

# Kentucky Power Company

2022 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.
CCR	Coal Combustion Residual.
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.
ELG	Effluent Limitation Guidelines.
EIS	Energy Insurance Services, Inc., a nonaffiliated captive insurance company and consolidated VIE of AEP.
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.

<b>Term</b>	<b>Meaning</b>
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, jointly-owned by AEGCo and I&M, consisting of two 1,310 MW coal-fired generating units near Rockport, Indiana.
ROE	Return on Equity.
RPM	Reliability Pricing Model.
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.
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.
WVPS	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, 2022 and 2021, 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, 2022 and 2021, 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 23, 2023

**KENTUCKY POWER COMPANY**  
**STATEMENTS OF INCOME**  
**For the Years Ended December 31, 2022 and 2021**  
**(in thousands)**

	<b>Years Ended December 31,</b>	
	<b>2022</b>	<b>2021</b>
<b>REVENUES</b>		
Electric Generation, Transmission and Distribution	\$ 752,371	\$ 634,765
Sales to AEP Affiliates	19,251	10,542
Other Revenues	1,599	1,076
<b>TOTAL REVENUES</b>	<b>773,221</b>	<b>646,383</b>
<b>EXPENSES</b>		
Purchased Electricity, Fuel and Other Consumables Used for Electric Generation	277,291	167,027
Purchased Electricity from AEP Affiliates	93,137	93,365
Other Operation	133,992	126,479
Maintenance	64,821	64,353
Depreciation and Amortization	123,238	115,097
Taxes Other Than Income Taxes	26,919	27,745
<b>TOTAL EXPENSES</b>	<b>719,398</b>	<b>594,066</b>
<b>OPERATING INCOME</b>	<b>53,823</b>	<b>52,317</b>
<b>Other Income (Expense):</b>		
Interest Income	134	19
Allowance for Equity Funds Used During Construction	1,192	1,822
Non-Service Cost Components of Net Periodic Benefit Cost	6,490	4,141
Interest Expense	(45,115)	(35,628)
<b>INCOME BEFORE INCOME TAX BENEFIT</b>	<b>16,524</b>	<b>22,671</b>
Income Tax Benefit	(31,028)	(27,479)
<b>NET INCOME</b>	<b>\$ 47,552</b>	<b>\$ 50,150</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, 2022 and 2021**  
**(in thousands)**

	<b>Years Ended December 31,</b>	
	<b>2022</b>	<b>2021</b>
Net Income	\$ 47,552	\$ 50,150
<b>OTHER COMPREHENSIVE INCOME (LOSS), NET OF TAXES</b>		
Amortization of Pension and OPEB Deferred Costs, Net of Tax of \$(21) and \$(36) in 2022 and 2021, Respectively	(79)	(137)
Pension and OPEB Funded Status, Net of Tax of \$0 and \$268 in 2022 and 2021, Respectively	—	1,008
Pension and OPEB Adjustment Related to Plant Transfers, Net of Tax of \$(444) and \$0 in 2022 and 2021, Respectively	(1,670)	—
<b>TOTAL OTHER COMPREHENSIVE INCOME (LOSS)</b>	<b>(1,749)</b>	<b>871</b>
<b>TOTAL COMPREHENSIVE INCOME</b>	<b>\$ 45,803</b>	<b>\$ 51,021</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, 2022 and 2021**  
**(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, 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>	50,450	526,135	296,021	1,749	874,355
Capital Contribution from Parent		152			152
Net Income			47,552		47,552
Other Comprehensive Loss				(1,749)	(1,749)
<b>TOTAL COMMON SHAREHOLDER'S EQUITY – DECEMBER 31, 2022</b>	<u>\$ 50,450</u>	<u>\$ 526,287</u>	<u>\$ 343,573</u>	<u>\$ —</u>	<u>\$ 920,310</u>

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

**KENTUCKY POWER COMPANY**  
**BALANCE SHEETS**  
**ASSETS**  
**December 31, 2022 and 2021**  
**(in thousands)**

	<b>December 31,</b>	
	<b>2022</b>	<b>2021</b>
<b>CURRENT ASSETS</b>		
Cash and Cash Equivalents	\$ 2,684	\$ 763
Accounts Receivable:		
Customers	63,432	16,281
Affiliated Companies	10,818	25,578
Accrued Unbilled Revenues	35,002	16,647
Miscellaneous	72	57
Allowance for Uncollectible Accounts	(1,013)	(3)
Total Accounts Receivable	108,311	58,560
Fuel	21,994	10,090
Materials and Supplies	26,182	20,515
Risk Management Assets	8,463	5,986
Regulatory Asset for Under-Recovered Fuel Costs	23,241	8,216
Margin Deposits	960	14,229
Prepayments and Other Current Assets	2,512	3,490
<b>TOTAL CURRENT ASSETS</b>	<b>194,347</b>	<b>121,849</b>
<b>PROPERTY, PLANT AND EQUIPMENT</b>		
Electric:		
Generation	1,236,474	1,231,494
Transmission	801,838	760,359
Distribution	1,061,601	1,017,406
Other Property, Plant and Equipment	167,981	137,554
Construction Work in Progress	137,964	95,093
<b>Total Property, Plant and Equipment</b>	3,405,858	3,241,906
Accumulated Depreciation and Amortization	1,156,221	1,104,492
<b>TOTAL PROPERTY, PLANT AND EQUIPMENT – NET</b>	<b>2,249,637</b>	<b>2,137,414</b>
<b>OTHER NONCURRENT ASSETS</b>		
Regulatory Assets	504,185	476,457
Employee Benefit and Pension Assets	20,531	60,333
Operating Lease Assets	528	10,748
Deferred Charges and Other Noncurrent Assets	37,877	33,848
<b>TOTAL OTHER NONCURRENT ASSETS</b>	<b>563,121</b>	<b>581,386</b>
<b>TOTAL ASSETS</b>	<b>\$ 3,007,105</b>	<b>\$ 2,840,649</b>

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

**KENTUCKY POWER COMPANY**  
**BALANCE SHEETS**  
**LIABILITIES AND COMMON SHAREHOLDER'S EQUITY**  
**December 31, 2022 and 2021**  
**(dollars in thousands)**

	<b>December 31,</b>	
	<b>2022</b>	<b>2021</b>
<b>CURRENT LIABILITIES</b>		
Advances from Affiliates	\$ 94,428	\$ 47,895
Accounts Payable:		
General	56,969	52,837
Affiliated Companies	51,076	42,223
Long-term Debt Due Within One Year – Nonaffiliated	490,000	200,000
Risk Management Liabilities	—	51
Customer Deposits	38,784	32,432
Accrued Taxes	40,272	45,243
Accrued Interest	8,543	5,685
Obligations Under Operating Leases	128	2,173
Other Current Liabilities	17,284	21,384
<b>TOTAL CURRENT LIABILITIES</b>	<b>797,484</b>	<b>449,923</b>
<b>NONCURRENT LIABILITIES</b>		
Long-term Debt – Nonaffiliated	688,448	903,105
Deferred Income Taxes	456,217	437,152
Regulatory Liabilities	108,853	140,506
Asset Retirement Obligations	18,447	16,399
Employee Benefits and Pension Obligations	9,736	8,064
Obligations Under Operating Leases	450	8,614
Deferred Credits and Other Noncurrent Liabilities	7,160	2,531
<b>TOTAL NONCURRENT LIABILITIES</b>	<b>1,289,311</b>	<b>1,516,371</b>
<b>TOTAL LIABILITIES</b>	<b>2,086,795</b>	<b>1,966,294</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	526,287	526,135
Retained Earnings	343,573	296,021
Accumulated Other Comprehensive Income (Loss)	—	1,749
<b>TOTAL COMMON SHAREHOLDER'S EQUITY</b>	<b>920,310</b>	<b>874,355</b>
<b>TOTAL LIABILITIES AND COMMON SHAREHOLDER'S EQUITY</b>	<b>\$ 3,007,105</b>	<b>\$ 2,840,649</b>

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

**KENTUCKY POWER COMPANY**  
**STATEMENTS OF CASH FLOWS**  
For the Years Ended December 31, 2022 and 2021  
(in thousands)

	<b>Years Ended December 31,</b>	
	<b>2022</b>	<b>2021</b>
<b>OPERATING ACTIVITIES</b>		
<b>Net Income</b>	\$ 47,552	\$ 50,150
<b>Adjustments to Reconcile Net Income to Net Cash Flows from Operating Activities:</b>		
Depreciation and Amortization	123,238	115,097
Deferred Income Taxes	(31,793)	(24,509)
Allowance for Equity Funds Used During Construction	(1,192)	(1,822)
Mark-to-Market of Risk Management Contracts	(2,542)	(2,992)
Pension and Postemployment Benefit Reserves	31,242	(1,343)
Deferred Fuel Over/Under-Recovery, Net	(15,025)	(8,529)
Change in Regulatory Assets	(28,263)	(56,447)
Asset Retirement Obligation	—	(2,174)
Change in Other Noncurrent Assets	(5,950)	(10,503)
Change in Other Noncurrent Liabilities	5,339	2,979
<b>Changes in Certain Components of Working Capital:</b>		
Accounts Receivable, Net	(49,138)	(7,482)
Fuel, Materials and Supplies	(17,492)	11,771
Margin Deposits	13,269	(14,097)
Accounts Payable	22,773	13,013
Accrued Taxes, Net	(4,843)	8,628
Other Current Assets	777	384
Other Current Liabilities	(3,198)	(3,522)
<b>Net Cash Flows from Operating Activities</b>	<b>84,754</b>	<b>68,602</b>
<b>INVESTING ACTIVITIES</b>		
Construction Expenditures	(210,346)	(164,912)
Proceeds from Sales of Assets	8,004	1,075
Other Investing Activities	685	2,995
<b>Net Cash Flows Used for Investing Activities</b>	<b>(201,657)</b>	<b>(160,842)</b>
<b>FINANCING ACTIVITIES</b>		
Capital Contribution from Parent	152	—
Issuance of Long-term Debt - Nonaffiliated	149,869	149,974
Change in Advances from Affiliates, Net	46,533	(17,752)
Retirement of Long-term Debt - Nonaffiliated	(75,000)	(40,000)
Principal Payments for Finance Lease Obligations	(2,735)	(920)
Other Financing Activities	5	168
<b>Net Cash Flows from Financing Activities</b>	<b>118,824</b>	<b>91,470</b>
<b>Net Increase (Decrease) in Cash and Cash Equivalents</b>	<b>1,921</b>	<b>(770)</b>
<b>Cash and Cash Equivalents at Beginning of Period</b>	<b>763</b>	<b>1,533</b>
<b>Cash and Cash Equivalents at End of Period</b>	<b>\$ 2,684</b>	<b>\$ 763</b>
<b>SUPPLEMENTARY INFORMATION</b>		
Cash Paid for Interest, Net of Capitalized Amounts	\$ 41,512	\$ 37,378
Net Cash Paid (Received) for Income Taxes	2,489	(4,123)
Noncash Acquisitions Under Finance Leases	131	331
Construction Expenditures Included in Current Liabilities as of December 31,	18,898	28,280

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 163,000 retail customers in its service territory in eastern Kentucky. KPCo also sells power at wholesale to municipalities.

In December 2022, the UPA between AEGCo, an affiliated company, and KPCo ended upon the termination of the Rockport Plant, Unit 2 lease. The UPA allowed KPCo to purchase 30% of AEGCo's 50% capacity of Rockport Plant, Unit 2. Following the end of the lease, KPCo reached an agreement with I&M, an affiliated company, to purchase capacity from Rockport Plant, Unit 2 through May 2024 at a rate equal to PJM's RPM clearing price.

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 TA, 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 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.

### ***AEP System Tax Allocation***

KPCo joins in the filing of a consolidated federal income tax return with its affiliates in the AEP System. Historically, the allocation of the AEP System's current consolidated federal income tax to the AEP System companies allocated the benefit of current tax loss of the parent company (Parent Company Loss Benefit) to the AEP System subsidiaries through a reduction of current tax expense. In the first quarter of 2022, AEP and subsidiaries changed accounting for the Parent Company Loss Benefit from a reduction of current tax expense to an allocation through equity. The impact of this change was immaterial to KPCo's financial statements. The consolidated net operating losses of the AEP System is allocated to each company in the consolidated group with taxable loss. With the exception of the allocation of the consolidated AEP System net operating losses, the loss of the Parent and tax credits, the method of allocation reflects a separate return result for each company in the consolidated group.

### ***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.

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

Prior to the first quarter of 2022, KPCo sold, without recourse, certain of its customer accounts receivable and accrued unbilled revenue balances to AEP Credit under an affiliated receivables sales arrangement. Under the arrangement, KPCo was charged a fee for each sale based on AEP Credit's financing costs, administrative costs and uncollectible accounts experience from previous purchases of KPCo's customer accounts receivable. As a result, no allowance for uncollectible accounts was 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 recorded an allowance for uncollectible accounts on its balance sheet for those receivables no longer sold to AEP Credit. KPCo's bad debt reserve is calculated based on a rolling two-year average write-off in proportion to gross 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>2022</b>	<b>2021</b>
Percentage of Total Revenues	14 %	12 %
Percentage of Accounts Receivable – Customers	14 %	45 %

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 written down to its then current estimated fair value, with the change charged to expense, and the asset is removed from plant-in-service or CWIP.

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.



### ***Asset Retirement Obligations (ARO)***

KPCo records ARO in accordance with the accounting guidance for “Asset Retirement and Environmental Obligations” for legal obligations for asbestos removal and for the retirement of certain ash disposal facilities. AROs are computed as the present value of the estimated costs associated with the future retirement of an asset and are recorded in the period in which the liability is incurred. Estimates of the timing and amounts of future cash outlays are based on projections of when and how the assets will be decommissioned, inflation, and discount rate, which may change significantly over time. The estimated costs are capitalized as part of the related long-lived asset and depreciated over the asset's useful life. 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 their facilities indefinitely. The retirement obligation would only be recognized if and when the Registrants abandon or cease the use of specific easements, which is not expected.

### ***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. In regulated jurisdictions with an active FAC, 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 an expectation that refunds or recoveries will extend beyond a one year period, based on a company's filing with a commission or a commission directive. 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". An estimated annual true-up is recorded by KPCo in the fourth quarter of each calendar year and a final annual true-up is recognized by KPCo in the second quarter of each calendar year following the filing of the 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***

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 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.

### ***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	30 %
Fixed Income	54 %
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, 2022 and 2021, the fair value of securities on loan as part of the program was \$83 million and \$137 million, respectively. Cash and securities obtained as collateral exceeded the fair value of the securities loaned as of December 31, 2022 and 2021.

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, 2022 and 2021:

<b>Depreciation and Amortization</b>	<b>Years Ended December 31,</b>	
	<b>2022</b>	<b>2021</b>
	<b>(in thousands)</b>	
Depreciation and Amortization of Property, Plant and Equipment	\$ 108,301	\$ 102,390
Amortization of Regulatory Assets and Liabilities	14,937	12,707
<b>Total Depreciation and Amortization</b>	<b><u>\$ 123,238</u></b>	<b><u>\$ 115,097</u></b>

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

In October 2021, AEP entered into a Stock Purchase Agreement (SPA) 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. In May 2022, the KPSC approved the transfer of KPCo to Liberty subject to certain conditions contingent upon the closing of the sale. AEP has received clearance under the Hart-Scott-Rodino Antitrust Improvements Act of 1976 (HSR) and the Committee on Foreign Investment in the United States during 2022. Clearance under the HSR expired in January 2023. AEP and Liberty refiled a joint application seeking HSR clearance in February 2023. The sale is also contingent upon FERC approval under Section 203 of the Federal Power Act. The parties to the SPA have certain termination rights if the closing of the sale does not occur by April 26, 2023.

### ***Transfer of Ownership***

#### **FERC Proceedings**

In December 2021, Liberty, KPCo and KTCo (the applicants) requested FERC approval of the sale under Section 203 of the Federal Power Act. In February 2022, several intervenors in the case filed protests related to whether the sale will negatively impact the wholesale transmission rates of applicants. In April 2022, the FERC issued a deficiency letter stating that the Section 203 application is deficient and that additional information is required to process it. In May 2022, Liberty, KPCo and KTCo supplemented the application. In December 2022, the FERC issued an order denying, without prejudice, authorization of the proposed sale stating the applicants failed to demonstrate the proposed transaction will not have an adverse effect on rates.

In January 2023, AEP, AEPTCo, and Liberty entered into an amendment to the SPA that specified the applicants will submit a new filing for approval under Section 203 of the Federal Power Act. The new filing was submitted to the FERC on February 14, 2023. The applicants requested expedited treatment of the new filing, including an

accelerated comment period. In response, the FERC granted a shortened 45 day comment period. The applicants believe the new Section 203 application addresses the concerns raised in the FERC's December 2022 order. The application contains several additional commitments by Liberty to mitigate potential adverse impacts on FERC jurisdictional rates over the next five years, including: a) maintaining the current return on equity; b) maintaining the current cost cap on equity; c) financing future investments at the current credit rating; and d) capping certain operating and administrative costs. The sale remains subject to FERC approval. The statute requires an order from the FERC within 180 days of the February 14, 2023 filing date in accordance with Section 203 of the Federal Power Act.

### **KPSC Proceedings**

In May 2022, the KPSC approved the transfer of KPCo to Liberty subject to conditions contingent upon the closing of the sale, including establishment of regulatory liabilities to subsidize retail customer transmission and distribution expenses, a fuel adjustment clause bill credit, and a three-year Big Sandy decommissioning rider rate holiday during which KPCo's carrying charge is reduced by 50%.

### *Mitchell Plant Operations and Maintenance Agreement and Ownership Agreement*

KPCo and WPCo each own a 50% undivided interest in the 1,560 MW coal-fired Mitchell Plant. As of December 31, 2022 and 2021, the net book value of KPCo's share of the Mitchell Plant, before cost of removal including CWIP and inventory, was \$577 million and \$586 million, respectively. The SPA includes a condition precedent to closing requiring the issuance of regulatory orders approving new Mitchell Plant agreements.

The KPSC and WVPSC issued orders proposing materially different modifications to the Mitchell Plant agreements filed by AEP such that the new agreements could not be executed by the parties. In lieu of new agreements, in July 2022, KPCo and WPCo confirmed with the KPSC and WVPSC, respectively, that they will continue operating under the existing Mitchell Agreement, utilizing the Mitchell Agreement Operating Committee's authority under that agreement to issue appropriate resolutions so the parties can operate in accordance with each state commission's directives related to CCR and ELG investment. In September 2022, pursuant to resolutions under the existing Mitchell Plant agreement, WPCo replaced KPCo as the Operator of Mitchell Plant.

### *Summary*

Management believes it is probable that FERC authorization under Section 203 of the Federal Power Act will be received and closing will occur after receipt of the order 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.

In June 2022, KPCo entered into agreements to purchase assets under lease, terminating remaining lease obligations prior to the original maturity date. As a result of the early terminations, current obligations under operating and finance leases of \$1.9 million and \$583 thousand, respectively, and noncurrent obligations under operating and finance leases of \$7.2 million and \$1.4 million, respectively, were relieved from KPCo's balance sheet in the second quarter of 2022.

### ***Subsequent Events***

Management reviewed subsequent events through February 23, 2023, the date that KPCo's 2022 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, 2022 and 2021. 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, 2022</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, 2021</b>	\$ 2,890	\$ (1,141)	\$ 1,749
Change in Fair Value Recognized in AOCI, Net of Tax	—	—	—
Amount of (Gain) Loss Reclassified from AOCI			
Amortization of Prior Service Cost (Credit)	(119)	—	(119)
Amortization of Actuarial (Gains) Losses	19	—	19
Reclassifications from AOCI, before Income Tax (Expense) Benefit	(100)	—	(100)
Income Tax (Expense) Benefit	(21)	—	(21)
Reclassifications from AOCI, Net of Income Tax (Expense) Benefit	(79)	—	(79)
Pension and OPEB Adjustment Related to Plant Transfers	—	(2,114)	(2,114)
Income Tax (Expense) Benefit	—	(444)	(444)
Pension and OPEB Adjustment Related to Plant Transfers, Net of Income Tax (Expense) Benefit	—	(1,670)	(1,670)
Net Current Period Other Comprehensive Income (Loss)	(79)	(1,670)	(1,749)
<b>Balance in AOCI as of December 31, 2022</b>	<b>\$ 2,811</b>	<b>\$ (2,811)</b>	<b>\$ —</b>

<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, Net of Tax	—	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>

#### **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.

##### ***CCR/ELG Compliance Plan Filings***

KPCo and WPCo each own a 50% interest in the Mitchell Plant. As of December 31, 2022, the net book value of KPCo's share of the Mitchell Plant, before cost of removal including CWIP and inventory, was \$577 million. 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 May 2022, the KPSC approved recovery of the Kentucky jurisdictional share of ELG costs incurred at the Mitchell Plant prior to July 15, 2021.

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 also ordered that WPCo will be given the opportunity to recover, from its customers, the ELG and 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 reasonably and prudently incurred. The WVPSC's order further states that unless KPCo pays for its share of costs for ELG improvements and costs necessary to continue operations beyond 2028, the benefit of the capacity and energy made possible by those improvements and operating Mitchell Plant beyond 2028 should benefit only West Virginia jurisdictional customers who have shared in paying for those costs.

##### ***Storm-Related Costs***

In June 2022, KPCo's service territory was impacted by strong winds from severe storms resulting in system damages and power outages. In July 2022, KPCo's service territory was impacted again by severe storms, which caused flash flooding, resulting in additional system damages and power outages. In August 2022, KPCo filed an application with the KPSC requesting deferral authority for \$18 million of incremental operation and maintenance costs related to these storms. In September 2022, the KPSC issued an order granting deferral authority. KPCo intends to seek recovery of the deferral in a future base rate case. If any of these incremental storm costs are not recoverable, it could reduce future net income and cash flows and impact financial condition.

##### ***Deferred Purchased Power Expenses***

In September 2022, the KPSC initiated a proceeding to investigate the appropriate amortization period and recovery mechanism for the deferral of Kentucky Deferred Purchased Power Expenses related to the Rockport Plant Unit Power Agreement, as well as KPCo's ability to use the level of non-fuel, non-environmental Rockport UPA expense included in base rates to earn its authorized ROE in 2023 since the KPCo UPA ended in December 2022. KPCo requested the KPSC approve the terms related to each of the foregoing items as reflected in the settlement agreement in the 2017 Kentucky Base Rate Case, including recovery of the Kentucky Deferred Purchased Power Expenses over five years through a rider beginning in December 2022. In December 2022, the KPSC approved

KPCo's request and recovery began through a rider, including recovery of an estimated allowed cost (Rockport Offset) of \$22.8 million in accordance with the terms of the settlement agreement in the 2017 Kentucky Base Rate Case permitting KPCo to use the level of non-fuel, non-environmental Rockport UPA expense included in base rates to earn its authorized ROE in 2023. This estimated Rockport Offset is subject to true-up based on KPCo's actual 2023 financial results and KPSC review in the first quarter of 2024. The actual Rockport Offset cannot exceed \$40.8 million. If the actual Rockport Offset is not recoverable, it could 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
	2022	2021	
	(in thousands)		
<b>Current Regulatory Assets</b>			
Under-recovered Fuel Costs - does not earn a return	\$ 23,241	\$ 8,216	1 year
<b>Total Current Regulatory Assets</b>	<b>23,241</b>	<b>8,216</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	
<b>Total Regulatory Assets Currently Earning a Return</b>	<b>—</b>	<b>47,528</b>	
<u>Regulatory Assets Currently Not Earning a Return</u>			
Storm Related Costs (a)	74,430	56,506	
Other Regulatory Assets Pending Final Regulatory Approval	1,699	893	
<b>Total Regulatory Assets Currently Not Earning a Return</b>	<b>76,129</b>	<b>57,399</b>	
<b>Total Regulatory Assets Pending Final Regulatory Approval</b>	<b>76,129</b>	<b>104,927</b>	
<b>Regulatory assets approved for recovery:</b>			
<u>Regulatory Assets Currently Earning a Return</u>			
Plant Retirement Costs	178,502	193,229	18 years
Plant Retirement Costs - Asset Retirement Obligation Costs	110,010	109,577	18 years
Kentucky Deferred Purchased Power Expenses	52,970	—	5 years
Plant Retirement Costs - Materials and Supplies	3,016	3,016	18 years
Other Regulatory Assets Approved for Recovery	931	928	various
<b>Total Regulatory Assets Currently Earning a Return</b>	<b>345,429</b>	<b>306,750</b>	
<u>Regulatory Assets Currently Not Earning a Return</u>			
Fuel and Purchased Power Rider	38,164	28,727	2 years
Pension and OPEB Funded Status	23,704	12,236	12 years
Plant Retirement Costs - Asset Retirement Obligation Costs	5,295	4,721	18 years
Environmental Costs	5,139	5,920	2 years
Postemployment Benefits	4,416	3,410	3 years
Storm Related Costs	100	2,167	1 year
Other Regulatory Assets Approved for Recovery	5,809	7,599	various
<b>Total Regulatory Assets Currently Not Earning a Return</b>	<b>82,627</b>	<b>64,780</b>	
<b>Total Regulatory Assets Approved for Recovery</b>	<b>428,056</b>	<b>371,530</b>	
<b>Total Noncurrent Regulatory Assets</b>	<b>\$ 504,185</b>	<b>\$ 476,457</b>	

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

Regulatory Liabilities:	December 31,		Remaining Refund Period
	2022	2021	
	(in thousands)		
<b>Noncurrent Regulatory Liabilities</b>			
<b>Regulatory liabilities pending final regulatory determination:</b>			
<u>Regulatory Liabilities Currently Paying a Return</u>			
Income Taxes, Net (a) (b)	\$ (32,843)	\$ —	
<b>Total Regulatory Liabilities Currently Paying a Return</b>	<b>(32,843)</b>	<b>—</b>	
<u>Regulatory Liabilities Currently Not Paying a Return</u>			
Other Regulatory Liabilities Pending Final Regulatory Determination	2,098	2,098	
<b>Total Regulatory Liabilities Currently Not Paying a Return</b>	<b>2,098</b>	<b>2,098</b>	
<b>Total Regulatory Liabilities Pending Final Regulatory Determination</b>	<b>(30,745)</b>	<b>2,098</b>	
<b>Regulatory liabilities approved for payment:</b>			
<u>Regulatory Liabilities Currently Paying a Return</u>			
Asset Removal Costs	74,393	57,793	(c)
Income Taxes, Net (a)	54,732	73,213	(d)
<b>Total Regulatory Liabilities Currently Paying a Return</b>	<b>129,125</b>	<b>131,006</b>	
<u>Regulatory Liabilities Currently Not Paying a Return</u>			
Unrealized Gain on Forward Commitments	3,982	3,199	2 years
Off-system Sales Margin Sharing	3,417	—	1 year
PJM Transmission Enhancement Refund	2,031	2,644	3 years
Other Regulatory Liabilities Approved for Payment	1,043	1,559	various
<b>Total Regulatory Liabilities Currently Not Paying a Return</b>	<b>10,473</b>	<b>7,402</b>	
<b>Total Regulatory Liabilities Approved for Payment</b>	<b>139,598</b>	<b>138,408</b>	
<b>Total Noncurrent Regulatory Liabilities</b>	<b>\$ 108,853</b>	<b>\$ 140,506</b>	

- (a) Predominately pays a return due to the inclusion of Excess ADIT in rate base.
- (b) Represents an income tax related regulatory asset, which is presented within net regulatory liabilities on the balance sheet.
- (c) Relieved as removal costs are incurred.
- (d) Refunded over the period for which the related deferred income tax reverse, which is generally based on the expected life for the underlying assets. Excess ADIT Associated with Certain Depreciable Property is refunded over the remaining depreciable life of the underlying assets. Excess ADIT that is Not Subject to Rate Normalization Requirements were \$40.7 million and \$81.4 million for the years ended December 31, 2022 and 2021, respectively. The remaining balance of Excess ADIT that is Not Subject to Rate Normalization Requirements as of December 31, 2022 is to be refunded over 6 years.

## 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, 2022:

<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)	\$ 5,993	\$ 12,002	\$ 11,985	\$ 20,474	\$ 50,454
Energy and Capacity Purchase Contracts	—	1,577	—	—	1,577
<b>Total</b>	<u>\$ 5,993</u>	<u>\$ 13,579</u>	<u>\$ 11,985</u>	<u>\$ 20,474</u>	<u>\$ 52,031</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.

### 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, 2022, there were no material liabilities recorded for any indemnifications.

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

## 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, 2022, 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, 2022, 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. On August 16, 2022, the district court granted the motion to dismiss the complaint without prejudice. The plaintiffs filed a motion for leave to file an amended complaint, which the Court denied on December 1, 2022. The plaintiffs did not file an appeal by the deadline of January 3, 2023.

## 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>2022</u>	<u>2021</u>	<u>2022</u>	<u>2021</u>
Discount Rate	5.50 %	2.90 %	5.50 %	2.90 %
Interest Crediting Rate	4.25 %	4.00 %	NA	NA
Rate of Compensation Increase	5.10 % (a)	4.90 % (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 2022, 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 5.1%.

### ***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>2022</b>	<b>2021</b>	<b>2022</b>	<b>2021</b>
Discount Rate	2.90 %	2.50 %	2.90 %	2.55 %
Interest Crediting Rate	4.00 %	4.00 %	NA	NA
Expected Return on Plan Assets	5.25 %	4.75 %	5.50 %	4.75 %
Rate of Compensation Increase	4.90 % (a)	4.90 % (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>2022</b>	<b>2021</b>
Initial	7.50 %	6.25 %
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, 2022, 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, 2022, the pension plans had an actuarial gain primarily due to an increase in the discount rate and was partially offset by increases in the assumed lump sum conversion rate and cash balance account interest crediting rate. For the year ended December 31, 2022, the OPEB plans had an actuarial gain primarily due to an increase in the discount rate and updated per capita cost assumptions. The OPEB plans gains were partially offset by a projected reduction in the Employer Group Waiver Program catastrophic reinsurance offset provided to AEP, resulting from the Inflation Reduction Act as well as an increase in the health care cost trend assumption. 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. The following tables provide a reconciliation of the changes in the plans' benefit obligations, fair value of plan assets, funded status and the presentation on the balance sheets. 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>2022</b>	<b>2021</b>	<b>2022</b>	<b>2021</b>
	<b>(in thousands)</b>			
<b>Change in Benefit Obligation</b>				
Benefit Obligation as of January 1,	\$ 184,199	\$ 198,433	\$ 36,932	\$ 45,058
Service Cost	2,739	3,477	172	283
Interest Cost	4,480	4,840	953	1,096
Actuarial Gain	(36,034)	(9,831)	(3,106)	(5,851)
Plan Amendments	—	—	—	(216)
Transfers	(57,450)	—	(7,548)	—
Benefit Payments	(11,079)	(12,720)	(5,520)	(5,156)
Participant Contributions	—	—	1,713	1,708
Medicare Subsidy	—	—	9	10
<b>Benefit Obligation as of December 31,</b>	<b>\$ 86,855</b>	<b>\$ 184,199</b>	<b>\$ 23,605</b>	<b>\$ 36,932</b>
<b>Change in Fair Value of Plan Assets</b>				
Fair Value of Plan Assets as of January 1,	\$ 203,932	\$ 208,552	\$ 77,433	\$ 75,920
Actual Gain (Loss) on Plan Assets	(31,289)	8,095	(13,714)	4,960
Transfers	(78,502)	—	—	—
Company Contributions	—	5	(15,776)	1
Participant Contributions	—	—	1,713	1,708
Benefit Payments	(11,079)	(12,720)	(5,520)	(5,156)
<b>Fair Value of Plan Assets as of December 31,</b>	<b>\$ 83,062</b>	<b>\$ 203,932</b>	<b>\$ 44,136</b>	<b>\$ 77,433</b>
<b>Funded (Underfunded) Status as of December 31,</b>	<b>\$ (3,793)</b>	<b>\$ 19,733</b>	<b>\$ 20,531</b>	<b>\$ 40,501</b>

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

	<b>Pension Plans</b>		<b>OPEB</b>	
	<b>2022</b>	<b>2021</b>	<b>2022</b>	<b>2021</b>
	<b>December 31,</b>			
	<b>(in thousands)</b>			
Employee Benefits and Pension Assets – Prepaid Benefit Costs	\$ —	\$ 19,832	\$ 20,531	\$ 40,501
Other Current Liabilities – Accrued Short-term Benefit Liability	(4)	(3)	—	—
Employee Benefits and Pension Obligations – Accrued Long-term Benefit Liability	(3,789)	(96)	—	—
<b>Funded (Underfunded) Status</b>	<b>\$ (3,793)</b>	<b>\$ 19,733</b>	<b>\$ 20,531</b>	<b>\$ 40,501</b>

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

The following tables show the components of the plans included in Regulatory Assets and the items attributable to the change in these components:

<b>Components</b>	<b>Pension Plans</b>		<b>OPEB</b>	
	<b>December 31,</b>			
	<b>2022</b>	<b>2021</b>	<b>2022</b>	<b>2021</b>
	<b>(in thousands)</b>			
Net Actuarial (Gain) Loss	\$ 16,985	\$ 22,630	\$ 9,355	\$ (6,622)
Prior Service Credit	—	—	(2,637)	(5,987)
<b>Recorded as</b>				
Regulatory Assets	\$ 16,986	\$ 21,923	\$ 6,718	\$ (9,687)
Deferred Income Taxes	(1)	148	—	(614)
Net of Tax AOCI	—	559	—	(2,308)

<b>Components</b>	<b>Pension Plans</b>		<b>OPEB</b>	
	<b>2022</b>	<b>2021</b>	<b>2022</b>	<b>2021</b>
		<b>(in thousands)</b>		
Actuarial (Gain) Loss During the Year	\$ 3,370	\$ (9,345)	\$ 14,492	\$ (7,332)
Amortization of Actuarial Loss	(1,867)	(3,523)	—	—
Prior Service Credit	—	—	—	(216)
Amortization of Prior Service Credit	—	—	2,375	2,499
Transfers - Prior Service Cost	—	—	975	—
Transfers - (Gain)/loss	(7,148)	—	1,485	—
<b>Change for the Year Ended December 31,</b>	<b>\$ (5,645)</b>	<b>\$ (12,868)</b>	<b>\$ 19,327</b>	<b>\$ (5,049)</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>2022</b>	<b>2021</b>	<b>2022</b>	<b>2021</b>
2.0 %	3.8 %	2.8 %	3.8 %

The following table presents the classification of pension plan assets for AEP within the fair value hierarchy as of December 31, 2022:

Asset Class	Level 1	Level 2	Level 3	Other	Total	Year End Allocation
			(in millions)			
Equities (a):						
Domestic	\$ 347.6	\$ —	\$ —	\$ —	\$ 347.6	8.4 %
International	398.4	—	—	—	398.4	9.7 %
Common Collective Trusts (b)	—	—	—	379.9	379.9	9.2 %
Subtotal – Equities	746.0	—	—	379.9	1,125.9	27.3 %
Fixed Income (a):						
United States Government and Agency Securities	(0.6)	1,071.4	—	—	1,070.8	26.0 %
Corporate Debt	—	891.7	—	—	891.7	21.6 %
Foreign Debt	—	140.2	—	—	140.2	3.4 %
State and Local Government	—	37.0	—	—	37.0	0.9 %
Other – Asset Backed	—	0.8	—	—	0.8	— %
Subtotal – Fixed Income	(0.6)	2,141.1	—	—	2,140.5	51.9 %
Infrastructure (b)	—	—	—	109.2	109.2	2.6 %
Real Estate (b)	—	—	—	276.9	276.9	6.7 %
Alternative Investments (b)	—	—	—	319.7	319.7	7.8 %
Cash and Cash Equivalents (b)	—	64.9	—	58.3	123.2	3.0 %
Other – Pending Transactions and Accrued Income (c)	—	—	—	29.3	29.3	0.7 %
<b>Total</b>	<b>\$ 745.4</b>	<b>\$ 2,206.0</b>	<b>\$ —</b>	<b>\$ 1,173.3</b>	<b>\$ 4,124.7</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 represent investments for which fair value is measured using net asset value per-share.
- (c) Amounts in “Other” column primarily represent accrued interest, dividend receivables and transactions pending settlement.

The following table presents the classification of OPEB plan assets for AEP within the fair value hierarchy as of December 31, 2022:

Asset Class	Level 1	Level 2	Level 3 (in millions)	Other	Total	Year End Allocation
Equities:						
Domestic	\$ 414.1	\$ —	\$ —	\$ —	\$ 414.1	26.7 %
International	265.0	—	—	—	265.0	17.1 %
Common Collective Trusts (a)	—	—	—	169.1	169.1	10.9 %
Subtotal – Equities	679.1	—	—	169.1	848.2	54.7 %
Fixed Income:						
Common Collective Trust Debt (a)	—	—	—	120.3	120.3	7.8 %
United States Government and Agency Securities	0.1	155.8	—	—	155.9	10.1 %
Corporate Debt	—	141.5	—	—	141.5	9.1 %
Foreign Debt	—	21.0	—	—	21.0	1.4 %
State and Local Government	62.9	7.8	—	—	70.7	4.6 %
Subtotal – Fixed Income	63.0	326.1	—	120.3	509.4	33.0 %
Trust Owned Life Insurance:						
International Equities	—	46.7	—	—	46.7	3.0 %
United States Bonds	—	110.3	—	—	110.3	7.1 %
Subtotal – Trust Owned Life Insurance	—	157.0	—	—	157.0	10.1 %
Cash and Cash Equivalents (a)	23.2	—	—	6.7	29.9	1.9 %
Other – Pending Transactions and Accrued Income (b)	—	—	—	4.8	4.8	0.3 %
<b>Total</b>	<b>\$ 765.3</b>	<b>\$ 483.1</b>	<b>\$ —</b>	<b>\$ 300.9</b>	<b>\$ 1,549.3</b>	<b>100.0 %</b>

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

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

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 (in millions)	Other	Total	Year End Allocation
Equities (a):						
Domestic	\$ 388.9	\$ —	\$ —	\$ —	\$ 388.9	7.2 %
International	465.7	—	—	—	465.7	8.7 %
Common Collective Trusts (b)	—	—	—	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 (b)	—	—	—	92.1	92.1	1.7 %
Real Estate (b)	—	—	—	232.6	232.6	4.4 %
Alternative Investments (b)	—	—	—	448.8	448.8	8.4 %
Cash and Cash Equivalents (b)	—	64.3	—	53.4	117.7	2.2 %
Other – Pending Transactions and Accrued Income (c)	—	—	—	(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 represent investments for which fair value is measured using net asset value per-share.
- (c) Amounts in “Other” column primarily represent accrued interest, dividend receivables and transactions pending settlement.



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 (a)	—	—	—	265.0	265.0	13.0 %
Subtotal – Equities	770.3	—	—	265.0	1,035.3	50.7 %
Fixed Income:						
Common Collective Trust – Debt (a)	—	—	—	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 (a)	33.0	—	—	6.7	39.7	1.9 %
Other – Pending Transactions and Accrued Income (b)	—	—	—	6.0	6.0	0.3 %
<b>Total</b>	\$ 895.2	\$ 703.7	\$ —	\$ 445.4	\$ 2,044.3	100.0 %

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

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

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

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

	December 31,	
	2022	2021
	(in thousands)	
Qualified Pension Plan	\$ 84,724	\$ 177,132
Nonqualified Pension Plan	49	34
<b>Total Accumulated Benefit Obligation</b>	<b>\$ 84,773</b>	<b>\$ 177,166</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>2022</b>	<b>2021</b>
	<b>(in thousands)</b>	
Projected Benefit Obligation	\$ 86,855	\$ 98
Fair Value of Plan Assets	83,062	—
<b>Underfunded Projected Benefit Obligation</b>	<b>\$ (3,793)</b>	<b>\$ (98)</b>

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

	<b>Underfunded Pension Plans</b>	
	<b>December 31,</b>	
	<b>2022</b>	<b>2021</b>
	<b>(in thousands)</b>	
Accumulated Benefit Obligation	\$ 84,773	\$ 34
Fair Value of Plan Assets	83,062	—
<b>Underfunded Accumulated Benefit Obligation</b>	<b>\$ (1,711)</b>	<b>\$ (34)</b>

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

KPCo expects contributions and payments for the Pension and OPEB plans of \$4 thousand and \$53 thousand, respectively, during 2023. 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>	
2023	\$ 7,342	\$ 3,690
2024	7,781	3,534
2025	7,766	3,708
2026	7,554	3,692
2027	7,874	3,586
Years 2028 to 2032, in Total	36,110	16,525

### *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>2022</b>	<b>2021</b>	<b>2022</b>	<b>2021</b>
	<b>(in thousands)</b>			
Service Cost	\$ 2,739	\$ 3,477	\$ 172	\$ 283
Interest Cost	4,480	4,840	953	1,096
Expected Return on Plan Assets	(8,116)	(8,583)	(3,885)	(3,479)
Amortization of Prior Service Credit	—	—	(2,375)	(2,499)
Amortization of Net Actuarial Loss	1,867	3,523	—	—
<b>Net Periodic Benefit Cost (Credit)</b>	<b>970</b>	<b>3,257</b>	<b>(5,135)</b>	<b>(4,599)</b>
Capitalized Portion	(1,287)	(1,582)	(81)	(129)
<b>Net Periodic Benefit Cost (Credit) Recognized in Expense</b>	<b>\$ (317)</b>	<b>\$ 1,675</b>	<b>\$ (5,216)</b>	<b>\$ (4,728)</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 \$2.0 million in 2022 and \$2.3 million in 2021.

## 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
	2022	2021	
	(in thousands)		
Commodity:			
Power	3,450	6,927	MWhs
Heating Oil and Gasoline	—	305	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. The amount of cash collateral from third-parties netted against short-term and long-term risk management assets and the amount of cash collateral paid to third-parties netted against short-term and long-term risk management liabilities were immaterial for KPCo as of December 31, 2022 and 2021.

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

Balance Sheet Location	December 31, 2022		
	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	\$ 8,607	\$ (144)	\$ 8,463
Long-term Risk Management Assets	137	(137)	—
<b>Total Assets</b>	<b>8,744</b>	<b>(281)</b>	<b>8,463</b>
Current Risk Management Liabilities	144	(144)	—
Long-term Risk Management Liabilities	137	(137)	—
<b>Total Liabilities</b>	<b>281</b>	<b>(281)</b>	<b>—</b>
<b>Total MTM Derivative Contract Net Assets</b>	<b>\$ 8,463</b>	<b>\$ —</b>	<b>\$ 8,463</b>

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>	<b>7,534</b>	<b>(1,548)</b>	<b>5,986</b>
Current Risk Management Liabilities	1,458	(1,407)	51
Long-term Risk Management Liabilities	46	(46)	—
<b>Total Liabilities</b>	<b>1,504</b>	<b>(1,453)</b>	<b>51</b>
<b>Total MTM Derivative Contract Net Assets (Liabilities)</b>	<b>\$ 6,030</b>	<b>\$ (95)</b>	<b>\$ 5,935</b>

- (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 activity of derivative risk management contracts:

### Amount of Gain (Loss) Recognized on Risk Management Contracts

Location of Gain (Loss)	Years Ended December 31,	
	2022	2021
(in thousands)		
Electric Generation, Transmission and Distribution Revenues	\$ 8	\$ (12)
Purchased Electricity for Resale	228	118
Other Operation	148	90
Maintenance	263	116
Regulatory Assets (a)	(25)	(1,077)
Regulatory Liabilities (a)	16,998	11,192
<b>Total Gain on Risk Management Contracts</b>	<b>\$ 17,620</b>	<b>\$ 10,427</b>

- (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 2022 and 2021, 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 2022 and 2021, 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, 2022 and 2021.

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, 2022, 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, 2022 and 2021, KPCo did not have derivative contracts with collateral triggering events in a net liability position.

#### *Cross-Acceleration Triggers*

Certain interest rate derivative contracts contain cross-acceleration provisions that, if triggered, would permit the counterparty to declare a default and require settlement of the outstanding payable. These cross-acceleration provisions could be triggered if there was a non-performance event by KPCo under any of their outstanding debt of at least \$50 million and the lender on that debt has accelerated the entire repayment obligation. On an ongoing basis, AEP's risk management organization assesses the appropriateness of these cross-acceleration provisions in contracts. KPCo had no derivative contracts with cross-acceleration provisions in a net liability position as of December 31, 2022 and 2021, respectively. There was no cash collateral posted as of December 31, 2022 and 2021. If a cross-acceleration provision would have been triggered, settlement at fair value would have been required. KPCo had no derivative contracts with cross-acceleration provisions outstanding as of December 31, 2022 and 2021.

#### *Cross-Default Triggers*

In addition, a majority of KPCo's non-exchange-traded commodity contracts contain cross-default provisions that, if triggered, would permit the counterparty to declare a default and require settlement of the outstanding payable. These cross-default provisions could be triggered if there was a non-performance event by Parent or the obligor under outstanding debt or a third-party obligation that is \$50 million or greater. On an ongoing basis, AEP's risk management organization assesses the appropriateness of these cross-default provisions in the contracts. KPCo's derivative contracts with cross-default provisions outstanding as of December 31, 2022 and 2021 were not material. There was no cash collateral posted as of December 31, 2022 and 2021, respectively. If a cross-default provision would have been triggered, settlement at fair value would have been required.



## 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,			
	2022		2021	
	<u>Book Value</u>	<u>Fair Value</u>	<u>Book Value</u>	<u>Fair Value</u>
Long-term Debt	\$ 1,178,448	\$ 1,148,769	\$ 1,103,105	\$ 1,224,664

## ***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, 2022**

<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)	<u>\$ —</u>	<u>\$ 137</u>	<u>\$ 8,607</u>	<u>\$ (281)</u>	<u>\$ 8,463</u>
<b>Liabilities:</b>					
<b>Risk Management Liabilities</b>					
Risk Management Commodity Contracts (a) (b)	<u>\$ —</u>	<u>\$ 137</u>	<u>\$ 144</u>	<u>\$ (281)</u>	<u>\$ —</u>

### **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)	<u>\$ —</u>	<u>\$ 1,096</u>	<u>\$ 6,439</u>	<u>\$ (1,549)</u>	<u>\$ 5,986</u>
<b>Liabilities:</b>					
<b>Risk Management Liabilities</b>					
Risk Management Commodity Contracts (a) (b)	<u>\$ —</u>	<u>\$ 937</u>	<u>\$ 568</u>	<u>\$ (1,454)</u>	<u>\$ 51</u>

(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, 2022</b>	<b>Net Risk Management Assets (Liabilities) (in thousands)</b>
<b>Balance as of December 31, 2021</b>	\$ 5,871
Realized Gain (Loss) Included in Net Income (or Changes in Net Assets) (a) (b)	2,801
Settlements	(8,672)
Changes in Fair Value Allocated to Regulated Jurisdictions (d)	8,463
<b>Balance as of December 31, 2022</b>	<u>\$ 8,463</u>

  

<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>	<u>\$ 5,871</u>

- (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, 2022 and 2021:

**Significant Unobservable Inputs  
December 31, 2022**

	<u>Fair Value</u>		<u>Valuation Technique</u>	<u>Significant Unobservable Input (a)</u>	<u>Input/Range</u>		
	<u>Assets</u>	<u>Liabilities</u>			<u>Low</u>	<u>High</u>	<u>Weighted Average (b)</u>
	<u>(in thousands)</u>						
FTRs	\$ 8,607	\$ 144	Discounted Cash Flow	Forward Market Price	\$ (3.10)	\$ 18.79	\$ 2.48

**Significant Unobservable Inputs  
December 31, 2021**

	<u>Fair Value</u>		<u>Valuation Technique</u>	<u>Significant Unobservable Input (a)</u>	<u>Input/Range</u>		
	<u>Assets</u>	<u>Liabilities</u>			<u>Low</u>	<u>High</u>	<u>Weighted Average (b)</u>
	<u>(in thousands)</u>						
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>					

(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, 2022 and 2021:

**Uncertainty of Fair Value Measurements**

<u>Significant Unobservable Input</u>	<u>Position</u>	<u>Change in Input</u>	<u>Impact on Fair Value Measurement</u>
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>2022</b>	<b>2021</b>
	<b>(in thousands)</b>	
<b>Federal:</b>		
Current	\$ 74	\$ (2,970)
Deferred	(30,347)	(20,143)
<b>Total Federal</b>	<u>(30,273)</u>	<u>(23,113)</u>
<b>State and Local:</b>		
Current	691	—
Deferred	(1,446)	(4,366)
<b>Total State and Local</b>	<u>(755)</u>	<u>(4,366)</u>
<b>Income Tax Benefit</b>	<u>\$ (31,028)</u>	<u>\$ (27,479)</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>2022</b>	<b>2021</b>
	<b>(in thousands)</b>	
Net Income	\$ 47,552	\$ 50,150
Income Tax Benefit	(31,028)	(27,479)
<b>Pretax Income</b>	<u>\$ 16,524</u>	<u>\$ 22,671</u>
Income Taxes on Pretax Income at Statutory Rate (21%)	\$ 3,470	\$ 4,761
Increase (Decrease) in Income Taxes Resulting from the Following Items:		
Reversal of Origination Flow-Through	1,475	1,891
State and Local Income Taxes, Net	(594)	(3,449)
Removal Costs	(2,660)	(2,154)
Tax Adjustments (a)	—	3,098
Tax Reform Excess ADIT Reversal (b)	(32,452)	(31,174)
Other	(267)	(452)
<b>Income Tax Benefit</b>	<u>\$ (31,028)</u>	<u>\$ (27,479)</u>
<b>Effective Income Tax Rate</b>	(187.8)%	(121.2)%

- (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>2022</b>	<b>2021</b>
	<b>(in thousands)</b>	
Deferred Tax Assets	\$ 86,163	\$ 94,062
Deferred Tax Liabilities	(542,380)	(531,214)
<b>Net Deferred Tax Liabilities</b>	<b>\$ (456,217)</b>	<b>\$ (437,152)</b>
Property Related Temporary Differences	\$ (304,463)	\$ (310,721)
Amounts Due to Customers for Future Income Taxes	39,613	51,754
Deferred State Income Taxes	(96,837)	(92,617)
Regulatory Assets	(109,919)	(101,155)
Net Operating Loss Carryforward	11,671	17,475
All Other, Net	3,718	(1,888)
<b>Net Deferred Tax Liabilities</b>	<b>\$ (456,217)</b>	<b>\$ (437,152)</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. AEP has agreed to extend the statute of limitations on the 2017 and 2018 tax returns to December 31, 2023, to allow time for the current IRS audit to be completed including a refund claim approval by the Congressional Joint Committee on Taxation. The statute of limitations for the 2019 return is set to naturally expire in 2023 as well.

The current IRS audit and associated refund claim evolved from a net operating loss carryback to 2015 that originated in the 2017 return. AEP has received and agreed to two IRS proposed adjustments on the 2017 tax return, which were immaterial. The exam is nearly complete and AEP is currently working with the IRS to submit the refund claim to the Congressional Joint Committee on Taxation for resolution and final approval.

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

KPCo has state net income tax operating loss carryforwards of \$222 million in 2022. As a result, KPCo recognized deferred state income tax benefits in 2022 of \$11 million. This is consistent with the net operating loss carryforwards and deferred state income tax benefits recognized in 2021. 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,	
	2022	2021
	(in thousands)	
Operating Lease Cost	\$ 14,058	\$ 3,100
Finance Lease Cost:		
Amortization of Finance Leases	2,735	920
Interest on Finance Leases	63	125
<b>Total Lease Rental Costs (a)</b>	<b>\$ 16,856</b>	<b>\$ 4,145</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,			
	2022	2021	2022	2021
Operating Leases	5.92	6.05	2.95 %	3.33 %
Finance Leases	4.73	4.68	4.41 %	4.00 %

	<b>Years Ended December 31,</b>	
	<b>2022</b>	<b>2021</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	\$ 14,050	\$ 3,089
Operating Cash Flows Used for Finance Leases	63	125
Financing Cash Flows Used for Finance Leases	2,735	920
Non-cash Acquisitions Under Operating Leases	\$ 422	\$ 1,261

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>2022</b>	<b>2021</b>
	<b>(in thousands)</b>	
<b>Property, Plant and Equipment Under Finance Leases</b>		
Generation	\$ 465	\$ 1,106
Other Property, Plant and Equipment	209	4,348
<b>Total Property, Plant and Equipment Under Finance Leases</b>	<b>674</b>	<b>5,454</b>
Accumulated Amortization	305	2,599
<b>Net Property, Plant and Equipment Under Finance Leases</b>	<b>\$ 369</b>	<b>\$ 2,855</b>

<b>Obligations Under Finance Leases</b>		
Noncurrent Liability	\$ 288	\$ 2,064
Liability Due Within One Year	81	791
<b>Total Obligations Under Finance Leases</b>	<b>\$ 369</b>	<b>\$ 2,855</b>

	<b>December 31,</b>	
	<b>2022</b>	<b>2021</b>
	<b>(in thousands)</b>	
<b>Operating Lease Assets</b>	<b>\$ 528</b>	<b>\$ 10,748</b>

<b>Obligations Under Operating Leases</b>		
Noncurrent Liability	\$ 450	\$ 8,614
Liability Due Within One Year	128	2,173
<b>Total Obligations Under Operating Leases</b>	<b>\$ 578</b>	<b>\$ 10,787</b>



Future minimum lease payments consisted of the following as of December 31, 2022:

Future Minimum Lease Payments	Finance Leases	Operating Leases
	(in thousands)	
2023	\$ 95	\$ 154
2024	88	136
2025	85	81
2026	71	64
2027	54	46
After 2027	18	198
<b>Total Future Minimum Lease Payments</b>	411	679
Less: Imputed Interest	42	101
<b>Estimated Present Value of Future Minimum Lease Payments</b>	\$ 369	\$ 578

***Lessor Activity***

KPCo's lessor activity was immaterial as of and for the twelve months ended December 31, 2022 and December 31, 2021, 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, 2022	Interest Rate Ranges as of December 31,		Outstanding as of December 31,	
			2022	2021	2022	2021
(in thousands)						
Senior Unsecured Notes	2024-2047	4.54%	3.13%-8.13%	3.13%-8.13%	\$ 688,626	\$ 688,400
Pollution Control Bonds	2023 (a)	2.35%	2.35%	2.35%	64,896	64,823
Other Long-term Debt	2022-2023	5.26%	5.03%-5.55%	0.76%-1.61%	424,926	349,882
<b>Total Long-term Debt Outstanding</b>					<u>\$ 1,178,448</u>	<u>\$ 1,103,105</u>

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

As of December 31, 2022, outstanding long-term debt was payable as follows:

	2023	2024	2025	2026	2027	After 2027	Total
(in thousands)							
Principal Amount	\$ 490,000	\$ 65,000	\$ —	\$ 200,000	\$ 40,000	\$ 385,000	\$1,180,000
Debt Issuance Costs							(1,552)
<b>Total Long-term Debt Outstanding</b>							<u>\$1,178,448</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 requirement that prohibits the payment of dividends out of capital accounts in certain circumstances; payment of dividends is generally allowed out of retained earnings.

KPCo has credit agreements that contain a covenant that limit its debt to capitalization ratio to 67.5%. As of December 31, 2022, 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, 2022, 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 \$613.2 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, 2022, the amount of any such restrictions was \$36.5 million.

### 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, 2022 and 2021 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>
	<b>(in thousands)</b>					
2022	\$ 161,643	\$ 28,393	\$ 82,006	\$ 23,343	\$ 94,428	\$ 180,000
2021	121,608	43,730	46,522	22,427	47,895	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>
2022	5.28 %	0.10 %	2.15 %	2.15 %	2.23 %	2.15 %
2021	0.48 %	0.02 %	0.34 %	0.03 %	0.31 %	0.33 %

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>2022</b>	<b>2021</b>
	<b>(in thousands)</b>	
Interest Expense	\$ 1,985	\$ 166
Interest Income	102	6

### Securitized Accounts Receivables – AEP Credit

Under an affiliated receivables sales arrangement, KPCo sold, without recourse, certain of its customer accounts receivable and accrued unbilled revenue balances to AEP Credit. KPCo was 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. The costs of customer accounts receivable sold are reported in Other Operation expense on KPCo’s statements of income. In January 2022, due to the pending sale to Liberty, KPCo ceased selling accounts receivable to AEP Credit. As a result, in the first quarter of 2022, KPCo began recording an allowance for uncollectible accounts on its balance sheet for those receivables no longer sold to AEP Credit.

KPCo’s amounts of accounts receivable and accrued unbilled revenues under the sale of receivables agreement were \$0 and \$53.3 million as of December 31, 2022 and 2021, respectively.

The fees paid by KPCo to AEP Credit for customer accounts receivable sold were \$63 thousand and \$1.9 million for the years ended December 31, 2022 and 2021, respectively. In 2021, due to the successful collection of accounts

receivable balances during the COVID-19 pandemic, the allowance for doubtful accounts was reduced, resulting in the issuance of credits to offset the higher fees previously paid and to lower subsequent fees paid. In 2022, as a result of KPCo's discontinued sale of receivables with AEP Credit, KPCo was issued a net credit upon final settlement of the allowance for doubtful accounts balance as collections of accounts receivable were higher than originally estimated.

KPCo's proceeds on the sale of receivables to AEP Credit were \$66 million and \$595 million for the years ended December 31, 2022 and 2021, respectively.

### 13. RELATED PARTY TRANSACTIONS

For other related party transactions, also see “AEP System Tax Allocation” section of Note 1 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>2022</b>	<b>2021</b>
	<b>(in thousands)</b>	
Transmission Agreement Sales	\$ 17,701	\$ 8,991
Other Revenues	1,550	1,551
<b>Total Affiliated Revenues</b>	<b>\$ 19,251</b>	<b>\$ 10,542</b>

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>2022</b>	<b>2021</b>
	<b>(in thousands)</b>	
Direct Purchases from AEGCo (a)	\$ 93,137	\$ 93,365
<b>Total Affiliated Purchases</b>	<b>\$ 93,137</b>	<b>\$ 93,365</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, 2022 and 2021 were \$64.9 million and \$57.1 million, respectively, and were recorded in Other Operation expenses on KPCo's statements of income.

### ***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. 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 of 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).

In April 2021, AEGCo and I&M executed an agreement to purchase 100% of the interests in Rockport Plant, Unit 2 effective at the end of the lease term on December 7, 2022. Beginning December 8, 2022, AEGCo and I&M applied the joint plant accounting model to their respective 50% undivided interests in the jointly owned Rockport Plant, Unit 2 as well as any future investments made prior to the current estimated retirement date of December 2028.

Prior to the termination of the lease, I&M assigned 30% of the power to KPCo. See the "UPA between AEGCo and KPCo" section below for additional information. Beginning December 8, 2022, AEGCo billed 100% of its share of the Rockport Plant to I&M and ceased billing to KPCo. KPCo reached an agreement with I&M, from the end of the lease through May 2024, to buy capacity from Rockport Plant, Unit 2 through the PCA at a rate equal to PJM's RPM clearing price.

#### *UPA between AEGCo and KPCo*

On December 7, 2022, the UPA between AEGCo and KPCo ended upon the termination of the Rockport Plant, Unit 2 lease. Previously, pursuant to an assignment between I&M and KPCo and a UPA between AEGCo and KPCo, AEGCo sold KPCo 30% of the power (and the energy associated therewith) available to AEGCo from both units of the Rockport Plant. KPCo paid 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. As a result of the end of the UPA between AEGCo and KPCo, a prorated bill was recorded from AEGCo to KPCo to reflect costs incurred for the first seven days of 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 \$2 million and \$3.1 million in 2022 and 2021, respectively, for urea transloading provided by I&M. These expenses were recorded as fuel expenses or other operation expenses. This agreement with KPCo terminated with the transfer of the Mitchell Plant in August 2022.

### ***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 \$1 million and \$973 thousand for the years ended December 31, 2022 and 2021, 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>2022</b>	<b>2021</b>
	<b>(in thousands)</b>	
Sales	\$ 1,187	\$ 431
Purchases	631	3,995

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

### ***Charitable Contributions to AEP Foundation***

The American Electric Power Foundation is funded by American Electric Power and its utility operating units. The Foundation provides a permanent, ongoing resource for charitable initiatives and multi-year commitments in the communities served by AEP and initiatives outside of AEP's 11-state service area. In 2022, KPCo made a \$2.8 million charitable contribution to the AEP Foundation recorded in Other Operation on the statements of income. In 2021, there were no charitable contributions made to the AEP Foundation.

### ***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, 2022 and 2021 were \$69.7 million and \$75.2 million, respectively. The carrying amount of liabilities associated with AEPSC as of December 31, 2022 and 2021 were \$6.1 million and \$7.9 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. In December 2022, the UPA between AEGCo and KPCo ended upon the termination of the Rockport Plant, Unit 2 lease. As a result, AEGCo began selling all of the output from the Rockport Plant to I&M, eliminating KPCo’s significant variable interest in AEGCo as of December 31, 2022. KPCo was previously exposed to losses to the extent it could not recover the costs of AEGCo through its normal business operations. Total billings from AEGCo for the years ended December 31, 2022 and 2021 were \$92.9 million and \$93.4 million, respectively. The carrying amount of liabilities associated with AEGCo as of December 31, 2022 and 2021 were \$2 million and \$7.9 million, respectively.



## 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, 2022 and 2021:

	December 31,	
	2022	2021
	(in thousands)	
Regulated Property, Plant and Equipment		
Generation	\$ 1,236,474	\$ 1,231,494
Transmission	801,838	760,359
Distribution	1,061,601	1,017,406
Other	166,754	129,250
CWIP	137,964	95,093
Less: Accumulated Depreciation	1,155,997	1,104,293
Total Regulated Property, Plant and Equipment - Net	<u>2,248,634</u>	<u>2,129,309</u>
Nonregulated Property, Plant and Equipment - Net	1,003	8,105
<b>Total Property, Plant and Equipment - Net</b>	<u><u>\$ 2,249,637</u></u>	<u><u>\$ 2,137,414</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 2022 and 2021.

Functional Class of Property	2022		2021	
	Annual Composite Depreciation Rate	Depreciable Life Ranges (in years)	Annual Composite Depreciation Rate	Depreciable Life Ranges (in years)
Generation	3.0%	69 - 73	3.0%	69 - 73
Transmission	2.7%	37 - 75	2.6%	37 - 75
Distribution	3.4%	11 - 75	3.4%	11 - 75
Other	8.2%	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)

The following is a reconciliation of the 2022 and 2021 aggregate carrying amounts of ARO for KPCo:

Year	ARO as of January 1,	Accretion Expense	Liabilities Incurred	Liabilities Settled (a)	Revisions in Cash Flow Estimates (a)	ARO as of December 31,
			(in thousands)			
2022	\$ 17,697	\$ 803	\$ —	\$ (1,162)	\$ 1,139	\$ 18,477
2021	24,565	968	—	(3,227)	(4,609)	17,697

(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:

	Years Ended December 31,	
	2022	2021
	(in thousands)	
Allowance for Equity Funds Used During Construction	\$ 1,192	\$ 1,822
Allowance for Borrowed Funds Used During Construction	1,635	936

### 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:

	Fuel Type	Percent of Ownership	Utility Plant in Service	Construction Work in Progress	Accumulated Depreciation
(in thousands)					
<b>KPCo's Share as of December 31, 2022</b>					
Mitchell Generating Station, Units 1 and 2 (a)	Coal	50.0 %	\$ 1,052,996	\$ 23,231	\$ 518,178
<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

(a) In September 2022, pursuant to resolutions under the existing Mitchell Plant agreement, WPCo replaced KPCo as the operator of Mitchell Plant. See Note 1 - Organization and Summary of Significant Accounting Policies 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,	
	2022	2021
	(in thousands)	
<b>Retail Revenues:</b>		
Residential Revenues	\$ 317,814	\$ 282,900
Commercial Revenues	197,505	160,183
Industrial Revenues	185,174	142,217
Other Retail Revenues	2,193	2,029
<b>Total Retail Revenues</b>	<u>702,686</u>	<u>587,329</u>
<b>Wholesale Revenues:</b>		
Generation Revenues	29,680	29,523
Transmission Revenues (a)	35,522	22,052
<b>Total Wholesale Revenues</b>	<u>65,202</u>	<u>51,575</u>
Other Revenues from Contracts with Customers (b)	<u>11,541</u>	<u>8,659</u>
<b>Total Revenues from Contracts with Customers</b>	<u>779,429</u>	<u>647,563</u>
<b>Other Revenues:</b>		
Alternative Revenue Programs (c)	(6,216)	(1,180)
Other Revenues	8	—
<b>Total Other Revenues</b>	<u>(6,208)</u>	<u>(1,180)</u>
<b>Total Revenues</b>	<u>\$ 773,221</u>	<u>\$ 646,383</u>

- (a) Amounts included affiliated and nonaffiliated revenues. The affiliated revenues were \$19 million and \$9 million for years ended December 31, 2022 and 2021, respectively.
- (b) Amounts included affiliated and nonaffiliated revenues.
- (c) Alternative revenue programs in certain jurisdictions include regulatory mechanisms that periodically adjust for over/under collection of related revenues.

### *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 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 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, 2022. Fixed performance obligations primarily include electricity sales for fixed amounts of energy and stand ready services into PJM's RPM market. KPCo elected to apply the exemption to not disclose the value of unsatisfied performance obligations for contracts with an original expected term of one year or less. Due to the annual establishment of revenue requirements, transmission revenues are excluded from the table below. The amounts shown in the table below include affiliated and nonaffiliated revenues.

<u>2023</u>	<u>2024-2025</u>	<u>2026-2027</u>	<u>After 2027</u>	<u>Total</u>
		(in thousands)		
\$ 1,256	\$ 2,512	\$ 2,512	\$ 1,256	\$ 7,536

### ***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, 2022 and 2021, 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, 2022 and 2021, 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, 2022 and 2021, 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 \$9.1 million, respectively, as of December 31, 2022 and December 31, 2021.

### ***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, 2022 and 2021, respectively.