Kentucky Power Company
KPSC Case No. 2023-00159
Commission Staff's Fourth Set of Data Requests
Dated September 11, 2023

DATA REQUEST

KPSC 4_1 Refer to Kentucky Power's Response to Commission Staff's Second Request for Information (Staff's Second Request), Item 10. Explain whether, if the Commission denied any one or combination thereof of the regulatory assets for which Kentucky Power has requested securitization, Kentucky Power may then choose not to secure any of the assets.

RESPONSE

If the Commission were to deny securitization for some of the regulatory assets in Figure BKW-4, the Company would need to evaluate based on that decision whether the Company would be able to securitize the regulatory assets that were approved for securitization. The Company intends to securitize for customers' benefit all regulatory assets approved for securitization to the extent the approved balance exceeds the threshold amounts identified in KRS 278.672(1), and to the extent the size is marketable.

Witness: Brian K. West

Witness: Franz D. Messner

DATA REQUEST

KPSC 4_2 Refer to the Direct Testimony of Katrina T. Niehaus (Niehaus Direct Testimony), page 31. Also refer to the Direct Testimony of Cynthia G. Wiseman (Wiseman Direct Testimony), pages 4 and 5. If securitized bonds are issued with a 20- year scheduled final maturity and weighted average life of approximately 12 years and level annual debt service throughout that 20-year period, and assuming no change in Kentucky Power's retail sales of electricity during that 20-year period, provide the amount of securitized surcharge that will appear on the monthly bill of an average residential customer of Kentucky Power throughout that 20-year period. Provide all calculations in Excel spreadsheet format, with all formulas, columns, and rows unprotected and fully accessible.

RESPONSE

At the time of the Company's filing, the SFR recovery amount is estimated to be $37,061,497 per year, trued up semi-annually to account for any over- or under-collection of the surcharge and ensure the timely payment of securitized bonds and financing costs. Assuming no change in Kentucky Power's retail sales of electricity, the calculated 5.8233 percent of revenue rate for the residential class will collect the requested $37,061,497 per year for 20 years. Please see KPCO_R_KPSC_4_2_Attachment1for the estimated SFR impact on residential customer bills. KPCO_R_KPSC_4_2_Attachment1 assumes that, along with no change in Kentucky Power's retail sales of electricity, all base rates and rider rates that factor into the customer revenues remain static. The only exception is that the Decommissioning Rider is set to zero in the proposed bill analysis.

Witness: Brian K. West

Witness: Franz D. Messner

Witness: Michael M. Spaeth

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KPSC 4_3 Refer to Niehaus Direct Testimony, page 31. Also refer to Wiseman Direct Testimony, pages 4–5. Provide the analyses that Kentucky Power or Goldman Sachs & Co. (Goldman) have done that shows the increase or decrease in NPV savings calculations from securitization from extending the final scheduled maturity from 17 years for the plant currently in rates to 20 years in one-year increments or any other analysis looking at final scheduled maturities other than 20 years. Explain whether these calculations would apply to scheduled maturities up to 28 years. Provide all calculations in Excel spreadsheet format with all formulas, columns, and rows unprotected and fully accessible.

RESPONSE

The requested analysis has not been performed. The securitization is expected to have a substantially level debt service. Markets may change between now and the time of actual issuance. Further analysis will be performed closer to the date of actual issuance based on market conditions at that time.

Witness: Katrina Niehaus

DATA REQUEST

KPSC 4_4 Refer to the Application, Exhibit 5, page 33, paragraph 45, Finding of Fact paragraph 45. Also refer to the Direct Testimony of Katherine I. Walsh, page 20; the Direct Testimony of Brian K. West (West Direct Testimony) pages 27–28; and the Direct Testimony of Franz D. Messner page 9.

a. Provide the amount of quantifiable net present value benefit to customers if all the proposed securitized bonds are issued, but in two separate series, each with level annual debt service: (1) one with a weighted average life (WAL) of approximately five years and financing only storm costs, the Tariff P.P.A. Under-Recovery Regulatory Asset balance and the Rockport Deferral Regulatory Asset balance; and (2) a second with a WAL of approximately 17 years and financing only the Decommissioning Rider Regulatory Asset balance. Provide all calculations in Excel spreadsheet format, with all formulas, columns, and rows unprotected and fully accessible.

b. Provide the amount of quantifiable net present value benefit to customers if all the proposed securitized bonds are issued, but in two separate series: (1) one with level annual debt service, WAL of five years, and financing only storm costs, the Tariff P.P.A. Under-Recovery Regulatory Asset balance and the Rockport Deferral Regulatory Asset balance; and (2) a second which pays interest only until maturity of the first series (end of year five), and then pays level annual debt service over the following 12 years, and financing only the Decommissioning Rider Regulatory Asset balance. Provide all calculations in Excel spreadsheet format, with all formulas, columns, and rows unprotected and fully accessible.

RESPONSE

a-b. The Company is in the processes of completing the requested analysis based on current market conditions and will supplement this response by September 27, 2023. Please also refer to the Company's response to KPSC 4-3.

Witness: Franz D. Messner

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KPSC 4_5 Refer to the West Direct Testimony, page 31. Explain whether an Intercreditor Agreement will be needed to document which amounts received from Kentucky Power's retail customers are collected for the benefit of securitized bondholders and which amounts are collected for the benefit of the purchasers Kentucky Power's receivables. If not, explain why not.

RESPONSE

Yes, with the sale of receivables by Kentucky Power Company, an Intercreditor Agreement will be needed.

Witness: Franz Messner

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KPSC 4_6 Refer to Niehaus Direct Testimony pages 15, 16, and 45. Also refer to Niehaus Exhibit 3. Explain whether Kentucky Power will describe the structure of the bonds investors to structure the securitized bonds as "corporate securities" and "not asset-backed securities" as the term is defined by the United States Securities and Exchange Commission (SEC) in governing regulations Item 1101 of Regulation AB.

RESPONSE

Kentucky Power intends to structure as a series trust, such that the securitized bonds would not be considered asset-backed securities as defined by Regulation AB. In addition, Kentucky Power intends to request corporate tickers and CUSIP numbers for the bonds.

Witness: Katrina Niehaus

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KPSC 4_7 The prospectus for the Duke Energy Florida Project Finance LLC SEC-registered securitized utility bonds includes the following language: "The Series A Bonds are corporate securities. Neither the depositor nor DEF Project Finance is an asset- backed issuer, and the Series A Bonds are not asset backed securities as defined by the SEC governing regulations Item 1101 of Regulation AB." Similar language is found in other utility securitization bonds issued in 2021 and 2022. This disclosure language is consistent with a SEC No Action and Legal Conclusion Letter issued in 2007 to an issuer of utility securitization bonds. Explain whether Kentucky Power proposes that it will organize the BondCo and the bonds to be consistent with the facts upon which the 2007 SEC No Action letter and Legal Conclusion is based. If not, explain why not. Explain the advantage and disadvantages to ratepayers of using the structure consistent with this precedent.

RESPONSE

While the SEC is an independent US government agency with the ability to revisit the 2007 SEC No Action letter, the Company expects that the SEC will accept this characterization, as it did in connection with the offering sponsored by Southern California Edison in April 2023.[1] However, consistent with the SEC's "no-action" position in 2007, the bonds will still be required to be registered on forms used by asset-backed issuers and the Company will still have to file ongoing reports consistent with the disclosure requirements applicable to asset-backed issuers.

Witness: Katrina Niehaus

[1] SEC No-Action Letter, MP Environmental Funding LLC (Sep. 19, 2007), available at https://www.sec.gov/divisions/corpfin/cf-noaction/2007/mpef091907-1101.htm.

DATA REQUEST

KPSC 4_8 Refer to the Direct Testimony of Adrien M. McKenzie, page 12.

a. Explain whether persons who receive retail electric service from municipalities can be treated as receiving service under commission-approved rate schedules for purposes of KRS 278.670(c) and 278.676(1)(e). If not, explain why not.

b. If, in the future, Kentucky Power voluntarily contracts to sell or otherwise transfer a portion of its electric system and service territory to a municipality, to be owned and operated as a municipal electric utility, explain whether Kentucky Power will have power to impose on that municipality by contract or otherwise an enforceable obligation (as successor to Kentucky Power and as successor servicer) to impose, adjust, bill, collect, and remit securitized surcharges pursuant to the Commission's Financing Order proposed in this case. If not, explain why not.

c. If in the future a portion of Kentucky Power's electric system and service territory is taken by a municipality by exercising its power of eminent domain for the purpose of owning and operating a municipal electric utility, explain whether persons who receive retail electric service from that municipal electric utility will be treated as receiving service under commission-approved rate schedules to the extent of the securitized surcharge for purposes of KRS 278.670(c) and 278.676(1)(e). If not, explain why not.

d. Explain whether the municipal electric utility will have an obligation (as successor to Kentucky Power) to impose, adjust, bill, collect, and remit securitized surcharges pursuant to the Commission's Financing Order. As part of that explanation, explain how Kentucky Power will ensure that obligation be enforced against the municipal electric utility.

RESPONSE

a. The Company assumes for purposes of this response that Commission Staff intended to reference KRS 278.670(20)(c), which is part of the definition for "securitized surcharge" as used in Kentucky's securitization law.

KRS 278.670(20) states:

> (20) "Securitized surcharge" means the amounts authorized by the commission to repay, finance, or refinance securitized costs and financing costs that are, except as otherwise provided for in KRS 278.670 to 278.696 and 65.114:
> (a) Nonbypassable and imposed on, and are a part of, all retail customer bills;
> (b) Collected, in full and separate from the utility's tariffed rates, special contract rates, or other mechanisms by an electric utility or by its successors, assignees, or collection agents; and
> (c) Paid by all existing or future retail customers receiving electrical service from the electric utility or its successors or assignees under commission-approved rate schedules even if a retail customer elects to purchase electricity from an alternative electricity supplier following a fundamental change in regulation of public utilities in the Commonwealth;

KRS 278.676(1)(e), states that the financing order shall include:

> A requirement that, for so long as the securitized bonds are outstanding and until all financing costs have been paid in full, the imposition and collection of securitized surcharges authorized under a financing order shall be nonbypassable and paid by all existing and future retail customers receiving electric service from the electric utility, its successors, or assignees under commission-approved rate schedules even if a retail customer elects to purchase electricity from an alternative electric supplier following a fundamental change in regulation of public utilities in the Commonwealth.

The Company does not read these sections to have specific application to "persons who receive retail electric service from municipalities." Rather, the Company interprets this language to mean that the obligation to pay the securitized surcharge is nonbypassable and that retail customers would still be obligated to pay the securitized surcharge even if there is a "fundamental change in regulation of public utilities in the Commonwealth." For example, if the Commonwealth were no longer divided into certified service territories, and if each utility no longer was granted the exclusive right to serve customers in that certified service territory, and if a retail customer elected to purchase electricity from another supplier, then that customer still would be obligated to pay the securitized surcharge for so long as the securitized bonds are outstanding and not paid in full.

b. Kentucky Power is unaware of in what, if any, instance it would voluntarily contract to sell or otherwise transfer a portion of its electric system and service territory to a municipality, to be owned and operated as a municipal electric utility. Moreover, as stated in response to subpart (a), the Company does not read KRS 278.676(1)(e) to have specific application to municipalities. Regardless, KRS 278.670(20) and KRS 278.676(1)(e) do provide that the imposition and collection of securitized surcharge shall be "nonbypassable and paid by all existing and future retail customers receiving electric service from the electric utility, its successors, or assignees under commission-approved rate schedules even if a retail customer elects to purchase electricity from an alternative electric supplier following a fundamental change in regulation of public utilities in the Commonwealth." KRS 278.676(1)(e).

c. See the Company's response to subpart (b).

d. See the Company's response to subpart (b). In addition, the Company would enforce any obligation to pay the securitized surcharge as required by the securitization law, KRS 278.670 *et seq.*

Witness: Katrina Niehaus

Preparer: Counsel (as to the legal aspects)

DATA REQUEST

KPSC 4_9 Refer to Niehaus Direct Testimony pages 39, 40, and 55–56.

a. Provide Kentucky Power's annual billed sales (MW hours) to retail customers for calendar years 2013 through 2022. Provide the information for each customer class separately.

b. Provide Kentucky Power's annual billed revenues from retail customers for calendar years 2013 through 2022. Provide this information for each customer class separately.

c. Provide the following information about Kentucky Power's annual

forecast variance for annual billed sales (MW hours) to retail customers for calendar years 2013 through 2022: forecasted billed sales; actual billed sales; and variance percentage. Provide this information for each customer class separately.

d. Provide the following information about Kentucky Power's count of retail customers for each calendar year 2013 through 2022: number of retail customers; and variance percentage. Provide this information for each customer class separately.

e. For each calendar year 2013 through 2022, provide annual average days of sales outstanding to retail customers based on aggregate accounts receivable balance. Provide this information for each customer class separately.

f. For each calendar year 2013 through 2022, provide retail customer delinquencies as a percentage of total billed revenues from retail customers. Provide this information for each customer class separately.

RESPONSE

a.- d. Please see KPCO_R_KPSC_4_9_Attachment1 for the requested information in parts a-d.

e. Please refer to KPCO_R_KPSC_4_9_Attachment2 for the requested information.

f. Please refer to KPCO_R_KPSC_4_9_Attachment3 for the requested information.

Witness: Brian K. West

Witness: Heather M. Whitney

DATA REQUEST

KPSC 4_10 Refer to Niehaus Direct Testimony, page 29, and Niehaus Exhibit 2. Provide any independently verifiable data to indicate that under current market conditions a single tranche structure as shown in Exhibit 2 would result in a lower cost than a multi-tranche structure.

RESPONSE

The suggestion to pursue a single tranche structure in current market conditions is based primarily on concerns about size and liquidity. Traditionally, tranches of less than $150mm are perceived as being illiquid by investors due to the smaller size. Due to the ~$447mm issuance size, the Company has refrained from breaking up the issuance into a multi-tranche issuance, and instead proposes to keep a larger, single tranche that would ultimately be perceived as liquid and more attractive to investors. Historically, in multi-tranche issuances, tranches of longer maturities carry a premium in the spread. Attempting to issue a multi-tranche structure could result in a liquidity premium that would ultimately not be beneficial to ratepayers.

Witness: Katrina Niehaus

DATA REQUEST

KPSC 4_11 Refer to Niehaus Direct Testimony, pages 38, 40 and 54–56. Refer to Direct Testimony of Michael Spaeth (Spaeth Direct Testimony), page 21. Also refer to Kentucky Power's Response to Joint Intervenors' First Request for Information, Item 17.

a. Within each of the two retail customer classes, explain whether the securitized surcharge will be imposed in whole or in part as a usage-based charge.

b. Within each of the two retail customer classes, explain whether the securitized surcharge will be imposed in whole or in part as a monthly fixed charge per retail customer.

c. Within each of the two retail customer classes, explain whether the securitized surcharge will be imposed in whole or in part as a demand surcharge (per kW).

RESPONSE

a. The SFR is proposed to be a percent of revenue recovery mechanism that will function in the same fashion as Tariff D.R. (Decommissioning Rider) and Tariff E.S. (Environmental Surcharge). The SFR is not proposed as either a per kWh (energy) charge or a per kW (demand) charge. Insofar as usage drives the revenue to which the rate will be applied, the SFR may be considered as partially usage-based. The fixed costs that are recoverable through the SFR include the customer charge, REA (applicable to residential), and KEDS (applicable to commercial and industrial customers) as those items are included in the revenues to which the SFR rate is applied.

b. No, the SFR is not proposed to impose a fixed charge, in whole or in part.

c. Please see the response to part a.

Witness: Michael M. Spaeth

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KPSC 4_12 Refer to Kentucky Power's Response to Commission Staff's First Request for Information (Staff's First Request), Item 74. Explain whether a securitized demand surcharge (per kW) will be imposed on net metering customers receiving backup service.

RESPONSE

No, it will not. The proposed SFR has no per kW demand component. Please also see the Company's response to Staff 4-11.

Witness: Michael M. Spaeth

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KPSC 4_13 Refer to Niehaus Direct Testimony, pages 10–11 and 16. Also refer to Niehaus Exhibit 3. Explain whether Kentucky Power will consider moving forward with issuing the proposed securitized bonds if one or more rating agencies decline to assign the highest rating to the bonds.

RESPONSE

Kentucky Power would consider altering the structure or offering of the bonds in the unlikely event the securitized bonds were not assigned the highest rating. However, the off-credit treatment by the rating agencies would still be essential in order for there to be customer benefits. As stated in the testimony of Company Witness Neihaus, rating agencies are comfortable rating utility securitizations as AAA due to the mandatory true-up mechanism, the nonbypassability of the securitized surcharge and the state pledge so the bonds not receiving the highest possible rating is highly unlikely.

Witness: Brian K. West

Witness: Franz D. Messner

Witness: Katrina Niehaus

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DATA REQUEST

KPSC 4_14 Refer to Kentucky Power's Response to Staff's Second Request, Item 45. Confirm that no portion of this credit or any other credit to retail customers of Kentucky Power will reduce the amount of securitized surcharge payable by a retail customer. If Kentucky Power cannot confirm this, explain why not.

RESPONSE

Confirmed.

Witness: Alex E. Vaughan

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DATA REQUEST

KPSC 4_15 Refer to Kentucky Power's Response to Staff's Second Set Request, Item 67, Attachments 5 and 6. Also refer to the Application, Exhibit 5, Proposed Financing Order. Explain why Kentucky Power's Proposed Financing Order does not include a Finding of Fact similar to the Response to Staff's Second Request, Item 67, Attachment 5, Finding of Fact 97 or the Response to Staff's Second Request, Item 67, Attachment 6, Finding of Fact 102.

RESPONSE

The Finding of Fact in the attachments referenced above are specific to the legislation in those jurisdictions and not applicable under the Kentucky legislation.

Witness: Franz Messner

DATA REQUEST

KPSC 4_16 Refer to Kentucky Power's Response to Staff's Second Request, Item 67, Attachment 5. Also refer to the Application, Exhibit 5, Proposed Financing Order.

a. Explain why the Proposed Financing Order does not contain a requirement for a "lowest cost" certification both from the bookrunning underwriter and from Kentucky Power similar to that required in the Response to Staff's Second Request, Item 67, Attachment 5, Finding of Fact 104 and 109. Also explain how the omission of the "lowest cost" benefits ratepayers.

b. Explain why the form of Issuance Advice Letter in the Proposed Financing Order does not contain a certification of lowest cost similar to that in Response to Staff's Second Request, Item 67, Attachment 5, Finding of Fact 104 and 109. Explain how the omission of the "lowest cost" benefits ratepayers.

c. Explain how Kentucky Power will ensure that the structuring, marketing and pricing of the securitized bonds will reasonably expect to result in the lowest securitized surcharges consistent with market conditions at the time the securitized bonds are priced as required by KRS 278.676(1)(d). Include a definition of "market conditions" and what it excludes and includes.

RESPONSE:

a. The Proposed Financing Order is consistent with the Kentucky securitization legislation which requires:

> "*The commission shall approve the application for a financing order with or without conditions if the commission finds:*
> *1. The application is in the public interest; and*
> *2. The resulting estimated securitized surcharge and other rates are fair, just, and reasonable."*

b. See subpart (a) above.

c. The sister companies of Kentucky Power Company have been through 7 securitizations and take great pride in structuring and marketing a well-received transaction that ensures a low-cost transaction. Witness Niehaus' testimony on pages 44 through 50 describes the marketing process for utility securitizations and the Company would anticipate a similar process here as well.

Witness: Franz Messner

DATA REQUEST

KPSC 4_17 Refer to the Application, Exhibit 5, Proposed Financing Order, Finding of Fact 25. Explain why Kentucky Power or the underwriter have no obligation to provide an opinion on the reasonableness of the bonds and how the absence of such opinion benefits the ratepayers.

RESPONSE

Facts 58 and 59 are consistent with the Kentucky securitization statute which states:

> *The commission may designate one (1) or more representatives from commission staff who may be advised by one (1) or more financial advisors contracted with the commission to provide:*
>
> *(a) Input to and collaborate with the electric utility during the process undertaken to place the securitized bonds to market; and*
> *(b) An opinion to the commission on the reasonableness of the pricing, terms, and conditions of the securitized bonds on an expedited basis.*

The Company will be extremely focused on execution and delivering a low cost transaction for the benefit of customers. As stated in 4-16 c., the bonds will be fully marketed and will meet the Kentucky statutory standards.

Witness: Franz Messner

DATA REQUEST

KPSC 4_18 Refer to Kentucky Power's Response to Commission Staff's Second Request, Item 70(a). Explain how current market conditions drive toward a bond tenor of 20 years. Explain what changes in market conditions might cause the preferred bond tenor to be longer or shorter than 20-year scheduled final maturity.

RESPONSE

In general bonds with shorter maturities price with a lower base rate, spread, and coupon than bonds with longer maturities. This is because investors demand a higher rate of return for bonds that are outstanding for a longer period of time. That said, in general, tenor for utility securitizations is driven first and foremost by matching the securitization cash flows to the appropriate recovery period for the underlying asset for which the utility is seeking recovery.

Witness: Katrina Niehaus

DATA REQUEST

KPSC 4_19 Refer to the Wiseman Direct Testimony pages 4–5 and Figure CGW-1, Niehaus Direct Testimony, page 31, and Spaeth Direct Testimony, page 21. Also refer to Kentucky Power's Response to Staff's Second Request, Item 74(c).

a. Provide Kentucky Power's 20-year kWh sales forecast by rate class. Provide net-metering forecasted sales separately.

b. Provide calculations and supporting data that indicates a level debt service payment would not result in increased price per kWh.

c. Provide any measures that will be included in bond structuring and pricing to reduce the risk to bondholders associated with declining sales.

d. Explain how declining energy sales will affect the securitization true-up mechanism.

RESPONSE

a. Please see KPCO_R_KPSC_4_19_Attachment1 for the Company 20-year sales forecast by revenue class. The Company does not produce forecasted sales at a rate code level.

b. The Company does not have calculation or supporting data that indicates a level debt service payment would not result in increased price per kWh. As discussed in the Direct Testimony of Company Witness Spaeth, the Company is proposing the SFR be collected on a percentage of revenue basis, not a kWh basis.

c. There will be no measures included in the bond structuring and pricing to reduce the risk to bondholders associated with declining sales. Please refer to the response provided in Staff 4-19(b).

d. Goldman Sachs has used Kentucky Power's annual forecast data to determine possible variances between sales budget forecasts and historical.

In the case of declining energy sales, the true-up adjustment mechanism that is built into the bond structure allows the servicer to set a higher securitized surcharge to be collected from customers. In other words, if sales are declining or if the customer base shrinks, a higher true up can be charged, ultimately ensuring costs are fully recovered.

Witness: Brian K. West

Witness: Franz D. Messner

Witness: Michael M. Spaeth

Witness: Katrina Niehaus

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DATA REQUEST

KPSC 4_20 Refer to the Niehaus Direct Testimony, page 3, line 14.

a. Provide the contract with Goldman with Kentucky Power.

b. Provide any request for proposals from Goldman, and any other firm that Kentucky Power considered, for the role of structuring advisor to Kentucky Power.

c. Provide the contract or engagement letter along with all appendices, exhibits, indemnification letters, or documents incorporated by reference between Goldman and Kentucky Power.

RESPONSE

a. See KPCO_R_KPSC_4_20_ConfidentialAttachment1.

b. See attachments KPCO_R_KPSC_4_20_ConfidentialAttachments2-5.

c. See response to KPSC 4-20(a).

Witness: Brian K. West

Witness: Franz D. Messner

KPCO_R_KPSC_4_20_PublicAttachment1 has been redacted in its entirety

KPCO_R_KPSC_4_20_PublicAttachment2 has been redacted in its entirety

KPCO_R_KPSC_4_20_PublicAttachment3 has been redacted in its entirety

KPCO_R_KPSC_4_20_PublicAttachment4 has been redacted in its entirety

KPCO_R_KPSC_4_20_PublicAttachment5 has been redacted in its entirety

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DATA REQUEST

KPSC 4_21 Explain whether it has been, or will be, proposed that Goldman will be an underwriter for the securitized bonds. If so, explain what obligations Goldman would have or not have as an underwriter to Kentucky Power, the Commission, or ratepayers.

RESPONSE

Goldman Sachs has not been selected as an underwriter for the securitized bonds. The underwriters will be chosen by the Company, on the basis of their involvement in the asset class and the corporate and structured products space writ large and the experience of their syndicate and salesforce. The Company will work with the selected underwriter to sell the bonds on an "arm's length basis." AEP and its operating utilities, including the Company, are regular issuers in the capital markets, and the proposed arm's length relationship with the underwriters is consistent with other transactions. Goldman Sachs will not have control or visibility into the Company's dealings with any other engaged underwriters.

Witness: Franz Messner

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DATA REQUEST

KPSC 4_22 Refer to the Niehaus Direct Testimony, pages 15–16.

a. Provide data that supports the statement that investors purchasing utility securitized bonds with final scheduled maturities as long as 20 years by Kentucky are from the asset backed securities market.

RESPONSE

a. Kentucky's securitization legislation (KRS 278.670 *et seq.*) just became effective June 29, 2023, and Kentucky Power's application for approval to issue securitized bonds under that legislation is the first to be filed in Kentucky. For those same reasons, no securitized bonds have yet been issued in Kentucky. However, AEP is an experienced utility securitization issuer, having issued bonds with final scheduled maturities as long as 20 years. Examples of these include AEP Texas 2012-1 Class A3, AEP West Virginia 2013-1 Class A2, and AEP Oklahoma 2022-PSO Class A-2.

Accounts that typically invest in utility securitization bonds are typically focused on high-rated bonds with longer term maturities and with attractive weighted average lives, whether they are corporate or ABS (asset backed security) buyers.

Witness: Katrina Niehaus

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DATA REQUEST

KPSC 4_23 Provide data showing the size of outstanding issues in the corporate bond market relative to the outstanding issues of the asset back securities market.

RESPONSE

As of September 14, 2023, over $3 trillion USD in asset backed securities were outstanding, with a 3% year-over-year growth. As of the second quarter of 2023, the size of the corporate bond market was estimated to be around $10.6 trillion USD, with a 2.2% growth year-over-year.

Source: Bloomberg and https://www.sifma.org/resources/research/us-corporate-bonds-statistics/

Witness: Katrina Niehaus

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DATA REQUEST

KPSC 4_24 Refer to the Niehaus Direct Testimony, pages 20–22. Explain under what conditions and set of facts, distinct from current market conditions, it would be in the best interests of ratepayers to issue the securitization debt as callable at an economically advantageous price prior to final maturity. Distinguish between make whole calls and call options that permit economic advantages to the issuer exercising the call option.

RESPONSE

Under the current market conditions, it is not beneficial to issue a callable bond. Any flexibility gained by a sponsor utility from issuing a callable bond is offset by higher costs due to the derivatives required and the reduction in potential investors due to the callable feature. If the rate environment and forecast stabilizes, it might potentially present economic advantages.

The Kentucky securitization law requires that the structuring and pricing of the securitized bonds are reasonably expected to result in the lowest securitized surcharges consistent with market conditions at the time the securitized bonds are priced under the terms of the financing order. *See* KRS 278.676(1)(d). Unless benefits of a callable bond outweigh the costs, the Company would not be permitted to issue callable bonds under the law.

Witness: Katrina Niehaus

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DATA REQUEST

KPSC 4_25 Refer to the Niehaus Direct Testimony, page 24.

a. Provide examples from previous transactions to show that cost estimates by Kentucky Power are within the ranges found in other utility securitization transactions.

b. Explain what the criteria will be used for selecting other transaction participants to deliver the proposed services at the estimated costs.

c. Explain what Kentucky Power will do to ensure that each component service cost is required for the transaction and the lowest cost possible for the related service.

RESPONSE

a. -c. Kentucky Power relies on the experience gained from previous AEP transactions, including AEP's experience working with different service providers to ultimately select final transaction participants. Kentucky Power has identified major players within this market who have participated in several issuances and their associated fees. Kentucky Power also relied on the knowledge and the experience of its affiliates from past deals in reviewing financing costs. Kentucky Power will ensure that it negotiates costs to those levels that are consistent with the market rate for similar transactions.

Witness: Franz D. Messner

DATA REQUEST

KPSC 4_26 Refer to the Niehaus Direct Testimony, pages 29–30. Provide comparable information from other debt issuances showing that nine months is appropriate for the initial debt service repayment period. Identify the advantages and disadvantages of examining other initial debt service repayment periods.

RESPONSE

An initial debt service period of 9 months from financial close is optimal as it allows the utility to have sufficient time to recover some costs for the payment through the true-up mechanism. A shorter period would ultimately not leave enough time for the utility to recover these costs.

The initial debt service repayment period is typically longer than 6 months to ensure enough cash is collected for the first payment date. The charge is created at the closing date, but most utilities bill customers on a rolling basis, meaning the billing for the charge typically does not start for all customers until a month after closing, with collection of such charges occurring in the month after that.

For example, Atmos Energy's June 2023 issuance has a March 1, 2024 first payment date, which is 9 months from the date of close. Southern California Edison's April 2023 issuance has a first payment date of December 15, 2023, which is also 9 months from the date of close. CoServ's December 2022 issuance has a first payment date of August 15th 2023, which is 9 months from the date of close.

Witness: Katrina Niehaus

DATA REQUEST

KPSC 4_27 Refer to the Niehaus Direct Testimony, page 31.

a. Explain why the U.S. Treasury pricing benchmark should be based on duration closest to the WAL of the bonds rather than the interpolated U.S. Treasury yield equal to the WAL of the bonds.

b. Provide examples of other interest rate spreads to bond yields with similar WAL other than the U.S. Treasury, such as AAA/Aaa corporate bonds, that would be relevant when evaluating the pricing of securitization bonds under market conditions at the time. Provide a list of the securities that Goldman has used with issuers or investors in pricing past utility securitizations and explain why those securities were deemed the most appropriate comparisons from the ratepayers' perspective.

RESPONSE

a.-b. Historically, the majority of Rate Reduction Bonds priced to an interpolated swap rate (LIBOR related referenced pricing). With the end of LIBOR the Rate Reduction Bond market converted from pricing to the swap rate to pricing to either the Treasury Rate with a maturity that is closest to the duration of the relative class (Treasuries) or the i-CURVE (interpolated Treasury Rate) with a duration that matches the weighted average life of the class of bonds. As you can see in the list of the 10 most recent Rate Reduction Bonds issued the majority of the transactions have priced to Treasuries. The recent exception was the PG&E transaction which priced to the i-CURVE given the long maturity, size of transaction and number of classes being placed with the market. Based on market conditions at this time and the size of the AEP transaction it is expected that this transaction will price to Treasuries.

1. SIGECO Securitization I LLC (SIGECO) 2023-A: Treasuries
2. Atmos Energy Kansas Securitization I LLC (ATO) 2023-A: Treasuries
3. SCE Recovery Funding LLC (SCERF) 2023-A: Treasuries
4. Louisiana Local Government Environmental Facilities and Community Development Authority (LCDA) 2023-ELL: Treasuries
5. Texas Natural Gas Securitization Finance Corp (TNGSFC) 2023: Treasuries
6. Louisiana Local Government Environmental Facilities and Community Development Authority (LCDA) 2022-ENO: Treasuries
7. Brazos Securitization LLC (BRELPO) 2022: Treasuries

8. CoServ Securitization LLC (COSERV) 2022: Treasuries
9. United Electric Securitization LLC (UNIELC) 2022: Treasuries
10. PG&E Wildfire Recovery Funding LLC (PCG) 2022-B: i-CURVE

Given the high credit quality, amortization structure, gap between targeted and rated maturity, and other structural components of utility securitizations, there are no perfect comparable reference indexes or corporate bond shelfs that are directly comparable. When pricing a transaction the underwriting group will look at multiple relevant references across asset classes to come-up with appropriate marketing levels including but not limited to: (i) recent Rate Reduction Bond new issue pricing, (ii) secondary market trading levels for Rate Reduction Bonds, and (iii) bond indexes for Corporates, ABS, Municipal Bonds. That said, given the broad range of investors that will be targeted during the marketing process each investor will reference different comparable transactions as they perform their own relative value analysis. As such, the way to best optimize transaction execution for ratepayers is through a broadly marketed transaction with a clear and orderly pricing process.

Witness: Katrina Niehaus

Kentucky Power Company
KPSC Case No. 2023-00159
Commission Staff's Fourth Set of Data Requests
Dated September 11, 2023

DATA REQUEST

KPSC 4_28 Refer to the Niehaus Direct Testimony, page 31. Provide independent verifiable pricing information demonstrating the additional interest cost that investors require from utility securitized debt tranches smaller than $100 million to $125 million compared to utility securitized debt tranches larger than $100 million to $125 million due to liquidity.

RESPONSE

As previously mentioned, classes of $150 million or less are perceived as being illiquid by investors. Spreads are determined by various factors, including but not limited to the issuer, market conditions, WAL, liquidity, and ultimately, size of the tranche. Given that deals do not generally price at the same time, or have exactly the same maturity profiles, there is not directly comparable data.

Witness: Katrina Niehaus

Kentucky Power Company
KPSC Case No. 2023-00159
Commission Staff's Fourth Set of Data Requests
Dated September 11, 2023

DATA REQUEST

KPSC 4_29 Refer to the Niehaus Direct Testimony, pages 48–49, and Niehaus Exhibit 4, pages 2–3.

a. Define the term "oversubscribed."

b. Explain whether all tranches need to be oversubscribed for the bond issue to be purchased by the underwriters in a fixed commitment negotiated underwriting. If yes, explain the reasons why.

c. Provide a schedule showing oversubscription levels at final pricing for each tranche in Niehaus Exhibit 4 for which Goldman was lead, sole, or joint bookrunner.

d. Explain the level of oversubscription that would be unnecessary from the issuer's point of view. Provide supporting evidence for the conclusion.

RESPONSE

a. The term oversubscribed refers to having more investor demand than there are available bonds.

b. All tranches need not be oversubscribed as there may be sufficient demand for the targeted tranche sizes.

c. Goldman's compliance policy precludes it from providing oversubscription levels on prior deals due to confidentiality concerns. However, Goldman can confirm that throughout the various phases of syndicating the bonds, Goldman has optimized oversubscription and pricing.

d. It is unclear exactly what "unnecessary" means in this context. There is no specific level of oversubscription that is too much or too little. That being said, investors often see value within a similar range, so it is possible that as a result of price tightening, a book can go from well oversubscribed to undersubscribed.

Witness: Katrina Niehaus

Kentucky Power Company
KPSC Case No. 2023-00159
Commission Staff's Fourth Set of Data Requests
Dated September 11, 2023

DATA REQUEST

KPSC 4_30 Refer to the Niehaus Direct Testimony, page 60. Explain to what extent the Commission, or its designated representative, will have in deciding the final terms, conditions and costs of the securitized bonds.

RESPONSE

Under the Kentucky securitization law, the representative designated by the Commission may provide (i) input to and collaboration with the electric utility during the process undertaken to place the securitized bonds to market [which the Company interprets to include the final terms, conditions, and costs of the securitized bonds] and (ii) an opinion to the commission on the reasonableness of the pricing, terms, and conditions of the securitized bonds on an expedited basis. *See* KRS 278.674(4). The designated representative also will be permitted to attend meetings convened by the utility to address the placement of the bonds to market pursuant to KRS 278.674(5)(b).

However, KRS 278.674(5)(a) states that the designated commission staff and any financial advisor providing advice to commission staff shall have no authority to direct how the electric utility places the bonds to market.

Witness: Katrina Niehaus

Kentucky Power Company
KPSC Case No. 2023-00159
Commission Staff's Fourth Set of Data Requests
Dated September 11, 2023

DATA REQUEST

KPSC 4_31 Refer to the Niehaus Direct Testimony, page 37. Explain whether the statement that pricing spreads are “ultimately determined by market-clearing rates at the conclusion of the marketing process” means that other factors do not also affect negotiated pricing spreads, such as but not limited to the level of oversubscription, the breadth of potential investors to which the bonds are marketed, and the aggressiveness of the marketing effort by underwriters, and the underwriters willingness to use its capital to underwrite bonds for sale to investors.

RESPONSE

Oversubscription, the breadth of potential investors to which the bonds are marketed, the aggressiveness of the marketing effort by underwriters, and the underwriters willingness to use its capital to underwrite bonds for sale to investors are all factors that affect the market-clearing rate.

It would be unusual for underwriters to take bonds into inventory because investors will often stipulate that the bonds be sold at market clearing price. Investors do not want to buy a bond where there is the risk that other bonds of the same series, held by an underwriter, would later be sold at a discount. Under current regulations in the United States, underwriters are only permitted to take bonds into inventory with the intent to resell them into the market, so the underwriter would be required to sell the bonds, even if at a loss. While there are certain situations where an underwriter might take some bonds into inventory, in those cases, the underwriter would be required to reconfirm trades, and in the past, that has led to investors dropping out of a trade altogether.

Witness: Katrina Niehaus

DATA REQUEST

KPSC 4_32 Explain how to analyze an underwriters' efforts in a pricing negotiation and whether an underwriter should be willing to underwrite some amount of bonds.

RESPONSE

In order to analyze the underwriter's efforts in a pricing negotiation, the efforts must be judged based on the entirety of the marketing effort because the ability to tighten pricing on the bonds is a result of the overall strength of the book-building effort, or in other words, have orders from numerous investors thereby enabling a process of reducing the credit spread and achieving an overall lower cost. The underwriter's efforts must be judged through the entirety of the marketing process, inclusive of problem-solving any issues that arise, addressing the lengthy rating agency process, as well as publishing of the presale documents from the rating agencies through to the final orders after any price testing, which is when investors are contacted regarding a reduction of the credit spread. If there is little volatility in credit spreads or interest rates, the key measure may be a comparison to comparable transactions. However, market conditions may enable a deal to price through comparable transactions or alternatively, in poorer conditions, to price higher than comparable. In such cases, the underwriters' efforts will need to be judged based on evaluation of the various marketing functions and their performance throughout.

The underwriters are chosen on the basis of prior demonstrated experience with both utility securitizations as well as other similar asset classes. However, it is important to keep in mind that the market-clearing price of each deal is dependent on a number of additional factors, including, but not limited to, market conditions at the time of marketing and pricing.

As noted in the response provided to KPSC 4-31, it would be unusual for an underwriter to take bonds into inventory absent extraordinary circumstances.

Witness: Katrina Niehaus

VERIFICATION

The undersigned, Franz D. Messner, being duly sworn, deposes and says he is the Managing Director of Corporate Finance for American Electric Power Service Corporation, 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.

Franz D. Messner

State of Ohio	)	
	)	Case No. 2023-00159
Franklin County	)	

Subscribed and sworn to before me, a Notary Public in and before said County and State, by Franz D. Messner, on September 21, 2023.

Notary Public

MyCommission Expires

NOTARIAL SEAL STATE OF OHIO

David C. House, Attorney At Law
NOTARY PUBLIC - STATE OF OHIO
My commission has no expiration date
Sec. 147.03 R.C.

Notary ID Number

VERIFICATION

The undersigned, Katrina T. Niehaus, being duly sworn, deposes and says she is the Managing Director, Head of Corporate Asset Backed Securities Finance Group, for Goldman, Sachs and Company, that she 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 her information, knowledge, and belief.

Katrina T. Niehaus

State of New York	)	
	)	Case No. 2023-00159
County of New York	)	

Subscribed and sworn to before me, a Notary Public in and before said County and State, by Katrina T. Niehaus, on 9-19-2023.

Notary Public

My Commission Expires 9-19-2026

Notary ID Number

RITA VELAMISA
Notary Public - State of New York
No. 01VE6441147
Qualified in New York County
My Commission Expires 09/19/2026

VERIFICATION

The undersigned, Michael M. Spaeth, being duly sworn, deposes and says he is the Regulatory Pricing and Analysis Manager for American Electric Power Service Corporation, 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 M. Spaeth

Franklin County)
Ohio)
) Case No. 2023-00159

Subscribed and sworn to before me, a Notary Public in and before said County and State, by Michael M. Spaeth, on 9/20/23.

____
Notary Public

My Commission Expires Never

Notary ID Number No ID

NOTARIAL SEAL STATE OF OHIO

Paul D. Flory
Attorney At Law
Notary Public, State of Ohio
My commission has no expiration date
Sec. 147.03 R.C.

VERIFICATION

The undersigned, Alex E. Vaughan, being duly sworn, deposes and says he is the Managing Director for Renewables and Fuel Strategy for American Electric Power Service Corporation, 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.

Alex E. Vaughan

Franklin County)
Ohio)
) Case No. 2023-00159

Subscribed and sworn to before me, a Notary Public in and before said County and State, by Alex E. Vaughan, on 9/20/23.

Notary Public

NOTARIAL SEAL STATE OF OHIO

Paul D. Flory
Attorney At Law
Notary Public, State of Ohio
My commission has no expiration date
Sec.147.03 R.C.

My Commission Expires Never

Notary ID Number NO ID

VERIFICATION

The undersigned, Brian K. West, being duly sworn, deposes and says he is the Vice President, Regulatory & Finance for Kentucky 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.

Brian K. West

Commonwealth of Kentucky	)	
	)	Case No. 2023-00159
County of Boyd	)	

Subscribed and sworn to before me, a Notary Public in and before said County and State, by Brian K. West, on September 19, 2023.

Marilyn Michelle Caldwell
Notary Public

My Commission Expires May 5, 2027

Notary ID Number KYNP 71841

MARILYN MICHELLE CALDWELL
Notary Public
Commonwealth of Kentucky
Commission Number KYNP71841
My Commission Expires May 5, 2027

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E-Signature Summary

E-Signature 1: Heather M. Whitney (HMW)
September 22, 2023 07:12:40-8:00 [A68AE7A7073E] [167.239.221.106]
hmwhitney@aep.com (Principal) (Personally Known)

E-Signature Notary: Marilyn Michelle Caldwell (MMC)
September 22, 2023 07:12:40 -8:00 [5F5FFD3F1EF5] [167.239.221.104]
mmcaldwell@aep.com
I, Marilyn Michelle Caldwell, did witness the participants named above electronically sign this document.

VERIFICATION

The undersigned, Heather M. Whitney, being duly sworn, deposes and says she is a Director in Regulatory Accounting Services for American Electric Power Service Corporation, that she 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 her information, knowledge, and belief.

Heather M. Whitney

Heather M. Whitney

Commonwealth of Kentucky)
) Case No. 2023-00159
County of Boyd)

Subscribed and sworn to before me, a Notary Public in and before said County and State, by Heather M. Whitney, on September 22, 2023.

Notary Pub

MARILYN MICHELLE CALDWELL
ONLINE NOTARY PUBLIC
STATE AT LARGE KENTUCKY
Commission # KYNP71841
My Commission Expires May 05, 2027

Notarial act performed by audio-visual communication

My Commission Expires ____________

Notary ID Number ____________