

COMMONWEALTH OF KENTUCKY
BEFORE THE
PUBLIC SERVICE COMMISSION OF KENTUCKY

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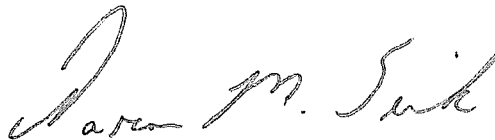
IN THE MATTER OF

AN EXAMINATION OF THE APPLICATION)
OF THE FUEL ADJUSTMENT CLAUSE OF)
KENTUCKY POWER COMPANY FROM) CASE NO. 2011-00245
NOVEMBER 1, 2010 THROUGH APRIL 1, 2011)

KENTUCKY POWER COMPANY RESPONSES TO COMMISSION STAFF'S
FIRST SET OF DATA REQUESTS

September 12, 2011

Aaron M. Sink, upon being first duly sworn, hereby makes oath that if the foregoing questions were propounded to him at a hearing before the Public Service Commission of Kentucky, he would give the answers recorded following each of said questions and that said answers are true.



Aaron M. Sink

State of Kentucky

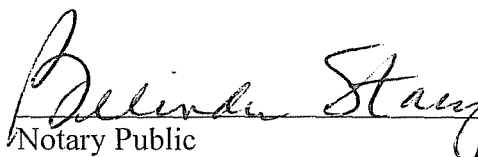
)

) Case No. 2011-00245

County of Lawrence

)

Sworn to before me and subscribed in my presence by Aaron M. Sink, this the 6th day of September, 2011.



Notary Public

My Commission Expires:

BELINDA STACY NOTARY PUBLIC STATE AT LARGE STATE OF KENTUCKY I.D. #423274 My Commission Expires July 6, 2014

Kentucky Power Company

REQUEST

For the period from November 1, 2010 through April 30, 2011, list each vendor from whom coal was purchased and the quantities and the nature of each purchase (e.g., spot or contract). For the period under review in total, provide the percentage of purchases that were spot versus contract.

RESPONSE

See the table below for the requested information.

Counter Party	Nature of Purchase	Tons Purchased
Alpha	Spot	38,859
Argus Energy, LLC	Contract	39,505
Beech Fork (2 Agreements)	Contract	179,960
Central Coal*	Consignment	10,230
Cliffs Logan	Contract	238,190
ICG	Contract	206,281
Kentucky Fuels	Contract	160,470
Louis Dreyfus (2 Agreements)	Spot	20,201
Magnum*	Consignment	10,420
Rhino	Contract	185,511
Rhino	Spot	20,556
S.M.&J.	Spot	37,747
S.M.&J.	Contract	54,532
Trinity (2 Agreements)	Contract	184,664
Total Purchased		1,387,127

Percent Spot Coal	8.5%
Percent Contract Coal	90.1%
Percent Consigned Coal	1.5%

* The Central Coal and Magnum deliveries were consignments from Appalachian Power Company that were discussed in the last review of Kentucky Power's Fuel Adjustment Clause, Case No. 2010-00490. The consigned tons reported in the table above represent coal that was delivered in November 2010 to complete the consignment volumes.

WITNESS: Kimberly K Chilcote

Kentucky Power Company

REQUEST

For the period from November 1, 2010 through April 30, 2011, list each vendor from whom natural gas was purchased for generation and the quantities and the nature of each purchase (e.g., spot or contract). For contract purchases, state whether the contract has been filed with the Commission. If no, explain why it has not been filed.

RESPONSE

Kentucky Power Company did not purchase natural gas for generation during the period under review.

WITNESS: Kimberly K. Chilcote

Kentucky Power Company

REQUEST

State whether Kentucky Power engages in hedging activities for its coal or natural gas purchases used for generation. If yes, describe the hedging activities in detail.

RESPONSE

Kentucky Power has not engaged in any hedging activities for its coal purchases during the review period.

WITNESS: Kimberly K Chilcote

Kentucky Power Company

REQUEST

For each generating station or unit for which a separate coal pile is maintained, state, for the period from November 1, 2010 through April 30, 2011, the actual amount of coal burned in tons, the actual amount of coal deliveries in tons, the total kWh generated, and the actual capacity factor at which the plant operated.

RESPONSE

Big Sandy Plant, for the period November 1, 2010 through April 30, 2011:

Coal Burned, tons	1,356,934
Coal Deliveries, tons	1,387,126.62
Net Generated, MWh	3,360,680
Net Capacity Factor, %	71.77

WITNESS: Aaron M Sink

Kentucky Power Company

REQUEST

List all firm power commitments for Kentucky Power from November 1, 2010 through April 30, 2011 for (a) purchases and (b) sales. This list shall identify the electric utility, the amount of commitment in MW, and the purpose of the commitment (e.g., peaking, emergency).

RESPONSE

(a) Firm power purchases:

AEP Generating Company (Unit Power Agreement - Rockport Plant Base Load)	393 MW
--	--------

(b) Firm power sales:

Commitments for Kentucky Power Company, other than retail jurisdictional customers, are the Cities of Olive Hill and Vanceburg, Kentucky as shown below. The numbers listed below represent the Network Service Peak Load for each customer's annual summer peak coincident with PJM. The Cities use the power as load following service to their citizens.

City of Olive Hill	6.2 MW
City of Vanceburg	13.4 MW

WITNESS: Lila P Munsey

Kentucky Power Company

REQUEST

Provide a monthly billing summary of sales to all electric utilities for the period November 1, 2010 through April 30, 2011.

RESPONSE

Please see attached pages. Due to the voluminous nature of this response, the Company is providing the Commission with one original hard copy and additional copies on attached CD.

WITNESS: Lila P Munsey

Kentucky Power Company

REQUEST

List Kentucky Power's scheduled, actual, and forced outages from November 1, 2010 through April 30, 2011.

RESPONSE

Please see Pages 2 and 3 of this response for the schedule of outages.

In preparing responses to the data requests, Kentucky Power noticed that the forced outages in December 2010, March 2011, and April 2011 were not included in the Power Transaction Schedules that are filed monthly with the other backup information. The exclusion of the forced outages does not require a financial adjustment, as the Big Sandy fuel rate was higher than the substitute energy cost.

Although there was no monetary difference, internal control measures have been implemented to ensure that the forced outages are not omitted from the backup filings in the future.

WITNESS: Aaron M Sink, Lila P. Munsey

Kentucky Power Company

REQUEST

List all existing fuel contracts categorized as long-term (i.e., one year or more in length). Provide the following information for each contract:

- a. Supplier's name and address;
- b. Name and location of production facility;
- c. Date when contract was executed;
- d. Duration of contract;
- e. Date(s) of each contract revision, modification, or amendment;
- f. Annual tonnage requirements;
- g. Actual annual tonnage received since the contract's inception;
- h. Percent of annual requirements received during the contract's term;
- i. Base price in dollars per ton;
- j. Total amount of price escalations to date in dollars per ton; and
- k. Current price paid for coal under the contract in dollars per ton (i + j).

RESPONSE

Please see the attached pages.

WITNESS: Kimberly K Chilcote

This response is provided for the time period of November 1, 2010 through April 30, 2011 and lists all pertinent fuel contract information requested.

Please note that all contracts are annual fixed price agreements and do not escalate based on price indices. The response to “i” reflects the first year fixed price of the contract when executed. The response to “k” is the fixed price of the contract at the end of the review period (April 30, 2011).

ARGUS ENERGY, LLC (Contract No. 07-903)

- a. Argus Energy LLC, P.O. Box 416, Kenova, WV 25530
- b. Bear Branch Mine in Lawrence County, KY, Kiah Creek Mine in Wayne County, WV, and the Spurlock Loadout/Mine in Floyd County, KY
- c. January 1, 2007
- d. January 1, 2007 - December 31, 2011
- e. February 5, 2009, April 29, 2009, April 27, 2010, September 10, 2010, and January 19, 2011.
- f. 240,000 tons in 2007 through 2008; 203,200 tons in 2009; 212,583 tons in 2010, 120,000 tons in 2011 plus 33,410 2010 shortfall tons to be delivered by June 30, 2011.

g&h.	<u>Year</u>	<u>Tons Received</u>	<u>Percent of Annual Requirements</u>
	2007	237,748*	99%
	2008	179,240	75%
	2009	210,426	104%
	2010	179,173	97%**
	2011	26,257**	0%**

i. \$51.75 FOB Plant.

j. None

k. \$57.40 FOB Plant in 2011.

* Includes deliveries to synfuel processing.

** 2011 shortfall tons received through April 30, 2011 applied toward 2010 obligation calculation per Part (f) above, and zero tons applied to 2011 obligation.

BEECH FORK PROCESSING (Contract No. 07-904)

- a. Beech Fork Processing, Inc., P.O. Box 190, Lovely, KY 41231
- b. Bear Branch Mine in Lawrence County, KY, Kiah Creek Mine in Wayne County, WV, and the Spurlock Loadout/Mine in Floyd County, KY
- c. June 13, 2008
- d. January 1, 2008 - December 31, 2011
- e. February 5, 2009, January 19, 2011, and January 27, 2011.
- f. 120,000 tons in 2008; 240,000 tons in 2009 and 2010. 97,137 2010 shortfall tons to be delivered ratably over 2011 as part of the 2010 obligation.

g&h. Year	Tons Received	Percent of Annual Requirements
2008	56,488	47%
2009	306,533	128%
2010	142,864	62%*
2011	5,350*	N/A*

- i. \$49.00 FOB Plant; \$51.00 FOB Barge
- j. None
- k. \$52.50 FOB Plant; \$54.50 FOB Barge

*2011 shortfall tons received through April 30, 2011 applied toward 2010 obligation calculation per Part (f) above, with no tonnage obligation under the agreement in 2011.

BEECH FORK PROCESSING (Contract No. 08-901)

- a. Beech Fork Processing, Inc., P.O. Box 190, Lovely, KY 41231
- b. Bear Branch Mine in Lawrence County, KY, and the Spurlock Loadout/Mine in Floyd County, KY
- c. June 13, 2008
- d. October 1, 2008 – December 31, 2013
- e. February 5, 2009, August 30, 2010 and January 27, 2011.
- f. 180,000 tons in 2008; 450,000 tons in 2009; 360,000 tons in 2010 and 2011; 210,000 tons in 2012; 120,000 in 2013.

g&h. Year	Tons Received	Percent of Annual Requirements
2008	0	0%
2009	630,502	140%
2010	360,443	100%
2011	108,912	91%*

- i. \$82.00 FOB Plant.
- j. None
- k. \$72.29 FOB Plant.

*Based on requirements through April 2011

ICG, LLC (Contract No. 07-901)

- a. ICG LLC, 300 Corporate Centre Drive Scott Depot, WV 25560
- b. Supreme Energy, Raven Mine, and Hazard Mine in Knott County, KY
- c. January 2, 2007
- d. January 2, 2007 - December 31, 2012
- e. September 29, 2008. July 31, 2009, July 15, 2010, September 10, 2010 December 13, 2010 and April 14, 2011.
- f. 120,000 tons in 2007; 240,000 per year in 2008 through 2010; 360,000 tons in 2011. 240,000 tons in 2012.

g&h.	<u>Year</u>	<u>Tons Received</u>	<u>Percent of Annual Requirements</u>
	2007	117,544	98%
	2008	196,336	82%
	2009	278,479	116%
	2010	227,984	95%
	2011	164,814	137%*

- i. \$48.00 FOB Railcar.
- j. None
- k. \$58.75 FOB Railcar.

*Based on requirements through April 2011

CLIFFS LOGAN COUNTY COAL, LLC (Formerly INR-WV, Contract No. 08-900)

- a. Cliffs Logan County Coal, LLC 1100 Superior Avenue East, 15th Floor, Cleveland, OH 44114
- b. Toney's Fork Mine in Logan county, WV and other mines operated by the seller or its affiliates in Logan, Boone, or Wyoming County, WV
- c. February 27, 2008
- d. May 1, 2008 – December 31, 2012
- e. December 15, 2008, December 19, 2008, January 26, 2009, and November 30, 2010.
- f. 240,000 tons from May 1, 2008 through December 31, 2008; 465,000 tons in 2009 and 360,000 tons per year in 2010 through 2012.

g&h.	<u>Year</u>	<u>Tons Received</u>	<u>Percent of Annual Requirements</u>
	2008	135,564	56%
	2009	426,069	92%
	2010	360,000	108%
	2011	360,000	164%*

- i. \$70.00 FOB Railcar
- j. None
- k. \$72.00 FOB Railcar

*Based on requirements through April 2011

KENTUCKY FUELS (Contract No. 10-902)

- a. Kentucky Fuels Corporation, 189 Four Mile Branch, PO Box 130, Mousie, KY, 41839
- b. Bent Mountain and Bevins Branch Mines, Pike County, KY
- c. November 15, 2010
- d. October 1, 2010 through December 31, 2011
- e. None.
- f. 60,000 tons from October through December of 2010; 420,000 tons over 2011
- g&h.

<u>Year</u>	<u>Tons Received</u>	<u>Percent of Annual Requirements</u>
2010	41,824	69%
2011	138,574	69%*
- i. \$75.00 FOB Plant
- j. None
- k. \$72.86 FOB Plant

*Based on requirements through April 2011

RHINO ENERGY, LLC (Contract No. 10-900)

- a. Rhino Energy LLC, 424 Lewis Hargett Circle Suite 250, Lexington, KY 40503
- b. Bevins Branch Mine in Floyd County, KY
- c. August 18, 2010
- d. October 1, 2010 through December 31, 2013
- e. August 25, 2010
- f. 30,000 tons from October through December of 2010; 480,000 tons per year for 2011 through 2013.
- g&h.

<u>Year</u>	<u>Tons Received</u>	<u>Percent of Annual Requirements</u>
2010	41,903	140%
2011	154,490	97%*
- i. \$73.00 FOB Plant
- j. None
- k. \$69.75 FOB Plant

*Based on requirements through April 2011

TRINITY COAL MARKETING, LLC (Contract No. 07-900)

- a. Trinity Coal Marketing LLC , 4978 Teays Valley Road, Scott Depot, WV 25560
 - b. Levisa Fork Mine in Floyd County, KY; Bear Fork Mine in Pike County, KY; Little Elk Mine in Breathitt, Knott, and Perry Counties, KY; Falcon Resources Mine in Boone County, WV
 - c. February 27, 2007
 - d. January 1, 2007 – December 31, 2010
 - e. March 20, 2009, April 29, 2009, June 26, 2009, and April 27, 2010.
 - f. 120,000 tons in 2007; 240,000 per year in 2008; 200,000 per year in 2009; 290,000 per year in 2010
- | g&h. Year | Tons Received | Percent of Annual Requirements |
|-----------|---------------|--------------------------------|
| 2007 | 119,819 | 100% |
| 2008 | 184,793 | 77% |
| 2009 | 193,924 | 97% |
| 2010 | 297,995 | 103% |
- i. \$45.95 FOB Railcar; \$52.00 FOB Truck; \$55.50 Barge
 - j. None
 - k. \$47.95 per ton FOB Railcar; \$54.00 per ton FOB Truck; \$57.50 per ton FOB Barge

TRINITY COAL MARKETING, LLC (Contract No. 07-905)

- a. Trinity Coal Marketing LLC , 4978 Teays Valley Road, Scott Depot, WV 25560
 - b. Prater Branch Mine in Floyd County, KY and Boone County WV; Falcon Resources Mine in Boone County, WV
 - c. November 6, 2007
 - d. January 1, 2008 – December 31, 2012
 - e. March 20, 2009 (2 amendments), June 26, 2009, April 27, 2010, July 29, 2010.
 - f. 71,252 (Actual) tons in 2008; 193,264 (Actual) tons in 2009; 144,045 (Actual) tons January through May 2010; 0 tons for June and July 2010; 20,000 tons per month for August and September 2010; 30,000 tons in October 2010; 20,000 tons per month for November and December 2010; 30,000 tons per month for January through August 2011; 20,000 tons per month from September through December 2012. 1,080,000 total tons under agreement.
- | g&h. Year | Tons Received | Percent of Annual Requirements |
|-----------|---------------|--------------------------------|
| 2008 | 71,253 | 100%* |
| 2009 | 191,900 | 99% |
| 2010 | 255,688 | 101% |
| 2011 | 102,454 | 85%** |
- i. \$47.00 FOB Railcar; \$53.00 FOB Truck; \$56.00 FOB Barge
 - j. None
 - k. \$52.50 FOB Railcar; \$58.50 FOB Plant (Truck); \$62.00 FOB Barge

* 2008 obligation updated to reflect actuals per Amendment 2010-2.

**Based on requirements through April 2011

Kentucky Power Company

REQUEST

- a. State whether Kentucky Power regularly compares the price of its coal purchases to those paid by other electric utilities.
- b. If yes, state:
 - (1) How Kentucky Power's prices compare with those of other utilities for the review period. Include all prices used in the comparison in cents per MMBtu.
 - (2) The utilities that are included in this comparison and their locations.

RESPONSE

- a. Yes. Quarterly a review meeting is held with the American Electric Power Service Corporation (AEPSC) fuel procurement team and Kentucky Power in which the delivered cost of coal is compared with several utilities using two methods. The first method compares the data over a twelve-month rolling period and the second method compares the data over annual periods back to 2000. The data is from a variety of outside sources and therefore could contain errors, as well as inconsistencies between the data provided. This comparison is done strictly to provide a point of reference and no purchasing decisions are made based on the comparison.
- b. (1) and (2) The following table includes the utilities against which Kentucky Power compares its fuel prices in the quarterly meetings described above. The fuel cost data here was obtained from Velocity Suites which is a search engine that, in this case, used monthly fuel cost information from the U.S. Energy Information Agency (EIA) Form 923 for the period of November 2010 through April 2011.

This table shows that, for the companies included in the comparison, Kentucky Power has the third highest fuel costs for the review period on a cents per million British Thermal Units (MMBTU) basis. However, it should be noted that the fuel being delivered to these facilities may not be of the same quality or mixture as that being delivered to Kentucky Power. A review of the sulfur data shows that Kentucky Power purchased coal with the lowest sulfur content of all of the companies included in the comparison.

Plant Operator Name	Calculated Cents/MMBTU
Duke Energy Carolinas	365.52
Tennessee Valley Authority	294.17
Kentucky Power Co	277.11
Monongahela Power Co	260.80
East Kentucky Power Coop	257.20
Kentucky Utilities Co	241.12
Duke Energy Kentucky	212.25
Louisville Gas & Electric Co	205.43

WITNESS: Kimberly K Chilcote

Kentucky Power Company

REQUEST

State the percentage of Kentucky Power's coal, as of the date of this Order, that is delivered by:

- a. Rail;
- b. Truck; or
- c. Barge.

RESPONSE

Over the historical period from November 2010 through April 2011, and including the data available up to August 23, 2011, the percentage of KPCo's coal by delivery method is as follows:

- a. Rail: 46%
- b. Truck: 54%
- c. Barge: 0%

WITNESS: Kimberly K. Chilcote

Kentucky Power Company

REQUEST

- a. State Kentucky Power's coal inventory level in tons and in number of days' supply as of April 30, 2011. Provide this information by generating station and in the aggregate.
- b. Describe the criteria used to determine number of days' supply.
- c. Compare Kentucky Power's coal inventory as of April 30, 2011 to its inventory target for that date for each plant and for total inventory.
- d. If actual coal inventory exceeds inventory target by 10 days' supply, state the reasons for excessive inventory.
- e.
 - (1) State whether Kentucky Power expects any significant changes in its current coal inventory target within the next 12 months.
 - (2) If yes, state the expected change and the reasons for this change.

RESPONSE

- a. As of April 30, 2011, Kentucky Power's actual coal inventory level was 274,368 tons, or 27 days of supply.
- b. Days supply is determined by dividing the tons of coal in storage by the full load burn rate (tons per day).
$$\frac{274,368 \text{ tons in storage as of 4/30/2011}}{10,300 \text{ (full load burn rate - tons/day)}} = 27 \text{ days}$$
- c. As of April 30, 2011, Kentucky Power Company's coal inventory was 3 days under its target.
- d. N/A
- e. No.

WITNESS: Kimberly K Chilcote

Kentucky Power Company

REQUEST

- a. State whether Kentucky Power has audited any of its coal contracts during the period from November 1, 2010 through April 30, 2011.
- b. If yes, for each audited contract:
 - (1) Identify the contract;
 - (2) Identify the auditor;
 - (3) State the results of the audit; and
 - (4) Describe the actions that Kentucky Power took as a result of the audit.

RESPONSE

- a. Kentucky Power did not audit any of its coal contracts during the period from November 1, 2010 through April 30, 2011.
- b. N/A

WITNESS: Kimberly K Chilcote

Kentucky Power Company

REQUEST

- a. State whether Kentucky Power has received any customer complaints regarding its FAC during the period from November 1, 2010 through April 30, 2011.
- b. If yes, for each complaint, state:
 - (1) The nature of the complaint; and
 - (2) Kentucky Power's response.

RESPONSE

Kentucky Power did not receive any customer complaints regarding its FAC during the period from November 1, 2010 to April 30, 2011.

WITNESS: Lila P Munsey

Kentucky Power Company

REQUEST

- a. State whether Kentucky Power is currently involved in any litigation with its current or former coal suppliers.
- b. If yes, for each litigation;
 - (1) Identify the coal supplier;
 - (2) Identify the coal contract involved;
 - (3) State the potential liability or recovery to Kentucky Power;
 - (4) List the issues presented; and
 - (5) Provide a copy of the complaint or other legal pleading that initiated the litigation and any answers or counterclaims. If a copy has previously been filed with the Commission, provide the date on which it was filed and the case in which it was filed.
- c. State the current status of all litigation with coal suppliers.

RESPONSE

- a. Kentucky Power is not currently involved in any litigation with its current or former coal suppliers.
- b. N/A
- c. N/A

WITNESS: Kimberly K Chilcote

Kentucky Power Company

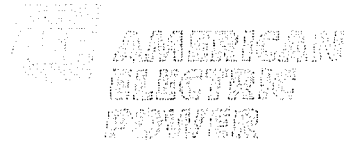
REQUEST

- a. During the period from November 1, 2010 through April 30, 2011, have there been any changes to Kentucky Power's written policies and procedures regarding its fuel procurement?
- b. If yes:
 - (1) Describe the changes;
 - (2) Provide the written policies and procedures as changed;
 - (3) State the date(s) the changes were made; and
 - (4) Explain why the changes were made.
- c. If no, provide the date Kentucky Power's current fuel procurement policies and procedures were last changed, when they were last provided to the Commission, and identify the proceeding in which they were provided.

RESPONSE

- a. Yes.
- b.
 - 1) The Fuel Emissions & Logistics (FEL) Procurement Policy was consolidated to make the document more concise and easier to read and review. The description of the organization was also updated to reflect the current reporting structure and responsibilities of each group, as was reported in Item No. 31 in Case No. 2010-00490.
 - 2) Please see Page 2 of this response.
 - 3) The updated version of the procurement policy was approved on February 17, 2011.
 - 4) Prior to the version approved in February 2011, the FEL Procurement Policy was last revised and approved in 2004. Since that time the organization had changed functionally, and the policy was updated to more accurately reflect the current reporting structure and responsibilities within the organization.
- c. N/A

WITNESS: Kimberly K Chilcote



Cover Sheet

Organization: Fuel, Emissions & Logistics
Title: FEL Procurement Policy
Revision: February 2011

Approved By:	Date	Signature
Marguerite C. Mills	2/17/11	Marguerite C. Mills
Stephen M. DeBord	02/17/11	Stephen M. DeBord
Timothy K. Light	2/17/11	Timothy K. Light

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AMERICAN ELECTRIC POWER

FUEL, EMISSIONS & LOGISTICS

PROCUREMENT POLICY

February 2011 Update

Table of Contents

INTRODUCTION.....	3
1.0 The Fuel, Emissions & Logistics (FEL) Organization	4
1.1 Roles and Responsibilities of the FEL Organization.....	4
1.2 Organizational Structure of FEL.....	5
1.3 Procurement Responsibilities	6
1.4 General Administrative Duties	7
2.0 FEL Procurement Policy and Implementation	8
2.1 Business Ethics and Corporate Compliance	8
2.2 Procurement Considerations	8
2.3 Proper Inventory Levels	9
3.0 Procurement Methods and Documentation	10
3.1 Requests for Proposal (RFP).....	10
3.2 Other Offer Evaluation	10
3.3 Emergency Procurement	10
3.4 Negotiating Responsibility.....	11
3.5 Enforcement of Agreements	12
4.0 Hedging Policy	13
4.1 Hedging Definition.....	13
4.2 Hedging Strategy	13
5.0 Contract Administration.....	14
5.1 Overview and Responsibilities	14

INTRODUCTION

The purpose of this document is to describe the procurement policy (the Policy) utilized by the Fuel, Emissions & Logistics (FEL) organization within the American Electric Power Service Corporation (AEPSC). The FEL organization is responsible for the procurement of fuel, reagents, transportation services, and emissions allowances. The Policy was developed to help ensure that appropriate procurement guidelines are followed. This document is not intended to provide detailed, step-by-step, procedures for procurement.

This document summarizes the roles and responsibilities of the various groups within the FEL organization as they pertain to the procurement of fuel, reagents, and transportation. This document also contains a general discussion of policies to be followed when participating in hedging activities.

This document replaces the FEL Fuel Procurement Policy from 2004, which was the most recent approved version. This document is intended to be updated on an as-needed basis, to ensure consistency with current organizational structure and any relevant changes to company or regulatory policy.

1.0 The Fuel, Emissions & Logistics (FEL) Organization

1.1 Roles and Responsibilities of the FEL Organization

The FEL organization operates within the Generation organization of the AEPSC, and provides procurement and transportation services for the fleet of power plants owned and operated by American Electric Power (AEP or the Company) and its operating companies, as well as the Ohio Valley Electric Corporation (OVEC), the Indiana Kentucky Electric Corporation (IKEC) and the Cardinal Operating Company. The Senior Vice President (SVP) of FEL reports to the Executive Vice President (EVP) of the Generation organization of the AEPSC. The FEL organization is responsible for procuring all the fuel (coal, natural gas, fuel oil, and biofuels), reagents (trona, urea, lime, limestone, and activated carbon, etc.) and associated transportation services required by the power plants. FEL is also responsible for the management of fuel and transportation-related assets including AEP's River Operations, the Cook Coal Terminal, the Conesville Coal Preparation Plant, the Alliance and Metropolis Rail Car Facilities, the Dolet Hills Mining Company, and the Central Coal Laboratory. FEL also oversees the operations of the Sabine Mining Company.

FEL is also responsible, through market activities, for supporting AEP's Environmental Services organization to ensure that AEP and its operating companies are holding sufficient allowances to achieve compliance with any applicable regulations.

The FEL organization provides current market-based pricing information to AEP's Commercial Operations organization. This information is used for generation-related functions on behalf of the operating companies.

FEL communicates with the Production Optimization group daily and monthly so that load forecasts and fuel purchasing are effectively coordinated to ensure that plants receive adequate supplies of fuel to meet the planned dispatch for generating units over the short-term. For long-term procurement planning, FEL communicates with the groups that are responsible for developing the Integrated Resource Plan, which include, but are not limited to, the Corporate Planning & Budgeting and Generation organizations.

FEL supports, as necessary, fuel-related regulatory activities in response to state and federal agency requirements, including preparation of reports, testimony, schedules and interrogatory responses.

1.2 Organizational Structure of FEL

The SVP of FEL has the ultimate responsibility to ensure that AEP's generating stations maintain appropriate and reliable supplies of fuel and reagents consistent with generating unit requirements and environmental regulations, as well as the means to transport those materials to the plants.

The following groups report to the SVP of FEL:

▪ Fuel Analysis & Emissions

The Fuel Analysis & Emissions group is responsible for economic and operational impact analysis support relating to fuel, power plant emissions, and operational limitations. This includes reporting on fuel and environmental impacts and management cost reporting and variance analysis. This group is also responsible for the development of monthly fuel forecast development. This group oversees the planning and execution of procurement and disposition of emission allowances for compliance requirements, and is also responsible for Sarbanes-Oxley compliance and Information Technology (IT) project oversight for the group. The Fuel Contract Administration group within Fuel Analysis & Emissions is responsible for contract administration of coal, reagents, biofuels and transportation

▪ Operations & Mining

The Operations & Mining group within FEL is responsible for the Dolet Hills, and Oxbow mining-related activities as well as the operations of the Cook Coal Terminal, Metropolis Rail Car Facility, Alliance Rail Car Facility, Conesville Coal Preparation Plant, the Central Coal Lab, and the combined land and mineral development team within FEL. The Operations & Mining organization also oversees the mining-related activities at the Sabine Mining Company, which is operated by a third party.

▪ Boat Operations

The Boat Operations group is responsible for Indiana & Michigan Power's River Transportation Division, River Operations' facilities in Paducah, KY, Lakin, WV and Mobile, AL, and seven facilities in greater New Orleans, LA. Boat Operations serves the following regulated operating companies: Appalachian Power, Ohio Power, and Indiana Michigan Power. Boat Operations also operates an unregulated business for other third parties. Headquartered in Chesterfield, Missouri, AEP River Operations includes a fleet of approximately 3,200 barges and 69 towboats, along with a full-service shipyard and six barge repair and cleaning facilities on the lower Mississippi River in LA.

▪ Fuel Procurement (Coal and Transportation)

This fuel procurement group within FEL is responsible for the procurement of coal and the management of coal inventories for all pertinent power

plants within AEP's seven operating companies, OVEC, IKEC, and the Cardinal Operating Company. This group is also responsible for the transportation of coal and other bulk commodities, logistics, railcar leasing, and marketing of available capacity at Cook Coal Terminal.

▪ **Fuel Procurement (Natural Gas, Fuel Oil, Reagents and Biofuels)**

This fuel procurement group within FEL is responsible for the procurement of natural gas, reagents, biofuels, and fuel oil for the AEP System, as well as OVEC, IKEC, and the Cardinal Operating Company. This group is responsible for the development and use of alternative/renewable fuels in AEP's generating fleet as well as marketing activities associated with post-combustion products. This fuel procurement group is also responsible for contract administration for natural gas and fuel oil agreements.

A current organizational chart for FEL is included as Appendix A of this policy.

1.3 Procurement Responsibilities

The responsibility for overall procurement and associated activities is that of the SVP of FEL. As shown in the Organizational Chart in Appendix A, the VPs in charge of the two fuel procurement groups shall report to the SVP of FEL. Personnel from other AEP departments shall participate in these activities when it is deemed beneficial to the goals and objectives for AEP as a whole.

A. VPs of Fuel Procurement

The fuel procurement VPs shall, in conjunction with others, oversee the development, negotiation, execution and administration of supply and transportation agreements. These VPs shall exercise the prudent judgment, practical experience, organizational ability, and supervisory capacity necessary to administer their group's operations consistent with this Policy.

B. Directors and Managers of Fuel Procurement

Each Director and/or Manager is responsible for directing and/or performing the planning and execution of fuel and reagent purchases for the operating companies' generating stations, OVEC, IKEC, and the Cardinal Operating Company, as well as supervision of the Portfolio Managers and FEL Coordinator(s). The Director and/or Manager obtains specifications, availability, prices and agreement conditions for fuel, transportation and reagents. The Director and/or Manager also participates in agreement negotiations as requested and ensures that all pertinent agreements are properly coordinated, monitored, and executed.

C. FEL Portfolio Managers and FEL Coordinators

Under the direction of a Director or Manager of Fuel Procurement, the Portfolio Managers and/or FEL Coordinators are responsible for supporting the general planning and execution of fuel, transportation and reagent purchases for the operating companies' generating stations, OVEC, IKEC and the Cardinal Operating Company within defined responsibilities. Portfolio Managers and Coordinators are also responsible for maintaining regular communications with plant employees to ensure that vendors are performing consistent with the terms of executed agreements.

1.4 General Administrative Duties

FEL shall subscribe to or obtain access to a representative number of trade and industry publications and reports by governmental agencies concerning prices for relevant materials and services. FEL shall be knowledgeable of market conditions related to fuel, reagent, and transportation prices and availability. FEL shall maintain appropriate contact with current and potential suppliers, and use other reliable sources of information to maintain a working knowledge of current issues affecting pertinent material or service providers.

The employees of FEL, as directed by management, will attend meetings and conferences related to fuel, reagents, and transportation. FEL employees may also be required to participate in regulatory proceedings. These activities are necessary for the effective execution of this FEL procurement policy.

To help assure that current and anticipated requirements for fuel and reagents are met, FEL personnel and management shall maintain adequate communications within the FEL organization, AEP, and its operating companies.

FEL shall periodically review and consider changes, as necessary, to this Policy.

2.0 FEL Procurement Policy and Implementation

2.1 Business Ethics and Corporate Compliance

FEL employees shall be committed to high standards of business ethics and shall adhere to any and all applicable guidelines provided through *AEP's Principles of Business Conduct*. A copy of this document is provided as Appendix B to this document.

2.2 Procurement Considerations

AEP's overall Procurement Policy shall be used to secure adequate supplies of competitively-priced coal, natural gas, reagents, fuel oil, biofuels, and transportation services to meet generation, environmental, and operational requirements, while recognizing the dynamic nature of the various associated markets, environmental standards, and regulatory requirements. To accomplish these objectives the Company maintains, as appropriate, a mix of physical inventories and a portfolio of long-term and short term agreements for firm and discretionary supplies of fuels, reagents, and transportation suitable for its generating units. AEP's procurement strategy is to provide an appropriate amount of fuel, reagents, and transportation with optimal supply flexibility, considering the Company's long-term agreements and market conditions. It is also the policy of FEL to meet these material and service requirements at the lowest reasonable cost over time, consistent with satisfying the above-stated objectives.

Those groups within FEL responsible for the procurement of materials and services shall be organized and staffed to carry out the procurement of coal, natural gas, reagents, fuel oil, biofuels, and transportation in an efficient and practical manner. All materials and services shall be purchased with due consideration of all relevant factors, including but not limited to: competitive pricing, the quantity needed to maintain an appropriate supply, the quality required to optimize the operating characteristics of the generating stations, the need to meet any applicable environmental standards, the production capability as well as the financial reliability of the supplier, anticipated operating companies' needs, existing contractual obligations, and the ability to address emergencies or other unusual circumstances.

2.3 Proper Inventory Levels

The primary objective of FEL shall be to ensure the availability of an adequate, reliable supply of fuel and reagents for the generation of electricity. Consequently, decisions affecting solid fuel, fuel oil and reagent¹ inventories shall be made in consideration of this primary objective. This Policy shall *allow for flexibility, permitting physical inventory levels of solid fuel, fuel oil and reagents to be responsive to known and anticipated changes in conditions.* Solid fuel inventory target levels shall be recommended by the Fuel Supply Task Group and subject to the approval of senior management, while reagent and fuel oil target inventories are determined by the applicable Fuel Procurement group. This inventory target determination process helps ensure that the operating companies' requirements and each plant's needs are given due consideration and promotes efficiency of operation.

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

Other organizations within AEP responsible for developing financial and generation forecasts and FEL, as applicable, shall participate in the preparation of the short-term, annual, and/or long-range projections for plant fuel, transportation and reagent requirements. These projected requirements shall consider varying operational and environmental requirements.

FEL's goal is to maintain an overall economic and reliable supply balance between long-term, short-term, and spot agreements for fuel and reagents. In making purchases, FEL shall consider current and projected system requirements, current and reasonably foreseeable market conditions, weather and seasonal conditions affecting production, consumption, transportation, any anticipated shortfall of existing supply agreement shipments, and anticipated changes in spot market prices. Given existing contractual arrangements, contract expiration dates, existing and anticipated demand for electrical energy, status of inventory levels, changes to existing federal and/or state environmental standards or other laws, overall market conditions and other temporary or long-term factors affecting procurement and transportation decisions, the mix of long-term and spot agreement purchases may be reasonably expected to vary between operating companies given the particular circumstances of each generating plant.

¹ None of the natural-gas fired generating facilities owned by AEP currently have the ability to maintain natural gas inventories. These plants maintain a proper supply of fuel through a portfolio of fixed and interruptible gas supply and delivery contracts.

3.0 Procurement Methods and Documentation

The use of this procurement policy may be reflected in one or more of the following:

3.1 Requests for Proposal (RFP)

When appropriate, and under the direction of a VP of FEL, RFPs should be issued to seek as many offers as possible to obtain the lowest reasonable delivered cost, over time, for a service or material². RFPs can be sought for long-term contracts or spot orders, and should be used whenever it is practical to do so. The RFP is sent to any number of qualified suppliers to competitively procure the material or service needed.

Any purchase decision resulting from responses to an RFP is documented in a manner to demonstrate that the company acted prudently in procuring the material or service. This documentation includes an analysis of the offers received, and an explanation of the rationale used in awarding a contract.

3.2 Other Offer Evaluation

At times, the FEL organization may be approached with unsolicited offers for materials or services that warrant consideration, whether they are for short or long-term agreements. When considering these types of offers, FEL may use market-based indices, other contract prices, or other reasonable methods of comparison to determine whether or not it would be prudent to accept such an offer.

In the case that one of these types of offers is accepted, documentation is prepared describing the manner in which the offer was received, and also the rationale used to determine that the offer was reasonable. This documentation provides evidence that the action taken on behalf of the Company was prudent.

3.3 Emergency Procurement

Any one or more of the approaches described in this Policy may be waived whenever it is determined that fuel or reagents must be purchased, or transportation services acquired, due to immediate and unavoidable circumstances that are not conducive to normal procurement practices. This

² It should be noted that state regulatory commissions may have their own rules regarding the competitive procurement of fuels for power plants under its jurisdiction. This policy is not meant to supplant those state-specific requirements.

determination shall be made by a VP in FEL, with the concurrence of the SVP of FEL and senior management as needed. Situations that could potentially lead to emergency actions may include, but are not limited to:

- A. Emergency or other extraordinary conditions or circumstances that make it reasonably certain that an adequate supply of acceptable fuel or reagents cannot be obtained from existing agreements and/or spot purchase suppliers.
- B. Inability to obtain appropriate quantities to cover unanticipated shortages of fuel or reagents that meet minimum quality requirements in a timely fashion using typical procurement practices.
- C. Lengthy transportation related delays or suspensions.

3.4 Negotiating Responsibility

The responsibility for negotiating final terms and provisions of fuel, reagent, and transportation agreements shall be a team effort under the overall guidance of the appropriate VP of FEL. A negotiating team could be comprised of any or all of the following individuals, depending on the type of agreement to be negotiated:

- VP Fuel Procurement (Coal and transportation)
- VP Fuel Procurement (Natural Gas, Fuel Oil, Reagents, Coal Combustion Products and Alternative Fuels)
- Director – Fuel Procurement
- Manager - Fuel Procurement
- FEL Portfolio Manager
- FEL Coordinator

While all contractual documents are reviewed by AEP's Legal Department, a negotiating team may call upon other departments (e.g. Credit, Strategic Initiatives, Fundamentals, Regulatory, etc.) as needed 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 each negotiating team a distinct advantage of providing specialists to the agreement development process who are most proficient in developing, recommending, and negotiating terms that are beneficial to AEP, its operating companies, OVEC, IKEC, and the Cardinal Operating Company.

3.5 Enforcement of Agreements

Supplier obligations under fuel, reagent and transportation supply agreements shall be administered to ensure compliance by the suppliers and transporters consistent with AEP's Fuel Procurement Policy. FEL shall act judiciously, with due consideration of the desire to achieve compliance by the supplier as well as the need to maintain adequate supplies of fuel and reagents to meet plant and system requirements.

Whenever quality analysis reports disclose that a shipment does not meet conditions or terms of the applicable agreement, the appropriate Manager, Portfolio Manager and/or FEL Coordinator and the supplier shall be informed. Given the circumstances of the failure to meet the specifications of the agreement and the pertinent provisions of that particular agreement, the appropriate action shall be taken.

If it is then determined that a dispute related to a supplier's or transporter's non-performance is unlikely to result in an amicable resolution, the matter shall be referred to the proper VP of FEL. The VP shall undertake the appropriate action, including further negotiation or arbitration, if provided for by the agreement.

If a VP of FEL finds that an amicable resolution to a supplier's or transporter's non-performance cannot be achieved, litigation may be pursued with the involvement of AEP's Legal department and under the guidance of the SVP of FEL and senior management.

4.0 Hedging Policy

4.1 Hedging Definition

A fuel hedge, as defined by AEP, is a forward contract that either serves to lock in the price of fuel for a specific volume and quality, or provides the ability to do the same by the use of put and call options.³ Such transactions may be settled either financially or physically. A financially settled transaction results in a net gain or loss, while physically settled contracts result in actual fuel deliveries at the agreed upon price terms. Hence, fuel hedges are to be used as tools to mitigate volatility in fuel purchase costs relative to market volatility.

4.2 Hedging Strategy

To support AEP's key business of generation, transmission and distribution of electric power to its customers, FEL may enter into fuel hedges, when appropriate, with the purpose of protecting ratepayers from fuel price volatility. FEL's primary means of hedging to reduce fuel price volatility is through a portfolio of short and long-term physical supply agreements. Maintenance of such a portfolio ensures less volatile fuel prices than a market may bear, while allowing some flexibility in taking advantage of shorter-term pricing options as they become available.

FEL is not currently active in entering into financial fuel hedge transactions because these transactions, while they may decrease fuel price volatility, also have gains, losses, and associated costs. However, FEL has and will continue to evaluate hedging opportunities that would be settled financially. Implementation of specific operating company hedging programs would be subject to the appropriate regulatory approvals and cost recovery mechanisms.

³ There are special accounting criteria for hedging with options, for example written options rarely qualify for hedge accounting. Incorporating options in an accounting hedge strategy should be fully discussed with Financial Policy and Transaction Analysis prior to execution.

5.0 Contract Administration

5.1 Overview and Responsibilities

Contract administration is performed by two groups within FEL. Contract administration for coal, transportation, reagents and biofuels is performed by the Fuel Contract Administration (FCA) group within Fuel Analysis & Emissions. Contract administration for fuel oil and natural gas is performed by the Fuel Procurement group that is responsible for the procurement of natural gas. These two groups are responsible for the administration of existing and proposed contractual agreements for the purchase and sale of coal, fuel oil, natural gas, reagents, biofuels, and related transportation agreements made by FEL on behalf of the AEP's Operating Companies as well as OVEC, IKEC and the Cardinal Operating Company.

These contract administration groups closely interact with FEL Portfolio Managers and FEL Coordinators, Legal, Credit, Fuel Accounting, Audits, Regulatory Services, and power plant personnel to ensure that contractual agreements represent the intended business relationship between the parties, and to monitor the Operating Companies' rights and obligations under existing agreements. Contract administration support services include, but are not limited to:

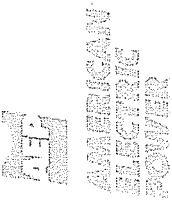
- Developing and/or reviewing contractual documents under existing and proposed agreements;
- Document tracking, distribution and retention;
- Monitoring contractual deadlines regarding volume elections, price reopeners, and term extension elections; issuing written notices to counterparties reflecting FEL option decisions;
- Determining contract value through pricing and rate development;
- Providing contractual review, including analysis of proposed settlements, changes in law, governmental impositions, and other pricing claims;
- Administering data requirements for internal fuel management systems which provide database of historical costs and volumes for invoice support and reporting requirements;
- Monitoring and reporting volume commitment status and tiered pricing under transportation agreements;
- Administer coal scale calibration adjustments including determination of any pricing adjustments that may be applicable;
- Provide coal, reagent, fuel oil, natural gas, and transportation contract data for state and federal regulatory filings as needed;

- Administer Force Majeure claims initiated by FEL or counter parties;
- Provide accrual recommendations to the group responsible for fuel accounting.

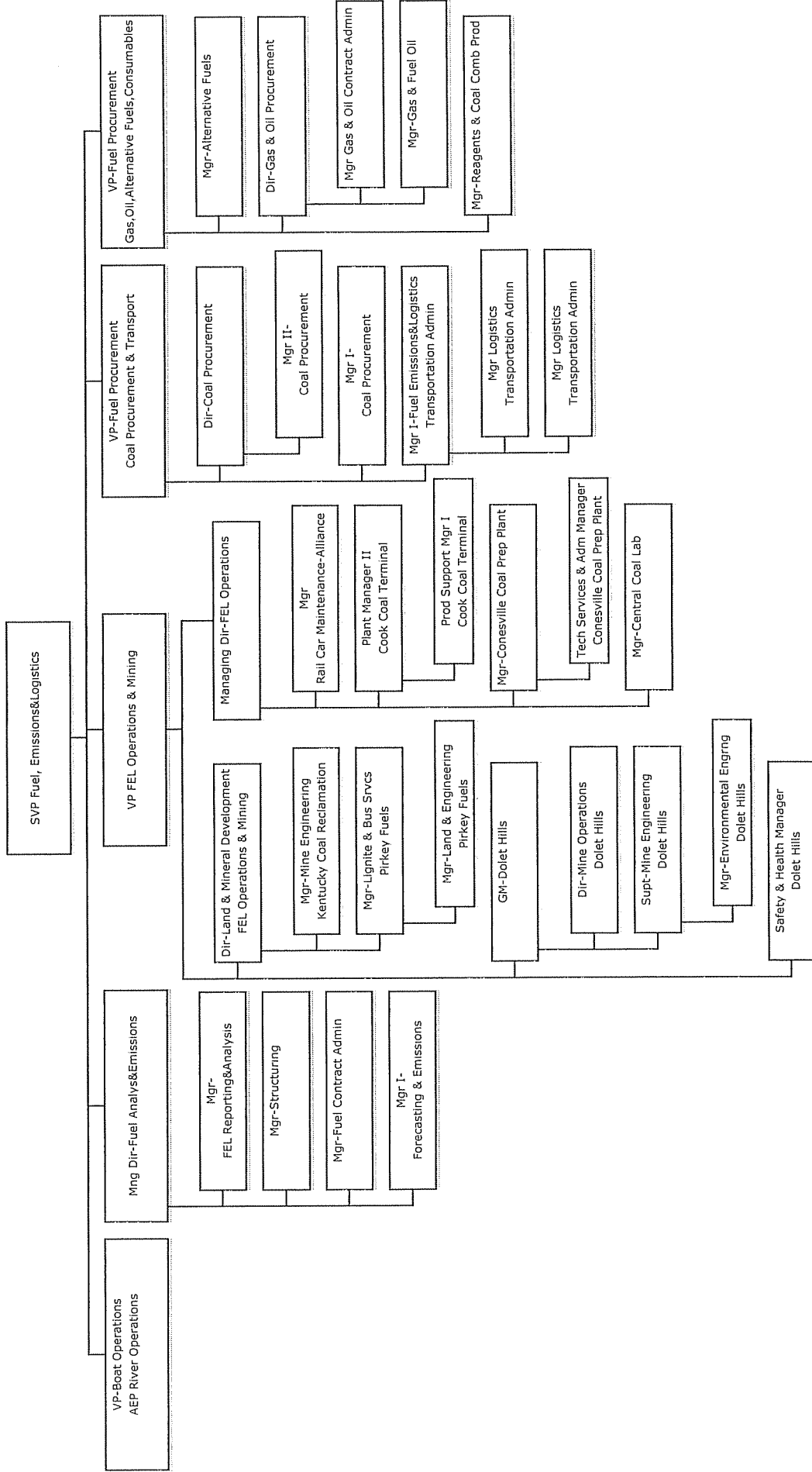
Appendix A:

American Electric Power

Fuel, Emissions & Logistics Organizational Chart

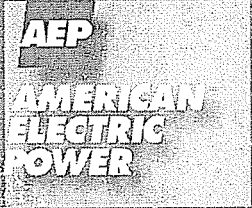


Appendix A: American Electric Power Fuel, Emissions & Logistics Organizational Chart



Appendix B:

AEP's Principles of Business Conduct



American Principles of Business Integrity

The Power of Integrity

AEP's Principles of Business Conduct

KPSC Case No. 2011-00245
Order Dated August 23, 2011
Item No. 15
Page 22 of 58

Contents:

A Message from Mike Morris	1	Protecting Corporate Assets	14
AEP's Mission & Values	2	Accurate Accounting	15
Principles Compliance	4	Intercompany Relations	15
Office of the Chief Compliance Officer	5	SEC Reporting and Public Communications	15
Reporting Concerns/Help with Ethical Issues	5	Internal Control Requirements	15
Retaliation Against Employees	5	Security of Property and Confidential Information	16
Relationships with Employees, Customers, Suppliers & the Environment	6	Records Retention	16
Business Relationships	8	Intellectual Property	16
Antitrust	9	Real World Applications	17
Gifts and Entertainment	9	Relationships with Employees	18
Conflicts of Interests	10	Relationships with Customers	20
Corporate Opportunities	11	Relationships with Suppliers	22
Insider Information	11	Relationship with the Environment	24
Employees Engaged in Trading Activities	11	Business Relationships	26
Politics & Government Relations	12	Politics & Government Relations	28
Employee Political Participation	13	Protecting Our Company	30
Personal Political Contributions	13	AEP's Business Ethics Goals	32
Government Relations	13	Compliance with AEP's Principles of Business Conduct	33
		Our Job	34

In order to keep this document brief and readable, certain sections reference other policies, standards, and guidelines that expand the topic area. These documents are readily available to all employees and may be found on the AEP Intranet site at the Policy Central home page (<http://policycentral>) or upon request from your manager or supervisor.

The Power of Integrity

KPSC Case No 2011-00245
Order Dated August 23, 2011
Item No. 15
Page 23 of 58



Dear Fellow Employee,

AEP's Principles of Business Conduct are derived from the ethical and legal principles that apply to all employees working for the AEP System. AEP's commitment in high standards of business ethics is built on the collective ethics, character, and reputation of our employees. Every day we demonstrate our commitment to excellence by the way we live and work according to our shared beliefs about the way we will treat each other, our customers, and the communities we serve.

Ethical conduct means doing the right thing at the right time, every time. It means applying our core values in all our business decisions. It means adhering to the laws, regulations, and policies related to the performance of our jobs. And, it means demonstrating our leadership, integrity, and compassion as a valued corporate citizen of every community we serve. We all share responsibility for maintaining the power of AEP's integrity.

As AEP employees, you are accountable for your actions and for living up to the highest standards of business ethics. Please take the time to read and understand *AEP's Principles of Business Conduct* and ask questions if you need further clarification.

Michael G. Morris
Chairman, President & Chief Executive Officer

AEP's Principles of Business Conduct

KPSC Case No. 2011-00245
Order Dated August 23, 2011
Item No. 15
Page 24 of 58

AEP's Mission & Values

Our Mission

Our mission, simply stated, is bringing comfort to our customers, supporting business and commerce, and building strong communities.

Our Values

Safety

No operating condition or urgency of service can ever justify endangering the life of anyone. At all times, our first thought and primary consideration is safety for all employees, for customers and for the general public.

Justice & Fairness

Doing the right thing at the right time, every time.

Trustworthiness

Cultivating a reputation of honesty and straightforward communication.

Responsibility

Accepting accountability for your actions and living up to high ethical expectations.

Citizenship

Developing a sense of community among all those you encounter.

Respect

Treating others the way we want to be treated, regardless of position, and valuing each person's talents, perspectives, and experience.

Caring

Maintaining a sincere desire to make the world a better place.



Principles Compliance

The Power of Integrity

KPSC Case No. 2011-00245
Order Dated August 23, 2011
Item No. 15
Page 27 of 58

AEP employees have every right to demand that the company for which they work and their fellow employees all uphold high ethical standards. Since the tone for any organization is set at the top, employees should feel encouraged that AEP's management tone is one of uncompromising integrity.

AEP expects all employees, at all levels and at all times, to comply with their legal and ethical obligations and with these *Principles of Business Conduct*.

AEP regards violation of these *Principles of Business Conduct* policies as a serious matter. A breach can put the Company, its employees and its products or services at substantial risk. Every employee is accountable for his or her own behavior. Anyone who violates the policies described in these *Principles of Business Conduct* will be subject to disciplinary action up to and including termination.

Office of the Chief Compliance Officer

In addition to monitoring and enforcing employees' legal and ethical compliance, AEP's Office of the Chief Compliance Officer is committed to raising the level of awareness of all AEP employees about the importance of ethics and compliance in the workplace. AEP's Business Ethics & Corporate Compliance group reports to the Chief Compliance Officer and administers AEP's ethics and compliance program.

An effective ethics and compliance program promotes an organizational culture that encourages the highest ethical standards of business conduct and a commitment to compliance with the law. AEP's ethics and compliance program is an invaluable tool in mediating between the demands for superior economic performance and the need to meet these demands in an ethical and law-abiding manner.

Reporting Concerns/Help With Ethical Issues

If you become aware of any illegal conduct or behavior in violation of AEP's *Principles of Business Conduct* by anyone working for or on behalf of AEP, or if you have any business ethics questions or concerns, you are first encour-

aged to discuss your concern with your supervisor or others in your management.

If you are unable or unwilling to discuss your concerns with your supervisor or others in your management, or if your previous concerns have not been addressed to your satisfaction, you can call the AEP Concerns Line, toll free, 24 hours a day at 1-800-750-5001. We will make every effort to maintain the confidentiality of the information and the anonymity of anyone disclosing the information. Your name is not requested or needed to address most concerns.

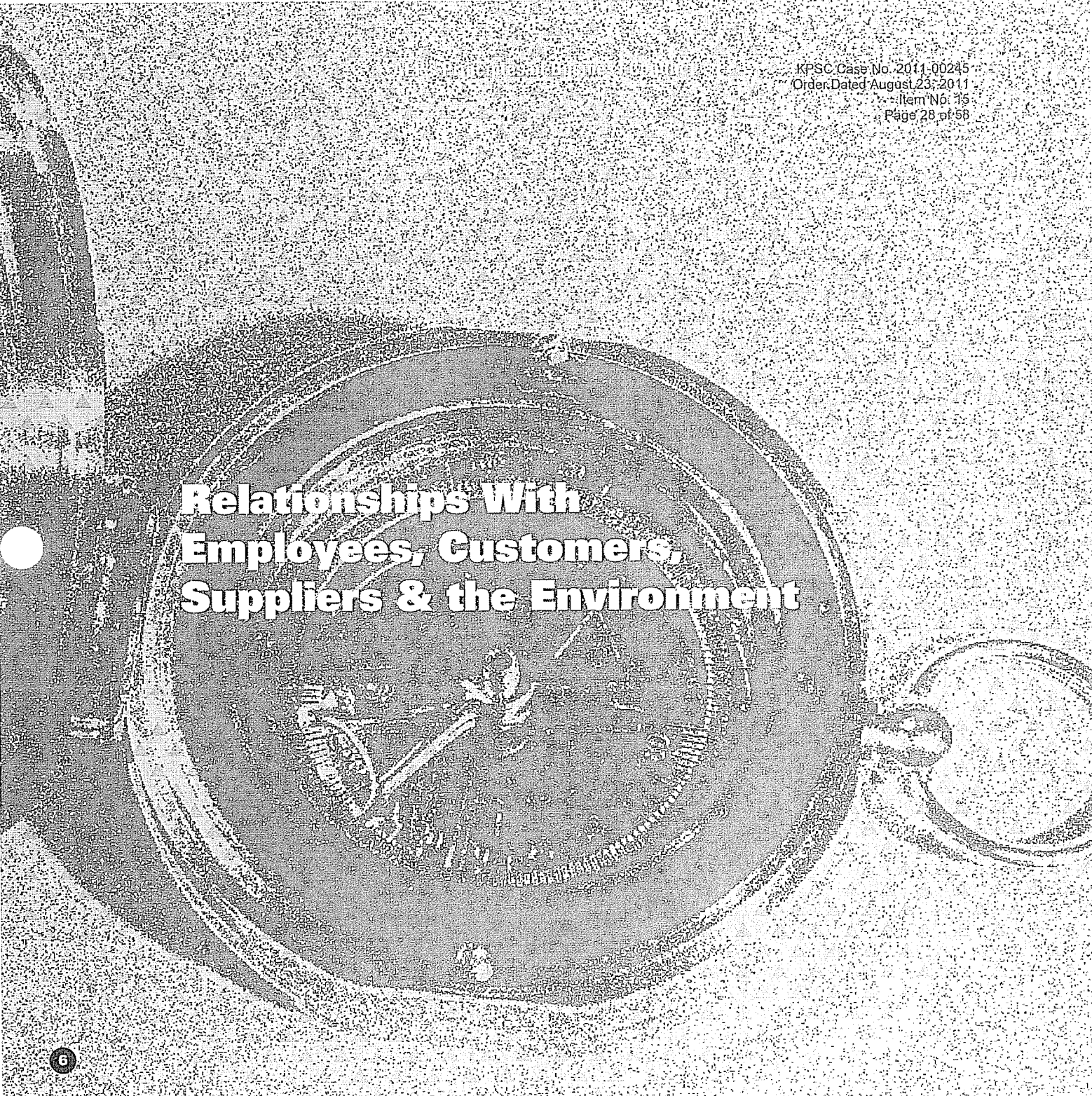
Likewise, when we receive a call, we assume neither that an allegation is accurate nor that it is false. When a claim is investigated, an equal effort is devoted to honoring the rights of the person who is alleged to have committed the wrongdoing. Unless and until satisfactory evidence of wrongdoing is found, the reputation of each individual involved is protected to the maximum extent possible.

Questions seeking guidance on ethical issues not requiring anonymity can be addressed directly to AEP Business Ethics & Corporate Compliance through the Business Ethics Helpline at Audinet 8-200-0CCO (6226) or 614-716-6226.

Retaliation Against Employees

Retaliation against an employee for reporting an issue or raising a concern he or she believes to be true involving a violation of company policy, law, or regulation is strictly prohibited. Retaliation can take many forms, such as demotions, undesirable assignments, inappropriate performance ratings and termination of employment. Retaliation may also include verbal harassment, intimidation, and threats of retaliation.

Allegations of retaliation for reporting concerns are very serious. Any such allegation will be thoroughly investigated. Employees may not attempt to determine who reported an incident or placed a call to the AEP Concerns Line. Confirmed allegations of retaliation will result in appropriate disciplinary action, including termination.



**Relationships With
Employees, Customers,
Suppliers & the Environment**

The Power of Integrity

KPSC Case No. 2011-00245
Order Dated August 23, 2011
Item No. 15
Page 29 of 58

Safety is the primary cornerstone of all of our relationships. At all times, our first thought and primary consideration is safety for all of our employees, for our customers, and for the general public. No operating condition or urgency of service can ever justify endangering the life of anyone.

Relationships With Employees

Employees and their contributions to the workplace are AEP's most valuable assets. Our commitment to respect our people and give them the opportunity to be as successful as they can be means that we will:

- Respect each other as individuals and manage by motivation, not intimidation.
- Treat others the way we want to be treated, regardless of position, and value each person's talents, perspectives and experience.
- Promote trust, teamwork and work/life balance.

Relationships With Customers

A key to AEP's business success lies in our ability to please our customers by meeting their needs in ways that improve their quality of life. This includes delivering safe, efficient, and reliable services of consistently high value and promoting our products truthfully. If we please our customers, we will please our regulators, our financial results will reward shareholders, and our employees can reap significant rewards.

AEP depends on long-term, continuing relationships with satisfied customers. Cultivating a reputation of honesty and straightforward communication is fundamental to this long-range approach.

Relationships With Suppliers

AEP often depends on suppliers to accomplish our work objectives. Maintaining a healthy working relationship with suppliers is important. AEP believes that promoting a healthy business relationship with suppliers starts with a procurement process that is open, fair, and emphasizes competitive bidding in contracts.

The highest standards of personal conduct and business ethics are required of each employee who is directly involved in buying goods and services, as well as other employees who are in a position to influence purchase decisions or relationships. In addition, every employee involved in the buying process must ensure that their actions are on an arms-length basis with suppliers and in accordance with the corporate procurement policy. No bribes, kickbacks, or similar unlawful or improper payments may be given to any person or entity for the purpose of obtaining or retaining business for AEP.

Relationship With The Environment

AEP is committed to environmental excellence and leadership to achieve the highest level of environmental protection and enhancement, in full compliance with all applicable laws and regulations, consistent with providing a reliable and economical supply of energy. Employee awareness and commitment to compliance with environmental requirements are key to meeting our legal obligations and protecting the environment today and for generations to come.

Striving for environmental excellence depends on the individual efforts of thousands of AEP employees, working together with a shared commitment to environmental protection and enhancement. All employees are expected to assume responsibility for environmental protection and will be held accountable for willful violations of environmental laws or regulations.

Business Relationships

The Power of Integrity

KPSC Case No. 2011-00245
Order Dated August 23, 2011
Item No. 15
Page 31 of 58

Each employee and officer should deal fairly with our customers, suppliers, competitors, and employees. No employee should take unfair advantage of anyone through manipulation, concealment, abuse of privileged information, misrepresentation of material facts, or any other unfair-dealing practice.

Antitrust

All employees are responsible for ensuring that our business is conducted in compliance with state and federal antitrust laws. Antitrust laws are complex. The premise, however, is simply that the economy and public will benefit most if *businesses compete vigorously, free from unreasonable restraints on competition and trade*. In general, the antitrust laws prohibit:

- Joint action, by means of conspiracies, agreements and other understandings between two or more competitors regarding prices, customers, territories, and other policies or conduct that unreasonably restrain competition.
- Unilateral action that is exclusionary and tends to create or maintain monopoly power in the marketplace for some particular product or service.
- Discrimination in the prices to buyers of similar goods, who are similarly situated, during the same market conditions, subject to several complex defenses and conditions.
- False or misleading advertising that either disparages a competing product or service, or conveys materially misleading information about our own product or service.
- Mergers and acquisitions that tend to reduce competition.

Violation of these laws can carry severe civil and criminal penalties for both AEP and the individual. *All employees should be alert to business situations that raise antitrust issues. Employees who fail to comply with the antitrust*

laws may be subject to disciplinary action, which could include termination of employment. If you have any questions about the laws' applicability to your conduct – or if you are uncertain whether a situation involves antitrust issues – do not continue the conduct or conversation until you have consulted with your supervisor or contacted the AEP Legal Department.

Gifts And Entertainment

All business decisions should be made objectively, solely on the basis of quality, service, price, and similar competitive factors. Employees may not accept gifts, favors, services, payments, privileges, or special treatment of any kind from a customer, supplier, or contractor, nor may employees give them to anyone in a business relationship unless to do so would be: 1) consistent with good business practices; 2) of a nature not construed to be a business inducement; 3) of a nominal value; and 4) not embarrassing to AEP if there were public disclosure.

Gifts not in compliance with the standard that are received by an employee must be returned to the donor, accompanied with an explanation about this standard. If perishable, the gift should be donated to a charitable organization and the donor notified of the action taken.

Meals and other social events, the main purpose of which is to establish and maintain necessary business relationships, are considered legitimate business practices. *Employees may not accept or provide any offers of lavish business meals or entertainment that are not related directly to the conduct of business or that could be interpreted or appear as having been made with the intent to influence the business judgment of the recipient.*

Employees should also refrain from accepting meals and entertainment offers from suppliers on a regular basis, where the appearance of routine acceptance might lead others to assume that business judgment could be influenced. Other forms of entertainment such as theater tickets, sports event tickets, golf dates, or other outings may be acceptable if it is practical to reciprocate. The employee must obtain supervisory approval if reciprocation is not practical but the employee feels it is in AEP's best interest to attend.



Business Relationships

AEP recognizes that under certain circumstances, providing or accepting invitations to functions that involve travel or overnight stays could be in the best interests of AEP and contribute to good working relationships with customers or suppliers. AEP will pay all expenses for the employees who participate in supplier or potential supplier-sponsored trips and activities to the extent practical. The supervisor of the attending employee must approve the attendance at these functions. Employees must also have appropriate management approval for the provision of these benefits.

Conflicts of Interests

Conflicts of interest arise when an employee's position or responsibilities present an opportunity for personal gain or when an employee's personal interests could influence the employee's professional conduct to the benefit of the employee. Employees, individually or in collusion with others, must avoid any business, financial or other relationship where personal interests actually conflict with, or would appear to conflict with, the interests of the Company or its shareholders.

For the purposes of *AEP's Principles of Business Conduct*, a "financial relationship" is defined as one that is significant enough to materially affect an individual's activities. This definition does not apply to an interest as a security holder in companies whose securities are listed on any national securities exchange or traded over the counter by members of the National Association of Securities Dealers, unless the holdings in the company exceed 1% of voting control.

Examples of potential conflicts of interest are: outside employment; investing or participating in another company in competition with AEP, investing or participating with another company that supplies goods and services to AEP, and accepting gifts, payments or loans conferred as a result of an employee's position with AEP. These activities should be undertaken only with great caution or should be avoided altogether. Prior approval is required for any employee to perform work or services for or have a financial interest

in an outside entity that does or seeks to do business with the Company (other than as a customer of the Company) or that competes with services provided by the Company.

Employees considering, or who currently have, such relationships must notify their supervisor in writing. The supervisor will forward the written notification to AEP Business Ethics & Corporate Compliance, who will make a determination if the relationship is consistent with *AEP's Principles of Business Conduct*.

Corporate Opportunities

Employees must not use AEP property, information, or position for personal gain or to compete with AEP. Employees must not take for themselves opportunities that belong to the Company. Any business venture or opportunity that employees learn about or develop in the course of their employment that is related to any current or prospective business of AEP rightfully belongs to the Company and not to employees or their representatives who may be in a position to divert the opportunity to themselves.

Insider Information

The federal securities laws prohibit the buying or selling of a company's stock based on information that is not generally known to the investing public. The use by an AEP employee of non-public information about the Company or any other company, such as a supplier with whom the Company does business, for his or her own financial benefit is not only unethical but is also a violation of the securities laws and may subject the employee to fines and imprisonment.

Insider information includes any material, non-public Company information an employee learns about through his or her employment. Examples of material information include financial results, news of a pending or proposed company transaction, regulatory actions or proceedings, development of legal proceedings, significant changes in corporate strategy, news of a significant

sale of assets, changes in dividend policies, financial liquidity changes, or other events that may impact the Company's earnings. Employees must not buy or sell any of the Company's stock until after the public has received the information and the stock market has had time to react to it.

Employees must not disclose inside information to third persons, including family, friends, and acquaintances. Third persons who trade AEP stock based on insider information obtained from an employee of the Company may subject the employee to criminal and/or civil liability under the securities laws, whether or not the employee benefits from the transaction. All employees should refer to the AEP Insider Trading Policy to ensure compliance with the securities laws that govern insider trading.

Employees Engaged in Trading Activities

In addition to complying with *AEP's Principles of Business Conduct*, all AEP employees engaging in trading activities must also certify compliance with the AEP Commercial Operations Risk Policy on a periodic basis. This periodic certification also applies to employees who conduct or support energy market-related activities or employees who are directly responsible for supporting, reviewing, or authorizing AEP's energy commodity market activities, whether physical or financial. The Commercial Operations Risk Policy incorporates a separate Code of Conduct, which reflects AEP's internal principles and practices, as well as rules promulgated by the Federal Energy Regulatory Commission (FERC).

Politics & Government Relations

The Power of Integrity

KPSC Case No. 2011-00245
Order Dated August 23, 2011
Item No. 15
Page 35 of 58

AEP is committed to nurturing strong and productive relationships with our public officials and regulators. Employees must conduct Company business before public officials and regulators openly and honestly, exercising the utmost integrity at all times. When in doubt on any ethical question, always choose the highest standard.

Employee Political Participation

Employees are encouraged to participate in political and civic activities. However, they must ensure they are fully able to meet the responsibilities of their job and that no conflict of interest exists between their employment and their duties in the public or civic arena. Employees seeking an elective office must be sensitive to potential conflicts of interest.

The Company recognizes that major corporate issues can be at stake in the political arena and maintains a public policy program to advocate the Company's positions on these issues. Such advocacy often involves communication with elected officials. However, the Company will exert no pressure, direct or indirect, to influence decisions of employees who serve in public positions.

AEP expects employee officeholders confronted with potential conflicts of interest to act in the public interest, guided by their consciences. Whether or not those decisions affect the Company, employee officeholders must avoid even the appearance of conflicts of interest. Such consideration by the employee may include the need to recuse oneself from such decisions. Employees expressing their personal views on political issues or candidates must indicate clearly that such views are their own; they are not acting on behalf of the Company.

Personal Political Contributions

Employees must comply fully with federal, state, and local laws that forbid the use of corporate funds or resources for support of political parties or candidates. Every employee has the right to participate in political matters and decide to whom or to what organization to contribute any personal political contribution. Company pressure of any kind, direct or implied, is not permitted.

Government Relations

Many federal, state and local laws or policies strictly prohibit or severely limit the furnishing of meals, gratuities, entertainment or anything else of value to state and local government officials, employees, or candidates for any such office by employees on behalf of the Company. Employees responsible for contacts with state and federal agencies and other levels of government must be totally familiar with, and fully abide by, any specific standards adopted by the various agencies or other government bodies. In addition, these employees must comply fully with all lobbyist registration and reporting requirements, as prescribed by applicable law.

Protecting Corporate Assets

The Power of Integrity

KPSC Case No. 2011-00245
Order Dated August 23, 2011
Item No. 15
Page 37 of 58

Everyone working for the AEP System has a duty to safeguard the Company's assets against theft, loss, or misuse. These assets belong to the Company, provide AEP employees with their means of livelihood, and should be used only for legitimate business purposes. These assets include information, as well as money, equipment, supplies, facilities, and materials.

Every precaution should be taken to prevent passing information to unauthorized persons particularly in those areas where confidential information and technologies play a major role in business strategy. Constant vigilance in protecting AEP System trade secrets and business and technological data against improper use is essential. Similarly, an accurate accounting for uses made of the Company's assets, as well as employee time is required. Company resources must not be diverted for inappropriate or unauthorized uses.

Accurate Accounting

Many people, both inside and outside the Company, have a legitimate interest in AEP System operations. They rely on the timeliness, accuracy, and integrity of our information to make decisions concerning a wide range of important matters. These include rates, investments, permits, inventories, maintenance, certifications, purchases, contracts, taxes, and insurance rates.

Therefore, every individual involved in creating, transmitting or entering information into financial and operational records is responsible for doing so fully, accurately, and with appropriate supporting documentation. Full compliance with established accounting procedures and controls is expected and required. The Company's records, books, and documents must accurately reflect all transactions and provide a full account of the organization's assets, liabilities, revenues, and expenses in order to accomplish the above and to comply with related laws and generally accepted accounting principles. Knowingly entering inaccurate or fraudulent information into AEP's accounting system is unacceptable, may be illegal, and is grounds for discipline including termination of employment. Every employee must cooperate with the Company's authorized internal and external auditors.

All employees share the responsibility for the detection and prevention of fraud and similar inappropriate conduct. Employees must immediately report actual or suspected instances of fraud to an appropriate member of management, or to a Vice President or Director within Audit Services, Business Ethics & Corporate Compliance, or Human Resources. Suspected fraud can also be reported confidentially and anonymously through the AEP Concerns Line at 1-800-750-5001.

Intercompany Relations

Subsidiaries of American Electric Power Company, Inc. are governed by laws and regulatory rules that regulate transactions between them. These laws and rules are intended to prevent cross-subsidies and to avoid the misstatement of expenses and earnings. The AEPSC Accounting Department or the AEP Legal Department should be consulted for assistance in these areas.

SEC Reporting and Public Communications

All AEP employees participating in the preparation of reports or documents filed with or submitted to the SEC or engaging in public communications made on behalf of the Company shall endeavor to ensure full, fair, accurate, timely, and understandable disclosure in reports and documents that the Company files with or submits to the SEC and in other communications made on behalf of the Company.

Internal Control Requirements

Management is responsible for developing, implementing, and monitoring an effective system of business controls for the purpose of providing all stakeholders reasonable assurance that laws are being obeyed, financial reporting is accurate and operations are managed efficiently and effectively. All employees are responsible for complying with the policies and procedures that incorporate these controls.

AEP's Principles of Business Conduct

KPSC Case No. 2011-00245
Order Dated August 23, 2011
Item No. 15
Page 38 of 58

Security of Property and Confidential Information

All employees with access to Company funds, property, or information have a responsibility to manage them with the highest level of integrity and to avoid any misuse of these assets. Fraud, theft, embezzlement, or other improper means of obtaining corporate funds are not only unethical but also illegal.

Preventing the theft, misuse, or misappropriation of Company property by others should concern every employee. These losses can often be limited through normal precautions such as securing equipment, supplies, and materials and by handling Company assets in a careful and prudent manner.

All employees must protect the Company's and third parties' confidential information and prevent the information from being improperly disclosed to others inside or outside the Company. Confidential information includes all non-public information about the Company's customers and suppliers, the Company's business plans, and the Company's operational information. It may also include information that suppliers and customers provide to us.

Records Retention

Records must be retained in accordance with AEP's Records Retention Manual. However, records that are subject to a litigation hold, including requests from a government agency, private individual, or corporation as part of a legal proceeding, or records that are relevant to pending or anticipated litigation, must be preserved. This document preservation obligation supersedes any document retention period specified by any record retention policy.

The AEP Legal Department will advise employees of the need to preserve all documents, in all media formats. Employees with questions regarding the disposition of a particular document should contact the AEP Legal Department before disposing of the document.

Intellectual Property

AEP has made major investments in intellectual property, such as technological developments and designs, computer software, and strategic plans. Protecting these properties against misappropriation is a priority for the Company.

No one working for the AEP System may disclose to unauthorized individuals – whether inside or outside of the Company – any information which would tend to compromise proprietary technologies or trade secrets. In addition, reasonable precautions must be taken to prevent the inadvertent disclosure of this information. Employees are encouraged to communicate regarding these matters only with those who have a need to know and are authorized to have the information.

The handling of property rights in inventions, knowledge and employee work products is significant to the AEP System. Experience has shown that new developments or inventions by employees generally occur in the course of their work assignment, on company time, using company facilities.

AEP's ownership rights for inventions, knowledge, and employee work product ("Intellectual Property") must be established and protected under applicable laws and utilized for the benefit of the Company. The Company owns all Intellectual Property made, developed or conceived by an employee during the employee's term of employment through the use of company resources, time or facilities, or which in any way relate to the employee's employment or the electric utility field. Employees who discover new Intellectual Property have an obligation to report those discoveries to their supervisor.

Just as we expect our intellectual property rights to be observed, we will respect the intellectual property rights of others. Employees may not intercept, duplicate, or appropriate through electronic or other means, materials such as computer software, audio or video recordings, publications, or other protected intellectual property except by permission of the intellectual property right holder. Additionally, any offer of confidential information from outside sources must be refused until the AEP Legal Department has been consulted and permission from Legal has been obtained.

The Power of Integrity

KPSC Case No. 2011-00245
Order Dated August 23, 2011
Item No. 15
Page 39 of 58

Real World Applications
Principles of Business Conduct

Relationships with Employees

The Power of Integrity

KPSC Case No. 2011-00245
Order Dated August 23, 2011
Item No. 15
Page 41 of 58

Exhibiting integrity in our relationships with our fellow employees is vitally important to AEP as a corporation and to you as an individual. At all times, our first thought and primary consideration is safety for all employees, for customers, and for the general public. As we rely on one another for the information and services needed in our daily activities, treating each other with respect and fairness creates a work culture that encourages open communication and teamwork.

Our Values:

Safety – No operating condition or urgency of service can ever justify endangering the life of anyone. At all times, our first thought and primary consideration is safety for all employees, for customers and for the general public.

Q&A

Q Our group is under a lot of pressure to get projects completed and sometimes my supervisor takes shortcuts that bypass normal safety procedures. I don't want to cause problems, but I don't want to get in trouble if something goes wrong because of those shortcuts. What should I do?

A Following company procedures is important, but it is never more critical than in the area of safety. No operating condition or urgency of service can ever justify endangering the life of anyone. Your supervisor's conduct could result in grave harm to you, your co-workers, the company, and the public. Safety procedures should never be sacrificed to save time or money or for any other reason. You should first discuss these issues with your supervisor. If that presents a problem or you're not satisfied with his or her explanation, pursue your concern through higher levels of supervision or call the AEP Concerns Line at 1-800-750-5001. Your call will be treated in a confidential manner.

Relationships with Customers

Integrity in our relationships with our customers means providing high-quality, courteous service. AEP's aim is to please the customer by meeting their needs in ways that improve their quality of life. That means giving one kind of service to everyone ... the best possible.

Our Values:

Justice & Fairness – Doing the right thing at the right time, every time.

Q&A

Q I recently arranged to have a project completed ahead of schedule for one of our major customers. To show their appreciation, the customer has invited me to attend an upcoming PGA tour event. Additionally, they have offered to cover my airfare, lodging, and entrance fee to the golf tournament. I would hate to disappoint this customer. They have a big account with AEP and we have a good working relationship.

A AEP recognizes that under certain circumstances, accepting invitations to functions that involve travel or overnight stays could be in the best interest of AEP and contribute to good working relationships with customers. However, you should carefully consider how your acceptance of this event could be perceived or interpreted by other customers and the general public. Generally, you may be able to accept this form of entertainment if it is practical to reciprocate. You must obtain supervisory approval to attend if reciprocation is not practical. If your supervisor agrees that it is in AEP's best interest that you attend, AEP will pay all expenses for the employee to the extent practical.

Relationships with Suppliers

The Power of Integrity

KPSC Case No. 2011-00245
Order Dated August 23, 2011
Item No. 15
Page 45 of 58

Maintaining integrity in our relationships with suppliers has a positive and long lasting impact on our reputation in the industry. The news of unfair dealings with a supplier can spread quickly to other suppliers and potential customers. As a result, our company's image and reputation could be damaged and difficult to repair.

Bias and favoritism have no place in our procurement decisions. Instead, suppliers should expect to receive nothing less than fairness and honesty in their dealings with AEP. Each of us who are involved in procurement decisions must be ever conscious of the perception created by our interaction with, and treatment of, our suppliers.

Our Values:

Trustworthiness – Cultivating a reputation of honesty and straightforward communication.

Q&A

Q I am currently renovating my house. One of AEP's suppliers that I have dealings with informed me that I could purchase lumber and other materials using his account number and receive his company's discount. I will be paying all the expenses including delivery. May I accept this offer?

A Employees must never place themselves under actual or apparent obligations by accepting gifts or other favors from suppliers. No matter how innocent the intent, it could create the perception that the favors were done to influence the employee in the performance of Company duties. Gifts include not only material goods but also services, discounts, and personal purchases of goods and services that are not available to the general public. You may not buy the materials using the supplier's discount.

Relationship with the Environment

The Power of Integrity

KPSC Case No. 2011-00245
Order Dated August 23, 2011
Item No. 15
Page 47 of 58

Integrity in our relationship with our environment means working together with a shared commitment to environmental protection and enhancement. AEP is committed to being an environmental leader in our industry and the communities we serve by protecting the environment today and for generations to come.

Our Values:

Caring – Maintaining a sincere desire to make the world a better place.

Q&A

① I'm not exactly certain, but I think I saw someone pouring chemical waste into the drainage system at our plant. What should I do?

② Chemical waste that is improperly disposed of could pose some significant problems. Even if you are unsure, the best thing to do is to report the incident to your supervisor so that it can be investigated. If this is not practical, try others in management at your location. If you do not feel comfortable speaking with your management, call the AEP Concerns Line at 1-800-750-5001. Your call will be treated in a confidential manner.

Business Relationships

The Power of Integrity

KPSC Case No. 2011-00245
Order Dated August 23, 2011
Item No. 15
Page 49 of 58

Utilizing our power of integrity in our business relationships means providing our leadership, integrity, and compassion as a corporate citizen of every community we serve. It means playing by the rules and dealing fairly with our customers, suppliers, competitors, and employees.

Our Values:

Respect - Treating others the way we want to be treated, regardless of position, and valuing each person's talents, perspective, and experience.

Q&A

Q My brother works as a controller for an engineering firm that is bidding on a project for AEP. My department does not award the contracts but does help facilitate the payment for the services rendered. Is there a potential conflict of interest if his firm is awarded the contract?

A The situation does present a potential conflict of interest to you as an AEP employee. In this situation, you should remove yourself from the entire process including the payment of invoices. You should notify your supervisor in writing of the situation who will then forward the written notification to AEP Business Ethics & Corporate Compliance. A review will be made to determine if the relationship is consistent with AEP's Principles of Business Conduct.

Politics & Government Relations

The Power of Integrity

KPSC Case No. 2011-00245
Order Dated August 23, 2011
Item No. 15
Page 51 of 58

Acting with integrity in all our dealings in the political arena helps to ensure that the public's perception of AEP is an admirable one. AEP is committed to nurturing strong and productive relationships with our public officials and regulators.

Our Values:

Citizenship – Developing a sense of community among all those you encounter.

Q&A

Q I was recently elected to a political office in my hometown. My manager was aware that I was a candidate and we've come up with a workable agreement to ensure that there is minimal impact on my work responsibilities at AEP. The position I've been elected to may result in me voting on decisions that involve AEP. Am I allowed to be involved in these discussions? Am I still allowed to vote?

A AEP fully supports employees who wish to engage in civic activities or hold public office, as long as it does not interfere with job performance. Additionally, employees must remember to abstain from discussing and/or voting on any issue involving AEP.

Protecting Our Company

When it comes to protecting AEP, integrity means being alert to the possibility of fraud or theft and reporting suspicious behavior. All employees must do their part to help ensure that AEP property and other assets under their control are adequately secure.

Our Values:

Responsibility – Accepting accountability for your actions and living up to the highest ethical expectations.

Q&A

Q Because of our job responsibilities, some employees in our department were recently made aware of some new acquisitions. I recently overheard one of my co-workers sharing this information by phone with what sounded like an outside party. I don't want to approach my co-worker about this. What are my options?

A On the surface, it appears your co-worker may have inappropriately shared confidential information that is a violation of policy and may violate certain laws and regulations. Depending on the significance of the acquisitions, there could be an additional concern of sharing insider information if someone were to trade AEP stock based on the information received. One option would be to report this to your supervisor. If you are not comfortable talking to your supervisor, try talking the issue to others in management. If this is not practical or you do not feel your concerns are being adequately addressed, please call the AEP Concerns Line at 1-800-750-5001. Your call will be treated in a confidential manner.

AEP's Business Ethics Goals

- **Affirm high standards of business ethics and the company's commitment to honor them.**
- **Continually communicate high standards of business ethics throughout the company so that the message is clearly and consistently understood.**
- **Acknowledge and address obstacles inhibiting our goal of honoring high standards of business ethics.**
- **Assure that every employee can identify the ethical issues in his or her work.**
- **Realize organizational integrity – walk our business ethics talk.**

The Power of Integrity

KPSC Case No. 2011-00245
Order Dated August 23, 2011
Item No. 15
Page 55 of 58

Compliance with AEP's Principles of Business Conduct

Put simply, our reputation is earned by our conduct. Unfortunately, the actions of one individual can damage the reputation of all. Since perception is often reality for our customers and other stakeholders, we must take care to guard our reputation by acting with integrity in everything we do. We can also guard our reputation by voicing our concerns through available channels when someone compromises existing policies or laws.

Integrity in complying with AEP's Principles of Business Conduct means:

Reading and becoming familiar with *AEP's Principles of Business Conduct*.

Q&A

Q If I call the AEP Concerns Line, how can I be sure there will be no retaliation for doing so?

A AEP will not tolerate any form of retaliation against an employee for reporting a concern and will discipline any supervisor or manager who retaliates against an employee for reporting misconduct. Even attempting to determine who may have placed a call is forbidden. Callers to the AEP Concerns Line have senior management's assurance that all steps possible will be taken to prevent any such retaliation. You should contact AEP Business Ethics & Corporate Compliance directly or via the AEP Concerns Line at 1-800-750-5001 if you believe you or someone you know has experienced retaliation for reporting misconduct and the matter will be thoroughly investigated.

Q&A

Q How are you going to stop people from using the AEP Concerns Line as a weapon to scare or punish their supervisor or others they dislike?

A We cannot guarantee that an employee won't try to use the AEP Concerns Line as a weapon. However, AEP Business Ethics & Corporate Compliance looks at all sides of the issues it investigates. When a call is received, nothing is assumed. We refrain from advocating one side's position and make no judgments as to the validity of an accusation until an adequate amount of research points us toward a supportable conclusion. Managers and supervisors are expected to do the same.

AEP's Principles of Business Conduct

KPSC Case No. 2011-00245
Order Dated August 23, 2011
Item No. 15
Page 56 of 58

This philosophy of service was first stated in 1934 by former AEP President George Tidd. It has been slightly modified from the original version.

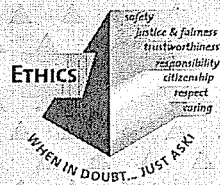
Our job is producing energy and getting it wherever our customers use it – with efficiency and with respect for the environment. We're in this business because it is concerned with the supply of a fundamental requirement of modern living, because it's an honorable one, because we like it, and because we want to earn a living at it.

We aim to give one kind of service to everyone ... the best that's possible. That means supplying our customers with what they want when they want it. It means being courteous and easy to do business with at all times. It means doing everything we can to keep complaints from arising, and it means prompt and fair handling of those that do.

We are citizens of each community we serve and take an active part in its affairs. Like any other citizen, we want our neighbors to think well of us. Besides, it makes good business sense. We prosper only as the community prospers; so we help it thrive in every way we can.

Such is our job as we see it. We are trying to do it well and do it better all the time.

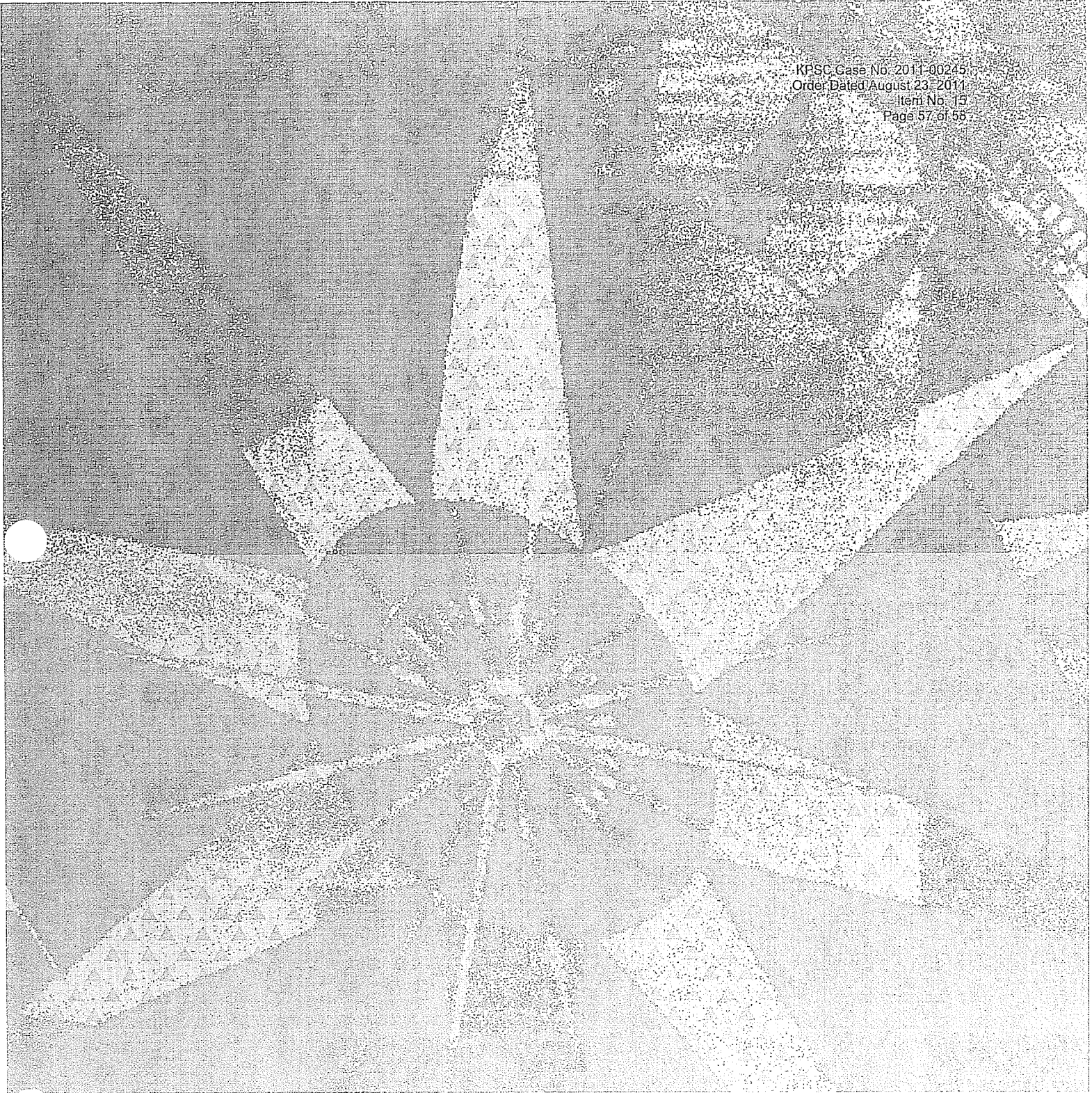
— AEP President George Tidd, 1934

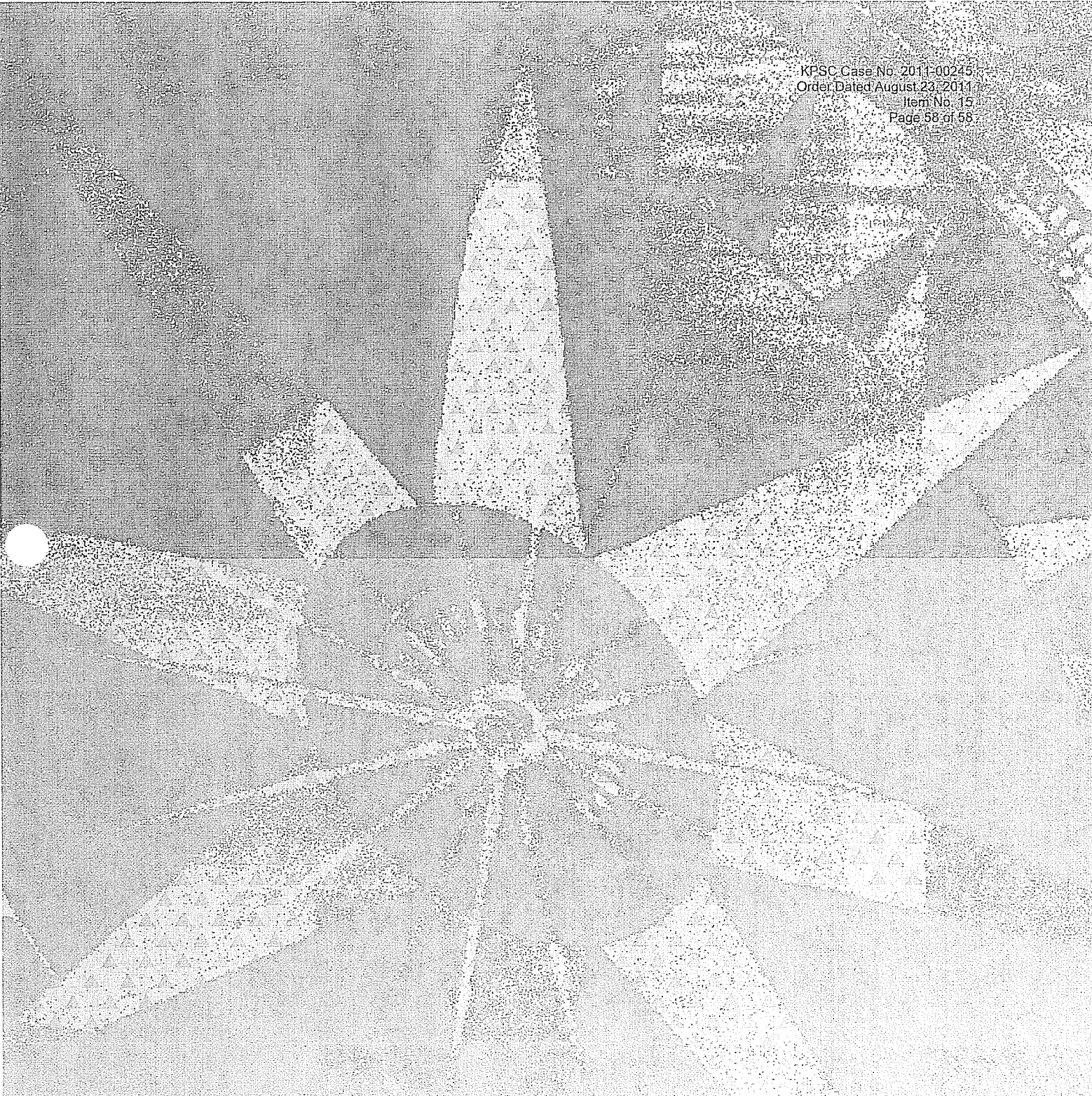


AEP Business Ethics & Corporate Compliance

1 Riverside Plaza

Columbus, OH 43215





Kentucky Power Company

REQUEST

- a. State whether Kentucky Power is aware of any violations of its policies and procedures regarding fuel procurement that occurred prior to or during the period from November 1, 2010 through April 30, 2011.
- b. If yes, for each violation:
 - (1) Describe the violation;
 - (2) Describe the action(s) that Kentucky Power took upon discovering the violation; and
 - (3) Identify the person(s) who committed the violation.

RESPONSE

- a. No. Kentucky Power is not aware of any violations of its policies and procedures regarding fuel procurement prior to or during the period from November 1, 2010 through April 30, 2011.
- b. N/A

WITNESS: Kimberly K. Chilcote

Kentucky Power Company

REQUEST

Identify and explain the reasons for all changes in the organizational structure and personnel of the departments or divisions that are responsible for Kentucky Power's fuel procurement activities that occurred during the period from November 1, 2010 through April 30, 2011.

RESPONSE

There were no changes to the organizational structure or personnel of the departments or divisions responsible for Kentucky Power's fuel procurement activities during the review period, November 1, 2010 through April 30, 2011.

WITNESS: Kimberly K. Chilcote

Kentucky Power Company

REQUEST

- a. Identify all changes that Kentucky Power has made during the period under review to its maintenance and operation practices that also affect fuel usage at Kentucky Power's generation facilities.
- b. Describe the impact of these changes on Kentucky Power's fuel usage.

RESPONSE

No maintenance or operation practices have been changed during this period that affected fuel usage.

WITNESS: Aaron M Sink

Kentucky Power Company

REQUEST

List each written coal supply solicitation issued during the period from November 1, 2010 through April 30, 2011.

- a. For each solicitation, provide the date of the solicitation, the type of solicitation (contract or spot), the quantities solicited, a general description of the quality of coal solicited, the time period over which deliveries were requested, and the generating unit(s) for which the coal was intended.
- b. For each solicitation, state the number of vendors to whom the solicitation was sent, the number of vendors who responded, and the selected vendor. Provide the bid tabulation sheet or corresponding document that ranked the proposals. (This document should identify all vendors who made offers.) State the reasons for each selection. For each lowest-cost bid not selected, explain why the bid was not selected.

RESPONSE

a.& b. For the general information requested regarding solicitations for fuel supply please see the table below. For information regarding responses to KPCo's bid solicitation, please see KPSC Staff 1-19 CONFIDENTIAL Attachment 1.

Solicitation Date	February 16, 2011			
Quantities Solicited	One or More Agreements each for up to 50,000 Tons per Month			
Delivery method	CSX Rail	NS Rail	CSX Rail or Barge	CSX Rail or Barge
Coal Heat Content	12,500	12,500	12,800	12,500
Moisture (%)	10.00%	7.00%	8.00%	7.00%
Ash (%)	12.00%	12.00%	8.00%	8.00%
lb. SO₂/MMBTU	1.60	1.05	3.00	4.00
Time Period Over Which Deliveries were	Deliveries Commencing as Early as April 2011			
Applicable Generating Units	Coal solicited applies to many power plants within the AEP system, one of which is KPCo's Big Sandy Plant.			
Number of Vendors Solicitation was Sent To*	105			
Number of Vendors that Responded to Solicitation*	31			
Selected Vendor	No vendors were selected to deliver coal to KPCo as a result of this RFP.			

* The solicitations sent by the AEPSC were on behalf of multiple companies with differing fuel quality requirements. The number of vendors that the solicitation was sent to includes all companies, while the number of vendors that responded to the solicitation shown here are bids that were received for coal supply intended to be consistent with KPCo's needs.

WITNESS: Kimberly K Chilcote

ID	Proposal	Basin	Spec	Company	TPM	Term Years	1		2
							2011 Tons	2012 Tons	2013 Tons
2ICG	2	CAPP	A	ICG					
4Patriot Coal Sales	4	CAPP	A	Patriot Coal Sales					
1ICG	1	CAPP	A	ICG					
1TRAXYS North America, LLC	1	CAPP	A	TRAXYS North America, LLC					
2Coaltrade	2	CAPP	A	Coaltrade					
3Cargill	3	CAPP	A	Cargill					
1Coaltrade	1	CAPP	A	Coaltrade					
2TRAXYS North America, LLC	2	CAPP	A	TRAXYS North America, LLC					
3Coaltrade	3	CAPP	A	Coaltrade					
2Mercuria Energy Trading	2	CAPP	A	Mercuria Energy Trading					
1Louis Dreyfus Energy Svcs	1	CAPP	A	Louis Dreyfus Energy Svcs					
1Mercuria Energy Trading	1	CAPP	A	Mercuria Energy Trading					
4Coaltrade	4	CAPP	A	Coaltrade					
2JP Morgan	2	CAPP	A	JP Morgan					
2Cargill	2	CAPP	A	Cargill					
1Cliffs Logan County Coal, LLC	1	CAPP	A	Cliffs Logan County Coal, LLC					
1Patriot Coal Sales	1	CAPP	A	Patriot Coal Sales					
1TECO Coal Corporation	1	CAPP	A	TECO Coal Corporation					
2Smoky Mountain Enterprises, Inc.	2	CAPP	A	Smoky Mountain Enterprises, Inc.					
1EDF Trading	1	CAPP	A	EDF Trading					
1JP Morgan	1	CAPP	A	JP Morgan					
1Massey Coal Sales	1	CAPP	A	Massey Coal Sales					
1Logan & Kanawha	1	CAPP	A	Logan & Kanawha					
1Alliance Coal	1	CAPP	A	Alliance Coal					
2Central Coal Company	2	CAPP	A	Central Coal Company					
1Central Coal Company	1	CAPP	A	Central Coal Company					
1Arch	1	CAPP	A	Arch					
2Arch	2	CAPP	A	Arch					
2Cliffs Logan County Coal, LLC	2	CAPP	A	Cliffs Logan County Coal, LLC					
1James River Coal Sales	1	CAPP	A	James River Coal Sales					
1Smoky Mountain Enterprises, Inc.	1	CAPP	A	Smoky Mountain Enterprises, Inc.					

REDACTED

ID	3			Spot Term	Applicable Dates	2011 Price	2012 Price	2013 Price	2014 Price
	Proposal	2014 Tons	Total Tons Offered						
2ICG	2								
4Patriot Coal Sales	4								
1ICG	1								
1TRAXYS North America, LLC	1								
2Coaltrade	2								
3Cargill	3								
1Coaltrade	1								
2TRAXYS North America, LLC	2								
3Coaltrade	3								
2Mercuria Energy Trading	2								
1Louis Dreyfus Energy Svcs	1								
1Mercuria Energy Trading	1								
4Coaltrade	4								
2JP Morgan	2								
2Cargill	2								
1Cliffs Logan County Coal, LLC	1								
1Patriot Coal Sales	1								
1TECO Coal Corporation	1								
2Smoky Mountain Enterprises, Inc.	2								
1EDF Trading	1								
1JP Morgan	1								
1Massey Coal Sales	1								
1Logan & Kanawha	1								
1Alliance Coal	1								
2Central Coal Company	2								
1Central Coal Company	1								
1Arch	1								
2Arch	2								
2Cliffs Logan County Coal, LLC	2								
1James River Coal Sales	1								
1Smoky Mountain Enterprises, Inc.	1								

REDACTED

ID	Transportation Costs							
	Proposal	Mine	FOB		Rail		Barge	
			Shipping Point	Mode	OPSL	Rate	River	MP
2ICG	2	Raven, KY	Raven	Rail	84223			
4Patriot Coal Sales	4	Hobet	Beth Station	Rail	81957			
1ICG	1	Raven, KY	Raven	Rail	84223			
1TRAXYS North America, LLC	1	Various Sources	BS/KR District	Rail	84122			
2Coaltrade	2	Various Sources	BS/KR District	Rail	84122			
3Cargill	3	Various Sources	BS/KR District	Rail	84122			
1Coaltrade	1	Various Sources	BS/KR District	Rail	84122			
2TRAXYS North America, LLC	2	Various Sources	BS/KR District	Rail	84122			
3Coaltrade	3	Various Sources	BS/KR District	Rail	84122			
2Mercuria Energy Trading	2	Various Sources	BS/KR District	Rail	84122			
1Louis Dreyfus Energy Svcs	1	Various-Sloans Branch Loadout	Scotts Branch	Rail	84171			
1Mercuria Energy Trading	1	Various Sources	BS/KR District	Rail	84122			
4Coaltrade	4	Big Mountain Mine	Prenter	Rail	82243			
2JP Morgan	2	Various Sources	BS/KR District	Rail	84122			
2Cargill	2	Various Sources	BS/KR District	Rail	84122			
1Cliffs Logan County Coal, LLC	1	Toney Fork & North Fork Mines	Pardee	Rail	82590			
1Patriot Coal Sales	1	Hobet	Beth Station	Rail	81957			
1TECO Coal Corporation	1	Hazard, KY	Bluegrass #4	Rail	42868			
2Smoky Mountain Enterprises, Inc.	2	Canterbury Mining	Ivel, KY	Rail	84091			
1EDF Trading	1	Various Sources	BS/KR District	Rail	84122			
1JP Morgan	1	Various Sources	BS/KR District	Rail	84122			
1Massey Coal Sales	1	Progress Coal	Twilight Surface	Rail	82231			
1Logan & Kanawha	1	Laurel Mountain	Sunny Knott	Rail	84063			
1Alliance Coal	1	MC Mining	Scotts Branch	Rail	84171			
2Central Coal Company	2	Fork Creek	Fork Creek	Rail	82202			
1Central Coal Company	1	Fork Creek	Fork Creek	Rail	82202			
1Arch	1	Coal-Mac Inc	Holden 22	Rail	81011			
2Arch	2	Mountain Laurel	Mountain Laurel	Rail	81960			
2Cliffs Logan County Coal, LLC	2	Toney Fork & North Fork Mines	Pardee	Rail	82590			
1James River Coal Sales	1	Blue Diamond / Leeco	Leatherwood 1	Rail	42985			
1Smoky Mountain Enterprises, Inc.	1	Canterbury Mines	Ivel, KY	Rail	84091			

REDACTED

ID	Proposal	Total Xport Cst \$/ton	Quality						Quality Adjustments	
			Btu	Ash %	SO2 #	Sulfur %	Moist %	Cl %	Fusion	Ash Disposal Cost
2ICG	2									
4Patriot Coal Sales	4									
1ICG	1									
1TRAXYS North America, LLC	1									
2Coaltrade	2									
3Cargill	3									
1Coaltrade	1									
2TRAXYS North America, LLC	2									
3Coaltrade	3									
2Mercuria Energy Trading	2									
1Louis Dreyfus Energy Svcs	1									
1Mercuria Energy Trading	1									
4Coaltrade	4									
2JP Morgan	2									
2Cargill	2									
1Cliffs Logan County Coal, LLC	1									
1Patriot Coal Sales	1									
1TECO Coal Corporation	1									
2Smoky Mountain Enterprises, Inc.	2									
1EDF Trading	1									
1JP Morgan	1									
1Massey Coal Sales	1									
1Logan & Kanawha	1									
1Alliance Coal	1									
2Central Coal Company	2									
1Central Coal Company	1									
1Arch	1									
2Arch	2									
2Cliffs Logan County Coal, LLC	2									
1James River Coal Sales	1									
1Smoky Mountain Enterprises, Inc.	1									

REDACTED

ID	Proposal	2011 Price	2012 escalated Price	2013 escalated Price	2014 escalated Price	Weighted Ave Price	Total Discounted \$/Mbtu	Contact
2ICG	2							
4Patriot Coal Sales	4							
1ICG	1							
1TRAXYS North America, LLC	1							
2Coaltrade	2							
3Cargill	3							
1Coaltrade	1							
2TRAXYS North America, LLC	2							
3Coaltrade	3							
2Mercuria Energy Trading	2							
1Louis Dreyfus Energy Svcs	1							
1Mercuria Energy Trading	1							
4Coaltrade	4							
2JP Morgan	2							
2Cargill	2							
1Cliffs Logan County Coal, LLC	1							
1Patriot Coal Sales	1							
1TECO Coal Corporation	1							
2Smoky Mountain Enterprises, Inc.	2							
1EDF Trading	1							
1JP Morgan	1							
1Massey Coal Sales	1							
1Logan & Kanawha	1							
1Alliance Coal	1							
2Central Coal Company	2							
1Central Coal Company	1							
1Arch	1							
2Arch	2							
2Cliffs Logan County Coal, LLC	2							
1James River Coal Sales	1							
1Smoky Mountain Enterprises, Inc.	1							

REDACTED

ID	Proposal Notes
2ICG	2
4Patriot Coal Sales	4
1ICG	1
1TRAXYS North America, LLC	1
2Coaltrade	2
3Cargill	3
1Coaltrade	1
2TRAXYS North America, LLC	2
3Coaltrade	3
2Mercuria Energy Trading	2
1Louis Dreyfus Energy Svcs	1
1Mercuria Energy Trading	1
4Coaltrade	4
2JP Morgan	2
2Cargill	2
1Cliffs Logan County Coal, LLC	1
1Patriot Coal Sales	1
1TECO Coal Corporation	1
2Smoky Mountain Enterprises, Inc.	2
1EDF Trading	1
1JP Morgan	1
1Massey Coal Sales	1
1Logan & Kanawha	1
1Alliance Coal	1
2Central Coal Company	2
1Central Coal Company	1
1Arch	1
2Arch	2
2Cliffs Logan County Coal, LLC	2
1James River Coal Sales	1
1Smoky Mountain Enterprises, Inc.	1

REDACTED

Kentucky Power Company

REQUEST

List each oral coal supply solicitation issued during the period from November 1, 2010 through April 30, 2011.

- a. For each solicitation, state why the solicitation was not written, the date(s) of the solicitation, the quantities solicited, a general description of the quality of coal solicited, the time period over which deliveries were requested, and the generating unit(s) for which the coal was intended.
- b. For each solicitation, identify all vendors solicited and the vendor selected. Provide the tabulation sheet or other document that ranks the proposals. (This document should identify all vendors who made offers.) State the reasons for each selection. For each lowest-cost bid not selected, explain why the bid was not selected.

RESPONSE

No oral coal solicitations were issued on behalf of Kentucky Power Company during the period from November 2010 through April 2011.

WITNESS: Kimberly K Chilcote

Kentucky Power Company

REQUEST

- a. List all intersystem sales during the period under review in which Kentucky Power used a third party's transmission system.
- b. For each sale listed above:
 - (1) Describe how Kentucky Power addressed, for FAC reporting purposes, the cost of fuel expended to cover any line losses incurred to transmit its power across the third party's transmission system; and
 - (2) State the line loss factor used for each transaction and describe how that line loss factor was determined.

RESPONSE

a) & (b) For the period November 1, 2010 to April 30, 2011:

Beginning on June 1, 2007, based on FERC Order EL06-055, PJM modified the Locational Marginal Pricing (LMP) pricing approach to calculate transmission line loss costs on a marginal basis. The new LMP calculation will now reflect the full marginal cost of serving an increment of load at each bus from each resource associated with an eligible energy offer. The LMP price will be the sum of three separate components: System Energy Price, Congestion Price and Loss Price. Therefore, each spot market energy customer will now pay an energy price that includes the full marginal cost of energy for delivering an increment of energy to the purchaser's location. Market buyers are assessed for their incremental impact on transmission line losses resulting from total load scheduled to be served from the PJM Spot Energy Market in the day-ahead energy market at the same day-ahead loss price applicable at the relevant load bus.

Market sellers are assessed for their incremental impact on transmission line losses resulting from energy scheduled for delivery in the day-ahead market at the day-ahead loss prices applicable to the relevant resource bus.

Transactions are balanced in the real-time market using the same calculation, but are based on deviation at each bus from the day-ahead using the real time loss price.

WITNESS: Lila P Munsey

Kentucky Power Company

REQUEST

Describe each change that Kentucky Power made to its methodology for calculating intersystem sales line losses during the period under review.

RESPONSE

Kentucky Power did not make any changes to its methodology for calculating intersystem sales line losses during the review period. Please see the Company's response to Item No. 21.

WITNESS: Lila P Munsey

Kentucky Power Company

REQUEST

State whether Kentucky Power has solicited bids for coal with the restriction that it was not mined through strip mining or mountain top removal. If yes, explain the reasons for the restriction on the solicitation, the quantity in tons and price per ton of the coal purchased as a result of this solicitation, and the difference between the price of this coal and the price it could have obtained for the coal if the solicitation had not been restricted.

RESPONSE

No. Kentucky Power Company has not solicited bids for coal with the restriction that it was not mined through strip mining or mountaintop removal.

WITNESS: Kimberly K. Chilcote