

COMMONWEALTH OF KENTUCKY
 DEPARTMENT OF REVENUE
 OFFICE OF PROPERTY VALUATION
 PUBLIC SERVICE SECTION
 Station 32 4Th FL, 501 HIGH STREET
 FRANKFORT, KY 40601-2103
 Phone (502) 564-8175 Fax (502) 564-8192

NOTICE OF ASSESSMENT

KENTUCKY POWER CO
 JARED SCHMIED
 PO BOX 16428
 COLUMBUS, OH 43216-6428

GNC: 005220
 TYPE CO: EU
 TAX TYPE: 035
 TAX ID: 610247775

This Notice of Assessment will become final on 10/11/2014, 45 days from the notice date. A corresponding Notice of Tax Due is being sent from the Compliance and Accounts Receivable System based on the Total Assessment shown below. The Notice of Tax Due will provide the state tax liability, any applicable interest and/or filing penalties that may be assessed. Local taxes will be billed separately by the local taxing jurisdictions where your property is located.

If you protest this assessment, see enclosed 61F009 Notification-Protesting your Assessment. You must submit a written protest in accordance with KRS 131.110; and as required by KRS 132.825(10) and KRS136.180(2), your protest must specify the valuation you claim to be true. Your written protest stating your claimed value and your payment of tax for your claimed value must be submitted to the Department of Revenue on or before 10/11/2014 or no further remedies will be available regarding this assessment per KRS 134.590. Submit your protest and payment to: ATTN Public Service Section, State Valuation Branch, Office of Property Valuation, Department of Revenue, Station 32 4Th FL, 501 High Street, Frankfort, KY 40601-2103. You may contact the Public Service Section at Phone (502) 564-8175 and Fax (502) 564-8192.

NOTICE DATE: 08/27/2014 TAX YEAR: 2014 (For Year Ending December 31, 2013)

PROPERTY CLASS	TAX RATE Per \$100	ASSESSED VALUE	STATE TAX DUE
Subject to State and Local Tax			
Real Estate	0.122	\$79,231,598.00	\$96,662.55
**Tangible Personal Property	0.45	\$644,536,785.00	\$2,900,415.53
Business Inventory	0.05	\$0.00	\$0.00
Inventory In Transit	0.00	\$0.00	\$0.00
Subject to State Tax Only			
Foreign Trade Zone Property	0.001	\$0.00	\$0.00
Recycling Equipment	0.45	\$0.00	\$0.00
Manufacturing Machinery	0.15	\$441,225,249.00	\$661,837.87
Pollution Control Equipment	0.15	\$96,713,445.00	\$145,070.17
Telephonic Equipment	0.15	\$0.00	\$0.00
Business Inventory (MM)	0.05	\$58,292,923.00	\$29,146.46
Intangible NonOp	0.00	\$0.00	\$0.00
Intangible NonOp	0.00	\$0.00	\$0.00
IRB Property	0.015	\$0.00	\$0.00
IRB Property Nontaxable	0.00	\$0.00	\$0.00
TOTALS		\$1,320,000,000.00	\$3,833,132.58

** Excludes Motor Vehicles \$4,657,542.00

A 10% penalty is charged for late filed returns per KRS 132.290(3). A 20% penalty is charged for omitted property per KRS 132.290(4). Applicable interest will be applied when late or omitted.

KENTUCKY POWER COMPANY
 APPROACH: CORRELATION OF VALUES
 TAX YEAR: 2014

PREPARED BY: THOMAS
 DATE: 28-Aug-14
 GNC = 5220

Taxpayer Representative(s): 0
 Taxpayer Phone Number: (814) 716-2798
 Taxpayer FAX Number: (888) 743-2266

Compliance Statutes and Penalty Statutes: KRS 131.082 KRS 131.130 KRS 131.150 KRS 131.180 KRS 132.200 KRS 136.150 KRS 136.180 KRS 136.900

COST APPROACH	
TRADITIONAL COST APPROACH - HCLD	2,056,373,218
INCOME APPROACH	
DIRECT CAPITALIZATION	1,708,282,508
MARKET APPROACH:	
STOCK & DEBT	1,909,501,793
SALES APPROACH	0
CORRELATED UNIT VALUE	1,795,279,217

KENTUCKY ALLOCATION FACTOR 73.7856%

KENTUCKY ALLOCATED VALUE 1,324,657,542

LESS: Motor Vehicles & Apport Vehicles at KY Assessed Values	4,657,542
LESS: Railroad Car Lines at KY Assessed Values	0
LESS: Operating Leased Property - Locally Assessed KY Values	0
LESS: KY IRB Property-(Real/Tangible-Nontaxable)	0

KENTUCKY NonOperating & NonRegulated Property	
PLUS: Real Estate @ Mkt	0
PLUS: Tangible Property @ Mkt	0
PLUS: Man. Mach. Property @ Mkt	0
PLUS: Business inventory @ Mkt	0

KENTUCKY ASSESSMENT TO SPREAD 1,320,000,000

TOTAL KENTUCKY ASSESSMENT 1,320,000,000

KENTUCKY POWER COMPANY
 KENTUCKY ALLOCATION FACTOR
 TAX YEAR: 2014

PREPARED BY: THOMAS
 DATE: 28-Aug-14
 GNC = 5220

KENTUCKY ALLOCATION FACTOR

PROPERTY FACTORS

	KENTUCKY UNIT	TOTAL SYSTEM	
GROSS BOOK PROPERTY	1,050,018,557	2,978,445,150	65.4710%

Average Property Factor 65.4710%

BUSINESS FACTORS

	SCHEDULE A KENTUCKY UNIT	TOTAL SYSTEM	
GROSS OPERATING REVENUE	547,388,530	666,732,105	82.1002%

Average Business Factor 82.1002%

OVERALL KENTUCKY ALLOCATION FACTOR	73.7856%
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KENTUCKY POWER COMPANY
 APPROACH: HISTORIC COST LESS DEPRECIATION (HCLD)
 TAX YEAR: 2014

PREPARED BY: THOMAS
 DATE: 26-Aug-14
 GNC = 6220

SYSTEM WIDE PROPERTY	COMPANY BOOK VALUES	
Operating Hard Assets In Service		
(310-399) Operated Plant in Service	2,611,543,230	
(310-399) Asset Retirement Obligations	16,489,740	
(352.3) NonRecoverable Gas	0	
(101.1) Property Under Capital Lease	4,409,682	
(102) Electric Plant Purchased or Sold	0	
(103 & 103.1) Electric Plant Unclassified	0	
(105) Property Held for Future Use	7,405,959	
(106) Completed Construction Not Classified	71,803,255	
(107) CWIP Real	5,167,807	
(107) CWIP Personal	29,378,817	
(107) CWIP Manf. Mach.	94,082,824	
(114) Electric Plant Acquisition Adjustment	0	
(116) Other Electric Plant Adjustment	0	
(117) Gas Stored Underground - Noncurrent	0	
(118) Other Utility Plant	0	
(121) NonUtility Plant	995,120	
(151) Fuel Stock	88,640,523	
(152) Fuel Stock Expenses Undistributed	3,672,774	
(153) Residuals & Extracted Products	0	
(154) Plant Materials & Supplies	23,174,329	
(155) Merchandise	0	
(156) Other Materials & Supplies	0	
(163) Stores Expense Undistributed	0	
(164.1) Gas Stored Underground - Current Bus. Inventory	0	
(164.2) Liquefied Gas Stored & Held for Processing	0	
(164.3) Liquefied Gas Stored & Held for Processing	0	
(185) Temporary Facilities	0	
Contribution In Aid of Construction	0	
AFUDC	0	
Other: Operating Property Not on Books	0	
IRB Proptry (real/tangible: taxable & nontaxable portions)	0	
Other Misc. Assets, NET	0	
Computer Software(Same as FERC Account 303-Misc. Intangible Plant	15,737,270	
Operating Leased Property-Real @ Mkt.	824,818	
Operating Leased Property-Tangible @ Mkt.	5,149,804	
Operating Leased Property-Motor Vehicle @ Mkt.	0	
Operating Leased Property-Railroad Cars @ Mkt.	0	
Total Company Operating Hard Assets - GROSS		\$ 2,978,446,150
LESS: Accumulated Depreciation & Amortization		
(108, 110, 111, 115, 119, 121 & 122) Accumulated Depreciation &	961,254,300	
Misc. Physical Property Amortization	0	
IRB Proptry (real/tangible: taxable & nontaxable portions), Acc. I	0	
Total Depreciation		\$ 961,254,300
Total Company Operating Hard Assets - NET		\$ 2,017,190,850
Operating Intangible Assets In Service		
Cash Working Capital (see calculation page)	14,007,039	
(301) Organization	0	
(302) Franchises and Consents	62,919	
(303) Miscellaneous Intangible Plant	0	
(175 & 176) Derivative Instrument Assets NET	4,366,386	
(158.1 & 158.2) Allowance Inventory NET	20,766,022	
Permits, Contracts, Copyrights, Licenses, Trademarks, Patents	0	
Customer Base, Intellectual Property, other intangible assets	0	
Goodwill	0	
Total Company Operating Intangible Assets - GROSS		\$ 39,182,366
Less: Accumulated Depreciation & Amortization		
Organizational Cost Amortization	0	
Goodwill Amortization	0	
Other Intangible Amortization	0	
Total Depreciation		\$ -
Total Company Operating Intangible Assets - NET		\$ 39,182,366
VALUE AS INDICATED BY COST APPROACH		\$ 2,056,373,216

KENTUCKY POWER COMPANY
 APPROACH: INCOME
 TAX YEAR: 2014

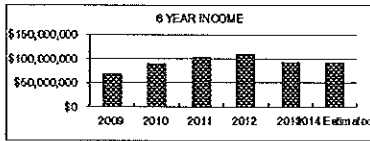
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2014 Estimated Pretax Operating Income	92,500,000
Effective Tax rate	<u>40.00%</u>
Estimated Net Operating Income	55,500,000
Plus: Depreciation and Amortization Expense	57,444,221
Plus: Op Lease Rentals After Income Tax	<u>827,400</u>
Operating Cash Flow from Operations after Taxes	113,771,621
Capitalization Rate	<u>6.66%</u>
Capitalized Value	<u>1,708,282,598</u>

UNIT VALUE AS INDICATED BY INCOME APPROACH 1,708,282,598

NORMALIZED PRETAX INCOME: (EBIT)	AMOUNT	%CHANGE
2009	\$69,924,253	
2010	\$89,603,740	30.00%
2011	\$103,069,777	15.03%
2012	\$110,478,164	7.19%
2013	\$92,514,387	-16.26%
2014 Estimated	\$ 92,500,000	-0.02% <i>Projected</i>



Estimated Pretax Earnings 92,500,000

NORMALIZED NOI AFTER INCOME ADJUSTMENTS

5 YEARS EARNINGS RECORD YEAR ENDING DECEMBER 31,	REPORTED NOI BEFORE TAX	PLUS ONE-TIME CHARGES BEFORE TAX	PLUS/MINUS MISC OPER INC BEFORE TAX	NORMALIZED PRETAX NOI	%INC(DEC)
2008 Net Operating Income, before taxes & interest:	69,503,235	0	0	69,503,235	
2009 Net Operating Income, before taxes & interest:	69,924,253	0	0	69,924,253	-0.8300%
2010 Net Operating Income, before taxes & interest:	89,603,740	0	0	89,603,740	30.0000%
2011 Net Operating Income, before taxes & interest:	103,069,777	0	0	103,069,777	15.0300%
2012 Net Operating Income, before taxes & interest:	110,478,164	0	0	110,478,164	7.1900%
2013 Net Operating Income, before taxes & interest:	92,514,387	0	0	92,514,387	-16.2600%
3 Year Average	<u>102,020,776</u>	0	0	102,020,776	1.9867%
5 Year Average	<u>92,918,064</u>	0	0	92,918,064	7.0260%

FORMULA METHOD

TOTAL OPERATION & MAINTENANCE EXPENSES (less taxes, depreciation & amortization expenses)	\$	503,403,140
Purchased Gas / Elec. / Power Expense	\$	296,482,810
Fuel Expense	\$	93,485,022
Operating Leased Rent Expense	\$	1,379,000
TOTAL	\$	<u>112,056,308</u>
Divided by 1/8		8
Cash Working Capital	\$	14,007,039

Definition of Cash Working Capital

The amount of money that the company must have available to cover day-to-day operations.
This represents the net cash on hand necessary to finance the day-to-day operations of a organization for 45 days (one and one half month's working capital).
How much cash does it take to operate this taxpayer's business a month and a half?
The amount represents a taxable asset in the unit cost approach.
Our office adopted the "one eighth rule" employed by the Kentucky public service commission and other states.
The taxpayer may use the Lead / Lag method. The company must compute the value.

KENTUCKY POWER COMPANY
 APPROACH: STOCK & DEBT
 TAX YEAR: 2014

PREPARED BY: THOMAS
 DATE: 26-Aug-14
 GNC = 6220

Common shares outstanding (per Annual Report) 487,777,372

Price per share

High Price per Year	51.60	
Low Price per Year	41.83	46.72
High Price per Last Qtr	48.40	
Low Price per Last Qtr	43.01	45.71

Common Stock Value of Parent 22,296,303,674

	Face Value	Market Value
Mand. Redeem. Preferred Stock Series	0	0
Preferred Stock Series	0	0
Without Mand. Redeem. Preferred Stock	0	0

Total Stock Value of Parent 22,296,303,674

* Company's Percent of Parent's Capital Stock	COMPANY	PARENT	PERCENT
Gross Income	666,591,378	15,357,000,000	4.34%
Operating Net Income Before Inc Taxes & Interest	92,514,387	2,855,000,000	3.24%
Gross Book (Excluding Op Leased Property)	2,972,471,030	61,708,000,000	4.82%
Total Assets (Excluding Op Leased Property)	2,382,317,124	56,414,000,000	4.22%
Average			4.16%

Company's Percent (if portion of parent company)* 4.16%

Company's Value of Equity 927,526,233

ADD	FACE VALUE	MARKET VALUE
Long Term Debt (per H):	0	0
Other Long Term Debt:	750,000,000	841,594,000
Current Liabilities (Less Cur LT Maturities):	136,999,045	136,999,045
Capital Lease Obligations:	3,420,143	3,420,143
Pension Liability & Damages:	4,836,308	4,836,308
Other:	22,631,043	22,631,043
Operating Lease Property @ Mkt	NA	5,974,120
Total Company's Debt Obligations:		992,823,616

COMPANY's GROSS STOCK & DEBT 1,920,349,849

Less: Company's NonOperating / NonUtility Assets 10,848,056

COMPANY's NET STOCK & DEBT 1,909,501,793

KENTUCKY POWER COMPANY
 NONOPERATING & NONUTILITY ASSETS
 TAX YEAR: 2014

PREPARED BY: THOMAS
 DATE: 28-Aug-14
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TOTAL OPERATING & NONOP SYSTEM ASSETS:	2,382,317,124	
TOTAL SYSTEM OPERATING LEASED ASSETS:	5,974,120	
GRAND TOTAL SYSTEM NET ASSETS		2,388,291,244
NONUTILITY / NONOPERATING ASSETS:		
TEMPORARY CASH INVESTMENTS	0	
SPECIAL FUNDS	0	
NONUTILITY & NONOPERATING PROPERTY	995,120	
RECEIVABLES FROM AFFILIATED COMPANIES	8,914,645	
INVESTMENTS & ADVANCES AFFILIATED COMPANIES	0	
OTHER INVESTMENTS & ADVANCES	4,777,440	
OTHER	0	
TOTAL		14,687,205
Nonutility / Nonoperating Asset %:		0.6150%

NONOPERATING / NONUTILITY INCOME PERCENTAGE:		
UTILITY GROSS INCOME	666,591,378	
NONUTILITY / NONOPERATING GROSS INCOME	3,449,483	0.5148%
TOTAL SYSTEM GROSS INCOME	670,040,861	
UTILITY NET OPERATING INCOME before Income taxes	92,514,387	
NONUTILITY / NONOPERATING NET INCOME before Income tax	(21,724,980)	0.0000%
TOTAL SYSTEM NET INCOME before Income taxes	70,789,407	
Nonutility / Nonoperating Asset %:		0.5148%

AVERAGE NONOPERATING PERCENTAGE=	0.5649%
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