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 refer to the Company's response to KPSC 4-3.

<u>September 27, 2023 Supplemental Response</u>

a. Please see the Direct Testimony of Witness Niehaus page 31, line 7, in which she describes weighted average life as, "Weighted average life is a measure of the average amount of time it takes to repay in full the principal balance of a bond tranche." Also see Niehaus page 31, line15 that states, "Regularly scheduled principal amortization throughout the life of the transaction, as opposed to a single bullet maturity, results in a shorter WAL for the financing." The weighted average life calculation determines how long it will take to pay the outstanding principal of a debt issue, such as a Treasury Bill (T-Bill) or bond. While some bonds repay the principal in a lump sum at maturity, others repay the principal in installments over the term of the bond. In cases where the bond's principal is amortized, the average life allows investors to determine how quickly the principal will be repaid. The weighted average life of a bond in which the bond's principal is amortized is shorter than the bond's actual tenor.

Please see the "5_17 WAL Securitization" tab in KPCO_SR_KPSC_4_4_Attachment1 for the calculation of the net present value of the costs under this scenario. Using the assumptions outlined above and switching from a single tranche with a 20-year tenor results in a reduction in the estimated net present value benefit to customers from $74.4 million to $61.1 million, which is largely driven by acceleration of principal repayments associated with shortening the life of the non-Decommissioning Rider Regulatory Assets. This calculation assumes bond tenors of 28 years (~17-year WAL) and 9 years (~5-year WAL).

b. See response to Staff 4_4_a regarding the distinction between WAL and tenor. Please see the "5_17 Tenor Securitization" tab in KPCO_SR_KPSC_4_4_Attachment1 for the calculation of the net present value of the costs under this scenario. The calculation of the estimated net present value benefit to customers assumes use of 5- and 17-year bond tenors as opposed to 5- and 17- year bond WAL in order to allow the 5-year bond principal to be repaid by year 5 and then commence amortization of the 17-year bond after the fifth year for the remaining 12 years of the 17-year bond's life. Using the assumptions outlined above and switching from a single tranche with a 20-year tenor to two tranches with 5 – and 17-year tenors results in a reduction in the estimated net present value benefit to customers from $74.4 million to $39.0 million, which is largely driven by acceleration of principal repayments associated with use of 5- and 17-year tenors as opposed to 20-years in the original estimate.

Witness: Franz D. Messner

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)
County of Franklin) 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 09/27/23.

S Smithhisler
Notary Public

My Commission Expires April 29, 2024

Notary ID Number 2019-RE-775042

SARAH SMITHHISLER
NOTARY PUBLIC . STATE OF OHIO
MY COMMISSION EXPIRES APRIL 29, 2024