

Kentucky Power Company
KPSC Case No. 2018-00035
Attorney General's Second Set of Data Requests
Dated May 8, 2018

DATA REQUEST

- 2-001 Refer to the Settlement Testimony of Matthew A. Horeled ("Horeled Settlement Testimony") pages 5-6 and the Settlement Agreement in this matter.
- a. Confirm that the "protected" amount of excess ADIT was calculated in conformity with KPCo's response to the AG's Initial Data Request, item nos. 1 and 2.
 - b. Confirm that the "unprotected" amount of excess ADIT was calculated in conformity with KPCo's response to the AG's Initial Data Request, item nos. 1 and 2.

RESPONSE

- a. The Company confirms that the "protected" amount of excess accumulated deferred income taxes ("ADIT") was calculated in conformity with the Company's response to the Attorney General's Initial Data Request, item nos. 1 and 2.
- b. The Company confirms that the "unprotected" amount of excess ADIT was calculated in conformity with the Company's response to the AG's Initial Data Request, item nos. 1 and 2.

Witness: Michael N. Kelly

Kentucky Power Company
KPSC Case No. 2018-00035
Attorney General's Second Set of Data Requests
Dated May 8, 2018
Page 1 of 2

DATA REQUEST

2-002 Refer to the Horeled Settlement Testimony, pages 10-12.

- a. Does KPCo believe Moody's revised outlook reflected Moody's understanding of the effect of the Tax Cuts and Jobs Act ("TCJA") on KPCo, or does KPCo believe it reflects the current standing of KPCo (as of March 21, 2018), whereas any degradation of free cash flow may exacerbate Moody's concern? Explain.
- b. Does KPCo understand what time period Moody's anticipated the "unprotected" excess ADIT would be returned when it made its March 21, 2018 credit outlook revision?
- c. Has KPCo or any of its affiliates had any conversation with Moody's, its employees or representatives about the amortization of KPCo's "unprotected" excess ADIT? If so, provide an overview of any such conversations, and recommendations, if any, of Moody's regarding the time period over which "unprotected" excess ADIT should be returned to maintain KPCo's credit rating. Any response should provide an overview of the March 15, 2018 meeting with Moody's, including any determination as to a preferred period for the amortization of excess "unprotected" ADIT.
- d. Did Moody's provide KPCo, or any affiliate, any documents describing, concerning, or explaining its credit outlook revision? If so, provide those documents that are not already part of the record.

RESPONSE

- a. Moody's March 21, 2018 press release, attached as Exhibit MAH-S2 to the testimony of Company Witness Horeled, indicates that "Credit ratings issued by Moody's Investors Service, Inc. and its ratings affiliates ("MIS") are Moody's *current opinions* of the relative future credit risks of entities, credit commitments, or debt, or debt-like instruments." (emphasis supplied). Exhibit MAH-S2 also provides that Kentucky Power's "negative rating outlook reflects our view that the combination of recent rate actions, a weak service territory, and increasing capital expenditures will impact the utility's cash flow generating ability and its cash based credit metrics. *For example, we believe KPCo's ratio of CFO pre-WC to debt will likely decline to the low teens.... [The Company's] rating could move down if current trends continue and economic conditions do not improve in its service territory or, if as a result of higher capital expenditures, increased operating expenses or additional cash deferrals hindering KPCo's ability to recover its costs on a timely basis, the ratio of CFO pre-WC to debt were to fall below 13% for a sustained period of time.*" (emphasis supplied).
- b. No.
- c. The Company informed Moody's of this case and the fact the Commission would determine the period over which Kentucky Power's "unprotected" excess ADIT would be

Kentucky Power Company
KPSC Case No. 2018-00035
Attorney General's Second Set of Data Requests
Dated May 8, 2018
Page 2 of 2

amortized. Moody's did not provide Kentucky Power its determination, if any, of Moody's preferred period for the amortization of Kentucky Power's excess "unprotected" ADIT.

- d. Yes. Please refer to Exhibit MAH-S2 to the testimony of Company Witness Horeled. No additional documents were provided by Moody's.

Witness: Matthew A. Horeled

Kentucky Power Company
KPSC Case No. 2018-00035
Attorney General's Second Set of Data Requests
Dated May 8, 2018

DATA REQUEST

2-003 Does KPCo expect its percentage of total debt as a percentage of total capitalization to change materially between now and January 2021? Explain.

RESPONSE

At this time the Company has no indication that the total debt as a percentage of total capitalization will change materially between now and January 2021. Any downgrade of Kentucky Power's current Baa2 credit rating could affect the availability and cost of any interim refinancing by Kentucky Power even absent a material change in Kentucky Power's percentage of total debt as a percentage of total capitalization.

Witness: Matthew A. Horeled

Kentucky Power Company
KPSC Case No. 2018-00035
Attorney General's Second Set of Data Requests
Dated May 8, 2018

DATA REQUEST

- 2-004 Provide the effect on the Company's cash flow to debt metrics from the 10-year amortization of "unprotected" excess ADIT as a result of FERC Docket EL 17-13-000.
- a. Provide a reference as to the magnitude between the "unprotected" ADIT that are subject of the FERC docket cited above and the Kentucky Jurisdictional amount subject to the proposed Settlement Agreement.
 - b. Provide the reduction in annual cash flow for years 2018-2020 as a result of the settlement in the FERC docket cited above.

RESPONSE

The requested analysis cannot be performed. FERC's ruling in Docket EL 17-13-000 reflects other changes to the formula rates besides just addressing excess ADIT, and the formula rates have only been set for 2018. Because the formula rates are based on inputs beyond just the treatment of excess ADIT, the Company cannot estimate what effect FERC's ruling will have on formula rates in 2019 and 2020.

- a. Please refer to page 2 of Exhibit AEV-1. Of the Company's total unprotected excess ADIT amount of \$96.7 million (total Company), the transmission portion of that total is \$2.27 million (total Company).
- b. The requested analysis cannot be performed. However, with respect to excess unprotected ADIT only, the Company's cash flow will be reduced annually by 1/10th of the \$2.27 million referenced in the Company's response to part a.

Witness: Alex E. Vaughan

Kentucky Power Company
KPSC Case No. 2018-00035
Attorney General's Second Set of Data Requests
Dated May 8, 2018

DATA REQUEST

2-005 Does the proposed Settlement Agreement provide compensation to KPCo in the form of a return on additional capital that may be necessary as a result of the TCJA?

RESPONSE

No.

Witness: Matthew A. Horeled

Kentucky Power Company
KPSC Case No. 2018-00035
Attorney General's Second Set of Data Requests
Dated May 8, 2018

DATA REQUEST

- 2-006 Provide the remaining amortization of KPCo's regulatory asset associated with the Decommissioning Rider.
- a. Confirm that a significant sum of the "unprotected" excess ADIT are a result of the regulatory asset associated with the Decommissioning Rider.

RESPONSE

The regulatory asset balance associated with the Company's Decommissioning Rider will be amortized through June of 2040 in accordance with the Commission's orders in Case No. 2012-00578 and 2014-00396. The amortization schedule is updated by a filing made on or before each August 15 for implementation beginning cycle one of the following October billing cycle. The most recent such filing was made on August 14, 2017. The Company's 2018 annual filing will provide the amortization based on the regulatory asset balance at the end of June, 2018.

- a. Confirmed, a large portion of the generation function unprotected excess ADIT is a result of the Decommissioning Rider Regulatory Asset balance.

Witness: Alex E. Vaughan

Kentucky Power Company
KPSC Case No. 2018-00035
Attorney General's Second Set of Data Requests
Dated May 8, 2018

DATA REQUEST

2-007 Should there be a change in Kentucky law allowing for the securitization¹ of utility property, at a utility's behest or otherwise, is KPCo aware of any effect on the ability to securitize the regulatory asset associated with the Decommissioning Rider and approved in Case No. 2014-00396, as a result of the amortization of excess ADIT associated with the regulatory asset? If so, please explain.

RESPONSE

Kentucky Power objects to this data request. The data request requires the Company to speculate concerning the effect of legislation that has not been drafted, introduced, enacted, or signed by the Governor. The terms of any such legislation, as a result, are unknown and unknowable. Further, the Company notes that any such legislation could adversely affect Kentucky Power, including its ability to maintain the rate case "stay-out" the Company agreed to in the November 22, 2017 Settlement Agreement approved by the Commission, with certain modifications, in Case No. 2017-00179.

Without waiving its objection, or its ability to invoke paragraph 5(b) and 5(c) of the November 22, 2017 settlement agreement, Kentucky Power states that the Company is not aware of any effect on its ability to securitize the regulatory asset associated with the Decommissioning Rider approved in Case No. 2014-00396 as the result of the amortization of the excess ADIT associated with the regulatory asset.

Witness: Matthew A. Horeled

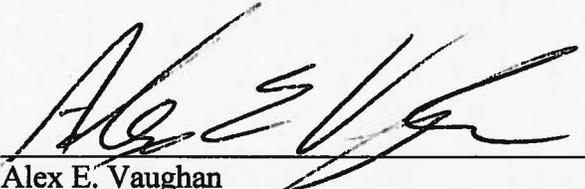
¹ The Attorney General's request and any response should assume securitization has the same or similar meaning as imputed to it by Kentucky Power's parent, American Electric Power. Reference is made to the below citation to American's Electric Power's use of the term.
<https://www.aep.com/investors/FinancialFilingsAndReports/UtilitySecuritizations/>

VERIFICATION

The undersigned, Alex E. Vaughan, being duly sworn, deposes and says he is the Regulatory Pricing & Analysis Manager for American Electric Power, that he has personal knowledge of the matters set forth in the foregoing responses and the information contained therein is true and correct to the best of his information, knowledge, and belief.



Princess M. Brown
Notary Public, State of Ohio
My Commission Expires 04-19-2020

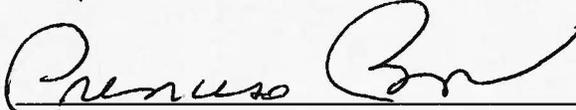


Alex E. Vaughan

Ohio)
)
County of Franklin)

Case No. 2018-00035

Subscribed and sworn before me, a Notary Public, by Alex E. Vaughan this
16 day of May, 2018.

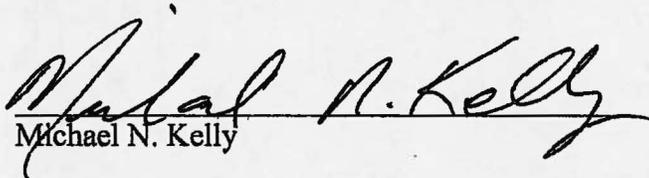


Notary Public

My Commission Expires 4/19/2020

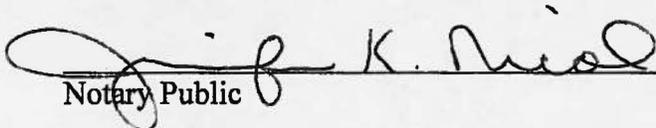
VERIFICATION

The undersigned, Michael N. Kelly, being duly sworn, deposes and says he is the Tax Accounting & Regulatory Support Manager for American Electric Power, that he has personal knowledge of the matters set forth in the foregoing responses and the information contained therein is true and correct to the best of his information, knowledge, and belief.


Michael N. Kelly

State of Ohio)
) Case No. 2018-00035
County of Franklin)

Subscribed and sworn before me, a Notary Public, by Michael N. Kelly this
16 day of May, 2018.


Notary Public

My Commission Expires 12/14/2020

