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INVESTORS SERVICE

CREDIT OPINION
2 February 2017

Update

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RATINGS

Kentucky Power Company

Domicile	Ashland, Kentucky, United States
Long Term Rating	Baa2
Type	LT Issuer Rating
Outlook	Stable

Please see the ratings section at the end of this report for more information. The ratings and outlook shown reflect information as of the publication date.

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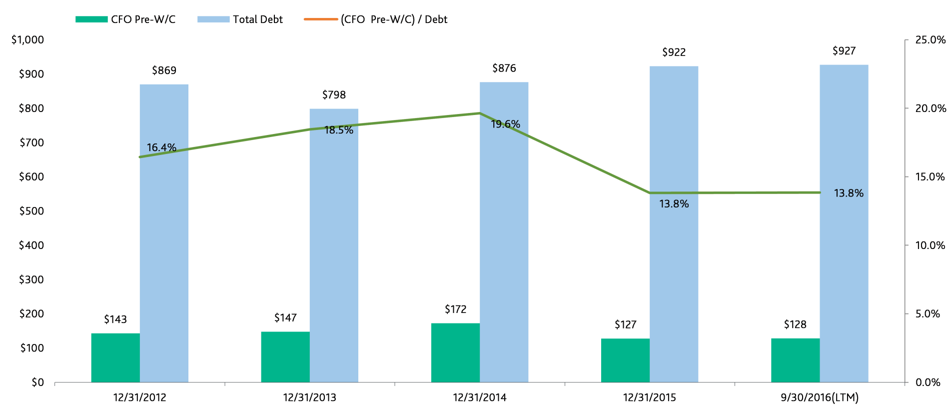
Kentucky Power Company

Vertically integrated utility subsidiary of AEP

Summary Rating Rationale

Kentucky Power Company's (KPCo) Baa2 rating reflects its relatively low-risk operating profile as a vertically integrated electric utility with a constructive relationship with its regulator, the Kentucky Public Service Commission (KPSC). The rating considers financial metrics that are appropriate for the rating, and important settlement agreements that the utility has negotiated to transform its rate base.

Exhibit 1
Historical CFO Pre-W/C, Total Debt and CFO Pre-W/C to Debt



Source: Moody's Investors Service

Credit Strengths

» Regulatory support with sufficient cost recovery

» Historically strong cash flow credit metrics

Credit Challenges

» Service territory's economic recovery hampered by exposure to Appalachian coal industry

» Increasing capital expenditures and related leverage is pressuring credit metrics

Rating Outlook

The stable rating outlook is primarily based on our expectation that KPCo will maintain a constructive relationship with the KPSC and that the combination of rate actions and prudent financial policy will enable the utility to preserve financial credit metrics that support the rating. These metrics include a ratio of cash flow excluding working capital changes (CFO pre-WC) to debt in the mid-teens range.

Factors that Could Lead to an Upgrade

» A rating upgrade appears unlikely over the near to intermediate term

» Interest coverage above 4.5x and CFO pre-WC to debt above 19% on a sustainable basis

Factors that Could Lead to a Downgrade

» A deterioration in KPCo's relationship with its regulator

» An increase in capital or operating expenses that KPCo was unable to recover on a timely basis

» Interest coverage falling below 3.5x, or the ratio of CFO pre-W/C to debt falling below 13% for a sustained period of time

Key Indicators

Exhibit 2

KEY INDICATORS [1]

Kentucky Power Company

	12/31/2012	12/31/2013	12/31/2014	12/31/2015	9/30/2016(L)
CFO pre-WC + Interest / Interest	3.8x	4.2x	5.4x	3.8x	3.8x
CFO pre-WC / Debt	16.4%	18.5%	19.6%	13.8%	13.8%
CFO pre-WC – Dividends / Debt	12.5%	15.9%	6.5%	9.0%	9.1%
Debt / Capitalization	40.9%	36.5%	41.4%	41.6%	41.0%

[1] All ratios are based on 'Adjusted' financial data and incorporate Moody's Global Standard Adjustments for Non-Financial Corporations.
Source: Moody's Financial Metrics

Detailed Rating Considerations

Regulatory support with sufficient cost recovery is a key rating driver

Moody's views the regulatory environment in Kentucky as reasonably supportive to long-term credit quality. The KPSC has a suite of cost recovery mechanisms that help reduce regulatory lag including a fuel adjustment clause and energy efficiency and environmental recovery riders which allow a utility to earn a return on essentially all construction work in progress. Utilities in Kentucky can also start to collect interim rates approximately six months after filing a rate case if the KPSC has not acted on it.

Over the past few years, in an effort to address both environmental and reliability issues, KPCo worked with its regulators to obtain the approvals necessary to support a significant transformation of its generation rate base including: 1) the closure of half of its prior coal based generation base (800 MW Big Sandy Unit 2) in May 2015, 2) the natural gas repowering of Big Sandy Unit 1 (completed in May 2016), and 3) the acquisition of one half (780 MW) of the coal-fired Mitchell plant from an affiliate as of December 2013.

In June 2015, the KPSC issued an order approving a modified stipulation agreement in KPCo's December 2014 filed rate case that included a net revenue increase of $45 million. The increase consisted of a $68 million increase in rider rates offset by a $23 million decrease in annual base rates. The approved agreement was positive as it reflects KPCo's ownership interest in the Mitchell Plant and includes riders to recover costs (and an ROE of 10.25%) associated with the planned shut down and coal-to-gas conversion at the Big

Sandy plant. As a result, as of December 2016, KPCo reported a return on equity of 7.5%. This is a significant improvement over the negative return exhibited for the twelve months ending September 2015 while the company was operating under a rate freeze and required to refund certain fuel related costs for the period when KPCo simultaneously owned the Mitchell plant and operated Big Sandy Unit 2. In 2017, we calculate the utility's projected return as being above 8%.

Service territory's economic recovery is hampered by exposure to Appalachian coal industry

According to Moody's Economy.com, Kentucky's economy is expanding largely as a result of strength in auto manufacturing, healthcare and financial services. We note, however, that KPCo's service territory in eastern Kentucky is disproportionately exposed to the Appalachian coal business which continues to be negatively impacted by higher production costs, environmental mandates and low natural gas prices which have reduced demand for coal as a fuel source for electricity generation. In 2015, approximately 43% of KPCo's energy sales were to industrial customers. In 2016, total weather normalized retail load was down 6.3%, this follows a decline of 7.8% in 2015.

Relatively stable cash flow credit metrics

Historically, KPCo's key cash flow based financial credit metrics have been relatively strong for the rating even as the utility worked through a period of under earning due to rate freezes and required refunds. As of December 2015, we calculate KPCo's three year average ratio of CFO pre-W/C to debt to be about 17% and its retained cash flow to debt ratio to be about 10%. More recently, cash flow metrics have declined as the utility's debt load has grown in conjunction with its capital program while sales volumes have been negatively impacted by challenging economic conditions. For the twelve months ending September 2016, the ratios were 13.8% and 9.1% respectively. These metrics remain within the "Baa" scoring range indicated for these factors in our rating methodology for regulated electric and gas utilities. Going forward, we anticipate cash flow metrics will remain near these levels.

In contrast, KPCo's return on equity has improved from about 1.1% in 2013 to 7.5% reported for the twelve months ending December 2016. KPCo will seek further improvement in its earnings and cash flow through a continued focus on management of operations and maintenance expenses and plans to file a base rate case in 2017.

Liquidity Analysis

For the twelve months ending September 30, 2016, KPCo generated approximately $125 million of cash from operations, invested $110 million in capital expenditures and up streamed $44 million in dividend payments to parent AEP, resulting in a negative free cash flow (FCF) of approximately $29 million. In 2015, KPCo generated CFO of approximately $135 million, invested $114 million in capital expenditures and up streamed $44 million in dividend payments, resulting in a negative FCF of $23 million. Going forward, we expect KPCo will remain modestly cash flow negative. Shortfalls will continue to be funded with a combination of long-term debt issuance, short-term funding from the utility money pool, and equity contributions from its parent.

Although KPCo does not benefit from a dedicated external credit facility, the company does have access to its parent company American Electric Power Company, Inc.'s (AEP, Baa1 stable) liquidity through participation in its utility money pool. As of September 30, 2016, KPCo's borrowing limit under the money pool was $225 million and the utility had borrowed approximately $11 million. KPCo also utilizes AEP's $750 million receivable securitization facility; at the end of September, KPCO had approximately $45.2 million of receivables sold under its arrangement with AEP Credit. KPCo's nearest maturity is September of 2017 when $325 million of senior notes come due; in addition KPCO has $65 million of variable rate pollution control bonds supported by a bilateral letter of credit that terminates in June 2017. We expect the utility will look to refinance these obligations well in advance of their maturities.

AEP's consolidated liquidity is adequate. The company has two syndicated credit facilities totaling $3.5 billion, a $3.0 billion facility expiring in June 2021 with a $1.2 billion letter of credit sub-limit, and a $500 million facility expiring in June 2018. As of September 30, 2016, AEP had $728.3 million of commercial paper outstanding and no letters of credit outstanding.

AEP is not required to make a representation with respect to either material adverse change or material litigation in order to borrow under its credit facilities. Default provisions which would preclude use of the facility exclude defaults at non-significant subsidiaries including AEP Generation Resources, AEP's merchant generating subsidiary. The facilities contain a covenant requiring that AEP's consolidated debt to capitalization (as defined) not exceed 67.5%. As of September 30, 2016, AEP reported the contractually defined ratio was 52.7%.

Profile

Kentucky Power Company (KPCo), a vertically integrated electric utility company headquartered in Ashland, Kentucky, is a wholly owned subsidiary of American Electric Power Company, Inc. (AEP, Baa1 stable), with about $1.6 billion in rate base (5% of AEP's total) and 2015 revenue of about $654 million (about 4% of AEP total revenue). The utility is primarily regulated by the Kentucky Public Service Commission (KPSC).

Following the closure of the 800 MW Big Sandy Unit 2 in May 2015, and the conversion of Big Sandy Unit 1 to natural gas in 2016, KPCo's total owned generation capacity is currently 1,060 MW, comprised of a 50% ownership in the coal-fired Mitchell plant (780 MW) and the gas-fired Big Sandy Unit 1 (280 MW). KPCo also purchases approximately 390 MW from its affiliate AEP Generating Company's share of the Rockport coal plant under a long-term unit power agreement, bringing its overall capacity mix to 19% natural gas and 81% coal. KPCo's is a winter peaking utility, in February 2015 the system reached a peak of 1,666 MW; its 2014 summer peak demand was 1,097 MW.

Rating Methodology and Scorecard Factors

Exhibit 3

Rating Factors				
Kentucky Power Company				
Regulated Electric and Gas Utilities Industry Grid [1][2]	Current LTM 9/30/2016		Moody's 12-18 Month Forward View As of Date Published [3]	
Factor 1 : Regulatory Framework (25%)	Measure	Score	Measure	Score
a) Legislative and Judicial Underpinnings of the Regulatory Framework	A	A	A	A
b) Consistency and Predictability of Regulation	A	A	A	A
Factor 2 : Ability to Recover Costs and Earn Returns (25%)				
a) Timeliness of Recovery of Operating and Capital Costs	Baa	Baa	Baa	Baa
b) Sufficiency of Rates and Returns	Baa	Baa	Baa	Baa
Factor 3 : Diversification (10%)				
a) Market Position	Ba	Ba	Ba	Ba
b) Generation and Fuel Diversity	B	B	B	B
Factor 4 : Financial Strength (40%)				
a) CFO pre-WC + Interest / Interest (3 Year Avg)	4.4x	Baa	3.2x - 3.6x	Baa
b) CFO pre-WC / Debt (3 Year Avg)	16.6%	Baa	11% - 15%	Baa
c) CFO pre-WC – Dividends / Debt (3 Year Avg)	9.2%	Baa	7% - 11%	Baa
d) Debt / Capitalization (3 Year Avg)	41.1%	A	39% - 43%	A
Rating:				
Grid-Indicated Rating Before Notching Adjustment		Baa2		Baa2
HoldCo Structural Subordination Notching				
a) Indicated Rating from Grid		Baa2		Baa2
b) Actual Rating Assigned		Baa2		Baa2

[1] All ratios are based on 'Adjusted' financial data and incorporate Moody's Global Standard Adjustments for Non-Financial Corporations.
[2] As of 9/30/2016(L)
[3] This represents Moody's forward view; not the view of the issuer; and unless noted in the text, does not incorporate significant acquisitions and divestitures.
Source: Moody's Financial Metrics

Ratings

Exhibit 4

Category	Moody's Rating
KENTUCKY POWER COMPANY	
Outlook	Stable
Issuer Rating	Baa2
Senior Unsecured	Baa2
PARENT: AMERICAN ELECTRIC POWER COMPANY, INC.	
Outlook	Stable
Senior Unsecured	Baa1
Jr Subordinate Shelf	(P)Baa2
Commercial Paper	P-2

Source: Moody's Investors Service

REPORT NUMBER 1055944

MOODY'S INVESTORS SERVICE

MOODY'S
INVESTORS SERVICE

CREDIT OPINION
4 February 2016

Update

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RATINGS

KENTUCKY POWER COMPANY

Domicile	Frankfort, Kentucky, United States
Long Term Rating	Baa2
Type	LT Issuer Rating
Date	31 Jan 2014
Outlook	Stable
Date	31 Jan 2014

Please see the ratings section at the end of this report for more information.

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Kentucky Power Company

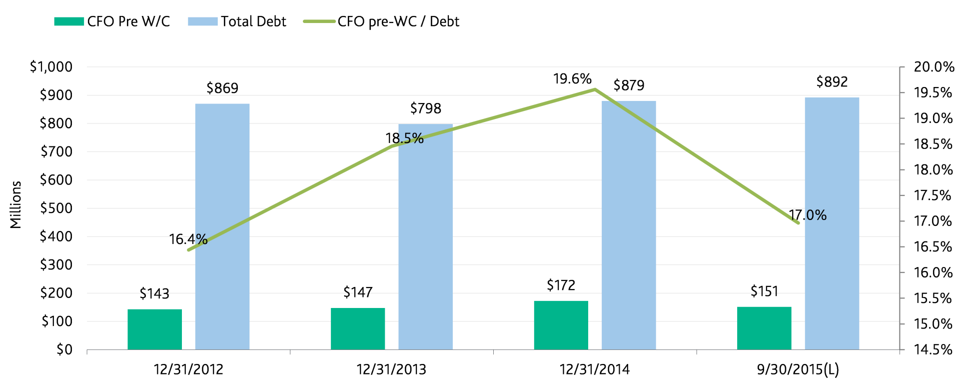
Vertically integrated utility subsidiary of AEP

Summary Rating Rationale

Kentucky Power Company's (KPCo) Baa2 rating reflects its relatively low-risk operating profile as a vertically integrated electric utility with a constructive relationship with its regulator, the Kentucky Public Service Commission (KPSC). The rating considers financial metrics that are appropriate for the rating and reflective of important settlement agreements the utility has negotiated to transform its rate base.

Exhibit 1

Historical CFO Pre W/C, Total Debt and CFO Pre W/C to Debt



Source: Moody's Financial Metrics

Credit Strengths

» Regulatory support with sufficient cost recovery

» Relatively stable cash flow credit metrics

Credit Challenges

» Service territory's economic recovery hampered by exposure to Appalachian coal industry

Rating Outlook

The stable rating outlook is primarily based on our expectation that KPCo will maintain a constructive relationship with the KPSC and that the combination of recent rate actions, the extension of bonus depreciation and prudent financial policy will enable the utility to preserve financial credit metrics that support the rating. These metrics include a ratio of CFO pre-WC to debt in the mid-to-upper teen's range.

Factors that Could Lead to an Upgrade

» A rating upgrade appears unlikely over the near to intermediate term

» Longer term, interest coverage above 4.5x and CFO pre-WC to debt above 20% on a sustainable basis

Factors that Could Lead to a Downgrade

» A deterioration in KPCo's relationship with its regulator

» An increase in capital or operating expenses that KPCo was unable to recover on a timely basis

» A material decrease in cash flow, or increase in leverage, causing interest coverage to fall below 3.5x, or the ratio of CFO Pre-WC to debt to fall below 13% for a sustained period of time

Key Indicators

Exhibit 2

KEY INDICATORS [1]

Kentucky Power Company

	12/31/2011	12/31/2012	12/31/2013	12/31/2014	9/30/2015(L)
CFO pre-WC + Interest / Interest	3.8x	3.8x	4.2x	5.4x	4.4x
CFO pre-WC / Debt	17.8%	16.4%	18.5%	19.6%	17.0%
CFO pre-WC – Dividends / Debt	13.3%	12.5%	15.9%	6.5%	11.6%
Debt / Capitalization	43.9%	40.9%	36.5%	41.5%	41.0%

[1] All ratios are based on 'Adjusted' financial data and incorporate Moody's Global Standard Adjustments for Non-Financial Corporations.
Source: Moody's Financial Metrics

Detailed Rating Considerations

Regulatory support with sufficient cost recovery is a key rating driver

Moody's views the regulatory environment in Kentucky as reasonably supportive to long-term credit quality. The KPSC has a suite of cost recovery mechanisms that help reduce regulatory lag including a fuel adjustment clause, energy efficiency and environmental recovery riders which allow a utility to earn a return on essentially all construction work in progress. Utilities can also start to collect interim rates approximately six months after filing a rate case if the KPSC has not acted on it.

Over the past few years, in an effort to address both environmental and reliability issues, KPCo worked with its regulators to obtain the approvals necessary to support a significant transformation of its generation rate base including: 1) the closure of half of its prior coal-based generation base (800 MW Big Sandy Unit 2) in May 2015, 2) the natural gas repowering of Big Sandy Unit 1 (to be completed in 2016), and 3) the acquisition of one half (780 MW) of the coal-fired Mitchell plant from an affiliate as of December 2013.

In June 2015, the KPSC issued an order approving a modified stipulation agreement in KPCo's December 2014 filed rate case that included a net revenue increase of $45 million. The increase consisted of a $68 million increase in rider rates offset by a $23 million decrease in annual base rates. The approved agreement was positive as it reflects KPCo's ownership interest in the Mitchell Plant and includes riders to recover costs (and an ROE of 10.25%) associated with the planned shut down and coal-to-gas conversion at the Big Sandy plant. As a result, in 2016, AEP expects KPCo will be able to earn a return on equity of about 8.6%. This is a significant improvement over the negative return exhibited for the twelve months ending September 2015 while the company was operating under a rate freeze and required to refund certain fuel related costs for the period when KPCo simultaneously owned the Mitchell plant and operated Big Sandy Unit 2.

Service territory's economic recovery is hampered by exposure to Appalachian coal industry

According to Moody's Economy.com, Kentucky's economy is expanding largely as a result of strength in auto manufacturing, and logistics thanks to strong domestic demand and rising online sales. We note however that KPCo's service territory in eastern Kentucky is disproportionately exposed to the Appalachian coal business which continues to be negatively impacted by higher production costs, environmental mandates and low natural gas prices which have reduced demand for coal as a fuel source for electricity generation. In 2014, approximately 45% of KPCo's energy sales were to industrial customers.

Relatively stable cash flow credit metrics

KPCo's key cash flow based financial credit metrics remain appropriate for the rating even as the utility has worked through a period of under earning due to rate freezes and required refunds. As of December 2014, we calculate KPCo's three year average ratio of cash flow from operations excluding changes in working capital (CFO pre-WC) to debt to be about 18% and its retained cash flow to debt ratio be about 11.5%. These metrics fall within the mid "Baa" scoring range indicated for these factors in our rating methodology for regulated electric and gas utilities. In contrast, we calculate KPCo's return on equity for 2014 and 2013 at 5.1% and 1.1% respectively. This is partially attributable to the utility's relatively low leverage. Including deferred taxes in the capital structure, as of December 2014, we calculate KPCo's ratio of debt to capitalization as approximately 41% which falls in the "A" scoring range indicated in the methodology.

For 2016, based on recent rate actions, management anticipates KPCo should be able to earn a return of about 8.6%. We anticipate cash flow to debt credit metrics will remain in the mid-upper teens.

Liquidity Analysis

KPCo's liquidity is adequate. For the twelve months ending September 30, 2015, KPCo generated approximately $115 million of cash from operations, invested $113 million in capital expenditures and up streamed $48 million in dividend payments to parent AEP, resulting in a negative free cash flow (FCF) of approximately $46 million. In 2014 KPCo generated CFO of approximately $213 million, invested $102 million in capital expenditures and up streamed $115 million in dividend payments, resulting in a negative FCF of $4 million. Prospectively we see KPCo generating a CFO ranging from $150 - 175 million, investing approximately $100 million and maintaining a prudent dividend policy.

Although KPCo does not benefit from a dedicated external credit facility, the company does have access to its parent company American Electric Power Company, Inc.'s (AEP, Baa1 stable) liquidity through participation in its utility money pool. As of September 30, 2015, KPCo's borrowing limit under the money pool was $250 million and the utility had borrowed approximately $7 million. KPCo also utilizes AEP's $750 million receivable securitization facility; at the end of September, KPCO had approximately $34 million of receivables sold under its arrangement with AEP Credit. KPCo's nearest maturity is September of 2017 when $325 million of senior notes come due; in addition KPCO has $65 million of variable rate pollution control bonds supported by a bilateral letter of credit that matures in June 2017.

AEP's liquidity position is adequate. AEP has two syndicated credit facilities totaling $3.5 billion, one is a $1.75 billion facility expiring June 2017, and the other is also a $1.75 billion facility expiring in July 2018. AEP is not required to make a representation with respect to either material adverse change or material litigation in order to borrow under the facility. Default provisions which would preclude the use of the facility exclude defaults at non-significant subsidiaries including AEP Generation Resources, AEP's merchant generating facility. The facilities contain a covenant requiring that AEP's consolidated debt to capitalization (as defined) will not exceed 67.5%; as of September 30, 2015 the contractually defined ratio was 50.6%.

Profile

Kentucky Power Company (KPCo), a vertically integrated electric utility company headquartered in Frankfort, Kentucky, is a wholly owned subsidiary of American Electric Power Company, Inc. (AEP, Baa1 stable), with about $1.5 billion in rate base (6% of AEP's total) and 2014 revenue of about $782 million (about 5% of AEP total revenue). The utility is primarily regulated by the Kentucky Public Service Commission (KPSC).

Following the closure of the 800 MW Big Sandy Unit 2 in May 2015, and the conversion of Big Sandy Unit 1 to natural gas in 2016, KPCo is estimated to have a total owned generation capacity of 1,048 MW, comprised of 26% natural gas and 74% coal. KPCo's generating capacity consists of a 50% ownership in the coal-fired Mitchell plant (780 MW) and Big Sandy Unit 1 that is being converted from coal to natural gas and is expected to have a generating capacity of 268 MW. KPCo also purchases approximately 390 MW from its affiliate AEP Generating Company's share of the Rockport plant under a long-term unit power agreement. KPCo's is a winter peaking utility, in February 2015 the system reached a peak of 1,666 MW; its 2014 summer peak demand was 1,097 MW. KPCo is the one of the lowest electricity cost providers in Kentucky with a typical bill of $96 a month, based on 1,000 kWh of residential usage.

Rating Methodology and Scorecard Factors

Exhibit 3

Rating Factors				
Kentucky Power Company				
Regulated Electric and Gas Utilities Industry Grid [1][2]	**Current LTM 12/31/2014**		**Moody's 12-18 Month Forward View As of Date Published [3]**	
Factor 1 : Regulatory Framework (25%)	**Measure**	**Score**	**Measure**	**Score**
a) Legislative and Judicial Underpinnings of the Regulatory Framework	A	A	A	A
b) Consistency and Predictability of Regulation	A	A	A	A
Factor 2 : Ability to Recover Costs and Earn Returns (25%)				
a) Timeliness of Recovery of Operating and Capital Costs	Baa	Baa	Baa	Baa
b) Sufficiency of Rates and Returns	Baa	Baa	Baa	Baa
Factor 3 : Diversification (10%)				
a) Market Position	Ba	Ba	Ba	Ba
b) Generation and Fuel Diversity	B	B	B	B
Factor 4 : Financial Strength (40%)				
a) CFO pre-WC + Interest / Interest (3 Year Avg)	4.4x	Baa	3.9x - 4.3x	Baa
b) CFO pre-WC / Debt (3 Year Avg)	18.2%	Baa	16% - 20%	Baa
c) CFO pre-WC – Dividends / Debt (3 Year Avg)	11.5%	Baa	11% - 15%	Baa
d) Debt / Capitalization (3 Year Avg)	39.6%	A	39% - 43%	A
Rating:				
Grid-Indicated Rating Before Notching Adjustment		Baa2		Baa2
HoldCo Structural Subordination Notching				
a) Indicated Rating from Grid		Baa2		Baa2
b) Actual Rating Assigned		Baa2		Baa2

[1] All ratios are based on 'Adjusted' financial data and incorporate Moody's Global Standard Adjustments for Non-Financial Corporations.
[2] As of 12/31/2014(L)
[3] This represents Moody's forward view; not the view of the issuer; and unless noted in the text, does not incorporate significant acquisitions and divestitures.
Source: Moody's Financial Metrics

Ratings

Exhibit 4

Category	Moody's Rating
KENTUCKY POWER COMPANY	
Outlook	Stable
Issuer Rating	Baa2
Senior Unsecured	Baa2
PARENT: AMERICAN ELECTRIC POWER COMPANY, INC.	
Outlook	Stable
Senior Unsecured	Baa1
Jr Subordinate Shelf	(P)Baa2
Commercial Paper	P-2

Source: Moody's Investors Service

REPORT NUMBER 1013769

MOODY'S
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INVESTORS SERVICE

Credit Opinion: Kentucky Power Company

Global Credit Research - 05 Feb 2015

Ashland, Kentucky, United States

Ratings

Category	**Moody's Rating**
Outlook	Stable
Issuer Rating	Baa2
Senior Unsecured	Baa2
Parent: American Electric Power Company, Inc.	
Outlook	Stable
Senior Unsecured	Baa1
Jr Subordinate Shelf	(P)Baa2
Commercial Paper	P-2

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William L. Hess/New York City	212.553.3837

Key Indicators

[1]**Kentucky Power Company**

	9/30/2014(LTM)	**12/31/2013**	**12/31/2012**	**12/31/2011**	**12/31/2010**
CFO pre-WC + Interest / Interest	**5.3x**	**4.2x**	**3.8x**	**3.8x**	**3.4x**
CFO pre-WC / Debt	**19.0%**	**18.4%**	**16.4%**	**17.7%**	**14.6%**
CFO pre-WC - Dividends / Debt	**6.8%**	**15.9%**	**12.5%**	**13.3%**	**11.3%**
Debt / Capitalization	**41.1%**	**36.6%**	**40.9%**	**44.0%**	**45.7%**

[1] All ratios are based on 'Adjusted' financial data and incorporate Moody's Global Standard Adjustments for Non-Financial Corporations. Source: Moody's Financial Metrics

Note: For definitions of Moody's most common ratio terms please see the accompanying User's Guide.

Opinion

Rating Drivers

Regulatory support, with sufficient cost recoveries, is most critical rating driver

Service territory's slow economic recovery at-risk by low natural gas prices

Financial metrics pressured by significant leverage and capital investments

CORPORATE PROFILE

Kentucky Power Company (KPCo, Baa2 stable) is a vertically integrated electric utility company headquartered in Frankfort, Kentucky, a wholly owned subsidiary of American Electric Power Company (AEP, Baa1 stable), with about $1.5 billion in rate base (6% of AEP's state jurisdictional total) a pro-forma rate base ROE of 5.1% and is primarily regulated by the Kentucky Public Service Commission (KPSC).

KPCo's total owned generation capacity of 2,248 MW, is 100% coal and consists of two units at the Big Sandy plant and a 50% ownership in the Mitchell plant. It also purchases approximately 390MW from its affiliate AEP Generating Company's share of the Rockport plant under a long-term unit power agreement. KPCo's 2014 peak demand was reported as 1,645 MW. KPCo has the highest electricity costs in Kentucky with a typical bill of $107 a month, based on 1,000 kWh of residential usage.

SUMMARY RATING RATIONAL

KPCo's Baa2 rating reflects a vertically integrated utility with a historically constructive relationship with the KPSC and financial metrics that are consistent with the grid-indicated category. However, KPCo will be facing some challenges in the next 18-24 months including, financial metrics that will be materially stressed by increased leverage due to an asset acquisition to comply with environmental mandates, and regulatory support that will be tested due to the sluggish service territory's economy and KPCo's higher rates relative to in-state peers.

DETAILED RATING CONSIDERATIONS

REGULATORY SUPPORT, WITH SUFFICIENT COST RECOVERIES, IS MOST CRITICAL RATING DRIVER

Moody's views the regulatory environment in Kentucky as reasonably supportive to long-term credit quality, a credit positive. The KPSC has a suite of cost recovery mechanisms that help reduce regulatory lag including a fuel adjustment clause, energy efficiency and environmental recovery riders and construction work in progress (CWIP), which allows a utility to earn a return on essentially all construction work in progress. Utilities can also start to collect interim rates approximately six months after filing a rate case if the KPSC has not acted on it.

In December 2014, KPCo filed an electric base rate reduction of almost $5.0 million premised upon a 10.6% ROE. KPCo also filed for an incremental $74.8 million through various riders, namely the "Big Sandy Retirement Rider", for costs related to the Big Sandy Unit 2 retirement by May 2015, and conversion to a gas-fired plant of Unit 1 by June 2016; certain non-fuel-related costs; environmental surcharge rider (mostly for the construction of emissions-control equipment at the coal-fired Mitchell Units 1 and 2 in West Virginia); and lastly the "Kentucky Economic Development Surcharge". A final KPSC decision is expected in June 2015.

In January 2015 the KPSC issued an order prohibiting KPCo from charging its customers for about $54 million in fuel costs. As part of this order KPCo was directed to refund $13 million in fuel costs the company had collected during the first four months of 2014, and to forgo collection of an estimated $41 million in additional fuel costs that was collected for the rest of 2014 through the end of May 2015. This order stemmed from the approval of the Mitchell plant transfer which has led to a surplus of capacity at KPCo and additional costs to the rate payers. The impact of this order on cash flow metrics will be credit negative.

The KPSC approved an application for a 59 MW PPA from a biomass plant; however, it cannot move forward because of an intervener's appeal to the Franklyn County Appeal Court, a ruling is yet to be made. In addition, KPCo will be responsible for a portion of the Rockport upgrades forecasted to represent approximately $87M through 2019, but the company will pay these costs over time through higher capacity costs.

Post the Big Sandy Unit 2 retirement in May 2015, a reserve margin deficit is expected at KPCo. This deficit issue will likely be resolved once the conversion of Big Sandy Unit 1 is complete in June 2016; however, until that time KPCo will have to meet its power needs by purchasing it from various affiliates at market prices.

SERVICE TERRITORY'S SLOW ECONOMIC RECOVERY AT-RISK BY LOW NATURAL GAS PRICES AND FEDERAL GOVERNMENT BUDGET CUTS

KPCo's service territory is highly dependent on a staggered Appalachian coal business which is negatively affected by higher production costs, environmental mandates and low natural gas prices. This has led to weak economic times for businesses in eastern Kentucky (KPCo's service territory) which rely heavily on the circulation from coal income.

According to Moody's Economy, Kentucky will outperform in 2015 before falling behind due to a lack of dynamic drivers.

FINANCIAL METRICS PRESSURE BY LEVERAGE AND CAPITAL INVESTMENTS

KPCo's key financial credit metrics have been appropriate for the grid-indicated rating category, with the interest coverage ratio at 3.8x and 4.2x, CFO pre-WC to debt (Leverage ratio) at 16.4% and 18.4%, CFO pre-WC minus dividends to debt (RCF ratio) at 12.5% and 15.9% and debt to capitalization at 41% and 37%; for 2012 and 2013 respectively. For the period 2011-2013, KPCo generated approximately $400 million in of cash from operations pre-working capital (CFO pre-WC) and invested $340 million in capital expenditures.

For LTM third-quarter 2014 key credit financial credit metrics were 5.3x interest coverage ratio, 19% Leverage ratio, 7% RCF ratio and 41% debt to capitalization.

For the next 18-24 months Moody's does not expect reductions in capital investments or leverage at KPCo causing financial metrics to be pressured, with the interest coverage ratio ranging from 4.2x - 4.7x; leverage ratio from 15% - 20%; RCF ratio from 7% - 12%; and debt to capitalization from 50% - 55%.

Liquidity

KPCo's liquidity is adequate. KPCo participates in the AEP Utility Money Pool with a borrowing limit of $250 million, which provides access to the parent company's liquidity. As of third-quarter 2014, KPCo had $10 million in borrowings from the Money Pool. KPCo also utilizes AEP's receivable securitization facility. KPCo has no maturities until September of 2017 when $325 million of senior notes come due.

For the LTM third-quarter 2014, KPCo generated approximately $260 million of cash from operations (CFO), invested $120 million in capital expenditures and up streamed $110 million in dividend payments to parent AEP, resulting in a positive free cash flow (FCF) of approximately $30 million. In 2013 KPCo generated CFO of approximately $135 million, invested $145 million in capital expenditures and up streamed $20 million in dividend payments, resulting in a negative FCF of $30 million. Prospectively we see KPCo generating a CFO ranging from $150 - 175 million, investing approximately $100 million and maintaining a prudent dividend policy.

AEP's liquidity is adequate. AEP has two syndicated credit facilities totaling $3.5 billion, one is a $1.75 billion facility expiring June 2016, and the other is also a $1.75 billion facility (upsized from $1.5 billion) expiring in July 2017. The AEP is not required to make a representation with respect to either material adverse change or material litigation in order to borrow under the facility. Default provisions exclude payment defaults and insolvency/bankruptcy of subsidiaries that are not significant subsidiaries per the SEC definition (in general, this would exclude subsidiaries representing less than 10% of assets or income). The facilities contain a covenant requiring that AEP's consolidated debt to capitalization (as defined) will not exceed 67.5%. AEP states the actual ratio was 49.9% at third-quarter 2014, indicating substantial headroom.

Rating Outlook

The stable rating outlook is primarily based on our expectation that KPCo will maintain a constructive relationship with the KPSC and a prudent financial policy to preserve financial credit metrics that support the rating. These metrics include a ratio of CFO to debt in the mid-teen's range

What Could Change the Rating - Up

Rating upgrades appear unlikely over the near to intermediate term, primarily due to KPCo's increased leverage and capital investments. However, KPCo could be considered for a rating upgrade if its key financial metrics, including interest coverage above 4.5x and CFO pre-WC to debt above 20% were achieved on a sustainable basis.

What Could Change the Rating - Down

Ratings could be downgraded if KPCo were to encounter a contentious regulatory environment in Kentucky. Specifically, if the lack of recovery on current filings were to cause a material decrease in cash flow leading to the deterioration of key financial metrics such that the interest coverage ratio falls below 3.5x, or CFO Pre-WC to debt falls below 13% for a sustained period of time.

Rating Factors

Kentucky Power Company

Regulated Electric and Gas Utilities Industry Grid [1][2]	**Current LTM 9/30/2014**		[3]**Moody's 12-18 Month Forward ViewAs of February 2015**	
Factor 1 : Regulatory Framework (25%)	**Measure**	**Score**	**Measure**	**Score**
a) Legislative and Judicial Underpinnings of the Regulatory Framework	A	A	A	A
b) Consistency and Predictability of Regulation	A	A	A	A
Factor 2 : Ability to Recover Costs and Earn Returns (25%)				
a) Timeliness of Recovery of Operating and Capital Costs	Baa	Baa	Baa	Baa
b) Sufficiency of Rates and Returns	Baa	Baa	Baa	Baa
Factor 3 : Diversification (10%)				
a) Market Position	Ba	Ba	Ba	Ba
b) Generation and Fuel Diversity	B	B	B	B
Factor 4 : Financial Strength (40%)				
a) CFO pre-WC + Interest / Interest (3 Year Avg)	4.2x	Baa	4.2x - 4.7x	A
b) CFO pre-WC / Debt (3 Year Avg)	20.9%	Baa	15% - 20%	Baa
c) CFO pre-WC - Dividends / Debt (3 Year Avg)	13.1%	Baa	7% - 12%	Baa
d) Debt / Capitalization (3 Year Avg)	42.0%	A	50% - 55%	Baa
Rating:				
Grid-Indicated Rating Before Notching Adjustment		Baa2		Baa2
HoldCo Structural Subordination Notching				
a) Indicated Rating from Grid		Baa2		Baa2
b) Actual Rating Assigned		Baa2		Baa2

[1] All ratios are based on 'Adjusted' financial data and incorporate Moody's Global Standard Adjustments for Non-Financial Corporations. [2] As of 9/30/2014(L); Source: Moody's Financial Metrics [3] This represents Moody's forward view; not the view of the issuer; and unless noted in the text, does not incorporate significant acquisitions and divestitures.

This publication does not announce a credit rating action. For any credit ratings referenced in this publication, please see the ratings tab on the issuer/entity page on http://www.moodys.com for the most updated credit rating action information and rating history.

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MOODY'S
INVESTORS SERVICE

Credit Opinion: Kentucky Power Company

Global Credit Research - 10 Feb 2014

Ashland, Kentucky, United States

Ratings

Category	Moody's Rating
Outlook	Stable
Issuer Rating	Baa2
Senior Unsecured	Baa2
Parent: American Electric Power Company, Inc.	
Outlook	Stable
Senior Unsecured	Baa1
Jr Subordinate Shelf	(P)Baa2
Commercial Paper	P-2

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Key Indicators

[1]**Kentucky Power Company**

	12/31/2009	12/31/2010	12/31/2011	12/31/2012	9/30/2013
CFO pre-WC + Interest / Interest	**3.9x**	**3.4x**	**3.8x**	**3.8x**	**4.1x**
CFO pre-WC / Debt	**17.6%**	**14.6%**	**17.7%**	**17.2%**	**18.7%**
CFO pre-WC - Dividends / Debt	**14.5%**	**11.3%**	**13.3%**	**12.0%**	**14.4%**
Debt / Capitalization	**46.1%**	**45.7%**	**44.0%**	**42.8%**	**42.9%**

[1] All ratios are based on 'Adjusted' financial data and incorporate Moody's Global Standard Adjustments for Non-Financial Corporations. Source: Moody's Financial Metrics

Note: For definitions of Moody's most common ratio terms please see the accompanying User's Guide.

Opinion

Rating Drivers

Acquisition of 50% interest in Mitchell plant will help address expected capacity shortfall

Constructive regulatory environment

Maintenance of current ratings will depend on capital injections from the parent

Historically strong industrial sales remain flat in 2013

Recently stabilized key financial metrics will be materially pressured by plant acquisitions

CORPORATE PROFILE

Kentucky Power Company (KPCo, Baa2 senior unsecured, stable outlook) is a vertically integrated electric utility company headquartered in Frankfort, Kentucky and is a wholly owned subsidiary of American Electric Power Company (AEP, Baa1 senior unsecured, stable outlook). KPCo is one of AEP's smaller subsidiaries, with about $1.8 billion in rate base (6% of AEP's state jurisdictional total) and $1.6 billion assets (3% of AEP consolidated). KPCo's primary regulator is the Kentucky Public Service Commission (KPSC). KPCo's total owned generation capacity is 1,858 MW, consisting of two units at the Big Sandy plant, and a 50% ownership in the Mitchell plant. It also purchases approximately 195MW from its affiliate AEP Generating Company's share of the Rockport plant under a long-term unit power agreement. KPCo's total capacity of approximately 1,858 MW is 100% coal. KPCo's 2012 peak demand was reported as 1,378 MW, resulting in a negative reserve margin, which KPCo has primarily met with purchases from its market affiliates.

SUMMARY RATING RATIONAL

KPCo's Baa2 senior unsecured rating primarily reflect its reasonably constructive relationship with the KPSC, historical financial metrics that have improved to a consistent level with the rating, and the company's position as one of the smaller members the AEP family, balanced against a reserve deficit that will need to be addressed in serial rate filings, rates that are already high relative to in-state peers, and financial metrics that will likely be materially stressed as a result of asset acquisitions and other capacity purchases/construction that will be required to replace Big Sandy.

DETAILED RATING CONSIDERATIONS

MAKING PROGRESS IN REPLACING BIG SANDY CAPACITY AND ADDRESSING NEGATIVE RESERVE MARGINS

We view the settlement to move forward with the Mitchell Plant acquisition in lieu of the more expensive and operationally riskier Big Sandy retrofit as a credit positive.

Big Sandy, Unit 2 (800 MW) is expected to cease operation as a coal-fired plant in mid-2015. In May 2012, KPCo withdrew its application for a proposed $940 million environmental retrofit project at Big Sandy Unit 2, opting instead to retire the unit in 2015 and acquire a 50% ownership share in the Mitchell Plant from its affiliate Ohio Power Company (OPCo, Baa1, stable outlook), representing 780 MW for an estimated cost of $536 million, half of the asset's projected net book value. The Mitchell Plant consists of two environmentally controlled coal-fired units with a total capacity of 1,560 MW. The other 50% interest is currently owned by AEP Generation Resources. The West Virginia PSC deferred making a decision to transfer the remaining 50% interest in Mitchell Plant to APCo.

In October 2013, the KPSC approved the transfer of the 50% interest in Mitchell Plant. The approved settlement requires a freeze in KPCo's utility base rates until May 31, 2015, withdrawing KPCo's previous rate case application, and a $44 million annual limit on the recovery of costs associate with the transfer. On December 2013, KPCo filed an application with the PSCK to convert the 278 MW Big Sandy coal Unit 1 to a 268 MW natural gas fired unit which is expected to cost $50 million and to be in service around 2015. Currently, KPCo could possibly meet its additional capacity needs by continuing to purchase power from various affiliates and there is a pending application for a 59 MW PPA for a biomass plant.

However, on a forward-looking basis, according to the PJM UCAP, after the Mitchell transfer and conversion of Unit 1 at Big Sandy, KPCo will not have a negative reserve margin. In addition, KPCo will also be responsible for a portion of the Rockport upgrades, but the company will pay these costs over time through higher capacity costs. In addition to regulatory approvals to increase rates commensurate with its higher rate base and capacity expenses, KPCo will require additional equity injections from AEP (the last received was in 2009) to maintain an appropriate capital structure.

After Big Sandy Unit 2 retires in 2015, KPCo will have approximately 1,058 MW of owned capacity.

APPROVAL OF THE POWER COORDIANTION AGREEMENT ADDS A MODICUM OF UNCERTAINTY

Effective January 2014, under the Power Coordination Agreement (PCA) KPCo, Indiana Michigan (I&M, Baa1, stable outlook), and Appalachian Power Company (APCo, Baa1, stable outlook) will coordinate capacity, with American Electric Power Service Corporation (AEPSC, not rated) acting as agent (including review of procedures for cost and benefit allocations). Each operating company will be required to own or contract for sufficient generation to meet its respective load and reserve obligations. There is no obligation for the utilities to first sell their energy or capacity to each other before selling to third parties, from which Moody's infers that sales to affiliates will mostly occur at a market price. The PAC is designed to provide the AEP East Utilities with the opportunity to (a) participate collectively under a common FRR capacity plan in PJM, and (b) to participate in specified collective off-system sales and purchase activities.

For its part, KPCo will need to address its current capacity shortfall through asset acquisitions and/or capacity purchases at market prices. KPCo's purchases from third parties at less advantageous market prices rather than affiliate transactions at cost-based costs could add pressure to the fuel/purchased power component of rates.

CONSTRUCTIVE REGULATORY ENVIRONMENT A CREDIT POSITIVE

Moody's views the regulatory environment in Kentucky as reasonably supportive to long-term credit stability, contributing to predictability of cash flows, a material credit positive. Utilities can start to collect interim rates approximately six months after filing a rate case if the KPSC has not acted on it. Electric utilities have generally been allowed to earn a return on essentially all construction work in progress (CWIP). There are also various riders and cost recovery mechanisms that help to reduce regulatory lag, including a fuel adjustment clause, an energy efficiency rider and, most significantly, an environmental cost recovery rider. Proceedings from the latter are conducted every two years. The KPSC has authorized significant amounts of environmental spending for some of the state's other investor-owned utilities, and Moody's expects that KPCo would be granted similar treatment for reasonable costs incurred to replace capacity that could not economically meet federally mandated environmental standards.

In June 2010, the KPSC approved a not overly-generous rate settlement agreement for KPCo authorizing a $64 million rate increase, based on a 10.5% authorized ROE with 43% equity, and recovery of $23 million of storm costs over five years. KPCo will have frozen base rates until May 31, 2015. However, later in the year, KPCo will file a base rate case for the transfer of Mitchell Plant to KPco under the asset transfer rider (ATR), which went into effect on January 1, 2014 and will allow KPCo some recovery of Mitchell's costs for 18 months while Big Sandy Unit 2 is still operational. After Big Sandy Unit 2 is retired, the full recovery of Mitchell will begin July 1, 2015 when new base rates go into effect. KPCo expects to file by the end of 2014. Environmental costs not recovered in base rates will be recovered in a ES Rider (Environmental Surcharge) that will goes into effect July 1, 2015.

HISTORICALLY STRONG INDUSTRIAL SALES CONTINUE TO BE FLAT IN 2013

Although KPCo's service territory is in the easternmost part of the state, with few urban areas other than Ashland, industrial sales represent a high percentage of total production - about 4% of retail KWh sales and 3% of retail revenues. Of the ten largest industrial customers, which represent 67% of industrial sales, there are six coal mining companies, two steel manufacturers, one refinery, and one chemical company per Moody's Analytics. Industrial sales were remarkably stable from 2006-2011, even during the recession, in part because coal prices have been generally been sufficient to keep the mines active. KPCo's territory is on the western edge of the Utica shale formation, which may spur further energy development in the longer term.

RECENTLY STABILIZED CREDIT METRICS WILL BE WEAKEN DUE TO HIGH CAPITAL EXPENDITURES AND NEW CAPACITY NEEDS

On balance, KPCo's financial credit metrics have mostly been appropriate for its Baa2 rating category over the past four years, after rebounding from a low point in 2008. On a three-year average basis through third-quarter 2013, KPCO's ratios were barely in line with mid-Baa scoring. The cash from operations before working capital adjustments to debt (Leverage ratio) is at 18%, its ratio of CFO pre-WC minus dividends to debt (RCF ratio) is at 13.5%, and its ratio of CFO pre-WC plus interest to interest (Coverage ratio) is at 3.9x. Whereas the debt to capitalization ratio is at 43.2% was more in line with a low-A scoring.

On a one-year basis LTM third-quarter 2013 ratios were all stronger than the three-year average ratios, Leverage ratio at 18.7%, RCF ratio at 14%, Coverage ratio at 4.1x, and debt to capitalization at 43%. Going forward, Moody's expects material deterioration in KPCo's metrics following the acquisition of the Mitchell plant, since about $265 million of debt will be assumed. In addition, since KPCo decided to re-power Big Sandy Unit 1, it will have additional construction expenditures during this period. Thus, our expectation that AEP will provide sufficient equity capital to maintain an appropriate capital structure is crucial to the continuance of the current ratings.

Liquidity

KPCo's liquidity is adequate. KPCo participates in the AEP Utility Money Pool with a borrowing limit of $250 million, which provides access to the parent company's liquidity. As of Third-quarter 2013, KPCo had a no borrowings from the Money Pool. KPCo also utilizes AEP's receivable securitization facility.

For the twelve months ending September 2013, KPCo generated approximately $78 million of cash from operations, invested approximately $86million in capital expenditures and made $27 million in upstream dividend payments to AEP, resulting in approximately $35 million of negative free cash flow. In 2014, we expect KPCo to generate between $100-140 million of cash from operations, invest approximately $100-120 million in capital expenditures and pay dividends between $20-30 to its parent. As of Sept 30th, KPCo has no long-term debt maturities until 2017. KPCo assumed a portion of the term loan maturity May 2015 with the Mitchell assets.

AEP's liquidity is adequate. AEP has two syndicated credit facilities totaling $3.5 billion that were renewed and extended in mid-2011. One is a $1.75 billion facility expiring June 2016, and the other is also a $1.75 billion facility (upsized from $1.5 billion) expiring in July 2017. The facilities permit same-day borrowing and have a combined letter of credit sub-limit of $1.2 billion. The facilities contain a covenant requiring that AEP's consolidated debt to capitalization (as defined) will not exceed 67.5%. AEP states the actual ratio was 50.9% at Third-quarter 2013, indicating substantial headroom. AEP is not required to make a representation with respect to either material adverse change or material litigation in order to borrow under the facility. Default provisions exclude payment defaults and insolvency/bankruptcy of subsidiaries that are not significant subsidiaries per the SEC definition (in general, this would exclude subsidiaries representing less than 10% of assets or income, but AEP Texas Central and Southwestern Electric Power Company are also effectively excluded as significant subsidiaries due to definitional adjustments in the credit facilities. In July 2013, AEP Generating Resources (AEPGenCo, not rated), APCo, KPCo, and OPCo entered into a $1 billion term credit facility due in May 2015 to fund certain OPCo maturities on an interim basis and to facility its corporate separation of generation assets from transmission and distribution. As of third-quarter 2013, the outstanding position is $600 million

As of LTM third-quarter 2013, AEP had $147 million of cash on hand and approximately $2.8 billion of availability under its two syndicated revolving credit facilities after giving effect to $518 million of commercial paper outstanding and $185 million of issued letters of credit. In June 2012, AEP renewed its $700 million accounts receivable securitization, of which only the $315 million multi-year portion is included as an available source in our liquidity testing. On a consolidated basis for LTM third-quarter 2013, AEP generated approximately $4.2 billion in CFO pre-WC, made approximately $3.7 billion in capital investments and net asset purchases, and paid about $938 million in dividends, resulting in roughly $438 million of negative free cash flow. Including securitization bonds, put bonds and other amortizations, AEP has debt maturities of $1140 in 2014. Over the next two years, Moody's estimates (based on adjusted company projections) that AEP will generate roughly average $4 billion annually in CFO pre-WC, spend about average of 4 billion annually in capital expenditures, and assuming $1 billion in dividends annually, yielding negative free cash flow of average $950 million per year.

Rating Outlook

The stable rating outlook for KPCo is primarily based on our expectation that the company will continue to maintain a constructive relationship with the KPSC following the transfer of the 50% interest in the Mitchell Plant and that AEP will provide the capital injections needed for KPCo to maintain the stabilized key financial credit metrics that support the current rating.

What Could Change the Rating - Up

Rating upgrades appear unlikely over the near to intermediate term horizon, primarily due to our expectation that KPCo will be challenged to maintain its financial profile in light of its recent plant acquisition. However, KPCo could be considered for a rating upgrade if it were to achieve key financial credit metrics, including CFO pre-WC plus interest over interest of approximately 4.5x and CFO pre-WC to debt of approximately 20% on a sustainable basis.

What Could Change the Rating - Down

KPCo's ratings could be downgraded if the regulatory environment were to take a more adversarial tone, especially; if material progress were not made in the next 12 months in meeting KPCo's post-Big Sandy capacity shortfall; if equity contributions from AEP were not forthcoming in a manner to maintain an appropriate capital structure; if there were a material, sustained decrease in retail sales and revenues (especially from industrial customers); or if there were a sustained deterioration in key financial credit metrics, for instance, a Coverage Ratio below 3.0x or CFO Pre-WC to debt in the low-teens.

Rating Factors

Kentucky Power Company

Regulated Electric and Gas Utilities Industry Grid [1][2]	**Current LTM 9/30/2013**		[3]**Moody's 12-18 Month Forward ViewAs of January 2014**	
Factor 1 : Regulatory Framework (25%)	**Measure**	**Score**	**Measure**	**Score**
a) Legislative and Judicial Underpinnings of the Regulatory Framework	A	A	A	A
b) Consistency and Predictability of Regulation	A	A	A	A
Factor 2 : Ability to Recover Costs and Earn Returns (25%)				
a) Timeliness of Recovery of Operating and Capital Costs	Baa	Baa	Baa	Baa
b) Sufficiency of Rates and Returns	Baa	Baa	Baa	Baa
Factor 3 : Diversification (10%)				
a) Market Position	Baa	Baa	Baa	Baa
b) Generation and Fuel Diversity	Ba	Ba	Ba	Baa
Factor 4 : Financial Strength (40%)				
a) CFO pre-WC + Interest / Interest (3 Year Avg)	3.9x	Baa	3.5x - 3.9x	Baa
b) CFO pre-WC / Debt (3 Year Avg)	18.0%	Baa	14% - 18%	Baa
c) CFO pre-WC - Dividends / Debt (3 Year Avg)	13.5%	Baa	10% - 12%	Baa
d) Debt / Capitalization (3 Year Avg)	43.2%	A	48% - 51%	Baa
Rating:				
Grid-Indicated Rating Before Notching Adjustment		Baa1		Baa2
HoldCo Structural Subordination Notching				
a) Indicated Rating from Grid		Baa2		Baa2
b) Actual Rating Assigned		Baa2		Baa2

[1] All ratios are based on 'Adjusted' financial data and incorporate Moody's Global Standard Adjustments for Non-Financial Corporations. [2] As of 9/30/2013(L); Source: Moody's Financial Metrics [3] This represents Moody's forward view; not the view of the issuer; and unless noted in the text, does not incorporate significant acquisitions and divestitures.

Kentucky Power Co.

Subsidiary of American Electric Power Company

Full Rating Report

Ratings

Long-Term IDR	BBB
Senior Unsecured	BBB+

IDR – Issuer Default Rating.

Rating Outlook

Stable

Financial Summary

Kentucky Power Co.

($ Mil.)	LTM 03/31/17	2016
Adjusted Revenue	654	655
Operating EBITDAR	196	206
Cash Flow from Operations	133	158
Total Adjusted Debt	904	893
Total Capitalization	1,551	1,537
Capex/ Depreciation (%)	103.9	116.5
FFO Fixed-Charge Coverage (x)	3.4	3.3
FFO-Adjusted Leverage (x)	5.7	5.7
Total Adjusted Debt/EBITDAR (x)	4.6	4.3

Related Research

Kentucky Power Co. — Ratings Navigator (July 2017)

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Key Rating Drivers

Stabilizing Credit Metrics: Kentucky Power Co.'s (KPCO) metrics returned to normal in 2016 following poor results related to one-time fuel-cost fees associated with the Mitchel power plant in 2015. KPCO was able to improve EBITDA generation substantially in 2016 (20% increase from 2015) as the full year effect of the cost recovery mechanisms decided in the 2015 rate case were realized. Fitch Ratings expects debt/EBITDAR to trend closer to 3.7x–3.9x from 2017–2019. The base case assumes earned ROE will return closer to the industry average following the results of the recently filed rate case decision.

Constructive Regulatory Environment: The regulatory environment in Kentucky is generally supportive of credit quality, in Fitch's opinion, as evidenced by the balanced settlement to KPCO's general rate case (GRC) authorized in June 2015. While the GRC resulted in a base rate decline, the settlement included incremental riders for environmental surcharges, fuel cost adjustments and various other items resulting in a $45 million net revenue increase. KPCO recently filed for a base rate increase of $65.4 million and Fitch expects a decision to be made by early next year.

Reliance on Coal Remains High: KPCOs' 75% coal mix leaves the utility exposed to potentially higher expenditures as increasingly stringent environmental regulations are implemented. While KPCO has an environmental clause allowing for recovery of mandated expenditures, retail electricity rates would rise, reducing flexibility for KPCO to earn an attractive ROE and potentially inviting political scrutiny.

Ties with AEP: KPCO has operational, financial and functional ties to American Electric Power Company, Inc. (AEP), its parent holding company. All AEP subsidiaries depend on AEP for short-term liquidity and participate in AEP's money pool, adding a moderate amount of linkage. KPCO's Issuer Default Rating is one notch lower than AEP's, reflecting the concentration of its generation asset and service area, partly offset by its low operating risk as a regulated utility.

Parental Liquidity Support: The financial ties between AEP and its regulated operating subsidiaries are supportive of their credit risk profiles. The utilities participate in AEP's utility money pool and are part of AEP's treasury function. The money pool allows utilities to manage working capital needs and provides them with short-term financing. The breadth of AEP's liquidity and its access to capital markets are key features of the parental liquidity support.

Rating Sensitivities

Positive Rating Action: An upgrade of KPCO will be contingent on the outcome of their 2017 rate case. Depending on the rates authorized by the Kentucky Public Service Commission, if KPCO can attain debt/EBITDAR of 3.7x on a sustained basis an upgrade may be warranted.

Negative Rating Action: Future developments that may, individually or collectively, lead to a negative rating action include excess environmental legislation leading to elevated capex, adverse changes to the regulatory framework and/or debt/EBITDAR exceeding 4.4x on a sustained basis.

Financial Overview

At the end of first-quarter 2017 AEP had approximately $2.7 billion of total liquidity available, including $175 million in cash and equivalents and availability under committed credit facilities. AEP restructured its credit facilities effective June 30, 2016 in a $3 billion five-year facility (to June 2021) and a $500 million two-year facility (to June 2018), which provide adequate liquidity in Fitch's opinion.

AEP subsidiaries use a pool of corporate borrowing to meet their short-term funding needs. The money pool operates according to regulators' approved terms and conditions, and includes maximum authorized borrowing limits for individual operating companies. Under the money pool terms and conditions, the maximum borrowing limit for KPCO is $225 million. KPCO also participates in AEP's $750 million receivables securitization program, which expires in June 2018. The relatively large maturity in September of this year does not present meaningful refinancing risk, in Fitch's view.

KPCO must maintain a ratio of debt/total capitalization not to exceed 67.5%, under the covenants to the new credit agreement. Based on Fitch's calculation, KPCO's debt/capitalization was compliant within this guidance at 57% at the end of first-quarter 2017.

Liquidity and Debt Structure

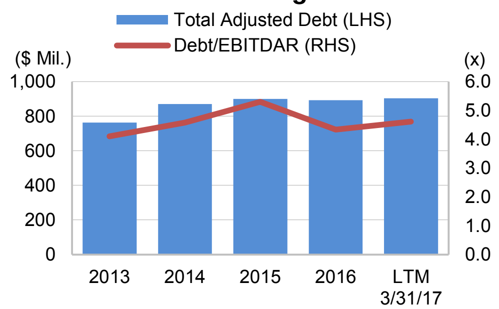
Debt Maturities and Liquidity

($ Mil., As of March 31, 2017)

2017	390
2018	75
2019	0
2020	0
2021	40
Thereafter	364
Cash and Cash Equivalents	1
Undrawn Committed Facilities	225

Source: Company data, Fitch.

Total Debt and Leverage



Source: Company data, Fitch.

Cash Flow Analysis

Fitch expects EBITDA generation to remain relatively flat for 2017 following improved results from 2016 as the company begins rate proceedings in the middle of the year for rates that will not be effective until January 2018. Fitch assumes a significant jump in EBITDA for 2018 following the realized effect of rate increases and marginal EBITDA growth thereafter.

Management plans to invest about $400 million in capex in 2017–2019, including regulatory-approved conversion of an existing coal plant to natural gas and reinforcement of its electricity distribution networks. Planned environmental upgrades, currently modest for the forecast period, have upside risk over the medium term to comply with likely carbon regulations.

Related Criteria

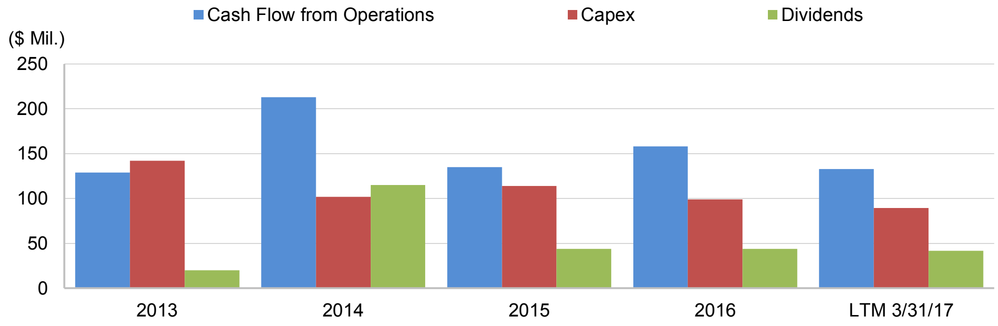
Non-Financial Corporates Notching and Recovery Ratings Criteria (June 2017)

Criteria for Rating Non-Financial Corporates (March 2017)

Parent and Subsidiary Rating Linkage (August 2016)

Rating U.S. Utilities, Power and Gas Companies (Sector Credit Factors) (March 2014)

Cash Flow from Operations and Cash Use



Source: Company data, Fitch.

Peer and Sector Analysis

Peer Group

Issuer	Country
BBB	
Indiana Michigan Power Co.	U.S.
Appalachian Power Co.	U.S.
Southwestern Electric Power Co.	U.S.

Issuer Rating History

Date	LT IDR (FC)	Outlook/ Watch
July 12, 2017	BBB	Stable
Sept. 27, 2016	BBB–	Stable
March 18, 2016	BBB–	Stable
Sept. 30, 2015	BBB–	Stable
March 26, 2015	BBB–	Stable
Oct. 1, 2014	BBB–	Stable
April 7, 2014	BBB–	Stable
Feb. 20, 2014	BBB–	Stable
Feb. 22, 2013	BBB–	Negative
Feb. 27, 2012	BBB–	Stable
Feb. 28, 2011	BBB–	Stable
Sept. 9, 2010	BBB–	Stable
Aug. 20, 2009	BBB–	Stable
April 24, 2008	BBB–	Stable
April 17, 2007	BBB–	Stable
Dec. 6, 2005	BBB–	Stable
June 28, 2002	BBB	Stable
June 1, 2000	BBB	Stable

LT IDR – Long-term Issuer Default Rating.
FC – Foreign currency.
Source: Fitch.

Peer Group Analysis

($ Mil.)	Kentucky Power Co.	Indiana Michigan Power Co.	Appalachian Power Co.	Southwestern Electric Power Co.
As of	3/31/2017	3/31/2017	3/31/2017	3/31/2017
IDR	BBB	BBB	BBB	BBB
Outlook	Rating Outlook Stable	Rating Outlook Stable	Rating Outlook Stable	Rating Outlook Stable
Fundamental Ratios (x)				
Operating EBITDAR/ (Gross Interest Expense + Rents)	4.1	3.3	5.7	3.2
FFO Fixed-Charge Coverage	3.4	3.5	5.4	3.6
Total Adjusted Debt/Operating EBITDAR	4.6	4.7	3.6	5.2
FFO/Total Adjusted Debt (%)	17.7	22.1	26.6	22.1
FFO-Adjusted Leverage	5.7	4.5	3.8	4.5
Common Dividend Payout (%)	101.5	54.1	59.6	76.8
Internal Cash/Capex (%)	101.8	68.5	94.8	78.5
Capex/Depreciation (%)	103.9	318.3	188.0	192.5
Return on Equity (%)	6.1	10.8	9.8	7.2
Financial Information				
Revenue	654.0	2,195.5	2,946.2	1769.3
Revenue Growth (%)	5.5	3.0	3.4	2.3
EBITDA	193.3	588.7	1084.2	522.5
Operating EBITDA Margin (%)	29.6	26.8	36.8	29.5
FCF	1.6	(195.5)	(36.3)	(82.8)
Total Adjusted Debt with Equity Credit	903.5	3184.7	3926.6	2727.5
Readily Available Cash	0.8	1.2	3.0	10.3
Funds Flow from Operations	112.2	513.8	849.8	440.7
Capex	(89.4)	(620.7)	(701.7)	(384.6)

IDR – Issuer Default Rating.
Source: Company data, Fitch.

Key Rating Issues

Regulatory Update

Fitch views the regulatory compact in Kentucky as generally constructive. Rate cases are typically resolved via settlements, and authorized equity returns have generally approximated prevailing nationwide averages at the time established. A variety of cost recovery mechanisms including fuel, purchased power, environmental compliance and infrastructure replacement are in place that mitigate the impact of regulatory lag. KPCO also has an off-system sales margin-sharing mechanism, with 75% of deviation from expected margin level shared with rate payers.

KPCO recently filed for an electric base rate increase of $65.4 million with a return on equity (ROE) figure of 10.31%. A final PSC decision is expected in January of 2018. The 10.31% ROE sought by KPCO is above the 9.6% average ROE authorized for electric utilities nationwide during 2016, and modestly above their current (as of March 31, 2017) earned ROE of 6.31%. Their previous base rate proceeding was decided in June 2015, when the Kentucy Public Service Commission (KPSC) reduced base rates by $23 million but permitted $68.4 million to be collected through certain riders; the net authorized rate increase was $45.4 million. Fitch assumes the KPSC will authorize a rate around $35-45 million, which is in line with the percentage received from their 2010 rate case.

Environmental Regulation

The secular trend toward increasingly stringent environmental regulation is a source of concern, in Fitch's opinion, given KPCO's coal-reliant generation mix. KPCO has taken steps to reduce its carbon footprint with the retirement of Big Sandy Unit 2 (800 MW) and the acquisition of a 50% interest in the relatively cleaner Mitchell power plant in 2015 followed by the conversion to natural gas of Big Sandy Unit 1 (268 MW) in 2016.

Challenged Service Territory

KPCO's service area is primarily driven by coal mining, which has seen significant contraction in recent years. Coal output in Kentucky has decreased 44% since 2014, reducing industrial and commercial activity, as well as population levels and wealth. As a result, KPCO has lost about 2,450 retail customers and demand in kWh has dropped 14.2% in three years. Fitch believes the recovery in Oil & Gas extraction will mitigate some of the effects of the secularly declining coal industry. However, Fitch still remains concerned that lower sales volumes could pressure metrics and earned returns in the medium term.

Credit Metrics

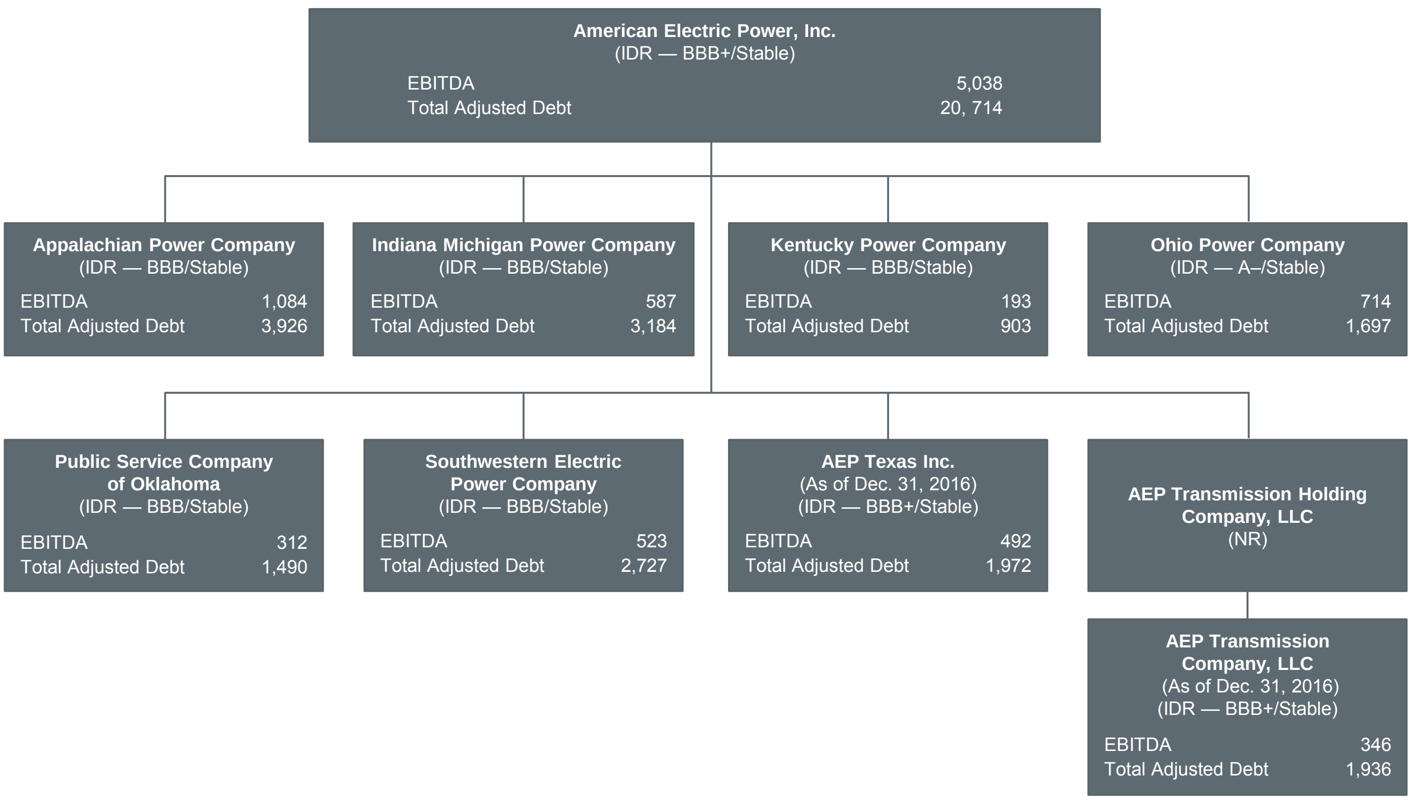
Fitch expects KPCO's credit metrics to improve in 2017–2019 with adjusted debt/EBITDAR and FFO-adjusted leverage at 4.0x in 2019 for both metrics. These credit metrics are in line with Fitch's guideline ratios for utilities rated 'BBB–'.

Rating Linkages

AEP's regulated subsidiaries, inclusive of KPCO's, have operational, financial and functional ties to AEP, resulting in a moderate level of ratings linkage. The treasury function is centrally managed and all regulated subsidiaries depend on AEP for short-term liquidity and participate in AEP's money pool. The money pool allows the utilities to manage working capital needs and provides short-term financing. Legal ties are weak, as the parent does not guarantee the debt obligations of its regulated subsidiaries. Each subsidiary also has limitations on capital structure emanating from covenants in the bank credit agreement (debt/total capitalization that does not exceed 67.5%) and from regulatory requirements to maintain a specific equity ratio. There are no cross default provisions among AEP and its subsidiaries.

Due to these linkages, Fitch typically limits the notching difference between AEP and its subsidiaries to one to two notches. Furthermore, Fitch typically restricts the notching difference between subsidiaries participating in a money pool to one rating category.

Simplified Group and Debt Structure Diagram — Kentucky Power Co.
($ Mil., As of March 31, 2017)



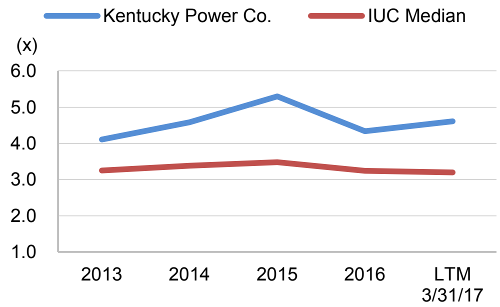
IDR – Issuer Default Rating. NR – Not rated.
Source: Company filings, Fitch.

Key Metrics

Definitions

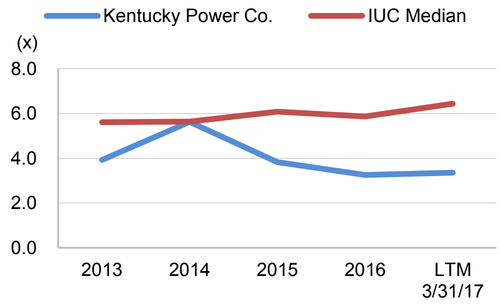
- Total Adjusted Debt/Op. EBITDAR: Total balance sheet adjusted for equity credit and off-balance sheet debt divided by operating EBITDAR.
- FFO Fixed-Charge Coverage: FFO plus gross interest minus interest received plus preferred dividends plus rental payments divided by gross interest plus preferred dividends plus rental payments.
- FFO-Adjusted 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.

Total Adjusted Debt/Op. EBITDAR



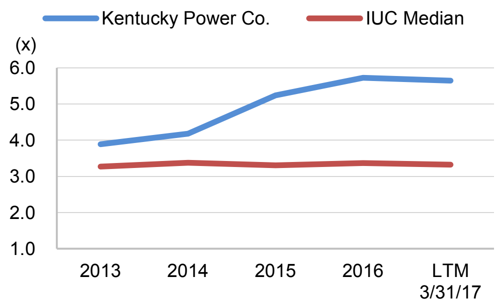
IUC – Integrated utility companies.
Source: Company data, Fitch.

FFO Fixed-Charge Coverage



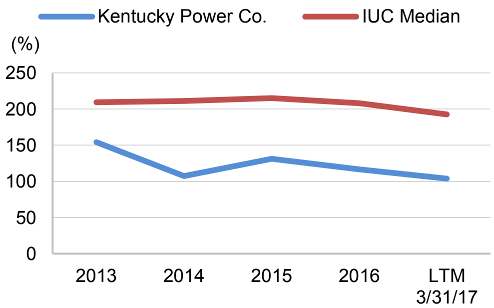
IUC – Integrated utility companies.
Source: Company data, Fitch.

FFO-Adjusted Leverage



IUC – Integrated utility companies.
Source: Company data, Fitch.

Capex/Depreciation



IUC – Integrated utility companies.
Source: Company data, Fitch.

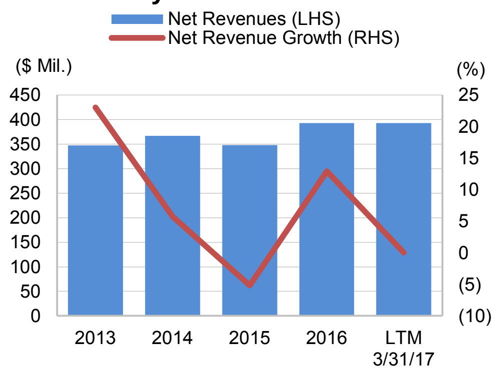
Company Profile

KPCO provides electric generation, transmission and distribution services to approximately 170,000 retail customers in Eastern Kentucky. It also has small wholesale power activities. As of December 2016, KPCO owned about 1,800 MW of generating capacity as well as 11,500 miles of transmission and distribution lines.

Retail sales (in KWh) by customer class are about 44% residential, 27% commercial and 28% industrial. The utility's fuel mix, by generation capacity, is about 75% coal and 25% natural gas following the conversion of Big Sandy Init 1 in June 2016.

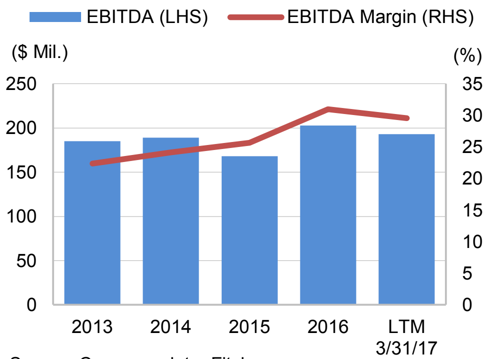
Business Trends

Revenue Dynamics



Source: Company data, Fitch.

EBITDA Dynamics



Source: Company data, Fitch.

KPSC Case No. 2017-00179
KIUC First Set of Data Requests
Dated August 14, 2017
Item No. 55
Attachment 1
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Financial Summary — Kentucky Power Co.

($ Mil., As of March 31, 2017, IDR: BBB/Rating Outlook Stable)	2013	2014	2015	2016	LTM 3/31/17
Fundamental Ratios					
Operating EBITDAR/(Gross Interest Expense + Rents) (x)	3.7	5.1	3.8	4.3	4.1
FFO Fixed-Charge Coverage (x)	3.9	5.6	3.8	3.3	3.4
Total Adjusted Debt/Operating EBITDAR (x)	4.1	4.6	5.3	4.3	4.6
FFO/Total Adjusted Debt (%)	25.7	23.9	19.1	17.5	17.7
FFO-Adjusted Leverage (x)	3.9	4.2	5.2	5.7	5.7
Common Dividend Payout (%)	222.2	302.6	157.1	89.8	101.5
Internal Cash/Capex (%)	76.8	96.1	79.8	115.2	78.8
Capex/Depreciation (%)	154.3	107.4	131.0	116.5	103.9
Return on Equity (%)	1.4	5.1	4.2	7.4	6.1
Profitability					
Revenues	827.0	782.0	654.0	655.0	654.0
Revenue Growth (%)	32.3	(5.4)	(16.4)	0.2	5.5
Net Revenues	347.0	367.0	348.0	393.0	393.1
Operating and Maintenance Expense	(142.0)	(157.0)	(158.0)	(169.0)	(179.1)
Operating EBITDA	185.0	189.0	168.0	203.0	193.3
Operating EBITDAR	186.0	190.0	170.0	206.0	196.0
Depreciation and Amortization Expense	(92.0)	(95.0)	(87.0)	(85.0)	(86.1)
Operating EBIT	93.0	94.0	81.0	118.0	107.2
Gross Interest Expense	(49.0)	(36.0)	(43.0)	(45.0)	(44.9)
Net Income for Common	9.0	38.0	28.0	49.0	41.1
Operating Maintenance Expense % of Net Revenues	(40.9)	(42.8)	(45.4)	(43.0)	(45.6)
Operating EBIT % of Net Revenues	26.8	25.6	23.3	30.0	27.3
Cash Flow					
Cash Flow from Operations	129.0	213.0	135.0	158.0	132.8
Change in Working Capital	(17.0)	42.0	8.0	50.0	20.6
FFO	146.0	171.0	127.0	108.0	112.2
Dividends	(20.0)	(115.0)	(44.0)	(44.0)	(41.8)
Capex	(142.0)	(102.0)	(114.0)	(99.0)	(89.4)
FCF	(33.0)	(4.0)	(23.0)	15.0	1.6
Net Other Investment Cash Flow	(4.0)	39.0	—	(17.0)	(3.4)
Net Change in Debt	(52.0)	66.0	22.0	(1.0)	(1.2)
Net Equity Proceeds	83.0	(100.0)	—	—	—
Capital Structure					
Short-Term Debt	9.0	45.0	19.0	2.0	12.2
Total Long-Term Debt	749.0	820.0	866.0	867.0	867.3
Total Debt with Equity Credit	758.0	865.0	885.0	869.0	879.5
Total Adjusted Debt with Equity Credit	763.0	870.0	901.0	893.0	903.5
Total Common Shareholders' Equity	839.0	664.0	662.0	668.0	671.8
Total Capital	1,597.0	1,529.0	1,547.0	1,537.0	1,551.3
Total Debt/Total Capital (%)	47.5	56.6	57.2	56.5	56.7
Common Equity/Total Capital (%)	52.5	43.4	42.8	43.5	43.3

IDR – Issuer Default Rating.
Source: Company data, Fitch.

Kentucky Power Co.

A Subsidiary of American Electric Power Company, Inc.

Full Rating Report

Ratings

Foreign Currency

Long-Term IDR	BBB–
Senior Unsecured	BBB

IDR – Issuer Default Rating.

Rating Outlook

Stable

Financial Summary

Kentucky Power Co.

($ Mil.)	LTM 2016	2015
Adjusted Revenue	620	654
Operating EBITDAR	180	170
Cash Flow from Operations	124	135
Total Adjusted Debt	964	820
Total Capitalization	1,603	1,473
Capex/ Depreciation (%)	144.6	131.0
FFO Fixed-Charge Coverage (x)	3.8	3.8
FFO-Adjusted Leverage (x)	5.4	4.8
Total Adjusted Debt/EBITDAR (x)	5.4	4.8

Related Research

U.S. Utilities: Mild Winter Hurts Earnings (First-Quarter 2016 Earnings Calls Wrap-Up) (June 2016)

Fitch Upgrades Appalachian Power; Affirms American Electric Power and Other Subsidiaries (March 2016)

Kentucky Power Co. - Ratings Navigator (March 2016)

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Key Rating Drivers

Resilient Credit Metrics: Kentucky Power Co.'s (KPCO) credit metrics were negatively affected in 2015 by the one-time disallowance of fuel-cost fees related to the Mitchell power plant. Fitch Ratings expects credit metrics to recover in 2016 and forecasts KPCO's adjusted debt/EBITDAR to return closer to 4.0x through 2018, which is consistent with Fitch's guideline ratios for utilities rated 'BBB–'. The base case scenario assumes earned return on equity (ROE) will return closer to the industry average in 2016–2018, supported by the rate case decision and tight cost management.

Constructive Regulatory Environment: The regulatory environment in Kentucky is generally supportive of credit quality, in Fitch's opinion, as evidenced by the balanced settlement to KPCO's most recent general rate case (GRC) in June 2015. While the GRC resulted in a base rate decline, the settlement also included incremental riders for environmental surcharges, fuel cost adjustments and various other items resulting in a $45 million net revenue increase.

High Proportion of Coal in the Fuel Mix: KPCO's 75% coal mix leaves the utility exposed to potentially higher expenditures as increasingly stringent environmental regulations are implemented. While KPCO has an environmental clause allowing for recovery of mandated expenditures, retail electricity rates would rise, reducing flexibility for KPCO to earn an attractive ROE and potentially inviting political scrutiny.

Ties with AEP: KPCO has operational, financial and functional ties to American Electric Power Company, Inc. (AEP), its parent holding company. All AEP subsidiaries depend on AEP for short-term liquidity and participate in AEP's money pool, adding a moderate amount of linkage. KPCO's Issuer Default Rating is one notch lower than AEP's, reflecting the concentration of its generation asset and service area partly offset by its low operating risk as a regulated utility.

Parental Liquidity Support: The financial ties between AEP and its regulated operating subsidiaries are supportive of their credit risk profiles. The utilities participate in AEP's utility money pool and are part of AEP's treasury function. The money pool allows utilities to manage working capital needs and provides them short-term financing. The breadth of AEP's liquidity and its access to capital markets are key features of the parental liquidity support.

Rating Sensitivities

Positive Rating Action: An upgrade of KPCO is considered unlikely over the next 12–18 months, given the credit metrics and high concentration of coal in the fuel mix. However, positive rating actions may be considered if adjusted debt/EBITDAR improves below 3.8x on a sustained basis.

Negative Rating Action: Future developments that may, individually or collectively, lead to a negative rating action include stringent new environmental rules leading to elevated capex; adverse changes to the regulatory framework; and/or adjusted debt/EBITDAR exceeding 4.4x on a sustained basis.

Financial Overview

Liquidity and Debt Structure

At the end of first-quarter 2016 AEP had approximately $3.2 billion of total liquidity available, including $190 million in cash and equivalents and availability under committed credit facilities. AEP restructured its credit facilities effective June 30, 2016 into a $3 billion five-year (to June 2021) facility and a $500 million two-year (June 2018) facility, which provide adequate liquidity in Fitch's opinion.

AEP subsidiaries use a pool of corporate borrowing to meet their short-term funding needs. The money pool operates according to regulators' approved terms and conditions, and includes maximum authorized borrowing limits for individual operating companies. Under the money pool terms and conditions, the maximum borrowing limit for KPCO is $225 million. KPCO also participates in AEP's $750 million receivables securitization program, which expires in June 2017. The relatively large maturity in September 2017 does not present meaningful refinancing risk, in Fitch's view.

KPCO must maintain a ratio of debt/total capitalization not to exceed 67.5% under the covenants to the new credit agreement. Based on Fitch's calculation, KPCO's debt/capitalization was compliant within this guideline, at 58% at the end of first-quarter 2016.

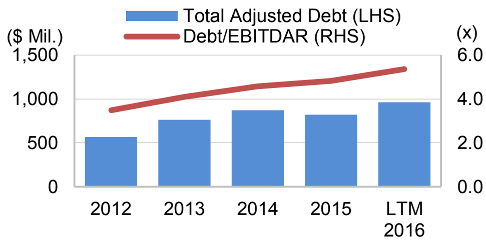
Debt Maturities and Liquidity

($ Mil., As of March 31, 2016)

2016	65
2017	325
2018	75
2019	—
2020	—
Thereafter	405
Cash and Cash Equivalents	1
Undrawn Committed Facilities	160

Source: Company data, Fitch.

Total Debt and Leverage



Source: Company data, Fitch.

Cash Flow Analysis

Fitch expects EBITDA generation to rebound in 2016 following weak results in 2015, supported by the full effect of the rate increase implemented in July 2015 and the absence of one-off cost disallowance charge. Fitch assumes marginal EBITDA growth in 2017–2018.

Management plans to invest about $320 million in capex in 2016–2018, including regulatory-approved conversion of an existing coal plant to natural gas and reinforcement of its electricity distribution networks. Planned environmental upgrades, currently modest for the forecast period, have upside risk over the medium term to comply with likely carbon regulations.

AEP targets a dividend payout ratio of 60%–70% of its operating earnings, mostly supported by cash flows from its regulated operating subsidiaries. Dividend payments from KPCO are limited to retained earnings and by a maximum debt/capitalization ratio of 67.5%, but neither constraint is restrictive. Fitch expects dividend payments to remain volatile, based on KPCO's cash flows but also AEP's consolidated cash needs. Fitch's base case scenario maximizes dividend payments, while maintaining neutral FCF generation.

As a result, Fitch expects FFO fixed-charge coverage to hover around 4.5x–5.0x during the forecast period, while FFO-adjusted leverage should improve toward 4.0x by 2018.

Related Criteria

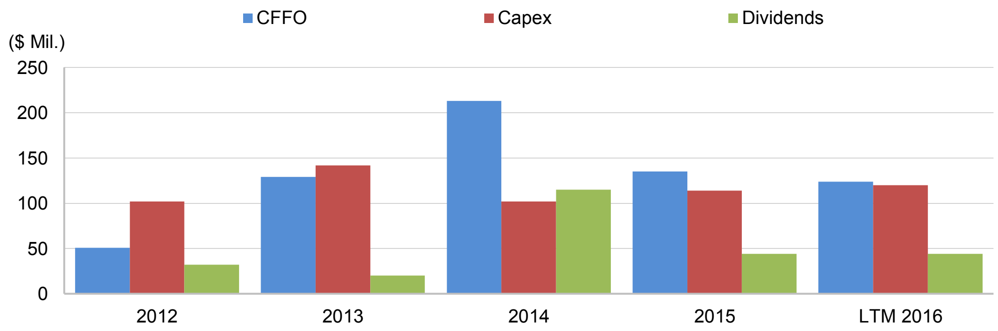
Recovery Ratings and Notching Criteria for Utilities (March 2016)

Corporate Rating Methodology- Including Short-Term Ratings and Parent and Subsidiary Linkage (August 2015)

Parent and Subsidiary Rating Linkage Fitch's Approach to Rating Entities within a Corporate Group Structure (August 2015)

Rating U.S. Utilities, Power and Gas Companies (Sector Credit Factors) (March 2014)

CFFO and Cash Use



Source: Company data, Fitch.

Peer Group

Issuer	Country
BBB	
Appalachian Power Co.	U.S.
BBB–	
Indiana Michigan Power Co.	U.S.
Southwestern Electric Power Co.	U.S.

Issuer Rating History

Date	LT IDR (FC)	Outlook/ Watch
March 18, 2016	BBB–	Stable
Sept. 30, 2015	BBB–	Stable
March 26, 2015	BBB–	Stable
Oct. 1, 2014	BBB–	Stable
April 7, 2014	BBB–	Stable
Feb. 20, 2014	BBB–	Stable
Feb. 22, 2013	BBB–	Negative
Feb. 27, 2012	BBB–	Stable
Feb. 28, 2011	BBB–	Stable
Sept. 9, 2010	BBB–	Stable
Aug. 20, 2009	BBB–	Stable
April 24, 2008	BBB–	Stable
April 17, 2007	BBB–	Stable
Dec. 6, 2005	BBB–	Stable
June 28, 2002	BBB	Stable
June 1, 2000	BBB	Stable

LT IDR – Long-term Issuer Default Rating.
FC – Foreign currency.
Source: Fitch.

Peer and Sector Analysis

Peer Group Analysis

($ Mil.)	Kentucky Power Co.	Appalachian Power Co.	Indiana Michigan Power Co.	Southwestern Electric Power Co.
As of	03/31/16	03/31/16	03/31/16	03/31/16
IDR	BBB–	BBB	BBB–	BBB–
Outlook	Rating Outlook Stable	Rating Outlook Stable	Rating Outlook Stable	Rating Outlook Stable
Fundamental Ratios (x)				
Operating EBITDAR/ (Gross Interest Expense + Rents)	3.8	4.7	4.0	5.6
FFO Fixed-Charge Coverage	3.8	4.9	5.0	5.4
Total Adjusted Debt/Operating EBITDAR	5.4	3.7	4.4	4.5
FFO/Total Adjusted Debt (%)	18.6	27.7	28.1	21.7
FFO-Adjusted Leverage	5.4	3.6	3.6	4.6
Common Dividend Payout (%)	118.9	81.2	58.5	72.9
Internal Cash/Capex (%)	73.3	89.3	108.3	57.5
Capex/Depreciation (%)	144.6	185.5	249.5	269.4
Return on Equity (%)	5.5	9.3	10.2	7.9
Financial Information				
Revenue	620	2,845	2,132	1,729
Revenue Growth (%)	(17.3)	(5.4)	(2.8)	(5.9)
EBITDA	177	1,027	557	522
Operating EBITDA Margin (%)	28.5	36.1	26.1	30.2
FCF	(40)	(173)	(46)	(240)
Total Adjusted Debt with Equity Credit	964	3,887	2,817	2,377
Readily Available Cash	1	6	3	12
Funds Flow From Operations	132	856	645	423
Capex	(120)	(664)	(484)	(520)

IDR – Issuer Default Rating.
Source: Company data, Fitch.

Key Rating Issues

Regulatory Update

Fitch views the regulatory compact in Kentucky as generally constructive. Cost-recovery and deferral mechanisms have been adopted in Kentucky for recovery of environmental investment, fuel and purchased power, and other costs. KPCO also has on off-system sales margin-sharing mechanism, with 75% of deviation from expected margin level shared with ratepayers. These mechanisms, along with preapproval for large capital projects, mitigate risk associated with GRC filings while reducing regulatory lag, in Fitch's opinion.

KPCO's most recent GRC was settled in June 2015 when the KPSC adopted a settlement, with minor changes. The KPSC orders provides for a $23 million base rate reduction coupled with an incremental $68 million to be collected through riders. The order is silent on rate of return but a 10.25% is to be used to calculate rate adjustments under the riders. The settlement also includes new environment surcharges, fuel cost adjustments and other items to be recovered through riders. This outcome was in line with Fitch's expectations.

The rate increase is mostly related to the Mitchell power plant acquisition and recovery of the unamortized costs of the Big Sandy coal plant unit 2 retired in 2015. A portion of the rate increase is allocated toward further vegetation management. The settlement includes an increase in fixed monthly charges for residential customers to $11 from $8, as well as an increase in the cost/kWh to 8.91 cents. The retail rates became effective July 2015.

Environmental Regulation

Secular trend toward increasingly stringent environmental regulation is a source of concern, in Fitch's opinion, given KPCO's coal-reliant generation mix. KPCO has taken steps to reduce its carbon footprint with the retirement of Big Sandy unit 2 (800 MW) and the acquisition of a 50% interest in the relatively cleaner Mitchell power plant in 2015 followed by the conversion to natural gas of Big Sandy unit 1 (268 MW) in 2016. Nonetheless, Fitch anticipates that material incremental changes to the generation fleet will be required over the intermediate to long term to meet the requirements of the Clean Power Plan or other legislation enacted to meet the commitments under the Paris Climate Agreement and the North American pledge of 50% carbon-free power by 2025.

Credit Metrics

Fitch expects KPCO's credit metrics to improve in 2016–2018 with adjusted debt/EBITDAR and FFO-adjusted leverage returning close to 4.0x by 2018, compared with 5.4x for both metrics at first-quarter 2016. These credit metrics are in line with Fitch's guideline ratios for utilities rated 'BBB–'.

Rating Linkages

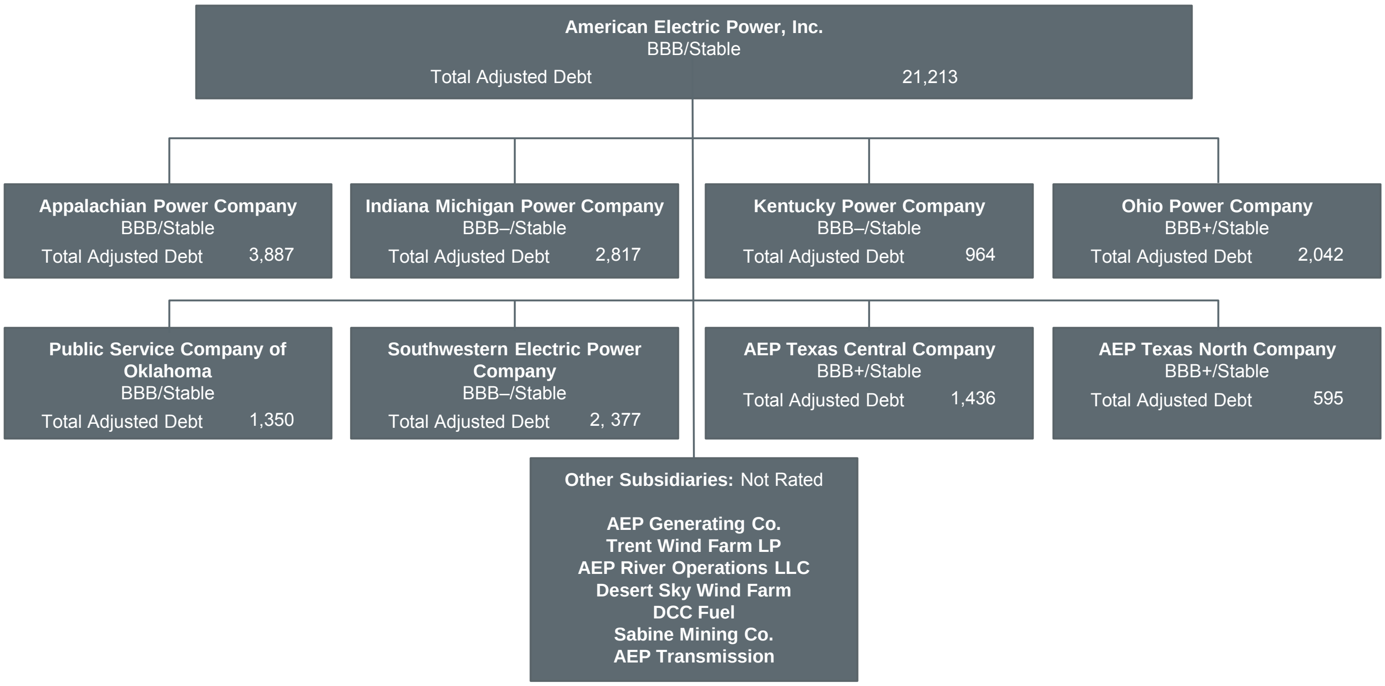
AEP's regulated subsidiaries, inclusive of KPCO's, have operational, financial and functional ties to AEP resulting in a moderate level of ratings linkage. The treasury function is centrally managed and all regulated subsidiaries depend on AEP for short-term liquidity and participate in AEP's money pool. The money pool allows the utilities to manage working capital needs and provides short-term financing. Legal ties are weak as the parent does not guarantee the debt obligations of its regulated subsidiaries. Each of the subsidiaries also has limitations on capital structure emanating from covenants in the bank credit agreement (debt/total capitalization that does not exceed 67.5%) and from regulatory requirements to maintain a specific equity ratio. There are no cross default provisions amongst AEP and its subsidiaries.

Due to these linkages, Fitch typically limits the notching difference between AEP and its subsidiaries to one-to-two notches. Furthermore, Fitch typically restricts the notching difference between subsidiaries participating in a money pool to one rating category.

Organizational Structure

Organizational and Debt Structure — Kentucky Power Co.

($ Mil., As of March 31, 2016)



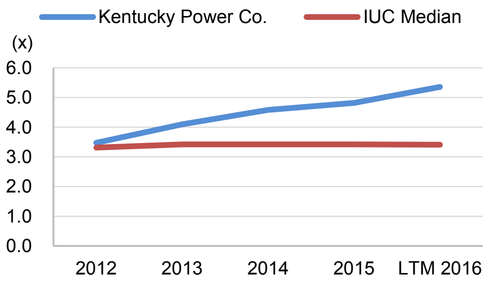
IDR – Issuer Default Rating.
Source: Company filings, Fitch.

Key Metrics

Definitions

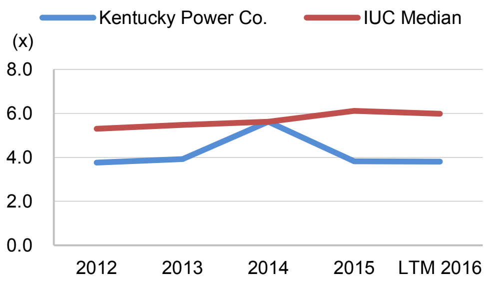
- Total Adjusted Debt/Op. EBITDAR: Total balance sheet adjusted for equity credit and off-balance sheet debt divided by operating EBITDAR.
- FFO Fixed-Charge Coverage: FFO plus gross interest minus interest received plus preferred dividends plus rental payments divided by gross interest plus preferred dividends plus rental payments.
- FFO-Adjusted 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.

Total Adjusted Debt/Op. EBITDAR



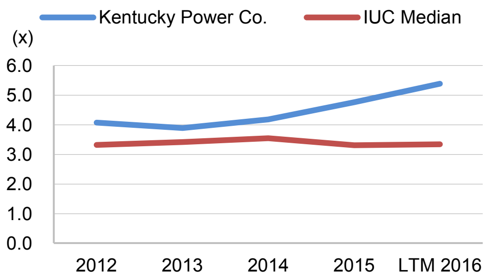
IUC – Intergated untilty companies.
Source: Company data, Fitch.

FFO Fixed Charge Coverage



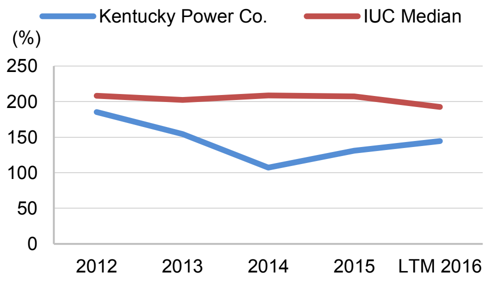
IUC – Intergated untilty companies.
Source: Company data, Fitch.

FFO-Adjusted Leverage



IUC – Intergated untilty companies.
Source: Company data, Fitch.

Capex/Depreciation



IUC – Intergated untilty companies.
Source: Company data, Fitch.

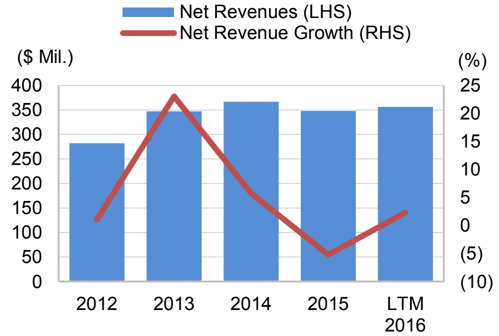
Company Profile

KPCO provides electric generation, transmission and distribution services to approximately 170,000 retail customers in eastern Kentucky. It also has small wholesale power activities. As of December 2015 KPCO owned 1,058 MW of generating capacity as well as 11,200 miles of transmission and distribution lines.

Retail sales (in KWh) by customer class are about 35% residential, 21% commercial and 43% industrial. The utility's fuel mix, by generation capacity, is about 75% coal and 25% natural gas following the conversion of Big Sandy unit 1 in June 2016.

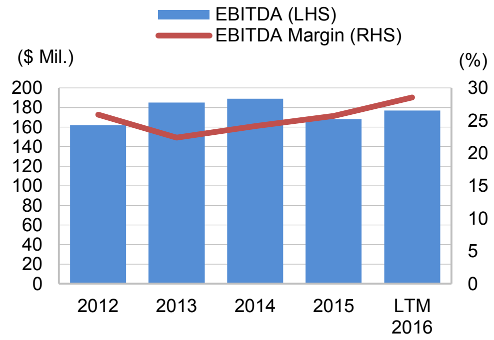
Business Trends

Revenue Dynamics



Source: Company data, Fitch.

EBITDA Dynamics



Source: Company data, Fitch.

Financial Summary — Kentucky Power Co.

($ Mil., As of March 31, 2016, IDR — BBB–/Rating Outlook Stable)	2012	2013	2014	2015	LTM 1Q16
Fundamental Ratios					
Operating EBITDAR/(Gross Interest Expense + Rents) (x)	4.4	3.7	5.1	3.8	3.8
FFO Fixed-Charge Coverage (x)	3.8	3.9	5.6	3.8	3.8
Total Adjusted Debt/Operating EBITDAR (x)	3.5	4.1	4.6	4.8	5.4
FFO/Total Adjusted Debt (%)	24.5	25.7	23.9	21.0	18.6
FFO-Adjusted Leverage (x)	4.1	3.9	4.2	4.8	5.4
Common Dividend Payout (%)	62.7	222.2	302.6	157.1	118.9
Internal Cash/Capex (%)	68.6	88.7	54.9	72.8	73.3
Capex/Depreciation (%)	185.5	154.3	107.4	131.0	144.6
Return on Equity (%)	10.8	10.1	10.6	10.2	9.9
Profitability					
Revenues	625	827	782	654	620
Revenue Growth (%)	(14.1)	32.3	(5.4)	(16.4)	(17.3)
Net Revenues	282	347	367	348	356
Operating and Maintenance Expense	(108)	(142)	(157)	(158)	(157)
Operating EBITDA	162	185	189	168	177
Operating EBITDAR	163	186	190	170	180
Depreciation and Amortization Expense	(55)	(92)	(95)	(87)	(83)
Operating EBIT	107	93	94	81	94
Gross Interest Expense	(36)	(49)	(36)	(43)	(44)
Net Income for Common	51	9	38	28	37
Operating Maintenance Expense % of Net Revenues	(38.3)	(40.9)	(42.8)	(45.4)	(44.1)
Operating EBIT % of Net Revenues	37.9	26.8	25.6	23.3	26.4
Cash Flow					
Cash Flow from Operations	51	129	213	135	124
Change in Working Capital	(51)	(17)	42	8	(8)
Funds from Operations	102	146	171	127	132
Dividends	(32)	(20)	(115)	(44)	(44)
Capex	(102)	(142)	(102)	(114)	(120)
FCF	(83)	(33)	(4)	(23)	(40)
Net Other Investment Cash Flow	84	(4)	39	—	(3)
Net Change in Debt	(1)	(52)	66	22	42
Net Equity Proceeds	—	83	(100)	—	—
Capital Structure					
Short-Term Debt	13	9	45	19	16
Total Long-Term Debt	549	749	820	866	867
Total Debt with Equity Credit	562	758	865	811	932
Total Adjusted Debt with Equity Credit	567	763	870	820	964
Total Common Shareholder's Equity	480	839	664	662	671
Total Capital	1,042	1,597	1,529	1,473	1,603
Total Debt/Total Capital (%)	54	47	57	55	58
Common Equity/Total Capital (%)	46	53	43	45	42

IDR – Issuer Default Rating.
Source: Company data, Fitch.

FitchRatings

Kentucky Power Co.

Subsidiary of American Electric Power Company, Inc.

Full Rating Report

Ratings

Long-Term IDR	BBB–
Senior Unsecured	BBB
Short-Term IDR	F2

IDR – Issuer Default Rating.

Rating Outlook

Long-Term IDR	Stable

Financial Summary

Kentucky Power Co.

($ Mil.)	LTM 2015	2014
Adjusted Revenue	750	782
Operating EBITDAR	159	190
Cash Flow from Operations	175	213
Total Adjusted Debt	851	870
Total Capitalization	1,515	1,529
Capex/ Depreciation (%)	1.1	1.1
FFO Fixed-Charge Coverage (x)	4.6	5.0
FFO-Adjusted Leverage (x)	4.1	4.1
Total Adjusted Debt/EBITDAR (x)	5.4	4.6

Related Research

Off to a Good Start (1Q15 Earnings Wrap-Up) (May 2015)

Kentucky Power Co – Ratings Navigator (February 2015)

2015 Outlook: U.S. Utilities, Power and Gas (Slow and Steady) (December 2014)

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Key Rating Drivers

Predictable Earnings: Ratings on Kentucky Power Co. (KPCO) recognize the predictable nature of regulated utility earnings and the supportive regulatory environment in Kentucky.

Regulatory Activity: Fitch Ratings views the regulatory environment in Kentucky as relatively constructive. The $45 million settlement to KPCO's general rate case (GRC) approved in June 2015 is in line with Fitch's expectations. The settlement also includes incremental riders for environmental surcharges, fuel cost adjustments and other items.

Improving Credit Metrics: Fitch expects KPCO's credit metrics to improve following the adjudication of its GRC, with adjusted debt/EBITDAR lowering to 3.8x while FFO-adjusted leverage returning close to 4.0x by 2017. These credit metrics compare favorably with Fitch's guideline ratios for utilities rated 'BBB–'.

High Proportion of Coal in the Fuel Mix: KPCO's 100% coal mix (about 75% after a planned plant conversion in 2016) leaves the utility exposed to potentially higher environmental expenditures. While KPCO has an environmental clause allowing for recovery of mandated expenditures, retail electricity rates would rise, reducing flexibility for KPCO to earn an attractive ROE and potentially inviting political scrutiny.

Ties with AEP: KPCO has operational, financial and functional ties to American Electric Power Company, Inc. (AEP), its parent holding company. All AEP subsidiaries depend on AEP for short-term liquidity and participate in AEP's money pool, adding a moderate amount of linkage. KPCO is rated one notch lower than AEP, reflecting the concentration of its generation asset and service area partly offset by its low operating risk as a regulated utility.

Parental Liquidity Support: The financial ties between AEP and its regulated operating subsidiaries are supportive of their credit risk profiles. The utilities participate in AEP's utility money pool and are part of AEP's treasury function. The money pool allows utilities to manage working capital needs and provides them short-term financing. The breadth of AEP's liquidity and its access to capital markets are key features of the parental liquidity support.

Rating Outlook: The Stable Outlook reflects stable earnings, improving credit metrics, and manageable debt maturity profile over the rating horizon as well as parental liquidity support.

Rating Sensitivities

Positive Rating Action: An upgrade of KPCO, or any AEP-related entity, is considered unlikely over the next 12–18 months, given the high concentration of coal in the fuel mix. However, positive rating actions may be considered if adjusted debt/EBITDAR improves to 3.75x on a sustained basis.

Negative Rating Action: Future developments that may, individually or collectively, lead to a negative rating action include stringent new environmental rules leading to elevated capex, adverse outcome to the pending GRC, or outsized shareholder-friendly activities at the parent level. The ratings would be at risk if any of the above or other factors resulted in adjusted debt/EBITDAR exceeding 4.4x on a sustained basis.

Financial Overview

Liquidity and Debt Structure

At the end of first-quarter 2015, AEP had approximately $3.5 billion of total liquidity available, including $190 million in cash and equivalents. In June 2017, $1.75 billion of consolidated revolving credit facilities will mature. The remaining $1.75 billion will mature in July 2018.

AEP subsidiaries use a pool of corporate borrowing to meet their short-term funding needs. The money pool operates according to regulators' approved terms and conditions, and includes maximum authorized borrowing limits for individual operating companies. Under the money pool terms and conditions, the maximum borrowing limit for KPCO is $250 million. KPCO borrowed $29 million from the money pool on average during first-quarter 2015. KPCO also participates in AEP's $750 million receivables securitization program, which expires in June 2016. The debt maturity schedule is manageable over the medium term, in Fitch's opinion.

KPCO must maintain a ratio of debt/total capitalization not to exceed 67.5%, as per the covenants to its credit agreement. Based on Fitch's calculation, KPCO's debt/capitalization stood comfortably within this guideline at 56% at first-quarter 2015.

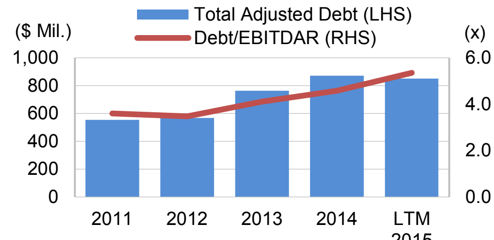
Debt Maturities and Liquidity

($ Mil., as of March 31, 2015)

2015	65
2016	—
2017	325
2018	50
Thereafter	405
Cash and Cash Equivalents	1
Undrawn Committed Facilities	—

Source: Company data, Fitch.

Total Debt and Leverage



Source: Company data, Fitch.

Cash Flow Analysis

Fitch anticipates KPCO will experience moderate EBITDA growth in 2015–2017 as a result of higher approved rates in its GRC effective July 2015 and AEP's current cost-reduction program. However, this gain should be offset by discontinuation of bonus depreciation and result in relatively stable funds from operation generation over the rating period. Combined with lower capex, KPCO will likely experience marginally positive FCF in 2015–2017.

Management expects capex to decline relative to historic levels through 2017. Current capex plans of about $275 million include regulatory-approved conversion of an existing coal plant to natural gas and reinforcement of its electricity distribution networks. Planned environmental upgrades, currently at $72 million for the forecast period, could ramp up over the medium term to comply with the requirements of the Clean Power Plan (CPP), expected late this summer.

AEP targets a dividend payout ratio of 60%–70% of its operating earnings, mostly supported by cash flows from its regulated operating subsidiaries. Dividend payments from KPCO are limited to retained earnings and by a maximum debt/capitalization ratio of 67.5%, but neither constraint was restrictive in first-quarter 2015. KPCO paid $115 million in dividends during 2014, a meaningful increase from the $20 million paid in 2013, in addition to returning $100 million of recent capital contributions from AEP. Fitch expects dividend payments to remain volatile, based on KPCO's cash flows but also AEP's consolidated cash needs.

Related Criteria

Recovery Ratings and Notching Criteria for Utilities (March 2015)

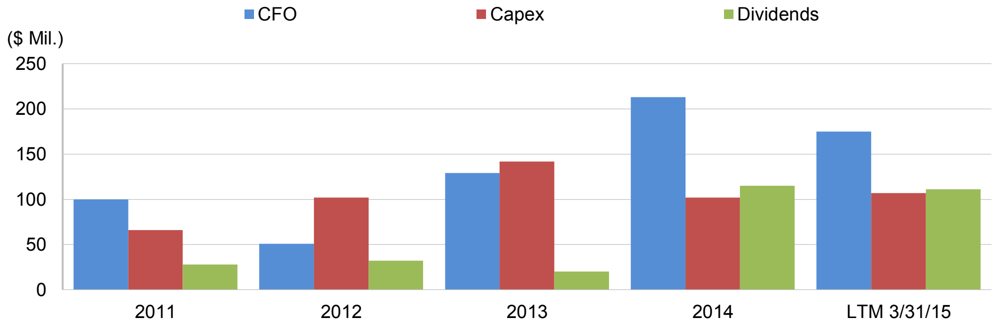
Corporate Rating Methodology — Including Short-Term Ratings and Parent and Subsidiary Linkage (May 2014)

Rating U.S. Utilities, Power and Gas Companies (Sector Credit Factors) (March 2014)

Parent and Subsidiary Rating Linkage (Fitch's Approach to Rating Entities within a Corporate Group Structure) (August 2013)

As a result, Fitch expects FFO fixed-charge coverage to hover around 4.2x during the forecast period while FFO-adjusted leverage should improve toward 4.0x by 2017. FFO-adjusted leverage improvement to 4.0x would be considered strong for the rating.

CFO and Cash Use



Source: Company data, Fitch.

Peer Group

Issuer	Country
BBB–	
Indiana Michigan Power Co.	United States
Indianapolis Power & Light Co.	United States
Appalachian Power Co.	United States

Issuer Rating History

Date	LT IDR (FC)	Outlook/ Watch
March 26, 2015	BBB–	Stable
Oct. 1, 2014	BBB–	Stable
April 7, 2014	BBB–	Stable
Feb. 20, 2014	BBB–	Stable
Feb. 22, 2013	BBB–	Stable
Feb. 27, 2012	BBB–	Stable
Feb. 28, 2011	BBB–	Stable
Sept. 9, 2010	BBB–	Stable
Sept. 10, 2009	BBB–	Negative
May 14, 2008	BBB	Stable
April 17, 2007	BBB	Stable
Dec. 6, 2005	BBB	Stable
June 24, 2004	BBB+	Stable
June 1, 2000	BBB+	Stable
Feb. 11, 1998	A–	—

LT IDR – Long-term Issuer Default Rating.
FC – Foreign currency.
Source: Fitch.

Peer and Sector Analysis

Peer Group Analysis

($ Mil.)	Kentucky Power Co.	Indiana Michigan Power Co.	Indianapolis Power & Light Co.	Appalachian Power Co.
As of	3/31/15	3/31/15	3/31/15	3/31/15
IDR	BBB–	BBB–	BBB–	BBB–
Outlook	Rating Outlook Stable	Rating Outlook Stable	Rating Outlook Stable	Rating Outlook Stable
Fundamental Ratios (x)				
Operating EBITDAR/ (Gross Interest Expense + Rents)	3.53	3.04	6.60	4.65
FFO Fixed-Charge Coverage	4.60	3.85	6.58	4.25
Total Adjusted Debt/Operating EBITDAR	5.35	4.29	3.11	3.69
FFO/Total Adjusted Debt (%)	24.3	29.5	34.1	24.8
FFO-Adjusted Leverage	4.11	3.38	2.94	4.03
Common Dividend Payout (%)	693.8	91.5	120.2	45.5
Internal Cash/Capex (%)	59.8	102.5	48.7	120.2
Capex/Depreciation (%)	111.5	238.3	245.4	138.9
Return on Equity (%)	2.2	7.1	11.9	7.5
Financial Information				
Revenue	750	2,194	1,299	3,006
Revenue Growth (%)	(14.7)	(9.5)	1.2	(10.9)
EBITDA	158	485	416	986
Operating EBITDA Margin (%)	25.9	30.0	31.6	41.5
FCF	(43)	12	(233)	106
Total Adjusted Debt with Equity Credit	851	2,474	1,295	3,701
Cash and Cash Equivalents	1	2	24	4
Funds Flow From Operations	162	541	374	702
Capex	(107)	(479)	(454)	(525)

IDR – Issuer Default Rating.
Source: Company data, Fitch.

Key Rating Issues

Regulatory Update

Fitch views the regulatory compact in Kentucky as relatively supportive of KPCO's credit ratings. Cost-recovery and deferral mechanisms have been adopted in Kentucky for recovery of environmental investment, fuel and purchased power, and other costs. These mechanisms, along with preapproval for large capital projects, mitigate risk associated with GRC filings while reducing regulatory lag, in Fitch's opinion.

In June 2015, the KPSC approved, with changes, a settlement for a $45 million annual revenue increase, in response to KPCO's GRC application filed in late 2014. KPCO was seeking a $70 million rate increase (approximately 12.5%) based upon a 10.62% ROE. The settlement also includes new environment surcharges, fuel cost adjustments and other items to be recovered through riders. This outcome is in line with Fitch's expectations.

The rate increase is mostly related to the Mitchell power plant acquisition and recovery of the unamortized costs of the Big Sandy coal plant slated for retirement this year. A portion of the rate increase is allocated toward further vegetation management. The settlement includes an increase in fixed monthly charges for residential customers to $11 from $8, as well as an increase in the cost-per-kWh to 8.91 cents. The new retail rates are effective July 2015.

EPA-Proposed Carbon Rule

The EPA issued its initial CPP to cut carbon emissions from existing power plants for public comments in June 2014, with a final rule expected in late summer 2015. The EPA's proposed CPP would reduce power plant carbon emissions by 30% from 2005 levels by 2030 and includes an interim reduction target of 20% from 2005 levels to be achieved by 2020. Given KPCO's 100% coal-fired generation fleet, declining to about 75% in 2016, the proposed CPP is a source of concern from a credit point of view. KPCO has taken steps to reduce the environmental impact of its generation fleet, including the planned conversion of Big Sandy unit 1 to natural gas from coal, and acquiring a 50% interest in the relatively cleaner Mitchell power plant to replace Big Sandy unit 2. However, Fitch anticipates that additional changes to the generation fleet could be required over the intermediate to long term. Meeting the 2020 interim target as currently proposed is likely to be challenging, with CPP compliance plans likely not finalized before 2017–2018.

Credit Metrics

Fitch expects KPCO's credit metrics to improve following a rate increase effective July 2015. Fitch anticipates adjusted debt/EBITDAR reaching to 3.8x while FFO-adjusted leverage returning close to 4.0x by 2017, compared with 5.4 and 4.1, respectively, at first-quarter 2015. These credit metrics would compare favorably with Fitch's guideline ratios for utilities rated 'BBB–'.

Large Capex at AEP

Elevated dividend demand by AEP to meet its operational funding needs, to provide equity support for its new transmission investments, and to finance its merchant energy business will constrain KPCO's coverage ratios.

Organizational Structure

Organizational and Debt Structure
($ Mil., as of March 31, 2015)

American Electric Power Company, Inc.
LT IDR — BBB/Stable
Total Adjusted Debt 19,219

Subsidiary	LT IDR	Total Adjusted Debt
Appalachian Power Co.	BBB–/Stable	3,701
Indiana Michigan Power Co.	BBB–/Stable	2,474
Kentucky Power Co.	BBB–/Stable	851
Ohio Power Co.	BBB+/Stable	2,123
Public Service Co. of Oklahoma	BBB/Stable	1,306
Southwestern Electric Power Co.	BBB/Stable	2,672
AEP Texas Central Co.	BBB+/Stable	1,241
AEP Texas North Co.	BBB+/Stable	522

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
AEP Transmission	NR

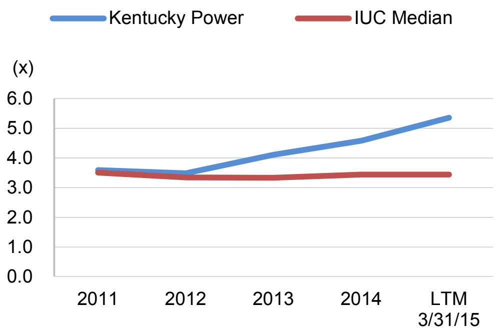
LT IDR – Long-term Issuer Default Rating. NR – Not rated.
Source: Company filings, Fitch.

Key Metrics

Definitions

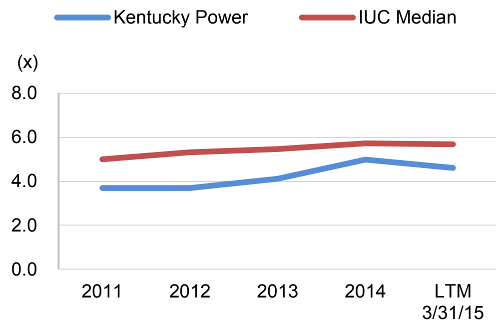
- Total Adjusted Debt/Op. EBITDAR: Total balance sheet adjusted for equity credit and off-balance sheet debt divided by operating EBITDAR.
- FFO Fixed-Charge Coverage: FFO plus gross interest minus interest received plus preferred dividends plus rental payments divided by gross interest plus preferred dividends plus rental payments.
- FFO-Adjusted 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.

Total Adjusted Debt/Op. EBITDAR



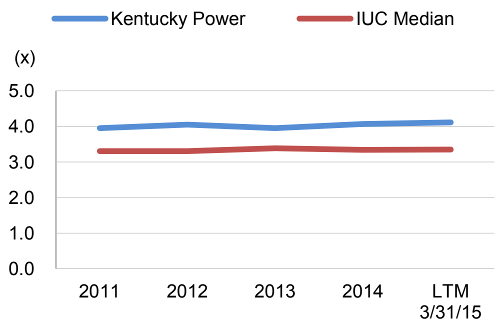
Source: Company data, Fitch.

FFO Fixed-Charge Coverage



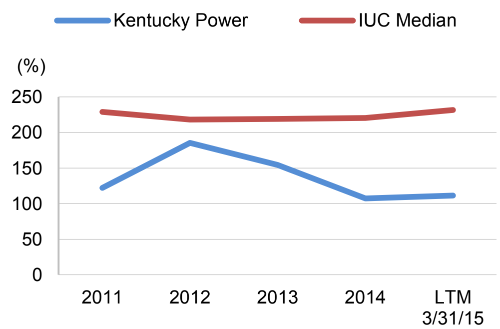
Source: Company data, Fitch.

FFO-Adjusted Leverage



Source: Company data, Fitch.

Capex/Depreciation



Source: Company data, Fitch.

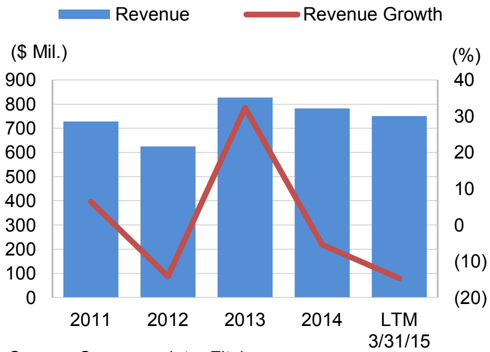
Company Profile

KPCO provides electric generation, transmission and distribution services to approximately 170,000 retail customers in eastern Kentucky. It also has small wholesale power activities. As of June 2015, KPCO owned 1,060 MW of generating capacity.

Retail sales by customer class are about 81% residential, 17% commercial and 1% other. The utility's fuel mix is 100% coal, with approximately 25% planned to convert to gas in 2016.

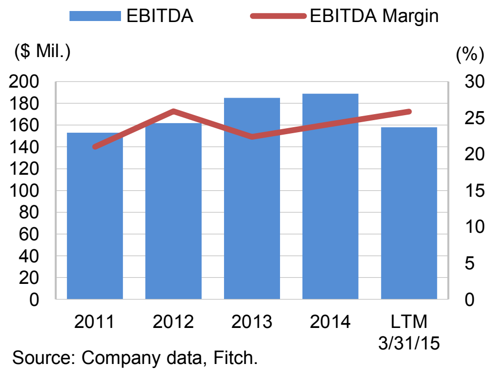
Business Trends

Revenue Dynamics



Source: Company data, Fitch.

EBITDA Dynamics



Source: Company data, Fitch.

Financial Summary — Kentucky Power Co.

(IDR: BBB–/Rating Outlook Stable) ($ Mil., as of March 31, 2015)	2011	2012	2013	2014	LTM Ended 3/31/2015
Fundamental Ratios (x)					
Operating EBITDAR/(Gross Interest Expense + Rents)	4.1	4.3	4.0	4.4	3.5
FFO Fixed-Charge Coverage	3.7	3.7	4.1	5.0	4.6
Total Adjusted Debt/Operating EBITDAR	3.6	3.5	4.1	4.6	5.4
FFO/Total Adjusted Debt (%)	25.3	24.7	25.3	24.6	24.3
FFO-Adjusted Leverage	4.0	4.1	4.0	4.1	4.1
Common Dividend Payout (%)	66.7	62.7	222.2	302.6	693.8
Internal Cash/Capex (%)	109.1	18.6	76.8	96.1	59.8
Capex/Depreciation (%)	122.2	185.5	154.3	107.4	111.5
Return on Equity (%)	9.3	10.9	1.4	5.1	2.2
Profitability					
Revenues	728	625	827	782	750
Revenue Growth (%)	6.4	(14.1)	32.3	(5.4)	(14.7)
Net Revenues	279	282	347	367	338
Operating and Maintenance Expense	114	108	142	157	158
Operating EBITDA	153	162	185	189	158
Operating EBITDAR	154	163	186	190	159
Depreciation and Amortization Expense	54	55	92	95	96
Operating EBIT	99	107	93	94	62
Gross Interest Expense	37	37	46	42	44
Net Income for Common	42	51	9	38	16
Operating Maintenance Expense % of Net Revenues	40.9	38.3	40.9	42.8	46.7
Operating EBIT % of Net Revenues	35.5	37.9	26.8	25.6	18.3
Cash Flow					
Cash Flow from Operations	100	51	129	213	175
Change in Working Capital	(2)	(51)	(17)	42	13
Funds from Operations	102	102	146	171	162
Dividends	(28)	(32)	(20)	(115)	(111)
Capex	(66)	(102)	(142)	(102)	(107)
FCF	**6**	**(83)**	**(33)**	**(4)**	**(43)**
Net Other Investment Cash Flow	(3)	70	—	1	1
Net Change in Debt	(2)	(1)	(52)	66	106
Net Equity Proceeds	—	—	83	(100)	(100)
Capital Structure					
Short-Term Debt	—	13	9	45	1
Total Long-Term Debt	549	549	749	820	845
Total Debt with Equity Credit	**549**	**562**	**758**	**865**	**846**
Total Adjusted Debt with Equity Credit	553	567	763	870	851
Total Hybrid Equity and Minority Interest	—	—	—	—	—
Total Common Shareholder's Equity	460	480	839	664	669
Total Capital	1,009	1,042	1,597	1,529	1,515
Total Debt/Total Capital (%)	54.4	53.9	47.5	56.6	55.8
Total Hybrid Equity and Minority Interest/Total Capital (%)	—	—	—	—	—
Common Equity/Total Capital (%)	45.6	46.1	52.5	43.4	44.2

IDR – Issuer Default Rating.
Source: Company data, Fitch.

FITCH AFFIRMS AEP & SUBS; OUTLOOK REVISED TO STABLE FOR AEP, OHIO POWER, & KENTUCKY POWER

Fitch Ratings-New York-20 February 2014: Fitch Ratings has affirmed the ratings of American Electric Power Company (AEP) and its subsidiaries. Fitch has revised the Outlook to Stable from Negative for AEP and two of its subsidiaries - Ohio Power Company (OPCO), and Kentucky Power Company (KPCO). The Rating Outlook remains Stable for AEP's other operating subsidiaries. A complete list of rating actions is provided at the end of this release.

The revision of AEP's Outlook to Stable reflects successful completion of OPCO's transition to a wires-only company. The transition was achieved with lower than expected increase in AEP leverage. The regulator-approved transfer of 1,647 MWs of generation capacity at net book value to two of AEP's regulated subsidiaries has reduced the overall merchant risk for AEP. Fitch had expected the transfer of these assets at net book value to be challenging in the current depressed power pricing environment.

AEP management has publicly articulated a strategy for its competitive generating business that Fitch considers conservative. This mitigates, to some extent, the merchant risk and associated liquidity needs for AEP over Fitch's rating horizon. Fitch believes the consolidated business-risk profile for AEP will also improve with significant new investment in the transmission networks. The company plans to spend about $4.5 billion between 2014 and 2016 on the Federal Energy Regulatory Commission (FERC) regulated transmission networks which provides a contemporaneous return on investment. Current rate-base of regulated transmission companies is below $1 billion, excluding transmission related investment through Electric Transmission Texas, LLC (a joint venture) and integrated utilities.

For OPCO, the revision to a Stable Outlook reflects a moderate regulatory capital structure. The debt-to-regulatory capital ratio for OPCO remains moderate and the concurrent recovery of infrastructure investments through rate-riders also supports the Stable Outlook. Fitch had previously anticipated significantly higher regulatory debt-to-capital at OPCO due to lack of market support for the transfer price of generating assets.

The revision of KPCO's Outlook to Stable reflects the regulatory approval of its newly acquired generating capacity from an affiliate. In assigning the Negative Outlook, Fitch viewed regulatory approval of the new capacity critical for the assigned Issuer Default Rating (IDR), as KPCO's credit metrics would have deteriorated without any new cash flow with the retirement of its only baseload plant in 2015. Fitch's view was that the regulators may not approve the acquisition at the requested transfer price under the current power pricing environment and a long-term power purchase agreement -a viable alternative - would have further constrained the cash flows.

The Stable Outlook for other AEP subsidiaries reflects Fitch's view that subsidiary-level cash flows and regulatory capital structure would remain commensurate with their credit profiles. Fitch anticipates that each subsidiary would continue to timely file general rate increase application with the regulators and achieve constructive outcomes.

KEY RATING DRIVERS

Improving Business Risk Profile: Investment in the regulated transmission networks will help lower AEP's business risk profile. Fitch's assessment of the company's current risk profile also includes the expectation that AEP will conservatively manage its merchant generation business. Fitch believes power prices are unlikely to recover over the intermediate term. Long-term performance of these assets is expected to be affected by compliance with stricter environmental regulations, low capacity utilization, and a low electricity commodity price environment. A divesture of the competitive generation business, if undertaken by management, will be supportive of AEP's credit profile.

Large Capital Expenditure Program: Average capital expenditures are forecast to be about $3.8 billion annually through 2016, significantly higher than historical levels. Fitch expects capital expenditures to be funded with a combination of internal cash flow and debt. Negative free cash flow at the subsidiary levels will be financed with a mixture of cash flow from operations, debt, and equity infusion by the parent to maintain the regulatory capital structure. Regulated earnings from future investment in transmission networks provide offset to the lost earnings from the generation assets transferred by OPCO to the non-regulated affiliate.

Cash flow Diversity: AEP's earnings and cash flows are predominantly derived from eight regulated electric utilities in 11 separate but balanced regulatory jurisdictions and the FERC-regulated transmission networks. Liquidity is good and debt maturities remain manageable. Approximately 93% of AEP's consolidated EBITDA will be generated by its regulated businesses, including the FERC-regulated transmission networks.

Financial Metrics: AEP's historical credit metrics are in line with its current IDR. However, Fitch expects EBITDA-based credit measures to decline moderately through 2016 due to the absence of bonus depreciation-related cash tax benefit, continued depressed power prices, and high capital investment in the regulated rate-base. About 95% of new investment will be in the regulated businesses subject to either contemporaneous returns or a small regulatory recovery lag. Fitch forecasts EBITDA-based interest coverage to average between 5x and 5.5x and adjusted debt-to-EBITDA to be close to or slightly below 4x over the rating horizon.

OPCO: Fitch does not expect OPCO's credit metrics to be as robust as they have been historically given that deleveraging related to generating asset transfer has not been fully completed. Future cash flow will also be affected by the absence of bonus depreciation-related cash tax benefits. Fitch expects adjusted debt-to-EBITDA to decline slightly below 4x by 2016 and that EBITDA-based interest coverage, under Fitch's forecast, will be slightly higher than 4x for the same period. By 2016, these ratios will be within Fitch's rating guidelines for a wires-only, regulated utility.

KPCO: Beginning 2014, KPCO's credit metrics will benefit from a $44 million increase in its regulatory rates as partial compensation for its newly acquired coal plant. Fitch expects full recovery of the acquired plant-related non-fuel costs once its existing baseload capacity is retired in 2015. Fitch's expectations include adjusted debt-to-EBITDA-based leverage of 3.8x or lower by the end of 2016 and EBITDA-to-interest of 4.5x or higher for the same period. Fitch expectations are based on timely recovery of KPCO's ratebase-related investments.

Appalachian Power Company (APCO): APCO is an integrated utility with service territories in Virginia and West Virginia. Regulatory approval of 867MWs of new power generation capacity in 2013 and recovery of non-fuel costs should improve the company's credit protection measures. In affirming the IDR, Fitch expectations include adjusted debt-to-EBITDA of 3.8x or lower and EBITDA-to-interest staying above 4.3x over the rating horizon (2014-2016).

Indiana Michigan Power Company (IMPCO): A large capex over next three years, including life extension of its nuclear power plant for about $1.2 billion, will constrain the credit protection measures over the rating horizon. However, approval by the Indiana Utility Regulatory Commission to let IMPCO earn a contemporaneous return on its portion of the life extension costs is cash flow positive. Approval of the nuclear power plant life extension project by the Michigan Public Service Commission has also been a positive credit consideration in affirming the ratings. Fitch expects the company to timely file for regulatory rate increases to limit leverage and improve cash flow stability. Fitch expects adjusted debt-to-EBITDA will remain between 4x and 4.5x, but improve once it begins to earn cash returns on its rating period investments through increased regulated rates. EBITDA-to-interest over next three years will remain above 4x under Fitch's model.

Public Service Company of Oklahoma (PSO): With expected regulatory approval of the general rate increase request filed in January 2014, the company should achieve strong financial metrics that are within Fitch's guidelines for its current rating category. Adjusted debt-to-EBITDA and EBITDA-to-interest for PSO will remain between 3x and 3.5x and 5.3x and 5.9x, respectively, through 2016. Fitch expects PSO to maintain these measures through cost reduction and increased retail rates.

Southwestern Electric Power Company (SWEPCO): SWEPCO's future cash flow will benefit from approval recently approved general rate case in Texas and inclusion of its new generating capacity in Louisiana's formula base rate. Fitch expects adjusted debt to EBITDA and EBITDA to interest ratios to remain between 4x and 4.5x and 5.5x and 6.3x respectively over the rating horizon.

AEP Texas Central Company (AEPTC): AEPTC is an electric distribution company in Texas. Fitch expects EBITDA/interest expenses and adjusted debt/EBITDA to remain around 7x and 2.5x, respectively, over the rating horizon.

AEP Texas North Company (AEPTN): Like AEPTC, AEPTN benefits from a low risk profile and stable cash flows. Fitch expects EBITDA-to-interest expense to remain over 5.0x and adjusted debt-to-EBITDA to be between 3.2x and 3.5x, which are well within the current rating guidelines.

Strong Liquidity: AEP currently has approximately $3.5 billion of total liquidity available under its credit agreements, including $118 million of cash and cash equivalents. $1.75 billion of the consolidated revolving credit facilities will mature in July 2016, $1.75 billion will mature in July 2017, and the remaining $1 billion credit line established to fund OPCO maturities will expire in May 2015.

Manageable Maturities: Consolidated debt maturities over the next three years are manageable and include $1.140 billion in 2014, $2.145 million in 2015, and $1.105 billion in 2016. Maturing debt will be funded through a combination of internal cash flow and debt.

RATING SENSITIVITY:

Positive: An upgrade of AEP or any of its subsidiaries is considered unlikely given their current financial profile.

Negative: Future developments that may, individually or collectively, lead to negative rating action include:

--For AEP: Decline in EBITDA-based credit metrics on a sustainable basis with EBITDA/interest expenses declining below 4.3x and adjusted debt/EBITDA increasing to 3.5x or higher.

--For OPCO, AEPTN and APETC: Decline in the EBITDA-based credit metrics on a sustainable basis with EBITDA/interest expenses declining below 4.4x and adjusted debt/EBITDA increasing to 3.4x or higher.

--For all other rated operating subsidiaries: Decline in the EBITDA-based credit metrics on a sustainable basis with EBITDA/interest expenses declining below 3.9x and adjusted debt to EBITDA increasing to 3.8x or higher.

In addition, new environmental rules or significantly adverse changes to the regulatory framework of the individual regulated operating company could lead to a negative rating action. Significant increase in parent-level leverage to maintain a strong shareholder distribution policy remains a rating concern.

Fitch affirms the following ratings and revised the Rating Outlook to Stable from Negative:

American Electric Power Company
--Long-term IDR at 'BBB';
--Senior unsecured at 'BBB';
--Short-term IDR and commercial paper 'F2'.

Ohio Power Company (OPCO)
--Long-term IDR at 'BBB+';
--Senior unsecured and pollution control revenue bonds (PCRBs) at 'A-';
--Short-term IDR and commercial paper at 'F2'.

Kentucky Power Company (KPCO)
--Long-term IDR 'BBB-';
--Senior unsecured at 'BBB';

AEP Texas Central Company (AEPTC)
--Long-term IDR at 'BBB+';
--Senior unsecured and PCRBs at 'A-';
--Short-term IDR 'F2'.

AEP Texas North Company (AEPTN)
--Long-term IDR at 'BBB+';
--Senior unsecured at 'A-';
--Short-term IDR at 'F2'.

Appalachian Power Company (APCO)
--Long-term IDR at 'BBB-';
--Senior unsecured and PCRBs at 'BBB'.

Indiana Michigan Power Company (IMPC)
--Long-term IDR at 'BBB-';
--Senior unsecured and PCRBs at 'BBB'.

Public Service Company of Oklahoma (PSCO)
--Long-term IDR at 'BBB';
--Senior unsecured and PCRBs at 'BBB+';
-- Short-term IDR at 'F2'.

Southwestern Electric Power Company (SWEPCO)
--Long-term IDR at 'BBB-';
--Senior unsecured at 'BBB'.

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Applicable Criteria and Related Research:
--'Corporate Rating Methodology', dated Aug. 5, 2013.

Applicable Criteria and Related Research:
Corporate Rating Methodology: Including Short-Term Ratings and Parent and Subsidiary Linkage
http://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=715139

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Kentucky Power Co.

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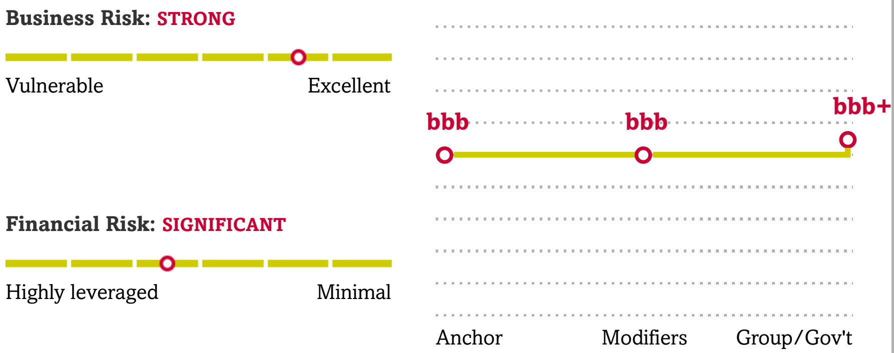
Summary:

Kentucky Power Co.



CORPORATE CREDIT RATING

BBB+/Watch Pos/--

Rationale

Business Risk: Strong	Financial Risk: Significant
• Vertically integrated, fully regulated electric utility operations supported by robust regulatory framework. • Lack of geographic and regulatory diversity. • Small service territory with exposure to industrial customers.	• Core credit ratios remain adequate to support the financial risk profile. • Earned returns trail authorized levels. • Capital structure remains in line with authorized levels.

Outlook

The ratings on Kentucky Power Co. and its parent, American Electric Power Co. Inc. (AEP), are on CreditWatch with positive implications. The CreditWatch listing on AEP and its subsidiaries reflects the potential for higher ratings in the next three to six months upon the close of the sale of 5,200 MW of merchant generation capacity that would lead to an improvement of the company's business risk profile, while the company maintains funds from operations (FFO) to debt of about 18%.

Downside scenario

We could affirm the ratings on Kentucky Power and assign a stable outlook if our assessment of parent AEP's business risk remains unchanged while its FFO to debt is in the range of 15%-20%. We could also do so if AEP's business risk profile improves but FFO to debt consistently weakens such that it is below 15%.

Upside scenario

Upon the close of the transaction, expected in the next three to six months, we could raise the issuer credit rating on AEP and its subsidiaries by one notch, reflecting improvement in business risk stemming from the sale of a portion of its merchant generation assets while the company maintains FFO to debt of about 18% or consistent with the middle of the range for the significant financial risk profile category.

Our Base-Case Scenario

Assumptions

- Gross margins grow 5%-6% annually due to new base rates and tracker recovery of eligible investments.
- Annual capital spending of $100 million to $120 million.
- Company maintains a capital structure of about 57% debt and 43% of equity.

Key Metrics

	2015A	2016E	2017E
FFO/total debt (%)	15.5	15-16	16-17
Total debt/EBITDA (x)	4.1	4.5x–5.0x	4.0x–4.5x

A—Actual. E—Estimate. FFO—Funds from operations.

Business Risk: Strong

Kentucky Power's business risk profile accounts for the company's vertically integrated, regulated electric utility operations that benefit from a generally constructive regulatory framework, providing for timely recovery of environmental spending, fuel costs, and eligible infrastructure investments. While the company's earned returns are currently below authorized levels, we expect earned returns to benefit with the recovery of the Mitchell Power plant units that are now part of the rate base. Our assessment of business risk also accounts for Kentucky Power's small customer base of about 171,000 customers in eastern Kentucky with industrial customers contributing about half of the energy sales. Moreover, the service territory demonstrates very modest growth characteristics and lacks geographic and regulatory diversity.

Financial Risk: Significant

We assess Kentucky Power's financial risk profile using the medial volatility financial ratio benchmarks. Under our base-case scenario we expect that Kentucky Power's core credit ratios will remain adequate to support ratings, with FFO to debt of about 15%-17% and debt to EBITDA of about 4.5x.

Liquidity: Adequate

We assess Kentucky Powers's liquidity as adequate, reflecting the direct support already committed from and the influence of ongoing interactions with the group, including the provision of various corporate services, along with the availability of centralized liquidity resources, on an as-needed basis. We expect liquidity sources to exceed uses by 1.1x or more, the minimum threshold for regulated utilities under our criteria, and that the company will also meet our other requirements for such a designation. Kentucky Power's liquidity benefits from stable cash flow generation, about $3.5 billion in available revolving credit facilities at parent American Electric Power Co. Inc. (AEP) along with sufficient liquidity provided by the parent to meet ongoing needs, as necessary, and manageable debt maturities over the next few years.

Principal Liquidity Sources	Principal Liquidity Uses
• Cash FFO of $135 million to $150 million; and • Borrowing capacity of about $225 million.	• Debt maturities of about $80 million; • Capital spending of $100 million to $120 million; and • Distributions to the parent that support regulatory approved capital structure.

Group Influence

We assess Kentucky Power Co. as a core subsidiary of AEP because we expect that the parent would provide support to Kentucky Power during a period of financial distress. This is because we think Kentucky Power is highly unlikely to be sold, is integral to the overall group strategy, has a strong long-term commitment from parent management, is successful at what it does, operates as a profit center of the group, and is closely linked to the parent's name and reputation. These factors along with the lack of any insulation provisions results in an issuer credit rating for Kentucky Power that is in line with our group credit profile for AEP.

Ratings Score Snapshot

Corporate Credit Rating

BBB+/Watch Pos/--

Business risk: Strong

- **Country risk:** Very low
- **Industry risk:** Very low
- **Competitive position:** Satisfactory

Financial risk: Significant

- **Cash flow/Leverage:** Significant

Anchor: bbb

Modifiers

- **Diversification/Portfolio effect:** Neutral (no impact)
- **Capital structure:** Neutral (no impact)
- **Financial policy:** Neutral (no impact)
- **Liquidity:** Adequate (no impact)
- **Management and governance:** Satisfactory (no impact)
- **Comparable rating analysis:** Neutral (no impact)

Stand-alone credit profile : bbb

- **Group credit profile:** bbb+
- **Entity status within group:** Core (+1 notch from SACP)

Issue Ratings

We rate Kentucky Power's senior unsecured debt at the same level as our issuer credit rating on the company, reflecting the absence of more senior obligations in the capital structure that could disadvantage senior unsecured bondholders.

Related Criteria And Research

Related Criteria

- Criteria - Corporates - General: Methodology And Assumptions: Liquidity Descriptors For Global Corporate Issuers, Dec. 16, 2014
- Criteria - Corporates - Industrials: Key Credit Factors For The Unregulated Power And Gas Industry, March 28, 2014
- Criteria - Corporates - Utilities: Key Credit Factors For The Regulated Utilities Industry, Nov. 19, 2013
- Criteria - Corporates - General: Corporate Methodology: Ratios And Adjustments, Nov. 19, 2013
- General Criteria: Methodology: Industry Risk, Nov. 19, 2013
- Criteria - Corporates - General: Corporate Methodology, Nov. 19, 2013
- General Criteria: Country Risk Assessment Methodology And Assumptions, Nov. 19, 2013
- General Criteria: Group Rating Methodology, Nov. 19, 2013

- General Criteria: Methodology For Linking Short-Term And Long-Term Ratings For Corporate, Insurance, And Sovereign Issuers, May 7, 2013
- General Criteria: Methodology: Management And Governance Credit Factors For Corporate Entities And Insurers, Nov. 13, 2012
- General Criteria: Use Of CreditWatch And Outlooks, Sept. 14, 2009
- Criteria - Corporates - General: 2008 Corporate Criteria: Rating Each Issue, April 15, 2008

Business And Financial Risk Matrix

	Financial Risk Profile					
Business Risk Profile	Minimal	Modest	Intermediate	**Significant**	Aggressive	Highly leveraged
Excellent	aaa/aa+	aa	a+/a	a-	bbb	bbb-/bb+
Strong	aa/aa-	a+/a	a-/bbb+	**bbb**	bb+	bb
Satisfactory	a/a-	bbb+	bbb/bbb-	bbb-/bb+	bb	b+
Fair	bbb/bbb-	bbb-	bb+	bb	bb-	b
Weak	bb+	bb+	bb	bb-	b+	b/b-
Vulnerable	bb-	bb-	bb-/b+	b+	b	b-

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Summary:
Kentucky Power Co.

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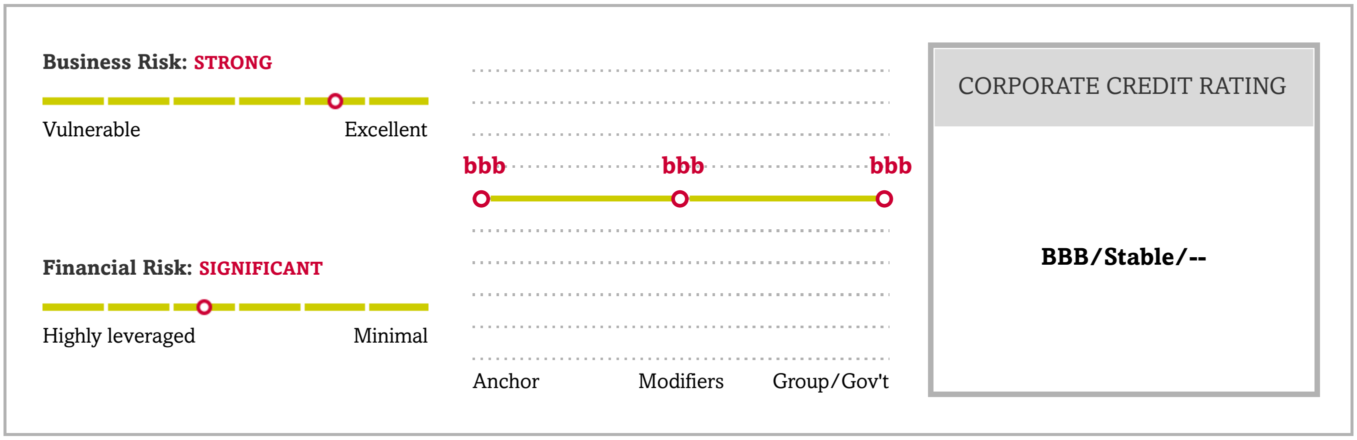
Summary:

Kentucky Power Co.



Rationale

Business Risk: Strong	Financial Risk: Significant
• Regulated utility that is sole provider of essential electricity service • Part of a large electric utility company that is geographically diverse with a large customer base • Credit supportive regulatory environment in Kentucky	• Large capital expenditures • Discretionary cash flow to remain negative • Exposure to environmental regulations could pressure financial measures • Net cash flow to capital spending to remain less than 100%

Outlook: Stable

The stable rating outlook on parent American Electric Power co. Inc. (AEP) and utility subsidiary Kentucky Power Co. (KP) reflects our expectation that management will focus on its regulated utilities and will not expand unregulated operations beyond the existing level. We expect the company will not incur any increased business risk by reaching regulatory outcomes that provide timely recovery of rate base investments and operating expenses. The outlook also reflects our expectations that cash flow protection and debt leverage measures will continue to remain at the currently robust levels. Our base case forecast includes adjusted funds from operations (FFO) to total debt of about 20%, supplemented by cash flow from operations (CFO) to debt of about 19%. We expect debt to EBITDA to be approximately 4x.

Downside scenario

We could lower the ratings if the business risk profile materially weakened or financial measures fall short of our base forecast on a sustained basis including not maintaining FFO to total debt above 13% or CFO to debt above 11%.

Upside scenario

We could raise the ratings if the business risk profile improves through growth in the utility operations in combination with financial measures in line with our base case forecast. We could also raise ratings if KP maintains its current business risk profile and financial measures strengthen to the "intermediate" financial risk profile category.

Standard & Poor's Base-Case Scenario

Assumptions	Key Metrics
• Economic conditions in the service territory are improving, which will likely increase customer usage • Supportive regulatory outcomes in Kentucky and current rate recovery maintained • Capital spending and dividend payouts lead to negative discretionary cash flow, indicating external funding needs	In our base case, we expect KP's key adjusted financial measures to approximate historical performance during the next few years. We expect FFO to debt to be about 18%, which is in the "significant" category under our medial volatility benchmarks. We forecast debt to EBITDA to be roughly 4x, indicating debt leverage in line with the "significant" category benchmarks. We forecast the supplemental ratio of CFO to debt to be over 16%. We expect discretionary cash flow to remain negative over the next few years, reflecting capital spending and dividend payments to parent company AEP. Beyond our base-case forecast, we expect to see similar financial measures.

Business Risk: Strong

We base our assessment of KP's business risk profile on the company's "satisfactory" competitive position, "very low" industry risk derived from the regulated utility industry, and the "very low" country risk of the U.S. where the utility operates. KP's competitive position incorporates the strengths of a vertically integrated, fully regulated electric utility that serves eastern Kentucky. It participates in the AEP Power Pool, sharing the revenues and costs of pool sales to utilities and power marketers, and also sells directly at wholesale to municipalities and electric cooperatives. Operations are integrated with the AEP East system.

Financial Risk: Significant

Based on the medial volatility financial ratio benchmarks, our assessment of KP's financial risk profile is "significant". This reflects the recurring cash flow from being a fully regulated vertically integrated electric utility. Capital spending is necessary for maintenance purposes and new projects. Recovery of costs has generally been adequate. We expect financial measures to remain about the same as existing levels. Negative discretionary cash flow over the forecast period indicates internal cash flow is not great enough to cover capital spending and dividend payments. Therefore, KP will need external funding sources. Measures could improve if spending is lower than expected or cost recovery is higher than expected. Steady cost recovery through the regulatory process will be required to maintain cash flow coverages. For 12 months ended Dec. 31, 2013, FFO to debt was 18.3%, CFO to debt was 15.9%, and debt to EBITDA was 4.2x. Our baseline forecast includes FFO to debt of about 18%, CFO to debt over 16%, and debt to EBITDA of roughly 4x.

Liquidity: Adequate

KP's liquidity reflects that of parent AEP, which we consider "adequate", as our criteria defines the term. We believe the company's liquidity sources are likely to cover its uses by more than 1.1x over the next 12 months and to meet cash outflows even with a 10% decline in EBITDA.

There are large debt maturities over the next three years and we expect the company to refinance these given its satisfactory standing in the credit markets.

Principal Liquidity Sources	Principal Liquidity Uses
• Cash on hand of roughly $500 million in 2014 • FFO of roughly $4.2 billion in 2014 • Credit facility availability of about $2.5 billion in 2014 • Working capital of about $350 million in 2014	• Debt maturities of about $1.5 billion in 2014 • Capital spending of about $4.3 billion in 2014 • Dividends of about $970 million in 2014

Other Modifiers

Other modifiers have no impact on the rating outcome.

Group Influence

The SACP of 'bbb' for KP reflects its business risk and financial risk profiles; the same as the GCP for AEP, which is currently 'bbb'. Under our group rating methodology, we consider KP to be core subsidiary of the AEP group and therefore, the ICR for KP is equal to the AEP GCP.

Ratings Score Snapshot

Corporate Credit Rating

BBB/Stable/--

Business risk: Strong

- **Country risk:** Very low
- **Industry risk:** Very low
- **Competitive position:** Satisfactory

Financial risk: Significant

- **Cash flow/Leverage:** Significant

Anchor: bbb

Modifiers

- **Diversification/Portfolio effect:** Neutral (no impact)
- **Capital structure:** Neutral (no impact)
- **Liquidity:** Adequate (no impact)
- **Financial policy:** Neutral (no impact)
- **Management and governance:** Satisfactory (no impact)
- **Comparable rating analysis:** Neutral (no impact)

Stand-alone credit profile : bbb

- **Group credit profile:** bbb
- **Entity status within group:** Core (no impact)

Related Criteria And Research

- Criteria - Corporates - General: Methodology And Assumptions: Liquidity Descriptors For Global Corporate Issuers, Jan. 2, 2014

- Criteria - Corporates - Utilities: Key Credit Factors For The Regulated Utilities Industry, Nov. 19, 2013
- General Criteria: Group Rating Methodology, Nov. 19, 2013
- General Criteria: Methodology: Industry Risk, Nov. 19, 2013
- Criteria - Corporates - General: Corporate Methodology, Nov. 19, 2013
- Criteria - Corporates - General: Corporate Methodology: Ratios And Adjustments, Nov. 19, 2013
- General Criteria: Methodology For Linking Short-Term And Long-Term Ratings For Corporate, Insurance, And Sovereign Issuers, May 7, 2013
- General Criteria: Methodology: Management And Governance Credit Factors For Corporate Entities And Insurers, Nov. 13, 2012
- General Criteria: Stand-Alone Credit Profiles: One Component Of A Rating, Oct. 1, 2010
- 2008 Corporate Criteria: Rating Each Issue, April 15, 2008
- 2008 Corporate Criteria: Commercial Paper, April 15, 2008
- Criteria - Corporates - Utilities: Notching Of U.S. Investment-Grade Investor-Owned Utility Unsecured Debt Now Better Reflects Anticipated Absolute Recovery, Nov. 10, 2008

Business And Financial Risk Matrix

	Financial Risk Profile					
Business Risk Profile	Minimal	Modest	Intermediate	**Significant**	Aggressive	Highly leveraged
Excellent	aaa/aa+	aa	a+/a	a-	bbb	bbb-/bb+
Strong	aa/aa-	a+/a	a-/bbb+	**bbb**	bb+	bb
Satisfactory	a/a-	bbb+	bbb/bbb-	bbb-/bb+	bb	b+
Fair	bbb/bbb-	bbb-	bb+	bb	bb-	b
Weak	bb+	bb+	bb	bb-	b+	b/b-
Vulnerable	bb-	bb-	bb-/b+	b+	b	b-