Kentucky Power Company

2024 Second Quarter Report

Financial Statements

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GLOSSARY OF TERMS

When the following terms and abbreviations appear in the text of this report, they have the meanings indicated below.

Term	Meaning
AEGCo	AEP Generating Company, an AEP electric utility subsidiary.
AEP	American Electric Power Company, Inc., an investor-owned electric public utility holding company which includes American Electric Power Company, Inc. (Parent) and majority owned consolidated subsidiaries and consolidated affiliates.
AEP Credit	AEP Credit, Inc., a consolidated variable interest entity of AEP which securitizes accounts receivable and accrued utility revenues for affiliated electric utility companies.
AEPSC	American Electric Power Service Corporation, an AEP service subsidiary providing management and professional services to AEP and its subsidiaries.
APCo	Appalachian Power Company, an AEP electric utility subsidiary.
ASU	Accounting Standards Update.
CCR	Coal Combustion Residual.
CWIP	Construction Work in Progress.
Excess ADIT	Excess accumulated deferred income taxes.
FASB	Financial Accounting Standards Board.
Federal EPA	United States Environmental Protection Agency.
FERC	Federal Energy Regulatory Commission.
FTR	Financial Transmission Right, a financial instrument that entitles the holder to receive compensation for certain congestion-related transmission charges that arise when the power grid is congested resulting in differences in locational prices.
GAAP	Accounting Principles Generally Accepted in the United States of America.
I&M	Indiana Michigan Power Company, an AEP electric utility subsidiary.
IRA	On August 16, 2022 President Biden signed into law legislation commonly referred to as the "Inflation Reduction Act" (IRA).
IRS	Internal Revenue Service.
ITC	Investment Tax Credit.
KPCo	Kentucky Power Company, an AEP electric utility subsidiary.
KPSC	Kentucky Public Service Commission.
KTCo	AEP Kentucky Transmission Company, Inc., an affiliate of KPCo and a wholly-owned subsidiary of AEP.
MMBtu	Million British Thermal Units.
MTM	Mark-to-Market.
MW	Megawatt.
MWh	Megawatt-hour.
OPEB	Other Postretirement Benefits.
OTC	Over-the-counter.
Parent	American Electric Power Company, Inc., the equity owner of AEP subsidiaries within the AEP consolidation.
PJM	Pennsylvania – New Jersey – Maryland regional transmission organization.
PTC	Production Tax Credit.
Risk Management Contracts	Trading and non-trading derivatives, including those derivatives designated as cash flow and fair value hedges.

Term	Meaning
RPM	Reliability Pricing Model.
ROE	Return on Equity.
Rockport Plant	A generation plant, jointly owned by AEGCo and I&M, consisting of two 1,310 MW coal-fired generating units near Rockport, Indiana.
Tax Reform	On December 22, 2017, President Trump signed into law legislation referred to as the "Tax Cuts and Jobs Act" (the TCJA). The TCJA includes significant changes to the Internal Revenue Code of 1986, including a reduction in the corporate federal income tax rate from 35% to 21% effective January 1, 2018.
Utility Money Pool	Centralized funding mechanism AEP uses to meet the short-term cash requirements of certain utility subsidiaries.
WPCo	Wheeling Power Company, an AEP electric utility subsidiary.

KENTUCKY POWER COMPANY
CONDENSED STATEMENTS OF INCOME
For the Three and Six Months Ended June 30, 2024 and 2023
(in thousands)
(Unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2024	**2023**	**2024**	**2023**
REVENUES				
Electric Generation, Transmission and Distribution	$ 157,204	$ 134,053	$ 336,974	$ 302,175
Sales to AEP Affiliates	4,436	4,222	8,857	7,437
Other Revenues	150	225	489	420
TOTAL REVENUES	161,790	138,500	346,320	310,032
EXPENSES				
Purchased Electricity, Fuel and Other Consumables Used for Electric Generation	50,149	47,392	120,069	120,758
Purchased Electricity from AEP Affiliates	150	539	373	1,516
Other Operation	40,757	27,863	81,298	57,090
Maintenance	18,543	15,835	33,317	33,684
Depreciation and Amortization	30,410	30,432	52,058	64,025
Taxes Other Than Income Taxes	8,690	9,080	17,992	16,641
TOTAL EXPENSES	148,699	131,141	305,107	293,714
OPERATING INCOME	13,091	7,359	41,213	16,318
Other Income (Expense):				
Interest Income	72	34	92	57
Allowance for Equity Funds Used During Construction	649	229	1,201	485
Non-Service Cost Components of Net Periodic Benefit Cost	1,640	1,894	3,399	3,788
Interest Expense	(15,644)	(16,032)	(32,537)	(31,206)
INCOME (LOSS) BEFORE INCOME TAX EXPENSE (BENEFIT)	(192)	(6,516)	13,368	(10,558)
Income Tax Expense (Benefit)	(402)	(8,389)	2,198	(17,083)
NET INCOME	$ 210	$ 1,873	$ 11,170	$ 6,525

The common stock of KPCo is wholly-owned by Parent.

See Condensed Notes to Condensed Financial Statements beginning on page 8.

KENTUCKY POWER COMPANY
CONDENSED STATEMENTS OF CHANGES IN
COMMON SHAREHOLDER'S EQUITY
For the Six Months Ended June 30, 2024 and 2023
(in thousands)
(Unaudited)

	Common Stock	Paid-in Capital	Retained Earnings	Total
TOTAL COMMON SHAREHOLDER'S EQUITY - DECEMBER 31, 2022	$ 50,450	$ 526,287	$ 343,573	$ 920,310
Net Income			4,652	4,652
TOTAL COMMON SHAREHOLDER'S EQUITY - MARCH 31, 2023	50,450	526,287	348,225	924,962
Return of Capital to Parent		(52)		(52)
Net Income			1,873	1,873
TOTAL COMMON SHAREHOLDER'S EQUITY - JUNE 30, 2023	$ 50,450	$ 526,235	$ 350,098	$ 926,783
TOTAL COMMON SHAREHOLDER'S EQUITY - DECEMBER 31, 2023	$ 50,450	$ 526,771	$ 377,535	$ 954,756
Net Income			10,960	10,960
TOTAL COMMON SHAREHOLDER'S EQUITY - MARCH 31, 2024	50,450	526,771	388,495	965,716
Capital Contribution from Parent		831		831
Net Income			210	210
TOTAL COMMON SHAREHOLDER'S EQUITY - JUNE 30, 2024	$ 50,450	$ 527,602	$ 388,705	$ 966,757

See Condensed Notes to Condensed Financial Statements beginning on page 8.

KENTUCKY POWER COMPANY
CONDENSED BALANCE SHEETS
ASSETS
June 30, 2024 and December 31, 2023
(in thousands)
(Unaudited)

	June 30, 2024	December 31, 2023
CURRENT ASSETS		
Cash and Cash Equivalents	$ 829	$ 1,321
Accounts Receivable:		
Customers	14,954	17,723
Affiliated Companies	17,981	24,213
Accrued Unbilled Revenues	4,380	—
Miscellaneous	47	117
Total Accounts Receivable	37,362	42,053
Fuel	69,475	80,638
Materials and Supplies	24,621	25,445
Risk Management Assets	11,099	3,064
Regulatory Asset for Under-Recovered Fuel Costs	6,812	10,688
Prepayments and Other Current Assets	13,442	17,953
TOTAL CURRENT ASSETS	163,640	181,162
PROPERTY, PLANT AND EQUIPMENT		
Electric:		
Generation	1,263,205	1,239,925
Transmission	860,880	838,264
Distribution	1,148,776	1,119,303
Other Property, Plant and Equipment	174,605	175,031
Construction Work in Progress	175,398	159,612
Total Property, Plant and Equipment	3,622,864	3,532,135
Accumulated Depreciation and Amortization	1,230,538	1,205,973
TOTAL PROPERTY, PLANT AND EQUIPMENT – NET	2,392,326	2,326,162
OTHER NONCURRENT ASSETS		
Regulatory Assets	596,289	548,225
Deferred Charges and Other Noncurrent Assets	65,434	78,479
TOTAL OTHER NONCURRENT ASSETS	661,723	626,704
TOTAL ASSETS	$ 3,217,689	$ 3,134,028

See Condensed Notes to Condensed Financial Statements beginning on page 8.

KENTUCKY POWER COMPANY
CONDENSED BALANCE SHEETS
LIABILITIES AND COMMON SHAREHOLDER'S EQUITY
June 30, 2024 and December 31, 2023
(Unaudited)

	June 30, 2024	December 31, 2023
	(in thousands)	
CURRENT LIABILITIES		
Advances from Affiliates	$ 67,816	$ 49,567
Accounts Payable:		
General	44,599	36,823
Affiliated Companies	36,017	46,018
Long-term Debt Due Within One Year – Nonaffiliated	215,000	215,000
Customer Deposits	38,165	38,027
Accrued Taxes	45,057	49,490
Obligations Under Operating Leases	260	195
Other Current Liabilities	34,217	52,536
TOTAL CURRENT LIABILITIES	481,131	487,656
NONCURRENT LIABILITIES		
Long-term Debt – Nonaffiliated	1,060,129	1,059,806
Long-term Debt – Affiliated	25,000	25,000
Deferred Income Taxes	473,984	473,843
Regulatory Liabilities	109,089	97,627
Asset Retirement Obligations	85,667	18,071
Obligations Under Operating Leases	1,683	963
Deferred Credits and Other Noncurrent Liabilities	14,249	16,306
TOTAL NONCURRENT LIABILITIES	1,769,801	1,691,616
TOTAL LIABILITIES	2,250,932	2,179,272
Rate Matters (Note 3)		
Commitments and Contingencies (Note 4)		
COMMON SHAREHOLDER'S EQUITY		
Common Stock – Par Value – $50 Per Share:		
Authorized – 2,000,000 Shares		
Outstanding – 1,009,000 Shares	50,450	50,450
Paid-in Capital	527,602	526,771
Retained Earnings	388,705	377,535
TOTAL COMMON SHAREHOLDER'S EQUITY	966,757	954,756
TOTAL LIABILITIES AND COMMON SHAREHOLDER'S EQUITY	$ 3,217,689	$ 3,134,028

See Condensed Notes to Condensed Financial Statements beginning on page 8.

KENTUCKY POWER COMPANY
CONDENSED STATEMENTS OF CASH FLOWS
For the Six Months Ended June 30, 2024 and 2023
(in thousands)
(Unaudited)

	Six Months Ended June 30, 2024	Six Months Ended June 30, 2023
OPERATING ACTIVITIES		
Net Income	$ 11,170	$ 6,525
Adjustments to Reconcile Net Income to Net Cash Flows from Operating Activities:		
Depreciation and Amortization	52,058	64,025
Deferred Income Taxes	(3,382)	(18,087)
Allowance for Equity Funds Used During Construction	(1,201)	(485)
Mark-to-Market of Risk Management Contracts	(13,443)	3,090
Property Taxes	13,412	11,785
Deferred Fuel Over/Under-Recovery, Net	3,876	19,220
Change in Regulatory Assets	6,954	(12,661)
Change in Other Noncurrent Assets	(5,670)	(5,712)
Change in Other Noncurrent Liabilities	454	(12,175)
Changes in Certain Components of Working Capital:		
Accounts Receivable, Net	5,000	23,397
Fuel, Materials and Supplies	11,981	(34,783)
Accounts Payable	(5,684)	(28,232)
Accrued Taxes, Net	(8,690)	(12,207)
Other Current Assets	7,753	(39)
Other Current Liabilities	(12,184)	665
Net Cash Flows from Operating Activities	62,404	4,326
INVESTING ACTIVITIES		
Construction Expenditures	(82,319)	(79,920)
Other Investing Activities	468	543
Net Cash Flows Used for Investing Activities	(81,851)	(79,377)
FINANCING ACTIVITIES		
Capital Contribution from Parent	831	—
Return of Capital to Parent	—	(52)
Issuance of Long-term Debt – Nonaffiliated	—	64,648
Issuance of Long-term Debt – Affiliated	—	25,000
Change in Advances from Affiliates, Net	18,249	49,792
Retirement of Long-term Debt – Nonaffiliated	—	(65,000)
Principal Payments for Finance Lease Obligations	(56)	(42)
Other Financing Activities	(69)	1
Net Cash Flows from Financing Activities	18,955	74,347
Net Decrease in Cash and Cash Equivalents	(492)	(704)
Cash and Cash Equivalents at Beginning of Period	1,321	2,684
Cash and Cash Equivalents at End of Period	$ 829	$ 1,980
SUPPLEMENTARY INFORMATION		
Cash Paid for Interest, Net of Capitalized Amounts	$ 38,012	$ 30,803
Net Cash Paid for Income Taxes	10,322	151
Noncash Acquisitions Under Finance Leases	21	—
Construction Expenditures Included in Current Liabilities as of June 30,	20,303	18,009

See Condensed Notes to Condensed Financial Statements beginning on page 8.

INDEX OF CONDENSED NOTES TO CONDENSED FINANCIAL STATEMENTS

1. SIGNIFICANT ACCOUNTING MATTERS

General

The unaudited condensed financial statements and footnotes were prepared in accordance with GAAP for interim financial information. Accordingly, they do not include all of the information and footnotes required by GAAP for complete annual financial statements.

In the opinion of management, the unaudited condensed interim financial statements reflect all normal and recurring accruals and adjustments necessary for a fair statement of the net income, financial position and cash flows for the interim periods. Net income for the three and six months ended June 30, 2024 is not necessarily indicative of results that may be expected for the year ending December 31, 2024. The condensed financial statements are unaudited and should be read in conjunction with the audited 2023 financial statements and notes thereto, which are included in KPCo's 2023 Annual Report.

Subsequent Events

Management reviewed subsequent events through July 30, 2024, the date that the second quarter 2024 report was available to be issued.

2. NEW ACCOUNTING STANDARDS

During the FASB's standard-setting process and upon issuance of final standards, management reviews the new accounting literature to determine its relevance, if any, to KPCo's business. The following standard will impact KPCo's financial statements.

ASU 2023-09 "Improvements to Income Tax Disclosures" (ASU 2023-09)

In December 2023, the FASB issued ASU 2023-09, to address investors' suggested enhancements to (a) better understand an entity's exposure to potential changes in jurisdictional tax legislation and the ensuing risks and opportunities, (b) assess income tax information that affects cash flow forecasts and capital allocation decisions and (c) identify potential opportunities to increase future cash flows.

The new standard requires an annual rate reconciliation disclosure of the following categories regardless of materiality: state and local income tax net of federal income tax effect, foreign tax effects, effect of changes in tax laws or rates enacted in the current period, effect of cross-border tax laws, tax credits, changes in valuation allowances, nontaxable or nondeductible items and changes in unrecognized tax benefits.

The new standard also requires an annual disclosure of the amount of income taxes paid (net of refunds received) disaggregated by federal, state and foreign taxes and by individual jurisdictions that are equal to or greater than 5 percent of total income taxes paid. Disclosure of income (loss) from continuing operations before income tax expense (benefit) disaggregated between domestic and foreign jurisdictions and income tax expense (benefit) from continuing operations disaggregated by federal, state, and foreign jurisdictions is required.

The new standard removes the requirement to disclose the cumulative amount of each type of temporary difference when a deferred tax liability is not recognized because of the exceptions to comprehensive recognition of deferred taxes related to subsidiaries and corporate joint ventures.

The amendments in the new standard may be applied on either a prospective or retrospective basis for public business entities for fiscal years beginning after December 15, 2024 with early adoption permitted. Management has not yet made a decision to early adopt the amendments to this standard or how to apply them.

3. RATE MATTERS

As discussed in KPCo's 2023 Annual Report, KPCo is involved in rate and regulatory proceedings at the FERC and the KPSC. The Rate Matters note within KPCo's 2023 Annual Report should be read in conjunction with this report to gain a complete understanding of material rate matters still pending that could impact net income, cash flows and possibly financial condition. The following discusses ratemaking developments in 2024 and updates KPCo's 2023 Annual Report.

Regulatory Assets Pending Final Regulatory Approval

Noncurrent Regulatory Assets		June 30, 2024		December 31, 2023
		(in thousands)		
Regulatory Assets Currently Not Earning a Return				
Storm-Related Costs	$	78,759	$	78,759
Other Regulatory Assets Pending Final Regulatory Approval		2,600		1,259
Total Regulatory Assets Pending Final Regulatory Approval	$	81,359	$	80,018

If these costs are ultimately determined not to be recoverable, it could reduce future net income and cash flows and impact financial condition.

Investigation of the Service, Rates and Facilities of KPCo

In June 2023, the KPSC issued an order directing KPCo to show cause why it should not be subject to Kentucky statutory remedies, including fines and penalties, for failure to provide adequate service in its service territory. The KPSC's show cause order did not make any determination regarding the adequacy of KPCo's service. In July 2023, KPCo filed a response to the show cause order demonstrating that it has provided adequate service. In December 2023 and February 2024, KPCo and certain intervenors filed testimony with the KPSC. In February 2024, KPCo filed a motion to strike and exclude intervenor testimony in its entirety on the grounds that issues raised are outside the scope of the proceeding and because the testimony is largely unreasoned, unsupported and provides no evidentiary value. In March 2024, the KPSC denied KPCo's February 2024 motion. The June 2024 hearing with the KPSC was postponed and has not yet been rescheduled. If any fines or penalties are levied against KPCo relating to the show cause order, it could reduce net income and cash flows and impact financial condition.

2023 Kentucky Base Rate and Securitization Case

In June 2023, KPCo filed a request with the KPSC for a $93.9 million net annual increase in base rates based upon a proposed 9.9% ROE with the increase to be implemented no earlier than January 2024. In conjunction with its June 2023 filing, KPCo further requested to finance, through the issuance of securitization bonds, approximately $471.2 million of regulatory assets. KPCo's proposal did not address the disposition of its 50% interest in Mitchell Plant, which will be addressed in the future. As of June 30, 2024, the net book value of KPCo's share of the Mitchell Plant, before cost of removal including CWIP and inventory, was $565.4 million. If any of these costs are not recoverable, it could reduce future net income and cash flows and impact financial condition.

In November 2023, KPCo filed an uncontested settlement agreement with the KPSC, that included an annual base rate increase of $74.7 million, based upon a 9.75% ROE. Settlement parties agreed that the KPSC should approve KPCo's securitization request, and that the approximately $471.2 million regulatory assets requested for securitization are comprised of prudently incurred costs.

In January 2024, the KPSC issued an order modifying the November 2023 uncontested settlement agreement and approving an annual base rate increase of $60 million based upon a 9.75% ROE effective with billing cycles mid-January 2024. The order reduced KPCo's base rate revenue requirement by $14.2 million to allow recovery of actual test year PJM transmission costs instead of KPCo's requested annual level of costs based on PJM 2023 projected transmission revenue requirements. In February 2024, KPCo filed an appeal with the Commonwealth of Kentucky Franklin Circuit Court, challenging among other aspects of the order, the $14.2 million base rate revenue requirement reduction.

In January 2024, consistent with the November 2023 uncontested settlement agreement, the KPSC issued a financing order approving KPCo's request to securitize certain regulatory assets balances as of the time securitization bonds are issued and concluding that costs requested for recovery through securitization were prudently incurred. The KPSC's financing order includes certain additional requirements related to securitization bond structuring, marketing, placement and issuance that were not reflected in KPCo's proposal. As a result, in January 2024, KPCo filed a request for rehearing with the KPSC to clarify certain aspects of these additional requirements. In February 2024, the KPSC denied KPCo's rehearing requests. In accordance with Kentucky statutory requirements and the financing order, the issuance of the securitized bonds is subject to final review by the KPSC after bond pricing. KPCo expects to proceed with the securitized bond issuance process and to complete the securitization process in the second half of 2024, subject to market conditions. As of June 30, 2024, regulatory asset balances expected to be recovered through securitization total $481.1 million and include: (a) $292.9 million of plant retirement costs, (b) $78.8 million of deferred storm costs related to 2020, 2021, 2022 and 2023 major storms, (c) $48.1 million of deferred purchased power expenses, (d) $59.9 million of under-recovered purchased power rider costs and (e) $1.4 million of deferred issuance-related expenses including KPSC advisor expenses. If any of these costs are not recoverable, it could reduce future net income and cash flows and impact financial condition.

Fuel Adjustment Clause (FAC) Review

In December 2023, KPCo received intervenor testimony in its FAC review for the two-year period ending October 31, 2022, recommending a disallowance ranging from $44.3 million to $59.8 million of its total $432.3 million purchased power cost recoveries as a result of proposed modifications to the ratemaking methodology that limits purchased power costs recoverable through the FAC. A hearing was held in February 2024 and an order is expected in the second half of 2024. If any fuel costs are not recoverable or if refunds are ordered, it could reduce future net income and cash flows and impact financial condition.

Rockport Offset Recovery

In January 2024, KPCo filed an application with the KPSC seeking to recover an allowed cost (Rockport Offset) of $40.8 million in accordance with the terms of the settlement agreement in the 2017 Kentucky Base Rate Case permitting KPCo to use the level of non-fuel, non-environmental Rockport Plant unit power agreement (UPA) expense included in base rates to earn its authorized ROE in 2023 since the Rockport UPA ended in December 2022. An estimated Rockport Offset of $22.8 million was recovered through a rider, subject to true-up, during the 12-months ended December 2023. In February 2024, the KPSC issued an order allowing KPCo to collect the remaining $18 million through interim rates, subject to refund, over twelve months starting in March 2024. In April 2024, KPCo submitted to the KPSC a request for decision on the record. An order is expected in the second half of 2024. Through the first quarter of 2024, the Rockport Offset true-up is reflected in revenues to the extent amounts have been billed to customers, as KPCo has not met the requirements of alternative revenue recognition in accordance with the accounting guidance for "Regulated Operations". If the Rockport Offset is not recoverable or refunds are ordered, it could reduce future net income and cash flows and impact financial condition.

2024 Storm Costs

In April and May 2024, severe storms impacted KPCo's service territory resulting in customer outages and damage to KPCo utility assets. As of June 30, 2024, KPCo incurred approximately $4.3 million of incremental other operation and maintenance expenses related to service restoration efforts. Consistent with prior guidance from the KPSC, in July 2024, KPCo filed a request with the KPSC seeking authority to defer these prudently-incurred costs for future recovery. Until KPCo receives deferral authority for these incremental storm costs from the KPSC, it will continue to reduce net income and cash flows and impact financial condition.

4. COMMITMENTS, GUARANTEES AND CONTINGENCIES

KPCo is subject to certain claims and legal actions arising in its ordinary course of business. In addition, KPCo's business activities are subject to extensive governmental regulation related to public health and the environment. The ultimate outcome of such pending or potential litigation against KPCo cannot be predicted. Management accrues contingent liabilities only when management concludes that it is both probable that a liability has been incurred at the date of the financial statements and the amount of loss can be reasonably estimated. When management determines that it is not probable, but rather reasonably possible that a liability has been incurred at the date of the financial statements, management discloses such contingencies and the possible loss or range of loss if such estimate can be made. Any estimated range is based on currently available information and involves elements of judgment and significant uncertainties. Any estimated range of possible loss may not represent the maximum possible loss exposure. Circumstances change over time and actual results may vary significantly from estimates.

For current proceedings not specifically discussed below, management does not anticipate that the liabilities, if any, arising from such proceedings would have a material effect on the financial statements. The Commitments, Guarantees and Contingencies note within KPCo's 2023 Annual Report should be read in conjunction with this report.

GUARANTEES

Liabilities for guarantees are recorded in accordance with the accounting guidance for "Guarantees." There is no collateral held in relation to any guarantees. In the event any guarantee is drawn, there is no recourse to third-parties unless specified below.

Indemnifications and Other Guarantees

Contracts

KPCo enters into certain types of contracts which require indemnifications. Typically these contracts include, but are not limited to, sale agreements, lease agreements, purchase agreements and financing agreements. Generally, these agreements may include, but are not limited to, indemnifications around certain tax, contractual and environmental matters. With respect to sale agreements, exposure generally does not exceed the sale price. As of June 30, 2024, there were no material liabilities recorded for any indemnifications.

AEPSC conducts power purchase and sale activity on behalf of APCo, I&M, KPCo and WPCo, who are jointly and severally liable for activity conducted on their behalf.

Master Lease Agreements

KPCo leases certain equipment under master lease agreements. Under the lease agreements, the lessor is guaranteed a residual value up to a stated percentage of the equipment cost at the end of the lease term. If the actual fair value of the leased equipment is below the guaranteed residual value at the end of the lease term, KPCo is committed to pay the difference between the actual fair value and the residual value guarantee. Historically, at the end of the lease term the fair value has been in excess of the amount guaranteed. As of June 30, 2024, the maximum potential loss for these lease agreements was $111 thousand assuming the fair value of the equipment is zero at the end of the lease term.

ENVIRONMENTAL CONTINGENCIES

Federal EPA's Revised CCR Rule

In April 2024, the Federal EPA finalized revisions to the CCR Rule to expand the scope of the rule to include inactive impoundments at inactive facilities ("legacy CCR surface impoundments") as well as to establish requirements for currently exempt solid waste management units that involve the direct placement of CCR on the land ("CCR management units"). The Federal EPA is requiring that owners and operators of legacy surface impoundments comply with all of the existing CCR Rule requirements applicable to inactive CCR surface impoundments at active facilities, except for the location restrictions and liner design criteria. The rule establishes compliance deadlines for legacy surface impoundments to meet regulatory requirements, including a requirement to initiate closure within five years after the effective date of the final rule. The rule requires evaluations to be completed at both active facilities and inactive facilities with one or more legacy surface impoundments. Closure may be accomplished by applying an impermeable cover system over the CCR material ("closure in place") or the CCR material may be excavated and placed in a compliant landfill ("closure by removal"). Groundwater monitoring and other analysis over the next three years will provide additional information on the planned closure method. AEP evaluated the applicability of the rule to current and former plant sites and recorded incremental ARO in the second quarter of 2024, as shown in the table below, based on initial cost estimates primarily reflecting compliance with the rule through closure in place and future groundwater monitoring requirements pursuant to the CCR Rule.

Increase in ARO	Increase in Generation Property (a)	Increase in Regulatory Assets (b)
	(in thousands)	
$ 68,049	$ 21,884	$ 46,165

(a) ARO is related to a legacy CCR surface impoundment or CCR management unit at an operating generation facility.
(b) ARO is related to a legacy CCR surface impoundment or CCR management unit at a retired generation facility and recognition of a regulatory asset in accordance with the accounting guidance for "Regulated Operations" is supported.

As further groundwater monitoring and other analysis is performed, management expects to refine the assumptions and underlying cost estimates used in recording the ARO. These refinements may include, but are not limited to, changes in the expected method of closure, changes in estimated quantities of CCR at each site, the identification of new CCR management units, among other items. These future changes could have a material impact on the ARO and materially reduce future net income and cash flows and further impact financial condition.

AEP will seek cost recovery through regulated rates, including proposal of new regulatory mechanisms for cost recovery where existing mechanisms are not applicable. The rule could have an additional, material adverse impact on net income, cash flows and financial condition if AEP cannot ultimately recover these additional costs of compliance. In June 2024, a third-party filed a petition for review of the rule with the U.S. Court of Appeals for the D.C. Circuit. Management is also evaluating potential legal challenges to the revised rule.

5. BENEFIT PLANS

KPCo participates in an AEPSC sponsored qualified pension plan and two unfunded non-qualified pension plans. Substantially all of KPCo's employees are covered by the qualified plan or both the qualified and non-qualified pension plans. KPCo also participates in OPEB plans sponsored by AEPSC to provide health and life insurance benefits for retired employees.

Components of Net Periodic Benefit Credit

The following tables provide the components of KPCo's net periodic benefit credit for the plans:

	Pension Plans		OPEB	
	Three Months Ended June 30,		Three Months Ended June 30,	
	2024	2023	2024	2023
	(in thousands)			
Service Cost	$ 408	$ 369	$ 14	$ 15
Interest Cost	1,538	1,203	343	318
Expected Return on Plan Assets	(2,358)	(1,782)	(963)	(800)
Amortization of Prior Service Credit	—	—	(94)	(465)
Amortization of Net Actuarial Loss	22	—	30	111
Net Periodic Benefit Credit (a)	$ (390)	$ (210)	$ (670)	$ (821)

	Pension Plans		OPEB	
	Six Months Ended June 30,		Six Months Ended June 30,	
	2024	2023	2024	2023
	(in thousands)			
Service Cost	$ 817	$ 737	$ 28	$ 31
Interest Cost	3,073	2,407	686	635
Expected Return on Plan Assets	(4,715)	(3,565)	(1,926)	(1,600)
Amortization of Prior Service Credit	—	—	(187)	(929)
Amortization of Net Actuarial Loss	44	—	59	222
Net Periodic Benefit Credit (a)	$ (781)	$ (421)	$ (1,340)	$ (1,641)

(a) Excludes an immaterial one-time cost related to special termination benefits resulting from the Voluntary Severance Program announced in the second quarter of 2024.

6. DERIVATIVES AND HEDGING

OBJECTIVES FOR UTILIZATION OF DERIVATIVE INSTRUMENTS

AEPSC is agent for and transacts on behalf of KPCo.

KPCo is exposed to certain market risks as a major power producer and participant in the electricity, natural gas, coal and emission allowance markets. These risks include commodity price risk, interest rate risk and credit risk. These risks represent the risk of loss that may impact KPCo due to changes in the underlying market prices or rates. Management utilizes derivative instruments to manage these risks.

STRATEGIES FOR UTILIZATION OF DERIVATIVE INSTRUMENTS TO ACHIEVE OBJECTIVES

Risk Management Strategies

The strategy surrounding the use of derivative instruments primarily focuses on managing risk exposures, future cash flows and creating value utilizing both economic and formal hedging strategies. The risk management strategies also include the use of derivative instruments for trading purposes which focus on seizing market opportunities to create value driven by expected changes in the market prices of the commodities. To accomplish these objectives, KPCo primarily employs risk management contracts including physical and financial forward purchase-and-sale contracts and, to a lesser extent, OTC swaps and options. Not all risk management contracts meet the definition of a derivative under the accounting guidance for "Derivatives and Hedging." Derivative risk management contracts elected normal under the normal purchases and normal sales scope exception are not subject to the requirements of this accounting guidance.

KPCo utilizes power, capacity, coal, natural gas, interest rate and, to a lesser extent, heating oil, gasoline and other commodity contracts to manage the risk associated with the energy business. KPCo utilizes interest rate derivative contracts in order to manage the interest rate exposure associated with its commodity portfolio. For disclosure purposes, such risks are grouped as "Commodity," as these risks are related to energy risk management activities. KPCo may also utilize derivative contracts to manage interest rate risk associated with debt financing. For disclosure purposes, these risks are grouped as "Interest Rate." The amount of risk taken is determined by the Commercial Operations and Finance groups in accordance with the established risk management policies as approved by the Finance Committee of the Board of Directors.

The following table represents the gross notional volume of KPCo's outstanding derivative contracts:

Primary Risk Exposure	June 30, 2024	December 31, 2023	Unit of Measure
	(in thousands)		
Commodity:			
Power	10,331	3,303	MWhs
Natural Gas	11,692	9,761	MMBtus
Heating Oil and Gasoline	213	253	Gallons

Cash Flow Hedging Strategies

KPCo utilizes cash flow hedges on certain derivative transactions for the purchase and sale of power ("Commodity") in order to manage the variable price risk related to forecasted purchases and sales. Management monitors the potential impacts of commodity price changes and, where appropriate, enters into derivative transactions to protect profit margins for a portion of future electricity sales and purchases. KPCo does not hedge all commodity price risk.

KPCo may utilize a variety of interest rate derivative transactions in order to manage interest rate risk exposure. KPCo may also utilize interest rate derivative contracts to manage interest rate exposure related to future borrowings of fixed-rate debt. KPCo does not hedge all interest rate exposure.

ACCOUNTING FOR DERIVATIVE INSTRUMENTS AND THE IMPACT ON KPCo's FINANCIAL STATEMENTS

The accounting guidance for "Derivatives and Hedging" requires recognition of all qualifying derivative instruments as either assets or liabilities on the balance sheets at fair value. The fair values of derivative instruments accounted for using MTM accounting or hedge accounting are based on exchange prices and broker quotes. If a quoted market price is not available, the estimate of fair value is based on the best information available including valuation models that estimate future energy prices based on existing market and broker quotes and assumptions. In order to determine the relevant fair values of the derivative instruments, KPCo applies valuation adjustments for discounting, liquidity and credit quality.

Credit risk is the risk that a counterparty will fail to perform on the contract or fail to pay amounts due. Liquidity risk represents the risk that imperfections in the market will cause the price to vary from estimated fair value based upon prevailing market supply and demand conditions. Since energy markets are imperfect and volatile, there are inherent risks related to the underlying assumptions in models used to fair value risk management contracts. Unforeseen events may cause reasonable price curves to differ from actual price curves throughout a contract's term and at the time a contract settles. Consequently, there could be significant adverse or favorable effects on future net income and cash flows if market prices are not consistent with management's estimates of current market consensus for forward prices in the current period. This is particularly true for longer term contracts. Cash flows may vary based on market conditions, margin requirements and the timing of settlement of risk management contracts.

According to the accounting guidance for "Derivatives and Hedging," KPCo reflects the fair values of derivative instruments subject to netting agreements with the same counterparty net of related cash collateral. For certain risk management contracts, KPCo is required to post or receive cash collateral based on third-party contractual agreements and risk profiles. KPCo netted cash collateral paid to third-parties against short-term and long-term risk management liabilities in the amount of $197 thousand and $1.2 million as of June 30, 2024 and December 31, 2023, respectively. There was no cash collateral received from third-parties netted against short-term and long-term risk management assets as of June 30, 2024 and December 31, 2023.

The following tables represent the gross fair value of KPCo's derivative activity on the balance sheets. Unless shown as a separate line on the balance sheets due to materiality, Current Risk Management Assets are included in Prepayments and Other Current Assets, Long-term Risk Management Assets are included in Deferred Charges and Other Noncurrent Assets, Current Risk Management Liabilities are included in Other Current Liabilities and Long-term Risk Management Liabilities are included in Deferred Credits and Other Noncurrent Liabilities on the balance sheets.

	June 30, 2024		
Balance Sheet Location	Risk Management Contracts – Commodity (a)	Gross Amounts Offset on the Balance Sheets (b)	Net Amounts of Assets/Liabilities Presented on the Balance Sheets (c)
		(in thousands)	
Current Risk Management Assets	$ 12,893	$ (1,794)	$ 11,099
Long-term Risk Management Assets	227	(86)	141
Total Assets	13,120	(1,880)	11,240
Current Risk Management Liabilities	5,150	(1,989)	3,161
Long-term Risk Management Liabilities	545	(88)	457
Total Liabilities	5,695	(2,077)	3,618
Total MTM Derivative Contract Net Assets	$ 7,425	$ 197	$ 7,622

	December 31, 2023		
Balance Sheet Location	Risk Management Contracts – Commodity (a)	Gross Amounts Offset on the Balance Sheets (b)	Net Amounts of Assets/Liabilities Presented on the Balance Sheets (c)
		(in thousands)	
Current Risk Management Assets	$ 3,360	$ (296)	$ 3,064
Long-term Risk Management Assets	230	(215)	15
Total Assets	3,590	(511)	3,079
Current Risk Management Liabilities	9,375	(1,449)	7,926
Long-term Risk Management Liabilities	1,189	(215)	974
Total Liabilities	10,564	(1,664)	8,900
Total MTM Derivative Contract Net Assets (Liabilities)	$ (6,974)	$ 1,153	$ (5,821)

(a) Derivative instruments within this category are disclosed as gross. These instruments are subject to master netting agreements and are presented on the balance sheets on a net basis in accordance with the accounting guidance for "Derivatives and Hedging."
(b) Amounts include counterparty netting of risk management and hedging contracts and associated cash collateral in accordance with the accounting guidance for "Derivatives and Hedging."
(c) All derivative contracts subject to a master netting arrangement or similar agreement are offset on the balance sheet.

The table below presents KPCo's activity of derivative risk management contracts:

Amount of Gain (Loss) Recognized on Risk Management Contracts

	Three Months Ended June 30,		Six Months Ended June 30,	
Location of Gain (Loss)	2024	2023	2024	2023
		(in thousands)		
Electric Generation, Transmission and Distribution Revenues	$ 1	$ —	$ 1	$ —
Purchased Electricity, Fuel and Other Consumables Used for Electric Generation	27	40	53	59
Other Operation	25	—	34	—
Maintenance	34	—	38	—
Regulatory Assets (a)	5,102	(358)	8,578	(1,154)
Regulatory Liabilities (a)	1,923	2,768	3,789	81
Total Gain (Loss) on Risk Management Contracts	$ 7,112	$ 2,450	$ 12,493	$ (1,014)

(a) Represents realized and unrealized gains and losses subject to regulatory accounting treatment recorded as either current or noncurrent on the balance sheets.

Certain qualifying derivative instruments have been designated as normal purchase or normal sale contracts, as provided in the accounting guidance for "Derivatives and Hedging." Derivative contracts that have been designated as normal purchases or normal sales under that accounting guidance are not subject to MTM accounting treatment and are recognized on the statements of income on an accrual basis.

The accounting for the changes in the fair value of a derivative instrument depends on whether it qualifies for and has been designated as part of a hedging relationship and further, on the type of hedging relationship. Depending on the exposure, management designates a hedging instrument as a fair value hedge or a cash flow hedge.

For contracts that have not been designated as part of a hedging relationship, the accounting for changes in fair value depends on whether the derivative instrument is held for trading purposes. Unrealized and realized gains and losses on derivative instruments held for trading purposes are included in revenues on a net basis on KPCo's statements of income. Unrealized and realized gains and losses on derivative instruments not held for trading purposes are included in revenues or expenses on KPCo's statements of income depending on the relevant facts and circumstances. Certain derivatives that economically hedge future commodity risk are recorded in the same line item on the statements of income as that of the associated risk being hedged. However, unrealized and some realized gains and losses for both trading and non-trading derivative instruments are recorded as regulatory assets (for losses) or regulatory liabilities (for gains), in accordance with the accounting guidance for "Regulated Operations."

Accounting for Cash Flow Hedging Strategies

For cash flow hedges (i.e. hedging the exposure to variability in expected future cash flows that is attributable to a particular risk), KPCo initially reports the gain or loss on the derivative instrument as a component of Accumulated Other Comprehensive Income (Loss) on the balance sheets until the period the hedged item affects Net Income.

Realized gains and losses on derivative contracts for the purchase and sale of power designated as cash flow hedges are included in Total Revenues or Purchased Electricity, Fuel and Other Consumables Used for Electric Generation on KPCo's statements of income, or in Regulatory Assets or Regulatory Liabilities on KPCo's balance sheets, depending on the specific nature of the risk being hedged. During the three and six months ended June 30, 2024 and 2023, KPCo did not apply cash flow hedging to outstanding power derivatives.

KPCo reclassifies gains and losses on interest rate derivative hedges related to debt financings from Accumulated Other Comprehensive Income (Loss) on its balance sheets into Interest Expense on its statements of income in those periods in which hedged interest payments occur. During the three and six months ended June 30, 2024 and 2023, KPCo did not apply cash flow hedging to outstanding interest rate derivatives.

There was no impact of cash flow hedges included in Accumulated Other Comprehensive Income (Loss) on KPCo's balance sheets as of June 30, 2024 and December 31, 2023.

The actual amounts that KPCo reclassifies from Accumulated Other Comprehensive Income (Loss) to Net Income can differ due to market price changes. As of June 30, 2024, KPCo is not hedging (with contracts subject to the accounting guidance for "Derivatives and Hedging") its exposure to variability in future cash flows related to forecasted transactions.

Credit Risk

Management mitigates credit risk in KPCo's wholesale marketing and trading activities by assessing the creditworthiness of potential counterparties before entering into transactions with them and continuing to evaluate their creditworthiness on an ongoing basis. Management uses credit agency ratings and current market-based qualitative and quantitative data as well as financial statements to assess the financial health of counterparties on an ongoing basis.

Master agreements are typically used to facilitate the netting of cash flows associated with a single counterparty and may include collateral requirements. Collateral requirements in the form of cash, letters of credit and parental/affiliate guarantees may be obtained as security from counterparties in order to mitigate credit risk. Some master agreements include margining, which requires a counterparty to post cash or letters of credit in the event exposure exceeds the established threshold. The threshold represents an unsecured credit limit which may be supported by a parental/affiliate guaranty, as determined in accordance with AEP's credit policy. In addition, master agreements allow for termination and liquidation of all positions in the event of a default including failure or inability to post collateral when required.

Collateral Triggering Events

Credit Downgrade Triggers

A limited number of derivative contracts include collateral triggering events, which include a requirement to maintain certain credit ratings. On an ongoing basis, AEP's risk management organization assesses the appropriateness of these collateral triggering events in contracts. KPCo has not experienced a downgrade below a specified credit rating threshold that would require the posting of additional collateral. As of June 30, 2024 and December 31, 2023, KPCo did not have derivative contracts with collateral triggering events in a net liability position.

Cross-Acceleration Triggers

Certain interest rate derivative contracts contain cross-acceleration provisions that, if triggered, would permit the counterparty to declare a default and require settlement of the outstanding payable. These cross-acceleration provisions could be triggered if there was a non-performance event by KPCo under any of their outstanding debt of at least $50 million and the lender on that debt has accelerated the entire repayment obligation. On an ongoing basis, AEP's risk management organization assesses the appropriateness of these cross-acceleration provisions in contracts. KPCo had no derivative contracts with cross-acceleration provisions in a net liability position and no cash collateral posted as of June 30, 2024 and December 31, 2023. If a cross-acceleration provision would have been triggered, settlement at fair value would have been required.

Cross-Default Triggers

In addition, a majority of KPCo's non-exchange-traded commodity contracts contain cross-default provisions that, if triggered, would permit the counterparty to declare a default and require settlement of the outstanding payable. These cross-default provisions could be triggered if there was a non-performance event by Parent or the obligor under outstanding debt or a third-party obligation that is $50 million or greater. On an ongoing basis, AEP's risk management organization assesses the appropriateness of these cross-default provisions in the contracts. KPCo had derivative contracts with cross-default provisions in a net liability position of $3 million and $8 million, and no cash collateral posted as of June 30, 2024 and December 31, 2023, respectively. If a cross-default provision would have been triggered, settlement at fair value would have been required.

7. FAIR VALUE MEASUREMENTS

Fair Value Hierarchy and Valuation Techniques

The accounting guidance for "Fair Value Measurements and Disclosures" establishes a fair value hierarchy that prioritizes the inputs used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurement) and the lowest priority to unobservable inputs (Level 3 measurement). Where observable inputs are available for substantially the full term of the asset or liability, the instrument is categorized in Level 2. When quoted market prices are not available, pricing may be completed using comparable securities, dealer values, operating data and general market conditions to determine fair value. Valuation models utilize various inputs such as commodity, interest rate and, to a lesser degree, volatility and credit that include quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets or liabilities in inactive markets, market corroborated inputs (i.e. inputs derived principally from, or correlated to, observable market data) and other observable inputs for the asset or liability.

For commercial activities, exchange-traded derivatives, namely futures contracts, are generally fair valued based on unadjusted quoted prices in active markets and are classified as Level 1. Level 2 inputs primarily consist of OTC broker quotes in moderately active or less active markets, as well as exchange-traded derivatives where there is insufficient market liquidity to warrant inclusion in Level 1. Management verifies price curves using these broker quotes and classifies these fair values within Level 2 when substantially all of the fair value can be corroborated. Management typically obtains multiple broker quotes, which are nonbinding in nature but are based on recent trades in the marketplace. When multiple broker quotes are obtained, the quoted bid and ask prices are averaged. In certain circumstances, a broker quote may be discarded if it is a clear outlier. Management uses a historical correlation analysis between the broker quoted location and the illiquid locations. If the points are highly correlated, these locations are included within Level 2 as well. Certain OTC and bilaterally executed derivative instruments are executed in less active markets with a lower availability of pricing information. Illiquid transactions, complex structured transactions, FTRs and counterparty credit risk may require nonmarket-based inputs. Some of these inputs may be internally developed or extrapolated and utilized to estimate fair value. When such inputs have a significant impact on the measurement of fair value, the instrument is categorized as Level 3. The main driver of contracts being classified as Level 3 is the inability to substantiate energy price curves in the market. A portion of the Level 3 instruments have been economically hedged which limits potential earnings volatility.

Fair Value Measurements of Long-term Debt

The fair values of Long-term Debt are based on quoted market prices, without credit enhancements, for the same or similar issues and the current interest rates offered for instruments with similar maturities classified as Level 2 measurement inputs. These instruments are not marked-to-market. The estimates presented are not necessarily indicative of the amounts that could be realized in a current market exchange.

The book values and fair values of KPCo's Long-term Debt are summarized in the following table:

	June 30, 2024		December 31, 2023	
	Book Value	Fair Value	Book Value	Fair Value
	(in thousands)			
Long-term Debt	$ 1,300,129	$ 1,294,688	$ 1,299,806	$ 1,302,987

Fair Value Measurements of Financial Assets and Liabilities

The following tables set forth, by level within the fair value hierarchy, KPCo's financial assets and liabilities that were accounted for at fair value on a recurring basis. As required by the accounting guidance for "Fair Value Measurements and Disclosures," financial assets and liabilities are classified in their entirety based on the lowest level of input that is significant to the fair value measurement. Management's assessment of the significance of a particular input to the fair value measurement requires judgment and may affect the valuation of fair value assets and liabilities and their placement within the fair value hierarchy levels. There have not been any significant changes in management's valuation techniques.

Assets and Liabilities Measured at Fair Value on a Recurring Basis
June 30, 2024

	Level 1	Level 2	Level 3	Other	Total
			(in thousands)		
Assets:					
Risk Management Assets					
Risk Management Commodity Contracts (a)	$ —	$ 1,868	$ 11,100	$ (1,728)	$ 11,240
Liabilities:					
Risk Management Liabilities					
Risk Management Commodity Contracts (a)	$ —	$ 5,540	$ 3	$ (1,925)	$ 3,618

December 31, 2023

	Level 1	Level 2	Level 3	Other	Total
			(in thousands)		
Assets:					
Risk Management Assets					
Risk Management Commodity Contracts (a)	$ —	$ 283	$ 3,111	$ (315)	$ 3,079
Liabilities:					
Risk Management Liabilities					
Risk Management Commodity Contracts (a)	$ —	$ 9,771	$ 597	$ (1,468)	$ 8,900

(a) Amounts in "Other" column primarily represent counterparty netting of risk management and hedging contracts and associated cash collateral under the accounting guidance for "Derivatives and Hedging."

The following tables set forth a reconciliation of changes in the fair value of net trading derivatives classified as Level 3 in the fair value hierarchy:

Three Months Ended June 30, 2024	Net Risk Management Assets (Liabilities)
	(in thousands)
Balance as of March 31, 2024	$ 587
Realized Gain (Loss) Included in Net Income (or Changes in Net Assets) (a) (b)	2,246
Settlements	(2,833)
Changes in Fair Value Allocated to Regulated Jurisdictions (c)	11,097
Balance as of June 30, 2024	$ 11,097

Three Months Ended June 30, 2023	Net Risk Management Assets (Liabilities)
	(in thousands)
Balance as of March 31, 2023	$ 1,015
Realized Gain (Loss) Included in Net Income (or Changes in Net Assets) (a) (b)	(2,013)
Settlements	998
Changes in Fair Value Allocated to Regulated Jurisdictions (c)	5,570
Balance as of June 30, 2023	$ 5,570

Six Months Ended June 30, 2024	Net Risk Management Assets (Liabilities)
	(in thousands)
Balance as of December 31, 2023	$ 2,514
Realized Gain (Loss) Included in Net Income (or Changes in Net Assets) (a) (b)	4,022
Settlements	(6,536)
Changes in Fair Value Allocated to Regulated Jurisdictions (c)	11,097
Balance as of June 30, 2024	$ 11,097

Six Months Ended June 30, 2023	Net Risk Management Assets (Liabilities)
	(in thousands)
Balance as of December 31, 2022	$ 8,463
Realized Gain (Loss) Included in Net Income (or Changes in Net Assets) (a) (b)	(5,477)
Settlements	(2,986)
Changes in Fair Value Allocated to Regulated Jurisdictions (c)	5,570
Balance as of June 30, 2023	$ 5,570

(a) Included in revenues on KPCo’s statements of income.
(b) Represents the change in fair value between the beginning of the reporting period and the settlement of the risk management commodity contract.
(c) Relates to the net gains (losses) of those contracts that are not reflected on KPCo’s statements of income. These changes in fair value are recorded as regulatory liabilities for net gains and as regulatory assets for net losses.

The following tables quantify the significant unobservable inputs used in developing the fair value of Level 3 positions:

Significant Unobservable Inputs
June 30, 2024

	Fair Value		Valuation	Significant Unobservable	Input/Range		
	Assets	Liabilities	Technique	Input (a)	Low	High	Weighted Average (b)
	(in thousands)						
FTRs	$ 11,100	$ 3	Discounted Cash Flow	Forward Market Price	$ (0.04)	$ 12.13	$ 1.12

December 31, 2023

	Fair Value		Valuation	Significant Unobservable	Input/Range		
	Assets	Liabilities	Technique	Input (a)	Low	High	Weighted Average (b)
	(in thousands)						
FTRs	$ 3,111	$ 597	Discounted Cash Flow	Forward Market Price	$ (0.03)	$ 5.05	$ 0.82

(a) Represents market prices in dollars per MWh.
(b) The weighted average is the product of the forward market price of the underlying commodity and volume weighted by term.

The following table provides the measurement uncertainty of fair value measurements to increases (decreases) in significant unobservable inputs related to FTRs as of June 30, 2024 and December 31, 2023:

Uncertainty of Fair Value Measurements

Significant Unobservable Input	Position	Change in Input	Impact on Fair Value Measurement
Forward Market Price	Buy	Increase (Decrease)	Higher (Lower)
Forward Market Price	Sell	Increase (Decrease)	Lower (Higher)

8. INCOME TAXES

Effective Tax Rates (ETR)

KPCo accounts for income taxes in interim periods in accordance with the accounting guidance for "Income Taxes." In accordance with the guidance, the use of an estimated annual effective tax rate should be utilized to determine income tax expense unless a reliable estimate of the annual effective tax rate cannot be made, in which case the actual effective tax rate for the year to date should be utilized. KPCo's interim ETR reflects the estimated annual ETR for 2024, adjusted for tax expense associated with certain discrete items, and the actual year to date effective tax rate for 2023.

The ETR for KPCo is included in the following table:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2024	2023	2024	2023
U.S. Federal Statutory Rate	21.0 %	21.0 %	21.0 %	21.0 %
Increase (decrease) due to:				
State Income Tax, net of Federal Benefit	83.9 %	13.9 %	1.6 %	6.7 %
Tax Reform Excess ADIT Reversal	205.2 %	108.1 %	(9.5)%	140.8 %
Flow Through	(89.5)%	5.2 %	3.7 %	5.6 %
AFUDC Equity	(14.1)%	0.7 %	(0.4)%	0.9 %
Discrete Tax Adjustments	— %	(13.6)%	— %	(8.4)%
Other	2.9 %	(6.6)%	— %	(4.8)%
Effective Income Tax Rate	209.4 %	128.7 %	16.4 %	161.8 %

Federal and State Income Tax Audit Status

The statute of limitations (SOL) for the IRS to examine KPCo and other AEP subsidiaries originally filed federal return has expired for tax years 2016 and earlier. In July 2024, KPCo and other AEP subsidiaries received notification that the Joint Committee on Taxation's review of KPCo and other AEP subsidiaries' refund claim and associated IRS audit was final, resulting in no change and a refund of approximately $50 million. The refund is expected to be received in the second half of 2024. Following the completion of this audit, IRS exam is closed through KPCo and other AEP subsidiaries' 2020 filed tax return. There are currently no other tax years under IRS audit.

KPCo and other AEP subsidiaries file income tax returns in various state and local jurisdictions. These taxing authorities routinely examine the tax returns, and KPCo and other AEP subsidiaries are currently under examination in several state and local jurisdictions. Generally, SOL have expired for tax years prior to 2017. In addition, management is monitoring and continues to evaluate the potential impact of federal legislation and corresponding state conformity.

Federal Legislation

In August 2022, President Biden signed H.R. 5376 into law, commonly known as the Inflation Reduction Act of 2022, or IRA. Most notably this budget reconciliation legislation created a 15% minimum tax on adjusted financial statement income (CAMT), extended and increased the value of PTCs and ITCs, added a nuclear and clean hydrogen PTC, an energy storage ITC and allowed the sale or transfer of tax credits to third-parties for cash. As further significant guidance from Treasury and the IRS is expected on the tax provisions in the IRA, KPCo and other AEP subsidiaries will continue to monitor any issued guidance and evaluate the impact on future net income, cash flows and financial condition.

KPCo and other AEP subsidiaries are applicable corporations for purposes of the CAMT in 2024. CAMT cash taxes are expected to be partially offset by regulatory recovery, the utilization of tax credits and additionally the cash inflow generated by the sale of tax credits. The sale of tax credits are presented in the operating section of the statements of cash flows consistent with the presentation of cash taxes paid. KPCo and other AEP subsidiaries present the loss on sale of tax credits through income tax expense.

9. FINANCING ACTIVITIES

Long-term Debt

KPCo did not have any long-term debt issuances or retirements during the first six months of 2024.

Dividend Restrictions

KPCo pays dividends to Parent provided funds are legally available. Various financing arrangements and regulatory requirements may impose certain restrictions on the ability of KPCo to transfer funds to Parent in the form of dividends.

All of the dividends declared by KPCo are subject to a Federal Power Act requirement that prohibits the payment of dividends out of capital accounts in certain circumstances; payment of dividends is generally allowed out of retained earnings.

KPCo has credit agreements that contain a covenant that limit its debt to capitalization ratio to 67.5%. As of June 30, 2024, KPCo did not exceed its debt to capitalization limit. The method for calculating outstanding debt and capitalization is contractually-defined in the credit agreements.

The Federal Power Act restriction does not limit the ability of KPCo to pay dividends out of retained earnings.

Corporate Borrowing Program

AEP subsidiaries use a corporate borrowing program to meet their short-term borrowing needs. The corporate borrowing program includes a Utility Money Pool, which funds AEP's utility subsidiaries. The AEP Utility Money Pool operates in accordance with the terms and conditions of its agreement filed with the FERC. The amounts of outstanding borrowings from the Utility Money Pool as of June 30, 2024 and December 31, 2023 are included in Advances from Affiliates on KPCo's balance sheets. KPCo's Utility Money Pool activity and corresponding authorized borrowing limit for the six months ended June 30, 2024 are described in the following table:

Maximum Borrowings from the Utility Money Pool	Average Borrowings from the Utility Money Pool	Borrowings from the Utility Money Pool as of June 30, 2024	Authorized Short-Term Borrowing Limit
	(in thousands)		
$ 89,973	$ 56,781	$ 67,816	$ 250,000

Maximum, minimum and average interest rates for funds borrowed from the Utility Money Pool are summarized in the following table:

Six Months Ended June 30,	Maximum Interest Rate for Funds Borrowed from the Utility Money Pool	Minimum Interest Rate for Funds Borrowed from the Utility Money Pool	Average Interest Rate for Funds Borrowed from the Utility Money Pool
2024	5.79 %	5.14 %	5.65 %
2023	5.69 %	4.66 %	5.38 %

Securitized Accounts Receivables – AEP Credit

Under an affiliated receivables sales arrangement, KPCo sells, without recourse, certain of its customer accounts receivable and accrued unbilled revenue balances to AEP Credit. In January 2022, due to the expected sale to Liberty, KPCo ceased selling accounts receivable to AEP Credit. In September 2023, due to the termination of the sale to Liberty, KPCo resumed selling accounts receivable to AEP Credit. KPCo is charged a fee for each sale that is based on AEP Credit's financing costs, administrative costs and uncollectible accounts experience from previous purchases of KPCo's customer accounts receivable. No allowance for uncollectible accounts is recognized within KPCo's financial statements for customer accounts receivable sold to AEP Credit, and any bad debt stemming from these receivables would be recognized by AEP Credit. The costs of customer accounts receivable sold are reported in Other Operation expense on KPCo's statements of income. KPCo manages and services its accounts receivables sold.

AEP Credit's receivables securitization agreement provides a commitment of $900 million from bank conduits to purchase receivables and expires in September 2025. As of June 30, 2024, KPCo was in compliance with all requirements under the agreement.

KPCo's amounts of accounts receivable and accrued unbilled revenues sold under the sale of receivables agreement were $49.2 million and $42.7 million as of June 30, 2024 and December 31, 2023, respectively.

The fees paid by KPCo to AEP Credit for customer accounts receivable sold for the three months ended June 30, 2024 and 2023 were $1.3 million and $0, respectively, and for the six months ended June 30, 2024 and 2023 were $2.8 million and $0.

KPCo's proceeds on the sale of receivables to AEP Credit for the three months ended June 30, 2024 and 2023 were $153.7 million and $0, respectively, and for the six months ended June 30, 2024 and 2023 were $327.7 million and $0, respectively.

10. PROPERTY, PLANT AND EQUIPMENT

Asset Retirement Obligations (ARO)

KPCo records ARO in accordance with the accounting guidance for "Asset Retirement and Environmental Obligations" for the retirement of ash disposal facilities and asbestos removal.

In April 2024, the Federal EPA finalized revisions to the CCR Rule to expand the scope of the rule to include inactive impoundments at inactive facilities as well as to establish requirements for currently exempt solid waste management units that involve the direct placement of CCR on the land. In the second quarter of 2024, KPCo evaluated the applicability of the rule to current and former plant sites and incurred ARO liabilities of $64.4 million and revised cash flow estimates by an additional $3.6 million based on initial cost estimates. See the "Federal EPA's Revised CCR Rule" section of Note 4 for additional information.

The following is a reconciliation of the aggregate carrying amounts of ARO for KPCo:

ARO as of December 31, 2023	Accretion Expense	Liabilities Incurred	Liabilities Settled	Revisions in Cash Flow Estimates	ARO as of June 30, 2024
		(in thousands)			
$ 18,276	$ 401	$ 66,399	$ (461)	$ 2,495	$ 87,110

11. REVENUE FROM CONTRACTS WITH CUSTOMERS

Disaggregated Revenues from Contracts with Customers

The table below represents KPCo's revenues from contracts with customers, net of respective provisions for refund, by type of revenue:

	Three Months Ended June 30, 2024	Three Months Ended June 30, 2023	Six Months Ended June 30, 2024	Six Months Ended June 30, 2023
	(in thousands)			
Retail Revenues:				
Residential Revenues	$ 57,589	$ 51,008	$ 140,471	$ 122,893
Commercial Revenues	46,148	35,009	93,970	78,278
Industrial Revenues	43,291	36,287	82,904	77,854
Other Retail Revenues	524	466	1,071	1,010
Total Retail Revenues	147,552	122,770	318,416	280,035
Wholesale Revenues:				
Generation Revenues	4,037	2,605	7,606	5,941
Transmission Revenues (a)	7,245	7,706	14,979	15,006
Total Wholesale Revenues	11,282	10,311	22,585	20,947
Other Revenues from Contracts with Customers (b)	3,088	3,387	5,282	5,859
Total Revenues from Contracts with Customers	161,922	136,468	346,283	306,841
Other Revenues:				
Alternative Revenue Programs (b) (c)	(133)	2,032	36	3,191
Other Revenues	1	—	1	—
Total Other Revenues	(132)	2,032	37	3,191
Total Revenues	$ 161,790	$ 138,500	$ 346,320	$ 310,032

(a) Amounts include affiliated and nonaffiliated revenues. The affiliated revenues were $3.5 million and $3.8 million for the three months ended June 30, 2024 and 2023, respectively and $6.9 million and $7.6 million for the six months ended June 30, 2024 and 2023, respectively.
(b) Amounts include affiliated and nonaffiliated revenues.
(c) Alternative revenue programs in certain jurisdictions include regulatory mechanisms that periodically adjust for over/under collection of related revenues.

Fixed Performance Obligations

The following table represents KPCo's remaining fixed performance obligations satisfied over time as of June 30, 2024. Fixed performance obligations primarily include electricity sales for fixed amounts of energy and stand ready services into PJM's RPM market. KPCo elected to apply the exemption to not disclose the value of unsatisfied performance obligations for contracts with an original expected term of one year or less. Due to the annual establishment of revenue requirements, transmission revenues are excluded from the table below. The amounts shown in the table below include affiliated and nonaffiliated revenues.

2024	2025-2026	2027-2028	After 2028	Total
(in thousands)				
$ 717	$ 2,870	$ 2,870	$ 1,435	$ 7,892

Contract Assets and Liabilities

Contract assets are recognized when KPCo has a right to consideration that is conditional upon the occurrence of an event other than the passage of time, such as future performance under a contract. KPCo did not have material contract assets as of June 30, 2024 and December 31, 2023, respectively.

When KPCo receives consideration, or such consideration is unconditionally due from a customer prior to transferring goods or services to the customer under the terms of a sales contract, they recognize a contract liability on the balance sheet in the amount of that consideration. Revenue for such consideration is subsequently recognized in the period or periods in which the remaining performance obligations in the contract are satisfied. KPCo's contract liabilities typically arise from advanced payments of services provided primarily with respect to joint use agreements for utility poles. KPCo did not have material contract liabilities as of June 30, 2024 and December 31, 2023, respectively.

Accounts Receivable from Contracts with Customers

Accounts receivable from contracts with customers are presented on KPCo's balance sheets within the Accounts Receivable - Customers line item. KPCo's balances for receivables from contracts that are not recognized in accordance with the accounting guidance for "Revenue from Contracts with Customers" included in Accounts Receivable - Customers were not material as of June 30, 2024 and December 31, 2023. See "Securitized Accounts Receivable - AEP Credit" section of Note 9 for additional information related to AEP Credit's securitized accounts receivable.

The amount of affiliated accounts receivable from contracts with customers included in Accounts Receivable - Affiliated Companies on KPCo's balance sheets were $11.9 million and $12.2 million, respectively, as of June 30, 2024 and December 31, 2023.