

# Kentucky Power Company

2021 Annual Report

Audited Financial Statements



An **AEP** Company

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BOUNDLESS ENERGY<sup>SM</sup>

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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 VIE of AEP which securitizes accounts receivable and accrued utility revenues for affiliated electric utility companies.
AEP East Companies	APCo, I&M, KGPCo, KPCo, OPCo and WPCo.
AEP System	American Electric Power System, an electric system, owned and operated by AEP subsidiaries.
AEPSC	American Electric Power Service Corporation, an AEP service subsidiary providing management and professional services to AEP and its subsidiaries.
AEPTCo	AEP Transmission Company, LLC, a wholly-owned subsidiary of AEP Transmission Holdco, is an intermediate holding company that owns the State Transcos.
AFUDC	Allowance for Equity Funds Used During Construction.
AOCI	Accumulated Other Comprehensive Income.
APCo	Appalachian Power Company, an AEP electric utility subsidiary.
ASU	Accounting Standards Update.
COVID-19	Coronavirus 2019, a highly infectious respiratory disease. In March 2020, the World Health Organization declared COVID-19 a worldwide pandemic.
CWIP	Construction Work in Progress.
EIS	Energy Insurance Services, Inc., a nonaffiliated captive insurance company and consolidated VIE of AEP.
ESP	Electric Security Plans, a PUCO requirement for electric utilities to adjust their rates by filing with the PUCO.
Excess ADIT	Excess accumulated deferred income taxes.
FAC	Fuel Adjustment Clause.
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.
IRS	Internal Revenue Service.
ITC	Investment Tax Credit.
KGPCo	Kingsport Power Company, an AEP electric utility subsidiary.
KPCo	Kentucky Power Company, an AEP electric utility subsidiary.
KPSC	Kentucky Public Service Commission.
KTCO	AEP Kentucky Transmission Company, Inc., a wholly-owned AEPTCo transmission subsidiary.
Liberty	Liberty Utilities Co., a subsidiary of Algonquin Power & Utilities Corporation.
MTM	Mark-to-Market.
MW	Megawatt.
MWh	Megawatt-hour.
NO <sub>x</sub>	Nitrogen oxide.
OATT	Open Access Transmission Tariff.
OPCo	Ohio Power Company, an AEP electric utility subsidiary.

Term	Meaning
OPEB	Other Postretirement Benefits.
Operating Agreement	Agreement, dated January 1, 1997, as amended, by and among PSO and SWEPCo governing generating capacity allocation, energy pricing, and revenues and costs of third-party sales. AEPSC acts as the agent.
OTC	Over-the-counter.
Parent	American Electric Power Company, Inc., the equity owner of AEP subsidiaries within the AEP consolidation.
PCA	Power Coordination Agreement among APCo, I&M, KPCo and WPCo.
PJM	Pennsylvania – New Jersey – Maryland regional transmission organization.
PSO	Public Service Company of Oklahoma, an AEP electric utility subsidiary.
PUCO	Public Utilities Commission of Ohio.
Risk Management Contracts	Trading and non-trading derivatives, including those derivatives designated as cash flow and fair value hedges.
Rockport Plant	A generation plant, consisting of two 1,310 MW coal-fired generating units near Rockport, Indiana. AEGCo and I&M jointly-own Unit 1. In 1989, AEGCo and I&M entered into a sale-and-leaseback transaction with Wilmington Trust Company, an unrelated, unconsolidated trustee for Rockport Plant, Unit 2.
ROE	Return on Equity.
RTO	Regional Transmission Organization, responsible for moving electricity over large interstate areas.
SIA	System Integration Agreement, effective June 15, 2000, as amended, provides contractual basis for coordinated planning, operation and maintenance of the power supply sources of the combined AEP.
SPP	Southwest Power Pool regional transmission organization.
SSO	Standard service offer.
SWEPCo	Southwestern Electric Power Company, an AEP electric utility subsidiary.
TA	Transmission Agreement, effective November 2010, among APCo, I&M, KGPCo, KPCo, OPCo and WPCo with AEPSC as agent.
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.
UPA	Unit Power Agreement.
Utility Money Pool	Centralized funding mechanism AEP uses to meet the short-term cash requirements of certain utility subsidiaries.
VIE	Variable Interest Entity.
WPCo	Wheeling Power Company, an AEP electric utility subsidiary.
WVPSC	West Virginia Public Service Commission.



## **Report of Independent Auditors**

To the Management and Board of Directors of Kentucky Power Company

### ***Opinion***

We have audited the accompanying financial statements of Kentucky Power Company (the “Company”), which comprise the balance sheets as of December 31, 2021 and 2020, and the related statements of income, of comprehensive income (loss), of changes in common shareholder's equity and of cash flows for the years then ended, including the related notes (collectively referred to as the “financial statements”).

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2021 and 2020, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

### ***Basis for Opinion***

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (US GAAS). Our responsibilities under those standards are further described in the Auditors’ Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Company and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### ***Responsibilities of Management for the Financial Statements***

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Company’s ability to continue as a going concern for one year after the date the financial statements are available to be issued.

### ***Auditors’ Responsibilities for the Audit of the Financial Statements***

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors’ report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with US GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with US GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Company's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

*PricewaterhouseCoopers LLP*

Columbus, Ohio  
February 24, 2022

**KENTUCKY POWER COMPANY**  
**STATEMENTS OF INCOME**  
**For the Years Ended December 31, 2021 and 2020**  
**(in thousands)**

	<b>Years Ended December 31,</b>	
	<b>2021</b>	<b>2020</b>
<b>REVENUES</b>		
Electric Generation, Transmission and Distribution	\$ 634,765	\$ 537,031
Sales to AEP Affiliates	10,542	11,997
Other Revenues	1,076	895
<b>TOTAL REVENUES</b>	<b>646,383</b>	<b>549,923</b>
<b>EXPENSES</b>		
Fuel and Other Consumables Used for Electric Generation	85,207	76,453
Purchased Electricity for Resale	81,820	37,393
Purchased Electricity from AEP Affiliates	93,365	74,055
Other Operation	126,479	100,944
Maintenance	64,353	61,895
Depreciation and Amortization	115,097	101,285
Taxes Other Than Income Taxes	27,745	28,023
<b>TOTAL EXPENSES</b>	<b>594,066</b>	<b>480,048</b>
<b>OPERATING INCOME</b>	<b>52,317</b>	<b>69,875</b>
<b>Other Income (Expense):</b>		
Interest Income	19	70
Allowance for Equity Funds Used During Construction	1,822	1,170
Non-Service Cost Components of Net Periodic Benefit Cost	4,141	4,056
Interest Expense	(35,628)	(38,197)
<b>INCOME BEFORE INCOME TAX BENEFIT</b>	<b>22,671</b>	<b>36,974</b>
Income Tax Benefit	(27,479)	(4,043)
<b>NET INCOME</b>	<b>\$ 50,150</b>	<b>\$ 41,017</b>

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

*See Notes to Financial Statements beginning on page 11.*

**KENTUCKY POWER COMPANY**  
**STATEMENTS OF COMPREHENSIVE INCOME (LOSS)**  
**For the Years Ended December 31, 2021 and 2020**  
**(in thousands)**

	<b>Years Ended December 31,</b>	
	<b>2021</b>	<b>2020</b>
Net Income	\$ 50,150	\$ 41,017
<b>OTHER COMPREHENSIVE INCOME (LOSS), NET OF TAXES</b>		
Amortization of Pension and OPEB Deferred Costs, Net of Tax of \$(36) and \$(28) in 2021 and 2020, Respectively	(137)	(107)
Pension and OPEB Funded Status, Net of Tax of \$268 and \$52 in 2021 and 2020, Respectively	1,008	195
	871	88
<b>TOTAL OTHER COMPREHENSIVE INCOME</b>		
<b>TOTAL COMPREHENSIVE INCOME</b>	<b>\$ 51,021</b>	<b>\$ 41,105</b>

*See Notes to Financial Statements beginning on page 11.*



**KENTUCKY POWER COMPANY**  
**STATEMENTS OF CHANGES IN COMMON SHAREHOLDER'S EQUITY**  
**For the Years Ended December 31, 2021 and 2020**  
**(in thousands)**

	<u>Common Stock</u>	<u>Paid-in Capital</u>	<u>Retained Earnings</u>	<u>Accumulated Other Comprehensive Income (Loss)</u>	<u>Total</u>
<b>TOTAL COMMON SHAREHOLDER'S EQUITY – DECEMBER 31, 2019</b>	\$ 50,450	\$ 526,135	\$ 204,806	\$ 790	\$ 782,181
ASU 2016-13 Adoption			48		48
Net Income			41,017		41,017
Other Comprehensive Income				88	88
<b>TOTAL COMMON SHAREHOLDER'S EQUITY – DECEMBER 31, 2020</b>	50,450	526,135	245,871	878	823,334
Net Income			50,150		50,150
Other Comprehensive Income				871	871
<b>TOTAL COMMON SHAREHOLDER'S EQUITY – DECEMBER 31, 2021</b>	<u>\$ 50,450</u>	<u>\$ 526,135</u>	<u>\$ 296,021</u>	<u>\$ 1,749</u>	<u>\$ 874,355</u>

*See Notes to Financial Statements beginning on page 11.*

**KENTUCKY POWER COMPANY**  
**BALANCE SHEETS**  
**ASSETS**  
**December 31, 2021 and 2020**  
**(in thousands)**

	<b>December 31,</b>	
	<b>2021</b>	<b>2020</b>
<b>CURRENT ASSETS</b>		
Cash and Cash Equivalents	\$ 763	\$ 1,533
Accounts Receivable:		
Customers	16,281	10,485
Affiliated Companies	25,578	21,019
Accrued Unbilled Revenues	16,647	18,918
Miscellaneous	57	80
Allowance for Uncollectible Accounts	(3)	(87)
Total Accounts Receivable	58,560	50,415
Fuel	10,090	22,487
Materials and Supplies	20,515	19,861
Risk Management Assets	5,986	3,152
Regulatory Asset for Under-Recovered Fuel Costs	8,216	—
Margin Deposits	14,229	132
Prepayments and Other Current Assets	3,490	3,370
<b>TOTAL CURRENT ASSETS</b>	<b>121,849</b>	<b>100,950</b>
<b>PROPERTY, PLANT AND EQUIPMENT</b>		
Electric:		
Generation	1,231,494	1,231,387
Transmission	760,359	703,309
Distribution	1,017,406	955,501
Other Property, Plant and Equipment	137,554	120,965
Construction Work in Progress	95,093	83,008
<b>Total Property, Plant and Equipment</b>	3,241,906	3,094,170
Accumulated Depreciation and Amortization	1,104,492	1,052,273
<b>TOTAL PROPERTY, PLANT AND EQUIPMENT – NET</b>	<b>2,137,414</b>	<b>2,041,897</b>
<b>OTHER NONCURRENT ASSETS</b>		
Regulatory Assets	476,457	450,145
Long-term Risk Management Assets	—	23
Employee Benefit and Pension Assets	60,333	41,062
Operating Lease Assets	10,748	11,928
Deferred Charges and Other Noncurrent Assets	33,848	33,585
<b>TOTAL OTHER NONCURRENT ASSETS</b>	<b>581,386</b>	<b>536,743</b>
<b>TOTAL ASSETS</b>	<b>\$ 2,840,649</b>	<b>\$ 2,679,590</b>

*See Notes to Financial Statements beginning on page 11.*

**KENTUCKY POWER COMPANY**  
**BALANCE SHEETS**  
**LIABILITIES AND COMMON SHAREHOLDER'S EQUITY**  
**December 31, 2021 and 2020**  
**(dollars in thousands)**

	<b>December 31,</b>	
	<b>2021</b>	<b>2020</b>
<b>CURRENT LIABILITIES</b>		
Advances from Affiliates	\$ 47,895	\$ 65,647
Accounts Payable:		
General	52,837	47,157
Affiliated Companies	42,223	24,862
Long-term Debt Due Within One Year – Nonaffiliated	200,000	40,000
Risk Management Liabilities	51	213
Customer Deposits	32,432	30,774
Accrued Taxes	45,243	36,191
Accrued Interest	5,685	6,399
Obligations Under Operating Leases	2,173	2,296
Regulatory Liability for Over-Recovered Fuel Costs	—	313
Other Current Liabilities	21,384	26,767
<b>TOTAL CURRENT LIABILITIES</b>	<b>449,923</b>	<b>280,619</b>
<b>NONCURRENT LIABILITIES</b>		
Long-term Debt – Nonaffiliated	903,105	952,650
Long-term Risk Management Liabilities	—	19
Deferred Income Taxes	437,152	446,054
Regulatory Liabilities and Deferred Investment Tax Credits	140,506	133,243
Asset Retirement Obligations	16,399	21,544
Employee Benefits and Pension Obligations	8,064	7,970
Obligations Under Operating Leases	8,614	9,672
Deferred Credits and Other Noncurrent Liabilities	2,531	4,485
<b>TOTAL NONCURRENT LIABILITIES</b>	<b>1,516,371</b>	<b>1,575,637</b>
<b>TOTAL LIABILITIES</b>	<b>1,966,294</b>	<b>1,856,256</b>
Rate Matters (Note 4)		
Commitments and Contingencies (Note 6)		
<b>COMMON SHAREHOLDER'S EQUITY</b>		
Common Stock – Par Value – \$50 Per Share:		
Authorized – 2,000,000 Shares		
Outstanding – 1,009,000 Shares	50,450	50,450
Paid-in Capital	526,135	526,135
Retained Earnings	296,021	245,871
Accumulated Other Comprehensive Income (Loss)	1,749	878
<b>TOTAL COMMON SHAREHOLDER'S EQUITY</b>	<b>874,355</b>	<b>823,334</b>
<b>TOTAL LIABILITIES AND COMMON SHAREHOLDER'S EQUITY</b>	<b>\$ 2,840,649</b>	<b>\$ 2,679,590</b>

*See Notes to Financial Statements beginning on page 11.*

**KENTUCKY POWER COMPANY**  
**STATEMENTS OF CASH FLOWS**  
**For the Years Ended December 31, 2021 and 2020**  
**(in thousands)**

	<b>Years Ended December 31,</b>	
	<b>2021</b>	<b>2020</b>
<b>OPERATING ACTIVITIES</b>		
<b>Net Income</b>	\$ 50,150	\$ 41,017
<b>Adjustments to Reconcile Net Income to Net Cash Flows from Operating Activities:</b>		
Depreciation and Amortization	115,097	101,285
Deferred Income Taxes	(24,509)	5,367
Allowance for Equity Funds Used During Construction	(1,822)	(1,170)
Mark-to-Market of Risk Management Contracts	(2,992)	2,479
Pension Contributions to Qualified Plan Trust	—	(2,775)
Deferred Fuel Over/Under-Recovery, Net	(8,529)	91
Change in Regulatory Assets	(56,447)	(44,116)
Asset Retirement Obligation	(2,174)	(18,734)
Change in Other Noncurrent Assets	(11,846)	(10,394)
Change in Other Noncurrent Liabilities	2,979	(109)
<b>Changes in Certain Components of Working Capital:</b>		
Accounts Receivable, Net	(7,482)	(1,001)
Fuel, Materials and Supplies	11,771	5,657
Margin Deposits	(14,097)	468
Accounts Payable	13,013	(1,527)
Accrued Taxes, Net	8,628	4,820
Other Current Assets	384	(28)
Other Current Liabilities	(3,522)	(4,499)
<b>Net Cash Flows from Operating Activities</b>	<b>68,602</b>	<b>76,831</b>
<b>INVESTING ACTIVITIES</b>		
Construction Expenditures	(164,912)	(153,845)
Proceeds from Sales of Assets	1,075	825
Other Investing Activities	2,995	294
<b>Net Cash Flows Used for Investing Activities</b>	<b>(160,842)</b>	<b>(152,726)</b>
<b>FINANCING ACTIVITIES</b>		
Issuance of Long-term Debt - Nonaffiliated	149,974	124,619
Change in Advances from Affiliates, Net	(17,752)	(47,528)
Retirement of Long-term Debt - Nonaffiliated	(40,000)	—
Principal Payments for Finance Lease Obligations	(920)	(808)
Other Financing Activities	168	296
<b>Net Cash Flows from Financing Activities</b>	<b>91,470</b>	<b>76,579</b>
<b>Net Increase (Decrease) in Cash and Cash Equivalents</b>	<b>(770)</b>	<b>684</b>
<b>Cash and Cash Equivalents at Beginning of Period</b>	<b>1,533</b>	<b>849</b>
<b>Cash and Cash Equivalents at End of Period</b>	<b>\$ 763</b>	<b>\$ 1,533</b>
<b>SUPPLEMENTARY INFORMATION</b>		
Cash Paid for Interest, Net of Capitalized Amounts	\$ 37,378	\$ 38,505
Net Cash Paid (Received) for Income Taxes	(4,123)	(11,989)
Noncash Acquisitions Under Finance Leases	331	940
Construction Expenditures Included in Current Liabilities as of December 31,	28,280	19,358

*See Notes to Financial Statements beginning on page 11.*

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## **1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

### **ORGANIZATION**

As a public utility, KPCo engages in the generation and purchase of electric power, and the subsequent sale, transmission and distribution of that power to approximately 165,000 retail customers in its service territory in eastern Kentucky. KPCo also sells power at wholesale to municipalities.

Under a unit power agreement with AEGCo, an affiliated company, KPCo purchases 393 MWs of Rockport Plant capacity which is 30% of AEGCo's 50% share of the 2,620 MW Rockport Plant. The UPA expires in December 2022. KPCo pays a demand charge for the right to receive the power, which is payable even if the power is not taken.

To minimize the credit requirements and operating constraints when operating within PJM, participating AEP companies, including KPCo, agreed to a netting of certain payment obligations incurred by the participating AEP companies against certain balances due to such AEP companies and to hold PJM harmless from actions that any one or more AEP companies may take with respect to PJM.

### **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

#### ***Rates and Service Regulation***

KPCo's rates are regulated by the FERC and the KPSC. The FERC also regulates KPCo's affiliated transactions, including AEPSC intercompany service billings which are generally at cost, under the 2005 Public Utility Holding Company Act and the Federal Power Act. The FERC also has jurisdiction over certain issuances and acquisitions of securities of public utility subsidiaries, the acquisition or sale of certain utility assets and mergers with another electric utility or holding company. For non-power goods and services, the FERC requires a nonregulated affiliate to bill an affiliated public utility company at no more than market while a public utility must bill the higher of cost or market to a nonregulated affiliate. The KPSC also regulates certain intercompany transactions under its affiliate statutes. Both the FERC and state regulatory commissions are permitted to review and audit the relevant books and records of companies within a public utility holding company system.

The FERC regulates wholesale power markets, wholesale power transactions and wholesale transmission operations and rates. KPCo's wholesale power transactions are generally market-based. Wholesale power transactions are cost-based regulated when KPCo negotiates and files a cost-based contract with the FERC or the FERC determines that KPCo has "market power" in the region where the transaction occurs. KPCo has entered into wholesale power supply contracts with various municipalities that are FERC-regulated, cost-based contracts. These contracts are generally formula rate mechanisms, which are trued-up to actual costs annually.

The KPSC regulates all of the distribution operations and rates and retail transmission rates on a cost basis. The KPSC also regulates retail generation/power supply operations and rates.

In addition, the FERC regulates the SIA and the Transmission Agreement, which allocate shared system costs and revenues among the utility subsidiaries that are parties to each agreement. The FERC also regulates the PCA. See Note 13 - Related Party Transactions for additional information.

#### ***Accounting for the Effects of Cost-Based Regulation***

As a rate-regulated electric public utility company, KPCo's financial statements reflect the actions of regulators that result in the recognition of certain revenues and expenses in different time periods than enterprises that are not rate-regulated. In accordance with accounting guidance for "Regulated Operations," KPCo records regulatory assets (deferred expenses) and regulatory liabilities (deferred revenue reductions or refunds) to reflect the economic effects of regulation in the same accounting period by matching expenses with their recovery through regulated revenues and by matching income with its passage to customers in cost-based regulated rates.

### ***Use of Estimates***

The preparation of these financial statements in conformity with accounting principles generally accepted in the United States of America (GAAP) requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. These estimates include but are not limited to inventory valuation, allowance for doubtful accounts, long-lived asset impairment, unbilled electricity revenue, valuation of long-term energy contracts, the effects of regulation, long-lived asset recovery, storm costs, the effects of contingencies and certain assumptions made in accounting for pension and postretirement benefits. The estimates and assumptions used are based upon management's evaluation of the relevant facts and circumstances as of the date of the financial statements. Actual results could ultimately differ from those estimates.

### ***Cash and Cash Equivalents***

Cash and Cash Equivalents include temporary cash investments with original maturities of three months or less.

### ***Inventory***

Fossil fuel inventories and materials and supplies inventories are carried at average cost.

### ***Accounts Receivable***

Customer accounts receivable primarily include receivables from wholesale and retail energy customers, receivables from energy contract counterparties related to risk management activities and customer receivables primarily related to other revenue-generating activities.

Revenue is recognized from electric power sales when power is delivered to customers. To the extent that deliveries have occurred but a bill has not been issued, KPCo accrues and recognizes, as Accrued Unbilled Revenues on the balance sheets, an estimate of the revenues for energy delivered since the last billing.

AEP Credit factors accounts receivable on a daily basis, excluding receivables from risk management activities, for KPCo. See "Securitized Accounts Receivables - AEP Credit" section of Note 12 for additional information.

### ***Allowance for Uncollectible Accounts***

Under an affiliated receivables sales arrangement, KPCo sells, without recourse, certain of its customer accounts receivable and accrued unbilled revenue balances 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. KPCo terminated selling accounts receivable to AEP Credit in the first quarter of 2022, based on the pending sale to Liberty. As a result of the termination, in the first quarter of 2022, KPCo will record an allowance for uncollectible accounts on its balance sheet for those receivables no longer sold to AEP Credit. For accounts receivables relating to risk management activities, accounts receivables are reviewed for bad debt reserves at a specific counterparty level basis. For miscellaneous accounts receivable, bad debt expense is recorded based upon a 12-month rolling average of bad debt write-offs in proportion to gross accounts receivable, unless specifically identified. In addition to these processes, management contemplates available current information, as well as any reasonable and supportable forecast information, to determine if allowances for uncollectible accounts should be further adjusted in accordance with the accounting guidance for "Credit Losses." Management's assessments contemplate expected losses over the life of the accounts receivable.

### ***Concentrations of Credit Risk and Significant Customers***

KPCo had a significant customer which accounts for the following percentages of Total Revenues for the years ended December 31 and Accounts Receivable – Customers as of December 31:

<b>Significant Customer of KPCo: Marathon Petroleum Company</b>	<b>2021</b>	<b>2020</b>
Percentage of Total Revenues	12 %	12 %
Percentage of Accounts Receivable – Customers	45 %	46 %

Management monitors credit levels and the financial condition of KPCo’s customers on a continuous basis to minimize credit risk. The KPSC allows recovery in rates for a reasonable level of bad debt costs. Management believes adequate provision for credit loss has been made in the accompanying financial statements.

### ***Property, Plant and Equipment***

Electric utility property, plant and equipment are stated at original cost. Additions, major replacements and betterments are added to the plant accounts. Under the group composite method of depreciation, continuous interim routine replacements of items such as boiler tubes, pumps, motors, etc. result in original cost retirements, less salvage, being charged to accumulated depreciation. The group composite method of depreciation assumes that on average, asset components are retired at the end of their useful lives and thus there is no gain or loss. The equipment in each primary electric plant account is identified as a separate group. The depreciation rates that are established take into account the past history of interim capital replacements and the amount of removal cost incurred and salvage received. These rates and the related lives are subject to periodic review. Removal costs accrued are typically recorded as regulatory liabilities when the revenue received for removal costs accrued exceeds actual removal costs incurred. The asset removal costs liability is relieved as removal costs are incurred. A regulatory asset balance will occur if actual removal costs incurred exceed accumulated removal costs accrued.

The costs of labor, materials and overhead incurred to operate and maintain plant and equipment are included in operating expenses.

Long-lived assets are required to be tested for impairment when it is determined that the carrying value of the assets may no longer be recoverable or when the assets meet the held-for-sale criteria under the accounting guidance for “Impairment or Disposal of Long-Lived Assets.” When it becomes probable that an asset in-service or an asset under construction will be abandoned and regulatory cost recovery has been disallowed or is not probable, the cost of that asset shall be removed from plant-in-service or CWIP and charged to expense.

The fair value of an asset is the amount at which that asset could be bought or sold in a current transaction between willing parties, as opposed to a forced or liquidation sale. Quoted market prices in active markets are the best evidence of fair value and are used as the basis for the measurement, if available. In the absence of quoted prices for identical or similar assets in active markets, fair value is estimated using various internal and external valuation methods including cash flow analysis and appraisals.

### ***Allowance for Funds Used During Construction***

AFUDC represents the estimated cost of borrowed and equity funds used to finance construction projects that is capitalized and recovered through depreciation over the service life of regulated electric utility plant. KPCo records the equity component of AFUDC in Allowance for Equity Funds Used During Construction and the debt component of AFUDC as a reduction to Interest Expense.

### ***Valuation of Nonderivative Financial Instruments***

The book values of Cash and Cash Equivalents, Advances from Affiliates, Accounts Receivable and Accounts Payable approximate fair value because of the short-term maturity of these instruments.



## *Fair Value Measurements of Assets and Liabilities*

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.

AEP utilizes its trustee’s external pricing service to estimate the fair value of the underlying investments held in the benefit plan trusts. AEP’s investment managers review and validate the prices utilized by the trustee to determine fair value. AEP’s management performs its own valuation testing to verify the fair values of the securities. AEP receives audit reports of the trustee’s operating controls and valuation processes.

Assets in the benefits trusts are classified using the following methods. Equities are classified as Level 1 holdings if they are actively traded on exchanges. Items classified as Level 1 are investments in money market funds, fixed income and equity mutual funds and equity securities. They are valued based on observable inputs primarily unadjusted quoted prices in active markets for identical assets. Items classified as Level 2 are primarily investments in individual fixed income securities. Fixed income securities generally do not trade on exchanges and do not have an official closing price but their valuation inputs are based on observable market data. Pricing vendors calculate bond valuations using financial models and matrices. The models use observable inputs including yields on benchmark securities, quotes by securities brokers, rating agency actions, discounts or premiums on securities compared to par prices, changes in yields for U.S. Treasury securities, corporate actions by bond issuers, prepayment schedules and histories, economic events and, for certain securities, adjustments to yields to reflect changes in the rate of inflation. Other securities with model-derived valuation inputs that are observable are also classified as Level 2 investments. Investments with unobservable valuation inputs are classified as Level 3 investments. Investments classified as Other are valued using Net Asset Value as a practical expedient. Items classified as Other are primarily cash equivalent funds, common collective trusts, commingled funds, structured products, private equity, real estate, infrastructure and alternative credit investments. These investments do not have a readily determinable fair value or they contain redemption restrictions which may include the right to suspend redemptions under certain circumstances. Redemption restrictions may also prevent certain investments from being redeemed at the reporting date for the underlying value.

### ***Deferred Fuel Costs***

The cost of fuel and related emission allowances and emission control chemicals/consumables is charged to Fuel and Other Consumables Used for Electric Generation expense when the fuel is burned or the allowance or consumable is utilized. Fuel cost over-recoveries (the excess of fuel-related revenues over applicable fuel costs incurred) are generally deferred as current regulatory liabilities and under-recoveries (the excess of applicable fuel costs incurred over fuel-related revenues) are generally deferred as current regulatory assets. Fuel cost over-recovery and under-recovery balances are classified as noncurrent when there is a commission-approved plan to delay refunds or recoveries beyond a one year period. These deferrals are amortized when refunded or when billed to customers in later months with the KPSC's review and approval. The amount of an over-recovery or under-recovery can also be affected by actions of the KPSC. On a routine basis, the KPSC reviews and/or audits KPCo's fuel procurement policies and practices, the fuel cost calculations and FAC deferrals. FAC deferrals are adjusted when costs are no longer probable of recovery or when refunds of fuel reserves are probable. Changes in fuel costs, including purchased power, are reflected in rates in a timely manner through the FAC. A portion of margins from off-system sales are given to customers through the FAC.

### ***Revenue Recognition***

#### *Regulatory Accounting*

KPCo's financial statements reflect the actions of regulators that can result in the recognition of revenues and expenses in different time periods than enterprises that are not rate-regulated. Regulatory assets (deferred expenses or alternative revenues recognized in accordance with the guidance for "Regulated Operations") and regulatory liabilities (deferred revenue reductions or refunds) are recorded to reflect the economic effects of regulation in the same accounting period by matching expenses with their recovery through regulated revenues and by matching revenue with its passage to customers in cost-based regulated rates.

When regulatory assets are probable of recovery through regulated rates, KPCo records them as assets on its balance sheets. Regulatory assets are reviewed for probability of recovery at each balance sheet date or whenever new events occur. Examples of new events include the issuance of a regulatory commission order or passage of new legislation. If it is determined that recovery of a regulatory asset is no longer probable, KPCo derecognizes that regulatory asset as a charge against income.

#### *Electricity Supply and Delivery Activities*

KPCo recognizes revenues from customers for retail and wholesale electricity sales and electricity transmission and distribution delivery services. KPCo recognizes such revenues on the statements of income as the performance obligations of delivering energy to customers are satisfied. Recognized revenues include unbilled as well as-billed amounts. Wholesale transmission revenue is based on a FERC-approved formula rate filing made for each calendar year using estimated costs. Revenues initially recognized per the annual rate filing are compared to actual costs, resulting in the subsequent recognition of an over or under-recovered amount, with interest, that is refunded or recovered, respectively, in a future year's rates. The annual true-up meets the definition of alternative revenues in accordance with the accounting guidance for "Regulated Operations", and are recognized by KPCo in the second quarter of each calendar year following the filing of annual FERC report. Any portion of the true-up applicable to an affiliated company is recorded as Accounts Receivable - Affiliated Companies or Accounts Payable - Affiliated Companies on the balance sheets. Any portion of the true-ups applicable to third-parties is recorded as Regulatory Assets or Regulatory Liabilities on the balance sheets. See Note 16 - Revenue from Contracts with Customers for additional information.

### *Gross versus Net Presentation of Certain Electricity Supply and Delivery Activities*

The power produced at KPCo's generation plants is sold to PJM. KPCo also purchases power from PJM to supply power to its customers. Generally, these power sales and purchases are reported on a net basis in revenues on the statements of income. However, purchases of power in excess of sales to PJM, on an hourly net basis, used to serve retail load are recorded gross as Purchased Electricity for Resale on the statements of income.

Physical energy purchases arising from non-derivative contracts are accounted for on a gross basis in Purchased Electricity for Resale on the statements of income. Energy purchases arising from non-trading derivative contracts are recorded based on the transaction's facts and circumstances. Purchases under non-trading derivatives used to serve accrual based obligations are recorded in Purchased Electricity for Resale on the statements of income. All other non-trading derivative purchases are recorded net in revenues.

In general, KPCo records expenses when purchased electricity is received and when expenses are incurred, with the exception of certain power purchase contracts that are derivatives and accounted for using MTM accounting. KPCo defers the unrealized MTM amounts as regulatory assets (for losses) and regulatory liabilities (for gains).

### *Energy Marketing and Risk Management Activities*

KPCo engages in power marketing as a major power producer and participant in electricity markets. KPCo also engages in power, capacity, coal, natural gas and, to a lesser extent, heating oil, gasoline and other commodity risk management activities focused on markets where the AEP System owns assets and on adjacent markets. These activities include the purchase-and-sale of energy under forward contracts at fixed and variable prices. These contracts include physical transactions, exchange-traded futures, and to a lesser extent, OTC swaps and options. Certain energy marketing and risk management transactions are with RTOs.

KPCo recognizes revenues from marketing and risk management transactions that are not derivatives as the performance obligation of delivering the commodity is satisfied. Expenses from marketing and risk management transactions that are not derivatives are also recognized upon delivery of the commodity.

KPCo uses MTM accounting for marketing and risk management transactions that are derivatives unless the derivative is designated in a qualifying cash flow hedge relationship or elected normal under the normal purchase normal sale election. Unrealized MTM gains and losses are included on KPCo's balance sheets as Risk Management Assets or Liabilities, as appropriate, and on KPCo's statements of income in Total Revenues. Realized gains and losses on marketing and risk management transactions are included in revenues or expenses based on the transaction's facts and circumstances. However, in regulated jurisdictions subject to cost-based regulation, unrealized MTM amounts and some realized gains and losses are deferred as regulatory assets (for losses) and regulatory liabilities (for gains).

Certain qualifying marketing and risk management derivative transactions are designated as hedges of variability in future cash flows as a result of forecasted transactions (cash flow hedge). In the event KPCo designates a cash flow hedge, the cash flow hedge's gain or loss is initially recorded as a component of AOCI. When the forecasted transaction is realized and affects net income, KPCo subsequently reclassifies the gain or loss on the hedge from AOCI into revenues or expenses within the same financial statement line item as the forecasted transaction on the statements of income. See "Accounting for Cash Flow Hedging Strategies" section of Note 8.

### ***Maintenance***

Maintenance costs are expensed as incurred. If it becomes probable that KPCo will recover specifically-incurred costs through future rates, a regulatory asset is established to match the expensing of those maintenance costs with their recovery in cost-based regulated revenues.

### ***Income Taxes and Investment Tax Credits***

KPCo uses the liability method of accounting for income taxes. Under the liability method, deferred income taxes are provided for all temporary differences between the book and tax basis of assets and liabilities which will result in a future tax consequence. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which the temporary differences are expected to be recovered or settled.

When the flow-through method of accounting for temporary differences is reflected in regulated revenues (that is, when deferred taxes are not included in the cost-of-service for determining regulated rates for electricity), deferred income taxes are recorded and related regulatory assets and liabilities are established to match the regulated revenues and tax expense.

KPCo applies the deferral methodology for the recognition of ITC. Deferred ITC is amortized to income tax expense over the life of the asset. Amortization of deferred ITC begins when the asset is placed in-service, except where regulatory commissions reflect ITC in the rate-making process, then amortization begins when the cash tax benefit is recognized.

KPCo accounts for uncertain tax positions in accordance with the accounting guidance for "Income Taxes." KPCo classifies interest expense or income related to uncertain tax positions as interest expense or income as appropriate and classifies penalties as Other Operation expense. KPCo's uncertain tax positions are immaterial to the financial statements.

### ***Excise Taxes***

As an agent for some state and local governments, KPCo collects from customers certain excise taxes levied by those state or local governments on customers. KPCo does not recognize these taxes as revenue or expense.

### ***Debt***

Gains and losses from the reacquisition of debt used to finance regulated electric utility plants are deferred and amortized over the remaining term of the reacquired debt in accordance with their rate-making treatment unless the debt is refinanced. If the reacquired debt is refinanced, the reacquisition costs are generally deferred and amortized over the term of the replacement debt consistent with its recovery in rates.

Debt discount or premium and debt issuance expenses are deferred and amortized generally utilizing the straight-line method over the term of the related debt. The straight-line method approximates the effective interest method and is consistent with the treatment in rates for regulated operations. The net amortization expense is included in Interest Expense on the statements of income.

### ***Pension and OPEB Plans***

KPCo participates in an AEP 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 AEP to provide health and life insurance benefits for retired employees. KPCo accounts for its participation in the AEP sponsored pension and OPEB plans using multiple-employer accounting. See Note 7 - Benefit Plans for additional information including significant accounting policies associated with the plans.

### ***Investments Held in Trust for Future Liabilities***

AEP has several trust funds with significant investments intended to provide for future payments of pension and OPEB benefits. All of the trust funds' investments are diversified and managed in compliance with all laws and regulations. The investment strategy for the trust funds is to use a diversified portfolio of investments to achieve an acceptable rate of return while managing the investment risk of the assets relative to the associated liabilities. To minimize investment risk, the trust funds are broadly diversified among classes of assets, investment strategies and investment managers. Management regularly reviews the actual asset allocations and periodically rebalances the investments to targeted allocations when appropriate. Investment policies and guidelines allow investment managers in approved strategies to use financial derivatives to obtain or manage market exposures and to hedge assets and liabilities. The investments are reported at fair value under the "Fair Value Measurements and Disclosures" accounting guidance.

### ***Benefit Plans***

All benefit plan assets are invested in accordance with each plan's investment policy. The investment policy outlines the investment objectives, strategies and target asset allocations by plan.

The investment philosophies for AEP's benefit plans support the allocation of assets to minimize risks and optimize net returns. Strategies used include:

- Maintaining a long-term investment horizon.
- Diversifying assets to help control volatility of returns at acceptable levels.
- Managing fees, transaction costs and tax liabilities to maximize investment earnings.
- Using active management of investments where appropriate risk/return opportunities exist.
- Keeping portfolio structure style-neutral to limit volatility compared to applicable benchmarks.
- Using alternative asset classes such as real estate and private equity to maximize return and provide additional portfolio diversification.

The objective of the investment policy for the pension fund is to maintain the funded status of the plan while providing for growth in the plan assets to offset the growth in the plan liabilities. The current target asset allocations are as follows:

<b>Pension Plan Assets</b>	<b>Target</b>
Equity	25 %
Fixed Income	59 %
Other Investments	15 %
Cash and Cash Equivalents	1 %

  

<b>OPEB Plans Assets</b>	<b>Target</b>
Equity	59 %
Fixed Income	40 %
Cash and Cash Equivalents	1 %

The investment policy for each benefit plan contains various investment limitations. The investment policies establish concentration limits for securities and prohibit the purchase of securities issued by AEP (with the exception of proportionate and immaterial holdings of AEP securities in passive index strategies or certain commingled funds). However, the investment policies do not preclude the benefit trust funds from receiving contributions in the form of AEP securities, provided that the AEP securities acquired by each plan may not exceed the limitations imposed by law.

For equity investments, the concentration limits are generally as follows:

- No security in excess of 5% of all equities.
- Cash equivalents must be less than 10% of an investment manager's equity portfolio.
- No individual stock may be more than 10% and 7% for pension and OPEB investments, respectively, of each manager's equity portfolio.
- No securities may be bought or sold on margin or other use of leverage.

For fixed income investments, each investment manager's portfolio is compared to investment grade, diversified long and intermediate benchmark indices.

A portion of the pension assets is invested in real estate funds to provide diversification, add return and hedge against inflation. Real estate properties are illiquid, difficult to value and not actively traded. The pension plan uses external real estate investment managers to invest in commingled funds that hold real estate properties. To mitigate investment risk in the real estate portfolio, commingled real estate funds are used to ensure that holdings are diversified by region, property type and risk classification. Real estate holdings include core, value-added and opportunistic classifications.

A portion of the pension assets is invested in private equity. Private equity investments add return and provide diversification and typically require a long-term time horizon to evaluate investment performance. Private equity is classified as an alternative investment because it is illiquid, difficult to value and not actively traded. The pension plan uses limited partnerships to invest across the private equity investment spectrum. The private equity holdings are with multiple general partners who help monitor the investments and provide investment selection expertise. The holdings are currently comprised of venture capital, buyout and hybrid debt and equity investments.

AEP participates in a securities lending program with BNY Mellon to provide incremental income on idle assets and to provide income to offset custody fees and other administrative expenses. AEP lends securities to borrowers approved by BNY Mellon in exchange for collateral. All loans are collateralized by at least 102% of the loaned asset's market value and the collateral is invested. The difference between the rebate owed to the borrower and the collateral rate of return determines the earnings on the loaned security. The securities lending program's objective is to provide modest incremental income with a limited increase in risk. As of December 31, 2021 and 2020, the fair value of securities on loan as part of the program was \$136.7 million and \$177.1 million, respectively. Cash and securities obtained as collateral exceeded the fair value of the securities loaned as of December 31, 2021 and 2020.

Trust owned life insurance (TOLI) underwritten by The Prudential Insurance Company is held in the OPEB plan trusts. The strategy for holding life insurance contracts in the taxable Voluntary Employees' Beneficiary Association trust is to minimize taxes paid on the asset growth in the trust. Earnings on plan assets are tax-deferred within the TOLI contract and can be tax-free if held until claims are paid. Life insurance proceeds remain in the trust and are used to fund future retiree medical benefit liabilities. With consideration to other investments held in the trust, the cash value of the TOLI contracts is invested in two diversified funds. A portion is invested in a commingled fund with underlying investments in stocks that are actively traded on major international equity exchanges. The other portion of the TOLI cash value is invested in a diversified, commingled fixed income fund with underlying investments in government bonds, corporate bonds and asset-backed securities.

Cash and cash equivalents are held in each trust to provide liquidity and meet short-term cash needs. Cash equivalent funds are used to provide diversification and preserve principal. The underlying holdings in the cash funds are investment grade money market instruments including commercial paper, certificates of deposit, treasury bills and other types of investment grade short-term debt securities. The cash funds are valued each business day and provide daily liquidity.

### ***Comprehensive Income (Loss)***

Comprehensive income (loss) is defined as the change in equity (net assets) of a business enterprise during a period from transactions and other events and circumstances from non-owner sources. It includes all changes in equity during a period except those resulting from investments by owners and distributions to owners. Comprehensive income (loss) has two components: net income (loss) and other comprehensive income (loss).

### ***Earnings Per Share (EPS)***

KPCo is a wholly-owned subsidiary of AEP. Therefore, KPCo is not required to report EPS.

### ***Supplementary Income Statement Information***

The following table provides the components of Depreciation and Amortization for the years ended December 31, 2021 and 2020:

<b>Depreciation and Amortization</b>	<b>Years Ended December 31,</b>	
	<b>2021</b>	<b>2020</b>
	<b>(in thousands)</b>	
Depreciation and Amortization of Property, Plant and Equipment	\$ 102,390	\$ 95,472
Amortization of Regulatory Assets and Liabilities	12,707	5,813
<b>Total Depreciation and Amortization</b>	<b>\$ 115,097</b>	<b>\$ 101,285</b>

### ***Disposition of KPCo and KTCo***

In October 2021, AEP entered into a Stock Purchase Agreement to sell KPCo and KTCo to Liberty Utilities Co., a subsidiary of Algonquin Power & Utilities Corp. (Liberty), for approximately a \$2.85 billion enterprise value. The sale is subject to regulatory approvals from the FERC and KPSC. Clearance under the Hart-Scott-Rodino Antitrust Improvements Act of 1976 and clearance from the Committee on Foreign Investment in the United States has been received.

KPCo currently operates and owns a 50% interest in the 1,560 MW coal-fired Mitchell Power Plant (Mitchell Plant) with the remaining 50% owned by WPCo. The Stock Purchase Agreement is further contingent upon the issuance by the KPSC, WVPSC and FERC of orders regarding a new proposed Mitchell Plant Operations and Maintenance Agreement and Mitchell Plant Ownership Agreement between KPCo and WPCo pursuant to which WPCo would replace KPCo as the operator of the Mitchell Plant and KPCo employees at the Mitchell Plant would become employees of WPCo. Under the proposed Ownership Agreement, WPCo is obligated to purchase KPCo's 50% interest in the Mitchell Plant on December 31, 2028 unless KPCo and WPCo have agreed to retire the Mitchell Plant earlier or, absent such agreement, if WPCo elects prior to December 31, 2027 to retire the Mitchell Plant on December 31, 2028. The Ownership Agreement provides that the purchase price for KPCo's 50% ownership interest in the Mitchell Plant will be determined through the mutual agreement of WPCo and KPCo (subject to approval from the KPSC and WVPSC) or through a fair market valuation determination conducted by independent appraisals, with offsets for estimated decommissioning costs and the cost of ELG investments made by WPCo, if KPCo and WPCo are unable to reach agreement as to the purchase price.

In November 2021, AEP made filings with the KPSC, WVPSC, and FERC seeking approval of the new proposed Mitchell Plant Operations and Maintenance Agreement and Mitchell Plant Ownership Agreement. Subsequently, the KPSC and WVPSC intervened in the FERC proceeding and have recommended that FERC dismiss or reject AEP's request, or defer ruling on AEP's request until both the retail commissions have rendered decisions. In February 2022, AEP filed a motion to withdraw its filing with the FERC, noting that AEP intends to re-file its

request after the KPSC and WVPSC have reviewed the agreements. In the WVPSC proceeding, intervenor testimony is expected in March 2022 and a hearing is scheduled to occur in April 2022.

In December 2022, Liberty, KPCo and KTCO sought approval from the FERC under Section 203 of the Federal Power Act for the sale. In February 2022 several intervenors in the case filed protests related to whether the sale will negatively impact the wholesale transmission and generation rates of applicants. An order from the FERC is expected in the matter in April 2022.

In January 2022, intervenor testimony was filed with the KPSC, recommending the KPSC either reject the new proposed Mitchell Plant Ownership Agreement or approve the agreement with certain modifications including a revision to the buyout provision that would set WPCo's Mitchell Plant purchase price at the greater of fair market value or net book value. The intervenor testimony also recommends the KPSC reject the proposed Mitchell Plant Operations and Maintenance Agreement, which the testimony stated should be modified to remove references to the Mitchell Plant Ownership Agreement. In February 2022, AEP filed rebuttal testimony with the KPSC opposing the intervenor testimony filed in January 2022. AEP's rebuttal testimony also discusses an alternative proposal to the fair market value provision included in the proposed Mitchell Plant Ownership Agreement. Under the alternative proposal, KPCo's and WPCo's interest in the Mitchell Plant would be divided by unit if the plant is not retired before the end of 2028 and a mutual agreement cannot be reached on a buyout price. Under the alternative proposal, mutual agreement on the buyout price or unit disposition would need to be finalized by May 2025, with a division of plant ownership by unit effective January 1, 2029, unless otherwise agreed. A hearing on the Mitchell Plant agreements is scheduled with the KPSC in March 2022.

In January 2022, KPCo and Liberty filed a joint application requesting the KPSC authorize the transfer of ownership of KPCo to Liberty. In February 2022, certain intervenors filed testimony recommending that the KPSC not approve the transfer of ownership. If, however, the KPSC does approve the transfer, these intervenors recommend that the KPSC require AEP to compensate KPCo customers \$578 million for alleged future increased costs and higher rates that the intervenors claim will exist under Liberty's ownership. AEP disagrees with the recommendation and will file rebuttal testimony in March 2022. Intervenors also recommended imposing certain conditions on Liberty, including conditions related to recovering certain costs, inter-company agreement filing requirements, KPCo's capital structure and future generation resource planning processes and analyses. In addition, certain intervenors argue that the commission should not approve the new proposed Mitchell Plant Ownership Agreement and Mitchell Plant Operations and Maintenance Agreement, and that deciding the request to transfer ownership of KPCo should be separated from approval of the Mitchell agreements even though such approval is a condition to the transaction closing. AEP also disagrees with this argument. A hearing is scheduled with the KPSC in March 2022 and a final order is expected in the second quarter of 2022.

The sale is expected to close in the second quarter of 2022 with Liberty acquiring the assets and assuming the liabilities of KPCo and KTCO, excluding pension and other post-retirement benefit plan assets and liabilities. AEP expects to provide customary transition services to Liberty for a period of time after closing of the transaction.

### ***Subsequent Events***

Management reviewed subsequent events through February 24, 2022, the date that KPCo's 2021 annual 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. There are no new standards expected to have a material impact on KPCo's financial statements.

### 3. COMPREHENSIVE INCOME

#### *Presentation of Comprehensive Income*

The following tables provide the components of changes in AOCI and details of reclassifications from AOCI for the years ended December 31, 2021 and 2020. The amortization of pension and OPEB AOCI components are included in the computation of net periodic pension and OPEB costs. See Note 7 - Benefit Plans for additional details.

<b>For the Year Ended December 31, 2021</b>	<b>Pension and OPEB</b>		<b>Total</b>
	<b>Amortization of Deferred Costs</b>	<b>Changes in Funded Status</b>	
		<b>(in thousands)</b>	
<b>Balance in AOCI as of December 31, 2020</b>	\$ 3,027	\$ (2,149)	\$ 878
Change in Fair Value Recognized in AOCI	—	1,008	1,008
Amount of (Gain) Loss Reclassified from AOCI			
Amortization of Prior Service Cost (Credit)	(235)	—	(235)
Amortization of Actuarial (Gains) Losses	62	—	62
Reclassifications from AOCI, before Income Tax (Expense) Benefit	(173)	—	(173)
Income Tax (Expense) Benefit	(36)	—	(36)
Reclassifications from AOCI, Net of Income Tax (Expense) Benefit	(137)	—	(137)
Net Current Period Other Comprehensive Income (Loss)	(137)	1,008	871
<b>Balance in AOCI as of December 31, 2021</b>	<b>\$ 2,890</b>	<b>\$ (1,141)</b>	<b>\$ 1,749</b>

<b>For the Year Ended December 31, 2020</b>	<b>Pension and OPEB</b>		<b>Total</b>
	<b>Amortization of Deferred Costs</b>	<b>Changes in Funded Status</b>	
		<b>(in thousands)</b>	
<b>Balance in AOCI as of December 31, 2019</b>	\$ 3,134	\$ (2,344)	\$ 790
Change in Fair Value Recognized in AOCI	—	195	195
Amount of (Gain) Loss Reclassified from AOCI			
Amortization of Prior Service Cost (Credit)	(228)	—	(228)
Amortization of Actuarial (Gains) Losses	93	—	93
Reclassifications from AOCI, before Income Tax (Expense) Benefit	(135)	—	(135)
Income Tax (Expense) Benefit	(28)	—	(28)
Reclassifications from AOCI, Net of Income Tax (Expense) Benefit	(107)	—	(107)
Net Current Period Other Comprehensive Income (Loss)	(107)	195	88
<b>Balance in AOCI as of December 31, 2020</b>	<b>\$ 3,027</b>	<b>\$ (2,149)</b>	<b>\$ 878</b>

#### **4. RATE MATTERS**

KPCo is involved in rate and regulatory proceedings at the FERC and the KPSC. Rate matters can have a material impact on net income, cash flows and possibly financial condition. KPCo's recent significant rate orders and pending rate filings are addressed in this note.

##### ***Mitchell Plant***

KPCo and WPCo each own a 50% interest in the Mitchell Plant. In December 2020 and February 2021, WPCo and KPCo filed requests with the WVPSC and KPSC, respectively, to obtain the regulatory approvals necessary to implement CCR and ELG compliance plans and seek recovery of the estimated \$132 million investment for the Mitchell Plant that would allow the plant to continue operating beyond 2028. Within those requests, WPCo and KPCo also filed a \$25 million alternative to implement only the CCR-related investments with the WVPSC and KPSC, respectively, which would allow the Mitchell Plant to continue operating only through 2028.

In July 2021, the KPSC issued an order approving the CCR only alternative and rejecting the full CCR and ELG compliance plan. In August 2021, the WVPSC approved the full CCR and ELG compliance plan for the WPCo share of the Mitchell Plant. In September 2021, WPCo submitted a filing with the WVPSC to reopen the CCR/ELG case that was approved by the WVPSC in August 2021. Due to the rejection by the KPSC of the KPCo share of the ELG investments, WPCo requested the WVPSC consider approving the construction and recovery of all ELG costs at the plant. In October 2021, the WVPSC affirmed its August 2021 order approving the construction of CCR/ELG investments and directed WPCo to proceed with CCR/ELG compliance plans that would allow the plant to continue operating beyond 2028. The WVPSC's order further states WPCo will not share capacity and energy from the plant with KPCo customers if those customers are not paying for ELG compliance costs, or for any new capital investment or continuing operations costs incurred, to allow the plant to operate beyond 2028 or prevent downgrades prior to 2028. The WVPSC also ordered that WPCo will be given the opportunity to recover, from its customers, the new capital and operating costs arising solely from the WVPSC's directive to operate the plant beyond 2028 if the WVPSC finds that the costs are reasonable and prudently incurred. In October and November 2021, intervenors filed petitions for reconsideration at the WVPSC requesting clarification on certain aspects of the order, primarily the jurisdictional allocation of future operating expenses and plant costs.

In November 2021, AEP made filings with the KPSC, WVPSC and FERC seeking approval for a new proposed Mitchell Plant Operations and Maintenance Agreement and Mitchell Plant Ownership Agreement between KPCo and WPCo pursuant to which WPCo would replace KPCo as the operator of the Mitchell Plant. Subsequently, the KPSC and WVPSC intervened in the FERC proceeding and have recommended that the FERC dismiss or reject AEP's request, or defer ruling on AEP's request until both the retail commissions have rendered decisions. In February 2022, AEP filed a motion to withdraw its filing with the FERC, noting that AEP intends to re-file its request after the KPSC and WVPSC have reviewed the agreements. In the WVPSC proceeding, intervenor testimony is expected in March 2022 and a hearing is scheduled to occur in April 2022.

In January 2022, intervenor testimony was filed with the KPSC, recommending the KPSC either reject the new proposed Mitchell Plant Ownership Agreement or approve the agreement with certain modifications including a revision to the buyout provision that would set WPCo's Mitchell Plant purchase price at the greater of fair market value or net book value. The intervenor testimony also recommends the KPSC reject the proposed Mitchell Plant Operations and Maintenance Agreement, which the testimony stated should be modified to remove references to the Mitchell Plant Ownership Agreement. In February 2022, AEP filed rebuttal testimony with the KPSC opposing the intervenor testimony filed in January 2022. AEP's rebuttal testimony also discusses an alternative proposal to the fair market value provision included in the proposed Mitchell Plant Ownership Agreement. Under the alternative proposal, KPCo's and WPCo's interest in the Mitchell Plant would be divided by unit if the plant is not retired before the end of 2028 and a mutual agreement cannot be reached on a buyout price. Under the alternative proposal, mutual agreement on the buyout price or unit disposition would need to be finalized by May 2025, with a division of plant ownership by unit effective January 1, 2029, unless otherwise agreed. A hearing on the Mitchell Plant agreements is scheduled with the KPSC in March 2022. See "Disposition of KPCo and KTCO" section of Note 1 for additional information.

As of December 31, 2021, KPCo's share of the Mitchell Plant's ELG investment balance in CWIP was \$3.3 million. As of December 31, 2021, the net book value of KPCo's share of the Mitchell Plant, before cost of removal including CWIP and inventory, was \$586.1 million.

If any of the ELG costs are not approved for recovery and/or the retirement date of the Mitchell Plant is accelerated to 2028 without commensurate cost recovery, it would reduce future net income and cash flows and impact financial condition.

## 5. EFFECTS OF REGULATION

### Regulatory Assets and Liabilities

Regulatory assets and liabilities are comprised of the following items:

Regulatory Assets:	December 31,		Remaining Recovery Period
	2021	2020	
	(in thousands)		
<b>Current Regulatory Assets</b>			
Under-recovered Fuel Costs - does not earn a return	\$ 8,216	\$ —	1 year
<b>Total Current Regulatory Assets</b>	<b>\$ 8,216</b>	<b>\$ —</b>	
<b>Noncurrent Regulatory Assets</b>			
<b>Regulatory assets pending final regulatory approval:</b>			
<u>Regulatory Assets Currently Earning a Return</u>			
Kentucky Deferred Purchased Power Expenses	\$ 47,528	\$ 41,267	
<b>Total Regulatory Assets Currently Earning a Return</b>	<b>47,528</b>	<b>41,267</b>	
<u>Regulatory Assets Currently Not Earning a Return</u>			
Storm Related Costs (a)	56,506	10,708	
Other Regulatory Assets Pending Final Regulatory Approval	893	2,065	
<b>Total Regulatory Assets Currently Not Earning a Return</b>	<b>57,399</b>	<b>12,773</b>	
<b>Total Regulatory Assets Pending Final Regulatory Approval</b>	<b>104,927</b>	<b>54,040</b>	
<b>Regulatory assets approved for recovery:</b>			
<u>Regulatory Assets Currently Earning a Return</u>			
Plant Retirement Costs	193,229	203,967	19 years
Plant Retirement Costs - Asset Retirement Obligation Costs	109,577	107,136	19 years
Plant Retirement Costs - Materials and Supplies	3,016	3,016	19 years
Other Regulatory Assets Approved for Recovery	928	926	various
<b>Total Regulatory Assets Currently Earning a Return</b>	<b>306,750</b>	<b>315,045</b>	
<u>Regulatory Assets Currently Not Earning a Return</u>			
Fuel and Purchased Power Rider	28,727	22,470	2 years
Pension and OPEB Funded Status	12,236	29,050	12 years
Environmental Costs	5,920	6,146	2 years
Plant Retirement Costs - Asset Retirement Obligation Costs	4,721	9,917	19 years
Postemployment Benefits	3,410	3,437	3 years
Storm Related Costs	2,167	4,233	2 years
Other Regulatory Assets Approved for Recovery	7,599	5,807	various
<b>Total Regulatory Assets Currently Not Earning a Return</b>	<b>64,780</b>	<b>81,060</b>	
<b>Total Regulatory Assets Approved for Recovery</b>	<b>371,530</b>	<b>396,105</b>	
<b>Total Noncurrent Regulatory Assets</b>	<b>\$ 476,457</b>	<b>\$ 450,145</b>	

(a) KPCo will seek recovery of these costs during the next base rate case.

Regulatory Liabilities:	December 31,		Remaining Refund Period
	2021	2020	
	(in thousands)		
<b>Current Regulatory Liability</b>			
Over-recovered Fuel Costs - does not pay a return	\$ —	\$ 313	
<b>Total Current Regulatory Liabilities</b>	<u>\$ —</u>	<u>\$ 313</u>	
<b>Noncurrent Regulatory Liabilities</b>			
<b>Deferred Investment Tax Credits</b>			
<b>Regulatory liabilities pending final regulatory determination:</b>			
<u>Regulatory Liabilities Currently Not Paying a Return</u>			
Other Regulatory Liabilities Pending Final Regulatory Determination	\$ 2,098	\$ 1,332	
<b>Total Regulatory Liabilities Pending Final Regulatory Determination</b>	<u>2,098</u>	<u>1,332</u>	
<b>Regulatory liabilities approved for payment:</b>			
<u>Regulatory Liabilities Currently Paying a Return</u>			
Asset Removal Costs	57,793	39,729	(a)
<b>Total Regulatory Liabilities Currently Paying a Return</b>	<u>57,793</u>	<u>39,729</u>	
<u>Regulatory Liabilities Currently Not Paying a Return</u>			
Unrealized Gain on Forward Commitments	3,199	356	3 years
PJM Transmission Enhancement Refund	2,644	2,636	4 years
Other Regulatory Liabilities Approved for Payment	1,559	602	various
<b>Total Regulatory Liabilities Currently Not Paying a Return</b>	<u>7,402</u>	<u>3,594</u>	
<u>Income Tax Related Regulatory Liabilities (b)</u>			
Excess ADIT Associated with Certain Depreciable Property	120,620	125,876	(c)
Excess ADIT that is Not Subject to Rate Normalization Requirements	81,377	118,165	2 years
Income Taxes Subject to Flow Through	(128,784)	(155,453)	22 years
<b>Total Income Tax Related Regulatory Liabilities</b>	<u>73,213</u>	<u>88,588</u>	
<b>Total Regulatory Liabilities Approved for Payment</b>	<u>138,408</u>	<u>131,911</u>	
<b>Total Noncurrent Regulatory Liabilities and Deferred Investment Tax Credits</b>	<u>\$ 140,506</u>	<u>\$ 133,243</u>	

- (a) Relieved as removal costs are incurred.  
(b) Predominately pays a return due to the inclusion of Excess ADIT in rate base.  
(c) Refunded using Average Rate Assumption Method.

## 6. 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.

### COMMITMENTS

KPCo has substantial commitments to support its business. KPCo purchases fuel, energy and capacity contracts as part of its normal course of business. Certain contracts contain penalty provisions for early termination.

In accordance with the accounting guidance for "Commitments", the following table summarizes KPCo's actual contractual commitments as of December 31, 2021:

<u>Contractual Commitments</u>	<u>Less Than 1 Year</u>	<u>2-3 Years</u>	<u>4-5 Years</u>	<u>After 5 Years</u>	<u>Total</u>
			(in thousands)		
Fuel Purchase Contracts (a)(b)	\$ 57,981	\$ 48,538	\$ 11,985	\$ 26,466	\$ 144,970
Energy and Capacity Purchase Contracts	58,141	—	—	—	58,141
<b>Total</b>	<u>\$ 116,122</u>	<u>\$ 48,538</u>	<u>\$ 11,985</u>	<u>\$ 26,466</u>	<u>\$ 203,111</u>

- (a) Represents contractual commitments to purchase coal, natural gas and other consumables as fuel for electric generation along with related transportation of the fuel.
- (b) In the first quarter of 2022, KPCo entered into new fuel purchase contracts related to coal procurement. The new commitments were as follows: \$14.1 million in less than 1 year, \$45.8 million in 2-3 years and \$31.9 million in 4-5 years. These commitments are not included in the tables above.

### 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 December 31, 2021, there were no material liabilities recorded for any indemnifications.

AEPSA 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.

## *Lease Obligations*

KPCo leases certain equipment under master lease agreements. See “Master Lease Agreements” section of Note 11 for additional information.

## **CONTINGENCIES**

### ***Insurance and Potential Losses***

KPCo maintains insurance coverage normal and customary for an electric utility, subject to various deductibles. KPCo also maintains property and casualty insurance that may cover certain physical damage or third-party injuries caused by cyber security incidents. Insurance coverage includes all risks of physical loss or damage to assets, subject to insurance policy conditions and exclusions. Covered property generally includes power plants, substations, facilities and inventories. Excluded property generally includes transmission and distribution lines, poles and towers. The insurance programs also generally provide coverage against loss arising from certain claims made by third-parties and are in excess of KPCo’s retentions. Coverage is generally provided by a combination of the protected cell of EIS and/or various industry mutual and/or commercial insurance carriers.

Some potential losses or liabilities may not be insurable or the amount of insurance carried may not be sufficient to meet potential losses and liabilities, including, but not limited to, liabilities relating to a cyber security incident. Future losses or liabilities, if they occur, which are not completely insured, unless recovered from customers, could reduce future net income and cash flows and impact financial condition.

### ***The Comprehensive Environmental Response Compensation and Liability Act (Superfund) and State Remediation***

By-products from the generation of electricity include materials such as ash, slag and sludge. Coal combustion by-products, which constitute the overwhelming percentage of these materials, are typically treated and deposited in captive disposal facilities or are beneficially utilized. In addition, the generation plants and transmission and distribution facilities have used asbestos, polychlorinated biphenyls and other hazardous and non-hazardous materials. KPCo currently incurs costs to dispose of these substances safely.

Superfund addresses clean-up of hazardous substances that are released to the environment. The Federal EPA administers the clean-up programs. Several states enacted similar laws. As of December 31, 2021, there is one site for which KPCo has received an information request which could lead to a Potentially Responsible Party designation. In the instance where KPCo has been named a defendant, disposal or recycling activities were in accordance with the then-applicable laws and regulations. Superfund does not recognize compliance as a defense, but imposes strict liability on parties who fall within its broad statutory categories. Liability has been resolved for a number of sites with no significant effect on net income.

Management evaluates the potential liability for each site separately, but several general statements can be made about potential future liability. Allegations that materials were disposed at a particular site are often unsubstantiated and the quantity of materials deposited at a site can be small and often non-hazardous. Although Superfund liability has been interpreted by the courts as joint and several, typically many parties are named for each site and several of the parties are financially sound enterprises. As of December 31, 2021, management’s estimates do not anticipate material clean-up costs for the identified site.



### ***Claims Challenging Transition of American Electric Power System Retirement Plan to Cash Balance Formula***

Four participants in The American Electric Power System Retirement Plan (the Plan) filed a class action complaint in December 2021 in the U.S. District Court for the Southern District of Ohio against AEPSC and the Plan. When the Plan's benefit formula was changed in the year 2000, AEP provided a special provision for employees hired before January 1, 2001, allowing them to continue benefit accruals under the then benefit formula for a full 10 years alongside of the new cash balance benefit formula then being implemented. Employees who were hired on or after January 1, 2001 accrued benefits only under the new cash balance benefit formula. The Plaintiffs assert a number of claims on behalf of themselves and the purported class, including that: (a) the Plan violates the requirements under the Employee Retirement Income Security Act (ERISA) intended to preclude back-loading the accrual of benefits to the end of a participant's career, (b) the Plan violates the age discrimination prohibitions of ERISA and the Age Discrimination in Employment Act and (c) AEP failed to provide required notice regarding the changes to the Plan. Among other relief, the Complaint seeks reformation of the Plan to provide additional benefits and the recovery of plan benefits for former employees under such reformed plan. The Plaintiffs previously had submitted claims for additional plan benefits to AEP, which were denied. On February 15, 2022, AEPSC and the Plan filed a motion to dismiss the complaint for failure to state a claim. AEP will continue to defend against the claims. Management is unable to determine a range of potential losses that is reasonably possible of occurring.

## 7. BENEFIT PLANS

For a discussion of investment strategy, investment limitations, target asset allocations and the classification of investments within the fair value hierarchy, see “Fair Value Measurements of Assets and Liabilities” and “Investments Held in Trust for Future Liabilities” sections of Note 1.

KPCo participates in an AEP 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 AEP to provide health and life insurance benefits for retired employees.

KPCo recognizes its funded status associated with defined benefit pension and OPEB plans on its balance sheets. Disclosures about the plans are required by the “Compensation - Retirement Benefits” accounting guidance. KPCo recognizes an asset for a plan’s overfunded status or a liability for a plan’s underfunded status and recognizes, as a component of other comprehensive income, the changes in the funded status of the plan that arise during the year that are not recognized as a component of net periodic benefit cost. KPCo records a regulatory asset instead of other comprehensive income for qualifying benefit costs of regulated operations that for rate-making purposes are deferred for future recovery. The cumulative funded status adjustment is equal to the remaining unrecognized deferrals for unamortized actuarial losses or gains, prior service costs and transition obligations, such that remaining deferred costs result in an AOCI equity reduction or regulatory asset and deferred gains result in an AOCI equity addition or regulatory liability.

### *Actuarial Assumptions for Benefit Obligations*

The weighted-average assumptions used in the measurement of benefit obligations are shown in the following table:

<u>Assumptions</u>	<u>Pension Plans</u>		<u>OPEB</u>	
	<u>December 31,</u>			
	<u>2021</u>	<u>2020</u>	<u>2021</u>	<u>2020</u>
Discount Rate	2.90 %	2.50 %	2.90 %	2.55 %
Interest Crediting Rate	4.00 %	4.00 %	NA	NA
Rate of Compensation Increase	4.90 % (a)	4.80 % (a)	NA	NA

(a) Rates are for base pay only. In addition, an amount is added to reflect target incentive compensation for exempt employees and overtime and incentive pay for nonexempt employees.

NA Not applicable.

A duration-based method is used to determine the discount rate for the plans. A hypothetical portfolio of high quality corporate bonds is constructed with cash flows matching the benefit plan liability. The composite yield on the hypothetical bond portfolio is used as the discount rate for the plan.

For 2021, the rate of compensation increase assumed varies with the age of the employee, ranging from 3% per year to 11.5% per year, with an average increase of 4.9%.

### **Actuarial Assumptions for Net Periodic Benefit Costs**

The weighted-average assumptions used in the measurement of benefit costs are shown in the following table:

<b>Assumptions</b>	<b>Pension Plans</b>		<b>OPEB</b>	
	<b>Year Ended December 31,</b>			
	<b>2021</b>	<b>2020</b>	<b>2021</b>	<b>2020</b>
Discount Rate	2.50 %	3.25 %	2.55 %	3.30 %
Interest Crediting Rate	4.00 %	4.00 %	NA	NA
Expected Return on Plan Assets	4.75 %	5.75 %	4.75 %	5.50 %
Rate of Compensation Increase	4.90 % (a)	4.80 % (a)	NA	NA

(a) Rates are for base pay only. In addition, an amount is added to reflect target incentive compensation for exempt employees and overtime and incentive pay for nonexempt employees.

NA Not applicable.

The expected return on plan assets was determined by evaluating historical returns, the current investment climate (yield on fixed income securities and other recent investment market indicators), rate of inflation, third-party forecasts and current prospects for economic growth.

The health care trend rate assumptions used for OPEB plans measurement purposes are shown below:

<b>Health Care Trend Rates</b>	<b>December 31,</b>	
	<b>2021</b>	<b>2020</b>
Initial	6.25 %	6.50 %
Ultimate	4.50 %	4.50 %
Year Ultimate Reached	2029	2029

### **Significant Concentrations of Risk within Plan Assets**

In addition to establishing the target asset allocation of plan assets, the investment policy also places restrictions on securities to limit significant concentrations within plan assets. The investment policy establishes guidelines that govern maximum market exposure, security restrictions, prohibited asset classes, prohibited types of transactions, minimum credit quality, average portfolio credit quality, portfolio duration and concentration limits. The guidelines were established to mitigate the risk of loss due to significant concentrations in any investment. The plans are monitored to control security diversification and ensure compliance with the investment policy. As of December 31, 2021, the assets were invested in compliance with all investment limits. See "Investments Held in Trust for Future Liabilities" section of Note 1 for limit details.

### ***Benefit Plan Obligations, Plan Assets and Funded Status***

For the year ended December 31, 2021, the pension plans had an actuarial gain primarily due to an increase in the discount rate, partially offset by less favorable demographic experience than expected, resulting from the updated census information as of January 1, 2021. For the year ended December 31, 2021, the OPEB plans had an actuarial gain primarily due to an increase in the discount rate and an update of the projected reimbursements from the Employer Group Waiver Program under Medicare Part D. For the year ended December 31, 2020, the pension plans had an actuarial loss primarily due to a decrease in the discount rate, partially offset by a decrease in the assumed rate used to convert account balances to annuities. For the year ended December 31, 2020, the OPEB plans had an actuarial loss primarily due to a decrease in the discount rate and an update to the health care trend assumption, partially offset by updated projected per capita claims costs due to rate negotiations for Medicare advantage premium rates. The following table provides a reconciliation of the changes in the plans' benefit obligations, fair value of plan assets and funded status. The benefit obligation for the defined benefit pension and OPEB plans are the projected benefit obligation and the accumulated benefit obligation, respectively.

	<b>Pension Plans</b>		<b>OPEB</b>	
	<b>2021</b>	<b>2020</b>	<b>2021</b>	<b>2020</b>
	<b>(in thousands)</b>			
<b>Change in Benefit Obligation</b>				
Benefit Obligation as of January 1,	\$ 198,433	\$ 188,085	\$ 45,058	\$ 45,550
Service Cost	3,477	3,119	283	299
Interest Cost	4,840	5,971	1,096	1,493
Actuarial (Gain) Loss	(9,831)	13,995	(5,851)	2,110
Plan Amendments	—	—	(216)	(470)
Benefit Payments	(12,720)	(12,737)	(5,156)	(5,514)
Participant Contributions	—	—	1,708	1,579
Medicare Subsidy	—	—	10	11
<b>Benefit Obligation as of December 31,</b>	<b>\$ 184,199</b>	<b>\$ 198,433</b>	<b>\$ 36,932</b>	<b>\$ 45,058</b>
<b>Change in Fair Value of Plan Assets</b>				
Fair Value of Plan Assets as of January 1,	\$ 208,552	\$ 186,407	\$ 75,920	\$ 68,972
Actual Gain on Plan Assets	8,095	32,107	4,960	10,882
Company Contributions	5	2,775	1	1
Participant Contributions	—	—	1,708	1,579
Benefit Payments	(12,720)	(12,737)	(5,156)	(5,514)
<b>Fair Value of Plan Assets as of December 31,</b>	<b>\$ 203,932</b>	<b>\$ 208,552</b>	<b>\$ 77,433</b>	<b>\$ 75,920</b>
<b>Funded Status as of December 31,</b>	<b>\$ 19,733</b>	<b>\$ 10,119</b>	<b>\$ 40,501</b>	<b>\$ 30,862</b>

### ***Amounts Recognized on the Balance Sheets***

	<b>Pension Plans</b>		<b>OPEB</b>	
	<b>2021</b>	<b>2020</b>	<b>December 31, 2021</b>	<b>2020</b>
	<b>(in thousands)</b>			
Employee Benefits and Pension Assets – Prepaid Benefit Costs	\$ 19,832	\$ 10,200	\$ 40,501	\$ 30,862
Other Current Liabilities – Accrued Short-term Benefit Liability	(3)	(1)	—	—
Employee Benefits and Pension Obligations – Accrued Long-term Benefit Liability	(96)	(80)	—	—
<b>Funded Status</b>	<b>\$ 19,733</b>	<b>\$ 10,119</b>	<b>\$ 40,501</b>	<b>\$ 30,862</b>

**Amounts Included in Regulatory Assets, Deferred Income Taxes and AOCI**

The following table shows the components of the plans included in Regulatory Assets, Deferred Income Taxes and AOCI:

<b>Components</b>	<b>Pension Plans</b>		<b>OPEB</b>	
	<b>December 31,</b>			
	<b>2021</b>	<b>2020</b>	<b>2021</b>	<b>2020</b>
	<b>(in thousands)</b>			
Net Actuarial (Gain) Loss	\$ 22,630	\$ 35,498	\$ (6,622)	\$ 710
Prior Service Credit	—	—	(5,987)	(8,270)
<b>Recorded as</b>				
Regulatory Assets	\$ 21,923	\$ 34,593	\$ (9,687)	\$ (5,543)
Deferred Income Taxes	148	190	(614)	(424)
Net of Tax AOCI	559	715	(2,308)	(1,593)

Components of the change in amounts included in Regulatory Assets, Deferred Income Taxes and AOCI were as follows:

<b>Components</b>	<b>Pension Plans</b>		<b>OPEB</b>	
	<b>2021</b>	<b>2020</b>	<b>2021</b>	<b>2020</b>
		<b>(in thousands)</b>		
Actuarial Gain During the Year	\$ (9,345)	\$ (8,220)	\$ (7,332)	\$ (5,034)
Amortization of Actuarial Loss	(3,523)	(3,292)	—	(239)
Prior Service Credit	—	—	(216)	(461)
Amortization of Prior Service Credit	—	—	2,499	2,452
<b>Change for the Year Ended December 31,</b>	<b>\$ (12,868)</b>	<b>\$ (11,512)</b>	<b>\$ (5,049)</b>	<b>\$ (3,282)</b>

**Determination of Pension Expense**

The determination of pension expense or income is based on a market-related valuation of assets which reduces year-to-year volatility. This market-related valuation recognizes investment gains or losses over a five-year period from the year in which they occur. Investment gains or losses for this purpose are the difference between the expected return calculated using the market-related value of assets and the actual return.

**Pension and OPEB Assets**

The fair value tables within Pension and OPEB Assets present the classification of assets for AEP within the fair value hierarchy. All Level 1, 2, 3 and Other amounts can be allocated to KPCo using the percentages below:

<b>Pension Plan</b>		<b>OPEB</b>	
<b>December 31,</b>			
<b>2021</b>	<b>2020</b>	<b>2021</b>	<b>2020</b>
3.8 %	3.8 %	3.8 %	3.9 %

The following table presents the classification of pension plan assets for AEP within the fair value hierarchy as of December 31, 2021:

Asset Class	Level 1	Level 2	Level 3	Other	Total	Year End Allocation
			(in millions)			
Equities (a):						
Domestic	\$ 388.9	\$ —	\$ —	\$ —	\$ 388.9	7.2 %
International	465.7	—	—	—	465.7	8.7 %
Common Collective Trusts (c)	—	—	—	463.9	463.9	8.7 %
Subtotal – Equities	854.6	—	—	463.9	1,318.5	24.6 %
Fixed Income (a):						
United States Government and Agency Securities	0.1	1,557.6	—	—	1,557.7	29.1 %
Corporate Debt	—	1,295.9	—	—	1,295.9	24.2 %
Foreign Debt	—	259.4	—	—	259.4	4.8 %
State and Local Government	—	57.1	—	—	57.1	1.1 %
Other – Asset Backed	—	1.3	—	—	1.3	— %
Subtotal – Fixed Income	0.1	3,171.3	—	—	3,171.4	59.2 %
Infrastructure (c)	—	—	—	92.1	92.1	1.7 %
Real Estate (c)	—	—	—	232.6	232.6	4.4 %
Alternative Investments (c)	—	—	—	448.8	448.8	8.4 %
Cash and Cash Equivalents (c)	—	64.3	—	53.4	117.7	2.2 %
Other – Pending Transactions and Accrued Income (b)	—	—	—	(28.2)	(28.2)	(0.5)%
<b>Total</b>	<b>\$ 854.7</b>	<b>\$ 3,235.6</b>	<b>\$ —</b>	<b>\$ 1,262.6</b>	<b>\$ 5,352.9</b>	<b>100.0 %</b>

- (a) Includes investment securities loaned to borrowers under the securities lending program. See the “Investments Held in Trust for Future Liabilities” section of Note 1 for additional information.
- (b) Amounts in “Other” column primarily represent accrued interest, dividend receivables and transactions pending settlement.
- (c) Amounts in “Other” column represent investments for which fair value is measured using net asset value per-share.

The following table presents the classification of OPEB plan assets for AEP within the fair value hierarchy as of December 31, 2021:

Asset Class	Level 1	Level 2	Level 3 (in millions)	Other	Total	Year End Allocation
Equities:						
Domestic	\$ 474.0	\$ —	\$ —	\$ —	\$ 474.0	23.2 %
International	296.3	—	—	—	296.3	14.5 %
Common Collective Trusts (b)	—	—	—	265.0	265.0	13.0 %
Subtotal – Equities	770.3	—	—	265.0	1,035.3	50.7 %
Fixed Income:						
Common Collective Trust Debt (b)	—	—	—	167.7	167.7	8.2 %
United States Government and Agency Securities	—	222.4	—	—	222.4	10.9 %
Corporate Debt	—	233.2	—	—	233.2	11.4 %
Foreign Debt	—	39.8	—	—	39.8	2.0 %
State and Local Government	91.9	13.6	—	—	105.5	5.1 %
Subtotal – Fixed Income	91.9	509.0	—	167.7	768.6	37.6 %
Trust Owned Life Insurance:						
International Equities	—	23.4	—	—	23.4	1.1 %
United States Bonds	—	171.3	—	—	171.3	8.4 %
Subtotal – Trust Owned Life Insurance	—	194.7	—	—	194.7	9.5 %
Cash and Cash Equivalents (b)	33.0	—	—	6.7	39.7	1.9 %
Other – Pending Transactions and Accrued Income (a)	—	—	—	6.0	6.0	0.3 %
<b>Total</b>	<b>\$ 895.2</b>	<b>\$ 703.7</b>	<b>\$ —</b>	<b>\$ 445.4</b>	<b>\$ 2,044.3</b>	<b>100.0 %</b>

(a) Amounts in “Other” column primarily represent accrued interest, dividend receivables and transactions pending settlement.

(b) Amounts in “Other” column represent investments for which fair value is measured using net asset value per-share.

The following table presents the classification of pension plan assets for AEP within the fair value hierarchy as of December 31, 2020:

Asset Class	Level 1	Level 2	Level 3	Other	Total	Year End Allocation
			(in millions)			
Equities (a):						
Domestic	\$ 542.3	\$ —	\$ —	\$ —	\$ 542.3	9.7 %
International	676.3	—	—	—	676.3	12.2 %
Common Collective Trusts (c)	—	—	—	650.0	650.0	11.7 %
Subtotal – Equities	1,218.6	—	—	650.0	1,868.6	33.6 %
Fixed Income (a):						
United States Government and Agency Securities	(1.4)	1,134.1	—	—	1,132.7	20.4 %
Corporate Debt	—	1,425.0	—	—	1,425.0	25.6 %
Foreign Debt	—	214.0	—	—	214.0	3.9 %
State and Local Government	—	56.0	—	—	56.0	1.0 %
Other – Asset Backed	—	0.8	—	—	0.8	— %
Subtotal – Fixed Income	(1.4)	2,829.9	—	—	2,828.5	50.9 %
Infrastructure (c)	—	—	—	91.1	91.1	1.6 %
Real Estate (c)	—	—	—	231.6	231.6	4.2 %
Alternative Investments (c)	—	—	—	431.8	431.8	7.8 %
Cash and Cash Equivalents (c)	—	49.3	—	58.2	107.5	1.9 %
Other – Pending Transactions and Accrued Income (b)	—	—	—	(2.5)	(2.5)	— %
<b>Total</b>	<b>\$ 1,217.2</b>	<b>\$ 2,879.2</b>	<b>\$ —</b>	<b>\$ 1,460.2</b>	<b>\$ 5,556.6</b>	<b>100.0 %</b>

- (a) Includes investment securities loaned to borrowers under the securities lending program. See the “Investments Held in Trust for Future Liabilities” section of Note 1 for additional information.
- (b) Amounts in “Other” column primarily represent accrued interest, dividend receivables and transactions pending settlement.
- (c) Amounts in “Other” column represent investments for which fair value is measured using net asset value per-share.



The following table presents the classification of OPEB plan assets for AEP within the fair value hierarchy as of December 31, 2020:

Asset Class	Level 1	Level 2	Level 3 (in millions)	Other	Total	Year End Allocation
Equities:						
Domestic	\$ 399.9	\$ —	\$ —	\$ —	\$ 399.9	20.6 %
International	290.7	—	—	—	290.7	14.9 %
Common Collective Trusts (b)	—	—	—	264.7	264.7	13.6 %
Subtotal – Equities	690.6	—	—	264.7	955.3	49.1 %
Fixed Income:						
Common Collective Trust – Debt (b)	—	—	—	186.4	186.4	9.6 %
United States Government and Agency Securities	(0.2)	199.7	—	—	199.5	10.2 %
Corporate Debt	—	248.7	—	—	248.7	12.8 %
Foreign Debt	—	34.9	—	—	34.9	1.8 %
State and Local Government	73.9	13.1	—	—	87.0	4.5 %
Subtotal – Fixed Income	73.7	496.4	—	186.4	756.5	38.9 %
Trust Owned Life Insurance:						
International Equities	—	64.8	—	—	64.8	3.3 %
United States Bonds	—	135.9	—	—	135.9	7.0 %
Subtotal – Trust Owned Life Insurance	—	200.7	—	—	200.7	10.3 %
Cash and Cash Equivalents (b)	26.3	—	—	5.7	32.0	1.6 %
Other – Pending Transactions and Accrued Income (a)	—	—	—	2.2	2.2	0.1 %
<b>Total</b>	<b>\$ 790.6</b>	<b>\$ 697.1</b>	<b>\$ —</b>	<b>\$ 459.0</b>	<b>\$ 1,946.7</b>	<b>100.0 %</b>

(a) Amounts in “Other” column primarily represent accrued interest, dividend receivables and transactions pending settlement.

(b) Amounts in “Other” column represent investments for which fair value is measured using net asset value per-share.

### ***Accumulated Benefit Obligation***

The accumulated benefit obligation for the pension plans is as follows:

	<b>December 31,</b>	
	<b>2021</b>	<b>2020</b>
	<b>(in thousands)</b>	
Qualified Pension Plan	\$ 177,132	\$ 191,045
Nonqualified Pension Plan	34	19
<b>Total Accumulated Benefit Obligation</b>	<b>\$ 177,166</b>	<b>\$ 191,064</b>

### ***Obligations in Excess of Fair Values***

The tables below show the underfunded pension plans that had obligations in excess of plan assets.

#### ***Projected Benefit Obligation***

	<b>Underfunded Pension Plans</b>	
	<b>December 31,</b>	
	<b>2021</b>	<b>2020</b>
	<b>(in thousands)</b>	
Projected Benefit Obligation	\$ 98	\$ 81
Fair Value of Plan Assets	—	—
<b>Underfunded Projected Benefit Obligation</b>	<b>\$ (98)</b>	<b>\$ (81)</b>

#### ***Accumulated Benefit Obligation***

	<b>Underfunded Pension Plans</b>	
	<b>December 31,</b>	
	<b>2021</b>	<b>2020</b>
	<b>(in thousands)</b>	
Accumulated Benefit Obligation	\$ 34	\$ 19
Fair Value of Plan Assets	—	—
<b>Underfunded Accumulated Benefit Obligation</b>	<b>\$ (34)</b>	<b>\$ (19)</b>

#### ***Estimated Future Benefit Payments and Contributions***

KPCo expects contributions and payments for the Pension and OPEB plans of \$3.5 million and \$51 thousand, respectively, during 2022. The estimated contributions to the pension trust are at least the minimum amount required by the Employee Retirement Income Security Act and additional discretionary contributions may also be made to maintain the funded status of the plan.

The table below reflects the total benefits expected to be paid from the plan or from KPCo's assets. The payments include the participants' contributions to the plan for their share of the cost. Future benefit payments are dependent on the number of employees retiring, whether the retiring employees elect to receive pension benefits as annuities or as lump sum distributions, future integration of the benefit plans with changes to Medicare and other legislation, future levels of interest rates and variances in actuarial results. The estimated payments for pension benefits and OPEB are as follows:

	<b>Estimated Payments</b>	
	<b>Pension Plans</b>	<b>OPEB</b>
	<b>(in thousands)</b>	
2022	\$ 12,638	\$ 5,002
2023	13,228	4,550
2024	12,520	4,530
2025	12,409	4,459
2026	13,188	4,362
Years 2027 to 2031, in Total	59,324	20,286

### *Components of Net Periodic Benefit Cost*

The following table provides the components of net periodic benefit cost (credit):

	<b>Pension Plans</b>		<b>OPEB</b>	
	<b>Years Ended December 31,</b>		<b>December 31,</b>	
	<b>2021</b>	<b>2020</b>	<b>2021</b>	<b>2020</b>
	<b>(in thousands)</b>			
Service Cost	\$ 3,477	\$ 3,119	\$ 283	\$ 299
Interest Cost	4,840	5,971	1,096	1,493
Expected Return on Plan Assets	(8,583)	(9,891)	(3,479)	(3,763)
Amortization of Prior Service Credit	—	—	(2,499)	(2,452)
Amortization of Net Actuarial Loss	3,523	3,292	—	239
<b>Net Periodic Benefit Cost (Credit)</b>	<b>3,257</b>	<b>2,491</b>	<b>(4,599)</b>	<b>(4,184)</b>
Capitalized Portion	(1,582)	(1,371)	(129)	(131)
<b>Net Periodic Benefit Cost (Credit) Recognized in Expense</b>	<b>\$ 1,675</b>	<b>\$ 1,120</b>	<b>\$ (4,728)</b>	<b>\$ (4,315)</b>

### *American Electric Power System Retirement Savings Plan*

KPCo participates in an AEP sponsored defined contribution retirement savings plan, the American Electric Power System Retirement Savings Plan, for substantially all employees. This qualified plan offers participants an opportunity to contribute a portion of their pay, includes features under Section 401(k) of the Internal Revenue Code and provides for matching contributions. The matching contributions to the plan are 100% of the first 1% of eligible employee contributions and 70% of the next 5% of contributions. The cost for matching contributions totaled \$2.3 million in 2021 and \$2.3 million in 2020.

## 8. 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	December 31,		Unit of Measure
	2021	2020	
	(in thousands)		
Commodity:			
Power	6,927	8,249	MWhs
Heating Oil and Gasoline	305	270	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. For the December 31, 2021 and 2020 balance sheets, KPCo netted \$95 thousand and \$96 thousand, respectively, of cash collateral received from third-parties against short-term and long-term risk management assets and \$0 and \$0, respectively, of cash collateral paid to third-parties against short-term and long-term risk management liabilities.

The following tables represent the gross fair value of KPCo's derivative activity on the balance sheets:

Balance Sheet Location	December 31, 2021		
	Risk Management Contracts – Commodity (a)	Gross Amounts Offset in the Statement of Financial Position (b)	Net Amounts of Assets/Liabilities Presented in the Statement of Financial Position (c)
	(in thousands)		
Current Risk Management Assets	\$ 7,488	\$ (1,502)	\$ 5,986
Long-term Risk Management Assets	46	(46)	—
<b>Total Assets</b>	<u>7,534</u>	<u>(1,548)</u>	<u>5,986</u>
Current Risk Management Liabilities	1,458	(1,407)	51
Long-term Risk Management Liabilities	46	(46)	—
<b>Total Liabilities</b>	<u>1,504</u>	<u>(1,453)</u>	<u>51</u>
<b>Total MTM Derivative Contract Net Assets (Liabilities)</b>	<u>\$ 6,030</u>	<u>\$ (95)</u>	<u>\$ 5,935</u>

Balance Sheet Location	December 31, 2020		
	Risk Management Contracts – Commodity (a)	Gross Amounts Offset in the Statement of Financial Position (b)	Net Amounts of Assets/Liabilities Presented in the Statement of Financial Position (c)
	(in thousands)		
Current Risk Management Assets	\$ 6,751	\$ (3,599)	\$ 3,152
Long-term Risk Management Assets	139	(116)	23
<b>Total Assets</b>	<u>6,890</u>	<u>(3,715)</u>	<u>3,175</u>
Current Risk Management Liabilities	3,746	(3,533)	213
Long-term Risk Management Liabilities	105	(86)	19
<b>Total Liabilities</b>	<u>3,851</u>	<u>(3,619)</u>	<u>232</u>
<b>Total MTM Derivative Net Assets (Liabilities)</b>	<u>\$ 3,039</u>	<u>\$ (96)</u>	<u>\$ 2,943</u>

- (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 in the statement of financial position.

The table below presents KPCo's amount of gain (loss) recognized on risk management contracts:

Location of Gain (Loss)	Years Ended December 31,	
	2021	2020
	(in thousands)	
Electric Generation, Transmission and Distribution Revenues	\$ (12)	\$ 182
Purchased Electricity for Resale	118	103
Other Operation	90	(61)
Maintenance	116	(98)
Regulatory Assets (a)	(1,077)	437
Regulatory Liabilities (a)	11,192	7,642
<b>Total Gain on Risk Management Contracts</b>	<u>\$ 10,427</u>	<u>\$ 8,205</u>

- (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 for Resale 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 years ended 2021 and 2020 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 years ended 2021 and 2020, 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 December 31, 2021 and 2020.

The actual amounts that KPCo reclassifies from Accumulated Other Comprehensive Income (Loss) to Net Income can differ due to market price changes. As of December 31, 2021, 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, surety bonds 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 December 31, 2021 and 2020, KPCo did not have derivative contracts with collateral triggering events in a net liability position.

#### *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. The following table represents: (a) the fair value of these derivative liabilities subject to cross-default provisions prior to consideration of contractual netting arrangements, (b) the amount this exposure has been reduced by cash collateral posted and (c) if a cross-default provision would have been triggered, the settlement amount that would be required after considering contractual netting arrangements:

	<b>December 31,</b>	
	<b>2021</b>	<b>2020</b>
	<b>(in thousands)</b>	
Liabilities for Contracts with Cross Default Provisions Prior to Contractual Netting Arrangements	\$ 89	\$ 154
Additional Settlement Liability if Cross Default Provision is Triggered	51	16



## 9. FAIR VALUE MEASUREMENTS

### *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:

	December 31,			
	2021		2020	
	<u>Book Value</u>	<u>Fair Value</u>	<u>Book Value</u>	<u>Fair Value</u>
Long-term Debt	\$ 1,103,105	\$ 1,224,664	\$ 992,650	\$ 1,166,298

## ***Fair Value Measurements of Financial Assets and Liabilities***

For a discussion of fair value accounting and the classification of assets and liabilities within the fair value hierarchy, see the “Fair Value Measurements of Assets and Liabilities” section of Note 1.

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 December 31, 2021**

<b>Assets:</b>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Other</u>	<u>Total</u>
	(in thousands)				
<b>Risk Management Assets</b>					
Risk Management Commodity Contracts (a) (b)	\$ —	\$ 1,096	\$ 6,439	\$ (1,549)	\$ 5,986
<b>Liabilities:</b>					
<b>Risk Management Liabilities</b>					
Risk Management Commodity Contracts (a) (b)	\$ —	\$ 937	\$ 568	\$ (1,454)	\$ 51

### **Assets and Liabilities Measured at Fair Value on a Recurring Basis December 31, 2020**

<b>Assets:</b>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Other</u>	<u>Total</u>
	(in thousands)				
<b>Risk Management Assets</b>					
Risk Management Commodity Contracts (a) (b)	\$ —	\$ 3,669	\$ 3,204	\$ (3,698)	\$ 3,175
<b>Liabilities:</b>					
<b>Risk Management Liabilities</b>					
Risk Management Commodity Contracts (a) (b)	\$ —	\$ 3,655	\$ 179	\$ (3,602)	\$ 232

(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.”

(b) Substantially comprised of power contracts.

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:

<b>Year Ended December 31, 2021</b>	<b>Net Risk Management Assets (Liabilities) (in thousands)</b>
<b>Balance as of December 31, 2020</b>	\$ 3,025
Realized Gain (Loss) Included in Net Income (or Changes in Net Assets) (a) (b)	1,858
Settlements	(4,950)
Transfers out of Level 3 (c)	8
Changes in Fair Value Allocated to Regulated Jurisdictions (d)	5,930
<b>Balance as of December 31, 2021</b>	<b>\$ 5,871</b>

  

<b>Year Ended December 31, 2020</b>	<b>Net Risk Management Assets (Liabilities) (in thousands)</b>
<b>Balance as of December 31, 2019</b>	\$ 5,702
Realized Gain (Loss) Included in Net Income (or Changes in Net Assets) (a) (b)	4,084
Settlements	(9,900)
Transfers out of Level 3 (c)	130
Changes in Fair Value Allocated to Regulated Jurisdictions (d)	3,009
<b>Balance as of December 31, 2020</b>	<b>\$ 3,025</b>

- (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) Transfers are recognized based on their value at the beginning of the period that the transfer occurred.
- (d) 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 as of December 31, 2021 and 2020:

**Significant Unobservable Inputs  
December 31, 2021**

	Fair Value		Valuation Technique	Significant Unobservable Input (a)	Input/Range		
	Assets	Liabilities			Low	High	Weighted Average (b)
	(in thousands)						
Energy Contracts	\$ —	\$ 51	Discounted Cash Flow	Forward Market Price	\$ 32.20	\$ 56.54	\$ 44.77
FTRs	6,439	517	Discounted Cash Flow	Forward Market Price	(1.44)	22.19	1.74
<b>Total</b>	<u>\$ 6,439</u>	<u>\$ 568</u>					

**Significant Unobservable Inputs  
December 31, 2020**

	Fair Value		Valuation Technique	Significant Unobservable Input (a)	Input/Range		
	Assets	Liabilities			Low	High	Weighted Average (b)
	(in thousands)						
Energy Contracts	\$ 190	\$ 121	Discounted Cash Flow	Forward Market Price	\$ 10.84	\$ 41.09	\$ 25.08
FTRs	3,014	58	Discounted Cash Flow	Forward Market Price	0.17	4.18	1.03
<b>Total</b>	<u>\$ 3,204</u>	<u>\$ 179</u>					

(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 Energy Contracts and FTRs as of December 31, 2021 and 2020:

**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)

## 10. INCOME TAXES

### *Income Tax Benefit*

The details of KPCo's Income Tax Benefit are as follows:

	<b>Years Ended December 31,</b>	
	<b>2021</b>	<b>2020</b>
	<b>(in thousands)</b>	
<b>Federal:</b>		
Current	\$ (2,970)	\$ (9,655)
Deferred	(20,143)	8,830
<b>Total Federal</b>	<u>(23,113)</u>	<u>(825)</u>
<b>State and Local:</b>		
Current	—	245
Deferred	(4,366)	(3,463)
<b>Total State and Local</b>	<u>(4,366)</u>	<u>(3,218)</u>
<b>Income Tax Benefit</b>	<u>\$ (27,479)</u>	<u>\$ (4,043)</u>

The following is a reconciliation between the federal income taxes computed by multiplying pretax income by the federal statutory tax rate and the income taxes reported:

	<b>Years Ended December 31,</b>	
	<b>2021</b>	<b>2020</b>
	<b>(in thousands)</b>	
Net Income	\$ 50,150	\$ 41,017
Income Tax Benefit	(27,479)	(4,043)
<b>Pretax Income</b>	<u>\$ 22,671</u>	<u>\$ 36,974</u>
Income Taxes on Pretax Income at Statutory Rate (21%)	\$ 4,761	\$ 7,765
Increase (Decrease) in Income Taxes Resulting from the Following Items:		
Depreciation	1,891	1,738
State and Local Income Taxes, Net	(3,449)	(2,542)
Removal Costs	(2,154)	(1,885)
Tax Adjustments (a)	3,098	—
Tax Reform Excess ADIT Reversal (b)	(31,174)	(8,293)
Other	(452)	(826)
<b>Income Tax Benefit</b>	<u>\$ (27,479)</u>	<u>\$ (4,043)</u>
<b>Effective Income Tax Rate</b>	(121.2)%	(10.9)%

- (a) Represents the correction of an adjustment related to Deferred Income Taxes and Income Tax Benefit. Management concluded the misstatement and subsequent correction was not material to prior or current period financial statements.
- (b) In January 2021, as part of the 2020 Kentucky Base Rate Case, the KPSC issued an order that shortened the previously authorized refund period for Excess ADIT that is not subject to normalization requirements from 18 years to 3 years.

### ***Net Deferred Tax Liability***

The following table shows elements of KPCo's net deferred tax liability and significant temporary differences:

	<b>December 31,</b>	
	<b>2021</b>	<b>2020</b>
	<b>(in thousands)</b>	
Deferred Tax Assets	\$ 94,062	\$ 101,993
Deferred Tax Liabilities	(531,214)	(548,047)
<b>Net Deferred Tax Liabilities</b>	<b><u>\$ (437,152)</u></b>	<b><u>\$ (446,054)</u></b>
Property Related Temporary Differences	\$ (310,721)	\$ (300,947)
Amounts Due to Customers for Future Income Taxes	51,754	62,526
Deferred State Income Taxes	(92,617)	(120,361)
Regulatory Assets	(101,155)	(92,015)
Net Operating Loss Carryforward	17,475	7,795
All Other, Net	(1,888)	(3,052)
<b>Net Deferred Tax Liabilities</b>	<b><u>\$ (437,152)</u></b>	<b><u>\$ (446,054)</u></b>

### ***Federal Income Tax Audit Status***

The statute of limitations for the IRS to examine KPCo and other AEP subsidiaries originally filed federal return has expired for tax years 2016 and earlier. In the third quarter of 2019, KPCo and other AEP subsidiaries elected to amend the 2014 through 2017 federal returns. In the first quarter of 2020, the IRS notified KPCo and other AEP subsidiaries that it was beginning an examination of these amended returns, including the net operating losses carryback to 2015 that originated in the 2017 return. As of December 31, 2021, the IRS has not issued any proposed adjustments. KPCo and other AEP subsidiaries have agreed to extend the statute of limitations on the 2017 tax return to December 31, 2022 to allow time for the audit to be completed and the Congressional Joint Committee on Taxation to approve the associated refund claim.

### ***Net Income Tax Operating Loss Carryforward***

KPCo has state net income tax operating loss carryforwards of \$222 million and \$159 million in 2021 and 2020, respectively. As a result, KPCo recognized deferred state income tax benefits in 2021 and 2020 of \$11 million and \$10 million, respectively. Management anticipates future taxable income will be sufficient to realize the state net income tax operating loss tax benefits before the state carryforward begins expiring in 2035.

## 11. LEASES

KPCo leases property, plant and equipment including, but not limited to, fleet, information technology and real estate leases. These leases require payments of non-lease components, including related property taxes, operating and maintenance costs. KPCo does not separate non-lease components from associated lease components. Many of these leases have purchase or renewal options. Leases not renewed are often replaced by other leases. Options to renew or purchase a lease are included in the measurement of lease assets and liabilities if it is reasonably certain that KPCo will exercise the option.

Lease obligations are measured using the discount rate implicit in the lease when that rate is readily determinable. KPCo has visibility into the rate implicit in the lease when assets are leased from selected financial institutions under master leasing agreements. When the implicit rate is not readily determinable, KPCo measures its lease obligation using its estimated secured incremental borrowing rate. Incremental borrowing rates are comprised of an underlying risk-free rate and a secured credit spread relative to the lessee on a matched maturity basis.

Operating lease rentals and finance lease amortization costs are generally charged to Other Operation and Maintenance expense in accordance with rate-making treatment for regulated operations. Interest on finance lease liabilities is generally charged to Interest Expense. Lease costs associated with capital projects are included in Property, Plant and Equipment on the balance sheets. For regulated operations with finance leases, a finance lease asset and offsetting liability are recorded at the present value of the remaining lease payments for each reporting period. Finance leases for nonregulated property are accounted for as if the assets were owned and financed. The components of rental costs were as follows:

Lease Rental Costs	Years Ended December 31,	
	2021	2020
	(in thousands)	
Operating Lease Cost	\$ 3,100	\$ 2,660
Finance Lease Cost:		
Amortization of Finance Leases	920	808
Interest on Finance Leases	125	138
<b>Total Lease Rental Costs (a)</b>	<b>\$ 4,145</b>	<b>\$ 3,606</b>

(a) Excludes variable and short-term lease costs, which were immaterial.

Supplemental information related to leases are shown in the tables below.

Lease Type	Weighted-Average Remaining Lease Term (years):		Weighted-Average Discount Rate	
	December 31,			
	2021	2020	2021	2020
Operating Leases	6.05	6.45	3.33 %	3.44 %
Finance Leases	4.68	5.00	4.00 %	4.08 %

	<b>Years Ended December 31,</b>	
	<b>2021</b>	<b>2020</b>
	<b>(in thousands)</b>	
<b>Cash Paid for Amounts Included in the Measurement of Lease Liabilities</b>		
Operating Cash Flows Used for Operating Leases	\$ 3,089	\$ 2,660
Operating Cash Flows Used for Finance Leases	125	138
Financing Cash Flows Used for Finance Leases	920	808
Non-cash Acquisitions Under Operating Leases	\$ 1,261	\$ 3,915

The following tables show the property, plant and equipment under finance leases and noncurrent assets under operating leases and related obligations recorded on KPCo's balance sheets. Unless shown as a separate line on the balance sheets due to materiality, net operating lease assets are included in Deferred Charges and Other Noncurrent Assets, current finance lease obligations are included in Other Current Liabilities and long-term finance lease obligations are included in Deferred Credits and Other Noncurrent Liabilities on the balance sheets. Lease obligations are not recognized on the balance sheets for lease agreements with a lease term of less than twelve months.

	<b>December 31,</b>	
	<b>2021</b>	<b>2020</b>
	<b>(in thousands)</b>	
<b>Property, Plant and Equipment Under Finance Leases</b>		
Generation	\$ 1,106	\$ 1,406
Other Property, Plant and Equipment	4,348	4,273
Total Property, Plant and Equipment Under Finance Leases	5,454	5,679
Accumulated Amortization	2,599	2,236
<b>Net Property, Plant and Equipment Under Finance Leases</b>	<b>\$ 2,855</b>	<b>\$ 3,443</b>

<b>Obligations Under Finance Leases</b>		
Noncurrent Liability	\$ 2,064	\$ 2,577
Liability Due Within One Year	791	866
<b>Total Obligations Under Finance Leases</b>	<b>\$ 2,855</b>	<b>\$ 3,443</b>

	<b>December 31,</b>	
	<b>2021</b>	<b>2020</b>
	<b>(in thousands)</b>	
<b>Operating Lease Assets</b>	<b>\$ 10,748</b>	<b>\$ 11,928</b>

<b>Obligations Under Operating Leases</b>		
Noncurrent Liability	\$ 8,614	\$ 9,672
Liability Due Within One Year	2,173	2,296
<b>Total Obligations Under Operating Leases</b>	<b>\$ 10,787</b>	<b>\$ 11,968</b>



Future minimum lease payments consisted of the following as of December 31, 2021:

<u>Future Minimum Lease Payments</u>	<u>Finance Leases</u>	<u>Operating Leases</u>
	<u>(in thousands)</u>	
2022	\$ 890	\$ 2,507
2023	715	2,247
2024	598	2,015
2025	331	1,643
2026	245	1,195
After 2026	365	2,332
<b>Total Future Minimum Lease Payments</b>	<u>3,144</u>	<u>11,939</u>
Less: Imputed Interest	289	1,152
<b>Estimated Present Value of Future Minimum Lease Payments</b>	<u>\$ 2,855</u>	<u>\$ 10,787</u>

### ***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 December 31, 2021, the maximum potential loss for these lease agreements was \$1.7 million assuming the fair value of the equipment is zero at the end of the lease term.

### ***Lessor Activity***

KPCo's lessor activity was immaterial as of and for the twelve months ended December 31, 2021 and December 31, 2020, respectively.

## 12. FINANCING ACTIVITIES

### Long-term Debt

The following table details long-term debt outstanding:

Type of Debt	Maturity	Weighted-Average Interest Rate as of December 31, 2021	Interest Rate Ranges as of December 31,		Outstanding as of December 31,	
			2021	2020	2021	2020
(in thousands)						
Senior Unsecured Notes	2021-2047	4.54%	3.13%-8.13%	3.13%-8.13%	\$ 688,400	\$ 728,166
Pollution Control Bonds	2023 (a)	2.35%	2.35%	2.35%	64,823	64,734
Other Long-term Debt	2022-2023	1.01%	0.76%-1.61%	0.81%-1.60%	349,882	199,750
<b>Total Long-term Debt Outstanding</b>					<u>\$ 1,103,105</u>	<u>\$ 992,650</u>

(a) KPCo's Pollution Control Bond is subject to redemption earlier than the maturity date.

As of December 31, 2021, outstanding long-term debt was payable as follows:

	2022	2023	2024	2025	2026	After 2026	Total
(in thousands)							
Principal Amount	\$ 200,000	\$ 215,000	\$ 65,000	\$ —	\$ 200,000	\$ 425,000	\$ 1,105,000
Debt Issuance Costs							(1,895)
<b>Total Long-term Debt Outstanding</b>							<u>\$ 1,103,105</u>

### 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 restriction that prohibits the payment of dividends out of capital accounts without regulatory approval; payment of dividends is allowed out of retained earnings only.

KPCo has credit agreements that contain a covenant that limit its debt to capitalization ratio to 67.5%. As of December 31, 2021, 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 most restrictive dividend limitation for KPCo is through the Federal Power Act. As of December 31, 2021, the maximum amount of restricted net assets of KPCo that may not be distributed to Parent in the form of a loan, advance or dividend was \$578.3 million.

The Federal Power Act restriction does not limit the ability of KPCo to pay dividends out of retained earnings. The credit agreement covenant restrictions can limit the ability of KPCo to pay dividends out of retained earnings. As of December 31, 2021, there were no restrictions on KPCo's ability to pay dividends out of retained earnings.

### Corporate Borrowing Program – AEP System

The AEP System uses a corporate borrowing program to meet the short-term borrowing needs of AEP’s subsidiaries. The corporate borrowing program includes a Utility Money Pool, which funds AEP’s utility subsidiaries. The AEP System Utility Money Pool operates in accordance with the terms and conditions of the AEP System Utility Money Pool agreement filed with the FERC. The amounts of outstanding borrowings from the Utility Money Pool as of December 31, 2021 and 2020 are included in Advances from Affiliates on KPCo’s balance sheets. KPCo’s Utility Money Pool activity and corresponding authorized borrowing limits are described in the following table:

<b>Years Ended December 31,</b>	<b>Maximum Borrowings from the Utility Money Pool</b>	<b>Maximum Loans to the Utility Money Pool</b>	<b>Average Borrowings from the Utility Money Pool</b>	<b>Average Loans to the Utility Money Pool</b>	<b>Borrowings from the Utility Money Pool as of December 31,</b>	<b>Authorized Short-Term Borrowing Limit</b>
	(in thousands)					
2021	\$ 121,608	\$ 43,730	\$ 46,522	\$ 22,427	\$ 47,895	\$ 180,000
2020	126,742	6,572	50,064	5,020	65,647	180,000

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

<b>Years Ended December 31,</b>	<b>Maximum Interest Rate for Funds Borrowed from the Utility Money Pool</b>	<b>Minimum Interest Rate for Funds Borrowed from the Utility Money Pool</b>	<b>Maximum Interest Rate for Funds Loaned to the Utility Money Pool</b>	<b>Minimum Interest Rate for Funds Loaned to the Utility Money Pool</b>	<b>Average Interest Rate for Funds Borrowed from the Utility Money Pool</b>	<b>Average Interest Rate for Funds Loaned to the Utility Money Pool</b>
2021	0.48 %	0.02 %	0.34 %	0.03 %	0.31 %	0.33 %
2020	2.70 %	0.27 %	2.08 %	1.80 %	1.18 %	1.81 %

Interest expense and interest income related to the Utility Money Pool are included in Interest Expense and Interest Income, respectively, on KPCo’s statements of income. For amounts borrowed from and advances to the Utility Money Pool, KPCo incurred the following amounts of interest expense and earned the following amounts of interest income:

	<b>Years Ended December 31,</b>	
	<b>2021</b>	<b>2020</b>
	(in thousands)	
Interest Expense	\$ 166	\$ 676
Interest Income	6	48

### 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. 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 receivable sold.

AEP Credit’s receivables securitization agreement provides a commitment of \$750 million from bank conduits to purchase receivables and was amended in September 2021 to include a \$125 million and a \$625 million facility, which expire in September 2023 and 2024, respectively. As of December 31, 2021, KPCo was in compliance with all requirements under the agreement.

KPCo's amounts of accounts receivable and accrued unbilled revenues under the sale of receivables agreement were \$53.3 million and \$54.8 million as of December 31, 2021 and 2020, respectively.

The fees paid by KPCo to AEP Credit for customer accounts receivable sold were \$1.9 million and \$7.1 million for the years ended December 31, 2021 and 2020, respectively. In 2020, an increase in allowance for doubtful accounts was recognized by AEP Credit in response to the anticipated impact of COVID-19 on the collectability of accounts receivable, which caused an increase in fees paid by KPCo. In 2021, due to higher than expected collections of accounts receivables, allowance for doubtful accounts was adjusted resulting in the issuance of credits to offset the higher fees previously paid and to lower subsequent fees paid. KPCo terminated selling accounts receivable to AEP Credit in the first quarter of 2022, based on the pending sale to Liberty. As a result of the termination, in the first quarter of 2022, KPCo will record an allowance for uncollectible accounts on its balance sheet for those receivables no longer sold to AEP Credit.

KPCo's proceeds on the sale of receivables to AEP Credit were \$595 million and \$501.9 million for the years ended December 31, 2021 and 2020, respectively.

### 13. RELATED PARTY TRANSACTIONS

For other related party transactions, also see “AEP System Tax Allocation Agreement” section of Note 10 in addition to “Corporate Borrowing Program – AEP System” and “Securitized Accounts Receivables – AEP Credit” sections of Note 12.

#### *Power Coordination Agreement*

Effective January 1, 2014, the FERC approved the PCA. Under the PCA, APCo, I&M, KPCo and WPCo are individually responsible for planning their respective capacity obligations. The PCA allows, but does not obligate, APCo, I&M, KPCo and WPCo to participate collectively under a common fixed resource requirement capacity plan in PJM and to participate in specified collective off-system sales and purchase activities.

AEPSC conducts power, capacity, coal, natural gas, interest rate and, to a lesser extent, heating oil, gasoline and other risk management activities on behalf of APCo, I&M, KPCo, PSO, SWEPCo and WPCo. Certain power and natural gas risk management activities for APCo, I&M, KPCo and WPCo are allocated based on the four member companies’ respective equity positions, while power and natural gas risk management activities for PSO and SWEPCo are allocated based on the Operating Agreement.

#### *System Integration Agreement*

Under the SIA, AEPSC allocates physical and financial revenues and expenses from transactions with neighboring utilities, power marketers and other power and natural gas risk management activities based upon the location of such activity. Margins resulting from trading and marketing activities originating in PJM generally accrue to the benefit of APCo, I&M, KPCo and WPCo, while trading and marketing activities originating in SPP generally accrue to the benefit of PSO and SWEPCo. Margins resulting from other transactions are allocated among APCo, I&M, KPCo, PSO, SWEPCo and WPCo based upon the equity positions of these companies.

#### *Affiliated Revenues and Purchases*

The table below shows the revenues derived from auction sales to affiliates, net transmission agreement sales and other revenues as follows:

<b>Related Party Revenues</b>	<b>Years Ended December 31,</b>	
	<b>2021</b>	<b>2020</b>
	<b>(in thousands)</b>	
Sales under Interconnection Agreement	\$ —	\$ 149
Auction Sales to OPCo (a)	—	975
Transmission Agreement Sales	8,991	9,367
Other Revenues	1,551	1,506
<b>Total Affiliated Revenues</b>	<b>\$ 10,542</b>	<b>\$ 11,997</b>

(a) Refer to the Ohio Auctions section below for further information regarding this amount.

The table below shows the purchased power expenses incurred for purchases from affiliates as follows:

<b>Related Party Purchases</b>	<b>Years Ended December 31,</b>	
	<b>2021</b>	<b>2020</b>
	<b>(in thousands)</b>	
Direct Purchases from AEGCo (a)	\$ 93,365	\$ 74,055
<b>Total Affiliated Purchases</b>	<b>\$ 93,365</b>	<b>\$ 74,055</b>

(a) Refer to the “Unit Power Agreements” section below for further information regarding this amount.

The above summarized related party revenues and expenses are reported in Sales to AEP Affiliates and Purchased Electricity from AEP Affiliates on KPCo’s statements of income.

### ***PJM Transmission Service Charges***

The AEP East Companies are parties to the TA, which defines how transmission costs through PJM OATT are allocated among the AEP East Companies on a 12-month average coincident peak basis. Additional costs for transmission services provided by AEPTCo and other transmission affiliates are billed to KPCo through the PJM OATT.

KPCo's net charges recorded as a result of the TA for the years ended December 31, 2021 and 2020 were \$57.1 million and \$48.1 million, respectively, and were recorded in Other Operation expenses on KPCo's statements of income.

### ***Ohio Auctions***

In connection with OPCo's June 2012 - May 2015 ESP, the PUCO ordered OPCo to conduct energy and capacity auctions for its entire SSO load for delivery beginning in June 2015. Certain affiliated entities, including KPCo, participate in the auction process and have been awarded tranches of OPCo's SSO load. Refer to the Affiliated Revenues and Purchases section above for amounts related to these transactions.

### ***Unit Power Agreements***

#### ***UPA between AEGCo and I&M***

A UPA between AEGCo and I&M (the I&M Power Agreement) provides for the sale by AEGCo to I&M of all the power (and the energy associated therewith) available to AEGCo at the Rockport Plant unless it is sold to another utility. Subsequently, I&M assigns 30% of the power to KPCo. I&M is obligated, whether or not power is available from AEGCo, to pay as a demand charge for the right to receive such power (and as an energy charge for any associated energy taken by I&M) net of amounts received by AEGCo from any other sources, sufficient to enable AEGCo to pay all its operating and other expenses, including a rate of return on the common equity of AEGCo as approved by the FERC. The I&M Power Agreement will continue in effect until the debt obligations of AEGCo secured by the Rockport Plant have been satisfied and discharged (currently expected to be December 2028).

#### ***UPA between AEGCo and KPCo***

Pursuant to an assignment between I&M and KPCo and a UPA between AEGCo and KPCo, AEGCo sells KPCo 30% of the power (and the energy associated therewith) available to AEGCo from both units of the Rockport Plant. KPCo pays to AEGCo in consideration for the right to receive such power the same amounts which I&M would have paid AEGCo under the terms of the I&M Power Agreement for such entitlement. The KPCo UPA ends in December 2022.

### ***I&M Barging, Urea Transloading and Other Services***

I&M provides barging, urea transloading and other transportation services to affiliates. Urea is a chemical used to control NO<sub>x</sub> emissions at certain generation plants in the AEP System. KPCo recorded expenses of \$3.1 million and \$3.2 million in 2021 and 2020, respectively, for urea transloading provided by I&M. These expenses were recorded as fuel expenses or other operation expenses.

### ***Central Machine Shop***

APCo operates a facility which repairs and rebuilds specialized components for the generation plants across the AEP System. APCo defers the cost of performing these services on the balance sheet and then transfers the cost to the affiliate for reimbursement. KPCo recorded its assigned portion of these billings as capital or maintenance expenses depending on the nature of the services received. These billings are recoverable from customers. KPCo's billed amounts were \$973 thousand and \$854 thousand for the years ended December 31, 2021 and 2020, respectively.

### ***Sales and Purchases of Property***

KPCo had affiliated sales and purchases of electric property individually amounting to \$100 thousand or more, sales and purchases of meters and transformers, and sales and purchases of transmission property. There were no gains or losses recorded on the transactions. The table below shows the sales and purchases, recorded at net book value, as follows:

	<b>Years Ended December 31,</b>	
	<b>2021</b>	<b>2020</b>
	<b>(in thousands)</b>	
Sales	\$ 431	\$ 825
Purchases	3,995	1,464

The amounts above are recorded in Property, Plant and Equipment on the balance sheets.

### ***Intercompany Billings***

KPCo performs certain utility services for other AEP subsidiaries when necessary or practical. The costs of these services are billed on a direct-charge basis, whenever possible, or on reasonable basis of proration for services that benefit multiple companies. The billings for services are made at cost and include no compensation for the use of equity capital.

#### **14. VARIABLE INTEREST ENTITIES**

The accounting guidance for “Variable Interest Entities” is a consolidation model that considers if a company has a variable interest in a VIE. A VIE is a legal entity that possesses any of the following conditions: the entity’s equity at risk is not sufficient to permit the legal entity to finance its activities without additional subordinated financial support, equity owners are unable to direct the activities that most significantly impact the legal entity’s economic performance (or they possess disproportionate voting rights in relation to the economic interest in the legal entity), or the equity owners lack the obligation to absorb the legal entity’s expected losses or the right to receive the legal entity’s expected residual returns. Entities are required to consolidate a VIE when it is determined that they have a controlling financial interest in a VIE and therefore, are the primary beneficiary of that VIE, as defined by the accounting guidance for “Variable Interest Entities.” In determining whether KPCo is the primary beneficiary of a VIE, management considers whether KPCo has the power to direct the most significant activities of the VIE and is obligated to absorb losses or receive the expected residual returns that are significant to the VIE. Management believes that significant assumptions and judgments were applied consistently. KPCo is not the primary beneficiary of any VIE and has not provided financial or other support to any VIE that was not previously contractually required.

AEPSC provides certain managerial and professional services to AEP’s subsidiaries. Parent is the sole equity owner of AEPSC. AEP management controls the activities of AEPSC. The costs of the services are based on a direct-charge or on a prorated basis and billed to the AEP subsidiary companies at AEPSC’s cost. AEP subsidiaries have not provided financial or other support outside the reimbursement of costs for services rendered. AEPSC finances its operations through cost reimbursement from other AEP subsidiaries. There are no other terms or arrangements between AEPSC and any of the AEP subsidiaries that could require additional financial support from an AEP subsidiary or expose them to losses outside of the normal course of business. AEPSC and its billings are subject to regulation by the FERC. AEP subsidiaries are exposed to losses to the extent they cannot recover the costs of AEPSC through their normal business operations. AEP subsidiaries are considered to have a significant interest in AEPSC due to their activity in AEPSC’s cost reimbursement structure. However, AEP subsidiaries do not have control over AEPSC. AEPSC is consolidated by AEP. In the event AEPSC would require financing or other support outside the cost reimbursement billings, this financing would be provided by AEP. KPCo’s total billings from AEPSC for the years ended December 31, 2021 and 2020 were \$75.2 million and \$70.4 million, respectively. The carrying amount of liabilities associated with AEPSC as of December 31, 2021 and 2020 were \$7.9 million and \$9.8 million, respectively. Management estimates the maximum exposure of loss to be equal to the amount of such liability.

AEGCo, a wholly-owned subsidiary of Parent, is consolidated by AEP. AEGCo owns a 50% ownership interest in Rockport Plant, Unit 1 and leases a 50% interest in Rockport Plant, Unit 2. AEGCo sells all the output from the Rockport Plant to I&M and KPCo. AEP has agreed to provide AEGCo with the funds necessary to satisfy all of the debt obligations of AEGCo. KPCo is considered to have a significant interest in AEGCo due to these transactions. KPCo is exposed to losses to the extent it cannot recover the costs of AEGCo through its normal business operations. Due to AEP management’s control over AEGCo, KPCo is not considered the primary beneficiary of AEGCo. In the event AEGCo would require financing or other support outside the billings to KPCo, this financing would be provided by AEP. Total billings from AEGCo for the years ended December 31, 2021 and 2020 were \$93.4 million and \$74.1 million, respectively. The carrying amount of liabilities associated with AEGCo as of December 31, 2021 and 2020 were \$7.9 million and \$4.4 million, respectively. Management estimates the maximum exposure of loss to be equal to the amount of such liability.



## 15. PROPERTY, PLANT AND EQUIPMENT

Property, Plant and Equipment is shown functionally on the face of KPCo's balance sheets. The following table includes KPCo's total plant balances as of December 31, 2021 and 2020:

	December 31,	
	2021	2020
	(in thousands)	
Regulated Property, Plant and Equipment		
Generation	\$ 1,231,494	\$ 1,231,387
Transmission	760,359	703,309
Distribution	1,017,406	955,501
Other	129,250	112,532
CWIP	95,093	83,008
Less: Accumulated Depreciation	1,104,293	1,052,111
Total Regulated Property, Plant and Equipment - Net	<u>2,129,309</u>	<u>2,033,626</u>
Nonregulated Property, Plant and Equipment - Net	8,105	8,271
<b>Total Property, Plant and Equipment - Net</b>	<u><u>\$ 2,137,414</u></u>	<u><u>\$ 2,041,897</u></u>

### Depreciation

KPCo provides for depreciation of Property, Plant and Equipment on a straight-line basis over the estimated useful lives of property, generally using composite rates by functional class. The following table provides total regulated annual composite depreciation rates and depreciable lives for KPCo. Nonregulated depreciation rate ranges and depreciable life ranges are not applicable or not meaningful for 2021 and 2020.

Functional Class of Property	2021		2020	
	Annual Composite Depreciation Rate	Depreciable Life Ranges (in years)	Annual Composite Depreciation Rate	Depreciable Life Ranges (in years)
Generation	3.0%	69 - 73	2.8%	69 - 73
Transmission	2.6%	37 - 75	2.6%	37 - 75
Distribution	3.4%	11 - 75	3.4%	11 - 75
Other	9.5%	5 - 75	9.5%	5 - 75

The composite depreciation rate generally includes a component for non-asset retirement obligation (non-ARO) removal costs, which is credited to Accumulated Depreciation and Amortization on the balance sheets. Actual removal costs incurred are charged to Accumulated Depreciation and Amortization. Any excess of accrued non-ARO removal costs over actual removal costs incurred is reclassified from Accumulated Depreciation and Amortization and reflected as a regulatory liability.

### ***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. KPCo has identified, but not recognized, ARO liabilities related to electric transmission and distribution assets, as a result of certain easements on property on which assets are owned. Generally, such easements are perpetual and require only the retirement and removal of assets upon the cessation of the property’s use. The retirement obligation is not estimable for such easements since KPCo plans to use its facilities indefinitely. The retirement obligation would only be recognized if and when KPCo abandons or ceases the use of specific easements, which is not expected.

The following is a reconciliation of the 2021 and 2020 aggregate carrying amounts of ARO for KPCo:

<u>Year</u>	<u>ARO as of January 1,</u>	<u>Accretion Expense</u>	<u>Liabilities Incurred</u>	<u>Liabilities Settled (a)</u>	<u>Revisions in Cash Flow Estimates (a)</u>	<u>ARO as of December 31,</u>
			(in thousands)			
2021	\$ 24,565	\$ 968	\$ —	\$ (3,227)	\$ (4,609)	\$ 17,697
2020	43,588	1,691	77	(20,426)	(365)	24,565

(a) Primarily related to ash pond closure and asbestos abatement.

### ***Allowance for Funds Used During Construction***

KPCo’s amounts of allowance for equity and borrowed funds used during construction are summarized in the following table:

	<b>Years Ended December 31,</b>	
	<b>2021</b>	<b>2020</b>
	(in thousands)	
Allowance for Equity Funds Used During Construction	\$ 1,822	\$ 1,170
Allowance for Borrowed Funds Used During Construction	936	1,099

### ***Jointly-owned Electric Facilities***

KPCo, jointly with WPCo, owns Unit 1 and Unit 2 of the Mitchell Generating Station. KPCo and WPCo each have a 50% ownership of Unit 1 and Unit 2 of the Mitchell Generating Station. Using its own financing, each participating company is obligated to pay its share of the costs in the same proportion as its ownership interest. KPCo’s proportionate share of the operating costs associated with this facility is included in its statements of income and the investment and accumulated depreciation are reflected in its balance sheets under Property, Plant and Equipment as follows:

	<u>Fuel Type</u>	<u>Percent of Ownership</u>	<u>Utility Plant in Service</u>	<u>Construction Work in Progress</u>	<u>Accumulated Depreciation</u>
(in thousands)					
<b>KPCo’s Share as of December 31, 2021</b>					
Mitchell Generating Station, Units 1 and 2 (a)	Coal	50.0 %	\$ 1,049,434	\$ 12,040	\$ 493,124
<b>KPCo’s Share as of December 31, 2020</b>					
Mitchell Generating Station, Units 1 and 2 (a)	Coal	50.0 %	\$ 1,047,564	\$ 40,024	\$ 465,764

(a) Operated by KPCo. In November 2021, AEP made filings seeking approval for a new proposed Mitchell Plant Operations and Maintenance Agreement and Mitchell Plant Ownership Agreement between KPCo and WPCo pursuant to which WPCo would replace KPCo as the operator of the Mitchell Plant. See Note 4 - Rate Matters for additional information.

## 16. 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:

	Years Ended December 31,	
	2021	2020
	(in thousands)	
<b>Retail Revenues:</b>		
Residential Revenues	\$ 282,900	\$ 236,325
Commercial Revenues	160,183	138,813
Industrial Revenues	142,217	121,907
Other Retail Revenues	2,029	1,889
<b>Total Retail Revenues</b>	<u>587,329</u>	<u>498,934</u>
<b>Wholesale Revenues:</b>		
Generation Revenues (a)	29,523	13,787
Transmission Revenues (b)	22,052	22,864
<b>Total Wholesale Revenues</b>	<u>51,575</u>	<u>36,651</u>
Other Revenues from Contracts with Customers (a)	<u>8,659</u>	<u>13,153</u>
<b>Total Revenues from Contracts with Customers</b>	<u>647,563</u>	<u>548,738</u>
<b>Other Revenues:</b>		
Alternative Revenues (a)	(1,180)	1,185
<b>Total Other Revenues</b>	<u>(1,180)</u>	<u>1,185</u>
<b>Total Revenues</b>	<u>\$ 646,383</u>	<u>\$ 549,923</u>

(a) Amounts included affiliate and nonaffiliated revenues.

(b) Amounts included affiliate and nonaffiliated revenues. The affiliated revenues were \$9 million and \$10.6 million for years ended December 31, 2021 and 2020, respectively.

### *Performance Obligations*

KPCo has performance obligations as part of its normal course of business. A performance obligation is a promise to transfer a distinct good or service, or a series of distinct goods or services that are substantially the same and have the same pattern of transfer to a customer. The invoice practical expedient within the accounting guidance for "Revenue from Contracts with Customers" allows for the recognition of revenue from performance obligations in the amount of consideration to which there is a right to invoice the customer and when the amount for which there is a right to invoice corresponds directly to the value transferred to the customer.

The purpose of the invoice practical expedient is to depict an entity's measure of progress toward completion of the performance obligation within a contract and can only be applied to performance obligations that are satisfied over time and when the invoice is representative of services provided to date. KPCo elected to apply the invoice practical expedient to recognize revenue for performance obligations satisfied over time as the invoices from the respective revenue streams are representative of services or goods provided to date to the customer. Performance obligations for KPCo are summarized as follows:

#### *Retail Revenues*

KPCo has performance obligations to generate, transmit and distribute electricity for sale to rate-regulated retail customers. The performance obligation to deliver electricity is satisfied over time as the customer simultaneously receives and consumes the benefits provided. Revenues are variable as they are subject to the customer's usage requirements.

Rate-regulated retail customers typically have the right to discontinue receiving service at will, therefore these contracts between KPCo and their customers for rate-regulated services are generally limited to the services requested and received to date for such arrangements. Retail customers are generally billed on a monthly basis, and payment is typically due within 15 to 20 days after the issuance of the invoice.

#### *Wholesale Revenues - Generation*

KPCo has performance obligations to sell electricity to wholesale customers from generation assets in PJM. The performance obligation to deliver electricity from generation assets is satisfied over time as the customer simultaneously receives and consumes the benefits provided. Wholesale generation revenues are variable as they are subject to the customer’s usage requirements.

KPCo also has performance obligations to stand ready in order to promote grid reliability. Stand ready services are sold into PJM’s Reliability Pricing Model (RPM) capacity market. RPM entails a base auction and at least three incremental auctions for a specific PJM delivery year, with the incremental auctions spanning three years. The performance obligation to stand ready is satisfied over time and the consideration for which is variable until the occurrence of the final incremental auction, at which point the performance obligation becomes fixed.

Payments from the RTO for stand ready services are typically received within one week from the issuance of the invoice, which is typically issued weekly. Gross margin resulting from generation sales are primarily subject to margin sharing agreements with customers, where the revenues are reflected gross in the disaggregated revenues table above.

#### *Wholesale Revenues - Transmission*

KPCo has performance obligations to transmit electricity to wholesale customers through assets owned and operated by KPCo and other AEP subsidiaries. The performance obligation to provide transmission services in PJM encompass a time frame greater than a year, where the performance obligation within PJM is partially fixed for a period of one year or less. Payments from the RTO for transmission services are typically received within one week from the issuance of the invoice, which is issued weekly for PJM.

KPCo collects revenues through transmission formula rates. The FERC-approved rates establish the annual transmission revenue requirement (ATRR) and transmission service rates for transmission owners. The formula rates establish rates for a one year period and also include a true-up calculation for the prior year’s billings, allowing for over/under-recovery of the transmission owner’s ATRR. The annual true-ups meet the definition of alternative revenues in accordance with the accounting guidance for “Regulated Operations,” and are therefore presented as such in the disaggregated revenues table above.

The AEP East Companies are parties to the TA, which defines how transmission costs are allocated among the AEP East Companies on a 12-month average coincident peak basis. AEPTCo is a load serving entity within PJM providing transmission services to affiliates in accordance with the OATT and TA. Affiliate revenues as a result of the TA are reflected as Transmission Revenues in the disaggregated revenues table above.

#### *Fixed Performance Obligations*

The following table represents KPCo’s remaining fixed performance obligations satisfied over time as of December 31, 2021. Fixed performance obligations primarily include wholesale transmission services, electricity sales for fixed amounts of energy and stand ready services into PJM’s RPM market. The amounts shown in the table below include affiliated and nonaffiliated revenues.

<u>2022</u>	<u>2023-2024</u>	<u>2025-2026</u>	<u>After 2026</u>	<u>Total</u>
(in thousands)				
\$ 36,211	\$ 2,870	\$ 2,870	\$ 1,435	\$ 43,386

### ***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 December 31, 2021 and 2020, 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 December 31, 2021 and 2020, 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 December 31, 2021 and 2020, respectively. See "Securitized Accounts Receivable - AEP Credit" section of Note 12 for additional information.

The amount of affiliated accounts receivable from contracts with customers included in Accounts Receivable - Affiliated Companies on KPCo's balance sheets were \$9.1 million and \$8.3 million, respectively, as of December 31, 2021 and December 31, 2020.

### ***Contract Costs***

Contract costs to obtain or fulfill a contract are accounted for under the guidance for "Other Assets and Deferred Costs" and presented as a single asset and neither bifurcated nor reclassified between current and noncurrent assets on KPCo's balance sheets. Contract costs to acquire a contract are amortized in a manner consistent with the transfer of goods or services to the customer in Other Operation on KPCo's statements of income. KPCo did not have material contract costs as of December 31, 2021 and 2020, respectively.