COMMONWEALTH OF KENTUCKY

BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

ELECTRONIC APPLICATION OF KENTUCKY POWER COMPANY FOR (1) A GENERAL ADJUSTMENT OF ITS RATES FOR ELECTRIC SERVICE; (2) APPROVAL OF TARIFFS AND RIDERS; (3) APPROVAL OF ACCOUNTING PRACTICES TO ESTABLISH REGULATORY ASSETS AND LIABILITIES; (4) A SECURITIZATION FINANCING ORDER; AND (5) ALL OTHER REQUIRED APPROVALS AND RELIEF	)	CASE NO. 2023-00159

COMMISSION STAFF'S FOURTH REQUEST FOR INFORMATION TO KENTUCKY POWER COMPANY

Kentucky Power Company (Kentucky Power), pursuant to 807 KAR 5:001, shall file with the Commission an electronic version of the following information. The information requested is due on September 25, 2023. The Commission directs Kentucky Power to the Commission's July 22, 2021 Order in Case No. 2020-00085[1] regarding filings with the Commission. Electronic documents shall be in portable document format (PDF), shall be searchable, and shall be appropriately bookmarked.

Each response shall include the question to which the response is made and shall include the name of the witness responsible for responding to the questions related to the information provided. Each response shall be answered under oath or, for representatives of a public or private corporation or a partnership or association or a

[1] Case No. 2020-00085, *Electronic Emergency Docket Related to the Novel Coronavirus COVID-19* (Ky. PSC July 22, 2021), Order (in which the Commission ordered that for case filings made on and after March 16, 2020, filers are NOT required to file the original physical copies of the filings required by 807 KAR 5:001, Section 8).

governmental agency, be accompanied by a signed certification of the preparer or the person supervising the preparation of the response on behalf of the entity that the response is true and accurate to the best of that person's knowledge, information, and belief formed after a reasonable inquiry.

Kentucky Power shall make timely amendment to any prior response if Kentucky Power obtains information that indicates the response was incorrect or incomplete when made or, though correct or complete when made, is now incorrect or incomplete in any material respect.

For any request to which Kentucky Power fails or refuses to furnish all or part of the requested information, Kentucky Power shall provide a written explanation of the specific grounds for its failure to completely and precisely respond.

Careful attention shall be given to copied and scanned material to ensure that it is legible. When the requested information has been previously provided in this proceeding in the requested format, reference may be made to the specific location of that information in responding to this request. When applicable, the requested information shall be separately provided for total company operations and jurisdictional operations. When filing a paper containing personal information, Kentucky Power shall, in accordance with 807 KAR 5:001, Section 4(10), encrypt or redact the paper so that personal information cannot be read.

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.

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.

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.

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.

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.

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.

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[2] 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.

8. Refer to the Direct Testimony of Adrien M. McKenzie , page 12.

[2] https://www.sec.gov/divisions/corpfin/cf-noaction/2007/mpef091907-1101.htm (Last accessed Sept. 7, 2023).

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.

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.

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.

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).

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.

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.

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.

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.

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 F, 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 F, 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.

17. Refer to the Application, Exhibit 5, Proposed Financing Order, Finding of Fact 58 and 59. 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.

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.

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.

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.

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.

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.

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.

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.

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.

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.

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.

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.

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.

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.

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.

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.

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DATED SEP 11 2023

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