Kentucky Power Company

A Subsidiary of American Electric Power Company, Inc.
Full Rating Report

Ratings

Long-Term IDR	BBB–
Senior Unsecured	BBB

IDR – Issuer Default Rating.

Rating Outlook

Outlook Negative

Financial Data

Kentucky Power Co.

($ Mil.)	12/31/12	12/31/11
Revenue	625	728
EBITDA	163	153
Free Cash Flow	(83)	6
Total Adjusted Debt	558	556
FFO	102	102
Capex	(102)	(66)
FFO/Debt (%)	18.28	18.35
EBITDA/Interest (x)	4.29	4.14

Source: Fitch.

Related Research

Fitch Affirms AEP & Units; Outlook Negative for AEP, Kentucky Power & Ohio Power Company (February 2013)

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Key Rating Drivers

Negative Rating Outlook: Expected changes to Kentucky Power Company's (KPCO) generation profile and power procurement practices will pressure KPCO's financial profile. KPCO currently participates in parent company, American Electric Power Company, Inc.'s (AEP, 'BBB', Negative) eastern power pool, which will terminate at year-end 2013. KPCO's coal-fired generation plant will be retired or repowered by 2016.

Parent Linkage: KPCO's ratings are supported by the operational, financial and functional ties to its parent, AEP**.** The utility participates in the AEP money pool and the AEP eastern power pool. Changes to KPCO's generation and power procurement profile will likely require financial support from AEP.

Higher Business Risk Profile: KPCO's credit profile over the rating horizon (2013–2015) will remain pressured with pronounced uncertainties and variables from required regulatory approvals of its new generating capacity plan, timing of the approval of the general rate case application and the additional environmental compliance costs if it invests in another coal-fired power plant.

Weakening Credit Profile: At the end of 2012, FFO-based credit metrics, FFO/debt and FFO/interest expenses, were 18% and 3.7x, respectively. These support the company's current Issuer Default Rating (IDR). However, these measures are likely to be pressured when KPCO retires or repowers its only coal plant, which will require substantial investment in new capacity. In addition, higher routine operating costs will pressure cash flow over the rating horizon.

Supportive Regulatory Environment: Fitch Ratings considers the regulatory environment in Kentucky as constructive. A supportive regulatory environment is one of the key rating drivers, given that timely and adequate recovery of invested capital will be required to maintain credit protection measures.

New Generating Capacity: Retirement of KPCO's coal-fired generating capacity by 2016 and the termination of the power pool agreement at the end of 2013 will require either repowering of its existing generating facility, the purchase of another existing power generation facility or the construction of a new power plant. These options will require regulatory approval and result in higher leverage.

Rating Sensitivities

Positive Rating Action: A positive rating action is unlikely at this time given the uncertainty around the company's generating capacity and rising operating costs.

Negative Rating Action: An inability to earn an adequate and timely return on investment would pressure credit ratings. Fitch will take a negative rating action if FFO-based credit metrics, FFO to debt and FFO to interest expenses, remain below 13% and 3.2x respectively on a sustainable basis in a normal operating environment.

Financial Overview

Liquidity and Debt Structure

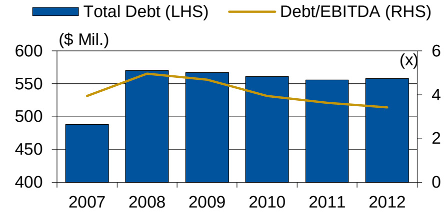
KPCO shares a liquidity facility maintained by its parent, AEP. AEP's money pool operates in accordance with the terms and conditions approved in a regulatory order. KPCO's borrowing limit is $250 million and the outstanding borrowing at the end of March 2013 was about $11 million.

Debt Maturities and Liquidity at End- 2012

Debt Maturities	(USD Mil.)
2013	—
2014	—
2015	—
2016	—
After 2017	549
Cash and Cash Equivalents	1

Source: Company reports, Fitch.

Total Debt and Leverage



Source: Company reports, Fitch.

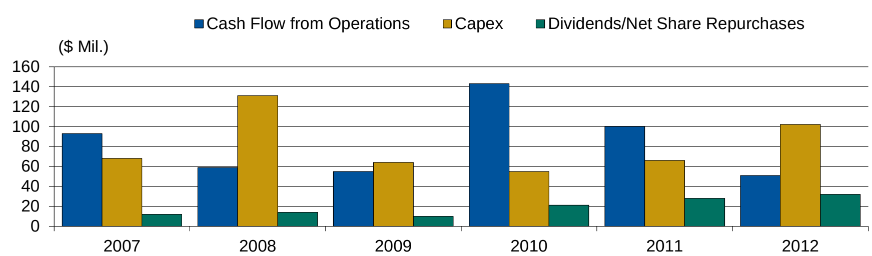
At the end of March 2013, AEP had $3.7 billion in available liquidity, including $179 million in cash and cash equivalents.

KPCO has no long-term debt maturities before 2017. Lower capital expenditure and a regulatory order approving an increase in general rates in 2010 helped the company to lower its leverage. However, leverage is expected to increase as a result of the additional investment needed for repowering of its existing plant or to acquire new generating capacity.

Cash Flow Analysis

Cash flow from operations benefitted from additional revenues from an approved base rate increase in 2010 and lower capital and maintenance spending with the anticipated closure of its power plants by 2016. The company will need to repower its retiring generating assets or invest in additional generating capacity and these options will require regulatory approval. It also needs to file a request for a base rate increase with the Kentucky Public Service Commission (KPSC) to maintain its credit profile.

CFO and Cash Use



Source: Company reports, Fitch.

Related Criteria

Corporate Rating Methodology (August 2012)

Short-Term Ratings Criteria for Non-Financial Corporates (August 2012)

Rating North American Utilities, Power, Gas, and Water Companies (May 2011)

Peer Group

Issuer	Country
BBB	
Westar Energy, Inc.	United States
BBB–	
Empire District Electric Company	United States
Indianapolis Power & Light Co.	United States

Issuer Rating History

Date	LT IDR (FC)	Outlook/ Watch
Feb. 22, 2013	BBB–	Negative
Feb. 27, 2012	BBB–	Stable
Feb. 28, 2011	BBB–	Stable
Sep. 9, 2010	BBB–	Stable
Aug. 20, 2009	BBB–	Stable
Apr. 24, 2008	BBB–	Stable
Apr. 17, 2007	BBB–	Stable
Dec. 6, 2005	BBB–	Stable
Jun. 28, 2002	BBB	Stable
Jun. 1, 2000	BBB	N.A.

LT IDR (FC) – Long-term foreign-currency Issuer Default Rating. N.A. – Not applicable.
Source: Fitch.

Peer Group Analysis

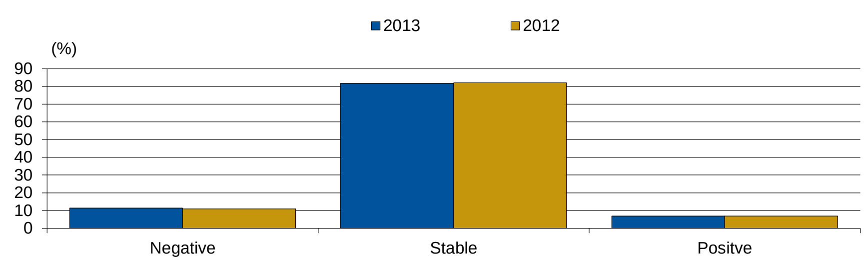
	Kentucky Power Co.	Westar Energy, Inc.	Empire District Electric Company	Indianapolis Power & Light Co.
LTM as of	12/31/12	12/31/12	12/31/12	12/31/12
Long-Term IDR	BBB–	BBB	BBB–	BBB–
Outlook	Rating Outlook Negative	Rating Outlook Stable	Rating Outlook Stable	Rating Outlook Stable
Financial Statistics ($ Mil.)				
Revenue	625	2,261	558	1,230
EBITDA	163	849	192	407
Free Cash Flow	(83)	(366)	(20)	15
Total Adjusted Debt	558	3,544	717	1,044
Funds Flow from Operations	102	733	166	295
Capex	(102)	(807)	(137)	(130)
Credit Metrics (x)				
EBITDA/Gross Interest Coverage	4.29	4.38	4.57	6.90
Debt/FFO	5.47	4.84	4.32	3.54
Debt/EBITDA	3.42	4.17	3.73	2.56
FFO Interest Coverage	3.68	4.78	4.95	6.00
Capex/Depreciation (%)	185.46	289.25	228.33	73.45

Source: Company reports, Fitch.

Peer and Sector Analysis

Uncertainty around the timing and the recovery of capital expenditure associated with the replacement of retiring generating capacity and the recovery of increased operating costs has led Fitch to assign a Negative Outlook as the credit metrics will be weak over the rating horizon (2013–2015). Westar Energy, Inc.'s credit profile will benefit from recovery of new capital spent through rate riders over the rating horizon, even though its credit profile is currently stressed by the environmental capital expenditure the company is undertaking. Empire District Electric Company's credit profile benefits from diversified cash flow, cost-tracking mechanisms in Missouri and rate increases implemented in 2010 that included recovery of costs related to the construction of a new coal-fired power plant. Indiana Power and Light Company's credit metrics benefit from a strong regulatory framework in Indiana, but its rating is constrained by the credit profile of its weak parent, IPALCO Enterprises Inc. Fitch expects credit protection measures to decline over the rating horizon due to a large capital spending program, but to remain within the range for the company's current IDR.

Sector Outlook Distribution



Source: Fitch.

Fitch's 2013 Outlook for the sector is Stable. Vertically integrated utilities are inherently low risk, but operating conditions are becoming more challenging with slowing sales growth, diminishing returns and the end of federal tax incentives that temporarily boosted cash flow over the last two years. Utilities have reduced regulatory risk by shifting cost recovery from general rate cases to standardized tariffs that provide greater certainty and timeliness of cost recovery. However, long-term risks to the Stable Outlook become more pronounced with technological changes improving efficiency and higher cost renewable and other energy resources. The low interest rate environment and low commodity prices are strong tailwinds in 2013.

Key Rating Issues

Future General Rate Case

Increased operating costs, retirement of its only coal-fired generating plant and the termination of its parent-sponsored power pool by the end of 2013 will require a general rate filing to recover expenses and capital investments.

Market Risk

Ten large customers account for about 67% of industrial sales, mainly concentrated around the coal industry. Stricter environmental regulations will increase the risk of lower revenues and Kentucky regulations currently do not provide decoupling for the recovery of lost revenues due to lower sales volume.

Environmental Expenditure

The company plans to replace its existing plant with another coal-fired plant in an increasingly stringent regulatory environment, adversely affecting operating costs and efficiency.

Definitions

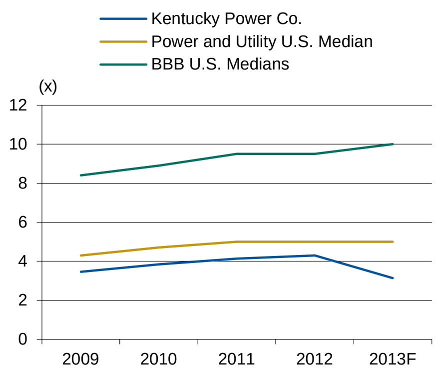
- Leverage: Gross debt plus lease adjustment minus equity credit for hybrid instruments plus preferred stock divided by FFO plus gross interest paid plus preferred dividends plus rental expense
- Interest Cover: FFO plus gross interest paid plus preferred dividends divided by gross interest paid plus preferred dividends
- FFO/Debt: FFO divided by gross debt plus lease adjustment minus equity credit for hybrid instruments plus preferred stock

Fitch's expectations are based on the agency's internally produced, conservative rating case forecasts. They do not represent the forecasts of rated issuers individually or in aggregate. Key Fitch forecast assumptions include:

- Reduced EBITDA contributions.
- Management's interest rate forecast was increases by 50 basis points.
- Fitch used debt financing of negative cash flow generated by its key assumptions to adjust management's forecast.

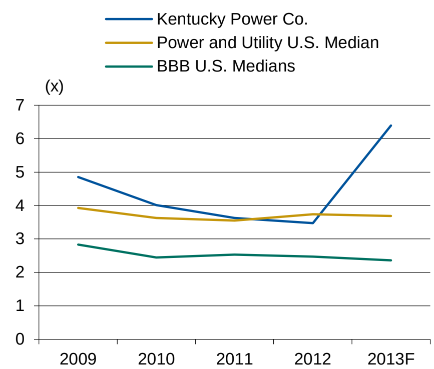
Key Metrics

Interest Coverage: Operating EBITDA/Gross Interest Expense



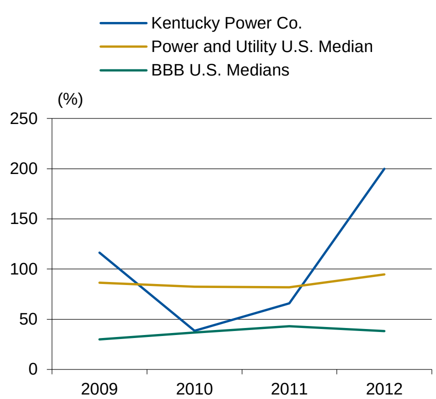
Source: Company data, Fitch.

Leverage: Total Adjusted Debt/ Operating EBITDAR



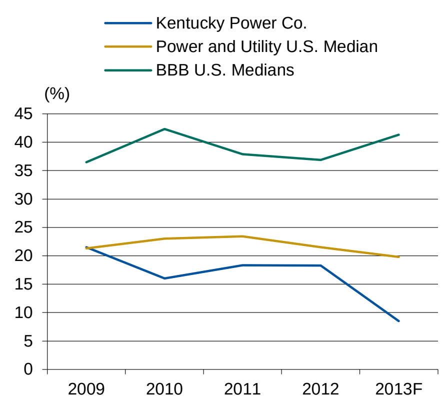
Source: Company data, Fitch.

Capex/CFO



Source: Company data, Fitch.

FFO/Debt



Source: Company data, Fitch.

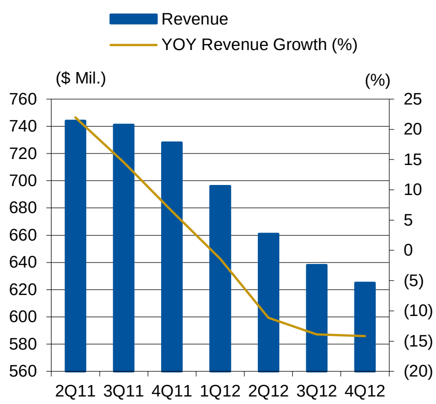
Company Profile

KPCO is a vertically integrated utility serving about 173,000 retail customers in eastern Kentucky. KPCO is a member of Pennsylvania-Jersey-Maryland Interconnection LLC's operated wholesale electricity market. The management of KPCO is focused on its core utility business and will be working with the regulators to find a reasonable alternative to its plan to mothball all of its generating capacity by 2016.

Business Trends

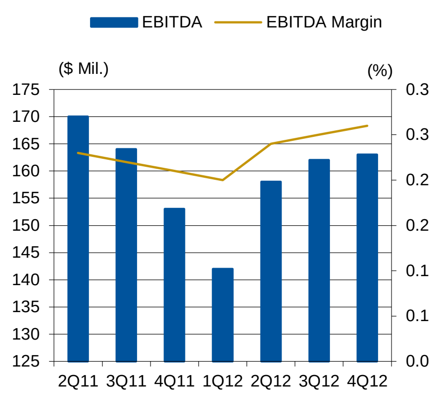
Declining revenues reflect expiry of various rate riders and related cost of goods sold. EBITDA remained stable in 2012 when compared to 2011. Fitch expects EBITDA to remain at the same level through 2015 or until the company receives regulatory approval to increase its electric rates.

Revenue Dynamics



Source: Company data, Fitch.

EBITDA Dynamics



Source: Company data, Fitch.

Organizational Structure — American Electric Power Co., Inc.

($ Mil., As of Dec. 31, 2012)

American Electric Power, Inc.
IDR: BBB

2.950% Sr. Unsecured Notes due 12/15/22	550
1.650% Sr. Unsecured Notes due 12/15/17	300

Appalachian Power Co.
IDR: BBB–

Floating Rate Sr. Unsecured Notes due 8/16/13	275
4.950% Sr. Unsecured Notes due 2/1/15	200
3.400% Sr. Unsecured Notes due 5/24/15	300
5.000% Sr. Unsecured Notes due 6/1/17	250
7.950% Sr. Unsecured Notes due 1/15/20	350
4.600% Sr. Unsecured Notes due 3/30/21	350
5.950% Sr. Unsecured Notes due 5/15/33	200
5.800% Sr. Unsecured Notes due 10/1/35	250
6.375% Sr. Unsecured Notes due 4/1/36	250
6.700% Sr. Unsecured Notes due 8/15/37	250
7.000% Sr. Unsecured Notes due 4/1/38	500
4.850% Pollution Control Bonds due 5/1/19	30
4.850% Pollution Control Bonds due 5/1/19	40
4.625% Pollution Control Bonds due 11/1/21	18
2.000% Pollution Control Bonds due 10/1/22	100
Floating Rate Pollution Control Bonds due 2/1/36	50
Floating Rate Pollution Control Bonds due 2/1/36	75
5.375% Pollution Control Bonds due 12/1/38	50
Adjustable Pollution Control Bonds due 1/1/41	65
Floating Rate Pollution Control Bonds due 12/1/42	54
Floating Rate Pollution Control Bonds due 12/1/42	50
Other Long-term Debt due 2026	2

Ohio Power Co.
IDR: BBB

5.500% Sr. Unsecured Notes due 2/15/13	250
5.500% Sr. Unsecured Notes due 3/1/13	250
5.750% Sr. Unsecured Notes due 9/1/13	250
4.850% Sr. Unsecured Notes due 1/15/14	225
6.000% Sr. Unsecured Notes due 6/1/16	350
6.050% Sr. Unsecured Notes due 5/1/18	350
5.375% Sr. Unsecured Notes due 10/1/21	500
6.600% Sr. Unsecured Notes due 2/15/33	250
6.600% Sr. Unsecured Notes due 3/1/33	250
6.375% Sr. Unsecured Notes due 7/15/33	225
5.850% Sr. Unsecured Notes due 10/1/35	250
Floating Rate Pollution Control Bonds due 7/1/14	50
5.150% Pollution Control Bonds due 5/1/26	50
2.875% Pollution Control Bonds due 12/1/27	39
4.900% Pollution Control Bonds due 6/1/37	65
3.875% Pollution Control Bonds due 12/1/38	60
5.800% Pollution Control Bonds due 12/1/38	32
Floating Rate Pollution Control Bonds due 6/1/41	79
5.100% Pollution Control Bonds due 11/1/42	56
3.125% Pollution Control Bonds due 6/1/43	86

AEP Texas Central Co.
IDR: BBB+

6.650% Sr. Unsecured Notes due 2/15/33	275
5.625% Pollution Control Bonds due 10/1/17	41
4.450% Pollution Control Bonds due 6/1/20	6
6.300% Pollution Control Bonds due 11/1/29	101
4.400% Pollution Control Bonds due 5/1/30	112
5.200% Pollution Control Bonds due 5/1/30	60
4.550% Pollution Control Bonds due 5/1/30	50
6.250% Securitization Bond due 1/15/16	*192*
4.980% Securitization Bond due 7/1/13	*75*
5.980% Securitization Bond due 7/15/13	*67*
5.090% Securitization Bond due 7/1/15	*250*
5.170% Securitization Bond due 1/1/18	*437*
5.306% Securitization Bond due 7/1/20	*495*
2.845% Securitization Bond due 2024	*312*
0.88 Securitization Bond due 2017	*273*
1.976% Securitization Bond due 2020	*180*

Southwestern Electric Power Co.
IDR: BBB–

5.375% Sr. Unsecured Notes due 4/15/15	100
4.900% Sr. Unsecured Notes due 7/1/15	150
5.550% Sr. Unsecured Notes due 1/15/17	250
5.875% Sr. Unsecured Notes due 3/1/18	300
6.450% Sr. Unsecured Notes due 1/15/19	400
3.550% Sr. Unsecured Notes due 2022	275
6.200% Sr. Unsecured Notes due 3/15/40	350
4.950% Pollution Control Bonds due 3/1/18	82
3.250% Pollution Control Bonds due 1/1/19	54
4.580% Notes Payable due 2032	63
6.370% Notes Payable due 10/31/24	25

AEP Texas North Co.
IDR: BBB+

5.500% Sr. Unsecured Notes due 3/1/13	225
5.890% Sr. Unsecured Notes due 4/1/18	30
6.760% Sr. Unsecured Notes due 4/1/38	70
4.500% Unsecured Debt due 2059	1
4.450% Pollution Control Bonds due 6/1/20	44

Indiana Michigan Power Co.
IDR: BBB–

5.050% Sr. Unsecured Notes due 11/15/14	175
5.650% Sr. Unsecured Notes due 12/1/15	125
7.000% Sr. Unsecured Notes due 3/15/19	475
6.050% Sr. Unsecured Notes due 3/15/37	400
Floating Rate Pollution Control Bonds due 10/1/19	25
Floating Rate Pollution Control Bonds due 11/1/21	52
5.250% Pollution Control Bonds due 4/1/25	40
6.250% Pollution Control Bonds due 6/1/25	50
6.250% Pollution Control Bonds due 6/1/25	50
6.250% Pollution Control Bonds due 6/1/25	50
1.913–5.440% Notes Payable due 2013–2016	224
Other Long-Term Debt due 2015–2025	130

Public Service Co. of Oklahoma
IDR: BBB

6.150% Sr. Unsecured Notes due 8/1/16	150
5.150% Sr. Unsecured Notes due 12/1/19	250
4.400% Sr. Unsecured Notes due 2/1/21	250
6.625% Sr. Unsecured Notes due 11/15/37	250
5.250% Pollution Control Bonds due 6/1/14	34
4.450% Pollution Control Bonds due 6/1/20	13
3.000% Notes Payable due 12/1/25	7

Kentucky Power Co.
IDR: BBB–

6.000% Sr. Unsecured Notes due 9/15/17	325
7.250% Sr. Unsecured Notes due 6/18/21	40
8.030% Sr. Unsecured Notes due 6/18/29	30
5.625% Sr. Unsecured Notes due 12/1/32	75
8.130% Sr. Unsecured Notes due 6/18/39	60

Other Subsidiaries

AEP Generating Co.	NR
Trent Wind Farm LP	NR
AEP River Operations LLC	NR
Desert Sky Wind Farm	NR
DCC Fuel	NR
Sabine Mining Co.	NR

NR – Not rated. IDR – Issuer Default Rating. Note: Issuances in italics are securitization bonds not included in Fitch's analysis.
Source: Company filings, Bloomberg, Fitch Ratings.

Financial Summary — Kentucky Power Co.

($ Mil. Fiscal Years Ended Dec. 31)	2008	2009	2010	2011	2012
Fundamental Ratios (x)					
FFO/Interest Expense	2.55	4.49	3.43	3.76	3.68
CFO/Interest Expense	2.55	2.57	4.86	3.70	2.34
FFO/Debt (%)	10.35	21.51	16.04	18.35	18.28
Operating EBIT/Interest Expense	1.74	1.94	2.38	2.68	2.84
Operating EBITDA/Interest Expense	3.03	3.46	3.84	4.14	4.29
Operating EBITDAR/(Interest Expense + Rent)	2.88	3.27	3.74	4.14	4.18
Debt/Operating EBITDA	4.96	4.69	3.95	3.63	3.42
Common Dividend Payout (%)	56.00	83.33	60.00	66.67	62.74
Internal Cash/Capital Expenditures (%)	35.16	54.69	230.19	109.09	18.63
Capital Expenditures/Depreciation (%)	267.35	120.76	101.85	122.22	185.46
Profitability					
Adjusted Revenues	666	633	684	728	625
Net Revenues	235	221	268	279	282
Operating and Maintenance Expense	112	90	116	114	108
Operating EBITDA	115	121	142	153	163
Depreciation and Amortization Expense	49	53	54	54	55
Operating EBIT	66	68	88	99	108
Gross Interest Expense	38	35	37	37	38
Net Income for Common	25	24	35	42	51
Operating and Maintenance Expense, % of Net Revenues	47.66	40.72	43.28	40.86	38.30
Operating EBIT, % of Net Revenues	28.08	30.77	32.84	35.48	38.30
Cash Flow					
Cash Flow from Operations	59	55	143	100	51
Change in Working Capital	—	(67)	53	(2)	(51)
Funds From Operations	**59**	**122**	**90**	**102**	**102**
Dividends	(14)	(20)	(21)	(28)	(32)
Capital Expenditures	(131)	(64)	(55)	(66)	(102)
Free Cash Flow	**(86)**	**(29)**	**67**	**6**	**(83)**
Net Other Investment Cash Flow	3	—	(66)	(3)	70
Net Change in Debt	81	(2)	(2)	(2)	(1)
Net Equity Proceeds	—	30	—	—	—
Capital Structure					
Short-Term Debt	131	—	—	—	—
Long-Term Debt	439	567	561	556	558
Total Debt	**570**	**567**	**561**	**556**	**558**
Total Hybrid Equity and Minority Interest	—	—	—	—	—
Common Equity	398	432	446	460	480
Total Capital	**968**	**999**	**1,007**	**1,016**	**1,038**
Total Debt/Total Capital (%)	58.88	56.76	55.71	54.72	53.76
Total Hybrid Equity and Minority Interest/Total Capital (%)	—	—	—	—	—
Common Equity/Total Capital (%)	41.12	43.24	44.29	45.28	46.24

Source: Company reports, Fitch.

The ratings above were solicited by, or on behalf of, the issuer, and therefore, Fitch has been compensated for the provision of the ratings.