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PUBLIC SERVICE
COMMISSION

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November 24, 2008

HAND DELIVERED

Stephanie Stumbo
Executive Director
Public Service Commission of Kentucky
211 Sower Boulevard
P.O. Box 615
Frankfort, KY 40602-0615

Mark R. Overstreet
(502) 209-1219
(502) 223-4387 FAX
moverstreet@stites.com

RE: P.S.C. Case 2008-00442

Dear Ms. Stumbo:

Enclosed please find and accept for filing an original and seven copies of Kentucky Power Company's Responses to the Data Requests propounded by the Commission's November 14, 2008 Order.

Please do not hesitate to contact me if you have any questions.

Very truly yours,



Mark R. Overstreet

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**PUBLIC SERVICE
COMMISSION**

BEFORE THE
KENTUCKY PUBLIC SERVICE COMMISSION

In the Matter of:)
)
The Application Of)
Kentucky Power Company,)
For Authorization to Issue and Sell)
Secured or Unsecured Promissory Notes)
of One or More New Series)

Case No. 2008-00442

KENTUCKY POWER COMPANY
RESPONSES TO STAFF'S FIRST DATA REQUEST
Dated November 14, 2008

KENTUCKY POWER COMPANY

REQUEST No. 1:

Refer to page 3 of Kentucky Power's October 14, 2008 application. Explain how the yield to maturity on fixed rates of interest not to exceed 550 basis points the yield to maturity on United States Treasury bonds of comparable maturity at the time of pricing was determined.

RESPONSE:

The maximum spread has generally been based upon the high end of a range of estimates for anticipated utility issuance credit spreads during the period the application is in effect. The 550 basis point spread was determined based upon the bond market credit spreads when Kentucky Power filed the application. The current credit crisis and the hesitation of investors to invest additional capital have resulted in higher costs for debt than recently seen. Although US Treasury rates have been falling, the credit spread over Treasuries has been rising dramatically. For example, Cleveland Electric Illuminating Company, which is rated Baa2 by Moody's and BBB+ by Standard & Poor's, was just in the market on November 13th, with 10-Year First Mortgage Bonds that were priced at Treasury + 515.6 basis points or an 8.875% coupon. Additionally, Southwestern Public Service (rated Baa1 by Moody's and BBB by Standard & Poor's) priced 10-year \$250 million of Senior Notes at Treasury + 515.5 basis points or a coupon of 8.75%.

Witness: Renee V. Hawkins

REQUEST No. 2:

In Case No. 2006-00034¹, the yield to maturity on fixed rates of interest was not to exceed 4 percent the yield to maturity on United States Treasury bonds of comparable maturity at the time of pricing was determined. Explain to the best of Kentucky Power's knowledge the reasons for the change from 4 percent in Case No. 2006-00034 to a spread of 550 basis points in Kentucky Power's current application.

RESPONSE:

The reason for the change from the maximum spread of 400 basis points (or 4%) to the requested maximum spread of 550 basis points (or 5.5%) is due to the change in market conditions since Case No. 2006-00034 was filed. Since this filing, the Moody's Baa Utility Bond index has changed from a yield of 6.45% to a yield of 8.58% in October of 2008. The credit crisis has had a direct impact on the cost of raising funds for all corporate borrowers. This noticeable increase in utility bond yields reflects the market's requirement for additional compensation for the use of investors funds.

Additionally, as mentioned in the response to request No. 1, the change in the cost of debt is due to the increase in the credit spread above Treasuries, not the US Treasury rate. While total borrowing costs have increased, the Treasury rates themselves have either fallen or remained largely flat. The drop or sideways movement in Treasury yields can be explained by the extent of fear and uncertainty about overall credit quality. When there is overall uncertainty about credit quality, as there is today, investors flock to more secure investments, such as Treasury securities, thereby driving those yields down.

Witness: Renee V. Hawkins

¹ Case No. 2006-00034, Application of Kentucky Power Company for Authority To Issue and Sell Secured or Unsecured Promissory Notes of One or More New Series.

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REQUEST No. 3:

Provide the Treasury bond rates at the time of issue for the notes issued that resulted from the Commission's authorization in Case No. 2006-00034.

RESPONSE:

Kentucky Power issued \$325 million 10-Year senior notes in September 2007. The Treasury bond rate for this bond was 4.469%. The bond was issued at 160 basis points over the Treasury bond rate.

Witness: Renee V. Hawkins

REQUEST No. 4:

Provide the applicable Treasury bond rates as of the date of Kentucky Power's response to this data request.

RESPONSE:

Treasury bond rates on 11/14:

2Yr – 1.24%

5Yr – 2.43%

10Yr – 3.86%

30Yr – 4.36%

Witness: Renee V. Hawkins

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REQUEST No. 5:

Explain whether AEP subsidiaries other than Kentucky Power have issued long-term debt in the past 6 months, and, if so, provide the terms of the debt issued.

RESPONSE:

In June, Southwestern Electric Power Company issued \$400 million of notes due 2018 at a coupon of 6.45% or a spread over treasuries of 255 basis points. In September, Ohio Power issued \$250 million of notes due 2013 at a coupon of 5.75% over a spread over treasuries of 290 basis points. There are more current data points such as the Cleveland Illuminating or the Southwestern Public Service deals that point to higher spreads than were realized by the AEP Companies earlier in the year.

Witness: Renee V. Hawkins

VERIFICATION

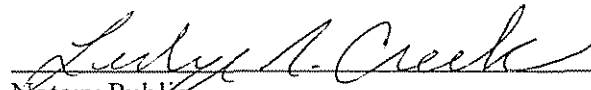
STATE OF OHIO)
) SS
COUNTY OF FRANKLIN)

The undersigned, Renee V. Hawkins, being duly sworn, deposes and says that she is the Assistant Treasurer for Kentucky Power Company, that she has personal knowledge of the matters set forth in the responses for which she is identified as the witness, and the answers contained therein are true and correct to the best of her information, knowledge and belief.



RENEE V. HAWKINS

Subscribed and sworn to before me, a Notary Public in and before the said County and State, by Renee V. Hawkins, this 20th day of November, 2008.



Notary Public

My Commission Expires:



LESLYE R. CREEK
Notary Public, State of Ohio
My Commission Expires 03-17-09