

Kentucky Power Company
KPSC Case No. 2023-00159
Staff's First Set of Data Responses
Dated May 31, 2023
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DATA REQUEST

KPSC 1_48 Provide any information, when known, that would have a material effect on net operating income, rate base, or cost of capital that have occurred after the test year but were not incorporated in the filed testimony and exhibits.

RESPONSE

The Company remarketed a \$65 million pollution control revenue bond in June 2023 with a coupon of 4.70%. The same bond had a coupon of 2.35% on March 31, 2023. The Company also issued a new \$25 million intercompany note from AEP to Kentucky Power in June 2023 with a coupon of 5.29%.

Kentucky Power will update this response if any information responsive to this request becomes known to it in the future.

September 8, 2023 Supplemental Response

Kentucky Power resumed the sale of receivables on September 7, 2023. The Company is still determining whether it would have a material effect on net operating income, rate base, or cost of capital.

September 28, 2023 Supplemental Response

Please see KPCO_SR_KPSC_1_48_Attachment1 for an analysis and supporting workpapers detailing Kentucky Power's calculated comprehensive change in revenue requirement associated with restarting the sale of receivables to AEP Credit. The assumptions and calculations rely on Kentucky Power's historical experience with the sale of receivables, updated to reflect the current conditions as presented in this response.

Restarting the sale of receivables results in changes to multiple elements of the Company's as-filed adjusted cost-of-service, including, but not limited to: Cash Working Capital (CWC), the Weighted Average Cost of Capital (WACC), bad debt expense, factoring expense, and going-level taxes. Please see KPCO_SR_KPSC_1_48_Attachment1 for the complete calculation, including all impacted adjustments and the resulting effect on the required net income and test year net income. The net impact to the Company's as-filed revenue requirement is a reduction of \$879,238.

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Below provides a summary of the cost-of-service impacts:

Increase in Required Income: +\$1.37M due to increase in WACC from 6.93% to 7.01% resulting from \$48.5 million reduction to short-term debt consistent with reduced short-term financing needs due to the sale of receivables.

Decrease in Required Income: -\$5.59M due to decrease in rate base resulting from the change in revenue lag days (4.52 per the Company's response to AG-KIUC 1_22 compared to the as-filed amount of 51.49) as utilized in the CWC adjustment. Rate base is reduced by \$80.6M due to the lower cash working capital needs resulting from the sale of receivables.

Increase in Test Year Net Operating Income: +\$3.3M due to a reduction to bad debt expense combined with other impacted adjustments. Bad debt expense becomes part of factoring expense due to the sale of receivables.

Decrease in Test Year Net Operating Income: -\$6.86M due to an increase to reflect the resumption of factoring expense (including both bad debt and financing components).

As shown in the summary table below the comprehensive effect of all of these changes resulting from the reinstatement of the sale of receivables is a \$0.88M reduction to the As-Filed Revenue Requirement.

	(\$ Millions)	Description
1	\$ 1.37	Increase in Required Income
2	\$ (5.59)	Decrease in Required Income
3 = 1 + 2	\$ (4.22)	Net Change in Required Income
4	\$ 3.30	Increase in Test Year Net Operating Income
5	\$ (6.86)	Decrease in Test Year Net Operating Income
6 = 4 + 5	\$ (3.56)	Net Change in Test Year Net Operating Income
7 = 3 - 6	\$ (0.66)	Net Operating Income Change
8	\$ 1.34	Gross Revenue Conversion Factor
9 = 7 * 8	\$ (0.88)	Change in As-Filed Revenue Requirement

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Also attached is revised: Section V – Exhibit 1 (KPCO_SR_KPSC_1_48_Attachment2), Section V – Exhibit 2 (KPCO_SR_KPSC_1_48_Attachment3), Section V – Exhibit 3 (KPCO_SR_KPSC_1_48_Attachment4), and workpapers for W26 and Section V – Exhibit 1 S-2 and S-3 (KPCO_SR_KPSC_1_48_Attachment5) which were required to prepare the analysis within KPCO_SR_KPSC_1_48_Attachment1.

November 14, 2023 Supplemental Response

The Company issued a \$375 million, 10-year debt issuance with a 7% coupon that closed and funded on Friday, November 10, 2023. On Monday, November 13, 2023, the Company repaid two term loans with maturities of December 31, 2023, in a combined amount of \$275 million (namely a \$125 million term loan and a \$150 million term loan).

Witness: Brian K. West

Witness: Franz D. Messner

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

County of Franklin)
State of Ohio)

Case No. 2023-00159

Subscribed and sworn to before me, a Notary Public in and before said County and State, by Franz D. Messner, on November 14, 2023



Notary Public



My Commission Expires never

Notary ID Number N/A

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.

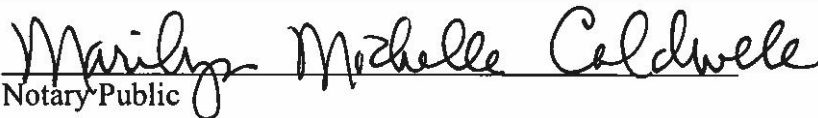


Brian K. West

Commonwealth of Kentucky)
)
County of Boyd)

Case No. 2023-00159

Subscribed and sworn to before me, a Notary Public in and before said County and State, by Brian K. West, on November 14, 2023.



Marilyn Michelle Caldwell
Notary Public

My Commission Expires May 5, 2027

Notary ID Number KYNP 71841