

Kentucky Power Company

2025 Second Quarter Report

Financial Statements



An **AEP** Company

BOUNDLESS ENERGYSM

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GLOSSARY OF TERMS

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

Term	Meaning
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.
AEPSC	American Electric Power Service Corporation, an AEP service subsidiary providing management and professional services to AEP and its subsidiaries.
AFUDC	Allowance for Funds Used During Construction.
APCo	Appalachian Power Company, an AEP electric utility subsidiary.
ARO	Asset Retirement Obligations.
ASU	Accounting Standards Update.
CCR	Coal Combustion Residual.
Cost Recovery Funding	KPCo Cost Recovery Funding, LLC, a wholly-owned subsidiary of KPCo and consolidated VIE formed for the purpose of issuing and servicing securitization bonds related to plant retirement costs, deferred storm costs, deferred purchased power expenses, under-recovered purchased power rider costs and issuance-related expenses.
CWIP	Construction Work in Progress.
ELG	Effluent Limitation Guidelines.
Excess ADIT	Excess accumulated deferred income taxes.
FASB	Financial Accounting Standards Board.
Federal EPA	United States Environmental Protection Agency.
FERC	Federal Energy Regulatory Commission.
FTR	Financial Transmission Right, a financial instrument that entitles the holder to receive compensation for certain congestion-related transmission charges that arise when the power grid is congested resulting in differences in locational prices.
GAAP	Generally Accepted Accounting Principles in the United States of America.
I&M	Indiana Michigan Power Company, an AEP electric utility subsidiary.
IRS	Internal Revenue Service.
ITC	Investment Tax Credit.
KPCo	Kentucky Power Company, an AEP electric utility subsidiary.
KPSC	Kentucky Public Service Commission.
MMBtu	Million British Thermal Units.
MTM	Mark-to-Market.
MWh	Megawatt-hour.
NOLC	Net Operating Loss Carryforward.
OPEB	Other Postretirement Benefits.
OTC	Over-the-counter.
Parent	American Electric Power Company, Inc., the equity owner of AEP subsidiaries within the AEP consolidation.
PJM	Pennsylvania – New Jersey – Maryland regional transmission organization.
PTC	Production Tax Credit.

Term	Meaning
Risk Management Contracts	Trading and non-trading derivatives, including those derivatives designated as cash flow and fair value hedges.
RPM	Reliability Pricing Model.
ROE	Return on Equity.
Tax Reform	On December 22, 2017, President Trump signed into law legislation referred to as the “Tax Cuts and Jobs Act” (the TCJA). The TCJA includes significant changes to the Internal Revenue Code of 1986, including a reduction in the corporate federal income tax rate from 35% to 21% effective January 1, 2018.
Utility Money Pool	Centralized funding mechanism AEP uses to meet the short-term cash requirements of certain utility subsidiaries.
VIE	Variable Interest Entity.
WPCo	Wheeling Power Company, an AEP electric utility subsidiary.

KENTUCKY POWER COMPANY AND SUBSIDIARY
CONDENSED CONSOLIDATED STATEMENTS OF INCOME
For the Three and Six Months Ended June 30, 2025 and 2024
(in thousands)
(Unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2025	2024	2025	2024
REVENUES				
Electric Generation, Transmission and Distribution	\$ 166,627	\$ 157,204	\$ 368,327	\$ 336,974
Sales to AEP Affiliates	11,102	4,436	19,301	8,857
Other Revenues	143	150	366	489
TOTAL REVENUES	<u>177,872</u>	<u>161,790</u>	<u>387,994</u>	<u>346,320</u>
EXPENSES				
Purchased Electricity, Fuel and Other Consumables Used for Electric Generation	59,993	50,149	144,368	120,069
Purchased Electricity from AEP Affiliates	—	150	—	373
Other Operation	49,948	40,757	90,326	81,298
Maintenance	17,584	18,543	35,415	33,317
Depreciation and Amortization	28,260	30,410	61,340	52,058
Taxes Other Than Income Taxes	5,908	8,690	12,381	17,992
TOTAL EXPENSES	<u>161,693</u>	<u>148,699</u>	<u>343,830</u>	<u>305,107</u>
OPERATING INCOME	16,179	13,091	44,164	41,213
Other Income (Expense):				
Interest Income	220	72	261	92
Allowance for Equity Funds Used During Construction	829	649	1,290	1,201
Non-Service Cost Components of Net Periodic Benefit Cost	1,346	1,640	2,692	3,399
Interest Expense	(16,670)	(15,644)	(32,482)	(32,537)
INCOME (LOSS) BEFORE INCOME TAX EXPENSE (BENEFIT)	1,904	(192)	15,925	13,368
Income Tax Expense (Benefit)	(4,361)	(402)	(1,711)	2,198
NET INCOME	<u>\$ 6,265</u>	<u>\$ 210</u>	<u>\$ 17,636</u>	<u>\$ 11,170</u>

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

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

KENTUCKY POWER COMPANY AND SUBSIDIARY
CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN
COMMON SHAREHOLDER'S EQUITY
For the Six Months Ended June 30, 2025 and 2024
(in thousands)
(Unaudited)

	<u>Common Stock</u>	<u>Paid-in Capital</u>	<u>Retained Earnings</u>	<u>Total</u>
TOTAL COMMON SHAREHOLDER'S EQUITY - DECEMBER 31, 2023	\$ 50,450	\$ 526,771	\$ 377,535	\$ 954,756
Net Income			10,960	10,960
TOTAL COMMON SHAREHOLDER'S EQUITY - MARCH 31, 2024	50,450	526,771	388,495	965,716
Capital Contribution from Parent		831		831
Net Income			210	210
TOTAL COMMON SHAREHOLDER'S EQUITY - JUNE 30, 2024	<u>\$ 50,450</u>	<u>\$ 527,602</u>	<u>\$ 388,705</u>	<u>\$ 966,757</u>
TOTAL COMMON SHAREHOLDER'S EQUITY - DECEMBER 31, 2024	\$ 50,450	\$ 526,069	\$ 414,397	\$ 990,916
Net Income			11,371	11,371
TOTAL COMMON SHAREHOLDER'S EQUITY - MARCH 31, 2025	50,450	526,069	425,768	1,002,287
Capital Contribution from Parent		132		132
Net Income			6,265	6,265
TOTAL COMMON SHAREHOLDER'S EQUITY - JUNE 30, 2025	<u>\$ 50,450</u>	<u>\$ 526,201</u>	<u>\$ 432,033</u>	<u>\$ 1,008,684</u>

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

**KENTUCKY POWER COMPANY AND SUBSIDIARY
CONDENSED CONSOLIDATED BALANCE SHEETS**

ASSETS

June 30, 2025 and December 31, 2024

(in thousands)

(Unaudited)

	June 30, 2025	December 31, 2024
CURRENT ASSETS		
Cash and Cash Equivalents	\$ 1,240	\$ 839
Restricted Cash		
(June 30, 2025 and December 31, 2024 Amounts Include \$3,061 and \$0, Respectively, Related to Cost Recovery Funding)	3,061	—
Advances to Affiliates	54,198	—
Accounts Receivable:		
Customers	17,246	18,369
Affiliated Companies	17,606	19,144
Accrued Unbilled Revenues	13,967	9,719
Miscellaneous	57	163
Total Accounts Receivable	48,876	47,395
Fuel	54,312	59,490
Materials and Supplies	23,245	24,140
Risk Management Assets	11,787	5,255
Regulatory Asset for Under-Recovered Fuel Costs	7,079	8,635
Prepayments and Other Current Assets	5,555	6,597
TOTAL CURRENT ASSETS	209,353	152,351
PROPERTY, PLANT AND EQUIPMENT		
Electric:		
Generation	1,289,738	1,290,637
Transmission	966,157	950,887
Distribution	1,226,768	1,194,543
Other Property, Plant and Equipment	176,885	175,096
Construction Work in Progress	172,948	115,772
Total Property, Plant and Equipment	3,832,496	3,726,935
Accumulated Depreciation and Amortization	1,281,529	1,254,903
TOTAL PROPERTY, PLANT AND EQUIPMENT – NET	2,550,967	2,472,032
OTHER NONCURRENT ASSETS		
Regulatory Assets	177,272	608,213
Securitized Assets		
(June 30, 2025 and December 31, 2024 Amounts Include \$468,297 and \$0, Respectively, Related to Cost Recovery Funding)	468,297	—
Deferred Charges and Other Noncurrent Assets	54,105	83,660
TOTAL OTHER NONCURRENT ASSETS	699,674	691,873
TOTAL ASSETS	\$ 3,459,994	\$ 3,316,256

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

KENTUCKY POWER COMPANY AND SUBSIDIARY
CONDENSED CONSOLIDATED BALANCE SHEETS
LIABILITIES AND COMMON SHAREHOLDER'S EQUITY
June 30, 2025 and December 31, 2024
(Unaudited)

	June 30, 2025	December 31, 2024
	(in thousands)	
CURRENT LIABILITIES		
Advances from Affiliates	\$ —	\$ 183,212
Accounts Payable:		
General	69,215	60,684
Affiliated Companies	38,229	49,421
Long-term Debt Due Within One Year – Nonaffiliated (June 30, 2025 and December 31, 2024 Amounts Include \$8,973 and \$0, Respectively, Related to Cost Recovery Funding)	73,973	150,000
Customer Deposits	38,550	38,265
Accrued Taxes	23,584	43,532
Obligations Under Operating Leases	464	216
Other Current Liabilities	28,079	30,486
TOTAL CURRENT LIABILITIES	272,094	555,816
NONCURRENT LIABILITIES		
Long-term Debt – Nonaffiliated (June 30, 2025 and December 31, 2024 Amounts Include \$459,363 and \$0, Respectively, Related to Cost Recovery Funding)	1,455,238	1,060,473
Deferred Income Taxes	494,309	484,017
Regulatory Liabilities	126,972	118,345
Asset Retirement Obligations	86,434	85,213
Obligations Under Operating Leases	3,238	1,795
Deferred Credits and Other Noncurrent Liabilities	13,025	19,681
TOTAL NONCURRENT LIABILITIES	2,179,216	1,769,524
TOTAL LIABILITIES	2,451,310	2,325,340
Rate Matters (Note 3)		
Commitments and Contingencies (Note 4)		
COMMON SHAREHOLDER'S EQUITY		
Common Stock – Par Value – \$50 Per Share:		
Authorized – 2,000,000 Shares		
Outstanding – 1,009,000 Shares	50,450	50,450
Paid-in Capital	526,201	526,069
Retained Earnings	432,033	414,397
TOTAL COMMON SHAREHOLDER'S EQUITY	1,008,684	990,916
TOTAL LIABILITIES AND COMMON SHAREHOLDER'S EQUITY	\$ 3,459,994	\$ 3,316,256

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

KENTUCKY POWER COMPANY AND SUBSIDIARY
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
For the Six Months Ended June 30, 2025 and 2024
(in thousands)
(Unaudited)

	Six Months Ended June 30,	
	2025	2024
OPERATING ACTIVITIES		
Net Income	\$ 17,636	\$ 11,170
Adjustments to Reconcile Net Income to Net Cash Flows from Operating Activities:		
Depreciation and Amortization	61,340	52,058
Deferred Income Taxes	(401)	(3,382)
Allowance for Equity Funds Used During Construction	(1,290)	(1,201)
Mark-to-Market of Risk Management Contracts	(5,976)	(13,443)
Pension Contributions to Qualified Plan Trust	(2,094)	—
Property Taxes	9,970	13,412
Deferred Fuel Over/Under-Recovery, Net	1,555	3,876
Change in Other Noncurrent Assets	(12,813)	1,284
Change in Other Noncurrent Liabilities	(3,185)	454
Changes in Certain Components of Working Capital:		
Accounts Receivable, Net	(1,481)	5,000
Fuel, Materials and Supplies	6,089	11,981
Accounts Payable	(600)	(5,684)
Accrued Taxes, Net	(22,880)	(8,690)
Other Current Assets	3,974	7,753
Other Current Liabilities	(2,605)	(12,184)
Net Cash Flows from Operating Activities	47,239	62,404
INVESTING ACTIVITIES		
Construction Expenditures	(125,743)	(82,319)
Change in Advances to Affiliates, Net	(54,198)	—
Other Investing Activities	885	468
Net Cash Flows Used for Investing Activities	(179,056)	(81,851)
FINANCING ACTIVITIES		
Capital Contribution from Parent	132	831
Issuance of Long-term Debt – Nonaffiliated	618,417	—
Change in Advances from Affiliates, Net	(183,212)	18,249
Retirement of Long-term Debt – Nonaffiliated	(300,000)	—
Principal Payments for Finance Lease Obligations	(68)	(56)
Other Financing Activities	10	(69)
Net Cash Flows from Financing Activities	135,279	18,955
Net Increase (Decrease) in Cash and Cash Equivalents	3,462	(492)
Cash and Cash Equivalents at Beginning of Period	839	1,321
Cash and Cash Equivalents at End of Period	\$ 4,301	\$ 829
SUPPLEMENTARY INFORMATION		
Cash Paid for Interest, Net of Capitalized Amounts	\$ 38,176	\$ 38,012
Net Cash Paid (Received) for Income Taxes	(788)	10,322
Noncash Acquisitions Under Finance Leases	130	21
Construction Expenditures Included in Current Liabilities as of June 30,	30,901	20,303

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

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1. SIGNIFICANT ACCOUNTING MATTERS

General

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

In the opinion of management, the unaudited condensed interim financial statements reflect all normal and recurring accruals and adjustments necessary for a fair statement of the net income, financial position and cash flows for the interim periods. Net income for the three and six months ended June 30, 2025 is not necessarily indicative of results that may be expected for the year ending December 31, 2025. The condensed financial statements are unaudited and should be read in conjunction with the audited 2024 financial statements and notes thereto, which are included in KPCo's 2024 Annual Report.

Restricted Cash

Restricted Cash primarily includes funds held by trustees for the payment of securitization bonds.

Reconciliation of Cash, Cash Equivalents and Restricted Cash

The following tables provide a reconciliation of Cash, Cash Equivalents and Restricted Cash reported within the balance sheets that sum to the total of the same amounts shown on the statements of cash flows:

	<u>June 30, 2025</u>	<u>December 31, 2024</u>
	(in thousands)	
Cash and Cash Equivalents	\$ 1,240	\$ 839
Restricted Cash	3,061	—
Total Cash, Cash Equivalents and Restricted Cash	<u>\$ 4,301</u>	<u>\$ 839</u>

Subsequent Events

Management reviewed subsequent events through July 30, 2025, the date that the second quarter 2025 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 will adopt the amendments to this standard prospectively beginning with the Annual Report for the fiscal year ended December 31, 2025.

3. RATE MATTERS

As discussed in KPCo's 2024 Annual Report, KPCo is involved in rate and regulatory proceedings at the FERC and the KPSC. The Rate Matters note within KPCo's 2024 Annual Report should be read in conjunction with this report to gain a complete understanding of material rate matters still pending that could impact net income, cash flows and possibly financial condition. The following discusses ratemaking developments in 2025 and updates KPCo's 2024 Annual Report.

Regulatory Assets Pending Final Regulatory Approval

Noncurrent Regulatory Assets	June 30, 2025	December 31, 2024
	(in thousands)	
<u>Regulatory Assets Currently Not Earning a Return</u>		
Storm-Related Costs (a)	\$ 22,178	\$ 89,543
Other Regulatory Assets Pending Final Regulatory Approval	2,112	3,840
Total Regulatory Assets Pending Final Regulatory Approval	\$ 24,290	\$ 93,383

(a) In June 2025, the KPSC approved KPCo's securitization, which included \$78.8 million in storm-related costs.

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

Investigation of the Service, Rates and Facilities of KPCo

In June 2023, the KPSC issued an order directing KPCo to show cause why it should not be subject to Kentucky statutory remedies, including fines and penalties, for failure to provide adequate service in its service territory. The KPSC's show cause order did not make any determination regarding the adequacy of KPCo's service. In July 2023, KPCo filed a response to the show cause order demonstrating that it has provided adequate service. In December 2023 and February 2024, KPCo and certain intervenors filed testimony with the KPSC. A hearing with the KPSC was previously scheduled to occur in June 2024. The hearing was postponed and has not yet been rescheduled. If any fines or penalties are levied against KPCo relating to the show cause order, it could reduce future net income and cash flows and impact financial condition.

2023 Kentucky Base Rate and Securitization Case

In June 2023, KPCo filed a request with the KPSC for a \$93.9 million net annual increase in base rates based upon a proposed 9.9% ROE with the increase to be implemented no earlier than January 2024. In conjunction with its June 2023 filing, KPCo further requested to finance, through the issuance of securitization bonds, approximately \$471.2 million of regulatory assets. KPCo's proposal did not address the disposition of its 50% interest in Mitchell Plant, which will be addressed in the future. See "Mitchell Plant Filing for Certificate of Public Convenience and Necessity" section below for additional information.

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

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

Kentucky Franklin Circuit Court (Circuit Court), challenging among other aspects of the order, the \$14.2 million base rate revenue requirement reduction. In January 2025, the Circuit Court issued an order agreeing with KPCo's appeal and remanded this issue back to the KPSC with instructions to enter an order, within 30 days, which includes setting rates to allow KPCo to recover the \$14.2 million of annual PJM transmission costs effective upon KPCo's January 2024 implementation of updated base rates. In March 2025, the KPSC issued a rehearing order that approved rates for the prospective collection of test year PJM transmission costs beginning in February 2025 but denied KPCo's request to defer and recover the historical PJM transmission costs of approximately \$15.7 million incurred since January 2024. In April 2025, KPCo filed an appeal with the Circuit Court in response to the KPSC's denial to recover PJM transmission costs incurred from January 2024 through the implementation of new rates. A Circuit Court ruling is expected in the second half of 2025.

In June 2025, KPCo issued \$477.7 million of securitization bonds to recover \$500.2 million of regulatory assets, including \$311.3 million of plant retirement costs, \$78.8 million of deferred storm costs related to 2020, 2021, 2022 and 2023 major storms, \$55.6 million of under-recovered purchased power rider costs, \$51.3 million of deferred purchased power expenses and \$3.1 million of issuance-related expenses, including KPSC advisor expenses. The net bond proceeds of the \$477.7 million also included \$6.3 million of non-utility issuance costs and a \$28.8 million offset for net present value of return on accumulated deferred income taxes related to KPCo's Decommissioning Rider as ordered by the KPSC.

January and February 2025 Storm Costs

In January and February 2025, severe storms impacted KPCo's service territory resulting in system damages and power outages. In February 2025, KPCo filed an application with the KPSC requesting deferral authority for \$10.3 million of incremental operation and maintenance costs related to these storms. In March 2025, the KPSC issued an order granting KPCo authority to defer \$9.2 million. The KPSC reduced KPCo's requested deferral by \$1.1 million to account for the level of storm costs already included in KPCo's base rates. KPCo intends to seek recovery of the deferral in its next base rate case. If any of these incremental storm costs are not recoverable, it could reduce future net income and cash flows and impact financial condition.

Mitchell Plant Filing for Certificate of Public Convenience and Necessity

KPCo and WPCo each currently hold a 50% ownership interest in the Mitchell Plant and related CCR investments that have been placed in service. In July 2021, the KPSC rejected KPCo's ELG compliance plan for KPCo's 50% ownership share of ELG investments at the Mitchell Plant that would allow KPCo to take capacity and energy to serve customers beyond December 31, 2028. As a result of this order, WPCo holds a 100% interest in Mitchell Plant ELG investments that have been placed in service. In addition, WPCo also holds a greater than 50% ownership share of certain non-ELG capital investments made at Mitchell Plant which will continue to be used in the operation of Mitchell Plant beyond 2028.

In June 2025, KPCo filed a request with the KPSC for a Certificate of Public Convenience and Necessity (CPCN) to make investments necessary to reflect: (a) a 50% share of the Mitchell Plant ELG Project and (b) a 50% share of non-ELG capital investments. KPSC approval of these investments would allow KPCo to continue taking a 50% share of energy and capacity from the Mitchell Plant to serve KPCo customers beyond December 31, 2028. KPCo proposed to recover the estimated \$77.9 million investment in the ELG Project through KPCo's existing Environmental Surcharge and plans to request recovery of an estimated \$60.4 million of Mitchell Plant non-ELG capital investments through a future base rate filing.

As of June 30, 2025, the net book value of KPCo's share of the Mitchell Plant, before cost of removal and including CWIP and inventory, was \$535.3 million.

If any costs related to this CPCN filing are disallowed, it could reduce future net income and cash flows and impact financial condition.

4. COMMITMENTS, GUARANTEES AND CONTINGENCIES

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

For current proceedings not specifically discussed below, management does not anticipate that the liabilities, if any, arising from such proceedings would have a material effect on the financial statements. The Commitments, Guarantees and Contingencies note within KPCo's 2024 Annual Report should be read in conjunction with this report.

GUARANTEES

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

Indemnifications and Other Guarantees

Contracts

KPCo enters into certain types of contracts which require indemnifications. Typically these contracts include, but are not limited to, sale agreements, lease agreements, purchase agreements and financing agreements. Generally, these agreements may include, but are not limited to, indemnifications around certain tax, contractual and environmental matters. With respect to sale agreements, exposure generally does not exceed the sale price. As of June 30, 2025, there were no material liabilities recorded for any indemnifications.

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

Master Lease Agreements

KPCo leases certain equipment under master lease agreements. Under the lease agreements, the lessor is guaranteed a residual value up to a stated percentage of the equipment cost at the end of the lease term. If the actual fair value of the leased equipment is below the guaranteed residual value at the end of the lease term, KPCo is committed to pay the difference between the actual fair value and the residual value guarantee. Historically, at the end of the lease term the fair value has been in excess of the amount guaranteed. As of June 30, 2025, the maximum potential loss for these lease agreements was \$243 thousand assuming the fair value of the equipment is zero at the end of the lease term.

ENVIRONMENTAL CONTINGENCIES

Federal EPA's Revised CCR Rule

In April 2024, the Federal EPA finalized revisions to the CCR Rule (Legacy CCR Rule) to expand the scope of the rule to include inactive impoundments at inactive facilities (legacy CCR surface impoundments) as well as to establish requirements for currently exempt solid waste management units that involve the direct placement of CCR on the land (CCR management units). The Federal EPA is requiring that owners and operators of legacy surface impoundments comply with all of the Legacy CCR Rule requirements applicable to inactive CCR surface impoundments at active facilities, except for the location restrictions and liner design criteria. The rule establishes compliance deadlines for legacy surface impoundments to meet regulatory requirements, including a requirement to initiate closure within five years after the effective date of the final rule. The rule requires evaluations to be completed at both active facilities and inactive facilities with one or more legacy surface impoundments. Closure may be accomplished by applying an impermeable cover system over the CCR material (closure in place) or the CCR material may be excavated and placed in a compliant landfill (closure by removal). Groundwater monitoring and other analysis over the next three years will provide additional information on the planned closure method. In the second quarter of 2024, management evaluated the applicability of the rule to current and former plant sites and recorded a \$68 million increase in ARO, based on initial cost estimates primarily reflecting compliance with the rule through closure in place and future groundwater monitoring requirements pursuant to the Legacy CCR Rule.

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

AEP will seek cost recovery through regulated rates, including proposal of new regulatory mechanisms for cost recovery where existing mechanisms are not applicable. The rule could have an additional, material adverse impact on net income, cash flows and financial condition if AEP cannot ultimately recover these additional costs of compliance. Several parties, including AEP and one of its trade associations, have filed petitions for review of the Legacy CCR Rule with the U.S. Court of Appeals for the D.C. Circuit. One of the parties also filed a motion to stay the Legacy CCR Rule pending the outcome of the litigation. In November 2024, the court denied the stay motion. The litigation is being held in abeyance until August 11, 2025. The Federal EPA informed the court that it has determined it will reconsider the Legacy CCR Rule in whole or in part, but has not yet decided the full scope of reconsideration. The Federal EPA expects to have determined which aspects of the Legacy CCR Rule it will reconsider, in whole or in part, by August 11, 2025. Reconsideration of the rule will require a new round of notice-and-comment rulemaking. In July 2025, the Federal EPA issued a direct final rule and companion proposed rule that extended certain compliance deadlines for CCR management units under the Legacy CCR Rule. Management cannot predict the outcome of the litigation or any further actions by the Federal EPA related to the rule.

5. BENEFIT PLANS

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

Components of Net Periodic Benefit Credit

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

	Pension Plans		OPEB	
	Three Months Ended June 30, 2025	2024	Three Months Ended June 30, 2025	2024
	(in thousands)			
Service Cost	\$ 388	\$ 408	\$ 13	\$ 14
Interest Cost	1,563	1,538	260	343
Expected Return on Plan Assets	(2,111)	(2,358)	(921)	(963)
Amortization of Prior Service Credit	—	—	(17)	(94)
Amortization of Net Actuarial Loss	112	22	—	30
Net Periodic Benefit Credit (a)	\$ (48)	\$ (390)	\$ (665)	\$ (670)

	Pension Plans		OPEB	
	Six Months Ended June 30, 2025	2024	Six Months Ended June 30, 2025	2024
	(in thousands)			
Service Cost	\$ 776	\$ 817	\$ 24	\$ 28
Interest Cost	3,125	3,073	520	686
Expected Return on Plan Assets	(4,221)	(4,715)	(1,841)	(1,926)
Amortization of Prior Service Credit	—	—	(33)	(187)
Amortization of Net Actuarial Loss	224	44	—	59
Net Periodic Benefit Credit (a)	\$ (96)	\$ (781)	\$ (1,330)	\$ (1,340)

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

Qualified Pension Contribution

For the qualified pension plan, discretionary contributions may be made to maintain the funded status of the plan. In the second quarter of 2025, KPCo made a \$2 thousand discretionary contribution to the qualified pension plan.

6. DERIVATIVES AND HEDGING

OBJECTIVES FOR UTILIZATION OF DERIVATIVE INSTRUMENTS

AEPSC is agent for and transacts on behalf of KPCo.

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

STRATEGIES FOR UTILIZATION OF DERIVATIVE INSTRUMENTS TO ACHIEVE OBJECTIVES

Risk Management Strategies

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

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

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

<u>Primary Risk Exposure</u>	<u>June 30, 2025</u>	<u>December 31, 2024</u>	<u>Unit of Measure</u>
	<u>(in thousands)</u>		
Commodity:			
Power	9,740	4,832	MWhs
Natural Gas	7,267	9,783	MMBtus
Heating Oil and Gasoline	45	48	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 \$109 thousand and \$395 thousand as of June 30, 2025 and December 31, 2024, respectively. There was no cash collateral received from third-parties netted against short-term and long-term risk management assets as of June 30, 2025 and December 31, 2024.

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

Balance Sheet Location	June 30, 2025		
	Risk Management Contracts – Commodity (a)	Gross Amounts Offset on the Balance Sheets (b)	Net Amounts of Assets/Liabilities Presented on the Balance Sheets (c)
	(in thousands)		
Current Risk Management Assets	\$ 13,013	\$ (1,226)	\$ 11,787
Long-term Risk Management Assets	56	(19)	37
Total Assets	13,069	(1,245)	11,824
Current Risk Management Liabilities	1,953	(1,335)	618
Long-term Risk Management Liabilities	19	(19)	—
Total Liabilities	1,972	(1,354)	618
Total MTM Derivative Contract Net Assets	\$ 11,097	\$ 109	\$ 11,206

Balance Sheet Location	December 31, 2024		
	Risk Management Contracts – Commodity (a)	Gross Amounts Offset on the Balance Sheets (b)	Net Amounts of Assets/Liabilities Presented on the Balance Sheets (c)
	(in thousands)		
Current Risk Management Assets	\$ 6,180	\$ (925)	\$ 5,255
Long-term Risk Management Assets	595	(158)	437
Total Assets	6,775	(1,083)	5,692
Current Risk Management Liabilities	1,774	(1,320)	454
Long-term Risk Management Liabilities	165	(158)	7
Total Liabilities	1,939	(1,478)	461
Total MTM Derivative Contract Net Assets	\$ 4,836	\$ 395	\$ 5,231

- (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)	Three Months Ended June 30,		Six Months Ended June 30,	
	2025	2024	2025	2024
(in thousands)				
Electric Generation, Transmission and Distribution Revenues	\$ —	\$ 1	\$ —	\$ 1
Purchased Electricity, Fuel and Other Consumables Used for Electric Generation	(67)	27	—	53
Other Operation	(1)	25	(1)	34
Maintenance	(2)	34	(3)	38
Regulatory Assets (a)	2	5,102	4	8,578
Regulatory Liabilities (a)	(2,815)	1,923	6,382	3,789
Total Gain (Loss) on Risk Management Contracts	\$ (2,883)	\$ 7,112	\$ 6,382	\$ 12,493

- (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.”

Credit Risk

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

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

Credit-Risk-Related Contingent Features

Credit Downgrade Triggers

A limited number of derivative contracts include collateral triggering events, which include a requirement to maintain certain credit ratings. On an ongoing basis, AEP’s risk management organization assesses the appropriateness of these collateral triggering events in contracts. KPCo has not experienced a downgrade below a specified credit rating threshold that would require the posting of additional collateral. As of June 30, 2025 and December 31, 2024, KPCo did not have derivative contracts with collateral triggering events in a net liability position.

Cross-Acceleration Triggers

Certain interest rate derivative contracts contain cross-acceleration provisions that, if triggered, would permit the counterparty to declare a default and require settlement of the outstanding payable. These cross-acceleration provisions could be triggered if there was a non-performance event by KPCo under any of their outstanding debt of

at least \$50 million and the lender on that debt has accelerated the entire repayment obligation. On an ongoing basis, AEP's risk management organization assesses the appropriateness of these cross-acceleration provisions in contracts. KPCo had no derivative contracts with cross-acceleration provisions in a net liability position and no cash collateral posted as of June 30, 2025 and December 31, 2024. 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 \$592 thousand and \$212 thousand and no cash collateral posted as of June 30, 2025 and December 31, 2024, respectively. If a cross-default provision would have been triggered, settlement at fair value would have been required.

7. FAIR VALUE MEASUREMENTS

Fair Value Hierarchy and Valuation Techniques

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

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

Fair Value Measurements of Long-term Debt

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

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

	<u>June 30, 2025</u>		<u>December 31, 2024</u>	
	<u>Book Value</u>	<u>Fair Value</u>	<u>Book Value</u>	<u>Fair Value</u>
Long-term Debt	\$ 1,529,211	\$ 1,571,634	\$ 1,210,473	\$ 1,222,803

Fair Value Measurements of Financial Assets and Liabilities

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

Assets and Liabilities Measured at Fair Value on a Recurring Basis June 30, 2025

Assets:	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Other</u>	<u>Total</u>
	(in thousands)				
Risk Management Assets					
Risk Management Commodity Contracts (a)(b)	<u>\$ —</u>	<u>\$ 1,485</u>	<u>\$ 11,573</u>	<u>\$ (1,234)</u>	<u>\$ 11,824</u>
Liabilities:					
Risk Management Liabilities					
Risk Management Commodity Contracts (a)(b)	<u>\$ —</u>	<u>\$ 1,849</u>	<u>\$ 113</u>	<u>\$ (1,344)</u>	<u>\$ 618</u>

December 31, 2024

Assets:	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Other</u>	<u>Total</u>
	(in thousands)				
Risk Management Assets					
Risk Management Commodity Contracts (a)(b)	<u>\$ —</u>	<u>\$ 1,907</u>	<u>\$ 4,858</u>	<u>\$ (1,073)</u>	<u>\$ 5,692</u>
Liabilities:					
Risk Management Liabilities					
Risk Management Commodity Contracts (a)(b)	<u>\$ —</u>	<u>\$ 1,902</u>	<u>\$ 27</u>	<u>\$ (1,468)</u>	<u>\$ 461</u>

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

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

Three Months Ended June 30, 2025	Net Risk Management Assets (Liabilities) (in thousands)
Balance as of March 31, 2025	\$ 1,352
Realized Gain (Loss) Included in Net Income (or Changes in Net Assets) (a) (b)	1,569
Settlements	(2,921)
Changes in Fair Value Allocated to Regulated Jurisdictions (c)	11,460
Balance as of June 30, 2025	<u>\$ 11,460</u>
Three Months Ended June 30, 2024	Net Risk Management Assets (Liabilities) (in thousands)
Balance as of March 31, 2024	\$ 587
Realized Gain (Loss) Included in Net Income (or Changes in Net Assets) (a) (b)	2,246
Settlements	(2,833)
Changes in Fair Value Allocated to Regulated Jurisdictions (c)	11,097
Balance as of June 30, 2024	<u>\$ 11,097</u>
Six Months Ended June 30, 2025	Net Risk Management Assets (Liabilities) (in thousands)
Balance as of December 31, 2024	\$ 4,831
Realized Gain (Loss) Included in Net Income (or Changes in Net Assets) (a) (b)	5,288
Settlements	(10,120)
Changes in Fair Value Allocated to Regulated Jurisdictions (c)	11,461
Balance as of June 30, 2025	<u>\$ 11,460</u>
Six Months Ended June 30, 2024	Net Risk Management Assets (Liabilities) (in thousands)
Balance as of December 31, 2023	\$ 2,514
Realized Gain (Loss) Included in Net Income (or Changes in Net Assets) (a) (b)	4,022
Settlements	(6,536)
Changes in Fair Value Allocated to Regulated Jurisdictions (c)	11,097
Balance as of June 30, 2024	<u>\$ 11,097</u>

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

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

**Significant Unobservable Inputs
June 30, 2025**

	<u>Fair Value</u>		<u>Valuation Technique</u>	<u>Significant Unobservable Input (a)</u>	<u>Input/Range</u>		
	<u>Assets</u>	<u>Liabilities</u>			<u>Low</u>	<u>High</u>	<u>Weighted Average (b)</u>
	<u>(in thousands)</u>						
FTRs	<u>\$ 11,573</u>	<u>\$ 113</u>	Discounted Cash Flow	Forward Market Price	\$ 0.23	\$ 14.50	\$ 1.20

December 31, 2024

	<u>Fair Value</u>		<u>Valuation Technique</u>	<u>Significant Unobservable Input (a)</u>	<u>Input/Range</u>		
	<u>Assets</u>	<u>Liabilities</u>			<u>Low</u>	<u>High</u>	<u>Weighted Average (b)</u>
	<u>(in thousands)</u>						
FTRs	<u>\$ 4,858</u>	<u>\$ 27</u>	Discounted Cash Flow	Forward Market Price	\$ (0.22)	\$ 9.32	\$ 1.08

(a) Represents market prices in dollars per MWh.

(b) The weighted average is the product of the forward market price of the underlying commodity and volume weighted by term.

The following table provides the measurement uncertainty of fair value measurements to increases (decreases) in significant unobservable inputs related to FTRs as of June 30, 2025 and December 31, 2024:

Uncertainty of Fair Value Measurements

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

8. INCOME TAXES

Effective Tax Rates (ETR)

KPCo's interim ETR reflects the estimated annual ETR for 2025 and 2024, adjusted for tax expense associated with certain discrete items. In the second quarter of 2025, KPCo recorded a tax benefit of \$5 million related to the remeasurement of Excess ADIT associated with the FERC order related to the treatment of NOLCs in transmission formula rates, driving a reduction to the interim ETR resulting in KPCo's tax rate of (229.0)% for three months ended June 30, 2025 and (10.7)% for six months ended June 30, 2025 as shown below.

The ETR for KPCo are included in the following table:

	<u>Three Months Ended June 30,</u>		<u>Six Months Ended June 30,</u>	
	<u>2025</u>	<u>2024</u>	<u>2025</u>	<u>2024</u>
U.S. Federal Statutory Rate	21.0 %	21.0 %	21.0 %	21.0 %
Increase (Decrease) due to:				
State and Local Income Tax, Net	(17.7)%	83.9 %	(1.7)%	1.6 %
Tax Reform Excess ADIT Reversal	0.9 %	205.2 %	(6.3)%	(9.5)%
Remeasurement of Excess ADIT	(239.4)%	— %	(28.6)%	— %
Reversal of Origination Flow-Through	12.8 %	(89.5)%	6.6 %	3.7 %
AFUDC Equity	(6.3)%	(14.1)%	(1.8)%	(0.4)%
Other	(0.3)%	2.9 %	0.1 %	— %
Effective Income Tax Rate	<u>(229.0)%</u>	<u>209.4 %</u>	<u>(10.7)%</u>	<u>16.4 %</u>

Federal and State Income Tax Audit Status

KPCo and other AEP subsidiaries are not currently under IRS audit and the statute of limitations (SOL) for the IRS to examine KPCo and other AEP subsidiaries originally filed federal return has expired for tax years prior to 2021. In July 2025, AEP received notification that its 2023 federal income tax return was selected for IRS examination.

KPCo and other AEP subsidiaries file income tax returns in various state and local jurisdictions. KPCo and other AEP subsidiaries are not currently under any state and local income tax examinations. Generally, the SOL have expired for tax years prior to 2021. In addition, management is monitoring and continues to evaluate the potential impact of federal legislation and corresponding state conformity.

Federal Legislation

On July 4, 2025, President Trump signed H.R. 1 into law, commonly known as the One Big Beautiful Bill Act (OBBBA). Most notably for AEP, this budget reconciliation legislation modifies and accelerates the phase out of wind and solar PTCs and ITCs, adds new restrictions to guard against certain foreign ownership or influence with respect to otherwise credit-eligible projects and makes 100% bonus depreciation permanent for our non-regulated entities. With the exception of bonus depreciation, this legislation is prospective and has no material impact on the current period financial statements. Following enactment of the legislation, on July 7, 2025, the President issued an Executive Order directing the Department of Treasury to issue new and revised wind and solar tax credit guidance within 45 days, which could impose further practical limits on the development of wind and solar projects. In addition to this potential near term guidance, additional significant guidance from the Department of Treasury and the IRS is expected on the tax provisions included in the OBBBA. AEP will continue to monitor any issued guidance and evaluate the impact on future net income, cash flows and financial condition.

9. FINANCING ACTIVITIES

Long-term Debt

Long-term debt issued during the first six months of 2025 is shown in the following table:

	<u>Type of Debt</u>	<u>Principal</u>	<u>Interest</u>	<u>Due Date</u>
		<u>Amount Paid</u>	<u>Rate</u>	
Issuances:		(in thousands)	(%)	
	Other Long-term Debt	\$ 150,000	Variable	2026
	Securitization Bonds	477,749	5.30	2045
		<u>\$ 627,749</u>		

Long-term debt retired during the first six months of 2025 is shown in the following table:

	<u>Type of Debt</u>	<u>Principal</u>	<u>Interest</u>	<u>Due Date</u>
		<u>Amount Paid</u>	<u>Rate</u>	
Retirements:		(in thousands)	(%)	
	Other Long-term Debt	\$ 150,000	Variable	2025
	Other Long-term Debt	150,000	Variable	2026
		<u>\$ 300,000</u>		

Dividend Restrictions

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

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

KPCo has credit agreements that contain a covenant that limit its debt to capitalization ratio to 67.5%. As of June 30, 2025, KPCo did not exceed its debt to capitalization limit. The method for calculating outstanding debt and capitalization is contractually-defined in the credit agreements.

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

Corporate Borrowing Program

AEP subsidiaries use a corporate borrowing program to meet their short-term borrowing needs. The corporate borrowing program includes a Utility Money Pool, which funds AEP's utility subsidiaries. The AEP Utility Money Pool operates in accordance with the terms and conditions of its agreement filed with the FERC. The amounts of outstanding loans to (borrowings from) the Utility Money Pool as of June 30, 2025 and December 31, 2024 are included in Advances to Affiliates and Advances from Affiliates, respectively, on KPCo's balance sheets. KPCo's Utility Money Pool activity and corresponding authorized borrowing limit for the six months ended June 30, 2025 are described in the following table:

<u>Maximum Borrowings from the Utility Money Pool</u>	<u>Maximum Loans to the Utility Money Pool</u>	<u>Average Borrowings from the Utility Money Pool</u>	<u>Average Loans to the Utility Money Pool</u>	<u>Loans to the Utility Money Pool as of June 30, 2025</u>	<u>Authorized Short-Term Borrowing Limit</u>
(in thousands)					
\$ 183,236	\$ 68,188	\$ 49,600	\$ 62,181	\$ 54,198	\$ 250,000

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

Six Months Ended June 30,	Maximum Interest Rate for Funds Borrowed from the Utility Money Pool	Minimum Interest Rate for Funds Borrowed from the Utility Money Pool	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
2025	4.83 %	4.14 %	4.73 %	4.14 %	4.67 %	4.65 %
2024	5.79 %	5.14 %	— %	— %	5.65 %	— %

Securitized Accounts Receivables – AEP Credit

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

AEP Credit’s receivables securitization agreement provides a commitment of \$900 million from bank conduits to purchase receivables and expires in September 2026. As of June 30, 2025, KPCo was in compliance with all requirements under the agreement.

KPCo’s amounts of accounts receivable and accrued unbilled revenues sold under the sale of receivables agreement were \$57.4 million and \$53.4 million as of June 30, 2025 and December 31, 2024, respectively.

The fees paid by KPCo to AEP Credit for customer accounts receivable sold for the three months ended June 30, 2025 and 2024 were \$1.1 million and \$1.3 million, respectively, and for the six months ended June 30, 2025 and 2024 were \$2.3 million and \$2.8 million, respectively.

KPCo’s proceeds on the sale of receivables to AEP Credit for the three months ended June 30, 2025 and 2024 were \$151.4 million and \$153.7 million, respectively, and for the six months ended June 30, 2025 and 2024 were \$353.4 million and \$327.7 million, respectively.

10. 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 holds ownership interests in businesses with varying ownership structures. Partnership interests and other variable interests are evaluated to determine if each entity is a VIE, and if so, whether or not the VIE should be consolidated into KPCo’s financial statements. KPCo has not provided material financial or other support that was not previously contractually required to any of its consolidated VIEs. KPCo’s interests in non-consolidated VIEs are accounted for under the equity method of accounting.

Consolidated Variable Interest Entities

In June 2025, Cost Recovery Funding was formed for the sole purpose of issuing and servicing securitization bonds related to plant retirement costs, deferred storm costs related to 2020, 2021, 2022 and 2023 major storms, deferred purchased power expenses, under-recovered purchased power rider costs and issuance-related expenses, including KPSC advisor expenses. Management concluded that KPCo is the primary beneficiary of Cost Recovery Funding because KPCo has the power to direct the most significant activities of the VIE and KPCo’s equity interest could potentially be significant. Therefore, KPCo is required to consolidate Cost Recovery Funding. As of June 30, 2025, \$9 million of the securitized bonds was included in Long-term Debt Due Within One Year - Nonaffiliated and \$459 million was included in Long-term Debt - Nonaffiliated on the balance sheet. Cost Recovery Funding’s securitized assets were \$468 million as of June 30, 2025, which was presented separately on the face of the balance sheet.

The securitized assets represent the right to impose and collect KPCo recovery charges from KPCo’s customers. The securitization bonds are payable only from and secured by the securitized assets. The bondholders have no recourse to KPCo or any other AEP entity. KPCo acts as the servicer for Cost Recovery Funding’s securitized assets and remits all related amounts collected from customers to Cost Recovery Funding for interest and principal payments on the securitization bonds and related costs. See the table below for the classification of Cost Recovery Funding’s assets and liabilities on the balance sheet:

	June 30, 2025
	(in thousands)
ASSETS	
Current Assets	\$ 3,054
Net Property, Plant and Equipment	—
Other Noncurrent Assets	469,429 (a)
Total Assets	\$ 472,483
LIABILITIES AND EQUITY	
Current Liabilities	\$ 10,731
Noncurrent Liabilities	459,363
Equity	2,389
Total Liabilities and Equity	\$ 472,483

(a) Includes an intercompany item eliminated in consolidation of \$16 million.

Significant Variable Interests in Non-Consolidated VIEs

The 2024 Annual Report includes a detailed discussion of significant variable interests in non-consolidated VIEs.

11. REVENUE FROM CONTRACTS WITH CUSTOMERS

Disaggregated Revenues from Contracts with Customers

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2025	2024	2025	2024
	(in thousands)			
Retail Revenues:				
Residential Revenues	\$ 62,748	\$ 57,589	\$ 162,178	\$ 140,471
Commercial Revenues	49,097	46,148	100,586	93,970
Industrial Revenues	44,757	43,291	87,133	82,904
Other Retail Revenues	539	524	1,102	1,071
Total Retail Revenues	<u>157,141</u>	<u>147,552</u>	<u>350,999</u>	<u>318,416</u>
Wholesale Revenues:				
Generation Revenues	4,119	4,037	8,817	7,606
Transmission Revenues (a)	17,095	7,245	29,644	14,979
Total Wholesale Revenues	<u>21,214</u>	<u>11,282</u>	<u>38,461</u>	<u>22,585</u>
Other Revenues from Contracts with Customers (b)	<u>3,724</u>	<u>3,088</u>	<u>6,459</u>	<u>5,282</u>
Total Revenues from Contracts with Customers	<u>182,079</u>	<u>161,922</u>	<u>395,919</u>	<u>346,283</u>
Other Revenues:				
Alternative Revenue Programs (b) (c)	(4,207)	(133)	(7,925)	36
Other Revenues	—	1	—	1
Total Other Revenues	<u>(4,207)</u>	<u>(132)</u>	<u>(7,925)</u>	<u>37</u>
Total Revenues	<u>\$ 177,872</u>	<u>\$ 161,790</u>	<u>\$ 387,994</u>	<u>\$ 346,320</u>

- (a) Amounts include affiliated and nonaffiliated revenues. The affiliated revenues were \$11.5 million and \$3.5 million for the three months ended June 30, 2025 and 2024, respectively and \$19.2 million and \$6.9 million for the six months ended June 30, 2025 and 2024, respectively.
- (b) Amounts include affiliated and nonaffiliated revenues.
- (c) Alternative revenue programs in certain jurisdictions include regulatory mechanisms that periodically adjust for over/under collection of related revenues.

Fixed Performance Obligations

The following table represents KPCo's remaining fixed performance obligations satisfied over time as of June 30, 2025. Fixed performance obligations primarily include electricity sales for fixed amounts of energy and stand ready services into PJM's RPM market. KPCo elected to apply the exemption to not disclose the value of unsatisfied performance obligations for contracts with an original expected term of one year or less. Due to the annual establishment of revenue requirements, transmission revenues are excluded from the table below. The amounts shown in the table below include affiliated and nonaffiliated revenues.

2025	2026-2027	2028-2029	After 2029	Total
(in thousands)				
\$ 717	\$ 2,870	\$ 2,870	\$ 1,435	\$ 7,892

Contract Assets and Liabilities

Contract assets are recognized when KPCo has a right to consideration that is conditional upon the occurrence of an event other than the passage of time, such as future performance under a contract. KPCo did not have material contract assets as of June 30, 2025 and December 31, 2024, respectively.

When KPCo receives consideration, or such consideration is unconditionally due from a customer prior to transferring goods or services to the customer under the terms of a sales contract, they recognize a contract liability on the balance sheet in the amount of that consideration. Revenue for such consideration is subsequently recognized in the period or periods in which the remaining performance obligations in the contract are satisfied. KPCo's contract liabilities typically arise from advanced payments of services provided primarily with respect to joint use agreements for utility poles. KPCo did not have material contract liabilities as of June 30, 2025 and December 31, 2024, respectively.

Accounts Receivable from Contracts with Customers

Accounts receivable from contracts with customers are presented on KPCo's balance sheets within the Accounts Receivable - Customers line item. KPCo's balances for receivables from contracts that are not recognized in accordance with the accounting guidance for "Revenue from Contracts with Customers" included in Accounts Receivable - Customers were not material as of June 30, 2025 and December 31, 2024. See "Securitized Accounts Receivable - AEP Credit" section of Note 9 for additional information related to AEP Credit's securitized accounts receivable.

The amount of affiliated accounts receivable from contracts with customers included in Accounts Receivable - Affiliated Companies on KPCo's balance sheets were \$14.6 million and \$14.1 million, respectively, as of June 30, 2025 and December 31, 2024.