

Kentucky Power Company
KPSC Case No. 2025-00059
Commission Staff's First Set of Data Requests
Dated March 25, 2025

DATA REQUEST

KPSC 1_7 Explain how Kentucky Power determined to issue unsecured debt rather than secured debt for this financing.

RESPONSE

The Company is in the processes of completing the response to this request and will supplement this response by April 3, 2025.

April 3, 2025 Supplemental Response

The Company has traditionally found unsecured debt to benefit ratepayers over the long term because its terms are more flexible than the terms of secured debt. Secured debts impose covenants and restrictions and may place a lien on the plant and properties of the Company that would deny the Company the flexibility to manage and utilize those assets in a manner that is most efficient and economic. The Company cannot predict future market conditions.

Witness: Franz D. Messner

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DATA REQUEST

KPSC 1_11 Provide the potential implications if the Commission does not approve the financing as requested.

RESPONSE

The Company is in the processes of completing the response to this request and will supplement this response by April 3, 2025.

April 3, 2025 Supplemental Response

Without the Commission's approval of the authority requested in this filing, Kentucky Power would be at risk of exceeding its short-term borrowing limits. One half of the authorization requested is needed to refund debt due within the next year. Failure to refund that debt would result in default on such debt, giving the lenders a legal right to seize a portion of the Company's assets to sell and repay in satisfaction of the defaulted debt. The remainder of the authorization would be needed to finance system operations and capital improvements for the benefit of the Company's customers in the event that securitization is delayed or does not occur.

Witness: Franz D. Messner

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DATA REQUEST

KPSC 1_14 Explain what impact this financing will have on Kentucky Power's overall financial health and creditworthiness, include in this response Kentucky Power's current and proposed debt to equity ratio, and how it compares to the debt to equity ratio approved in Case No. 2023-00159.

RESPONSE

The Company is in the processes of completing the response to this request and will supplement this response by April 3, 2025.

April 3, 2025 Supplemental Response

Approval of the financing authority is itself not a financing transaction, but rather permits the Company to enter into future financing transactions, up to the authorized amount. The Company will attempt to maintain its actual capital structure in line with the capital structure approved in the Company's last base case to the extent it has to transact on the authority requested here, in order to maintain its current financial condition and creditworthiness ratings.

See the table below, which depicts the actual unadjusted capital structure as of February 28, 2025. This current capitalization for Kentucky Power is generally consistent with what the Company is currently collecting in rates as approved in its most recent base rate case. The Company cannot, at this time, provide what the future debt-to-equity ratio would be if a transaction under the requested authority occurs, as there also may be changes to the other components of the capital structure that cannot be known at this time.

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KENTUCKY POWER COMPANY ACTUAL CAPITAL STRUCTURE AS OF FEBRUARY 28, 2025		
	Amount Outstanding	Percent %
Long-term Debt	\$ 1,365,000,000	56.520%
Short-term Debt	\$ 15,586,053	0.645%
Total Debt	\$ 1,380,586,053	
Accounts Receivable Financing	\$ 43,849,300	1.816%
Common Equity	\$ 990,632,491	41.019%
Total	\$ 2,415,067,843	100.00%

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KPSC 1_15 Given that the proposed notes will be unsecured, describe note holder remedies if the notes are not timely repaid.

RESPONSE

The Company is in the processes of completing the response to this request and will supplement this response by April 3, 2025.

April 3, 2025 Supplemental Response

Generally, terms and conditions of proposed notes would be similar to those associated with the Company's current debt. For example, failure to refund a debt could result in default on such debt, giving the lenders having a legal right to seize a portion of the Company's assets to sell and repay in satisfaction of the defaulted debt. However, such terms and conditions can vary.

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KPSC 1_21 Provide a detailed analysis illustrating estimated interest cost savings for Kentucky Power that can result from the use of interest rate management techniques.

RESPONSE

The Company is in the processes of completing the response to this request and will supplement this response by April 3, 2025.

April 3, 2025 Supplemental Response

The ability to allow the Company to participate in interest rate management techniques provides the Company flexibility to manage outstanding debt costs. As an example, if Kentucky Power were to implement an interest rate hedge, or treasury rate lock, the underlying treasury rate would be locked prior to the actual debt issuance to remove variability of interest rate fluctuations prior to the debt issuance. At time of debt issuance there may be either a gain or loss when the hedge is unwound depending on where actual interest rates are relative to the locked in rate. The size of any gain or loss depends on the difference in interest rates and the size of the hedge. Accordingly, an interest rate hedge protects the customer from a rise in interest rate costs and preserves a rate that is economical. Similarly, the authority to swap from fixed rate debt to floating rate debt, or vice versa, provides the Company those options if there was a solid business reason to do so.

Witness: Franz D. Messner

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DATA REQUEST

KPSC 1_22 If the Commission were to approve Kentucky Power's proposed issuance of indebtedness as filed, provide an estimated capital structure with regard to the long- term debt. Include in the response whether Kentucky Power has any intention of issuing any additional equity in conjunction with the debt issuance.

RESPONSE

The Company is in the processes of completing the response to this request and will supplement this response by April 3, 2025.

April 3, 2025 Supplemental Response

Please see the Company's response to KPSC 1-14. Additionally, all of Kentucky Power's common stock is owned by AEP. There are currently no plans for AEP to make an equity contribution to Kentucky Power, though Kentucky Power has not paid a dividend to AEP since 2019. The non-distribution of dividends for an entity that traditionally declares and distributes dividends can be viewed as having the practical effect of receiving equity infusions from that entity's ownership.

Witness: Franz D. Messner

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DATA REQUEST

KPSC 1_24 Explain how often and the circumstances under which Kentucky Power issues equity and/or receives equity infusions from its parent company.

RESPONSE

The Company is in the processes of completing the response to this request and will supplement this response by April 3, 2025.

April 3, 2025 Supplemental Response

Please see the Company's response to KPSC 1-22.

Witness: Franz D. Messner

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DATA REQUEST

KPSC 1_27 Explain how the issuance of promissory notes will affect customer electricity rates going forward and what measures are in place to minimize potential rate increases

RESPONSE

The Company is in the processes of completing the response to this request and will supplement this response by April 3, 2025.

April 3, 2025 Supplemental Response

Debt issuances are included in the Company's capital structure for ratemaking to determine the relative proportion of long-term debt and the effective cost, which, along with equity, short-term debt and accounts receivable financing are used to determine the Company's weighted average cost of capital. The issuance of long-term debt is traditionally less expensive than the obtaining capital from increased equity, helping to minimize potential rate increases.

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. 2025-00059

Subscribed and sworn to before me, a Notary Public in and before said County and State, by Franz D. Messner, on April 3, 2025

~~_____
Notary Public~~

My Commission Expires _____



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 _____