Kentucky Power Company

REQUEST

Refer to the Application, page 3, paragraph 7. State whether Kentucky Power expects to realize savings from the refinancing of the $325,000,000 6.0 percent Senior Note, Series E ("Series E Note"), and provide an estimate of the expected interest rate and associated change in interest expense as a result of the note's refinancing.

RESPONSE

The $325,000,000 6.0% Senior Note, Series E is being refinanced because it will mature September 15, 2017. Kentucky Power cannot predict future movements in corporate credit spreads and/or U.S. Treasury ("UST") benchmark interest rates between now and the date of the proposed refinancing. The estimates provided below are premised upon current indicative credit spreads from capital market participants and are based upon the Company's best efforts. The Company cannot guarantee the existence of interest savings or their amounts from the refinancing of the $325 million 6.0% Senior Note ("Series E Note").

Corporate credit spreads, and hence the existence and amount of any savings from refinancing, will vary by credit quality, maturity, security type, market factors, and economic environment. Additionally, there are concerns that threaten the ongoing stability of the capital markets. These include uncertainty about timing of interest rate hikes and concerns about global economic growth.

To respond to the data request and calculate an estimated expected interest rate, the Company obtained current indicative credit spreads from capital market participants and added the indicative spreads to the corresponding UST benchmark interest rate. For example, if Kentucky Power issued a 10-year note in today's market conditions, the Company estimates the anticipated interest rate would be approximately 3.76% (2.31% UST + 145 basis point credit spread). A 30-year Kentucky Power note issuance would have an estimated interest rate of 4.75% (3.00% UST + 175 basis point credit spread).

Kentucky Power plans to price and place debt securities in the most cost-effective manner available, given investor demand and pricing consideration at the size and timing of offerings ultimately selected by the Company. All costs, credit spreads, and fees will be determined according to market conditions at the time of issuance for securities with similar characteristics and credit quality compared to Kentucky Power.

Using today's interest rates and the indicative credit spreads obtained by Kentucky Power, and subject to the market uncertainties mentioned above, the Company estimates the associated savings in annual interest expense as a result of refinancing would be approximately $4 million and $7 million, respectively, for 10- and 30- year notes.

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