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**Via Overnight Mail**

March 5, 2013

Mr. Jeff Derouen, Executive Director  
Kentucky Public Service Commission  
211 Sower Boulevard  
Frankfort, Kentucky 40602

**Re: Application of Kentucky Industrial Utility Customers, Inc. for a Declaratory Order Finding That the Commission has Jurisdiction to Regulate Kentucky Power's Participation in the AEP Power Coordination Agreement Case  
Docket No. 2013-\_\_\_\_\_**

Dear Mr. Derouen:

Please find enclosed the original and ten (10) copies of the KENTUCKY INDUSTRIAL UTILITY CUSTOMERS, INC's APPLICATION FOR A DECLARATORY ORDER filing with regard to the above-referenced matter.

By copy of this letter, all parties listed on the Certificate of Service have been served. Please place this document of file.

Very Truly Yours,



Michael L. Kurtz, Esq.  
Kurt J. Boehm, Esq.  
Jody M. Kyler, Esq.  
**BOEHM, KURTZ & LOWRY**

MLKkew  
Attachment

cc: Certificate of Service  
Quang Nyugen, Esq.  
Richard Raff, Esq.

**CERTIFICATE OF SERVICE**

I hereby certify that a copy of the foregoing was served by mailing a true and correct copy via electronic mail (when available) and Overnight Mail to all parties on this 5<sup>th</sup> day of March, 2013.



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MAR 6 2013

PUBLIC SERVICE  
COMMISSION

**COMMONWEALTH OF KENTUCKY  
BEFORE THE PUBLIC SERVICE COMMISSION**

Application of Kentucky Industrial Utility Customers, Inc. for a  
Declaratory Order Finding That the Commission has Jurisdiction to  
Regulate Kentucky Power's Participation in the AEP Power  
Coordination Agreement.

Case No. 2013-\_\_\_\_\_

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**APPLICATION FOR DECLARATORY ORDER OF  
KENTUCKY INDUSTRIAL UTILITY CUSTOMERS, INC.**

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Pursuant to 807 KAR 5:001, Section 18, Kentucky Industrial Utility Customers, Inc. ("KIUC") respectfully requests that the Kentucky Public Service Commission ("Commission") issue a declaratory order affirming its jurisdiction over Kentucky Power Company's ("Kentucky Power" or "Company") participation in the Power Coordination Agreement ("PCA") proposed by the subsidiaries of American Electric Power Company, Inc. ("AEP") in Federal Energy Regulatory Commission ("FERC") Docket No. ER13-234.<sup>1</sup> The members of KIUC who will participate herein are: Air Liquide Industrial U.S., LP, AK Steel Corporation, Air Products and Chemicals, Inc., EQT Corporation and Marathon Petroleum Company LP. These members take service from Kentucky Power and could be substantially affected by the Company's participation in the proposed PCA.

Since 1951, AEP subsidiary companies, including Kentucky Power, have coordinated the planning and operations of their respective generating resources pursuant to the AEP Interconnection Agreement ("AEP Power Pool"), which permits the AEP subsidiaries to pool their generation assets on a cost basis. However, on December 17, 2010, each of the members of the AEP Power Pool provided notice to the other members (and to American Electric Power Service Corporation, Inc., or "AEPSC") to terminate the Pool Agreement effective January 1, 2014. Hence, the current status quo is that, as of January 1, 2014, decisions regarding the planning and operation of Kentucky Power's generation resources will be 100% Kentucky jurisdictional.

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<sup>1</sup> The PCA was also filed for FERC approval in Docket Nos. ER13-233, ER13-235, ER13-236 and ER13-237.

On October 31, 2012, AEPSC filed the proposed PCA at the FERC on behalf of itself, Appalachian Power Company (“APCo”), Indiana Michigan Power Company (“I&M”), and Kentucky Power, which AEPSC requests become effective January 1, 2014.<sup>2</sup> According to AEPSC, the PCA “*is designed to provide APCo, I&M, and KPCo with the opportunity to (a) participate collectively under a common FRR capacity plan in PJM, and (b) to participate in specified collective off-system sales and purchase activities.*”<sup>3</sup> FERC has not yet approved the proposed PCA.

KRS 278.020(5) provides: “*No person shall acquire or transfer ownership of, or control, or the right to control, any utility under the jurisdiction of the commission by sale of assets, transfer of stock, or otherwise, or abandon the same, without prior approval by the commission. The commission shall grant its approval if the person acquiring the utility has the financial, technical, and managerial abilities to provide reasonable service.*”

Kentucky Power is a utility under the jurisdiction of the Commission. Kentucky Power’s participation in the proposed PCA will result in the transfer of the control or right to control decisions related to the planning and operations of its generation resources to AEPSC in its role as the “Agent” and/or to AEP subsidiary companies in their role as “Operating Committee” members under the proposed PCA.<sup>4</sup> Specifically, several portions of the proposed PCA appear to transfer control that, under the current status quo, Kentucky Power would otherwise have as of January 1, 2014 when the AEP Power Pool terminates, and which would be exclusively under the jurisdiction of the Commission.

For example, the proposed language of the PCA is flexible enough to be interpreted as transferring control over whether Kentucky Power will participate in PJM as a Fixed Resource Requirement (“FRR”) entity collectively with the other participating AEP subsidiaries (APCo and I&M) or as a standalone Reliability Pricing Model (“RPM”) entity, as well as control over the terms associated with that decision, to the PCA’s Operating Committee and/or to AEPSC:

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<sup>2</sup> AEPSC Application, Docket Nos. ER13-233 *et al.* (AEPSC Application) at 12. AEPSC’s Application is attached as “Exhibit A.”

<sup>3</sup> Exhibit A at 9.

<sup>4</sup> The proposed PCA also provides that “[w]ith the prior written consent of the other Parties, AEPSC may assign all of a part of its responsibilities under [the PCA] to another entity.” PCA Section 5.2.2. This provision could expand the scope of parties to which Kentucky Power is transferring control over the planning and operation of its generation resources.

- *“The Operating Companies may collectively participate from time to time in specific markets of the regional transmission organization or to meet certain regional transmission or reliability organization requirements, in which case the allocation of resulting revenues and/or costs, if any, will be performed as specified herein or as otherwise approved by the Operating Committee.”* PCA Section 7.4.
- *“Notwithstanding the foregoing, in the event that two or more Operating Companies collectively participate in the capacity market of an applicable regional transmission organization, meaning that such Operating Companies’ resources and load obligations are combined and administered collectively to participate in and satisfy the reliability requirements of the applicable regional transmission organization’s capacity market, such participation will be administered and financially settled as described under Service Schedule A.”* PCA Section 7.4.
- *“All capacity transactions between the Operating Companies will be made under such terms and at rates that are mutually agreeable to the Operating Companies.”* PCA Section 7.1.

The proposed PCA does not provide sufficient clarity regarding how the decision to participate in PJM as a collective FRR entity rather than as individual RPM entities would be made among the AEP operating companies. Given the vagueness of its language, the proposed PCA could be interpreted as transferring control over that decision to the Operating Committee and/or to AEPSC. And under the proposed PCA, the Operating Committee makes decisions by a simple majority vote of representatives of each participating AEP subsidiary (APCo, I&M, AEPSC, and Kentucky Power).<sup>5</sup> Hence, Kentucky Power may be outvoted in making the FRR vs. RPM decision. Consequently, by participating in the proposed PCA, Kentucky Power could be transferring control over how it participates in PJM that it would otherwise have as of January 1, 2014. It is therefore appropriate for the Commission to assert jurisdiction over whether Kentucky Power could participate in the PCA.

This Commission has previously exercised jurisdiction to address a utility’s choice between participating in PJM as an FRR or an RPM entity with regard to East Kentucky Power Cooperative, Inc. (“EKPC”) in Case No. 2012-00169 and Duke Energy Kentucky in Case No. 2010-00203.<sup>6</sup> If Kentucky Power transfers control over the FRR vs. RPM decision to the Operating Committee and/or AEPSC by participating in the proposed PCA, and if FERC later approves the PCA, this Commission could be preempted from exercising jurisdiction over Kentucky Power’s FRR vs. RPM decision in the future. In light of these potential consequences, the Commission should

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<sup>5</sup> PCA Section 6.1.

<sup>6</sup> Case No. 2012-00169, Order (Dec. 21, 2012) at 16 (“We will also approve EKPC’s participation in RPM, with the caveat discussed below relating to annual reporting and reviews.”); Case No. 2012-00203, Order (Dec. 22, 2010) at 14 (“Since Duke Kentucky has not demonstrated that its customers will be protected against market-based prices under the RPM option, the Commission will require Duke Kentucky to commit that it will participate in PJM only under an FRR capacity plan until it requests and receives our approval to participate in the RPM market.”).

affirm its jurisdiction under KRS 278.020(5) to determine whether Kentucky Power can participate in the proposed PCA and consequently, can transfer control that Kentucky Power would otherwise have as of January 1, 2014 to the Operating Committee and/or AEPSC.

The proposed PCA language can also be interpreted as transferring control over the amount of generation resources that Kentucky Power must have and how those generation resources will be operated from Kentucky Power to the Operating Committee and/or AEPSC. For example, the PCA provides:

- *“Each Operating Company will be responsible for maintaining an adequate level of generation resources to meet its own Internal Load requirements for capacity and energy, including any required reserve margins, and shall bear all of the resulting costs.” PCA Section 7.1.*
- *“The Agent shall assess the adequacy of the power supply resources of the Operating Companies from the perspective of each Operating Company and the Operating Companies collectively, taking into account reserve requirements, capacity status in the applicable regional transmission organization, state integrated resource plans as applicable, each Operating Company’s load forecast, changing regulatory structures and requirements and all other criteria applicable by law or regulation to each Operating Company. The Agent will subsequently make recommendations to each Operating Company regarding the need for additional power supply resources.” PCA Section 7.1.*
- *“The Agent, on behalf of the Operating Companies, will coordinate the scheduling of planned generation resource outages in order to support reliability and manage costs.” PCA Section 7.2.*
- *“The generation resources of each of the Operating Companies will be dispatched by the Agent under the direction of the applicable regional transmission organization.” PCA Section 7.3.*

In the absence of the proposed PCA, control over the adequacy, planning, and operation of the Kentucky Power’s generation resources would be 100% Kentucky jurisdictional as of January 1, 2014. But by participating in the proposed PCA, Kentucky Power transfers some control over these decisions to the Operating Committee and/or AEPSC.

In addition, portions of the proposed PCA would expressly transfer control over Kentucky Power’s off-system transactions to the Operating Committee and/or AEPSC that, as of January 1, 2014, would otherwise be under the managerial control of Kentucky power and subject to review by this Commission. For example, the PCA provides:

- *“Subject to the direction of the Operating Committee, Agent agrees to:...(d) conduct Off-System Transactions on behalf of one or more Operating Companies” PCA Section 5.1.*

Further, other portions of the proposed PCA are sufficiently vague that they could be interpreted to authorize additional, unknown transfers of control from Kentucky Power to the Operating Committee and/or AEPSC:

- “Subject to the direction of the Operating Committee, Agent agrees to: ... (e) perform such other activities and duties as may be requested from time to time by a Party or Parties.” PCA Section 5.1.
- “The Operating Committee shall have the duties listed below, unless such duties are otherwise assigned by a vote of the Operating Committee to the Agent, in which case the Agent shall perform such duties: ... (d) ensuring coordination for other matters not specifically provided for herein that the Operating Committee considers necessary to the reliable and economic use of each Operating Company’s power supply resources.” PCA Section 6.3.

Therefore, Kentucky Power’s participation in the proposed PCA will result in the transfer of the control or right to control decisions related to the planning and operations of its generation resources to the Operating Committee and/or AEPSC. And Kentucky Power has not yet provided a sufficient justification for transferring control over these decisions by participating in the proposed PCA rather than seeking other available alternative courses of action. Accordingly, based on the foregoing, KIUC respectfully requests that the Commission grant its Application for a Declaratory Order affirming its jurisdiction over Kentucky Power’s participation in the proposed PCA pursuant to KRS 278.020(5) and/or any other applicable rules and regulations.

Respectfully submitted,



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March 5, 2013

**COUNSEL FOR KENTUCKY INDUSTRIAL UTILITY  
CUSTOMERS, INC.**

# APPENDIX A



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October 31, 2012

The Honorable Kimberly D. Bose  
Secretary  
Federal Energy Regulatory Commission  
888 First Street, N.E.  
Washington, D.C. 20426

Re: Appalachian Power Company  
Docket No. ER13- -000  
Indiana Michigan Power Company  
Docket No. ER13- -000  
Kentucky Power Company  
Docket No. ER13- -000  
Ohio Power Company  
Docket No. ER13- -000  
AEP Generation Resources Inc.  
Docket No. ER13- -000

Dear Secretary Bose:

On behalf of Appalachian Power Company ("APCo"), Indiana Michigan Power Company ("I&M"), Kentucky Power Company ("KPCo"), and Ohio Power Company ("Ohio Power"), American Electric Power Service Corporation ("AEPSC") hereby submits for filing, pursuant to Section 205 of the Federal Power Act ("FPA"), the Tariff Records associated with (i) the "Power Coordination Agreement among Appalachian Power Company, Indiana Michigan Power Company, Kentucky Power Company, and American Electric Power Service Corporation" ("Power Coordination Agreement") and (ii) the "Bridge Agreement among Appalachian Power Company, Indiana Michigan Power Company, Kentucky Power Company, Ohio Power Company, AEP Generation Resources Inc. ("AEP Generation Resources") and American Electric Power Service Corporation" ("Bridge Agreement"). In conjunction with these new rate schedules, AEPSC also provides notice of APCo's, I&M's, KPCo's, and Ohio Power's termination of (i) the Interconnection Agreement ("Pool Agreement") and (ii) the AEP System Interim Allowance Agreement ("IAA"). **AEPSC respectfully requests that the Commission establish November 30, 2012, as the comment date for this filing. This extended comment period would allow interested parties extra time (an additional nine days beyond what is set forth in 18 C.F.R. § 35.8) to comment on the filing.**

This filing includes the following documents in addition to the relevant Tariff Records:<sup>1</sup>

1. Attachment A - Clean Tariff Attachments for the Power Coordination Agreement (APCo Rate Schedule No. 300; I&M Rate Schedule No. 300; and KPCo Rate Schedule No. 300);
2. Attachment B - Clean Tariff Attachments for the Bridge Agreement (APCo Rate Schedule No. 301; I&M Rate Schedule No. 301; KPCo Rate Schedule No. 301; Ohio Power Rate Schedule No. 301; AEP Generation Resources Rate Schedule No. 301); and
3. Attachment C - Certificates of Concurrence signed on behalf of I&M, KPCo, Ohio Power, and AEP Generation Resources.

## **I. INTRODUCTION**

APCo, I&M, KPCo, Ohio Power,<sup>2</sup> and AEPSC are wholly-owned subsidiaries of American Electric Power Company, Inc. (“AEP”). On February 10, 2012, AEPSC filed, on behalf of itself and APCo, I&M, KPCo, Ohio Power and AEP Generation Resources Inc. (“AEP Generation Resources”): (1) a Power Cost Sharing Agreement Among APCo, I&M, KPCo and AEPSC; (2) a Bridge Agreement Among APCo, I&M, KPCo, Ohio Power, AEP Generation Resources and AEPSC; (3) notices of termination of (a) the Interconnection Agreement among APCo, I&M, KPCo, Ohio Power and AEPSC and (b) the AEP System Interim Allowance Agreement among APCo, I&M, KPCo, Ohio Power and AEPSC; and (4) related concurrences. AEPSC explained that the filing was made in conjunction with other filings implementing Ohio Power’s proposed corporate separation plan that, at that time, had been approved by the Public Utilities Commission of Ohio (“Ohio Commission”). The Commission assigned to these filings Docket Nos. ER12-1042, ER12-1043, ER12-1044, ER12-1045, and ER12-1046.

On February 28, 2012, AEPSC notified the Commission that by order issued on February 23, 2012, the Ohio Commission withdrew its earlier approval of the proposed restructuring for Ohio Power and, therefore, these AEP companies were reconsidering how best to move forward. For that reason, AEPSC stated that it was withdrawing each of the previous filings, including those made in the dockets referenced immediately above. AEPSC further indicated that the AEP companies intended to pursue the matters covered by the filings at a later date, and would make the necessary filings at that time. This filing covers the agreements and matters that were the subject of the filings previously made in Docket Nos. ER12-1042, ER12-1043, ER12-1044, ER12-1045, and ER12-1046.

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<sup>1</sup> The same filing is being submitted in four Tariff IDs, so the relevant Tariff Records will vary with each of the four filings. Each of the filings includes Attachments A through C.

<sup>2</sup> On December 31, 2011, Columbus Southern Power Company (“CSP”) was merged into and became part of Ohio Power.

## II. BACKGROUND

Together with their affiliates Kingsport Power Company (“Kingsport”) and Wheeling Power Company (“Wheeling”), APCo, I&M, KPCo, and Ohio Power make up the AEP East utilities. The AEP East utilities are members of and operate within the footprint of PJM Interconnection, L.L.C. (“PJM”). AEPSC is a service company that provides various services to the AEP East utilities and their affiliate utilities that operate within the footprints of the Southwest Power Pool (“SPP”) and the Electric Reliability Council of Texas (“ERCOT”). The AEP utilities in SPP and ERCOT are not part of and are not affected by this filing.

The AEP East utilities have for decades operated as part of an integrated public utility holding company system under the now-repealed Public Utility Holding Company Act of 1935. As part of that arrangement, those companies that owned electric generating resources (APCo, CSP, I&M, KPCo, and Ohio Power) coordinated the planning and operations of their respective generating resources pursuant to their Interconnection Agreement (“Pool Agreement”).<sup>3</sup> The parties to the Pool Agreement are referred to herein as the “Pool Members,” which included CSP prior to January 1, 2012. Kingsport and Wheeling are not parties to the Pool Agreement, as they do not own generation; they purchase their power requirements from APCo and Ohio Power, respectively.<sup>4</sup> The Pool Members also are parties to the IAA, pursuant to which they have coordinated and integrated their compliance with certain environmental rules and regulations; Kingsport and Wheeling are also not parties to the IAA.

For the reasons discussed below, each Pool Member provided notice to the other Pool Members (and to AEPSC) that it will terminate its participation under the Pool Agreement in accordance with the termination provision in the agreement. In addition, the Pool Members have agreed to terminate the IAA. Three of the current Pool Members – APCo, I&M, and KPCo – together with AEPSC, have agreed to proceed under a new arrangement (the Power Coordination Agreement), and those members together with Ohio Power and AEP Generation Resources have agreed to enter into an interim arrangement to address post-Pool Agreement matters (the Bridge Agreement).

Before discussing the new Power Coordination Agreement and the Bridge Agreement, set out below is an overview of the current Pool Agreement and the reasons that the Pool Members provided notice to terminate that agreement. Also discussed below are the reasons that the Pool Members agreed to terminate the IAA as well.

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<sup>3</sup> The Pool Agreement, which has been amended several times, is on file with the Commission as APCo’s Rate Schedule No. 20, CSP’s Rate Schedule No. 30, I&M’s Rate Schedule No. 17, KPCo’s Rate Schedule No. 11, and Ohio Power’s Rate Schedule No. 23.

<sup>4</sup> In a related proposed transaction for which Commission approval is being sought under FPA Section 203, Wheeling will merge into APCo, and APCo will serve the former Wheeling retail load. Kingsport’s retail load will continue to be served through a wholesale purchase agreement with APCo.

A. The Pool Agreement

As the Commission previously has recognized, under the Pool Agreement, generation is planned and operated on a single-system basis in order to meet the needs of the customers of all the members of the agreement. *AEP Generating Company and Kentucky Power Company*, 38 FERC ¶ 61,243 at 61,812 (1987). Each Pool Member's generating capacity obligation is determined based on its Member Load Ratio ("MLR"). MLRs are calculated monthly on the basis of each member's non-coincident peak ("NCP") demand in relation to the sum of the NCP demands of Pool Members during the preceding twelve months. Over the years, the Pool Members jointly satisfied the Pool's combined need for capacity and energy even though, if viewed individually, some Pool Members from time to time had surplus generating capacity and others were capacity deficit.

Under the Pool Agreement, Pool Members make or receive capacity payments based upon the extent to which they are deficit or surplus and the generation costs of the surplus members. The total capacity surplus in any given month for surplus members always equals the total capacity deficiency for the deficit members, producing a zero surplus/deficit balance for the Pool Members. The Pool Agreement also has an energy component. Energy transactions occur between the Pool Members such that each member has sufficient energy to meet its share of the system's total sales made in that month. A Pool Member that produces more energy than needed to meet its requirements sells the excess to members that need additional energy to meet their total energy requirement. The sale is made at the seller's average variable production cost for the month. The Pool Agreement also provides for the allocation among the Pool Members of the revenues and/or costs associated with power sales to, and purchases from, third parties. Each member receives its MLR share of the off-system sales margins associated with any such sales.

The Pool Agreement designates AEPSC as the Pool Members' agent. The agent is responsible for, among other things, the coordination of the members' respective generating resources, the arrangement of capacity and/or energy transactions with third parties, and the accounting for and preparation of the settlements for internal pool transactions among the Pool Members.

B. Termination of the Pool Agreement

Section 13.2 of the Pool Agreement provides:

Any Member upon at least three years' prior written notice to the other Members and Agent may terminate this agreement at the expiration of said initial period [December 31, 1971] or at the expiration of any successive period of one year.

On December 17, 2010, in accordance with Section 13.2 of the Pool Agreement, each of the then five members of the pool provided notice to the other members (and to AEPSC) to terminate the Pool Agreement on January 1, 2014. Although the Pool Agreement has served the Pool Members and the other AEP East utilities and their customers well over the past six decades, cumulative changes in the structure of the electric industry led the Pool Members to determine that it was necessary to consider alternatives to the current structure, including having no

agreement among any of the AEP East utilities that own generation. These changes include evolving environmental regulations, the introduction of open access to transmission facilities, the advent of regional transmission organizations, movement toward industry deregulation, an increased emphasis on demand side management, and expanding competition.<sup>5</sup> In addition, Ohio Power is experiencing a substantial and growing number of retail customers switching to competitive retail service providers and is under a requirement to legally separate its generation and marketing business from its wires business in Ohio.

These changes have raised questions as to the continuing viability of the Pool Agreement. In July 2010, for example, the Virginia State Corporation Commission (“Virginia Commission”) issued an order in an APCo rate proceeding that directed APCo and AEP to submit a report regarding “the steps that can be taken to ameliorate the negative effects of high capacity charges on APCo and its customers.” APCo filed its report with the Virginia Commission, detailing, among other things, the history of the Pool Agreement, the changes over the years to the make-up of the members’ respective generating resource portfolios, and trends in the capacity equalization rates and energy rates. As APCo’s report noted,

While it is undeniable that the [Pool Agreement] has provided tremendous benefits to each of the operating companies and their customers through its near 60 year existence, it has become increasingly difficult for AEP planners to confront the realities of today’s electric utility industry with an allocation methodology from a far simpler era. This is evidenced by the fact that regulatory commissions, including the [Virginia Commission] and others have started to question . . . the Pool’s viability in the current power supply environment.<sup>6</sup>

In addition to the concerns raised by the Virginia Commission, over the past several years the Ohio Commission has issued a series of orders implementing legislation providing for the restructuring of the electric industry in Ohio. In accordance with the legislative initiatives, Ohio Power continues to develop and implement plans in Ohio related to these initiatives, which include a plan for Ohio Power to separate its generation resources and related facilities from its

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<sup>5</sup> For example, five of the seven states in which the AEP East utilities operate currently have alternative/renewable energy portfolio requirements or goals, and the resources that qualify and the applicable standards vary significantly over time; some renewable standards include the use of energy efficiency programs while others include specific energy efficiency requirements or goals. In addition, demand response programs are addressed differently in different states; some permit customers to enroll in PJM demand response programs (either directly or through a third party aggregator), while others require enrollment with the utility. Each of these programs requires an accommodation of state- and operating-company specific requirements that were not contemplated under the Pool Agreement.

<sup>6</sup> “Report of Capacity Matters” submitted by Appalachian Power Company in Virginia Commission Case No. PUE-2009-00030 (January 4, 2011).

transmission and distribution facilities.<sup>7</sup> Once such corporate separation is implemented, Ohio Power will be a transmission and distribution company. The consummation of corporate separation will make it infeasible for Ohio Power to further participate under the Pool Agreement because, like Kingsport and Wheeling, Ohio Power will not own or operate generating units that would be available to the other Pool Members. Moreover, in accordance with the Ohio restructuring plan approved by the Ohio Commission, Ohio Power will conduct energy auctions under which it will procure portions of its energy requirements from mid-2013 through May 31, 2015. Beginning January 1, 2015, Ohio Power will procure 100% of the energy associated with Ohio Power's non-switching customers via competitive energy auctions.

For the foregoing reasons, the Pool Members agreed to terminate the existing Pool Agreement.<sup>8</sup> The remaining Pool Members (*i.e.*, APCo, I&M, and KPCo) have agreed to move forward with a new arrangement that is discussed in detail in Section III below. As noted above, the Pool Members' respective December 17, 2010 notices of termination provided for termination of the Pool Agreement to be effective on January 1, 2014.

The Pool Members have carefully coordinated termination of the Pool Agreement with other arrangements in order to lessen any adverse impact on the Pool Members and their customers. For example, the Power Coordination Agreement discussed below provides a vehicle for the remaining Pool Members to participate collectively under a common capacity plan in PJM. That agreement also provides opportunities for collective creation and sharing of specified off-system sales margins. Similarly, the simultaneous timing of the termination of the IAA, discussed immediately below, allows for the benefits and burdens from terminating that agreement to be somewhat counterbalanced by the benefits and burdens of terminating the Pool Agreement. In addition, it is currently contemplated that APCo and KPCo will obtain baseload generation previously owned by Ohio Power that will be designed to address the fact that APCo and KPCo, which are capacity deficit, will no longer be able to access capacity from Pool Members that have surplus capacity.<sup>9</sup> Finally, the Bridge Agreement discussed below in Section

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<sup>7</sup> The Ohio Commission approved the proposed corporate separation in two recently-issued orders. *In the Matter of the Application of Columbus Southern Power Company and Ohio Power Company to Establish a Standard Service Offer Pursuant to Section 4928.143, Revised Code, in the Form of an Electric Security Plan*, Case Nos. 11-346-EL-SSO and 11-348-EL-SSO (August 8, 2012), and *In the Matter of the Application of Ohio Power Company for Approval of an Amendment to its Corporate Separation Plan*, Case No. 12-1126-EL-UNC (October 17, 2012). The transfer of Ohio Power's assets is the subject of a contemporaneous filing made with this Commission pursuant to FPA Section 203. That transaction is expected to close on December 31, 2013, which coincides with the termination of the Pool Agreement and the proposed effective dates (January 1, 2014) of the agreements submitted with this filing.

<sup>8</sup> The Pool Agreement has not been submitted through eTariff and thus may be cancelled by means of a Transmittal Letter.

<sup>9</sup> As described in the Corporate Separation Application filed with the Ohio Commission, immediately after the Ohio Power generating assets are transferred to AEP Generation Resources, APCo will obtain the transferred interest in Unit No. 3 of the Amos generating plant

IV provides for a fair allocation of the cost of meeting pre-existing PJM Fixed Resource Requirement (“FRR”)<sup>10</sup> obligations and settling existing marketing and trading positions that will survive termination of the Pool Agreement.

The Commission has had occasion to review issues concerning the proposed withdrawal of one or more members from an integrated holding company’s pool arrangements in *Entergy Services, Inc.*, 129 FERC ¶ 61,143 (2009); *order denying reh’g*, 134 FERC ¶ 61,075 (2011); *aff’d, Council of the City of New Orleans, Louisiana v. FERC*, No. 11-1043 (D.C. Circuit, August 14, 2012) (“*Entergy*”). In that case, the Commission ruled that there are three specific questions concerning the proposed withdrawal: whether the members are permitted to leave the arrangement; whether they are required to compensate any remaining members; and whether they have any “continuing obligations” to the remaining members. 129 FERC ¶ 61,143 at P 58. As confirmed by review of Section 13.2, the Pool Agreement permits each Pool Member to terminate its agreement (the equivalent of withdrawing from the agreement), and neither requires a terminating Pool Member to compensate the other Pool Members nor imposes upon a terminating Pool Member any continuing obligation to the other Pool Members. Section 13.2 is straightforward: a terminating Pool Member must simply provide the other Pool Members with three years’ prior written notice of its proposed termination.

In *Entergy*, the Commission further ruled that acceptance of the members’ proposal to withdraw from the agreement does not turn on the justness and reasonableness of the potential successor arrangements; that determination is made when such arrangements are submitted for Commission review. 134 FERC ¶ 61,075 at P 24. As noted, APCo, I&M, and KPCo have agreed to a new set of arrangements, *i.e.*, the Power Coordination Agreement. That agreement is discussed below, and any issues surrounding the justness and reasonableness of that agreement may be resolved in this docket.

### C. Termination of the IAA

The IAA originally was submitted for filing on September 30, 1994, in Docket No. ER94-1670, and was accepted for filing by Letter Order issued in that docket on December 30,

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(APCo already owns the remaining interest in Amos Unit No. 3) and a 50% undivided interest in the Mitchell generating plant, and KPCo will obtain the remaining 50% undivided interest in the Mitchell plant. An application seeking approval of the transfers to APCo and KPCo is being filed with the Commission contemporaneously herewith in accordance with FPA Section 203.

<sup>10</sup> The FRR provisions were added to the PJM Reliability Assurance Agreement (“RAA”) in connection with PJM’s Reliability Pricing Model (“RPM”). In conjunction with the development of the RPM rules, PJM developed the FRR alternative, under which a load-serving entity (designated as an “FRR Entity”) has the option to submit an “FRR Capacity Plan” and meet a fixed capacity resource requirement rather than participate through the RPM capacity auction. In addition to meeting its own load obligations, an FRR Entity is required to reflect in its FRR Capacity Plan any retail load that switches to an alternative retail load-serving entity that opts not to submit its own FRR Capacity Plan. The FRR provisions of the RAA place the obligation to maintain sufficient capacity on the load-serving entity, which includes Ohio Power.

1994, and made a supplement to each member's Pool Agreement rate schedule designation, as shown below. On June 21, 1996, AEPSC, on behalf of the Pool Members, filed Modification 1 to the IAA in Docket No. ER96-2213. This modification was accepted for filing by Letter Order issued in that docket on August 30, 1996. The current version of the IAA has been in effect since September 1, 1996, and has been given the following rate schedule designations:<sup>11</sup>

Appalachian Power Company	Supplement No. 9 to Rate Schedule No. 20
Columbus Southern Power Company	Supplement No. 3 to Rate Schedule No. 30
Indiana Michigan Power Company	Supplement No. 10 to Rate Schedule No. 17
Kentucky Power Company	Supplement No. 6 to Rate Schedule No. 11
Ohio Power Company	Supplement No. 9 to Rate Schedule No. 23

The IAA was developed and entered into in connection with the Pool Members' efforts to comply with the 1990 amendments to the Clean Air Act, and in particular Title IV thereto.<sup>12</sup> As implemented by the United States Environmental Protection Agency, the 1990 Amendments provided for, among other things, a sulfur dioxide (SO<sub>2</sub>) emission allowances regime that eventually would affect nearly all of the Pool Members' electric generating units, with one allowance being equal to the right to emit one ton of SO<sub>2</sub>. Consistent with the coordinated system operations under the Pool Agreement, the IAA was intended to provide for coordinated and integrated compliance with the 1990 Amendments through an equitable methodology to allocate emission allowances to the Pool Members and to allocate either the cost of acquiring, or the proceeds associated with the sale of, allowances to or from non-affiliated third parties. For administrative ease, each member would own its member load ratio share of allowances at the end of each year. The internal transfer price for the allowances was established as the System Cost of Compliance (\$115.43/ton in 1995, escalated annually at a fixed rate of 10.56%). For 2011, the System Cost of Compliance was \$575.29; that figured escalated to \$636.04 for 2012.

Since the IAA was put into place in 1994 and subsequently modified in 1996, there have been significant changes in environmental rules and the markets associated with Title IV SO<sub>2</sub> emissions allowances that make the IAA obsolete. These developments include most notably: (1) additional environmental compliance obligations added since 1994 whose stringency on power plant emissions has or will eclipse obligations under Title IV for SO<sub>2</sub>, (2) the continuing uncertainty surrounding the environmental compliance regulations, (3) the extension of AEP's environmental controls program, which has resulted in the addition of scrubbers to thirteen AEP East generating units, (4) elimination, in part as a result of the foregoing two factors, of any shortage of the Pool Members for Title IV SO<sub>2</sub> allowances, and (5) the emergence of a robust secondary market for Title IV SO<sub>2</sub> allowances and their current and projected availability at low cost from that market. For all these reasons, the Pool Members agree that the IAA should terminate when the Pool Agreement terminates effective on January 1, 2014.

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<sup>11</sup> Because the IAA was designated as a Supplement to the rate schedule that was the Pool Agreement, terminating the Pool Agreement rate schedule would result in termination of the IAA, absent the IAA being removed from the relevant rate schedule.

<sup>12</sup> 104 Stat. 2584, 42 U.S.C.A. § 7561, *et seq.* ("1990 Amendments").



### **III. THE POWER COORDINATION AGREEMENT**

The Power Coordination Agreement is designed to provide APCo, I&M, and KPCo with the opportunity to (a) participate collectively under a common FRR capacity plan in PJM, and (b) to participate in specified collective off-system sales and purchase activities. Ohio Power will not be a party to this agreement. The key difference between the Power Coordination Agreement and the current Pool Agreement is that under the new arrangement, generation will not be planned on a single-system basis; APCo, I&M, and KPCo individually will be required to own or contract for sufficient generation to meet their respective load and reserve obligations.<sup>13</sup> Likewise, the Power Coordination Agreement does not impose capacity equalization charges on deficit members.

The Power Coordination Agreement generally provides for APCo, I&M, and KPCo (referred to in the agreement individually as an “Operating Company” or collectively as the “Operating Companies”) to coordinate their respective power supply resources. As with the current Pool Agreement, AEPSC will continue to act as the agent with responsibility for assisting each Operating Company in its evaluation of power supply resources to meet load requirements; assisting in the coordination and operation of each Operating Company’s power supply resources; conducting off-system purchases and sales on behalf of the Operating Companies; and coordinating the procurement of fuel, consumables, emission allowances, and transportation services. *See* Article V. Governance under the Power Coordination Agreement will be accomplished through an Operating Committee consisting of representatives of each Operating Company and AEPSC as the agent. The Operating Committee’s primary duties will be to review procedures for cost and benefit allocations under the agreement and to coordinate efforts to implement measures necessary for the reliable and economic use of the Operating Companies’ respective power supply resources. *See* Article VI.

The key provisions of the Power Coordination Agreement are set out in Article VII (“Operating Company Planning and Operations”) and the related service schedules. Section 7.1 provides that each of the Operating Companies will be individually responsible for planning to meet its capacity obligations. However, the Agent (AEPSC) will provide resource adequacy assessments (from the individual company and aggregate perspectives) and make recommendations to each Operating Company as to the need to add power supply resources. The Agent also will make recommendations as to the extent to which an Operating Company has temporary surplus power supply resources that could be made available to one or both of the other Operating Companies or to third parties. Service Schedule A (“Collective Participation in the Applicable Regional Transmission Organization Capacity Market”) sets out the terms for collective participation under a common FRR “self-supply” plan to meet their capacity obligations in PJM. Article VII also provides for the Agent to coordinate the scheduling of planned generation outages (Section 7.2), and to coordinate the dispatch of the Operating

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<sup>13</sup> As noted above, to reflect the fact that the Pool Agreement enabled deficit members (APCo and KPCo) to access the capacity and energy of those members with surplus generation (such as Ohio Power), APCo and KPCo plan to obtain baseload generating assets previously owned by Ohio Power to enable them to meet their respective load and reserve obligations.

Companies' respective generating resources subject to the direction of the applicable regional transmission organization ("RTO") (Section 7.3).

Section 7.5 sets out the terms for off-system transactions. Capacity transactions, discussed in Section 7.5.1, generally will be directly assigned to a specific Operating Company. Capacity purchases that are not directly allocated generally will be allocated to the Operating Company or Companies with the lowest expected capacity reserve margin(s) over the duration of the transaction. Capacity sales transactions that are not allocated to a specific Operating Company generally will be allocated to the Operating Company or Companies with the highest expected capacity reserve margin(s) over the duration of the transaction. This allocation method also applies to surplus capacity sales that occur under an RTO auction process; the implementation details are specified in Service Schedule A. That schedule discusses the treatment of auction revenues (A3) and the settlement procedures (A4).

Section 7.5.2 of the Power Coordination Agreement addresses directly assigned energy transactions with third parties. Purchases and/or sales initiated at the direction of a specific Operating Company generally will be directly assigned to that company. Costs and revenues associated with an Operating Company's off-system sales into and purchases from the RTO spot market will be directly assigned to that Operating Company. Section 7.5.3 applies to generation hedge transactions (for purposes of hedging generation output) and trading transactions (sales not associated with generation). The allocation of revenues and costs related to hedge transactions are specified in Service Schedule B ("Generation Hedge Transactions") and the allocation of revenues and costs related to trading transactions are specified in Service Schedule C ("Trading Transactions").

Service Schedule B specifies the details concerning the generation hedge transactions. Item B2 of the schedule specifies that monthly net costs and revenues associated with these transactions generally will be ratably allocated among the Operating Companies in proportion to their surplus MWhs (generation output and dedicated energy purchases in excess of retail and requirements wholesale load) for the month. Service Schedule C deals with trading transactions. Item C2 provides that transactions settled for a given month will be ratably allocated among the Operating Companies in proportion to each company's common shareholder equity balance, as determined based on the prior calendar year's books and effective beginning June of the subsequent year.

#### **IV. BRIDGE AGREEMENT**

In conjunction with and following the termination of the Pool Agreement, APCo, I&M, KPCo, Ohio Power, AEP Generation Resources and AEPSC (as agent) will operate under the Bridge Agreement. As its name implies, *the Bridge Agreement is intended to be an interim arrangement that will be in place only for a short time.* As discussed in more detail below, the Bridge Agreement addresses (a) the treatment of those purchases and sales made by the agent on behalf of the Pool Members that extend beyond termination of the Pool Agreement, and (b) how APCo, I&M, KPCo, and Ohio Power will fulfill their existing FRR obligations under the PJM Reliability Assurance Agreement ("RAA") through the PJM planning year 2014/2015 (ending

May 31, 2015). APCo, I&M, KPCo, and Ohio Power are referred to in the Bridge Agreement as “Operating Companies.”

Article II of the Bridge Agreement provides that the term commences upon the termination of the Pool Agreement and terminates upon the later of the settlement of the contracts in the legacy marketing and trading portfolio or the end of Ohio Power’s FRR obligations. Article III provides for AEPSC to serve as agent and to prepare summary reports of activities under the Bridge Agreement. Article IV provides for the creation of an Operating Committee composed of a representative of each of the parties, with AEPSC’s representative serving as the chair of the Operating Committee. Certain functions under the Bridge Agreement may be delegated to one or more subcommittees.

The two key articles of the Bridge Agreement are Article V (“FRR Obligation”) and Article VI (“Legacy Contracts”). The upcoming termination of the Pool Agreement required the Pool Members to adopt new arrangements to meet the AEP East FRR capacity obligations. Those arrangements are set out in Article V and, among other things, commit AEP Generation Resources to make its generation available to meet the Operating Companies’ FRR capacity obligations through the PJM Planning Year that ends on May 31, 2015. After that, Ohio Power’s role as an FRR Entity will terminate, and Ohio Power will participate in the RPM auctions to meet its residual capacity requirements. Section 5.1 provides for the Agent to analyze the Operating Companies’ FRR obligations in light of projected changes to their capacity resources or their capacity requirements, and to recommend a capacity resource plan to meet those obligations. The plan for the Operating Companies will be reviewed and must be unanimously approved by the Operating Companies. Section 5.2 provides for the Agent to collect information during a PJM Planning Year and, based on that information, to alter the combination of capacity resources so as to meet the FRR capacity obligation in a way that minimizes compliance charges to the extent reasonably practicable. Section 5.3 provides that allocations of charges and credits associated with (i) capacity resource purchases and sales and (ii) FRR charges and credits will be based on an average of the Pool Members’ MLRs for each of the last twelve months preceding termination of the Pool Agreement (“Final MLR”). Finally, Section 5.4 provides that the fulfillment of the Operating Companies’ FRR capacity obligations, including the allocation of charges and credits, is governed by the Bridge Agreement and not by the Power Coordination Agreement discussed above until the 2015/2016 PJM planning year.

Article VI addresses the treatment of the “Legacy Contracts Portfolio,” which includes “Legacy Trading Contracts” (power purchases and sales made pursuant to the Pool Agreement) and “Legacy Hedge Contracts” (physical and financial transactions that hedge the Pool Members’ generation resources) that are in effect at the time that the Pool Agreement is terminated. Section 6.1.1 of the Bridge Agreement provides for the Agent to settle the Legacy Trading Contracts and Legacy Hedge Contracts in accordance with their contractual terms. Gains and losses from settlement and liquidation of the Legacy Trading Contracts will be allocated among the parties based on the Final MLR. That section further provides that the Agent may, from time to time, enter into new transactions on behalf of the Operating Companies to reduce the tenor and risk of the portfolio (such new arrangements will then be treated as

Legacy Trading Contracts), but such new arrangements cannot extend beyond the final delivery month of the agreements in the portfolio of Legacy Trading Contracts.

Section 6.1.2 provides for the Agent to allocate gains and losses from the settlement and liquidation of the Legacy Hedge Contracts to APCo, I&M, KPCo (collectively) and to AEP Generation Resources in a ratable manner based on the respective forecasted spot market energy sales of APCo, I&M, KPCo (collectively) and AEP Generation Resources determined as of the effective date of the Bridge Agreement. The forecasted spot market energy sales are derived from the forecasted output of generation minus forecasted internal load. If the forecasted internal load of either APCo, I&M, KPCo (collectively) or AEP Generation Resources exceeds the forecasted output of their respective owned or controlled generation for a given month, then APCo, I&M, KPCo or AEP Generation Resources, as applicable, will not receive any allocation of gains or losses for that month, unless both are in that position, in which case gains or losses will be allocated ratably among APCo, I&M, KPCo, and AEP Generation Resources in proportion to the forecasted output of their owned or contracted generation.

The remaining articles address standard commercial matters, such as billing (Article VII), force majeure (Article VIII), general miscellaneous terms (Article IX), and regulatory approvals (Article X).

## **V. EFFECTIVE DATES**

AEPSC proposes that the termination of the current Pool Agreement (and the IAA) will occur on and the effective date of the proposed new Power Coordination Agreement will be January 1, 2014. The Tariff Records for the Power Coordination Agreement are thus being submitted with a January 1, 2014 proposed effective date. AEPSC proposes that the new Bridge Agreement also become effective upon the termination of the current Pool Agreement on January 1, 2014. The Tariff Records are thus also being submitted with a January 1, 2014 proposed effective date.

AEPSC submits that this filing raises no material issues of fact that require resolution through hearing procedures. AEPSC therefore respectfully requests that the Commission accept the filing without condition or modification and without initiating any further proceedings, and permit the Power Coordination Agreement and the Bridge Agreement to become effective on January 1, 2014, in conjunction with the termination of the Pool Agreement and the IAA.

## **VI. GENERAL FILING INFORMATION**

In compliance with the requirements of 18 C.F.R. § 35.13, AEPSC states as follows:

### **A. General Information – 18 C.F.R. § 35.13(b)**

The documents provided with this filing include this Transmittal Letter and the materials listed above. The persons upon whom this filing has been served are set out below in Section VII. A description of and the reasons for the rate changes proposed are discussed in this Transmittal Letter. AEPSC further states that there are no costs included in the agreements that have been alleged or judged in any administrative or judicial proceeding to be illegal,

duplicative, or unnecessary costs that are demonstrably the product of discriminatory employment practices.

**B. Cost of Service Information – 18 C.F.R. § 35.13(c)**

AEPSC requests waiver of those provisions in Section 35.13 that would require AEPSC to submit cost-of-service and revenue data. First, this filing qualifies for the abbreviated filing requirements under Section 35.13(a)(2)(iii) because the companies are not proposing a rate increase. In addition, the Power Coordination Agreement and the Bridge Agreement are entirely new arrangements and, therefore, no meaningful comparison may be made of revenues that were collected under prior arrangements. The Power Coordination Agreement provides for voluntary capacity and/or energy transactions at market prices, which, of course, fluctuate. The Bridge Agreement does not provide for any new transactions among the parties, but rather for the AEP East generating companies to continue to make their capacity available to meet the pre-existing FRR obligations. The Bridge Agreement also addresses marketing and trading positions under existing transactions, which will turn on prevailing market prices.

**VII. CORRESPONDENCE AND SERVICE**

AEPSC requests that any correspondence or communications with respect to this filing be sent to the following:

Chad Heitmeyer  
Regulatory Case Manager  
American Electric Power  
Service Corporation  
1 Riverside Plaza  
Columbus, OH 43215  
(614) 716-3303  
caheimeyer@aep.com

John C. Crespo  
Deputy General Counsel – Regulatory Services  
American Electric Power  
Service Corporation  
1 Riverside Plaza  
Columbus, OH 43215  
(614) 716-3727  
jccrespo@aep.com

Steven J. Ross  
Carol Gosain  
Steptoe & Johnson LLP  
1330 Connecticut Avenue, N.W.  
Washington, DC 20036  
(202) 429-6279  
sross@steptoe.com  
cgosain@steptoe.com

A copy of this filing will be served on the Indiana Utility Regulatory Commission, the Kentucky Public Service Commission, the Michigan Public Service Commission, the Public Utilities Commission of Ohio, the Tennessee Regulatory Authority, the Virginia State Corporation Commission, and the Public Service Commission of West Virginia. In addition, a copy of this filing will be posted on AEP's website at:

<http://www.aep.com/investors/currentRegulatoryactivity/regulatory/ferc.aspx>



## **Attachment A**

Power Coordination Agreement Among Appalachian Power Company, Indiana Michigan Power Company, Kentucky Power Company and American Electric Power Service Corporation as Agent

1. Tariff Record, APCo – Rate Schedule No. 300
2. Tariff Record, KPCo – Rate Schedule No. 300
3. Tariff Record, I&M – Rate Schedule No. 300

**RATE SCHEDULE No. 300**

**POWER COORDINATION AGREEMENT**

**among**

**APPALACHIAN POWER COMPANY,  
INDIANA MICHIGAN POWER COMPANY,  
KENTUCKY POWER COMPANY**

**and**

**AMERICAN ELECTRIC POWER SERVICE CORPORATION**

**as Agent**

**Tariff Submitter: Appalachian Power Company**  
**FERC Program Name: FERC FPA Electric Tariff**  
**Tariff Title: APCo Rate Schedules and Service Agreements Tariffs**  
**Tariff Proposed Effective Date: 01/01/2014**  
**Tariff Record Title: Power Coordination Agreement**  
**Option Code: A**  
**Record Content Description: Rate Schedule No. 300**



**POWER COORDINATION AGREEMENT**

**THIS AGREEMENT** is made and entered into as of this \_\_\_ day of \_\_\_\_\_, 2013, by and among Appalachian Power Company (“APCo”), Indiana Michigan Power Company (“I&M”), Kentucky Power Company (“KPCo”) and American Electric Power Service Corporation (“AEPSC”) as agent (“Agent”) to APCo, I&M and KPCo.

**RECITALS:**

**WHEREAS**, APCo, I&M and KPCo (collectively the “Operating Companies” or individually “Operating Company”) own and operate electric generation, transmission and distribution facilities with which they are engaged in the business of generating, transmitting and selling electric power to the general public and to other electric utilities;

**WHEREAS**, the Operating Companies' electric facilities are now and have been for many years interconnected through their respective transmission facilities and transmission facilities of third parties at a number of points (hereby designated and hereinafter called “Interconnection Points”);

**WHEREAS**, APCo, I&M and KPCo provide power to serve retail and wholesale customers in Indiana, Kentucky, Michigan, Tennessee, Virginia and West Virginia;

**WHEREAS**, APCo, I&M and KPCo believe that they can continue to achieve efficiencies and economic benefits through the coordinated operation of their respective power supply resources;

**WHEREAS**, the Operating Companies recognize that APCo, I&M and KPCo will (a) participate in the organized power markets of a regional transmission organization and (b) receive allocations of off-system sales and purchases with other parties on bases that fairly assign or allocate the costs and benefits of these transactions;

**WHEREAS**, the achievement of the foregoing will be facilitated by the performance of certain services by an Agent;

**WHEREAS**, AEPSC is the service company affiliate of APCo, I&M and KPCo and as such performs a variety of services on their behalf in accordance with applicable rules and regulations of the Federal Energy Regulatory Commission (“Commission”); and

**WHEREAS**, AEPSC is willing to serve as Agent to APCo, I&M and KPCo under this Agreement with respect to generation-related activities.

**NOW, THEREFORE**, in consideration of the premises and the mutual covenants and agreements herein set forth, the Parties mutually agree as follows:

## **ARTICLE I DEFINITIONS**

**1.1 Agreement** means this Power Coordination Agreement among APCo, I&M, KPCo and Agent, including all Service Schedules and attachments hereto.

**1.2 Dedicated Wholesale Customer** means a wholesale customer whose load is served by an Operating Company that has undertaken, by contract, an obligation to serve that customer's partial or full requirements load and to acquire power supply resources and other resources necessary to meet those requirements.

**1.3 Generation Hedge Transactions** means Off-System Transactions entered into for the purpose of hedging the output of the generation assets of one or more of the Operating Companies.

**1.4 Industry Standards** means all applicable national and regional electric reliability council and regional transmission organization principles, guides, criteria, standards and practices.

**1.5 Internal Load** means all sales of power by an Operating Company to its Retail Customers and Dedicated Wholesale Customers, including losses. As distinguished from Off-System Sales, Internal Load is principally characterized by the Operating Company assuming the load obligation as its own power commitment.

**1.6 Off-System Sales** means all wholesale power sales by an Operating Company other than sales to the Retail Customers and Dedicated Wholesale Customers that comprise the Operating Company's Internal Load.

**1.7 Off-System Purchases** means wholesale power purchases by an Operating Company or Operating Companies for any of the following reasons: (a) to reduce power supply costs, (b) to serve load requirements, (c) to provide reliability of supply, (d) to satisfy state specific requirements or goals or (e) to engage in Off-System Sales.

**1.8 Off-System Transactions** means Off-System Sales, Off-System Purchases and any other types of power-related wholesale transactions, whether physical or financial, on behalf of an Operating Company or Operating Companies, excluding sales to Internal Load customers.

**1.9 Operating Committee** means the administrative body established pursuant to Article VI for the purposes specified within this Agreement.

**1.10 Party** means each of APCo, I&M, KPCo and Agent, individually, and **Parties** means APCo, I&M, KPCo and Agent, collectively.

**1.11 Retail Customer** means a retail power customer on whose behalf an Operating Company has undertaken an obligation to obtain power supply resources in order to supply electricity to reliably meet the electric needs of that customer.

**1.12 Service Schedules** means the Service Schedules attached to this Agreement and those that later may be agreed to by the Parties and accepted for filing by the Commission, as they may be amended from time to time.

**1.13 Spot Market** means the day ahead, real time (balancing) or similar short-term energy market(s) operated by the applicable regional transmission organization(s), typically characterized by energy that is selected and delivered on an hourly, or more frequent, basis during that same day or the next calendar day.

**1.14 System Emergency** means a condition which, if not promptly corrected, threatens to cause imminent harm to persons or property, including the equipment of a Party or a Third Party, or threatens the reliability of electric service provided by an Operating Company to Retail Customers or Dedicated Wholesale Customers.

**1.15 Third Party or Third Parties** means any entity or entities that are not a Party or Parties.

**1.16 Trading Transactions** means Off-System Transactions that are not Generation Hedge Transactions or otherwise sourced or hedged from, dedicated to, or associated with the generation assets or Internal Load of the Operating Companies.

## **ARTICLE II TERM OF AGREEMENT**

**2.1 Term and Withdrawal.** Subject to Commission approval or acceptance for filing, this Agreement shall take effect on January 1, 2014, or such other date permitted by the Commission, and shall continue in full force and effect until (a) terminated by mutual agreement or (b) upon no less than twelve (12) months' written notice by one Party to each of the other Parties, after which time the notifying Party will be withdrawn from the Agreement and the

Agreement will continue in full force and effect for the remaining Parties except for such modifications necessary to remove the withdrawn Party.

### **ARTICLE III OBJECTIVES**

**3.1 Purpose.** The purpose of this Agreement is to provide a contractual basis for coordinating the power supply resources of the Operating Companies to achieve economies and efficiencies consistent with the provision of reliable electric service and an equitable sharing of the benefits and costs of such coordinated arrangements. This Agreement is based on the premise that each Operating Company will maintain sufficient long-term power supply resources to meet its Internal Load requirements.

### **ARTICLE IV SCOPE AND RELATIONSHIP TO OTHER AGREEMENTS AND SERVICES**

**4.1 Scope.** The transactions governed by this Agreement are subject to, and may be limited from time to time by applicable state and federal laws, and the regulations, rules, and orders of applicable regulatory agencies regarding the purchase and sale of energy and/or capacity among affiliates. This Agreement is not intended to preclude the Parties from entering into other arrangements between or among themselves or with Third Parties. This Agreement is intended to operate in addition to, not in lieu of, power market transactions and settlements that occur between each Operating Company or the Operating Companies collectively and any applicable regional transmission organizations.

**4.2 Transmission.** This Agreement is intended to apply to the coordination of the power supply resources of, and loads served by, the Operating Companies. It is not intended to

apply to the coordination of transmission facilities owned or operated by the Operating Companies.

**ARTICLE V**  
**AGENT**

**5.1 Agent's Functions.** Subject to the direction of the Operating Committee, Agent agrees to:

- (a) assist in evaluations concerning Operating Company power supply resource adequacy, including generation additions, retirements, acquisitions and dispositions;
- (b) assist in the coordination of the operation and maintenance of the Operating Companies' respective power supply resources;
- (c) administer the participation and financial settlement of the Operating Companies in the power markets of the applicable regional transmission organization;
- (d) conduct Off-System Transactions on behalf of one or more Operating Companies;
- (e) prepare and deliver to the Parties a monthly settlement statement and make available as requested supporting details for any Party to inspect for a period of time not to exceed three (3) years from the date expenses were incurred or revenues received;
- (f) acquire and coordinate transmission and ancillary services from affiliated and non-affiliated transmission providers for use with respect to transactions between or among the Operating Companies under this Agreement and Off-System Transactions;

- (g) assist in the coordination of the Operating Companies' procurement of, but not necessarily limited to, fuel, consumables, emission allowances and transportation services; and
- (h) perform such other activities and duties as may be requested from time to time by a Party or Parties.

**5.2 Appointment and Acceptance of Authority; Delegation of Duties**

**5.2.1 Appointment of Agent.** As of the effective date of this Agreement as specified in Section 2.1, the Operating Companies delegate to AEPSC, as the Agent, and AEPSC, as the Agent, hereby accepts responsibility and authority for the duties listed in Section 5.1 and elsewhere in this Agreement and shall perform each of those duties under the direction of the Parties.

**5.2.2 Delegation of Duties.** With the prior written consent of the other Parties, AEPSC may assign all or a part of its responsibilities under this Agreement to another entity.

**ARTICLE VI  
COMPOSITION AND DUTIES OF  
THE OPERATING COMMITTEE**

**6.1 Operating Committee.** By written notice to the other Parties, each Party shall name one representative ("Representative") to act for it in matters pertaining to this Agreement and its implementation. A Party may change its Representative at any time by written notice to the other Parties. The Representatives of the respective Parties shall comprise the Operating Committee. The Agent's Representative shall act as the chairman of the Operating Committee

(“Chairman”). All decisions of the Operating Committee shall be by a simple majority vote of the Representatives.

**6.2 Meeting Dates.** The Operating Committee shall hold meetings at such times, means, and places as the members shall determine. Minutes of each Operating Committee meeting shall be prepared and maintained.

**6.3 Duties.** The Operating Committee shall have the duties listed below, unless such duties are otherwise assigned by a vote of the Operating Committee to the Agent, in which case the Agent shall perform such duties:

- (a) reviewing and providing direction concerning the equitable sharing of costs and benefits under this Agreement among the Operating Companies;
- (b) administering and interpreting this Agreement and making any amendments hereto, subject to any necessary regulatory approvals, including such amendments that are proposed in response to a change in regulatory requirements applicable to one or more of the Operating Companies or changes concerning an applicable regional transmission organization;
- (c) reviewing and, if necessary, amending the duties and responsibilities of the Agent; and
- (d) ensuring coordination for other matters not specifically provided for herein that the Operating Committee considers necessary to the reliable and economic use of each Operating Company's power supply resources.

In the event that an action of the Operating Committee results in a change to the settlement process(es) among the Operating Companies, such modified settlement will normally occur on a prospective basis only, however, this may include past billing periods back to the



beginning of the first full billing month preceding the date of action of the Operating Committee. Such modifications will be subject to the terms of Article IX as applicable.

**ARTICLE VII  
OPERATING COMPANY PLANNING AND OPERATIONS**

**7.1 Operating Company and System Planning.** Each Operating Company, with support from the Agent, will be individually responsible for its own capacity planning. Each Operating Company will be responsible for maintaining an adequate level of generation resources to meet its own Internal Load requirements for capacity and energy, including any required reserve margins, and shall bear all of the resulting costs.

The Agent shall assess the adequacy of the power supply resources of the Operating Companies from the perspective of each Operating Company and the Operating Companies collectively, taking into account reserve requirements, capacity status in the applicable regional transmission organization, state integrated resource plans as applicable, each Operating Company's load forecast, changing regulatory structures and requirements and all other criteria applicable by law or regulation to each Operating Company. The Agent will subsequently make recommendations to each Operating Company regarding the need for additional power supply resources. In making this evaluation, the Agent, in conjunction with each Operating Company, will assess whether economies and efficiencies may be achieved by selecting power supply resources for joint ownership between or among more than one Operating Company, subject to regulatory, transmission, economic, and operational constraints and approvals. Similarly, the Agent, under the direction of the Operating Committee, will assess and make recommendations to each Operating Company as to whether that Operating Company

has power supply resources in excess of its needs (short-term or long-term) that could be made available to the other Operating Companies or Third Parties.

All capacity transactions between the Operating Companies will be made under such terms and at rates that are mutually agreeable to the Operating Companies. Transactions among the Operating Companies with Third Parties for sales and purchases of capacity under this Agreement shall be made as described under Section 7.5.1 and Service Schedule A. Notwithstanding any of the foregoing, the actual addition or disposition of power supply resources will be conditioned on compliance with all applicable state and other regulatory requirements and requirements of the applicable regional transmission organization.

**7.2 Generation Resource Outage Planning.** The Agent, on behalf of the Operating Companies, will coordinate the scheduling of planned generation resource outages in order to support reliability and manage costs.

**7.3 Generation Resource Dispatch.** The generation resources of each of the Operating Companies will be dispatched by the Agent under the direction of the applicable regional transmission organization.

**7.4 Regional Transmission Organization Transactions.** Each Operating Company shall be individually responsible for charges it incurs and credits it receives due to its participation in the power markets of a regional transmission organization. Such costs and revenues will be assigned or allocated directly by the applicable regional transmission organization or its agent where practical. The Operating Companies may collectively participate from time to time in specific markets of the regional transmission organization or to meet certain regional transmission or reliability organization requirements, in which case the allocation of

resulting revenues and/or costs, if any, will be performed as specified herein or as otherwise approved by the Operating Committee.

Notwithstanding the foregoing, in the event that two or more Operating Companies collectively participate in the capacity market of an applicable regional transmission organization, meaning that such Operating Companies' resources and load obligations are combined and administered collectively to participate in and satisfy the reliability requirements of the applicable regional transmission organization's capacity market, such participation will be administered and financially settled as described under Service Schedule A.

## **7.5 Off System Transactions**

**7.5.1 Capacity Purchases and Sales with Third Parties.** Off-System Transactions of capacity initiated at the direction of an Operating Company will be directly assigned to that Operating Company whenever reasonably possible. Any Off-System Purchases of capacity not directly assigned to an Operating Company will normally be allocated to the Operating Company or Operating Companies with the lowest capacity reserve margin(s) over the applicable period at the time of the transaction. Any Off-System Sales of capacity not directly assigned to an Operating Company will normally be allocated to or among the Operating Company or Operating Companies with the highest reserve margin(s).

Notwithstanding the foregoing, Off-System Transactions of capacity that occur under the capacity auction processes of the applicable regional transmission organization will be directly assigned to a specific Operating Company based on the results of such auctions or, if two or more Operating Companies are collectively participating in a regional transmission organization's capacity

market, the Off-System Transactions of capacity will be allocated to such Operating Companies as specified under Service Schedule A.

**7.5.2 Directly Assigned Energy Purchases and Sales with Third Parties.** Off-System Transactions of energy initiated at the direction of an Operating Company will be directly assigned to that Operating Company whenever reasonably possible. Costs and revenues associated with each Operating Company's Off-System Sales of energy and Internal Load energy purchases from the applicable regional transmission organization in the Spot Market, including the purchase of any energy deficits or sales of any energy surpluses, will be directly assigned to that Operating Company.

**7.5.3 Generation Hedge Transactions and Trading Transactions.** Revenues and costs associated with Generation Hedge Transactions, including revenues and costs associated with the settlement of Generation Hedge Transactions in the Spot Market or other markets of the applicable regional transmission organization, will be allocated among the Operating Companies by the Agent as specified under Service Schedule B.

Revenues and costs associated with Trading Transactions, including revenues and costs associated with the settlement of Trading Transactions in the Spot Market or other markets of the applicable regional transmission organization, will be allocated among the Operating Companies by the Agent as specified under Service Schedule C.

**7.6 Emergency Response.** In the event of a System Emergency, no adverse distinction shall be made between the customers of any of the Operating Companies. Each

Operating Company shall, under the direction of the applicable regional transmission organization, make its power supply resources available in response to a System Emergency. Notwithstanding the foregoing, it is understood that transmission constraints or other factors may limit the ability of an Operating Company to respond to a System Emergency.

**ARTICLE VIII  
ASSIGNMENT OF COSTS AND BENEFITS  
OF COORDINATED OPERATIONS**

**8.1 Service Schedules.** The costs and revenues associated with coordinated operations as described in Article VII shall be distributed among the Operating Companies in the manner provided in the Service Schedules utilizing the billing procedures described in Article IX. It is understood and agreed that all such Service Schedules are intended to establish an equitable sharing of costs and/or benefits among the Operating Companies, and that circumstances may, from time to time, require a reassessment of the relative costs and benefits of this Agreement, or of the methods used to apportion costs and benefits under the Service Schedules. Upon an action of the Operating Committee, any of the Service Schedules may be amended as of any date agreed to by the Operating Committee by majority vote, subject to the receipt of any necessary regulatory authorizations.

**ARTICLE IX  
BILLING PROCEDURES**

**9.1 Records.** The Agent shall maintain such records as may be necessary to determine the assignment of costs and revenues of coordinated operations pursuant to this Agreement. Such records shall be made available to the Parties upon request for a period not to exceed three (3) years.

**9.2 Monthly Statements.** As promptly as practicable after the end of each calendar month, the Agent shall prepare a statement setting forth the monthly summary of costs and revenues allocated or assigned to the Operating Companies in sufficient detail as may be needed for settlements under the provisions of this Agreement. As required, the Agent may provide such statements on an estimated basis and then adjust those statements for actual results.

**9.3 Billings and Payments.** The Agent shall be responsible for all billing between the Operating Companies and other entities with which they engage in Off-System Transactions pursuant to this Agreement. Payments among the Operating Companies, if any, shall be made by remittance of the net amount billed or by making appropriate accounting entries on the books of the Parties. The entire amount shall be paid when due.

**9.4 Taxes.** Should any federal, state, or local tax, surcharge or similar assessment, in addition to those that may now exist, be levied upon the electric capacity, energy, or services to be provided in connection with this Agreement, or upon the provider of service as measured by the electric capacity, energy, or services, or the revenue therefrom, such additional amount shall be included in the net billing described in Section 9.3.

**9.5 Billing Errors.** If a Party discovers a billing error pertaining to a prior billing for reasons including, but not limited to, missing or erroneous data or calculations, including those caused by meter, computer or human error, a correction adjustment will be calculated. Except as the Operating Committee may authorize in the exercise of reasonable discretion, the correction adjustment shall not be applied to any period earlier than the beginning of the first full billing month preceding the discovery of the error, nor will interest accrue on such adjustment. The correction adjustment will be applied as soon as practicable to the next subsequent regular

monthly bill. Any overpaid amount attributed to such billing errors shall be returned by the owing Party upon determination of the correct amount with no interest.

**9.6 Billing Omissions.** Within one (1) year from the date on which a bill should have been delivered, if a Party's records reveal that the bill was not delivered, then the Agent shall deliver to the appropriate Party a bill within one (1) month of this determination. Any amounts collected or reimbursed due to such omissions shall exclude interest. The right to payment is waived with respect to any amounts not billed within this period.

**9.7 Billing Disputes.** The Parties shall have the right to dispute the accuracy of any bill or payment for a period not to exceed one month from the date on which the bill was initially delivered. Following this one-month period, the right to dispute a bill is permanently waived for any and all reasons including but not limited to, (a) errors, (b) omissions, (c) Agent's actions, and (d) the Operating Committee's decisions, Agreement interpretations and direction in the administration of the Agreement. Any amounts collected or reimbursed due to such disputes shall exclude interest.

## **ARTICLE X FORCE MAJEURE**

**10.1 Events Excusing Performance.** No Party shall be liable to another Party for or on account of any loss, damage, injury, or expense resulting from or arising out of a delay or failure to perform, either in whole or in part, any of the agreements, covenants, or obligations made by or imposed upon the Parties by this Agreement, by reason of or through strike, work stoppage of labor, failure of contractors or suppliers of materials (including fuel, consumables or other goods and services), failure of equipment, environmental restrictions, riot, fire, flood, ice, invasion, civil war, commotion, insurrection, military or usurped power, order of any court or

regulatory agency granted in any *bona fide* legal proceedings or action, or of any civil or military authority either *de facto* or *de jure*, explosion, Act of God or the public enemies, or any other cause reasonably beyond its control and not attributable to its neglect. A Party experiencing such a delay or failure to perform shall use due diligence to remove the cause or causes thereof; however, no Party shall be required to add to, modify or upgrade any facilities, or to settle a strike or labor dispute except when, according to its own best judgment, such action is advisable.

## **ARTICLE XI DELIVERY POINTS**

**11.1 Delivery Points.** All electric energy delivered under this Agreement shall be of the character commonly known as three-phase sixty-cycle energy, and shall be delivered at the various Interconnection Points where the transmission systems of the Operating Companies are interconnected, either directly or through transmission facilities of third parties, at the nominal unregulated voltage designated for such points, and at such other points and voltages as may be determined and agreed upon by the Operating Companies.

## **ARTICLE XII GENERAL**

**12.1 Adherence to Industry Standards.** The Parties agree to make their best efforts to conform to Industry Standards as they affect the implementation of and conduct pertaining to this Agreement.

**12.2 No Third Party Beneficiaries.** This Agreement does not create rights of any character whatsoever in favor of any person, corporation, association, entity or power supplier, other than the Parties, and the obligations herein assumed by the Parties are solely for the use and



benefit of the Parties. Nothing in this Agreement shall be construed as permitting or vesting, or attempting to permit or vest, in any person, corporation, association, entity or power supplier, other than the Parties, any rights hereunder or in any of the resources or facilities owned or controlled by the Parties or the use thereof.

**12.3 Waivers.** Any waiver at any time by a Party of its rights with respect to a default under this Agreement, or with respect to any other matter arising in connection with this Agreement, shall not be deemed a waiver with respect to any subsequent default or matter. Any delay, short of the statutory period of limitation, in asserting or enforcing any right under this Agreement, shall not be deemed a waiver of such right.

**12.4 Successors and Assigns.** This Agreement shall inure to the benefit of and be binding upon the Parties only, and their respective successors and assigns, and shall not be assignable by any Party without the written consent of the other Parties except to a successor in the operation of its properties by reason of a reorganization to comply with state or federal restructuring requirements, or a merger, consolidation, sale or foreclosure whereby substantially all such properties are acquired by or merged with those of such a successor.

**12.5 Liability and Indemnification.** SUBJECT TO ANY APPLICABLE STATE OR FEDERAL LAW THAT MAY SPECIFICALLY RESTRICT LIMITATIONS ON LIABILITY, EACH PARTY SHALL RELEASE, INDEMNIFY, AND HOLD HARMLESS THE OTHER PARTIES, THEIR DIRECTORS, OFFICERS AND EMPLOYEES FROM AND AGAINST ANY AND ALL LIABILITY FOR LOSS, DAMAGE OR EXPENSE ALLEGED TO ARISE FROM, OR BE INCIDENTAL TO, INJURY TO PERSONS AND/OR DAMAGE TO PROPERTY IN CONNECTION WITH ITS FACILITIES OR THE PRODUCTION OR TRANSMISSION OF ELECTRIC ENERGY BY OR THROUGH SUCH FACILITIES, OR

RELATED TO PERFORMANCE OR NON-PERFORMANCE OF THIS AGREEMENT, INCLUDING ANY NEGLIGENCE ARISING HEREUNDER. IN NO EVENT SHALL ANY PARTY BE LIABLE TO ANOTHER PARTY FOR ANY INDIRECT, SPECIAL, INCIDENTAL, OR CONSEQUENTIAL DAMAGES WITH RESPECT TO ANY CLAIM ARISING OUT OF THIS AGREEMENT.

**12.6 Headings.** The descriptive headings of the Articles, Sections and Service Schedules of this Agreement are used for convenience only, and shall not modify or restrict any of the terms and provisions thereof.

**12.7 Notice.** Any notice or demand for performance required or permitted under any of the provisions of this Agreement shall be deemed to have been given on the date such notice, in writing, is deposited in the U.S. mail, postage prepaid, certified or registered mail, addressed to the Parties at their principal place of business at 1 Riverside Plaza, Columbus, Ohio 43215, or in such other form or to such other address as the Parties may stipulate.

**12.8 Interpretation.** In this Agreement: (a) unless otherwise specified, references to any Article or Section are references to such Article or Section of this Agreement; (b) the singular includes the plural and the plural includes the singular; (c) unless otherwise specified, each reference to a requirement of any governmental entity or regional transmission organization includes all provisions amending, modifying, supplementing or replacing such governmental entity or regional transmission organization from time to time; (d) the words “including,” “includes” and “include” shall be deemed to be followed by the words “without limitation”; (e) unless otherwise specified, each reference to any agreement includes all amendments, modifications, supplements, and restatements made to such agreement from time to time which are not prohibited by this Agreement; (f) the descriptive headings of the various Articles and

Sections of this Agreement have been inserted for convenience of reference only and shall in no way modify or restrict the terms and provisions thereof; and (g) “herein,” “hereof,” “hereto” and “hereunder” and similar terms refer to this Agreement as a whole.

### **ARTICLE XIII REGULATORY APPROVAL**

**13.1 Regulatory Authorization.** This Agreement is subject to and conditioned upon its approval or acceptance for filing without material condition or modification by the Commission. In the event that this Agreement is not so approved or accepted for filing in its entirety or without conditions or modifications unacceptable to any Party, or the Commission subsequently modifies this Agreement upon complaint or upon its own initiative (as provided for in Section 13.2), any Party may, irrespective of the notice provisions in Section 2.1, withdraw from this Agreement by giving thirty (30) days’ advance written notice to the other Parties.

**13.2 Changes.** It is contemplated by the Parties that it may be appropriate from time to time to change, amend, modify, or supplement this Agreement, including the Service Schedules and any other attachments that may be made a part of this Agreement, to reflect changes in operating practices or costs of operations or for other reasons. Any such changes to this Agreement shall be in writing executed by the Parties and subject to approval or acceptance for filing by the Commission. It is the intent of the Parties that, to the maximum extent permitted by law, the provisions of this Agreement shall not be subject to change under Sections 205 and 206 of the Federal Power Act absent the written agreement of the Parties, and that the standard of review for changes unilaterally proposed by a Party, a Third Party, or the Commission, acting sua sponte or at the request of a Third Party, shall be the public interest standard of review set forth in *United Gas Pipe Line Co. v. Mobile Gas Service Corp.*, 350 U.S. 332 (1956), *Federal*

*Power Commission v. Sierra Pacific Power Co.*, 350 U.S. 348 (1956), *Morgan Stanley Capital Group, Inc. v. Public Utility District No. 1 of Snohomish County*, 128 S.Ct. 2733 (2008), and *NRG Power Marketing, LLC v. Maine Public Utilities Commission*, 130 S.Ct. 693 (2010).

**IN WITNESS WHEREOF**, the Parties have caused this Agreement to be executed and attested by their duly authorized officers on the day and year first above written.

**APPALACHIAN POWER COMPANY**

By: \_\_\_\_\_

Title: \_\_\_\_\_

**INDIANA MICHIGAN POWER COMPANY**

By: \_\_\_\_\_

Title: \_\_\_\_\_

**KENTUCKY POWER COMPANY**

By: \_\_\_\_\_

Title: \_\_\_\_\_

**AMERICAN ELECTRIC POWER SERVICE CORPORATION**

By: \_\_\_\_\_

Title: \_\_\_\_\_

**SERVICE SCHEDULE A**  
**COLLECTIVE PARTICIPATION IN THE APPLICABLE REGIONAL**  
**TRANSMISSION ORGANIZATION CAPACITY MARKET**

**A1– Duration.** This Service Schedule A shall become effective and binding when the Agreement of which it is a part becomes effective, and shall continue in full force and effect throughout the duration of the Agreement unless terminated or suspended.

**A2 – Availability of Service.** This Service Schedule A governs the administration and settlement of capacity during such times that multiple Operating Companies are participating, on a collective basis, in the capacity market of the applicable regional transmission organization as specified under Section 7.4.

**A3 – Auction Sales Revenues.** Any revenues resulting from capacity sold into the applicable regional transmission organization’s planning year(s) capacity auction will normally be allocated to or among the Operating Company or Operating Companies with the highest reserve margin(s) over such planning year(s). Such allocation will occur regardless of which capacity resources of the Operating Companies are cleared and/or designated to fulfill the auction commitment.

**A4 – Delivery Year and Post-Delivery Year Settlement.** During a given regional transmission organization planning year (i.e., the delivery year), the Agent will manage the capacity resources needed to meet the combined Operating Companies’ capacity obligations and commitments to the applicable regional transmission organization.

If capacity resource performance charges are assessed by the applicable regional transmission organization for a given delivery year, the total net charge will be allocated among the Operating Companies ratably in proportion to each Operating Company’s contribution to the total charge. Each Operating Company’s contribution to the total charge will be determined by

the Agent by computing a total MW position for each Operating Company by subtracting its total capacity obligation in MWs from its total capacity resources in MWs. This result will be further adjusted by adding or subtracting as applicable the net total MWs of actual under-performance or over-performance of each Operating Company's capacity resources during the delivery year as computed by the applicable regional transmission organization. Any Operating Company with a resulting net short MW position, meaning that its capacity obligation MWs are greater than its capacity resource MWs including any MWs of over-performance or under-performance, will be allocated a share of the total net performance charge from the applicable regional transmission organization based on the Operating Company's net short MW position.

If the total net charge assessed by the applicable regional transmission organization is greater than zero, such calculations and the corresponding allocation will be made following the end of the applicable delivery year. If a total net charge is assessed by the applicable regional transmission organization which is greater than zero (0), even though each Operating Company has a computed contribution of zero (0) as described above, the total net charge will be allocated utilizing each Operating Company's delivery year capacity obligation MWs.

**SERVICE SCHEDULE B  
GENERATION HEDGE TRANSACTIONS**

**B1 – Duration.** This Service Schedule B shall become effective and binding when the Agreement of which it is a part becomes effective, and shall continue in full force and effect throughout the duration of the Agreement unless terminated or suspended.

**B2 – Service.** This Service Schedule B governs energy-related Off-System Transactions made pursuant to Section 7.5.3 of the Agreement that are associated with Generation Hedge Transactions as defined in Section 1.3. The total monthly net costs and revenues from the settlement of Generation Hedge Transactions will be allocated among the Operating Companies ratably in proportion to the total of each Operating Company's surplus MWhs for the month, as determined by the Agent. Surplus MWhs will be computed as the total of all MWs in hours in which an Operating Company's MW output of its generation assets and dedicated energy purchases, excluding Spot Market purchases, exceeded that Operating Company's Internal Load.

If the above allocation would result in any Operating Company being allocated revenues or costs associated with more than one hundred and fifteen percent (115%) of its monthly surplus MWhs as computed above, such excess(es) above that amount will be allocated to all of the Operating Companies ratably in proportion to the sum of each Operating Company's hourly MW output of its generation assets for the month.

**SERVICE SCHEDULE C  
TRADING TRANSACTIONS**

**C1 – Duration.** This Service Schedule C shall become effective and binding when the Agreement of which it is a part becomes effective, and shall continue in full force and effect throughout the duration of the Agreement unless terminated or suspended.

**C2 – Service.** This Service Schedule C governs the financial allocation and settlement of Off-System Transactions made pursuant to Section 7.5.3 of the Agreement that are associated with Trading Transactions as defined in Section 1.16. All Trading Transactions settled for a given month will be allocated among the Operating Companies ratably in proportion to each Operating Company's total common shareholder equity balance. The total common shareholder equity balance for each Operating Company as of the end of the previous calendar year will be determined annually by the Agent. These balances will then be applied to allocate settled Trading Transactions among the Operating Companies during the subsequent twelve-month period beginning June 1 and ending May 31.



## KENTUCKY POWER COMPANY

### RATE SCHEDULE NO. 300

**Joint Tariff Common Name:** “Power Coordination Agreement”

**Designated Filing Company:** Appalachian Power Company (APCo)

**Designated Filing Company Tariff Title:** APCo Rate Schedules and Service Agreements Tariffs

**Designated Filing Company Tariff Program:** FPA (Cost Based)

**Designated Filing Company Tariff Record Adopted by Reference (Record Content Description/Tariff Record Title):** Rate Schedule No. 300, Power Coordination Agreement

**No limitations:** All versions of the agreement

**Description of Tariff:** Rate Schedule under which APCo, Indiana Michigan Power Company, Kentucky Power Company, and American Electric Power Service Corporation (in an agency role) coordinate operation of their power supply resources.

**INDIANA MICHIGAN POWER COMPANY**

**RATE SCHEDULE NO. 300**

**Joint Tariff Common Name:** "Power Coordination Agreement"

**Designated Filing Company:** Appalachian Power Company (APCo)

**Designated Filing Company Tariff Title:** APCo Rate Schedules and Service Agreements Tariffs

**Designated Filing Company Tariff Program:** FPA (Cost Based)

**Designated Filing Company Tariff Record Adopted by Reference (Record Content Description/Tariff Record Title):** Rate Schedule No. 300, Power Coordination Agreement

**No limitations:** All versions of the agreement

**Description of Tariff:** Rate Schedule under which APCo, Indiana Michigan Power Company, Kentucky Power Company, and American Electric Power Service Corporation (in an agency role) coordinate operation of their power supply resources.

## **Attachment B**

Bridge Agreement Among Appalachian Power Company, Indiana Michigan Power Company, Kentucky Power Company, Ohio Power Company, AEP Generation Resources Inc. and American Electric Power Service Corporation as Agent

1. Tariff Record, APCo – Rate Schedule No. 301
2. Tariff Record, I&M – Rate Schedule No. 301
3. Tariff Record, KPCo – Rate Schedule No. 301
4. Tariff Record, OPCo – Rate Schedule No. 301
5. Tariff Record, AEP Generation Resources Inc. – Rate Schedule No. 301

**RATE SCHEDULE No. 301**

**BRIDGE AGREEMENT**

**among**

**APPALACHIAN POWER COMPANY,  
INDIANA MICHIGAN POWER COMPANY,  
KENTUCKY POWER COMPANY,  
OHIO POWER COMPANY,  
AEP GENERATION RESOURCES INC.**

**and**

**AMERICAN ELECTRIC POWER SERVICE CORPORATION**

**as Agent**

Tariff Submitter: **Appalachian Power Company**  
FERC Program Name: **FERC FPA Electric Tariff**  
Tariff Title: **APCo Rate Schedules and Service Agreements Tariffs**  
Tariff Proposed Effective Date: **01/01/2014**  
Tariff Record Title: **Bridge Agreement**  
Option Code: **A**  
Record Content Description: **Rate Schedule No. 301**

**BRIDGE AGREEMENT**

**THIS AGREEMENT** is made and entered into as of this \_\_\_ day of \_\_\_\_\_, 2013, by and among Appalachian Power Company (“APCo”), Indiana Michigan Power Company (“I&M”), Kentucky Power Company (“KPCo”), Ohio Power Company (“OPCo” and, collectively with APCo, I&M and KPCo, the “Operating Companies”), AEP Generation Resources Inc. (“AEP Generation Resources”) and American Electric Power Service Corporation (“Agent” and, collectively with APCo, I&M, KPCo, OPCo and AEP Generation Resources, the “Parties”).

**RECITALS:**

**WHEREAS**, the Operating Companies are each wholly-owned subsidiaries of American Electric Power Company, Inc. (“AEP”) and members of the Interconnection Agreement (“Pool Agreement”), which has been in effect since 1951;

**WHEREAS**, each member of the Pool Agreement has provided notice to the other members (and to the Agent) that it will terminate its participation in the Pool Agreement in accordance with the termination provisions thereof;

**WHEREAS**, pursuant to the Pool Agreement, the Operating Companies have made joint wholesale purchases and sales of physical power (at market based rates), and of financial power, for the purpose of hedging the output of the Operating Companies’ generation assets, some of which will not expire until after the Pool Agreement terminates (“Legacy Hedge Contracts”);

**WHEREAS**, in addition to the Legacy Hedge Contracts, the Operating Companies have made other joint wholesale purchases and sales of physical power (at market based rates), and of financial power and related commodities, pursuant to the Pool Agreement under joint purchase and sale contracts, some of which will also not expire until after the Pool Agreement terminates (collectively the “Legacy Trading Contracts”);

**WHEREAS**, the Operating Companies desire to jointly share in the gains and losses resulting from the settlement and liquidation in the market of the Legacy Hedge Contracts and Legacy Trading Contracts (collectively, the “Legacy Off-System Sales Portfolio”);

**WHEREAS**, the Operating Companies have previously elected to fulfill their capacity obligations to PJM pursuant to the Fixed Resource Requirement (“FRR”) alternative under the

PJM Reliability Assurance Agreement through and including Planning Year 2014/2015 (the “Operating Companies’ FRR Obligation”) and desire to continue to fulfill those obligations;

**WHEREAS**, the Public Utilities Commission of Ohio in a Finding and Order issued October 17, 2012 in Case No. 12-1126-EL-UNC has authorized OPCo to conduct an internal corporate reorganization under which its generation and power marketing businesses will be separated from its transmission and distribution businesses consistent with Ohio restructuring law and OPCo’s structural corporate separation plan;

**WHEREAS**, for the benefit of the Operating Companies, this Agreement commits the retained capacity resources of AEP Generation Resources, which it acquired from OPCo as a result of corporate separation and pursuant to the Asset Contribution Agreement, to fulfilling the Operating Companies’ FRR Obligation through and including Planning Year 2014/2015; and

**WHEREAS**, pursuant to OPCo’s corporate separation plan and the terms of the Asset Contribution Agreement between OPCo and AEP Generation Resources, AEP Generation Resources will succeed to all of OPCo’s right, title and interest in and to its generation and power marketing business (excepting the limited generation assets specifically retained by OPCo) and to all associated liabilities, including all of OPCo’s allocations of (1) gains and losses from the Legacy Off-System Sales Portfolio, (2) the Operating Companies’ FRR Obligations, (3) FRR Charges and Credits, and (4) all costs and liabilities associated with the foregoing, from which AEP Generation Resources will indemnify, defend and hold harmless OPCo pursuant to the terms of the Asset Contribution Agreement.

**NOW, THEREFORE**, in consideration of the premises and the mutual covenants and agreements herein set forth, the Parties mutually agree as follows:

## **ARTICLE I DEFINITIONS**

**1.1 Capacity Resources** means, in respect of any Planning Year, the megawatts of net capacity from the Operating Companies and AEP Generation Resources eligible to satisfy the Operating Companies’ FRR Obligation.

**1.2 Capacity Requirement** means, in respect of any Planning Year, the megawatts of net capacity from the Operating Companies and AEP Generation Resources required to satisfy the Operating Companies’ FRR Obligation.

**1.3 Commission** means the Federal Energy Regulatory Commission.

**1.4 Final MLR** means, for each member of the Pool Agreement, the arithmetic average of the member's MLR for each of the twelve full calendar months preceding the termination of the Pool Agreement.

**1.5 FRR Charges and Credits** means all PJM charges and credits arising from or relating to the Operating Companies' FRR Obligation, including but not limited to capacity auction revenues and cost of compliance with the Operating Companies' FRR Obligations under the PJM Reliability Assurance Agreement.

**1.6 Member Demand** means Member Load Obligation determined on a clock-hour integrated kilowatt basis, as set forth in Section 5.4 of the Pool Agreement.

**1.7 Member Load Obligation** means an Operating Company's internal load plus any firm power sales to un-affiliated and affiliated companies other than the Operating Companies, principally characterized by the Operating Company assuming the load obligation as its own firm power commitment and by the Operating Company retaining advantages accruing from meeting the load, as set forth in Section 5.2 of the Pool Agreement.

**1.8 Member Load Ratio or MLR** means the ratio of a particular Operating Company's Member Maximum Demand in effect for a calendar month to the sum of all of the Operating Companies' Member Maximum Demands in effect for such month, as set forth in Section 5.6 of the Pool Agreement.

**1.9 Member Maximum Demand** means the Member Maximum Demand in effect for a calendar month for a particular Operating Company, which shall be equal to the maximum Member Demand experienced by said Operating Company during the twelve consecutive calendar months next preceding such calendar month, as set forth in Section 5.5 of the Pool Agreement.

**1.10 Operating Committee** means the administrative body established pursuant to Article IV for the purposes therein specified.

**1.11 PJM** means PJM Interconnection, LLC, a regional transmission organization approved by the Commission.

**1.12 Planning Year** means each period of June 1 through May 31 of the following year during the term of this Agreement, in whole or in part, which period constitutes a planning year as defined by PJM.

**ARTICLE II**  
**TERM OF AGREEMENT**

**2.1 Term.** Subject to Commission approval or acceptance for filing, this Agreement shall take effect upon the effective date of the corporate separation of OPCo's generation and power marketing businesses from its transmission and distribution businesses and shall continue in full force and effect until the later of the settlement of the Legacy Off-System Sales Portfolio or the end of the Operating Companies' FRR Obligation under this Agreement, provided, however, that the Parties' obligations under Article V will only apply to the period starting on the effective date of this Agreement and ending May 31, 2015. The Agent will provide notice to the Operating Companies and AEP Generation Resources of the end of the term of this Agreement.

**ARTICLE III**  
**AGENT**

**3.1 Delegation and Acceptance of Authority.** The Operating Companies and AEP Generation Resources hereby delegate to the Agent and the Agent hereby accepts responsibility and authority for the duties specified in this Agreement. Except as herein expressly established otherwise, the Agent shall perform each of those duties in consultation with the Operating Committee.

**3.2 Reporting.** The Agent shall provide periodic summary reports of its activities under this Agreement to the Parties and shall keep the Parties and the Operating Committee informed of situations or problems that may materially affect the outcome of these activities. Furthermore, the Agent agrees to report to the Parties and to the Operating Committee in such additional detail as is requested regarding specific issues or projects under its supervision as Agent. The Agent will carry out its responsibilities under this paragraph in accordance with the regulations of the Commission.

**ARTICLE IV**  
**OPERATING COMMITTEE**

**4.1 Operating Committee.** By written notice to the other Parties, each Party shall name one representative ("Representative") to act for it in matters pertaining to this Agreement and its implementation. A Party may change its Representative at any time by written notice to the other Parties. The Representatives of the respective Parties shall comprise the Operating Committee. The Agent's Representative shall act as the chairman of the Operating Committee



("Chairman"). All decisions of the Operating Committee shall be by a simple majority vote of the Representatives.

**4.2 Subcommittees.** The Chairman, or any other Representative, subject to a majority of the Operating Committee concurring, may create a subcommittee or working group of the Operating Committee ("Subcommittee"). Membership in a Subcommittee will be determined by the Operating Committee. Subcommittees shall perform the duties assigned to them and shall report to the Operating Committee on all matters referred to them. Actions of a Subcommittee shall be reported in the form of proposals or recommendations to the Operating Committee and shall have no force or binding effect except by action of the Operating Committee.

**4.3 Meeting Dates.** The Operating Committee and each Subcommittee thereof shall hold meetings at such times, means, and places as the members shall determine. Minutes of each Operating Committee and Subcommittee meeting shall be prepared and maintained.

**4.4 Information for Use of the Agent.** The Parties shall cooperate in providing to the Agent the information it reasonably requests and shall supplement or correct any such information on a timely basis.

## ARTICLE V

### FRR OBLIGATION

**5.1 Annual Capacity Resource Planning.** Prior to each Planning Year, the Agent will analyze the impacts on the Operating Companies' FRR Obligation of projected and realized changes to Capacity Resources and Capacity Requirements and prepare a recommended Capacity Resource plan for the Operating Companies' FRR Obligation. The plan will describe whether additional Capacity Resources should be made available to the market and whether additional Capacity Resources should be procured for the applicable Planning Year. The portion of the Capacity Resource plan that applies to the Capacity Resources of the Operating Companies is subject to their unanimous written approval in consultation with the Agent. The portion of the Capacity Resource plan that applies to the Capacity Resources of AEP Generation Resources is subject to its written approval in consultation with the Agent. The Agent will have no duty to provide to AEP Generation Resources any portion of the Capacity Resource plan that applies to the Capacity Resources of the Operating Companies. If a Capacity Resource plan submitted by the Agent is rejected by the Operating Companies or by AEP Generation

Resources, then the Agent will revise and resubmit the plan in accordance with the foregoing procedures until the plan is accepted by both the Operating Companies and AEP Generation Resources.

**5.2 Capacity Resource Plan Implementation.** During each Planning Year, the Agent will collect Capacity Resource information from the Operating Companies and AEP Generation Resources and may alter the combination of Capacity Resources in the plan based on that information to maintain the Operating Companies' compliance with the PJM Reliability Assurance Agreement and to minimize compliance charges to the extent reasonably practicable. The Agent will implement the Capacity Resource plan for the Operating Companies' FRR Obligation, and any plan adjustments, with PJM. During each Planning Year, the Operating Companies and AEP Generation Resources will each perform testing of their Capacity Resources in accordance with the PJM Reliability Assurance Agreement and in consultation with the Agent.

**5.3 Allocation of Capacity-Related Charges and Credits.** The Agent will allocate PJM charges and credits associated with (1) Capacity Resource purchases and sales (excepting only those purchases and sales related to the generation assets specifically retained by OPCo) and (2) FRR Charges and Credits, among APCo, KPCo, I&M and AEP Generation Resources, as successor to the FRR obligations of OPCo, based on the Final MLR.

**5.4 Other Agreements.** The fulfillment of the Operating Companies' FRR Obligation, including the allocation of any associated charges and credits, for the Planning Years covered by this Article V, shall be governed by this Agreement and not by the Power Coordination Agreement among APCo, KPCo, I&M and the Agent.

## ARTICLE VI

### LEGACY CONTRACTS

**6.1 Legacy Trading Portfolio.** The Agent will settle and liquidate the Legacy Trading Portfolio in the market in accordance with the terms of the Legacy Trading Contracts and Legacy Hedge Contracts.

**6.1.1 Legacy Trading Contracts.** The Agent shall allocate gains and losses arising from the settlement and liquidation of the Legacy Trading Contracts in the market among APCo, KPCo, I&M and AEP Generation Resources, as successor to the generation-related obligations of OPCo, based on the Final MLR. The Agent may, from time to time, enter into new transactions on behalf of the Operating Companies that are

dedicated to the portfolio of Legacy Trading Contracts with the intent of reducing the tenor and/or risk of that portfolio, and those additional transactions will also be deemed Legacy Trading Contracts, provided that the Agent will not enter into any such transaction whose term extends beyond the final delivery month of the portfolio of Legacy Trading Contracts on the effective date of this Agreement.

**6.1.2 Legacy Hedge Contracts.** The Agent shall allocate gains and losses arising from the settlement and liquidation of the Legacy Hedge Contracts in the market to (1) APCo, KPCo and I&M collectively (the “Integrated AEP-East Utilities”) and (2) AEP Generation Resources, as successor to the generation-related obligations of OPCo, in a ratable manner based on the respective forecasted spot market energy sales of the Integrated AEP-East Utilities, collectively, and AEP Generation Resources, determined as of the effective date of this Agreement. The forecasted spot market energy sales for the Integrated AEP-East Utilities, collectively, and AEP Generation Resources will be calculated in monthly increments based on the forecasted output of their owned or contracted generation minus forecasted internal load. The forecasted internal load for the Integrated AEP-East Utilities is defined as the forecasted amount of megawatt-hours associated with their retail and firm wholesale loads in the aggregate, using the most recent forecast available as of the effective date of this Agreement. The forecasted internal load for AEP Generation Resources is defined as the forecasted amount of megawatt-hours to be provided by AEP Generation Resources to OPCo, under the Ohio Power Supply Agreement between those parties, and to any non-Parties, under other firm wholesale contracts, if any, determined as of the effective date of this Agreement. The monthly forecasts will be calculated through and including the final delivery month of the portfolio of Legacy Hedge Contracts. Any allocation of gains and losses to the Integrated AEP-East Utilities will be shared among APCo, KPCo and I&M in a ratable manner based on their forecasted spot market energy sales. If the forecasted internal load of either the Integrated AEP-East Utilities or AEP Generation Resources exceeds the forecasted output of their respective owned or controlled generation for a given month, then the Integrated AEP-East Utilities or AEP Generation Resources, as applicable, will not receive any allocation of gains or losses for that month, unless both are in this position in which case gains or losses will be allocated ratably among APCo, KPCo, I&M

and AEP Generation Resources in proportion to the forecasted output of their owned or contracted generation.

**6.2 Legacy Trading Contracts Administration.** The Agent will administer the scheduling, billing, settlement and liquidation in the market of the Legacy Off-System Sales Portfolio, and will provide such information, reports and position data to each Party as is requested regarding the Party's allocation of the Legacy Off-System Sales Portfolio. Any gains and losses arising from the liquidation of the Legacy Off-System Sales Portfolio shall be governed and allocated by this Agreement and not by the Power Coordination Agreement among APCo, KPCo, I&M and the Agent.

## ARTICLE VII

### BILLING PROCEDURES

**7.1 Records.** The Agent will maintain the records necessary to determine the allocation of all gains, losses, charges and credits under this Agreement. Such records shall be made available to the Operating Companies and to AEP Generation Resources upon request for a period not to exceed three (3) years.

**7.2 Monthly Statements.** As promptly as practicable after the end of each calendar month, the Agent shall prepare a statement setting forth the monthly summary of all gains, losses, charges and credits allocated or assigned to the Parties in sufficient detail as may be needed for settlements under the provisions of this Agreement. As required, the Agent may provide such statements on an estimated basis and then adjust those statements for actual results.

**7.3 Billings and Payments.** The Agent shall handle all billing between the Parties and non-Parties regarding the Legacy Contract Portfolio and the Operating Companies' FRR Obligation. Payments by the Operating Companies and AEP Generation Resources shall be made by remittance of the net amount billed to the applicable Party or by making appropriate accounting entries on the books of the Parties. The entire amount shall be paid when due.

**7.4 Taxes.** Should any federal, state, or local tax, surcharge or similar assessment, in addition to those that may now exist, be levied upon the services to be provided in connection with this Agreement, or upon the provider of service as measured by the services or the revenue therefrom, such additional amount shall be included in the billing described in this Article VII.

**7.5 Billing Errors.** If the Agent or any other Party discovers a billing error pertaining to a prior billing for reasons including, but not limited to, billing omissions or missing

or erroneous data or calculations (including those caused by meter, computer or human error), a corrective adjustment will be calculated by the Agent. Except as the Operating Committee may authorize in the exercise of reasonable discretion, the correction adjustment shall not be applied to any period earlier than the beginning of the first full billing month preceding the discovery of the error, nor will interest accrue on such adjustment. The corrective adjustment will be applied as soon as practicable to the next subsequent regular monthly bill. Any overpaid amount attributed to such billing errors shall be returned by the owing Party upon determination of the correct amount with no interest.

**7.6 Billing Disputes.** The Parties shall have the right to dispute the accuracy of any bill or payment for a period not to exceed one month from the date on which the bill was initially delivered. Following this one month period, the right to dispute a bill is permanently waived for any and all reasons including but not limited to, (a) errors, (b) omissions, (c) Agent's actions, and (d) the Operating Committee's decisions, Agreement interpretations and direction in the administration of the Agreement. Any amounts collected or reimbursed due to such disputes shall exclude interest.

## **ARTICLE VIII**

### **FORCE MAJEURE**

**8.1 Events Excusing Performance.** No Party shall be liable to another Party for or on account of any loss, damage, injury, or expense resulting from or arising out of a delay or failure to perform, either in whole or in part, any of the agreements, covenants, or obligations made by or imposed upon the Parties by this Agreement, by reason of or through strike, work stoppage of labor, failure of contractors or suppliers of materials (including fuel, consumables or other goods and services), failure of equipment, environmental restrictions, riot, fire, flood, ice, invasion, civil war, commotion, insurrection, military or usurped power, order of any court or regulatory agency granted in any *bona fide* legal proceedings or action, or of any civil or military authority either *de facto* or *de jure*, explosion, Act of God or the public enemies, or any other cause reasonably beyond its control and not attributable to its neglect. A Party experiencing such a delay or failure to perform shall use due diligence to remove the cause or causes thereof; however, no Party shall be required to add to, modify or upgrade any facilities, or to settle a strike or labor dispute except when, according to its own best judgment, such action is advisable.

## ARTICLE IX

### GENERAL

**9.1 No Third Party Beneficiaries.** This Agreement does not create rights of any character whatsoever in favor of any person, corporation, association, entity or customer, other than the Parties, and the obligations herein assumed by the Parties are solely for the use and benefit of the Parties. Nothing in this Agreement shall be construed as permitting or vesting, or attempting to permit or vest, in any person, corporation, association, entity or customer, other than the Parties, any rights hereunder or in any of the resources or facilities owned or controlled by the Parties or the use thereof.

**9.2 Waivers.** Any waiver at any time by a Party of its rights with respect to a default under this Agreement, or with respect to any other matter arising in connection with this Agreement, shall not be deemed a waiver with respect to any subsequent default or matter. Any delay, short of the statutory period of limitation, in asserting or enforcing any right under this Agreement, shall not be deemed a waiver of such right, except as otherwise set forth herein.

**9.3 Successors and Assigns.** This Agreement shall inure to the benefit of and be binding upon the Parties only, and their respective successors and assigns, and shall not be assignable by any Party without the written consent of the other Parties except to a successor in the operation of its properties by reason of a reorganization, to comply with state or federal restructuring requirements, or a merger, consolidation, sale or foreclosure whereby substantially all such properties are acquired by or merged with those of such a successor.

**9.4 Liability and Indemnification.** SUBJECT TO ANY APPLICABLE STATE OR FEDERAL LAW THAT MAY SPECIFICALLY RESTRICT LIMITATIONS ON LIABILITY, EACH PARTY SHALL RELEASE, INDEMNIFY, AND HOLD HARMLESS THE OTHER PARTIES, THEIR DIRECTORS, OFFICERS AND EMPLOYEES FROM AND AGAINST ANY AND ALL LIABILITY FOR LOSS, DAMAGE OR EXPENSE ALLEGED TO ARISE FROM, OR BE INCIDENTAL TO, INJURY TO PERSONS AND/OR DAMAGE TO PROPERTY IN CONNECTION WITH ITS FACILITIES OR THE PRODUCTION OR TRANSMISSION OF ELECTRIC ENERGY BY OR THROUGH SUCH FACILITIES, OR RELATED TO PERFORMANCE OR NON-PERFORMANCE OF THIS AGREEMENT, INCLUDING ANY NEGLIGENCE ARISING HEREUNDER. IN NO EVENT SHALL ANY PARTY BE LIABLE TO ANOTHER PARTY FOR ANY INDIRECT, SPECIAL,

INCIDENTAL, OR CONSEQUENTIAL DAMAGES WITH RESPECT TO ANY CLAIM ARISING OUT OF THIS AGREEMENT.

**9.5 Notice.** Any notice or demand for performance required or permitted under any of the provisions of this Agreement shall be deemed to have been given on the date such notice, in writing, is delivered by hand or deposited in the U.S. mail, postage prepaid, addressed to the Parties at their principal place of business at 1 Riverside Plaza, Columbus, Ohio 43215, or in such other form or to such other address as the Parties may stipulate.

**9.6 Interpretation.** In this Agreement: (a) unless otherwise specified, references to any Article or Section are references to such Article or Section of this Agreement; (b) the singular includes the plural and the plural includes the singular; (c) unless otherwise specified, each reference to a requirement of any governmental entity or regional transmission organization includes all provisions amending, modifying, supplementing or replacing such governmental entity or regional transmission organization from time to time; (d) the words “including,” “includes” and “include” shall be deemed to be followed by the words “without limitation”; (e) unless otherwise specified, each reference to any agreement includes all amendments, modifications, supplements, and restatements made to such agreement from time to time which are not prohibited by this Agreement; (f) the descriptive headings of the various Articles and Sections of this Agreement have been inserted for convenience of reference only and shall in no way modify or restrict the terms and provisions thereof; and (g) “herein,” “hereof,” “hereto” and “hereunder” and similar terms refer to this Agreement as a whole.

## ARTICLE X

### REGULATORY APPROVAL

**10.1 Regulatory Authorization.** This Agreement is subject to and conditioned upon its approval or acceptance for filing without material condition or modification by the Commission. In the event that this Agreement is not so approved or accepted for filing in its entirety without modification, or the Commission subsequently modifies this Agreement upon complaint or upon its own initiative, any Party may, irrespective of the notice provisions in Section 2.1, withdraw from this Agreement by giving thirty (30) days’ advance written notice to the other Parties.

**10.2 Changes.** It is contemplated by the Parties that it may be appropriate from time to time to change, amend, modify, or supplement this Agreement to reflect changes in operating

practices, PJM procedures or for other reasons. Any such changes to this Agreement shall be in writing executed by the Parties and subject to approval or acceptance for filing by the Commission. It is the intent of the Parties that, to the maximum extent permitted by law, the provisions of this Agreement shall not be subject to change under Sections 205 and 206 absent the written agreement of the Parties, and that the standard of review for changes unilaterally proposed by a Party, a non-Party or the Commission, acting sua sponte or at the request of a non-Party, shall be the public interest standard of review set forth in *United Gas Pipe Line Co. v. Mobile Gas Service Corp.*, 350 U.S. 332 (1956), *Federal Power Commission v. Sierra Pacific Power Co.*, 350 U.S. 348 (1956), *Morgan Stanley Capital Group, Inc. v. Public Utility District No. 1 of Snohomish County*, 128 S.Ct. 2733 (2008), and *NRG Power Marketing, LLC v. Maine Public Utilities Commission*, 130 S.Ct. 693 (2010).



**IN WITNESS WHEREOF**, the Parties have caused this Agreement to be executed and attested by their duly authorized officers on the day and year first above written.

**APPALACHIAN POWER COMPANY**

By: \_\_\_\_\_

Title: \_\_\_\_\_

**INDIANA MICHIGAN POWER COMPANY**

By: \_\_\_\_\_

Title: \_\_\_\_\_

**KENTUCKY POWER COMPANY**

By: \_\_\_\_\_

Title: \_\_\_\_\_

**OHIO POWER COMPANY**

By: \_\_\_\_\_

Title: \_\_\_\_\_

**AEP GENERATION RESOURCES INC.**

By: \_\_\_\_\_

Title: \_\_\_\_\_

**AMERICAN ELECTRIC POWER SERVICE CORPORATION**

By: \_\_\_\_\_

Title: \_\_\_\_\_

**INDIANA MICHIGAN POWER COMPANY**

**RATE SCHEDULE NO. 301**

**Joint Tariff Common Name:** “Bridge Agreement”

**Designated Filing Company:** Appalachian Power Company (APCo)

**Designated Filing Company Tariff Title:** APCo Rate Schedules and Service Agreements Tariffs

**Designated Filing Company Tariff Program:** FPA (Cost Based)

**Designated Filing Company Tariff Record Adopted by Reference (Record Content Description/Tariff Record Title):** Rate Schedule No. 301, Bridge Agreement

**No limitations:** All versions of the agreement

**Description of Tariff:** Rate Schedule under which APCo, Indiana Michigan Power Company, Kentucky Power Company, Ohio Power Company and AEP Generation Resources Inc. will for an interim time period manage the off-system transactions of the parties beyond termination of the Pool Agreement and manage obligations to fulfill their Fixed Resource Requirement under PJM’s Reliability Assurance Agreement.

**KENTUCKY POWER COMPANY**

**RATE SCHEDULE NO. 301**

**Joint Tariff Common Name:** “Bridge Agreement”

**Designated Filing Company:** Appalachian Power Company (APCo)

**Designated Filing Company Tariff Title:** APCo Rate Schedules and Service Agreements Tariffs

**Designated Filing Company Tariff Program:** FPA (Cost Based)

**Designated Filing Company Tariff Record Adopted by Reference (Record Content Description/Tariff Record Title):** Rate Schedule No. 301, Bridge Agreement

**No limitations:** All versions of the agreement

**Description of Tariff:** Rate Schedule under which APCo, Indiana Michigan Power Company, Kentucky Power Company, Ohio Power Company and AEP Generation Resources Inc. will for an interim time period manage the off-system transactions of the parties beyond termination of the Pool Agreement and manage obligations to fulfill their Fixed Resource Requirement under PJM’s Reliability Assurance Agreement.

**OHIO POWER COMPANY**

**RATE SCHEDULE NO. 301**

**Joint Tariff Common Name:** “Bridge Agreement”

**Designated Filing Company:** Appalachian Power Company (APCo)

**Designated Filing Company Tariff Title:** APCo Rate Schedules and Service Agreements Tariffs

**Designated Filing Company Tariff Program:** FPA (Cost Based)

**Designated Filing Company Tariff Record Adopted by Reference (Record Content Description/Tariff Record Title):** Rate Schedule No. 301, Bridge Agreement

**No limitations:** All versions of the agreement

**Description of Tariff:** Rate Schedule under which APCo, Indiana Michigan Power Company, Kentucky Power Company, Ohio Power Company and AEP Generation Resources Inc. will for an interim time period manage the off-system transactions of the parties beyond termination of the Pool Agreement and manage obligations to fulfill their Fixed Resource Requirement under PJM’s Reliability Assurance Agreement.

**AEP GENERATION RESOURCES INC.**

**RATE SCHEDULE NO. 301**

**Joint Tariff Common Name:** “Bridge Agreement”

**Designated Filing Company:** Appalachian Power Company (APCo)

**Designated Filing Company Tariff Title:** APCo Rate Schedules and Service Agreements Tariffs

**Designated Filing Company Tariff Program:** FPA (Cost Based)

**Designated Filing Company Tariff Record Adopted by Reference (Record Content Description/Tariff Record Title):** Rate Schedule No. 301, Bridge Agreement

**No limitations:** All versions of the agreement

**Description of Tariff:** Rate Schedule under which APCo, Indiana Michigan Power Company, Kentucky Power Company, Ohio Power Company and AEP Generation Resources Inc. will for an interim time period manage the off-system transactions of the parties beyond termination of the Pool Agreement and manage obligations to fulfill their Fixed Resource Requirement under PJM’s Reliability Assurance Agreement.

## **Attachment C**

1. Certificate of Concurrence – Indiana Michigan Power Company regarding the Power Coordination Agreement and Bridge Agreement
2. Certificate of Concurrence – Kentucky Power Company regarding the Power Coordination Agreement and Bridge Agreement
3. Certificate of Concurrence – Ohio Power Company regarding the Bridge Agreement
4. Certificate of Concurrence – AEP Generation Resources Inc. regarding the Bridge Agreement

## CERTIFICATE OF CONCURRENCE

This is to certify that Indiana Michigan Power Company (I&M), an Indiana corporation, assents to and concurs in the FERC FPA Electric Tariff described below, which Appalachian Power Company (APCo), the designated filing company, has filed in its "APCo Rate Schedules and Service Agreements Tariffs" database.

**1. Name of Tariff Adopted by Reference:** Power Coordination Agreement

**APCO Tariff Record Adopted by Reference:** Rate Schedule No. 300, Power Coordination Agreement

**Description of Tariff:** Rate Schedule under which APCo, I&M, Kentucky Power Company and American Electric Power Service Corporation (in an agency role) coordinate operation of their power supply resources.

**2. Name of Tariff Adopted by Reference:** Bridge Agreement

**APCO Tariff Record Adopted by Reference:** Rate Schedule No. 301, Bridge Agreement

**Description of Tariff:** Rate Schedule under which APCo, I&M, Kentucky Power Company, Ohio Power Company and AEP Generation Resources Inc. will for an interim time period manage the off-system transactions of the parties beyond termination of the Pool Agreement and manage obligations to fulfill their Fixed Resource Requirement under PJM's Reliability Assurance Agreement.

By: /John C. Crespo/

John C. Crespo,

Deputy General Counsel – Regulatory Services

Dated: October 26, 2012

## CERTIFICATE OF CONCURRENCE

This is to certify that Kentucky Power Company (KPCo), a Kentucky corporation, assents to and concurs in the FERC FPA Electric Tariffs described below, which Appalachian Power Company (APCo), the designated filing company, has filed in its "APCo Rate Schedules and Service Agreements Tariffs" database.

**1. Name of Tariff Adopted by Reference:** Power Coordination Agreement

**APCO Tariff Record Adopted by Reference:** Rate Schedule No. 300, Power Coordination Agreement

**Description of Tariff:** Rate Schedule under which APCo, Indiana Michigan Power Company, KPCo and American Electric Power Service Corporation (in an agency role) coordinate operation of their power supply resources.

**2. Name of Tariff Adopted by Reference:** Bridge Agreement

**APCO Tariff Record Adopted by Reference:** Rate Schedule No. 301, Bridge Agreement

**Description of Tariff:** Rate Schedule under which APCo, Indiana Michigan Power Company, KPCo, Ohio Power Company and AEP Generation Resources Inc. will for an interim time period manage the off-system transactions of the parties beyond termination of the Pool Agreement and manage obligations to fulfill their Fixed Resource Requirement under PJM's Reliability Assurance Agreement.

By: /John C. Crespo/

John C. Crespo,

Deputy General Counsel – Regulatory Services

Dated: October 26, 2012



## CERTIFICATE OF CONCURRENCE

This is to certify that Ohio Power Company, an Ohio corporation, assents to and concurs in the FERC FPA Electric Tariff described below, which Appalachian Power Company (APCo), the designated filing company, has filed in its “APCo Rate Schedules and Service Agreements Tariffs” database.

**Name of Tariff Adopted by Reference:** Bridge Agreement

**APCO Tariff Record Adopted by Reference:** Rate Schedule No. 301, Bridge Agreement

**Description of Tariff:** Rate Schedule under which APCo, Indiana Michigan Power Company, Kentucky Power Company, Ohio Power Company and AEP Generation Resources Inc. will for an interim time period manage the off-system transactions of the parties beyond termination of the Pool Agreement and manage obligations to fulfill their Fixed Resource Requirement under PJM’s Reliability Assurance Agreement.

By: /John C. Crespo/

John C. Crespo,

Deputy General Counsel – Regulatory Services

Dated: October 26, 2012

## CERTIFICATE OF CONCURRENCE

This is to certify that AEP Generation Resources Inc. (AEP Generation Resources), a Delaware corporation, assents to and concurs in the FERC FPA Electric Tariff described below, which Appalachian Power Company (APCo), the designated filing company, has filed in its “APCo Rate Schedules and Service Agreements Tariffs” database.

**Name of Tariff Adopted by Reference:** Bridge Agreement

**APCo Tariff Record Adopted by Reference:** Rate Schedule No. 301, Bridge Agreement

**Description of Tariff:** Rate Schedule under which APCo, Indiana Michigan Power Company, Kentucky Power Company, Ohio Power Company and AEP Generation Resources Inc. will for an interim time period manage the off-system transactions of the parties beyond termination of the Pool Agreement and manage obligations to fulfill their Fixed Resource Requirement under PJM’s Reliability Assurance Agreement.

By: /John C. Crespo/

John C. Crespo,

Deputy General Counsel – Regulatory Services

Dated: October 26, 2012