





## **Kentucky Power Company**

### **REQUEST**

Refer to page 3, paragraph 6, of Kentucky Power's Application ("Application"), which discusses its December 2010 notice of termination of the American Electric Power Company ("AEP") Interconnection Agreement ("Pool Agreement").

- a. Provide a copy of Kentucky Power's December 2010 notice.
- b. Explain whether there are any other agreements to which Kentucky Power is a party that are affected by the termination of the Pool Agreement.
- c. If the answer to part b. of this Item is yes, identify the agreements, their terms, and the potential impact to Kentucky Power ratepayers.
- d. Explain whether termination notices were given for those agreements. If notice was given, provide a copy of each such notice.

### **RESPONSE**

- a. KPCo's notice of termination of the Interconnection Agreement (IA) is shown as attachment 1 of this response.
- b. Yes, the AEP System Interim Allowance Agreement (IAA), which is a supplement to the IA, will also be terminated.
- c. Please see attachment 2 of this response. The Company continues to evaluate the potential impact.
- d. See Article 8 of the IAA which addresses the Terms of the Agreement. There is no explicit notice provision.

**WITNESS:** Ranie K Wohnhas

## Kentucky Power Company

### REQUEST

Refer to the Application, page 6, paragraph 16. Provide a breakdown of the estimated \$3 million in issuance costs.

### RESPONSE

The estimated \$3 million in issuance expenses consist of the following:

<b>\$100M Local Bank Facility</b>	
Upfront Fees (25 bps)	\$250,000
Arrangement Fee	\$100,000
Agency Fee	\$50,000
<b>Total Fees</b>	<b>\$400,000</b>

<b>\$65M Pollution Control Bond</b>	
Remarketing Fees (40 bps)	\$260,000
Underwriter's Counsel	\$80,000
Bond Counsel	\$50,000
Auditor's Comfort Letter	\$82,000
Ratings Letters	\$110,000
<b>Total Fees</b>	<b>\$582,000</b>

<b>\$325M Senior Note Refinancing</b>	
Agent Fees (45 bps)	\$1,462,500
Legal Fees	\$80,000
<b>Total Fees</b>	<b>\$1,542,500</b>

<b>\$85M Senior Note (additional)</b>	
Agent Fees (45 bps)	\$382,500
Legal Fees	\$80,000
<b>Total Fees</b>	<b>\$462,500</b>

**WITNESS:** Zachary C Miller

**Kentucky Power Company**

**REQUEST**

Refer to the Application, page 10, paragraph 33, and page 12, paragraph 35. Given that the earliest due date of the debt proposed to be refinanced is June 1, 2017, explain why Kentucky Power is requesting a final Order in this case no later than December 31, 2016.

**RESPONSE**

Receipt of the requested financing authorization by December 31, 2016 provides the Company greater flexibility with respect to timing and potential financing alternatives. By receiving the authorization by year end, the Company gains extended time to evaluate the UST interest rate market, investor demand and potential liability management techniques prior to June 1, 2017.

**WITNESS:** Zachary C Miller

## **Kentucky Power Company**

### **REQUEST**

Refer to the Application, page 10, paragraph 33.

- a. Confirm that the total issuance expenses associated with the Series E Note, the \$75,000,000 Variable Rate Local Bank Facility Program ("Local Bank Facility"), and the \$65,000,000 WVEDA, Series 2014A Variable Rate Demand Note Pollution Control Bond ("Tax Exempt Bond") was \$5,129,908.
- b. In paragraph 16 of the Application, Kentucky Power estimates issuance costs for the proposed unsecured promissory notes will total approximately \$3 million.
  1. Confirm that this \$3 million estimate is for the refinancing of the Series E Note, the Local Bank Facility, and the Tax Exempt Bond and the financing of \$85 million for general corporate purposes and capital requirements.
  2. If confirmed, explain why these costs are over \$2 million less than the costs associated with the original issuance of the debt being refinanced.

### **RESPONSE**

- a. Confirmed.
- b.
  1. Confirmed.
  2. The decrease in planned issuance costs primarily results from the differing cost associated with refinancing the \$325 million Senior Note in the private placement market, as the Company proposes in connection with this application and the expenses for issuing debt in the public market. Traditionally, the cost to issue in the public market is greater than that in the private market. Offsetting this lower cost is the fact that interest rate coupons on public issuances tend to be less than that of a private debt offering. The Company currently plans to issue private placement debt to refinance the Series E note. Based on previous private placement market transactions for Kentucky Power and other AEP affiliates, the Company expects issuance costs of the private debt to be approximately \$1.5 million. The \$325 million Series E Note was a public debt offering issued in September 2007 and incurred issuance costs of approximately \$3.9 million.

**WITNESS:** Zachary C Miller

## **Kentucky Power Company**

### **REQUEST**

Refer to the Application, Exhibit D, page 4 of 4.

- a. Provide an explanation of each estimated capital requirements function for 2016 through 2018, along with support for the amount shown.
- b. Confirm that the \$319 million in projected capital spending for the projects listed constitutes Kentucky Power's allocated costs and sole responsibility, and does not include any allocation as to the Mitchell Generating Station that may be shared with any other American Electric Power Company, Inc. affiliated company.
- c. Given that Kentucky Power is asking to borrow \$85 million for projected capital spending, explain how the balance of the \$319 million is to be financed.

### **RESPONSE**

- a. Please see KPCO\_R\_KPSC\_1\_5Attachment1.pdf. In preparation of this response Kentucky Power discovered that the estimated 2016-2018 Distribution and Transmission capital expenditures shown on Exhibit D, page 4 of 4 of the Application were transposed. The estimated Transmission values should have been \$16 million, \$22 million, and \$23 million for 2016, 2017, and 2018 respectively. The Distribution values should have been \$39 million, \$41 million, and \$42 million for 2016, 2017, and 2018 respectively. KPCO\_R\_KPSC\_1\_5\_Attachment1.pdf ties to the appropriate Transmission and Distribution totals.
- b. Confirmed.
- c. The projects will be initially financed using internally-supplied funds to the extent available. Kentucky Power will use the proceeds of the financing authority being sought in this proceeding, which in no event will exceed \$550 million, for the proposed capital expenditures as and when required to the extent internally-supplied funds are not available.

The timing of the Company's receipt of internally-supplied funds, as well as the payment for its capital expenditures, cannot be determined with certainty. As a result, and because funds are fungible, Kentucky Power Company is providing all of its projected capital expenditures during the period for which the financing authority is being sought in the interest of complete disclosure.

**WITNESS:** Ranie K Wohnhas

Project	2016	2017	2018
<b>Environmental Generation</b>			
SO2	0.559	1.535	0.494
NOx	0.408	1.688	1.529
CCR	0.157	0.000	0.727
BSU1 Gas Conversion	19.750	0.000	0.000
Other	0.469	12.962	20.901
<b>Environmental Generation Total</b>	<b>21.343</b>	<b>16.186</b>	<b>23.651</b>
<b>Other Generation</b>			
Outage Projects	4.074	2.982	21.894
Production Plant Blankets	3.781	4.570	5.804
<b>Other Generation Total</b>	<b>7.854</b>	<b>7.552</b>	<b>27.698</b>
<b>Distribution</b>			
Reliability/Asset Program	8.240	9.992	10.928
Customer Service	9.746	10.033	10.340
Capacity Additions	9.756	8.954	7.849
Meters and Transformers	3.280	3.404	3.518
ROW Clearing	2.434	2.118	3.023
System Restoration	2.421	2.495	2.655
Facility Relocations	0.066	0.074	0.081
Infrastructure Business Continuity	0.049	0.090	0.089
Other	1.620	1.666	1.721
Local Reliability	1.322	2.385	2.291
RTO Driven	0.238	0.000	0.000
<b>Distribution Total</b>	<b>39.172</b>	<b>41.211</b>	<b>42.495</b>
<b>Transmission</b>			
Reliability	0.613	0.835	0.779
Asset Replacement	7.768	11.384	6.806
Customer Service	0.320	0.354	0.000
Other	3.142	6.370	11.589
Local Reliability	3.732	3.278	3.459
RTO Driven	0.568	0.202	0.000
<b>Transmission Total</b>	<b>16.143</b>	<b>22.423</b>	<b>22.633</b>
<b>Corporate/Other</b>			
Software/It	9.439	11.042	6.517
Telecomm	1.061	1.042	1.084
Facilities	0.131	0.077	0.077
<b>Corporate/Other Total</b>	<b>10.631</b>	<b>12.160</b>	<b>7.678</b>
<b>Total Capital</b>	<b>95.143</b>	<b>99.532</b>	<b>124.155</b>