO pre-WC plus interest over interest of approximately 4.5x and CFO pre-WC to debt of approximately 20% on a sustainable basis.

What Could Change the Rating - Down

KPCo's ratings could be downgraded if the regulatory environment were to take a more adversarial tone, especially; if material progress were not made in the next 12 months in meeting KPCo's post-Big Sandy capacity shortfall; if equity contributions from AEP were not forthcoming in a manner to maintain an appropriate capital structure; if there were a material, sustained decrease in retail sales and revenues (especially from industrial customers); or if there were a sustained deterioration in key financial credit metrics, for instance, a Coverage Ratio below 3.0x or CFO Pre-WC to debt in the low-teens.

Rating Factors

Kentucky Power Company

Regulated Electric and Gas Utilities Industry Grid [1][2]	**Current LTM 9/30/2013**		**[3]Moody's 12-18 Month Forward ViewAs of January 2014**	
Factor 1 : Regulatory Framework (25%)	**Measure**	**Score**	**Measure**	**Score**
a) Legislative and Judicial Underpinnings of the Regulatory Framework	A	A	A	A
b) Consistency and Predictability of Regulation	A	A	A	A
Factor 2 : Ability to Recover Costs and Earn Returns (25%)				
a) Timeliness of Recovery of Operating and Capital Costs	Baa	Baa	Baa	Baa
b) Sufficiency of Rates and Returns	Baa	Baa	Baa	Baa
Factor 3 : Diversification (10%)				
a) Market Position	Baa	Baa	Baa	Baa
b) Generation and Fuel Diversity	Ba	Ba	Ba	Baa
Factor 4 : Financial Strength (40%)				
a) CFO pre-WC + Interest / Interest (3 Year Avg)	3.9x	Baa	3.5x - 3.9x	Baa
b) CFO pre-WC / Debt (3 Year Avg)	18.0%	Baa	14% - 18%	Baa
c) CFO pre-WC - Dividends / Debt (3 Year Avg)	13.5%	Baa	10% - 12%	Baa
d) Debt / Capitalization (3 Year Avg)	43.2%	A	48% - 51%	Baa
Rating:				
Grid-Indicated Rating Before Notching Adjustment		Baa1		Baa2
HoldCo Structural Subordination Notching				
a) Indicated Rating from Grid		Baa2		Baa2
b) Actual Rating Assigned		Baa2		Baa2

[1] All ratios are based on 'Adjusted' financial data and incorporate Moody's Global Standard Adjustments for Non-Financial Corporations. [2] As of 9/30/2013(L); Source: Moody's Financial Metrics [3] This represents Moody's forward view; not the view of the issuer; and unless noted in the text, does not incorporate significant acquisitions and divestitures.

© 2014 Moody's Corporation, Moody's Investors Service, Inc., Moody's Analytics, Inc. and/or their licensors and affiliates (collectively, "MOODY'S"). All rights reserved.

CREDIT RATINGS ISSUED BY MOODY'S INVESTORS SERVICE, INC. ("MIS") AND ITS AFFILIATES ARE MOODY'S CURRENT OPINIONS OF THE RELATIVE FUTURE CREDIT RISK OF ENTITIES, CREDIT COMMITMENTS, OR DEBT OR DEBT-LIKE SECURITIES, AND CREDIT RATINGS AND RESEARCH PUBLICATIONS PUBLISHED BY MOODY'S ("MOODY'S PUBLICATION") MAY INCLUDE MOODY'S CURRENT OPINIONS OF THE RELATIVE FUTURE CREDIT RISK OF ENTITIES, CREDIT COMMITMENTS, OR DEBT OR DEBT-LIKE SECURITIES. MOODY'S DEFINES CREDIT RISK AS THE RISK THAT AN ENTITY MAY NOT MEET ITS CONTRACTUAL, FINANCIAL OBLIGATIONS AS THEY COME DUE AND ANY

ESTIMATED FINANCIAL LOSS IN THE EVENT OF DEFAULT. CREDIT RATINGS DO NOT ADDRESS ANY OTHER RISK, INCLUDING BUT NOT LIMITED TO: LIQUIDITY RISK, MARKET VALUE RISK, OR PRICE VOLATILITY. CREDIT RATINGS AND MOODY'S OPINIONS INCLUDED IN MOODY'S PUBLICATIONS ARE NOT STATEMENTS OF CURRENT OR HISTORICAL FACT. MOODY'S PUBLICATIONS MAY ALSO INCLUDE QUANTITATIVE MODEL-BASED ESTIMATES OF CREDIT RISK AND RELATED OPINIONS OR COMMENTARY PUBLISHED BY MOODY'S ANALYTICS, INC. CREDIT RATINGS AND MOODY'S PUBLICATIONS DO NOT CONSTITUTE OR PROVIDE INVESTMENT OR FINANCIAL ADVICE, AND CREDIT RATINGS AND MOODY'S PUBLICATIONS ARE NOT AND DO NOT PROVIDE RECOMMENDATIONS TO PURCHASE, SELL, OR HOLD PARTICULAR SECURITIES. NEITHER CREDIT RATINGS NOR MOODY'S PUBLICATIONS COMMENT ON THE SUITABILITY OF AN INVESTMENT FOR ANY PARTICULAR INVESTOR. MOODY'S ISSUES ITS CREDIT RATINGS AND PUBLISHES MOODY'S PUBLICATIONS WITH THE EXPECTATION AND UNDERSTANDING THAT EACH INVESTOR WILL, WITH DUE CARE, MAKE ITS OWN STUDY AND EVALUATION OF EACH SECURITY THAT IS UNDER CONSIDERATION FOR PURCHASE, HOLDING, OR SALE.

MOODY'S CREDIT RATINGS AND MOODY'S PUBLICATIONS ARE NOT INTENDED FOR USE BY RETAIL INVESTORS AND IT WOULD BE RECKLESS FOR RETAIL INVESTORS TO CONSIDER MOODY'S CREDIT RATINGS OR MOODY'S PUBLICATIONS IN MAKING ANY INVESTMENT DECISION. IF IN DOUBT YOU SHOULD CONTACT YOUR FINANCIAL OR OTHER PROFESSIONAL ADVISER.

ALL INFORMATION CONTAINED HEREIN IS PROTECTED BY LAW, INCLUDING BUT NOT LIMITED TO, COPYRIGHT LAW, AND NONE OF SUCH INFORMATION MAY BE COPIED OR OTHERWISE REPRODUCED, REPACKAGED, FURTHER TRANSMITTED, TRANSFERRED, DISSEMINATED, REDISTRIBUTED OR RESOLD, OR STORED FOR SUBSEQUENT USE FOR ANY SUCH PURPOSE, IN WHOLE OR IN PART, IN ANY FORM OR MANNER OR BY ANY MEANS WHATSOEVER, BY ANY PERSON WITHOUT MOODY'S PRIOR WRITTEN CONSENT.

All information contained herein is obtained by MOODY'S from sources believed by it to be accurate and reliable. Because of the possibility of human or mechanical error as well as other factors, however, all information contained herein is provided "AS IS" without warranty of any kind. MOODY'S adopts all necessary measures so that the information it uses in assigning a credit rating is of sufficient quality and from sources MOODY'S considers to be reliable including, when appropriate, independent third-party sources. However, MOODY'S is not an auditor and cannot in every instance independently verify or validate information received in the rating process or in preparing the Moody's Publications.

To the extent permitted by law, MOODY'S and its directors, officers, employees, agents, representatives, licensors and suppliers disclaim liability to any person or entity for any indirect, special, consequential, or incidental losses or damages whatsoever arising from or in connection with the information contained herein or the use of or inability to use any such information, even if MOODY'S or any of its directors, officers, employees, agents, representatives, licensors or suppliers is advised in advance of the possibility of such losses or damages, including but not limited to: (a) any loss of present or prospective profits or (b) any loss or damage arising where the relevant financial instrument is not the subject of a particular credit rating assigned by MOODY'S.

To the extent permitted by law, MOODY'S and its directors, officers, employees, agents, representatives, licensors and suppliers disclaim liability for any direct or compensatory losses or damages caused to any person or entity, including but not limited to by any negligence (but excluding fraud, willful misconduct or any other type of liability that, for the avoidance of doubt, by law cannot be excluded) on the part of, or any contingency within or beyond the control of, MOODY'S or any of its directors, officers, employees, agents, representatives, licensors or suppliers, arising from or in connection with the information contained herein or the use of or inability to use any such information.

NO WARRANTY, EXPRESS OR IMPLIED, AS TO THE ACCURACY, TIMELINESS, COMPLETENESS, MERCHANTABILITY OR FITNESS FOR ANY PARTICULAR PURPOSE OF ANY SUCH RATING OR OTHER OPINION OR INFORMATION IS GIVEN OR MADE BY MOODY'S IN ANY FORM OR MANNER WHATSOEVER.

MIS, a wholly-owned credit rating agency subsidiary of Moody's Corporation ("MCO"), hereby discloses that most issuers of debt securities (including corporate and municipal bonds, debentures, notes and commercial paper) and preferred stock rated by MIS have, prior to assignment of any rating, agreed to pay to MIS for appraisal and rating services rendered by it fees ranging from $1,500 to approximately $2,500,000. MCO and MIS also maintain policies and procedures to address the independence of MIS's ratings and rating processes. Information regarding certain affiliations that may exist between directors of MCO and rated entities, and between entities who hold ratings from MIS and have also publicly reported to the SEC an ownership interest in MCO of more than 5%, is posted annually at www.moodys.com under the heading "Shareholder Relations — Corporate Governance — Director and Shareholder Affiliation Policy."

For Australia only: Any publication into Australia of this document is pursuant to the Australian Financial Services License of MOODY'S affiliate, Moody's Investors Service Pty Limited ABN 61 003 399 657AFSL 336969 and/or Moody's Analytics Australia Pty Ltd ABN 94 105 136 972 AFSL 383569 (as applicable). This document is intended to be provided only to "wholesale clients" within the meaning of section 761G of the Corporations Act 2001. By continuing to access this document from within Australia, you represent to MOODY'S that you are, or are accessing the document as a representative of, a "wholesale client" and that neither you nor the entity you represent will directly or indirectly disseminate this document or its contents to "retail clients" within the meaning of section 761G of the Corporations Act 2001. MOODY'S credit rating is an opinion as to the creditworthiness of a debt obligation of the issuer, not on the equity securities of the issuer or any form of security that is available to retail clients. It would be dangerous for "retail clients" to make any investment decision based on MOODY'S credit rating. If in doubt you should contact your financial or other professional adviser.

MOODY'S
INVESTORS SERVICE

Credit Opinion: Kentucky Power Company

Global Credit Research - 07 Feb 2013

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
Senior Unsecured	Baa2
Jr Subordinate Shelf	(P)Baa3
Commercial Paper	P-2

Contacts

Analyst	Phone
William Hunter/New York City	212.553.1761
William L. Hess/New York City	212.553.3837

Key Indicators

[1]**Kentucky Power Company**

	LTM 9/30/2012	2011	2010	2009
(CFO Pre-W/C + Interest) / Interest Expense	3.7x	3.8x	3.4x	3.9x
(CFO Pre-W/C) / Debt	17%	18%	15%	18%
(CFO Pre-W/C - Dividends) / Debt	12%	13%	11%	15%
Debt / Book Capitalization	42%	44%	46%	46%

[1] All ratios calculated in accordance with the Global Regulated Electric Utilities Rating Methodology using Moody's standard adjustments.

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

Opinion

Rating Drivers

Retiring Big Sandy will create need for substantial capacity additions

Constructive regulatory environment, but significant rate relief needed

Recently stabilized key financial metrics will be materially pressured by plant acquisitions

Maintenance of current ratings will depend on capital injections from the parent

Historically strong industrial sales showed some stress in 2012

Corporate Profile

Kentucky Power Company (KPCo, Baa2 senior unsecured, stable outlook) is a vertically integrated electric utility company headquartered in Frankfort, Kentucky and is a wholly owned subsidiary of American Electric Power Company (AEP, Baa2 senior unsecured, stable outlook). KPCo is one of AEP's smaller subsidiaries, with about $1 billion in rate base (6% of AEP's state jurisdictional total) and $1.6 billion assets (3% of AEP consolidated). KPCo's primary regulator is the Kentucky Public Service Commission (KPSC). KPCo's total owned generation capacity is 1,078 MW, entirely at the Big Sandy plant, and it purchases approximately 390 MW from its affiliate AEP Generating Company's (Baa2 stable) share of the Rockport plant under a long-term unit power agreement. KPCo's total capacity of approximately 1,468 MW is 100% coal. KPCo's 2011 peak demand was reported as 1,522 MW, one percent below 2010, leaving a negative reserve margin of approximately 4%, which KPCo has primarily met with purchases from its affiliates in the AEP Power Pool.

SUMMARY RATING RATIONAL

KPCo's Baa2 senior unsecured rating primarily reflect its reasonably constructive relationship with the Kentucky Public Service Commission, historical financial metrics that have improved to a level that is consistent with the rating, and the company's position as one of the smaller members the AEP family, balanced against a reserve deficit that will need to be addressed in serial rate filings, rates that are already high relative to in-state peers, and financial metrics that will likely be materially stressed as a result of planned asset acquisitions and other capacity purchases/construction that will be required to replace Big Sandy.

DETAILED RATING CONSIDERATIONS

REPLACING BIG SANDY CAPACITY AND ADDRESSING NEGATIVE RESERVE MARGINS

Big Sandy is expected to cease operation as a coal-fired plant in mid-2015. In May 2012, KPCo withdrew its application for a proposed $940 million environmental retrofit project at Big Sandy Unit 2 (800 MW), opting instead to retire that unit in 2015 and acquire a 50%, 780 MW ownership share in the Mitchell Plant from its affiliate Ohio Power Company (OPCo, Baa1, stable) for an estimated cost of $536 million , half of the asset's projected net book value at the time of closing. The Mitchell Plant consists of two environmentally-controlled coal-fired units with a total capacity of 1,560 MW . The other 50% interest is slated to be transferred to KPCo's affiliate Appalachian Power Company (APCo, Baa2 stable), who will also operate the plant. Both asset transfers remain subject to regulatory approvals (Kentucky filings were made in December 2012) and are expected to occur in late 2013 or early 2014.

By our calculation, even after the Mitchell transfer, KPCo will need approximately 580 MW of additional capacity to replace the remainder of Big Sandy capacity and to build its reserve margin. The company is exploring a re-powering to gas of Big Sandy Unit 1 (278 MW) and will issue an RFP for capacity replacements. One potential seller of capacity contracts is KPCo's unregulated Ohio generation affiliate, which will be acquiring most of OPCo's generation facilities. In addition, KPCo will also be responsible for a portion of the Rockport upgrades, but the company will pay these costs over time through higher capacity costs. In addition to regulatory approvals to increase rates commensurate with its higher rate base and capacity expenses, KPCo will require additional equity injections from AEP (the last received was in 2009) to maintain an appropriate capital structure. Overall, however, we view the decision to move forward with the Mitchell acquisition in lieu of the more expensive and operationally riskier Big Sandy retrofit as a credit positive.

A separate concern regarding the asset acquisition and environmental expenditures is the impact on rates. KPCo's average residential rate of 9.66 cents/KWh in 2011 was the highest among investor-owned utilities in the state, and 14% higher than the state average of 8.50 cents/KWh. KPCo estimates that the Mitchell Plant acquisition will raise rates by about 8% ; however, rates for all utilities in the state will increase due to expenditures that are proportionally as large or even larger, in the case of large scrubber installation programs. Higher rates could engender demand response changes among all customer classes. Rate design will be an important consideration, as materially higher rates could discourage industrial activity and/or encourage self generation by large industrial customers, especially if shale gas keeps natural gas prices depressed.

CONSTRUCTIVE REGULATORY ENVIRONMENT A CREDIT POSITIVE

Moody's views the regulatory environment in Kentucky as reasonably supportive to long-term credit stability, a material credit positive. In June 2010, the KPSC approved a not overly-generous rate settlement agreement for KPCo authorizing a $64 million rate increase, based on a 10.5% authorized ROE with 43% equity, and recovery of $23 million of storm costs over five years. However, electric utilities have generally been allowed to earn a return

on essentially all construction work in progress. Utilities can start to collect interim rates approximately six months after filing a rate case if the KPSC has not acted on it. There are also various riders and cost recovery mechanisms that help to avoid regulatory lag, including a fuel adjustment clause, an energy efficiency rider and, most significantly, an environmental cost recovery rider. Proceedings from the latter are conducted every two years. The KPSC has authorized significant amounts of environmental spending for some of the state's other investor-owned utilities, and Moody's expects that KPCo would be granted similar treatment for reasonable costs incurred to replace capacity that could not economically meet federally mandated environmental standards.

KPCo will require material rate relief over the next 12-24 months, with respect to the Mitchell plant, additional capacity and the potential abandonment costs at Big Sandy. It has also filed for recovery of certain cost deferrals, including approximately $30 million of costs incurred from 2004-2012 in connection with the company's mitigation studies and efforts to meet Federal Clean Air Act and other environmental requirements at its Big Sandy Unit 2 .

RECENTLY STABILIZED CREDIT METRICS WILL BE MATERIALLY PRESSUED BY PLANT ACQUISITION AND OTHER NEW CAPACITY NEEDS

On balance, KPCo's financial credit metrics have mostly been appropriate for its Baa2 rating category over the past four years, after rebounding from a low point in 2008. On a three year average basis through 9/30/12, KPCO's ratio of cash from operations before working capital adjustments (CFO Pre-WC) to debt (16.1%), its ratio of CFO Pre-WC minus dividends to debt (RCF ratio, 11.8%) and its ratio of CFO Pre-WC + Interest/Interest (3.4x) were barely in line with mid-Baa scoring, whereas the Debt/Capitalization ratio (44%) was more in line with a low-A scoring. On a one year basis LTM 9/30/12 ratios were all stronger than the three year average ratios, with the exception of the RCF ratio, due to somewhat higher dividends. Going forward, we expect materialdeterioration in metrics following the acquisition of the Mitchell plant, since a relatively large amount of additional debt will be assumed. In addition, if KPCo decides to re-power Big Sandy Unit 1, it may have additional construction expenditures during this period. Thus, our expectation that AEP will provide sufficient equity capital to maintain an appropriate capital structure is crucial to the continuance of the current ratings.

HISTORICALLY STRONG INDUSTRIAL SALES SHOWED SOME STRESS IN 2012

Although KPCo's service territory is in the easternmost part of the state, with few urban areas other than Ashland, industrial sales represent a high percentage of total production - about 47% of retail KWh sales and 35% of retail revenues. Of the 10 largest industrial customers, which represent 67% of industrial sales, there are six coal mining companies, two steel manufacturers, one refinery, and one chemical company . Industrial sales were remarkably stable from 2006-2011, even during the recession, in part because coal prices have been generally been sufficient to keep the mines active; however, industrial sales for LTM 9/30/12 declined 4% relative to calendar 2011 . Recent Central Appalachian coal price declines could continue to negatively affect overall KWh demand. KPCo's territory is on the western edge of the Utica shale formation, which may spur further energy development in the longer term.

DISSOLUTION OF THE AEP POWER POOL ADDS A MODICUM OF UNCERTAINTY

In December 2010, all the members of the AEP Power Pool gave notice to terminate the FERC-regulated Interconnection Agreement (IA) under which they purchase, sell, and share the costs of capacity, effective January 2014 or as determined by FERC. The primary initial reason for termination was the dissatisfaction of Virginia regulators with the impact of the IA, including the cost sharing provisions, on affiliate Appalachian Power Company (APCo, Baa2, stable). Subsequently, Ohio regulators decided to cause the generation of affiliate Ohio Power Company (OPCo, Baa2, stable) to transition to competition, fundamentally changing the underpinning logic for the Power Pool.

In October 2012, AEP submitted a Power Coordination Agreement to FERC, under which it proposes that KPCo, APCo and their affiliate Indiana Michigan Power Company (I&M, Baa2 stable) will coordinate capacity planning starting in January 2014, with American Electric Power Service Corporation (AEPSC, not rated) acting as agent (including review of procedures for cost and benefit allocations). Under the new arrangement, generation will no longer be planned on a single-system basis. Rather, each operating company, assisted by AEPSC, will be required to own or contract for sufficient generation to meet its respective load and reserve obligations. While sales and purchases of capacity, energy and hedges will generally be coordinated, when possible they will be entered into by or specifically assigned to one utility, though joint ownership of facilities is also contemplated. The agreement will be administered by an Operating Committee consisting of representatives of each operating company and AEPSC, with decisions on a simple majority vote. There is no obligation for the utilities to first sell their energy or capacity to each other before selling to third parties, from which we infer that sales to affiliates will mostly occur at

a market price. Any company can exit the agreement with only 12 months notice.

For its part, KPCo will need to address its current capacity shortfall through asset acquisitions and/or capacity purchases at market prices.

Liquidity

KPCo's liquidity is adequate. This scoring is based on our projection, assuming no access to the public debt or equity markets, of KPCo's ability to fund its maturing obligations and to maintain its current Capex plans (excluding the purchase Mitchell, which would not close if financing were not available) and dividend levels for at least four quarters without fully exhausting its committed credit facilities. KPCo participates in the AEP Utility Money Pool with a borrowing limit of $250 million, which provides access to the parent company's liquidity. As of 9/30/12, KPCo had a balance of $34 million invested in the Money Pool, compared to the $70 million invested as of 12/31/11. KPCo also utilizes AEP's receivable securitization facility.

For the twelve months ending September 2012, KPCo generated approximately $85 million of cash from operations, invested approximately $94 million in capital expenditures and made $34 million in upstream dividend payments to AEP, resulting in approximately $43 million of negative free cash flow. In 2013, we expect KPCo to generate approximately $80 million of cash from operations, invest approximately $90 million in capital expenditures and pay minimal upstream dividends to its parent due to the asset purchase. KPCo has no long-term debt maturities until 2017.

AEP's liquidity is adequate. AEP has two syndicated credit facilities totaling $3.25 billion that were renewed and extended in mid-2011. One is a $1.5 billion facility expiring June 2015. The other is a $1.75 billion facility (upsized from $1.5 billion) expiring in July 2016. The facilities permit same-day borrowing and have a combined letter of credit sub-limit of $1.35 billion. The facilities contain a covenant requiring that AEP's consolidated debt to capitalization (as defined) will not exceed 67.5% (AEP states the actual ratio was 50% at 9/30/12, indicating substantial headroom). AEP is not required to make a representation with respect to either material adverse change or material litigation in order to borrow under the facility. Default provisions exclude payment defaults and insolvency/bankruptcy of subsidiaries that are not significant subsidiaries per the SEC definition (in general, this would exclude subsidiaries representing less than 10% of assets or income, but AEP Texas Central and Southwestern Electric Power Company are also effectively excluded as significant subsidiaries due to definitional adjustments in the credit facilities). In June 2012, AEP renewed its $700 million accounts receivable securitization (down from $750 million), of which only the $315 million multi-year portion is included as an available source in Moody's liquidity testing.

As of 9/30/12, AEP had $443 million of cash on hand and approximately $2.6 billion of availability under its two syndicated revolving credit facilities after giving effect to $520 million of commercial paper outstanding and $132 million of issued letters of credit.

On a consolidated basis for the 12 months ended 9/30/12, AEP generated approximately $3.9 billion in cash from operations, made approximately $3.2 billion in capital investments and net asset purchases and paid about $920 million in dividends, resulting in roughly $220 million of negative free cash flow. Including securitization bonds, put-able bonds and other amortizations, AEP has debt maturities of approximately $1.79 billion in 2013, and $995 million in 2014 . Over the next two years, we estimate that AEP will generate roughly $4.1 billion annually in cash from operations, spend about $3.9 billion annually in capital expenditures and pay approximately $925-950 million in dividends annually, yielding negative free cash flow of about $750 million per year.

Rating Outlook

The stable rating outlook for KPCo is primarily based on our expectation that the company will continue to maintain a constructive relationship with the KPSC during the serial rate increase requests expected during the next 12-24 months, and that AEP will provide the capital injections needed for KPCo to maintain the stabilized key financial credit metrics that support the current rating.

What Could Change the Rating - Up

Rating upgrades appear unlikely over the near to intermediate term horizon, primarily due to our expectation that KPCo will be challenged to maintain its financial profile in light of its plant acquisition plans. However, KPCo could be considered for a rating upgrade if it were to achieve key financial credit metrics, including CFO pre-W/C plus interest over interest of approximately 4.5x and CFO pre-W/C to debt of approximately 20% on a sustainable basis.

What Could Change the Rating - Down

KPCo's ratings could be downgraded if the regulatory environment were to take a more adversarial tone, especially with respect to the recent asset acquisition filing; if material progress were not made in the next 12 months in meeting KPCo's post-Big Sandy capacity shortfall; if equity contributions from AEP were not forthcoming in a manner to maintain an appropriate capital structure; if there were a material, sustained decrease in retail sales and revenues (especially from industrial customers); or if there were a sustained deterioration in key financial credit metrics, for instance, a Coverage Ratio below 3.0x or CFO Pre-WC to debt in the low-teens.

Rating Factors

Kentucky Power Company

Regulated Electric and Gas Utilities Industry [1][2]	**Current 9/30/2012**		**Moody's 12-18 month Forward View* As of February 2013**	
Factor 1: Regulatory Framework (25%)	**Measure**	**Score**	**Measure**	**Score**
a) Regulatory Framework		Baa		Baa
Factor 2: Ability To Recover Costs And Earn Returns (25%)				
a) Ability To Recover Costs And Earn Returns		Baa		Baa
Factor 3: Diversification (10%)				
a) Market Position (5%)		Baa		Baa
b) Generation and Fuel Diversity (5%)		B		B
Factor 4: Financial Strength, Liquidity And Key Financial Metrics (40%)				
a) Liquidity (10%)		Baa		Baa
b) CFO pre-WC + Interest/ Interest (3 Year Avg) (7.5%)	3.5x	Baa	3.0 - 3.5x	Baa
c) CFO pre-WC / Debt (3 Year Avg) (7.5%)	16.1%	Baa	11 - 14%	Baa
d) CFO pre-WC - Dividends / Debt (3 Year Avg) (7.5%)	11.8%	Baa	13 - 17%	Baa
e) Debt/Capitalization (3 Year Avg) (7.5%)	44.0%	A	43 - 46%	Ba
Rating:				
a) Indicated Rating from Grid		Baa2		Baa3
b) Actual Rating Assigned		Baa2		Baa2

* THIS REPRESENTS MOODY'S FORWARD VIEW; NOT THE VIEW OF THE ISSUER; AND UNLESS NOTED IN THE TEXT DOES NOT INCORPORATE SIGNIFICANT ACQUISITIONS OR DIVESTITURES

[1] All ratios are calculated using Moody's Standard Adjustments. [2] As of 9/30/2012; Source: Moody's Financial Metrics

© 2013 Moody's Investors Service, Inc. and/or its licensors and affiliates (collectively, "MOODY'S"). All rights reserved.

CREDIT RATINGS ISSUED BY MOODY'S INVESTORS SERVICE, INC. ("MIS") AND ITS AFFILIATES ARE MOODY'S CURRENT OPINIONS OF THE RELATIVE FUTURE CREDIT RISK OF ENTITIES, CREDIT COMMITMENTS, OR DEBT OR DEBT-LIKE SECURITIES, AND CREDIT RATINGS AND RESEARCH PUBLICATIONS PUBLISHED BY MOODY'S ("MOODY'S PUBLICATIONS") MAY INCLUDE MOODY'S CURRENT OPINIONS OF THE RELATIVE FUTURE CREDIT RISK OF ENTITIES, CREDIT COMMITMENTS, OR DEBT OR DEBT-LIKE SECURITIES. MOODY'S DEFINES CREDIT RISK AS THE RISK THAT AN ENTITY MAY NOT MEET ITS CONTRACTUAL, FINANCIAL OBLIGATIONS AS THEY COME DUE AND ANY ESTIMATED FINANCIAL LOSS IN THE EVENT OF DEFAULT. CREDIT RATINGS DO NOT ADDRESS ANY OTHER RISK, INCLUDING BUT NOT LIMITED TO: LIQUIDITY RISK, MARKET VALUE RISK, OR PRICE VOLATILITY. CREDIT RATINGS AND MOODY'S OPINIONS INCLUDED IN MOODY'S PUBLICATIONS ARE NOT STATEMENTS OF CURRENT OR HISTORICAL FACT. CREDIT RATINGS AND MOODY'S PUBLICATIONS DO NOT CONSTITUTE OR PROVIDE INVESTMENT OR FINANCIAL ADVICE, AND CREDIT RATINGS AND MOODY'S PUBLICATIONS ARE NOT AND DO NOT PROVIDE RECOMMENDATIONS TO PURCHASE, SELL, OR HOLD PARTICULAR SECURITIES. NEITHER CREDIT RATINGS NOR MOODY'S PUBLICATIONS COMMENT ON THE SUITABILITY OF AN INVESTMENT FOR ANY PARTICULAR INVESTOR. MOODY'S ISSUES ITS CREDIT RATINGS AND PUBLISHES MOODY'S PUBLICATIONS WITH THE EXPECTATION AND UNDERSTANDING THAT EACH INVESTOR WILL MAKE ITS OWN STUDY AND EVALUATION OF EACH SECURITY THAT IS UNDER CONSIDERATION FOR PURCHASE, HOLDING, OR SALE.

ALL INFORMATION CONTAINED HEREIN IS PROTECTED BY LAW, INCLUDING BUT NOT LIMITED TO, COPYRIGHT LAW, AND NONE OF SUCH INFORMATION MAY BE COPIED OR OTHERWISE REPRODUCED, REPACKAGED, FURTHER TRANSMITTED, TRANSFERRED, DISSEMINATED, REDISTRIBUTED OR RESOLD, OR STORED FOR SUBSEQUENT USE FOR ANY SUCH PURPOSE, IN WHOLE OR IN PART, IN ANY FORM OR MANNER OR BY ANY MEANS WHATSOEVER, BY ANY PERSON WITHOUT MOODY'S PRIOR WRITTEN CONSENT. All information contained herein is obtained by MOODY'S from sources believed by it to be accurate and reliable. Because of the possibility of human or mechanical error as well as other factors, however, all information contained herein is provided "AS IS" without warranty of any kind. MOODY'S adopts all necessary measures so that the information it uses in assigning a credit rating is of sufficient quality and from sources Moody's considers to be reliable, including, when appropriate, independent third-party sources. However, MOODY'S is not an auditor and cannot in every instance independently verify or validate information received in the rating process. Under no circumstances shall MOODY'S have any liability to any person or entity for (a) any loss or damage in whole or in part caused by, resulting from, or relating to, any error (negligent or otherwise) or other circumstance or contingency within or outside the control of MOODY'S or any of its directors, officers, employees or agents in connection with the procurement, collection, compilation, analysis, interpretation, communication, publication or delivery of any such information, or (b) any direct, indirect, special, consequential, compensatory or incidental damages whatsoever (including without limitation, lost profits), even if MOODY'S is advised in advance of the possibility of such damages, resulting from the use of or inability to use, any such information. The ratings, financial reporting analysis, projections, and other observations, if any, constituting part of the information contained herein are, and must be construed solely as, statements of opinion and not statements of fact or recommendations to purchase, sell or hold any securities. Each user of the information contained herein must make its own study and evaluation of each security it may consider purchasing, holding or selling. NO WARRANTY, EXPRESS OR IMPLIED, AS TO THE ACCURACY, TIMELINESS, COMPLETENESS, MERCHANTABILITY OR FITNESS FOR ANY PARTICULAR PURPOSE OF ANY SUCH RATING OR OTHER OPINION OR INFORMATION IS GIVEN OR MADE BY MOODY'S IN ANY FORM OR MANNER WHATSOEVER.

MIS, a wholly-owned credit rating agency subsidiary of Moody's Corporation ("MCO"), hereby discloses that most issuers of debt securities (including corporate and municipal bonds, debentures, notes and commercial paper) and preferred stock rated by MIS have, prior to assignment of any rating, agreed to pay to MIS for appraisal and rating services rendered by it fees ranging from $1,500 to approximately $2,500,000. MCO and MIS also maintain policies and procedures to address the independence of MIS's ratings and rating processes. Information regarding certain affiliations that may exist between directors of MCO and rated entities, and between entities who hold ratings from MIS and have also publicly reported to the SEC an ownership interest in MCO of more than 5%, is posted annually at www.moodys.com under the heading "Shareholder Relations — Corporate Governance — Director and Shareholder

Affiliation Policy."

For Australia only: Any publication into Australia of this document is pursuant to the Australian Financial Services License of MOODY'S affiliate, Moody's Investors Service Pty Limited ABN 61 003 399 657AFSL 336969 and/or Moody's Analytics Australia Pty Ltd ABN 94 105 136 972 AFSL 383569 (as applicable). This document is intended to be provided only to "wholesale clients" within the meaning of section 761G of the Corporations Act 2001. By continuing to access this document from within Australia, you represent to MOODY'S that you are, or are accessing the document as a representative of, a "wholesale client" and that neither you nor the entity you represent will directly or indirectly disseminate this document or its contents to "retail clients" within the meaning of section 761G of the Corporations Act 2001. MOODY'S credit rating is an opinion as to the creditworthiness of a debt obligation of the issuer, not on the equity securities of the issuer or any form of security that is available to retail clients. It would be dangerous for retail clients to make any investment decision based on MOODY'S credit rating. If in doubt you should contact your financial or other professional adviser.