Kingsport Power Company

2020 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
AEP	American Electric Power Company, Inc., an investor-owned electric public utility holding company which includes American Electric Power Company, Inc. (Parent) and majority owned consolidated subsidiaries and consolidated affiliates.
AEP Credit	AEP Credit, Inc., a consolidated variable interest entity of AEP which securitizes accounts receivable and accrued utility revenues for affiliated electric utility companies.
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 subsidiary of AEP Transmission Holdco, is an intermediate holding company that owns seven wholly-owned transmission companies.
AFUDC	Allowance for Funds Used During Construction.
APCo	Appalachian Power Company, an AEP electric utility subsidiary.
ARAM	Average Rate Assumption Method, an IRS approved method used to calculate the reversal of Excess ADIT for ratemaking purposes.
ARO	Asset Retirement Obligation.
ASU	Accounting Standards Update.
EIS	Energy Insurance Services, Inc., a nonaffiliated captive insurance company and consolidated variable interest entity of AEP.
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.
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.
MTM	Mark-to-Market.
OATT	Open Access Transmission Tariff.
OPCo	Ohio Power Company, an AEP electric utility subsidiary.
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.
Risk Management Contracts	Trading and nontrading derivatives, including those derivatives designated as cash flow and fair value hedges.
RTO	Regional Transmission Organization, responsible for moving electricity over large interstate areas.
SEC	U.S. Securities and Exchange Commission.
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.

Term	Meaning
TPUC	Tennessee Public Utility Commission, formerly known as Tennessee Regulatory Authority (TRA).
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.

Report of Independent Auditors

To the Board of Directors and Management of Kingsport Power Company

We have audited the accompanying financial statements of Kingsport Power Company, which comprise the balance sheets as of December 31, 2020 and 2019, and the related statements of income, changes in common shareholder's equity and cash flows for the years then ended.

Management's Responsibility 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; this includes 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.

Auditors' Responsibility

Our responsibility is to express an opinion on the financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the Company's preparation and fair presentation of the financial statements 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, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Kingsport Power Company as of December 31, 2020 and 2019, 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.

Emphasis of Matter

As discussed in Note 9 to the financial statements, the Company changed the manner in which it accounts for leases in 2019. Our opinion is not modified with respect to this matter.

PricewaterhouseCoopers LLP

Columbus, Ohio
March 26, 2021

PricewaterhouseCoopers LLP, 41 South High Street, Columbus, OH 43215
T: (614) 225 8700, F: (614) 224 1044, www.pwc.com/us

KINGSPORT POWER COMPANY
STATEMENTS OF INCOME
For the Years Ended December 31, 2020 and 2019
(in thousands)

	Years Ended December 31, 2020	2019
REVENUES		
Electricity, Transmission and Distribution	$ 151,889	$ 157,668
Sales to AEP Affiliates	4,357	5,624
Other Revenues	471	441
TOTAL REVENUES	156,717	163,733
EXPENSES		
Purchased Electricity from AEP Affiliates	117,843	124,088
Other Operation	6,727	7,170
Maintenance	6,937	4,652
Depreciation and Amortization	9,036	7,953
Taxes Other Than Income Taxes	10,686	11,101
TOTAL EXPENSES	151,229	154,964
OPERATING INCOME	5,488	8,769
Other Income (Expense):		
Interest Income	1	—
Allowance for Equity Funds Used During Construction	3	69
Non-Service Cost Components of Net Periodic Benefit Cost	393	376
Interest Expense	(2,557)	(2,546)
INCOME BEFORE INCOME TAX EXPENSE (BENEFIT)	3,328	6,668
Income Tax Expense (Benefit)	(187)	239
NET INCOME	$ 3,515	$ 6,429

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

See Notes to Financial Statements beginning on page 9.

KINGSPORT POWER COMPANY
STATEMENTS OF CHANGES IN COMMON SHAREHOLDER'S EQUITY
For the Years Ended December 31, 2020 and 2019
(in thousands)

	Common Stock	Paid-in Capital	Retained Earnings	Total
TOTAL COMMON SHAREHOLDER'S EQUITY – DECEMBER 31, 2018	$ 4,100	$ 27,800	$ 19,697	$ 51,597
Capital Contribution from Parent		13,000		13,000
Net Income			6,429	6,429
TOTAL COMMON SHAREHOLDER'S EQUITY – DECEMBER 31, 2019	4,100	40,800	26,126	71,026
Net Income			3,515	3,515
TOTAL COMMON SHAREHOLDER'S EQUITY – DECEMBER 31, 2020	$ 4,100	$ 40,800	$ 29,641	$ 74,541

See Notes to Financial Statements beginning on page 9.

KINGSPORT POWER COMPANY
BALANCE SHEETS
ASSETS
December 31, 2020 and 2019
(in thousands)

	December 31, 2020	December 31, 2019
CURRENT ASSETS		
Cash and Cash Equivalents	$ 297	$ 111
Accounts Receivable:		
Customers	4,684	3,882
Affiliated Companies	1,735	1,852
Accrued Unbilled Revenues	997	902
Miscellaneous	4	4
Total Accounts Receivable	7,420	6,640
Materials and Supplies	393	347
Accrued Tax Benefits	456	1,490
Prepayments	2,356	2,408
Other Current Assets	37	73
TOTAL CURRENT ASSETS	10,959	11,069
PROPERTY, PLANT AND EQUIPMENT		
Electric:		
Transmission	45,427	43,121
Distribution	197,087	189,413
Other Property, Plant and Equipment	16,477	10,235
Construction Work in Progress	6,824	13,921
Total Property, Plant and Equipment	265,815	256,690
Accumulated Depreciation and Amortization	77,001	77,746
TOTAL PROPERTY, PLANT AND EQUIPMENT – NET	188,814	178,944
OTHER NONCURRENT ASSETS		
Regulatory Assets	13,838	20,587
Deferred Charges and Other Noncurrent Assets	6,690	4,972
TOTAL OTHER NONCURRENT ASSETS	20,528	25,559
TOTAL ASSETS	$ 220,301	$ 215,572

See Notes to Financial Statements beginning on page 9.

KINGSPORT POWER COMPANY
BALANCE SHEETS
LIABILITIES AND COMMON SHAREHOLDER'S EQUITY
December 31, 2020 and 2019

	December 31, 2020	December 31, 2019
	(in thousands)	
CURRENT LIABILITIES		
Advances from Affiliates	$ 11,579	$ 14,499
Accounts Payable		
General	1,657	4,779
Affiliated Companies	12,082	13,455
Long-term Debt Due Within One Year – Affiliated	—	20,000
Customer Deposits	4,109	4,342
Accrued Taxes	2,037	1,999
Accrued Interest	1,844	1,816
Obligations Under Operating Leases	385	275
Other Current Liabilities	3,196	2,582
TOTAL CURRENT LIABILITIES	36,889	63,747
NONCURRENT LIABILITIES		
Long-term Debt – Affiliated	65,000	39,000
Deferred Income Taxes	24,251	24,082
Regulatory Liabilities and Deferred Investment Tax Credits	15,453	14,013
Employee Benefits and Pension Obligations	920	1,624
Obligations Under Operating Leases	2,425	1,603
Deferred Credits and Other Noncurrent Liabilities	822	477
TOTAL NONCURRENT LIABILITIES	108,871	80,799
TOTAL LIABILITIES	145,760	144,546
Rate Matters (Note 2)		
Commitments and Contingencies (Note 4)		
COMMON SHAREHOLDER'S EQUITY		
Common Stock – No Par Value:		
Authorized – 500,000 Shares		
Outstanding – 410,000 Shares	4,100	4,100
Paid-in Capital	40,800	40,800
Retained Earnings	29,641	26,126
TOTAL COMMON SHAREHOLDER'S EQUITY	74,541	71,026
TOTAL LIABILITIES AND COMMON SHAREHOLDER'S EQUITY	$ 220,301	$ 215,572

See Notes to Financial Statements beginning on page 9.

KINGSPORT POWER COMPANY
STATEMENTS OF CASH FLOWS
For the Years Ended December 31, 2020 and 2019
(in thousands)

	Years Ended December 31, 2020	2019
OPERATING ACTIVITIES		
Net Income	$ 3,515	$ 6,429
Adjustments to Reconcile Net Income to Net Cash Flows from Operating Activities:		
Depreciation and Amortization	9,036	7,953
Deferred Income Taxes	(657)	1,366
Pension Contributions to Qualified Plan Trusts	(388)	—
Change in Regulatory Assets	5,615	(6,504)
Change in Other Noncurrent Assets	(953)	258
Change in Other Noncurrent Liabilities	312	(2,551)
Changes in Certain Components of Working Capital:		
Accounts Receivable, Net	(570)	813
Materials and Supplies	(46)	(22)
Accounts Payable	(2,568)	(689)
Accrued Taxes, Net	1,072	27
Other Current Assets	30	(45)
Other Current Liabilities	(179)	(1,261)
Net Cash Flows from Operating Activities	14,219	5,774
INVESTING ACTIVITIES		
Construction Expenditures	(17,724)	(29,005)
Proceeds from Sales of Assets	740	1,745
Other Investing Activities	45	35
Net Cash Flows Used for Investing Activities	(16,939)	(27,225)
FINANCING ACTIVITIES		
Capital Contribution from Parent	—	13,000
Issuance of Long-term Debt – Affiliated	26,000	9,000
Change in Advances from Affiliates, Net	(2,920)	(449)
Retirement of Long-Term Debt – Affiliated	(20,000)	—
Principal Payments for Finance Lease Obligations	(217)	(175)
Other Financing Activities	43	59
Net Cash Flows from Financing Activities	2,906	21,435
Net Increase (Decrease) in Cash and Cash Equivalents	186	(16)
Cash and Cash Equivalents at Beginning of Period	111	127
Cash and Cash Equivalents at End of Period	$ 297	$ 111
SUPPLEMENTARY INFORMATION		
Cash Paid for Interest, Net of Capitalized Amounts	$ 2,481	$ 2,400
Net Cash Paid (Received) for Income Taxes	(557)	(1,096)
Noncash Acquisitions Under Finance Leases	302	263
Construction Expenditures Included in Current Liabilities as of December 31,	1,178	3,165

See Notes to Financial Statements beginning on page 9.

INDEX OF NOTES TO FINANCIAL STATEMENTS

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

ORGANIZATION

KGPCo is a wholly-owned subsidiary of AEP. KGPCo is engaged in the purchase of electric power and the subsequent sale, transmission and distribution of that power to approximately 49,000 retail customers in its service territory in Kingsport, Tennessee and the surrounding area. As a member of the AEP System, KGPCo's facilities are operated in conjunction with the facilities of certain other AEP affiliated utilities as an integrated utility system. All of the power KGPCo sells and distributes at retail is purchased from APCo, an affiliated AEP System company.

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Rates and Service Regulation

KGPCo's wholesale rates are regulated by the FERC and its retail rates are regulated by the TPUC. The FERC also regulates KGPCo'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 the issuances and acquisitions of securities, the acquisition or sale of certain utility assets and mergers with another electric utility or holding company. The TPUC also regulates certain intercompany transactions under its affiliate statutes.

KGPCo purchases electricity at wholesale from APCo. The FERC regulates KGPCo's cost-based wholesale power transactions with APCo. The TPUC regulates KGPCo's bundled transmission and distribution rates on a cost basis.

KGPCo's purchased power agreement with APCo includes a component for the recovery of transmission costs under the FERC's OATT. The transmission cost component of purchased power is cost-based and regulated by the TPUC.

In addition, the FERC regulates the Transmission Agreement, which allocates shared system costs and revenues to the utility subsidiaries that are parties to the agreement.

Both the FERC and state regulatory commissions are permitted to review and audit the books and records of any company within a public utility holding company system.

Accounting for the Effects of Cost-Based Regulation

As a rate-regulated electric public utility company, KGPCo'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," KGPCo records regulatory assets (deferred expenses) and regulatory liabilities (deferred revenue reductions or refunds) to reflect the economic effects of regulation in the same accounting period by matching expenses with their recovery through regulated revenues and by matching income with its passage to customers in cost-based regulated rates.

Use of Estimates

The preparation of these financial statements in conformity with accounting principles generally accepted in the United States of America (GAAP) requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. These estimates include but are not limited to inventory valuation, allowance for doubtful accounts, long-lived asset impairment, unbilled electricity revenue, 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

Materials and supplies inventories are carried at average cost.

Accounts Receivable

Customer accounts receivable primarily include receivables from retail energy customers. 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, KGPCo accrues and recognizes, as Accrued Unbilled Revenues on the balance sheets, an estimate of the revenues for energy delivered since the last billing.

AEP Credit factors accounts receivable on a daily basis, excluding receivables from risk management activities, for KGPCo. See "Securitized Accounts Receivables – AEP Credit" section of Note 10 for additional information.

Allowance for Uncollectible Accounts

Generally, AEP Credit records bad debt expense related to receivables purchased from KGPCo under a sale of receivables agreement. For other accounts receivable, bad debt expense is recorded based upon a 12-month rolling average of bad debt write-offs in proportion to gross accounts receivable, unless specifically identified. In addition to these processes, management contemplates available current information, as well as any reasonable and supportable forecast information, to determine if allowances for uncollectible accounts should be further adjusted in accordance with the accounting guidance for Credit Losses. Management's assessments contemplate expected losses over the life of the accounts receivable.

Concentrations of Credit Risk and Significant Customers

Two of KGPCo's industrial customers who manufacture paper and chemical products account for the following percentages of total operating revenues for the years ended December 31 and accounts receivable as of December 31:

Percentage of Operating Revenues	2020	2019
Customer Who Manufactures Paper Products	8 %	14 %
Customer Who Manufactures Chemical Products	13 %	12 %

Percentage of Accounts Receivable	2020	2019
Customer Who Manufactures Paper Products	4 %	12 %
Customer Who Manufactures Chemical Products	12 %	12 %

Management monitors credit levels and the financial condition of KGPCo's customers on a continuing basis to minimize credit risk. 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 poles, transformers, 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 the facilities are included in operating expenses.

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

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

Allowance for Funds Used During Construction

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

Valuation of Nonderivative Financial Instruments

The book values of Cash and Cash Equivalents, Accounts Receivable, Advances from Affiliates 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 contracts 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 domestic 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, 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.

Revenue Recognition

Regulatory Accounting

KGPCo'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, KGPCo records them as assets on its balance sheets. KGPCo tests 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, KGPCo writes off that regulatory asset as a charge against income.

Electricity Supply and Delivery Activities

KGPCo recognizes retail revenues upon delivery of the energy to the customer and includes billed revenue as well as an accrual of electricity delivered but unbilled at year-end. In general, expenses are recorded when purchased electricity is received and when expenses are incurred. Changes in the fuel component of affiliated purchased power are expensed as incurred. The fuel rate billed to the customer is on a two-month lag, as permitted by the TPUC.

Maintenance

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

Income Taxes and Investment Tax Credits

KGPCo 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.

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

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

Excise Taxes

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

Pension and OPEB Plans

KGPCo participates in an AEP sponsored qualified pension plan. Substantially all of KGPCo's employees are covered by the qualified plan. KGPCo also participates in OPEB plans sponsored by AEP to provide health and life insurance benefits for retired employees. KGPCo is allocated a proportionate share of benefit costs and accounts for its participation in these plans as multiple-employer plans. See Note 5 - 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	25 %
Fixed Income	59 %
Other Investments	15 %
Cash and Cash Equivalents	1 %

OPEB Plans Assets	Target
Equity	49 %
Fixed Income	49 %
Cash and Cash Equivalents	2 %

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 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, 2020 and 2019, the fair value of securities on loan as part of the program was $177.1 million and $246.3 million, respectively. Cash and securities obtained as collateral exceeded the fair value of the securities loaned as of December 31, 2020 and 2019.

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.

Subsequent Events

Management reviewed subsequent events through March 26, 2021, the date that KGPCo's 2020 annual report was available to be issued.

2. RATE MATTERS

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

COVID-19 Pandemic

During the first quarter of 2020, AEP's electric operating companies informed both retail customers and state regulators that disconnections for non-payment were temporarily suspended. Shortly thereafter, the TPUC also imposed temporary moratoria on customary disconnection practices. In October 2020, the TPUC lifted restrictions on disconnects and KGPCo resumed customary disconnection practices. Continuing adverse economic conditions may result in the inability of customers to pay for electric service, which could affect revenue recognition and the collectability of accounts receivable. KGPCo is currently monitoring costs resulting from the COVID-19 pandemic, but has not received deferral authority from the TPUC for these costs. KGPCo may seek rate recovery of those costs in the future.

AFUDC Waiver

In June 2020, the FERC granted a temporary waiver providing utilities the option to elect to modify the existing AFUDC rate calculations in response to the COVID-19 pandemic. As a result of the waiver, the AFUDC formula for the 12-month period starting with March 2020 may be calculated using the simple average of the actual historical short-term debt balances for 2019, instead of current period short-term balances. All other aspects of the AFUDC formula remained unchanged. KGPCo elected to apply the waiver in July 2020. The impact upon election was immaterial on the financial statements. In February 2021, FERC issued an order extending the waiver through September 2021.

3. EFFECTS OF REGULATION

Regulatory assets and liabilities are comprised of the following items:

	December 31, 2020	December 31, 2019	Remaining Recovery Period
	(in thousands)		
Regulatory Assets:			
Noncurrent Regulatory Assets			
Regulatory assets approved for recovery:			
Regulatory Assets Currently Not Earning a Return			
Targeted Reliability Plan and Major Storm Rider Costs	$ 7,708	$ 7,387	2 years
Pension and OPEB Funded Status	3,999	5,108	12 years
Fuel and Purchased Power Adjustment Rider	1,536	7,052	2 years
Postemployment Benefits	259	306	3 years
Medicare Subsidy	122	153	4 years
Peak Demand Reduction/Energy Efficiency	76	191	1 year
PJM Annual Formula Rate True Up	70	203	2 years
Rate Case Expenses	68	169	1 year
Other Regulatory Assets Approved for Recovery	—	18	
Total Regulatory Assets Approved for Recovery	13,838	20,587	
Total Noncurrent Regulatory Assets	$ 13,838	$ 20,587	

	December 31, 2020	December 31, 2019	Remaining Refund Period
	(in thousands)		
Regulatory Liabilities:			
Noncurrent Regulatory Liabilities and Deferred Investment Tax Credits			
Regulatory liabilities approved for payment:			
Regulatory Liabilities Currently Paying a Return			
Asset Removal Costs	$ 8,664	$ 6,271	(b)
Total Regulatory Liabilities Currently Paying a Return	8,664	6,271	
Regulatory Liabilities Currently Not Paying a Return			
PJM Transmission Enhancement Refund	1,056	1,264	5 years
Other Regulatory Liabilities Approved for Payment	81	—	various
Total Regulatory Liabilities Currently Not Paying a Return	1,137	1,264	
Income Tax Related Regulatory Liabilities (a)			
Excess ADIT Associated with Certain Depreciable Property	10,826	11,580	(c)
Excess ADIT that is Not Subject to Rate Normalization Requirements	795	546	8 years
Income Taxes Subject to Flow Through	(5,969)	(5,648)	24 years
Total Income Tax Related Regulatory Liabilities	5,652	6,478	
Total Regulatory Liabilities Approved for Payment	15,453	14,013	
Total Noncurrent Regulatory Liabilities and Deferred Investment Tax Credits	$ 15,453	$ 14,013	

(a) This balance primarily represents regulatory liabilities for Excess ADIT as a result of the reduction in the corporate federal income tax rate from 35% to 21% related to the enactment of Tax Reform. The regulatory liability balance predominately pays a return due to the inclusion of Excess ADIT in rate base.
(b) Relieved as removal costs are incurred.
(c) Refunded using ARAM.

4. COMMITMENTS, GUARANTEES AND CONTINGENCIES

KGPCo is subject to certain claims and legal actions arising in its ordinary course of business. In addition, KGPCo'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 KGPCo 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

KGPCo has construction commitments to support its operations and investments. In managing the overall construction program and in the normal course of business, KGPCo contractually commits to third-party construction vendors for certain material purchases and other construction services. KGPCo also purchases materials, supplies, services and property, plant and equipment under contract as part of its normal course of business. Certain supply contracts contain penalty provisions for early termination.

In accordance with the accounting guidance for "Commitments", KGPCo had no actual contractual commitments as of December 31, 2020.

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

KGPCo 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, 2020, there were no material liabilities recorded for any indemnifications.

Lease Obligations

KGPCo leases certain equipment under master lease agreements. See "Master Lease Agreements" section of Note 9 for disclosure of lease residual value guarantees.

CONTINGENCIES

Insurance and Potential Losses

KGPCo maintains insurance coverage normal and customary for an electric utility, subject to various deductibles. KGPCo 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 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 KGPCo'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

KGPCo's transmission and distribution facilities have used asbestos, polychlorinated biphenyls and other hazardous and nonhazardous materials. KGPCo currently incurs costs to dispose of these substances safely.

Superfund addresses clean-up of hazardous substances that have been released to the environment. The Federal EPA administers the clean-up programs. Several states have enacted similar laws. Superfund does not recognize compliance as a defense, but imposes strict liability on parties who fall within its broad statutory categories. At present, management's estimates do not anticipate material cleanup costs.

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

The American Electric Power System Retirement Plan (the Plan) has received a letter written on behalf of four participants (the Claimants) making a claim for additional plan benefits and purporting to advance such claims on behalf of a class. When the Plan's benefit formula was changed in the year 2000, AEP provided a special provision for employees hired before January 1, 2001, allowing them to continue benefit accruals under the then benefit formula for a full 10 years alongside of the new cash balance benefit formula then being implemented. Employees who were hired on or after January 1, 2001 accrued benefits only under the new cash balance benefit formula. The Claimants have asserted claims that (a) the Plan violates the requirements under the Employee Retirement Income Security Act (ERISA) intended to preclude back-loading the accrual of benefits to the end of a participant's career; (b) the Plan violates the age discrimination prohibitions of ERISA and the Age Discrimination in Employment Act (ADEA); and (c) the company failed to provide required notice regarding the changes to the Plan. AEP has responded to the Claimants providing a reasoned explanation for why each of their claims have been denied. The denial of those claims was appealed to the AEP System Retirement Plan Appeal Committee and the Committee upheld the denial of claims. Management will continue to defend against the claims. Management is unable to determine a range of potential losses that is reasonably possible of occurring.

5. 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.

KGPCo participates in an AEP sponsored qualified pension plan which covers substantially all of KGPCo's employees. KGPCo also participates in OPEB plans sponsored by AEP to provide health and life insurance benefits for retired employees.

KGPCo recognizes the 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. KGPCo recognizes an asset for a plan's overfunded status or a liability for a plan's underfunded status. KGPCo records a regulatory asset instead of other comprehensive income for qualifying benefit costs of regulated operations that for ratemaking 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 a regulatory asset and deferred gains result in a 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 Plan		OPEB	
	December 31,			
Assumptions	**2020**	**2019**	**2020**	**2019**
Discount Rate	2.50 %	3.25 %	2.55 %	3.30 %
Interest Crediting Rate	4.00 %	4.00 %	NA	NA
Rate of Compensation Increase	4.95 % (a)	4.70 % (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 2020, the rate of compensation increase assumed varies with the age of the employee, ranging from 3% per year to 11.5% per year, with the average increase shown in the table above.

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 Plan		OPEB	
	Years Ended December 31,			
Assumptions	**2020**	**2019**	**2020**	**2019**
Discount Rate	3.25 %	4.30 %	3.30 %	4.30 %
Interest Crediting Rate	4.00 %	4.00 %	NA	NA
Expected Return on Plan Assets	5.75 %	6.25 %	5.50 %	6.25 %
Rate of Compensation Increase	4.95 % (a)	4.65 % (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:

Health Care Trend Rates	December 31, 2020	December 31, 2019
Initial	6.50 %	6.00 %
Ultimate	4.50 %	4.50 %
Year Ultimate Reached	2029	2026

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, 2020, 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, 2020, the pension plans had an actuarial loss primarily due to a decrease in the discount rate, partially offset by a decrease in the assumed rate used to convert account balances to annuities. For the year ended December 31, 2020, the OPEB plans had an actuarial loss primarily due to a decrease in the discount rate and an update to the health care trend assumption, partially offset by updated projected per capita claims costs due to rate negotiations for Medicare advantage premium rates. For the year ended December 31, 2019, the pension plans had an actuarial loss due to a decrease in the discount rate, partially offset by updates to the mortality table. For the year ended December 31, 2019, the OPEB plans had an actuarial loss due to a decrease in the discount rate and an update to the persistency assumption, partially offset by an update to the projected per capita cost assumption as well as savings resulting from legislation signed in December 2019 which eliminated two Affordable Care Act taxes. The following table provides a reconciliation of the changes in the plans' benefit obligations, fair value of plan assets and funded status. The benefit obligation for the defined benefit pension and OPEB plans are the projected benefit obligation and the accumulated benefit obligation, respectively.

	Pension Plan		OPEB	
	2020	2019	2020	2019
Change in Benefit Obligation	(in thousands)			
Benefit Obligation as of January 1,	$ 16,644	$ 15,622	$ 3,910	$ 3,947
Service Cost	303	261	39	34
Interest Cost	548	648	141	161
Actuarial Loss	1,801	1,127	540	23
Plan Amendments	—	—	(44)	(34)
Benefit Payments	(1,081)	(1,014)	(504)	(334)
Participant Contributions	—	—	148	112
Medicare Subsidy	—	—	1	1
Benefit Obligation as of December 31,	$ 18,215	$ 16,644	$ 4,231	$ 3,910
Change in Fair Value of Plan Assets				
Fair Value of Plan Assets as of January 1,	$ 15,482	$ 14,586	$ 5,921	$ 5,345
Actual Gain on Plan Assets	2,922	1,910	1,564	798
Company Contributions	388	—	—	—
Participant Contributions	—	—	148	112
Benefit Payments	(1,081)	(1,014)	(504)	(334)
Fair Value of Plan Assets as of December 31,	$ 17,711	$ 15,482	$ 7,129	$ 5,921
Funded (Underfunded) Status as of December 31,	$ (504)	$ (1,162)	$ 2,898	$ 2,011

Amounts Recognized on the Balance Sheets

	Pension Plan		OPEB	
	December 31,			
	2020	2019	2020	2019
	(in thousands)			
Deferred Charges and Other Noncurrent Assets – Prepaid Benefit Costs	$ —	$ —	$ 2,898	$ 2,011
Employee Benefits and Pension Obligations – Accrued Long-term Benefit Liability	(504)	(1,162)	—	—
Funded (Underfunded) Status	$ (504)	$ (1,162)	$ 2,898	$ 2,011

Amounts Included in Regulatory Assets

The following table shows the components of the plans included in Regulatory Assets:

	Pension Plan		OPEB	
	December 31,			
	2020	2019	2020	2019
Components	(in thousands)			
Net Actuarial (Gain) Loss	$ 4,853	$ 5,444	$ (135)	$ 561
Prior Service Credit	—	—	(720)	(897)
Recorded as				
Regulatory Assets	$ 4,853	$ 5,444	$ (855)	$ (336)

Components of the change in amounts included in Regulatory Assets were as follows:

	Pension Plan		OPEB	
	2020	2019	2020	2019
Components	(in thousands)			
Actuarial (Gain) Loss During the Year	$ (290)	$ 124	$ (674)	$ (473)
Amortization of Actuarial Loss	(301)	(179)	(22)	(73)
Prior Service Credit	—	—	(43)	(23)
Amortization of Prior Service Credit	—	—	220	218
Change for the Year Ended December 31,	$ (591)	$ (55)	$ (519)	$ (351)

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 KGPCo using the percentages in the table below:

Pension Plan		OPEB	
December 31,			
2020	2019	2020	2019
0.3 %	0.3 %	0.4 %	0.3 %

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

Asset Class	Level 1	Level 2	Level 3	Other	Total	Year End Allocation
			(in millions)			
Equities (a):						
Domestic	$ 542.3	$ —	$ —	$ —	$ 542.3	9.7 %
International	676.3	—	—	—	676.3	12.2 %
Common Collective Trusts (c)	—	—	—	650.0	650.0	11.7 %
Subtotal – Equities	1,218.6	—	—	650.0	1,868.6	33.6 %
Fixed Income (a):						
United States Government and Agency Securities	(1.4)	1,134.1	—	—	1,132.7	20.4 %
Corporate Debt	—	1,425.0	—	—	1,425.0	25.6 %
Foreign Debt	—	214.0	—	—	214.0	3.9 %
State and Local Government	—	56.0	—	—	56.0	1.0 %
Other – Asset Backed	—	0.8	—	—	0.8	— %
Subtotal – Fixed Income	(1.4)	2,829.9	—	—	2,828.5	50.9 %
Infrastructure (c)	—	—	—	91.1	91.1	1.6 %
Real Estate (c)	—	—	—	231.6	231.6	4.2 %
Alternative Investments (c)	—	—	—	431.8	431.8	7.8 %
Cash and Cash Equivalents (c)	—	49.3	—	58.2	107.5	1.9 %
Other – Pending Transactions and Accrued Income (b)	—	—	—	(2.5)	(2.5)	— %
Total	$ 1,217.2	$ 2,879.2	$ —	$ 1,460.2	$ 5,556.6	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 primarily represent accrued interest, dividend receivables and transactions pending settlement.
(c) Amounts in "Other" column represent investments for which fair value is measured using net asset value per share.

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

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

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

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

The following table presents the classification of pension plan assets for AEP within the fair value hierarchy as of December 31, 2019:

Asset Class	Level 1	Level 2	Level 3 (in millions)	Other	Total	Year End Allocation
Equities (a):						
Domestic	$ 387.8	$ —	$ —	$ —	$ 387.8	7.8 %
International	609.1	—	—	—	609.1	12.1 %
Common Collective Trusts (c)	—	—	—	547.3	547.3	10.9 %
Subtotal – Equities	996.9	—	—	547.3	1,544.2	30.8 %
Fixed Income (a):						
United States Government and Agency Securities	(5.8)	1,248.6	—	—	1,242.8	24.8 %
Corporate Debt	—	1,143.7	—	—	1,143.7	22.8 %
Foreign Debt	—	211.6	—	—	211.6	4.2 %
State and Local Government	—	55.1	—	—	55.1	1.1 %
Other – Asset Backed	—	3.6	—	—	3.6	0.1 %
Subtotal – Fixed Income	(5.8)	2,662.6	—	—	2,656.8	53.0 %
Infrastructure (c)	—	—	—	85.8	85.8	1.7 %
Real Estate (c)	—	—	—	239.4	239.4	4.8 %
Alternative Investments (c)	—	—	—	448.3	448.3	8.9 %
Cash and Cash Equivalents (c)	—	24.4	—	37.2	61.6	1.2 %
Other – Pending Transactions and Accrued Income (b)	—	—	—	(20.7)	(20.7)	(0.4)%
Total	$ 991.1	$ 2,687.0	$ —	$ 1,337.3	$ 5,015.4	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 primarily represent accrued interest, dividend receivables and transactions pending settlement.

(c) Amounts in "Other" column represent investments for which fair value is measured using net asset value per share.

The following table presents the classification of OPEB plan assets for AEP within the fair value hierarchy as of December 31, 2019:

Asset Class	Level 1	Level 2	Level 3	Other	Total	Year End Allocation
			(in millions)			
Equities:						
Domestic	$ 312.2	$ —	$ —	$ —	$ 312.2	17.5 %
International	251.5	—	—	—	251.5	14.1 %
Common Collective Trusts (b)	—	—	—	260.8	260.8	14.7 %
Subtotal – Equities	563.7	—	—	260.8	824.5	46.3 %
Fixed Income:						
Common Collective Trust – Debt (b)	—	—	—	177.6	177.6	10.0 %
United States Government and Agency Securities	(0.1)	214.4	—	—	214.3	12.0 %
Corporate Debt	—	206.7	—	—	206.7	11.6 %
Foreign Debt	—	35.5	—	—	35.5	2.0 %
State and Local Government	58.8	14.8	—	—	73.6	4.1 %
Other – Asset Backed	—	0.2	—	—	0.2	— %
Subtotal – Fixed Income	58.7	471.6	—	177.6	707.9	39.7 %
Trust Owned Life Insurance:						
International Equities	—	60.2	—	—	60.2	3.4 %
United States Bonds	—	151.6	—	—	151.6	8.5 %
Subtotal – Trust Owned Life Insurance	—	211.8	—	—	211.8	11.9 %
Cash and Cash Equivalents (b)	26.7	—	—	6.7	33.4	1.9 %
Other – Pending Transactions and Accrued Income (a)	—	—	—	4.2	4.2	0.2 %
Total	$ 649.1	$ 683.4	$ —	$ 449.3	$ 1,781.8	100.0 %

(a) Amounts in "Other" column primarily represent accrued interest, dividend receivables and transactions pending settlement.
(b) Amounts in "Other" column represent investments for which fair value is measured using net asset value per share.

Accumulated Benefit Obligation

As of December 31, 2020 and 2019, the accumulated benefit obligation for the qualified pension plan was $17.6 million and $16.1 million, respectively.

Obligations in Excess of Fair Values

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

Projected Benefit Obligation

	Underfunded Pension Plan	
	December 31,	
	2020	2019
	(in thousands)	
Projected Benefit Obligation	$ 18,215	$ 16,644
Fair Value of Plan Assets	17,711	15,482
Underfunded Projected Benefit Obligation	$ (504)	$ (1,162)

Accumulated Benefit Obligation

	Underfunded Pension Plan
	December 31, 2019
	(in thousands)
Accumulated Benefit Obligation	$ 16,140
Fair Value of Plan Assets	15,481
Underfunded Accumulated Benefit Obligation	$ (659)

Estimated Future Benefit Payments and Contributions

The table below reflects the total benefits expected to be paid from the plan'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 Plan	OPEB
	(in thousands)	
2021	$ 1,132	$ 452
2022	1,142	461
2023	1,155	425
2024	1,168	460
2025	1,145	453
Years 2026 to 2030, in Total	5,844	2,237

Components of Net Periodic Benefit Cost

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

	Pension Plan		OPEB	
	Years Ended December 31,			
	2020	2019	2020	2019
	(in thousands)			
Service Cost	$ 303	$ 261	$ 39	$ 34
Interest Cost	548	648	141	161
Expected Return on Plan Assets	(832)	(907)	(353)	(312)
Amortization of Prior Service Credit	—	—	(220)	(218)
Amortization of Net Actuarial Loss	301	179	22	73
Net Periodic Benefit Cost (Credit)	320	181	(371)	(262)
Capitalized Portion	(174)	(144)	(22)	(19)
Net Periodic Benefit Cost (Credit) Recognized in Expense	$ 146	$ 37	$ (393)	$ (281)

American Electric Power System Retirement Savings Plan

KGPCo participates in an AEP sponsored defined contribution retirement savings plan, the American Electric Power System Retirement Savings Plan, for substantially all employees. This qualified plan offers participants an opportunity to contribute a portion of their pay, includes features under Section 401(k) of the Internal Revenue Code and provides for matching contributions. The matching contributions to the plan are 100% of the first 1% of eligible employee contributions and 70% of the next 5% of contributions. The cost for matching contributions totaled $205 thousand in 2020 and $194 thousand in 2019.

6. DERIVATIVES AND HEDGING

AEPSC is agent for and transacts on behalf of KGPCo.

Risk Management Strategies

KGPCo's vehicle fleet is exposed to gasoline and diesel fuel price volatility. KGPCo utilizes financial heating oil and gasoline derivative contracts in order to mitigate price risk of future fuel purchases. KGPCo does not hedge all fuel price risk. The gross notional volumes of KGPCo's outstanding derivative contracts for heating oil and gasoline as of December 31, 2020 and 2019 were 31 thousand gallons and 31 thousand gallons, respectively.

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

According to the accounting guidance for "Derivatives and Hedging," KGPCo 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, KGPCo is required to post or receive cash collateral based on third party contractual agreements and risk profiles. For the December 31, 2020 and 2019 balance sheets, KGPCo netted $8 thousand and $0, respectively, of cash collateral received from third parties against short-term and long-term risk management assets and had no netting of cash collateral paid to third parties against short-term and long-term risk management liabilities.

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

Fair Value of Derivative Instruments
December 31, 2020

Balance Sheet Location	Risk Management Contracts Commodity (a)	Gross Amounts Offset in the Statement of Financial Position (b)	Net Amounts of Assets/Liabilities Presented in the Statement of Financial Position (c)
		(in thousands)	
Other Current Assets	$ 8	$ (8)	$ —
Deferred Charges and Other Noncurrent Assets	—	—	—
Total Assets	8	(8)	—
Other Current Liabilities	—	—	—
Deferred Credits and Other Noncurrent Liabilities	—	—	—
Total Liabilities	—	—	—
Total MTM Derivative Contract Net Assets	$ 8	$ (8)	$ —

December 31, 2019

Balance Sheet Location	Risk Management Contracts Commodity (a)	Gross Amounts Offset in the Statement of Financial Position (b)	Net Amounts of Assets/Liabilities Presented in the Statement of Financial Position (c)
		(in thousands)	
Other Current Assets	$ 1	$ —	$ 1
Deferred Charges and Other Noncurrent Assets	—	—	—
Total Assets	1	—	1
Other Current Liabilities	—	—	—
Deferred Credits and Other Noncurrent Liabilities	—	—	—
Total Liabilities	—	—	—
Total MTM Derivative Contract Net Assets	$ 1	$ —	$ 1

(a) Derivative instruments within this category are reported 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 which are offset in the statement of financial position.

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

Amount of Gain (Loss) Recognized on Risk Management Contracts

Location of Gain (Loss)	Years Ended December 31, 2020	2019
	(in thousands)	
Other Operation	$ (6)	$ (4)
Maintenance	(11)	(7)
Regulatory Assets (a)	—	27
Regulatory Liability (a)	8	—
Total Gain (Loss) on Risk Management Contracts	$ (9)	$ 16

(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 KGPCo'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 KGPCo's statements of income depending on the relevant facts and circumstances. Certain derivatives that economically hedge future commodity risk are recorded in the same expense line item on the statements of income as that of the associated risk. 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."

7. 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 KGPCo's Long-term Debt are summarized in the following table:

	December 31,			
	2020		2019	
	Book Value	Fair Value	Book Value	Fair Value
	(in thousands)			
Long-term Debt	$ 65,000	$ 72,431	$ 59,000	$ 64,842

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, KGPCo'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, 2020

	Level 1	Level 2	Level 3	Other	Total
Risk Management Assets			(in thousands)		
Risk Management Commodity Contracts (a)	$ —	$ 8	$ —	$ (8)	$ —

December 31, 2019

	Level 1	Level 2	Level 3	Other	Total
Risk Management Assets			(in thousands)		
Risk Management Commodity Contracts (a)	$ —	$ 1	$ —	$ —	$ 1

(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."

As of December 31, 2020 and 2019, KGPCo had no liabilities measured at fair value on a recurring basis.

There were no transfers between Level 1 and Level 2 during the years ended December 31, 2020 and 2019.

8. INCOME TAXES

Income Tax Expense (Benefit)

The details of KGPCo's Income Tax Expense (Benefit) are as follows:

	Year Ended December 31, 2020	2019
	(in thousands)	
Federal:		
Current	$ 470	$ (1,126)
Deferred	(815)	1,611
Total Federal	(345)	485
State and Local:		
Current	1	(1)
Deferred	157	(245)
Total State and Local	158	(246)
Income Tax Expense (Benefit)	$ (187)	$ 239

The following is a reconciliation of the difference between the amount of federal income taxes computed by multiplying book income before income taxes by the federal statutory tax rate and the amount of income taxes reported:

	Years Ended December 31, 2020	2019
	(in thousands)	
Net Income	$ 3,515	$ 6,429
Income Tax Expense (Benefit)	(187)	239
Pretax Income	$ 3,328	$ 6,668
Income Taxes on Pretax Income at Statutory Rate (21%)	$ 699	$ 1,400
Increase (Decrease) in Income Taxes Resulting from the Following Items:		
Removal Costs	(187)	118
State and Local Income Taxes, Net	125	(194)
Parent Company Loss Benefit	(192)	(2)
Tax Reform Excess ADIT Reversal	(599)	(404)
Other	(33)	(679)
Income Tax Expense (Benefit)	$ (187)	$ 239
Effective Income Tax Rate	(5.6) %	3.6 %

Net Deferred Tax Liability

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

	December 31,	
	2020	2019
	(in thousands)	
Deferred Tax Assets	$ 6,258	$ 6,348
Deferred Tax Liabilities	(30,509)	(30,430)
Net Deferred Tax Liabilities	$ (24,251)	$ (24,082)
Property Related Temporary Differences	$ (21,155)	$ (20,064)
Amounts Due to/(from) Customers for Future Income Taxes	2,993	3,123
Deferred State Income Taxes	(5,475)	(5,406)
Regulatory Assets	(2,797)	(3,990)
State Net Operating Loss, Net of Federal Benefit	1,289	1,443
All Other, Net	894	812
Net Deferred Tax Liabilities	$ (24,251)	$ (24,082)

AEP System Tax Allocation Agreement

KGPCo and other AEP subsidiaries join in the filing of a consolidated federal income tax return. The allocation of the AEP System's current consolidated federal income tax to the AEP System companies allocates the benefit of current tax loss of the parent company (Parent Company Loss Benefit) to the AEP System subsidiaries with taxable income reducing their current tax expense proportionately. The consolidated Net Operating Loss (NOL) of the AEP System is allocated to each company in the consolidated group with taxable losses. 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.

Federal and State Income Tax Audit Status

The statute of limitations for the IRS to examine KGPCo and other AEP subsidiaries originally filed federal return has expired for tax years 2016 and earlier. In the third quarter of 2019, KGPCo and other AEP subsidiaries elected to amend the 2014 and 2015 federal returns. In the first quarter of 2020, the IRS notified KGPCo and other AEP subsidiaries that it was beginning an examination of these amended returns, including the NOL carryback to 2015 that originated in the 2017 return. As of December 31, 2020, the IRS has not challenged any items on these returns and the IRS is limited in their proposed adjustments to the amount KGPCo and other AEP subsidiaries claimed on the amended returns.

Net Income Tax Operating Loss Carryforward

KGPCo has Tennessee state net income tax operating loss carryforwards of $26.0 million and $28.1 million in 2020 and 2019, respectively. As a result, KGPCo recognized deferred state income tax benefits of $1.7 million and $1.8 million in 2020 and 2019, respectively. Management anticipates future taxable income will be sufficient to realize the state net income tax operating loss tax benefits before the state carryforward expires for Tennessee between 2030 and 2034.

Federal Tax Reform and Legislation

In March 2020, the CARES Act was signed into law. The CARES Act includes tax relief provisions such as: (a) an AMT Credit Refund, and (b) a 5-year NOL carryback from years 2018-2020. Pursuant to the CARES Act, KGPCo and other AEP subsidiaries requested a partial refund of taxes paid in 2014 under the 5-year NOL carryback provision of the CARES Act. Management will continue to monitor potential legislation and any impacts to the AMT Credit and NOL refunds that were filed in 2020 pursuant to the CARES Act.

In December 2020, the CAA of 2021 was signed into law. The CAA of 2021 includes: (a) COVID-19 tax relief and tax extender provisions including extensions of time to begin construction on and placed in-service assets generating ITCs, (b) 100% deductibility of business meals in 2021 and 2022 and (c) an extension of the work opportunity tax credit. The ITC percentage has been increased for projects starting construction through 2023 and placed in-service by the end of 2025. These provisions provide time and flexibility on the construction start and in-service dates.

In September and November 2020, the IRS issued final regulations that provide guidance regarding the additional first-year depreciation deduction under Section 168(k). The final regulations reflect changes as a result of Tax Reform, which affects taxpayers with qualified depreciable property acquired and placed in-service after September 27, 2017. Generally, AEP's regulated utilities will not be eligible for any bonus depreciation for property acquired and placed in-service after December 31, 2017. KGPCo and other AEP subsidiaries' competitive businesses will be eligible for 100% expensing.

The IRS issued final regulations in 2020 that provide guidance concerning potential limitations on the deduction of business interest expense. These regulations require an allocation of net interest expense between regulated and competitive businesses within the consolidated tax return. This allocation is based upon net tax basis, and the proposed regulations provide de minimis tests under which all interest is deductible if less than 10% is allocable to the competitive businesses. KGPCo and other AEP subsidiaries will deduct materially all business interest expense under this de minimis provision.

On December 30, 2020, the IRS issued regulations that provide guidance on the non-deductibility of certain executives' compensation above $1 million under Internal Revenue Code Section 162(m). The regulations clarify the application of rules passed under Tax Reform that expanded the application of Section 162(m) to SEC registered companies that issue either public equity or debt. These rules also expanded the type of compensation and the number of executives subject to this deduction disallowance. KGPCo and other AEP subsidiaries limit certain executives' compensation to the $1 million limitation on its federal income tax return.

9. LEASES

KGPCo adopted ASU 2016-02 effective January 1, 2019 by means of a cumulative-effect adjustment to the balance sheets.

KGPCo 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. KGPCo 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 KGPCo will exercise the option.

Lease obligations are measured using the discount rate implicit in the lease when that rate is readily determinable. KGPCo 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, KGPCo 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:

	Years Ended December 31,	
Lease Rental Costs	**2020**	**2019**
	(in thousands)	
Operating Lease Cost	$ 360	$ 349
Finance Lease Cost:		
Amortization of Right-of-Use Assets	217	175
Interest on Lease Liabilities	23	22
Total Lease Rental Costs (a)	$ 600	$ 546

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

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

Lease Type	**Weighted-Average Remaining Lease Term (years)**		**Weighted-Average Discount Rate**	
	December 31,			
	2020	**2019**	**2020**	**2019**
Operating Leases	7.81	7.48	3.31 %	3.65 %
Finance Leases	6.23	5.18	3.96 %	4.43 %

Cash Paid for Amounts Included in the Measurement of Lease Liabilities	Years Ended December 31, 2020	2019
	(in thousands)	
Operating Cash Flows from Operating Leases	$ 360	$ 343
Operating Cash Flows from Finance Leases	23	22
Financing Cash Flows from Finance Leases	217	175
Non-cash Acquisitions Under Operating Leases	$ 1,102	$ 602

The following tables show the property, plant and equipment under finance leases and noncurrent assets under operating leases and related obligations recorded on KGPCo'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, 2020	2019
	(in thousands)	
Electric Property, Plant and Equipment Under Finance Leases		
Total Electric Property, Plant and Equipment – Other	$ 936	$ 1,035
Accumulated Amortization	271	479
Net Electric Property, Plant and Equipment Under Finance Leases	$ 665	$ 556
Obligations Under Finance Leases		
Noncurrent Liability	$ 525	$ 380
Liability Due Within One Year	140	176
Total Obligations Under Finance Leases	$ 665	$ 556

	December 31, 2020	2019
	(in thousands)	
Operating Lease Assets	$ 2,808	$ 1,876
Obligations Under Operating Leases		
Noncurrent Liability	$ 2,425	$ 1,603
Liability Due Within One Year	385	275
Total Obligations Under Operating Leases	$ 2,810	$ 1,878

Future minimum lease payments consisted of the following as of December 31, 2020:

Future Minimum Lease Payments	Finance Leases	Operating Leases
	(in thousands)	
2021	$ 163	$ 482
2022	134	450
2023	107	422
2024	99	393
2025	73	358
Later Years	175	1,097
Total Future Minimum Lease Payments	751	3,202
Less: Imputed Interest	86	392
Estimated Present Value of Future Minimum Lease Payments	$ 665	$ 2,810

Future minimum lease payments consisted of the following as of December 31, 2019:

Future Minimum Lease Payments	**Finance Leases**	**Operating Leases**
	(in thousands)	
2020	$ 195	$ 346
2021	121	328
2022	80	289
2023	66	255
2024	59	233
Later Years	100	713
Total Future Minimum Lease Payments	621	2,164
Less: Imputed Interest	65	286
Estimated Present Value of Future Minimum Lease Payments	$ 556	$ 1,878

Master Lease Agreements

KGPCo 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, KGPCo 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, 2020, the maximum potential loss for these lease agreements was $311 thousand assuming the fair value of the equipment is zero at the end of the lease term.

Lessor Activity

KGPCo's lessor activity was immaterial as of and for the twelve months ended December 31, 2020 and December 31, 2019, respectively.

10. FINANCING ACTIVITIES

Long-term Debt

The following table details long-term debt outstanding:

Type of Debt	Maturity	Weighted-Average Interest Rate as of December 31, 2020	Interest Rate Ranges as of December 31, 2020	Interest Rate Ranges as of December 31, 2019	Outstanding as of December 31, 2020	Outstanding as of December 31, 2019
					(in thousands)	
Notes Payable - Affiliated	2020-2040	1.54%	2.84%-3.42%	3.19%-4.52%	$ 65,000	$ 59,000
Total Long-term Debt Outstanding					$ 65,000	$ 59,000

Dividend Restrictions

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

All of the dividends declared by KGPCo are subject to a Federal Power Act restriction that prohibits the payment of dividends out of capital accounts without regulatory approval; payment of dividends is allowed out of retained earnings only.

The most restrictive dividend limitation for KGPCo is through the Federal Power Act. As of December 31, 2020, the maximum amount of restricted net assets of KGPCo that may not be distributed to Parent in the form of a loan, advance or dividend was $44.9 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, 2020 and 2019 are included in Advances from Affiliates on KGPCo's balance sheets. KGPCo'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	Average Borrowings from the Utility Money Pool	Borrowings from the Utility Money Pool as of December 31,	Authorized Short-Term Borrowing Limit
		(in thousands)		
2020	$ 26,145	$ 15,494	$ 11,579	$ 30,000
2019	28,631	13,528	14,499	30,000

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 Rates for Funds Borrowed from the Utility Money Pool	Minimum Interest Rates for Funds Borrowed from the Utility Money Pool	Average Interest Rates for Funds Borrowed from the Utility Money Pool
2020	2.70 %	0.27 %	1.19 %
2019	3.43 %	1.77 %	2.57 %

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

	Years Ended December 31, 2020	2019
	(in thousands)	
Interest Expense	$ 188	$ 352

Securitized Accounts Receivables – AEP Credit

Under a sale of receivables arrangement, KGPCo sells, without recourse, certain of its customer accounts receivable and accrued unbilled revenue balances to AEP Credit and is charged a fee based on AEP Credit's financing costs, administrative costs and uncollectible accounts experience for KGPCo's receivables. The costs of customer accounts receivable sold are reported in Other Operation expense on KGPCo's statements of income. KGPCo manages and services its accounts receivable sold.

AEP Credit's receivables securitization agreement provides a commitment of $750 million from bank conduits to purchase receivables and expires in September 2022.

KGPCo's factored accounts receivable revenues were $10.8 million and $11.5 million as of December 31, 2020 and 2019, respectively. KGPCo's factored accrued unbilled revenues were $4.1 million and $1.6 million as of December 31, 2020 and 2019, respectively.

The fees paid by KGPCo to AEP Credit for customer accounts receivable sold were $634 thousand and $706 thousand for the years ended December 31, 2020 and 2019, respectively.

KGPCo's proceeds on the sale of receivables to AEP Credit were $148 million and $151 million as of December 31, 2020 and 2019, respectively.

11. RELATED PARTY TRANSACTIONS

For other related party transactions, also see "AEP System Tax Allocation Agreement" section of Note 8 in addition to "Corporate Borrowing Program – AEP System" and "Securitized Accounts Receivables – AEP Credit" sections of Note 10.

Affiliated Revenues and Purchases

KGPCo provides transmission services directly to APCo which are approved by the FERC. KGPCo's revenues of $173 thousand and $38 thousand for these services for the years ended December 31, 2020 and 2019, respectively, were recorded in Sales to AEP Affiliates on KGPCo's statements of income. KGPCo also purchases all of its power from APCo based on a FERC-approved rate. KGPCo's purchases of $82.4 million and $102.5 million for the years ended December 31, 2020 and 2019, respectively, were recorded in Purchased Electricity from AEP Affiliates on KGPCo's statements of income. Effective September 1, 2016, KGPCo implemented the Fuel and Purchased Power Adjustment Rider (FPPAR) rates per the approved TPUC order in KGPCo's base rate case, which included, for the first time, monthly over-recovery or under-recovery accounting for the difference between the actual total costs billed monthly to KGPCo from APCo, and the actual monthly revenues recorded under the FPPAR. For the years ended December 31, 2020 and 2019, KGPCo had a regulatory asset of $1.5 million and $7.1 million, respectively. The activity above is excluded from the Transmission Agreement activity discussed below.

Transmission Agreement (TA)

APCo, I&M, KGPCo, KPCo, OPCo and WPCo (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.

KGPCo's revenues recorded in Sales to AEP Affiliates on its statements of income as a result of the TA for the years ended December 31, 2020 and 2019 were $4.2 million and $5.6 million, respectively. KGPCo's charges recorded in Purchased Electricity from AEP Affiliates on its statements of income as a result of the TA for the years ended December 31, 2020 and 2019 were $30.0 million and $25.9 million, respectively.

Sales and Purchases of Property

KGPCo had affiliated sales and purchases of meters and transformers. There were no gains or losses recorded on the transactions. The following table shows the sales and purchases that were recorded at net book value:

	Years Ended December 31, 2020	2019
	(in thousands)	
Sales	$ 740	$ 1,745
Purchases	814	4,834

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

Global Borrowing Notes

As of December 31, 2020 and 2019, AEP had four intercompany notes in place with KGPCo. The debt is reflected in Long-term Debt – Affiliated on KGPCo's balance sheets. KGPCo accrues interest for its share of the global borrowing and remits the interest to AEP. The accrued interest is reflected in Accrued Interest on KGPCo's balance sheets.

Charitable Contributions to AEP Foundation

The American Electric Power Foundation is funded by American Electric Power and its utility operating units. The Foundation provides a permanent, ongoing resource for charitable initiatives and multi-year commitments in the communities served by AEP and initiatives outside of AEP’s 11-state service area. In 2019, KGPCo contributed $158 thousand to the AEP Foundation which was recorded in Other Operation on the statements of income. In 2020, there were no charitable contributions made to the AEP Foundation.

Intercompany Billings

KGPCo 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 bases 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.

12. 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 KGPCo is the primary beneficiary of a VIE, management considers whether KGPCo 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. KGPCo 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. KGPCo's total billings from AEPSC for the years ended December 31, 2020 and 2019 were $8.3 million and $8.8 million, respectively. The carrying amount of liabilities associated with AEPSC as of December 31, 2020 and 2019 was $1.0 million and $1.3 million, respectively. Management estimates the maximum exposure of loss to be equal to the amount of such liability.

13. PROPERTY, PLANT AND EQUIPMENT

Depreciation

KGPCo 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 the annual composite depreciation rates by functional class:

	Years Ended December 31,	
Functional Class of Property	**2020**	**2019**
Transmission	1.5 %	1.4 %
Distribution	3.5 %	3.5 %
Other	7.6 %	10.5 %

Expenditures for demolition and removal of property, plant and equipment are charged to the accumulated provision for depreciation and recovered through depreciation charges included in rates. The higher composite depreciation rate in the other class of property compared to the rate of transmission and distribution is due to capitalized software, which has a relatively shorter expected useful life compared to the transmission and distribution functional property classes.

The composite depreciation rate generally includes a component for removal costs, which is credited to Accumulated Depreciation and Amortization. Actual removal costs incurred are charged to Accumulated Depreciation and Amortization. Any excess of accrued removal costs over actual removal costs incurred is reclassified from Accumulated Depreciation and Amortization and reflected as a regulatory liability.

Asset Retirement Obligations

KGPCo 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 KGPCo plans to use its facilities indefinitely. The retirement obligation would only be recognized if and when KGPCo abandons or ceases the use of specific easements, which is not expected.

Allowance for Funds Used During Construction

KGPCo's amounts of allowance for borrowed funds used during construction were $119 thousand and $192 thousand in 2020 and 2019, respectively, and are included in Interest Expense on KGPCo's statements of income.

14. REVENUE FROM CONTRACTS WITH CUSTOMERS

Disaggregated Revenues from Contracts with Customers

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

	Years Ended December 31, 2020	2019
	(in thousands)	
Retail Revenues:		
Residential Revenues	$ 63,382	$ 60,318
Commercial Revenues	37,136	36,688
Industrial Revenues	45,495	53,709
Other Retail Revenues	3,863	3,972
Total Retail Revenues	149,876	154,687
Wholesale Revenues:		
Transmission Revenues (a)	7,466	5,563
Total Wholesale Revenues	7,466	5,563
Other Revenues from Contracts with Customers (a)	1,615	2,382
Total Revenues from Contracts with Customers	158,957	162,632
Other Revenues:		
Alternative Revenues	(2,240)	1,101
Total Other Revenues	(2,240)	1,101
Total Revenues	$ 156,717	$ 163,733

(a) Amounts include affiliated and nonaffiliated revenues.

Performance Obligations

KGPCo 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. AEP subsidiaries, including KGPCo, 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 KGPCo are summarized as follows:

Retail Revenues

KGPCo has performance obligations to purchase, sell, 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 KGPCo 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 - Transmission

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

KGPCo 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.

APCo, I&M, KGPCo, KPCo, OPCo and WPCo (AEP East Companies) are parties to the Transmission Agreement (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 - Affiliated in the disaggregated revenues table above.

Fixed Performance Obligations

The following table represents KGPCo's remaining fixed performance obligations satisfied over time as of December 31, 2020. Fixed performance obligations primarily include wholesale transmission services. The amounts shown in the table below include affiliated and nonaffiliated revenues.

2021	2022-2023	2024-2025	After 2025	Total
		(in thousands)		
$ 862	$ —	$ —	$ —	$ 862

Contract Assets and Liabilities

Contract assets are recognized when KGPCo 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. KGPCo did not have material contract assets as of December 31, 2020 and 2019.

When KGPCo 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. KGPCo did not have material contract liabilities as of December 31, 2020 and 2019.

Accounts Receivable from Contracts with Customers

Accounts receivable from contracts with customers are presented on KGPCo's balance sheets within the Accounts Receivable - Customers line item. KGPCo'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, 2020 and 2019. See "Securitized Accounts Receivable - AEP Credit" section of Note 10 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 KGPCo's balance sheets were $779 thousand and $447 thousand, respectively as of December 31, 2020 and 2019.

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 KGPCo'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 KGPCo's statements of income. KGPCo did not have material contract costs as of December 31, 2020 and 2019.