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February 25, 2005

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Ms. Beth O'Donnell
Executive Director
Public Service Commission of Kentucky
211 Sower Boulevard
P.O. Box 615
Frankfort, Kentucky 40602-0615

RECEIVED

FEB 25 2005

PUBLIC SERVICE
COMMISSION

RE: Case No. 2004-00463

Dear Ms. O'Donnell:

Please find enclosed and accept for filing Kentucky Power Company's Responses to the Commission's February 10, 2005 Order.

If you have any questions, please do not hesitate to contact me.

Sincerely yours,

STITES & HARBISON, PLLC


Mark R. Overstreet

Enclosure

cc: Errol K. Wagner
Elizabeth Blackford
Michael Kurtz

KE057:KE176:12139:1:FRANKFORT

COMMONWEALTH OF KENTUCKY
BEFORE THE
PUBLIC SERVICE COMMISSION OF KENTUCKY

IN THE MATTER OF

AN EXAMINATION OF THE APPLICATION)
OF THE FUEL ADJUSTMENT CLAUSE OF)
KENTUCKY POWER COMPANY) CASE NO. 2004-00463
FROM NOVEMBER 1, 2002 THROUGH)
OCTOBER 31, 2004)

KENTUCKY POWER COMPANY

RESPONSES TO COMMISSION'S SUPPLEMENTAL DATA REQUESTS

February 25, 2005

Kentucky Power
d/b/a
American Electric Power

REQUEST

Refer to Item 18 of AEP's response to the Commission's December 13, 2004 Order. Provide the actual costs showing the costs for purchases on a cent per million Btu basis for each of the utilities included in the comparison.

RESPONSE

Please refer to Supplemental Attachment Item Nos. 1a and 1b. These printouts are produced using the Platt's COALdat service that utilizes FERC Form 423 filings. For the time period May 1, 2004 through October 31, 2004 (Supplemental Attachment Item No. 1a), Kentucky Power's coal purchases on a cent per million Btu basis were the third lowest of the four reporting utilities. For the reporting period of November 1, 2002 through October 31, 2004, Kentucky Power's coal purchases were the second lowest as shown on Supplemental Attachment Item No. 1b.

WITNESS: Stephen D Baker

Coal Transactions Analyzer:1 - Views Page

02/17/2005 - 09:23:36

KPSC Case No. 2004-00463

Supplemental Attachment Item No. 1a

Comments : Shipment Date = Between 2002-11, 2004-10

Plant Operator = East Kentucky Power Coop, Inc., Kentucky Power Co., Kentucky Utilities Co., Louisville Gas & Electric Co.
 (Date Range: 2004-05 to 2004-10)

Plant Operator	Total Tons (000s)	FOB \$/Ton	T&H \$/Ton	Other \$/Ton	Del \$/Ton	Del \$/Ton	Del \$/Ton	Btu/Lb	Del \$/mmBtu	Btu/Lb	Del \$/mmBtu	% Sulf	% Ash
East Kentucky Power Coop.	1,764.06	38.94	4.59	0.66	45.02	184.82	12,179	1.63	1.00	11.35	1.00	1.00	11.35
Kentucky Power Co.	1,155.30	39.13	1.91	0.00	41.60	173.96	11,957	1.66	0.99	10.99	0.99	0.99	10.99
Kentucky Utilities Co.	3,615.91	30.99	5.39	0.19	36.99	151.95	12,172	2.41	1.47	10.39	1.47	1.47	10.39
Louisville Gas & Electric Co.	3,524.70	21.17	4.72	0.00	26.01	114.60	11,350	5.76	3.27	11.40	3.27	3.27	11.40

Coal Transactions Analyzer:1 - Views Page

02/17/2005 - 09:21:56

KPSC Case No. 2004-00463

Supplemental Attachment Item No. 1b

Comments : Shipment Date = Between 2002-11, 2004-10

Plant Operator = East Kentucky Power Coop, Inc., Kentucky Power Co., Kentucky Utilities Co., Louisville Gas & Electric Co.
(Date Range: 2002-11 to 2004-10)

Plant Operator	Total Tons (000s)	FOB \$/Ton	T&H \$/Ton	Other \$/Ton	Del \$/Ton	Del \$/ImmBtu	Btu/Lb	LSO2/mmBtu	% Sulf	% Ash
East Kentucky Power Coop.	7,354.71	31.70	4.51	0.32	37.00	151.12	12,243	1.62	0.99	10.83
Kentucky Power Co.	4,665.50	30.14	1.86	0.00	32.58	135.10	12,060	1.60	0.97	10.20
Kentucky Utilities Co.	14,419.95	27.91	6.20	0.59	34.90	146.87	11,880	2.34	1.39	10.05
Louisville Gas & Electric Co.	14,454.49	21.19	4.53	0.00	25.75	113.33	11,362	5.70	3.24	11.40

KPSC Case No. 2004-00463
Order Dated February 10, 2005
Supplemental Attachment Item No. 1b
Page 1 of 1

**Kentucky Power
d/b/a
American Electric Power**

REQUEST

Refer to Item 20 of AEP's response to the Commission's December 13, 2004 Order.

- a. Provide the coal inventory level at the Big Sandy generating station stated in tons and in number days' supply for the most recent date available. Show the derivation of the tons per day burn rate used in determining the number of days' supply
- b. Provide the date on which AEP conducted the most recent physical inventory of coal for the Big Sandy generating station. Explain any adjustments made to AEP's per books coal inventory level as a result of the physical inventory.

RESPONSE

- a. As of February 9, 2005, Kentucky Power's actual coal inventory level was 228,014 tons, or 29 days of supply. Days' supply is determined by dividing the amount of tons in storage by the historical/forecasted two to three month "normal" operation burn rate (tons per day).

$$\text{Example: } \frac{228,014 \text{ tons in storage as of 02/09/05}}{8,000 \text{ (historical/projected burn rate - tons/day)}} = 29 \text{ days}$$

- b. The most recent physical inventory of coal for Big Sandy occurred on November 2, 2004. Supplemental Attachment Item No. 2 provides the summary results of the Fall 2004 Coal Inventory Survey for Big Sandy. Please also refer to the December 2004 "Coal Inventory Schedule" filed with the fuel adjustment clause backup information on February 14, 2005 for the accounting adjustment applied to KPCo's books.

WITNESS: Stephen D Baker

KPSC Case No. 2004-00463
 Supplemental Attachment Item No. 2

AEP FALL 2004 COAL INVENTORY SURVEY

A	B	C	D	E	F	G	H	I	J	K	L	M	N
PLANT	INVENTORY DATE	BOOK INVENTORY (tons)	PHYSICAL INVENTORY (tons)	INVENTORY DIFFERENCE (C-D) (tons)	PERCENT DIFFERENCE (E/C) (%)	COAL CONSUMED (tons)	CONSUMED ADJUSTMENT (tons)	UNCORRECTED INVENTORY (tons)	DIFFERENCE BETWEEN INVENTORIES (E-I) (tons)	ALPHA DIFFERENCE (%)	AVERAGE PILE 1 DENSITY (lbs/cuft)	AVERAGE PILE 2 DENSITY (lbs/cuft)	DIFFERENCE AS % OF CONSUMED (E/G) (%)
BIG SANDY	11/2/2004	217,897	203,821	14,076	6.46%	915,004	14,076	0	14,076	1.54%	67.00		1.54%
A	PLANT / COAL PILE NAME												
B	INVENTORY DATE												
C	BOOK INVENTORY												
D	PHYSICAL INVENTORY												
E	INVENTORY DIFFERENCE = BOOK INVENTORY - PHYSICAL INVENTORY (C-D)												
F	PERCENT DIFFERENCE = INVENTORY DIFFERENCE / BOOK INVENTORY (E/C), AS A %.												
G	COAL CONSUMED												
H	CONSUMED ADJUSTMENT = ADJUSTMENT TO THE COAL CONSUMED BASED ON ACCOUNTING BULLETIN NO. 4.												
I	UNCORRECTED INVENTORY = INVENTORY DIFFERENCE - CONSUMED ADJUSTMENT (E-H)												
J	PREVIOUS SURVEY UNCORRECTED INVENTORY = PREVIOUS INVENTORY DIFFERENCE - PREVIOUS CONSUMED ADJUSTMENT (E-H); 'X' REFERS TO PREVIOUS SURVEY												
K	DIFFERENCE BETWEEN INVENTORIES = INVENTORY DIFFERENCE THIS SURVEY - PREVIOUS SURVEY UNCORRECTED INVENTORY (E-I)												
L	ALPHA DIFFERENCE = DIFFERENCE BETWEEN INVENTORIES / COAL CONSUMED (J/G).												
M	AVERAGE DENSITY												
N	AVERAGE DENSITY DIFFERENCE AS % OF CONSUMED = INVENTORY DIFFERENCE / COAL CONSUMED (E/G)												

Kentucky Power
d/b/a
American Electric Power

REQUEST

Refer to Item 28 of AEP's response to the Commission's December 13, 2004 Order. The response indicates that AEP's coal procurement policy has been recently revised to reflect the changes in roles and responsibilities associated with the recent reorganization of the Fuels, Emissions, and Logistics group.

- a. Explain the revisions made in the procurement policy and AEP's reasons for making the changes.
- b. Explain whether the revisions made in the procurement policy are reflected in AEP's fuel procurement manual.
 - (1) If the revisions have been made to the fuel procurement manual, provide a copy of the revised manual.
 - (2) If the fuel procurement manual has not been revised, explain AEP's plans for revising the manual.

RESPONSE

- a. The AEP Coal Procurement Policy – September 2004 Revision (“CPP”) contains changes generally reflecting and/or noting:
 - (1) the strategic realignment of the Coal Procurement and Transportation Departments into the Fuels, Emissions and Logistics organization,
 - (2) the additional electric operating companies now within the AEP System due to the merger with the Central and Southwest System in 2000,

- (3) the inclusion of synthetic-based coal products as a fuel,
- (4) the inclusion of other additional departments such as Credit Risk Management in the fuel procurement process,
- (5) that Fuels, Emissions and Logistics is responsible for AEP System procurement of coal, lignite, natural gas, fuel oil, biomass and other energy sources used for the generation of electricity,
- (6) the modification of coal inventory targets and related procedures in September 2003,
- (7) and updated agreement execution authority approval limits.

The dominant reason for the September 2004 Revision of the CPP was the strategic realignment of a number of functions within AEP into the Fuels, Emissions and Logistics (“FEL”) organization. AEP’s focus on its core business, the capital program for emission reductions at AEP facilities, and the ongoing need to operate generating assets as efficiently as possible were the primary drivers for integrating these related functions into FEL. The goal of FEL is to facilitate AEP power plants’ production of the most efficient kilowatt-hour of electric energy possible. At the same time, it supports the plants’ efforts to produce that power with respect for the environment. As FEL works toward its goal, it engages in a system of checks and balances between the environment, economics and efficiency. This complex task becomes increasingly critical as AEP invests in additional environmental control technologies to further reduce emissions.

- b. The AEP Coal Procurement Policy – September 2004 Revision replaces the AEP Coal Procurement Manual – September 1997 Revision. The AEP Coal Procurement Manual – September 1997 Revision was filed with the Commission in October 1997.

- (1) Please refer to Supplemental Attachment Item No. 3 which is a copy of the AEP Coal Procurement Policy – September 2004 Revision.
- (2) Not applicable

WITNESS: Stephen D Baker

AEP Coal Procurement Policy
September 2004 Revision
September 3, 2004
Fuel Cost Recovery Administration

KPSC CASE NO. 2004-00463
ORDER DATED February 10, 2005
SUPPLEMENTAL ATTACHMENT ITEM NO. 3

COAL PROCUREMENT POLICY
AMERICAN ELECTRIC POWER
COMMERCIAL OPERATIONS
SEPTEMBER 2004 REVISION

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SECTION 1 DEFINITIONS

"AEP" or "System" means the American Electric Power System.

"AEPSC" means American Electric Power Service Corporation, as agent.

"Affiliates" means with respect to any entity, any other entity that directly or indirectly, through one or more intermediaries, controls or is controlled by, or is under common control with, such entity. For this purpose, "control" means the direct or indirect ownership of 50% or more of the outstanding capital stock or other equity interests having ordinary voting power.

"Coal Supply Agreement(s)" can refer to a Long-term Contract or a Purchase Order.

"Coal" shall refer to and may include one or more of the following: coal, lignite, synthetic coal, and other solid fuels such as petcoke and biomass.

"Commercial Operations" (organization) is responsible for reliably and consistently meeting AEP system load obligations at the lowest cost and for managing the economic risk of AEP's natural asset position.

"Company" or "Operating Company" includes those owned or controlled by AEP (Appalachian Power Company, Columbus Southern Power Company, Indiana Michigan Power Company, Kentucky Power Company, Ohio Power Company, Public Service Company of Oklahoma, Southwestern Electric Power Company, AEP Texas Central, and AEP Texas North) as well as companies for which AEPSC procures fuel on their behalf including Buckeye Power, Indiana-Kentucky Electric Corporation, Ohio Valley Electric Corporation, etc.

"Contract Administration" (department) provides contract documentation, administration and maintenance in support of commercial activities including coal procurement.

"Long-term Contracts" or "Long-term Supply Agreements" usually contains each of the items described in a Purchase Order, and more, in an extended and unique manner in light of each agreement's particular circumstances and negotiations with the applicable vendor or supplier. Long-term Contracts have a term in excess of twelve months.

"Environmental Standard" means the legal requirements for compliance as to sulfur and particulate emission levels or other environmental requirements applicable to one or more of AEP's generating units.

"Force Majeure" means an event or circumstance which prevents one party from performing its obligations under one or more transactions, which is not within the reasonable control of, or the result of the negligence of, the claiming party, and which by the exercise of due diligence, the claiming party is unable to overcome or avoid or cause to be avoided or is unable in good faith to obtain a substitute therefore. Force Majeure shall not be based on: (1) the loss of the buyer's markets; (2) buyer's inability economically to use or resell the Fuel purchased hereunder; (3) the loss or failure of seller's supply (including, without limitation, adverse mining conditions, or loss

of feedstocks or raw materials); (4) the seller's ability to sell the Fuel at a price greater than the agreement price; or (5) Seller's inability to economically produce or obtain the Fuel.

"Fuel" means any and all of the coal (which, upon mutual agreement of the parties, may include a synthetic coal based product) to be sold by seller and purchased by the buyer, the quality of which shall conform to the agreed upon quality specifications between the parties. Such Fuel shall (i) be substantially free from any extraneous materials (including, but not limited to mining debris, bone, slate, iron, steel, petroleum coke, earth, rock, pyrite, wood or blasting wire), (ii) be substantially consistent in quality throughout a Shipment, (iii) meet the size required, and (iv) contain or have no intermediate sizes added or removed (including fines).

"Fuel, Emissions, and Logistics" (department) This is part of the Commercial Operations organization. The principle functions of this organization are related to coal procurement, coal transportation, barge transportation, and other related commercial, operational, development, asset management, and coordination functions.

"Fuel Procurement" (department) is charged with the coal, natural gas and fuel oil procurement including inventory management for the entire AEP operating system as well as companies for which AEPSC procures fuel on their behalf including Buckeye Power, Indiana-Kentucky Electric Corporation, Ohio Valley Electric Corporation, etc.

"General Counsel" shall refer to the internal legal department of AEP.

"Generating Station" or "Plant" means one of the Company's generating facilities.

"Purchase Order" or "Spot Purchase" means any purchase of Fuel which utilizes relatively standard terms and conditions for items such as, but not limited to: weighing, sampling, payment, assignment, force majeure, financial responsibility, credit, and notifications. The items that vary between different coal Purchase Orders are typically: term, quantity, price, quality and adjustments, mode of delivery and delivery point. The initial term is twelve months or less.

"Other Departments" may refer to any one or more of the following: Credit Risk Management, Contract Administration, Operational Analysis, Integrated Resource Planning, Internal Audits, Transportation and Combustion Services and the Legal Department. These departments may be asked to participate in or offer their opinions as to certain segments of agreement negotiations that fall within their particular area of expertise.

"Senior Management" shall refer to one or more of the following: the Senior Vice President-Fuel, Emissions and Logistics, the Executive Vice President-Commercial Operations, and members of the Office of the Chair.

"Shipment" means, as applicable, one unit train, single railcar, one barge or vessel load, truck or the aggregate of truckloads that are loaded on any one day in accordance with the applicable transportation specifications.

"Transportation and Combustion Services" (department) is responsible for various transportation services including the physical scheduling of all coal delivered to AEP plants by rail, barge, or truck.

"Transportation Agreement" refers to a document detailing the transporting of coal to the Designated Delivery Point or on behalf of Buyer or Buyer's designee from the Designated Delivery Point.

"Unit" means any generating unit at a Plant.

SECTION 2 **COAL PROCUREMENT POLICY AND IMPLEMENTATION**

2.01 Coal Procurement Policy

American Electric Power's overall fossil fuel policy ("the Policy") is to assure secure, flexible, and competitively priced fuel supplies and transportation to meet generation requirements, recognizing the dynamic nature of fuel markets, environmental standards and regulatory requirements. To accomplish this objective, the Company maintains a mix of fuel inventories and a portfolio of long-term firm and discretionary supplies of fuel suitable for use in its generating units. AEP's fuel acquisition strategy is to maximize the utilization of coal, with increased supply flexibility, and to acquire as much fuel within reason (including natural gas and fuel oil) from competitive markets, considering the Company's long-term agreements and market conditions.

2.02 Coal Procurement Policy Implementation

Fuel Procurement shall be properly organized and staffed to carry out the procurement of coal consistent with the policy in an efficient and practical manner. Coal shall be purchased at competitive prices with due consideration of all relevant factors, including the quantity needed to maintain an adequate supply, the quality required to optimize the operating characteristics of the System and meet the applicable environmental standards, the production and financial reliability of the supplier, consideration of appropriate System planning to meet the projected growth in the System requirements, existing contractual obligations, and the ability to meet any emergency or other unusual circumstances.

SECTION 3

ORGANIZATION

3.01

Overview

The Commercial Operations organization performs the following services in the fuel procurement process: coal, natural gas, fuel oil and related transportation procurement and agreement administration; fuel agreement negotiation; coal and fuel oil inventory management; fuel supply and transportation invoice processing; fuel expense and inventory accounting for coal, natural gas and fuel oil; fuel price forecasting; fuel planning and analysis; and fuel-related regulatory activities at the state and federal agencies, including report, testimony, and schedule preparation and interrogatory responses. AEPSC, through the Commercial Operations organization, acts as agent for the Companies and procures fuel under agreements between the companies and fuel suppliers and transporters.

Please refer to Exhibit A₁ for the current organization chart which details the Fuel Procurement and Transportation and Combustion Services departments as they relate to the Commercial Operations organization.

The Commercial Operations organization also integrates the operation of the generating stations under its control by performing many generation-related functions on behalf of the AEP operating companies, including, but not limited to, generation dispatch, the real-time sale and purchase of power to meet load requirements and technical/analytical services.

3.02

Departmental Structure

The Senior Vice President-Fuel, Emissions and Logistics shall be responsible for ensuring that the Companies' power plants have at all times an adequate and reliable supply of coal which is consistent with generating unit requirements and environmental standards as well as the means to transport the necessary fuel to those destinations. The Vice President-East Fuel Procurement and Vice President-West Fuel Procurement shall be jointly responsible for assuring that the organization, direction, and execution of the Fuel Procurement department meets the general business requirements of Commercial Operations.

3.03

Organizational Responsibility

The responsibility for overall coal procurement and transportation shall be that of the Senior Vice President-Fuel, Emissions and Logistics. As shown in Exhibit A₁, the Vice President-East Fuel Procurement and Vice-President-West Procurement and the Vice President-Transportation and Combustion Services shall report to the Senior Vice President-Fuel, Emissions, and Logistics. Personnel from other

departments and sections shall be available to Coal Procurement and/or the Negotiating Team and shall be used to the extent that the Vice President-East Fuel Procurement and Vice President-West Fuel Procurement considers advisable in the execution of the duties and functions of Fuel Procurement.

3.03-1 Vice President-East Fuel Procurement and Vice-President-West Procurement

The Vice President-East Fuel Procurement and Vice-President-West Procurement shall, in conjunction with others, participate in the development and administration of coal supply agreements. The Vice President-East Fuel Procurement and Vice-President-West Procurement shall have the prudent judgment, practical experience, organizational ability, and supervisory capacity necessary to administer Fuel Procurement's operations consistent with the coal procurement policy. Other Departments may be utilized by the Fuel Procurement department to the extent the Vice President-East Fuel Procurement and Vice-President-West Procurement considers advisable in the execution in the functions of the Department

3.03-2 Manager(s)-Fuel Emission & Logistics/Coordinator(s)

The Coordinator(s) is responsible for directing and/or performing the general planning for and execution of purchases of coal for AEPs' power plants within defined responsibilities. The Coordinator(s) obtains specifications, availability, prices and agreement conditions for coal. The Coordinator(s) participates in coal agreement negotiations as requested and ensures that coal agreements are properly coordinated, monitored, and controlled.

3.04 Negotiating Team

The responsibility for negotiating terms and provisions of coal supply and transportation agreements shall be a team effort under the overall guidance of the Senior Vice President--Fuel, Emissions and Logistics. The Negotiating Team could be comprised of any or all of the following individuals, dependent on the type of agreement to be negotiated:

Senior Vice President-Fuel, Emissions and Logistics
Vice President-East Fuel Procurement
Vice-President-West Procurement
Manager-Fuel Emission & Logistics
Vice President-Transportation and Combustion Services, and
any appropriate Coordinator

As the need arises, the Negotiating Team may call upon other departments: such as Credit Risk Management; Contract Administration; Operational Analysis; Legal; Fuel & Cost Recovery; etc., to participate in or offer their opinions as to certain segments of

the negotiations which fall within their particular area of expertise. This flexible approach gives the Negotiating Team a distinct advantage of providing specialists to the agreement process who are most proficient in developing, recommending, and negotiating terms that will benefit AEP.

3.05

Approval Authority

The approval authority limits for the Executive Vice President-Commercial Operations or his authorized designee(s) is specified and attached as Exhibit B₁. Except in the event of emergency circumstances as described in SECTION 9, only the Executive Vice President-Commercial Operations, or his authorized designee(s), shall have the authority to execute coal supply and transportation agreements.

SECTION 4 **COAL SUPPLY PROCEDURES**

- 4.01 Coal Procurement Projections
Operational Analysis in conjunction with Fuel Procurement and Integrated Resource Planning shall, as applicable, participate in the preparation of the short-term, annual, and/or long-range projections of coal requirements, planning, coordinating and projecting usage at each generating station and unit where varying operational and environmental standards apply.
- 4.02 Coal Long-term / Spot Purchase Mix
AEP's goal is to maintain the most practical overall economic and reliable supply balance between long-term and spot coal agreement purchases. In making coal purchases, Fuel Procurement shall consider any anticipated shortfall of coal supply agreement shipments, current and projected system requirements, current and reasonably foreseeable market and fuel production conditions, weather and seasonal conditions affecting mining operations, burn variability, and anticipated changes in spot market prices. Given existing long-term contractual arrangements, long-term contract expiration dates, existing and anticipated demand for electrical energy, status of coal inventory levels, changes to existing federal and/or state environmental standards or other laws, overall coal market conditions and other temporary or long-term factors affecting coal procurement and transportation decisions, the mix of long-term and spot agreement coal purchases may be reasonably expected to vary from Company to Company given the particular circumstances of each.
- 4.03 Current Coal Procurement Requirements
Fuel Procurement, as applicable and in conjunction with Operational Analysis, shall review and analyze all data available to the Fuel Procurement department including reports described in SECTION 5.05, compare current inventories and deliveries with projections of usage and current supply agreement commitments, determine the extent of any current or anticipated shortfall or increased requirements, and plan for reliable and economic alternatives or additional sources of coal supply to cover any such shortfall or increased requirements.
- 4.04 Coal Supplier Qualifications
Potential coal suppliers shall be selected and considered on the basis of the vendor's financial status and ability to deliver a reliable supply as evaluated and determined by Credit Risk Management and Fuel Procurement based on their experience in addition to public reports and documents. No potential supplier who is qualified shall be preferred or discriminated against because of the race, religion, color, sex, age, or marital status of the supplier or any of its representatives.

The selection of a qualified coal supplier for any agreement or spot purchase shall be based on Fuel Procurement's best informed judgment exercised in conformity with relevant coal procurement procedures and policies, except that, as between two or more qualified suppliers, where reliability of performance, consistency, and quality of coal and all other relevant factors are considered equal or the same, Fuel Procurement shall select the supplier offering the more favorable terms as to price.

A potential supplier may be considered to be not qualified if that supplier is known to have consistently failed to comply with the delivery schedules, quality specifications or other material terms and conditions of coal supply transactions (unless such failure was due to force majeure causes), or if such supplier is known to have engaged in unethical, dishonest, or unlawful business practices.

4.05

Solicitations

Fuel Procurement shall endeavor to purchase its fuel through competitive solicitations. However, Fuel Procurement may also pursue written, electronic mail, verbal, facsimile or other offers followed by negotiations when market conditions, in the company's judgment, provide an opportunity to obtain fuel more advantageously than through usual procedures. When Fuel Procurement foregoes the solicitation process (i.e. purchasing an unsolicited offer), appropriate documentation shall be maintained describing the conditions for the purchase.

The solicitation process is initiated by a Request for Proposal ("RFP"), which is a package describing minimum coal requirements the Company is seeking. The package contains instructions for returning the completed proposal as well as the contact information of the Coordinator(s) who is handling the RFP should the potential supplier have questions.

The coal proposal package shall contain the following information:

- a) instructions to potential supplier on submission of RFP forms;
- b) coal specifications parameters;
- c) date and time RFP expires,
- d) company terms and conditions, and
- e) other pertinent information as required in the RFP.

4.06

Long-term Contracts-When Authorized

The procedures for negotiation of a coal supply agreement shall be implemented whenever Fuel Procurement (subject to the approval of the Senior Vice President-Fuel, Emissions and Logistics and Senior Management) determines that a long-term committed source of supply is advisable for a new unit planned or under construction, or that the supply for an existing unit or generating station needs to be replaced or supplemented.

In determining whether a coal agreement commitment is advisable, and in determining the extent to which existing and anticipated requirements should be met through long-term coal purchases, Fuel Procurement shall consider:

- a) a vendor's financial status as a creditworthy and reliable
- b) the availability of adequate supplies from qualified vendors willing to enter into a agreement;
- c) the advisability or necessity of having an adequate supply committed for an existing or planned unit;
- d) the desire to maintain practical flexibility as to market conditions, transportation, and other factors affecting price and availability;
- e) existing and anticipated environmental standards; and,
- f) such other factors as may reasonably bear on the implementation of AEP's Fuel Procurement Policy.

4.07

Long-term Contracts-How Made

Whenever it has been determined that an agreement for coal should be obtained, and when the Vice President-East Fuel Procurement and Vice President-West Fuel Procurement believes that the policy stated in SECTION 2.01, would be best served by such process, Fuel Procurement shall contact potential qualified suppliers, furnish adequate data as to the coal supply required and other basic terms and request written offer as detailed in SECTION 4.05. Suppliers will have the opportunity to offer coal and each offer received shall be reviewed and analyzed by Fuel Procurement. Fuel Procurement may engage in such preliminary negotiations as considered advisable in order to determine which offers warrant further consideration.

Fuel Procurement shall review all offers and determine whether one or more is sufficiently reasonable and practical as to its proposed or offered terms to warrant further negotiation. Negotiations thereafter shall be conducted by the Negotiating Team with negotiations being pursued to the extent Senior Management considers advisable.

Pursuant to SECTION 3.05, supra, no agreement shall be extended or executed without first being reviewed and approved by the appropriate AEP authority who shall consider, among other criteria, the vendor's financial status, price, quantity of coal, quantity of emission allowances, quality, delivery mode and cost, any services to be supplied, supplier reliability, the agreement provisions, including the fairness and reasonableness of provisions for premiums and penalties based upon supplier performance, adjustment of price and other terms or items affecting price, force majeure, any other conditions affecting delivery of agreement quantities, and provisions giving AEP rights of audit review and site inspection.

The illustration appearing on Exhibit C₁ shall be considered a typical sequence of events that precedes the consummation of an agreement when the Vice President-East Fuel Procurement and Vice President-West Fuel Procurement deems the entire process appropriate. As determined by the Negotiating Team, some of the steps may be bypassed because they are not applicable to the situation. As an example, should Fuel Procurement enter into negotiations for an agreement with a current or past supplier, the amount of investigation as to the financial status and operation of that potential supplier would be minimized in light of the records and data collected and analyzed in accordance with the terms set forth in SECTION 5.06. It logically follows that the Negotiating Team may decide that it may wish to bypass any step(s) in the process when they believe that the policy stated in SECTION 2.01, supra, shall be best served by such decision.

4.08 Spot Purchases-When Authorized
Spot purchases may be made whenever considered advisable by the Vice President-East Fuel Procurement and Vice President-West Fuel Procurement in furtherance of AEP's Fuel Procurement Policy subject to the limit of authority stated in SECTION 3.05, supra.

4.09 Spot Purchases-How Made
Spot coal purchases shall be made by purchase order, may be for a single delivery, or for scheduled deliveries generally not exceeding an initial term of twelve months.

Spot coal purchases shall be concluded, to the extent deemed advisable by the Vice President-East Fuel Procurement and Vice President-West Fuel Procurement, by competitive negotiation. No coal purchase order shall be executed by Fuel Procurement without the authority of the Executive Vice President-Commercial Operations or his authorized designee(s) in accordance with SECTION 3.05, supra.

4.10

Documentation

Fuel Procurement shall not execute any agreement unless it is reduced to writing, and each agreement shall be signed by an agent of the Company, along with the signature of the person having the proper authority to legally obligate the supplier and/or its producer to the agreement. All agreements, whether long-term contracts, extended term purchase orders or spot purchases, shall contain the terms and conditions of the agreement, including (but not limited to) basic provisions as to term, price, quality, transportation and scheduled monthly or other periodic deliveries. Government indices and/or other regularly printed schedules used to determine price adjustments shall also be incorporated by specific reference.

SECTION 5 **CONTRACT ADMINISTRATION**

5.01 Compliance
Fuel Procurement shall review and analyze daily business and operational reports to properly administer all coal supply agreements. Each Operating Company shall maintain adequate facilities for weighing, sampling, and analyzing all of the coal deliveries received at each generating station.

5.02 Amendments/Change Order(s)
No amendment or change order of any coal supply agreement shall be made except after analysis by Fuel Procurement. The approval signature of the appropriate authorized agent must be obtained.

5.03 Price Adjustments
The Manager-Contract Administration directs the administration of claims for price adjustments of coal supply and transportation agreements. When a supplier submits a claim for price adjustment, the Manager-Contract Administration, along with the Contract Administration staff will verify the validity of the claim and evaluate its impact. Each supplier's claim for adjustment shall be in writing and supported by adequate supporting documentation in conformity with the agreement. Claims for price adjustment are subject to separate review by the Internal Audit Department.

When any claim is not approved in whole or in part, Contract Administration shall promptly advise the supplier specifying the objections and, if appropriate, request an adequate explanation as to why the seller should be granted the requested tentative prices. If Contract Administration and supplier are unable to resolve any differences, the issue shall be resolved by negotiation between the supplier and the Negotiating Team or their designee, or if not resolved, shall be referred to arbitration or resolved by litigation as required by the operative agreement terms.

When a claim is approved, the Manager-Contract Administration directs the preparation of a letter amendment to the coal supply agreement which reflects the price adjustment and amends the agreement.

5.04 Inspections
Either the Vice President-East Fuel Procurement and Vice President-West Fuel Procurement or the Director-Credit Risk Management has the authority to cause inspections of the mining and other production facilities and operations of each coal supplier as required.

- 5.05 Reports
Fuel Procurement shall endeavor to remain fully informed as to all of the conditions and circumstances which may impact the purchase, delivery, or supply of coal. Therefore, Fuel Procurement shall monitor available data, reports, and analyses as deemed necessary for business operations and regulatory requirements.
- 5.06 Records
Contract Administration and/or Fuel Procurement shall maintain the following records:
- 5.061 Open Files
Contract Administration shall maintain the following on open status for a period of at least one year or such longer period as the agreements or other conditions warrant;
- 5.061-1 For each current long-term contract:
- a) long-term contract file containing agreement documents, amendments, and documentation regarding price adjustments;
 - b) general correspondence file;
 - c) quantity/quality file containing delivery records and quality analyses data agreement justifications, bid analyses; and,
 - d) inspection file containing reports and other data.
- 5.061-2 A file for each current spot purchase order containing, to the extent applicable, the items prescribed above in 5.061-1, and containing purchase orders, amendments, correspondence, delivery records, quality analyses data, inspection reports, agreement justifications, bid analyses and such other data and records as the Vice President-East Fuel Procurement and Vice-President-West Procurement or Manager-Contract Administration may consider advisable.
- 5.061-3 Transportation tariff and demurrage file containing current tariffs or agreements.
- 5.061-4 A separate record on each AEP railroad car, towboat, and barge owned or leased by AEP.
- 5.061-5 Coal supply data containing current published or other available reports, data and other information on coal sources, prices, coal market conditions, and economic conditions and trends affecting AEP's current and future coal requirements.

5.061-6 Data which includes known current suppliers and potential suppliers and sources of coal, including known existing and possible long-term contract and spot purchase suppliers.

5.062 Closed Files
Contract Administration shall maintain the files described above on closed status as prescribed by regulatory requirements.

SECTION 6

ENFORCEMENT OF AGREEMENTS

- 6.01 General Enforcement Policy
Supplier obligations under fuel supply agreements shall be enforced by Fuel Procurement in a firm, practical, and businesslike manner to achieve substantial compliance by the supplier consistent with AEP's overall coal procurement policy and the overriding objective of procuring and maintaining adequate coal supplies to meet current and anticipated System requirements.
- 6.02 Operational Analysis
Whenever the quality analysis reports disclose that a shipment does not meet conditions or terms of the applicable agreement, Operational Analysis shall so inform the supplier, take whatever corrective action is appropriate under the circumstances, and direct that subsequent performance be in compliance.
- 6.03 Company Responsibility
Whenever the Vice President-East Fuel Procurement and Vice President-West Fuel Procurement determines that a dispute related to a supplier's non-performance cannot be satisfactorily resolved by Fuel Procurement, the matter shall be referred to the Senior Vice President-Fuel, Emissions and Logistics for appropriate action, including further negotiation, arbitration if provided by the agreement, or litigation. Fuel Procurement shall act expeditiously with due consideration of the desirability of obtaining substantial compliance by the supplier and the need to maintain a continuing supply of coal to meet system requirements. No arbitration or litigation shall be commenced except on the advice of General Counsel and with the concurrence of the Senior Vice President-Fuel, Emissions and Logistics.

SECTION 7

GENERAL ADMINISTRATIVE DUTIES

7.01

Keeping Current

Fuel Procurement shall subscribe to or obtain access to a representative number of trade and industry publications and reports on governmental agencies concerning coal and coal prices. Fuel Procurement shall use its best efforts to keep current on coal market conditions, coal prices and coal availability, and other developments relating to coal procurement, and shall maintain periodic contact with suppliers and potential suppliers and other known sources of reliable information on coal supplies.

The Vice President-East Fuel Procurement and Vice President-West Fuel Procurement, Vice President-Transportation and Combustion Services, Manager(s) Fuel Emissions & Logistics and the Coordinator(s) may attend fuel, transportation, and/or related conferences as the Senior Vice President-Fuel, Emissions and Logistics may determine would be helpful to Commercial Operations procurement policies and procedures.

7.02

Reports to Management

As outlined in SECTION 5.05, supra, Fuel Procurement shall regularly report to the Senior Vice President-Fuel, Emissions and Logistics concerning the status of coal procurement as to agreement and spot purchases, and plans to meet current and anticipated coal requirements. The Vice President-Transportation and Combustion Services shall also regularly report to the Senior Vice President-Fuel, Emissions and Logistics concerning coal transportation as to arrangements to deliver coal.

7.03

Review of Procurement Procedures

The Commercial Operations organization shall review procedures and consider changes or additions designed to assist in implementing coal procurement policies.

SECTION 8

INVENTORY LEVELS

8.01

The primary obligation of the System and each Operating Company shall be to ensure the availability of a continuous, reliable flow of electricity to the consumer. Consequently, any decision affecting the coal inventory shall be made in light of AEP's primary obligation. Commercial Operations Coal Inventory Policy shall allow for flexibility, permitting inventory levels to be responsive to known and anticipated changes in conditions.

Inventory levels are subject to the Coal Inventory Targets and Related Procedures policy established in September of 2003. Decisions concerning the inventory levels shall be made by Operational Analysis subject to the approval of Senior Management. This process shall ensure that both overall AEP System requirements and local needs are given due consideration and further ensures efficiency of operation.

Should the inventory of any one generating station vary from the inventory level deemed appropriate, or should other variables (such as pending transportation problems, labor disruptions, weather, maintenance, etc.) become an issue or potential problem, then an appropriate course of action shall be implemented.

SECTION 9

EMERGENCY PROCUREMENT

9.01

Any one or more of the procedures described in this Policy may be waived whenever it is determined that coal must be purchased without complying with one or more of the procedures outlined in this Policy. This determination shall be made by the Vice President-East Fuel Procurement and Vice President-West Fuel Procurement with the concurrence of the Senior Vice President-Fuel, Emissions and Logistics and/or Senior Management. Such determination and waiver shall be documented in writing. Any one of the following situations would lead to emergency procurement.

- a) Emergency or other extraordinary conditions or circumstances exist which make it reasonably certain that adequate delivery and supply of coal cannot be obtained from existing agreement and/or spot purchase suppliers.
- b) Adequate quantities to cover anticipated shortages of coal meeting minimum quality requirements cannot be timely obtained from known and available reliable suppliers.
- c) Any delay in taking steps to cover anticipated shortages can be reasonably anticipated to create a substantial risk of interruption of service to AEP customers.

SECTION 10

TRANSPORTATION AGREEMENTS

10.01

Transportation Agreements-When Authorized

Procedures for the negotiation of a transportation agreement shall be implemented whenever an agreement for a coal supply agreement has been made or is in the process of negotiation, and the requirement to transport such coal cannot be accommodated under existing transportation arrangements.

In determining the extent to which additional transportation arrangements are required, Transportation and Combustion Services shall consider:

- a) the location(s) of the potential coal supplier(s);
- b) the most desirable transportation modes available;
- c) the existing transportation route(s) and transfer point(s) between the supplier(s) and the generating station(s);
- d) the need to maintain practical flexibility as to transportation, equipment availability, reliability and other factors affecting the movement of coal; and,
- e) such other factors as may reasonably bear on the implementation of the coal procurement policy.

10.02

Transportation Agreements-How Made

All transportation arrangements shall be made by written documents which may take the form of informal letter agreements or more formal long-term agreements.

To the extent practical, Transportation and Combustion Services shall investigate the potential suppliers of transportation services that have the requisite experience, knowledge, and equipment to reliably transport coal from the potential or existing coal suppliers to the Company generating station(s). Following such investigation and review, Transportation and Combustion Services shall review the collected information and shall determine whether one or more is sufficiently reasonable and practicable as to its proposed or offered terms.

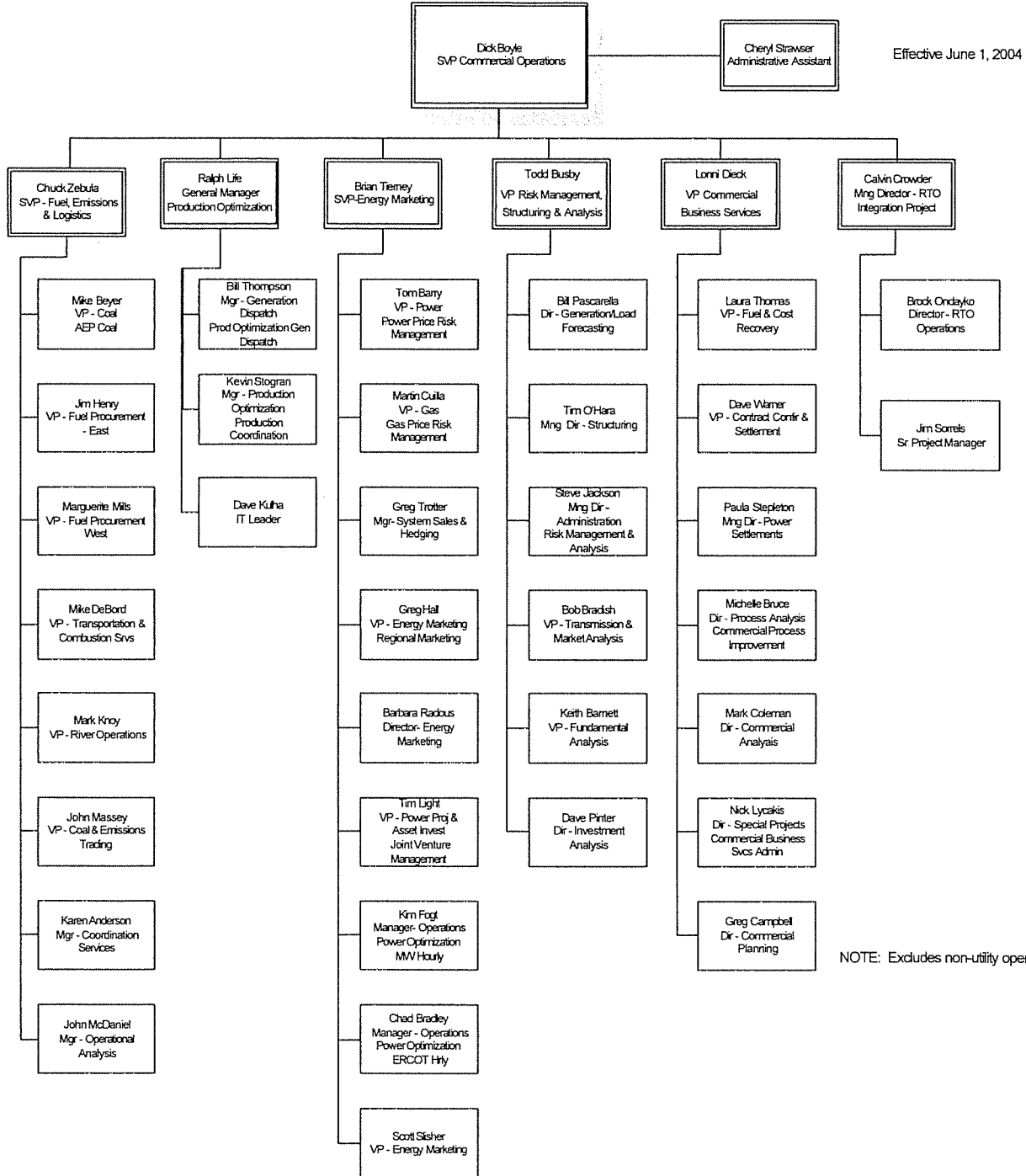
Pursuant to SECTION 3.05, supra, no transportation arrangements shall be concluded without first being reviewed and approved by the appropriate AEP officer(s), who shall consider, among other criteria, supplier's financial status, price, quantity, proposed services, supplier reliability, terms and conditions of the transportation agreement,

including the fairness and reasonableness of provisions for premiums and penalties based upon supplier performance, demurrage adjustment of price and other terms or items affecting price, force majeure, and other conditions affecting coal deliveries.

AEP Coal Procurement Policy
 September 2004 Revision
 September 3, 2004
 Fuel Cost Recovery Administration

Exhibit A₁

ORGANIZATION CHART



Exhibits B₁

**COAL SUPPLY AND TRANSPORTATION AGREEMENTS
 EXECUTION AUTHORIZATION APPROVAL LIMITS**

	Term Limit	Dollar Limit
Office of the Chair	All deals greater than 7 Years	Greater than \$750 million
Executive Vice President- Commercial Operations	All deals greater than 5 years up to 7 years	\$750 million
Senior Vice President-Fuel, Emissions and Logistics	All deals greater than 1 year up to 5 years	\$500 Million
Vice President -- East Fuel Procurement Vice President -- West Fuel Procurement Vice President -- Transportation & Combustion Services	Spot deals 1 year or less	\$50 million

Exhibits C₁

Process: **AGREEMENT DEVELOPMENT**

Coal Procedure Supply:

Step	Action	Comment/Result
1	New or existing coal supply need is identified.	
2	Analyze existing coal projections and determine level of coal needs – PROMOD, Gentrader, etc. (Sections 4.01 and 4.03 CPP)	Coordinator
3	Complete an RFP or utilize recent market information to determine possible suppliers (Sections 4.05 CPP)	Coordinator
4	Obtain credit approval of proposed supplier(s)	Director, Risk Management
5	Negotiate terms and conditions with supplier(s)	<ul style="list-style-type: none"> • Coordinator • Manager, Fuel Emissions & Logistics • VP, East Procurement or • VP, West Procurement
6	Write a Coal Agreement Justification Package and route Justification Package	<ul style="list-style-type: none"> • Coordinator • Manager, Fuel Emissions & Logistics • VP, East Procurement or • VP, West Procurement
7	Initiate and coordinate new agreement	Contract Administration
8	Fuel Procurement circulates for evaluation and approvals	<ul style="list-style-type: none"> • VP, Trans. & Combustion Services • Managing Director-Transportation • Manager, Coal Quality Assurance • Legal • Manager, Fuel Cost Recovery
9	Re-route to Contract Administration to make necessary changes. Repeat step 7 and 8 until all changes have been approved by all departments.	Contract Administration
10	Final review by Fuel Procurement for approvals. Revise and finalize agreement justification package for agreement to be executed	<ul style="list-style-type: none"> • Coordinator • Manager, Fuel Emissions & Logistics • VP, East Procurement or • VP, West Procurement
11	Circulate for signature approvals (as appropriate for type of agreement)	<ul style="list-style-type: none"> • VP, East Procurement or • VP West Procurement • SVP, Fuel, Emissions and Logistics • EVP, Commercial Operations
12	Forward original agreement signed by all parties to Contract Administration.	Coordinator