

COMMONWEALTH OF KENTUCKY  
KENTUCKY PUBLIC SERVICE COMMISSION

In The Matter Of:

The Application of Kentucky Power Company For )  
Authority Pursuant To KRS 278.300 To Issue And )  
Sell Promissory Notes Of One Or More Series, And ) Case No. 2016-00345  
For Other Authorizations )

**APPLICATION**

Pursuant to KRS 278.300, 807 KAR 5:001, Section 14, and 807 KAR 5:001, Section 18, Kentucky Power Company<sup>1</sup> applies to the Public Service Commission of Kentucky for an order authorizing the Company to issue and sell promissory notes of one or more series in the aggregate amount of \$550 million and for other related relief. In support of its Application the Company states:

**Introduction**

1. The Company is seeking the requested financing authority to issue notes and other evidences of indebtedness described below for its general corporate purposes and capital requirements as described below.

**Applicant**

2. Kentucky Power was organized in 1919 under the laws of the Commonwealth of Kentucky.<sup>2</sup> The Company's mailing address is 101A Enterprise Drive, P.O. Box 5190, Frankfort, Kentucky 40602-5190. Its electronic mail address is [kentucky\\_regulatory\\_services@aep.com](mailto:kentucky_regulatory_services@aep.com) . Kentucky Power is engaged in the generation,

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<sup>1</sup> A certified copy of the Company's Articles of Incorporation and all amendments thereto was attached to the Joint Application in In the Matter Of: The Joint Application Of Kentucky Power Company, American Electric Power Company, Inc. And Central And South West Corporation Regarding A Proposed Merger, P.S.C. Case No. 99-149.

<sup>2</sup> A copy of the October 25, 2016 Certificate of Existence for Kentucky Power Company is attached as **EXHIBIT E**.

purchase, transmission, distribution and sale of electric power. Applicant serves approximately 169,500 retail customers in the following 20 counties of eastern Kentucky: Boyd, Breathitt, Carter, Clay, Elliott, Floyd, Greenup, Johnson, Knott, Lawrence, Leslie, Letcher, Lewis, Magoffin, Martin, Morgan, Owsley, Perry, Pike and Rowan. In addition, the Company also supplies electric power at wholesale to other utilities and municipalities in Kentucky for resale. Kentucky Power is a utility as that term is defined at KRS 278.010.

3. Kentucky Power's property includes the 268 megawatt Big Sandy Plant generating station located in Lawrence County, constructed in conformity with certificates of public convenience and necessity issued by this Commission, and converted to a natural gas-fired unit pursuant to an order issued by this Commission; a fifty percent undivided interest (780 MW) in the Mitchell generating station, located near Moundsville in Marshall County, West Virginia; transmission lines and all appurtenant facilities; distribution lines; transmission and distribution stations and equipment; office buildings and equipment; storerooms for operation and maintenance materials; data processing equipment; metering equipment; communications equipment and motor vehicles.

4. The total original cost and cost to Kentucky Power of Applicant's utility plant is \$2,612,193,609 as of September 30, 2016. The Company's real property totaled approximately \$46,446,078 as of the same date.

5. Kentucky Power is a direct, wholly-owned subsidiary of American Electric Power Company, Inc. ("AEP.") AEP is a multi-state public utility holding company whose operating companies provide electric utility service to customers in parts of eleven states – Arkansas, Indiana, Kentucky, Louisiana, Michigan, Ohio, Oklahoma, Tennessee, Texas, Virginia and West Virginia.

## Background

6. On December 31, 2013 Kentucky Power acquired a fifty percent undivided interest in the Mitchell generating station, comprising 780MW, along with associated assets and liabilities, at net book value from an affiliate as approved by the Public Service Commission of Kentucky by Order dated October 7, 2013 in Case No. 2012-00578.<sup>3</sup> On March 25, 2014 and, separately, on September 26, 2014, the Public Service Commission of Kentucky authorized Kentucky Power to issue indebtedness and engage in financings related to the acquisition of the Mitchell generating station in Case No. 2013-00410<sup>4</sup> and Case No. 2014-00210,<sup>5</sup> respectively.

7. Kentucky Power seeks authority to issue indebtedness and engage in financings in an amount of up to \$85,000,000 for its general corporate purposes, and its capital requirements in connection with the Company's ongoing acquisition, construction and improvement of its facilities. In addition, Kentucky Power proposes to refinance the \$325,000,000 6.0% Senior Note, Series E, due 2017 ("Series E Note"), the \$75,000,000 Variable Rate Local Bank Facility Program due 2018 ("Local Bank Facility"), and the \$65,000,000 WVEDA, Series 2014A Variable Rate Demand Note Pollution Control Bond due 2017 (the "Tax Exempt Bond").

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<sup>3</sup> Order, *In the Matter of: The Application of Kentucky Power Company For: (1) A Certificate of Public Convenience And Necessity Authorizing The Transfer To the Company Of A Fifty Percent Undivided Interest In The Mitchell Generating Station And Associated Assets; (2) Approval Of The Assumption By Kentucky Power Company Of Certain Liabilities In Connection With The Transfer Of The Mitchell Generating Station; (3) Declaratory Rulings; (4) Deferral of Costs Incurred In Connection With The Company's Efforts To Meet Federal Clean Air Act And Related Requirements; And (5) For All Other Required Approvals And Relief*, Case No. 2012-00578 (Ky. P.S.C. October 7, 2013).

<sup>4</sup> Order, *In The Matter Of: Application Of Kentucky Power Company For Authority Pursuant To KRS 278.300 To Issue And Sell Promissory Notes Of One Or More Series, To Enter Into Loan Agreements, And For Other Authorizations In Connection With The Refunding Of Liabilities By The Company In Connection With The Mitchell Transfer and In The Matter Of: Application Of Kentucky Power Company For Authority Pursuant To KRS 278.300 To Issue And Sell Promissory Notes Of One Or More Series, And For Other Authorizations*, Case No. 2013-00410 (Ky. P.S.C. March 25, 2014).

<sup>5</sup> Order, *In the Matter of: Application of Kentucky Power Company For Authority Pursuant To KRS 278.300 To Issue And Sell Promissory Notes Of One Or More Series, And For Other Authorizations*, Case No. 2014-00210 (Ky. P.S.C. September 26, 2014).

8. The ongoing construction, acquisition, and improvement of property and facilities is in the ordinary course of business and not of sufficient magnitude to require a certificate of public convenience and necessity, including vegetation management, generation, distribution and transmission operations. *See, EXHIBIT D* (page 4).

#### **Requested Financing Authority**

9. Kentucky Power proposes, with the consent and approval of the Commission, to issue and sell, in one or more transactions from time to time through December 31, 2018, up to \$550,000,000 aggregate principal amount of unsecured promissory notes in one or more new series (the “Notes”). The Notes may be issued (i) in the form of Senior Notes, or other unsecured promissory notes; (ii) in connection with one or more tax-exempt financing transactions with the West Virginia Economic Development Authority in the event the refinancing of the Company’s tax-exempt bonds is advantageous, and (iii) in connection with the Company’s Local Bank Financing Program in the event the refinancing of that facility is advantageous. In no event will the amount of Notes issued in the transaction described herein exceed the principal amount of \$550,000,000. The issuance of the Notes was not the subject of the Transfer Application and thus the Company is seeking the required authorization through this Application.

10. Each series of Notes will mature in not less than 9 months and not more than 60 years and will be sold: (i) by competitive bidding; (ii) through negotiation with underwriters or agents in private placement offerings; or (iii) by direct placement with a commercial bank or other institutional investor.<sup>6</sup> The interest rate of the Notes may be fixed or variable as determined to be most advantageous to the Company at the time of the issuance and sale of the Notes, subject to the limits described in paragraph 11 below.

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<sup>6</sup> *See* Paragraphs 28-30 *infra*.

11. Any fixed rate of interest on the Notes will be at a yield to maturity which shall not exceed by more than 500 basis points the yield to maturity on United States Treasury bonds of comparable maturity at the time of pricing. Any initial fluctuating rate of interest on the Notes will not exceed 8% per annum at the time of issuance. Applicant will agree to specific redemption provisions, if any, including redemption premiums, at the time of the pricing. If it is deemed advisable, the Notes may be provided some form of credit enhancement, including but not limited to a letter of credit, standby purchase agreement, or surety bond.

12. In addition, Kentucky Power may issue one or more Notes to AEP, or to any entity owning directly or indirectly all of the outstanding common stock of the Applicant.<sup>7</sup> The interest rates and maturity dates of any such borrowings will be designed to parallel the cost of the capital of AEP to comply with any applicable law or regulation.

13. In connection with the sale of the Notes, Kentucky Power may agree to restrictive covenants which would prohibit it from, among other things (i) creating or permitting to exist any liens on its property, with certain stated exceptions; (ii) creating indebtedness except as specified therein; (iii) failing to maintain a specified financial condition; (iv) entering into certain mergers, consolidations and dispositions of assets; and (v) permitting certain events to occur in connection with pension plans. In addition, Kentucky Power may permit the holder of the Notes to require the Company to prepay them after certain specified events, including an ownership change.

14. Present market conditions make it difficult to determine whether between the date of the Commission's Order granting the requested authority, and December 31, 2018 (the expiration of the requested authority), it would be more advantageous to Kentucky Power and its customers to sell its Notes with a 60-year or some shorter maturity. It nevertheless is in the

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<sup>7</sup> Any such transactions will comply with KRS 278.2201 *et seq.*

public interest that Kentucky Power is afforded the necessary flexibility to adjust its financing program to developments in the markets for medium and long-term debt securities when and as they occur in order to obtain the best possible price, interest rate and terms for its Notes. The Company thus requests authorization to determine at a subsequent date whether there will be more than one series, and on the maturity of each series of the Notes. Kentucky Power may agree to specific redemption provisions, if any, at the time of the pricing of the Notes.

15. Any Notes may be issued under a new Indenture or the Indenture dated September 1, 1997 with Deutsche Bank Trust Company Americas, Trustee, or any eligible and qualified successor (the “Indenture”), as supplemented from time to time by one or more company orders or other similar documentation. Copies of the Indenture, as well as the forms of a company order and supplemental indenture are attached hereto as EXHIBIT A, EXHIBIT B, and EXHIBIT C, respectively.

16. Based upon past experience with similar financings, the Company estimates issuance costs for the Notes, including the Local Bank Financing Program described below, will total approximately \$3,000,000.

### **Provisions Applicable To The Issuance of the Notes**

#### **A. General Provisions**

17. The Notes will be issued in compliance with all applicable indenture and other standards relating to such securities and capitalization ratios of Kentucky Power.

18. The Company may purchase any outstanding securities through tender offer, negotiated, open market or other form of purchase or otherwise by means other than redemption, if they can be refunded at a lower effective cost. Any such tender offer will occur if Kentucky Power determines that the payment of the necessary premium is prudent in the light of the substantial amounts of interest expense that could be saved by early redemption of any of these series, and proposes to treat said premium as an expense of the Notes to be amortized over the

life of the Notes. The Company intends to utilize deferred tax accounting for the premium expense, in order to match properly the amortization of the expense and the related tax effect.

19. The actual cost of the Notes will be determined at the time of the sale or sales thereof. The net effect on revenue requirements resulting from issuance of the Notes will be reflected in the determination of required revenue in rate proceedings in which all factors affecting rates are taken into account according to law.

20. The Company will, within thirty days after the issuance of each series of the Notes, file a verified statement with the Commission disclosing the date or dates of issuance of the Notes, the price paid, the interest rate, the purchasers, and an estimate of all fees and expenses, including underwriting discounts or commissions or other compensation paid by Kentucky Power in connection with the issuance and distribution of the Notes.

21. The proposed issue of the Notes, upon the terms and conditions described, is for a lawful object within the corporate purpose of the Company, is necessary and appropriate for, and consistent with, Kentucky Power's proper performance of its service to the public, will not impair the Company's ability to provide that service, and is reasonably necessary and appropriate for such service.

**B. Treasury Hedge Agreements And Interest Rate Management Agreements.**

22. In connection with the issuance of the Notes, the Company may enter into, from time to time through December 31, 2018, one or more interest rate hedging arrangements, including, but not limited to, treasury lock agreements, forward-starting interest rate swaps, treasury put options or interest rate collar agreements ("Treasury Hedge Agreement") to protect against future interest rate movements in connection with the issuance of the Notes. Each Treasury Hedge Agreement will correspond to one or more Notes that Kentucky Power will issue pursuant to this Application; accordingly, the aggregate corresponding principal amounts of

all Treasury Hedge Agreements will not exceed an amount equal to, on the date or dates of entering such agreements, \$550,000,000.

23. Kentucky Power proposes, with the consent and approval of this Commission through the Order to be issued in this proceeding, to utilize interest rate management techniques and enter into Interest Rate Management Agreements through December 31, 2018. Such authority will allow the Company sufficient alternatives and flexibility to reduce its effective interest cost and manage interest cost on financings.

24. The Interest Rate Management Agreements will be products commonly used in today's capital markets, consisting of "interest rate swaps", "caps", "collars", "floors", "options", or hedging products such as "forwards" or "futures", or similar products, the purpose of which is to manage and minimize interest costs. The Company expects to enter into these agreements with counterparties that are highly rated financial institutions. The transactions will be for a fixed period and a stated principal amount, and shall be for underlying fixed or variable obligations of Kentucky Power. The Company will not agree to any covenant more restrictive than those contained in the underlying obligation unless such Interest Rate Management Agreement either expires by its terms or is unwindable on or prior to the end of the Authorization Period.

25. Kentucky Power proposes to account for these transactions in accordance with generally accepted accounting principles.

26. Because market opportunities for these interest rate management alternatives are transitory, the Company must be able to execute interest rate management transactions when the opportunity arises to obtain the most competitive pricing. Kentucky Power thus seeks approval to enter into any or all of the described transactions within the parameters discussed above prior to the time the Company reaches agreement with respect to the terms of such transactions.



27. If Kentucky Power utilizes Interest Rate Management Agreements, the Company's annual long-term interest charges could change. The authorization of the Interest Rate Management Agreements consistent with the parameters herein in no way relieves Kentucky Power of its responsibility to obtain the best terms available for the product selected. As a result, it is appropriate and reasonable for the Commission to authorize the Company to agree to such terms and prices consistent with said parameters.

#### **The Local Bank Financing Program**

28. Up to \$100,000,000 of the proposed \$550,000,000 financing may be secured through the Company's innovative Local Bank Financing Facility. The Local Bank Financing Facility first was approved by the Commission by Order dated September 26, 2014 in Case No. 2014-00210. Under the facility, the Lead Agents are regional money center banks which established a syndicate through small local banks in Kentucky Power's service territory to participate in the financing.

29. The Local Bank Financing Facility capitalizes on substantial local bank deposits and thereby employs an otherwise under-utilized financial resource. The facility provides incremental liquidity and intermediate term financing to Kentucky Power at pricing in line with that available to the Company through the more traditional global bank-dominated syndicated loan market. The Local Banking Financing Facility also diversifies Kentucky Power's lenders and thereby strengthens the Company's access to the capital markets by allowing participation in Kentucky Power financing by smaller banks that otherwise lack the financial resources to participate in global banking syndicates.

30. The facility provides investment grade lending opportunities for local banks in the Company's service territory and thereby aids in diversifying and strengthening their loan portfolio. The Local Bank Financing Facility also aids in the economic development of the Company's service territory by deploying local capital to fund local infrastructure development.

### **Compliance With KRS 278.300**

31. The Notes will provide long-term financing for the Company's general corporate purposes, including the refinancing of the debt described above, and capital requirements in connection with its ongoing acquisition, construction and improvement of its facilities as described in more detail in paragraphs 7-8 and page 4 of Exhibit D of this Application. The Notes are for a lawful object within the corporate purposes of Kentucky Power, are necessary and appropriate for, and consistent with the proper performance by the Company of its service to the public, and will not impair Kentucky Power's ability to provide that service.

### **Compliance With Applicable Regulations**

32. The proceeds from the issuance of the Series E Note and the Local Bank Facility were used by the Company for its general corporate purposes, and its capital requirements in connection with the Company's ongoing acquisition, construction and improvement of its facilities. The proceeds for the issuance of the Tax Exempt Bond were used by the Company to redeem bonds that were issued for the purpose of providing a portion of the funds for the acquisition, construction, and improvement of solid waste disposal facilities, or portions thereof, designed for the disposal of solid wastes at the Mitchell Generating Station located near Moundsville, West Virginia.

33. The payees on the debt to be refinanced and the issuance expenses associated with the debt to be refinanced were:

<u>Type of Debt</u>	<u>Rate</u>	<u>Issue Date</u>	<u>Due Date</u>	<u>Issuance Expense</u>
Series E Note	6.000%	9/11/2007	9/15/2017	\$3,945,133 <sup>8</sup>
Tax Exempt Bond	Floating	6/1/2014	6/1/2017	\$509,274
Local Bank Facility	Floating	11/5/2014	11/5/2018	\$675,501

<sup>8</sup> Includes discount at issuance of \$ 1,667,250.

<u>Type of Debt</u>	<u>Rate</u>	<u>Issue Date</u>	<u>Due Date</u>	<u>Payees</u>
Series E Note	6.000%	9/11/2007	9/15/2017	Investors in the public market for corporate debt
Tax Exempt Bond	Floating	6/1/2014	6/1/2017	Investors in the public market for corporate debt
Local Bank Facility	Floating	11/5/2014	11/5/2018	Local banks that extended loans under the facility

34. The information required by all applicable regulations may be found as follows:

<u>Regulation</u>	<u>Pertinent Application Location</u>
807 KAR 5:001, Section 14(1)	Paragraph 2; <i>passim</i> .
807 KAR 5:001, Section 14(2)	Paragraph 2, footnotes 1-2; Exhibit E.
807 KAR 5:001, Section 14(3)	Not applicable.
807 KAR 5:001, Section 14(4)	Not applicable.
807 KAR 5:001, Section 18(1)(a)	<i>See above.</i>
807 KAR 5:001, Section 18(1)(b)	Paragraphs 2-4.
807 KAR 5:001, Section 18(1)(c)	Not applicable.
807 KAR 5:001, Section 18(1)(d)	Paragraphs 7, 28-31; page 4 of Exhibit D.
807 KAR 5:001, Section 18(1)(e)	Paragraph 8 and page 4 of Exhibit D.
807 KAR 5:001, Section 18(1)(f)	Paragraphs 7-8, 31-33.
807 KAR 5:001, Section 18(1)(g)	Not applicable.
807 KAR 5:001, Section 18(2)(a)	Exhibit D.

<u>Regulation</u>	<u>Pertinent Application Location</u>
807 KAR 5:001, Section 18(2)(b)	Not Applicable.
807 KAR 5:001, Section 18(2)(c)	Not Applicable.

**Requested Date For Final Order**

35. To minimize costs, and to provide the Company with the flexibility to act on advantageous financing terms and conditions, Kentucky Power requests that the Commission issue its order granting the requested relief no later than December 31, 2016, or as soon thereafter as practicable.

**Exhibits**

36. The exhibits listed in the Appendix to this Application are attached to and made a part of this Application.

**Communications**

37. The Company respectfully requests that communications in this matter be addressed to:

Mark R. Overstreet  
 STITES & HARBISON PLLC  
 421 West Main Street  
 P.O. Box 634  
 Frankfort, Kentucky 40602-0634  
[moverstreet@stites.com](mailto:moverstreet@stites.com)

Ranie K. Wohnhas  
 Kentucky Power Company  
 101A Enterprise Drive  
 P.O. Box 5190  
 Frankfort, Kentucky 40602-5190  
[kentucky\\_regulatory\\_services@aep.com](mailto:kentucky_regulatory_services@aep.com)

ON BEHALF OF KENTUCKY POWER

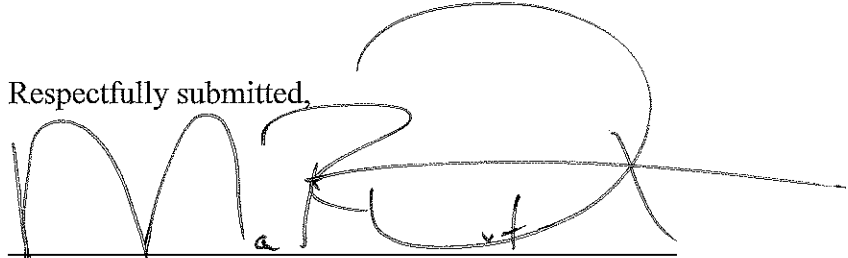
WHEREFORE, Kentucky Power Company requests that the Commission issue an Order:

(1) Approving pursuant to KRS 278.300 and all applicable provisions the issuance by Kentucky Power of the Notes; and

(2) Granting Kentucky Power such other relief or approvals as may be appropriate or required to consummate transactions set forth in this Application.

This 26<sup>th</sup> day of October, 2016.

Respectfully submitted,

A handwritten signature in black ink, appearing to read 'Mark R. Overstreet', written over a horizontal line. The signature is stylized and somewhat cursive.

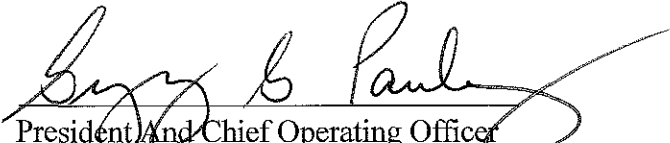
Mark R. Overstreet  
STITES & HARBISON PLLC  
421 West Main Street  
P.O. Box 634  
Frankfort, Kentucky 40602-0634  
Telephone: (502) 223-3477  
Facsimile: (502) 223-4387  
[moverstreet@stites.com](mailto:moverstreet@stites.com)

COUNSEL FOR:  
KENTUCKY POWER COMPANY

**VERIFICATION**

COMMONWEALTH OF KENTUCKY     )  
    )  
 COUNTY OF FRANKLIN                     )           SS:

I, Gregory G. Pauley, President and Chief Operating Officer of Kentucky Power Company, state that the statements contained in the foregoing Application of Kentucky Power Company to issue and sell promissory notes in one or more new series are true to the best of my knowledge and belief.

  
 \_\_\_\_\_  
 President And Chief Operating Officer

Subscribed and sworn to by Gregory G. Pauley before me, this 26<sup>th</sup> day of October, 2016.

  
 \_\_\_\_\_  
 Notary Public      481393

My Commission Expires: January 23, 2017