

COMMONWEALTH OF KENTUCKY
KENTUCKY PUBLIC SERVICE COMMISSION

In The Matter Of:

The Electronic Application of Kentucky Power)
Company For Authority Pursuant To KRS 278.300)
To Issue And Sell Promissory Notes Of One)
Or More Series And For Other Authorizations)

Case No. 2019-00072

Application

Kentucky Power Company¹ applies to the Public Service Commission of Kentucky pursuant to KRS 278.300, 807 KAR 5:001, Section 14, and 807 KAR 5:001, Section 18 for an order authorizing the Company to issue and sell promissory notes of one or more series in the aggregate amount of \$275 million and for other related relief. In support of its application the Company states:

Introduction

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

Applicant

2. Kentucky Power Company was organized in 1919 under the laws of the Commonwealth of Kentucky.² The Company's mailing address is 855 Central Avenue, Suite 200, Ashland, Kentucky 41101-7423. Its electronic mail address is kentucky_regulatory_services@aep.com. Kentucky Power is engaged in the generation,

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

² A copy of the March 4, 2019 Certificate of Existence for Kentucky Power Company attesting that it is in good standing with the Commonwealth of Kentucky is attached as **EXHIBIT E**.

purchase, transmission, distribution and sale of electric power. Applicant serves approximately 166,400 retail customers in the following 20 counties of eastern Kentucky: Boyd, Breathitt, Carter, Clay, Elliott, Floyd, Greenup, Johnson, Knott, Lawrence, Leslie, Letcher, Lewis, Magoffin, Martin, Morgan, Owsley, Perry, Pike and Rowan. In addition, the Company also supplies electric power at wholesale to other utilities and municipalities in Kentucky for resale. Kentucky Power is a utility as that term is defined at KRS 278.010.

3. Kentucky Power's property includes the 280 megawatt Big Sandy Plant Generating Station located in Lawrence County, constructed in conformity with certificates of public convenience and necessity issued by this Commission, and converted to a natural gas-fired unit pursuant to an order issued by this Commission; a fifty percent undivided interest (780 MW) in the Mitchell Plant Generating Station, located near Moundsville in Marshall County, West Virginia; transmission lines and all appurtenant facilities; distribution lines; transmission and distribution stations and equipment; office buildings and equipment; storerooms for operation and maintenance materials; data processing equipment; metering equipment; communications equipment; and motor vehicles.

4. The total original cost and cost to Kentucky Power of Applicant's utility plant is \$2,819,370,178 as of December 31, 2018. The Company's real property totaled approximately \$48,956,323 as of the same date.

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

Background

6. Kentucky Power seeks authority to issue indebtedness and engage in financings in an amount of up to \$275,000,000 consisting of: (i) \$210,000,000 for its general corporate purposes; and (ii) \$65,000,000 WVEDA, Series 2014A Pollution Control Bond due 2020 (the “Tax Exempt Bond”) that Kentucky Power proposes to refinance.

7. Kentucky Power proposes to employ up to \$210,000,000 of the financing proceeds for general corporate purposes. The general corporate purposes include the construction, acquisition, and upgrade of environmental, generation, transmission, distribution, technology, and communication facilities of the types listed on page 4 of **EXHIBIT D**. Kentucky Power has not allocated the proceeds to specific projects. The proceeds will be used for ordinary extensions of existing systems in the usual course of business and may be used for projects requiring a certificate of public convenience and necessity. Kentucky Power will seek all necessary authority before commencing construction of a project or facility requiring approval under KRS 278.020.

Requested Financing Authority

8. Kentucky Power proposes, with the consent and approval of the Commission, to issue and sell, in one or more transactions from time to time through December 31, 2020, up to \$275,000,000 aggregate principal amount of unsecured promissory notes in one or more new series (the “Notes”). The Notes may be issued (i) in the form of Senior Notes, or other unsecured promissory notes or (ii) in connection with one or more tax-exempt financing transactions with the West Virginia Economic Development Authority in the event the refinancing of the Company’s Tax Exempt Bond is advantageous. In no event will the amount of Notes issued in the transaction described herein exceed the principal amount of \$275,000,000. Kentucky Power anticipates issuing the first of the Senior Notes in June 2019.

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

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

11. In addition, Kentucky Power may issue one or more Notes to AEP, or to any entity owning directly or indirectly all of the outstanding common stock of the Applicant.³ The interest rates and maturity dates of any such borrowings will be designed to parallel the cost of the capital of AEP to comply with any applicable law or regulation.

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

³ Any such transactions will comply with KRS 278.2201 *et seq.*

to require the Company to prepay them after certain specified events, including an ownership change.

13. Present market conditions make it difficult to determine whether between the date of the Commission's Order granting the requested authority, and December 31, 2020 (the expiration of the requested authority), it would be more advantageous to Kentucky Power and its customers to sell its Notes with a 60-year or some shorter maturity. It nevertheless is in the public interest that Kentucky Power is afforded the necessary flexibility to adjust its financing program to developments in the markets for medium and long-term debt securities when and as they occur in order to obtain the best possible price, interest rate and terms for its Notes. The Company thus requests authorization to determine at a subsequent date whether there will be more than one series, and on the maturity of each series of the Notes. Kentucky Power may agree to specific redemption provisions, if any, at the time of the pricing of the Notes.

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

15. Based upon experience with similar financings, the Company estimates issuance costs for the Notes will total approximately \$1,310,000.

Provisions Applicable To The Issuance of the Notes

A. General Provisions

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

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

18. Kentucky Power has not identified which outstanding securities, if any, it might purchase through tender offer, open market or other form of purchase other than redemption. Kentucky Power will file with the Commission the information required by 807 KAR 5:001, Section 18(1)(f) within 30 days of any such purchase.

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

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

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

impair the Company's ability to provide that service, and is reasonably necessary and appropriate for such service.

B. Treasury Hedge Agreements And Interest Rate Management Agreements.

22. In connection with the issuance of the Notes, the Company may enter into, from time to time through December 31, 2020, one or more interest rate hedging arrangements, including, but not limited to, treasury lock agreements, forward-starting interest rate swaps, treasury put options or interest rate collar agreements (“Treasury Hedge Agreement”) to protect against future interest rate movements in connection with the issuance of the Notes. Each Treasury Hedge Agreement will correspond to one or more Notes that Kentucky Power will issue pursuant to this Application; accordingly, the aggregate corresponding principal amounts of all Treasury Hedge Agreements will not exceed an amount equal to, on the date or dates of entering such agreements, \$275,000,000.

23. Kentucky Power proposes, with the consent and approval of this Commission through the Order to be issued in this proceeding, to utilize interest rate management techniques and enter into Interest Rate Management Agreements through December 31, 2020. Such authority will allow the Company sufficient alternatives and flexibility to reduce its effective interest cost and manage interest cost on financings.

24. The Interest Rate Management Agreements will be products commonly used in today’s capital markets, consisting of “interest rate swaps”, “caps”, “collars”, “floors”, “options”, or hedging products such as “forwards” or “futures”, or similar products, the purpose of which is to manage and minimize interest costs. The Company expects to enter into these agreements with counterparties that are highly rated financial institutions. The transactions will be for a fixed period and a stated principal amount, and shall be for underlying fixed or variable obligations of Kentucky Power. The Company will not agree to any covenant more restrictive

than those contained in the underlying obligation unless such Interest Rate Management Agreement either expires by its terms or is unwindable on or prior to the end of the Authorization Period.

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

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

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

Compliance With KRS 278.300

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

Compliance With Applicable Regulations

29. The proceeds for the issuance of the Tax Exempt Bond were used by the Company to redeem bonds that were issued for the purpose of providing a portion of the funds for the acquisition, construction, and improvement of solid waste disposal facilities, or portions thereof, designed for the disposal of solid wastes at the Mitchell Plant Generating Station located near Moundsville, West Virginia.

30. The payees on the Tax Exempt Bond to be refinanced and the issuance expenses associated with the debt to be refinanced were:

<u>Type of Debt</u>	<u>Rate</u>	<u>Issue Date</u>	<u>Due Date</u>	<u>Payees</u>	<u>Issuance Expenses</u>
Tax Exempt Bond	2.00%	6/19/2017	6/19/2020	Key Government Finance, Inc.	\$146,250

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

<u>Regulation</u>	<u>Pertinent Application Location</u>
807 KAR 5:001, Section 14(1)	Paragraph 2; <i>passim</i> .
807 KAR 5:001, Section 14(2)	Paragraph 2, footnotes 1-2; <u>EXHIBIT E.</u>
807 KAR 5:001, Section 14(3)	Not applicable.
807 KAR 5:001, Section 14(4)	Not applicable.
807 KAR 5:001, Section 18(1)(a)	<i>See above.</i>
807 KAR 5:001, Section 18(1)(b)	Paragraphs 2-4.
807 KAR 5:001, Section 18(1)(c)	Not applicable.
807 KAR 5:001, Section 18(1)(d)	Paragraphs 6-8, 17-18, and page 4 of <u>EXHIBIT D.</u>
807 KAR 5:001, Section 18(1)(e)	Paragraphs 6-8 and page 4 of <u>EXHIBIT D.</u>
807 KAR 5:001, Section 18(1)(f)	Paragraphs 6-8, 17-18, and 30.
807 KAR 5:001, Section 18(1)(g)	Not applicable.

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

Requested Date For Final Order

32. To minimize costs, and to provide the Company with the flexibility to act on advantageous financing terms and conditions, Kentucky Power requests that the Commission issue its order granting the requested relief no later than June 1, 2019, or as soon thereafter as practicable.

Exhibits

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

Communications

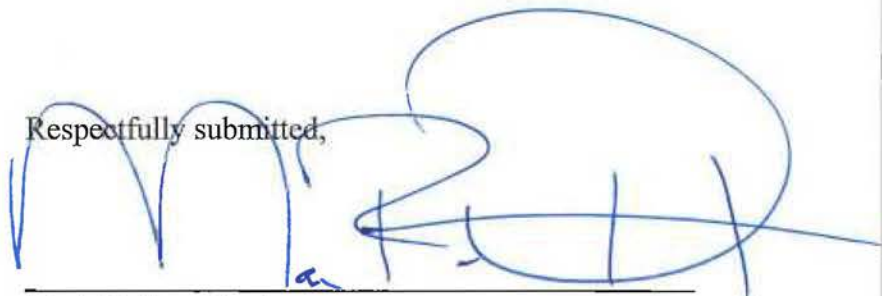
34. The Company respectfully requests that communications in this matter be addressed to the persons identified on the Company's February 28, 2019 notice of election of use of electronic filing procedures.

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

- (1) Approving pursuant to KRS 278.300 and all applicable provisions the issuance by Kentucky Power of the Notes; and
- (2) Granting Kentucky Power such other relief or approvals as may be appropriate or required to consummate transactions set forth in this Application.

This 6th day of March, 2019.

Respectfully submitted,



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COUNSEL FOR:
KENTUCKY POWER COMPANY

EXHIBIT INDEX⁴

EXHIBIT A

Indenture dated as of September 1, 1997 with Bank of New York, National Association, successor to Deutsche Bank Trust Company Americas and Bankers Trust Company, as Trustee, relating to the Notes

EXHIBIT B

Form of Company Order – Notes

EXHIBIT C

Form of Supplemental Indenture – Notes

EXHIBIT D

December 31, 2018 Financial Statement and Other Information Pursuant to 807 KAR 5:001 Section 12.

EXHIBIT E

March 4, 2019 Certificate of Existence for Kentucky Power Company.

⁴ Exhibits will be re-filed should material modifications to such Exhibits result from further review or negotiations by interested parties.

