Kentucky Power Company

2023 Annual Report

Audited Financial Statements

TABLE OF CONTENTS	Page Number

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.
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.
MMBtu	Million British Thermal Units.
MTM	Mark-to-Market.
MW	Megawatt.
MWh	Megawatt-hour.
NOLC	Net operating loss carryforwards.
NO_x	Nitrogen oxide.
OATT	Open Access Transmission Tariff.
OPCo	Ohio Power Company, an AEP electric utility subsidiary.
OPEB	Other Postretirement Benefits.

Term	Meaning
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.
SWEPCo	Southwestern Electric Power Company, an AEP electric utility subsidiary.
TA	Transmission Agreement, effective November 2010, among APCo, I&M, KGPCo, KPCo, OPCo and WPCo with AEPSC as agent.
Tax Reform	On December 22, 2017, President Trump signed into law legislation referred to as the “Tax Cuts and Jobs Act” (the TCJA). The TCJA includes significant changes to the Internal Revenue Code of 1986, including a reduction in the corporate federal income tax rate from 35% to 21% effective January 1, 2018.
UPA	Unit Power Agreement.
Utility Money Pool	Centralized funding mechanism AEP uses to meet the short-term cash requirements of certain utility subsidiaries.
VIE	Variable Interest Entity.
WPCo	Wheeling Power Company, an AEP electric utility subsidiary.
WVPSC	West Virginia Public Service Commission.

Report of Independent Auditors

To the Management and Board of Directors of Kentucky Power Company

Opinion

We have audited the accompanying financial statements of Kentucky Power Company (the "Company"), which comprise the balance sheets as of December 31, 2023 and 2022, 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, 2023 and 2022, 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 26, 2024

KENTUCKY POWER COMPANY
STATEMENTS OF INCOME
For the Years Ended December 31, 2023 and 2022
(in thousands)

	Years Ended December 31, 2023	2022
REVENUES		
Electric Generation, Transmission and Distribution	$ 602,847	$ 752,371
Sales to AEP Affiliates	11,173	19,251
Other Revenues	829	1,599
TOTAL REVENUES	614,849	773,221
EXPENSES		
Purchased Electricity, Fuel and Other Consumables Used for Electric Generation	226,287	277,291
Purchased Electricity from AEP Affiliates	1,968	93,137
Other Operation	106,883	133,992
Maintenance	64,173	64,821
Depreciation and Amortization	123,639	123,238
Taxes Other Than Income Taxes	27,545	26,919
TOTAL EXPENSES	550,495	719,398
OPERATING INCOME	64,354	53,823
Other Income (Expense):		
Interest Income	202	134
Allowance for Equity Funds Used During Construction	968	1,192
Non-Service Cost Components of Net Periodic Benefit Cost	7,576	6,490
Interest Expense	(66,813)	(45,115)
INCOME BEFORE INCOME TAX BENEFIT	6,287	16,524
Income Tax Benefit	(27,675)	(31,028)
NET INCOME	$ 33,962	$ 47,552

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, 2023 and 2022
(in thousands)

	Years Ended December 31, 2023	2022
Net Income	$ 33,962	$ 47,552
OTHER COMPREHENSIVE LOSS, NET OF TAXES		
Amortization of Pension and OPEB Deferred Costs, Net of Tax of $0 and $(21) in 2023 and 2022, Respectively	—	(79)
Pension and OPEB Adjustment Related to Plant Transfers, Net of Tax of $0 and $(444) in 2023 and 2022, Respectively	—	(1,670)
TOTAL OTHER COMPREHENSIVE LOSS	—	(1,749)
TOTAL COMPREHENSIVE INCOME	$ 33,962	$ 45,803

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, 2023 and 2022
(in thousands)

	Common Stock	Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total
TOTAL COMMON SHAREHOLDER'S EQUITY – DECEMBER 31, 2021	$ 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)
TOTAL COMMON SHAREHOLDER'S EQUITY – DECEMBER 31, 2022	50,450	526,287	343,573	—	920,310
Capital Contribution from Parent		868			868
Return of Capital to Parent		(384)			(384)
Net Income			33,962		33,962
TOTAL COMMON SHAREHOLDER'S EQUITY – DECEMBER 31, 2023	$ 50,450	$ 526,771	$ 377,535	$ —	$ 954,756

See Notes to Financial Statements beginning on page 11.

KENTUCKY POWER COMPANY
BALANCE SHEETS
ASSETS
December 31, 2023 and 2022
(in thousands)

	December 31, 2023	December 31, 2022
CURRENT ASSETS		
Cash and Cash Equivalents	$ 1,321	$ 2,684
Accounts Receivable:		
Customers	17,723	63,432
Affiliated Companies	24,213	10,818
Accrued Unbilled Revenues	—	35,002
Miscellaneous	117	72
Allowance for Uncollectible Accounts	—	(1,013)
Total Accounts Receivable	42,053	108,311
Fuel	80,638	21,994
Materials and Supplies	25,445	26,182
Risk Management Assets	3,064	8,463
Regulatory Asset for Under-Recovered Fuel Costs	10,688	23,241
Margin Deposits	2,926	960
Prepayments and Other Current Assets	15,027	2,512
TOTAL CURRENT ASSETS	181,162	194,347
PROPERTY, PLANT AND EQUIPMENT		
Electric:		
Generation	1,239,925	1,236,474
Transmission	838,264	801,838
Distribution	1,119,303	1,061,601
Other Property, Plant and Equipment	175,031	167,981
Construction Work in Progress	159,612	137,964
Total Property, Plant and Equipment	3,532,135	3,405,858
Accumulated Depreciation and Amortization	1,205,973	1,156,221
TOTAL PROPERTY, PLANT AND EQUIPMENT – NET	2,326,162	2,249,637
OTHER NONCURRENT ASSETS		
Regulatory Assets	548,225	504,185
Deferred Charges and Other Noncurrent Assets	78,479	58,936
TOTAL OTHER NONCURRENT ASSETS	626,704	563,121
TOTAL ASSETS	$ 3,134,028	$ 3,007,105

See Notes to Financial Statements beginning on page 11.

KENTUCKY POWER COMPANY
BALANCE SHEETS
LIABILITIES AND COMMON SHAREHOLDER'S EQUITY
December 31, 2023 and 2022
(dollars in thousands)

	December 31, 2023	December 31, 2022
CURRENT LIABILITIES		
Advances from Affiliates	$ 49,567	$ 94,428
Accounts Payable:		
General	36,823	56,969
Affiliated Companies	46,018	51,076
Long-term Debt Due Within One Year – Nonaffiliated	215,000	490,000
Risk Management Liabilities	7,926	—
Customer Deposits	38,027	38,784
Accrued Taxes	49,490	40,272
Obligations Under Operating Leases	195	128
Other Current Liabilities	44,610	25,827
TOTAL CURRENT LIABILITIES	487,656	797,484
NONCURRENT LIABILITIES		
Long-term Debt – Nonaffiliated	1,059,806	688,448
Long-term Debt – Affiliated	25,000	—
Deferred Income Taxes	473,843	456,217
Regulatory Liabilities	97,627	108,853
Asset Retirement Obligations	18,071	18,447
Employee Benefits and Pension Obligations	9,581	9,736
Obligations Under Operating Leases	963	450
Deferred Credits and Other Noncurrent Liabilities	6,725	7,160
TOTAL NONCURRENT LIABILITIES	1,691,616	1,289,311
TOTAL LIABILITIES	2,179,272	2,086,795
Rate Matters (Note 4)		
Commitments and Contingencies (Note 6)		
COMMON SHAREHOLDER'S EQUITY		
Common Stock – Par Value – $50 Per Share:		
Authorized – 2,000,000 Shares		
Outstanding – 1,009,000 Shares	50,450	50,450
Paid-in Capital	526,771	526,287
Retained Earnings	377,535	343,573
TOTAL COMMON SHAREHOLDER'S EQUITY	954,756	920,310
TOTAL LIABILITIES AND COMMON SHAREHOLDER'S EQUITY	$ 3,134,028	$ 3,007,105

See Notes to Financial Statements beginning on page 11.

KENTUCKY POWER COMPANY
STATEMENTS OF CASH FLOWS
For the Years Ended December 31, 2023 and 2022
(in thousands)

	Years Ended December 31, 2023	2022
OPERATING ACTIVITIES		
Net Income	$ 33,962	$ 47,552
Adjustments to Reconcile Net Income to Net Cash Flows from Operating Activities:		
Depreciation and Amortization	123,639	123,238
Deferred Income Taxes	(26,059)	(31,793)
Allowance for Equity Funds Used During Construction	(968)	(1,192)
Mark-to-Market of Risk Management Contracts	14,299	(2,542)
Pension and Postemployment Benefit Reserves	(4,122)	31,242
Deferred Fuel Over/Under-Recovery, Net	12,554	(15,025)
Change in Regulatory Assets	(32,887)	(28,263)
Change in Other Noncurrent Assets	(27,547)	(5,950)
Change in Other Noncurrent Liabilities	(8,971)	5,339
Changes in Certain Components of Working Capital:		
Accounts Receivable, Net	66,899	(49,138)
Fuel, Materials and Supplies	(57,893)	(17,492)
Margin Deposits	(1,966)	13,269
Accounts Payable	(23,149)	22,773
Accrued Taxes, Net	9,403	(4,843)
Other Current Assets	(685)	777
Other Current Liabilities	4,657	(3,198)
Net Cash Flows from Operating Activities	81,166	84,754
INVESTING ACTIVITIES		
Construction Expenditures	(159,770)	(210,346)
Proceeds from Sales of Assets	115	8,004
Other Investing Activities	766	685
Net Cash Flows Used for Investing Activities	(158,889)	(201,657)
FINANCING ACTIVITIES		
Capital Contribution from Parent	868	152
Return of Capital to Parent	(384)	—
Issuance of Long-term Debt - Nonaffiliated	435,798	149,869
Issuance of Long-term Debt - Affiliated	25,000	—
Change in Advances from Affiliates, Net	(44,861)	46,533
Retirement of Long-term Debt - Nonaffiliated	(340,000)	(75,000)
Principal Payments for Finance Lease Obligations	(83)	(2,735)
Other Financing Activities	22	5
Net Cash Flows from Financing Activities	76,360	118,824
Net Increase (Decrease) in Cash and Cash Equivalents	(1,363)	1,921
Cash and Cash Equivalents at Beginning of Period	2,684	763
Cash and Cash Equivalents at End of Period	$ 1,321	$ 2,684
SUPPLEMENTARY INFORMATION		
Cash Paid for Interest, Net of Capitalized Amounts	$ 60,987	$ 41,512
Net Cash Paid (Received) for Income Taxes	(3,413)	2,489
Noncash Acquisitions Under Finance Leases	503	131
Construction Expenditures Included in Current Liabilities as of December 31,	18,114	18,898

See Notes to Financial Statements beginning on page 11.

INDEX OF NOTES TO FINANCIAL STATEMENTS

1. <u>ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES</u>

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 TA, which allocates 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.

Inventory

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

Accounts Receivable and Allowance for Uncollectible Accounts

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.

Under an affiliated receivables sales arrangement, KPCo sells, without recourse, certain of its customer accounts receivable and accrued unbilled revenue balances to AEP Credit. From January 2022 through August 2023, KPCo ceased selling accounts receivable to AEP Credit due to the planned sale of KPCo to Liberty. During this time period, KPCo recognized an allowance for uncollectible accounts which was calculated based on a rolling two-year average write-off proportion to gross accounts receivable. In September 2023, KPCo resumed selling accounts receivable to AEP Credit, due to the termination of the sale to Liberty. AEP Credit factors accounts receivable on a daily basis, excluding receivables from risk management activities, for KPCo. See "Securitized Accounts Receivables - AEP Credit" section of Note 12 for additional information.

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:

Significant Customer of KPCo: Marathon Petroleum Company	**2023**	**2022**
Percentage of Total Revenues	15 %	14 %
Percentage of Accounts Receivable – Customers	31 %	14 %

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. 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. Realized gains and losses on cash flow hedges are recorded in Total Revenues or Purchased Electricity for Resale depending on the nature of the risk being hedged. Derivative purchases elected normal 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.

KPCo joins in the filing of a consolidated federal income tax return with its affiliates in the AEP System. The benefit of current tax loss of the parent company (Parent Company Loss Benefit) to the AEP System subsidiaries is accounted for as an allocation through equity. The consolidated NOL of the AEP System is allocated for each company in the consolidated group with taxable loss. With the exception of the allocation of the consolidated AEP System NOL, the loss of the Parent and tax credits, the method of allocation reflects a separate return result for each company in the consolidated group.

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 discounts, premiums 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 AEPSC sponsored qualified pension plan and two unfunded non-qualified pension plans. Substantially all of KPCo’s employees are covered by the qualified plan or both the qualified and non-qualified pension plans. KPCo also participates in OPEB plans sponsored by AEPSC to provide health and life insurance benefits for retired employees. KPCo accounts for its participation in the AEPSC 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:

Pension Plan Assets	Target
Equity	30 %
Fixed Income	54 %
Other Investments	15 %
Cash and Cash Equivalents	1 %

OPEB Plans Assets	Target
Equity	58 %
Fixed Income	41 %
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, 2023 and 2022, the fair value of securities on loan as part of the program was $62 million and $83 million, respectively. Cash and securities obtained as collateral exceeded the fair value of the securities loaned as of December 31, 2023 and 2022.

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, 2023 and 2022:

Depreciation and Amortization	Years Ended December 31, 2023	2022
	(in thousands)	
Depreciation and Amortization of Property, Plant and Equipment	$ 115,984	$ 108,301
Amortization of Regulatory Assets and Liabilities	7,655	14,937
Total Depreciation and Amortization	$ 123,639	$ 123,238

Termination of Planned 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. The SPA was subsequently amended in September 2022 to reduce the purchase price to approximately $2.646 billion. The sale required approval from the KPSC and from the FERC under Section 203 of the Federal Power Act. The SPA contained certain termination rights if the closing of the sale did not occur by April 26, 2023.

In May 2022, the KPSC approved the sale of KPCo to Liberty subject to certain conditions contingent upon the closing of the sale. 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 February 2023, a new filing for approval under Section 203 of the Federal Power Act was submitted. In March 2023, the KPSC and other intervenors made filings recommending the FERC reject AEP and Liberty's new Section 203 application seeking approval of the sale.

In April 2023, AEP, AEPTCo and Liberty entered into a Mutual Termination Agreement (Termination Agreement) terminating the SPA. The parties entered into the Termination Agreement as all of the conditions precedent to closing the sale could not be satisfied prior to April 26, 2023.

Subsequent Events

Management reviewed subsequent events through February 26, 2024, the date that KPCo's 2023 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. The following standard will impact KPCo's financial statements.

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

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

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

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

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

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

3. COMPREHENSIVE INCOME

In September 2022, WPCo replaced KPCo as the operator of the Mitchell Plant. As a result of the change in operator, certain individuals employed at the Mitchell became employees of WPCo. The related pension and OPEB obligations for these employees and retirees formerly employed at Mitchell Plant, were assumed by WPCo. KPCo had a $0 balance in AOCI as of December 31, 2023 and 2022, respectively. The activity within AOCI was not material for the year ended December 31, 2022.

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.

Investigation of the Service, Rates and Facilities of KPCo

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

2023 Kentucky Base Rate and Securitization Case

In June 2023, KPCo filed a request with the KPSC for a $93.9 million net annual increase in base rates based upon a proposed 9.9% ROE with the increase to be implemented no earlier than January 2024. The filing proposes no changes in depreciation rates and an annual level of storm restoration expense in base rates of approximately $1 million. KPCo also proposed to discontinue tracking of PJM transmission costs through a rider, and to instead collect an annual level of costs through base rates. In addition, KPCo has proposed a rider to recover certain distribution reliability investments and related incremental operation and maintenance expenses. KPCo also requested a prudency determination and recovery mechanism for approximately $15.5 million of purchased power costs not recoverable through its FAC since its last base case. KPCo's proposal did not address the disposition of its 50% interest in Mitchell Plant, which will be addressed in the future. As of December 31, 2023, the net book value of KPCo's share of the Mitchell Plant, before cost of removal including CWIP and inventory, was $553.1 million. If any of these costs are not recoverable, it could reduce future net income and cash flows and impact financial condition.

In conjunction with its June 2023 filing, KPCo further requested to finance, through the issuance of securitization bonds, approximately $471.2 million of regulatory assets recorded as of June 2023, including: (a) $289.2 million of plant retirement costs, (b) $79.3 million of deferred storm costs related to 2020, 2021, 2022 and 2023 major storms, (c) $52.2 million of deferred purchased power expenses and (d) $50.5 million of under-recovered purchased power rider costs. Plant retirement costs and deferred purchased power expenses have been deemed prudent in prior KPSC decisions. KPCo has requested a prudency determination in this proceeding for the deferred storm costs and under-recovered purchase power rider costs since the last base case.

In November 2023, KPCo filed an uncontested settlement agreement with the KPSC, that included an annual base rate increase of $74.7 million, based upon a 9.75% ROE. Settlement parties agreed that the KPSC should approve KPCo's securitization request, and that the approximately $471.2 million regulatory assets requested for securitization are comprised of prudently incurred costs. The settlement does not modify KPCo's proposal to discontinue tracking of PJM transmission costs through a rider, and to instead collect an annual level of costs through base rates. The settlement approved KPCo's request to implement a rider to recover certain distribution reliability investments. Under the terms of the settlement, KPCo agreed to forgo recovery of approximately $15.5 million of purchased power costs not recoverable through the FAC since KPCo's last base case and excluded a return on its stand-alone NOLC deferred tax asset from the base rate revenue requirement while it seeks a private letter ruling from the IRS. Other differences between KPCo's requested annual base rate increase and the uncontested settlement agreement are primarily due to exclusion of certain employee-related expenses from the revenue requirement.

In January 2024, consistent with the November 2023 uncontested settlement agreement, the KPSC issued a financing order approving KPCo's securitization request and concluding that costs requested for recovery were prudently incurred. The KPSC's financing order includes certain additional requirements related to securitization bond structuring, marketing, placement, and issuance that were not reflected in KPCo's proposal. As a result, in January 2024, KPCo filed a request for rehearing with the KPSC to clarify certain aspects of these additional requirements. In February 2024, the KPSC denied KPCo's rehearing requests. In accordance with Kentucky statutory requirements and the financing order, the issuance of the securitized bonds is subject to final review by the KPSC after bond pricing. KPCo expects to proceed with the securitized bond issuance process and to complete the securitization process in the second half of 2024, subject to market conditions. If any of these costs are not recoverable, it could reduce future net income and cash flows and impact financial condition.

In January 2024, the KPSC issued an order modifying the November 2023 uncontested settlement agreement and approving an annual base rate increase of $60 million based upon a 9.75% ROE effective with billing cycles mid-January 2024. The order reduced KPCo's base rate revenue requirement by $14.2 million to allow recovery of actual test year PJM transmission costs instead of KPCo's requested annual level of costs based on PJM 2023 projected transmission revenue requirements. The KPSC denied implementation of a rider to recover certain distribution reliability investments. The KPSC accepted KPCo's proposal to temporarily suspend collection of plant retirement costs and deferred purchased power expenses through riders, and continue to accrue carrying charges at KPCo's authorized weighted average cost of capital, pending securitization of these costs. If KPCo is unable to issue securitization bonds, recovery of plant retirement costs and deferred purchased power expenses through riders would resume. In February 2024, KPCo filed an appeal with the Commonwealth of Kentucky Franklin Circuit Court, challenging among other aspects of the order the $14.2 million base rate revenue requirement reduction.

Fuel Adjustment Clause (FAC) Review

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

Rockport Offset Recovery

In January 2024, KPCo filed an application with the KPSC seeking to recover an allowed cost (Rockport Offset) of $40.8 million in accordance with the terms of the settlement agreement in the 2017 Kentucky Base Rate Case permitting KPCo to use the level of non-fuel, non-environmental Rockport Plant UPA expense included in base rates to earn its authorized ROE in 2023 since the Rockport UPA ended in December 2022. An estimated Rockport Offset of $22.8 million was recovered through a rider, subject to true-up, during the 12-months ended December 2023. KPCo is requesting to recover the remaining $18 million Rockport Offset true-up over a 12-month period beginning March 2024, also through a rider. The Rockport Offset true-up is not yet reflected in revenue, as KPCo has not met the requirements of alternative revenue recognition in accordance with the accounting guidance for "Regulated Operations". In February 2024, the KPSC issued an order allowing KPCo to collect the remaining $18 million through interim rates, subject to refund, over twelve months starting in March 2024. Intervenor testimony is expected in April 2024 and an order is expected in the second quarter of 2024. If the Rockport Offset is not recoverable or refunds are ordered, 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, 2023	December 31, 2022	Remaining Recovery Period
	(in thousands)		
Current Regulatory Assets			
Under-recovered Fuel Costs - does not earn a return	$ 10,688	$ 23,241	1 year
Total Current Regulatory Assets	$ 10,688	$ 23,241	
Noncurrent Regulatory Assets			
Regulatory assets pending final regulatory approval:			
Regulatory Assets Currently Not Earning a Return			
Storm-Related Costs (a)	$ 78,759	$ 74,430	
Other Regulatory Assets Pending Final Regulatory Approval	1,259	1,699	
Total Regulatory Assets Currently Not Earning a Return	80,018	76,129	
Total Regulatory Assets Pending Final Regulatory Approval	80,018	76,129	
Regulatory assets approved for recovery:			
Regulatory Assets Currently Earning a Return			
Plant Retirement Costs	171,214	178,502	17 years
Plant Retirement Costs - Asset Retirement Obligation Costs	110,280	110,010	17 years
Kentucky Deferred Purchased Power Expenses	43,512	52,970	4 years
Other Regulatory Assets Approved for Recovery	4,299	3,947	various
Total Regulatory Assets Currently Earning a Return	329,305	345,429	
Regulatory Assets Currently Not Earning a Return			
Fuel and Purchased Power Rider	61,376	38,164	2 years
Income Taxes, Net	21,796	—	(b)
Pension and OPEB Funded Status	24,570	23,704	12 years
Unrealized Loss on Forward Commitments	10,038	—	2 years
Other Regulatory Assets Approved for Recovery	21,122	20,759	various
Total Regulatory Assets Currently Not Earning a Return	138,902	82,627	
Total Regulatory Assets Approved for Recovery	468,207	428,056	
Total Noncurrent Regulatory Assets	$ 548,225	$ 504,185	

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

(b) Recovered 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 was $3.6 million for the year ended December 31, 2023 and is to be refunded over 5 years.

Regulatory Liabilities:	December 31, 2023	2022	Remaining Refund Period
	(in thousands)		
Noncurrent Regulatory Liabilities			
Regulatory liabilities pending final regulatory determination:			
Regulatory Liabilities Currently Paying a Return			
Income Taxes, Net (a) (b)	$ —	$ (32,843)	
Total Regulatory Liabilities Currently Paying a Return	—	(32,843)	
Regulatory Liabilities Currently Not Paying a Return			
Other Regulatory Liabilities Pending Final Regulatory Determination	—	2,098	
Total Regulatory Liabilities Currently Not Paying a Return	—	2,098	
Total Regulatory Liabilities Pending Final Regulatory Determination	—	(30,745)	
Regulatory liabilities approved for payment:			
Regulatory Liabilities Currently Paying a Return			
Asset Removal Costs	92,871	74,393	(c)
Income Taxes, Net (a)	—	54,732	(d)
Total Regulatory Liabilities Currently Paying a Return	92,871	129,125	
Regulatory Liabilities Currently Not Paying a Return			
Unrealized Gain on Forward Commitments	—	3,982	
Off-system Sales Margin Sharing	—	3,417	
Other Regulatory Liabilities Approved for Payment	4,756	3,074	various
Total Regulatory Liabilities Currently Not Paying a Return	4,756	10,473	
Total Regulatory Liabilities Approved for Payment	97,627	139,598	
Total Noncurrent Regulatory Liabilities	$ 97,627	$ 108,853	

(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 was $40.7 million for the year ended December 31, 2022.

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, 2023:

Contractual Commitments	Less Than 1 Year	2-3 Years	4-5 Years	After 5 Years	Total
			(in thousands)		
Fuel Purchase Contracts (a)	$ 6,009	$ 11,985	$ 12,002	$ 14,465	$ 44,461
Energy and Capacity Purchase Contracts	925	3,258	—	—	4,183
Total	$ 6,934	$ 15,243	$ 12,002	$ 14,465	$ 48,644

(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, 2023, 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, 2023, 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, 2023, management's estimates do not anticipate material clean-up costs for the identified site.

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

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:

	Pension Plans		OPEB	
	December 31,			
Assumptions	**2023**	**2022**	**2023**	**2022**
Discount Rate	5.15 %	5.50 %	5.15 %	5.50 %
Interest Crediting Rate	4.00 %	4.25 %	NA	NA
Rate of Compensation Increase	5.15 % (a)	5.10 % (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 2023, 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 5.15%.

Actuarial Assumptions for Net Periodic Benefit Costs

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

	Pension Plans		OPEB	
	Year Ended December 31,			
Assumptions	**2023**	**2022**	**2023**	**2022**
Discount Rate	5.50 %	2.90 %	5.50 %	2.90 %
Interest Crediting Rate	4.25 %	4.00 %	NA	NA
Expected Return on Plan Assets	7.50 %	5.25 %	7.25 %	5.50 %
Rate of Compensation Increase	5.15 % (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:

	December 31,	
Health Care Trend Rates	**2023**	**2022**
Initial	7.00 %	7.50 %
Ultimate	4.50 %	4.50 %
Year Ultimate Reached	2030	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, 2023, 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, 2023, the pension plans had an actuarial loss primarily due to a decrease in the discount rate, and to a lesser extent the effect of demographic experience (updated census data on January 1, 2023). These losses were partially offset by decreasing the cash balance account interest crediting rate. For the year ended December 31, 2023, the OPEB plans had an actuarial loss primarily due to discount rates, as well as actual net benefit payments above expected. These losses were partially offset by updated per capita cost assumptions. 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. 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.

	Pension Plans		OPEB	
	2023	**2022**	**2023**	**2022**
Change in Benefit Obligation	(in thousands)			
Benefit Obligation as of January 1,	$ 86,855	$ 184,199	$ 23,605	$ 36,932
Service Cost	1,474	2,739	63	172
Interest Cost	4,814	4,480	1,269	953
Actuarial (Gain) Loss	5,833	(36,034)	1,335	(3,106)
Transfers	—	(57,450)	—	(7,548)
Benefit Payments	(6,802)	(11,079)	(4,619)	(5,520)
Participant Contributions	—	—	1,470	1,713
Medicare Subsidy	—	—	6	9
Benefit Obligation as of December 31,	$ 92,174	$ 86,855	$ 23,129	$ 23,605
Change in Fair Value of Plan Assets				
Fair Value of Plan Assets as of January 1,	$ 83,062	$ 203,932	$ 44,136	$ 77,433
Actual Gain (Loss) on Plan Assets	11,161	(31,289)	6,884	(13,714)
Transfers	—	(78,502)	—	—
Company Contributions	—	—	1	(15,776)
Participant Contributions	—	—	1,470	1,713
Benefit Payments	(6,802)	(11,079)	(4,619)	(5,520)
Fair Value of Plan Assets as of December 31,	$ 87,421	$ 83,062	$ 47,872	$ 44,136
Funded (Underfunded) Status as of December 31,	$ (4,753)	$ (3,793)	$ 24,743	$ 20,531

Amounts Recognized on the Balance Sheets

	Pension Plans		OPEB	
	December 31,			
	2023	2022	2023	2022
	(in thousands)			
Employee Benefits and Pension Assets – Prepaid Benefit Costs	$ —	$ —	$ 24,743	$ 20,531
Other Current Liabilities – Accrued Short-term Benefit Liability	(21)	(4)	—	—
Employee Benefits and Pension Obligations – Accrued Long-term Benefit Liability	(4,732)	(3,789)	—	—
Funded (Underfunded) Status	$ (4,753)	$ (3,793)	$ 24,743	$ 20,531

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:

	Pension Plans		OPEB	
	December 31,			
	2023	2022	2023	2022
Components	(in thousands)			
Net Actuarial Loss	$ 18,788	$ 16,985	$ 6,561	$ 9,355
Prior Service Credit	—	—	(780)	(2,637)
Recorded as				
Regulatory Assets	$ 18,789	$ 16,986	$ 5,781	$ 6,718
Deferred Income Taxes	(1)	(1)	—	—

	Pension Plans		OPEB	
	2023	2022	2023	2022
Components	(in thousands)			
Actuarial (Gain) Loss During the Year	$ 1,803	$ 3,370	$ (2,348)	$ 14,492
Amortization of Actuarial Loss	—	(1,867)	(445)	—
Amortization of Prior Service Credit	—	—	1,856	2,375
Transfers - Prior Service Cost	—	—	1	975
Transfers - (Gain)/loss	—	(7,148)	(1)	1,485
Change for the Year Ended December 31,	$ 1,803	$ (5,645)	$ (937)	$ 19,327

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:

Pension Plan		OPEB	
December 31,			
2023	2022	2023	2022
2.1 %	2.0 %	2.9 %	2.8 %

The following table presents the classification of pension plan assets for AEP within the fair value hierarchy as of December 31, 2023:

Asset Class	Level 1	Level 2	Level 3	Other	Total	Year End Allocation
			(in millions)			
Equities (a):						
Domestic	$ 411.3	$ —	$ —	$ —	$ 411.3	10.0 %
International	389.8	—	—	—	389.8	9.5 %
Common Collective Trusts (b)	—	—	—	420.9	420.9	10.2 %
Subtotal – Equities	801.1	—	—	420.9	1,222.0	29.7 %
Fixed Income (a):						
United States Government and Agency Securities	8.3	1,099.2	—	—	1,107.5	26.9 %
Corporate Debt	—	894.8	—	—	894.8	21.7 %
Foreign Debt	—	167.1	—	—	167.1	4.1 %
State and Local Government	—	38.7	—	—	38.7	0.9 %
Other – Asset Backed	—	1.3	—	—	1.3	— %
Subtotal – Fixed Income	8.3	2,201.1	—	—	2,209.4	53.6 %
Infrastructure (b)	—	—	—	101.4	101.4	2.5 %
Real Estate (b)	—	—	—	239.3	239.3	5.8 %
Alternative Investments (b)	—	—	—	241.8	241.8	5.8 %
Cash and Cash Equivalents (b)	—	51.0	—	33.8	84.8	2.1 %
Other – Pending Transactions and Accrued Income (c)	—	—	0.1	19.4	19.5	0.5 %
Total	$ 809.4	$ 2,252.1	$ 0.1	$ 1,056.6	$ 4,118.2	100.0 %

(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, 2023:

Asset Class	Level 1	Level 2	Level 3	Other	Total	Year End Allocation
			(in millions)			
Equities:						
Domestic	$ 540.6	$ —	$ —	$ —	$ 540.6	32.3 %
International	288.4	—	—	—	288.4	17.2 %
Common Collective Trusts (a)	—	—	—	131.6	131.6	7.9 %
Subtotal – Equities	829.0	—	—	131.6	960.6	57.4 %
Fixed Income:						
Common Collective Trust Debt (a)	—	—	—	146.7	146.7	8.8 %
United States Government and Agency Securities	1.4	163.3	—	—	164.7	9.8 %
Corporate Debt	—	149.0	—	—	149.0	8.9 %
Foreign Debt	—	28.6	—	—	28.6	1.7 %
State and Local Government	41.5	7.8	—	—	49.3	3.0 %
Other – Asset Backed	—	0.2	—	—	0.2	— %
Subtotal – Fixed Income	42.9	348.9	—	146.7	538.5	32.2 %
Trust Owned Life Insurance:						
International Equities	—	22.3	—	—	22.3	1.3 %
United States Bonds	—	130.0	—	—	130.0	7.8 %
Subtotal – Trust Owned Life Insurance	—	152.3	—	—	152.3	9.1 %
Cash and Cash Equivalents (a)	25.9	—	—	2.9	28.8	1.7 %
Other – Pending Transactions and Accrued Income (b)	—	—	—	(6.9)	(6.9)	(0.4)%
Total	$ 897.8	$ 501.2	$ —	$ 274.3	$ 1,673.3	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.

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 %
Total	$ 745.4	$ 2,206.0	$ —	$ 1,173.3	$ 4,124.7	100.0 %

(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	Other	Total	Year End Allocation
			(in millions)			
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 %
Total	$ 765.3	$ 483.1	$ —	$ 300.9	$ 1,549.3	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, 2023	December 31, 2022
	(in thousands)	
Qualified Pension Plan	$ 89,419	$ 84,724
Nonqualified Pension Plan	7	49
Total Accumulated Benefit Obligation	$ 89,426	$ 84,773

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

	Underfunded Pension Plans	
	December 31,	
	2023	2022
	(in thousands)	
Projected Benefit Obligation	$ 92,174	$ 86,855
Fair Value of Plan Assets	87,421	83,062
Underfunded Projected Benefit Obligation	$ (4,753)	$ (3,793)

Accumulated Benefit Obligation

	Underfunded Pension Plans	
	December 31,	
	2023	2022
	(in thousands)	
Accumulated Benefit Obligation	$ 89,426	$ 84,773
Fair Value of Plan Assets	87,421	83,062
Underfunded Accumulated Benefit Obligation	$ (2,005)	$ (1,711)

Estimated Future Benefit Payments and Contributions

KPCo expects contributions and payments for the Pension and OPEB plans of $11 thousand and $54 thousand, respectively, during 2024. 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:

	Estimated Payments	
	Pension Plans	OPEB
	(in thousands)	
2024	$ 8,165	$ 3,670
2025	7,943	3,743
2026	7,672	3,661
2027	7,812	3,516
2028	7,775	3,406
Years 2029 to 2033, in Total	36,460	15,398

Components of Net Periodic Benefit Cost

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

	Pension Plans		OPEB	
	Years Ended December 31,			
	2023	2022	2023	2022
	(in thousands)			
Service Cost	$ 1,474	$ 2,739	$ 63	$ 172
Interest Cost	4,814	4,480	1,269	953
Expected Return on Plan Assets	(7,131)	(8,116)	(3,201)	(3,885)
Amortization of Prior Service Credit	—	—	(1,856)	(2,375)
Amortization of Net Actuarial Loss	—	1,867	445	—
Net Periodic Benefit Cost (Credit)	(843)	970	(3,280)	(5,135)
Capitalized Portion	(812)	(1,287)	(35)	(81)
Net Periodic Benefit Credit Recognized in Expense	$ (1,655)	$ (317)	$ (3,315)	$ (5,216)

American Electric Power System Retirement Savings Plan

KPCo participates in an AEPSC 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 $1.4 million in 2023 and $2 million in 2022.

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, 2023	December 31, 2022	Unit of Measure
	(in thousands)		
Commodity:			
Power	3,303	3,450	MWhs
Natural Gas	9,761	—	MMBtus
Heating Oil and Gasoline	253	—	Gallons

Cash Flow Hedging Strategies

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

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

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

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

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

According to the accounting guidance for "Derivatives and Hedging," KPCo reflects the fair values of derivative instruments subject to netting agreements with the same counterparty net of related cash collateral. For certain risk management contracts, KPCo is required to post or receive cash collateral based on third-party contractual agreements and risk profiles. KPCo netted cash collateral paid to third-parties against short-term and long-term risk management liabilities in the amounts of $1.2 million and $14 thousand as of December 31, 2023 and 2022, respectively. There was no cash collateral received from third-parties netted against short-term and long-term risk management assets as of December 31, 2023 and 2022.

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.

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

Balance Sheet Location	Risk Management Contracts – Commodity (a)	Gross Amounts Offset on the Balance Sheets (b)	Net Amounts of Presented (c)
	December 31, 2022		
		(in thousands)	
Current Risk Management Assets	$ 8,607	$ (144)	$ 8,463
Long-term Risk Management Assets	137	(137)	—
Total Assets	8,744	(281)	8,463
Current Risk Management Liabilities	144	(144)	—
Long-term Risk Management Liabilities	137	(137)	—
Total Liabilities	281	(281)	—
Total MTM Derivative Contract Net Assets	$ 8,463	$ —	$ 8,463

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

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, 2023	2022
	(in thousands)	
Electric Generation, Transmission and Distribution Revenues	$ 1	$ 8
Purchased Electricity, Fuel and Other Consumables Used for Electric Generation	77	228
Other Operation	—	148
Maintenance	—	263
Regulatory Assets (a)	(10,043)	(25)
Regulatory Liabilities (a)	1,209	16,998
Total Gain (Loss) on Risk Management Contracts	$ (8,756)	$ 17,620

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

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

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

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

Accounting for Cash Flow Hedging Strategies

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

Realized gains and losses on derivative contracts for the purchase and sale of power designated as cash flow hedges are included in Total Revenues or Purchased Electricity, Fuel and Other Consumables Used for Electric Generation on KPCo's statements of income, or in Regulatory Assets or Regulatory Liabilities on KPCo's balance sheets, depending on the specific nature of the risk being hedged. During the years ended 2023 and 2022, 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 2023 and 2022, 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, 2023 and 2022.

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, 2023, 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, 2023 and 2022, KPCo did not have derivative contracts with collateral triggering events in a net liability position.

Cross-Acceleration Triggers

Certain interest rate derivative contracts contain cross-acceleration provisions that, if triggered, would permit the counterparty to declare a default and require settlement of the outstanding payable. These cross-acceleration provisions could be triggered if there was a non-performance event by KPCo under any of their outstanding debt of at least $50 million and the lender on that debt has accelerated the entire repayment obligation. On an ongoing basis, AEP's risk management organization assesses the appropriateness of these cross-acceleration provisions in contracts. KPCo had no derivative contracts with cross-acceleration provisions in a net liability position and no cash collateral posted as of December 31, 2023 and 2022. If a cross-acceleration provision would have been triggered, settlement at fair value would have been required.

Cross-Default Triggers

In addition, a majority of KPCo's non-exchange-traded commodity contracts contain cross-default provisions that, if triggered, would permit the counterparty to declare a default and require settlement of the outstanding payable. These cross-default provisions could be triggered if there was a non-performance event by Parent or the obligor under outstanding debt or a third-party obligation that is $50 million or greater. On an ongoing basis, AEP's risk management organization assesses the appropriateness of these cross-default provisions in the contracts. KPCo had derivative contracts with cross-default provisions in a net liability position of $8 million and $0, and no cash collateral posted as of December 31, 2023 and 2022, 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,			
	2023		2022	
	Book Value	Fair Value	Book Value	Fair Value
	(in thousands)			
Long-term Debt	$ 1,299,806	$ 1,302,987	$ 1,178,448	$ 1,148,769

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, 2023

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

Assets and Liabilities Measured at Fair Value on a Recurring Basis
December 31, 2022

	Level 1	Level 2	Level 3	Other	Total
Assets:			(in thousands)		
Risk Management Assets					
Risk Management Commodity Contracts (a) (b)	$ —	$ 137	$ 8,607	$ (281)	$ 8,463
Liabilities:					
Risk Management Liabilities					
Risk Management Commodity Contracts (a) (b)	$ —	$ 137	$ 144	$ (281)	$ —

(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:

Year Ended December 31, 2023	Net Risk Management Assets (Liabilities)
	(in thousands)
Balance as of December 31, 2022	$ 8,463
Realized Gain (Loss) Included in Net Income (or Changes in Net Assets) (a) (b)	(62)
Settlements	(8,401)
Changes in Fair Value Allocated to Regulated Jurisdictions (c)	2,514
Balance as of December 31, 2023	$ 2,514

Year Ended December 31, 2022	Net Risk Management Assets (Liabilities)
	(in thousands)
Balance as of December 31, 2021	$ 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 (c)	8,463
Balance as of December 31, 2022	$ 8,463

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

The following tables quantify the significant unobservable inputs used in developing the fair value of Level 3 positions as of December 31, 2023 and 2022:

Significant Unobservable Inputs
December 31, 2023

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

Significant Unobservable Inputs
December 31, 2022

	Fair Value		Valuation	Significant Unobservable	Input/Range		
	Assets	Liabilities	Technique	Input (a)	Low	High	Weighted (b)
	(in thousands)						
FTRs	$ 8,607	$ 144	Flow	Price	$ (3.10)	$ 18.79	$ 2.48

(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, 2023 and 2022:

Uncertainty of Fair Value Measurements

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

10. INCOME TAXES

Income Tax Benefit

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

	Years Ended December 31, 2023	2022
	(in thousands)	
Federal:		
Current	$ (2,404)	$ 74
Deferred	(24,769)	(30,347)
Total Federal	(27,173)	(30,273)
State and Local:		
Current	788	691
Deferred	(1,290)	(1,446)
Total State and Local	(502)	(755)
Income Tax Benefit	$ (27,675)	$ (31,028)

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:

	Years Ended December 31, 2023	2022
	(in thousands)	
Net Income	$ 33,962	$ 47,552
Income Tax Benefit	(27,675)	(31,028)
Pretax Income	$ 6,287	$ 16,524
Income Taxes on Pretax Income at Statutory Rate (21%)	$ 1,320	$ 3,470
Increase (Decrease) in Income Taxes Resulting from the Following Items:		
Reversal of Origination Flow-Through	972	1,475
State and Local Income Taxes, Net	(397)	(594)
Removal Costs	(2,587)	(2,660)
Tax Reform Excess ADIT Reversal (a)	(25,944)	(32,452)
Other	(1,039)	(267)
Income Tax Benefit	$ (27,675)	$ (31,028)
Effective Income Tax Rate	(440.2)%	(187.8)%

(a) 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:

	December 31,	
	2023	2022
	(in thousands)	
Deferred Tax Assets	$ 74,967	$ 86,163
Deferred Tax Liabilities	(548,810)	(542,380)
Net Deferred Tax Liabilities	$ (473,843)	$ (456,217)
Property Related Temporary Differences	$ (307,659)	$ (304,463)
Amounts Due to Customers for Future Income Taxes	30,890	39,613
Deferred State Income Taxes	(99,720)	(96,837)
Regulatory Assets	(111,007)	(109,919)
Net Operating Loss Carryforward	12,344	11,671
All Other, Net	1,309	3,718
Net Deferred Tax Liabilities	$ (473,843)	$ (456,217)

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. KPCo and other AEP subsidiaries have agreed to extend the statute of limitations on the 2017-2019 tax returns to October 31, 2024, to allow time for our refund claim to be approved by the Congressional Joint Committee on Taxation. The statute of limitations for the 2020 return is set to naturally expire in October 2024 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. KPCo and other AEP subsidiaries have received and agreed to immaterial IRS proposed adjustments on the 2017 tax return. The IRS exam is complete, and KPCo and other AEP subsidiaries are currently waiting on 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 $196 million in 2023. As a result, KPCo recognized deferred state income tax benefits in 2023 of $10 million. This is consistent with the net operating loss carryforwards and deferred state income tax benefits recognized in 2022. 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, 2023	2022
	(in thousands)	
Operating Lease Cost	$ 71	$ 14,058
Finance Lease Cost:		
Amortization of Finance Leases	83	2,735
Interest on Finance Leases	22	63
Total Lease Rental Costs (a)	$ 176	$ 16,856

(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, 2023	2022	2023	2022
Operating Leases	5.10	5.92	3.49 %	2.95 %
Finance Leases	7.34	4.73	6.13 %	4.41 %

	Years Ended December 31, 2023	2022
	(in thousands)	
Cash Paid for Amounts Included in the Measurement of Lease Liabilities		
Operating Cash Flows Used for Operating Leases	$ 71	$ 14,050
Operating Cash Flows Used for Finance Leases	22	63
Financing Cash Flows Used for Finance Leases	83	2,735
Non-cash Acquisitions Under Operating Leases	$ 639	$ 422

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.

	December 31, 2023	December 31, 2022
	(in thousands)	
Property, Plant and Equipment Under Finance Leases		
Generation	$ 386	$ 465
Other Property, Plant and Equipment	695	209
Total Property, Plant and Equipment Under Finance Leases	1,081	674
Accumulated Amortization	292	305
Net Property, Plant and Equipment Under Finance Leases	$ 789	$ 369
Obligations Under Finance Leases		
Noncurrent Liability	$ 677	$ 288
Liability Due Within One Year	112	81
Total Obligations Under Finance Leases	$ 789	$ 369

	December 31, 2023	December 31, 2022
	(in thousands)	
Operating Lease Assets	$ 1,108	$ 528
Obligations Under Operating Leases		
Noncurrent Liability	$ 963	$ 450
Liability Due Within One Year	195	128
Total Obligations Under Operating Leases	$ 1,158	$ 578

Future minimum lease payments consisted of the following as of December 31, 2023:

Future Minimum Lease Payments	Finance Leases	Operating Leases
	(in thousands)	
2024	$ 159	$ 273
2025	156	241
2026	142	227
2027	125	209
2028	85	197
After 2028	350	218
Total Future Minimum Lease Payments	1,017	1,365
Less: Imputed Interest	228	207
Estimated Present Value of Future Minimum Lease Payments	$ 789	$ 1,158

Master Lease Agreements

KPCo leases certain equipment under master lease agreements. Under the lease agreements, the lessor is guaranteed a residual value up to a stated percentage of the equipment cost at the end of the lease term. If the actual fair value of the leased equipment is below the guaranteed residual value at the end of the lease term, KPCo is committed to pay the difference between the actual fair value and the residual value guarantee. Historically, at the end of the lease term the fair value has been in excess of the amount guaranteed. As of December 31, 2023, the maximum potential loss for these lease agreements was $76 thousand assuming the fair value of the equipment is zero at the end of the lease term.

Lessor Activity

KPCo's lessor activity was immaterial as of and for the twelve months ended December 31, 2023 and December 31, 2022, respectively.

12. FINANCING ACTIVITIES

Long-term Debt

The following table details long-term debt outstanding:

Type of Debt	Maturity	Average of 2023	of December 31, 2023	2022	Outstanding as of December 31, 2023	2022
					(in thousands)	
Senior Unsecured Notes	2024-2047	5.41%	%	%	$1,060,225	$ 688,626
Pollution Control Bonds	2026 (a)	4.70%	4.70%	2.35%	64,588	64,896
Notes Payable - Affiliated	2028	5.29%	5.29%	—%	25,000	—
Other Long-term Debt	2024	6.41%	6.41%	%	149,993	424,926
Outstanding					$1,299,806	$1,178,448

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

As of December 31, 2023, outstanding long-term debt was payable as follows:

	2024	2025	2026	2027	2028	After 2028	Total
				(in thousands)			
Principal Amount	$ 215,000	$ —	$ 265,000	$ 40,000	$ 25,000	$ 760,000	$1,305,000
Debt Issuance Costs							(5,194)
Outstanding							$1,299,806

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, 2023, 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, 2023, 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 $649.8 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, 2023, the amount of any such restrictions was $72.5 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, 2023 and 2022 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:

Years Ended December 31,	Maximum Borrowings from the Utility Money Pool	Maximum Loans to the Utility Money Pool	Average Borrowings from the Utility Money Pool	Average Loans to the Utility Money Pool	Borrowings from the Utility Money Pool as of December 31,	Authorized Short-Term Borrowing Limit
			(in thousands)			
2023	$ 169,398	$ 243,803	$ 112,116	$ 243,764	$ 49,567	$ 250,000
2022	161,643	28,393	82,006	23,343	94,428	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:

Years Ended December 31,	Maximum Interest Rate for Funds Borrowed from the Utility Money Pool	Minimum Interest Rate for Funds Borrowed from the Utility Money Pool	Maximum Interest Rate for Funds Loaned to the Utility Money Pool	Minimum Interest Rate for Funds Loaned to the Utility Money Pool	Average Interest Rate for Funds Borrowed from the Utility Money Pool	Average Interest Rate for Funds Loaned to the Utility Money Pool
2023	5.81 %	4.66 %	5.72 %	5.72 %	5.53 %	5.72 %
2022	5.28 %	0.10 %	2.15 %	2.15 %	2.23 %	2.15 %

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 loaned to the Utility Money Pool, KPCo incurred the following amounts of interest expense and earned the following amounts of interest income:

	Years Ended December 31, 2023	2022
	(in thousands)	
Interest Expense	$ 6,399	$ 1,985
Interest Income	116	102

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. In January 2022, due to the expected 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. In September 2023, KPCo resumed selling accounts receivable to AEP Credit, due to the termination of the sale to Liberty, and the balance in KPCo's allowance for uncollectible accounts was reversed. KPCo is charged a fee for each sale that is based on AEP Credit's financing costs, administrative costs and uncollectible accounts experience from previous purchases of KPCo's customer accounts receivable. No allowance for uncollectible accounts is recognized within KPCo's financial statements for customer accounts receivable sold to AEP Credit, and any bad debt stemming from these receivables would be recognized by AEP Credit. The costs of customer accounts receivable sold are reported in Other Operation expense on KPCo's statements of income. KPCo manages and services its accounts receivables sold.

AEP Credit's receivables securitization agreement provides a commitment of $900 million from bank conduits to purchase receivables. The agreement was amended in August 2023 to increase the commitment from $750 million and expires in September 2025. As of December 31, 2023, KPCo was in compliance with all requirements under the agreement.

KPCo's amounts of accounts receivable and accrued unbilled revenues under the sale of receivables agreement were $42.7 million and $0 as of December 31, 2023 and 2022, respectively.

The fees paid by KPCo to AEP Credit for customer accounts receivable sold were $1.9 million and $63 thousand for the years ended December 31, 2023 and 2022, respectively.

KPCo's proceeds on the sale of receivables to AEP Credit were $205.3 million and $66 million for the years ended December 31, 2023 and 2022, respectively.

13. <u>RELATED PARTY TRANSACTIONS</u>

For other related party transactions, also see “Income Taxes” section of Note 1 in addition to “Corporate Borrowing Program – AEP System” and “Securitized Accounts Receivables – AEP Credit” sections of Note 12.

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.

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.

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 $177 thousand and $1 million for the years ended December 31, 2023 and 2022, respectively.

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_X emissions at certain generation plants in the AEP System. Upon transfer of the Mitchell Plant to WPCo in August 2022, this agreement was terminated with KPCo. Through the first eight months of 2022, KPCo recorded $2 million for urea transloading provided by I&M. These expenses were recorded as Purchased Electricity, Fuel and Other Consumables Used for Electric Generation on KPCo’s statements of income.

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 and the net book value of all sales and purchases for the years ended December 31, 2023 and 2022 were not material. These sales and purchases are recorded in Property, Plant and Equipment on the balance sheets.

Unit Power Agreements

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 UPA 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 as part of a UPA between AEGCo and KPCo. 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. KPCo's direct purchases from AEGCo were $2 million and $93.1 million for the years ended December 31, 2023 and 2022, respectively. These direct purchases are presented as Purchased Electricity from AEP Affiliates on the 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, 2023 and 2022 were $66 million and $64.9 million, respectively, and were recorded in Other Operation expenses on KPCo's statements of income.

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 2023, there were no charitable contributions made to the AEP Foundation

Affiliated Revenues

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

Related Party Revenues	Years Ended December 31, 2023	2022
	(in thousands)	
Transmission Agreement Sales	$ 10,038	$ 17,701
Other Revenues	1,135	1,550
Total Affiliated Revenues	$ 11,173	$ 19,251

The above summarized related party revenues are shown in Sales to AEP Affiliates on KPCo's statements of income.

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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, 2023 and 2022 were $46.8 million and $69.7 million, respectively. The carrying amount of liabilities associated with AEPSC as of December 31, 2023 and 2022 were $3.3 million and $6.1 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, 2023 and 2022 were $307 thousand and $92.9 million, respectively. The carrying amount of liabilities associated with AEGCo as of December 31, 2023 and 2022 were $0 and $2 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, 2023 and 2022:

	December 31, 2023	December 31, 2022
	(in thousands)	
Regulated Property, Plant and Equipment		
Generation	$ 1,239,925	$ 1,236,474
Transmission	838,264	801,838
Distribution	1,119,303	1,061,601
Other	173,804	166,754
CWIP	159,612	137,964
Less: Accumulated Depreciation	1,205,743	1,155,997
Total Regulated Property, Plant and Equipment - Net	2,325,165	2,248,634
Nonregulated Property, Plant and Equipment - Net	997	1,003
Total Property, Plant and Equipment - Net	$ 2,326,162	$ 2,249,637

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 2023 and 2022.

	2023		2022	
Functional Class of Property	Annual Composite Depreciation Rate	Depreciable Life Ranges	Annual Composite Depreciation Rate	Depreciable Life Ranges
		(in years)		(in years)
Generation	3.3%	69 - 73	3.0%	69 - 73
Transmission	2.7%	37 - 75	2.7%	37 - 75
Distribution	3.4%	11 - 75	3.4%	11 - 75
Other	8.6%	5 - 75	8.2%	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 2023 and 2022 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)			
2023	$ 18,477	$ 811	$ —	$ (1,088)	$ 76	$ 18,276
2022	17,697	803	—	(1,162)	1,139	18,477

(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, 2023	2022
	(in thousands)	
Allowance for Equity Funds Used During Construction	$ 968	$ 1,192
Allowance for Borrowed Funds Used During Construction	4,838	1,635

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)	
KPCo's Share as of December 31, 2023					
Mitchell Generating Station, Units 1 and 2 (a)	Coal	50.0 %	$ 1,055,915	$ 21,596	$ 534,308
KPCo's Share as of December 31, 2022					
Mitchell Generating Station, Units 1 and 2 (a)	Coal	50.0 %	$ 1,052,996	$ 23,231	$ 518,178

(a) Operated by WPCo.

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,	
	2023	**2022**
	(in thousands)	
Retail Revenues:		
Residential Revenues	$ 246,124	$ 317,814
Commercial Revenues	159,443	197,505
Industrial Revenues	149,336	185,174
Other Retail Revenues	1,979	2,193
Total Retail Revenues	556,882	702,686
Wholesale Revenues:		
Generation Revenues	12,686	29,680
Transmission Revenues (a)	28,799	35,522
Total Wholesale Revenues	41,485	65,202
Other Revenues from Contracts with Customers (b)	11,428	11,541
Total Revenues from Contracts with Customers	609,795	779,429
Other Revenues:		
Alternative Revenue Programs (c)	5,052	(6,216)
Other Revenues	2	8
Total Other Revenues	5,054	(6,208)
Total Revenues	$ 614,849	$ 773,221

(a) Amounts included affiliated and nonaffiliated revenues. The affiliated revenues were $17 million and $19 million for years ended December 31, 2023 and 2022, 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, 2023. 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 unsaturated performance obligations for contracts with an original expected term of one year or less. Due to the annual establishment of revenue requirements, transmission revenues are excluded from the table below. The amounts shown in the table below include affiliated and nonaffiliated revenues.

2024	2025-2026	2027-2028	After 2028	Total
		(in thousands)		
$ 1,435	$ 2,870	$ 2,870	$ 1,435	$ 8,610

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, 2023 and 2022, 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, 2023 and 2022, 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, 2023 and 2022, 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 $12.2 million and $9.1 million, respectively, as of December 31, 2023 and December 31, 2022.

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, 2023 and 2022, respectively.