

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

**RECEIVED**  
**JAN 08 2014**  
**PUBLIC SERVICE**  
**COMMISSION**

**IN THE MATTER OF**

**APPLICATION OF KENTUCKY POWER COMPANY )**  
**FOR AUTHORITY PURSUANT TO KRS 278.300 TO )**  
**ISSUE AND SELL PROMISSORY NOTES OF ONE OR )**  
**MORE SERIES, TO ENTER INTO LOAN AGREEMENTS, )**  
**AND FOR OTHER AUTHORIZATIONS IN )**  
**CONNECTION WITH THE REFUNDING OF ) Case No. 2013-00410**  
**LIABILITIES ASSUMED BY THE COMPANY IN )**  
**CONNECTION WITH THE MITCHELL TRANSFER )**

**KENTUCKY POWER COMPANY RESPONSES TO**  
**ATTORNEY GENERAL'S FIRST SET OF DATA REQUESTS**

**January 8, 2014**





**Kentucky Power Company**

**REQUEST**

With reference to the proposed refunding of liabilities assumed in association with the Mitchell Transfer, please provide copies of any and all:

- a. Presentations made by Kentucky Power Company to any financial institutions and/or investment firms and/or banks regarding the transaction; and
- b. Presentations made by any financial institutions and/or investment firms and/or banks to Kentucky Power Company.

**RESPONSE**

- a. There have been no presentations made by Kentucky Power Company to any financial institutions, investment firms, or banks regarding the proposed refunding of debt liabilities assumed in association with the Mitchell Transfer.
- b. There have been no presentations made by financial institutions, investment firms, or banks to Kentucky Power regarding the proposed refunding of debt liabilities assumed in association with the Mitchell Transfer.

**WITNESS: Marc D Reitter**

**Kentucky Power Company**

**REQUEST**

With reference to the proposed refunding of liabilities assumed in association with the Mitchell Transfer, please provide copies of the following:

- a. Any and all presentations made to the Board of Directors of Kentucky Power Company regarding the refunding; and
- b. The minutes of any and all meetings of the Board of Directors of Kentucky Power Company in which the refunding was discussed.

**RESPONSE**

- a. Attached as AG 1-2 Attachment 1 and AG 1-2 Attachment 2 are the Kentucky Power Company Board of Directors financing resolution (Attachment 1) that included the \$200M for refunding the Mitchell debt and \$65M pollution control bond associated with the Mitchell Plant asset along with a summary slide that accompanied the Board resolution (Attachment 2).
- b. See AG 1-2 Attachment 1.

**WITNESS:** Marc D. Reitter/Ranie K. Wohnhas

**KENTUCKY POWER COMPANY**  
Board of Directors  
December 18, 2013

The Chairman outlined a proposed financing program through December 31, 2015 of the Company involving the issuance and sale, either at competitive bidding, through a negotiated public offering with one or more agents or underwriters or through private placement, of up to (i) \$400,000,000 (or its equivalent in another currency or composite currency) aggregate principal amount of debt securities comprised of unsecured promissory notes in one or more new series, each series to have a maturity of not more than sixty years ("Debt Securities"). The Debt Securities may be issued in the form of Senior or Subordinated Notes or other promissory notes. The Chairman stated that, as an alternative to issuing Debt Securities, the Company may issue one or more unsecured promissory notes ("AEP Notes") to American Electric Power Company, Inc. ("AEP") in an aggregate principal amount of up to \$400,000,000. AEP Notes would be issued in compliance with the order(s) of the Kentucky Public Service Commission.

The Chairman stated that, as an alternative to issuing Debt Securities or AEP Notes, the Company might enter into one or more term loan agreements or note purchase agreements with one or more commercial banks, financial institutions or other institutional investors, providing for the issuance of unsecured notes with a maturity in excess of nine months in an aggregate principal amount of up to \$400,000,000 ("Term Notes").

The Chairman stated that the aggregate amount of Debt Securities, AEP Notes or Term Notes issued will not exceed \$400,000,000.

The Chairman explained that it was proposed that the proceeds to be received in connection with the proposed sale of Debt Securities, AEP Notes and Term Notes would be added to the general funds of the Company and used to pay at maturity, or prepay as may be appropriate and as may then be desirable, or purchase directly or indirectly currently outstanding debt or to reimburse the Company's treasury for expenditures incurred in connection with its construction program or for other corporate purposes.

Thereupon, on motion duly made and seconded, it was unanimously

RESOLVED, that the proposed financing program of this Company, as outlined at this meeting, be, and the same hereby is, in all respects ratified, confirmed and approved; and further

RESOLVED, that the proper persons be, and they hereby are, authorized to take all steps necessary, or in their opinion desirable, to carry out the financing program outlined at this meeting.

The Chairman informed the meeting that the Company has filed an application

to the Kentucky Public Service Commission seeking authorization for the issuance of \$200,000,000 of Debt Securities, Term Notes and AEP Notes through December 31, 2015. The Chairman stated that the Company the also intended to file an additional application to the Kentucky Public Service Commission seeking authorization for the issuance of an additional \$200,000,000 of Debt Securities, Term Notes and AEP Notes through December 31, 2015. The Chairman also stated that it may be necessary to register or qualify the securities to be sold pursuant to such financing program under the "blue sky" laws of various jurisdictions.

Thereupon, on motion duly made and seconded, it was unanimously

**RESOLVED**, in connection with the proposed financing program approved at this meeting, the actions of the proper officers of this Company in executing and filing a petition with the Kentucky Public Service Commission seeking authorization for the issuance of \$200,000,000 of Debt Securities, Term Notes and AEP Notes through December 31, 2015 are hereby ratified, authorized and approved; and further

**RESOLVED**, that the Authorized Persons and Secretary or an Assistant Secretary of the Company be, and they hereby are, authorized and directed to execute and file in connection with the proposed financing program approved at this meeting, an additional petition with the Kentucky Public Service Commission seeking authorization for the issuance of an additional \$200,000,000 of Debt Securities, Term Notes and AEP Notes through December 31, 2015; and further

**RESOLVED**, that it is desirable and in the best interest of the Company that the Debt Securities be qualified or registered for sale in various jurisdictions; that (i) the President, the Chief Financial Officer, the Treasurer or any Assistant Treasurer of the Company or (ii) any Executive Vice President of American Electric Power Service Corporation ("Authorized Persons") be, and they hereby are, authorized to determine the jurisdictions in which appropriate action shall be taken to qualify or register for sale all or such part of the Debt Securities of the Company as said Authorized Persons may deem advisable; that said Authorized Persons are hereby authorized to perform on behalf of the Company any and all such acts as they may deem necessary or advisable in order to comply with the applicable laws of any such jurisdictions, and in connection therewith to execute and file all requisite papers and documents, including, but not limited to, applications, reports, surety bonds, irrevocable consents and appointments of attorneys for service of process; and the execution by such Authorized Persons of any such paper or document or the doing by them of any act in connection with the foregoing matters shall conclusively establish their authority therefor from the Company and the approval and ratification

by the Company of the papers and documents so executed and the action so taken; and further

RESOLVED, that the Authorized Persons be, and they hereby are, authorized and directed to take any and all further action in connection therewith, including the execution and filing of such amendment or amendments, supplement or supplements and exhibit or exhibits thereto as they may deem necessary or desirable.

The Chairman stated that it may be desirable to enter into one or more hedge agreements, such as a forward starting swap, treasury lock agreement, treasury put option or interest rate collar agreement ("Hedge Agreement") to protect against future interest rate movements in connection with the issuance of the Debt Securities. He recommended that the Board authorize the appropriate persons to enter into one or more Hedge Agreements, provided that the amount covered by any Hedge Agreement is consistent with the approved AEP Interest Rate Risk Policy and any applicable regulatory orders.

Thereupon, it was, on motion duly made and seconded, unanimously

RESOLVED, that the Authorized Persons (as previously defined) be, and each of them hereby is, authorized to execute and deliver in the name and on behalf of this Company, one or more Hedge Agreements in such form as shall be approved by the Authorized Person executing the same, such execution to be conclusive evidence of such approval, provided that the amount covered by any such Hedge Agreement is consistent with the AEP Interest Rate Risk Policy and any applicable regulatory orders; and further

RESOLVED, that the Authorized Persons be, and they hereby are, authorized to execute and deliver such other documents and instruments, and to do such other acts and things, that in their judgment may be necessary or desirable in connection with the transactions authorized in the foregoing resolutions.

The Chairman stated that it may be desirable to enter into one or more interest rate management agreements, such as interest rate swaps, caps, collars, floors, options or hedging products such as forwards or futures, or similar products ("Interest Rate Management Agreements"), in each case to manage and minimize interest costs. The transactions will be for a fixed period and a stated principal amount and may be for underlying fixed or variable obligations of the Company. He recommended that the Board authorize the appropriate persons to enter into one or more Interest Rate Management Agreements, provided that any such Interest Rate Management Agreement shall conform to the approved AEP Interest Rate Risk Policy and any conditions that may be imposed by any regulatory body.

Thereupon, it was, on motion duly made and seconded, unanimously

RESOLVED, that the Authorized Persons (as previously defined) be, and each of them hereby is, authorized to execute and deliver in the name and on behalf of this Company, one or more Interest Rate Management Agreements in such form as shall be approved by the Authorized Person executing the same, such execution to be conclusive evidence of such approval provided that any such Interest Rate Management Agreement shall conform to the approved AEP Interest Rate Risk Policy and any conditions that may be imposed by any regulatory body; and further

RESOLVED, that the Authorized Persons be, and they hereby are, authorized to execute and deliver such other documents and instruments, and to do such other acts and things, that in their judgment may be necessary or desirable in connection with the transactions authorized in the foregoing resolutions.

The Chairman noted that the Company may issue and sell unsecured notes ("Notes"), which may include a put option or call option or both, pursuant to an Underwriting Agreement or other agreement. The Chairman then stated to the meeting that, in order to enable the Company to perform its obligations under the Underwriting Agreement or other agreement approved at this meeting providing for the sale of up to \$400,000,000 aggregate principal amount of the Notes, it was necessary that the Board authorize the execution and delivery of one or more Company Orders or Supplemental Indentures to the Indenture dated September 1, 1997 between the Company and Deutsche Bank Trust Company Americas, successor to Bankers Trust Company, in such form as shall be approved by the person executing the same, such execution to be conclusive evidence of such approval. Alternatively, the Notes may be issued under a new indenture as may be supplemented and amended by one or more Company Orders or Supplemental Indentures or equivalent documentation. The terms of each series of Notes will be established under a Company Order or a Supplemental Indenture. The interest rate, maturity and certain other terms have not yet been determined. The Chairman recommended that the Board authorize the appropriate persons to determine the financial terms and conditions of the Notes, including without limitation, (i) the principal amount of the Notes to be sold in each offering, (ii) the interest or method of determining the interest on the Notes, (iii) the maturity (which shall not exceed 60 years from the date of issuance) and redemption provisions of the Notes and (iv) such other terms and conditions as are contemplated or permitted by the Indenture, a new indenture, a Company Order or a Supplemental Indenture. Any fixed interest rate applicable to the Notes would not exceed by more than 500 basis points the yield to maturity at the date of pricing on United States Treasury obligations of comparable maturity. Any initial fluctuating interest rate applicable to the Notes would not exceed 8%.

Thereupon, it was, on motion duly made and seconded, unanimously

**RESOLVED**, that the Authorized Persons (as previously defined) and the Secretary or an Assistant Secretary of the Company be, and they hereby are, authorized to create up to \$400,000,000 aggregate principal amount of Notes to be issued under the Indenture or a new indenture and one or more Supplemental Indentures or Company Orders or equivalent documentation, in such form as shall be approved by the Authorized Persons and the Secretary or an Assistant Secretary of the Company executing the same, such execution to be conclusive evidence of such approval and with such financial terms and conditions as determined by the Authorized Persons and the Secretary or an Assistant Secretary of the Company, pursuant to the Indenture or a new indenture and one or more Supplemental Indentures or Company Orders or equivalent documentation, and with either a fixed rate of interest which shall not exceed by more than 500 basis points the yield to maturity at the date of pricing on United States Treasury obligations of comparable maturity or at an initial fluctuating rate of interest which at the time of pricing would not exceed 8%, or at a combination of such described fixed or fluctuating rates, and to specify the maturity, redemption or tender provisions and other terms, at the time of issuance thereof with the maturity not to exceed 60 years; and further

**RESOLVED**, that the Authorized Persons and the Secretary or an Assistant Secretary of the Company be, and they hereby are, authorized and directed to execute and deliver, on behalf of this Company, one or more Supplemental Indentures or Company Orders, specifying the designation, terms, redemption provisions and other provisions of the Notes and providing for the creation of each series of Notes, each such instrument to be substantially in the form as shall be approved by the Authorized Person and the Secretary or an Assistant Secretary of the Company executing the same, such execution to be conclusive evidence of such approval, that the trustee under the Indenture or a new indenture is hereby requested to join in the execution of any Supplemental Indenture or Company Order, as trustee; and further

**RESOLVED**, that the Authorized Persons and the Secretary or an Assistant Secretary of the Company be, and they hereby are, authorized and directed to execute and deliver, on behalf of this Company, to the extent not determined in a Supplemental Indenture or Company Order, a certificate requesting the authentication and delivery of any such Notes and establishing the terms of any tranche of such series or specifying procedures for doing so in accordance with the procedures established in

the Indenture or any new indenture; and further

RESOLVED, that the Authorized Persons and the Secretary or an Assistant Secretary of this Company be, and they hereby are, authorized and directed to execute in accordance with the provisions of the Indenture or any new indenture (the signatures of such Authorized Persons to be effected either manually or by facsimile, in which case such facsimile is hereby adopted as the signature of such Authorized Persons and the Secretary or an Assistant Secretary of the Company thereon), and to deliver to the trustee under the Indenture, or any assignee or successor thereto, or another trustee under a new indenture, the Notes in the aggregate principal amount of up to \$400,000,000 as definitive fully registered bonds without coupons in such denominations as may be permitted under the Indenture; and further

RESOLVED, that if any Authorized Person or the Secretary or an Assistant Secretary of this Company who signs, or whose facsimile signature appears upon, any of the Notes ceases to be such an Authorized Person or Secretary or an Assistant Secretary of the Company prior to their issuance, the Notes so signed or bearing such facsimile signature shall nevertheless be valid; and further

RESOLVED, that, subject as aforesaid, Deutsche Bank Trust Company Americas, as such Trustee, or any assignee or successor thereto or another trustee under a new indenture, be, and it hereby is, requested to authenticate, by the manual signature of an authorized officer of such trustee, the Notes and to deliver the same from time to time in accordance with the written order of this Company by the Authorized Persons and the Secretary or an Assistant Secretary of the Company; and further

RESOLVED, that Thomas G. Berkemeyer of Hilliard, Ohio, David C. House of Lewis Center, Ohio, and William E. Johnson of Gahanna, Ohio, attorneys and employees of American Electric Power Service Corporation, an affiliate of this Company, be, and each of them hereby is, appointed Counsel to render any Opinion of Counsel required by the Indenture or any new indenture in connection with the authentication and delivery of the Notes; and further

RESOLVED, that the office of Deutsche Bank Trust Company Americas, in the Borough of Manhattan, The City of New York, or such other office of any assignee or successor thereto or another trustee under a new indenture as may be designated by the Company be, and it hereby

is, designated as the office or agency of this Company, in accordance with the Indenture or any new indenture, for the payment of the principal of and the interest on the Notes, for the registration, transfer and exchange of Notes and for notices or demands to be served on the Company with respect to the Notes; and further

RESOLVED, that said Deutsche Bank Trust Company Americas be, and it hereby is, appointed the withholding agent and attorney of this Company for the purpose of withholding any and all taxes required to be withheld by the Company under the Federal revenue acts from time to time in force and the Treasury Department regulations pertaining thereto, from interest paid from time to time on the Notes, and is hereby authorized and directed to make any and all payments and reports and to file any and all returns and accompanying certificates with the Federal Government which it may be permitted or required to make or file as such agent under any such revenue act and/or Treasury Department regulation pertaining thereto; and further

RESOLVED, that the Authorized Persons (as defined above) and the Secretary or an Assistant Secretary of this Company be, and they hereby are, authorized and directed to effect transfers and exchanges of the Notes, pursuant to the Indenture without charging a sum for any Note issued upon any such transfer or exchange other than a charge in connection with each such transfer or exchange sufficient to cover any tax or other governmental charge in relation thereto; and further

RESOLVED, that Deutsche Bank Trust Company Americas, or any assignee or successor thereto or another trustee under a new indenture as may be designated by the Company, be, and it hereby is, appointed as Note Registrar in accordance with the Indenture; and further

RESOLVED, that the Authorized Persons and Secretary or an Assistant Secretary of the Company be, and they hereby are, authorized and directed to execute such instruments and papers and to do any and all acts as to them may seem necessary or desirable to carry out the purposes of the foregoing resolutions.

The Chairman further stated that it would be desirable to authorize the proper persons on behalf of the Company, to enter into one or more term loan or note purchase agreements in such form as shall be approved by the person executing the same, such execution to be conclusive evidence of such approval ("Term Loan Agreement") with one or more as yet unspecified commercial banks, financial institutions or other institutional investors, which

would provide for the Company to borrow up to \$400,000,000. Such borrowings would be evidenced by an unsecured promissory note or notes (the "Term Note") of the Company maturing not less than nine months nor more than sixty years after the date thereof, bearing interest to maturity at either a fixed rate, floating rate, or combination thereof. Any fixed interest rate of the Note will not be greater than 500 basis points above the yield to maturity of United States Treasury obligations that mature on or about the date of maturity of the note. Any fluctuating rate will not exceed 8% at the time of issuance.

Thereupon, upon motion duly made and seconded, it was unanimously

RESOLVED, that the Authorized Persons (as previously defined) be, and each of them hereby is, authorized to execute and deliver in the name and on behalf of this Company, one or more Term Loan Agreements in such form as shall be approved by the officer executing the same, such execution to be conclusive evidence of such approval in substantially the form of such agreement submitted to this meeting, at either a fixed rate of interest which shall not be greater than 500 basis points above the yield to maturity of United States Treasury obligations that mature on or about the maturity date of the Note issued thereunder, or a fluctuating rate of interest which shall not exceed 8%, or at a combination of such described fixed or fluctuating rates; and further

RESOLVED, that the Authorized Persons be, and each of them hereby is, authorized, in the name and on behalf of this Company, to borrow from one or more commercial banks, financial institutions or other institutional investors, up to \$400,000,000, upon the terms and subject to the conditions of the Term Loan Agreement as executed and delivered; and in connection therewith, to execute and deliver a promissory note, with such insertions therein and changes thereto consistent with such Term Loan Agreement as shall be approved by the officer executing the same, such execution to be conclusive evidence of such approval; and further

RESOLVED, that the Authorized Persons be, and they hereby are, authorized to execute and deliver such other documents and instruments, and to do such other acts and things, that in their judgment may be necessary or desirable in connection with the transactions authorized in the foregoing resolutions.

The Chairman further stated that it would be desirable to authorize the appropriate persons, on behalf of the Company, to issue one or more unsecured promissory notes to AEP in an aggregate principal amount of up to \$400,000,000 on such terms as are consistent with (i) the financing authority granted by the Kentucky Public Service Commission

and (ii) any applicable rules of the Federal Energy Regulatory Commission ("FERC") and regulations thereunder.

Thereupon, upon motion duly made and seconded, it was unanimously

RESOLVED, that the Authorized Persons (as previously defined) be, and each of them hereby is, authorized, in the name and on behalf of his Company, to borrow from AEP up to \$400,000,000, upon such terms as are consistent with (i) the financing authority granted by the Kentucky Public Service Commission and (ii) any applicable rules of the FERC.

The Chairman further outlined the proposed issuance and sale by the West Virginia Economic Development Authority (the "Issuer"), to one or more underwriters (the "Underwriter") or banks (the "Bank") of a series of the Issuer's Solid Waste Disposal Revenue Refunding Bonds (Kentucky Power Company - Mitchell Project) (the "Bonds"), in the aggregate principal amount of \$65,000,000 pursuant to one or more Loan Agreements, between the Company and the Issuer (the "Agreement") and one or more Indentures of Trust (the "WVEDA Indenture"), between the Issuer and a trustee to be selected by the Company (the "WVEDA Trustee"). The Issuer's \$65,000,000 aggregate principal amount of Solid Waste Disposal Revenue Bonds (Ohio Power Company - Mitchell Project), Series 2008A (the "Series 2008A Bonds") would be redeemed at the price of 100% of their principal amount plus accrued interest. The proceeds of the sale of the Bonds will be deposited, together with other funds supplied by the Company, with the Trustee and used to provide funds for the redemption of the Series 2008A Bonds, the proceeds of which were used to finance a portion of the costs of acquiring, constructing and improving solid waste disposal facilities designed for the disposal of solid waste at the Mitchell Generating Station located near Moundsville, West Virginia.

The Issuer proposes to issue the Bonds in the aggregate principal amount of \$65,000,000 having terms acceptable to a proper officer of the Company and reflected in the WVEDA Indenture, together with an inducement letter (the "Letter") to be executed by an officer of the Company and delivered to and accepted by the Issuer and the Underwriter or the Bank, as the case may be, in connection with the issuance and sale of the Bonds. The Chairman recommended that the Board authorize the appropriate officers of the Company to request the Issuer to issue its Bonds and to execute and deliver the WVEDA Indenture and the Letter.

Thereupon, after discussion, on motion duly made and seconded, it was unanimously

RESOLVED, that the Authorized Persons of this Company be, and they hereby are, authorized (i) to request the Authority to issue the Bonds having terms substantially as set forth in the form of proposed WVEDA Indenture, with (a) the stated maturity of any such Bonds to be no more than forty (40) years; (b) the

initial rate of interest not to exceed 8% per annum (if a fixed rate of interest) or 8% per annum (if a variable rate of interest); and (c) the discount from the initial public offering price of any such Bond shall not exceed 5% of the principal amount thereof; and with such changes as may be required upon the establishment of the further terms thereof; (ii) to execute and deliver the Letters with such insertions therein and changes thereto as shall be approved by the officer executing the same, such execution to be conclusive evidence of such approval; and (iii) to execute and deliver the Loan Agreements and the promissory notes contemplated therein in such form as shall be approved by the officer executing the same, such execution to be conclusive evidence of such approval; and further

RESOLVED, that the Authorized Persons of this Company be, and each hereby is, authorized to take such further action to execute and deliver all such further instruments and documents and do all other things as they or any one of them shall deem necessary or expedient in connection with the Loan Agreements or the Letters; and further

RESOLVED, that the Authorized Persons of this Company be, and each hereby is, authorized to execute and deliver, on behalf of this Company, to the Authority and the WVEDA Trustee a Certificate, Approval, Consent and Instruction by the Company approving the issuance of the Bonds and approving the terms of the Indentures, with such changes in said Indentures as such officers of and counsel to this Company may deem necessary or desirable; and further

RESOLVED, that the Authorized Persons of this Company be, and each hereby is, authorized to take such further action as may be required under the Loan Agreements, the Indentures, or otherwise, to execute and deliver all such further instruments and documents and to do all other things as they or any one of them shall deem necessary or expedient in connection with the redemption of the Series 2008A Bonds, the issuance and sale of the Bonds by the Authority, and the authentication and delivery of the Bonds by the WVEDA Trustee.

The Chairman stated that it may be desirable to enter into one or more bond hedge agreements, such as a forward starting swap, treasury lock agreement, treasury put option or interest rate collar agreement ("Bond Hedge Agreement") to protect against future interest rate movements in connection with the issuance of the Bonds. He recommended that the Board authorize the appropriate persons to enter into one or more Bond Hedge Agreements, provided that the amount covered by any Bond Hedge Agreement is consistent with the approved AEP Interest Rate Risk Policy and any applicable regulatory orders.

Thereupon, it was, on motion duly made and seconded, unanimously

RESOLVED, that the Authorized Persons (as previously defined) be, and

each hereby is, authorized to execute and deliver in the name and on behalf of this Company, one or more Bond Hedge Agreements in such form as shall be approved by the Authorized Person executing the same, such execution to be conclusive evidence of such approval, provided that the amount covered by any such Bond Hedge Agreement is consistent with the approved AEP Interest Rate Risk Policy and any applicable regulatory orders; and further

RESOLVED, that the Authorized Persons be, and they hereby are, authorized to take such further action and do all other things as they or any one of them shall deem necessary or expedient in connection with the Bond Hedge Agreements; and further

RESOLVED, that the Authorized Persons be, and they hereby are, authorized to take such further action, to execute and deliver all such further documents, certificates and instruments and to do all other things as they or any one of them shall deem necessary or expedient in connection with the transactions authorized in the foregoing resolutions.

# KPCO Financing Resolution

## • **Board Resolution:**

- Authorizes the company to issue and sell up to \$400 million of Debt Securities or Term Notes:
  - \$200M associated with the Mitchell Asset transfer
  - \$200M associated with planned capital expenditures and general corporate purposes
- Authorizes the company to issue and sell up to \$65 million of WVEDA Solid Waste Disposal Revenue Bonds associated with the Mitchell Asset transfer through December 31, 2015
- Authorizes Hedging, which includes pre-issuance hedging and interest rate management
- Authorizes Credit Enhancement, which includes financial guaranty insurance and other agreements

### ***Kentucky Power Company***

#### Issuances in current plan:

- Private Placement Senior Notes Issuance in 2014 of \$200 million
- Private Placement Senior Notes Issuance in 2015 of \$200 million
- WVEDA Pollution Control Bonds in 2014 of \$65 million

## **Kentucky Power Company**

### **REQUEST**

Reference paragraph 12 of the application. With reference to the statement wherein it states "restore its debt-capital ratio," please provide the following information:

- a. Kentucky Power's pre-acquisition financing capitalization amounts, effective cost rates, ratios, and overall weighted cost of capital;
- b. Kentucky Power's pro-forma post-acquisition financing capitalization amounts, effective cost rates, ratios, and overall weighted cost of capital; and
- c. For both items (a) and (b) above, please list all debt issues, including issuance dates, coupon rates and effective cost rates. For the pro-forma capitalizations, please provide estimates cost rates, issuance costs, and effective cost rates.

### **RESPONSE**

a-c. AG 1-3 Attachment 1 represents workpapers that provide an approximation of the capital structure impacts due to the Mitchell Plant transfer. As noted in paragraph 12 of the application, it is Kentucky Power's intent to restore the capitalization of the Company after the Mitchell asset is transferred to its debt to capital ratio to approximate the pre-transfer debt to capital ratio.

**WITNESS:** Marc D Reitter

**KENTUCKY POWER COMPANY  
 PRE MITCHELL TRANSFER COST OF CAPITAL (GAAP)**

<u>DESCRIPTION</u> (2)	<u>PER BOOKS CAPITAL</u> (3)	<u>PERCENTAGE OF TOTAL</u> (4)	<u>ANNUAL COST PERCENTAGE RATE</u> (5)	<u>WEIGHTED AVERAGE COST PERCENT</u> (6) = (4) X (5)
Long Term Debt	\$550,000,000	54.14%	6.48%	3.51%
Common Equity	465,917,000	45.86%	10.50%	4.82%
<b>Total</b>	<b>\$1,015,917,000</b>	<b>100.00%</b>		<b>8.33%</b>

**KENTUCKY POWER COMPANY  
 PRO FORMA MITCHELL TRANSFER COST OF CAPITAL (GAAP)**

<u>DESCRIPTION</u> (2)	<u>PRO FORMA CAPITAL</u> (3)	<u>PERCENTAGE OF TOTAL</u> (4)	<u>ANNUAL COST PERCENTAGE RATE</u> (5)	<u>WEIGHTED AVERAGE COST PERCENT</u> (6) = (4) X (5)
Long Term Debt	\$815,000,000	54.12%	6.21%	3.36%
Common Equity	690,917,000	45.88%	10.50%	4.82%
<b>Total</b>	<b>\$1,505,917,000</b>	<b>100.00%</b>		<b>8.18%</b>

NOTE: There was no Short Term debt on Kentucky Power Company's books as of November 30, 2013

Kentucky Power Company  
Long-Term debt  
Pre- Mitchell Transfer  
(\$000)

Ln No	Description	Interest Rate (%)	Date of Offering	Date of Maturity	Average Term In Years	Principal Amount Issued	Total Original Discount (Prem) & Expense 1/	Net Proceeds on Principal Amt. Based on Original Prem. (Disc) & Exp	Net Proceed Ratio	Effective Cost Rate	Current Amount Outstanding	Average Cost of Debt Based on Carrying Value	Average Cost of Debt	Name of Issuer
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)	(13)	(14)	(15)
Global Note Payable to Parent Company														
1	(American Electric Power)	5.250%	02/05/2004	06/01/2015	11.32	\$20,000	\$0	\$20,000	100.00%	5.249%	\$20,000	\$1,050		KPCo
2	Subtotal					\$20,000		\$20,000			\$20,000	\$1,050		
<u>Senior Notes</u>														
3	Senior Unsecured Notes	5.625%	06/13/2003	12/01/2032	29.47	\$75,000	\$1,393	\$73,607	98.14%	5.756%	\$75,000	\$4,317		KPCo
4	Senior Unsecured Notes	6.000%	09/11/2007	09/15/2017	10.01	\$325,000	\$3,945	\$321,055	98.79%	6.164%	\$325,000	\$20,033		KPCo
5	Senior Unsecured Notes	7.250%	06/18/2009	06/18/2021	12.00	\$40,000	\$218	\$39,782	99.46%	7.319%	\$40,000	\$2,928		KPCo
6	Senior Unsecured Notes	8.030%	06/18/2009	06/18/2029	20.00	\$30,000	\$163	\$29,837	99.46%	8.085%	\$30,000	\$2,426		KPCo
7	Senior Unsecured Notes	8.130%	06/18/2009	06/18/2039	30.00	\$60,000	\$327	\$59,673	99.46%	8.179%	\$60,000	\$4,907		KPCo
8	Subtotal					\$530,000	\$6,046	\$523,954			\$530,000	\$34,611		
9	Total Long Term Debt					\$550,000	\$6,046	\$543,954			\$550,000	\$35,661		
10	Other Long Term Debt					\$0	\$0	\$0			\$0	\$0		
11	Total Kentucky Power					\$550,000	\$6,046	\$543,954			\$550,000	\$35,661	6.48%	

Kentucky Power Company  
Long-Term debt  
ProForma Mitchell Transfer  
(\$000)

Ln No	Description	Interest Rate (%)	Date of Offering	Date of Maturity	Average Term In Years	Principal Amount Issued	Total Original Discount (Prem) & Expense 1/	Net Proceeds on Principal Amt. Based on Original Prem. (Disc) & Exp	Net Proceed Ratio	Effective Cost Rate	Current Amount Outstanding	Average Cost of Debt Based on Carrying Value	Average Cost of Debt	Name of Issuer
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)	(13)	(14)	(15)
<b>Global Note Payable to Parent Company</b>														
1	(American Electric Power)	5.250%	02/05/2004	06/01/2015	11.32	\$20,000	\$0	\$20,000	100.00%	5.249%	\$20,000	\$1,050		KPCo
2	Subtotal					\$20,000		\$20,000		401.737%	\$20,000	\$1,050		
<b>Senior Notes</b>														
3	Senior Unsecured Notes	5.625%	06/13/2003	12/01/2032	29.47	\$75,000	\$1,393	\$73,607	98.14%	5.756%	\$75,000	\$4,317		KPCo
4	Senior Unsecured Notes	6.000%	09/11/2007	09/15/2017	10.01	\$325,000	\$3,945	\$321,055	98.79%	6.164%	\$325,000	\$20,033		KPCo
5	Senior Unsecured Notes	7.250%	06/18/2009	06/18/2021	12.00	\$40,000	\$218	\$39,782	99.46%	7.319%	\$40,000	\$2,928		KPCo
6	Senior Unsecured Notes	8.030%	06/18/2009	06/18/2029	20.00	\$30,000	\$163	\$29,837	99.46%	8.085%	\$30,000	\$2,426		KPCo
7	Senior Unsecured Notes	8.130%	06/18/2009	06/18/2039	30.00	\$60,000	\$327	\$59,673	99.46%	8.179%	\$60,000	\$4,907		KPCo
8	Subtotal					\$530,000	\$6,046	\$523,954			\$530,000	\$34,611		
<b>Pro Forma Debt Adjustments</b>														
		5.500%	6/30/2014	4/1/2036	21.75	\$65,000	\$566	\$64,434	99.13%	5.569%	\$65,000	\$3,620		
		5.622%	6/30/2014	1/30/2044	29.58	\$200,000	\$1,092	\$198,908	99.45%	5.660%	\$200,000	\$11,319		
						\$265,000	\$1,658	\$263,342			\$265,000	\$14,939		
9	Total Long Term Debt					\$815,000	\$7,704	\$807,296			\$815,000	\$50,600		
10	Other Long Term Debt					\$0	\$0	\$0			\$0	\$0		
11	Total Kentucky Power					\$815,000	\$7,704	\$807,296			\$815,000	\$50,600	6.21%	

Kentucky Power Company  
Proforma Calculation of Common Equity

	\$
Per Books Common Equity as of 11/30/13	465,917,000
Paid in Capital Associated with Asset Transfer as of 12/31/12	278,000,000
Less: Dividend Associated with Capitalization Adjustment	(53,000,000)
Adjusted Common Equity	690,917,000

**Kentucky Power Company**

**REQUEST**

Reference paragraph 12 of the application quoting the Transfer Application and describing "the West Virginia Economic Development Authority ("WVEDA") Pollution Control Revenue Bond ("PCRB") that partially financed the FGD units constructed at the Mitchell generating station."

- a. Please provide the total sum financed to construct the FGD units at the Mitchell generating station.
- b. Please provide copies of any and all other financing and/or loan agreement between Ohio Power Company or any AEP subsidiary company relating to the construction of the FGD units at the Mitchell generating station.
- c. Please confirm the date(s) when construction of the FGD units at the Mitchell generating station began and the date(s) when those units became fully operational.

**RESPONSE**

- a. The total amount of tax-exempt securities used to finance the qualified costs associated with the Mitchell FGD Project was \$130 million as that was the total amount of volume cap awarded to Ohio Power by the West Virginia Economic Development Authority for the Mitchell FGD project. The remaining portions of the project were financed with a combination of senior unsecured long-term debt and equity.
- b. See AG 1-4 Attachments 1 and 2.
- c. Construction of environmental controls at the Mitchell Plant (SCR and FGD systems) began in the summer of 2004, with the Unit 2 FGD entering into service in January of 2007 and the Unit 1 FGD entering in April 2007.

**WITNESS:** Marc D Reitter

Name: Mitchell 2006A  
Number: 485038

---

---

**LOAN AGREEMENT**

between

**WEST VIRGINIA ECONOMIC DEVELOPMENT AUTHORITY**

and

**OHIO POWER COMPANY**

**WEST VIRGINIA ECONOMIC DEVELOPMENT AUTHORITY  
SOLID WASTE DISPOSAL FACILITIES REVENUE REFUNDING BONDS  
(OHIO POWER COMPANY - MITCHELL PROJECT), SERIES 2008A**

---

Dated

as of

June 1, 2008

---

---

INDEX

(This Index is not a part of the Agreement  
 but rather is for convenience of reference only )

	<u>Page</u>
Preambles.....	1

ARTICLE I  
 DEFINITIONS

Section 1.1. Use of Defined Terms.....	1
Section 1.2. Definitions.....	1
Section 1.3. Interpretation.....	4
Section 1.4. Captions and Headings.....	4

ARTICLE II  
 REPRESENTATIONS

Section 2.1. Representations of the Issuer.....	5
Section 2.2. No Warranty by Issuer of Condition or Suitability of the Project.....	5
Section 2.3. Representations and Covenants of the Company.....	5

ARTICLE III  
 COMPLETION OF THE PROJECT; ISSUANCE OF THE BONDS

Section 3.1. Acquisition, Construction and Installation.....	7
Section 3.2. Project Description.....	7
Section 3.3. Issuance of the Bonds; Book Entry System; Application of Proceeds..	7
Section 3.4. Disbursements from the Refunding Fund.....	8
Section 3.5. Company Required to Pay Remaining Costs of Refunding the Refunded Bonds ..	8
Section 3.6. [RESERVED].....	8
Section 3.7. Investment of Fund Moneys .....	8

ARTICLE IV  
 LOAN BY ISSUER; LOAN PAYMENTS; ADDITIONAL PAYMENTS; NOTE, AND  
 LETTER OF CREDIT

Section 4.1. Loan Repayment; Delivery of Note.....	10
Section 4.2. Additional Payments.....	10
Section 4.3. Place of Payments.....	11
Section 4.4. Obligations Unconditional.....	11
Section 4.5. Assignment of Revenues, Agreement and Note.....	11
Section 4.6. Letter of Credit, Alternate Letter of Credit.....	11
Section 4.7. Company's Option to Elect Determination Method .....	12
Section 4.8. Company's Obligation to Purchase Bonds ..	12

**ARTICLE V  
ADDITIONAL AGREEMENTS AND COVENANTS**

Section 5.1.	Inspection of the Project .....	13
Section 5.2.	Maintenance .....	13
Section 5.3.	Removal of Portions of the Project.....	13
Section 5.4.	Operation of Project.....	13
Section 5.5.	Insurance.....	14
Section 5.6.	Workers' Compensation Coverage.....	14
Section 5.7.	Damage; Destruction and Eminent Domain .....	14
Section 5.8.	Company to Maintain its Legal Existence; Conditions Under Which Exceptions Permitted	14
Section 5.9.	Indemnification.....	14
Section 5.10.	Company Not to Adversely Affect Exclusion of Interest on Bonds From Gross Income For Federal Income Tax Purposes .....	15
Section 5.11.	Use of Project Facilities; Disposition of Project .....	16
Section 5.12.	Assignment by Company.....	16
Section 5.13.	Use of Proceeds; Special Tax Covenants.....	16
Section 5.14.	[Special Tax Covenants].....	19
Section 5.14.	Continuing Disclosure .....	19

**ARTICLE VI  
REDEMPTION**

Section 6.1.	Optional Redemption.....	20
Section 6.2.	Extraordinary Optional Redemption.....	20
Section 6.3.	Redemption .....	21
Section 6.4.	Notice of Redemption.....	21
Section 6.5.	Actions by Issuer.....	22
Section 6.6.	Concurrent Discharging of Note.....	22

**ARTICLE VII  
EVENTS OF DEFAULT AND REMEDIES**

Section 7.1.	Events of Default .....	23
Section 7.2.	Remedies on Default.....	24
Section 7.3.	No Remedy Exclusive.....	25
Section 7.4.	Agreement to Pay Attorneys' Fees and Expenses .....	25
Section 7.5.	No Waiver.....	25
Section 7.6.	Notice of Default.....	25

**ARTICLE VIII  
MISCELLANEOUS**

Section 8.1.	Term of Agreement.....	26
Section 8.2.	Moneys Remaining in Funds .....	26
Section 8.3.	Notices .....	26

Section 8.4.	Extent of Covenants of the Issuer; No Personal Liability .....	26
Section 8.5.	Binding Effect.....	27
Section 8.6.	Amendments and Supplements.....	27
Section 8.7.	[RESERVED].....	27
Section 8.8.	Execution Counterparts.....	27
Section 8.9	Severability .....	27
Section 8.10.	Governing Law .....	27

Exhibit A - DESCRIPTION OF PROJECT  
Exhibit B - FORM OF NOTE

## LOAN AGREEMENT

THIS LOAN AGREEMENT is made and entered into as of June 1, 2008 between the WEST VIRGINIA ECONOMIC DEVELOPMENT AUTHORITY (the "Issuer"), a public corporation and governmental instrumentality of the State of West Virginia (the "State"), and Ohio Power Company, an Ohio corporation (the "Company"). Capitalized terms used in the following recitals are used as defined in Article I of this Agreement.

WHEREAS, the Issuer is empowered and authorized by the West Virginia Economic Development Authority Act (Chapter 31, Article 15, Section 1, et seq., the Code of West Virginia, 1931, as amended) (the "Act"), to refund any bonds or notes issued by the Issuer or any other public body or authority of the State;

WHEREAS, there has been previously issued for the benefit of the Company \$65,000,000 West Virginia Economic Development Authority Solid Waste Disposal Facilities Revenue Bonds (Ohio Power Company - Mitchell Project), Series 2006A (the "Refunded Bonds"), by the Issuer or a county commission of a county in the State;

WHEREAS, the Company has requested the Issuer to issue \$65,000,000 West Virginia Economic Development Authority Solid Waste Disposal Facilities Revenue Refunding Bonds (Ohio Power Company - Mitchell Project), Series 2008A (the "Bonds"), to refund the Refunded Bonds;

NOW THEREFORE, in consideration of the premises and the mutual representations and agreements hereinafter contained, the Issuer and the Company agree as follows (provided that any obligation of the Issuer or the State created by or arising out of this Agreement shall never constitute a general debt of the Issuer or the State or give rise to any pecuniary liability of the Issuer or the State but shall be payable solely out of Revenues, including Loan Payments made pursuant to the Note and this Agreement and any amounts in the Bond Fund):

### ARTICLE I DEFINITIONS

Section 1.1. Use of Defined Terms. In addition to the words and terms defined elsewhere in this Agreement, in the Indenture, or by reference to another document, the words and terms set forth in Section 1.2 hereof shall have the meanings set forth therein unless the context or use clearly indicates another meaning or intent. Such definitions shall be equally applicable to both the singular and plural forms of any of the words and terms defined therein.

Section 1.2. Definitions. As used herein:

"Additional Payments" means the amounts required to be paid by the Company pursuant to the provisions of Section 4.2 hereof.

"Administration Expenses" means the compensation (which compensation shall not be greater than that typically charged in similar circumstances) and reimbursement of reasonable expenses and advances (including reasonable fees and expenses of counsel) payable to the Trustee, pursuant to Section 8.03 of the Indenture, and the Remarketing Agent.

"Affiliate" of any Person means another Person controlling, controlled by or under direct or indirect common control with such Person. For the purposes of this definition, "control" means the power to direct the management and policies of a specified Person directly or indirectly, whether through the ownership of voting securities, by contract or otherwise, and the terms "controlling" and "controlled" have meanings correlative to the foregoing.

"Agreement" means this Loan Agreement, as amended or supplemented from time to time.

"Bond Resolution" means the resolution of the Issuer providing for the issuance of the Bonds and approving this Agreement, the Indenture and related matters, as amended or supplemented from time to time.

"Book entry form" or "book entry system" means a form or system, as applicable, under which (i) physical Bond certificates in fully registered form are registered only in the name of a Securities Depository or its nominee as Bondholder, with the physical Bond certificates held by and "immobilized" in the custody of the Securities Depository and (ii) the book entry system maintained by and the responsibility of Persons other than the Issuer, the Company, the Remarketing Agent or the Trustee is the record that identifies and records the transfer of the interests of the owners of book entry interests in those Bonds.

"Engineer" means an engineer (who may be an employee of the Company) or engineering firm qualified to practice the profession of engineering under the laws of the State.

"EPA" means the Environmental Protection Agency of the State and any successor body, agency, commission or department.

"Event of Default" means any of the events described as an Event of Default in Section 7.1 hereof.

"Force Majeure" means any of the causes, circumstances or events described as constituting Force Majeure in Section 7.1 hereof.

"Indenture" means the Indenture of Trust, dated as of the same date as this Agreement, between the Issuer and the Trustee, under which the Bonds are issued, as amended or supplemented from time to time.

"Interest Rate for Advances" means the annual interest rate which is one percent in excess of the interest rate payable at the time on the Bonds.

"Issuer Fee" means the fee of \$10,000 due to the Issuer from the Company in connection with the issuance of the Bonds hereunder.

"Loan Payment Date" means any date on which any Bond Service Charges are due and payable and includes, without limitation, any Redemption Date, any Interest Payment Date and any Maturity Date.

"Loan Payments" means the payment of Bond Service Charges when they are due and payable on any Redemption Date, any Interest Payment Date and any Maturity Date.

"Notice Address" means:

- (a) As to the Issuer: West Virginia Economic Development Authority  
North Gate Business Park  
160 Association Drive  
Charleston, West Virginia 25301  
Attention: Executive Director  
Telephone No.: (304) 558-3608  
Telecopy No.: (304) 558-0206
- (b) As to the Company: Ohio Power Company  
c/o American Electric Power Service Corporation  
One Riverside Plaza  
Columbus, Ohio 43215  
Attention: Treasurer  
Telephone No.: (614) 716-2850  
Telecopy No.: (614) 716-1687
- (c) As to the Trustee: The Bank of New York Trust Company, N.A.  
Institutional Trust Services  
6525 West Campus Oval, Suite 200  
New Albany, Ohio 43054  
Attention: Joyce A. Antonic  
Telephone No.: (614) 775-5280  
Telecopy No.: (614) 775-5636

or such additional or different address, notice of which is given under Section 8.3 hereof

"Original Purchaser" means Morgan Stanley & Co. Incorporated.

"Person" or words importing persons mean firms, associations, partnerships (including without limitation, general and limited partnerships), societies, trusts, corporations, public or governmental bodies, other legal entities and natural persons.

"Plant" means the Mitchell Plant.

"Project" means the real, personal or real and personal property, including undivided or other interests therein, identified in the Project Description.

"Project Description" means the description of the Project attached hereto as Exhibit A, as the same may be amended in accordance with this Agreement.

"Project Facilities" means the solid waste disposal facilities and any other portion of the Project that may be refinanced with the proceeds of the Loan in accordance with the provisions of this Agreement.

"Project Purposes" means the purposes of a Qualified Facility as described in the Act and as more particularly described in Exhibit A hereto.

"Project Site" means the premises of the Project at the Plant in Marshall County

"Qualified Facility" means those facilities which are commercial or industrial undertakings within the meaning of Section 31-15-4(r) of the Act.

"Solid Waste Disposal Facilities" means those portions of the Project constituting solid waste disposal facilities within the meaning of Section 142(a)(6) of the Code.

Section 1.3. Interpretation. Any reference herein to the State, to the Issuer or to any member or officer of either includes entities or officials succeeding to their respective functions, duties or responsibilities pursuant to or by operation of law or lawfully performing their functions.

Any reference to a section or provision of the Constitution of the State or the Act, or to a section, provision or chapter of the Code of West Virginia, or to any statute of the United States of America, includes that section, provision or chapter as amended, modified, revised, supplemented or superseded from time to time; provided, that no amendment, modification, revision, supplement or superseding section, provision or chapter shall be applicable solely by reason of this provision, if it constitutes in any way an impairment of the rights or obligations of the Issuer, the State, the Bondholders, the Trustee, the Remarketing Agent, the Refunded Bonds Trustee, the Company or the Letter of Credit Bank under this Agreement, the Indenture, the Bonds or the Note.

Unless the context indicates otherwise, words importing the singular number include the plural number, and vice versa; the terms "hereof," "hereby," "herein," "hereto," "hereunder" and similar terms refer to this Agreement; and the term "hereafter" means after, and the term "heretofore" means before, the date of delivery of the Bonds. Words of any gender include the correlative words of the other genders, unless the sense indicates otherwise.

Section 1.4. Captions and Headings. The captions and headings in this Agreement are used solely for convenience of reference and in no way define, limit or describe the scope or intent of any Articles, Sections, subsections, paragraphs or subparagraphs or clauses hereof

(End of Article I)

ARTICLE II  
REPRESENTATIONS

Section 2.1. Representations of the Issuer The Issuer represents that: (a) it is a public corporation and governmental instrumentality of the State; (b) it has duly accomplished all conditions necessary to be accomplished by it prior to the issuance and delivery of the Bonds and the execution and delivery of this Agreement and the Indenture, (c) it is not in violation of or in conflict with any provisions of the laws of the State which would impair its ability to carry out its obligations contained in this Agreement and the Indenture; (d) it is empowered to enter into the transactions contemplated by this Agreement and the Indenture; (e) it has duly authorized the execution, delivery and performance of this Agreement and the Indenture; and (f) it will do all things in its power in order to maintain its existence or assure the assumption of its obligations under this Agreement and the Indenture by any successor public body.

Section 2.2. No Warranty by Issuer of Condition or Suitability of the Project . The Issuer makes no warranty, either express or implied, as to the suitability or utilization of the Project, or any portion thereof, for the Project Purposes, or as to the condition of the Project, or any portion thereof, or that the Project, or any portion thereof, is or will be suitable for the Company's purposes or needs.

Section 2.3. Representations and Covenants of the Company. The Company represents that:

(a) The Company has been duly incorporated and is validly existing as a corporation in good standing under the laws of the State of Ohio, with full power and authority to own or lease its properties, including the Project, and conduct its business, to execute and deliver this Agreement and the Note, and to perform its obligations under this Agreement and the Note

(b) This Agreement and the Note have been duly authorized, executed and delivered by the Company, and constitute valid and legally binding obligations of the Company, enforceable in accordance with their respective terms, subject, as to enforcement, to bankruptcy, insolvency, reorganization and other laws of general applicability relating to or affecting creditors' rights and to general equity principles. The execution, delivery and performance by the Company of this Agreement and the Note, and the consummation of the transactions contemplated hereby and thereby did not, do not and will not violate any provision of law or regulation applicable to the Company, or of the Articles of Incorporation, as amended, or the bylaws, as amended, of the Company, or of any writ or decree of any court or governmental instrumentality, or of any mortgage, indenture, contract, agreement or other undertaking to which the Company is a party or which purports to be binding upon the Company or upon any of its assets.

(c) All authorizations, consents, approvals, registrations, filings, exemptions and licenses with or from governmental or regulatory authorities which are necessary for the Loan, for the execution and delivery by the Company of this Agreement and the Note, or for the performance by the Company of its obligations thereunder have been effected and obtained and are in full force and effect, and, so long as may be required for the Company to comply with any such instrument, will remain in full force and effect

(End of Article II)

ARTICLE III  
COMPLETION OF THE PROJECT;  
ISSUANCE OF THE BONDS

Section 3.1. Acquisition, Construction and Installation. The Company represents and agrees that:

(a) It has caused the Project to be acquired, constructed and installed on the Project Site, substantially in accordance with the Project Description and in conformance with all applicable zoning, planning, building and other similar regulations of all governmental authorities having jurisdiction over the Project and all permits, variances and orders issued in respect of the Project by the EPA, including the permit-to-install for each portion of the Project, provided that the Company reserves the right to contest in good faith any such permits, variances or orders, and will use its best efforts to cause the acquisition, construction and installation of other facilities and real and personal property deemed necessary in connection with the Project to the end that the Project will fulfill the Project Purposes; and

(b) It will ask, demand, sue for, levy and use its best efforts to recover and receive such sums of money, debts or other demands whatsoever in connection with the Project, to which it may be entitled under any contract, order, receipt, guaranty, warranty, writing or instruction in connection with any of the foregoing, and it will enforce the provisions of any contract, agreement, obligation, bond or other security in connection with the Project.

Section 3.2. Project Description The Project Description may be changed from time to time by, or with the consent of, the Company provided that any such change shall also be filed with the Issuer and provided further that no change in the Project Description shall materially change the function of the Project unless the Trustee shall have received (i) an Engineer's certificate that such changes will not impair the significance or character of the Project as a Qualified Facility and (ii) an Opinion of Tax Counsel or ruling of the Internal Revenue Service to the effect that such amendment will not adversely affect the exclusion of interest on the Bonds from gross income for federal income tax purposes.

Section 3.3. Issuance of the Bonds; Book Entry System; Application of Proceeds. To provide funds to make the Loan to the Company to assist the Company in the refunding of the Refunded Bonds, concurrently with the delivery to the Trustee of the Note of the Company and the delivery of the Letter of Credit by the Letter of Credit Bank, as provided in Section 4.6 hereof, the Issuer will issue, sell and deliver the Bonds to the Original Purchaser. The Bonds will be issued pursuant to the Indenture in the aggregate principal amount, will bear interest, will mature on the dates and will be subject to optional and mandatory redemption as set forth therein. The Company hereby approves the terms and conditions of the Indenture and the Bonds, and the terms and conditions under which the Bonds are to be issued, sold and delivered.

The Bonds shall be initially issued only to the Securities Depository for use in a Book Entry System. Such Bonds shall be registered in the name of the Securities Depository or its nominee, as Bondholder, and immobilized in the custody of the Securities Depository, and there shall be a single Bond representing each series of the Bonds. The Issuer agrees to remove or replace the Securities Depository at any time at the request of the Company and upon 30 days'

notice to the Securities Depository, the Remarketing Agent and the Trustee. No further action by the Issuer shall be required to effect such a removal or replacement. So long as Bonds are in a Book Entry System and the Securities Depository or its nominee is the registered owner, those Bonds, or any portion thereof, shall not be transferable or exchangeable except: (i) to any successor of the Securities Depository; (ii) to any new Securities Depository not objected to by either the Trustee or the Remarketing Agent upon (a) the resignation of then current Securities Depository from its functions as Securities Depository or (b) termination of the use of the Securities Depository at the request of the Company; or (iii) to any Persons who are the assigns of the Securities Depository or its nominee upon (a) the resignation of the Securities Depository from its functions as Securities Depository under the Indenture or (b) termination of the use of the Securities Depository at the request of the Company.

The proceeds from the sale of the Bonds shall be paid to the Trustee and deposited as follows: (a) a sum equal to accrued interest, if any, paid by the Original Purchaser shall be deposited in the Bond Fund and (b) the balance of such proceeds shall be deposited in the Refunding Fund. Pending disbursement or transfer pursuant to Section 3.4 hereof and the Indenture, the proceeds so deposited in the Refunding Fund, together with any investment earnings thereon, shall constitute a part of the Revenues assigned by the Issuer to the payment of Bond Service Charges as provided in the Indenture.

Section 3.4. Disbursements from the Refunding Fund In the Indenture, the Issuer has authorized and directed, or will authorize and direct, the Trustee to make payments from the Refunding Fund to the Refunded Bonds Trustee to refund the Refunded Bonds. Moneys in the Refunding Fund shall be transferred in the manner and on the date or dates provided for in Section 4.05 of the Indenture. The Refunded Bonds shall be irrevocably called for redemption on the date or dates and at the redemption prices provided for in Section 4.05 of the Indenture.

Section 3.5. Company Required to Pay Remaining Costs of Refunding the Refunded Bonds The Company acknowledges that the proceeds of the Bonds will be insufficient to pay the full costs of refunding the Refunded Bonds and that the Issuer has made no representation or warranty with respect to the sufficiency thereof. The Company further acknowledges that it is (and will remain after the issuance of the Bonds) obligated to, and hereby confirms that it will, pay all costs of the refunding and redemption of the Refunded Bonds.

Section 3.6. [RESERVED].

Section 3.7. Investment of Fund Moneys At the written request of an officer of the Company, any moneys held as part of the Bond Fund, the Refunding Fund or the Rebate Fund shall be invested or reinvested in Permitted Investments; provided, that such moneys shall be invested or reinvested only in Permitted Investments which shall mature, or which shall be subject to redemption by the holder thereof at the option of such holder, not later than the date upon which the moneys so invested are needed to make payments from those Funds. Except as expressly set forth herein and in the Indenture, neither the Issuer nor the Company or any Affiliate thereof, shall have any right, title or interest in the Bond Fund or in the Refunding Fund.

The Issuer (to the extent it retained or retains direction or control) and the Company each hereby covenants that it will restrict the investment and reinvestment and the use of the proceeds.

of the Bonds in such manner and to such extent, if any, as may be necessary, after taking into account reasonable expectations at the time of delivery of and payment for the Bonds, so that the Bonds will not constitute arbitrage bonds under Section 148 of the Code. The Company shall provide the Issuer with, and the Issuer may base its certificate and statement, each as authorized by the Bond Resolution, on, a certificate of an appropriate officer, employee or agent of or consultant to the Company for inclusion in the transcript of proceedings for the Bonds, setting forth the reasonable expectations of the Company on the date of delivery of and payment for the Bonds regarding the amount and use of the proceeds of the Bonds and the facts, estimates and circumstances on which those expectations are based.

(End of Article III)

ARTICLE IV  
LOAN BY ISSUER; LOAN PAYMENTS;  
ADDITIONAL PAYMENTS; NOTE; AND LETTER OF CREDIT

Section 4.1. Loan Repayment; Delivery of Note. Upon the terms and conditions of this Agreement, the Issuer agrees to make the Loan to the Company. The proceeds of the Loan shall be deposited with the Trustee pursuant to Section 3.3 hereof. To evidence the obligations of the Company to make the Loan Payments and repay the Loan, the Company shall, concurrently with the issuance of the Bonds, execute and deliver the Note to the Trustee, as assignee of the Issuer under the Indenture, in an aggregate principal amount equal to the aggregate principal amount of the Bonds. The Note shall be in substantially the form of Exhibit B hereto. In consideration of and in repayment of the Loan, the Company shall make, as Loan Payments, to the Trustee for the account of the Issuer, payments on the Note on each Loan Payment Date which correspond, as to time, and are equal in amount, to the Bond Service Charges payable on the Bonds. All Loan Payments received by the Trustee shall be held and disbursed in accordance with the provisions of the Indenture and this Agreement for application to the payment of Bond Service Charges.

The Company shall be entitled to a credit against the Loan Payments required to be made on any Loan Payment Date to the extent that the balance of the Bond Fund is then in excess of amounts required (a) for the payment of Bonds theretofore matured but not yet presented for payment by the holders thereof or Bonds theretofore called for redemption, or Bonds to be called for redemption pursuant to Section 6.1 or 6.2 hereof, (b) for the payment of interest for which checks or drafts have been drawn and mailed by the Trustee, and (c) to be deposited in the Bond Fund under the Indenture for use other than for the payment of Bond Service Charges due on that Loan Payment Date

Unless the Company is entitled to a credit under this Agreement or the Indenture, all payments on the Note shall be in the full amount required thereunder. The Note shall be issued in the name of the Trustee and shall not be transferred by the Trustee, except to effect transfers to any successor trustee under the Indenture.

Except for such interest of the Company as may hereafter arise pursuant to Section 8.2 hereof or Section 4.04 or 10.02 of the Indenture, the Company and the Issuer each acknowledges that neither the Company, the State nor the Issuer has any interest in the Bond Fund, the Purchase Fund or the Refunding Fund, and any moneys deposited therein shall be in the custody of and held by the Trustee in accordance with the Indenture in trust for the benefit of the Bondholders, until, in the case of the Refunding Fund, transferred in accordance with the Indenture.

Section 4.2. Additional Payments. The Company shall pay to the Issuer, in connection with the issuance of the Bonds, the Issuer Fee and, as Additional Payments hereunder, any and all costs and expenses incurred or to be paid by the Issuer in connection with the issuance and delivery of the Bonds or otherwise related to actions taken by the Issuer under this Agreement or the Indenture.

The Company shall pay the Administration Expenses to the Trustee or the Remarketing Agent, as appropriate, as Additional Payments hereunder.

The Company may, without creating a default hereunder, contest in good faith the reasonableness of any such cost or expense incurred or to be paid by the Issuer and any Administration Expenses claimed to be due to the Trustee or the Remarketing Agent

In the event the Company should fail to pay any Loan Payments, Additional Payments or Administration Expenses when due, the payment in default shall continue as an obligation of the Company until the amount in default shall have been fully paid together with interest thereon during the default period at the Interest Rate for Advances.

Section 4.3. Place of Payments. The Company shall make all Loan Payments, and all payments of Purchase Price of Bonds pursuant to Section 4.8 hereof, directly to the Trustee at its designated corporate trust office or other office designated in accordance with the Indenture. Additional Payments shall be made directly to the Person to whom or to which they are due.

Section 4.4. Obligations Unconditional. The obligations of the Company to make Loan Payments, Additional Payments and any payments required of the Company under Section 4.8 hereof shall be absolute and unconditional, and the Company shall make such payments without abatement, diminution or deduction regardless of any cause or circumstances whatsoever including, without limitation, any defense, set-off, recoupment or counterclaim which the Company may have or assert against the Issuer, the Trustee, the Remarketing Agent, the Letter of Credit Bank or any other Person.

Section 4.5. Assignment of Revenues, Agreement and Note. To secure the payment of Bond Service Charges, the Issuer shall absolutely assign to the Trustee, its successors in trust and its and their assigns forever, by the Indenture, all right, title and interest of the Issuer in and to (a) the Revenues including, without limitation, all Loan Payments and other amounts receivable by or on behalf of the Issuer under this Agreement in respect of repayment of the Loan, (b) this Agreement except for the Unassigned Issuer's Rights, and (c) the Note. The Company hereby agrees and consents to those assignments.

Section 4.6. Letter of Credit; Alternate Letter of Credit.

(a) The Company agrees to provide for the payment of the principal of and interest on the Bonds and for payment of the Purchase Price of Bonds tendered for purchase or required to be purchased, all as provided in the Indenture, by causing the Letter of Credit to be delivered to the Trustee on the date of the delivery of the Bonds. The Company hereby authorizes and directs the Trustee to draw moneys under the Letter of Credit, in accordance with its terms and the terms of the Indenture, to the extent necessary to pay the principal of, premium to the extent, if any, covered by the Letter of Credit and interest on the Bonds when due, and to pay the Purchase Price of Bonds tendered for purchase or required to be purchased, all as provided in the Indenture. The Company may, at its election and with the consent of the Letter of Credit Bank, provide for one or more extensions of the Letter of Credit beyond its then stated date of expiration.

(b) At any time the Company may provide for the delivery of an Alternate Letter of Credit to the Trustee in accordance with the Indenture

(c) The Company may, in its sole discretion and at any time, cancel any Letter of Credit then in effect in accordance with the Indenture.

Section 4.7. Company's Option to Elect Determination Method The Company shall have, and is hereby granted, the option to elect from time to time, in accordance with the Indenture, the Determination Method applicable to any of the Bonds, pursuant to the provisions of Article II of the Indenture, subject to the terms and conditions set forth therein. To exercise such options, the Company shall give the written notices, shall cause to be provided such other items and shall take such other actions as are required by the Indenture.

Section 4.8. Company's Obligation to Purchase Bonds. The Company hereby agrees to pay or cause to be paid to the Trustee, on or before each day on which Bonds may be or are required to be tendered for purchase under the Indenture, amounts equal to the amounts to be paid by the Trustee with respect to the Bonds to be purchased on such dates pursuant to the terms of the Bonds and Article III of the Indenture; provided, however, that the obligation of the Company to make any such payment under this Section shall be reduced by the amount of (A) moneys made available by the Remarketing Agent, (B) moneys drawn under any Letter of Credit for the purpose of paying such Purchase Price and (C) any other moneys made available for that purpose by the Company.

(End of Article IV)

ARTICLE V  
ADDITIONAL AGREEMENTS AND COVENANTS

Section 5.1. Inspection of the Project. The Company agrees to use its best efforts so that the Issuer, the Trustee and their or either of their duly authorized agents may at all reasonable business hours enter, examine and inspect, the Project. The Issuer and the Trustee shall also be permitted, at all reasonable times, to examine the books and records of the Company with respect to the Project.

Section 5.2. Maintenance. The Company shall use its best efforts to keep and maintain, or cause to be kept and maintained, the Project, including all appurtenances thereto and any personal property therein or thereon, in satisfactory operating order, repair, condition and appearance, subject to reasonable wear and tear, so that the Project will continue to constitute a facility that can be financed by the Issuer under the Act.

So long as such shall not be in violation of the Act or impair the character of the Project as a Qualified Facility, and provided there is continued compliance with applicable laws and regulations of governmental entities having jurisdiction thereof, the Company shall have the right to remodel or permit the remodeling of the Project or make or permit to be made additions, modifications and improvements thereto, from time to time as it, in its discretion, may deem to be desirable for its uses and purposes, the cost of which remodeling, additions, modifications and improvements shall be paid or caused to be paid by the Company and the same shall, when made, become a part of the Project.

Section 5.3. Removal of Portions of the Project. The Company shall not be under any obligation to renew, repair or replace any inadequate, obsolete, worn out, unsuitable, undesirable or unnecessary portions of the Project, except that, subject to Section 5.4 hereof, it will use its best efforts to ensure the continued character of the Project as a Qualified Facility. The Company shall have the right from time to time to substitute personal property or fixtures for any portions of the Project, provided that the personal property or fixtures so substituted shall not impair the character of the Project as a Qualified Facility. Any such substituted property or fixtures shall, when so substituted, become a part of the Project. The Company shall also have the right to remove any portion of the Project, without substitution therefor; provided that (i) any such removal is in accordance with any applicable legal requirements and (ii) the Company shall deliver to the Trustee a certificate signed by an Engineer describing said portion of the Project and stating that the removal of such property or fixtures will not impair the character of the Project as a Qualified Facility.

Section 5.4. Operation of Project The Company will, subject to its obligations and rights to maintain, repair or remove portions of the Project, as provided in Sections 5.2 and 5.3 hereof, use its best efforts to continue operation of the Project so long as and to the extent that operation thereof is required to comply with laws or regulations of governmental entities having jurisdiction thereof. The Company agrees that it will, within the design capacities of the Project, use its best efforts to operate and maintain the Project or cause the Project to be operated and maintained in accordance with all applicable, valid and enforceable rules and regulations of governmental entities having jurisdiction thereof; provided, that any such removal is in accordance with any applicable legal requirements and the Company reserves the right to contest

in good faith any such laws or regulations. The Company agrees that sufficient qualified operating personnel will be retained and operational tests and measurements necessary to determine compliance with the preceding sentence will be performed to insure proper and efficient operation and maintenance of the Project.

Nothing in this Agreement shall prevent or restrict the Company, in its sole discretion from discontinuing or suspending, at any time, and either permanently or temporarily, its use of any facility of the Company served by the Project and, in the event such discontinuance or suspension shall render unnecessary the continued operation of the Project, the Company shall have the right to discontinue or permit the discontinuance of the operation of the Project during the period of any such discontinuance or suspension.

Section 5.5. Insurance. The Company agrees to insure its interest in the Project in the amount and with the coverage that property of similar character is usually so insured by companies similarly situated and operating like properties (including self-insurance generally consistent with industry practice).

Section 5.6. Workers' Compensation Coverage. Throughout the term of this Agreement, the Company shall comply, or require compliance, with applicable workers' compensation laws of the State.

Section 5.7. Damage; Destruction and Eminent Domain. If the Project Facilities are destroyed or damaged in whole or in part by fire or other casualty, or title to, or the temporary use of, the Project Facilities or any portion thereof shall have been taken by the exercise of the power of eminent domain, and the Company receives net proceeds from insurance or any condemnation award in connection therewith, the Company (unless it shall have exercised its option to prepay the Loan Payments in accordance with the terms of this Agreement), to the extent required to comply with applicable laws and regulations with respect to the operations of facilities of the Company served by the Project, shall promptly cause such net proceeds or an amount equal thereto to be used to repair, rebuild or restore the portion of the Project so damaged, destroyed or taken with such changes, alterations and modifications (including the substitution and addition of other property) as may be necessary or desirable for the administration and operation of the Project as a Qualified Facility and as shall not impair the character or significance of the Project as furthering the purposes of the Act.

Section 5.8. Company to Maintain its Legal Existence; Conditions Under Which Exceptions Permitted. The Company agrees that during the term of this Agreement it will maintain its legal existence and will not sell its properties as an entirety or substantially as an entirety or consolidate with or merge into another entity or permit one or more other entities to consolidate with or merge into it, unless the successor corporation or transferee resulting from any such consolidation, merger, sale or transfer shall assume all obligations of the Company arising under or contemplated by this Agreement, the Note and the Indenture. No further consolidation, merger or sale or other transfer shall be made except in compliance with the provisions of this paragraph.

Section 5.9. Indemnification. The Company releases the Issuer from, agrees that the Issuer shall not be liable for, and indemnifies the Issuer against, all liabilities, claims, costs and

expenses imposed upon or asserted against the Issuer on account of: (a) any loss or damage to property or injury to or death of or loss by any person that may be occasioned by any cause whatsoever pertaining to the construction, maintenance, operation and use of the Project; (b) any breach or default on the part of the Company in the performance of any covenant or agreement of the Company under this Agreement or any related document, or arising from any act or failure to act by the Company, or any of its agents, contractors, servants, employees or licensees; (c) the authorization, issuance and sale of the Bonds, or the subsequent remarketing or determination of the interest rate or rates on the Bonds, the refunding of the Refunded Bonds, and the provision of any information furnished in connection therewith concerning the Project, the refunding or the Company (including, without limitation, any information furnished by the Company for inclusion in any certifications made by the Issuer under or pursuant to the Bond Resolution or for inclusion in, or as a basis for preparation of, the information statement filed by the Issuer pursuant to the Bond Resolution); and (d) any claim or action or proceeding with respect to the matters set forth in (a), (b) and (c) above brought thereon.

The Company agrees to indemnify the Trustee (hereinafter referred to in this section as an "indemnified party") for and to hold it harmless against all liabilities, claims, costs and expenses (including, subject to the Company's right to provide counsel as provided in this Section, reasonable counsel fees and expenses) incurred without negligence or willful misconduct on the part of the indemnified party, on account of any action taken or omitted to be taken by the indemnified party in accordance with the terms of this Agreement, the Bonds or the Indenture or any action taken at the request of or with the consent of the Company, including the costs and expenses of the indemnified party in defending itself against any such claim, action or proceeding brought in connection with the exercise or performance of any of its powers or duties under this Agreement, the Bonds or the Indenture.

In case any action or proceeding is brought against the Issuer or an indemnified party in respect of which indemnity may be sought hereunder, the party seeking indemnity promptly shall give notice of that action or proceeding to the Company, and the Company upon receipt of that notice shall have the obligation and the right to assume the defense of the action or proceeding; provided, that failure of a party to give that notice shall not relieve the Company from any of its obligations under this Section unless that failure prejudices the defense of the action or proceeding by the Company. At its own expense, the Issuer or an indemnified party may employ separate counsel and participate in the defense; provided, however, where it is ethically inappropriate for one firm to represent the interests of the Issuer and any other indemnified party or parties, the Company shall pay the Issuer's legal expenses in connection with the Issuer's retention of separate counsel. The Company shall not be liable for more than one separate counsel retained by the Issuer or for any settlement made without its consent.

The indemnification set forth above is intended to and shall include the indemnification of all affected members, officials, directors, officers and employees of the Issuer and the Trustee, respectively. That indemnification is intended to and shall be enforceable by the Issuer, and the Trustee, respectively, to the full extent permitted by law and shall survive the defeasance of the Indenture pursuant to Article X thereof.

Section 5.10. Company Not to Adversely Affect Exclusion of Interest on Bonds From Gross Income For Federal Income Tax Purposes The Company hereby covenants and

represents that it has taken and caused or required to be taken and shall take and cause or require to be taken all actions that may be required of it for the interest on the Bonds to be and remain excluded from the gross income of the Bondholders for federal income tax purposes, and that it has not taken or permitted to be taken on its behalf, and covenants that it will not take, or permit to be taken on its behalf, any action which, if taken, would adversely affect that exclusion under the provisions of the Code.

Section 5.11. Use of Project Facilities; Disposition of Project The Issuer agrees that it will not take any action, or cause any action to be taken on its behalf, to interfere with the Company's interest in the Project or to prevent the Company from having possession, custody, use and enjoyment of the Project other than pursuant to Article VII of this Agreement or Article VII of the Indenture. The Company agrees that it will not sell, transfer or otherwise dispose of its interest in the Project except in accordance herewith.

Section 5.12. Assignment by Company This Agreement may be assigned in whole or in part by the Company only with the consent of the Issuer, subject, however, to each of the following conditions:

(a) No assignment shall relieve the Company from primary liability for any of its obligations hereunder, and in the event of any such assignment the Company shall continue to remain primarily liable for the payment of the Loan Payments and Additional Payments and for performance and observance of the agreements on its part herein provided to be performed and observed by it.

(b) Any assignment by the Company must retain for the Company such rights and interests as will permit it to perform its remaining obligations under this Agreement, and any assignee from the Company shall assume the obligations of the Company hereunder to the extent of the interest assigned.

(c) The Company shall, within 30 days after execution thereof, furnish or cause to be furnished to the Issuer, the Letter of Credit Bank and the Trustee a true and complete copy of each such assignment together with any instrument of assumption.

(d) Any assignment from the Company shall not materially impair fulfillment of the Project Purposes to be accomplished by operation of the Project as herein provided

Section 5.13. Use of Proceeds, Special Tax Covenants.

(a) Qualifying Costs. Neither the Issuer nor the Company caused any proceeds of the Bonds to be expended, except pursuant to the Refunded Bonds Indenture, the Refunded Bonds Agreement, the Note, the Indenture and this Agreement. The Company did not (i) requisition or otherwise allow payment out of proceeds of the Refunded Bonds (A) if such payment is to be used for the acquisition (including reimbursement therefor in compliance with the Code) of any property (or an interest therein) unless the first use of such property is pursuant to such acquisition, provided that this clause (A) did not apply (1) to any building (and the equipment purchased as a part thereof, if any) if the "rehabilitation expenditures," as defined in Section 147(d) of the Code, with respect to the building equal or exceed 15% of the portion of the cost of acquiring the building (including such equipment) financed with the proceeds of the

Refunded Bonds, or (2) to any other structures other than a building if the rehabilitation expenditures with respect thereto equal 100% of the cost of acquiring such property financed with the proceeds of the Refunded Bonds; (B) if as a result of such payment, 25% or more of the proceeds of the Refunded Bonds would be considered as having been used directly or indirectly for the acquisition of land (or an interest therein); (C) if, as a result of such payment, less than 96% of the net proceeds of the Refunded Bonds, expended at the time of such acquisition would be considered as having been used for Qualified Project Costs as defined in the Refunded Bonds Indenture, or (D) if such payment is used to pay issuance costs (including counsel fees and placement or underwriting fees) of the Refunded Bonds in excess of an amount equal to 2% of the principal amount of the Refunded Bonds; (ii) take or omit, or permit to be taken or omitted, any other action with respect to the use of such proceeds the taking or omission of which has or would result in the loss of the exclusion of interest on the Refunded Bonds or the Bonds from gross income of the owners thereof for federal income tax purposes; or (iii) take or omit, or permit to be taken or omitted, any other action the taking or omission of which has or would cause the loss of such exclusion.

(b) Prohibited Uses. Without limiting the generality of the foregoing, the Issuer and the Company did not and will not use the proceeds of the Refunded Bonds, or permit such proceeds to be used directly or indirectly, for the acquisition of land (or an interest therein) to be used for farming purposes, or to provide (i) any facility the primary purpose of which is retail food and beverage services, automobile sales or service or the provision of recreation or entertainment, (ii) any airplane, skybox or other private luxury box, any health club facility, any facility primarily used for gambling, any store the principal business of which is the sale of alcoholic beverages for consumption off premises, any private or commercial golf course, country club, massage parlor, tennis club, skating facility (including roller skating, skateboard and ice skating), racquet sports facility (including any hand ball or racquetball court), hot tub facility, suntan facility, or race track, or (iii) single or multi-family residences.

(c) Land. No portion of the Refunded Bond proceeds was used directly or indirectly for the acquisition of land or any interest therein to be used for the purpose of farming and less than 25% of the Bond proceeds are or will be used directly or indirectly for the acquisition of land to be used for purposes other than farming

(d) Commencement of Construction: First Users. The Company hereby represents that the Company did not requisition any amounts from the proceeds of the Refunded Bonds to pay costs incurred before the date of issuance of the Refunded Bonds and paid more than 60 days prior to the date the Issuer adopted an "official intent" within the meaning of Treasury Regulations Section 1.150-2. No person, firm or corporation who was a "substantial user" of the Project (as defined in Section 147(a) of the Code) or a "related person" (as defined in Section 144(a)(3) of the Code) before the date of issuance of the Bonds and who was or will be a "substantial user" of the Project or a "related person" following its being placed in service, has received or will receive, directly or indirectly, any proceeds from the issuance and sale of the Bonds

(e) Economic Life of Project. The Company hereby represents that the weighted average maturity of the Bonds does not exceed 120% of the "average reasonably expected economic life" of the components comprising the Project, determined pursuant to

Section 147(b) of the Code. The Company agrees that it will not make any changes in the Project which would, at the time made, cause 120% of the "average reasonably expected economic life" of the components of the Project, determined pursuant to Section 147(b) of the Code, to be less than the "weighted average maturity" of the Bonds

(f) Certificate of Information; Internal Revenue Service Form 8038. The Company hereby represents that the information contained herein and in the Company's Tax Certificate delivered in connection with the issuance of the Bonds with respect to the compliance with the requirements of Section 103 and Sections 141 through 150 of the Code, including the information in Internal Revenue Service Form 8038 (excluding the issue number and the employer identification number of the Issuer) filed by the Issuer with respect to the Bonds and the Project, is true and correct in all material respects.

(g) Use by United States of America or Its Agencies. The Company has not permitted and shall not permit the Project to be used or occupied other than as a member of the general public in any manner for compensation by the United States of America or an agency or instrumentality thereof, including any entity with statutory authority to borrow from the United States of America (in any case within the meaning of Section 149(b) of the Code) unless, with respect to any future use of the Project, the Company shall deliver to the Trustee a Favorable Opinion.

(h) Other Bonds. Except as specifically provided for in the Tax Certificate delivered by the Company in connection with the issuance of the Bonds, the Company agrees that during the period commencing 15 days before the date of the issuance of the Bonds and ending 15 days after the issuance date, there shall be issued no "private activity bonds," as defined in Section 141 of the Code, which are guaranteed or otherwise secured by payments to be made by the Company or any "related person" (or group of "related persons") unless the Company shall deliver to the Trustee a Favorable Opinion in connection with the issuance of such "private activity bonds." The Company represents that except for the Company or any "related person" (or group of "related persons"), no person has (i) guaranteed, arranged, participated in, assisted with or paid any portion of the cost of the issuance of, the Bonds, and (ii) provided any property or any franchise, trademark or trade name (within the meaning of Section 1253 of the Code) which is to be used in connection with the Project.

(i) Solid Waste Disposal Facilities. Not less than 96% of the net proceeds of the Bonds (consisting of the face amount of the Bonds less any original issue discount plus any original issue premium, but including issuance costs) was used to provide (a) facilities that will be used solely for the collection, storage, treatment, utilization, processing or final disposal of solid waste, or (b) land, buildings or other property that is functionally related or subordinate to such a property.

(j) Covenant to Maintain Tax Exemption. The Issuer and the Company hereby covenant and agree on their own behalf that they shall not take any action, cause any action to be taken, omit to take any action or cause any omission to occur which would cause the interest on the Bonds to become includable in the gross income of the recipients thereof for purposes of federal income taxation.

Section 5.14. Continuing Disclosure. The Bonds are exempt from the continuing disclosure requirements of Section (b)(5) of Rule 15c2-12 (the "Rule") adopted by the Securities and Exchange Commission under the Securities Exchange Act of 1934, as amended, during the Daily Rate, the Weekly Rate and the Commercial Paper Rate. If the Bonds are converted to the Auction Mode Rate or the Long-Term Interest Rate or upon a change of the Securities and Exchange Commission Regulations requiring continuing disclosure, the Bonds may become subject to the continuing disclosure requirements of the Rule. In such event, the Company agrees to enter into a continuing disclosure agreement with the Trustee, in form satisfactory to bond counsel, the Remarketing Agent's counsel and the Trustee's counsel. The Company hereby covenants and agrees that it will comply with and carry out all of the provisions of such continuing disclosure agreement, as amended from time to time, applicable to it. The Company also understands and agrees that the Issuer shall have no liability with respect to any reports, notices or disclosures required by or provided pursuant to this Section 5.14. Notwithstanding any other provision of this Agreement, failure of the Company to comply with such continuing disclosure agreement shall not be considered a default or an Event of Default under this Agreement and the rights and remedies provided by this Agreement upon the occurrence of an Event of Default shall not apply to any such failure, but the continuing disclosure agreement may be enforced only as provided therein

(End of Article V)

ARTICLE VI  
REDEMPTION

Section 6.1. Optional Redemption. Provided no Event of Default shall have occurred and be subsisting, at any time and from time to time, the Company may deliver or cause the delivery of moneys to the Trustee in addition to Loan Payments or Additional Payments required to be made and direct the Trustee to use the moneys so delivered for the purpose of calling Bonds for optional redemption in accordance with the applicable provisions of the Indenture providing for optional redemption at the redemption price or prices stated in the Indenture. From time to time, the Company shall deliver or cause the delivery of moneys to the Trustee and direct the Trustee to use the moneys so delivered for the purpose of calling Bonds for optional redemption in accordance with the provisions of the Indenture providing for optional redemption at the redemption price or prices stated in the Indenture. Pending application for those purposes, any moneys so delivered shall be held by the Trustee in a separate account in the Bond Fund and delivery of those moneys shall not, except as set forth in Section 4.1 hereof, operate to abate or postpone Loan Payments or Additional Payments otherwise becoming due or to alter or suspend any other obligations of the Company under this Agreement.

Section 6.2. Extraordinary Optional Redemption. The Company shall have, subject to the conditions hereinafter imposed, the option to direct the redemption of Bonds in whole or in part in accordance with the applicable provisions of the Indenture upon the occurrence of any of the following events:

(a) The Project or the Plant shall have been damaged or destroyed to such an extent that the Company deems it not practical or desirable to rebuild, repair or restore the Project or the Plant, as the case may be.

(b) Title to, or the temporary use of, all or a significant part of the Project or the Plant shall have been taken under the exercise of the power of eminent domain so as to render the Project unsatisfactory to the Company for its intended purpose.

(c) As a result of any changes in the Constitution of the State, the Constitution of the United States of America or any state or federal laws or as a result of legislative or administrative action (whether state or federal) or by final decree, judgment or order of any court or administrative body (whether state or federal) entered after any contest thereof by the issuer or the Company in good faith, this Agreement shall have become void or unenforceable or impossible of performance in accordance with the intent and purpose of the parties as expressed in this Agreement.

(d) Unreasonable burdens or excessive liabilities shall have been imposed upon the Issuer or the Company with respect to the Project or the Plant or the operation thereof, including, without limitation, the imposition of federal, state or other ad valorem, property, income or other taxes not being imposed on the date of this Agreement

(e) Changes in the economic availability of raw materials, operating supplies, energy sources or supplies or facilities (including, but not limited to, facilities in connection with the disposal of industrial wastes) necessary for the operation of the Project or the Plant occur or

technological or other changes occur which in the Company's reasonable judgment render the Project or the Plant uneconomic or obsolete.

(f) Any court or administrative body shall enter a judgment, order or decree, or shall take administrative action, requiring the Company to cease all or any substantial part of its operations served by the Project or the Plant to such extent that the Company is or will be prevented from carrying on its normal operations at the Project or the Plant for a period of six consecutive months.

(g) The termination by the Company of operations at the Plant.

The amount payable by the Company in the event of its exercise of the option granted in this Section shall be the sum of the following:

(i) An amount of money which, when added to the moneys and investments held to the credit of the Bond Fund, will be sufficient pursuant to the provisions of the Indenture to pay the redemption price of 100% of the principal amount thereof plus accrued interest to the redemption date and discharge all Bonds to be redeemed on the earliest applicable redemption date, that amount to be paid to the Trustee, plus

(ii) An amount of money equal to the Additional Payments relating to those Bonds accrued and to accrue until actual final payment and redemption of those Bonds, that amount or applicable portions thereof to be paid to the Trustee or to the Persons to whom those Additional Payments are or will be due.

The requirement of (ii) above with respect to Additional Payments to accrue may be met if provisions satisfactory to the Persons to whom those Additional Payments are or will be due are made with such Persons for paying those amounts as they accrue.

The rights and options granted to the Company in this Section may be exercised whether or not the Company is in default hereunder; provided, that such default will not relieve the Company from performing those actions which are necessary to exercise any such right or option granted hereunder

Section 6.3. Redemption The Company shall deliver to the Trustee, or cause to be delivered, as Loan Payments, the moneys needed to redeem the Bonds in accordance with the redemption provisions relating thereto as set forth in Section 3.01 of the Indenture, and also any amounts required to be provided in prepayment of the Loan Payments as required by Sections 6.1 and 6.2 hereof.

Section 6.4. Notice of Redemption In order to exercise an option granted in Section 6.1 or 6.2 hereof, the Company shall (within the time period set forth in the Indenture for the Trustee to give notice of optional redemption to the Bondholders with respect to redemption pursuant to Section 6.1 hereof, or within 180 days following the event authorizing the exercise of such option under subparagraph (a), (b), (f) or (g) of Section 6.2 hereof, or at any time during the continuation of the condition referred to in subparagraph (c), (d) or (e) of Section 6.2 hereof), at least 45 calendar days prior to the proposed redemption date (unless the Trustee shall agree to a shorter period), give written notice to the Issuer and the Trustee that it is exercising its option to

direct the redemption of Bonds and shall specify therein the date on which such redemption is to be made, which date shall be not more than 180 days (or such lesser period as may otherwise be required hereby) from the date such notice is mailed. The Company shall make arrangements satisfactory to the Trustee for the giving of the notices of redemption required under Section 3.05 of the Indenture, in which arrangements the Issuer shall cooperate.

Section 6.5. Actions by Issuer. At the request of the Company or the Trustee, the Issuer shall take all reasonable steps required of it under the applicable provisions of the Indenture or the Bonds to effect the redemption of all or a portion of the Bonds pursuant to this Article VI.

Section 6.6. Concurrent Discharging of Note. In the event any of the Bonds shall be paid and discharged, or deemed to be paid and discharged, pursuant to any provisions of this Agreement and the Indenture, so that such Bonds are not thereafter outstanding within the meaning of the Indenture, a like principal amount of the Note shall be deemed fully paid for purposes of this Agreement and to such extent the obligations of the Company hereunder shall be deemed terminated.

(End of Article VI)

ARTICLE VII  
EVENTS OF DEFAULT AND REMEDIES

Section 7.1. Events of Default. Each of the following shall be an Event of Default:

(a) The failure to pay any Loan Payment, or pay any payment required under Section 4.8 hereof or any payment required to be made to the United States Government, when due;

(b) The occurrence of an "Event of Default" as defined in Section 7.01 (a), (b) or (c) of the Indenture;

(c) The Company shall fail to observe and perform any other agreement, term or condition contained in this Agreement, other than such failure as will have resulted in an event of default described in (a) or (b) above and the continuation of that failure for a period of 90 days after notice thereof shall have been given to the Company by the Issuer or the Trustee, or for such longer period as the Issuer and the Trustee may agree to in writing; provided, that failure shall not constitute an Event of Default so long as the Company institutes curative action within the applicable period and diligently pursues that action to completion;

(d) If any representation or warranty under this Agreement shall not have been true in all material respects when made;

(e) The Company shall commence a voluntary case or other proceeding seeking liquidation, reorganization, or other relief with respect to itself or its debts under any bankruptcy, insolvency, or other similar law now or hereafter in effect or seeking the appointment of a trustee, receiver, liquidator, custodian, or other similar official of it or any substantial part of its property, or shall consent to any such relief or to the appointment of or taking possession by any such official in an involuntary case or other proceeding commenced against it, or shall make a general assignment for the benefit of creditors, or shall fail generally to pay its debts as they become due, or shall take any corporate action to authorize any of the foregoing; and

(f) An involuntary case or other proceeding shall be commenced against the Company seeking liquidation, reorganization, or other relief with respect to it or its debts under any bankruptcy, insolvency, or other similar law now or hereafter in effect or seeking the appointment of a trustee, receiver, liquidator, custodian, or other similar official of it or any substantial part of its property, and such involuntary case or other proceeding shall remain undismissed and unstayed for a period of sixty (60) days

Notwithstanding the foregoing, if, by reason of Force Majeure, the Company is unable to perform or observe any agreement, term or condition hereof which would give rise to an Event of Default under subsection (c) hereof, the Company shall not be deemed in default under that subsection during the continuance of such inability. However, the Company shall promptly give notice to the Trustee, the Letter of Credit Bank and the Issuer of the existence of an event of Force Majeure and shall use its best efforts to remove the effects thereof; provided that the settlement of strikes or other industrial disturbances shall be entirely within its discretion.

The term Force Majeure shall mean the following:

(i) acts of God; strikes, lockouts or other industrial disturbances; acts of public enemies; orders or restraints of any kind of the government of the United States of America or of the State or any of their departments, agencies, political subdivisions or officials, or any civil or military authority; insurrections, civil disturbances, riots; epidemics; landslides; lightning; earthquakes; nuclear accidents; fires; hurricanes; tornados; storms; droughts; floods; arrests; restraint of government and people; explosions; breakage, nuclear accidents or other malfunction or accident to facilities, machinery, transmission pipes or canals; partial or entire failure of a utility serving the Project or the Plant; shortages of labor, materials, supplies or transportation; or

(ii) any cause, circumstance or event not reasonably within the control of the Company

The exercise of remedies hereunder shall be subject to any applicable limitations of federal bankruptcy law affecting or precluding that exercise during the pendency of or immediately following any bankruptcy, liquidation or reorganization proceedings.

**Section 7.2. Remedies on Default.** Whenever an Event of Default shall have happened and be subsisting, either or both of the following remedial steps may be taken:

(a) The Issuer or the Trustee may have access to, inspect, examine and make copies of the books, records, accounts and financial data of the Company, only, however, insofar as they pertain to the Project; or

(b) The Issuer or the Trustee may pursue all remedies now or hereafter existing at law or in equity to recover all amounts, including all Loan Payments and Additional Payments, then due and thereafter to become due under this Agreement and the Note, or to enforce the performance and observance of any other obligation or agreement of the Company under those instruments.

In addition, whenever an Event of Default under Section 7.01 of the Indenture shall have occurred and, as a result thereof, the principal of and any premium on all Bonds then outstanding and interest accrued thereon shall have been declared to be immediately due and payable pursuant to Section 7.02 of the Indenture, the unpaid Loan Payments shall be due and payable on the date on which the Bond Service Charges on the Bonds shall have been declared due and payable.

Notwithstanding the foregoing, the Issuer shall not be obligated to take any step which in its opinion will or might cause it to expend time or money or otherwise incur liability unless and until a satisfactory indemnity bond has been furnished to the Issuer at no cost or expense to the Issuer. Any amounts collected as Loan Payments or applicable to Loan Payments and any other amounts which would be applicable to payment of Bond Service Charges collected pursuant to action taken under this Section shall be paid into the Bond Fund and applied in accordance with the provisions of the Indenture or, if the outstanding Bonds have been paid and discharged in accordance with the provisions of the Indenture, shall be paid as provided in Section 4.01 of the Indenture for transfers of remaining amounts in the Bond Fund.

The provisions of this Section 7.2 are subject to the further limitations that (i) the rescission and annulment by the Trustee of its declaration that all of the Bonds are immediately due and payable also shall constitute a rescission and annulment of any corresponding acceleration pursuant to this Section 7.2 and a rescission and annulment of the consequences of that acceleration and of the Event of Default with respect to which that acceleration has been made, provided that no such rescission and annulment shall extend to or affect any subsequent or other default or impair any right consequent thereon and (ii) so long as the Letter of Credit is in full force and effect and the Letter of Credit Bank has not wrongfully dishonored a drawing under the Letter of Credit (or wrongfully repudiated the Letter of Credit), the exercise of remedies hereunder with respect to Events of Default (except Events of Default resulting from failures of the Company relating to the Unassigned Issuer's Rights), and any waivers of Events of Default shall be at the direction or with the written consent of the Letter of Credit Bank.

Section 7.3. No Remedy Exclusive. No remedy conferred upon or reserved to the Issuer or the Trustee by this Agreement is intended to be exclusive of any other available remedy or remedies, but each and every such remedy shall be cumulative and shall be in addition to every other remedy given under this Agreement, or now or hereafter existing at law, in equity or by statute. No delay or omission to exercise any right or power accruing upon any default shall impair that right or power or shall be construed to be a waiver thereof, but any such right or power may be exercised from time to time and as often as may be deemed expedient. In order to entitle the Issuer or the Trustee to exercise any remedy reserved to it in this Article, it shall not be necessary to give any notice, other than any notice required by law or for which express provision is made herein.

Section 7.4. Agreement to Pay Attorneys' Fees and Expenses. If an Event of Default should occur and the Issuer or the Trustee should incur expenses, including attorneys' fees, in connection with the enforcement of this Agreement or the collection of sums due hereunder, the Company shall be required, to the extent permitted by law, to reimburse the Issuer and the Trustee, as applicable, for the expenses so incurred upon demand.

Section 7.5. No Waiver. No failure by the Issuer or the Trustee to insist upon the strict performance by the Company of any provision hereof shall constitute a waiver of their right to strict performance and no express waiver shall be deemed to apply to any other existing or subsequent right to remedy the failure by the Company to observe or comply with any provision hereof.

Section 7.6. Notice of Default. The Company shall notify the Trustee and the Letter of Credit Bank immediately if it becomes aware of the occurrence of any Event of Default hereunder or of any fact, condition or event which, with the giving of notice or passage of time or both, would become an Event of Default.

(End of Article VII)

ARTICLE VIII  
MISCELLANEOUS

Section 8.1. Term of Agreement. This Agreement shall be and remain in full force and effect from the date of delivery of the Bonds to the Original Purchaser until such time as all of the Bonds shall have been fully paid (or provision made for such payment) pursuant to the Indenture and all other sums payable by the Company under this Agreement shall have been paid

Section 8.2. Moneys Remaining in Funds. Any moneys which shall be set aside by the Trustee or deposited with the Trustee and which shall remain unclaimed by the holders of Bonds for a period of six years after the due date thereof (whether at stated maturity, by redemption, upon acceleration or otherwise), at the option of the Company, shall be deemed to belong to and shall be paid, subject to Section 4.04 of the Indenture, at the written request of the Company, to the Company by the Trustee and thereafter the holders of the Bonds entitled to those moneys shall look solely to the Company for the payment of those moneys and then only to the extent of the amount so received without any interest thereon, and the Trustee and the Issuer shall have no responsibility with respect to such moneys. In the absence of any such written request, the Trustee shall from time to time deliver such unclaimed funds to or as directed by pertinent escheat authority, as identified by the Trustee in its sole discretion, pursuant to and in accordance with applicable unclaimed property laws, rules or regulations. Any such delivery shall be in accordance with the customary practices and procedures of the Trustee and the escheat authority.

Further, any other amounts remaining in the Bond Fund and any other special funds or accounts created under this Agreement or the Indenture after all of the Bonds shall be deemed to have been paid and discharged under the provisions of the Indenture and all other amounts required to be paid under this Agreement and the Indenture have been paid, so long as no amounts are owed to the Letter of Credit Bank under the Credit Agreement, shall be paid to the Company to the extent that those moneys are in excess of the amounts necessary to effect such payment and discharge.

Section 8.3. Notices. All notices, certificates, requests or other communications hereunder shall be in writing except as provided herein, and shall be deemed to be sufficiently given when mailed by first class mail, postage prepaid, and addressed to the appropriate Notice Address. Any notices required hereunder to be given in writing may be given by telex, telecopy or other similar means of facsimile or electronic transmission. A duplicate copy of each notice, certificate, request or other communication required to be given hereunder to the Issuer, the Company, the Trustee, the Remarketing Agent or the Letter of Credit Bank shall also be given to the others. The Company, the Issuer, the Remarketing Agent, the Letter of Credit Bank and the Trustee, by notice given hereunder, may designate any further or different addresses to which subsequent notices, certificates, requests or other communications shall be sent.

Section 8.4. Extent of Covenants of the Issuer; No Personal Liability. All covenants, obligations and agreements of the Issuer contained in this Agreement or the Indenture shall be effective to the extent authorized and permitted by applicable law. No such covenant, obligation or agreement shall be deemed to be a covenant, obligation or agreement of any present or future member, officer, agent or employee of the Issuer in other than his official capacity, and neither

the members of the Issuer nor any official executing the Bonds shall be liable personally on the Bonds or be subject to any personal liability or accountability by reason of the issuance thereof or by reason of the covenants, obligations or agreements of the Issuer contained in this Agreement or in the Indenture.

Section 8.5. Binding Effect. This Agreement shall inure to the benefit of and shall be binding in accordance with its terms upon the Issuer, the Company and their respective permitted successors and assigns provided that this Agreement may not be assigned by the Company (except as permitted under Article V hereof) and may not be assigned by the Issuer except to (i) the Trustee pursuant to the Indenture or as otherwise may be necessary to enforce or secure payment of Bond Service Charges or (ii) any successor public body to the Issuer.

Section 8.6. Amendments and Supplements. Except as otherwise expressly provided in this Agreement or the Indenture, subsequent to the issuance of the Bonds and prior to all conditions provided for in the Indenture for release of the Indenture having been met, this Agreement and the Note may not be effectively amended, changed, modified, altered or terminated by the parties hereto except with the consents required by, and in accordance with, the provisions of Article IX of the Indenture, as applicable.

Section 8.7. [RESERVED].

Section 8.8. Execution Counterparts. This Agreement may be executed in any number of counterparts, each of which shall be regarded as an original and all of which shall constitute but one and the same instrument.

Section 8.9. Severability. If any provision of this Agreement, or any covenant, obligation or agreement contained herein is determined by a judicial or administrative authority to be invalid or unenforceable, that determination shall not affect any other provision, covenant, obligation or agreement, each of which shall be construed and enforced as if the invalid or unenforceable portion were not contained herein. That invalidity or unenforceability shall not affect any valid and enforceable application hereof, and each such provision, covenant, obligation or agreement shall be deemed to be effective, operative, made, entered into or taken in the manner and to the full extent permitted by law.

Section 8.10. Governing Law. This Agreement shall be deemed to be a contract made under the laws of the State and for all purposes shall be governed by and construed in accordance with the laws of the State.

(End of Article VIII)

IN WITNESS WHEREOF, the Issuer and the Company have caused this Agreement to be duly executed and delivered in their respective names, all as of the date hereinbefore written.

WEST VIRGINIA ECONOMIC  
DEVELOPMENT AUTHORITY

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

OHIO POWER COMPANY

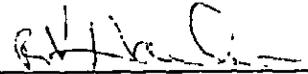
By: \_\_\_\_\_  
Title:

IN WITNESS WHEREOF, the Issuer and the Company have caused this Agreement to be duly executed and delivered in their respective names, all as of the date hereinbefore written.

WEST VIRGINIA ECONOMIC  
DEVELOPMENT AUTHORITY

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

OHIO POWER COMPANY

By:  \_\_\_\_\_  
Assistant Treasurer

[Signature Page to Loan Agreement]

## EXHIBIT A

### **Description of the Project**

The Project is comprised of that portion of the Company's flue gas desulfurization system (the "FDG System") located at the Company's Mitchell Power Plant (the "Plant") that constitutes solid waste disposal facilities or facilities functionally related and subordinate thereto. A diagram of the FDG System is attached as Attachment 1 to this Exhibit B. The portion in the box identified as the "Solid Waste Disposal Facility" is generally the portion of the FDG System that is included in the Project. The major components of the Project are the Absorber Reaction Tanks and the Waste Reagent Processing Area.

#### Absorber Reaction Tank Section

There are two (2) absorber reaction tanks. The absorber reaction tanks provide approximately fifteen (15) hours of solids retention time per absorber. The absorber reaction tanks are equipped with drain lines and valves to empty the tanks during maintenance periods.

Each absorber reaction tank is equipped with eight (8) side entry agitators that provide the required mixing and suspension of solids in the tank. Six (6) of the agitators have oxidation air lines located in front of the impeller for the purpose of air distribution and oxidation of the waste reagent. The other two agitators are required for solids suspension.

An oxidation air blower system, comprised of three (3) oxidation air blowers, provides the oxidation air to each absorber reaction tank. Oxidation forces the waste reagent, calcium sulfite, formed by the sulfur dioxide removal process, to be oxidized into calcium sulfate. The oxidation air blowers supply the air for oxidizing the waste reagent.

#### Waste Reagent Processing Area

The waste reagent processing area receives waste reagent from the absorber area and processes it into a form that can be recycled into wall board.

The waste reagent processing area includes the primary dewatering system, blowdown system, secondary dewatering system (vacuum filters) and reclaim water system.

Waste reagent bleed from the absorber reaction tanks is fed to the primary dewatering system by one of two (2) 100% capacity absorber bleed pumps (per absorber). The absorber bleed pumps feed the bleed stream to two (2) dewatering hydroclone feed tanks. The consolidated bleed streams in the dewatering hydroclone feed tanks are then pumped to the dewatering hydroclones by three (3) dewatering hydroclone feed pumps. The purpose of the hydroclones is to concentrate the solids in the waste reagent stream. The underflow stream from each dewatering hydroclone flows by gravity to the secondary dewatering systems. The overflow streams are directed to two (2) hydroclone overflow head tanks and overflow through the hydroclone head tanks to the reclaim water tanks by gravity.

The dewatering hydroclone overflow, which contains chlorides and fines, is purged from the system by two (2) 100% capacity blowdown pumps. The blowdown pumps take suction

from the hydroclone overflow head tanks and discharge to the Plant's bottom and pond. This blowdown stream is used to maintain the required chloride and fines concentration in the system. The blowdown system is necessitated by the need to limit chlorine and fines content associated with the recycling of the waste reagent into marketable gypsum.

From the dewatering hydroclone underflow, the waste reagent flows by gravity to two (2) of three (3) 50% capacity vacuum filter head boxes for the dissipation of energy from the long gravity feed line from the hydroclones. It is then directed to the vacuum filters for further dewatering. The waste reagent is dewatered to 90% solids and then washed to produce useable gypsum. The gypsum reclaim and transfer facilities and equipment and associated conveyors and handling equipment are NOT part of the solid waste disposal facilities.

The overflow from the hydroclone head tanks and the filtrate from the vacuum filters is collected in two (2) reclaim water tanks. Two (2) 100% capacity reclaim water pumps recycle the collected water back to the absorber reaction tanks to maintain absorber inventory balance.

One dewatering area sump, two (2) 100% capacity sump pumps, and one (1) agitator are provided. The dewatering area sump collects all drains within the waste reagent processing island. The dewatering area sump pumps discharge to the dewatering hydroclone feed tanks.

In addition to the equipment and components described above, the waste reagent processing area includes functionally related mechanical and electrical auxiliaries, instrumentation and controls, structures and foundations, and site preparation.

**EXHIBIT B**

**FORM OF NOTE**

This Series 2008A Note has not been registered under the Securities Act of 1933. Its transferability is restricted by the Indenture and the Agreement referred to herein.

**Ohio Power Company**

Ohio Power Company, an Ohio corporation (the "Company"), for value received, promises to pay to The Bank of New York Trust Company, N.A., as Trustee (the "Trustee"), under the Indenture hereinafter referred to, the principal sum of \$65,000,000 in installments, as provided herein, and to pay interest on the unpaid balance of the principal sum hereof from the date hereof at the rate or rates of interest borne by the Bonds (hereinafter defined) from time to time, until the payment of the principal sum has been made or provided for.

This Note is issued pursuant to the Loan Agreement dated as of June 1, 2008 (the "Agreement"), between the West Virginia Economic Development Authority (the "Issuer") and the Company pursuant to which the Issuer has loaned to the Company proceeds received from the sale of the \$65,000,000 aggregate principal amount of West Virginia Economic Development Authority Solid Waste Disposal Facilities Revenue Refunding Bonds (Ohio Power Company - Mitchell Project), Series 2008A (the "Bonds"), issued to refund the West Virginia Economic Development Authority Solid Waste Disposal Facilities Revenue Bonds (Ohio Power Company - Mitchell Project), Series 2006A, by the Issuer or a county commission of a county in the State. This Note evidences the Company's obligation to make Loan Payments, as defined in the Agreement, required to pay the principal of, premium, if any, and interest on the Bonds as and when due and is entitled to the benefits and subject to the provisions of the Agreement. In addition, the Company is obligated to pay the Purchase Price (as defined in the Agreement) with respect to the Bonds. The Bonds have been issued concurrently with the execution and delivery of this Note pursuant to, and are secured by, an Indenture of Trust dated as of the same date as the Agreement (the "Indenture") between the Issuer and the Trustee.

Each of the Bonds bears interest from its date at the rate or rates determined from time to time as Auction Mode Rates, Commercial Paper Rates, Daily Rates, Long-Term Interest Rates and Weekly Rates, and, under certain circumstances, Alternate Rates, payable on the Interest Payment Dates, all as defined and described in the Indenture. The Bonds mature on April 1, 2036, subject in each case to prior optional redemption and extraordinary optional redemption in accordance with the Indenture. This Note shall be due and payable in installments in the amounts and on the dates that maturity and redemption of the Bonds is required to occur under the Agreement and the Indenture. This Note is subject to mandatory and optional prepayment in the manner, at the prices and to the extent provided in Article VI of the Agreement for the purpose of redemption of the Bonds.

To provide funds to pay the principal of, premium, if any, and interest on the Bonds as and when due, and in satisfaction of its obligations to make Loan Payments hereunder and under

the Agreement, the Company shall make Loan Payments on each Loan Payment Date (defined in the Agreement) in amounts equal to the amounts payable as Bond Service Charges (defined in the Agreement) on the Bonds on such dates.

All payments made under this Note shall be in lawful money of the United States of America and shall be made to the Trustee at its designated corporate trust office and deposited in the Bond Fund created by the Indenture. Except as otherwise provided in the Indenture and the Agreement, such payments shall be used by the Trustee to pay the Bond Service Charges on the Bonds as and when due.

Whenever payment or provision therefor has been made in respect of the Bond Service Charges on all or any portion of the Bonds in accordance with the Indenture, this Note shall be deemed paid to the extent such payment or provision therefor has been made. If all of the Bonds are thereby deemed paid in full, this Note shall be cancelled and returned to the Company. Pursuant to the Agreement, the Company shall receive a credit against its obligation to make payments hereunder to the extent of moneys available in the Bond Fund, created by the Indenture, for payment of Bond Service Charges on the Bonds. Subject to the foregoing, all payments shall be in the full amount required under this Note and the obligation of the Company to make the Loan Payments shall be absolute and unconditional as provided in the Agreement.

Whenever an Event of Default under Section 7.01 of the Indenture shall have occurred and, as a result thereof, the principal of and any premium on all Bonds then outstanding and interest accrued thereon shall have been declared to be immediately due and payable pursuant to Section 7.02 of the Indenture, the unpaid principal amount of and any premium and accrued interest on this Note shall be due and payable on the date on which the principal of and premium and interest on the Bonds shall have been declared due and payable; provided that the annulment of a declaration of acceleration with respect to the Bonds shall also constitute an annulment of any corresponding declaration with respect to this Note.

IN WITNESS WHEREOF, the Company has caused this Note to be duly executed and delivered in its name on June 5, 2008.

OHIO POWER COMPANY

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

**ASSIGNMENT**

The West Virginia Economic Development Authority (the "Issuer") hereby irrevocably assigns, without recourse, the foregoing Note to The Bank of New York Trust Company, N.A. under an Indenture of Trust dated as of June 1, 2008 (the "Indenture"), between the Issuer and the Trustee and hereby directs Ohio Power Company (the "Company"), as the maker of the Note, to make all payments of principal of and interest thereon directly to the Trustee at its office as provided in the Indenture, or at such other place as the Trustee may direct in writing. Such assignment is made as security for the payment of the Issuer's \$65,000,000 West Virginia Economic Development Authority Solid Waste Disposal Facilities Revenue Refunding Bonds (Ohio Power Company - Mitchell Project), Series 2008A, issued pursuant to the Indenture.

WEST VIRGINIA ECONOMIC DEVELOPMENT  
AUTHORITY

By \_\_\_\_\_  
Chairman

## PROMISSORY NOTE

This Series 2008A Note has not been registered under the Securities Act of 1933. Its transferability is restricted by the Indenture and the Agreement referred to herein.

### OHIO POWER COMPANY

Ohio Power Company, an Ohio corporation (the "Company"), for value received, promises to pay to The Bank of New York Trust Company, N.A., as Trustee (the "Trustee"), under the Indenture hereinafter referred to, the principal sum of \$65,000,000 in installments, as provided herein, and to pay interest on the unpaid balance of the principal sum hereof from the date hereof at the rate or rates of interest borne by the Bonds (hereinafter defined) from time to time, until the payment of the principal sum has been made or provided for.

This Note is issued pursuant to the Loan Agreement dated as of June 1, 2008 (the "Agreement"), between the West Virginia Economic Development Authority (the "Issuer") and the Company pursuant to which the Issuer has loaned to the Company proceeds received from the sale of the \$65,000,000 aggregate principal amount of West Virginia Economic Development Authority Solid Waste Disposal Facilities Revenue Refunding Bonds (Ohio Power Company - Mitchell Project), Series 2008A (the "Bonds"), issued to refund the West Virginia Economic Development Authority Solid Waste Disposal Facilities Revenue Bonds (Ohio Power Company - Mitchell Project), Series 2006A, by the Issuer or a county commission of a county in the State. This Note evidences the Company's obligation to make Loan Payments, as defined in the Agreement, required to pay the principal of, premium, if any, and interest on the Bonds as and when due and is entitled to the benefits and subject to the provisions of the Agreement. In addition, the Company is obligated to pay the Purchase Price (as defined in the Agreement) with respect to the Bonds. The Bonds have been issued concurrently with the execution and delivery of this Note pursuant to, and are secured by, an Indenture of Trust dated as of the same date as the Agreement (the "Indenture") between the Issuer and the Trustee.

Each of the Bonds bears interest from its date at the rate or rates determined from time to time as Auction Mode Rates, Commercial Paper Rates, Daily Rates, Long-Term Interest Rates and Weekly Rates, and, under certain circumstances, Alternate Rates, payable on the Interest Payment Dates, all as defined and described in the Indenture. The Bonds mature on April 1, 2036, subject in each case to prior optional redemption and extraordinary optional redemption in accordance with the Indenture. This Note shall be due and payable in installments in the amounts and on the dates that maturity and redemption of the Bonds is required to occur under the Agreement and the Indenture. This Note is subject to mandatory and optional prepayment in the manner, at the prices and to the extent provided in Article VI of the Agreement for the purpose of redemption of the Bonds.

To provide funds to pay the principal of, premium, if any, and interest on the Bonds as and when due, and in satisfaction of its obligations to make Loan Payments hereunder and under the Agreement, the Company shall make Loan Payments on each Loan Payment Date (defined in

the Agreement) in amounts equal to the amounts payable as Bond Service Charges (defined in the Agreement) on the Bonds on such dates.

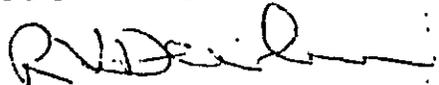
All payments made under this Note shall be in lawful money of the United States of America and shall be made to the Trustee at its designated corporate trust office and deposited in the Bond Fund created by the Indenture. Except as otherwise provided in the Indenture and the Agreement, such payments shall be used by the Trustee to pay the Bond Service Charges on the Bonds as and when due.

Whenever payment or provision therefor has been made in respect of the Bond Service Charges on all or any portion of the Bonds in accordance with the Indenture, this Note shall be deemed paid to the extent such payment or provision therefor has been made. If all of the Bonds are thereby deemed paid in full, this Note shall be cancelled and returned to the Company. Pursuant to the Agreement, the Company shall receive a credit against its obligation to make payments hereunder to the extent of moneys available in the Bond Fund, created by the Indenture, for payment of Bond Service Charges on the Bonds. Subject to the foregoing, all payments shall be in the full amount required under this Note and the obligation of the Company to make the Loan Payments shall be absolute and unconditional as provided in the Agreement.

Whenever an Event of Default under Section 7.01 of the Indenture shall have occurred and, as a result thereof, the principal of and any premium on all Bonds then outstanding and interest accrued thereon shall have been declared to be immediately due and payable pursuant to Section 7.02 of the Indenture, the unpaid principal amount of and any premium and accrued interest on this Note shall be due and payable on the date on which the principal of and premium and interest on the Bonds shall have been declared due and payable; provided that the annulment of a declaration of acceleration with respect to the Bonds shall also constitute an annulment of any corresponding declaration with respect to this Note.

IN WITNESS WHEREOF, the Company has caused this Note to be duly executed and delivered in its name on June 5, 2008.

OHIO POWER COMPANY

By:   
Title: Assistant Treasurer

S P E C I M E N

**ASSIGNMENT**

The West Virginia Economic Development Authority (the "Issuer") hereby irrevocably assigns, without recourse, the foregoing Note to The Bank of New York Trust Company, N.A. under an Indenture of Trust dated as of June 1, 2008 (the "Indenture"), between the Issuer and the Trustee and hereby directs Ohio Power Company (the "Company"), as the maker of the Note, to make all payments of principal of and interest thereon directly to the Trustee at its office as provided in the Indenture, or at such other place as the Trustee may direct in writing. Such assignment is made as security for the payment of the Issuer's \$65,000,000 West Virginia Economic Development Authority Solid Waste Disposal Facilities Revenue Refunding Bonds (Ohio Power Company - Mitchell Project), Series 2008A, issued pursuant to the Indenture.

**WEST VIRGINIA ECONOMIC DEVELOPMENT  
AUTHORITY**

By *Henry M. Lee*  
Chairman

SPECIMEN

**Kentucky Power Company**

**REQUEST**

Reference paragraphs 13 of the application, footnote 8, and paragraph 28-32 of the application. Please identify with specificity what law, regulation, legal authority or agreement that prevents the WVEDA Bonds, which were issued by WVEDA, from being directly transferred from Ohio Power (described as the "indirect issuer," holder" and entity with the obligations with respect to the bonds) to NEWCO Kentucky and then Kentucky Power.

**RESPONSE**

The WVEDA Bonds cannot be directly transferred from OPCO to KPCO because Section 5.12 of the Loan Agreement between OPCO and WVEDA (See AG 1-4 Attachment 1) governing the bonds dated June 1, 2008 states that any assignment of the obligations will not relieve OPCO from being primarily liable under the Loan Agreement and the related documentation. For that reason the WVEDA Bonds cannot be directly transferred from OPCo to KPCO.

**WITNESS:** Marc D Reitter

**Kentucky Power Company**

**REQUEST**

Reference paragraph 18 of the application. As to the Credit Agreement, please answer the following questions:

- a. Please identify the docket number under which the Federal Energy Regulatory Commission approved the Credit Agreement between Kentucky Power and its affiliates.
- b. Under the Credit Agreement, if for any reason the transfer of a 50 percent interest in the Mitchell generating station is not transferred to Kentucky Power, will AEP Generation Resources retain a 100 percent interest in the facility?

**RESPONSE**

- a. FERC approval of the Credit Agreement is not required if approval is obtained by a state authority that approves security issuances in the state of incorporation of the utility. As Kentucky Power is incorporated in Kentucky, and the Kentucky Commission approved the acquisition of the assets and liabilities associated with Mitchell (which liabilities will include, upon the transfer on December 31, 2013, the amounts due under the Credit Agreement), the Kentucky Commission's approval makes FERC approval unnecessary.
- b. The 50% undivided interest in the Mitchell generating station, and associated assets and liabilities, were transferred to Kentucky Power effective December 31, 2013.

**WITNESS:** Marc D Reitter

**Kentucky Power Company**

**REQUEST**

Reference paragraph 19 of the application. Does Kentucky Power concede that order(s) by the Franklin Circuit Court in Civil Action No. 13-CI-1398 or by the Federal Energy Regulatory Commission in Docket Nos. ER14-86 and ER 14-95 may impact the timing of or even prevent the proposed Merger and transfer of assets to Kentucky Power?

**RESPONSE**

No. The transfer of the 50% undivided interest in the Mitchell generating station, and associated assets and liabilities, was completed on December 31, 2013.

**WITNESS: Ranie K Wolnhas**

## Kentucky Power Company

### REQUEST

Reference paragraph 21 of the application. Please provide the following in detail:

- a. Kentucky Power's proposed process for selling the Notes in terms of preference for
  - (i) by competitive bidding;
  - (ii) through negotiation with underwriters or agents in private placement offerings; or
  - (iii) by direct placement with a commercial bank or other institutional investor; and
- b. For each of the Company's debt issues, please indicate the process used in selling financing.

### RESPONSE

- a. Kentucky Power seeks to manage the risks that accompany issuing debt and obtaining capital by seeking approval for a wide variety of means and markets. This process identified seeks to preserve the maximum amount of flexibility in order to take advantage of the least expensive and most advantageous source of capital available at the time of funding. As a result, Kentucky Power does not have a preference for a particular process, beyond preferring the process that provides the Company and its customers the lowest cost. Experience has demonstrated that capital markets are unpredictable. Markets that were once highly stable can become volatile almost overnight. Other markets that have been an uninterrupted source for funding can dry up almost immediately due to forces and actions far beyond the control of any single issuer. The cost of obtaining capital always fluctuates and differing capital markets offer advantages and disadvantages that change constantly in relation to one another.

- b. Because Kentucky Power is a non-SEC registrant it is most likely to access the private placement market for its debt issuances. Kentucky Power's outstanding debt issuances have been sold either through negotiation with underwriters or agents in private placement offerings. Generally the approximate process to issue private placement debt is as follows:
- Week 1 – Engage underwriters. Begin drafting private placement memorandum, note purchase agreement, and summary term sheet
  - Week 2 – Begin drafting management presentations for possible road shows/conference calls.
  - Week 3 – Finalize private placement memo, note purchase agreement, management presentation and term sheet. Begin pre-marketing calls with investors.
  - Week 4 – Launch transaction. All documentation is made available to investors. Possible investor conference calls/credit approvals scheduled. Continue to negotiate on pricing and terms.
  - Week 5 – Accepts bids and price transaction.
  - Week 6 – Investor due diligence call
  - Week 7 – Finalize legal documentation and closing.

**WITNESS: Marc D Reitter**

**Kentucky Power Company**

**REQUEST**

Reference paragraph 23 of the application. Please provide additional details regarding the proposed note issues described as being "in connection with long-term borrowings by AEP." Please provide details of all previous Notes issued in this manner.

**RESPONSE**

At this time Kentucky Power has no specific plans to issue Notes in connection with long-term borrowing by AEP and, therefore, additional details cannot be provided. If Kentucky Power borrows from AEP, the interest rate that Kentucky Power should expect to pay is expected to approximate the interest rate that AEP pays to acquire the capital it is re-lending to Kentucky. That interest rate is AEP's cost of capital.

**WITNESS: Marc D Reitter**

**Kentucky Power Company**

**REQUEST**

Reference paragraph 24 of the application, specifically the last sentence, which states: "In addition, Kentucky Power may permit the holder of the Notes to require the Company to prepay them after certain specified events, including an ownership change." Please describe what is meant by "an ownership change."

**RESPONSE**

Ownership change means Kentucky Power is no longer owned by American Electric Power Company, Inc. This portion of the Application merely states the possibility of such a condition being included.

**WITNESS:** Marc D Reitter

**Kentucky Power Company**

**REQUEST**

Reference paragraph 34 of the application, specifically the last sentence, which states: The proceeds of the New Bonds may be used to refinance a portion of the Mitchell Debt at a lower cost than can be achieved through the issuance of the Notes described in paragraphs 20-26 of this Application, for general corporate purposes, and for working capital." As to this sentence, please provide the following information:

- a. Please provide an estimate of the proceeds that Kentucky Power anticipates receiving through the sale of the New Bonds.
- b. Please provide an estimate of the cost savings that Kentucky Power anticipates as a result of the transaction described.
- c. Please explain what is meant by "for general corporate purposes, and for working capital."
- d. Please state whether any of the benefits anticipated by this transaction would be used as an offset against any rate increase that Kentucky Power may seek to recoup its investment in the Mitchell generating units.

**RESPONSE**

- a. The Company expects to receive \$65 million of proceeds.
- b. See KPSC 1-3, part b.
- c. The capital necessary to fund day-to-day operations.
- d. The savings would flow through to Kentucky Power customers through a lower cost of capital.

**WITNESS:** Marc D Reitter

## Kentucky Power Company

### REQUEST

Reference paragraph 36 of the application, specifically wherein it states in a parenthetical clause: "in the event all or a portion of any series of New Bonds initially bear a variable rate of interest, the method for determining that interest rate". Explain why, when, and under what specific terms and conditions would Kentucky Power agree to a variable rate of interest for all or a portion of any series of the New Bonds.

### RESPONSE

Variable interest rates are almost always lower than fixed at the time of issuance, but the issuer bears the risk of rates floating higher. Prudent management of interest rate risk tends to support an opportunistic combined approach using both fixed and variable. It would not be prudent for Kentucky Power's debt portfolio to be 100% variable rate because variable rate debt securities are much shorter in life than fixed, so Kentucky Power would have to refinance those variable rate securities every six months to three years and incur transaction costs at every refinancing event.

WITNESS: Marc D Reitter

**Kentucky Power Company**

**REQUEST**

Reference paragraph 42 of the application. Explain why Kentucky Power determined the terms (including the term of years to maturity and percentages) identified in subparts (i) through (iv) of the paragraph.

**RESPONSE**

The terms in Paragraph 42 of the Application establish the boundaries for a new issuance of bonds beyond which Kentucky Power would need for further approval. These terms do not represent anticipated terms in any bond issuance, and, should the Company plan to issue new bonds, it would seek to do so at the most favorable terms possible.

**WITNESS:** Marc D Reitter

**Kentucky Power Company**

**REQUEST**

Reference paragraph 43 of the application. Please provide a list of Kentucky Power's "past experience with similar financings."

- a. If by "the Company," Kentucky Power means its corporate parent, then please provide a list of similar financings conducted by AEP in the past 5 years, inclusive of the specific financings to which this paragraph refers.
- b. If not by its corporate parent, please state whether it was Kentucky Power or another affiliate.
- c. Regardless of the entity involved or associated with the "past experience with similar financings," provide all details including the related documents of those financings.

**RESPONSE**

- a. AEP, Kentucky Power's parent has not issued any similar financings.
- b. AEP affiliates including Ohio Power, Indiana Michigan Power, Appalachian Power, Public Service Company of Oklahoma, Southwestern Electric Power Company and AEP Texas have similar financings. AG 1-14 Attachments 1 through 6 are examples of similar financings at each affiliate.
- c. See response for part b above

**WITNESS:** Marc D Reitter

NEW ISSUE—BOOK ENTRY ONLY

In the opinion of Squire, Sanders & Dempsey L.L.P., Bond Counsel, under existing law (i) assuming continuing compliance with certain covenants and the accuracy of certain representations, interest on the Bonds is excluded from gross income for federal income tax purposes, except interest on any Bond for any period during which it is held by a "substantial user" or a "related person" as those terms are used in Section 147(a) of the Internal Revenue Code of 1986, as amended (the "Code"), (ii) interest on the Bonds is not an item of tax preference under Section 57 of the Code for purposes of the federal alternative minimum tax imposed on individuals and corporations, and (iii) interest on, and any profit made on the sale, exchange or other disposition of, the Bonds are exempt from the Ohio personal income tax, the Ohio commercial activity tax, the net income base of the Ohio corporate franchise tax, and municipal, school district and joint economic development district income taxes in Ohio. Interest on the Bonds may be subject to certain federal taxes imposed only on certain corporations. See *TAX EXEMPTION*.

**\$79,450,000**  
**Ohio Air Quality Development Authority**  
**State of Ohio**  
**Air Quality Revenue Refunding Bonds**  
**(Ohio Power Company Project),**  
**Series 2010A**  
**(Non-AMT)**

Interest to accrue from date of issuance

Due: June 1, 2041

The Series 2010A Bonds (the "Bonds") are special obligations of the State of Ohio and issued by the Ohio Air Quality Development Authority (the "Issuer"). The Bonds will not constitute a debt, or a pledge of the faith and credit, of the Issuer, the State of Ohio or any political subdivision thereof, and the holders or owners of the Bonds will have no right to have taxes levied by the General Assembly of Ohio or any political subdivision of Ohio for the payment of the principal of, interest on or purchase price of the Bonds. The Bonds are payable solely from, and secured by a pledge of, the loan repayments under a note issued under the terms of a Loan Agreement (the "Agreement") between the Issuer and

## Ohio Power Company

The Bonds will bear interest for a Long-Term Interest Rate Period at the rate of 3.25% per annum beginning on the date of original issuance until June 2, 2014, the date on which they are subject to mandatory tender for purchase. Interest on the Bonds will be payable semi-annually in arrears on each June 1 and December 1 of each year, commencing on December 1, 2010, and on the date on which the Bonds are subject to mandatory tender for purchase. Prior to June 2, 2014, the Bonds will not be subject to optional redemption but will be subject to extraordinary optional redemption and extraordinary mandatory redemption as described under *THE BONDS—Redemption*.

The failure to pay the Purchase Price (as defined herein) on the mandatory tender date is an event of default under the Indenture (as defined herein).

The Bonds will be issued as fully registered bonds and will be registered initially in the name of Cede & Co., as registered owner and nominee for The Depository Trust Company, New York, New York ("DTC"). DTC acts as a securities depository for the Bonds. The Bonds will be issued in denominations of \$5,000 and integral multiples thereof. Except under the limited circumstances described herein, Beneficial Owners of book-entry interests in the Bonds will not receive certificates representing their interests. Payments of principal or purchase price of and premium, if any, and interest on the Bonds will be made through DTC and disbursements of such payments to Beneficial Owners will be the responsibility of DTC and its Participants (see *THE BONDS—Book-Entry Only System* herein). Barclays Capital Inc. and KeyBanc Capital Markets Inc. (the "Underwriters") will act as underwriters for the Bonds. U.S. Bank National Association will act as Trustee for the Bonds.

**PRICE: 100%**

This cover page contains limited information for quick reference only and is not a summary of this Official Statement. Investors should read the entire Official Statement to obtain information essential to the making of an informed investment decision.

The Bonds are offered, subject to prior sale, when, as and if issued and received by the Underwriters, subject to the approval of their validity by Squire, Sanders & Dempsey L.L.P., Cleveland, Ohio, Bond Counsel, as described herein, and certain other conditions. Certain legal matters, other than the validity of the Bonds and the exclusion from gross income for federal income tax purposes of interest thereon, will be passed on for the Underwriters by their counsel, Dewey & LeBoeuf LLP, New York, New York, and for the Company by its internal counsel. Certain legal matters will be passed on for the Issuer by its counsel, Forbes, Fields & Associates Co., L.P.A. Delivery of the Bonds in book-entry-only form is expected on or about May 27, 2010 through the facilities of DTC in New York, New York, against payment therefor.

**Barclays Capital**

**KeyBanc Capital Markets**

Dated: May 18, 2010

**CONTENTS OF OFFICIAL STATEMENT**

<u>Official Statement</u>	<u>Page</u>
INTRODUCTORY STATEMENT .....	1
THE ISSUER.....	2
THE PROJECT.....	2
USE OF PROCEEDS .....	3
THE BONDS .....	3
THE AGREEMENT .....	10
THE INDENTURE.....	13
UNDERWRITING .....	19
CONTINUING DISCLOSURE AGREEMENT .....	19
TAX EXEMPTION .....	20
LEGAL MATTERS.....	22
MISCELLANEOUS .....	22
Appendix A (Ohio Power Company) .....	A-1
Appendix B (Proposed Form of Opinion of Bond Counsel) .....	B-1

---

No person has been authorized to give any information or to make any representations other than those contained in this Official Statement in connection with the offer made hereby and, if given or made, such information or representations must not be relied upon as having been authorized by the Issuer, the Company or the Underwriters. Neither the delivery of this Official Statement nor any sale hereunder shall under any circumstances create any implication that there has been no change in the affairs of the Issuer or the Company since the date hereof. This Official Statement does not constitute an offer or solicitation in any jurisdiction in which such offer or solicitation is not authorized, or in which the person making such offer or solicitation is not qualified to do so or to any person to whom it is unlawful to make such offer or solicitation. The Issuer neither has nor assumes any responsibility as to the accuracy or completeness of the information in this Official Statement, all of which has been furnished by others, other than information under *THE ISSUER*.

The Underwriters have provided the following sentence for inclusion in this Official Statement. The Underwriters have reviewed the information in this Official Statement in accordance with, and as a part of, their responsibilities to investors under the federal securities laws as applied to the facts and circumstances of this transaction, but the Underwriters do not guarantee the accuracy or completeness of such information.

**CERTAIN PERSONS PARTICIPATING IN THIS OFFERING MAY ENGAGE IN TRANSACTIONS THAT STABILIZE, MAINTAIN OR OTHERWISE AFFECT THE PRICE OF THE BONDS, INCLUDING BY ENTERING STABILIZING BIDS. FOR A DESCRIPTION OF THESE ACTIVITIES, SEE *UNDERWRITING* HEREIN.**

**\$79,450,000**  
**Ohio Air Quality Development Authority**  
**State of Ohio**  
**Air Quality Revenue Refunding Bonds**  
**(Ohio Power Company Project),**  
**Series 2010A**  
**(Non-AMT)**

**INTRODUCTORY STATEMENT**

This Official Statement, including the Appendices hereto, is provided to furnish certain information in connection with the issuance by the Ohio Air Quality Development Authority, a body politic and corporate of the State of Ohio ("Issuer") of State of Ohio Air Quality Revenue Refunding Bonds (Ohio Power Company Project), Series 2010A, in the aggregate principal amount of \$79,450,000 (the "Bonds"). The Issuer neither has nor assumes any responsibility as to the accuracy or completeness of the information in this Official Statement, all of which has been furnished by others, other than the information pertaining to the Issuer under *THE ISSUER*.

The Bonds will be issued under and pursuant to a resolution of the Issuer adopted on April 13, 2010 ("Resolution") and an Indenture of Trust, dated as of May 1, 2010 ("Indenture"), between the Issuer and U.S. Bank National Association, as trustee (in such capacity, the "Trustee"). Capitalized terms used herein and not otherwise defined shall have the meanings given to them in the Indenture.

Pursuant to a Loan Agreement, dated as of May 1, 2010 ("Agreement"), between the Issuer and Ohio Power Company (the "Company"), the Issuer will loan to the Company the proceeds of the Bonds to provide funds to refund all of the Issuer's \$79,450,000 State of Ohio Air Quality Revenue Bonds (Ohio Power Company Project), Series 2008A (the "Refunded Bonds"). The Refunded Bonds were issued by the Issuer and the proceeds thereof were loaned to the Company to assist the Company in financing a portion of the costs of acquiring, constructing and installing certain solid waste disposal facilities comprising "air quality facilities", as defined in the Act, for Unit 1 at the Cardinal Generating Station near Brilliant, Ohio located in Jefferson County, Ohio (the "Project"). The term "Plant" as used herein means the Cardinal Generating Station.

In order to evidence the loan from the Issuer (the "Loan") and to provide for its repayment, the Company will issue a nonnegotiable promissory note (the "Note") pursuant to the Agreement. Payments required under the Note will be sufficient, together with any other funds on deposit in the Bond Fund (hereinafter described) under the Indenture, to pay the principal of and premium, if any, and interest on the Bonds and to make or provide for payments to the Trustee equal to 100% of the principal amount of the Bonds plus accrued interest, if any, upon tender thereof ("Purchase Price"). The Bonds will not otherwise be secured by a mortgage on, or security interest in, any of the Project or any other property of the Company.

The Bonds will mature and become due and payable, together with any accrued and unpaid interest, on June 1, 2041. The Bonds will bear interest for a Long-Term Interest Rate Period at the rate of 3.25% per year, from the date of issuance until June 2, 2014. Interest on the

Bonds will be payable semi-annually in arrears on each June 1 and December 1 of each year, commencing on December 1, 2010, and on the date on which the Bonds are subject to mandatory tender for purchase. The Bonds are subject to mandatory tender for purchase on June 2, 2014.

The failure to pay the Purchase Price on the mandatory tender date is an event of default under the Indenture.

The Bonds are special obligations of the Issuer, and are to be paid solely from, and will be secured by a pledge of, payments to be made to the Issuer under the terms of the Agreement. See *THE BONDS – Security*.

Brief descriptions of the Issuer, the Project, the Bonds, the Agreement and the Indenture are included in this Official Statement. Information regarding the business, properties and financial condition of the Company is included or incorporated by reference in Appendix A attached hereto. The form of opinion that Bond Counsel proposes to deliver relating to the Bonds is set forth in Appendix B hereto. The descriptions herein of the Agreement and the Indenture are qualified in their entirety by reference to such documents, and the description herein of the Bonds is qualified in its entirety by reference to the form thereof and the information with respect thereto included in the aforesaid documents. All such descriptions are further qualified in their entirety by reference to laws and principles of equity relating to or affecting generally the enforcement of creditors' rights. Copies of such documents may be obtained from the Company.

## **THE ISSUER**

The Issuer was organized pursuant to Chapter 3706 of the Ohio Revised Code, as amended (the "Act"). Under the Act, the Issuer is a body corporate and politic, with full power and authority to issue the Bonds and to enter into and perform its obligations under the Agreement and the Indenture. The Issuer has no taxing power.

**THE BONDS ARE SPECIAL OBLIGATIONS OF THE STATE OF OHIO AND SHALL NOT REPRESENT OR CONSTITUTE A DEBT OR A PLEDGE OF THE FAITH AND CREDIT OR TAXING POWER OF THE ISSUER, THE STATE OF OHIO OR ANY POLITICAL SUBDIVISION OF OHIO, AND THE HOLDERS AND OWNERS THEREOF SHALL HAVE NO RIGHT TO HAVE TAXES LEVIED BY THE GENERAL ASSEMBLY OF OHIO OR THE TAXING AUTHORITY OF ANY POLITICAL SUBDIVISION OF OHIO FOR THE PAYMENT OF THE PRINCIPAL OF, INTEREST ON OR PURCHASE PRICE OF THE BONDS, BUT THE BONDS SHALL BE PAYABLE SOLELY FROM THE REVENUES AND FUNDS PLEDGED FOR THEIR PAYMENT AS AUTHORIZED BY THE ACT.**

## **THE PROJECT**

The Project consists of various systems which are designed for the disposal of solid wastes resulting from the operation of Unit 1 at the Plant. The solid waste disposal facilities, which comprise "air quality facilities" as defined in Section 3706.01 of the Act, are comprised of the portion of the flue gas desulfurization system ("FGD System") constructed with respect to

Unit 1 at the Plant, rated at 600 megawatts, that relates to the disposal of solid waste generated as part of the FGD System.

## USE OF PROCEEDS

The Issuer will cause the proceeds received upon the sale of the Bonds to be deposited in the Refunding Fund created under the Indenture to be used, together with any other funds supplied by the Company, and applied to the payment of all of the principal of and any accrued interest on the Refunded Bonds within 90 days of the issuance of the Bonds.

## THE BONDS

### General

The Bonds are being issued in fully registered form only in the aggregate amount set forth on the cover page hereof. The Bonds initially will be dated as of their date of issuance and will bear interest from such date. The Bonds will mature and become due and payable, together with any accrued and unpaid interest, on June 1, 2041. For the period beginning on the date of issuance to June 2, 2014, the Bonds will bear interest at a Long-Term Interest Rate of 3.25% per annum. Interest on the Bonds will be payable semi-annually in arrears on each June 1 and December 1 of each year, commencing on December 1, 2010, and on the date on which the Bonds are subject to mandatory tender for purchase. The Bonds are subject to mandatory tender for purchase on June 2, 2014.

The Bonds may subsequently be converted to bear interest at a Daily Rate, Two-Day Rate, Weekly Rate, Commercial Paper Rate, SIFMA-Based Term Rate, Auction Mode Rate or another Long-Term Interest Rate. THIS OFFICIAL STATEMENT DESCRIBES THE TERMS AND CONDITIONS OF THE BONDS, THE AGREEMENT AND THE INDENTURE ONLY WHILE IN A LONG-TERM INTEREST RATE WITHOUT A LETTER OF CREDIT.

Beneficial interests in the Bonds will initially be issued pursuant to a Book-Entry Only System ("Book-Entry Only System") maintained by The Depository Trust Company, New York, New York ("DTC"), as described below under the caption *Book-Entry Only System*. Under the Indenture, the Trustee and the Issuer may appoint a successor securities depository to DTC. (DTC, together with any such successor securities depository, is hereinafter referred to as the "Securities Depository"). The following information is subject in its entirety to the provisions described below under the caption *Book-Entry Only System* while the Bonds are in the Book-Entry Only System.

### Form and Denomination of Bonds; Payments on the Bonds

#### General

The Bonds will be issued only as fully registered bonds, without coupons, in denominations of \$5,000 or any integral multiple thereof (an "Authorized Denomination"). The Bonds will be registered in the name of Cede & Co., as registered owner and nominee of DTC.

DTC acts as securities depository for the Bonds and individual purchases of Bonds may be made in book-entry form only. So long as the Bonds are in book-entry only form, purchasers of Bonds will not receive certificates representing their interest in the Bonds purchased. So long as Cede & Co. is the registered owner of the Bonds, as nominee of DTC, references herein to the Bondholders or registered owners or holder shall mean Cede & Co., and shall not mean the Beneficial Owners (as defined below) of the Bonds.

So long as Cede & Co. is the registered owner of the Bonds, principal of, premium, if any, and interest on the Bonds are payable to Cede & Co., as nominee for DTC, which will, in turn, remit such amounts to the DTC Participants (as defined below) for subsequent disbursement to the Beneficial Owners. See – *Book-Entry Only System* below.

U.S. Bank National Association has been appointed as Trustee under the Indenture. The designated office of the Trustee is located, initially, in Columbus, Ohio. The Company and its affiliates maintain banking relationships with U.S. Bank National Association and its affiliates. U.S. Bank National Association and its affiliates serve as trustee under various indentures with, or for the benefit of, the Company and its affiliates.

The Trustee will not be required to make any transfer or exchange of any Bond during the ten days prior to the mailing of a notice of Bonds selected for redemption or, with respect to a Bond, after such Bond or any portion thereof has been selected for redemption. Registration of transfers and exchanges shall be made without charge to the Bondholders, except that any required taxes or other governmental charges shall be paid by the Bondholder requesting registration of transfer or exchange.

#### Interest

Each payment of interest shall include interest accrued through the day before such interest payment date. Interest on the Bonds will be computed on the basis of a 360-day year consisting of twelve 30-day months. All payments of interest on the Bonds will be paid to the registered owner thereof whose name appears in the bond register kept by the Trustee as of the close of business on the Record Date (as defined below). If any payment on the Bonds is due on a non-Business Day, it will be made on the next Business Day and no interest will accrue as a result.

“Business Day” means any day other than a Saturday or Sunday or other than a day on which commercial banks in New York, New York or the city in which the designated corporate trust office of the Trustee is located are required or authorized by law to close or other than a day on which the New York Stock Exchange is closed.

“Record Date” means the fifteenth day of the calendar month preceding the relevant interest payment date.

## Security

The Bonds will be special obligations of the Issuer, the principal of and premium, if any, and interest on which will be payable solely from, and secured by a pledge of, the Loan Payments to be made by the Company under the Agreement. In addition, the Company is obligated to pay the Purchase Price with respect to the Bonds. The pledge does not extend to funds to which the Trustee is entitled in its own right as fees, reimbursement, indemnity or otherwise. The Bonds will not be secured by a mortgage or security interest in the Project or any other property of the Company.

## Mandatory Tender

Principal and accrued interest will be payable upon mandatory tender of the Bonds on June 2, 2014. The Company is obligated to pay the Purchase Price of Bonds tendered to the extent that remarketing proceeds are not available to pay such purchase price. No other source of payment of such Purchase Price is being provided. The failure to pay the Purchase Price on the mandatory tender date is an event of default under the Indenture.

## Redemption

The Bonds are subject to redemption as described below:

Optional Redemption. Except as described under the caption *Extraordinary Optional Redemption*, the Bonds are not redeemable at the option of the Issuer or the Company prior to June 2, 2014.

Extraordinary Optional Redemption. The Bonds are subject to redemption in whole or in part on any date at a redemption price equal to the aggregate principal amount of the outstanding Bonds plus accrued interest thereon to the redemption date, without premium, upon receipt by the Trustee of a direction from the Company stating that any of the following events has occurred:

- (a) The Project or the Plant shall have been damaged or destroyed to such an extent that the Company deems it not practical or desirable to rebuild, repair or restore the Project or the Plant, as the case may be.
- (b) Title to, or the temporary use of, all or a significant part of the Project or the Plant shall have been taken under the exercise of the power of eminent domain so as to render the Project unsatisfactory to the Company for its intended purpose.
- (c) As a result of any changes in the Constitution of the State, the Constitution of the United States of America or any state or federal laws or as a result of legislative or administrative action (whether state or federal) or by final decree, judgment or order of any court or administrative body (whether state or federal) entered after any contest thereof by the Issuer or the Company in good faith, the Agreement shall have become void or unenforceable or impossible of performance in

accordance with the intent and purpose of the parties as expressed in the Agreement.

- (d) Unreasonable burdens or excessive liabilities shall have been imposed upon the Issuer or the Company with respect to the Project or the Plant or the operation thereof, including, without limitation, the imposition of federal, state or other ad valorem, property, income or other taxes not being imposed on the date of the Agreement.
- (e) Changes in the economic availability of raw materials, operating supplies, energy sources or supplies or facilities (including, but not limited to, facilities in connection with the disposal of industrial wastes) necessary for the operation of the Project or the Plant occur or technological or other changes occur which in the Company's reasonable judgment render the Project or the Plant uneconomic or obsolete.
- (f) Any court or administrative body shall enter a judgment, order or decree, or shall take administrative action, requiring the Company to cease all or any substantial part of its operations served by the Project or the Plant to such extent that the Company is or will be prevented from carrying on its normal operations at the Project or the Plant for a period of six consecutive months.
- (g) The termination by the Company of operations at the Plant.

Extraordinary Mandatory Redemption. The Bonds are subject to mandatory redemption at any time in whole, or in part if such partial redemption will preserve the exemption from federal income taxation of interest on the remaining outstanding Bonds, at a redemption price equal to the principal amount thereof together with unpaid interest accrued to the date fixed for redemption, and without premium, if (a) a final decree or judgment of any federal court, in which the Company participates to the extent it deems sufficient, or (b) a final action by the Internal Revenue Service, in proceedings in which the Company participates to the extent it deems sufficient, determines that the interest paid or payable on Bonds to a person, other than, as provided in Section 147(a) of the Code, a "substantial user" of the Project or a "related person", is or was includable in the gross income of the owner thereof for federal income tax purposes under the Code, as a result of the failure by the Company to observe or perform any covenant, condition or agreement on its part to be observed or performed under the Agreement or the inaccuracy of any representation by the Company under the Agreement or receipt by the Company of an Opinion of Tax Counsel to such effect obtained by the Company and rendered at the request of the Company; provided, however, that no decree or judgment by any court or action by the Internal Revenue Service shall be considered final unless the Bondholder or Beneficial Owner involved in such proceeding or action (i) gives the Company and the Trustee prompt written notice of the commencement thereof and (ii) if the Company agrees to pay all expenses in connection therewith and to indemnify such Bondholder or Beneficial Owner against all liabilities in connection therewith, offers the Company the opportunity to control the defense thereof. Any such redemption shall be made on a date determined by the Trustee not more than 180 days after the date of such final decree, judgment or action. The Trustee shall give the Issuer and the Company not less than 45 days written notice of such date.

**Notice of Redemption.** At least 30 days before each redemption, the Trustee will mail a notice of redemption by first-class mail to each Bondholder with Bonds to be redeemed at such holder's registered address. Failure to give any required notice of redemption as to any particular Bonds, or any defect therein, will not affect the validity of the call for redemption of any Bonds in respect of which no failure or defect occurs. Any notice mailed as provided in this paragraph shall be effective when sent and will be conclusively presumed to have been given whether or not actually received by the addressee.

The notice shall identify the Bonds to be redeemed and shall state (1) the redemption date (and, if the Bonds provide that accrued interest will not be paid on the redemption date, the date it will be paid), (2) the redemption price, (3) that the Bonds called for redemption must be surrendered to collect the redemption price, (4) the address at which the Bonds must be surrendered and (5) that interest on the Bonds called for redemption ceases to accrue on the redemption date.

With respect to an optional redemption of any Bonds, unless moneys sufficient to pay the principal of, premium, if any, and interest on the Bonds to be redeemed shall have been received by the Trustee prior to the giving of such notice of redemption, such notice may state that said redemption shall be conditional upon the receipt of such moneys by the Trustee on or prior to the date fixed for redemption. If such moneys are not received, such notice shall be of no force and effect, the Issuer shall not redeem such Bonds, the redemption price shall not be due and payable and the Trustee shall give notice, in the same manner in which the notice of redemption was given, that such moneys were not so received and that such Bonds will not be redeemed.

When notice is required and given, Bonds called for redemption become due and payable on the redemption date; in such case when funds are deposited with the Trustee sufficient for redemption, interest on the Bonds to be redeemed ceases to accrue as of the date of redemption.

### **Book-Entry Only System**

DTC, the world's largest depository, is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934, as amended ("1934 Act"). DTC holds and provides asset servicing for over 3.5 million issues of U.S. and non U.S. equity issues, corporate and municipal debt issues, and money market instruments from over 100 countries that DTC's participants ("Direct Participants") deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities, through electronic computerized book-entry transfers and pledges between Direct Participants' accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly owned subsidiary of The Depository Trust & Clearing Corporation ("DTCC"). DTCC is the holding company for DTC, National Securities Clearing Corporation and Fixed Income Clearing Corporation, all of which are registered clearing agencies. DTCC is owned by

the users of its regulated subsidiaries. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants", and together with Direct Participants, "Participants"). The DTC Rules applicable to DTC and its Participants are on file with the SEC. More information can be found at [www.dtcc.org](http://www.dtcc.org).

Purchases of Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the Bonds on DTC's records. The ownership interest of each actual purchaser of each Bond ("Beneficial Owner") is in turn to be recorded on the Direct and Indirect Participants' records. Beneficial Owners will not receive written confirmation from DTC of their purchase, but Beneficial Owners are expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the Bonds are to be accomplished by entries made on the books of Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in the Bonds, except in the event that use of the book-entry system for the Bonds is discontinued.

To facilitate subsequent transfers, all Bonds deposited by Direct Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co. or such other name as may be requested by an authorized representative of DTC. The deposit of Bonds with DTC and their registration in the name of Cede & Co. or such other DTC nominee effect no change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Bonds; DTC's records reflect only the identity of the Direct Participants to whose accounts the Bonds are credited, which may or may not be the Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers. So long as Cede & Co., as nominee for DTC, is the sole bondholder, the Trustee shall treat Cede & Co. as the only bondholder for all purposes under the Indenture, including receipt of all principal of, premium, if any, and interest on the Bonds, receipt of notices, voting and requesting or directing the Trustee to take or not to take, or consenting to, certain actions under the Indenture.

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time.

Redemption notices shall be sent to DTC. If less than all of the Bonds are being redeemed, DTC's current practice is to determine by lot the amount of the interest of each Direct Participant in such issue to be redeemed.

Neither DTC nor Cede & Co. nor any other DTC nominee will consent or vote with respect to the Bonds, unless authorized by a Direct Participant in accordance with DTC's procedures. Under its usual procedures, DTC mails an Omnibus Proxy to the Issuer as soon as possible after the applicable record date. The Omnibus Proxy assigns Cede & Co.'s consenting

or voting rights to those Direct Participants to whose accounts the Bonds are credited on such record date (identified in a listing attached to the Omnibus Proxy).

Redemption proceeds and principal and interest payments on the Bonds will be made to Cede & Co. or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detailed information from the Issuer or the Trustee, on the payable date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name", and will be the responsibility of such Participants and not of DTC, the Trustee or the Issuer, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of redemption proceeds and principal, premium, if any, and interest payments to Cede & Co. or such other nominee as may be requested by an authorized representative of DTC is the responsibility of the Issuer or the Trustee, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

DTC may discontinue providing its services as securities depository with respect to the Bonds at any time by giving reasonable notice to the Issuer or the Trustee. Under such circumstances, in the event that a successor securities depository is not obtained, certificated bonds will be required to be printed and delivered.

The Issuer may decide to discontinue use of the system of book-entry only transfers through DTC (or a successor securities depository). Upon receipt of a withdrawal request from an issuer, DTC will take the following actions: (1) DTC will issue an important notice notifying its Participants of the receipt of a withdrawal request from the issuer reminding Participants that they may utilize DTC's withdrawal procedures if they wish to withdraw their securities from DTC, and (2) DTC will process withdrawal requests submitted by Participants in the ordinary course of business, but will not effectuate withdrawals based upon a request from an issuer. In that event, security certificates will be printed and delivered to DTC.

In the event that the book-entry system is discontinued, the principal or redemption price of and interest on the Bonds will be payable in the manner described above, and the Bonds may be transferred or exchanged for one or more Bonds in different Authorized Denominations upon surrender thereof at the principal corporate trust office of the Trustee by the registered owners or their duly authorized attorneys or legal representatives. Upon surrender of any Bonds to be transferred or exchanged, the Trustee shall record the transfer or exchange in the registration books and shall authenticate and deliver the Bonds appropriately registered and in appropriate Authorized Denominations.

Under the Indenture, payments made by the Trustee to DTC or its nominee will satisfy the Issuer's obligations under the Indenture and the Company's obligations under the Agreement to the extent of the payments so made. Beneficial Owners will not be, and will not be considered by the Issuer or the Trustee to be, and will not have any rights as, owners of Bonds under the Indenture.

The information in this section concerning DTC and DTC's book-entry system has been obtained from sources that the Underwriters, the Company and the Trustee believe to be reliable, but the Underwriters, the Company and the Trustee take no responsibility for the accuracy thereof.

**None of the Issuer, the Underwriters, the Company, the Trustee or any agent for payment on or registration of transfer or exchange of any Bond will have any responsibility or obligation to Direct Participants, Indirect Participants or the persons for whom they act as nominees with respect to the accuracy of the records of DTC, its nominee or any Direct Participant with respect to any ownership interest in the Bonds, or payments to, or the providing of notice for, Direct Participants, Indirect Participants, or beneficial owners or other action taken by DTC, or its nominee, Cede & Co., as the sole owners of the Bonds.**

## **THE AGREEMENT**

*In addition to the description of certain provisions of the Agreement contained elsewhere herein, the following is a brief summary of certain provisions of the Agreement and does not purport to be comprehensive or definitive. All references herein to the Agreement are qualified in their entirety by reference to the Agreement for the detailed provisions thereof.*

### **Use of Bond Proceeds**

The Issuer will issue the Bonds and loan the proceeds of the sale thereof to the Company, which proceeds will be applied as described under *USE OF PROCEEDS* herein. The Company has caused the Project to be acquired, constructed, installed and improved substantially in accordance with the plans and specifications as provided in the Agreement.

### **Repayment of Loan**

In order to evidence the Loan and the Company's obligation to repay the same, the Company will issue the Note in the same principal amount as the Bonds and having the same stated maturity and interest rate or rates. Pursuant to the Note, the Company will pay to the Trustee, as assignee of the Issuer, amounts to fund payments on the Bonds in such amounts which, together with other moneys available therefor in the Bond Fund or the Purchase Fund created under the Indenture, will be sufficient to pay when due the principal of, premium, if any, and interest on and Purchase Price for the outstanding Bonds as they shall mature, be redeemed, be purchased or deemed purchased or otherwise become due as provided in the Indenture.

The payment obligations of the Company under the Note will be absolute and unconditional, and the Company will make such payments free of any deductions and without abatement, diminution or setoff. In the event that the Company fails to make any such payments, the payment so in default will continue as an obligation of the Company until the amount in default has been fully paid.

## **Other Payments Under The Agreement**

In addition to the payments under the Note, the Company agrees to pay certain costs and expenses of the Issuer and the Trustee in connection with the Bonds and to indemnify such parties against certain liabilities arising in connection with the sale of the Bonds and the execution and delivery of the related bond documents.

## **Pledge**

The Issuer will assign to the Trustee a security interest in all rights, title and interest in, to and under the Note and the Agreement and all amounts payable thereunder (except for certain payments under the Agreement in respect of indemnification and certain fees and expenses). The Company will assent to such assignment and will agree that, as to the Trustee, its obligation to make payments will be absolute and not subject to any defense or any right of set-off, counterclaim or recoupment arising out of any breach by the Issuer or the Trustee of any obligation to the Company.

## **Corporate Existence**

The Company will maintain its legal existence and will not sell its properties as an entirety or substantially as an entirety or consolidate with or merge into another entity or permit one or more other entities to consolidate with or merge into it, unless the successor corporation or transferee resulting from any such consolidation, merger, sale or transfer shall assume all obligations of the Company arising under or contemplated by the Agreement, the Note and the Indenture. No further consolidation, merger or sale or other transfer shall be made except in compliance with those provisions.

## **Environmental Compliance**

In the Agreement, the Company will represent that the Project has been constructed in compliance with all permits, variances and orders issued or granted by the Ohio Environmental Protection Agency with respect to the Project, including any permits to install for the Project, and any such permits, variances and orders have not been withdrawn or otherwise suspended. The Company will represent that it believes that it is in material compliance with all terms and provisions of all permits, variances and orders heretofore issued or granted by the Ohio Environmental Protection Agency with respect to the Plant and its other facilities within the State of Ohio, including any permits-to-install and permits-to-operate issued with respect thereto. Some generating units in which the Company has an ownership interest are the subject of litigation with respect to alleged violations of Clean Air Act requirements. See the Company's Annual Report on Form 10-K for the year ended December 31, 2009, and the Company's Quarterly Report on Form 10-Q for the quarter ended March 31, 2010, incorporated by reference in Appendix A to this Official Statement.

## Assignment

The Company may assign its interest in, or any rights and obligations under, the Agreement (a) to another entity provided that the Company, under the terms of any such assignment, shall remain and be primarily responsible and liable for all of its obligations under the Agreement and the Note, including particularly the making of all payments required thereunder, when due if the entity to which an interest in the Agreement is assigned fails to perform such obligations and (b) any assignment by the Company must retain for the Company such rights and interests as will permit it to perform its remaining obligations under the Agreement, and any assignee from the Company shall assume the obligations of the Company under the Agreement to the extent of the interest assigned.

## Events of Default and Remedies

The Agreement provides that the occurrence of one or more of the following events will constitute an "Event of Default:"

- (a) The failure to pay any Loan Payment, or pay any payment required to be made to pay the Purchase Price, when due;
- (b) The occurrence of an Event of Default described in paragraph (a), (b) or (c) under *THE INDENTURE—Events of Defaults and Remedies*;
- (c) Failure by the Company to observe and perform any other agreement, term or condition under the Agreement, other than such failure which will result in an event of default described in (a) or (b) above, which continues for a period of 90 days after notice to the Company by the Issuer or the Trustee or such longer period as the Issuer and the Trustee may agree to in writing; *provided* that the failure shall not constitute an Event of Default if the Company institutes curative action within the applicable period and diligently pursues that action to completion;
- (d) Any representation or warranty under the Agreement shall not have been true in all material respects when made; and
- (e) Certain events relating to bankruptcy, insolvency or reorganization of the Company.

A failure by the Company described in subparagraph (c) above is not a default under that subparagraph if it occurs by reason of certain courses, circumstances and events of force majeure specified in the Agreement that are not reasonably within the control of the Company.

Whenever any Event of Default under the Agreement has happened and is subsisting, the Issuer or the Trustee may take either or both of the following remedial steps:

- (a) Inspect, examine and make copies of the books, records, accounts and financial data of the Company, only, however, insofar as they pertain to the Project; and

- (b) Pursue all remedies to recover all amounts then due and thereafter to become due under the Agreement and the Note, or to enforce the performance and observance of any other obligation or agreement of the Company under those instruments.

Any amounts collected as Loan Payments or applicable to Loan Payments and any other amounts which would be applicable to payment of Bond Service Charges collected pursuant to action taken as provided above shall be paid into the Bond Fund and applied in accordance with the provisions of the Indenture or, if the outstanding Bonds have been paid and discharged in accordance with the provisions of the Indenture, shall be paid as provided in the Indenture for transfers of remaining amounts in the Bond Fund.

#### **Certain Covenants Regarding Arbitrage and Tax Exemption**

The Issuer and the Company have agreed not to knowingly take any action or omit to take any action, which would result in a loss of the exemption from federal income taxation of interest on the Bonds by virtue of the Bonds being considered "arbitrage bonds" within the meaning of Section 148 of the Code.

The Issuer and the Company have agreed that they will not take any action, cause any action to be taken, omit to take any action or cause any omission to occur which would cause the interest on the Bonds to become includable in gross income of the recipients thereof for purposes of federal income taxation.

#### **Amendments to the Agreement**

The Indenture provides that the Agreement may be amended without the consent of or notice to the owners of the Bonds only as may be required or permitted (i) by the provisions of the Agreement or the Indenture or for the purposes for which the Indenture may be amended or supplemented without the consent of the owners, (ii) for the purpose of curing any ambiguity or formal defect or omission in the Agreement or (iii) in connection with any other change therein which, in the judgment of the Trustee, is not to the prejudice of the Trustee or the owners of the Bonds. Any other amendments to the Agreement may be made only with the written approval or consent of the owners of not less than a majority in aggregate principal amount of the Bonds outstanding. An Opinion of Tax Counsel to the effect that such action is permitted under the Act and the Indenture and will not adversely affect the exclusion from gross income of interest on the Bonds for federal income tax purposes (a "Favorable Opinion of Tax Counsel") is required for any amendment to the Agreement.

#### **THE INDENTURE**

*In addition to the description of certain provisions of the Indenture contained elsewhere herein, the following is a brief summary of certain provisions of the Indenture and does not purport to be comprehensive or definitive. All references herein to the Indenture are qualified in their entirety by reference to the Indenture for the detailed provisions thereof.*

## **Pledge and Security**

To secure the payment of its Bonds, the Issuer assigns to the Trustee and grants to the Trustee a security interest in all right, title and interest of the Issuer in, to and under the Note and all payments made and to be made thereunder. As security for the satisfaction of any other obligation assumed by it in connection with the Bonds, the Issuer assigns to the Trustee and grants to the Trustee a security interest in all right, title and interest of the Issuer in, to and under the Agreement and all moneys receivable thereunder, but excluding the rights of the Issuer to indemnification and reimbursement of fees, expenses and expenses of collection.

Moneys held in the Bond Fund shall be used solely for the payment of the principal of, premium, if any, and interest on the Bonds on the dates due for the payment thereof. The Issuer has authorized and directed the Trustee to withdraw sufficient funds from the Bond Fund to pay the principal of, premium, if any, and interest on the Bonds as the same become due and payable, which authorization and direction the Trustee has accepted.

## **Refunding Fund**

The Indenture creates and establishes with the Trustee a separate fund designated the "State of Ohio Air Quality Development Authority - Ohio Power Company Project, Series 2010A Refunding Fund" (the "Refunding Fund"). The proceeds from the sale of the Bonds will be deposited in the Refunding Fund. Such proceeds deposited in the Refunding Fund shall be applied, together with any funds provided by the Company, to refund all of the Refunded Bonds within 90 days of the issuance of the Bonds. See *THE AGREEMENT -Use of Bond Proceeds* above.

## **Bond Fund**

Payments made by the Company under the Agreement with respect to the Bonds and certain other amounts specified in the Indenture will be deposited in the Bond Fund. The Trustee will apply money contained in the accounts described below maintained within the Bond Fund as follows:

- (a) **Interest Account.** The Trustee, on each Interest Payment Date, will withdraw and apply from moneys on deposit in the Interest Account an amount sufficient to pay interest on the outstanding Bonds on such Interest Payment Date.
- (b) **Principal Account.** The Trustee, on each Principal Payment Date, will withdraw and apply from moneys on deposit in the Principal Account, an amount equal to the principal becoming due on the Bonds on such Principal Payment Date (other than a redemption date). Money in such Principal Account will be used and withdrawn by the Trustee on each Principal Payment Date solely for the payment of the principal of outstanding Bonds.
- (c) **Redemption Account.** The Trustee, on or before each redemption date, will withdraw and apply from moneys on deposit in the Redemption Account amounts required to pay the principal of and premium, if any, and accrued interest on

Bonds to be redeemed prior to their stated maturity. Money in such Redemption Account will be used and withdrawn by the Trustee on each redemption date solely for the payment of the principal of and premium, if any, and accrued interest on outstanding Bonds upon the redemption thereof prior to their stated maturity.

### **Purchase Fund**

The Trustee will apply money contained in the accounts described below maintained within the Purchase Fund as follows:

*Remarketing Proceeds Account.* Upon receipt of the proceeds of a remarketing of Bonds on a purchase date, the Trustee will directly deposit such proceeds, and will deposit only such proceeds, in the Remarketing Proceeds Account for application to the Purchase Price of the Bonds. Neither the Issuer nor the Company will have any interest in the Remarketing Proceeds Account.

*Company Purchase Account.* Upon receipt of immediately available funds provided to the Trustee by the Company pursuant to the Indenture, the Trustee shall directly deposit such money, and shall deposit only such money, in the Company Purchase Account for application to the Purchase Price of the Bonds. Any amounts deposited in the Company Purchase Account and determined by the Trustee to be not needed with respect to any purchase date for the payment of the Purchase Price for any Bonds shall be promptly returned following such determination to the Company.

### **Events of Default and Remedies**

The following events are Events of Default under the Indenture:

- (a) Default in the due and punctual payment of interest on any Bond;
- (b) Default in the due and punctual payment of the principal of, or premium, if any, on any Bond, whether at the stated maturity thereof, or upon unconditional proceedings for redemption thereof;
- (c) Default in the due and punctual payment of the Purchase Price of any Bond required to be purchased in accordance with its terms;
- (d) Default in the performance or observance of any other of the covenants, agreements or conditions on the part of the Issuer in the Indenture or in the Bonds, continuing 30 days after delivery of notice thereof; or
- (e) The occurrence and continuance of an event of default under the Agreement as described under *THE AGREEMENT – Events of Default and Remedies*;

Upon the occurrence and continuance of an Event of Default under (a), (b) or (c) above the Trustee may, and upon the written request of the owners of at least 25% in aggregate

principal amount of the Bonds then outstanding shall, declare the principal of and accrued interest on the outstanding Bonds to be due and payable immediately. If an Event of Default under paragraph (d) or (e) above occurs and is continuing, the Trustee may, and upon the request of the owners of at least 25% in aggregate principal amount of the Bonds then outstanding, shall, declare the principal of and accrued interest on the outstanding Bonds to be due and payable immediately. Upon any such declaration, the principal of and accrued interest on the outstanding Bonds shall be due and payable immediately.

The Trustee may rescind an acceleration of the Bonds and its consequences if (1) all payment defaults with respect to the Bonds have been cured and all reasonable fees and charges of the Trustee, including reasonable attorneys' fees, have been paid, and (2) the Bondholders have not been notified of the acceleration. Except as provided above, the Trustee will not declare the Bonds to be due and payable.

If an Event of Default occurs and is continuing, the Trustee may pursue any available remedy by proceeding at law or in equity to collect the principal of and premium, if any, or interest on the Bonds or to enforce the performance of any provision of the Bonds or the Indenture.

A majority in aggregate principal amount of the outstanding Bonds by notice to the Trustee may waive an existing Event of Default and its consequences. When an Event of Default is waived, it is cured and stops continuing, but no such waiver will extend to any subsequent or other Event of Default or impair any right consequent to it.

The holders of a majority in aggregate principal amount of Bonds outstanding may direct the time, method and place of conducting any proceeding for any remedy available to the Trustee or of exercising any trust or power conferred on it.

An owner of a Bond may not pursue any remedy with respect to the Indenture or the Bonds unless (a) the owner gives the Trustee notice stating that an Event of Default is continuing, (b) the owners of at least 25% in aggregate principal amount of the outstanding Bonds make a written request to the Trustee to pursue the remedy, (c) such owner or owners offer to the Trustee indemnity satisfactory to the Trustee against any loss, liability or expense, and (d) the Trustee does not comply with the request within 60 days after receipt of the request and the offer of indemnity.

### **Supplemental Indentures**

The Issuer and the Trustee may, without the consent of, or notice to, any of the Bondholders, enter into such indenture or indentures supplemental to the Indenture as shall not be inconsistent with the terms and provisions thereof

- (a) to cure any ambiguity, defect or omission in the Indenture, or otherwise amend the Indenture, in such manner as shall not in the opinion of the Trustee impair the security under the Indenture;

- (b) to grant to or confer upon the Trustee for the benefit of the Bondholders any additional rights, remedies, powers or authorities that may lawfully be granted to or conferred upon the Bondholders or the Trustee;
- (c) to evidence any succession to the Issuer and the assumption by its successor of the covenants, agreements and obligations of the Issuer under the Indenture, the Agreement and the Bonds, to add additional covenants of the Issuer, or to surrender any right or power therein conferred upon the Issuer;
- (d) to subject to the pledge of the Indenture additional revenues, properties, or collateral, which may be accomplished by, among other things, entering into instruments with the Company and/or other persons providing for further security, covenants, limitations or restrictions for the benefit of the Bonds;
- (e) to modify the Indenture to permit qualification under the Trust Indenture Act of 1939, as amended, or any similar statute at the time in effect;
- (f) to amend any provision pertaining to matters under federal income tax laws, including Section 148(f) of the Code;
- (g) to authorize different authorized denominations of the Bonds and to make correlative amendments and modifications to the Indenture regarding exchangeability of Bonds of different authorized denominations, redemptions of portions of Bonds of particular authorized denominations and similar amendments and modifications of a technical nature;
- (h) to increase or decrease the number of days specified for the giving of notices of mandatory tender and to make corresponding changes to the period for notice of redemption of the Bonds; *provided*, that no decreases in any such number of days will become effective except while the Bonds bear interest at a Daily Rate, a Two-Day Rate or a Weekly Rate and until 30 days after the Trustee has given notice to the owners of the Bonds;
- (i) to provide for an uncertificated system of registering the Bonds or to provide for the change to or from a Book-Entry System for the Bonds;
- (j) to evidence the succession of a new trustee or the appointment by the Trustee or the Issuer of a co-trustee;
- (k) to make any change related to the Bonds that does not materially adversely affect the rights of any Bondholder;
- (l) prior to, or concurrently with, the conversion of the Bonds to an Auction Rate Period, to make any change appropriate or necessary with respect to the procedures, definitions or provisions in the Indenture or in Exhibit B attached to the Indenture related to the Auction Mode Rate in order to provide for or facilitate the marketability of Bonds in the Auction Mode Rate; and

- (m) to make any other changes to the Indenture that take effect as to any or all remarketed Bonds following a mandatory tender.

The Indenture also provides that the owners of not less than a majority in aggregate principal amount of the Bonds outstanding shall have the right, from time to time, to consent to and approve the execution by the Issuer and the Trustee of such other indenture or supplemental indentures as shall be deemed necessary and desirable by the Issuer and the Trustee for the purpose of modifying, altering, amending, adding to or rescinding, in any particular, any of the terms or provisions contained in the Indenture or in any supplemental indenture; *provided, however*, that nothing shall permit, without certain additional consents, (a) an extension of the maturity date of the principal of or the interest on any Bond; (b) a reduction in the principal amount of any Bond, the rate of interest thereon or any redemption premium; or (c) a reduction in the aggregate principal amount of the Bonds required for consent to such supplemental indenture or for actions related to amendments to the Agreement. A Favorable Opinion of Tax Counsel is required for any supplement to the Indenture.

#### **Discharge of the Indenture**

If the whole amount of principal and interest due and payable on the Bonds has been paid, or provision shall have been made for payment of the same, and if, at the time of such payment, the Issuer shall have kept, performed and observed all the covenants and promises in such Bonds and in the Indenture required or contemplated to be kept, performed and observed by the Issuer or on its part on or prior to that time, then the Indenture shall be considered to have been discharged in respect of such Bonds and such Bonds shall cease to be entitled to the lien of the Indenture and such lien and all covenants, agreements and other obligations of the Issuer thereunder shall cease, terminate, become void and be completely discharged as to such Bonds.

#### **No Personal Liability of Issuer's Officials**

No covenant, stipulation, obligation or agreement of the Issuer contained in the Indenture will be or be deemed to be a covenant, stipulation, obligation or agreement of any present or future member, officer, agent or employee of the Issuer in other than his or her official capacity. No member of the Issuer or official executing the Bonds, the Indenture, the Agreement or any amendment or supplement to the Indenture or the Agreement will be liable personally on the Bonds or be subject to any personal liability or accountability by reason of the issuance or execution thereof.

#### **Removal of Trustee**

The Trustee may be removed by the owners of not less than a majority in principal amount of Bonds at the time outstanding or by the Issuer and the Company so long as no Event of Default has occurred and is continuing. The Trustee shall continue to serve as such until a successor Trustee shall be appointed under the Indenture and has accepted such appointment.

## **UNDERWRITING**

Subject to the terms and conditions set forth in a Bond Purchase Agreement to be entered into between the Issuer and the Underwriters, the Underwriters have agreed to purchase the Bonds at a purchase price of 100% of the principal amount thereof. Under the terms and conditions of the Bond Purchase Agreement, the Underwriters are committed to take and pay for all of the Bonds if any are taken. The Company has agreed to pay the Underwriters \$397,250 as compensation and to reimburse the Underwriters for their reasonable expenses.

The Issuer has been advised by the Underwriters that the Bonds may be offered and sold to certain dealers (including dealers depositing Bonds into investment trusts) and others at prices lower than the public offering price set forth on the cover page of this Official Statement. After the Bonds are released for sale to the public, the public offering price and other selling terms may from time to time be varied by the Underwriters.

In connection with this offering and in compliance with applicable law and industry practice, the Underwriters may overallocate or effect transactions which stabilize, maintain or otherwise affect the market price of the Bonds at levels above those which might otherwise prevail in the open market, including by entering stabilizing bids. A stabilizing bid means the placing of a bid, or the effecting of any purchase, for the purpose of pegging, fixing or maintaining the price of a security. In general, purchases of a security for the purpose of stabilization could cause the price of the security to be higher than it might be in the absence of such purchases.

Neither the Issuer, the Company nor the Underwriters make any representation or prediction as to the direction or magnitude of any effect that the transactions described above may have on the price of the Bonds. In addition, neither the Issuer, the Company nor the Underwriters make any representation that the Underwriters will engage in such transactions or that such transactions, once commenced, will not be discontinued without notice.

Pursuant to an Inducement Letter, the Company has agreed to indemnify the Underwriters and the Issuer against certain civil liabilities, including liabilities under the federal securities laws, or contribute to payments that the Underwriters or the Issuer may be required to make in respect thereof.

The Underwriters and/or certain of their affiliates may engage in transactions with, and from time to time have performed services for, the Company in the ordinary course of business.

## **CONTINUING DISCLOSURE AGREEMENT**

The Company will agree to deliver certain continuing disclosure information satisfying the requirements of Rule 15c2-12 ("Rule") under the 1934 Act. Any holder of an outstanding Bond, directly or through the Trustee, may specifically enforce the Company's disclosure obligations, but any breach by the Company of this undertaking pursuant to the Rule will not constitute an Event of Default under the Agreement or the Indenture.

## TAX EXEMPTION

In the opinion of Squire, Sanders & Dempsey L.L.P., Bond Counsel, under existing law: (i) interest on the Bonds is excluded from gross income for federal income tax purposes under Section 103(a) of the Code, except for interest on any Bond for any period during which it is held by a "substantial user" or a "related person" as those terms are used in Section 147(a) of the Code; (ii) interest on the Bonds is not an item of tax preference under Section 57 of the Code for purposes of the federal alternative minimum tax imposed on individuals and corporations; and (iii) interest on, and any profit made on the sale, exchange or other disposition of, the Bonds are exempt from the Ohio personal income tax, the Ohio commercial activity tax, the net income base of the Ohio corporate franchise tax, and municipal, school district and joint economic development district income taxes in Ohio. Bond Counsel will express no opinion as to any other tax consequences regarding the Bonds.

The opinion on tax matters will be based on and will assume the accuracy of certain representations and certifications, and continuing compliance with certain covenants, of the Issuer and the Company contained in the transcript of proceedings and that are intended to evidence and assure the foregoing, including that the Bonds are and will remain obligations the interest on which is excluded from gross income for federal income tax purposes. Bond Counsel will not independently verify the accuracy of the Issuer's and the Company's certifications and representations or the continuing compliance with the Issuer's and the Company's covenants.

The opinion of Bond Counsel is based on current legal authority and covers certain matters not directly addressed by such authority. It represents Bond Counsel's legal judgment as to exclusion of interest on the Bonds from gross income for federal income tax purposes but is not a guaranty of that conclusion. The opinion is not binding on the Internal Revenue Service ("IRS") or any court. Bond Counsel expresses no opinion about (i) the effect of future changes in the Code and the applicable regulations under the Code or (ii) the interpretation and the enforcement of the Code or those regulations by the IRS.

The Code prescribes a number of qualifications and conditions for the interest on state and local government obligations to be and to remain excluded from gross income for federal income tax purposes, some of which require future or continued compliance after issuance of the obligations. Noncompliance with these requirements by the Issuer or the Company may cause loss of such status and result in the interest on the Bonds being included in gross income for federal income tax purposes retroactively to the date of issuance of the Bonds. The Company and the Issuer have each covenanted to take the actions required of it for the interest on the Bonds to be and to remain excluded from gross income for federal income tax purposes, and not to take any actions that would adversely affect that exclusion. After the date of issuance of the Bonds, Bond Counsel will not undertake to determine (or to so inform any person) whether any actions taken or not taken, or any events occurring or not occurring, or any other matters coming to Bond Counsel's attention, may adversely affect the exclusion from gross income for federal income tax purposes of interest on the Bonds or the market value of the Bonds.

Although a portion of the interest on certain tax-exempt obligations earned by certain corporations may be included in the calculation of adjusted current earnings for purposes of the

federal corporate alternative minimum tax, interest on certain tax-exempt obligations issued in 2009 and 2010, including the Bonds, is excluded from that calculation. Interest on the Bonds may be subject to a federal branch profits tax imposed on certain foreign corporations doing business in the United States and to a federal tax imposed on excess net passive income of certain S corporations.

Under the Code, the exclusion of interest from gross income for federal income tax purposes may have certain adverse federal income tax consequences on items of income, deduction or credit for certain taxpayers, including financial institutions, certain insurance companies, recipients of Social Security and Railroad Retirement benefits, those that are deemed to incur or continue indebtedness to acquire or carry tax-exempt obligations, and individuals otherwise eligible for the earned income tax credit. The applicability and extent of these and other tax consequences will depend upon the particular tax status or other tax items of the owner of the Bonds. Bond Counsel will express no opinion regarding those consequences.

Payments of interest on tax-exempt obligations, including the Bonds, are generally subject to IRS Form 1099-INT information reporting requirements. If a Bond owner is subject to backup withholding under those requirements, then payments of interest will also be subject to backup withholding. Those requirements do not affect the excludability of such interest from gross income for federal income tax purposes.

Legislation affecting tax-exempt obligations is regularly considered by the United States Congress, and may also be considered by the Ohio legislature. Court proceedings may also be filed the outcome of which could modify the tax treatment of obligations such as the Bonds. There can be no assurance that legislation enacted or proposed, or actions by a court, after the date of issuance of the Bonds will not have an adverse effect on the tax status of interest or other income on the Bonds or the market value of the Bonds.

Prospective purchasers of the Bonds should consult their own tax advisers regarding pending or proposed federal and Ohio tax legislation and court proceedings, and prospective purchasers of the Bonds at other than their original issuance at the price indicated on the cover of this Official Statement should also consult their own tax advisers regarding other tax considerations such as the consequences of market discount, as to all of which Bond Counsel expresses no opinion.

Bond Counsel's engagement with respect to the Bonds ends with the issuance of the Bonds, and, unless separately engaged, Bond Counsel is not obligated to defend the Issuer, the Company or the beneficial owners regarding the tax status of interest on the Bonds in the event of an audit examination by the IRS. The IRS has a program to audit tax-exempt obligations to determine whether the interest thereon is includible in gross income for federal income tax purposes. If the IRS does audit the Bonds, under current IRS procedures, the IRS will treat the Issuer as the taxpayer and the beneficial owners of the Bonds will have only limited rights, if any, to obtain and participate in judicial review of such audit. Any action of the IRS, including but not limited to selection of the Bonds for audit, or the course or result of such audit, or an audit of other obligations presenting similar tax issues, may affect the market value for the Bonds.

## LEGAL MATTERS

Certain legal matters relating to the authorization and validity of the Bonds will be subject to the approving opinion of Squire, Sanders & Dempsey L.L.P., Cleveland, Ohio, Bond Counsel, which will be furnished at the expense of the Company upon delivery of the Bonds, in substantially the form set forth as Appendix B (the "Bond Opinion"). The Bond Opinion will be limited to matters relating to authorization and validity of the Bonds and to the tax-exempt status of interest thereon as described in the section *TAX EXEMPTION*. Bond Counsel has not been engaged to investigate the financial resources of the Company or its ability to provide for payment of the Bonds, and the Bond Opinion will make no statement as to such matters or as to the accuracy or completeness of this Official Statement or any other information that may have been relied on by anyone in making the decision to purchase Bonds.

Certain legal matters will be passed upon by Thomas G. Berkemeyer, counsel for the Company. Thomas G. Berkemeyer is Associate General Counsel of American Electric Power Service Corporation, an affiliate of the Company. Certain legal matters, other than the validity of the Bonds and the exclusion from gross income of interest thereon, will be passed upon by Dewey & LeBoeuf LLP, New York, New York, counsel for the Underwriters. Certain legal matters will be passed on for the Issuer by its counsel, Forbes, Fields & Associates Co., L.P.A. Squire, Sanders & Dempsey L.L.P. and Dewey & LeBoeuf LLP each act as counsel to certain affiliates of the Company for some matters.

The various legal opinions to be delivered concurrently with the delivery of the Bonds express the professional judgment of the attorneys rendering the opinions as to the legal issues explicitly addressed therein. In rendering a legal opinion, the attorney does not become an insurer or guarantor of the expression of professional judgment, of the transaction opined upon, or of the future performance of the parties to the transaction, nor does the rendering of an opinion guarantee the outcome of any legal dispute that may arise out of the transaction.

## MISCELLANEOUS

The attached Appendices (including documents incorporated by references therein) are an integral part of the Official Statement and must be read together with all of the balance of this Official Statement.

The Issuer does not assume any responsibility for the matters contained in this Official Statement other than information under *THE ISSUER*. All findings and determinations by the Issuer relating to the issuance and sale of the Bonds are, and have been, made by the Issuer for its own internal uses and purposes in performing its duties under Ohio law.

## APPENDIX A

### OHIO POWER COMPANY

The Company is a public utility engaged in generating, purchasing, transmitting, distributing and selling electricity in Ohio. Its principal executive office is 1 Riverside Plaza, Columbus, Ohio 43215 and the telephone number is (614) 716-1000. The Company is a subsidiary of American Electric Power Company, Inc. (AEP) and is a part of the AEP integrated utility system.

### AVAILABLE INFORMATION

The Company is subject to the informational requirements of the Securities Exchange Act of 1934 (1934 Act) and in accordance therewith files reports and other information with the Securities and Exchange Commission (SEC). Such reports and other information may be inspected and copied at the public reference room maintained by the SEC at 100 F Street, N.E., Washington, D.C. 20549. Copies of such material can be obtained from the Public Reference Section of the SEC, Washington, D.C. 20549 at prescribed rates. The SEC may be contacted at 1-800-SEC-0330 for information on the public reference room. The SEC maintains a web site at <http://www.sec.gov> containing reports, proxy and information statements and other information regarding registrants that file electronically with the SEC, including the Company. Certain of the Company's securities are listed on the New York Stock Exchange, Inc., where reports, information statements and other information concerning the Company may also be inspected.

### DOCUMENTS INCORPORATED BY REFERENCE

The following documents filed with the SEC by the Company pursuant to the 1934 Act are incorporated by reference in this Appendix A and made a part of this Official Statement:

- The Company's Annual Report on Form 10-K for the year ended December 31, 2009, and
- The Company's Quarterly Report on Form 10-Q for the quarter ended March 31, 2010.

All documents subsequently filed by the Company with the SEC pursuant to Sections 13(a), 13(c), 14 or 15(d) of the 1934 Act subsequent to the date of this Official Statement and prior to the termination of the offering of the securities offered by this Official Statement are to be incorporated by reference in this Appendix A and to be a part of this Official Statement from the date such documents are filed.

Any statement contained in a document so incorporated or deemed to be incorporated shall be deemed to be modified or superseded for purposes of this Official Statement to the extent that a statement contained herein or in any other subsequently filed document which is deemed to be so incorporated modifies or supersedes such statement. Any such statement so modified or superseded shall not be deemed, except as so modified or superseded, to constitute a part of this Appendix A.

The Company will provide without charge to each person to whom a copy of this Official Statement has been delivered, on the written or oral request of any such person, a copy of any or all of the documents described above which have been incorporated by reference in this Appendix A, other than exhibits to such documents. Written requests for copies of such documents should be addressed to Financial Reporting, American Electric Power Service Corporation, 1 Riverside Plaza, Columbus, Ohio 43215 (telephone number: 614-716-1000). The information relating to the Company contained in this Appendix A does not purport to be comprehensive and should be read together with the information contained in the documents incorporated by reference.

### RISK FACTORS

Investing in the Bonds involves risk. Please see the risk factors described in the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2009, and the Company's Quarterly Report on Form 10-Q for the quarter ended March 31, 2010, which are incorporated by reference in this Official Statement. Before making an investment decision, you should carefully consider these risks as well as other information contained or incorporated by reference in this Official Statement. The risks and uncertainties described are those presently known to the Company. Additional risks and uncertainties not presently known to the Company or that the Company currently deems immaterial may also impair the Company's business operations, the Company's financial results and the value of the Bonds.

### RATIO OF EARNINGS TO FIXED CHARGES

The Ratio of Earnings to Fixed Charges for each of the periods indicated is as follows:

<u>Twelve Months Period Ended</u>	<u>Ratio</u>
December 31, 2005	4.08
December 31, 2006	3.39
December 31, 2007	3.45
December 31, 2008	2.65
December 31, 2009	3.72
March 31, 2010	4.03

The Ratio of Earnings to Fixed Charges for the three month period ended March 31, 2010 was 4.38. For the purposes of calculating the Ratio of Earnings to Fixed Charges, "earnings" represents income before income taxes, extraordinary items, and cumulative effect of accounting changes, plus fixed charges. "Fixed charges" consist of interest expense, amortization of debt issuance costs, and the portion of operating rental expense which management believes is representative of the interest within rental expense.

For current information on the Ratio of Earnings to Fixed Charges, please see the Company's most recent Form 10-K and 10-Q. See *Available Information*.

## **INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

The consolidated financial statements incorporated by reference in this Offering Statement from the Ohio Power Company Annual Report on Form 10-K for the year ended December 31, 2009 have been audited by Deloitte & Touche LLP, an independent registered public accounting firm, as stated in their report incorporated by reference herein (which report expresses an unqualified opinion and includes an explanatory paragraph relating to the adoption of a new accounting pronouncement).

**(This Page Intentionally Left Blank)**

**APPENDIX B**

**PROPOSED FORM OF OPINION OF BOND COUNSEL**

We have examined the transcript of proceedings (the "Transcript") relating to the issuance by the Ohio Air Quality Development Authority (the "Issuer") of \$79,450,000 principal amount of State of Ohio Air Quality Revenue Refunding Bonds (Ohio Power Company Project), Series 2010A (the "Bonds"). The Bonds are being issued for the purpose of making a loan to assist Ohio Power Company (the "Company") in the refunding of \$79,450,000 State of Ohio Air Quality Revenue Bonds (Ohio Power Company Project), Series 2008A, previously issued to assist the Company in financing of a portion of the costs of acquiring, constructing and installing certain solid waste disposal facilities comprising "air quality facilities" as defined in Section 3706.01 of the Ohio Revised Code, as more particularly described in the Indenture of Trust dated as of May 1, 2010 (the "Indenture") between the Issuer and U.S. Bank National Association, as trustee (the "Trustee"), and in the Loan Agreement dated as of May 1, 2010 (the "Agreement") between the Issuer and the Company. We have also examined executed counterparts of the Indenture and the Agreement and a conformed copy of an executed Bond.

Based on such examination, we are of the opinion that, under the law existing on the date of this opinion:

1. The Bonds, the Indenture and the Agreement are legal, valid, binding and enforceable in accordance with their respective terms, except that the binding effect and enforceability thereof are subject to bankruptcy laws and other laws affecting creditors' rights and to the exercise of judicial discretion.

2. The Bonds constitute special obligations of the State of Ohio, and the principal of and interest on the Bonds and the purchase price of the Bonds (collectively, "debt charges") are payable solely from the revenues and other moneys assigned by the Indenture to secure those payments. Those revenues and other moneys include the payments required to be made by the Company under its promissory note (the "Note") delivered to the Issuer, and irrevocably assigned by the Issuer to the Trustee, all pursuant to the Agreement. The Bonds do not constitute a debt or pledge of the faith and credit of the Issuer or the State of Ohio or any political subdivision thereof, and the holders or owners thereof have no right to have taxes levied by the General Assembly of the State of Ohio or any political subdivision of the State of Ohio for the payment of debt charges.

3. The interest on the Bonds is excluded from gross income for federal income tax purposes under Section 103(a) of the Internal Revenue Code of 1986, as amended (the "Code"), except interest on any Bond for any period during which it is held by a "substantial user" or a "related person" as those terms are used in Section 147(a) of the Code. Interest on the Bonds is not an item of tax preference under Section 57 of the Code for purposes of the alternative minimum tax imposed on individuals and corporations. The interest on the Bonds, and any profit made on their sale, exchange or other disposition, are exempt from the Ohio personal income tax, the Ohio commercial activity tax, the net income base of the Ohio corporate franchise tax, and municipal, school district and joint economic development district income taxes in Ohio. We express no opinion as to any other tax consequences regarding the Bonds.

Under the Code, interest on the Bonds is excluded from the calculation of a corporation's adjusted current earnings for purposes of the corporate alternative minimum tax, but interest on the Bonds may be subject to a branch profits tax imposed on certain foreign corporations doing business in the United States and to a tax imposed on excess net passive income of certain S corporations.

In giving the foregoing opinion, we have assumed and relied upon compliance with the covenants of the Issuer and the Company and the accuracy, which we have not independently verified, of the representations and certifications of the Issuer and of the Company contained in the Transcript. The accuracy of certain of those representations and certifications, and compliance by the Issuer and the Company with certain of those covenants, may be necessary for the interest on the Bonds to be and to remain excluded from gross income for federal income tax purposes. Failure to comply with certain requirements with respect to the Bonds subsequent to the issuance of the Bonds could cause the interest on the Bonds to be included in gross income for federal income tax purposes retroactively to their date of issuance. We have also assumed for purposes of this opinion (i) the due authorization, execution and delivery by, and the binding effect upon and enforceability against, the Trustee of the Indenture and (ii) the due authorization, execution and delivery by, and the binding effect upon and enforceability against, the Company of the Agreement and the Note.

Respectfully submitted,





**TWO NEW ISSUES - BOOK ENTRY**

In the opinion of Bond Counsel, under existing law and subject to the conditions described under the caption *TAX MATTERS* herein, interest on the Bonds (a) will not be included in gross income for federal income tax purposes, except when held by a "substantial user" of the Project or a "related person" within the meaning of Section 103(b)(13) of the Internal Revenue Code of 1954, as amended, and (b) will not be an item of tax preference for purposes of the federal alternative minimum income tax imposed on individuals, corporations and other taxpayers, provided, however, that with respect to corporations (as defined for federal income tax purposes) subject to the alternative minimum income tax, interest on the Series 2009 B Bonds (defined herein) is taken into account in determining adjusted current earnings for purposes of computing such tax. Bond Counsel expresses no opinion as to whether interest on the Series 2009 A Bonds (defined herein) is to be taken into account in determining adjusted current earnings for the purposes of computing the alternative minimum income tax imposed upon certain corporations. In the opinion of Bond Counsel, such interest will be exempt from all taxation by the State of Indiana, except the State inheritance tax and the State financial institutions tax. A holder may be subject to other federal tax consequences as described under the caption *TAX MATTERS* herein.

**\$50,000,000**

**City of Rockport, Indiana  
Pollution Control Revenue Refunding Bonds  
(Indiana Michigan Power Company Project),  
Series 2009 A (Non-AMT)**

Interest to accrue from date of issuance

Due: June 1, 2025

**\$50,000,000**

**City of Rockport, Indiana  
Pollution Control Revenue Refunding Bonds  
(Indiana Michigan Power Company Project),  
Series 2009 B (Non-AMT)**

Interest to accrue from date of issuance

Due: June 1, 2025

Each series of bonds (the "Bonds") are limited obligations of the City of Rockport, Indiana (the "Issuer" or the "City"), or any political subdivision thereof. The Bonds are limited obligations of the City of Rockport, Indiana, and do not constitute a debt, or a pledge of the faith and credit, of the City or the State of Indiana or any political subdivision thereof, and the holders of the Bonds have no right to have taxes levied by the State of Indiana or any political subdivision of the State of Indiana, including the Issuer, for the payment of the principal or purchase price of or interest on the Bonds. The Bonds are payable solely from, and secured by a pledge of, payments to be made to the Issuer under the terms of, for each series, an Agreement of Sale between the City and

**INDIANA MICHIGAN POWER COMPANY**

The Series 2009 A Bonds will bear interest at the rate of 6.25% per annum beginning on the date of original issuance until June 2, 2014, the date on which they are subject to mandatory tender for purchase. The Series 2009 B Bonds will bear interest at the rate of 6.25% per annum beginning on the date of original issuance until June 2, 2014, the date on which they are subject to mandatory tender for purchase. Interest on the Bonds will be payable semi-annually in arrears on each June 1 and December 1 of each year, commencing on June 1, 2009, and on the date on which the Bonds are subject to mandatory tender for purchase. Prior to June 2, 2014, the Bonds will not be subject to optional redemption but will be subject to extraordinary optional redemption as described under *THE BONDS - Redemption*.

The Bonds will be issued as fully registered bonds and will be registered initially in the name of Cede & Co., as registered owner and nominee for The Depository Trust Company, New York, New York ("DTC"). DTC acts as a securities depository for the Bonds. The Bonds will be issued in denominations of \$5,000 and integral multiples thereof. Except under the limited circumstances described herein, Beneficial Owners of book-entry interests in the Bonds will not receive certificates representing their interests. Payments of principal or purchase price of and premium, if any, and interest on the Bonds will be made through DTC and disbursements of such payments to Beneficial Owners will be the responsibility of DTC and its Participants (see *THE BONDS - Book-Entry Only System* herein). Barclays Capital Inc. ("Barclays") will act as underwriter for the Series 2009 A Bonds. Wachovia Bank, National Association ("Wachovia") and, together with Barclays, the "Underwriters") will act as underwriter for the Series 2009 B Bonds. Wells Fargo Bank, N.A. will act as Trustee and as Paying Agent for the Bonds.

**PRICE: 100%**

This cover page contains limited information for quick reference only and is not a summary of this Official Statement. Investors should read the entire Official Statement to obtain information essential to the making of an informed investment decision.

The Bonds are offered, subject to prior sale, when, as and if issued and received by the Underwriters, subject to the approval of their validity by Baker & Daniels LLP, Indianapolis, Indiana, Bond Counsel, as described herein, and certain other conditions. Certain legal matters, other than the validity of the Bonds and the exclusion from gross income for federal income tax purposes of interest thereon, will be passed on for the Underwriters by their counsel, Dewey & LeBoeuf LLP, New York, New York, and for Indiana Michigan Power Company (the "Company") by its internal counsel. Delivery of the Bonds in book-entry-only form is expected on or about March 26, 2009, through the facilities of DTC in New York, New York, against payment therefor.

**BARCLAYS CAPITAL  
(SERIES 2009A)**

**Wachovia Securities  
(Series 2009B)**

Dated: March 18, 2009

The information contained in this Official Statement (the "Official Statement") has been obtained from the City, the Company, DTC and other sources which are deemed reliable. No representation or warranty is made, however, as to the accuracy or completeness of such information, and nothing contained in this Official Statement is, or shall be relied on as, a promise or representation by the City or the Underwriters.

The Underwriters have provided the following sentence for inclusion in this Official Statement. The Underwriters have reviewed the information in this Official Statement in accordance with, and as part of, their responsibilities to investors under the federal securities laws as applied to the facts and circumstances of this transaction, but they do not guarantee the accuracy or completeness of such information.

This Official Statement is submitted in connection with the sale of the securities referenced herein, and may not be reproduced or be used, in whole or in part, for any other purposes. The delivery of this Official Statement at any time does not imply that the information herein is correct as of any time subsequent to its date.

No dealer, salesperson or any other person has been authorized by the Company, the City or the Underwriters to give any information or to make any representations other than as contained in this Official Statement in connection with the offering described herein and, if given or made, such other information or representation must not be relied upon as having been authorized by any of the foregoing. This Official Statement does not constitute an offer of any securities, other than those described on the cover page, or an offer to sell or a solicitation of an offer to buy in any jurisdiction in which it is unlawful to make such offer, solicitation or sale.

Although the City has consented to the use of this Official Statement in connection with the marketing of the Bonds, the City has not participated in the preparation of this Official Statement and, except for the information appearing herein under the caption *THE CITY OF ROCKPORT* makes no representation as to its adequacy or accuracy.

CERTAIN PERSONS PARTICIPATING IN THIS OFFERING MAY ENGAGE IN TRANSACTIONS THAT STABILIZE, MAINTAIN OR OTHERWISE AFFECT THE PRICE OF THE BONDS, INCLUDING ENTERING STABILIZING BIDS. FOR A DESCRIPTION OF THESE ACTIVITIES, SEE *UNDERWRITING* BELOW.

IN MAKING AN INVESTMENT DECISION, INVESTORS MUST RELY ON THEIR OWN EXAMINATION OF THE ISSUE AND THE TERMS OF THE OFFERING, INCLUDING THE MERITS AND RISKS INVOLVED. THESE SECURITIES HAVE NOT BEEN RECOMMENDED BY ANY FEDERAL OR STATE SECURITIES COMMISSION OR REGULATORY AUTHORITY. FURTHERMORE, THE FOREGOING AUTHORITIES HAVE NOT CONFIRMED THE ACCURACY OR DETERMINED THE ADEQUACY OF THIS DOCUMENT. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE.

**TABLE OF CONTENTS**

INTRODUCTION ..... 1  
THE CITY OF ROCKPORT ..... 2  
THE PROJECT ..... 2  
USE OF PROCEEDS ..... 3  
THE BONDS ..... 3  
SECURITY FOR THE BONDS ..... 7  
THE AGREEMENT ..... 8  
THE SUPPLEMENTAL INDENTURES ..... 10  
THE INDENTURE ..... 11  
UNDERWRITING ..... 15  
TAX MATTERS ..... 16  
SECONDARY MARKET INFORMATION ..... 17  
LEGALITY ..... 17  
MISCELLANEOUS ..... 17  
APPENDIX A - INDIANA MICHIGAN POWER COMPANY ..... A-1  
APPENDIX B - PROPOSED FORM OF OPINION OF BOND COUNSEL ..... B-1

## OFFICIAL STATEMENT

**\$50,000,000**  
**City of Rockport, Indiana**  
**Pollution Control Revenue Refunding Bonds**  
**(Indiana Michigan Power Company Project)**  
**Series 2009 A**

**\$50,000,000**  
**City of Rockport, Indiana**  
**Pollution Control Revenue Refunding Bonds**  
**(Indiana Michigan Power Company Project)**  
**Series 2009 B**

## INTRODUCTION

This Official Statement of the City of Rockport, Indiana (the "City" or the "Issuer") sets forth certain information with respect to its \$50,000,000 Pollution Control Revenue Refunding Bonds (Indiana Michigan Power Company Project) Series 2009 A (the "Series 2009 A Bonds") and its \$50,000,000 Pollution Control Revenue Refunding Bonds (Indiana Michigan Power Company Project) Series 2009 B (the "Series 2009 B Bonds" and together with the Series 2009 A Bonds, the "Bonds").

The Bonds will be issued under and pursuant to an Indenture of Trust dated as of December 1, 1984 (the "Original Indenture"), as supplemented by ten supplemental indentures, including a Ninth Supplemental Indenture of Trust, dated as of March 1, 2009 (the "Ninth Supplemental Indenture") relating to the Series 2009 A Bonds and a Tenth Supplemental Indenture of Trust, dated as of March 1, 2009 (the "Tenth Supplemental Indenture") relating to the Series 2009 B Bonds (the Original Indenture, as so supplemented for each series, being referred to herein as the "Indenture"), between the City of Rockport and Wells Fargo Bank, N.A. (formerly Wells Fargo Bank Indiana, N.A.), successor to Norwest Bank Indiana, N.A. (formerly Lincoln National Bank and Trust Company of Fort Wayne), as successor trustee (the "Trustee").

The Bonds will be issued as Refunding Bonds, pursuant to the terms of the Indenture, and will be secured equally and ratably (except insofar as any guaranty, insurance policy, letter of credit, first mortgage bond or other collateral or instrument of credit enhancement provided by a person other than the City may afford additional security for the Pollution Control Bonds of any particular series) with such of the City's \$50,000,000 aggregate principal amount of its Pollution Control Revenue Refunding Bonds (Indiana Michigan Power Company Project) Series 1995 B (the "Series 1995 B Bonds"), the \$50,000,000 aggregate principal amount of its Pollution Control Revenue Refunding Bonds (Indiana Michigan Power Company Project) Series 2002 A (the "Series 2002 A Bonds") and the \$50,000,000 aggregate principal amount of its Pollution Control Revenue Refunding Bonds (Indiana Michigan Power Company Project) Series 2006 A (the "Series 2006 A Bonds"), which were issued as Refunding Bonds under Section 2.11 of the Original Indenture, as are outstanding under the Indenture after the issuance of the Series 2009 A Bonds and the Series 2009 B Bonds (the Series 1995 B Bonds, the 2002 A Bonds and the 2006 A Bonds and all other bonds (including the Bonds) issued by the City and at any one time outstanding under the Indenture being collectively referred to herein as the "Pollution Control Bonds"). The proceeds derived from the sale of the Series 2009 A Bonds will be used by the City, together with other funds supplied by the Company, to provide for principal and interest payments required for the payment, at their redemption on March 26, 2009, of the \$50,000,000 aggregate principal amount of the Series 2006 A Bonds at the price of 100% of their principal amount plus accrued interest. The proceeds derived from the sale of the Series 2009 B Bonds will be used by the City, together with other funds supplied by the Company, to provide for principal and interest payments required for the payment, at their redemption on March 26, 2009, of the \$50,000,000 aggregate principal amount of the Series 1995 B Bonds at the price of 100% of their principal amount plus accrued interest.

The proceeds from the initial issuance of the Series 2006 A Bonds and the Series 1995 B Bonds were used at the direction of the Company pursuant to an Agreement of Sale dated as of December 1, 1984, as heretofore amended and as to be further amended by a Seventh Amendment to Agreement of Sale and an Eighth Amendment to Agreement of Sale (collectively, the "Agreement") to refund certain outstanding bonds of the Issuer. Those bonds were issued in connection with the refunding of obligations issued to pay a portion of the costs of the acquisition.

construction, installation and equipping of certain air and water pollution abatement or control facilities, including sewage collection facilities and solid waste disposal facilities (the "Project") at the Rockport Generating Station (the "Plant") located near the City of Rockport, Indiana. Unit No. 1 of the Plant is owned one-half by the Company and one-half by AEP Generating Company, a corporation organized and existing under the laws of the State of Ohio and qualified to do business as a foreign corporation under the laws of the State of Indiana ("AEGCo"). Unit No. 2 of the Plant is leased one-half by the Company and one-half by AEGCo. The Project has been completed and the Plant has been placed in commercial operation.

The payments required to be made by the Company under the Agreement are designed to be sufficient to enable the City to pay when due and payable (i) the interest on the Pollution Control Bonds, (ii) the principal amount of the Pollution Control Bonds payable at the time of the respective stated maturities of the Pollution Control Bonds, and (iii) amounts payable in connection with any mandatory redemption of the Pollution Control Bonds. The Bonds will be secured, as are all Pollution Control Bonds, by an assignment by the City of the Agreement, and its rights to funds due and to become due thereunder (except for payments of expenses of the City and its rights to indemnification in certain instances), to the Trustee for the benefit of the owners of the Pollution Control Bonds.

THE BONDS ARE LIMITED OBLIGATIONS OF THE ISSUER PAYABLE SOLELY FROM THE PAYMENTS TO BE RECEIVED BY THE ISSUER PURSUANT TO THE AGREEMENT (AS DESCRIBED HEREIN). NEITHER THE CITY OF ROCKPORT, THE STATE OF INDIANA NOR ANY POLITICAL SUBDIVISION THEREOF SHALL BE OBLIGATED TO PAY THE PRINCIPAL OR PURCHASE PRICE OF OR INTEREST ON THE BONDS EXCEPT AS DESCRIBED IN THE PREVIOUS SENTENCE, AND NEITHER THE FAITH AND CREDIT NOR ANY TAXING POWERS OF THE ISSUER, THE STATE OF INDIANA OR ANY POLITICAL SUBDIVISION THEREOF IS PLEDGED TO THE PAYMENT OF THE PRINCIPAL OF, PURCHASE PRICE FOR OR INTEREST ON THE BONDS. THE PRINCIPAL OR PURCHASE PRICE OF AND INTEREST ON THE BONDS SHALL BE PAYABLE SOLELY FROM REVENUES DERIVED PURSUANT TO THE AGREEMENT, AND FROM OTHER MONEYS PLEDGED UNDER THE INDENTURE. THE BONDS ARE NOT AN INDEBTEDNESS OR LIABILITY OF THE CITY, THE STATE OF INDIANA OR ANY POLITICAL SUBDIVISION OF THE STATE OF INDIANA WITHIN THE MEANING OF ANY PROVISION OF THE CONSTITUTION OR LAWS OF THE STATE OF INDIANA.

Brief descriptions and summaries of the City, the Bonds, the Project, the Agreement and the Indenture follow in this Official Statement. The descriptions herein of the Agreement and the Indenture are qualified in their entirety by reference to such documents, and the descriptions herein of the Bonds are qualified in their entirety by reference to the forms thereof and the information with respect thereto included in the aforesaid documents, copies of which are available at the principal Indiana corporate trust office of the Trustee. Appendix A to this Official Statement has been furnished by the Company and contains and incorporates by reference financial statements and other information concerning the business of the Company.

Terms not otherwise defined herein shall have the meanings as set forth in the Indenture and the Agreement.

#### THE CITY OF ROCKPORT

The City is a municipal corporation and political subdivision of the State of Indiana and is authorized under Indiana Code 36-7-11.9 and 12 (collectively, the "Act") and Indiana Code 5-1-5 to issue the Bonds pursuant to the Act and to acquire, construct, install and equip the Project, to sell the Project to the Company, to refund the Series 1995 B Bonds and the Series 2006 A Bonds and to secure the Pollution Control Bonds by a pledge of the payments to be received by the City under the terms of the Agreement. To accomplish such actions, the City is authorized by the Act to enter into the Agreement and the Indenture. The City has taken all necessary action required by the Act and by Indiana Code 5-1-5 to be taken by the City in connection with the issuance of the Bonds, including the adoption of its special ordinance dated March 2, 2009.

#### THE PROJECT

The air pollution control portion of the Project consists of high efficiency electrostatic precipitators at the Plant, together in each case with all necessary hoppers, ductwork, piping and pump facilities, including foundations, structural steel, improvements to a fly ash transport road owned in part by the Company, storage facilities,

enclosures, electrical equipment, instrumentation and other associated equipment, a stack, and a coal dust collection and suppression system and other associated equipment. The Project also includes cooling tower systems (consisting of cooling towers, basins, pumps, condensers, and tubes, electrical equipment, enclosures and other related structural and mechanical equipment), and sewage and effluent collection, treatment, and disposal facilities (consisting of foundations, pumping, piping, structures, electrical and mechanical equipment, controls and accessories related thereto).

The electrostatic precipitator system facilities are required to remove fly ash from the boiler exhaust flue gas, prior to its discharge to the atmosphere through the stack, and to transport such captured fly ash to new fly ash storage and disposal facilities. The coal dust collection and suppression system is required to control airborne coal dust produced in several areas of the Plant. The cooling tower systems are required to cool, by means of a natural draft system, the circulating water for the Plant. The sewage and effluent collection, treatment and disposal facilities are required to process liquid, solid and chemical wastes.

The Indiana Air Pollution Control Board and the Indiana Stream Pollution Control Board have certified that the Project, as designed, is in furtherance of the purpose of abating or controlling atmospheric pollutants or contaminants and water pollution, as the case may be.

#### USE OF PROCEEDS

The City will cause the proceeds received upon the sale of the Series 2009 A Bonds to be deposited in the Bond Fund created by the Indenture, and together with other funds supplied by the Company, will be applied to redeem the Series 2006 A Bonds on March 26, 2009. The City will cause the proceeds received upon the sale of the Series 2009 B Bonds to be deposited in the Bond Fund created by the Indenture, and together with other funds supplied by the Company, will be applied to redeem the Series 1995 B Bonds on March 26, 2009.

#### THE BONDS

The Bonds and the interest thereon shall be payable from the revenues and receipts arising out of or in connection with the Agreement. Neither the State of Indiana nor any political subdivision thereof, including the City, shall be obligated to pay principal or purchase price of the Bonds or the interest thereon or other costs incident thereto except from the revenues and receipts referred to above, and neither the faith and credit nor the taxing power of the State of Indiana or any political subdivision thereof, including the City, is pledged to the payment of principal or purchase price of the Bonds, the interest thereon or other costs incident thereto.

#### General

The Bonds are being issued in fully registered form only in the aggregate amount set forth on the cover page hereof. The Bonds initially will be dated as of their dates of issuance and will bear interest from such dates. Each series of the Bonds will mature on June 1, 2025 (the "Maturity Date"). For the period beginning on the date of issuance to June 2, 2014, the Series 2009 A Bonds will bear interest at the rate of 6.25% per annum. For the period beginning on the date of issuance to June 2, 2014, the Series 2009 B Bonds will bear interest at the rate of 6.25% per annum.

Interest on each series of the Bonds will be payable semi-annually in arrears on each June 1 and December 1 of each year, commencing on June 1, 2009, and on the date on which such series of the Bonds are subject to mandatory tender for purchase. The Series 2009 A Bonds are subject to mandatory purchase on June 2, 2014. The Series 2009 B Bonds are subject to mandatory purchase on June 2, 2014.

Each series of the Bonds will be initially issued in the Long-Term Interest Rate Determination Method. Each series of the Bonds may subsequently be converted to bear interest at a Daily Rate, Weekly Rate, Commercial Paper Rate, or Auction Mode Rate, or another Long-Term Interest Rate Period may be established. Subject to certain conditions, the Bonds may be converted, from time to time, from any Interest Rate Determination Method then in effect to any other Interest Rate Determination Method. THIS OFFICIAL STATEMENT DESCRIBES THE TERMS AND CONDITIONS OF THE BONDS ONLY WHILE THEY BEAR INTEREST AT A LONG-TERM INTEREST RATE.

Beneficial interests in the Bonds will initially be issued pursuant to a Book-Entry Only System ("Book-Entry Only System") maintained by The Depository Trust Company, New York, New York ("DTC"), as described below under the caption *Book-Entry Only System*. Under the Indenture, the City may appoint a successor securities depository to DTC. (DTC, together with any such successor securities depository, is hereinafter referred to as the "Securities Depository"). The following information is subject in its entirety to the provisions described below under the caption *Book-Entry Only System* while the Bonds are in the Book-Entry Only System.

#### **Form and Denomination of Bonds; Payments on the Bonds**

##### General

The Bonds will be issued only as fully registered bonds, without coupons, in denominations of \$5,000 or any integral multiple thereof (an "Authorized Denomination"). The Bonds will be registered in the name of Cede & Co., as registered owner and nominee of DTC. DTC acts as securities depository for the Bonds and individual purchases of Bonds may be made in book-entry form only. So long as the Bonds are in book-entry only form, purchasers of Bonds will not receive certificates representing their interest in the Bonds purchased. So long as Cede & Co. is the registered owner of the Bonds, as nominee of DTC, references herein to the Bondholders or registered owners or holder shall mean Cede & Co., and shall not mean the Beneficial Owners (as defined below) of the Bonds.

So long as Cede & Co. is the registered owner of the Bonds, principal of and interest on the Bonds are payable to Cede & Co., as nominee for DTC, which will, in turn, remit such amounts to the DTC Participants (as defined below) for subsequent disbursement to the Beneficial Owners. See – *Book-Entry Only System* below.

Wells Fargo Bank, N.A. has been appointed as Trustee and Paying Agent under the Indenture. The Principal Office in Indiana of the Trustee and Paying Agent is located at 300 North Meridian Street, Suite 1200, Indianapolis, IN 46204.

Neither the City nor the Trustee shall be required to make any transfer or exchange of any Bond during the fifteen days prior to the mailing of a notice of Bonds selected for redemption or, with respect to a Bond, after such Bond or any portion thereof has been selected for redemption. Registration of transfers and exchanges shall be made without charge to the Bondholders, except that any required taxes or other governmental charges shall be paid by the Bondholder requesting registration of transfer or exchange.

##### Interest

Each payment of interest shall include interest accrued through the day before such interest payment date. Interest on the Bonds will be computed on the basis of a 360-day year consisting of twelve 30-day months.

All payments of interest on the Bonds will be paid to the registered holders thereof whose name appears on the bond register kept by the bond registrar as of the close of business on the fifteenth day of the calendar month immediately preceding the interest payment date (the "Record Date") by check mailed by first-class mail on the interest payment date to such holder's registered address. A holder of \$1,000,000 or more in principal amount of Bonds may be paid interest by wire transfer in immediately available funds to an account in the continental United States if the holder makes a written request of the Trustee (in form satisfactory to the Trustee) at least two Business Days before the Record Date specifying the account address. The notice may provide that it will remain in effect for later interest payments until changed or revoked by another written notice. When the Bonds are held in book-entry only form, such payments will be made to DTC as record owner. See – *Book-Entry Only System* below.

## Tender

### Mandatory Tender

Principal of and accrued interest on the Series 2009 A Bonds will be payable upon mandatory tender of the Series 2009 A Bonds on June 2, 2014. Principal of and accrued interest on the Series 2009 B Bonds will be payable upon mandatory tender of the Series 2009 B Bonds on June 2, 2014. The Company is obligated to pay the Purchase Price of the Bonds tendered to the extent that remarketing proceeds are not available to pay such purchase price. No other source of payment of such Purchase Price is being provided.

## Redemption

The Bonds are subject to redemption as described below:

Optional Redemption. Except as described under the caption *Extraordinary Optional Redemption*, the Series 2009 A Bonds are not redeemable at the option of the Issuer or the Company prior to June 2, 2014.

Except as described under the caption *Extraordinary Optional Redemption*, the Series 2009 B Bonds are not redeemable at the option of the Issuer or the Company prior to June 2, 2014.

Extraordinary Optional Redemption. The Bonds are subject to redemption by the City in whole, or in part, at a redemption price of 100% of the principal amount thereof, plus accrued interest to the redemption date, in the event the Company exercises its option to prepay the entire purchase price of the Project and cancel or terminate the Agreement, or to prepay the purchase price of the Project in part, upon the occurrence of any of the following:

- (a) Unreasonable burdens or excessive liabilities are imposed upon the City or the Company with respect to the Project, the Plant, or the operation of the Project or the Plant, including taxes not imposed on October 1, 1984 and economic, technological or other changes making the continued operation of the Plant uneconomical in the opinion of the Company's Board of Directors;
- (b) The Project or a portion thereof or all or a portion of the Plant is damaged or destroyed to such an extent that the Company deems it not practicable and desirable to rebuild, repair and restore the Project or the Plant, as the case may be;
- (c) The condemnation or taking by eminent domain of all or substantially all of the Project or all or a portion of the Plant so as to render the Project unsatisfactory to the Company for its intended use; or
- (d) Operation of the Plant is enjoined and the Company decides to discontinue operation thereof.

## Notice of Redemption

Whenever Bonds are to be redeemed, the Trustee shall give notice of redemption by mailing a copy of the redemption notice to the registered owner of each Bond to be redeemed, at least 30 days prior to the redemption date, as provided in the Indenture.

During the period that DTC or the DTC nominee is the registered holder of the Bonds, the Trustee will not be responsible for mailing notices of redemption, or other notices described herein, to the Beneficial Owners of the Bonds. See *The Bonds—Book-Entry Only System*.

## Book-Entry Only System

DTC, the world's largest depository, is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of

1934, as amended ("1934 Act"). DTC holds and provides asset servicing for over 3.5 million issues of U.S. and non U.S. equity issues, corporate and municipal debt issues, and money market instruments from over 100 countries that DTC's participants ("Direct Participants") deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities, through electronic computerized book-entry transfers and pledges between Direct Participants' accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly owned subsidiary of The Depository Trust & Clearing Corporation ("DTCC"). DTCC is the holding company for DTC, National Securities Clearing Corporation and Fixed Income Clearing Corporation, all of which are registered clearing agencies. DTCC is owned by the users of its regulated subsidiaries. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants", and together with Direct Participants, "Participants"). The DTC Rules applicable to DTC and its Participants are on file with the SEC. More information can be found at [www.dtcc.com](http://www.dtcc.com) and [www.dtc.org](http://www.dtc.org).

Purchases of Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the Bonds on DTC's records. The ownership interest of each actual purchaser of each Bond ("Beneficial Owner") is in turn to be recorded on the Direct and Indirect Participants' records. Beneficial Owners will not receive written confirmation from DTC of their purchase, but Beneficial Owners are expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the Bonds are to be accomplished by entries made on the books of Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in the Bonds, except in the event that use of the book-entry system for the Bonds is discontinued.

To facilitate subsequent transfers, all Bonds deposited by Direct Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co. or such other name as may be requested by an authorized representative of DTC. The deposit of Bonds with DTC and their registration in the name of Cede & Co. or such other DTC nominee do not effect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Bonds; DTC's records reflect only the identity of the Direct Participants to whose accounts the Bonds are credited, which may or may not be the Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time.

Redemption notices shall be sent to DTC. If less than all of the Bonds are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such issue to be redeemed.

Neither DTC nor Cede & Co. will consent or vote with respect to the Bonds, unless authorized by a Direct Participant in accordance with DTC's procedures. Under its usual procedures, DTC mails an Omnibus Proxy to the Issuer as soon as possible after the applicable record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts the Bonds are credited on such record date (identified in a listing attached to the Omnibus Proxy).

Redemption proceeds and principal and interest payments on the Bonds will be made to Cede & Co. or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detailed information from the Issuer or the Trustee, on the payable date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name", and will be the responsibility of such Participants and not of DTC, the Trustee or the Issuer, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of redemption proceeds and principal, premium, if any, and interest payments to Cede & Co. or such other nominee as may be requested by an authorized

representative of DTC is the responsibility of the Issuer or the Trustee, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

DTC may discontinue providing its services as securities depository with respect to the Bonds at any time by giving reasonable notice to the Issuer or the Trustee. Under such circumstances, in the event that a successor securities depository is not obtained, certificated bonds will be required to be printed and delivered.

The Issuer may decide to discontinue use of the system of book-entry only transfers through DTC (or a successor securities depository). In that event, security certificates will be printed and delivered to DTC.

In the event that the book-entry system is discontinued, the principal or redemption price of and interest on the Bonds will be payable in the manner described above, and the Bonds may be transferred or exchanged for one or more Bonds in different Authorized Denominations upon surrender thereof at the principal corporate trust office of the Paying Agent by the registered owners or their duly authorized attorneys or legal representatives. Upon surrender of any Bonds to be transferred or exchanged, the Paying Agent shall record the transfer or exchange in the registration books and shall authenticate and deliver the Bonds appropriately registered and in appropriate Authorized Denominations.

Under the Indenture, payments made by the Trustee to DTC or its nominee will satisfy the Issuer's obligations under the Indenture and the Company's obligations under the Agreement to the extent of the payments so made. Beneficial Owners will not be, and will not be considered by the Issuer or the Trustee to be, and will not have any rights as, owners of Bonds under the Indenture.

The information in this section concerning DTC and DTC's book-entry system has been obtained from sources that the Underwriters, the Company and the Trustee believe to be reliable, but the Underwriters, the Company and the Trustee take no responsibility for the accuracy thereof.

None of the Issuer, the Underwriters, the Company, the Trustee or any agent for payment on or registration of transfer or exchange of any Bond will have any responsibility or obligation to Direct Participants, Indirect Participants or the persons for whom they act as nominees with respect to the accuracy of the records of DTC, its nominee or any Direct Participant with respect to any ownership interest in the Bonds, or payments to, or the providing of notice for, Direct Participants, Indirect Participants, or beneficial owners or other action taken by DTC, or its nominee, Cede & Co., as the sole owners of the Bonds.

#### **Refunding Bonds**

One or more series of Refunding Bonds in addition to the Bonds may, subject to certain conditions, be authenticated and delivered to refund any Pollution Control Bonds or any previously issued Refunding Bonds, including the Bonds. Any such Refunding Bonds will be on a parity with and secured in the same manner as the then outstanding Pollution Control Bonds (except insofar as any guaranty, letter of credit, insurance policy, first mortgage bond or other collateral or instrument of credit enhancement provided by a person other than the City may afford additional security for the Pollution Control Bonds of any particular series).

#### **SECURITY FOR THE BONDS**

The Series 2009 A Bonds and the Series 2009 B Bonds shall be equally and ratably secured by the Indenture without preference, priority or distinction of any Pollution Control Bond over any other Pollution Control Bond (except insofar as any guaranty, letter of credit, insurance policy, first mortgage bond or other collateral or instrument of credit enhancement provided by a person other than the City may afford additional security for the Pollution Control Bonds of any particular series).

The Bonds will be, as are all Pollution Control Bonds, special obligations of the City payable solely from the revenues received from the sale of the Project pursuant to the Agreement (except to the extent paid from the proceeds

of the Pollution Control Bonds and income from temporary investments). Under the Agreement, the Company has agreed to pay the purchase price of the Project as set forth in *The Agreement—Payments under the Agreement* herein.

The City has, under the Original Indenture, given, granted, pledged and assigned to the Trustee for the benefit of the owners of the Pollution Control Bonds, including the owners of the Bonds, all right, title and interest of the City in and to the Agreement, including payments thereunder (except for payments of expenses of the City and its rights to indemnification in certain instances). No provision is contained in the Agreement which purports to secure the Company's obligation to pay thereunder by any lien or other interest in the Project or in any other property of the Company. See *The Agreement—Obligations Unconditional* herein.

### THE AGREEMENT

There are separate amendments to the Agreement that contain the provisions relating to the loan of proceeds of the Series 2009 A Bonds and the Series 2009 B Bonds. These amendments have substantially identical terms. In addition to the description of certain provisions of each amendment contained elsewhere herein, the following is a brief summary of certain provisions of the Agreement and does not purport to be comprehensive or definitive. All references herein to the Agreement are qualified in their entirety by reference to the Agreement for the detailed provisions thereof.

#### Issuance of Pollution Control Bonds

The City has issued the Pollution Control Bonds to provide funds for the financing in part of the acquisition, construction, installation and equipping of the Project and is issuing the Bonds to provide, together with other funds supplied by the Company, for principal, premium and interest payments required for the refunding of the Series 1995 B Bonds and the Series 2006 A Bonds.

The Company has, as agent for the City, acquired, constructed, installed and equipped the Project.

#### Sale of the Project

The City has sold, transferred and conveyed its interest in the Project to the Company in accordance with the provisions of the Agreement.

#### Term of Agreement

The Agreement became effective upon its execution and delivery on December 17, 1984 and will remain in full force and effect until such time as all of the Pollution Control Bonds shall have been fully paid or provision made for such payment. See "Options to Prepay the Purchase Price of the Project" below.

#### Payments under the Agreement

As the purchase price for the Project, the Company will continue to pay to the City such amounts as will enable the City to pay (together with other moneys held at the time in question in the Bond Fund) when due and payable (i) the interest on the Pollution Control Bonds, (ii) the principal amount of the Pollution Control Bonds payable at the time of the respective stated maturities of the Pollution Control Bonds, and (iii) other amounts, including accrued interest and redemption premium, payable in connection with any tender or redemption of the Pollution Control Bonds. In addition, the Company has agreed to pay certain expenses of the City, including the fees and expenses of the Trustee and any paying agents under the Indenture. Payments under the Agreement will be subject to acceleration only upon the occurrence of an event of default as defined therein.

## Events of Default

The following events constitute events of default under the Agreement:

(a) Failure by the Company to pay when due the purchase price of the Project as required by the Agreement which causes an Event of Default under the Indenture in the payment when due of any interest on any Pollution Control Bond or of the principal of or premium, if any, on any Pollution Control Bond.

(b) Failure by the Company to observe and perform any covenant, condition or agreement on its part required to be observed or performed (other than as referred to in subparagraph (a) above) for a period of sixty days after written notice, specifying such failure and requesting that it be remedied, is given to the Company by the City or the Trustee, unless the Trustee agrees in writing to an extension of such time prior to its expiration (which agreement shall not be unreasonably withheld); provided, however, if the failure stated in the notice cannot be corrected within the applicable period, or a reasonable extension of such period, there shall be no default if corrective action is instituted by the Company within the applicable period and diligently pursued until the default is corrected.

(c) The dissolution or liquidation of the Company or the filing by the Company of a voluntary petition in bankruptcy, or failure by the Company promptly to lift or suspend any execution, garnishment or attachment of such consequence as will impair its ability to carry on its operations at the Project, or adjudication of the Company as a bankrupt.

(d) Failure by the Company to pay when due certain amounts in connection with certain purchases of the Pollution Control Bonds for a period of five (5) Business Days after such payment has become due and payable.

(e) Failure by the Company to pay for a period of one (1) Business Day after such payment has become due the purchase price of the Pollution Control Bonds upon optional or mandatory tender.

Under the terms of the Agreement, the Company's obligations (other than its obligation (i) to make payments of the purchase price for the Project, (ii) to make certain indemnity payments and (iii) to maintain its corporate existence) may be suspended if by reason of force majeure, as defined in the Agreement, the Company is unable to carry out its obligations.

## Remedies

Upon the occurrence and continuation of an event of default under the Agreement, the Trustee as assignee of the Issuer may:

(a) By written notice to the Company, declare to be due and payable the remaining unpaid purchase price of the Project in an amount equal to the sum of (x) interest accrued on all Pollution Control Bonds to the date of declaration, (y) the principal of all Pollution Control Bonds and (z) any fees and charges owing and certain expenses incurred or to be incurred in connection with any mandatory redemption of Pollution Control Bonds payable as of the date of such declaration;

(b) Inspect, examine and make copies of the books and records and any and all accounts, data and tax returns of the Company; and

(c) Take whatever action at law or in equity may appear necessary or desirable to collect the amounts referred to in paragraph (a) above or to enforce performance and observance of any obligation, agreement or covenant of the Company under the Agreement.

If, after any event of default resulting in a declaration of the maturity of all Pollution Control Bonds pursuant to the Indenture, all arrears of principal of, premium, if any, and interest on all such Pollution Control Bonds (except

amounts becoming due because of such declaration of maturity) shall have been paid and certain other conditions are satisfied, then the Trustee shall annul such declaration of the maturity of all such Pollution Control Bonds and any declaration that the remaining unpaid purchase price of the Project is due shall be annulled without further act by the City.

Under the Indenture, the Trustee may require indemnification before enforcing any right under the Agreement. The Agreement does not require the filing of any periodic evidence as to the absence of default or as to compliance with the Agreement.

#### **Obligations Unconditional**

The obligations of the Company to make payments required to be made under the Agreement are absolute and unconditional and are not subject to diminution by set-off, counterclaim, abatement or otherwise. The Agreement provides that the Company will not suspend or discontinue any payments required to be made under the Agreement, will perform all its other agreements contained in the Agreement and, except for certain rights specified in the Agreement, will not terminate the Agreement or its obligations under the Agreement for any cause, including, without limiting the generality of the foregoing, any acts or circumstances that may constitute failure of consideration, destruction of or damage to the Project, commercial frustration of purpose, any change in the tax or other laws of the United States of America or of the State of Indiana, or any political subdivision of either, or any failure of the City to perform or observe any agreement, whether express or implied, or any duty, liability or obligation arising out of or in connection with the Agreement.

#### **Options to Prepay the Purchase Price of the Project**

The Company shall have the option to prepay the purchase price of the Project in whole (i) upon the occurrence of any of the events described under *The Bonds - Redemption - Extraordinary Optional Redemption* by paying amounts sufficient to redeem all Pollution Control Bonds, the fees and expenses of the Trustee and any paying agent, and all other amounts payable under the Indenture, or (ii) at any time by paying money to the Trustee for deposit in the Bond Fund or delivering to the Trustee securities sufficient in either case to provide for the release of the Indenture as described under *The Indenture--Release of Indenture and Provision for Payment of Pollution Control Bonds*. Upon prepayment of the entire purchase price of the Project, the Company may terminate the Agreement.

The Company may also prepay the purchase price of the Project in part, such payments to be paid to the Trustee for deposit in the Bond Fund and credited against the purchase price or used for the redemption or, at the election of the Company, purchase of Pollution Control Bonds in the manner and to the extent the Pollution Control Bonds are redeemable or subject to purchase as provided in the Indenture (see *The Bonds - Redemption - Extraordinary Optional Redemption* herein and *The Indenture - Bond Fund* herein).

No prepayment by the Company of the purchase price of the Project will cause the Bonds to become redeemable at times other than as described under *The Bonds - Redemption - Extraordinary Optional Redemption* herein.

### **THE SUPPLEMENTAL INDENTURES**

The Ninth Supplemental Indenture provides for the Issuance of the Series 2009 A Bonds secured equally and ratably (except insofar as any guaranty, letter of credit, first mortgage bond or other collateral or instrument of credit enhancement provided by a person other than the City may afford additional security for the Pollution Control Bonds of any particular series) with all other Pollution Control Bonds, ratifies and confirms in all respects the Original Indenture, as supplemented and amended, and provides that the Original Indenture and each supplemental indenture, including the Ninth Supplemental Indenture, shall be read, taken and construed as one and the same instrument and that all covenants, agreements and provisions of, and all security provided under, the Indenture shall apply with full force and effect to the Series 2009 A Bonds and to the owners thereof. Reference is made to the Ninth Supplemental Indenture in its entirety for the detailed provisions thereof.

The Tenth Supplemental Indenture provides for the issuance of the Series 2009 B Bonds secured equally and ratably (except insofar as any guaranty, letter of credit, first mortgage bond or other collateral or instrument of credit

enhancement provided by a person other than the City may afford additional security for the Pollution Control Bonds of any particular series) with all other Pollution Control Bonds, ratifies and confirms in all respects the Original Indenture, as supplemented and amended, and provides that the Original Indenture and each supplemental indenture, including the Tenth Supplemental Indenture, shall be read, taken and construed as one and the same instrument and that all covenants, agreements and provisions of, and all security provided under, the Indenture shall apply with full force and effect to the Series 2009 B Bonds and to the owners thereof. Reference is made to the Tenth Supplemental Indenture in its entirety for the detailed provisions thereof.

### THE INDENTURE

Additional information summarizing certain provisions of the Indenture is contained under the heading *The Bonds* herein. So long as DTC or its nominee is the registered owner of the Bonds, all references to "Owners" or "holders" shall mean DTC. See *The Bonds – Book-Entry Only System* herein.

#### Pledge and Security

Pursuant to the Indenture, the payments to be made by the Company under the Agreement have been assigned by the City to the Trustee to secure the payment, when due, of the principal of, and premium, if any, and interest on, the Pollution Control Bonds. The City has also pledged and assigned to the Trustee all its rights and interests under the Agreement (other than payments of expenses of the Company and its rights to indemnification in certain circumstances) and has pledged to the Trustee for the benefit of the Owners of the Pollution Control Bonds all right, title and interest of the City in and to the amounts paid and payable under the Agreement, including, without limitation, all payments required to be made by the Company to the City under the Agreement; *provided*, that the Trustee will have a prior claim on the Bond Fund, for the payment of its compensation and expenses.

#### Bond Fund

Payments made by the Company under the Agreement with respect to the Bonds will be deposited in the Accounts described below. The Trustee will apply money contained in the accounts described below maintained within the Bond Fund for the applicable series of Bonds at the following respective times:

- (a) Interest Account. The Trustee, on each Interest Payment Date, will withdraw and apply from moneys on deposit in the Interest Account an amount sufficient to pay interest on the outstanding Bonds of each series on such Interest Payment Date.
- (b) Principal Account. The Trustee, on each Principal Payment Date, will withdraw and apply from moneys on deposit in the Principal Account, an amount equal to the principal becoming due on each series of the Bonds on such Principal Payment Date (other than a redemption date). Money in the Principal Account will be used and withdrawn by the Trustee on each Principal Payment Date solely for the payment of the principal of outstanding Bonds of each series.
- (c) Redemption Account. The Trustee will withdraw and apply from moneys on deposit in the Redemption Account amounts required to pay the principal of and premium, if any, and accrued interest on Bonds of each series to be redeemed. Money in the Redemption Account will be used and withdrawn by the Trustee on each redemption date solely for the payment of the principal of and premium, if any, and accrued interest on outstanding Bonds of each series upon the redemption thereof.

#### Purchase Fund

Each of the Ninth Supplemental Indenture and the Tenth Supplemental Indenture creates and establishes with the Paying Agent a separate fund designated the "Purchase Fund." The Purchase Fund shall consist of two sub-accounts to be designated respectively the "Remarketing Proceeds Account" and the "Company Purchase Account." Proceeds from the remarketing of tendered Bonds will be deposited by the Paying Agent, when and as received from the Remarketing Agent, into the applicable Remarketing Proceeds Account. Payments with respect to the purchase price of the Bonds by the Company are to be deposited by the Paying Agent by and on behalf of the Company in the applicable Company Purchase Account.

The Paying Agent shall disburse funds from the applicable Remarketing Proceeds Account to pay the purchase price of Bonds properly tendered for purchase upon surrender of such Bonds. The Paying Agent shall disburse funds from the applicable Company Purchase Account to pay the purchase price of Bonds properly tendered for purchase upon surrender of such Bonds.

#### **Investment of Moneys Held by the Trustee**

Moneys held as part of the Purchase Fund will be held uninvested. Any moneys held as part of the Bond Fund shall be invested and reinvested by the Trustee in accordance with the provisions of the Indenture which provide that, at the request of and as directed by the Company, the Trustee will invest and reinvest any moneys held in the Bond Fund in:

- (1) securities that are direct obligations of the United States or the payment of which is unconditionally guaranteed by the United States or are obligations which in the opinion of the Attorney General of the United States are general obligations of the United States backed by its full faith and credit ("Government Obligations");
- (2) obligations issued or guaranteed by an instrumentality of the United States of America pursuant to authority granted by the Congress of the United States;
- (3) interest bearing accounts, time deposits or certificates of deposit which are secured by obligations of the type described in clause (1) above or which are issued by banks or trust companies, including the Trustee, organized under the laws of the United States of America or any state thereof, which have combined capital and surplus of at least \$10,000,000;
- (4) obligations issued or guaranteed by any state of the United States or the District of Columbia, or any political subdivision of any such state or District, rated A or better by Standard & Poor's, a division of The McGraw-Hill Companies, Inc. ("S&P"), or Moody's Investors Service, Inc. ("Moody's"), or their successors;
- (5) commercial paper or finance company paper rated prime by S&P or Moody's, or their successors;
- (6) bankers acceptances drawn on and accepted by commercial banks; and
- (7) repurchase agreements fully secured by any one or more of the foregoing.

The Company and the Issuer shall take no action, nor shall the Company approve the Trustee's taking any action, or making any investment or use of the proceeds of the Pollution Control Bonds of such Issuer, which would cause such Pollution Control Bonds of such Issuer to be "arbitrage bonds" within the meaning of Section 148 of the Internal Revenue Code of 1986, as amended (the "Code").

#### **Release of Indenture and Provision for Payment of Pollution Control Bonds**

If the principal, premium, if any, and interest due on all Pollution Control Bonds of the City shall have been paid, or provision (cash or non-callable Government Obligations) under the Indenture shall have been made for such payment, and for the payment of all other sums due under the Indenture, the Trustee shall release the Indenture and the Pollution Control Bonds of the City shall, except for the purpose of payment, no longer be deemed to be outstanding under the Indenture. In any case where (a) a Pollution Control Bond of the City shall be cancelled after purchase in the open market or because of payment at or redemption prior to maturity, (b) funds (cash or non-callable Government Obligations) sufficient for the payment or redemption of a Pollution Control Bond of the City shall have been theretofore deposited with the Trustee (whether upon or prior to the maturity or redemption date of such Pollution Control Bond), provided, and in case such Pollution Control Bond is to be redeemed prior to the maturity thereof, that notice of such redemption shall have been given or arrangements satisfactory to the Trustee shall have been made or waiver of such notice satisfactory to the Trustee shall have been filed with the Trustee, or

(c) a Pollution Control Bond shall have been replaced by the authentication of another Pollution Control Bond upon the transfer or exchange of such Pollution Control Bond under the Indenture or the surrender of a temporary Pollution Control Bond under the Indenture, such Pollution Control Bond shall no longer be deemed outstanding under the Indenture and, except for the purpose of payment in the case of a Pollution Control Bond so to be paid or redeemed, such Pollution Control Bond shall no longer be secured by or entitled to the benefits of the Indenture.

#### **Events of Default and Remedies**

The following events are Events of Default under the Indenture:

- (a) Default in the payment when due of any interest on any Pollution Control Bond;
- (b) Default in the payment when due of the principal of, or premium, if any, on any Pollution Control Bond of the City, whether at the stated maturity thereof, or upon proceedings for redemption thereof, or upon the maturity thereof by declaration;
- (c) Default in the due and punctual payment of the purchase price of the Bonds of each series required to be purchased in accordance with its terms, provided, however, that a default under this subsection relates only to the supplemental indenture securing such series of Bonds;
- (d) Default in the performance or observance of any other of the covenants, agreements or conditions on the part of the City in the Indenture or in the Pollution Control Bonds of such Issuer, continuing 60 days after delivery of notice thereof;
- (e) The occurrence and continuance of an event of default under the Agreement, as described under *The Agreement – Events of Default*; and
- (f) Approval by a court of competent jurisdiction of any petition for reorganization of the City or rearrangement or readjustment of the obligations of the City under provisions of any applicable bankruptcy laws.

Upon the occurrence and continuance of an Event of Default, the Trustee may, and upon the request of the Owners of at least 25% in aggregate principal amount of the Bonds of the applicable series then outstanding, shall, declare the principal of and accrued interest on the outstanding Bonds of the applicable series to be due and payable immediately.

The Trustee may rescind an acceleration of the Bonds of any series and its consequences if (1) all payment defaults with respect to the Bonds of such series have been cured and all reasonable charges of the Trustee, including reasonable attorneys' fees, have been paid, and (2) the holders of such series of Bonds have not been notified of the acceleration.

If an Event of Default occurs and is continuing, the Trustee may pursue any available remedy to collect the principal of or interest on the Pollution Control Bonds or to enforce the performance of any provision of the Pollution Control Bonds or the Indenture.

The Trustee may in its discretion waive any Event of Default and its consequences and rescind any declaration of maturity of principal, and shall do so upon the written request of the holders of (a) not less than two-thirds in principal amount of all the Pollution Control Bonds then outstanding in respect of which default in the payment of principal and/or interest exists, or (b) more than one-half in principal amount of all Pollution Control Bonds then outstanding in the case of any other default; provided, however, that there shall not be waived (i) any Event of Default in the payment of the principal of any outstanding Pollution Control Bonds at their maturity or (ii) any default in the payment when due of the interest on any such Pollution Control Bond unless prior to such waiver or rescission, all arrears of interest, with interest (to the extent permitted by law) at the rate borne by the Pollution Control Bonds in respect of which such default shall have occurred on overdue installments of interest or all arrears of payments of principal and premium, if any, when due, as the case may be, and all expenses of the Trustee in connection with such default shall have been paid or provided for, and in case of any such waiver or rescission, or in

case any proceeding taken by the Trustee on account of any such default shall have been discontinued or abandoned or determined adversely, then and in every such case the City, the Trustee and the Bondholders shall be restored to their former positions and rights under the Indenture respectively, but no such waiver or rescission shall extend to any subsequent or other default, or impair any right consequent thereon.

The Trustee may require Indemnification before certain remedial action under the Indenture. The Indenture does not require the filing of any periodic evidence as to the absence of default or as to compliance with the Indenture.

#### **The Trustee**

The Trustee may be removed by the owners of not less than a majority in principal amount of Pollution Control Bonds at the time outstanding; after the Series 1995 B Bonds and the Series 2002 A Bonds are no longer outstanding, the Trustee may also be removed by the City and the Company. The Trustee shall continue to serve as such until a successor Trustee shall be appointed under the Indenture.

Wells Fargo Bank, National Association, as Trustee, and Wachovia Bank, National Association, as an underwriter, are subsidiaries of Wells Fargo & Company.

#### **Supplemental Indentures**

The City and the Trustee may, without the consent of, or notice to, any of the Bondholders, enter into such indenture or indentures supplemental to the Indenture as shall not be inconsistent with the terms and provisions thereof (a) to cure any ambiguity, formal defect or omission in the Indenture or to otherwise amend the Indenture in such a manner as shall not, in the opinion of the Trustee, impair the security of the Indenture or adversely affect the registered owners, (b) to grant to or confer upon the Trustee for the benefit of the Bondholders any additional rights, remedies, powers or authorities that may lawfully be granted to or conferred upon the Bondholders or the Trustee or either of them, (c) to add additional covenants or surrender any right or power of the City, (d) to subject to the pledge of the Indenture additional revenues, properties, or collateral, (e) to modify, amend or supplement the Indenture or the Pollution Control Bonds to permit qualification under the Trust Indenture Act of 1939, as amended, or any similar statute at the time in effect, (f) to set forth provisions in connection with the Issuance of Additional Bonds and/or Refunding Bonds, (g) to authorize different authorized denominations of the Bonds and to make correlative amendments and modifications to the Indenture regarding exchangeability of Bonds of different authorized denominations, redemptions or portions of Bonds of particular authorized denominations and similar amendments and modifications of a technical nature, (h) to increase or decrease the number of days specified for the giving of notices of tender and to make corresponding changes to the period for notice of redemption of the Bonds; provided that no decreases in any such number of days shall become effective except while the Bonds bear interest at a Daily Rate or a Weekly Rate and until 30 days after the Trustee has given notice to the owners of the Bonds, (i) to provide for an uncertificated system of registering the Bonds or to provide for the change to or from a Book-Entry System for the Bonds, (j) to evidence the succession of a new Trustee or the appointment by the Trustee or the Issuer of a co-trustee, (k) to make any change related to the Bonds that does not materially adversely affect the rights of any Bondholder, (l) to make any changes necessary in connection with the marketability of an Auction Rate Mode for the Bonds, or (m) to make any other changes to the Indenture that take effect as to any or all remarketed Bonds following a mandatory tender.

The Indenture also provides that the owners of not less than two-thirds in aggregate principal amount of the Pollution Control Bonds shall have the right to consent to and approve the execution by the City and the Trustee of such other supplemental indentures as shall be deemed necessary and desirable by the Trustee for the purpose of modifying, altering, amending, adding to or rescinding, in any particular, any of the terms or provisions contained in the Indenture or in any supplemental Indenture; provided, however, that nothing shall permit (a) an extension of the maturity date or mandatory sinking fund redemption date on which the principal of or the interest on any Pollution Control Bond is, or is to become, due and payable, (b) a reduction in the principal amount of any Pollution Control Bond, the rate of interest thereon or any redemption premium, or (c) a reduction in the aggregate principal amount of the Pollution Control Bonds required for consent to such supplemental indenture, or (d) any change to the terms and conditions of redemption or tender of the Bonds which may be adverse to the holders of the Bonds.

Any supplemental indenture which affects the rights of the Company shall not become effective until the Company shall have consented to the execution and delivery of such supplemental indenture.

### **Amendment of the Agreement**

The City and the Trustee are required under the Indenture, without the consent of or notice to the Bondholders, to consent to any amendment, change or modification of the Agreement (i) as may be required by the provisions of the Agreement or the Indenture, (ii) for the purpose of curing any ambiguity or formal defect or omission in the Agreement, (iii) in connection with the Project so as to more precisely identify the same or substitute or add additional facilities, (iv) in connection with any other change therein which, in the judgment of the Trustee, is not to the prejudice of the Trustee or the owners of the Pollution Control Bonds, or (v) in connection with the issuance of Additional Bonds and/or Refunding Bonds.

In addition, the City may enter into, and the Trustee may consent to, any amendment of or supplement to the Agreement, or may waive compliance by the Company of any provision of the Agreement, in each case without notice to or consent of any Bondholder, if the amendment, supplement or waiver is required or permitted to provide for a municipal bond insurance policy or other form of credit enhancement with respect to the Bonds.

Except for the amendments, changes or modifications indicated above, neither the Issuer nor the Trustee shall consent to any other amendment, change or modification of the Agreement without publication of notice and the written approval or consent of the owners of not less than two-thirds in aggregate principal amount of the Pollution Control Bonds. No amendment, change or modification authorized under the Indenture, however, may alter the obligation of the Company to make payments of the purchase price of the Project under the Agreement.

### **UNDERWRITING**

Subject to the terms and conditions set forth in a Bond Purchase Agreement to be entered into between the Issuer and Barclays Capital Inc. ("Barclays"), Barclays has agreed to purchase the Series 2009 A Bonds at a price equal to 100% of the principal amount thereof. The Company has agreed to pay \$250,000 (excluding expenses) to Barclays as compensation and to reimburse Barclays for its reasonable expenses. Barclays has agreed to purchase all of the Series 2009 A Bonds if any of the Series 2009 A Bonds are purchased. The Company has agreed to indemnify Barclays and the City against certain civil liabilities.

Subject to the terms and conditions set forth in a Bond Purchase Agreement to be entered into between the Issuer and Wachovia Bank, National Association ("Wachovia" and together with Barclays, the "Underwriters"), Wachovia has agreed to purchase the Series 2009 B Bonds at a price equal to 100% of the principal amount thereof. The Company has agreed to pay \$250,000 (excluding expenses) to Wachovia as compensation and to reimburse Wachovia for its reasonable expenses. Wachovia has agreed to purchase all of the Series 2009 B Bonds if any of the Series 2009 B Bonds are purchased. The Company has agreed to indemnify Wachovia and the City against certain civil liabilities.

The Bonds may be offered and sold to certain dealers (including dealers depositing Bonds into investment trusts) and others at prices lower than the public offering price set forth on the cover page of this Official Statement. After the Bonds are released for sale to the public, the public offering price and other selling terms may from time to time be varied by the Underwriters.

In connection with this offering and in compliance with applicable law and industry practice, the Underwriters may over-allot or effect transactions which stabilize, maintain or otherwise affect the market price of the Bonds at levels above those which might otherwise prevail in the open market, including by entering stabilizing bids. A stabilizing bid means the placing of a bid, or the effecting of any purchase, for the purpose of pegging, fixing or maintaining the price of a security. In general, purchases of a security for the purpose of stabilization could cause the price of the security to be higher than it might be in the absence of such purchases.

Neither the City, the Company nor the Underwriters make any representation or prediction as to the direction or magnitude of any effect that the transactions described above may have on the price of the Bonds. In addition, neither the City, the Company nor the Underwriters make any representation that the Underwriters will engage in such transactions or that such transactions, once commenced, will not be discontinued without notice.

In the ordinary course of their respective businesses, the Underwriters and their affiliates have engaged, and may in the future engage, in transactions with, and perform services for, the Company and its affiliates.

Wachovia Securities is a trade name under which Wells Fargo & Company conducts certain of its investment banking, capital markets and institutional securities business through Wachovia Capital Markets, LLC ("WCM"), member NYSE, FINRA, SIPC and through other bank, non-bank and broker-dealer subsidiaries of Wells Fargo & Company, including Wachovia Bank, National Association ("WBNA").

## **TAX MATTERS**

### **Certain Requirements of the Code**

The Code establishes certain requirements that must be met subsequent to the issuance and delivery of the Bonds in order that interest on the Bonds be and remain excluded from gross income pursuant to Section 103 of the Code. Non-compliance could cause interest on the Bonds to be included in gross income of the owners thereof for federal income tax purposes retroactive to the date of issue, irrespective of the date on which such non-compliance occurs or is ascertained.

### **Opinion of Bond Counsel**

In the opinion of Baker & Daniels LLP, Bond Counsel, under existing statutes and court decisions, interest on the Bonds is not included in gross income of the owners thereof for federal income tax purposes pursuant to Section 103 of the Code, except when held by a "substantial user" of the Project or a "related person" within the meaning of Section 103(b)(13) of the Internal Revenue Code of 1954, as amended (the "1954 Code"), and interest on the Bonds will not be treated as an item of tax preference in calculating the alternative minimum tax imposed under the Code with respect to individuals, corporations and other taxpayers; provided, however, that interest on the Series 2009 B Bonds is included in the adjusted current earnings of certain corporations for purposes of computing the alternative minimum tax imposed on such corporations. Bond Counsel does not express any opinion as to whether interest on the Series 2009 A Bonds is to be included in the adjusted current earnings of certain corporations for purposes of computing the alternative minimum tax imposed on such corporations; such corporations should consult their own tax advisors as to the applicability of such inclusion in adjusted current earnings. Bond Counsel does not express any opinion on any other federal tax issues with respect to the Bonds except as set forth in such opinion.

In the opinion of Bond Counsel, interest on the Bonds is exempt from taxation in the State of Indiana for all purposes, except the Indiana inheritance tax and the Indiana financial institutions tax.

Bond Counsel's opinion is given in reliance on certifications by representatives of the City and the Company as to certain facts relevant to both the opinion and requirements of 1954 Code, the Tax Reform Act of 1986 and the Code. The City and the Company have covenanted to comply with provisions of the 1954 Code and the Code regarding, among other matters, the use, expenditure and investment of bond proceeds and the timely payment to the United States of any arbitrage rebate amounts with respect to the Bonds. Failure by the City or the Company to comply with such covenants could cause interest on the Bonds to be included in gross income for federal income tax purposes retroactively to their date of issue.

### **Certain Additional Tax Matters**

Interest on the Bonds may be taken into account in determining the tax liability of foreign corporations subject to the branch profits tax imposed by Section 884 of the Code. Owners of the Bonds subject to such taxes should consult their own tax advisors with respect to the computation of the alternative minimum tax, the environmental tax and the branch profits tax. Interest on the Bonds constitutes disqualified income for purposes of the earned income credit. Owners of the Bonds otherwise entitled to such credit should consult their own tax advisors.

Owners of the Bonds should be aware that the ownership of such obligations may result in collateral federal income tax consequences to various categories of persons, such as certain S corporations, financial institutions,

property and casualty insurance companies, individual recipients of Social Security or Railroad Retirement benefits and taxpayers deemed to have incurred or continued indebtedness to purchase or carry obligations the interest on which is not included in gross income for federal income tax purposes. Those who might fall into any such category should consult their own tax advisors as to the applicability of these consequences.

Each prospective purchaser of the Bonds should consult their own tax advisers as to the status of interest on the Bonds under the tax laws of any state other than Indiana.

### SECONDARY MARKET INFORMATION

No financial statements or operating data concerning the City are included in this Official Statement and the City has not undertaken to provide any such information in the future.

The Company will agree to deliver certain continuing disclosure information satisfying the requirements of Rule 15c2-12 (the "Rule") under the Securities and Exchange Act of 1934. Any holder of an outstanding Bond, directly or through the Trustee, may specifically enforce the Company's disclosure obligations.

Neither the City nor its members, directors, officers, agents or employees have any responsibility or liability for the sufficiency, performance or enforcement of the continuing disclosure agreement. The Company, its directors, officers, employees and shareholders shall have no liability under the continuing disclosure agreement for any act or failure to act; a failure to perform the continuing disclosure agreement shall not constitute an Event of Default under the Indenture or a default under the Bonds; and the sole remedy shall be specific enforcement of the continuing disclosure agreement by the Trustee or by such person, if any, as the Rule may require to be entitled to enforce the same. The Company reserves the right to (a) contest the validity of the Rule, and (b) modify its performance of the continuing disclosure agreement, to the extent not inconsistent with valid and effective provisions of the Rule.

### LEGALITY

Legal matters incident to the authorization and validity of the Bonds and with regard to the tax-exempt status thereof as stated above are subject to the approving opinion of Baker & Daniels LLP, Indianapolis, Indiana, Bond Counsel, which opinion does not, however, pass on the accuracy or completeness of this Official Statement.

Certain legal matters will be passed upon by Jeffrey D. Cross, Esq., Deputy General Counsel, or Thomas G. Berkemeyer, Esq., Associate General Counsel, both employees of American Electric Power Service Corporation, an affiliate of the Company, who will rely as to matters of Indiana law upon the opinion of Baker & Daniels LLP, Indiana counsel to the Company. Certain matters, other than the validity of the Bonds and the exclusion from gross income for federal income tax purposes of interest thereon, will be passed upon by Dewey & LeBoeuf LLP, New York, New York, counsel to the Underwriters. From time to time, Dewey & LeBoeuf LLP acts as counsel to the Company's affiliates for some matters. Certain legal matters in connection with the issuance of the Bonds will be passed upon for the City by its counsel John A. Hargis, Esq., Rockport, Indiana.

### MISCELLANEOUS

The City has furnished all information in this Official Statement relating to the City of Rockport. All information in the Section herein entitled *The Project* and in Appendix A to this Official Statement has been furnished by the Company.

The attached Appendices (including the documents incorporated by reference therein) are an integral part of this Official Statement and must be read together with all of the balance of this Official Statement.

APPENDIX A

INDIANA MICHIGAN POWER COMPANY

The terms "we," "our," "us," "Company," "I&M" and "Indiana Michigan" mean Indiana Michigan Power Company. The Company furnished the information contained in and incorporated by reference into this Appendix A. Neither the City of Rockport nor Barclays nor Wachovia makes any representation as to the accuracy or completeness of such information.

The Company is an electric utility engaged in the generation, transmission and distribution of electric power to approximately 582,000 retail customers in northern and eastern Indiana and southwestern Michigan, and in supplying and marketing electric power at wholesale to other electric utility companies, rural electric cooperatives and municipalities and other market participants. Its principal offices in Indiana are located at One Summit Square, P.O. Box 60, Fort Wayne, Indiana 46801 (telephone number: 260-425-2111). Its principal executive offices are located at 1 Riverside Plaza, Columbus, Ohio 43215 (telephone number: 614-716-1000). The Company is a subsidiary of American Electric Power Company, Inc. ("AEP") and is a part of the AEP integrated utility system. The executive offices of AEP and the Company are located at 1 Riverside Plaza, Columbus, Ohio 43215 (telephone number: 614-716-1000).

AVAILABLE INFORMATION

The Company is subject to the information requirements of the Securities Exchange Act of 1934 (the "1934 Act") and in accordance therewith files annual, quarterly and special reports and other information with the Securities and Exchange Commission (the "SEC"). You may read and copy any document filed by the Company at the SEC's Public Reference Room at 100 F Street, N.E., Room 1580, Washington, D.C. 20549. Please call the SEC at 1-800-SEC-0330 for further information on the public reference rooms. You may also examine the Company's SEC filings through the SEC's web site at <http://www.sec.gov>. Certain of the Company's securities are listed on the New York Stock Exchange, where reports and other information concerning the Company may also be inspected.

DOCUMENTS INCORPORATED BY REFERENCE

The following documents filed with the SEC by the Company pursuant to the 1934 Act are incorporated by reference and made a part of this Official Statement:

- The Company's Annual Report on Form 10-K for the year ended December 31, 2008 and
- The Company's Current Report on Form 8-K dated January 15, 2009.

All documents subsequently filed by the Company with the SEC pursuant to Sections 13(a), 13(c), 14 or 15(d) of the 1934 Act subsequent to the date of this Official Statement and prior to the termination of the offering of the securities made by this Official Statement shall be deemed to be incorporated by reference in this Appendix A and to be a part of this Official Statement from the date such documents are filed.

Any statement contained in a document so incorporated or deemed to be incorporated shall be deemed to be modified or superseded for purposes of this Official Statement to the extent that a statement contained herein or in any other subsequently filed document which is deemed to be so incorporated modifies or supersedes such statement. Any such statement so modified or superseded shall not be deemed, except as so modified or superseded, to constitute a part of this Appendix A.

The Company will provide without charge to each person to whom a copy of this Official Statement has been delivered, on the written or oral request of any such person, a copy of any or all of the documents described above which have been incorporated by reference in this Appendix A, other than exhibits to such documents. Written requests for copies of such documents should be addressed to Financial Reporting, American Electric Power Service Corporation, 1 Riverside Plaza, Columbus, Ohio 43215 (telephone number: 614-716-1000). The information relating to the Company contained in this Appendix A does not purport to be comprehensive and should be read together with the information contained in the documents incorporated by reference.

## RISK FACTORS

Investing in the Bonds involves risk. Please see the risk factors described in the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2008, which is incorporated by reference in this Official Statement. Before making an investment decision, you should carefully consider these risks as well as other information contained or incorporated by reference in this Official Statement. The risks and uncertainties described are those presently known to the Company. Additional risks and uncertainties not presently known to the Company or that the Company currently deems immaterial may also impair the Company's business operations, the Company's financial results and the value of the Bonds.

## RATIO OF EARNINGS TO FIXED CHARGES

The Consolidated Ratio of Earnings to Fixed Charges for each of the periods indicated is as follows:

<u>Twelve Months Period Ended</u>	<u>Ratio</u>
December 31, 2003	1.83
December 31, 2004	2.46
December 31, 2005	2.71
December 31, 2006	2.38
December 31, 2007	2.26
December 31, 2008	2.15

For the purposes of calculating the ratio of earnings to fixed charges, "earnings" represents income before income taxes, extraordinary item, and cumulative effect of accounting changes, plus fixed charges. "Fixed charges" consist of interest expense, amortization of debt issuance costs, and the portion of operating rental expense which management believes is representative of the interest component of rent expense.

See *Where You Can Find More Information* in the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2008.

## INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The consolidated financial statements and the related consolidated financial statement schedule incorporated in this Official Statement by reference from Indiana Michigan Power Company and subsidiaries' Annual Report on Form 10-K for the year ended December 31, 2008 have been audited by Deloitte & Touche LLP, an independent registered public accounting firm, as stated in their reports incorporated herein by reference (which reports express an unqualified opinion and, as to the report related to the consolidated financial statements, includes an explanatory paragraph concerning the adoption of new accounting pronouncements in 2007 and 2006).

APPENDIX B

**PROPOSED FORM OF OPINION OF BOND COUNSEL**  
[Baker & Daniels LLP Letterhead]

March 26, 2009

City of Rockport, Indiana  
Rockport, Indiana

Wells Fargo Bank, N.A., as Trustee  
Fort Wayne, Indiana

Barclays Capital Inc.  
New York, New York

Wachovia Bank, National Association  
Charlotte, North Carolina

Re: \$50,000,000 City of Rockport, Indiana, Pollution Control Revenue  
Refunding Bonds (Indiana Michigan Power Company Project), Series 2009 A,  
and \$50,000,000 City of Rockport, Indiana, Pollution Control Revenue  
Refunding Bonds (Indiana Michigan Power Company Project), Series 2009 B

Ladies and Gentlemen:

We have acted as bond counsel in connection with the issuance by the City of Rockport, Indiana (the "Issuer") of its Fifty Million Dollars (\$50,000,000) of City of Rockport, Indiana, Pollution Control Revenue Refunding Bonds (Indiana Michigan Power Company Project), Series 2009 A (the "Series 2009 A Bonds"), and its Fifty Million Dollars (\$50,000,000) of City of Rockport, Indiana, Pollution Control Revenue Refunding Bonds (Indiana Michigan Power Company Project), Series 2009 B (the "Series 2009 B Bonds," and together with the Series 2009 A Bonds, the "Bonds"), each dated March 26, 2009. The Bonds are being issued pursuant to Indiana Code 36-7-11.9 and Indiana Code 36-7-12, each as amended (collectively the "Act"), and Indiana Code 5-1-5, as amended, and a special ordinance adopted by the Common Council of the City of Rockport, Indiana (the "Common Council") on March 2, 2009 (the "Ordinance"), and under an Indenture of Trust dated as of December 1, 1984, as previously supplemented and amended and as further supplemented and amended by a Ninth Supplemental Indenture of Trust dated as of March 1, 2009 and a Tenth Supplemental Indenture of Trust dated as of March 1, 2009 (as so supplemented and amended, the "Indenture"), between the Issuer and

Wells Fargo Bank, N.A. (successor to Lincoln National Bank and Trust Company of Fort Wayne), as trustee (the "Trustee"). In such capacity we have examined (a) a certified transcript containing the proceedings of the Common Council relating to the authorization, issuance and sale of the Bonds; (b) the Agreement of Sale dated as of December 1, 1984, between the Issuer and Indiana Michigan Power Company, an Indiana corporation (the "Company"), as supplemented and amended (as so supplemented and amended, the "Agreement"); (c) the Official Statement relating to the Bonds dated March 18, 2009; (d) the Arbitrage and Tax Certificate of the Issuer dated the date hereof; (e) the Arbitrage and Tax Certificate of the Company dated the date hereof; (f) executed counterparts of the Indenture and the Agreement; (g) the executed and authenticated Bonds; (h) an opinion of Thomas G. Berkemeyer, Esq., counsel to the Company; and (i) an opinion of John A. Hargis, Esq., Rockport, Indiana, counsel for the Issuer.

As to questions of fact material to our opinion, we have relied upon representations, covenants and certifications of public officials and others contained in the documents, instruments and certified proceedings described in the first paragraph of this opinion, including, without limitation, the certifications, covenants and representations of the Issuer and the Company regarding continuing compliance with certain requirements and conditions imposed by the Internal Revenue Code of 1986, as amended (the "Code"), with respect to the exclusion of interest on the Bonds pursuant to Section 103 of the Code from gross income for purposes of federal income taxation.

Based upon the foregoing and our review of such other materials as we believe necessary or advisable, we are of the opinion that:

1. The Issuer has full legal right, power and authority under the Constitution and laws of the State of Indiana, including the Act, to adopt the Ordinance, to issue, sell and deliver the Bonds and to enter into and perform its obligations under the Indenture and the Agreement.

2. The Indenture and the Agreement have each been duly authorized, executed and delivered by the Issuer and constitute valid and binding obligations of the Issuer enforceable against the Issuer in accordance with their respective terms.

3. The Bonds have been duly authorized, executed, authenticated, issued and delivered and are valid and binding limited obligations of the Issuer enforceable against the Issuer in accordance with the terms thereof. The Bonds are payable from and secured by a pledge and assignment of certain revenues to be received by the Issuer and the Trustee pursuant to the Agreement, and are entitled to the benefits and security of the Indenture.

4. Under statutes, regulations, judicial decisions and published rulings existing on the date of this opinion, and conditioned upon continuing compliance with certain covenants described herein, interest on the Bonds is excludable under Section 103 of the Code from the gross income of the owners thereof for federal income tax purposes and does not constitute an item of tax preference for purposes of the alternative minimum tax. We note, however, that interest on the Series 2009 B Bonds will be included in adjusted current earnings in determining alternative minimum taxable income subject to the corporate alternative minimum tax. No opinion is expressed as to whether interest on the Series 2009 A Bonds will be included in

adjusted current earnings in determining alternative minimum taxable income subject to the corporate alternative minimum tax. Interest on any Bond will not be excludable from gross income for federal income tax purposes during the time such Bond is held by a person who is a "substantial user" of the facilities financed by the Bonds or a "related person" thereto within the meaning of Section 103(b)(13) of the Internal Revenue Code of 1954, as amended, and the regulations promulgated pursuant thereto.

In rendering the opinions expressed in this paragraph 4, we have relied upon certain representations and covenants of the Issuer and the Company included in the transcript, documents and instruments referred to in the first paragraph of this opinion. The exclusion of the interest on the Bonds from gross income for federal income tax purposes is dependent upon the continuing accuracy of such certifications and representations and compliance with such covenants. Failure of the Issuer or the Company to comply with such covenants could render the interest on the Bonds includable in the gross income of the owners thereof retroactive to the date hereof. No opinion is expressed on any federal tax issues with respect to the Bonds, other than as set forth herein.

5. Interest on the Bonds is exempt from taxation in the State of Indiana for all purposes except the Indiana inheritance tax and the Indiana financial institutions tax.

It is to be understood that the rights of any owner of the Bonds, the Issuer and the Trustee and the enforceability of the Bonds, the Indenture and the Agreement may be subject to bankruptcy, insolvency, reorganization, moratorium and other similar laws affecting creditors' rights heretofore or hereafter enacted and that their enforcement may also be subject to and limited by the exercise of judicial discretion.

Very truly yours,

**NOT A NEW ISSUE - BOOK ENTRY ONLY**

On September 24, 2008 and September 18, 2008, the date the Series C Bonds and the Series D Bonds were issued, respectively, Hunton & Williams LLP, as bond counsel delivered its opinion with respect to each series of the Bonds that, under then-existing law and subject to the conditions described under the caption *TAX MATTERS* in Appendix D hereto, interest on the Bonds (a) is not included in gross income for Federal income tax purposes; except when held by a "substantial user" of the Project or a "related person" within the meaning of Section 103(b)(13) of the Internal Revenue Code of 1954, as amended, (b) is not an item of tax preference for purposes of the Federal alternative minimum income tax imposed on individuals, corporations and other taxpayers; however, with respect to corporations (as defined for Federal income tax purposes) subject to the alternative minimum income tax, such interest is taken into account in determining adjusted current earnings for purposes of computing such tax, and (c) is exempt from all taxation by the State of West Virginia, except inheritance taxes. Such opinion further stated that a holder may be subject to other Federal tax consequences as described under the caption *TAX MATTERS* in Appendix D hereto. The form of such opinion is included in Appendix B to the Official Statement (as defined herein). Such opinion speaks only as of the date of initial delivery and issuance of the Bonds and will not be reissued or updated in connection with this reoffering.

In connection with the proposed change in Interest Rate Determination Method on each series of the Bonds from one Long-Term Interest Rate Period to a different Long-Term Interest Rate Period, Squire Sanders (US) LLP is rendering its opinions that such change will not, by itself, adversely affect the exclusion from gross income of interest on the Bonds for federal income tax purposes, and is permitted under the Act and by the Indenture. The forms of such opinions are included in Appendix B to this Reoffering Circular. See *TAX EXEMPTION* herein.

**\$30,000,800**  
*West Virginia Economic Development Authority*  
*Pollution Control Revenue Refunding Bonds*  
*(Appalachian Power Company - Amas Project),*  
*Series 2008C*

Dated date: September 18, 2008

Due: May 1, 2019

**\$40,000,000**  
*West Virginia Economic Development Authority*  
*Pollution Control Revenue Refunding Bonds*  
*(Appalachian Power Company - Amas Project),*  
*Series 2008D*

Dated date: September 18, 2008

Due: May 1, 2019

This Reoffering Circular (including Appendix A) (this "Reoffering Circular") to the Composite Official Statement dated September 10, 2008 relating to each series of the Bonds and the Supplement dated September 24, 2008 to Composite Official Statement dated September 10, 2008 relating solely to the Series C Bonds, each of which is attached hereto as Appendix D (collectively, the "Official Statement" or "Appendix D"), contains certain additional information with respect to the above-described Bonds, all of which are currently outstanding, and should be read in conjunction with the accompanying Official Statement. The information in this Reoffering Circular supersedes any information to the contrary in the Official Statement. Except as otherwise defined herein, all capitalized terms used in this Reoffering Circular shall have the same meanings assigned to them in the Official Statement or in the Indenture relating to the relevant series of Bonds.

Each series of bonds (the "Bonds") are limited obligations of the West Virginia Economic Development Authority (the "Issuer"), and do not constitute an indebtedness or a charge against the general credit of the Issuer or the State of West Virginia. The Bonds are payable solely from, and secured by a pledge of the loan repayments under a note issued under the terms of, for each series, a Loan Agreement (collectively, the "Agreement") between the Issuer and

**APPALACHIAN POWER COMPANY**

Commencing September 4, 2013 (the "Conversion Date"), the Series C Bonds will bear interest at the rate of 3.25% per annum until May 1, 2019 and the Series D Bonds will bear interest at the rate of 3.25% per annum until May 1, 2019. Interest on the Bonds will be payable semi-annually in arrears, commencing on March 1, 2014 and on each March 1 and September 1 of each year thereafter. The Bonds will mature and become due and payable, together with any accrued and unpaid interest, on May 1, 2019.

Prior to September 5, 2018, the Bonds will not be subject to optional redemption but will be subject to extraordinary optional redemption as described under *THE BONDS - Redemption* in Appendix D. On or after September 5, 2018, the Bonds may be redeemed at any time in whole or in part at 100% of their principal amount plus accrued and unpaid interest, if any. See *REDEMPTION* herein.

The Bonds will be reoffered as fully registered bonds and will be registered in the name of Cede & Co., as registered owner and nominee for The Depository Trust Company, New York, New York ("DTC"). DTC acts as a securities depository for the Bonds. The Bonds will be reoffered in denominations of \$5,000 or any integral multiple thereof. Except under the limited circumstances described herein, Beneficial Owners of book-entry interests in the Bonds will not receive certificates representing their ownership interests. Payments of principal and premium, if any, and interest on the Bonds will be made through OTC and disbursements of such payments to Beneficial Owners will be the responsibility of OTC and its Participants (see *THE BONDS - Book-Entry Only System* in Appendix O). J.P. Morgan Securities LLC, Fifth Third Securities, Inc. and The Huntington Investment Company will act as the remarketing agents (the "Remarketing Agents") for the Bonds. The Bank of New York Mellon Trust Company, N.A. acts as Trustee for the Bonds.

**PRICE: 100%**

This cover page contains limited information for quick reference only and is not a summary of this Reoffering Circular. Investors should read the entire Reoffering Circular to obtain information essential to the making of an informed investment decision.

The Bonds are reoffered by the Remarketing Agents subject to the receipt of an opinion of Squire Sanders (US) LLP, as described herein, and certain other conditions. Certain legal matters, other than the validity of the Bonds and the exclusion from gross income for federal income tax purposes of interest thereon, will be passed on for the Remarketing Agents by their counsel, Hunton & Williams LLP, New York, New York, and for the Company by its internal counsel. Delivery of the Bonds in book-entry-only form is expected on or about September 4, 2013, through the facilities of DTC in New York, New York, against payment therefor.

**J.P. Morgan**

**Fifth Third Securities, Inc.**

**The Huntington Investment Company**

Dated: August 20, 2013

[This Page Intentionally Left Blank]

**CONTENTS OF REOFFERING CIRCULAR**

<u>Reoffering Circular</u>	<u>Page</u>
CERTAIN INFORMATION RELATING TO THE BONDS.....	1
REDEMPTION.....	1
CONTINUING DISCLOSURE AGREEMENT .....	2
REMARKETING .....	3
TAX EXEMPTION.....	4
LEGAL MATTERS.....	5
MISCELLANEOUS .....	5
Appendix A (Appalachian Power Company) .....	A-1
Appendix B (Form of Conversion Opinion of Bond Counsel) .....	B-1
Appendix C (Form of Continuing Disclosure Undertaking).....	C-1
Appendix D (Composite Official Statement dated September 10, 2008 for the Bonds, together with the Supplement dated September 24, 2008 for Series C Bonds).....	D-1

No person has been authorized to give any information or to make any representations other than those contained in this Reoffering Circular in connection with the reoffer made hereby and, if given or made, such information or representations must not be relied upon as having been authorized by the Issuer, the Company or the Remarketing Agents. Neither the delivery of this Reoffering Circular nor any sale hereunder shall under any circumstances create any implication that there has been no change in the affairs of the Issuer or the Company since the date hereof. This Reoffering Circular does not constitute an offer or solicitation in any jurisdiction in which such offer or solicitation is not authorized, or in which the person making such offer or solicitation is not qualified to do so or to any person to whom it is unlawful to make such offer or solicitation. The Issuer neither has nor assumes any responsibility as to the accuracy or completeness of the information in this Reoffering Circular, all of which has been furnished by others, other than information under *THE ISSUER* in Appendix D.

The Remarketing Agents have provided the following sentence for inclusion in this Reoffering Circular. The Remarketing Agents have reviewed the information in this Reoffering Circular in accordance with, and as a part of, their responsibilities to investors under the federal securities laws as applied to the facts and circumstances of this transaction, but the Remarketing Agents do not guarantee the accuracy or completeness of such information.

**IN MAKING AN INVESTMENT DECISION, INVESTORS MUST RELY ON THEIR OWN EXAMINATION OF THE ISSUER, THE COMPANY AND THE TERMS OF THE OFFERING, INCLUDING THE MERITS AND RISKS INVOLVED. THESE SECURITIES HAVE NOT BEEN RECOMMENDED BY ANY FEDERAL OR STATE SECURITIES COMMISSION OR REGULATORY AUTHORITY. FURTHERMORE, THE FOREGOING AUTHORITIES HAVE NOT CONFIRMED THE ACCURACY OR DETERMINED THE ADEQUACY OF THIS REOFFERING CIRCULAR. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE.**

[This Page Intentionally Left Blank]

### **CERTAIN INFORMATION RELATING TO THE BONDS**

All information in the Official Statement attached hereto as Appendix D prepared in connection with the original delivery of the Bonds is subject to, and qualified by, the more recent information included in this Reoffering Circular. Unless otherwise defined, capitalized terms used in this Reoffering Circular shall have the meanings set forth in the Official Statement or in the Indenture relating to the relevant series of Bonds. Information concerning the Company is contained in Appendix A hereto, which supplements and updates the original Appendix A to the accompanying Official Statement. The Official Statement attached as Appendix D hereto, which contains, among other things, descriptions of the Issuer, the Project, the Bonds, the Agreements and the Indentures, constitutes an integral part of this Reoffering Circular and must be read in conjunction herewith.

On September 24, 2008 and September 18, 2008, the West Virginia Economic Development Authority (the "Issuer") issued (i) \$30,000,000 aggregate principal amount of its Pollution Control Revenue Refunding Bonds (Appalachian Power Company – Amos Project), Series 2008C (the "Series C Bonds") and (ii) \$40,000,000 aggregate principal amount of its Pollution Control Revenue Refunding Bonds (Appalachian Power Company – Amos Project), Series 2008D (the "Series D Bonds"; and together with the Series C Bonds, the "Bonds"), respectively. At the election of the Company, on the Conversion Date, the Interest rate Determination Method on the Bonds will be changed to a new Long-Term Interest Rate Period that will begin on the Conversion Date and will end on May 1, 2019, the stated maturity of the Bonds.

Commencing on the Conversion Date, the Series C Bonds will bear interest at the rate of 3.25% per annum until May 1, 2019 and the Series D Bonds will bear interest at the rate of 3.25% per annum until May 1, 2019. Interest on the Bonds will be payable semi-annually in arrears, commencing on March 1, 2014 and on each March 1 and September 1 of each year thereafter.

The Bonds will mature and become due and payable, together with any accrued and unpaid interest, on May 1, 2019.

### **REDEMPTION**

Prior to September 5, 2018 the Bonds will not be subject to optional redemption but will be subject to extraordinary optional redemption as described under *THE BONDS – Redemption* in Appendix D. On or after September 5, 2018, the Bonds may be redeemed at any time in whole or in part at 100% of their principal amount plus accrued and unpaid interest, if any.

## CONTINUING DISCLOSURE AGREEMENT

The Company has agreed to deliver certain continuing disclosure information satisfying the requirements of Rule 15c2-12 ("Rule") under the 1934 Act. The Company will undertake in a written agreement for the benefit of the holders and beneficial owners of the Bonds (the "Continuing Disclosure Undertaking") to provide the Municipal Securities Rulemaking Board ("MSRB") as the sole nationally recognized securities repository through the MSRB's Electronic Municipal Market Access ("EMMA") certain financial and operating data concerning the Company. In addition, the Company will undertake, for the benefit of the holders and beneficial owners of the Bonds, to provide to the MSRB through EMMA, in a timely manner (not in excess of ten (10) business days after the occurrence of such event), notices of any of the events enumerated in the Rule. Notices of the aforesaid events and any filing to be made under the Continuing Disclosure Undertaking may be made solely by transmitting such filing to the MSRB through EMMA as provided at <http://emma.msrb.org>. The contents of such website do not constitute a part of this Reoffering Circular. See Appendix C – Form of Continuing Disclosure Undertaking hereto.

Since November of 2008, several financial guaranty insurance providers sustained rating downgrades as a result of the credit crisis. As a result of the downgrades of such bond insurers, bonds insured by such financial guaranty insurance policies were downgraded. Certain information repositories' records do not reflect the material event information described above regarding rating changes for two series of bonds insured by financial guaranty insurance policies or notices of failure to provide such information to those repositories in accordance with certain continuing disclosure undertakings to which the Company was subject. None of those insured bonds remain outstanding. Certain information repositories' records do not reflect the filing of the Company's annual financial statements for the years 2008 and 2009 for one series of bonds and reflect that its 2011 annual financial statements were posted to an outdated CUSIP number for another series of bonds. The Company has provided such financial statements for outstanding bonds. The Company has in place procedures in order to make such material event notices and financial statement filings on an on-going basis.

The sole and exclusive remedy for breach or default under the Continuing Disclosure Undertaking is an action to compel specific performance of the undertakings of the Company and no person, including a holder of the Bonds, may recover monetary damages thereunder under any circumstances. A breach or default under the Continuing Disclosure Undertaking shall not constitute an event of default under the Indenture or the Agreement applicable to each series of Bonds. In addition, if all or any part of the Rule ceases to be in effect for any reason, then, subject to the terms of the Continuing Disclosure Undertaking, the information required to be provided under the Continuing Disclosure Undertaking, insofar as the provision of the Rule

no longer in effect required the provision of such information, shall no longer be required to be provided.

### REMARKETING

J.P. Morgan Securities LLC, Fifth Third Securities, Inc. and The Huntington Investment Company have been appointed Remarketing Agents for the Bonds. Pursuant to the Series C Remarketing Agreement (the "Series C Remarketing Agreement") to be entered into by the Company and J.P. Morgan Securities LLC, as representative of the Remarketing Agents for the Series C Bonds, the Remarketing Agents will agree, subject to certain conditions, to reoffer the Series C Bonds on the Conversion Date to the public at a purchase price equal to 100% of the principal amount thereof. The Company has agreed to pay the Remarketing Agents for the Series C Bonds \$150,000 as a fee, plus expenses. Pursuant to the Series C Remarketing Agreement the Company has agreed to indemnify the Remarketing Agents and their respective officers, directors and employees, against certain liabilities, including liabilities under the federal securities laws.

Pursuant to the Series D Remarketing Agreement (the "Series D Remarketing Agreement") to be entered into by the Company and J.P. Morgan Securities LLC, as representative of the Remarketing Agents for the Series D Bonds, the Remarketing Agents will agree, subject to certain conditions, to reoffer the Series D Bonds on the Conversion Date to the public at a purchase price equal to 100% of the principal amount thereof. The Company has agreed to pay the Remarketing Agents for the Series D Bonds \$200,000 as a fee, plus expenses. Pursuant to the Series D Remarketing Agreement the Company has agreed to indemnify the Remarketing Agents and their respective officers, directors and employees, against certain liabilities, including liabilities under the federal securities laws.

The Remarketing Agents and/or certain of their affiliates may engage in transactions with, and from time to time have performed, and may in the future perform, services for, the Company and its affiliates in the ordinary course of business, for which they received or will receive customary fees and expenses.

The Remarketing Agents and their affiliates are full service financial institutions engaged in various activities, which may include securities trading, commercial and investment banking, financial advisory, investment management, principal investment, hedging, financing and brokerage activities.

In the ordinary course of their various business activities, the Remarketing Agents and their affiliates may make or hold a broad array of investments and actively trade debt and equity securities (or related derivative securities) and financial instruments (which may include bank loans and/or credit default swaps) for their own accounts and for the accounts of their customers and may at any time hold long and short positions in such securities and instruments. Such

investment and securities activities may involve securities and instruments of the Company and its affiliates.

#### TAX EXEMPTION

The opinion of Hunton & Williams LLP delivered in connection with the original issuance of each series of the Bonds stated that, under then-existing law, interest on the Bonds (a) is not included in gross income for Federal income tax purposes; except when held by a "substantial user" of the Project or a "related person" within the meaning of Section 103(b)(13) of the Internal Revenue Code of 1954, as amended, (b) is not an item of tax preference for purposes of the Federal alternative minimum income tax imposed on individuals, corporations and other taxpayers; however, with respect to corporations (as defined for Federal income tax purposes) subject to the alternative minimum income tax, such interest is taken into account in determining adjusted current earnings for purposes of computing such tax, and (c) is exempt from all taxation by the State of West Virginia, except inheritance taxes. See TAX MATTERS in the Official Statement. Such opinion spoke only as of its date and will not be reissued or updated in connection with this reoffering.

In connection with the delivery of notices regarding the change in interest rate Determination Method on the Bonds, Squire Sanders (US) LLP (Squire Sanders) rendered its opinions, and in connection with the proposed change in interest rate Determination Method Squire Sanders will render its opinions, that such change will not, by itself, adversely affect the exclusion from gross income of interest on the Bonds for federal income tax purposes, and is permitted under the Act and by the Indenture. In rendering such opinions, Squire Sanders examined such proceedings, documents, matters and law as it deemed necessary to render such opinions. Squire Sanders did not act as bond counsel in connection with the original issuance of and delivery of any of the Bonds and makes no representations as to the correctness of any opinions rendered by other bond counsel in connection therewith. Further, Squire Sanders has not obtained, verified or reviewed any information concerning any event (except for the change in interest rate Determination Method) that might have occurred subsequent to the original issuance of the Bonds and that might have adversely affected the exclusion from gross income of interest on the Bonds for federal income tax purposes. See Appendix B for the proposed forms of such opinions.

### LEGAL MATTERS

Certain legal matters will be passed upon by Jeffrey D. Cross or Thomas G. Berkemeyer, counsel for the Company. Jeffrey D. Cross and Thomas G. Berkemeyer are Deputy General Counsel and Associate General Counsel, respectively, of American Electric Power Service Corporation, an affiliate of the Company. Certain legal matters, other than the validity of the Bonds and the exclusion from gross income of interest thereon, will be passed upon by Hunton & Williams LLP, New York, New York, counsel for the Remarketing Agents. Hunton & Williams LLP acts as counsel to certain affiliates of the Company for some matters.

The various legal opinions to be delivered concurrently with the reoffering of the Bonds express the professional judgment of the attorneys rendering the opinions as to the legal issues explicitly addressed therein. In rendering a legal opinion, the attorney does not become an insurer or guarantor of the expression of professional judgment, of the transaction opined upon, or of the future performance of the parties to the transaction, nor does the rendering of an opinion guarantee the outcome of any legal dispute that may arise out of the transaction.

### MISCELLANEOUS

The attached Appendices (including documents incorporated by references therein) are an integral part of this Reoffering Circular and must be read together with all of the balance of this Reoffering Circular.

The Issuer does not assume any responsibility for the matters contained in this Reoffering Circular other than information under *THE ISSUER* in Appendix D. All findings and determinations by the Issuer relating to the issuance and sale of the Bonds are, and have been, made by the Issuer for its own internal uses and purposes in performing its duties under West Virginia law.

[This Page Intentionally Left Blank]

## APPENDIX A

### APPALACHIAN POWER COMPANY

The Company is a public utility engaged in generating, purchasing, transmitting, distributing and selling electricity in Virginia and West Virginia. Its principal executive office is 1 Riverside Plaza, Columbus, Ohio 43215 and the telephone number is (614) 716-1000. The Company is a subsidiary of American Electric Power Company, Inc. (AEP) and is a part of the AEP integrated utility system.

### AVAILABLE INFORMATION

The Company is subject to the informational requirements of the Securities Exchange Act of 1934 (1934 Act) and in accordance therewith files reports and other information with the Securities and Exchange Commission (SEC). Such reports and other information may be inspected and copied at the public reference room maintained by the SEC at 100 F Street, N.E., Washington, D.C. 20549. Information about the operation of the public reference room can be obtained by calling the SEC at 1-800-SEC-0330. The SEC maintains a web site at <http://www.sec.gov> containing reports, proxy and information statements and other information regarding registrants that file electronically with the SEC, including the Company. Certain of the Company's securities are listed on the New York Stock Exchange, Inc., where reports, information statements and other information concerning the Company may also be inspected.

### DOCUMENTS INCORPORATED BY REFERENCE

The following documents filed with the SEC by the Company pursuant to the 1934 Act are incorporated by reference in this Appendix A and made a part of this Reoffering Circular:

- The Company's Annual Report on Form 10-K for the year ended December 31, 2012, and
- The Company's Quarterly Reports on Form 10-Q for the quarters ended March 31, 2013 and June 30, 2013, and
- The Company's Current Report on Form 8-K filed July 19, 2013.

All documents filed by the Company with the SEC pursuant to Section 13(a), 13(c), 14 or 15(d) of the 1934 Act subsequent to the date of this Reoffering Circular and prior to the termination of the reoffering of the securities offered by this Reoffering Circular are to be incorporated by reference in this Appendix A and to be a part of this Reoffering Circular from the date such documents are filed.

Any statement contained in a document so incorporated or deemed to be incorporated shall be deemed to be modified or superseded for purposes of this Reoffering Circular to the extent that a statement contained herein or in any other subsequently filed document which is deemed to be so incorporated modifies or supersedes such statement. Any such statement so modified or superseded shall not be deemed, except as so modified or superseded, to constitute a part of this Appendix A.

The Company will provide without charge to each person to whom a copy of this Reoffering Circular has been delivered, on the written or oral request of any such person, a copy of any or all of the documents described above which have been incorporated by reference in this Appendix A, other than exhibits to such documents. Written requests for copies of such documents should be addressed to Financial Reporting, American Electric Power Service Corporation, 1 Riverside Plaza, Columbus, Ohio 43215 (telephone number: 614-716-1000). The information relating to the Company contained in this Appendix A does not purport to be comprehensive and should be read together with the information contained in the documents incorporated by reference herein.

#### RECENT DEVELOPMENTS

The Company filed in December 2012 for approval from the Virginia State Corporation Commission (the "VSCC") and the Public Service Commission of West Virginia (the "WVPSC") to transfer Ohio Power Company's two-thirds ownership (867 MW) of Amos Plant Unit 3 (1,300 MW) (the "Amos Transfer") and 800 MW of the 1,600-MW generating capacity of the Mitchell Plant to the Company.

On July 31, 2013 the VSCC approved the Amos Transfer. The VSCC also approved the merger of Wheeling Power Company, an affiliate of the Company, with the Company, but denied transfer of 50 percent of the 1,600-megawatt (MW) Mitchell Plant to the Company. The Company proposed to purchase the Amos Transfer at its net book value. The VSCC stated that the book value of the Amos Transfer was overstated by \$53.4 million and accordingly approved the purchase at a price of \$565 million, rather than \$618 million. Although the VSCC approved the merger of Wheeling Power Company with the Company, denial of the Mitchell Plant ownership transfer means there will be insufficient generation resources to serve the merged company. The Company intends to notify the parties and the WVPSC in the asset transfer case of this matter and may re-evaluate the feasibility of the merger.

Approval from the WVPSC is still necessary to complete the Amos Transfer to the Company.

## RISK FACTORS

Investing in the Bonds involves risk. Please see the risk factors described in the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2012, and the Company's Quarterly Reports on Form 10-Q for the quarters ended March 31, 2013 and June 30, 2013, which are incorporated by reference in this Reoffering Circular. Before making an investment decision, you should carefully consider these risks as well as other information contained or incorporated by reference in this Reoffering Circular. The risks and uncertainties described are those presently known to the Company. Additional risks and uncertainties not presently known to the Company or that the Company currently deems immaterial may also negatively impact the Company's business operations, its financial results and the value of the Bonds.

## RATIO OF EARNINGS TO FIXED CHARGES

The Ratio of Earnings to Fixed Charges for each of the periods indicated is as follows:

<u>Twelve Months Period Ended</u>	<u>Ratio</u>
December 31, 2008	1.73
December 31, 2009	1.93
December 31, 2010	1.96
December 31, 2011	2.16
December 31, 2012	3.01
June 30, 2013	2.65

The Ratio of Earnings to Fixed Charges for the six-month period ended June 30, 2013 was 2.65. For the purposes of calculating the Ratio of Earnings to Fixed Charges, "earnings" represents income before income taxes, extraordinary items, and cumulative effect of accounting changes, plus fixed charges. "Fixed charges" consist of interest expense, amortization of debt issuance costs, and the portion of operating rental expense which management believes is representative of the interest within rental expense.

For current information on the Ratio of Earnings to Fixed Charges, please see the Company's most recent Annual Report on Form 10-K and Quarterly Report on Form 10-Q. See *Available Information* above.

## INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The consolidated financial statements and financial statement schedule incorporated by reference in this Reoffering Circular from the Appalachian Power Company Annual Report on Form 10-K for the year ended December 31, 2012 have been audited by Deloitte & Touche LLP,

an independent registered public accounting firm, as stated in their reports incorporated by reference herein.

**APPENDIX B**

Squire Sanders (US) LLP  
4900 Key Tower  
127 Public Square  
Cleveland, OH 44114

O +1 216 479 8500  
F +1 216 479 8780  
squiresanders.com

September 4, 2013

West Virginia Economic Development Authority  
Charleston, West Virginia

The Bank of New York Mellon Trust Company, N.A., as Trustee,  
Paying Agent, Bond Registrar and Tender Agent  
Columbus, Ohio

J.P. Morgan Securities LLC, as Representative of the  
Remarketing Agents  
New York, New York

Appalachian Power Company  
Charleston, West Virginia

This opinion is rendered at the request of Appalachian Power Company in connection with the proposed change in interest rate Determination Method on the Bonds (identified below) from one Long-Term Interest Rate Period to a different Long-Term Interest Rate Period to be effective on September 4, 2013 (the "Action"). The Bonds are the \$30,000,000 West Virginia Economic Development Authority Pollution Control Revenue Refunding Bonds (Appalachian Power Company – Amos Project), Series 2008C (the "Bonds"), issued on September 24, 2008. The Bonds were issued pursuant to the Indenture of Trust dated as of September 1, 2008 (the "Indenture") between the West Virginia Economic Development Authority and The Bank of New York Mellon Trust Company, N.A., as Trustee. Capitalized terms not otherwise defined in this opinion are used as defined in the Indenture.

We have examined such proceedings, documents, matters and law as we deem necessary to render the opinions set forth in this letter.

Based on that examination and subject to the limitations stated below, we are of the opinion that under existing law:

(I) The Action will not, by itself, adversely affect the exclusion from gross income of interest on the Bonds for federal income tax purposes; and

(2) The Action is permitted under the Act and by the Indenture.

The opinions stated above are based on an analysis of existing laws, regulations, rulings and court decisions and cover certain matters not directly addressed by such authorities. In rendering all such opinions we assume, without independent verification, and rely upon (i) the accuracy of the factual matters represented, warranted or certified in the proceedings and documents we have examined and (ii) the due and legal authorization, execution and delivery of those documents by, and the valid, binding and enforceable nature of those documents upon, the parties thereto.

The opinion stated above in paragraph (1) is limited to the legal effect of the Action. We did not act as bond counsel in connection with the original issuance of and delivery of any of the Bonds and we make no representations as to the correctness of any opinions rendered by other bond counsel in connection therewith. Further, we have not obtained, verified or reviewed any information concerning any event (except the Action) that might have occurred subsequent to the original issuance of the Bonds and that might have adversely affected the exclusion from gross income of interest on the Bonds for federal income tax purposes. Accordingly, except as expressly stated in paragraph (1) above, we express no opinion as to any matters concerning the status of the interest on the Bonds under the Internal Revenue Code of 1986, as amended, including specifically whether the interest on the Bonds is excluded from gross income for federal income tax purposes.

This letter is furnished by us solely for your benefit in connection with the Action and may not be relied upon for any other purpose or by any other person including the holders, owners or beneficial owners of the Bonds. The opinions in this letter are stated only as of this date, and no other opinion shall be implied or inferred as a result of anything contained in or omitted from this letter. Our engagement with respect to this matter has concluded on this date.

Respectfully submitted,

Squire Sanders (US) LLP  
4900 Key Tower  
127 Public Square  
Cleveland, OH 44114

O +1 216 479 8500  
F +1 216 479 8780  
squiresanders.com

September 4, 2013

West Virginia Economic Development Authority  
Charleston, West Virginia

The Bank of New York Mellon Trust Company, N.A., as Trustee,  
Paying Agent, Bond Registrar and Tender Agent  
Columbus, Ohio

J.P. Morgan Securities LLC, as Representative of the  
Remarketing Agents  
New York, New York

Appalachian Power Company  
Charleston, West Virginia

This opinion is rendered at the request of Appalachian Power Company in connection with the proposed change in interest rate Determination Method on the Bonds (identified below) from one Long-Term Interest Rate Period to a different Long-Term Interest Rate Period to be effective on September 4, 2013 (the "Action"). The Bonds are the \$40,000,000 West Virginia Economic Development Authority Pollution Control Revenue Refunding Bonds (Appalachian Power Company – Amos Project), Series 2008D (the "Bonds"), issued on September 18, 2008. The Bonds were issued pursuant to the Indenture of Trust dated as of September 1, 2008 (the "Indenture") between the West Virginia Economic Development Authority and The Bank of New York Mellon Trust Company, N.A., as Trustee. Capitalized terms not otherwise defined in this opinion are used as defined in the Indenture.

We have examined such proceedings, documents, matters and law as we deem necessary to render the opinions set forth in this letter.

Based on that examination and subject to the limitations stated below, we are of the opinion that under existing law:

(1) The Action will not, by itself, adversely affect the exclusion from gross income of interest on the Bonds for federal income tax purposes; and

(2) The Action is permitted under the Act and by the Indenture.

The opinions stated above are based on an analysis of existing laws, regulations, rulings and court decisions and cover certain matters not directly addressed by such authorities. In rendering all such opinions we assume, without independent verification, and rely upon (i) the accuracy of the factual matters represented, warranted or certified in the proceedings and documents we have examined and (ii) the due and legal authorization, execution and delivery of those documents by, and the valid, binding and enforceable nature of those documents upon, the parties thereto.

The opinion stated above in paragraph (1) is limited to the legal effect of the Action. We did not act as bond counsel in connection with the original issuance of and delivery of any of the Bonds and we make no representations as to the correctness of any opinions rendered by other bond counsel in connection therewith. Further, we have not obtained, verified or reviewed any information concerning any event (except the Action) that might have occurred subsequent to the original issuance of the Bonds and that might have adversely affected the exclusion from gross income of interest on the Bonds for federal income tax purposes. Accordingly, except as expressly stated in paragraph (1) above, we express no opinion as to any matters concerning the status of the interest on the Bonds under the Internal Revenue Code of 1986, as amended, including specifically whether the interest on the Bonds is excluded from gross income for federal income tax purposes.

This letter is furnished by us solely for your benefit in connection with the Action and may not be relied upon for any other purpose or by any other person including the holders, owners or beneficial owners of the Bonds. The opinions in this letter are stated only as of this date, and no other opinion shall be implied or inferred as a result of anything contained in or omitted from this letter. Our engagement with respect to this matter has concluded on this date.

Respectfully submitted,

APPENDIX C

**AMENDED AND RESTATED  
RULE 15c2-12 UNDERTAKING OF  
APPALACHIAN POWER COMPANY**

In connection with the \$ \_\_\_\_\_ principal amount of West Virginia Economic Development Authority Pollution Control Revenue Refunding Bonds (Appalachian Power Company-Amos Project), Series 2008 \_\_\_\_ (the "Bonds"), Appalachian Power Company, a Virginia corporation (the "Corporation"), hereby undertakes as follows:

(a) Solely for the purpose of enabling J.P. Morgan Securities LLC, Fifth Third Securities, Inc. and The Huntington Investment Company, as remarketing agents of the Bonds, to comply with the requirements of Rule 15c2-12(b)(5) under the Securities Exchange Act of 1934, as in effect on September 4, 2013 (such Rule, as in effect on such date, being hereinafter called the "Rule"), the Corporation hereby undertakes (but only to the extent, and only for so long as, required for compliance with valid and effective provisions of the Rule), for the benefit of the holders of the Bonds, to provide to the persons specified in paragraph (b) hereof,

(i) not later than 120 days after the end of each fiscal year of the Corporation, the Corporation's audited annual financial statements, for the Corporation's most recent fiscal year then ended, of the type included in Appendix A to the Reoffering Circular dated August \_\_, 2013, relating to the Bonds (the "Audited Financial Statements"), which financial statements will be prepared in accordance with generally accepted accounting principles; provided, that if the audited financial statements of the Corporation are not available by the date required above, the Corporation will submit unaudited financial statements and submit audited financial statements as soon as they are available; and

(ii) in a timely manner (but not in excess of ten business days), notice (each an "Event Notice") of (I) the occurrence of any of the events enumerated in subdivisions (b)(5)(i)(C)(1) through (14) of the Rule or (II) a failure by the Corporation to provide the Audited Financial Statements by the date and to the extent required by paragraph (a)(i) hereof.

(b) To the extent required by paragraph (a) hereof, the Audited Financial Statements and Event Notices shall be provided to the Municipal Securities Rulemaking Board (the "MSRB") under its Electronic Market Access System.

(c) This Undertaking is made solely by the Corporation for the purpose stated in paragraph (a) and neither West Virginia Economic Development Authority (the "Issuer") nor its members, officers or employees have any responsibility or liability for the sufficiency, performance or enforcement of this Undertaking.

(d) This Undertaking: (i) is not intended to impose obligations on the Corporation that are not required to achieve the purpose stated in paragraph (a) hereof; (ii) does not constitute an acknowledgment by the Corporation of the validity of the Rule; and (iii) is valid and binding only to the extent and for so long as the Rule is valid and remains in effect. The Corporation expressly reserves the right to contest the validity of all or any portion of the Rule, including, without limitation, as a defense in any action or proceeding. If the Rule or any portion thereof is

determined to be invalid or is repealed, or is amended to reduce the undertakings required to be obtained from "obligated persons" within the meaning of the Rule, the obligations of the Corporation hereunder shall be correspondingly reduced or terminated. The Corporation expressly reserves the right to modify its performance of its obligations hereunder, to the extent not inconsistent with those portions, if any, of the Rule that remain valid and effective.

(e) The Corporation, its directors, officers, employees and stockholders shall have no liability under this Undertaking for any act or failure to act; notwithstanding anything contained in the Loan Agreement dated as of September 1, 2008 (the "Agreement"), between the Issuer and the Corporation, the Indenture of Trust dated as of September 1, 2008 (the "Indenture"), between the Issuer and The Bank of New York Mellon Trust Company, N.A., as trustee (the "Trustee"), or any other document, a failure by the Corporation to comply with any provision of this Undertaking shall not constitute an Event of Default under the Agreement, an Event of Default under the Indenture, or a default under any Bond; and the sole remedy shall be an action to compel performance. Except as may otherwise be required by the Rule, no person, other than the Trustee, acting pursuant to the Indenture, shall have any right, power or standing to enforce this Undertaking. It shall be a condition precedent to the right, power, and standing of any person to bring an action to compel performance under this Undertaking that (i) such person, not less than five business days prior to commencement of such actions, shall have actually delivered to the Corporation notice of such person's intent to commence such action and the nature of the non-performance complained of, together with reasonable proof that such person is a person otherwise having such right, power and standing, and (ii) the Corporation shall not have cured the non-performance complained of. Neither the commencement nor the successful completion of an action to compel performance hereunder shall entitle the Trustee or any other person to attorneys' fees or any other relief, other than an order or injunction compelling performance.

(f) [reserved].

(g) All obligations of the Corporation pursuant to this Undertaking shall terminate if and when the Corporation is no longer an "obligated person" with respect to the Bonds within the meaning of the Rule.

(h) Until such time as it shall be definitely established to the contrary, the Corporation may assume for purposes of the agreements contained in the Undertaking relating to Event Notices:

(1) the term "defaults" as used in the Rule means Events of Default as such term is defined in the Indenture;

(3) there are no "debt service reserves" or "liquidity providers", as such terms are used in the Rule; and

(4) there is no "property securing repayment" of the Bonds, other than the Agreement, within the meaning of the Rule.

(i) This Undertaking amends and restates in its entirety the Corporation's Rule 15c2-12 Undertaking, dated September 24, 2008.

IN WITNESS WHEREOF, the Corporation has duly authorized this Undertaking by the signature of its authorized officer.

APPALACHIAN POWER COMPANY

By: \_\_\_\_\_  
Name: Renee V. Hawkins  
Title: Assistant Treasurer

Dated: September 4, 2013

[This Page Intentionally Left Blank]

Appendix D

**SUPPLEMENT DATED SEPTEMBER 24, 2008  
TO COMPOSITE OFFICIAL STATEMENT  
DATED SEPTEMBER 10, 2008  
NEW ISSUE – BOOK-ENTRY ONLY**

**\$30,000,000  
West Virginia Economic Development Authority  
Pollution Control Revenue Refunding Bonds  
(Appalachian Power Company – Amos Project),  
Series 2008C  
(the “Series C Bonds”)**

The following amends and restates certain information solely relating to the Series C Bonds in the Composite Official Statement, dated September 10, 2008 (the “Official Statement”):

The Series C Bonds will be dated as of September 18, 2008.

Interest shall accrue on the Series C Bonds from September 18, 2008.

The date of original issuance of the Series C Bonds shall be on or about September 24, 2008.

Delivery of the Series C Bonds in book-entry-only form is expected on or about September 24, 2008 through the facilities of DTC in New York, New York, against payment therefor.

Barclays Capital Inc. (“Barclays”) has agreed to assume the rights, duties and obligations of Lehman Brothers Inc. relating to the purchase, sale and delivery of the Series C Bonds.

Appalachian Power Company has agreed to pay Barclays \$125,750 as compensation and to reimburse Barclays for its reasonable expenses.

**If the description of the Series C Bonds varies between the Official Statement and this Supplement, you should rely on information in this Supplement.**

[This Page Intentionally Left Blank]

COMPOSITE OFFICIAL STATEMENT

TWO NEW ISSUES—BOOK ENTRY

In the opinion of Bond Counsel, under existing law and subject to the conditions described under the caption *TAX MATTERS* herein, interest on the Bonds (a) will not be included in gross income for Federal income tax purposes; except when held by a "substantial user" of the Project or a "related person" within the meaning of Section 103(b)(13) of the Internal Revenue Code of 1954, as amended, and (b) will not be an item of tax preference for purposes of the Federal alternative minimum income tax imposed on individuals, corporations and other taxpayers; however, with respect to corporations (as defined for Federal income tax purposes) subject to the alternative minimum income tax, such interest is taken into account in determining adjusted current earnings for purposes of computing such tax. Such interest will be exempt from all taxation by the State of West Virginia, except inheritance taxes. A holder may be subject to other Federal tax consequences as described under the caption *TAX MATTERS* herein.

\$30,000,000

West Virginia Economic Development Authority  
Pollution Control Revenue Refunding Bonds  
(Appalachian Power Company—Amos Project),  
Series 2008C

Interest to accrue from date of issuance

Due: May 1, 2019

\$40,000,000

West Virginia Economic Development Authority  
Pollution Control Revenue Refunding Bonds  
(Appalachian Power Company—Amos Project),  
Series 2008D

Interest to accrue from date of issuance

Due: May 1, 2019

Each series of bonds (the "Bonds") are limited obligations of the West Virginia Economic Development Authority (the "Issuer"), and do not constitute an indebtedness or a charge against the general credit of the Issuer or the State of West Virginia. The Bonds are payable solely from, and secured by a pledge of, the loan repayments under a note issued under the terms of, for each series, a Loan Agreement (collectively, the "Agreement") between the Issuer and (the "Company").

Appalachian Power Company

The Series 2008C Bonds will bear interest at the rate of 4.85% per annum beginning on the date of original issuance until September 4, 2013, the date on which they are subject to mandatory tender for purchase. The Series 2008D Bonds will bear interest at the rate of 4.85% per annum beginning on the date of original issuance until September 4, 2013, the date on which they are subject to mandatory tender for purchase. Interest on the Bonds will be payable semi-annually in arrears on each March 1 and September 1 of each year, commencing on March 1, 2009, and on the date on which the Bonds are subject to mandatory tender for purchase. Prior to September 4, 2013, the Bonds will not be subject to optional redemption but will be subject to extraordinary optional redemption as described under *THE BONDS—Redemption*.

The Bonds will be issued as fully registered bonds and will be registered initially in the name of Code & Co., as registered owner and nominee for The Depository Trust Company, New York, New York ("DTC"). DTC acts as a securities depository for the Bonds. The Bonds will be issued in denominations of \$5,000 and integral multiples thereof. Except under the limited circumstances described herein, Beneficial Owners of book-entry interests in the Bonds will not receive certificates representing their interests. Payments of principal or purchase price of and premium, if any, and interest on the Bonds will be made through DTC and disbursements of such payments to Beneficial Owners will be the responsibility of DTC and its Participants (see *THE BONDS—Book-Entry Only System* herein). Lehman Brothers Inc. ("Lehman") will act as underwriter for the Series 2008C Bonds. J.P. Morgan Securities Inc. ("J.P. Morgan"); and together with Lehman, the "Underwriters") will act as underwriter for the Series 2008D Bonds. The Bank of New York Mellon Trust Company, N.A. will act as Trustee and as Paying Agent for the Bonds.

PRICE: 100%

This cover page contains limited information for quick reference only and is not a summary of this Official Statement. Investors should read the entire Official Statement to obtain information essential to the making of an informed investment decision.

The Bonds are offered, subject to prior sale, when, as and if issued and received by the Underwriters, subject to the approval of their validity by Hunton & Williams, LLP, Richmond, Virginia, Bond Counsel, as described herein, and certain other conditions. Certain legal matters, other than the validity of the Bonds and the exclusion from gross income for federal income tax purposes of interest thereon, will be passed on for the Underwriters by their counsel, Dewey & LeBoeuf LLP, New York, New York, and for the Company by its internal counsel. Delivery of the Bonds in book-entry-only form is expected on or about September 18, 2008, through the facilities of DTC in New York, New York, against payment therefor.

LEHMAN BROTHERS  
(SERIES 2008C)

J.P.Morgan  
(Series 2008D)

Dated: September 10, 2008

**CONTENTS OF OFFICIAL STATEMENT**

<u>Official Statement</u>	<u>Page</u>
INTRODUCTORY STATEMENT .....	1
THE ISSUER .....	2
THE PROJECT .....	3
USE OF PROCEEDS .....	3
THE BONDS .....	3
THE AGREEMENTS .....	10
THE INDENTURES .....	13
UNDERWRITING .....	18
CONTINUING DISCLOSURE AGREEMENT .....	19
TAX MATTERS .....	20
LEGAL MATTERS .....	21
MISCELLANEOUS .....	22
Appendix A (Appalachian Power Company) .....	A-1
Appendix B (Proposed Form of Opinion of Bond Counsel) .....	B-1

---

No person has been authorized to give any information or to make any representations other than those contained in this Official Statement in connection with the offer made hereby and, if given or made, such information or representations must not be relied upon as having been authorized by the Issuer, the Company or the Underwriters. Neither the delivery of this Official Statement nor any sale hereunder shall under any circumstances create any implication that there has been no change in the affairs of the Issuer or the Company since the date hereof. This Official Statement does not constitute an offer or solicitation in any jurisdiction in which such offer or solicitation is not authorized, or in which the person making such offer or solicitation is not qualified to do so or to any person to whom it is unlawful to make such offer or solicitation. The Issuer neither has nor assumes any responsibility as to the accuracy or completeness of the information in this Official Statement, all of which has been furnished by others, other than information under *THE ISSUER*.

The Underwriters have provided the following sentence for inclusion in this Official Statement. The Underwriters have reviewed the information in this Official Statement in accordance with, and as a part of, its responsibilities to investors under the federal securities laws as applied to the facts and circumstances of this transaction, but the Underwriters do not guarantee the accuracy or completeness of such information.

**CERTAIN PERSONS PARTICIPATING IN THIS OFFERING MAY ENGAGE IN TRANSACTIONS THAT STABILIZE, MAINTAIN OR OTHERWISE AFFECT THE PRICE OF THE BONDS, INCLUDING BY ENTERING STABILIZING BIDS. FOR A DESCRIPTION OF THESE ACTIVITIES, SEE *UNDERWRITING* HEREIN.**

**\$30,000,000**

***West Virginia Economic Development Authority  
Pollution Control Revenue Refunding Bonds  
(Appalachian Power Company - Amos Project),  
Series 2008C***

**\$40,000,000**

***West Virginia Economic Development Authority  
Pollution Control Revenue Refunding Bonds  
(Appalachian Power Company - Amos Project),  
Series 2008D***

#### **INTRODUCTORY STATEMENT**

This Official Statement, including the Appendices hereto, is provided to furnish certain information in connection with the issuance by the West Virginia Economic Development Authority, a public corporation and governmental instrumentality of the State of West Virginia ("Issuer") of its Pollution Control Revenue Refunding Bonds (Appalachian Power Company – Amos Project), Series 2008C, in the aggregate principal amount of \$30,000,000 (the "Series C Bonds") and its Pollution Control Revenue Refunding Bonds (Appalachian Power Company – Amos Project), Series 2008D in the aggregate principal amount of \$40,000,000 (the "Series D Bonds" and, together with the Series C Bonds, the "Bonds"). The Issuer neither has nor assumes any responsibility as to the accuracy or completeness of the information in this Official Statement, all of which has been furnished by others, other than the information pertaining to the Issuer under *THE ISSUER*.

The Bonds will be issued under and pursuant to, for each series, a resolution of the Issuer adopted on August 21, 2008 and, for each series, an Indenture of Trust, dated as of September 1, 2008 (collectively, the "Indenture"), between the Issuer and The Bank of New York Mellon Trust Company, N.A., as trustee (in such capacity, the "Trustee"). Capitalized terms used herein and not otherwise defined shall have the meanings given to them in the Indenture.

Pursuant to Loan Agreements, each dated as of September 1, 2008, relating to each series (collectively, the "Agreement"), between the Issuer and Appalachian Power Company ("Company"), the Issuer will loan to the Company the respective proceeds of each series of the Bonds to be used to provide funds to refund or to pay at redemption, respectively, the Putnam County, West Virginia, Pollution Control Revenue Refunding Bonds (Appalachian Power Company Project) Series E in the aggregate principal amount of \$30,000,000 and the Putnam County, West Virginia, Pollution Control Revenue Refunding Bonds (Appalachian Power Company Project) Series F in the aggregate principal amount of \$40,000,000 (collectively, the "Refunded Bonds"), the proceeds of which having been used to provide funds to finance the cost of acquisition, construction and improvement of pollution control facilities (the "Project"), or portions thereof, designed for the disposal of solid wastes at the John E. Amos Generating Station located in Putnam County, West Virginia (the "Plant").

In order to evidence each loan from the Issuer (collectively, the "Loan") and to provide for the repayment of each, the Company will issue, for each series, a nonnegotiable promissory

note (collectively, the "Note") pursuant to the Agreement. Payments required under the Note will be sufficient, together with any other funds on deposit in the Bond Fund (hereinafter described) under the Indenture, to pay the principal of and premium, if any, and interest on the Bonds and to make or provide for payments to the paying agent for the Bonds ("Paying Agent"), initially The Bank of New York Mellon Trust Company, N.A., equal to 100% of the principal amount of the Bonds plus accrued interest, if any, upon tender thereof ("Purchase Price"). The Bonds will not otherwise be secured by a mortgage on, or security interest in, any of the Projects or any other property of the Company.

The Series C Bonds will mature and become due and payable, together with any accrued and unpaid interest, on May 1, 2019. The Series C Bonds will bear interest in the Long-Term Mode at the rate of 4.85% per year, from the date of issuance until September 4, 2013. Interest on the Series C Bonds will be payable semi-annually in arrears on March 1 and September 1, commencing March 1, 2009, and on the date on which the Bonds are subject to mandatory tender for purchase. The Series C Bonds are subject to mandatory tender for purchase on September 4, 2013.

The Series D Bonds will mature and become due and payable, together with any accrued and unpaid interest, on May 1, 2019. The Series D Bonds will bear interest in the Long-Term Mode at the rate of 4.85% per year, from the date of issuance until September 4, 2013. Interest on the Series D Bonds will be payable semi-annually in arrears on March 1 and September 1, commencing March 1, 2009, and on the date on which the Bonds are subject to mandatory tender for purchase. The Series D Bonds are subject to mandatory tender for purchase on September 4, 2013.

The Bonds are special obligations of the Issuer, and are to be paid solely from, and will be secured by a pledge of, payments to be made to the Issuer under the terms of the Agreement. See *THE BONDS – Security*.

Brief descriptions of the Issuer, the Project, the Bonds, the Agreement and the Indenture are included in this Official Statement. Information regarding the business, properties and financial condition of the Company is included or incorporated by reference in Appendix A attached hereto. The form of opinion that Bond Counsel proposes to deliver relating to the Bonds is set forth in Appendix B hereto. The descriptions herein of the Agreement and the Indenture are qualified in their entirety by reference to such documents, and the descriptions herein of the Bonds are qualified in their entirety by reference to the forms thereof and the information with respect thereto included in the aforesaid documents. All such descriptions are further qualified in their entirety by reference to laws and principles of equity relating to or affecting generally the enforcement of creditors' rights. Copies of such documents may be obtained from the Company.

#### THE ISSUER

The West Virginia Economic Development Authority, empowered and authorized pursuant to Chapter 31, Article 15, Section 1, et. seq. of the Code of West Virginia, 1931, as amended (the "Act"), is a body corporate and politic, constituting a public corporation and government instrumentality of the State of West Virginia, with the power to borrow money and

issue its bonds and other debt instruments for any of its purposes, and to finance making loans to finance any project to private corporations or to refund bonds issued for such purposes. Such projects include pollution control facilities. The Issuer has no taxing power.

THE BONDS SHALL NOT CONSTITUTE A DEBT OR A PLEDGE OF THE FAITH AND CREDIT OR TAXING POWER OF THE STATE OF WEST VIRGINIA OR OF ANY COUNTY, MUNICIPALITY OR ANY OTHER POLITICAL SUBDIVISION OF THE STATE OF WEST VIRGINIA, AND THE HOLDERS AND OWNERS THEREOF SHALL HAVE NO RIGHT TO HAVE TAXES LEVIED BY THE LEGISLATURE OF THE STATE OF WEST VIRGINIA OR THE TAXING AUTHORITY OF ANY COUNTY, MUNICIPALITY OR ANY OTHER POLITICAL SUBDIVISION OF THE STATE OF WEST VIRGINIA FOR THE PAYMENT OF THE PRINCIPAL OF, INTEREST ON OR PURCHASE PRICE OF THE BONDS, BUT SHALL BE PAYABLE SOLELY FROM REVENUES AND FUNDS PLEDGED FOR ITS PAYMENT AS AUTHORIZED BY THE ACT.

#### THE PROJECT

The Project is composed of additions to the Plant's fly ash removal, handling and disposal systems consisting of one high efficiency electrostatic precipitator for each of three coal-fired steam electric generating units at the Plant together, in each case, with all necessary hoppers, ductwork, piping and pump facilities, including foundations, structural steel support, storage silo enclosures, electrical equipment, instrumentation, and other associated equipment. Such facilities are required to remove fly ash from the boiler exhaust flue gas, prior to its discharge to the atmosphere, and to transport such captured fly ash to new fly ash storage and disposal facilities.

The West Virginia Air Pollution Control Commission on June 2, 1977 certified that the Project, as designed, is in furtherance of the purpose of abating or controlling atmospheric pollutions or contaminants.

#### USE OF PROCEEDS

The Bonds are being issued by the Issuer for the purpose of providing funds for the redemption of the Refunded Bonds. The Company will provide any additional funds required to redeem all of the Refunded Bonds from either internally generated funds or short-term borrowings.

#### THE BONDS

##### General

The Bonds are being issued in fully registered form only in the aggregate amount set forth on the cover page hereof. The Bonds initially will be dated as of their date of issuance and will bear interest from such dates. The Bonds will mature and become due and payable, together with any accrued and unpaid interest, on May 1, 2019. For the period beginning on the date of issuance to September 4, 2013, the Series C Bonds will bear interest in the Long-Term Mode at the rate of 4.85% per annum; the Series D Bonds will bear interest in the Long-Term Mode at the rate of 4.85% per annum. Interest on the Bonds will be payable semi-annually in arrears on each March 1 and September 1 of each year, commencing on March 1, 2009, and on the date on which the Bonds are subject to mandatory tender for purchase. The Series C Bonds are subject to

mandatory tender for purchase on September 4, 2013. The Series D Bonds are subject to mandatory tender for purchase on September 4, 2013.

Each series of Bonds may subsequently be converted to bear interest at a Daily Rate, Weekly Rate, Commercial Paper Rate, Auction Mode Rate or another Long-Term Rate. THIS OFFICIAL STATEMENT DESCRIBES THE TERMS AND CONDITIONS OF THE BONDS ONLY WHILE IN A LONG-TERM MODE.

Beneficial interests in the Bonds will initially be issued pursuant to a Book-Entry Only System ("Book-Entry Only System") maintained by The Depository Trust Company, New York, New York ("DTC"), as described below under the caption *Book-Entry Only System*. Under the Indenture, the Issuer may appoint a successor securities depository to DTC. (DTC, together with any such successor securities depository, is hereinafter referred to as the "Securities Depository"). The following information is subject in its entirety to the provisions described below under the caption *Book-Entry Only System* while the Bonds are in the Book-Entry Only System.

#### **Form and Denomination of Bonds; Payments on the Bonds**

##### General

The Bonds will be issued only as fully registered bonds, without coupons, in denominations of \$5,000 or any integral multiple thereof (an "Authorized Denomination"). The Bonds will be registered in the name of Cede & Co., as registered owner and nominee of DTC. DTC acts as securities depository for the Bonds and individual purchases of Bonds may be made in book-entry form only. So long as the Bonds are in book-entry only form, purchasers of Bonds will not receive certificates representing their interest in the Bonds purchased. So long as Cede & Co. is the registered owner of the Bonds, as nominee of DTC, references herein to the Bondholders or registered owners or holder shall mean Cede & Co., and shall not mean the Beneficial Owners (as defined below) of the Bonds.

So long as Cede & Co. is the registered owner of the Bonds, principal of, premium, if any, and interest on the Bonds are payable to Cede & Co., as nominee for DTC, which will, in turn, remit such amounts to the DTC Participants (as defined below) for subsequent disbursement to the Beneficial Owners. See – *Book-Entry Only System* below.

The Bank of New York Mellon Trust Company, N.A. has been appointed as Trustee and Paying Agent under the Indenture. The designated office of the Trustee and Paying Agent is located, initially, in New Albany, Ohio. The Company and its affiliates maintain banking relationships with The Bank of York Mellon Trust Company, N.A. and its affiliates. The Bank of New York Mellon Trust Company, N.A. and its affiliates serve as trustee under various indentures with, or for the benefit of, the Company and its affiliates.

Neither the Issuer nor the Trustee shall be required to make any transfer or exchange of any Bond during the ten Business Days prior to the mailing of a notice of Bonds selected for

redemption or, with respect to a Bond, after such Bond or any portion thereof has been selected for redemption. Registration of transfers and exchanges shall be made without charge to the Bondholders, except that any required taxes or other governmental charges shall be paid by the Bondholder requesting registration of transfer or exchange.

#### Interest

Each payment of interest shall include interest accrued through the day before such interest payment date. Interest on the Bonds will be computed on the basis of a 360-day year consisting of twelve 30-day months.

All payments of interest on the Bonds will be paid to the registered owner thereof whose name appears in the bond register kept by the bond registrar as of the close of business on the Regular Record Date (as defined below) by check mailed on the interest payment date, provided that any registered owner of \$1,000,000 or more in aggregate principal amount of the Bonds may, upon written request given to the Paying Agent at least five Business Days (as defined below) prior to an interest payment date designating an account in a domestic bank, be paid by wire transfer of immediately available funds. If any interest payment date, redemption date or the maturity is not a Business Day, we will pay all amounts due on the next succeeding Business Day and no additional interest will be paid.

"Business Day" means any day other than a Saturday or Sunday or other than a day on which commercial banks located in all of the cities in which the Principal Offices of the Trustee and the Paying Agent are located are authorized by law or regulation to close or on which the New York Stock Exchange is closed.

"Regular Record Date" means the fifteenth day of the calendar month preceding the relevant interest payment date.

#### Security

The Bonds will be special obligations of the Issuer, the principal of and premium, if any, and interest on which will be payable solely from, and secured by a pledge of, the Loan Payments to be made by the Company under the Agreement. In addition, the Company is obligated to pay the Purchase Price with respect to the Bonds. The pledge does not extend to funds to which the Trustee is entitled in its own right as fees, reimbursement, indemnity or otherwise. The Bonds will not be secured by a mortgage or security interest in the Project or any other property of the Company.

#### Mandatory Tender

Principal and accrued interest will be payable upon mandatory tender of the Series C Bonds on September 4, 2013. Principal and accrued interest will be payable upon mandatory tender of the Series D Bonds on September 4, 2013. The Company is obligated to pay the Purchase Price of Bonds tendered to the extent that remarketing proceeds are not available to pay such purchase price. No other source of payment of such Purchase Price is being provided.

## Redemption

The Bonds are subject to redemption as described below:

Optional Redemption. Except as described under the caption *Extraordinary Optional Redemption*, the Bonds are not redeemable at the option of the Issuer or the Company prior to September 4, 2013.

Extraordinary Optional Redemption. The Bonds are subject to redemption in whole on any date for which notice of redemption can be given, at a redemption price equal to the aggregate principal amount of the outstanding Bonds plus accrued interest thereon to the redemption date, without premium, upon receipt by the Trustee and the Paying Agent of a direction from the Company stating that any of the following events has occurred:

(a) The Project or the Plant shall have been damaged or destroyed to such an extent that the Company deems it not practical or desirable to rebuild, repair or restore the Project or the Plant, as the case may be.

(b) Title to, or the temporary use of, all or a significant part of the Project or the Plant shall have been taken under the exercise of the power of eminent domain so as to render the Project unsatisfactory to the Company for its intended purpose.

(c) As a result of any changes in the Constitution of the State, the Constitution of the United States of America or any state or federal laws or as a result of legislative or administrative action (whether state or federal) or by final decree, judgment or order of any court or administrative body (whether state or federal) entered after any contest thereof by the Issuer or the Company in good faith, the Agreement shall have become void or unenforceable or impossible of performance in accordance with the intent and purpose of the parties as expressed in the Agreement.

(d) Unreasonable burdens or excessive liabilities shall have been imposed upon the Issuer or the Company with respect to the Project or the Plant or the operation thereof, including, without limitation, the imposition of federal, state or other ad valorem, property, income or other taxes not being imposed on the date of the Agreement.

(e) Changes in the economic availability of raw materials, operating supplies, energy sources or supplies or facilities (including, but not limited to, facilities in connection with the disposal of industrial wastes) necessary for the operation of the Project or the Plant occur or technological or other changes occur which in the Company's reasonable judgment render the Project or the Plant uneconomic or obsolete.

(f) Any court or administrative body shall enter a judgment, order or decree, or shall take administrative action, requiring the Company to cease all or any substantial part of its

operations served by the Project or the Plant to such extent that the Company is or will be prevented from carrying on its normal operations at the Project or the Plant for a period of six consecutive months.

(g) The termination by the Company of operations at the Plant.

At least 30 days before each redemption, the Trustee will mail a notice of redemption by first-class mail to each Bondholder with Bonds to be redeemed at such holder's registered address. Failure to give any required notice of redemption as to any particular Bonds, or any defect therein, will not affect the validity of the call for redemption of any Bonds in respect of which no failure or defect occurs. Any notice mailed as provided in this paragraph shall be effective when sent and will be conclusively presumed to have been given whether or not actually received by the addressee.

The notice shall identify the Bonds to be redeemed and shall state (1) the redemption date (and, if the Bonds provide that accrued interest will not be paid on the redemption date, the date it will be paid), (2) the redemption price, (3) that the Bonds called for redemption must be surrendered to collect the redemption price, (4) the address at which the Bonds must be surrendered and (5) that interest on the Bonds called for redemption ceases to accrue on the redemption date.

With respect to an optional redemption of any Bonds, unless moneys sufficient to pay the principal of, premium, if any, and interest on the Bonds to be redeemed shall have been received by the Trustee prior to the giving of such notice of redemption, such notice may state that said redemption shall be conditional upon the receipt of such moneys by the Trustee on or prior to the date fixed for redemption. If such moneys are not received, such notice shall be of no force and effect, the Issuer shall not redeem such Bonds, the redemption price shall not be due and payable and the Trustee shall give notice, in the same manner in which the notice of redemption was given, that such moneys were not so received and that such Bonds will not be redeemed.

When notice is required and given, Bonds called for redemption become due and payable on the redemption date; in such case when funds are deposited with the Trustee sufficient for redemption, interest on the Bonds to be redeemed ceases to accrue as of the date of redemption.

**Book-Entry Only System**

DTC, the world's largest depository, is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934, as amended ("1934 Act"). DTC holds and provides asset servicing for over 2.2 million issues of U.S. and non U.S. equity issues, corporate and municipal debt issues, and money market instruments from over 100 countries that DTC's participants ("Direct Participants") deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities, through electronic computerized book-entry transfers and pledges between Direct Participants' accounts. This eliminates the need for physical movement

of securities certificates. Direct Participants include both U.S. and non U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly owned subsidiary of The Depository Trust & Clearing Corporation ("DTCC"). DTCC, in turn, is owned by a number of Direct Participants of DTC and Members of the National Securities Clearing Corporation, Fixed Income Clearing Corporation, and Emerging Markets Clearing Corporation (NSCC, FICC and EMCC, also subsidiaries of DTCC), as well as by the New York Stock Exchange, Inc., the American Stock Exchange, Inc., and the National Association of Securities Dealers, Inc. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants", and together with Direct Participants, "Participants"). The DTC Rules applicable to DTC and its Participants are on file with the SEC. More information can be found at [www.dtcc.org](http://www.dtcc.org).

Purchases of Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the Bonds on DTC's records. The ownership interest of each actual purchaser of each Bond ("Beneficial Owner") is in turn to be recorded on the Direct and Indirect Participants' records. Beneficial Owners will not receive written confirmation from DTC of their purchase, but Beneficial Owners are expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the Bonds are to be accomplished by entries made on the books of Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in the Bonds, except in the event that use of the book-entry system for the Bonds is discontinued.

To facilitate subsequent transfers, all Bonds deposited by Direct Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co. or such other name as may be requested by an authorized Representative of DTC. The deposit of Bonds with DTC and their registration in the name of Cede & Co. effect no change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Bonds; DTC's records reflect only the identity of the Direct Participants to whose accounts the Bonds are credited, which may or may not be the Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers. So long as Cede & Co., as nominee for DTC, is the sole bondholder, the Trustee shall treat Cede & Co. as the only bondholder for all purposes under the Indenture, including receipt of all principal of, premium, if any, and interest on the Bonds, receipt of notices, voting and requesting or directing the Trustee to take or not to take, or consenting to, certain actions under the Indenture.

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time.

Redemption notices shall be sent to Cede & Co. If less than all of the Bonds are being redeemed, DTC's current practice is to determine by lot the amount of the interest of each Direct Participant in such issue to be redeemed.

Neither DTC nor Cede & Co. will consent or vote with respect to the Bonds, unless authorized by a Direct Participant in accordance with DTC's procedures. Under its usual procedures, DTC mails an Omnibus Proxy to the Issuer as soon as possible after the applicable record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts the Bonds are credited on such record date (identified in a listing attached to the Omnibus Proxy).

Redemption proceeds and principal and interest payments on the Bonds will be made to Cede & Co. or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detailed information from the Issuer or the Trustee, on the payable date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name", and will be the responsibility of such Participants and not of DTC, the Trustee or the Issuer, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of redemption proceeds and principal, premium, if any, and interest payments to Cede & Co. or such other nominee as may be requested by an authorized representative of DTC is the responsibility of the Issuer or the Trustee, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

DTC may discontinue providing its services as securities depository with respect to the Bonds at any time by giving reasonable notice to the Issuer or the Trustee. Under such circumstances, in the event that a successor securities depository is not obtained, certificated bonds will be required to be printed and delivered.

The Issuer may decide to discontinue use of the system of book-entry only transfers through DTC (or a successor securities depository). Upon receipt of a withdrawal request from an issuer, DTC will take the following actions: (1) DTC will issue an important notice notifying its Participants of the receipt of a withdrawal request from the issuer reminding Participants that they may utilize DTC's withdrawal procedures if they wish to withdraw their securities from DTC, and (2) DTC will process withdrawal requests submitted by Participants in the ordinary course of business, but will not effectuate withdrawals based upon a request from an issuer. In that event, security certificates will be printed and delivered to DTC.

In the event that the book-entry system is discontinued, the principal or redemption price of and interest on the Bonds will be payable in the manner described above, and the Bonds may be transferred or exchanged for one or more Bonds in different Authorized Denominations upon surrender thereof at the principal corporate trust office of the Paying Agent by the registered owners or their duly authorized attorneys or legal representatives. Upon surrender of any Bonds to be transferred or exchanged, the Paying Agent shall record the transfer or exchange in the

registration books and shall authenticate and deliver the Bonds appropriately registered and in appropriate Authorized Denominations.

Under the Indenture, payments made by the Trustee to DTC or its nominee will satisfy the Issuer's obligations under the Indenture and the Company's obligations under the Agreement to the extent of the payments so made. Beneficial Owners will not be, and will not be considered by the Issuer or the Trustee to be, and will not have any rights as, owners of Bonds under the Indenture.

The information in this section concerning DTC and DTC's book-entry system has been obtained from sources that the Underwriters, the Company and the Trustee believe to be reliable, but the Underwriters, the Company and the Trustee take no responsibility for the accuracy thereof.

**None of the Issuer, the Underwriters, the Company, the Trustee or any agent for payment on or registration of transfer or exchange of any Bond will have any responsibility or obligation to Direct Participants, Indirect Participants or the persons for whom they act as nominees with respect to the accuracy of the records of DTC, its nominee or any Direct Participant with respect to any ownership interest in the Bonds, or payments to, or the providing of notice for, Direct Participants, Indirect Participants, or beneficial owners or other action taken by DTC, or its nominee, Cede & Co., as the sole owners of the Bonds.**

## THE AGREEMENTS

*There are separate Agreements that contain the provisions relating to the loan of proceeds of the Series C Bonds and Series D Bonds. These Agreements have substantially identical terms. In addition to the description of certain provisions of each Agreement contained elsewhere herein, the following is a brief summary of certain provisions of the Agreement and does not purport to be comprehensive or definitive. All references herein to the Agreement are qualified in their entirety by reference to the Agreement for the detailed provisions thereof. References to the Bonds below are to the series of the Bonds as defined in the applicable Agreement.*

### **Loan of Proceeds**

The Issuer will loan the proceeds of the sale of the Bonds to the Company, in accordance with the Agreement and the Indenture.

### **Term of Agreement**

The term of the Agreement will continue until such time as all of the outstanding Bonds are fully paid (or provision has been made for such payment) pursuant to the Indenture and all other money payable by the Company under the Agreement shall have been paid.

### **Payments**

The Company will make payments on the Agreement which will be sufficient to pay, when due, the principal and Purchase Price of, and premium, if any, and interest on, the Bonds. To evidence the obligations of the Company to make the Loan Payments and repay the Loan, the Company will, concurrently with the issuance of the Bonds, execute and deliver the Note to the Trustee, as assignee of the Issuer under the Indenture, in an aggregate principal amount equal to the aggregate principal amount of the Bonds.

### **Obligations Unconditional**

The obligations of the Company to make Loan Payments and other payments required to be made pursuant to the Agreement are absolute and unconditional, and the Company will make such payments without abatement, diminution or deduction regardless of any cause or circumstances whatsoever including, without limitation, any defense, set-off, recoupment or counterclaim which the Company may have or assert against the Issuer, the Trustee or any other Person.

### **Maintenance and Modification**

During the term of the Agreement, the Company will use its best efforts to keep and maintain, or cause to be kept and maintained, the Project, including all appurtenances thereto and any personal property therein or thereon, in satisfactory operating order, repair, condition and appearance, subject to reasonable wear and tear, so that the Project will continue to constitute a facility that can be financed by the Issuer under the Act for the purpose for which it was designed. Subject to certain conditions, the Company has the right, from time to time, to remodel the Project or make additions, modifications and improvements thereto, the cost of which must be paid by the Company. The Company also has the right, subject to certain conditions, to substitute or remove any portion of the Project.

### **Tax Exemption**

The Company will covenant and represent in the Agreement that it has taken and caused or required to be taken and will take and cause or require to be taken all actions that may be required of it for the interest on the Bonds to be and remain excluded from the gross income of the owners thereof for federal income tax purposes, and that it has not taken or permitted to be taken on its behalf, and it will not take or permit to be taken on its behalf, any action which, if taken, would adversely affect that exclusion under the provisions of the Code.

### **Assignment of the Agreement**

The Agreement may be assigned in whole or in part by the Company only with the consent of the Issuer, subject to the following conditions: (a) no assignment will relieve the Company from primary liability for any of its obligations under the Agreement; (b) any assignment by the Company must retain for the Company such rights and interests to permit it to perform its remaining obligations under the Agreement, and any assignee from the Company shall assume the obligations of the Company hereunder to the extent of the interest assigned; (c)

the Company will, within 30 days after the execution thereof, furnish or cause to be furnished to the Issuer and the Trustee a true and complete copy of each assignment together with any instrument of assumption; and (d) any assignment from the Company will not materially impair fulfillment of the purposes of the Project to be accomplished by operation of the Project as provided in the Agreement.

#### **Events of Default and Remedies**

The Agreement provides that the occurrence of one or more of the following events will constitute an "Event of Default:"

(a) The failure to pay any Loan Payment or any payment required to be made to pay the Purchase Price when due;

(b) The occurrence of an event of default described in paragraph (a), (b) or (c) under *THE INDENTURE—Events of Defaults and Remedies*;

(c) Failure by the Company to observe and perform any other agreement, term or condition under the Agreement, other than such failure which will result in an event of default described in (a) or (b) above, which continues for a period of 90 days after notice to the Company by the Issuer or the Trustee or such longer period as the Issuer and the Trustee may agree to in writing; *provided* that the failure shall not constitute an Event of Default if the Company institutes curative action within the applicable period and diligently pursues that action to completion;

(d) Any representation or warranty under the Agreement shall not have been true in all material respects when made; and

(e) Certain events relating to bankruptcy, insolvency or reorganization of the Company.

A failure by the Company described in subparagraph (c) above is not a default under that subparagraph if it occurs by reason of certain courses, circumstances and events of force majeure specified in the Agreement that are not reasonably within the control of the Company.

Whenever any Event of Default under a Agreement has happened and is subsisting, the Issuer or the Trustee may take either or both of the following remedial steps:

(a) Inspect, examine and make copies of the books, records, accounts and financial data of the Company, only, however, insofar as they pertain to the Project; and

(b) Pursue all remedies to recover all amounts then due and thereafter to become due under the Agreement and the Note, or to enforce the performance and observance of any other obligation or agreement of the Company under those instruments.

Any amounts collected pursuant to action taken upon the happening of an Event of Default will be paid into the Bond Fund and applied in accordance with the provisions of the Indenture or, if the outstanding Bonds have been paid and discharged in accordance with the

provisions of the Indenture, will be paid as provided in the Indenture for transfers of remaining amounts in the Bond Fund.

#### **Amendments to the Agreement**

The Indenture provides that the Agreement may be amended without the consent of or notice to the owners of the Bonds only as may be required or permitted (i) by the provisions of the Agreement or the Indenture or for the purposes for which the Indenture may be amended or supplemented without the consent of the owners, (ii) for the purpose of curing any ambiguity or formal defect or omission in the Agreement or (iii) in connection with any other change therein which, in the judgment of the Trustee, is not to the prejudice of the Trustee or the owners of the Bonds. Any other amendments to the Agreement may be made only with the written approval or consent of the owners of not less than a majority in aggregate principal amount of the Bonds outstanding. An opinion of Bond Counsel to the effect that such action is permitted under the Act and the Indenture and will not adversely affect the exclusion from gross income of interest on the Bonds for federal income tax purposes (a "Favorable Opinion of Tax Counsel") is required for any amendment to the Agreement.

#### **THE INDENTURES**

*There are separate Indentures that contain the provisions relating to the Series C Bonds and Series D Bonds. These Indentures have substantially identical terms. In addition to the description of certain provisions of each Indenture contained elsewhere herein, the following is a brief summary of certain provisions of the Indenture and does not purport to be comprehensive or definitive. All references herein to the Indenture are qualified in their entirety by reference to the Indenture for the detailed provisions thereof. References to the Bonds below are to the series of the Bonds issued pursuant to the applicable Indenture.*

Additional information summarizing certain provisions of the Indenture is contained under the heading *THE BONDS*. So long as DTC or its nominee is the registered owner of the Bonds, all references to owners or holders shall mean DTC. See *THE BONDS - Book-Entry Only System* herein.

#### **Pledge and Security**

Pursuant to the Indenture, the payments to be made by the Company under the Agreement and the Note will be assigned by the Issuer to the Trustee to secure the payment, when due, of the principal of, and premium, if any, and interest on, the Bonds. The Issuer will mortgage, pledge and grant a security interest to the Trustee all right, title and interest of the Issuer in and to (i) the Revenues, including without limitation, all Loan Payments and all other amounts receivable by the Issuer under the Agreement in respect of repayment of the loan and (ii) the Note and the Agreement (except certain rights to the payment of its costs and expenses, to indemnification and to enforce certain covenants of the Company); provided, that the Trustee, in case of an acceleration of the Bonds, will have a prior claim on the Bond Fund for the payment of its compensation and expenses.

### **Bond Fund**

Payments made by the Company under the Agreement with respect to the Bonds and certain other amounts specified in the Indenture will be deposited in the Bond Fund. The Trustee will apply money contained in the accounts described below maintained within the Bond Fund as follows:

(a) Interest Account. The Trustee, on each Interest Payment Date, will withdraw and apply from moneys on deposit in the Interest Account an amount sufficient to pay interest on the outstanding Bonds on such Interest Payment Date.

(b) Principal Account. The Trustee, on each Principal Payment Date (as defined in the Indenture), will withdraw and apply from moneys on deposit in the Principal Account, an amount equal to the principal becoming due on the Bonds on such Principal Payment Date (other than a redemption date). Money in such Principal Account will be used and withdrawn by the Trustee on each Principal Payment Date solely for the payment of the principal of outstanding Bonds.

(c) Redemption Account. The Trustee, on or before each redemption date, will withdraw and apply from moneys on deposit in the Redemption Account amounts required to pay the principal of and premium, if any, and accrued interest on Bonds to be redeemed prior to their stated maturity. Money in such Redemption Account will be used and withdrawn by the Trustee on each redemption date solely for the payment of the principal of and premium, if any, and accrued interest on outstanding Bonds upon the redemption thereof prior to their stated maturity.

### **Purchase Fund**

The Trustee will apply money contained in the accounts described below maintained within the Purchase Fund as follows:

Remarketing Proceeds Account. Upon receipt of the proceeds of a remarketing of Bonds on a purchase date, the Trustee will directly deposit such proceeds, and will deposit only such proceeds, in the Remarketing Proceeds Account for application to the Purchase Price of the Bonds. Neither the Issuer nor the Company will have any interest in the Remarketing Proceeds Account.

Company Purchase Account. Upon receipt of immediately available funds provided to the Trustee by the Company pursuant to the Indenture, the Trustee shall directly deposit such money, and shall deposit only such money, in the Company Purchase Account for application to the Purchase Price of the Bonds. Any amounts deposited in the Company Purchase Account and determined by the Trustee to be not needed with respect to any purchase date for the payment of the Purchase Price for any Bonds shall be promptly returned following such determination to the Company.

### **Refunding Fund**

The proceeds received from the sale of the Bonds (other than any accrued interest) will be deposited in the Refunding Fund. Moneys on deposit in the Refunding Fund shall be transferred to the Refunded Bonds Trustee on the date specified in the Indenture for deposit into the respective bond fund created in the respective Refunded Bonds Indenture and used in connection with the redemption of the Refunded Bonds within ninety days of the issuance of the Bonds.

### **Investment of Moneys Held by the Trustee**

Moneys deposited in the Refunding Fund and in the accounts maintained within the Bond Fund will be invested at the direction of the Company in Permitted Investments (as defined in the Indenture).

The Agreement provides that the Company and the Issuer shall take no action, nor shall the Company approve the Trustee taking any action, or making any investment or use of the proceeds of the Bonds, which would cause the Bonds to be "arbitrage bonds" within the meaning of Section 148 of the Code.

### **Events of Default and Remedies**

The following events are Events of Default under the Indenture:

- (a) Default in the payment when due of any interest on any Bond;
- (b) Default in the due and punctual payment of the principal of, or premium, if any, on any Bond, whether at the stated maturity thereof, or upon unconditional proceedings for redemption thereof;
- (c) Default in the due and punctual payment of the Purchase Price of any Bond required to be purchased in accordance with its terms;
- (d) Default in the performance or observance of any other of the covenants, agreements or conditions on the part of the Issuer in the Indenture or in the Bonds, continuing 30 days after delivery of notice thereof; or
- (e) The occurrence and continuance of an event of default under the Agreement as described under *THE AGREEMENTS – Events of Default and Remedies*;

Upon the occurrence and continuance of an Event of Default under (a), (b) or (c) above the Trustee may, and upon the written request of the owners of at least 25% in aggregate principal amount of the Bonds then outstanding shall, declare the principal of and accrued interest on the outstanding Bonds to be due and payable immediately. If an Event of Default under paragraph (d) or (e) above occurs and is continuing, the Trustee may, and upon the request of the owners of at least 25% in aggregate principal amount of the Bonds then outstanding, shall, declare the principal of and accrued interest on the outstanding Bonds to be due and payable

immediately. Upon any such declaration, the principal of and accrued interest on the outstanding Bonds shall be due and payable immediately.

The Trustee may rescind an acceleration of the Bonds and its consequences if (1) all payment defaults with respect to the Bonds have been cured and all reasonable fees and charges of the Trustee, including reasonable attorneys' fees, have been paid, and (2) the Bondholders have not been notified of the acceleration. Except as provided in this section, the Trustee will not declare the Bonds to be due and payable.

If an Event of Default occurs and is continuing, the Trustee may pursue any available remedy by proceeding at law or in equity to collect the principal of and premium, if any, or interest on the Bonds or to enforce the performance of any provision of the Bonds or the Indenture.

A majority in aggregate principal amount of the outstanding Bonds by notice to the Trustee may waive an existing Event of Default and its consequences. When an Event of Default is waived, it is cured and stops continuing, but no such waiver will extend to any subsequent or other Event of Default or impair any right consequent to it.

The holders of a majority in aggregate principal amount of Bonds outstanding may direct the time, method and place of conducting any proceeding for any remedy available to the Trustee or of exercising any trust or power conferred on it.

An owner of a Bond may not pursue any remedy with respect to the Indenture or the Bonds unless (a) the owner gives the Trustee notice stating that an Event of Default is continuing, (b) the owners of at least 25% in aggregate principal amount of the outstanding Bonds make a written request to the Trustee to pursue the remedy, (c) such owner or owners offer to the Trustee indemnity satisfactory to the Trustee against any loss, liability or expense, and (d) the Trustee does not comply with the request within 60 days after receipt of the request and the offer of indemnity.

#### **Supplemental Indentures**

The Issuer and the Trustee may, without the consent of, or notice to, any of the Bondholders, enter into such indenture or indentures supplemental to the Indenture as shall not be inconsistent with the terms and provisions thereof

(a) to cure any ambiguity, defect or omission in the Indenture, or otherwise amend the Indenture, in such manner as shall not in the opinion of the Trustee impair the security under the Indenture;

(b) to grant to or confer upon the Trustee for the benefit of the Bondholders any additional rights, remedies, powers or authorities that may lawfully be granted to or conferred upon the Bondholders or the Trustee;

(c) to evidence any succession to the Issuer and the assumption by its successor of the covenants, agreements and obligations of the Issuer under the Indenture, the Agreement and the

Bonds, to add additional covenants of the Issuer or surrender any right or power therein conferred upon the Issuer;

(d) to subject to the pledge of the Indenture additional revenues, properties, or collateral, which may be accomplished by, among other things, entering into instruments with the Company and/or other persons providing for further security, covenants, limitations or restrictions for the benefit of the Bonds;

(f) to modify the Indenture to permit qualification under the Trust Indenture Act of 1939, as amended, or any similar statute at the time in effect;

(g) to amend any provision pertaining to matters under federal income tax laws, including Section 148(f) of the Code;

(h) to authorize different Authorized Denominations of the Bonds and to make correlative amendments and modifications to the Indenture regarding exchangeability of Bonds of different Authorized Denominations, redemptions of portions of Bonds of particular Authorized Denominations and similar amendments and modifications of a technical nature;

(i) to increase or decrease the number of days specified for the giving of notices of mandatory tender and to make corresponding changes to the period for notice of redemption of the Bonds; *provided*, that no decreases in any such number of days will become effective except while the Bonds bear interest at a Daily Rate or a Weekly Rate and until 30 days after the Trustee has given notice to the owners of the Bonds;

(j) to provide for an uncertificated system of registering the Bonds or to provide for the change to or from a Book-Entry System for the Bonds;

(k) to evidence the succession of a new trustee or the appointment by the Trustee or the Issuer of a co-trustee;

(l) to make any change related to the Bonds that does not materially adversely affect the rights of any Bondholder;

(l) prior to, or concurrently with, the conversion of the Bonds to an Auction Rate Period, to make any change appropriate or necessary with respect to the procedures, definitions or provisions in the Indenture or in Exhibit B attached to the Indenture related to the Auction Mode Rate in order to provide for or facilitate the marketability of Bonds in the Auction Mode Rate; and

(m) to make any other changes to the Indenture that take effect as to any or all remarketed Bonds following a mandatory tender.

The Indenture also provides that the owners of not less than a majority in aggregate principal amount of the Bonds outstanding shall have the right, from time to time, to consent to and approve the execution by the Issuer and the Trustee of such other indenture or supplemental indentures as shall be deemed necessary and desirable by the Issuer and the Trustee for the

purpose of modifying, altering, amending, adding to or rescinding, in any particular, any of the terms or provisions contained in the Indenture or in any supplemental indenture; *provided, however,* that nothing shall permit, without certain additional consents, (a) an extension of the maturity date of the principal of or the interest on any Bond; (b) a reduction in the principal amount of any Bond, the rate of interest thereon or any redemption premium; or (c) a reduction in the aggregate principal amount of the Bonds required for consent to such supplemental indenture or for actions related to amendments to the Agreement. A Favorable Opinion of Bond Counsel is required for any supplement to the Indenture.

#### **Discharge of the Indenture**

If the whole amount of principal and interest due and payable on the Bonds has been paid and if, at the time of such payment, the Issuer shall have kept, performed and observed all the covenants and promises in such Bonds and in the Indenture required or contemplated to be kept, performed and observed by the Issuer or on its part on or prior to that time, then the Indenture shall be considered to have been discharged in respect of such Bonds and such Bonds shall cease to be entitled to the lien of the Indenture and such lien and all covenants, agreements and other obligations of the Issuer hereunder shall cease, terminate, become void and be completely discharged as to such Bonds.

#### **No Personal Liability of Issuer's Officials**

No covenant, stipulation, obligation or agreement of the Issuer contained in the Indenture will be or be deemed to be a covenant, stipulation, obligation or agreement of any present or future member, officer, agent or employee of the Issuer in other than his or her official capacity. No member of the Issuer or official executing the Bonds, the Indenture, the Agreement or any amendment or supplement to the Indenture or the Agreement will be liable personally on the Bonds or be subject to any personal liability or accountability by reason of the issuance or execution thereof.

#### **Removal of Trustee**

The Trustee may be removed by the owners of not less than a majority in principal amount of Bonds at the time outstanding or by the Issuer and the Company. The Trustee shall continue to serve as such until a successor Trustee shall be appointed under the Indenture and has accepted such appointment.

### **UNDERWRITING**

Subject to the terms and conditions set forth in a Bond Purchase Agreement ("Series C Purchase Agreement") to be entered into between the Issuer and Lehman, Lehman has agreed to purchase the Series C Bonds at a purchase price of 100% of the principal amount thereof. Under the terms and conditions of the Series C Purchase Agreement, Lehman is committed to take and pay for all of the Series C Bonds if any are taken. The Company has agreed to pay Lehman \$150,000 as compensation and to reimburse Lehman for its reasonable expenses.

Subject to the terms and conditions set forth in a Bond Purchase Agreement ("Series D Purchase Agreement") to be entered into between the Issuer and J.P. Morgan, J.P. Morgan has agreed to purchase the Series D Bonds at a purchase price of 100% of the principal amount thereof. Under the terms and conditions of the Series D Purchase Agreement, J.P. Morgan is committed to take and pay for all of the Series D Bonds if any are taken. The Company has agreed to pay J.P. Morgan \$200,000 as compensation and to reimburse J.P. Morgan for its reasonable expenses.

The Issuer has been advised by the Underwriters that the Bonds may be offered and sold to certain dealers (including dealers depositing Bonds into investment trusts) and others at prices lower than the public offering price set forth on the cover page of this Official Statement. After the Bonds are released for sale to the public, the public offering price and other selling terms may from time to time be varied by the Underwriters.

In connection with this offering and in compliance with applicable law and industry practice, the Underwriters may over allot or effect transactions which stabilize, maintain or otherwise affect the market price of the Bonds at levels above those which might otherwise prevail in the open market, including by entering stabilizing bids. A stabilizing bid means the placing of a bid, or the effecting of any purchase, for the purpose of pegging, fixing or maintaining the price of a security. In general, purchases of a security for the purpose of stabilization could cause the price of the security to be higher than it might be in the absence of such purchases.

Neither the Issuer, the Company nor the Underwriters make any representation or prediction as to the direction or magnitude of any effect that the transactions described above may have on the price of the Bonds. In addition, neither the Issuer, the Company nor the Underwriters make any representation that either Underwriter will engage in such transactions or that such transactions, once commenced, will not be discontinued without notice.

Pursuant to respective Inducement Letters, the Company has agreed to indemnify the applicable Underwriter and the Issuer against certain civil liabilities, including liabilities under the federal securities laws, or contribute to payments that the applicable Underwriter or the Issuer may be required to make in respect thereof.

The Underwriters and/or certain of their affiliates may engage in transactions with, and from time to time have performed services for, the Company in the ordinary course of business.

#### **CONTINUING DISCLOSURE AGREEMENT**

The Company will agree to deliver certain continuing disclosure information satisfying the requirements of Rule 15c2-12 ("Rule") under the 1934 Act. Any holder of an outstanding Bond, directly or through the Trustee, may specifically enforce the Company's disclosure obligations, but any breach by the Company of this undertaking pursuant to the Rule will not constitute an Event of Default under the Agreement or the Indenture.

## TAX MATTERS

### Opinion of Bond Counsel

In the opinion of Bond Counsel, under existing law, interest on the Bonds (a) will not be included in gross income for Federal income tax purposes, except when held by a "substantial user" of the Project or a "related person" within the meaning of Section 103(b)(13) of the Internal Revenue Code of 1954, as amended (the "1954 Code"), and (b) will not be an item of tax preference for purposes of the Federal alternative minimum income tax imposed on individuals, corporations and other taxpayers; however, with respect to corporations (as defined for Federal income tax purposes) subject to the alternative minimum income tax, such interest is taken into account in determining adjusted current earnings for purposes of computing such tax. In the opinion of Bond Counsel, under existing law, interest on the Bonds also will be exempt from all taxation by the State of West Virginia, except inheritance taxes. No opinion is expressed with respect to the exemption of interest from taxation under West Virginia law on any Bond for any period during which it is held by a person who is a "substantial user" of the Project or a "related person" within the meaning of Section 103(b)(13) of the 1954 Code. No other opinion is expressed by Bond Counsel regarding the tax consequences of the ownership of or the receipt or accrual of interest on the Bonds.

Furthermore, the opinion of Bond Counsel will express no opinion as to the effect on the excludability of the interest on the Bonds from gross income of (a) the occurrence of any conversion, (b) any other event for which the Indenture of the Agreement requires the obtaining of a favorable opinion of Bond Counsel or (c) any amendment of the Indenture or the Agreement or waiver of the terms thereof.

Bond Counsel's opinion is given in reliance on certifications by representatives of the Issuer and the Company as to certain facts relevant to both the opinion and requirements of the 1954 Code, the Tax Reform Act of 1986, as amended (the "1986 Tax Reform Act") and the Code and is subject to the condition that all requirements of the 1954 Code, the 1986 Tax Reform Act and the Code that must be satisfied subsequent to the issuance of the Bonds in order for the interest on the Bonds to be, or continue to be, not included in gross income for Federal income tax purposes are so satisfied. The Issuer and the Company have covenanted to comply with provisions of the 1954 Code, the 1986 Tax Reform Act and the Code regarding, among other matters, the use, expenditure and investment of bond proceeds and the timely payment to the United States of any arbitrage rebate amounts with respect to the Bonds. Failure by the Issuer or the Company to comply with such covenants could cause interest on the Bonds to be included in gross income for Federal income tax purposes retroactively to their date of issue.

The Internal Revenue Service (the "Service") has a program to audit state and local government obligations to determine whether the interest thereon is includible in gross income for federal income tax purposes. If the Service does audit the Bonds, under current Service procedures, the Service will treat the Issuer as the taxpayer and the owners of the Bonds will have only limited rights, if any, to participate.

Bond Counsel's opinion represents its legal judgment based in part upon the representations and covenants referenced therein and its review of existing law, but is not a guarantee of result or binding on the Service or the courts. Bond Counsel assumes no duty to update or supplement its opinion to reflect any facts or circumstances that may thereafter come to Bond Counsel's attention or to reflect any changes in law or the interpretation thereof that may thereafter occur or become effective.

#### **Other Tax Matters**

In addition to the matters addressed above, prospective purchasers of the Bonds should be aware that the ownership of tax-exempt obligations may result in collateral Federal income tax consequences to certain taxpayers, including without limitation, financial institutions, property and casualty insurance companies, S corporations, certain foreign corporations subject to the branch profits tax, recipients of Social Security or Railroad Retirement benefits and taxpayers who may be deemed to have incurred or continued indebtedness to purchase or carry tax-exempt obligations. Prospective purchasers of the Bonds should consult their tax advisers as to the applicability and impact of such consequences.

Each prospective purchaser of the Bonds should consult their own tax advisers as to the status of interest on the Bonds under the tax laws of any commonwealth or state other than West Virginia.

There are many events which could affect the value and liquidity or marketability of the Bonds after their issuance, including but not limited to public knowledge of an audit of the Bonds by the Service, a general change in interest rates for comparable securities, a change in federal or state income tax rates, legislative or regulatory proposals affecting state and local government securities and changes in judicial interpretation of existing law. In addition, certain tax considerations relevant to owners of Bonds who purchase Bonds after their issuance may be different from those relevant to purchasers upon issuance. Neither the opinion of Bond Counsel nor this Official Statement purport to address the likelihood or effect of any such potential events or such other tax considerations and purchasers of the Bonds should seek advice concerning such matters as they deem prudent in connection with their purchase of Bonds.

#### **LEGAL MATTERS**

Certain legal matters relating to the authorization and validity of the Bonds will be subject to the approving opinion of Hunton & Williams, LLP, Richmond, Virginia, Bond Counsel, which will be furnished at the expense of the Company upon delivery of the Bonds, in substantially the form set forth as Appendix B (the "Bond Opinion"). The Bond Opinion will be limited to matters relating to authorization and validity of the Bonds and to the tax-exempt status of interest thereon as described in the section *TAX MATTERS*. Bond Counsel has not been engaged to investigate the financial resources of the Company or its ability to provide for payment of the Bonds, and the Bond Opinion will make no statement as to such matters or as to the accuracy or completeness of this Official Statement or any other information that may have been relied on by anyone in making the decision to purchase Bonds.

Certain legal matters will be passed upon by Jeffrey D. Cross or Thomas G. Berkemeyer, each as counsel for the Company. Jeffrey D. Cross is Deputy General Counsel of American Electric Power Service Corporation, an affiliate of the Company. Thomas G. Berkemeyer is Associate General Counsel of American Electric Power Service Corporation. Certain legal matters, other than the validity of the Bonds and the exclusion from gross income of interest thereon, will be passed upon by Dewey & LeBoeuf LLP, New York, New York, counsel for the Underwriters. Hunton & Williams, LLP and Dewey & LeBoeuf LLP each act as counsel to certain affiliates of the Company for some matters.

The various legal opinions to be delivered concurrently with the delivery of the Bonds express the professional judgment of the attorneys rendering the opinions as to the legal issues explicitly addressed therein. In rendering a legal opinion, the attorney does not become an insurer or guarantor of the expression of professional judgment, of the transaction opined upon, or of the future performance of the parties to the transaction, nor does the rendering of an opinion guarantee the outcome of any legal dispute that may arise out of the transaction.

#### MISCELLANEOUS

The attached Appendices (including documents incorporated by references therein) are an integral part of the Official Statement and must be read together with all of the balance of this Official Statement.

The Issuer does not assume any responsibility for the matters contained in this Official Statement other than information under *THE ISSUER*. All findings and determinations by the Issuer relating to the issuance and sale of the Bonds are, and have been, made by the Issuer for its own internal uses and purposes in performing its duties under West Virginia law.

## APPENDIX A

### APPALACHIAN POWER COMPANY

The Company is a public utility engaged in generating, purchasing, transmitting, distributing and selling electricity in Virginia and West Virginia. Its principal executive office is 1 Riverside Plaza, Columbus, Ohio 43215 and the telephone number is (614) 716-1000. The Company is a subsidiary of American Electric Power Company, Inc. (AEP) and is a part of the AEP integrated utility system.

### AVAILABLE INFORMATION

The Company is subject to the informational requirements of the Securities Exchange Act of 1934 (1934 Act) and in accordance therewith files reports and other information with the Securities and Exchange Commission (SEC). Such reports and other information may be inspected and copied at the public reference room maintained by the SEC at 100 F Street, N.E., Washington, D.C. 20549. Copies of such material can be obtained from the Public Reference Section of the SEC, Washington, D.C. 20549 at prescribed rates. The SEC may be contacted at 1-800-SEC-0330 for information on the public reference room. The SEC maintains a web site at <http://www.sec.gov> containing reports, proxy and information statements and other information regarding registrants that file electronically with the SEC, including the Company. Certain of the Company's securities are listed on the New York Stock Exchange, Inc., where reports, information statements and other information concerning the Company may also be inspected.

### DOCUMENTS INCORPORATED BY REFERENCE

The following documents filed with the SEC by the Company pursuant to the 1934 Act are incorporated by reference in this Appendix A and made a part of this Official Statement:

- The Company's Annual Report on Form 10-K for the year ended December 31, 2007,
- The Company's Quarterly Reports on Form 10-Q for the quarters ended March 31, 2008 and June 30, 2008 and
- The Company's Current Reports on Form 8-K dated March 25, 2008 and April 4, 2008.

All documents subsequently filed by the Company with the SEC pursuant to Sections 13(a), 13(c), 14 or 15(d) of the 1934 Act subsequent to the date of this Official Statement and prior to the termination of the offering of the securities offered by this Official Statement are to be incorporated by reference in this Appendix A and to be a part of this Official Statement from the date such documents are filed.

Any statement contained in a document so incorporated or deemed to be incorporated shall be deemed to be modified or superseded for purposes of this Official Statement to the extent that a statement contained herein or in any other subsequently filed document which is deemed to be so incorporated modifies or supersedes such statement. Any such statement so

modified or superseded shall not be deemed, except as so modified or superseded, to constitute a part of this Appendix A.

The Company will provide without charge to each person to whom a copy of this Official Statement has been delivered, on the written or oral request of any such person, a copy of any or all of the documents described above which have been incorporated by reference in this Appendix A, other than exhibits to such documents. Written requests for copies of such documents should be addressed to Financial Reporting, American Electric Power Service Corporation, 1 Riverside Plaza, Columbus, Ohio 43215 (telephone number: 614-716-1000). The information relating to the Company contained in this Appendix A does not purport to be comprehensive and should be read together with the information contained in the documents incorporated by reference.

#### **RISK FACTORS**

Investing in the Bonds involves risk. Please see the risk factors described in the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2007 and its Quarterly Reports on Form 10-Q for the quarters ended March 31, 2008 and June 30, 2008, which are incorporated by reference in this Official Statement. Before making an investment decision, you should carefully consider these risks as well as other information contained or incorporated by reference in this Official Statement. The risks and uncertainties described are those presently known to the Company. Additional risks and uncertainties not presently known to the Company or that the Company currently deems immaterial may also impair the Company's business operations, its financial results and the value of the Bonds.

#### **RATIO OF EARNINGS TO FIXED CHARGES**

The Ratio of Earnings to Fixed Charges for each of the periods indicated is as follows:

<u>Twelve Months Period Ended</u>	<u>Ratio</u>
December 31, 2003	3.48
December 31, 2004	3.15
December 31, 2005	2.70
December 31, 2006	2.86
December 31, 2007	2.09
June 30, 2008	2.02

The Ratio of Earnings to Fixed Charges for the six months ended June 30, 2008 was 2.17. For the purposes of calculating the Ratio of Earnings to Fixed Charges, "earnings" represents income before income taxes, extraordinary items, and cumulative effect of accounting changes, plus fixed charges. "Fixed charges" consist of interest expense, amortization of debt issuance costs, and the portion of operating rental expense which management believes is representative of the interest within rental expense.

For current information on the Ratio of Earnings to Fixed Charges, please see the Company's most recent Annual Report on Form 10-K and Quarterly Report on Form 10-Q. See *Available Information*.

**INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

The consolidated financial statements and the related consolidated financial statement schedule incorporated by reference in this Official Statement from Appalachian Power Company and subsidiaries' Annual Report on Form 10-K for the year ended December 31, 2007 have been audited by Deloitte & Touche LLP, an independent registered public accounting firm, as stated in their reports incorporated by reference herein (which reports express an unqualified opinion and, as to the report related to the consolidated financial statements, includes an explanatory paragraph concerning the adoption of new accounting pronouncements in 2006 and 2007).

**EXHIBIT B**

**PROPOSED FORM OF BOND COUNSEL OPINION**

*Set forth below is the proposed form of the opinion of Hunton & Williams LLP, Bond Counsel.  
It is preliminary and subject to change prior to the delivery of the Bonds.*

West Virginia Economic Development Authority  
Charleston, West Virginia

West Virginia Economic Development Authority  
\$30,000,000 West Virginia Economic Development Authority  
Pollution Control Revenue Refunding Bonds  
(Appalachian Power Company - Amos Project), Series 2008C

Ladies and Gentlemen:

We have examined the applicable law, including the Constitution of West Virginia, the West Virginia Economic Development Authority Act (Chapter 31, Article 15, Section 1, et seq. the Code of West Virginia, 1931, as amended) (the "Act"), and other laws to the extent we deem necessary, and certified copies of proceedings and other papers relating to the issuance and sale by West Virginia Economic Development Authority (the "Issuer"), a body corporate and politic, constituting a public corporation and governmental instrumentality of the State of West Virginia, of the Issuer's \$30,000,000 West Virginia Economic Development Authority Pollution Control Revenue Refunding Bonds (Appalachian Power Company - Amos Project), Series 2008C (the "Bonds"), maturing, subject to redemption, and bearing interest as set forth in the Bonds.

The Bonds recite that they have been issued pursuant to the Act for the purpose of refunding the \$30,000,000 Putnam County, West Virginia Pollution Control Revenue Refunding Bonds (Appalachian Power Company Project), Series E (the "Prior Bonds") issued by Putnam County, West Virginia. The Prior Bonds refinanced the costs of acquiring, constructing and equipping certain pollution control facilities (the "Project") located at the Amos Plant in Putnam County, West Virginia, owned and operated by Appalachian Power Company, a Virginia corporation (the "Company"), with the proceeds of the Bonds being loaned to the Company pursuant to a Loan Agreement dated as of September 1, 2008 (the "Loan Agreement"), between the Issuer and the Company.

The Bonds are limited obligations of the Issuer payable solely from the revenues and receipts derived from a promissory note issued by the Company (the "Note") pursuant to the Loan Agreement. The Bonds are issued under and are equally and ratably secured by an Indenture of Trust dated as of September 1, 2008 (the "Indenture"), between the Issuer and The Bank of New York Mellon Trust Company, N.A., as trustee (the "Trustee"). The Indenture purports to assign and pledge the Issuer's rights under the Loan Agreement (except for Unassigned Issuer's Rights, as defined in the Indenture) to the Trustee as security for the Bonds.

Reference is made to the opinion of counsel to the Company, Thomas G. Berkemeyer, Esquire, Associate General Counsel in the Legal Department of American Electric Power

Service Corporation, an affiliate of the Company, with respect to the corporate status and qualification to do business of the Company, the authorization, execution and the delivery of the Loan Agreement by the Company, the binding effect and enforceability of the Loan Agreement upon the Company, and any governmental approvals of any governmental agency required for the Company's entry into and performance under the Loan Agreement or the undertaking by the Company of its obligations under the Loan Agreement with respect to the Bonds. No opinion as to such matters is expressed herein.

Without undertaking to verify the same by independent investigation, we have relied on certifications by representatives of the Company and the Issuer with respect to certain facts relevant to both our opinion and the requirements of the Internal Revenue Code of 1954, as amended (the "1954 Code"), the Tax Reform Act of 1986, as amended (the "1986 Tax Reform Act"), and the Internal Revenue Code of 1986, as amended (the "1986 Code"). The Company and the Issuer have covenanted to comply with the provisions of the 1954 Code, the 1986 Tax Reform Act and the 1986 Code regarding, among other matters, the use, expenditure and investment of the proceeds of the Prior Bonds (and all bonds refunded through a series of refundings and the initial bonds that financed the Project) and the Bonds, and the timely payment to the United States of any arbitrage rebate amounts with respect to the Bonds, all as set forth in the proceedings and documents providing for the issuance of the Bonds (the "Covenants").

We also have relied (a) on a certificate of the West Virginia Air Pollution Control Commission that states that the Project, as designed, is in furtherance of the purpose of abating or controlling atmospheric pollutants or contaminants, and (b) in part, on certificates of engineers for the Company with respect to the air pollution control purpose of the expenditures for the Project.

Based on the foregoing and assuming the due authorization, execution and delivery of all documents by parties, we are of the opinion that:

1. The Issuer is validly organized and existing under West Virginia law with full power and authority to execute and deliver the Indenture and Loan Agreement and to issue and sell the Bonds.

2. The issuance of the Bonds has been duly authorized by the Issuer. The Bonds have been issued in accordance with the Act and constitute valid and binding limited obligations of the Issuer, payable as to principal, purchase price, premium (if any) and interest solely from the revenues and receipts derived from the Loan Agreement. The Bonds shall not constitute a debt or a pledge of the faith and credit or taxing power of the State of West Virginia or of any county, municipality or any other political subdivision of the State of West Virginia, and the holders and owners thereof shall have no right to have taxes levied by the legislature of the State of West Virginia or the taxing authority of any county, municipality or any other political subdivision of the State of West Virginia for the payment of the principal of, interest on or purchase price of the Bonds, and their purchase price shall be payable solely from revenues and funds pledged for such payment as authorized by the Act.

3. The Loan Agreement has been duly authorized, executed and delivered by the Issuer, constitutes a valid and binding agreement of the Issuer and is enforceable against the Issuer in accordance with its terms. The Note has been duly assigned to the Trustee.

4. The Indenture has been duly authorized, executed and delivered by the Issuer, constitutes a valid and binding agreement of the Issuer, assigns and pledges to the Trustee as security for the Bonds all of the rights of the Issuer under the Loan Agreement (except for Unassigned Issuer's Rights) and is enforceable against the Issuer in accordance with its terms. The Indenture creates a valid lien in favor of the Trustee in and to such rights.

5. The rights of the owners of the Bonds and the enforceability of such rights, including enforcement by the Trustee of the obligations of the Issuer under the Indenture and the Loan Agreement, may be limited or otherwise affected by (a) bankruptcy, insolvency, reorganization, moratorium and other laws affecting the rights of creditors generally and (b) principles of equity, whether considered at law or in equity.

6. Under existing law, interest on the Bonds (a) is not included in gross income for Federal income tax purposes, except when held by a "substantial user" of the Project or a "related person" within the meaning of Section 103(b)(13) of the 1954 Code, and (b) is not an item of tax preference for purposes of the Federal alternative minimum income tax imposed on individuals, corporations and other taxpayers; however, with respect to corporations (as defined for Federal income tax purposes) subject to the alternative minimum income tax, such interest is taken into account in determining adjusted current earnings for purposes of computing such tax. The opinion in the preceding sentence is subject to the condition that there is compliance subsequent to the issuance of the Bonds with all requirements of the 1954 Code, the 1986 Tax Reform Act and the 1986 Code that must be satisfied in order that interest thereon not be included in gross income for Federal income tax purposes. Failure by the Company or the Issuer to comply with the Covenants could cause interest on the Bonds to be included in gross income for Federal income tax purposes retroactively to their date of issue. We express no opinion regarding other Federal tax consequences of the ownership of or receipt or accrual of interest on the Bonds. Furthermore, we express no opinion as to the effect on the excludability of the interest on the Bonds from gross income of (a) the occurrence of any change in interest rate Determination Method, as defined in the Indenture, (b) any other event for which the Indenture or the Loan Agreement requires the obtaining of a Favorable Opinion of Tax Counsel, as defined in the Indenture, or (c) any amendment of the Indenture or the Loan Agreement or waiver of the terms thereof.

7. Under the Act, the interest on the Bonds is exempt from taxation by the State of West Virginia, except for inheritance taxes. No opinion is expressed with respect to the exemption of interest from income taxation under West Virginia law on any Bond for any period during which it is held by a person who is a "substantial user" of the Project or a "related person" within the meaning of Section 103(b)(13) of the 1954 Code.

Our services as bond counsel to the Issuer have been limited to rendering the foregoing opinion based on our review of such proceedings and documents as we deem necessary to approve the validity of the Bonds and the tax-exempt status of the interest thereon. We have not made any investigation concerning the business or financial resources of the Company, and

therefore we express no opinion herein as to the accuracy or completeness of any information that may have been relied upon by any purchasers in making their decision to purchase the Bonds, including the information contained in the preliminary official statement of the Issuer with respect to the Bonds dated September 2, 2008, and in the official statement of the Issuer with respect to the Bonds dated September 10, 2008.

Very truly yours,

**PROPOSED FORM OF BOND COUNSEL OPINION**

*Set forth below is the proposed form of the opinion of Hunton & Williams LLP, Bond Counsel.  
It is preliminary and subject to change prior to the delivery of the Bonds.*

West Virginia Economic Development Authority  
Charleston, West Virginia

West Virginia Economic Development Authority  
\$40,000,000 West Virginia Economic Development Authority  
Pollution Control Revenue Refunding Bonds  
(Appalachian Power Company - Amos Project), Series 2008D

Ladies and Gentlemen:

We have examined the applicable law, including the Constitution of West Virginia, the West Virginia Economic Development Authority Act (Chapter 31, Article 15, Section 1, *et seq.* the Code of West Virginia, 1931, as amended) (the "Act"), and other laws to the extent we deem necessary, and certified copies of proceedings and other papers relating to the issuance and sale by West Virginia Economic Development Authority (the "Issuer"), a body corporate and politic, constituting a public corporation and governmental instrumentality of the State of West Virginia, of the Issuer's \$40,000,000 West Virginia Economic Development Authority Pollution Control Revenue Refunding Bonds (Appalachian Power Company - Amos Project), Series 2008D (the "Bonds"), maturing, subject to redemption, and bearing interest as set forth in the Bonds.

The Bonds recite that they have been issued pursuant to the Act for the purpose of refunding the \$40,000,000 Putnam County, West Virginia Pollution Control Revenue Refunding Bonds (Appalachian Power Company Project), Series F (the "Prior Bonds") issued by Putnam County, West Virginia. The Prior Bonds refinanced the costs of acquiring, constructing and equipping certain pollution control facilities (the "Project") located at the Amos Plant in Putnam County, West Virginia, owned and operated by Appalachian Power Company, a Virginia corporation (the "Company"), with the proceeds of the Bonds being loaned to the Company pursuant to a Loan Agreement dated as of September 1, 2008 (the "Loan Agreement"), between the Issuer and the Company.

The Bonds are limited obligations of the Issuer payable solely from the revenues and receipts derived from a promissory note issued by the Company (the "Note") pursuant to the Loan Agreement. The Bonds are issued under and are equally and ratably secured by an Indenture of Trust dated as of September 1, 2008 (the "Indenture"), between the Issuer and The Bank of New York Mellon Trust Company, N.A., as trustee (the "Trustee"). The Indenture purports to assign and pledge the Issuer's rights under the Loan Agreement (except for Unassigned Issuer's Rights, as defined in the Indenture) to the Trustee as security for the Bonds.

Reference is made to the opinion of counsel to the Company, Thomas G. Berkemeyer, Esquire, Associate General Counsel in the Legal Department of American Electric Power

Service Corporation, an affiliate of the Company, with respect to the corporate status and qualification to do business of the Company, the authorization, execution and the delivery of the Loan Agreement by the Company, the binding effect and enforceability of the Loan Agreement upon the Company, and any governmental approvals of any governmental agency required for the Company's entry into and performance under the Loan Agreement or the undertaking by the Company of its obligations under the Loan Agreement with respect to the Bonds. No opinion as to such matters is expressed herein.

Without undertaking to verify the same by independent investigation, we have relied on certifications by representatives of the Company and the Issuer with respect to certain facts relevant to both our opinion and the requirements of the Internal Revenue Code of 1954, as amended (the "1954 Code"), the Tax Reform Act of 1986, as amended (the "1986 Tax Reform Act"), and the Internal Revenue Code of 1986, as amended (the "1986 Code"). The Company and the Issuer have covenanted to comply with the provisions of the 1954 Code, the 1986 Tax Reform Act and the 1986 Code regarding, among other matters, the use, expenditure and investment of the proceeds of the Prior Bonds (and all bonds refunded through a series of refundings and the initial bonds that financed the Project) and the Bonds, and the timely payment to the United States of any arbitrage rebate amounts with respect to the Bonds, all as set forth in the proceedings and documents providing for the issuance of the Bonds (the "Covenants").

We also have relied (a) on a certificate of the West Virginia Air Pollution Control Commission that states that the Project, as designed, is in furtherance of the purpose of abating or controlling atmospheric pollutants or contaminants, and (b) in part, on certificates of engineers for the Company with respect to the air pollution control purpose of the expenditures for the Project.

Based on the foregoing and assuming the due authorization, execution and delivery of all documents by parties, we are of the opinion that:

1. The Issuer is validly organized and existing under West Virginia law with full power and authority to execute and deliver the Indenture and Loan Agreement and to issue and sell the Bonds.

2. The issuance of the Bonds has been duly authorized by the Issuer. The Bonds have been issued in accordance with the Act and constitute valid and binding limited obligations of the Issuer, payable as to principal, purchase price, premium (if any) and interest solely from the revenues and receipts derived from the Loan Agreement. The Bonds shall not constitute a debt or a pledge of the faith and credit or taxing power of the State of West Virginia or of any county, municipality or any other political subdivision of the State of West Virginia, and the holders and owners thereof shall have no right to have taxes levied by the legislature of the State of West Virginia or the taxing authority of any county, municipality or any other political subdivision of the State of West Virginia for the payment of the principal of, interest on or purchase price of the Bonds, and their purchase price shall be payable solely from revenues and funds pledged for such payment as authorized by the Act.

3. The Loan Agreement has been duly authorized, executed and delivered by the Issuer, constitutes a valid and binding agreement of the Issuer and is enforceable against the Issuer in accordance with its terms. The Note has been duly assigned to the Trustee.

4. The Indenture has been duly authorized, executed and delivered by the Issuer, constitutes a valid and binding agreement of the Issuer, assigns and pledges to the Trustee as security for the Bonds all of the rights of the Issuer under the Loan Agreement (except for Unassigned Issuer's Rights) and is enforceable against the Issuer in accordance with its terms. The Indenture creates a valid lien in favor of the Trustee in and to such rights.

5. The rights of the owners of the Bonds and the enforceability of such rights, including enforcement by the Trustee of the obligations of the Issuer under the Indenture and the Loan Agreement, may be limited or otherwise affected by (a) bankruptcy, insolvency, reorganization, moratorium and other laws affecting the rights of creditors generally and (b) principles of equity, whether considered at law or in equity.

6. Under existing law, interest on the Bonds (a) is not included in gross income for Federal income tax purposes, except when held by a "substantial user" of the Project or a "related person" within the meaning of Section 103(b)(13) of the 1954 Code, and (b) is not an item of tax preference for purposes of the Federal alternative minimum income tax imposed on individuals, corporations and other taxpayers; however, with respect to corporations (as defined for Federal income tax purposes) subject to the alternative minimum income tax, such interest is taken into account in determining adjusted current earnings for purposes of computing such tax. The opinion in the preceding sentence is subject to the condition that there is compliance subsequent to the issuance of the Bonds with all requirements of the 1954 Code, the 1986 Tax Reform Act and the 1986 Code that must be satisfied in order that interest thereon not be included in gross income for Federal income tax purposes. Failure by the Company or the Issuer to comply with the Covenants could cause interest on the Bonds to be included in gross income for Federal income tax purposes retroactively to their date of issue. We express no opinion regarding other Federal tax consequences of the ownership of or receipt or accrual of interest on the Bonds. Furthermore, we express no opinion as to the effect on the excludability of the interest on the Bonds from gross income of (a) the occurrence of any change in interest rate Determination Method, as defined in the Indenture, (b) any other event for which the Indenture or the Loan Agreement requires the obtaining of a Favorable Opinion of Tax Counsel, as defined in the Indenture, or (c) any amendment of the Indenture or the Loan Agreement or waiver of the terms thereof.

7. Under the Act, the interest on the Bonds is exempt from taxation by the State of West Virginia, except for inheritance taxes. No opinion is expressed with respect to the exemption of interest from income taxation under West Virginia law on any Bond for any period during which it is held by a person who is a "substantial user" of the Project or a "related person" within the meaning of Section 103(b)(13) of the 1954 Code.

Our services as bond counsel to the Issuer have been limited to rendering the foregoing opinion based on our review of such proceedings and documents as we deem necessary to approve the validity of the Bonds and the tax-exempt status of the interest thereon. We have not made any investigation concerning the business or financial resources of the Company, and

therefore we express no opinion herein as to the accuracy or completeness of any information that may have been relied upon by any purchasers in making their decision to purchase the Bonds, including the information contained in the preliminary official statement of the Issuer with respect to the Bonds dated September 2, 2008, and in the official statement of the Issuer with respect to the Bonds dated September 10, 2008.

Very truly yours,



**NEW ISSUE - BOOK ENTRY ONLY**

In the opinion of Bond Counsel, interest on the Bonds will be excludable from gross income for federal income tax purposes under existing statutes, regulations, published rulings and court decisions, except as explained under *TAX MATTERS* herein. Bond Counsel is of the opinion that interest on the Bonds will not be treated as a preference item in calculating the alternative minimum tax imposed on individuals and corporations under Section 57(a)(5) of the Internal Revenue Code of 1986, as amended (the "Code"). In addition, the Bonds are also exempt from State of Oklahoma taxation, except for inheritance, estate or transfer taxes. For further information, see *TAX MATTERS* herein.

**\$33,700,000**  
**The Oklahoma Development Finance Authority**  
**Pollution Control Revenue Refunding Bonds**  
**(Public Service Company of Oklahoma Project)**  
**Series 2009 (Non-AMT)**

Interest to accrue from date of issuance

Due: June 1, 2014

The Bonds are limited obligations of the Oklahoma Development Finance Authority ("Issuer"), and are to be paid solely from, and will be secured by a pledge of, payments to be made to the Issuer under the terms of an Installment Payment Agreement between the Issuer and

**Public Service Company of Oklahoma**

The Bonds will bear interest at a fixed rate of 5.25% per annum beginning on the date of original issuance until maturity, unless redeemed prior thereto. The Bonds will not be subject to optional redemption but will be subject to extraordinary optional redemption and extraordinary mandatory redemption as described under *THE BONDS - Redemption*. The Bonds will be issued as fully registered bonds and will be registered initially in the name of Cede & Co., as registered owner and nominee for The Depository Trust Company, New York, New York ("DTC"). DTC acts as a securities depository for the Bonds. The Bonds will be issued in denominations of \$5,000 and integral multiples thereof. Except under the limited circumstances described herein, Beneficial Owners of book-entry interests in the Bonds will not receive certificates representing their interests. Payments of principal of and premium, if any, and interest on the Bonds (payable June 1 and December 1, commencing June 1, 2009) will be made through DTC and disbursements of such payments to Beneficial Owners will be the responsibility of DTC and its Participants (see *THE BONDS - Book-Entry Only System* herein). Morgan Stanley & Co. Incorporated will act as underwriter ("Underwriter") for the Bonds. The Bank of New York Mellon Trust Company, National Association will act as Trustee and as Paying Agent for the Bonds.

**PRICE: 100%**

This cover page contains limited information for quick reference only and is not a summary of this Official Statement. Investors should read the entire Official Statement to obtain information essential to the making of an informed investment decision.

The Bonds are offered, subject to prior sale, when, as and if issued and received by the Underwriter, subject to the approval of their validity by McCall, Parkhurst & Horton L.L.P., Dallas, Texas, Bond Counsel, as described herein, and certain other conditions. Certain legal matters, other than the validity of the Bonds and the exclusion from gross income for federal income tax purposes of interest thereon, will be passed on for the Underwriter by its counsel, Dewey & LeBoeuf LLP, New York, New York, and for the Company by its internal counsel. Delivery of the Bonds in book-entry-only form is expected on or about February 6, 2009, through the facilities of DTC in New York, New York, against payment therefor.

**Morgan Stanley**

Dated: February 2, 2009

**CONTENTS OF OFFICIAL STATEMENT**

<u>Official Statement</u>	<u>Page</u>
INTRODUCTORY STATEMENT .....	1
THE ISSUER.....	2
THE FACILITIES .....	4
USE OF PROCEEDS .....	4
THE BONDS .....	4
THE AGREEMENT .....	13
THE INDENTURE.....	18
UNDERWRITING .....	24
SECONDARY MARKET INFORMATION .....	24
TAX MATTERS.....	25
LEGAL MATTERS.....	28
MISCELLANEOUS .....	28
Appendix A (Public Service Company of Oklahoma) .....	A-1
Appendix B (Form of Opinion of Bond Counsel) .....	B-1

---

No person has been authorized to give any information or to make any representations other than those contained in this Official Statement in connection with the offer made hereby and, if given or made, such information or representations must not be relied upon as having been authorized by the Issuer, the Company or the Underwriter. Neither the delivery of this Official Statement nor any sale hereunder shall under any circumstances create any implication that there has been no change in the affairs of the Issuer or the Company since the date hereof. This Official Statement does not constitute an offer or solicitation in any jurisdiction in which such offer or solicitation is not authorized, or in which the person making such offer or solicitation is not qualified to do so or to any person to whom it is unlawful to make such offer or solicitation. The Issuer neither has nor assumes any responsibility as to the accuracy or completeness of the information in this Official Statement, all of which has been furnished by others, other than information under *THE ISSUER*.

The Underwriter has provided the following sentence for inclusion in this Official Statement. The Underwriter has reviewed the information in this Official Statement in accordance with, and as a part of, its responsibilities to investors under the federal securities laws as applied to the facts and circumstances of this transaction, but the Underwriter does not guarantee the accuracy or completeness of such information.

**CERTAIN PERSONS PARTICIPATING IN THIS OFFERING MAY ENGAGE IN TRANSACTIONS THAT STABILIZE, MAINTAIN OR OTHERWISE AFFECT THE PRICE OF THE BONDS, INCLUDING BY ENTERING STABILIZING BIDS. FOR A DESCRIPTION OF THESE ACTIVITIES, SEE *UNDERWRITING* HEREIN.**

**\$33,700,000**  
**The Oklahoma Development Finance Authority**  
**Pollution Control Revenue Refunding Bonds**  
**(Public Service Company of Oklahoma Project)**  
**Series 2009**

**INTRODUCTORY STATEMENT**

This Official Statement, including the Appendices hereto, is provided to furnish certain information in connection with the issuance of \$33,700,000 aggregate principal amount of the Oklahoma Development Finance Authority Pollution Control Revenue Refunding Bonds (Public Service Company of Oklahoma Project) Series 2009 ("Bonds"). The Oklahoma Development Finance Authority ("Issuer") neither has nor assumes any responsibility as to the accuracy or completeness of the information in this Official Statement, all of which has been furnished by others, other than the information pertaining to the Issuer under *THE ISSUER*.

The Bonds will be issued under and pursuant to a resolution of the Issuer adopted on August 27, 2008 ("Resolution") and an Indenture of Trust, dated as of February 1, 2009 ("Indenture"), between the Issuer and The Bank of New York Mellon Trust Company, National Association, as trustee ("Trustee"). Capitalized terms used herein and not otherwise defined shall have the meanings given to them in the Indenture.

Pursuant to an Installment Payment Agreement, dated as of February 1, 2009 ("Agreement"), between the Issuer and Public Service Company of Oklahoma ("Company"), the proceeds from the issuance and sale of Bonds will be used to provide funds for the refunding of \$33,700,000 in principal amount of the Issuer's Pollution Control Revenue Refunding Bonds (Public Service Company of Oklahoma Project) Series 2004 (the "Refunded Bonds"). The proceeds from the issuance and sale of the Refunded Bonds were used to provide funds for the refunding of \$33,700,000 in principal amount of the Issuer's Pollution Control Revenue Refunding Bonds (Public Service Company of Oklahoma Project) Series 1999 (the "Series 1999 Bonds"). The Series 1999 Bonds were used to refund \$33,700,000 of the outstanding Pollution Control Revenue Bonds (Public Service Company of Oklahoma Project) Series A issued by the Trustees of the Oklahoma Environmental Finance Authority which were originally issued to finance a pollution control project consisting of certain facilities, or portions thereof, designed for the abatement of pollution and the disposal of sewage and solid wastes (the "Facilities") at the Northeastern Generating Station located near Oologah, Oklahoma (the "Plant") of the Company.

The Company is obligated under the Agreement to make payments to the Trustee sufficient, together with any other funds on deposit in the Bond Fund (hereinafter described) under the Indenture, to pay the principal of and premium, if any, and interest on the Bonds (such payments being hereinafter referred to as the "Installment Payments"). The Bonds will not otherwise be secured by a mortgage on, or security interest in, any of the Facilities or any other property of the Company.

The Bonds will mature and become due and payable, together with any accrued and unpaid interest, on June 1, 2014. The Bonds will bear interest at a Fixed Rate of 5.25% per year, from the date of initial delivery of the Bonds until maturity. Interest on the Bonds will be payable semi-annually in arrears on each June 1 and December 1, commencing June 1, 2009.

The Bonds will be issued in authorized denominations of \$5,000 and integral multiples thereof and will be held by The Depository Trust Company ("DTC"), or its nominee, as securities depository with respect to the Bonds. See *THE BONDS-- Book-Entry Only System*.

The Bonds are limited obligations of the Issuer, and are to be paid solely from, and will be secured by a pledge of, payments to be made to the Issuer under the terms of the Agreement. See *THE BONDS-- Security*.

Brief descriptions of the Issuer, the Facilities, the Bonds, the Agreement and the Indenture are included in this Official Statement. Information regarding the business, properties and financial condition of the Company is included or incorporated by reference in Appendix A attached hereto. The form of opinion that Bond Counsel proposes to deliver relating to the Bonds is set forth in Appendix B hereto. The descriptions herein of the Agreement and the Indenture are qualified in their entirety by reference to such documents, and the descriptions herein of the Bonds are qualified in their entirety by reference to the forms thereof and the information with respect thereto included in the aforesaid documents. All such descriptions are further qualified in their entirety by reference to laws and principles of equity relating to or affecting generally the enforcement of creditors' rights. Copies of such documents may be obtained from the Company.

## THE ISSUER

### General

The Issuer was created by a Declaration of Trust dated November 1, 1974, as amended October 9, 1975 (the "Original Declaration"), for the furtherance of public purposes and the benefit of the State of Oklahoma (the "State") pursuant to the provisions of Title 60, Oklahoma Statutes 2001, Section 176 *et seq.*, as amended, and Title 60, Oklahoma Statutes 2001, Section 175.1 *et seq.*, as amended, and other applicable statutes and laws of the State. Pursuant to the provisions of Title 74, Oklahoma Statutes 2001, Section 5062.1 *et seq.*, as amended, and other applicable statutes and laws of the State, the Original Declaration was further amended by an Amended and Restated Declaration of Trust dated February 11, 1988, which, among other things, changed the name of the Issuer from The Oklahoma Development Authority to The Oklahoma Development Finance Authority. The Restated Declaration was accepted and approved by the Governor of the State on February 12, 1988. The most recent amendment to the Original Declaration occurred in 1994 under the provisions of an Amended and Restated Declaration of Trust dated July 1, 1994, which was approved by the Governor on August 5, 1994. The purpose of this amendment was to conform the trustees of the Issuer with that of the Oklahoma Industrial Finance Authority pursuant to certain statutory changes.

### **Purpose and Powers**

The authorized purposes of the Issuer include, but are not limited to, the following: (i) to expand and establish agricultural and industrial enterprises; (ii) to provide pollution control facilities; (iii) to develop public or private energy generating, distribution or conservation facilities and sources; (iv) to provide healthcare facilities; (v) to provide infrastructure, waste water and capital improvement facilities; (vi) to provide educational facilities; (vii) to provide recreational facilities; and (viii) to provide for short term advance funding and the purchase of the obligations of political subdivisions throughout the State.

The Issuer has all powers necessary or appropriate to carry out and effectuate its purposes, including, without limitation: (i) to make and execute contracts and all other instruments necessary or convenient for the performance of its duties and the exercise of its powers and functions; (ii) to borrow money and to issue bonds to provide financing for the purpose and projects of the Issuer and to provide for the security and services of payments therefor; (iii) to provide financing assistance by making of, entering into or providing for guarantees, leases, insurance, financing credits, loans, letters of credit, financing assistance payments, grants or other financial aid for the purposes and projects provided; and (iv) to lend money or otherwise extend credit to any person and exercise all powers of a lender or creditor; and to collect fees and charges in connection with its loans, commitments and servicing, including but not limited to, reimbursement of costs of financing as the Issuer determines to be reasonable and approves.

### **Board of Directors**

The Issuer is governed by a Board of Directors consisting of seven (7) persons, appointed by the Governor for overlapping six-year terms, with the advice and consent of the State Senate. One member is the Director of the Oklahoma Department of Commerce, who serves *ex officio* but who is a voting member of the Board of Directors. One person is selected from each of the former six Congressional Districts of the State, at least five of whom are required to have had at least fifteen years' experience in banking, mortgage loans or financial management, and the remaining member must have demonstrated outstanding ability in business or industry. The members annually elect a Chairman, Vice Chairman, and Secretary from among the membership of the Board of Directors.

The current Directors and Officers of the Issuer, their positions, the years in which their respective terms expire and their principal occupations are as follows:

<b>Name</b>	<b>Position</b>	<b>Term</b>	<b>Occupation</b>
Normer Paul	Chairman	2009	Retired Banker Edmond, Oklahoma
D.R. Shiptey	Vice Chairman	2012	President, First United Bank & Trust Co., Tecumseh, Oklahoma

<b>Name</b>	<b>Position</b>	<b>Term</b>	<b>Ocupation</b>
Chris L. Condley	Secretary	2010	Chief Executive Officer First National Bank of Muskogee Muskogee, Oklahoma
Henry P. ("Hank") Bradley	Member	2013	Executive Vice President, BancFirst, Oklahoma City, Oklahoma
G. Bridger Cox	Member	2011	President, Citizens Bank and Trust Company of Ardmore Ardmore, Oklahoma
Don L. Smith	Member	2014	Attomey, Lawton, Oklahoma
Natalie Shirley	Member	Ex Officio	Executive Director, Oklahoma Department of Commerce, Oklahoma City, Oklahoma

The day-to-day management of the Issuer is vested in the President appointed by the Board of Directors. Mr. James G. Fulmer is President of the Issuer. The President employs such officers and employees as designated by the Board of Directors and directs and supervises the administrative affairs and general assignments of the Issuer.

#### **THE FACILITIES**

The Facilities consist of various systems which are designed for the abatement and control of pollution and the treatment and disposal of sewage and solid wastes at the Plant.

#### **USE OF PROCEEDS**

The Bonds are being issued by the Issuer for the purpose of providing funds for the redemption of the Refunded Bonds. The Company will provide any additional funds required to redeem all of the Refunded Bonds from either internally generated funds or short-term borrowings.

#### **THE BONDS**

##### **General**

The Bonds are being issued in fully registered form only in the aggregate amount set forth on the cover page hereof. The Bonds will be dated as of February 6, 2009. The Bonds will mature and become due and payable, together with any accrued and unpaid interest, on June 1, 2014 and will bear interest from the date of initial delivery of the Bonds at a fixed rate of 5.25% per annum until maturity, unless redeemed prior thereto. See "Redemption" herein. Interest on

on the Bonds will be payable semi-annually in arrears on each June 1 and December 1. The initial interest payment date for the Bonds is June 1, 2009.

Beneficial interests in the Bonds will initially be issued pursuant to a Book-Entry Only System ("Book-Entry Only System") maintained by The Depository Trust Company, New York, New York ("DTC"), as described below under the caption *Book-Entry Only System*. Under the Indenture, the Issuer may appoint a successor securities depository to DTC. (DTC, together with any such successor securities depository, is hereinafter referred to as the "Securities Depository"). The following information is subject in its entirety to the provisions described below under the caption *Book-Entry Only System* while the Bonds are in the Book-Entry Only System.

#### **Form and Denomination of Bonds; Payments on the Bonds**

##### General

The Bonds will be issued only as fully registered bonds, without coupons, in denominations of \$5,000 or any integral multiple thereof (an "Authorized Denomination"). The Bonds will be registered in the name of Cede & Co., as registered owner and nominee of DTC. DTC acts as securities depository for the Bonds and individual purchases of Bonds may be made in book-entry form only. So long as the Bonds are in book-entry only form, purchasers of Bonds will not receive certificates representing their interest in the Bonds purchased. So long as Cede & Co. is the registered owner of the Bonds, as nominee of DTC, references herein to the Bondholders or registered owners or holder shall mean Cede & Co., and shall not mean the Beneficial Owners (as defined below) of the Bonds.

So long as Cede & Co. is the registered owner of the Bonds, principal of, premium, if any, and interest on the Bonds are payable to Cede & Co., as nominee for DTC, which will, in turn, remit such amounts to the DTC Participants (as defined below) for subsequent disbursement to the Beneficial Owners. See – *Book-Entry Only System* below.

The Bank of New York Mellon Trust Company, National Association has been appointed as Trustee and Paying Agent under the Indenture. The Designated Office of the Trustee and Paying Agent is located, initially, in New York, New York. The Company and its affiliates maintain banking relationships with The Bank of New York Mellon Trust Company, National Association and its affiliates. The Bank of New York Mellon Trust Company, National Association and its affiliates serve as trustee under various indentures with, or for the benefit of, the Company and its affiliates.

Neither the Issuer nor the Trustee shall be required to make any transfer or exchange of any Bond during the ten Business Days prior to the mailing of a notice of Bonds selected for redemption or, with respect to a Bond, after such Bond or any portion thereof has been selected for redemption. Registration of transfers and exchanges shall be made without charge to the Bondholders, except that any required taxes or other governmental charges shall be paid by the Bondholder requesting registration of transfer or exchange.

### Interest

The Bonds will bear interest at a Fixed Rate of 5.25% per year from the date of initial delivery of the Bonds until June 1, 2014. Interest on the Bonds will be payable semi-annually in arrears on each June 1 and December 1 and at maturity. The initial interest payment date is June 1, 2009. Each payment of interest shall include interest accrued through the day before such interest payment date. Interest on the Bonds will be computed on the basis of a 360-day year consisting of twelve 30-day months.

All payments of interest on the Bonds will be paid to the registered owner thereof whose name appears in the bond register kept by the bond registrar as of the close of business on the Regular Record Date (as defined below) by check mailed on the interest payment date, provided that any registered owner of \$1,000,000 or more in aggregate principal amount of the Bonds may, upon written request given to the Paying Agent at least five Business Days (as defined below) prior to an interest payment date designating an account in a domestic bank, be paid by wire transfer of immediately available funds. If any interest payment date, redemption date or maturity date is not a Business Day, we will pay all amounts due on the next succeeding Business Day and no additional interest will be paid.

"Business Day" means any day other than a Saturday or Sunday or other than a day on which commercial banks located in all of the cities in which the Designated Offices of the Trustee, the Paying Agent, the Remarketing Agent are located are authorized by law or regulation to close or on which the New York Stock Exchange is closed.

"Regular Record Date" means the fifteenth day of the calendar month preceding the relevant interest payment date.

### Security

The Bonds will be limited obligations of the Issuer, the principal of and premium, if any, and interest on which will be payable solely from, and secured by a pledge of, the Installment Payments to be made by the Company under the Agreement. The pledge does not extend to funds to which the Trustee is entitled in its own right as fees, reimbursement, indemnity or otherwise. The Bonds will not be secured by a mortgage or security interest in the Facilities or any other property of the Company.

**THE BONDS SHALL BE DEEMED NOT TO CONSTITUTE A DEBT OF THE STATE OF OKLAHOMA, THE ISSUER, OR OF ANY OTHER POLITICAL CORPORATION, SUBDIVISION, OR AGENCY OF THE STATE OR A PLEDGE OF THE FAITH AND CREDIT OF ANY OF THEM. NO RECOURSE SHALL BE HAD FOR ANY CLAIM BASED ON THE AGREEMENT, THE INDENTURE, OR THE BONDS AGAINST ANY MEMBER, OFFICER OR EMPLOYEE, PAST, PRESENT OR FUTURE, OF THE ISSUER, OR OF ANY SUCCESSOR BODY THERETO, EITHER DIRECTLY OR THROUGH THE ISSUER, OR ANY SUCH SUCCESSOR BODY, UNDER ANY CONSTITUTIONAL PROVISION, STATUTE OR RULE OF LAW OR BY THE ENFORCEMENT OF ANY ASSESSMENT OR PENALTY OR OTHERWISE.**

**NEITHER THE STATE OF OKLAHOMA, THE ISSUER, NOR ANY POLITICAL CORPORATION, SUBDIVISION, OR AGENT OF THE STATE OF OKLAHOMA SHALL BE OBLIGATED TO PAY THE BONDS AND NEITHER THE FAITH AND CREDIT NOR THE TAXING POWER OF THE STATE OF OKLAHOMA, NOR ANY OTHER POLITICAL CORPORATION, SUBDIVISION, OR AGENCY IS PLEDGED TO THE PAYMENT OF THE PRINCIPAL OF, REDEMPTION PREMIUM, IF ANY, OR INTEREST ON, OR PURCHASE PRICE OF, THE BONDS. THE BONDS ARE LIMITED OBLIGATIONS OF THE ISSUER PAYABLE SOLELY FROM THE SOURCES DESCRIBED HEREIN AND THE HOLDERS THEREOF SHALL NEVER HAVE THE RIGHT TO DEMAND PAYMENT FROM MONEYS DERIVED BY TAXATION OR ANY REVENUES OF THE ISSUER EXCEPT THE FUNDS PLEDGED TO THE PAYMENT THEREOF.**

**Tender**

The owner of a Bond does not have the option to require the purchase of his or her Bonds, nor are the Bonds subject to mandatory tender.

**Redemption**

The Bonds are subject to redemption as described below:

**Optional Redemption.** Except as described under the caption *Extraordinary Optional Redemption*, the Bonds are not redeemable at the option of the Issuer or the Company prior to maturity.

**Extraordinary Optional Redemption.** The Bonds are subject to redemption in whole on the next Interest Payment Date for which notice of redemption can be given, at a redemption price equal to the aggregate principal amount of the outstanding Bonds plus accrued interest thereon to the redemption date, without premium, upon receipt by the Trustee and the Paying Agent of a written notice from the Company stating that any of the following events has occurred within the preceding 270 days and that it intends to exercise its option to effect the redemption of the Bonds as a whole:

(a) in the reasonable judgment of the Company, unreasonable burdens or excessive liabilities shall have been imposed upon the Issuer or the Company with respect to the Facilities or the Plant, including, without limitation, (i) the imposition of any income or other taxes not imposed on February 1, 2009 or (ii) the imposition of any ad valorem property or other taxes (other than ad valorem property or other taxes imposed on February 1, 2009 upon similarly assessed property within the same taxing jurisdiction);

(b) the Facilities or the Plant shall have been damaged or destroyed to such extent that, in the opinion of the Company, (i) within a period of six consecutive months following such damage or destruction, it is not practicable or desirable to rebuild, repair or restore the same, (ii) the Company will be thereby prevented from carrying on its normal operations of the Facilities

or the Plant for a period of six consecutive months or (iii) the cost of restoration would exceed by \$1,500,000 or more the net proceeds of insurance thereon;

(c) title to, or temporary use of, all or substantially all of the Facilities or the Plant shall have been taken under the exercise of the power of eminent domain;

(d) changes in the economic availability of materials, labor, services, supplies (including fuel), equipment or other property, facilities or things necessary for the operation of the Facilities or the Plant shall have occurred, or technological, regulatory or other changes shall have occurred, which, in the opinion of the Company, render the continued operation of the Facilities or the Plant uneconomic;

(e) any court or administrative body shall enter a judgment, order or decree requiring the Company to cease, or dispose of, all or any substantial part of its operations of the Facilities or the Plant to such extent that, in the opinion of the Company, it is or will be thereby prevented from carrying on its normal operations of the Facilities or the Plant for a period of six or more consecutive months;

(f) as a result of any change in the Constitution of the State of Oklahoma or the Constitution of the United States of America or of any legislative or administrative action (whether state or federal), or of any final decree, judgment or order of any court or administrative body (whether state or federal), the obligations of the Company under the Agreement shall have become unenforceable or impossible of performance in any material respect in accordance with the intent and purpose of the parties as expressed in the Agreement (as specified in the Indenture); or

(g) following a change in the use of or abandonment of the Facilities or any portion thereof or the Plant, the Company has been unable after reasonable effort to obtain an opinion of Bond Counsel to the effect that interest on the Bonds remains exempt from federal income tax (other than for Bonds in the hands of a "substantial user" of the Facilities or a "related person" as those terms are used and defined in the applicable federal income tax law); provided, however, that if the Company obtains an opinion of Bond Counsel to the effect that, upon redemption of only a portion of the Bonds, interest payable on the remainder of the Bonds would remain exempt from federal income tax (other than for Bonds in the hands of a "substantial user" of the Facilities or a "related person" as those terms are used and defined in the applicable federal income tax law), the Company may redeem the Bonds in such part as necessary to obtain the opinion of Bond Counsel.

Extraordinary Mandatory Redemption. The Bonds are subject to mandatory redemption in whole, or in part at any time if such partial redemption will preserve the exemption from federal income taxation of interest on the remaining outstanding Bonds, at a redemption price equal to the principal amount thereof together with unpaid interest accrued to the date fixed for redemption, and without premium, if (a) a final decree or judgment of any federal court, in which the Company participates to the extent it deems sufficient, or (b) a final action by the Internal Revenue Service ("IRS"), in proceedings in which the Company participates to the extent it deems sufficient, determines that the interest paid or payable on the Bonds to a person other than,

as provided in the Code or the Internal Revenue Code of 1954, as amended (the "1954 Code"), as applicable, a "substantial user" of the Facilities or a "related person" is or was includable in the gross income of the owner thereof for federal income tax purposes under the Code, as a result of the failure by the Company to observe or perform any covenant, condition or agreement on its part to be observed or performed under the Agreement or the inaccuracy of any representation by the Company under the Agreement or receipt by the Company of an opinion of Bond Counsel to such effect obtained by the Company and rendered at the request of the Company; provided, however, that no decree or judgment by any court or action by the IRS shall be considered final unless the registered owner involved in such proceeding or action (i) gives the Company and the Paying Agent prompt written notice of the commencement thereof and (ii) if the Company agrees to pay all expenses in connection therewith and to indemnify such registered owner against all liabilities in connection therewith, offers the Company the opportunity to control the defense thereof. Any such redemption shall be made on a date determined by the Paying Agent not more than 180 days after the date of such final decree, judgment or action. The Paying Agent shall give the Issuer, the Trustee and the Company not less than 45 days written notice of such date.

**Notice of Redemption.** At least 30 days prior to any date fixed for redemption of the Bonds, the Paying Agent shall give notice of any optional redemption by sending such notice by (i) first-class mail to the Owner of each such Bond to be redeemed in whole or in part; (ii) by certified mail, return receipt requested, to DTC (so long as it owns all the Bonds), and upon request, to any person or entities which provide evidence acceptable to the Paying Agent that such person has a legal or beneficial interest in at least \$1,000,000 in principal amount of the Bonds; and (iii) by certified mail, return receipt requested, or by overnight delivery, received by the registered depositories at least two (2) days prior to the general publication date for such redemption notices and to be received by at least two (2) of the national information services that disseminate bond redemption notices on or before the general mailing date for such notices; provided, however, that the failure to send, mail or receive such notice described above, or any defect therein or in the sending or mailing thereof, with respect to the Bonds shall not affect the validity or effectiveness of the proceedings for the redemption of any other Bond. In addition, within sixty (60) days after the redemption date an additional redemption notice shall be sent to any Owner of the Bonds being redeemed who has not surrendered Bonds for redemption during the thirty (30) day period following the redemption date and to any person or entities having legal or beneficial ownership interest in at least \$1,000,000 in principal amount of the Bonds which have not been surrendered.

All notices of redemption shall state (i) the redemption date; (ii) the redemption price; (iii) the identification, including complete designation (including series) and issue date of the Bonds and the CUSIP number, certificate number (and in the case of partial redemption, the respective principal amounts), interest rates and maturity dates of the Bonds to be redeemed; (iv) that on the redemption date the redemption price will become due and payable upon each such Bond, and that interest thereon shall cease to accrue from and after said date; and (v) the name and address of the Trustee and the Paying Agent for the Bonds, including the place where the Bonds are to be surrendered for payment of the redemption price therefor. If at the time of mailing of notice of any optional redemption in connection with a refunding of all or a portion of the Bonds the Company shall not have deposited with the Trustee moneys sufficient to redeem

all of the Bonds called for redemption, such notice may state that it is conditional in that it is subject to the deposit of the proceeds of refunding bonds with the Trustee not later than the redemption date, and such notice shall be of no effect unless such moneys are so deposited.

**Partial Redemption.** If fewer than all of the Bonds are called for redemption, the Company may designate the principal amount of Bonds to be redeemed, and the Bonds to be redeemed shall be selected in a fair and equitable manner by the Paying Agent from among all the Bonds then outstanding. Each minimum increment of Authorized Denominations represented by any Bond shall be considered a separate Bond for purposes of selecting the Bonds to be redeemed. Bonds representing any unredeemed balance of the principal amount of the Bonds being redeemed shall be issued to the Owner thereof without charge therefor.

#### **Book-Entry Only System**

DTC, the world's largest depository, is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934, as amended ("1934 Act"). DTC holds and provides asset servicing for over 3.5 million issues of U.S. and non U.S. equity issues, corporate and municipal debt issues, and money market instruments from over 100 countries that DTC's participants ("Direct Participants") deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities, through electronic computerized book-entry transfers and pledges between Direct Participants' accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly owned subsidiary of The Depository Trust & Clearing Corporation ("DTCC"). DTCC is the holding company for DTC, National Securities Clearing Corporation and Fixed Income Clearing Corporation, all of which are registered clearing agencies. DTCC is owned by the users of its regulated subsidiaries. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants", and together with Direct Participants, "Participants"). The DTC Rules applicable to DTC and its Participants are on file with the SEC. More information can be found at [www.dtcc.org](http://www.dtcc.org).

Purchases of Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the Bonds on DTC's records. The ownership interest of each actual purchaser of each Bond ("Beneficial Owner") is in turn to be recorded on the Direct and Indirect Participants' records. Beneficial Owners will not receive written confirmation from DTC of their purchase, but Beneficial Owners are expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the Bonds are to be accomplished by entries made on the books of Participants acting on behalf of Beneficial Owners. Beneficial Owners

will not receive certificates representing their ownership interests in the Bonds, except in the event that use of the book-entry system for the Bonds is discontinued.

To facilitate subsequent transfers, all Bonds deposited by Direct Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co. or such other name as may be requested by an authorized Representative of DTC. The deposit of Bonds with DTC and their registration in the name of Cede & Co. effect no change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Bonds; DTC's records reflect only the identity of the Direct Participants to whose accounts the Bonds are credited, which may or may not be the Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers. So long as Cede & Co., as nominee for DTC, is the sole bondholder, the Trustee shall treat Cede & Co. as the only bondholder for all purposes under the Indenture, including receipt of all principal of, premium, if any, and interest on the Bonds, receipt of notices, voting and requesting or directing the Trustee to take or not to take, or consenting to, certain actions under the Indenture.

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time.

Redemption notices shall be sent to Cede & Co. If less than all of the Bonds are being redeemed, DTC's current practice is to determine by lot the amount of the interest of each Direct Participant in such issue to be redeemed.

Neither DTC nor Cede & Co. will consent or vote with respect to the Bonds, unless authorized by a Direct Participant in accordance with DTC's procedures. Under its usual procedures, DTC mails an Omnibus Proxy to the Issuer as soon as possible after the applicable record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts the Bonds are credited on such record date (identified in a listing attached to the Omnibus Proxy).

Redemption proceeds and principal and interest payments on the Bonds will be made to Cede & Co. or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detailed information from the Issuer or the Trustee, on the payable date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name", and will be the responsibility of such Participants and not of DTC, the Trustee or the Issuer, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of redemption proceeds and principal, premium, if any, and interest payments to Cede & Co. or such other nominee as may be requested by an authorized representative of DTC is the responsibility of the Issuer or the Trustee, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

DTC may discontinue providing its services as securities depository with respect to the Bonds at any time by giving reasonable notice to the Issuer or the Trustee. Under such circumstances, in the event that a successor securities depository is not obtained, certificated bonds will be required to be printed and delivered.

The Issuer may decide to discontinue use of the system of book-entry only transfers through DTC (or a successor securities depository). Upon receipt of a withdrawal request from an issuer, DTC will take the following actions: (1) DTC will issue an important notice notifying its Participants of the receipt of a withdrawal request from the issuer reminding Participants that they may utilize DTC's withdrawal procedures if they wish to withdraw their securities from DTC, and (2) DTC will process withdrawal requests submitted by Participants in the ordinary course of business, but will not effectuate withdrawals based upon a request from an issuer. In that event, security certificates will be printed and delivered to DTC.

In the event that the book-entry system is discontinued, the principal or redemption price of and interest on the Bonds will be payable in the manner described above, and the Bonds may be transferred or exchanged for one or more Bonds in different Authorized Denominations upon surrender thereof at the principal corporate trust office of the Paying Agent by the registered owners or their duly authorized attorneys or legal representatives. Upon surrender of any Bonds to be transferred or exchanged, the Paying Agent shall record the transfer or exchange in the registration books and shall authenticate and deliver the Bonds appropriately registered and in appropriate Authorized Denominations.

Under the Indenture, payments made by the Trustee to DTC or its nominee will satisfy the Issuer's obligations under the Indenture and the Company's obligations under the Agreement to the extent of the payments so made. Beneficial Owners will not be, and will not be considered by the Issuer or the Trustee to be, and will not have any rights as, owners of Bonds under the Indenture.

The information in this section concerning DTC and DTC's book-entry system has been obtained from sources that the Underwriter, the Company and the Trustee believe to be reliable, but the Underwriter, the Company and the Trustee take no responsibility for the accuracy thereof.

None of the Issuer, the Underwriter, the Company, the Trustee or any agent for payment on or registration of transfer or exchange of any Bond will have any responsibility or obligation to Direct Participants, Indirect Participants or the persons for whom they act as nominees with respect to the accuracy of the records of DTC, its nominee or any Direct Participant with respect to any ownership interest in the Bonds, or payments to, or the providing of notice for, Direct Participants, Indirect Participants, or beneficial owners or other action taken by DTC, or its nominee, Cede & Co., as the sole owners of the Bonds.

## THE AGREEMENT

*In addition to the description of certain provisions of the Agreement contained elsewhere herein, the following is a brief summary of certain provisions of the Agreement and does not purport to be comprehensive or definitive. All references herein to the Agreement are qualified in their entirety by reference to the Agreement for the detailed provisions thereof.*

### Use of Bond Proceeds

The Issuer will issue the Bonds to provide funds to currently refund the Refunded Bonds. Upon the sale of the Bonds, the proceeds of the Bonds will be transferred to the trustee for the Refunded Bonds to be used to retire or redeem the Refunded Bonds.

### Installment Payments

The Company will make Installment Payments under the Agreement to fund payments on the Bonds in such amounts which, together with other moneys available therefor in the Bond Fund created under the Indenture, will be sufficient to pay when due the principal of, premium, if any, and interest on the outstanding Bonds as they shall mature, be redeemed, or otherwise become due as provided in the Indenture. The Company shall make such payments directly to the Trustee or the Paying Agent, as appropriate, for the account of the Issuer.

Installment Payment obligations of the Company under the Agreement will be absolute and unconditional, and the Company will make such payments free of any deductions and without abatement, diminution or setoff. In the event that the Company fails to make any such payments, the item or installment so in default will continue as an obligation of the Company until the amount in default has been fully paid.

### Other Payments Under The Agreement

In addition to the Installment Payments, the Company agrees to pay taxes, assessments and other charges of any kind whatsoever that may at any time be lawfully levied or imposed with respect to the Facilities or the Installment Payments under the Agreement and all costs and expenses of the operations and maintenance of the Facilities. The Company also agrees to pay certain costs and expenses of the Issuer and the Trustee in connection with the Bonds and to indemnify such parties against certain liabilities arising in connection with the sale of the Bonds and the execution and delivery of the related bond documents.

### Corporate Existence

The Company shall maintain its legal existence, will not dissolve or otherwise dispose of all or substantially all of its assets and will not consolidate with or merge into another entity or permit one or more other entities to consolidate with or merge into it; provided that the Company may, without violating the Agreement, (a) consolidate with or merge into another domestic entity (i.e., an entity organized and existing under the laws of one of the states of the United States of America, the District of Columbia or under the laws of the United States of America) or permit

one or more other such entities to consolidate with or merge into it; or (b) sell or otherwise transfer, to another such domestic entity, all or substantially all of its assets, and, if it so elects, thereafter dissolve; provided, in each of (a) and (b), that such surviving, resulting or transferee entity shall have irrevocably and unconditionally assumed the due and prompt performance of all of the obligations of the Company under the Agreement in the manner described under *Assumption* below.

#### **Assignment**

The Company may assign its interest in, or any rights and obligations under, the Agreement (a) to another entity provided that the Company, under the terms of any such assignment, shall remain and be primarily responsible and liable for all of its obligations under the Agreement, including particularly the making of all payments required thereunder, when due if the entity to which an interest in the Agreement is assigned fails to perform such obligations; or (b) to one or more other entities in connection with a transaction permitted under the terms of the Agreement as described in *Corporate Existence* above.

#### **Assumption**

Any irrevocable, unconditional assumption of the due and prompt performance of all of the obligations of the Company under the Agreement by an entity or entities (collectively, the "Assignee") permitted under the Agreement ("Assumption") shall be evidenced by an instrument delivered concurrently with such assumption to the Issuer, the Paying Agent and the Trustee. If a transaction occurs pursuant to and as permitted by the Agreement in which the Company, either alone or collectively with other entities, is not the Assignee, the Company shall be relieved of liability under the Agreement. If an Assumption occurs, the Assignee shall be and act as the Company for all purposes of the Agreement.

#### **Defaults and Remedies**

The Agreement provides that the occurrence and continuation of any one of the following shall constitute an "Event of Default" thereunder:

- (a) failure by the Company to pay Installment Payments with respect to principal of or premium on any Bond at the times specified therein;
- (b) failure by the Company to pay Installment Payments with respect to interest on any Bond at the times specified therein;
- (c) failure by the Company to observe and perform any covenant, condition or agreement on its part required to be observed or performed in the Agreement, other than as referred to in (a) or (b) above, for a period of 90 days after receipt by the Company of written notice specifying such failure and requesting that it be remedied, given to the Company by the Issuer or the Trustee, unless the Issuer and the Trustee (with the requisite bondholder consent) shall agree in writing to an extension of such time prior to its expiration; provided, however, that if the failure stated in the notice can, in the reasonable judgment of the Company, be corrected

but cannot be corrected within the applicable period, the Issuer and the Trustee will not unreasonably withhold their consent to an extension of such time if corrective action is instituted within the applicable period and diligently pursued until the default is corrected;

(d) certain events of dissolution, liquidation, insolvency, bankruptcy or reorganization involving the Company; or

(e) an "Event of Default" (as defined in the Indenture) has occurred and is continuing under the Indenture.

The provisions of paragraph (c) above are subject to the following limitations: if by reason of acts of God, strikes, lockouts or other industrial disturbances; acts of public enemies; orders or regulations of any kind of the government of the United States of America or of the State of Oklahoma or any of their departments, agencies, political subdivisions, or officials, or any civil or military authority; insurrections; riots, epidemics; landslides; lightning; earthquakes; tidal waves; fires; hurricanes; tornadoes; blue northers; other storms; floods; washouts; droughts; arrests; restraints of government and people; civil disturbances; explosions; breakage or accident to machinery, transmission pipes, transmission facilities or canals; partial or entire failure of utilities; shortages of labor, material, supplies or transportation; or any other cause or event not reasonably within the control of the Company (collectively, "events of force majeure"), the Company is unable in whole or in part to carry out the agreements on the Company's part contained in the Agreement, the Company shall not be deemed in default during the continuance of such inability. The Company, however, will use its best efforts to remedy with all reasonable dispatch the cause or causes preventing the Company from carrying out such agreements; provided, that the settlement of strikes, lockouts and other industrial disturbances shall be entirely within the discretion of the Company, and the Company shall not be required to make settlement of strikes, lockouts, and other industrial disturbances by acceding to the demands of the opposing party or parties when such course is, in the judgment of the Company, unfavorable to the Company. The occurrence of any event of force majeure shall not suspend or otherwise abate, and the Company shall not be relieved from, any obligation under the Agreement to the extent that the failure of the Company to observe or perform any such obligation would result in the failure to pay when due the principal of, premium, if any, and interest on, the Bonds or would result in the interest on the Bonds becoming includable in the gross income of the owners thereof for federal income tax purposes.

The above provisions, however, are subject to the conditions that, after any such Event of Default under the Agreement, subject to and as provided in the Indenture, the Trustee, with the requisite bondholder consent, will waive such Event of Default and rescind and annul any remedial step theretofore taken by it or by the Issuer with respect to such default and its consequences; but no such waiver, rescission or annulment shall extend to or affect any subsequent default or impair any right or remedy consequent thereon.

Whenever any Event of Default under the Agreement shall have occurred and is continuing, the Issuer, with the written consent of the Trustee, or the Trustee may take any one or more of the following remedial steps but only if acceleration of the principal amount of the Bonds has been declared pursuant to the Indenture:

(a) by notice in writing to the Company, declare the unpaid Installment Payments to be due and payable immediately, if concurrently with or prior to such notice the unpaid principal amount of the Bonds has been declared to be due and payable under the Indenture, and upon any such declaration the Installment Payments payable under the Agreement shall become and shall be immediately due and payable in the amount equal to the principal of and all accrued interest on the Bonds (without premium); provided, however, that an Event of Default shall be deemed waived and a declaration accelerating payment of unpaid Installment Payments payable under the Agreement shall be deemed rescinded without further action on the part of the Trustee or the Issuer upon any rescission by the Trustee of the corresponding declaration of acceleration of the Bonds under the Indenture;

(b) whatever action at law or in equity may appear necessary or desirable to collect the payment and other amounts then due or to enforce performance and observance of any obligation, agreement or covenant of the Company under the Agreement.

The Company has covenanted that, in case an Event of Default shall occur with respect to the payment of any Installment Payment then payable, upon demand of the Trustee, the Company will pay the whole amount that then shall have become due and payable, with interest (to the extent permitted by law) on such amount, at the rate of interest borne by the Bonds at the time of such failure, from the due date thereof until paid.

In case the Company shall fail to pay such amounts upon such demand, the Trustee shall be entitled and empowered to institute any action or proceeding at law or in equity for the collection of the sums so due and unpaid, and may prosecute any such action or proceeding to judgment or final decree, and may enforce any such judgment or final decree against the Company and collect, in the manner provided by law out of the property of the Company, the moneys adjudged or decreed to be payable.

#### **Certain Covenants Regarding Arbitrage and Tax Exemption**

The Issuer and the Company have agreed not to knowingly take any action or omit to take any action, which would result in a loss of the exemption from federal income taxation of interest on the Bonds by virtue of the Bonds being considered "arbitrage bonds" within the meaning of Section 148 of the Code.

The Issuer and the Company have agreed to refrain from taking any action which would adversely affect, and to take such action to assure, the treatment of the Bonds as obligations described in Section 103(a) of the Code, the interest on which is not includable in the "gross income" of the holder (other than the income of a "substantial user" of the Facilities or a "related person" within the meaning of Section 147(a) of the Code or Section 103(b)(13) of the 1954 Code, as applicable) for purposes of federal income taxation.

### **Amendment of Agreement**

The Issuer and the Company may, in accordance with the Indenture, without the consent of, or notice to, the Bondholders, enter into an amendment to the Agreement, for any one or more of the following purposes:

- (i) to cure any ambiguity, formal defect or omission in the Agreement or to make such other changes which shall not have a material adverse effect upon the interests of the Bondholders;
- (ii) to grant to or confer upon the Trustee, for the benefit of the Bondholders, any additional rights, remedies, powers or authorities, or any additional security, that may lawfully be granted to or conferred upon the Owners or the Trustee;
- (iii) to subject to the Indenture additional revenues, properties or collateral;
- (iv) to add to the covenants and agreements of the Issuer contained in the Agreement other covenants and agreements thereafter to be observed for the protection of the Bondholders or to surrender or limit any right, power or authority therein reserved to or conferred upon the Issuer;
- (v) effective upon any Conversion Date, to make any amendment affecting only the Bonds being converted;
- (vi) to add provisions relating to the partial conversion of Bonds to a new Mode;
- (vii) to conform to the requirements of any Rating Agency;
- (viii) to add or modify provisions permitting a mandatory tender of Bonds in lieu of redemption;
- (ix) to add provisions permitting the addition of a credit facility or liquidity facility;
- (x) to make any change related to the Bonds that does not materially adversely affect the rights of any Bondholder; and
- (xi) to implement any permitted succession to or assignment by the Company in accordance with the provisions of the Indenture and the Agreement.

Subject to certain terms and provisions of the Indenture, and exclusive of the purposes described in subparagraphs (i) through (x) above, the Owners of a majority in aggregate principal amount of the Bonds then outstanding will have the right, from time to time, to approve amendments deemed necessary and desirable by the Issuer and the Company for the purposes of modifying, altering, amending, adding to or rescinding any of the terms or provisions contained in the Agreement, as it may be amended from time to time.

## THE INDENTURE

*In addition to the description of certain provisions of the Indenture contained elsewhere herein, the following is a brief summary of certain provisions of the Indenture and does not purport to be comprehensive or definitive. All references herein to the Indenture are qualified in their entirety by reference to the Indenture for the detailed provisions thereof.*

### **Bond Fund**

The Indenture creates and establishes with the Trustee a separate trust fund designated "The Oklahoma Development Finance Authority (Public Service Company of Oklahoma Project) Series 2009 Bond Fund" (the "Bond Fund"), which will be used solely for the payment of the principal of, premium, if any, and interest on the Bonds. All Installment Payments made by the Company in connection with principal of, premium, if any, and interest on the Bonds will be made to the Trustee for deposit in the Bond Fund. There shall be deposited into the Bond Fund, when received: (i) all payments specified in the Agreement (except for certain payments of fees, expenses, and indemnification arising out of the Issuer's Unassigned Rights (as defined in the Agreement)); (ii) all moneys required to be so deposited in connection with any redemption of the Bonds; (iii) any amounts directed to be transferred into the Bond Fund pursuant to any provision of the Indenture, and (iv) all other moneys when received by the Trustee which are required to be deposited in the Bond Fund or which are accompanied by directions that such moneys are to be paid into the Bond Fund.

Moneys held in the Bond Fund shall be used solely for the payment of the principal of, premium, if any, and interest on the Bonds on the dates due for the payment of redemption thereof. The Issuer has authorized and directed the Trustee to withdraw sufficient funds from the Bond Fund to transfer to the Paying Agent to pay the principal of, premium, if any, and interest on the Bonds as the same become due and payable, which authorization and direction the Trustee has accepted.

### **Investment**

Except as provided in the Indenture, any moneys held as part of the Bond Fund shall be invested or reinvested by the Trustee as provided in written instructions of the Company solely in Permitted Investments (as defined in the Indenture).

### **Moneys Held in Trust**

All moneys required to be deposited with or paid to the Trustee for the account of any fund under the Indenture shall be held by the Trustee in trust and, except for (i) moneys in the Rebate Fund (as defined in the Indenture), and (ii) moneys deposited with or paid to the Trustee for the redemption of Bonds, notice of the redemption for which has been duly given, shall, while held by the Trustee, be part of the trust estate and be subject to the security interest created by the Indenture.

### **Events of Default and Remedies**

The Indenture provides that each of the following constitutes an "Event of Default" thereunder:

(a) default in the due and punctual payment of the principal of or premium, if any, on any outstanding Bond, as the same shall become due and payable, whether at the stated maturity thereof, upon any proceedings for redemption, or upon the maturity thereof by declaration of acceleration;

(b) default in the due and punctual payment of the interest on any outstanding Bond, as the same shall become due and payable;

(c) default by the Issuer in its performance or observance of any of the other covenants, agreements or conditions contained in the Indenture, and the continuation thereof without corrective action for a period of 90 days after receipt by the Issuer and the Company of notice given by the Trustee or the Owners of not less than 25% in aggregate principal amount of all Bonds outstanding as specified in the Indenture; or

(d) an Event of Default (as defined in the Agreement) has occurred and is continuing under the Agreement.

If any Event of Default occurs and is continuing, the Trustee may, and upon written request of the Owners of at least 25% in principal amount of all the Bonds then outstanding, shall, by notice in writing to the Issuer and the Company, declare the principal of all Bonds then outstanding to be immediately due and payable, and upon such declaration the said principal, together with interest accrued thereon to the date of acceleration, shall become due and payable immediately at the place of payment provided therein, anything in the Indenture or in the Bonds to the contrary notwithstanding. Upon the occurrence of any such acceleration, the Trustee shall immediately declare all Installment Payments under the Agreement to be due and payable immediately.

If, after the principal of the Bonds has become due and payable, all arrears of interest upon those Bonds are paid by the Issuer, and the Issuer also performs all other things in respect to which it may have been in default under the Indenture and pays the reasonable charges of the Trustee and the Bondholders, including reasonable and necessary attorneys' fees, then, and in every such case, the Owners of a majority in principal amount of the Bonds then outstanding, by notice to the Issuer and to the Trustee, may annul such acceleration and its consequences. No such annulment shall extend to or affect any subsequent default or impair any right or remedy consequent thereon.

Upon the occurrence of an Event of Default, the Trustee may pursue any available remedy by suit at law or in equity to enforce the payment of the principal of, premium, if any, and interest on the Bonds then outstanding, and the performance by the Issuer of its obligations under the Indenture, including, without limitation, the following: (a) by mandamus, or other suit, action or proceeding at law or in equity, enforce all rights of the Bondholders and require the

Issuer to carry out its obligations under the Indenture and the Acts; (b) bring suit upon the Bonds; (c) by action, suit or proceeding at law or in equity, require the Issuer to account as if it were the trustee of an express trust for the Bondholders; and (d) by action, suit or proceeding at law or in equity, enjoin any acts or things which may be unlawful or in violation of the rights of the Bondholders.

#### **Defeasance**

Any Bond shall be deemed to have been paid and discharged when (i) payment of the principal of and applicable premium, if any, on such Bond plus the interest thereon to the due date thereof (whether such due date be by reason of maturity or upon redemption as provided in the Indenture or otherwise) either (a) shall have been made in accordance with the terms of the Indenture, or (b) shall have been provided for by irrevocably depositing with the Trustee (which shall irrevocably set aside such deposit exclusively for payment), in trust solely for such payment, any combination of (1) sufficient moneys provided by the Company to make such payment and/or (2) Government Obligations (as defined in the Indenture) acquired with moneys provided by the Company not subject to redemption or prepayment and maturing as to principal and interest in such amounts and at such times as will in the opinion of an independent certified public accountant delivered to the Trustee be sufficient to make such payment without reinvestment (and there shall be no reinvestment); (ii) all necessary and proper fees and expenses of the Trustee and the Paying Agent pertaining to the Bonds shall have been paid or, to the satisfaction of the Trustee and the Paying Agent, provided for; (iii) the Trustee shall have received in form satisfactory to it irrevocable instructions from an authorized representative of the Company to redeem the Bonds on the date next following on which the Bonds are required to be, or may at the option of the Owner be, tendered for purchase and either evidence that all redemption notices required by the Indenture have been given or irrevocable instructions to the Trustee to give such redemption notices has been given; and (iv) there shall have been delivered to the Trustee and the Issuer an opinion of Bond Counsel to the effect that the deposit of such moneys will not adversely affect the excludability from gross income for purposes of federal income taxation of interest on any of the Bonds.

#### **Discharge of Lien**

When all of the Bonds have been paid or deemed paid and the Issuer is not in default under any of the covenants and promises contained in the Bonds and the Indenture, and if the Issuer shall pay or cause to be paid to the Trustee all sums of money due or to become due according to the Indenture or the Bonds and the Agreement, then the rights under the Indenture will become null and void; provided, however, that the rights of the Trustee under the Indenture to receive its fees, charges and expenses shall survive the discharge of the Indenture until paid in full. See the caption *Defeasance* above for a discussion of the conditions under which the Bonds will be deemed to have been paid.

#### **The Trustee; New York Paying Agent**

To the extent permitted by law, the Trustee may invest in and treat itself as any other holder of the Bonds. The Trustee may resign under the Indenture at any time after notice to the

Issuer, the Company, the Paying Agent and the Bondholders, such resignation to take effect only upon the appointment of a successor Trustee. The Trustee may be removed under the Indenture at any time by written notice signed by the Issuer and the Company and delivered to the Trustee, the Paying Agent and the Bondholders. Such removal shall take effect only upon the appointment of a successor Trustee. Every successor Trustee may be appointed by the Issuer with the consent of the Company and shall be a bank or trust company which (i) is organized as a corporation or banking association and doing business under the laws of the United States of America or any state thereof; (ii) is authorized under such laws to exercise corporate trust powers and to perform all the duties imposed upon it by the Indenture and the Agreement; (iii) is subject to supervision or examination by federal or state authority; (iv) has combined capital and surplus of at least \$75,000,000; (v) shall not have become incapable of acting or have been adjudged a bankrupt or an insolvent or have had a receiver appointed for itself or for any of its property or have had a public officer take charge or control of it or its property or affairs for the purpose of rehabilitation, conservation or liquidation; and (vi) is an institution rated or its holding company parent is rated at least "Baa3" by Moody's Investors Services, Inc. ("Moody's") (or Moody's shall have provided written evidence that such successor Trustee is otherwise acceptable to Moody's) if the Bonds are then rated by Moody's, and at least "BBB-" or "A-3" by Standard & Poor's, a division of The McGraw-Hill Companies ("S&P") (or S&P shall have provided written evidence that such successor Trustee is otherwise acceptable to S&P) if the Bonds are then rated by S&P. Should the Trustee cease to be eligible to act as trustee under the Indenture, it shall promptly notify the Owners of all Bonds then outstanding, the Issuer, the Paying Agent and the Company of such fact. The Issuer may appoint a temporary trustee until the appointment of such successor.

The Paying Agent is required to maintain an office, or have an agent with an office, in New York City at all times that the Bonds are outstanding.

#### **Additional Notices**

Upon written request of any Owner of the Bonds in an aggregate principal amount of at least \$1,000,000 (or any person or entity which provides written evidence acceptable to the Trustee and the Paying Agent that such person or entity has a legal or beneficial interest in the Bonds in an aggregate principal amount of at least \$1,000,000), the Trustee or the Paying Agent, as appropriate, shall give an additional copy of any notice to be given by the Trustee or the Paying Agent, as appropriate, under the Indenture by first-class mail to a second address specified by such Owner, person or entity. Any such additional notices shall be given simultaneously with the original notices.

Upon written request of any person or entity which provides evidence acceptable to the Trustee and the Paying Agent, as appropriate, that such person or entity has a legal or beneficial interest in at least \$1,000,000 in principal amount of the Bonds, the Trustee or the Paying Agent, as appropriate, shall for the calendar year in which such request is received, provide one or more of the following as requested to such person or entity: (i) notices of redemption; (ii) notices of default; (iii) copies of all notices to which such person or entity is entitled under the Indenture to a specific second address; and (iv) outstanding balances by maturity, redemption history, including redemption date, amount and source of funds and distribution of the call to maturity.

### **Supplemental Indentures**

The Issuer and the Trustee, with the written consent of the Company, but without the consent of or notice to the Bondholders, may enter into an indenture or indentures supplemental to the Indenture, for any of the following purposes:

- (a) to cure any ambiguity, formal defect or omission in the Indenture or to make such other changes which shall not have a material adverse effect upon the interests of the Bondholders;
- (b) to grant to or confer upon the Trustee, for the benefit of the Bondholders, any additional rights, remedies, powers or authorities, or any additional security, that may lawfully be granted to or conferred upon the Bondholders or the Trustee;
- (c) to subject to the Indenture additional revenues, properties or collateral;
- (d) to modify, amend or supplement the Indenture, or any indenture supplemental thereto, in such manner as to permit the qualification thereof under the Trust Indenture Act of 1939, as amended (the "Trust Indenture Act") or any similar federal statute hereafter in effect, or to permit the qualification of the Bonds for sale under the securities laws of any of the states of the United States and, if the Issuer so determines, to add to the Indenture or any indenture supplemental thereto such other terms, conditions and provisions as may be permitted by the Trust Indenture Act or any similar federal statute;
- (e) to add to the covenants and agreements of the Issuer contained in the Indenture other covenants and agreements thereafter to be observed for the protection of the Bondholders or to surrender or limit any right, power or authority therein reserved to or conferred upon the Issuer;
- (f) effective upon any Conversion Date (as defined in the Indenture), to make any amendment affecting only the Bonds being converted, including, without limitation, amendments relating to assignment of the Company's obligations under the Agreement and release of the Company with respect to liability therefor;
- (g) to add provisions relating to the partial conversion of the Bonds to a new Mode;
- (h) to conform the Indenture to the requirements of any rating agency;
- (i) to add or modify provisions permitting a mandatory tender of the Bonds in lieu of redemption;
- (j) to add provisions permitting the addition of a credit facility or a liquidity facility;
- (k) to make any change related to the Bonds that does not materially adversely affect the rights of any Bond Owner; and

(l) to implement any succession or assignment by the Company in accordance with the provisions of the Indenture and the Agreement.

Exclusive of the purposes described in subparagraphs (a) through (l) above, the Owners of a majority in aggregate principal amount of the Bonds then outstanding will have the right, from time to time, to approve any supplemental indenture deemed necessary and desirable by the Issuer for the purposes of modifying, altering, amending, adding to or rescinding any of the terms or provisions contained in the Indenture or any supplemental indenture. No modification or alteration may be made without the consent of the holders of all the Bonds then outstanding and affected which permits (i) an extension of the maturity of the principal of, or the time for payment of any redemption premium or interest on, any Bond or a reduction in the principal amount of any Bond, or the rate of interest or redemption premium thereon, or a reduction in the amount of, or extension of the time of any payment required by, any Bond; (ii) a privilege or priority of any Bond over any other Bond (except as provided in the Indenture); (iii) a reduction in the aggregate principal amount of the Bonds required for consent to such a supplemental indenture; (iv) the deprivation of the Owner of any Bond then outstanding on the lien created by the Indenture; or (v) the amendment of the limitations described in this paragraph.

## UNDERWRITING

Subject to the terms and conditions set forth in a Bond Purchase Agreement ("Purchase Agreement") to be entered into between the Issuer and the Underwriter, the Underwriter has agreed to purchase the Bonds at a purchase price of 100% of the principal amount thereof. Under the terms and conditions of the Purchase Agreement, the Underwriter is committed to take and pay for all of the Bonds if any are taken. The Company has agreed to pay the Underwriter \$168,500 as compensation and to reimburse the Underwriter for its reasonable expenses.

The Issuer has been advised by the Underwriter that the Bonds may be offered and sold to certain dealers (including dealers depositing Bonds into investment trusts) and others at prices lower than the public offering price set forth on the cover page of this Official Statement. After the Bonds are released for sale to the public, the public offering price and other selling terms may from time to time be varied by the Underwriter.

In connection with this offering and in compliance with applicable law and industry practice, the Underwriter may over allot or effect transactions which stabilize, maintain or otherwise affect the market price of the Bonds at levels above those which might otherwise prevail in the open market, including by entering stabilizing bids. A stabilizing bid means the placing of a bid, or the effecting of any purchase, for the purpose of pegging, fixing or maintaining the price of a security. In general, purchases of a security for the purpose of stabilization could cause the price of the security to be higher than it might be in the absence of such purchases.

Neither the Issuer, the Company nor the Underwriter makes any representation or prediction as to the direction or magnitude of any effect that the transactions described above may have on the price of the Bonds. In addition, neither the Issuer, the Company nor the Underwriter makes any representation that the Underwriter will engage in such transactions or that such transactions, once commenced, will not be discontinued without notice.

Pursuant to an Inducement Letter, the Company has agreed to indemnify the Underwriter and the Issuer against certain civil liabilities, including liabilities under the federal securities laws, or contribute to payments that the Underwriter or the Issuer may be required to make in respect thereof.

The Underwriter and/or certain of its affiliates may engage in transactions with, and from time to time have performed services for, the Company in the ordinary course of business.

## SECONDARY MARKET INFORMATION

No financial statements or operating data concerning the Issuer are included in this Official Statement and the Issuer has not undertaken to provide any such information in the future.

Solely for the purpose of enabling the Underwriter to comply with the requirements of Rule 15c2-12(b) under the 1934 Act, as in effect on the date hereof (the "Rule"), the Company has undertaken (but only to the extent required for compliance with valid and effective provisions of the Rule), for the benefit of the Bondholders, to provide the persons specified below (i) not later than 120 days after the end of each fiscal year of the Company ending on or after January 1, 2009, the Public Service Company of Oklahoma Annual Report to the Securities and Exchange Commission (the "Commission") on Form 10-K (or any successor form), excluding any exhibits or documents incorporated by reference therein, other than (if applicable) the audited financial statements appearing in the Public Service Company of Oklahoma Annual Report to stockholders (the "Form 10-K"), or, if the Form 10-K is no longer required, audited annual financial statements of the Company of the type incorporated by reference in Appendix A hereto (the "Audited Financial Statements"), and (ii) in a timely manner, notice of the occurrence of certain events enumerated in the Rule, if material (the "Undertaking").

The Form 10-K (or, if required, the Audited Financial Statements) shall be provided to each Nationally Recognized Municipal Securities Information Repository ("NRMSIR") recognized by the Commission for purposes of the Rule and to the Oklahoma state information depository, if any, ("SID") and the notices of certain events shall be provided to each NRMSIR or to the Municipal Securities Rulemaking Board, and to the SID.

Neither the Issuer nor its members, directors, officers, agents or employees have any responsibility or liability for the sufficiency, performance or enforcement of the Undertaking. The Company, its directors, officers, employees and shareholders shall have no liability under the Undertaking for any act or failure to act; a failure to perform the Undertaking shall not constitute an Event of Default under any Indenture or a default under the Bonds; and the sole remedy shall be specific enforcement of the Undertaking by the applicable Trustee or by such person, if any, as the Rule may require to be entitled to enforce the same. The Company reserves the right to (a) contest the validity of the Rule, and (b) modify its performance of the Undertaking, to the extent not inconsistent with valid and effective provisions of the Rule.

## TAX MATTERS

### Opinion of Bond Counsel

On the date of initial delivery of the Bonds, McCall, Parkhurst & Horton L.L.P., Dallas, Texas, Bond Counsel, will render its opinion that, in accordance with statutes, regulations, published rulings and court decisions existing on the date thereof ("Existing Law"), (a) interest on the Bonds will be excludable from the "gross income" of the holders thereof, except for any holder who is treated pursuant to Section 147(a) of the Code or Section 103(b)(13) of the 1954 Code, as applicable, as a "substantial user" of the Facilities or a "related person" to such user and (b) the Bonds will not be treated as "specified private activity bonds", the interest on which would be included as an alternative minimum tax preference item under Section 57(a)(5) of the Code. Except as stated above, Bond Counsel will express no opinion as to any other federal, state or local tax consequences of the purchase, ownership or disposition of the Bonds.

In rendering its opinion, Bond Counsel will rely upon (a) information furnished by the Company, and particularly written representations of officers and agents of the Company with respect to certain material facts that are solely within their knowledge relating to the use of the proceeds of the Bonds, the Refunded Bonds and the Prior Bonds, and the construction, use and management of the Facilities, and (b) covenants of the Issuer, the Company and the Trustee with respect to arbitrage, the application of the proceeds to be received from the issuance and sale of the Bonds, the Refunded Bonds and the Prior Bonds and certain other matters. Failure of the Issuer or the Company to comply with these representations or covenants could cause the interest on the Bonds to become includable in gross income retroactively to the date of issuance of the Bonds.

The Code and the regulations promulgated thereunder contain a number of requirements that must be satisfied subsequent to the issuance of the Bonds in order for interest on the Bonds to be, and to remain, excludable from gross income for federal income tax purposes. Failure to comply with such requirements may cause interest on the Bonds to be included in gross income retroactively to the date of issuance of the Bonds. The opinion of Bond Counsel is conditioned on compliance by the Company with such requirements, and Bond Counsel has not been retained to monitor compliance with these requirements subsequent to the issuance of the Bonds.

Existing Law is subject to change by the Congress and to subsequent judicial and administrative interpretation by the courts and the Department of the Treasury. Bond Counsel's opinion is not a guarantee of a result. Bond Counsel's opinion represents its legal judgment based upon its review of Existing Law and the reliance on the aforementioned information, representations and covenants of the Issuer and the Company described above. There can be no assurance that such law or the interpretation thereof will not be changed in a manner which would adversely affect the tax treatment of the purchase, ownership or disposition of the Bonds.

A ruling has not been sought from the IRS by either the Company or the Issuer with respect to the Bonds or the property refinanced with the proceeds of the Bonds. No assurance can be given with respect to whether the IRS would agree with the opinion of Bond Counsel or as to whether the IRS will commence an audit of the Bonds. If an audit is commenced, under current procedures the IRS is likely to treat the Issuer as the "taxpayer," and the owners of the Bonds would have no right to participate in the audit process. In responding to or defending an audit of the tax-exempt status of the interest on the Bonds, the Issuer may have different or conflicting interests from the owners of the Bonds.

#### **Collateral Federal Income Tax Consequences**

The following discussion is a summary of certain collateral federal income tax consequences resulting from the purchase, ownership or disposition of the Bonds. This discussion is based on existing statutes, regulations, published rulings and court decisions, all of which are subject to change or modification, retroactively.

The following discussion is applicable to investors, other than those who are subject to special provisions of the Code, such as financial institutions, property and casualty insurance companies, life insurance companies, individual recipients of Social Security or Railroad

Retirement benefits, certain S corporations with accumulated Subchapter C earnings and profits and excess passive investment income, foreign corporations subject to the branch profits tax and taxpayers who may be deemed to have incurred or continued indebtedness to purchase tax-exempt obligations.

**INVESTORS, INCLUDING THOSE WHO ARE SUBJECT TO SPECIAL PROVISIONS OF THE CODE, SHOULD CONSULT THEIR OWN TAX ADVISORS AS TO THE TAX TREATMENT WHICH MAY BE ANTICIPATED TO RESULT FROM THE PURCHASE, OWNERSHIP AND DISPOSITION OF TAX-EXEMPT OBLIGATIONS BEFORE DETERMINING WHETHER TO PURCHASE THE BONDS.**

Under Section 6012 of the Code, holders of the tax-exempt obligations, such as the Bonds, may be required to disclose interest received or accrued during each taxable year on their returns of federal income taxation.

Section 1276 of the Code provides for ordinary income tax treatment of gain recognized upon the disposition of a tax-exempt obligation, such as the Bonds, if such obligation was acquired at a "market discount" and if the fixed maturity of such obligations is equal to, or exceeds, one year from the date of issue. Such treatment applies to "market discount bonds" to the extent such gain does not exceed the accrued market discount of such Bonds, although for this purpose, a *de minimis* amount of market discount is ignored. A "market discount bond" is one which is acquired by the holder at a purchase price which is less than the stated redemption price at maturity. The "accrued market discount" is the amount which bears the same ratio to the market discount on such obligations as the number of days during which the holder holds the obligation bears to the number of days between the acquisition date and the final maturity date.

#### **Oklahoma Taxes**

In the opinion of Bond Counsel, pursuant to Title 74, Oklahoma Statutes 2001, Section 5062.11, as amended, the Bonds and the income therefrom are exempt from all taxation in the State of Oklahoma, except for inheritance, estate or transfer taxes.

#### **State, Local and Foreign Taxes**

Investors should consult their own tax advisors concerning the tax implications of the purchase, ownership, or disposition of the Bonds under applicable state or local laws. Foreign investors should also consult their own tax advisors regarding the tax consequences unique to investors who are not United States persons.

## LEGAL MATTERS

Legal matters incident to the original authorization, issuance and sale of the Bonds are subject to the unqualified approval of McCall, Parkhurst & Horton L.L.P., Dallas, Texas, Bond Counsel. In connection with the issuance of the Bonds, McCall, Parkhurst & Horton L.L.P. has acted in the capacity of Bond Counsel for the purpose of rendering the opinion attached hereto as Appendix B, which includes an opinion as to the exclusion from gross income of the interest on the Bonds for federal income tax purposes. Such firm has not been requested to examine, and has not investigated or verified, any statements, records, material or matters relating to the financial condition or capabilities of the Company and has not assumed responsibility for the preparation of this Official Statement, except that, in its capacity as Bond Counsel in connection with the issuance of the Bonds, such firm has reviewed the information in this Official Statement under the captions *INTRODUCTORY STATEMENT, THE BONDS* (other than under – *Book-Entry Only System*), *THE AGREEMENT, THE INDENTURE, TAX MATTERS* and *LEGAL MATTERS*.

Certain legal matters will be passed upon by Thomas G. Berkemeyer, counsel for the Company. Thomas G. Berkemeyer is Associate General Counsel of American Electric Power Service Corporation, an affiliate of the Company. Certain legal matters will be passed upon by Crowe & Dunlevy, a Professional Corporation, Oklahoma City, Oklahoma, counsel to the Issuer. Certain legal matters, other than the validity of the Bonds and the exclusion from gross income of interest thereon, will be passed upon by Dewey & LeBoeuf LLP, New York, New York, counsel for the Underwriter. From time to time, Dewey & LeBoeuf LLP acts as counsel to certain affiliates of the Company for some matters.

The various legal opinions to be delivered concurrently with the delivery of the Bonds express the professional judgment of the attorneys rendering the opinions as to the legal issues explicitly addressed therein. In rendering a legal opinion, the attorney does not become an insurer or guarantor of the expression of professional judgment, of the transaction opined upon, or of the future performance of the parties to the transaction, nor does the rendering of an opinion guarantee the outcome of any legal dispute that may arise out of the transaction.

## MISCELLANEOUS

The attached Appendices (including documents incorporated by references therein) are an integral part of the Official Statement and must be read together with all of the balance of this Official Statement.

The Issuer does not assume any responsibility for the matters contained in this Official Statement. All findings and determinations by the Issuer relating to the issuance and sale of the Bonds are, and have been, made by the Issuer for its own internal uses and purposes in performing its duties under Oklahoma law.

## APPENDIX A

### PUBLIC SERVICE COMPANY OF OKLAHOMA

The Company is a public utility engaged in the generation, transmission and distribution of electric power to approximately 525,000 retail customers in eastern and southwestern Oklahoma, and in supplying and marketing electric power at wholesale to other electric utility companies, municipalities, rural electric cooperatives and other market participants. Its principal executive office is 1 Riverside Plaza, Columbus, Ohio 43215 and the telephone number is (614) 716-1000. The Company is a subsidiary of American Electric Power Company, Inc. (AEP) and is a part of the AEP integrated utility system.

### AVAILABLE INFORMATION

The Company is subject to the informational requirements of the Securities Exchange Act of 1934 (the 1934 Act) and in accordance therewith files reports and other information with the Securities and Exchange Commission (SEC). Such reports and other information may be inspected and copied at the public reference room maintained by the SEC at 100 F Street N.E., Room 1580, Washington, D.C. 20549. Copies of such material can be obtained from the Public Reference Section of the SEC, Washington, D.C. 20549 at prescribed rates. The SEC may be contacted at 1-800-SEC-0330 for information on the public reference room. The SEC maintains a web site at <http://www.sec.gov> containing reports, proxy and information statements and other information regarding registrants that file electronically with the SEC, including the Company.

### DOCUMENTS INCORPORATED BY REFERENCE

The following documents filed with the SEC by the Company pursuant to the 1934 Act are incorporated by reference in this Appendix A and made a part of this Official Statement:

- The Company's Annual Report on Form 10-K for the year ended December 31, 2007;
- The Company's Quarterly Reports on Form 10-Q for the quarters ended March 31, 2008, June 30, 2008 and September 30, 2008; and
- The Company's Current Reports on Form 8-K dated April 4, 2008, May 7, 2008 and December 9, 2008.

All documents subsequently filed by the Company with the SEC pursuant to Sections 13(a), 13(c), 14 or 15(d) of the 1934 Act subsequent to the date of this Official Statement and prior to the termination of the offering of the securities offered by this Official Statement are to be incorporated by reference in this Appendix A and to be a part of this Official Statement from the date such documents are filed.

Any statement contained in a document so incorporated or deemed to be incorporated shall be deemed to be modified or superseded for purposes of this Official Statement to the

extent that a statement contained herein or in any other subsequently filed document which is deemed to be so incorporated modifies or supersedes such statement. Any such statement so modified or superseded shall not be deemed, except as so modified or superseded, to constitute a part of this Appendix A.

The Company will provide without charge to each person to whom a copy of this Official Statement has been delivered, on the written or oral request of any such person, a copy of any or all of the documents described above which have been incorporated by reference in this Appendix A, other than exhibits to such documents. Written requests for copies of such documents should be addressed to Financial Reporting, American Electric Power Service Corporation, 1 Riverside Plaza, Columbus, Ohio 43215 (telephone number: 614-716-1000). The information relating to the Company contained in this Appendix A does not purport to be comprehensive and should be read together with the information contained in the documents incorporated by reference.

#### RISK FACTORS

Investing in the Bonds involves risk. Please see the risk factors described in our Annual Report on Form 10-K for the fiscal year ended December 31, 2007, along with certain amended and restated risk factors contained in our Quarterly Reports on Form 10-Q for the quarters ended March 31, 2008, June 30, 2008 and September 30, 2008, which are incorporated by reference in this Official Statement. Before making an investment decision, you should carefully consider these risks as well as other information contained or incorporated by reference in this Official Statement. The risks and uncertainties described are those presently known to us. Additional risks and uncertainties not presently known to us or that we currently deem immaterial may also impair our business operations, our financial results and the value of the Bonds.

#### RATIO OF EARNINGS TO FIXED CHARGES

The Ratio of Earnings to Fixed Charges for each of the periods indicated is as follows:

<u>Twelve Months Period Ended</u>	<u>Ratio</u>
December 31, 2003	2.96
December 31, 2004	2.14
December 31, 2005	3.40
December 31, 2006	2.18
December 31, 2007	0.15
September 30, 2008	1.52

The Ratio of Earnings to Fixed Charges for the nine months ended September 30, 2008 was 3.32. For the year ended December 31, 2007, the Earnings to cover Fixed Charges was deficient by \$46,139,000. For the purposes of calculating the Ratio of Earnings to Fixed Charges, "earnings" represents income before income taxes, extraordinary items, and cumulative effect of accounting changes, plus fixed charges. "Fixed charges" consist of interest expense, amortization of debt issuance costs, and the portion of operating rental expense which management believes is representative of the interest within rental expense.

For current information on the Ratio of Earnings to Fixed Charges, please see our most recent Form 10-K and Form 10-Q. See *Available Information*.

#### **INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

The financial statements and the related financial statement schedule incorporated by reference in this Official Statement from the Public Service Company of Oklahoma Annual Report on Form 10-K for the year ended December 31, 2007 have been audited by Deloitte & Touche LLP, an independent registered public accounting firm, as stated in their reports incorporated by reference herein (which reports express an unqualified opinion and, as to the report related to the financial statements, includes an explanatory paragraph concerning the adoption of new accounting pronouncements in 2006 and 2007).

APPENDIX B

PROPOSED FORM OF OPINION OF BOND COUNSEL

LAW OFFICES  
M<sup>c</sup>CALL, PARKHURST & HORTON L.L.P.

800 CONGRESS AVENUE  
SUITE 1900  
AUSTIN, TEXAS 78701-3248  
TELEPHONE 512 478 3805  
FACSIMILE 512 472 0871

717 NORTH HARWOOD  
SUITE 900  
DALLAS, TEXAS 75201-8587  
TELEPHONE 214 764 9204  
FACSIMILE 214 704 8205

700 N. ST. MARY'S STREET  
SUITE 1525  
SAN ANTONIO, TEXAS 78205-3503  
TELEPHONE 510 225-2800  
FACSIMILE 210 225-2844

February 6, 2009

THE OKLAHOMA DEVELOPMENT FINANCE AUTHORITY  
POLLUTION CONTROL REVENUE REFUNDING BONDS  
(PUBLIC SERVICE COMPANY OF OKLAHOMA PROJECT)  
SERIES 2009

WE HAVE EXAMINED into the validity of the bonds described above (the "Bonds"), issued by The Oklahoma Development Finance Authority (the "Issuer") in the aggregate principal amount of \$33,700,000. The Bonds mature, bear interest and are subject to mandatory redemption prior to maturity in the manner and under the terms and conditions described in the Indenture of Trust dated as of February 1, 2009 (the "Indenture") between the Issuer and The Bank of New York Mellon Trust Company, National Association, as trustee (the "Trustee").

WE HAVE ACTED AS BOND COUNSEL for the Issuer for the purpose of rendering an opinion with respect to the authorization, issuance, delivery, legality, and validity of the Bonds under the laws and Constitution of the State of Oklahoma, with respect to any exemption of the interest on the Bonds from federal income taxes, and for the other limited purposes set forth herein and in a supplemental opinion of even date herewith. We have not been requested to examine, and have not investigated or verified, any statements, records, material, or other matters relating to the financial condition or capabilities of the corporation hereinafter described, and we express no opinion with respect thereto.

WE HAVE EXAMINED the Constitution and laws of the State of Oklahoma under which the Issuer was created and exists and pursuant to which it has authorized and issued the Bonds; certified copies of the proceedings of the governing body of said Issuer; certificates of Public Service Company of Oklahoma, an Oklahoma corporation (the "Company"); the Installment Payment Agreement dated as of February 1, 2009 (the "Agreement"), between the Issuer and the Company; the Indenture; resolutions of the Issuer, including the resolution authorizing the issuance of the Bonds, adopted August 27, 2008 (the "Bond Resolution"); certificates, resolutions, and representations of the Company and the Trustee, including certificates and representations with respect to certain material facts which are solely within the knowledge of the party rendering such certificates and representations; and the opinion of Thomas G. Berkemeyer, Esq., Assistant General Counsel to American Electric Power Service Corporation, an affiliate of the Company, upon which certifications, representations, and opinions we rely to the extent we consider appropriate; and other instruments authorizing and relating to the issuance of the Bonds, including one of the executed Bonds.

THE BONDS are secured by the Indenture whereunder the Trustee, or its successor as Trustee, is custodian of the Bond Fund created therein, and is obligated to enforce the rights of the owners of the Bonds, and to perform other duties, in the manner and under the conditions stated in the Indenture.

BASED ON SAID EXAMINATION, it is our opinion that the Issuer is a public trust and agency of the State of Oklahoma, validly operating and existing under Oklahoma law with full power and authority to enter into and carry out the terms of the Agreement and the Indenture.

IT IS FURTHER OUR OPINION that the Bond Resolution has been duly and lawfully adopted and that the Bonds have been duly and validly authorized, issued, executed, authenticated, and delivered in accordance with law and the Indenture, and constitute legal and valid special obligations of the Issuer, with the principal of, premium, if any, and interest on the Bonds being payable from, and secured by a first lien on and pledge of all of the right, title, and interest of the Issuer in and to the Agreement, together with all moneys payable thereunder, excluding certain rights relating to certain payments for expenses and indemnification of the Issuer. Pursuant to the Agreement, the Company has agreed to make payments to the Trustee for deposit into the Bond Fund established by the Indenture in amounts sufficient to pay and redeem, or provide for the payment and redemption of, the principal of, premium, if any, and interest on the Bonds, when due as required by the Indenture.

THE RIGHTS OF THE ISSUER under the Agreement have been duly and legally assigned in the Indenture to the Trustee and have been pledged to the payment of the principal of, premium, if any, and interest on the Bonds. It is our opinion that the Agreement has been duly and lawfully authorized, executed, and delivered by the Issuer, and is a legal and valid obligation of the Issuer. Thomas G. Berkemeyer, Assistant General Counsel to American Electric Power Service Corporation, an affiliate of the Company, has rendered his opinion of even date herewith to the effect that the Agreement has been duly and lawfully authorized, executed, and delivered by the Company, and that it is a legal, valid, binding, and enforceable obligation of the Company. We note that said counsel has stated that the enforceability of the Agreement is subject to applicable bankruptcy, insolvency, reorganization, moratorium, or other similar laws relating to or affecting creditors' rights generally.

IT IS FURTHER OUR OPINION that the Indenture has been duly and lawfully authorized, executed, and delivered, that it is in full force and effect, that it is legal and valid, and that it creates the valid pledge which it purports to create.

THE ISSUER has reserved the right to amend the Indenture as provided therein and subject to the restrictions therein stated.

THE OPINIONS contained herein are limited to the extent that (a) enforceability of the Bonds, the Bond Resolution, the Indenture and the Agreement may be limited by bankruptcy, insolvency, reorganization, moratorium and other laws affecting creditors' rights or remedies generally and (b) a particular court may refuse to grant certain equitable remedies, including, without limitation, specific performance, with respect to any of the provisions of the Bonds, the Indenture and the Agreement.

IN OUR OPINION, except as discussed below, the interest on the Bonds will be excludable from the gross income of the owners of the Bonds for federal income tax purposes under the statutes, regulations, published rulings and court decisions existing on the date of this opinion. The exceptions are as follows:

(1) interest on the Bonds will be includable in the gross income of the owner thereof during any period that such Bonds are owned by either a "substantial user" of the facilities financed with the proceeds of the Bonds or a "related person" of such user, as provided in the Internal Revenue Code of 1954, as amended,

(2) interest on the Bonds will be subject to the branch profits tax imposed on foreign corporations by Section 884 of the Internal Revenue Code of 1986, as amended (the "Code"); and

(3) interest on the Bonds will be subject to the tax imposed by section 1375 of the Code on the excess net passive income of certain S corporations that have Subchapter C earnings and profits.

IN OUR OPINION, the interest on the Bonds is not an alternative minimum tax preference item under Section 57(a)(5) of the Code.

IN EXPRESSING THIS OPINION as to the exclusion from gross income of interest, we have (a) relied upon information furnished by the Company, and particularly written representations of officers of the Company with respect to certain material facts which are solely within their knowledge, relating to the Facilities, as defined in the Agreement, and the use of the proceeds of the Bonds and of the prior bonds which have been refunded with the proceeds of the Bonds, and (b) assumed continuing compliance with covenants of the Company, the Issuer and the Trustee with respect to certain matters, including arbitrage and the application of Bond proceeds. Failure to comply with certain of these representations and covenants may cause interest on the Bonds to become includable in gross income retroactively to the date of their issuance.

IT IS FURTHER OUR OPINION that, pursuant to Title 74, Oklahoma Statutes, 2001, Section 5062.11, as amended, the Bonds and the income therefrom are exempt from all taxation in the State of Oklahoma, except for inheritance, estate or transfer taxes.

EXCEPT AS STATED ABOVE, we express no opinion as to any other federal, state or local tax consequences of acquiring, carrying, owning or disposing of the Bonds. In particular, but not by way of limitation, we express no opinion with respect to the federal, state or local tax consequences arising from the enactment of any pending or future legislation.

Respectfully,

**NEW ISSUE - BDOK ENTRY ONLY**

*In the opinion of Foley & Judell, L.L.P. ("Bond Counsel"), under existing law and subject to the conditions described under "TAX MATTERS," interest on the Bonds is excluded from gross income of the owners thereof for federal income tax purposes, except for interest on any Bond while held by a "substantial user" of the facilities refinanced with the proceeds of the Bonds or a "related person," each within the meaning of Section 147(a) of the Internal Revenue Code of 1986, as amended (the "Code") or Section 103(b)(13) of the Internal Revenue Code of 1954, as amended (the "1954 Code"), and is not an item of tax preference for purposes of the federal alternative minimum tax imposed on individuals and corporations. Bond Counsel is further of the opinion that pursuant to the hereinafter described Act, the Bonds and the income therefrom are exempt from all taxation by the State of Louisiana or any political subdivision thereof. See "TAX MATTERS" herein.*

**\$53,500,000**  
**Parish of DeSoto, State of Louisiana**  
**Pollution Control Revenue Refunding Bonds**  
**(Southwestern Electric Power Company Project) Series 2010**  
**(Non-AMT)**

**Interest Accrual Date: March 12, 2010**

**Due: January 1, 2019**

The Bonds are special and limited obligations of Parish of DeSoto, State of Louisiana ("Issuer"), and are to be paid solely from, and will be secured by a pledge of, payments to be made to the Issuer under the terms of a Refunding Agreement between the Issuer and

### **Southwestern Electric Power Company**

The Bonds will bear interest in the Multiannual Mode at the rate of 3.25% per annum beginning on the date of original issuance until January 2, 2015, the date on which the Bonds are subject to mandatory tender for purchase. Prior to January 2, 2015, the Bonds will not be subject to optional redemption but will be subject to extraordinary optional redemption and extraordinary mandatory redemption as described under *THE BONDS – Redemption*. The Bonds will be issued as fully registered bonds and will be registered initially in the name of Cede & Co., as registered owner and nominee for The Depository Trust Company, New York, New York ("DTC"). DTC acts as a securities depository for the Bonds. The Bonds will be issued in denominations of \$5,000 and integral multiples thereof. Except under the limited circumstances described herein, Beneficial Owners of book-entry interests in the Bonds will not receive certificates representing their interests. Payments of principal of and premium, if any, and interest on the Bonds (payable January 1 and July 1, commencing July 1, 2010) will be made through DTC and disbursements of such payments to Beneficial Owners will be the responsibility of DTC and its Participants (see *THE BONDS – Book-Entry Only System* herein). Morgan Stanley & Co. Incorporated, Fifth Third Securities, Inc. and The Huntington Investment Company will act as the underwriters (the "Underwriters") for the Bonds. The Bank of New York Mellon Trust Company, N.A. will act as Trustee and Paying Agent for the Bonds.

**PRICE: 100%**

This cover page contains limited information for quick reference only and is not a summary of this Official Statement. Investors should read the entire Official Statement to obtain information essential to the making of an informed investment decision.

The Bonds are offered, subject to prior sale, when, as and if issued and received by the Underwriters, subject to the approval of their validity by Bond Counsel, as described herein, and certain other conditions. Certain legal matters, other than the validity of the Bonds and the exclusion from gross income for Federal income tax purposes of interest thereon, will be passed on for the Underwriters by their counsel, Dewey & LeBoeuf LLP, New York, New York, and for Southwestern Electric Power Company by its internal counsel. Delivery of the Bonds in book-entry-only form is expected on or about March 12, 2010, through the facilities of DTC in New York, New York, against payment therefor.

**Morgan Stanley**  
**Fifth Third Securities, Inc.**                      **The Huntington Investment Company**

Dated: March 9, 2010

**CONTENTS OF OFFICIAL STATEMENT**

<u>Official Statement</u>	<u>Page</u>
INTRODUCTORY STATEMENT.....	1
THE ISSUER .....	2
THE FACILITIES.....	2
USE OF PROCEEDS .....	2
THE BONDS.....	2
THE AGREEMENT .....	8
THE INDENTURE .....	11
UNDERWRITING.....	15
SECONDARY MARKET INFORMATION.....	16
TAX MATTERS .....	16
LEGAL MATTERS.....	17
MISCELLANEOUS.....	18
Appendix A (Southwestern Electric Power Company) .....	A-1
Appendix B (Form of Opinion of Bond Counsel).....	B-1

No person has been authorized to give any information or to make any representations other than those contained in this Official Statement in connection with the offer made hereby and, if given or made, such information or representations must not be relied upon as having been authorized by the Issuer, the Company or the Underwriters. Neither the delivery of this Official Statement nor any sale hereunder shall under any circumstances create any implication that there has been no change in the affairs of the Issuer or the Company since the date hereof. This Official Statement does not constitute an offer or solicitation in any jurisdiction in which such offer or solicitation is not authorized, or in which the person making such offer or solicitation is not qualified to do so or to any person to whom it is unlawful to make such offer or solicitation. The Issuer neither has nor assumes any responsibility as to the accuracy or completeness of the information in this Official Statement, all of which has been furnished by others, other than information under *THE ISSUER*.

The Underwriters have provided the following sentence for inclusion in this Official Statement. The Underwriters have reviewed the information in this Official Statement in accordance with, and as a part of, their responsibilities to investors under the federal securities laws as applied to the facts and circumstances of this transaction, but the Underwriters do not guarantee the accuracy or completeness of such information.

**CERTAIN PERSONS PARTICIPATING IN THIS OFFERING MAY ENGAGE IN TRANSACTIONS THAT STABILIZE, MAINTAIN OR OTHERWISE AFFECT THE PRICE OF THE BONDS, INCLUDING BY ENTERING STABILIZING BIDS. FOR A DESCRIPTION OF THESE ACTIVITIES, SEE *UNDERWRITING* HEREIN.**

**\$53,500,000**  
**Parish of DeSoto, State of Louisiana**  
**Pollution Control Revenue Refunding Bonds**  
**(Southwestern Electric Power Company Project)**  
**Series 2010**  
**(Non-AMT)**

**INTRODUCTORY STATEMENT**

This Official Statement, including the Appendices hereto, is provided to furnish certain information in connection with the issuance of \$53,500,000 aggregate principal amount of Parish of DeSoto, State of Louisiana Pollution Control Revenue Refunding Bonds (Southwestern Electric Power Company Project) Series 2010 ("Bonds"). The Parish of DeSoto, State of Louisiana ("Issuer") neither has nor assumes any responsibility as to the accuracy or completeness of the information in this Official Statement, all of which has been furnished by others, other than the information pertaining to the Issuer under *THE ISSUER*.

The Bonds will be issued under and pursuant to a resolution of the Issuer adopted on August 11, 2008, as ratified and amended on February 8, 2010, ("Resolution") and an Indenture of Trust, dated as of March 1, 2010 ("Indenture"), between the Issuer and The Bank of New York Mellon Trust Company, N.A., as trustee (in such capacity, the "Trustee"). Capitalized terms used herein and not otherwise defined shall have the meanings given to them in the Indenture.

Pursuant to a Refunding Agreement dated as of March 1, 2010 ("Agreement"), between the Issuer and Southwestern Electric Power Company ("Company"), the proceeds from the issuance and sale of the Bonds will be used to provide funds for the refunding of the Issuer's \$53,500,000 of Pollution Control Revenue Refunding Bonds (Southwestern Electric Power Company Project) Series 2004 ("Refunded Bonds"). The Refunded Bonds refunded the Issuer's Pollution Control Revenue Refunding Bonds (Southwestern Electric Power Company Project) Series 1992, which refunded the Issuer's Pollution Control Revenue Bonds (Southwestern Electric Power Company Project) Series 1983, which were issued to finance a portion of the cost of acquisition, construction and installation of certain air and water pollution control and solid waste disposal facilities ("Facilities") at the Company's jointly owned Dolet Hills lignite fired electric generating plant ("Plant") located in the Parish of DeSoto, Louisiana.

The Company is obligated under the Agreement to make payments to the Trustee sufficient, together with any other funds on deposit in the Bond Fund (hereinafter described) under the Indenture, to pay the principal of and premium, if any, and interest on the Bonds (such payments being hereinafter referred to as the "Installment Payments"). The Bonds will not otherwise be secured by a mortgage on, or security interest in, any of the Facilities or any other property of the Company.

The Bonds will mature and become due and payable, together with any accrued and unpaid interest, on January 1, 2019. The Bonds will bear interest in the Multiannual Mode at the rate of 3.25% per year, from March 12, 2010 until January 2, 2015. Interest on the Bonds will be payable semi-annually in arrears on each January 1 and July 1, commencing July 1, 2010. The Bonds are subject to mandatory tender for purchase on January 2, 2015, as described under *THE BONDS - Mandatory Tender*.

The Bonds will be issued in authorized denominations of \$5,000 and integral multiples thereof and will be held by The Depository Trust Company ("DTC"), or its nominee, as securities depository with respect to the Bonds. See *THE BONDS - Book-Entry Only System*.

The Bonds are special and limited obligations of the Issuer, and are to be paid solely from, and will be secured by a pledge of, payments to be made to the Issuer under the terms of the Agreement. See *THE BONDS - Security*.

Brief descriptions of the Issuer, the Facilities, the Bonds, the Agreement and the Indenture are included in this Official Statement. Information regarding the business, properties and financial condition of the Company is included or incorporated by reference in Appendix A attached hereto. The form of opinion that Bond Counsel proposes to deliver relating to the Bonds is set forth in Appendix B hereto. The descriptions herein of the Agreement and the Indenture are qualified in their entirety by reference to such documents, and the descriptions herein of the Bonds are qualified in their entirety by reference to the forms thereof and the information with respect

thereto included in the aforesaid documents. All such descriptions are further qualified in their entirety by reference to laws and principles of equity relating to or affecting generally the enforcement of creditors' rights. Copies of such documents may be obtained from the Company.

#### **THE ISSUER**

The Issuer is a political subdivision of the State of Louisiana, created and existing pursuant to Louisiana law, and is authorized and empowered by law, including particularly the provisions of Chapter 14-A of Title 39 of the Louisiana Revised Statutes of 1950, as amended (the "Act"), to issue refunding bonds for the purpose of refunding, readjusting, restructuring, refinancing, extending or unifying the whole or any part of outstanding securities of the Issuer in an amount sufficient to provide funds necessary to effectuate the purpose for which the refunding bonds are being issued. The governing authority of the Issuer is a Police Jury consisting of eleven members.

**THE BONDS WILL BE SPECIAL AND LIMITED OBLIGATIONS OF THE ISSUER, PAYABLE SOLELY FROM PAYMENTS TO BE RECEIVED UNDER THE AGREEMENT AND PLEDGED AS SECURITY FOR THE BONDS. THE BONDS WILL NOT CONSTITUTE AN INDEBTEDNESS OR A GENERAL OBLIGATION OR PLEDGE OF THE FAITH AND CREDIT OF THE STATE OF LOUISIANA OR ANY POLITICAL SUBDIVISION THEREOF, INCLUDING THE ISSUER, AND WILL NOT GIVE RISE TO A PECUNIARY LIABILITY OF THE ISSUER OR A CHARGE AGAINST ITS GENERAL CREDIT OR TAXING POWERS.**

#### **THE FACILITIES**

The Facilities consist of the Company's undivided percentage interest in air and water pollution control and solid waste disposal facilities acquired, constructed and improved as a part of the total environmental control program at the Plant. The Plant was placed in commercial operation in 1985 and is jointly owned by the Company (40.23%), Central Louisiana Electric Company, Inc. (50.00%), Northeast Texas Electric Cooperative, Inc. (5.86%) and Oklahoma Municipal Power Authority (3.91%).

The Facilities consist primarily of an electrostatic precipitator, ash handling system, sulfur dioxide removal system, sludge handling and treating system, dust control system and waste water treatment facilities and ponds for the Plant.

#### **USE OF PROCEEDS**

The Bonds are being issued by the Issuer for the purpose of providing funds for the redemption of the Refunded Bonds. The Company will provide any additional funds required to redeem all of the Refunded Bonds from either internally generated funds or short-term borrowings.

#### **THE BONDS**

##### **General**

The Bonds are being issued in fully registered form only in the aggregate amount set forth on the cover page hereof. The Bonds initially will be dated as of March 12, 2010 and will bear interest from March 12, 2010. The Bonds will mature and become due and payable, together with any accrued and unpaid interest, on January 1, 2019. For the period March 12, 2010 until January 2, 2015, the Bonds will bear interest in the Multiannual Mode at the rate of 3.25% per annum. Interest on the Bonds will be payable semi-annually in arrears on each January 1 and July 1. The initial interest payment date for the Bonds is July 1, 2010. The Bonds are subject to mandatory tender for purchase on January 2, 2015. See *Mandatory Tender* below.

The Bonds may subsequently be converted to the Flexible Mode, the Daily Mode, the Weekly Mode, the Monthly Mode, the Quarterly Mode, the Semiannual Mode, the Dutch Auction Mode or the Fixed Rate Mode and may be converted within the Multiannual Mode to a new interest rate period in accordance with the Indenture. **THIS OFFICIAL STATEMENT DESCRIBES THE TERMS AND CONDITIONS OF THE BONDS ONLY WHILE IN A MULTIANNUAL MODE.**

Beneficial interests in the Bonds will initially be issued pursuant to a Book-Entry Only System ("Book-Entry Only System") maintained by The Depository Trust Company, New York, New York ("DTC"), as described below under the caption *Book-Entry Only System*. Under the Indenture, the Issuer may appoint a successor securities depository to DTC. (DTC, together with any such successor securities depository, is hereinafter referred to as the "Securities Depository"). The following information is subject in its entirety to the provisions described below under the caption *Book-Entry Only System* while the Bonds are in the Book-Entry Only System.

#### **Form and Denomination of Bonds; Payments on the Bonds**

##### General

The Bonds will be issued only as fully registered bonds, without coupons, in denominations of \$5,000 or any integral multiple thereof (an "Authorized Denomination"). The Bonds will be registered in the name of Cede & Co., as registered owner and nominee of DTC. DTC acts as securities depository for the Bonds and individual purchases of Bonds may be made in book-entry form only. So long as the Bonds are in book-entry only form, purchasers of Bonds will not receive certificates representing their interest in the Bonds purchased. So long as Cede & Co. is the registered owner of the Bonds, as nominee of DTC, references herein to the Bondholders or registered owners or holder shall mean Cede & Co., and shall not mean the Beneficial Owners (as defined below) of the Bonds.

So long as Cede & Co. is the registered owner of the Bonds, principal of, premium, if any, and interest on the Bonds are payable to Cede & Co., as nominee for DTC, which will, in turn, remit such amounts to the DTC Participants (as defined below) for subsequent disbursement to the Beneficial Owners. See – *Book-Entry Only System* below.

The Bank of New York Mellon Trust Company, N.A. has been appointed as Trustee and Paying Agent under the Indenture. The Principal Office of the Trustee and Paying Agent is located, initially, in New York, New York. The Company and its affiliates maintain banking relationships with The Bank of New York Mellon and its affiliates. The Bank of New York Mellon and its affiliates serve as trustee under various indentures with, or for the benefit of, the Company and its affiliates.

Neither the Issuer nor the Trustee shall be required to make any transfer or exchange of any Bond during the ten Business Days immediately preceding the mailing of a notice of the Bonds selected for redemption or, with respect to a Bond, after such Bond or any portion thereof has been selected for redemption. Registration of transfers and exchanges shall be made without charge to the Bondholders, except that any required taxes or other governmental charges shall be paid by the Bondholder requesting registration of transfer or exchange.

##### Interest

The Bonds will bear interest in the Multiannual Mode at the rate of 3.25% per year from March 12, 2010 until January 2, 2015. Interest on the Bonds will be payable semi-annually in arrears on each January 1 and July 1 and at maturity. The initial interest payment date is July 1, 2010. Each payment of interest shall include interest accrued through the day before such interest payment date. Interest on the Bonds will be computed on the basis of a 360-day year consisting of twelve 30-day months.

All payments of interest on the Bonds will be paid to the registered owner thereof whose name appears in the bond register kept by the bond registrar as of the close of business on the Regular Record Date (as defined below) by check mailed on the interest payment date, provided that any registered owner of \$1,000,000 or more in aggregate principal amount of the Bonds may, upon written request given to the Paying Agent at least five Business Days (as defined below) prior to an interest payment date designating an account in a domestic bank, be paid by wire transfer of immediately available funds. If any interest payment date, redemption date or the maturity is not a Business Day, the Trustee will pay all amounts due on the next succeeding Business Day and no additional interest will be paid.

"Business Day" means any day other than a Saturday or Sunday or other than a day on which commercial banks located in all of the cities in which the Principal Offices of the Trustee, the Remarketing Agent and the Paying Agent are located are authorized by law or regulation to close or on which the New York Stock Exchange is closed.

"Regular Record Date" means the fifteenth day of the calendar month preceding the relevant interest payment date.

#### Security

**THE BONDS WILL BE SPECIAL AND LIMITED OBLIGATIONS OF THE ISSUER, PAYABLE SOLELY FROM PAYMENTS TO BE RECEIVED UNDER THE AGREEMENT AND PLEDGED AS SECURITY FOR THE BONDS. THE BONDS WILL NOT CONSTITUTE AN INDEBTEDNESS OR A GENERAL OBLIGATION OR PLEDGE OF THE FAITH AND CREDIT OF THE STATE OF LOUISIANA OR ANY POLITICAL SUBDIVISION THEREOF, INCLUDING THE ISSUER, AND WILL NOT GIVE RISE TO A PECUNIARY LIABILITY OF THE ISSUER OR A CHARGE AGAINST ITS GENERAL CREDIT OR TAXING POWERS.**

#### Mandatory Tender

Principal and accrued interest will be payable upon mandatory tender of the Bonds on January 2, 2015.

#### Redemption

The Bonds are subject to redemption, as described below:

**Optional Redemption.** Except as described under the caption *Extraordinary Optional Redemption*, the Bonds are not redeemable at the option of the Issuer or the Company prior to January 2, 2015.

**Extraordinary Optional Redemption.** The Bonds are subject to redemption in whole on the next Interest Payment Date for which notice of redemption can be given, at a redemption price equal to the aggregate principal amount of the outstanding Bonds plus accrued interest thereon to the redemption date, without premium, upon receipt by the Trustee and the Paying Agent of a written notice from the Company stating that any of the following events has occurred within the preceding 270 days and that it intends to exercise its option to effect the redemption of the Bonds in whole:

- (a) in the reasonable judgment of the Company, unreasonable burdens or excessive liabilities shall have been imposed upon the Issuer or the Company with respect to the Facilities or the Plant, including, without limitation, (i) the imposition of any income or other taxes not imposed on March 1, 2010 or (ii) the imposition of any ad valorem property or other taxes (other than ad valorem property or other taxes imposed on March 1, 2010 upon similarly assessed property within the same taxing jurisdiction);
- (b) the Facilities or the Plant shall have been damaged or destroyed to such extent that, in the opinion of the Company, (i) within a period of six consecutive months following such damage or destruction, it is not practicable or desirable to rebuild, repair or restore the same, (ii) the Company will be thereby prevented from carrying on its normal operations of the Facilities or the Plant for a period of six or more consecutive months or (iii) the cost of restoration would exceed by \$1,500,000 or more the net proceeds of insurance thereon;
- (c) title to, or temporary use of, all or substantially all of the Facilities or the Plant shall have been taken under the exercise of the power of eminent domain;
- (d) changes in the economic availability of materials, labor, services, supplies (including fuel), equipment or other property, facilities or things necessary for the operation of the Facilities or the Plant shall have occurred, or technological, regulatory or other changes shall have occurred, which, in the opinion of the Company, render the continued operation of the Facilities or the Plant uneconomic;
- (e) any court or administrative body shall enter a judgment, order or decree requiring the Company to cease, or dispose of, all or any substantial part of its operations of the Facilities or the Plant to such extent that, in the opinion of the Company, it is or will be thereby prevented from carrying on its normal operations of the Facilities or the Plant for a period of six or more consecutive months;
- (f) as a result of any change in the Constitution of the State of Louisiana or the Constitution of the United States of America or of any legislative or administrative action (whether state or federal), or of any final

decree, judgment or order of any court or administrative body (whether state or federal), the obligations of the Company under the Agreement shall have become unenforceable or impossible of performance in any material respect in accordance with the intent and purpose of the parties as expressed in the Agreement (as specified in the Indenture); or

(g) following a change in the use of or abandonment of the Facilities or any portion thereof or the Plant, the Company has been unable after reasonable effort to obtain an opinion of Bond Counsel to the effect that interest on the Bonds remains exempt from federal income tax (other than for Bonds in the hands of a "substantial user" of the Facilities or a "related person" as those terms are used and defined in the applicable federal income tax law); provided, however, that if the Company obtains an opinion of Bond Counsel to the effect that, upon redemption of only a portion of the Bonds, interest payable on the remainder of the Bonds would remain exempt from federal income tax (other than for Bonds in the hands of a "substantial user" of the Facilities or a "related person" as those terms are used and defined in the applicable federal income tax law), the Company may redeem the Bonds in such part as necessary to obtain the opinion of Bond Counsel.

**Extraordinary Mandatory Redemption.** The Bonds are subject to mandatory redemption in whole, or in part at any time if such partial redemption will preserve the exemption from federal income taxation of interest on the remaining outstanding Bonds, at a redemption price equal to the principal amount thereof together with unpaid interest accrued to the date fixed for redemption, and without premium, if (a) a final decree or judgment of any federal court, in which the Company participates to the extent it deems sufficient, or (b) a final action by the Internal Revenue Service ("IRS"), in proceedings in which the Company participates to the extent it deems sufficient, determines that the interest paid or payable on the Bonds to other than, as provided in the Code, a "substantial user" of the Facilities or a "related person" is or was includable in the gross income of the owner thereof for federal income tax purposes under the Code, as a result of the failure by the Company to observe or perform any covenant, condition or agreement on its part to be observed or performed under the Agreement or the inaccuracy of any representation by the Company under the Agreement or receipt by the Company of an opinion of Bond Counsel to such effect obtained by the Company and rendered at the request of the Company; provided, however, that no decree or judgment by any court or action by the IRS shall be considered final unless the registered owner involved in such proceeding or action (i) gives the Company and the Paying Agent prompt written notice of the commencement thereof and (ii) if the Company agrees to pay all expenses in connection therewith and to indemnify such registered owner against all liabilities in connection therewith, offers the Company the opportunity to control the defense thereof. Any such redemption shall be made on a date determined by the Paying Agent not more than 180 days after the date of such final decree, judgment or action. The Paying Agent shall give the Issuer, the Trustee and the Company not less than 45 days written notice of such date.

**Notice of Redemption.** At least 30 days prior to any date fixed for redemption of the Bonds, the Paying Agent shall give notice of any redemption by sending such notice by (i) first-class mail to the Owner of each such Bond to be redeemed in whole or in part; (ii) by certified mail, return receipt requested, to DTC (so long as it owns all the Bonds), and upon request, to any person or entities which provide evidence acceptable to the Paying Agent that such person has a legal or beneficial interest in at least \$1,000,000 in principal amount of the Bonds; and (iii) by certified mail, return receipt requested, or by overnight delivery, received by the registered depositories at least two (2) days prior to the general publication date for such redemption notices and to be received by at least two (2) of the national information services that disseminate bond redemption notices on or before the general mailing date for such notices; provided, however, that the failure to send, mail or receive such notice described above, or any defect therein or in the sending or mailing thereof, with respect to any Bond shall not affect the validity or effectiveness of the proceedings for the redemption of any other Bond. In addition, within sixty (60) days after the redemption date an additional redemption notice shall be sent by first class mail to any Owner of the Bonds who has not surrendered Bonds for redemption during the thirty (30) day period following the redemption date and to any person or entities having legal or beneficial ownership interest in at least \$1,000,000 in principal amount of the Bonds which have not been surrendered.

All notices of redemption shall state (i) the redemption date; (ii) the redemption price; (iii) the identification, including complete designation (including series) and issue date of the Bonds and the CUSIP number, certificate number (and in the case of partial redemption, the respective principal amounts), interest rates and maturity dates of the Bonds to be redeemed; (iv) that on the redemption date the redemption price will become due and payable upon each such Bond, and that interest thereon shall cease to accrue from and after said date; and (v) the name and address of the Trustee and the Paying Agent for the Bonds, including the place where the Bonds are to be surrendered for payment of the redemption price therefor. If at the time of mailing of notice of any optional

redemption in connection with a refunding of all or a portion of the Bonds the Company shall not have deposited with the Trustee moneys sufficient to redeem all of the Bonds called for redemption, such notice may state that it is conditional in that it is subject to the deposit of the proceeds of refunding bonds with the Trustee not later than the redemption date, and such notice shall be of no effect unless such moneys are so deposited.

**Partial Redemption.** If fewer than all of the Bonds are called for redemption, the Company may designate the principal amount of Bonds to be redeemed, and the Bonds to be redeemed shall be selected in a fair and equitable manner by the Paying Agent from among all the Bonds then outstanding. Each minimum increment of Authorized Denominations represented by any Bond shall be considered a separate Bond for purposes of selecting the Bonds to be redeemed. New Bonds representing any unredeemed balance of the principal amount of the Bonds being redeemed shall be issued to the Owner thereof without charge therefor.

#### **Book-Entry Only System**

DTC, the world's largest depository, is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934, as amended ("1934 Act"). DTC holds and provides asset servicing for over 3.5 million issues of U.S. and non U.S. equity issues, corporate and municipal debt issues, and money market instruments from over 100 countries that DTC's participants ("Direct Participants") deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities, through electronic computerized book-entry transfers and pledges between Direct Participants' accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly owned subsidiary of The Depository Trust & Clearing Corporation ("DTCC"). DTCC is the holding company for DTC, National Securities Clearing Corporation and Fixed Income Clearing Corporation, all of which are registered clearing agencies. DTCC is owned by the users of its regulated subsidiaries. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants", and together with Direct Participants, "Participants"). The DTC Rules applicable to DTC and its Participants are on file with the SEC. More information can be found at [www.dtcc.org](http://www.dtcc.org).

Purchases of Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the Bonds on DTC's records. The ownership interest of each actual purchaser of each Bond ("Beneficial Owner") is in turn to be recorded on the Direct and Indirect Participants' records. Beneficial Owners will not receive written confirmation from DTC of their purchase, but Beneficial Owners are expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the Bonds are to be accomplished by entries made on the books of Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in the Bonds, except in the event that use of the book-entry system for the Bonds is discontinued.

To facilitate subsequent transfers, all Bonds deposited by Direct Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co. or such other name as may be requested by an authorized Representative of DTC. The deposit of Bonds with DTC and their registration in the name of Cede & Co. effect no change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Bonds; DTC's records reflect only the identity of the Direct Participants to whose accounts the Bonds are credited, which may or may not be the Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers. So long as Cede & Co., as nominee for DTC, is the sole bondholder, the Trustee shall treat Cede & Co. as the only bondholder for all purposes under the Indenture, including receipt of all principal of, premium, if any, and interest on the Bonds, receipt of notices, voting and requesting or directing the Trustee to take or not to take, or consenting to, certain actions under the Indenture.

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time.

Redemption notices shall be sent to Cede & Co. If less than all of the Bonds are being redeemed, DTC's current practice is to determine by lot the amount of the interest of each Direct Participant in such issue to be redeemed.

Neither DTC nor Cede & Co. will consent or vote with respect to the Bonds, unless authorized by a Direct Participant in accordance with DTC's procedures. Under its usual procedures, DTC mails an Omnibus Proxy to the Issuer as soon as possible after the applicable record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts the Bonds are credited on such record date (identified in a listing attached to the Omnibus Proxy).

Redemption proceeds and principal and interest payments on the Bonds will be made to Cede & Co. or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detailed information from the Issuer or the Trustee, on the payable date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name", and will be the responsibility of such Participants and not of DTC, the Trustee or the Issuer, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of redemption proceeds and principal, premium, if any, and interest payments to Cede & Co. or such other nominee as may be requested by an authorized representative of DTC is the responsibility of the Issuer or the Trustee, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

DTC may discontinue providing its services as securities depository with respect to the Bonds at any time by giving reasonable notice to the Issuer or the Trustee. Under such circumstances, in the event that a successor securities depository is not obtained, certificated bonds will be required to be printed and delivered.

The Issuer may decide to discontinue use of the system of book-entry only transfers through DTC (or a successor securities depository). Upon receipt of a withdrawal request from an issuer, DTC will take the following actions: (1) DTC will issue an important notice notifying its Participants of the receipt of a withdrawal request from the Issuer reminding Participants that they may utilize DTC's withdrawal procedures if they wish to withdraw their securities from DTC, and (2) DTC will process withdrawal requests submitted by Participants in the ordinary course of business, but will not effectuate withdrawals based upon a request from an issuer. In that event, security certificates will be printed and delivered to DTC.

In the event that the book-entry system is discontinued, the principal or redemption price of and interest on the Bonds will be payable in the manner described above, and the Bonds may be transferred or exchanged for one or more Bonds in different Authorized Denominations upon surrender thereof at the principal corporate trust office of the Paying Agent by the registered owners or their duly authorized attorneys or legal representatives. Upon surrender of any Bonds to be transferred or exchanged, the Paying Agent shall record the transfer or exchange in the registration books and shall authenticate and deliver the Bonds appropriately registered and in appropriate Authorized Denominations.

Under the Indenture, payments made by the Trustee to DTC or its nominee will satisfy the Issuer's obligations under the Indenture and the Company's obligations under the Agreement to the extent of the payments so made. Beneficial Owners will not be, and will not be considered by the Issuer or the Trustee to be, and will not have any rights as, owners of Bonds under the Indenture.

The information in this section concerning DTC and DTC's book-entry system has been obtained from sources that the Underwriters, the Company and the Trustee believe to be reliable, but the Underwriters, the Company and the Trustee take no responsibility for the accuracy thereof.

None of the Issuer, the Underwriters, the Company, the Trustee or any agent for payment on or registration of transfer or exchange of any Bond will have any responsibility or obligation to Direct Participants, Indirect Participants or the persons for whom they act as nominees with respect to the accuracy of the records of DTC, its nominee or any Direct Participant with respect to any ownership interest in the Bonds, or payments to, or the providing of notice for, Direct Participants, Indirect Participants, or beneficial owners or other action taken by DTC, or its nominee, Cede & Co., as the sole owners of the Bonds.

#### **THE AGREEMENT**

*In addition to the description of certain provisions of the Agreement contained elsewhere herein, the following is a brief summary of certain provisions of the Agreement and does not purport to be comprehensive or definitive. All references herein to the Agreement are qualified in their entirety by reference to the Agreement for the detailed provisions thereof.*

#### **Use of Bond Proceeds**

The Issuer will issue the Bonds to provide funds to currently refund the Refunded Bonds. Upon the sale of the Bonds, the proceeds of the Bonds will be transferred to the trustee for the Refunded Bonds to be used to retire or redeem the Refunded Bonds.

#### **Installment Payments**

The Company will make Installment Payments under the Agreement to fund payments on the Bonds in such amounts which, together with other moneys available therefor in the Bond Fund or the Bond Purchase Fund created under the Indenture, will be sufficient to pay when due the principal of, premium, if any, and interest on and Purchase Price for the outstanding Bonds as they shall mature, be redeemed, be purchased or deemed purchased or otherwise become due as provided in the Indenture. The Company shall make such payments directly to the Trustee or the Paying Agent, as appropriate, for the account of the Issuer.

Installment Payment obligations of the Company under the Agreement will be absolute and unconditional, and the Company will make such payments free of any deductions and without abatement, diminution or setoff. In the event that the Company fails to make any such payments, the item or installment so in default will continue as an obligation of the Company until the amount in default has been fully paid.

#### **Other Payments Under The Agreement**

In addition to the Installment Payments, the Company agrees to pay taxes, assessments and other charges of any kind whatsoever that may at any time be lawfully levied or imposed with respect to the Facilities or the Installment Payments under the Agreement and all costs and expenses of the operations and maintenance of the Facilities. The Company also agrees to pay certain costs and expenses of the Issuer and the Trustee in connection with the Bonds and to indemnify such parties against certain liabilities arising in connection with the sale of the Bonds and the execution and delivery of the related bond documents.

#### **Corporate Existence**

The Company shall maintain its legal existence, will not dissolve or otherwise dispose of all or substantially all of its assets and will not consolidate with or merge into another entity or permit one or more other entities to consolidate with or merge into it; provided that the Company may, without violating the Agreement, (a) consolidate with or merge into another domestic entity (i.e., an entity organized and existing under the laws of one of the states of the United States of America, the District of Columbia or under the laws of the United States of America) or permit one or more other such entities to consolidate with or merge into it; or (b) sell or otherwise transfer, to another such domestic entity, all or substantially all of its assets, and, if it so elects, thereafter dissolve; provided, in each of (a) and (b), that such surviving, resulting or transferee entity shall have irrevocably and unconditionally assumed the due and prompt performance of all of the obligations of the Company under the Agreement in the manner described under *Assumption* below.

#### Assignment

The Company may assign its interest in, or any rights and obligations under, the Agreement (a) to another entity provided that the Company, under the terms of any such assignment, shall remain and be primarily responsible and liable for all of its obligations under the Agreement, including particularly the making of all payments required thereunder, when due if the entity to which an interest in the Agreement is assigned fails to perform such obligations; or (b) to one or more other entities in connection with a transaction permitted under the terms of the Agreement as described in *Corporate Existence* above.

#### Assumption

Any irrevocable, unconditional assumption of the due and prompt performance of all of the obligations of the Company under the Agreement by an entity or entities (collectively, the "Assignee") permitted under the Agreement ("Assumption") shall be evidenced by an instrument delivered to the Issuer, the Paying Agent and the Trustee. If a transaction occurs pursuant to and as permitted by the Agreement in which the Company, either alone or collectively with other entities, is not the Assignee, the Company shall be relieved of liability under the Agreement. If an Assumption occurs, the Assignee shall be and act as the Company for all purposes of the Agreement.

#### Defaults and Remedies

The Agreement provides that the occurrence and continuation of any one of the following shall constitute an "Event of Default" thereunder:

- (a) failure by the Company to pay Installment Payments with respect to principal of or premium on any Bond at the times specified therein;
- (b) failure by the Company to pay Installment Payments with respect to interest on any Bond at the times specified therein;
- (c) failure by the Company to pay Installment Payments with respect to the Purchase Price of any Bond at the times specified therein and the continuation of such failure for a period of one Business Day or more;
- (d) failure by the Company to observe and perform any covenant, condition or agreement on its part required to be observed or performed in the Agreement, other than as referred to in (a), (b) or (c) above, for a period of 90 days after receipt by the Company of written notice specifying such failure and requesting that it be remedied, given to the Company by the Issuer or the Trustee, unless the Issuer and the Trustee (with the requisite bondholder consent) shall agree in writing to an extension of such time prior to its expiration; provided, however, that if the failure stated in the notice can, in the reasonable judgment of the Company, be corrected but cannot be corrected within the applicable period, the Issuer and the Trustee will not unreasonably withhold their consent to an extension of such time if corrective action is instituted within the applicable period and diligently pursued until the default is corrected;
- (e) certain events of dissolution, liquidation, insolvency, bankruptcy or reorganization involving the Company; or
- (f) an "Event of Default" (as defined in the Indenture) has occurred and is continuing under the Indenture.

The provisions of paragraph (d) above are subject to the following limitations: if by reason of acts of God, strikes, lockouts or other industrial disturbances; acts of public enemies; orders or regulations of any kind of the government of the United States of America or of the State of Louisiana or any of their departments, agencies, political subdivisions, or officials, or any civil or military authority; insurrections; riots, epidemics; landslides; lightning; earthquakes; tidal waves; fires; hurricanes; tornadoes; blue northers; other storms; floods; washouts; droughts; arrests; restraints of government and people; civil disturbances; explosions; breakage or accident to machinery, transmission pipes, transmission facilities or canals; partial or entire failure of utilities; shortages of labor, material, supplies or transportation; or any other cause or event not reasonably within the control of the Company (collectively, "events of force majeure"), the Company is unable in whole or in part to carry out the

agreements on the Company's part contained in the Agreement, the Company shall not be deemed in default during the continuance of such inability. The Company, however, will use its best efforts to remedy with all reasonable dispatch the cause or causes preventing the Company from carrying out such agreements; provided, that the settlement of strikes, lockouts and other industrial disturbances shall be entirely within the discretion of the Company, and the Company shall not be required to make settlement of strikes, lockouts, and other industrial disturbances by acceding to the demands of the opposing party or parties when such course is, in the judgment of the Company, unfavorable to the Company. The occurrence of any event of force majeure shall not suspend or otherwise abate, and the Company shall not be relieved from, any obligation under the Agreement to the extent that the failure of the Company to observe or perform any such obligation would result in the failure to pay when due the principal of, premium, if any, and interest on or the Purchase Price for the Bonds or would result in the interest on the Bonds becoming includable in the gross income of the owners thereof for federal income tax purposes.

The above provisions, however, are subject to the conditions that, after any such Event of Default under the Agreement, subject to and as provided in the Indenture, the Trustee, with the requisite bondholder consent, will waive such Event of Default and rescind and annul any remedial step theretofore taken by it or by the Issuer with respect to such default and its consequences; but no such waiver, rescission or annulment shall extend to or affect any subsequent default or impair any right or remedy consequent thereon.

Whenever any Event of Default under the Agreement shall have occurred and is continuing, the Issuer, with the written consent of the Trustee, or the Trustee may take any one or more of the following remedial steps but only if acceleration of the principal amount of the Bonds has been declared pursuant to the Indenture:

(a) by notice in writing to the Company, declare the unpaid Installment Payments to be due and payable immediately, if concurrently with or prior to such notice the unpaid principal amount of the Bonds has been declared to be due and payable under the Indenture, and upon any such declaration the Installment Payments payable under the Agreement shall become and shall be immediately due and payable in the amount equal to the principal of and all accrued interest on the Bonds (without premium); provided, however, that an Event of Default shall be deemed waived and a declaration accelerating payment of unpaid Installment Payments payable under the Agreement shall be deemed rescinded without further action on the part of the Trustee or the Issuer upon any rescission by the Trustee of the corresponding declaration of acceleration of the Bonds under the Indenture;

(b) whatever action at law or in equity may appear necessary or desirable to collect the payment and other amounts then due or to enforce performance and observance of any obligation, agreement or covenant of the Company under the Agreement.

The Company has covenanted that, in case an Event of Default shall occur with respect to the payment of any Installment Payment then payable, upon demand of the Trustee, the Company will pay to the Trustee, and the Paying Agent, as appropriate, the whole amount that then shall have become due and payable, with interest (to the extent permitted by law) on such amount, at the rate of interest borne by the Bonds at the time of such failure, from the due date thereof until paid.

In case the Company shall fail to pay such amounts upon such demand, the Trustee shall be entitled and empowered to institute any action or proceeding at law or in equity for the collection of the sums so due and unpaid, and may prosecute any such action or proceeding to judgment or final decree, and may enforce any such judgment or final decree against the Company and collect, in the manner provided by law out of the property of the Company, the moneys adjudged or decreed to be payable.

#### **Certain Covenants Regarding Arbitrage and Tax Exemption**

The Issuer and the Company have agreed not to knowingly take any action or omit to take any action, which would result in a loss of the exemption from federal income taxation of interest on the Bonds by virtue of the Bonds being considered "arbitrage bonds" within the meaning of Section 148 of the Code.

The Issuer and the Company have agreed to refrain from taking any action which would adversely affect, and to take such action to assure, the treatment of the Bonds as obligations described in Section 103(a) of the Code, the interest on which is not includable in the "gross income" of the holder (other than the income of a "substantial user" of the Facilities or a "related person" within the meaning of Section 147(a) of the Code or Section 103(b)(13) of the 1954 Code, as applicable) for purposes of federal income taxation.

#### Amendment of Agreement

The Issuer and the Company may, in accordance with the Indenture, without the consent of, or notice to, the Bondholders, enter into an amendment to the Agreement, for any one or more of the following purposes:

- (i) to cure any ambiguity, formal defect or omission in the Agreement or to make such other changes which shall not have a material adverse effect upon the interests of the Bondholders;
- (ii) to grant to or confer upon the Trustee, for the benefit of the Bondholders, any additional rights, remedies, powers or authorities, or any additional security, that may lawfully be granted to or conferred upon the Owners or the Trustee;
- (iii) to subject to the Indenture additional revenues, properties or collateral;
- (iv) to add to the covenants and agreements of the Issuer contained in the Agreement other covenants and agreements thereafter to be observed for the protection of the Bondholders or to surrender or limit any right, power or authority therein reserved to or conferred upon the Issuer;
- (v) effective upon any Conversion Date, to make any amendment affecting only the Bonds being converted;
- (vi) to add provisions relating to the partial conversion of Bonds to a new Mode;
- (vii) to conform to the requirements of any Rating Agency (as defined in the Indenture);
- (viii) to add or modify provisions permitting mandatory tender of Bonds in lieu of redemption;
- (ix) to add provisions permitting the addition of a credit facility or liquidity facility;
- (x) to make any change related to the Bonds that does not materially adversely affect the rights of any Bondholder; and
- (xi) to implement any permitted succession to or assignment by the Company in accordance with the provisions of the Indenture and the Agreement.

Subject to certain terms and provisions of the Indenture, and exclusive of the purposes described in subparagraphs (i) through (xi) above, the Owners of a majority in aggregate principal amount of the Bonds then outstanding will have the right, from time to time, to approve the execution by the Issuer and the Company of such amendments deemed necessary and desirable by the Issuer and the Company for the purposes of modifying, altering, amending, adding to or rescinding, in any particular, any of the terms or provisions contained in the Agreement or in any amendment thereto.

#### THE INDENTURE

*In addition to the description of certain provisions of the Indenture contained elsewhere herein, the following is a brief summary of certain provisions of the Indenture and does not purport to be comprehensive or definitive. All references herein to the Indenture are qualified in their entirety by reference to the Indenture for the detailed provisions thereof.*

#### Bond Fund

The Indenture creates and establishes with the Trustee a separate trust fund designated "Parish of DeSoto, State of Louisiana, Pollution Control Revenue Refunding Bonds (Southwestern Electric Power Company Project) Series 2010 Bond Fund" (the "Bond Fund"), which will be used solely for the payment of the principal of, premium, if any, and interest on the Bonds. All Installment Payments made by the Company in connection with principal of, premium, if any, and interest on the Bonds will be made to the Trustee for deposit in the Bond Fund. There shall be deposited into the Bond Fund, when received, (i) all payments specified in the Agreement (except for certain payments of fees, expenses, and indemnification arising out of the Issuer's Unassigned Rights (as defined in the

Indenture)); (ii) all moneys required to be so deposited in connection with any redemption of the Bonds; (iii) any amounts directed to be transferred into the Bond Fund pursuant to any provision of the Indenture; and (iv) all other moneys when received by the Trustee which are required to be deposited in the Bond Fund or which are accompanied by directions that such moneys are to be paid into the Bond Fund.

Moneys held in the Bond Fund shall be used solely for the payment of the principal of, premium, if any, and interest on the Bonds on the dates due for the payment of redemption thereof. The Issuer has authorized and directed the Trustee to withdraw sufficient funds from the Bond Fund to transfer to the Paying Agent to pay the principal of, premium, if any, and interest on the Bonds as the same become due and payable, which authorization and direction the Trustee has accepted.

#### **Bond Purchase Fund**

The Indenture creates and establishes with the Paying Agent a separate fund designated the "Bond Purchase Fund" (the "Bond Purchase Fund"). The Bond Purchase Fund shall consist of two sub-accounts to be designated respectively the "Remarketing Account" and the "Company Purchase Account". Proceeds from the remarketing of tendered Bonds will be deposited by the Paying Agent, when and as received from the Remarketing Agent, into the Remarketing Account. Installment Payments with respect to the Purchase Price of the Bonds are to be deposited by the Paying Agent by and on behalf of the Company in the Company Purchase Account.

The Paying Agent shall disburse funds from the Remarketing Account to pay the Purchase Price of Bonds properly tendered for purchase upon surrender of such Bonds. The Paying Agent shall disburse funds from the Company Purchase Account, to pay the Purchase Price of Bonds properly tendered for purchase upon surrender of such Bonds.

#### **Investment**

Except as provided in the Indenture, any moneys held as part of the Bond Fund shall be invested and reinvested by the Trustee as provided in written instructions of the Company solely in Permitted Investments (as defined in the Indenture). Moneys held as part of the Bond Purchase Fund are to be held uninvested.

#### **Moneys Held in Trust**

All moneys required to be deposited with or paid to the Trustee for the account of any fund under the Indenture shall be held by the Trustee in trust and, except for (i) moneys in the Bond Purchase Fund, and (ii) moneys deposited with or paid to the Trustee for the redemption of Bonds, notice of the redemption for which has been duly given, shall, while held by the Trustee, be part of the trust estate and be subject to the security interest created by the Indenture.

#### **Events of Default and Remedies**

The Indenture provides that each of the following constitutes an "Event of Default" thereunder:

(a) default in the due and punctual payment of the principal of or premium, if any, on any outstanding Bond, as the same shall become due and payable, whether at the stated maturity thereof, upon any proceedings for redemption, or upon the maturity thereof by declaration of acceleration;

(b) default in the due and punctual payment of the interest on any outstanding Bond, as the same shall become due and payable;

(c) default in the due and punctual payment of the Purchase Price of any outstanding Bond, as the same shall become due and payable and the continuation of such default for a period of one Business Day or more;

(d) default by the Issuer in its performance or observance of any of the other covenants, agreements or conditions contained in the Indenture, and the continuation thereof without corrective action for a period of 90 days after receipt by the Issuer and the Company of notice given by the Trustee or the Owners in aggregate principal amount of all Bonds outstanding as specified in the Indenture; or

(e) an Event of Default (as defined in the Agreement) has occurred and is continuing under the Agreement.

If any Event of Default occurs and is continuing, the Trustee may, and upon written request of the Owners of at least 25% in principal amount of all the Bonds then outstanding, shall, by notice in writing to the Issuer and the Company, declare the principal of all Bonds then outstanding to be immediately due and payable, and upon such declaration the said principal, together with interest accrued thereon to the date of acceleration, shall become due and payable immediately at the place of payment provided therein, anything in the Indenture or in the Bonds to the contrary notwithstanding. Upon the occurrence of any such acceleration, the Trustee shall immediately declare all Installment Payments under the Agreement to be due and payable immediately.

If, after the principal of the Bonds has become due and payable, all arrears of interest upon those Bonds are paid by the Issuer, and the Issuer also performs all other things in respect to which it may have been in default under the Indenture and pays the reasonable charges of the Trustee and the Bondholders, including reasonable and necessary attorneys' fees, then, and in every such case, the Owners of a majority in principal amount of the Bonds then outstanding, by notice to the Issuer and to the Trustee, may annul such acceleration and its consequences. No such annulment shall extend to or affect any subsequent default or impair any right or remedy consequent thereon.

Upon the occurrence of an Event of Default, the Trustee may pursue any available remedy by suit at law or in equity to enforce the payment of the principal of, premium, if any, and interest on the Bonds then outstanding, and the performance by the Issuer of its obligations under the Indenture, including, without limitation, the following: (a) by mandamus, or other suit, action or proceeding at law or in equity, enforce all rights of the Bondholders and require the Issuer to carry out its obligations under the Indenture and the Act; (b) bring suit upon the Bonds; (c) by action, suit or proceeding at law or in equity, require the Issuer to account as if it were the trustee of an express trust for the Bondholders; and (d) by action, suit or proceeding at law or in equity, enjoin any acts or things which may be unlawful or in violation of the rights of the Bondholders.

#### **Defeasance**

Any Bond (other than a Bond in the Daily or Weekly Mode) shall be deemed to have been paid and discharged when (i) payment of the principal of and applicable premium, if any, on such Bond plus the interest thereon to the due date thereof (whether such due date be by reason of maturity or upon redemption as provided in the Indenture or otherwise) or, in the case of Bonds that are in the Flexible, Monthly, Quarterly, Semiannual or Multiannual Mode, to the date next following on which such Bond is required to be tendered for purchase, either (a) shall have been made in accordance with the terms of the Indenture, or (b) shall have been provided for by irrevocably depositing with the Trustee (which shall irrevocably set aside such deposit exclusively for payment), in trust solely for such payment, any combination of (1) moneys provided by the Company to make such payment and/or (2) Government Obligations (as defined in the Indenture) acquired with moneys provided by the Company not subject to redemption or prepayment and maturing as to principal and interest in such amounts and at such times as will in the opinion of an independent certified public accountant delivered to the Trustee provide sufficient moneys to make such payment without reinvestment (and there shall be no reinvestment); (ii) all necessary and proper fees, compensation and expenses of the Trustee and the Paying Agent pertaining to the Bonds shall have been paid or the payment thereof provided for, to the satisfaction of the Trustee and the Paying Agent; (iii) the Trustee shall have received in form satisfactory to it irrevocable instructions from an authorized representative of the Company to redeem the Bonds on the date next following on which the Bonds are required to be, or may at the option of the Owner be, tendered for purchase and either evidence that all redemption notices required by the Indenture have been given or irrevocable instructions to the Trustee to give such redemption notices has been given; and (iv) there shall have been delivered to the Trustee and the Issuer an opinion of Bond Counsel to the effect that the deposit of such moneys will not adversely affect the excludability from gross income for purposes of federal income taxation of interest on any of the Bonds.

#### **Discharge of Lien**

When all of the Bonds have been paid or deemed paid and the Issuer is not in default under any of the covenants and promises contained in the Bonds and the Indenture, and if the Issuer shall pay or cause to be paid to the Trustee all sums of money due or to become due according to the Indenture or the Bonds and the Agreement, then the rights under the Indenture will become null and void; provided, however, that the rights of the Trustee under the Indenture to receive its fees, charges and expenses shall survive the discharge of the Indenture until paid in

full. See the caption *Defeasance* above for a discussion of the conditions under which the Bonds will be deemed to have been paid.

#### **The Trustee; New York Paying Agent**

To the extent permitted by law, the Trustee may invest in and treat itself as any other holder of the Bonds. The Trustee may resign under the Indenture at any time after notice to the Issuer, the Company, the Paying Agent and the Bondholders, such resignation to take effect only upon the appointment of a successor Trustee. The Trustee may be removed under the Indenture at any time by written notice signed by the Issuer and the Company and delivered to the Trustee, the Paying Agent and the Bondholders. Such removal shall take effect only upon the appointment of a successor Trustee. Every successor Trustee may be appointed by the Issuer with the consent of the Company and shall be a bank or trust company which (i) is organized as a corporation or banking association and doing business under the laws of the United States of America or any state thereof; (ii) is authorized under such laws to exercise corporate trust powers and to perform all the duties imposed upon it by the Indenture and the Agreement; (iii) is subject to supervision or examination by federal or state authority; (iv) has combined capital and surplus of at least \$75,000,000; (v) shall not have become incapable of acting or have been adjudged a bankrupt or an insolvent or have had a receiver appointed for itself or for any of its property or have had a public officer take charge or control of it or its property or affairs for the purpose of rehabilitation, conservation or liquidation; and (vi) is an institution rated or its holding company is rated at least "Baa3" by Moody's Investors Services, Inc. ("Moody's") (or Moody's shall have provided written evidence that such successor Trustee is otherwise acceptable to Moody's) if the Bonds are then rated by Moody's, and at least "BBB-" or "A-3" by Standard & Poor's, a division of The McGraw-Hill Companies ("S&P") (or S&P shall have provided written evidence that such successor Trustee is otherwise acceptable to S&P) if the Bonds are then rated by S&P. Should the Trustee or any separate trustee or co-trustee cease to be eligible to act as trustee or co-trustee (as the case may be) under the Indenture, it shall promptly notify the Owners of all Bonds then outstanding, the Issuer, the Paying Agent and the Company of such fact. The Issuer may appoint a temporary trustee until the appointment of such successor.

The Paying Agent is required to maintain an office, or have an agent with an office, in New York City at all times that the Bonds are outstanding.

#### **Additional Notices**

Upon written request of any Owner of the Bonds in an aggregate principal amount of at least \$1,000,000 (or any person or entity which provides written evidence acceptable to the Trustee and the Paying Agent that such person or entity has a legal or beneficial interest in the Bonds in an aggregate principal amount of at least \$1,000,000), the Trustee or the Paying Agent, as appropriate, shall give an additional copy of any notice to be given by the Trustee or the Paying Agent, as appropriate, under the Indenture by first-class mail to a second address specified by such Owner, person or entity. Any such additional notices shall be given simultaneously with the original notices.

Upon written request of any person or entity which provides evidence acceptable to the Trustee and the Paying Agent, as appropriate, that such person or entity has a legal or beneficial interest in at least \$1,000,000 in principal amount of the Bonds, the Trustee or the Paying Agent, as appropriate, shall for the calendar year in which such request is received, provide one or more of the following as requested to such person or entity: (i) notices of redemption; (ii) notices of default; (iii) copies of all notices to which such person or entity is entitled under the Indenture to a specific second address; and (iv) outstanding balances by maturity, redemption history, including redemption date, amount and source of funds and distribution of the call to maturity.

#### **Supplemental Indentures**

The Issuer and the Trustee, with the written consent of the Company, but without the consent of or notice to the Bondholders, may enter into an Indenture or indentures supplemental to the Indenture, for any of the following purposes:

- (a) to cure any ambiguity, formal defect or omission in the Indenture or to make such other changes which shall not have a material adverse effect upon the interests of the Bondholders;

- (b) to grant to or confer upon the Trustee, for the benefit of the Bondholders, any additional rights, remedies, powers or authorities, or any additional security, that may lawfully be granted to or conferred upon the Bondholders or the Trustee;
- (c) to subject to the Indenture additional revenues, properties or collateral;
- (d) to modify, amend or supplement the Indenture, or any indenture supplemental thereto, in such manner as to permit the qualification thereof under the Trust Indenture Act of 1939, as amended (the "Trust Indenture Act") or any similar federal statute hereafter in effect, or to permit the qualification of the Bonds for sale under the securities laws of any of the states of the United States and, if the Issuer so determines, to add to the Indenture or any indenture supplemental thereto such other terms, conditions and provisions as may be permitted by the Trust Indenture Act or any similar federal statute;
- (e) to add to the covenants and agreements of the Issuer contained in the Indenture other covenants and agreements thereafter to be observed for the protection of the Bondholders or to surrender or limit any right, power or authority therein reserved to or conferred upon the Issuer;
- (f) to conform the Indenture to the requirements of any rating agency;
- (g) to add provisions permitting the addition of a credit facility or a liquidity facility;
- (h) to make any change related to the Bonds that does not materially adversely affect the rights of any Bond Owner; and
- (i) to implement any succession or assignment by the Company in accordance with the provisions of the Indenture and the Agreement.

Exclusive of the purposes described in subparagraphs (a) through (i) above, the Owners of a majority in aggregate principal amount of the Bonds then outstanding will have the right, from time to time, to approve any supplemental indenture deemed necessary and desirable by the Issuer for the purposes of modifying, altering, amending, adding to or rescinding, in any particular, any of the terms or provisions contained in the Indenture or any supplemental indenture. No modification or alteration may be made without the consent of the holders of all the Bonds then outstanding and affected which permits (i) an extension of the maturity of the principal of, or the time for payment of any redemption premium or interest on, any Bond or a reduction in the principal amount of any Bond, or the rate of interest or redemption premium thereon, or a reduction in the amount of, or extension of the time of any payment required by, any Bond; (ii) a privilege or priority of any Bond over any other Bond (except as provided in the Indenture); (iii) a reduction in the aggregate principal amount of the Bonds required for consent to such a supplemental indenture; (iv) the deprivation of the Owner of any Bond then outstanding of the lien created by the Indenture; or (v) the amendment of the limitations described in this paragraph.

#### UNDERWRITING

Subject to the terms and conditions set forth in a Bond Purchase Agreement ("Purchase Agreement") to be entered into between the Issuer and the Underwriters, the Underwriters have agreed to purchase the Bonds at a purchase price of 100% of the principal amount thereof. Under the terms and conditions of the Purchase Agreement, the Underwriters are committed to take and pay for all of the Bonds if any are taken. The Company has agreed to pay the Underwriters \$267,500.00 as compensation and to reimburse the Underwriters for their reasonable expenses.

The Issuer has been advised by the Underwriters that the Bonds may be offered and sold to certain dealers (including dealers depositing Bonds into investment trusts) and others at prices lower than the public offering price set forth on the cover page of this Official Statement. After the Bonds are released for sale to the public, the public offering price and other selling terms may from time to time be varied by the Underwriters.

In connection with this offering and in compliance with applicable law and industry practice, the Underwriters may overallot or effect transactions which stabilize, maintain or otherwise affect the market price of the Bonds at levels above those which might otherwise prevail in the open market, including by entering stabilizing bids. A stabilizing bid means the placing of a bid, or the effecting of any purchase, for the purpose of pegging,

fixing or maintaining the price of a security. In general, purchases of a security for the purpose of stabilization could cause the price of the security to be higher than it might be in the absence of such purchases.

Neither the Issuer, the Company nor the Underwriters make any representation or prediction as to the direction or magnitude of any effect that the transactions described above may have on the price of the Bonds. In addition, neither the Issuer, the Company nor the Underwriters make any representation that the Underwriters will engage in such transactions or that such transactions, once commenced, will not be discontinued without notice.

Pursuant to an Inducement Letter, the Company has agreed to indemnify the Underwriters and the Issuer against certain civil liabilities, including liabilities under the federal securities laws, or contribute to payments that the Underwriters or the Issuer may be required to make in respect thereof.

The Underwriters and/or certain of its affiliates may engage in transactions with, and from time to time have performed services for, the Company in the ordinary course of business.

Morgan Stanley, parent company of Morgan Stanley & Co. Incorporated, an underwriter of the Bonds, has entered into a retail brokerage joint venture with Citigroup Inc. As part of the joint venture, Morgan Stanley & Co. Incorporated will distribute municipal securities to retail investors through the financial advisor network of a new broker-dealer, Morgan Stanley Smith Barney LLC. This distribution arrangement became effective on June 1, 2009. As part of this arrangement, Morgan Stanley & Co. Incorporated will compensate Morgan Stanley Smith Barney LLC for its selling efforts with respect to the Bonds.

## SECONDARY MARKET INFORMATION

No financial statements or operating data concerning the Issuer are included in this Official Statement and the Issuer has not undertaken to provide any such information in the future.

Solely for the purpose of enabling the Underwriters to comply with the requirements of Rule 15c2-12(b) under the 1934 Act, as in effect on the date hereof (the "Rule"), the Company has undertaken (but only to the extent required for compliance with valid and effective provisions of the Rule), for the benefit of the Bondholders, to provide the persons specified below (i) not later than 120 days after the end of each fiscal year of the Company ending on or after January 1, 2009, the Southwestern Electric Power Company Annual Report to the Securities and Exchange Commission (the "Commission") on Form 10-K (or any successor form), excluding any exhibits or documents incorporated by reference therein, other than (if applicable) the audited financial statements appearing in the Southwestern Electric Power Company Annual Report to stockholders (the "Form 10-K"), or, if the Form 10-K is no longer required, audited annual financial statements of the Company of the type incorporated by reference in Appendix A hereto (the "Audited Financial Statements"), and (ii) in a timely manner, notice of the occurrence of certain events enumerated in the Rule, if material (the "Undertaking").

The Form 10-K (or, if required, the Audited Financial Statements) and notices of certain events shall be provided to the Municipal Securities Rulemaking Board under its Electronic Market Access System.

Neither the Issuer nor its members, directors, officers, agents or employees have any responsibility or liability for the sufficiency, performance or enforcement of the Undertaking. The Company, its directors, officers, employees and shareholders shall have no liability under the Undertaking for any act or failure to act; a failure to perform the Undertaking shall not constitute an Event of Default under any Indenture or a default under the Bonds; and the sole remedy shall be specific enforcement of the Undertaking by the applicable trustee or by such person, if any, as the Rule may require to be entitled to enforce the same. The Company reserves the right to (a) contest the validity of the Rule, and (b) modify its performance of the Undertaking, to the extent not inconsistent with valid and effective provisions of the Rule.

## TAX MATTERS

### Opinion of Bond Counsel

In the opinion of Foley & Judell, L.L.P., as Bond Counsel, the form of which is attached hereto as Appendix B, interest on the Bonds (a) is excluded from gross income of the owners thereof for federal income tax purposes (except for interest on any Bond for any period during which it is held by a person who is a "substantial

user" of the Facilities or a "related person," as those terms are defined in Section 147(a) of the Code or Section 103(b)(13) of the 1954 Code) and (b) is not an item of tax preference for purposes of the federal alternative minimum tax imposed on individuals and corporations. In the opinion of Bond Counsel, under the Act, the Bonds and the income therefrom are exempt from all taxation by the State of Louisiana or any political subdivision thereof. In giving such opinions, Bond Counsel will rely upon certificates of facts, estimates and expectations made by the Company.

The Code imposes a number of requirements that must be satisfied for interest on state and local obligations to be excluded from gross income for federal income tax purposes. These requirements include, among others, limitations on the use of bond proceeds and the source of repayment of bonds, limitations on the use of the Facilities, limitations on the investment of bond proceeds and certain other amounts, a requirement that excess earnings on the investment of certain bond proceeds be paid periodically to the United States, except under certain circumstances, and a requirement that information reports be filed with the Internal Revenue Service. The Company will covenant in the Agreement that, to the extent permitted by law, it will take all actions within its control necessary to maintain, and shall refrain from taking any action that impairs, the exclusion of the interest on the Bonds from gross income for federal income tax purposes under federal law existing on the date of delivery of the Bonds.

The opinion of Bond Counsel will assume continuing compliance with the covenants of the Issuer and the Company pertaining to those sections of the Code which affect the exclusion from gross income of interest on the Bonds for federal income tax purposes and, in addition, will rely on representations by the Issuer and the Company with respect to matters solely within the knowledge of the Issuer and the Company, which Bond Counsel has not independently verified. If the Issuer or the Company should fail to comply with such covenants or if the foregoing representations should be determined to be inaccurate or incomplete, interest on the Bonds could become included in gross income from the date of original delivery of the Bonds, regardless of the date on which the event causing such inclusion occurs.

Except as stated above, Bond Counsel will express no opinion regarding any federal, state or local tax consequences resulting from the ownership of, receipt of interest on, or disposition of the Bonds.

#### Other Tax Matters

Prospective purchasers of the Bonds should be aware that the ownership of tax-exempt obligations, such as the Bonds, may result in collateral federal income tax consequences to certain taxpayers including, without limitation, financial institutions, property, casualty and life insurance companies, Subchapter S corporations that have accumulated earnings and profits relating to the period prior to the effectiveness of their Subchapter S election, foreign corporations subject to the branch profits tax, recipients of Social Security or Railroad Retirement benefits, individuals otherwise entitled to the earned income credit, and taxpayers who may be deemed to have incurred or continued indebtedness to purchase or carry tax-exempt obligations. Prospective purchasers of the Bonds should consult their tax advisors as to the applicability and impact of such consequences.

**THE FOREGOING DISCUSSION OF CERTAIN FEDERAL AND STATE INCOME TAX CONSEQUENCES IS PROVIDED FOR GENERAL INFORMATION ONLY. INVESTORS SHOULD CONSULT THEIR TAX ADVISORS AS TO THE STATUS OF INTEREST ON THE BONDS UNDER THE TAX LAWS OF ANY STATE OTHER THAN LOUISIANA.**

#### LEGAL MATTERS

Legal matters incident to the original authorization, issuance and sale of the Bonds were subject to the unqualified approval of Foley & Judell, L.L.P., Bond Counsel. In connection with the issuance of the Bonds, Foley & Judell, L.L.P. has acted in the capacity of Bond Counsel for the purpose of rendering the opinion attached hereto as Appendix B, which includes an opinion as to the exclusion from gross income of the interest on the Bonds for federal income tax purposes. Such firm has not been requested to examine, and has not investigated or verified, any statements, records, material or matters relating to the financial condition or capabilities of the Company and has not assumed responsibility for the preparation of this Official Statement, except that, in its capacity as Bond Counsel in connection with the issuance of the Bonds, such firm has reviewed the information in this Official Statement under the captions *INTRODUCTORY STATEMENT, THE BONDS* (other than under *– Book-Entry Only System*), *THE AGREEMENT, THE INDENTURE, TAX MATTERS* and *LEGAL MATTERS*.

Certain legal matters will be passed upon by Thomas G. Berkemeyer, counsel for the Company. Thomas G. Berkemeyer is Associate General Counsel of American Electric Power Service Corporation, an affiliate of the Company. Certain legal matters, other than the validity of the Bonds and the exclusion from gross income of interest thereon, will be passed upon by Dewey & LeBoeuf LLP, New York, New York, counsel for the Underwriters. Dewey & LeBoeuf LLP acts as counsel to certain affiliates of the Company for some matters.

The various legal opinions to be delivered concurrently with the delivery of the Bonds express the professional judgment of the attorneys rendering the opinions as to the legal issues explicitly addressed therein. In rendering a legal opinion, the attorney does not become an insurer or guarantor of the expression of professional judgment, of the transaction opined upon, or of the future performance of the parties to the transaction, nor does the rendering of an opinion guarantee the outcome of any legal dispute that may arise out of the transaction.

#### MISCELLANEOUS

The attached Appendices (including documents incorporated by references therein) are an integral part of the Official Statement and must be read together with all of the balance of this Official Statement.

The Issuer does not assume any responsibility for the matters contained in this Official Statement. All findings and determinations by the Issuer relating to the issuance and sale of the Bonds are, and have been, made by the Issuer for its own internal uses and purposes in performing its duties under Louisiana law.

**APPENDIX A**

**SOUTHWESTERN ELECTRIC POWER COMPANY**

The Company is a public utility engaged in the generation, transmission and distribution of electric power to approximately 467,000 retail customers in northeastern Texas, northwestern Louisiana and western Arkansas, and in supplying and marketing electric power at wholesale to other electric utility companies, municipalities, rural electric cooperatives and other market participants. Its principal executive office is 1 Riverside Plaza, Columbus, Ohio 43215 and the telephone number is (614) 716-1000. The Company is a subsidiary of American Electric Power Company, Inc. (AEP) and is a part of the AEP integrated utility system.

**AVAILABLE INFORMATION**

The Company is subject to the Informational requirements of the Securities Exchange Act of 1934 (the 1934 Act) and in accordance therewith files reports and other information with the Securities and Exchange Commission (SEC). Such reports and other information may be inspected and copied at the public reference room maintained by the SEC at 100 F Street N.E., Room 1580, Washington, D.C. 20549. Copies of such material can be obtained from the Public Reference Section of the SEC, Washington, D.C. 20549 at prescribed rates. The SEC may be contacted at 1-800-SEC-0330 for information on the public reference room. The SEC maintains a web site at <http://www.sec.gov> containing reports, proxy and information statements and other information regarding registrants that file electronically with the SEC, including the Company.

**DOCUMENTS INCORPORATED BY REFERENCE**

The following document filed with the SEC by the Company pursuant to the 1934 Act is incorporated by reference in this Appendix A and made a part of this Official Statement:

- The Company's Annual Report on Form 10-K for the year ended December 31, 2009.

All documents subsequently filed by the Company with the SEC pursuant to Sections 13(a), 13(e), 14 or 15(d) of the 1934 Act subsequent to the date of this Official Statement and prior to the termination of the offering of the Bonds offered by this Official Statement are to be incorporated by reference in this Appendix A and to be a part of this Official Statement from the date such documents are filed.

Any statement contained in a document so incorporated or deemed to be incorporated shall be deemed to be modified or superseded for purposes of this Official Statement to the extent that a statement contained herein or in any other subsequently filed document which is deemed to be so incorporated modifies or supersedes such statement. Any such statement so modified or superseded shall not be deemed, except as so modified or superseded, to constitute a part of this Appendix A.

The Company will provide without charge to each person to whom a copy of this Official Statement has been delivered, on the written or oral request of any such person, a copy of any or all of the documents described above which have been incorporated by reference in this Appendix A, other than exhibits to such documents. Written requests for copies of such documents should be addressed to Financial Reporting, American Electric Power Service Corporation, 1 Riverside Plaza, Columbus, Ohio 43215 (telephone number: 614-716-1000). The information relating to the Company contained in this Appendix A does not purport to be comprehensive and should be read together with the information contained in the documents incorporated by reference.

**RISK FACTORS**

Investing in the Bonds involves risk. Please see the risk factors described in our Annual Report on Form 10-K for the fiscal year ended December 31, 2009, which is incorporated by reference in this Official Statement. Before making an investment decision, you should carefully consider these risks as well as other information contained or incorporated by reference in this Official Statement. The risks and uncertainties described are those presently known to us. Additional risks and uncertainties not presently known to us or that we currently deem immaterial may also impair our business operations, our financial results and the value of the Bonds.

#### RATIO OF EARNINGS TO FIXED CHARGES

The Ratio of Earnings to Fixed Charges for each of the periods indicated is as follows:

<u>Twelve Months Period Ended</u>	<u>Ratio</u>
December 31, 2004	3.19
December 31, 2005	3.04
December 31, 2006	3.18
December 31, 2007	2.09
December 31, 2008	2.08
December 31, 2009	2.28

For the purposes of calculating the Ratio of Earnings to Fixed Charges, "earnings" represents income before income taxes, extraordinary items, and cumulative effect of accounting changes, plus fixed charges. "Fixed charges" consist of interest expense, amortization of debt issuance costs, and the portion of operating rental expense which management believes is representative of the interest within rental expense.

For current information on the Ratio of Earnings to Fixed Charges, please see our most recent Form 10-K. See *Available Information*.

#### INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The consolidated financial statements incorporated by reference in this Official Statement from the Southwestern Electric Power Company Annual Report on Form 10-K for the year ended December 31, 2009 have been audited by Deloitte & Touche LLP, an independent registered public accounting firm, as stated in their reports incorporated by reference herein (which report expresses an unqualified opinion and includes an explanatory paragraph relating to the adoption of a new accounting pronouncement).

**APPENDIX B**

**PROPOSED FORM OF OPINION OF BOND COUNSEL**

Honorable DeSoto Parish Police Jury  
Mansfield, Louisiana

**\$53,500,000**  
**PARISH OF DESOTO, STATE OF LOUISIANA**  
**POLLUTION CONTROL REVENUE REFUNDING BONDS**  
**(SOUTHWESTERN ELECTRIC POWER COMPANY PROJECT)**  
**SERIES 2010**

We have acted as bond counsel to the Parish of DeSoto, State of Louisiana (the "Issuer"), a political subdivision of the State of Louisiana (the "State"), created and existing pursuant to the laws of the State, in connection with the issuance by the Issuer of the captioned bonds (the "Bonds") pursuant to Chapter 14-A of Title 39 of the Louisiana Revised Statutes of 1950, as amended (the "Act").

The Bonds have been issued by the Issuer pursuant to the Act and other constitutional and statutory authority and an Indenture of Trust dated as of March 1, 2010 (the "Indenture") between the Issuer and The Bank of New York Mellon Trust Company, N.A., as trustee (the "Trustee"). Capitalized terms used herein which are not otherwise defined have the meanings given them in the Indenture.

The Bonds are issuable as fully registered bonds, are dated, bear interest until paid at the rate per annum, mature in the principal amount and on the date, and are subject to redemption all as set forth in the Indenture and in the Bonds.

The Bonds are issued under and are secured as to principal, premium, if any, and interest by the Indenture, which provides a description of the nature and extent of the security for the Bonds, a statement of the terms and conditions under which the Bonds are issued and secured, the rights, duties and obligations of the Issuer, the rights, duties and immunities of the Trustee and the rights of the owners of the Bonds.

The Bonds are issued for the purpose of refunding the Issuer's Pollution Control Revenue Refunding Bonds (Southwestern Electric Power Company Project) Series 2004 issued in the original principal amount of \$53,500,000, which Series 2004 Bonds were issued for the purpose of providing funds to Southwestern Electric Power Company (the "Company") to refund the Issuer's Pollution Control Revenue Refunding Bonds (Southwestern Electric Power Company Project) Series 1992 issued in the original principal amount of \$53,500,000, which Series 1992 Bonds were issued for the purpose of providing funds to the Company to refund certain revenue bonds previously issued by the Issuer to finance the acquisition, construction and installation of certain air and water pollution control facilities and solid waste disposal facilities at the Company's jointly owned Dolet Hills lignite fired electric generating unit in DeSoto Parish (the "Facilities"). Pursuant to the Refunding Agreement dated as of March 1, 2010 (the "Refunding Agreement") between the Issuer and the Company, the Company has agreed to make payments to the Trustee in an amount sufficient to pay the principal of, premium, if any, and interest on the Bonds and to pay such other amounts as are required by the Refunding Agreement.

We have examined (i) the Constitution and statutes of the State, including the Act; (ii) a certified transcript of the proceedings of the Issuer authorizing the issuance of the Bonds; (iii) the Indenture, the Refunding Agreement and the Tax Certificate of the Company dated the date hereof (the "Tax

Certificate"); and (iv) such other documents, instruments and papers as we have deemed relevant to the issuance of the Bonds and necessary for the purpose of this opinion.

As to questions of fact material to our opinion, we have relied upon representations of the Issuer and the Company contained in the Refunding Agreement and the Tax Certificate, together with the certified proceedings and other certifications of public officials and others furnished to us, including certifications furnished to us by or on behalf of the Company, without undertaking to verify the same by independent investigation.

On the basis of the foregoing examinations, we are of the opinion, as of the date hereof and under existing law, that:

1. The Issuer is a validly existing political subdivision of the State and has the power and authority to enter into the Refunding Agreement and the Indenture and to issue and sell the Bonds.

2. The Bonds are valid and binding special and limited obligations of the Issuer secured by and entitled to the benefits of the Indenture and are payable solely from the Trust Estate and other amounts assigned under the Indenture.

3. The Refunding Agreement and the Indenture have been duly authorized, executed and delivered by the Issuer and constitute valid and binding obligations of the Issuer, enforceable against the Issuer, and all rights and interests of the Issuer under the Refunding Agreement have been validly assigned to the Trustee under the Indenture, with the exception of certain rights of the Issuer relating to notices, indemnification, exculpation, payment of fees and reimbursement of expenses.

4. The Bonds and interest thereon do not constitute an indebtedness or pledge of the general credit of the Issuer within the meaning of any State constitutional or statutory provision and will not constitute an obligation or a charge against the taxing powers of the Issuer.

5. Interest on the Bonds is excluded from gross income for federal income tax purposes, except for interest on any Bond for any period during which such Bond is held by a "substantial user" of the Facilities or a "related person", each within the meaning of Section 147(a) of the Internal Revenue Code of 1986, as amended (the "Code"), or Section 103(b)(13) of the Internal Revenue Code of 1954, as amended, and interest on the Bonds is not an item of tax preference for purposes of the federal alternative minimum tax imposed on individuals and corporations.

6. Under the Act, the Bonds and the income therefrom are exempt from all taxation by the State or any political subdivision thereof.

In rendering the opinions expressed in paragraph 5 above, we have relied on representations of the Issuer and the Company with respect to questions of fact material to our opinion without undertaking to verify the same by independent investigation, and have assumed continuing compliance with the covenants in the Tax Certificate, the Indenture and the Refunding Agreement pertaining to those sections of the Code which affect the exclusion from gross income of interest on the Bonds for federal income tax purposes. In the event that such representations are determined to be inaccurate or the Issuer or the Company fails to comply with the foregoing covenants, interest on the Bonds could be includable in gross income for federal income tax purposes from the date of their original delivery, regardless of the date on which the event causing such inclusion occurs.

It is to be understood that the rights of the owners of the Bonds and the enforceability of the Bonds, the Indenture, the Refunding Agreement and the other documents enumerated above may be subject to bankruptcy, insolvency, reorganization, moratorium and other similar laws affecting creditors' rights heretofore or hereafter enacted to the extent constitutionally applicable, and that their enforcement may also be subject to the exercise of the sovereign police powers of the State or its governmental bodies and the exercise of judicial discretion in appropriate cases.

In rendering this opinion, we have relied upon the opinions of even date herewith of counsel to the Company, with respect to (i) the due organization of the Company, (ii) the good standing of the Company in the State, (iii) the corporate power of the Company to enter into, and the due authorization, execution and delivery by the Company of, the Refunding Agreement and the valid and binding effect thereof on the Company, and (iv) matters which might be disclosed as a result of an examination of the indentures, mortgages, deeds of trust and other agreements or instruments to which the Company is a party or by which it or its properties are bound. We have also assumed the corporate power of the Trustee to enter into and the due authorization, execution and delivery by the Trustee of the Indenture and the binding effect thereof on the Trustee.

For the purposes of this opinion, our services as bond counsel have not extended beyond the examinations and expressions of the conclusions referred to above. We have not examined the title of any party to the Facilities and therefore express no opinion thereon. Except as stated above, no opinion is expressed as to any federal or state tax consequences resulting from the ownership of, receipt of interest on, or disposition of the Bonds.

Respectfully submitted,

NDT A NEW ISSUE

BOOK ENTRY ONLY

*On March 26, 2008, Bond Counsel rendered its opinion that interest on the Bonds would be excludable from gross income for federal income tax purposes under existing statutes, regulations, published rulings and court decisions, except as explained under TAX MATTERS herein. Bond Counsel was of the opinion that interest on the Bonds would not be treated as a preference item in calculating the alternative minimum tax imposed on individuals and corporations under Section 57(a)(5) of the Internal Revenue Code of 1986, as amended (the "Code"). The original bond counsel opinion speaks only as of its date. Bond Counsel has not been requested to conduct, nor has Bond Counsel conducted, any further investigation as to the tax status of interest on the Bonds under federal income tax laws since the date of the original bond counsel opinion. Upon conversion of the interest rate on the Bonds, Bond Counsel will render its opinion that such conversion will not, in and of itself, adversely affect the exclusion of interest on the Bonds from the gross income of the owners thereof for federal income tax purposes. For further information, see TAX MATTERS herein.*

**\$120,265,000**  
**4.00% Matagorda County Navigation District Number One (Texas)**  
**Pollution Control Revenue Refunding Bonds**  
**(AEP Texas Central Company Project)**

<b>Series 2008-1</b>	<b>Series 2008-2</b>
<b>\$60,265,000</b>	<b>\$60,000,000</b>
<b>(Non-AMT)</b>	<b>(Non-AMT)</b>

Interest Accrual Date: June 3, 2013

Due: June 1, 2030

The Series 2008-1 Bonds and the Series 2008-2 Bonds (collectively, the "Bonds") are limited obligations of Matagorda County Navigation District Number One (Texas) (the "Issuer"), and do not constitute an indebtedness or a charge against the general credit or taxing powers of the Issuer or the State of Texas. The principal of, premium, if any, and interest on the Bonds will be payable solely from, and secured by a pledge of, the revenues to be received by the Issuer under the terms of an Installment Payment Agreement dated as of March 1, 2008 (the "Agreement") between the Issuer and

**AEP TEXAS CENTRAL COMPANY**

The Bonds will bear interest at a Fixed Rate of 4.00% per annum beginning on June 3, 2013 until June 1, 2030. The Bonds will be subject to optional redemption, extraordinary optional redemption and extraordinary mandatory redemption as described under THE BONDS - Redemption.

The Bonds will be reoffered as fully registered bonds and will be registered initially in the name of Cede & Co., as registered owner and nominee for The Depository Trust Company, New York, New York ("DTC"). DTC acts as a securities depository for the Bonds. The Bonds will be issued in denominations of \$5,000 or any integral multiple thereof. Except under the limited circumstances described herein, Beneficial Owners of book-entry interests in the Bonds will not receive certificates representing their ownership interests. Payments of principal of and premium, if any, and interest on the Bonds (payable June 1 and December 1, commencing December 1, 2013) will be made through DTC and disbursements of such payments to Beneficial Owners will be the responsibility of DTC and its Participants (see BOOK-ENTRY ONLY SYSTEM herein). Morgan Stanley & Co. LLC and The Huntington Investment Company ("Series 2008-1 Remarketing Agents") will act as remarketing agents for the Series 2008-1 Bonds and Wells Fargo Bank, National Association and The Williams Capital Group, L.P. ("Series 2008-2 Remarketing Agents", and collectively with the Series 2008-1 Remarketing Agents, the "Remarketing Agents") will act as the remarketing agents for the Series 2008-2 Bonds. The Bank of New York Mellon Trust Company, N.A. will act as Trustee and Paying Agent for the Bonds.

**PRICE: 100%**

This cover page contains limited information for quick reference only and is not a summary of this Reoffering Circular. Investors should read the entire Reoffering Circular to obtain information essential to the making of an informed investment decision.

The Bonds are reoffered by the Remarketing Agents subject to the receipt of an opinion of McCall, Parkhurst & Horton L.L.P., Dallas, Texas, Bond Counsel, as described herein, and certain other conditions. Certain legal matters, other than the validity of the Bonds and the exclusion from gross income for Federal income tax purposes of interest thereon, will be passed on for the Remarketing Agents by their counsel, Hunton & Williams LLP, New York, New York, and for the Company by its internal counsel. Delivery of the Bonds in book-entry-only form is expected on or about June 3, 2013, through the facilities of DTC in New York, New York, against payment therefor.

**Morgan Stanley**  
**The Huntington Investment Company**  
**(As Remarketing Agents for**  
**the Series 2008-1 Bonds)**

**Wells Fargo Securities**  
**The Williams Capital Group, L.P.**  
**(As Remarketing Agents for**  
**the Series 2008-2 Bonds)**

Dated: May 15, 2013

## CONTENTS OF REOFFERING CIRCULAR

<u>Reoffering Circular</u>	<u>Page</u>
INTRODUCTORY STATEMENT.....	1
THE ISSUER.....	2
THE FACILITIES.....	2
USE OF PROCEEDS.....	2
THE BONDS.....	2
BOOK-ENTRY ONLY SYSTEM.....	6
THE AGREEMENT.....	8
THE INDENTURE.....	12
REMARKETING.....	16
CONTINUING DISCLOSURE AGREEMENT.....	17
TAX MATTERS.....	17
LEGAL MATTERS.....	19
MISCELLANEOUS.....	20
Appendix A (AEP Texas Central Company).....	A-1
Appendix B-1 (Form of Original Opinion of Bond Counsel).....	B-1
Appendix B-2 (Form of Conversion Opinion of Bond Counsel).....	B-3
Appendix C (Form of Continuing Disclosure Undertaking).....	C-1

No person has been authorized to give any information or to make any representations other than those contained in this Reoffering Circular in connection with the offer made hereby and, if given or made, such information or representations must not be relied upon as having been authorized by the Issuer, the Company or the Remarketing Agents. Neither the delivery of this Reoffering Circular nor any sale hereunder shall under any circumstances create any implication that there has been no change in the affairs of the Issuer or the Company since the date hereof. This Reoffering Circular does not constitute an offer or solicitation in any jurisdiction in which such offer or solicitation is not authorized, or in which the person making such offer or solicitation is not qualified to do so or to any person to whom it is unlawful to make such offer or solicitation.

The Remarketing Agents have provided the following sentence for inclusion in this Reoffering Circular. The Remarketing Agents have reviewed the information in this Reoffering Circular in accordance with, and as a part of, their responsibilities to investors under the federal securities laws as applied to the facts and circumstances of this transaction, but the Remarketing Agents do not guarantee the accuracy or completeness of such information.

CERTAIN PERSONS PARTICIPATING IN THIS REOFFERING MAY ENGAGE IN TRANSACTIONS THAT STABILIZE, MAINTAIN OR OTHERWISE AFFECT THE PRICE OF THE BONDS, INCLUDING BY ENTERING STABILIZING BIDS. FOR A DESCRIPTION OF THESE ACTIVITIES, SEE *REMARKETING* HEREIN.

IN MAKING AN INVESTMENT DECISION, INVESTORS MUST RELY ON THEIR OWN EXAMINATION OF THE ISSUER, THE COMPANY AND THE TERMS OF THE OFFERING, INCLUDING THE MERITS AND RISKS INVOLVED. THESE SECURITIES HAVE NOT BEEN RECOMMENDED BY ANY FEDERAL OR STATE SECURITIES COMMISSION OR REGULATORY AUTHORITY. FURTHERMORE, THE FOREGOING AUTHORITIES HAVE NOT CONFIRMED THE ACCURACY OR DETERMINED THE ADEQUACY OF THIS DOCUMENT. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE.

**\$120,265,000**  
**4.00% Matagorda County Navigation District Number One (Texas)**  
**Pollution Control Revenue Refunding Bonds**  
**(AEP Texas Central Company Project)**

<b>Series 2008-1</b>	<b>Series 2008-2</b>
<b>\$60,265,000</b>	<b>\$60,000,000</b>
<b>(Non-AMT)</b>	<b>(Non-AMT)</b>

**INTRODUCTORY STATEMENT**

This Reoffering Circular, including the Appendices hereto, is provided to furnish certain information in connection with the remarketing of Matagorda County Navigation District Number One Pollution Control Revenue Refunding Bonds (AEP Texas Central Company Project) Series 2008-1 in the aggregate principal amount of \$60,265,000 (the "Series 2008-1 Bonds") and Matagorda County Navigation District Number One Pollution Control Revenue Refunding Bonds (AEP Texas Central Company Project) Series 2008-2 in the aggregate principal amount of \$60,000,000 (the "Series 2008-2 Bonds", and together with the Series 2008-1 Bonds, the "Bonds") Matagorda County Navigation District Number One (the "Issuer") originally issued the Bonds in one series in an aggregate principal amount of \$120,265,000. The Issuer neither has nor assumes any responsibility as to the accuracy or completeness of the information in this Reoffering Circular, all of which has been furnished by others.

The Bonds were issued under and pursuant to a resolution of the Issuer adopted on March 12, 2008 ("Resolution") and an Indenture of Trust, dated as of March 1, 2008 ("Indenture"), between the Issuer and The Bank of New York Mellon Trust Company, N.A., as trustee (in such capacity, the "Trustee"). Capitalized terms used herein and not otherwise defined shall have the meanings given to them in the Indenture.

Pursuant to an Installment Payment Agreement, dated as of March 1, 2008 (the "Agreement"), between the Issuer and AEP Texas Central Company (the "Company"), the proceeds from the issuance and sale of the Bonds were used to provide funds for the refunding of \$120,265,000 in principal amount of the Issuer's Pollution Control Revenue Refunding Bonds (AEP Texas Central Company Project) Series 2005C-1 and Series 2005C-2 ("Refunded Bonds"). The Refunded Bonds were used to refund certain outstanding obligations of the Issuer, the proceeds of which financed and refinanced the cost of acquisition, construction and improvement of a pollution control project consisting of certain facilities (the "Facilities"), or portions thereof, designed for the abatement of pollution and the disposal of solid wastes at the South Texas Project Electric Generating Station located between Bay City and Palacios, Texas (the "Plant"). The Company sold its 25.2% undivided interest in the Plant to Texas Genco Holdings, Inc. ("TGHI") and City Public Service Board of San Antonio ("CPS") in May 2005. Except where the context otherwise indicates, the term "Facilities" herein refers to that portion of certain of the pollution control and solid waste disposal facilities at the Plant formerly owned by the Company.

The Company is obligated under the Agreement to make payments to the Trustee sufficient, together with any other funds on deposit in the Bond Fund (hereinafter described) under the Indenture, to pay the principal of and premium, if any, and interest on the Bonds (such payments being hereinafter referred to as the "Installment Payments"). The Bonds are not secured by a mortgage on, or security interest in, any of the Facilities or any property of the Company.

The Bonds will mature and become due and payable, together with any accrued and unpaid interest, on June 1, 2030, subject to earlier redemption. See "THE BONDS-Redemption" herein. The Bonds will bear interest at a Fixed Rate of 4.00% per year, from June 3, 2013 until stated maturity. Interest on the Bonds will be payable semi-annually in arrears on each June 1 and December 1, commencing December 1, 2013.

The Series 2008-1 Bonds and the Series 2008-2 Bonds are being reoffered as separate subseries of the Bonds. The reoffering of the Series 2008-1 Bonds and the Series 2008-2 Bonds are independent and neither reoffering is conditioned upon the other.

The Bonds will be issued in authorized denominations of \$5,000 or any integral multiple thereof and will be held by The Depository Trust Company ("DTC"), or its nominee, as securities depository with respect to the Bonds. See *THE BONDS – Book-Entry Only System*.

The Bonds are special obligations of the Issuer, and will be paid solely from, and will be secured by a pledge of, payments made to the Issuer under the terms of the Agreement. See *THE BONDS – Security*.

Brief descriptions of the Issuer, the Facilities, the Bonds, the Agreement and the Indenture are included in this Reoffering Circular. Information regarding the business, properties and financial condition of the Company is included in Appendix A attached hereto. The form of opinion that Bond Counsel delivered upon original issuance of the Bonds is set forth in Appendix B-1 hereto and the proposed form of opinion to be delivered by Bond Counsel upon conversion of the interest rate on the Bonds is set forth in Appendix B-2 hereto. The descriptions herein of the Agreement and the Indenture are qualified in their entirety by reference to such documents, and the descriptions herein of the Bonds are qualified in their entirety by reference to the forms thereof and the information with respect thereto included in the aforesaid documents. All such descriptions are further qualified in their entirety by reference to laws and principles of equity relating to or affecting generally the enforcement of creditors' rights. Copies of such documents may be obtained from the Company.

#### THE ISSUER

Matagorda County Navigation District Number One is a governmental agency and body politic and corporate of the State of Texas created and existing as a conservation and reclamation district pursuant to Article XVI, Section 59 of the Constitution of the State of Texas and by Chapters 60, 62 and 63 of the Texas Water Code. The principal office of the Issuer is in Palacios, Texas.

#### THE FACILITIES

The Facilities consist of various systems designed for the abatement and control of pollution and the treatment and disposal of sewage and solid wastes resulting from the operation of the Plant. The Plant is a nuclear generating station consisting of two units with the capability of generating a total of 2500 megawatts of power. Unit 1 of the Plant began commercial operation on August 25, 1988 and Unit 2 began commercial operation on June 19, 1989. The Company sold its 25.2% undivided interest in the Plant to TGH and CPS in May 2005.

#### USE OF PROCEEDS

The proceeds of the reoffering of the Bonds pursuant to this Reoffering Circular will be applied on the Conversion Date to pay for the mandatory purchase of \$120,265,000 aggregate principal amount of the Bonds currently bearing interest in the Weekly Mode and held by the Company. No proceeds of the Bonds will be paid to the Issuer but will be paid to the Company as the current holder of the Bonds.

#### THE BONDS

##### General

The Bonds were issued in fully registered form in the aggregate principal amount set forth on the cover page hereof. The Bonds will mature and become due and payable, together with any accrued and unpaid interest, on June 1, 2030, and will bear interest from June 3, 2013 at a Fixed Rate of 4.00% per annum until the stated maturity, unless redeemed prior thereto. See "*Redemption*" herein. Interest on the Bonds will be payable semi-annually in arrears on each June 1 and December 1 of each year, commencing on December 1, 2013.

Beneficial interests in the Bonds have been issued pursuant to a Book-Entry Only System ("Book-Entry Only System") maintained by The Depository Trust Company, New York, New York ("DTC"), as described below under the caption *Book-Entry Only System*. Under the Indenture, the Issuer may appoint a successor securities depository to DTC. (DTC, together with any such successor securities depository, is hereinafter referred to as the "Securities Depository"). The following information is subject in its entirety to the provisions described below under the caption *Book-Entry Only System* while the Bonds are in the Book-Entry Only System.

## **Form and Denomination of Bonds; Payments on the Bonds**

### General

The Bonds have been issued only as fully registered bonds, without coupons, in denominations of \$5,000 or any integral multiple thereof (an "Authorized Denomination"). The Bonds have been registered in the name of Cede & Co., as registered owner and nominee of DTC. DTC acts as securities depository for the Bonds and individual purchases of Bonds may be made in book-entry form only. So long as the Bonds are in book-entry only form, purchasers of Bonds will not receive certificates representing their interest in the Bonds purchased. So long as Cede & Co. is the registered owner of the Bonds, as nominee of DTC, references herein to the Bondholders or registered owners or holder shall mean Cede & Co., and shall not mean the Beneficial Owners (as defined below) of the Bonds.

So long as Cede & Co. is the registered owner of the Bonds, principal of, premium, if any, and interest on the Bonds are payable to Cede & Co., as nominee for DTC, which will, in turn, remit such amounts to the DTC Participants (as defined below) for subsequent disbursement to the Beneficial Owners. See – *Book-Entry Only System* below.

The Bank of New York Mellon Trust Company, N.A. has been appointed as Trustee and Paying Agent under the Indenture. The Designated Office of the Trustee and Paying Agent is located, initially, in New Albany Ohio. The Company and its affiliates maintain banking relationships with The Bank of New York Mellon Trust Company, N.A. and its affiliates. The Bank of New York Mellon Trust Company, N.A. and its affiliates serve as trustee under various indentures with, or for the benefit of, the Company and its affiliates.

Neither the Issuer nor the Trustee shall be required to make any transfer or exchange of any Bond during the ten Business Days prior to the mailing of a notice of Bonds selected for redemption or, with respect to a Bond, after such Bond or any portion thereof has been selected for redemption. Registration of transfers and exchanges shall be made without charge to the Bondholders, except that any required taxes or other governmental charges shall be paid by the Bondholder requesting registration of transfer or exchange.

### Interest

The Bonds will bear interest at a Fixed Rate of 4.00% per year from June 3, 2013 until the stated maturity, unless redeemed prior thereto. Interest on the Bonds will be payable semi-annually in arrears on each June 1 and December 1, commencing December 1, 2013. Each payment of interest shall include interest accrued through the day before such interest payment date. Interest on the Bonds will be computed on the basis of a 360-day year consisting of twelve 30-day months.

Payments of interest on the Bonds are payable when due to the registered owner thereof whose name appears in the bond register kept by the bond registrar as of the close of business on the Regular Record Date (as defined below) by check mailed on the interest payment date, provided that any registered owner of \$1,000,000 or more in aggregate principal amount of the Bonds may, upon written request given to the Paying Agent at least five Business Days (as defined below) prior to an interest payment date designating an account in a domestic bank, be paid by wire transfer of immediately available funds. If any interest payment date, redemption date or the maturity date is not a Business Day, we will pay all amounts due on the next succeeding Business Day and no additional interest will be paid.

"Business Day" means any day other than a Saturday or Sunday or other than a day on which commercial banks located in all of the cities in which the Principal Offices of the Trustee, the Paying Agent or the Remarketing Agents are located are authorized by law or regulation to close or on which the New York Stock Exchange is closed.

"Regular Record Date" means the fifteenth day of the calendar month preceding the relevant interest payment date.

## Security

The Bonds are special obligations of the Issuer, the principal of and premium, if any, and interest on which are payable solely from, and secured by a pledge of, the Installment Payments made by the Company under the Agreement. The pledge does not extend to funds to which the Trustee is entitled in its own right as fees, reimbursement, indemnity or otherwise. The Bonds are not secured by a mortgage or security interest in the Facilities or any other property of the Company.

The Bonds shall be deemed not to constitute a debt of the State of Texas, the Issuer, or of any other political corporation, subdivision, or agency of the State or a pledge of the faith and credit of any of them. No recourse shall be had for any claim based on the Agreement, the Indenture, or the Bonds against any member, officer or employee, past, present or future, of the Issuer, or of any successor body thereto, either directly or through the Issuer, or any such successor body, under any constitutional provision, statute or rule of law or by the enforcement of any assessment or penalty or otherwise. Neither the State of Texas, the Issuer, nor any political corporation, subdivision, or agent of the State of Texas shall be obligated to pay the Bonds and neither the faith and credit nor the taxing power of the State of Texas, the Issuer, or any other political corporation, subdivision, or agency is pledged to the payment of the principal of, redemption premium, if any, or interest on, or Purchase Price (as defined below) of, the Bonds. The Bonds are special revenue obligations of the Issuer payable solely from the sources described herein and the holders thereof shall never have the right to demand payment from moneys derived by taxation or any revenues of the Issuer except the funds pledged to the payment thereof.

## Tender

The owner of a Bond does not have the option to require the purchase of his or her Bonds, nor are the Bonds subject to mandatory tender except as described below under *Redemption – Optional Redemption*.

## Redemption

The Bonds are subject to redemption as described below:

**Optional Redemption.** The Bonds will be subject to redemption prior to maturity at the option of the Issuer, upon written direction of the Company delivered to the Trustee and the Paying Agent, in whole or in part (and if in part in an Authorized Denomination) on any Business Day on or after June 3, 2023, at a redemption price equal to 100% of the principal amount of the Bonds called for redemption plus accrued interest to the date fixed for redemption.

**Purchase in Lieu of Optional Redemption.** As an alternative to optional redemption, the Company may elect to purchase the Bonds via a mandatory tender for purchase at a purchase price equal to the principal amount of the Bonds to be purchased plus accrued interest to the purchase date (the "Purchase Price").

**Extraordinary Optional Redemption.** The Bonds are subject to redemption in whole on the next Interest Payment Date for which notice of redemption can be given, at a redemption price equal to the aggregate principal amount of the outstanding Bonds plus accrued interest thereon to the redemption date, without premium, upon receipt by the Trustee and the Paying Agent of a written notice from the Company stating that any of the following events has occurred within the preceding 270 days and that it intends to exercise its option to effect the redemption of the Bonds as a whole:

(a) as a result of any change in the Constitution of the State of Texas or the Constitution of the United States of America or of any legislative or administrative action (whether state or federal), or of any final decree, judgment or order of any court or administrative body (whether state or federal), the obligations of the Company under the Agreement shall have become unenforceable or impossible of performance in any material respect in accordance with the intent and purpose of the parties as expressed in the Agreement; or

(b) following a change in the use of or abandonment of the Facilities or any portion thereof or the Plant, the Company has been unable after reasonable effort to obtain an opinion of Bond Counsel to the effect that interest on the Bonds remains exempt from federal income tax (other than for Bonds in the hands of a "substantial

user" of the Facilities or a "related person" as those terms are used and defined in the applicable federal income tax law); provided, however, that if the Company obtains an opinion of Bond Counsel to the effect that, upon redemption of only a portion of such Bonds, interest payable on the remainder of the Bonds would remain exempt from federal income tax (other than for Bonds in the hands of a "substantial user" of the Facilities or a "related person" as those terms are used and defined in the applicable federal income tax law), the Company may redeem the Bonds in such part as necessary to obtain the opinion of Bond Counsel.

Extraordinary Mandatory Redemption. The Bonds are subject to mandatory redemption in whole, or in part at any time if such partial redemption will preserve the exemption from federal income taxation of interest on the remaining outstanding Bonds, at a redemption price equal to the principal amount thereof together with unpaid interest accrued to the date fixed for redemption, and without premium, if (a) a final decree or judgment of any federal court, in which the Company participates to the extent it deems sufficient, or (b) a final action by the Internal Revenue Service ("IRS"), in proceedings in which the Company participates to the extent it deems sufficient, determines that the interest paid or payable on Bonds to a person, other than, as provided in the Code or the Internal Revenue Code of 1954, as amended (the "1954 Code"), as applicable, a "substantial user" of the Facilities or a "related person", is or was includable in the gross income of the owner thereof for federal income tax purposes, as a result of the failure by the Company to observe or perform any covenant, condition or agreement on its part to be observed or performed under the Agreement or the inaccuracy of any representation by the Company under the Agreement or receipt by the Company of an opinion of Bond Counsel to such effect obtained by the Company and rendered at the request of the Company; provided, however, that no decree or judgment by any court or action by the IRS shall be considered final unless the registered owner involved in such proceeding or action (i) gives the Company and the Paying Agent prompt written notice of the commencement thereof and (ii) if the Company agrees to pay all expenses in connection therewith and to indemnify such registered owner against all liabilities in connection therewith, offers the Company the opportunity to control the defense thereof. Any such redemption shall be made on a date determined by the Paying Agent not more than 180 days after the date of such final decree, judgment or action. The Paying Agent shall give the Issuer, the Trustee and the Company not less than 45 days written notice of such date.

Notice of Redemption. At least 30 days prior to any date fixed for redemption of the Bonds, the Paying Agent shall give notice of any redemption by sending such notice by (i) first-class mail to the Owner of each such Bond to be redeemed in whole or in part; (ii) by certified mail, return receipt requested, to DTC (so long as it owns all the Bonds), and upon request, to any person or entities which provide evidence acceptable to the Paying Agent that such person has a legal or beneficial interest in at least \$1,000,000 in principal amount of such Bonds; and (iii) by certified mail, return receipt requested, or by overnight delivery, received by the registered depositories at least two (2) days prior to the general publication date for such redemption notices and to be received by at least two (2) of the national information services that disseminate bond redemption notices on or before the general mailing date for such notices; provided, however, that the failure to send, mail or receive such notice described above, or any defect therein or in the sending or mailing thereof, with respect to such Bonds shall not affect the validity or effectiveness of the proceedings for the redemption of any other Bond. In addition, within sixty (60) days after the redemption date an additional redemption notice shall be sent to any Owner of the Bonds being redeemed who has not surrendered Bonds for redemption during the thirty (30) day period following the redemption date and to any person or entities having legal or beneficial ownership interest in at least \$1,000,000 in principal amount of such Bonds which have not been surrendered.

All notices of redemption shall state (i) the redemption date; (ii) the redemption price; (iii) the identification, including complete designation (including series) and issue date of the Bonds and the CUSIP number, certificate number (and in the case of partial redemption, the respective principal amounts), interest rates and maturity dates of the Bonds to be redeemed; (iv) that on the redemption date the redemption price will become due and payable upon each such Bond, and that interest thereon shall cease to accrue from and after said date; and (v) the name and address of the Trustee and the Paying Agent for such Bonds, including the place where such Bonds are to be surrendered for payment of the redemption price therefor. If at the time of mailing of notice of any optional redemption in connection with a refunding of all or a portion of the Bonds the Company shall not have deposited with the Trustee moneys sufficient to redeem all of the Bonds called for redemption, such notice may state that it is conditional in that it is subject to the deposit of the proceeds of refunding bonds with the Trustee not later than the redemption date, and such notice shall be of no effect unless such moneys are so deposited.

**Partial Redemption.** If fewer than all of the Bonds are called for redemption, the Company may designate the principal amount of Bonds to be redeemed, and the Bonds to be redeemed shall be selected in a fair and equitable manner by the Paying Agent from among all the Bonds then outstanding. Each minimum increment of Authorized Denominations represented by any Bond shall be considered a separate Bond for purposes of selecting the Bonds to be redeemed. Bonds representing any unredeemed balance of the principal amount of the Bonds being redeemed shall be issued to the Owner thereof without charge therefor.

#### BOOK-ENTRY ONLY SYSTEM

DTC, New York, New York, acts as securities depository for the Bonds. The Bonds will be issued as fully-registered bonds registered in the name of Cede & Co. (DTC's partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully-registered Bond certificate will be issued for each subseries of the Bonds, each in the aggregate principal amount of such subseries, and will be deposited with DTC.

DTC is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934, as amended (the "1934 Act"). DTC holds and provides asset servicing for over 3.5 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments (from over 100 countries) that DTC's participants ("Direct Participants") deposit with DTC. DTC also facilitates the post trade settlement among Direct Participants of sales and other securities transactions in deposited securities through electronic computerized book-entry transfers and pledges between Direct Participants' accounts. This eliminates the need for physical movement of securities. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation ("DTCC"). DTCC is the holding company for DTC, National Securities Clearing Corporation and Fixed Income Clearing Corporation, all of which are registered clearing agencies. DTCC is owned by the users of its regulated subsidiaries. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants"). The DTC rules applicable to its Participants are on file with the Securities and Exchange Commission ("SEC"). More information about DTC can be found at [www.dtcc.com](http://www.dtcc.com) (it being understood that information available at this website is not incorporated herein by reference).

Purchases of Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the Bonds on DTC's records. The ownership interest of each actual purchaser of each Bond ("Beneficial Owner") is in turn to be recorded on the Direct and Indirect Participants' records. Beneficial Owners will not receive written confirmation from DTC of their purchase, but Beneficial Owners are expected to receive written confirmation providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the Bonds are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in Bonds, except in the event that use of the book-entry-only system for the Bonds is discontinued.

To facilitate subsequent transfers, all Bonds deposited by Direct Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co., or such other name as may be requested by an authorized representative of DTC. The deposit of Bonds with DTC and their registration in the name of Cede & Co. or such other DTC nominee do not effect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Bonds; DTC's records reflect only the identity of the Direct Participants to whose accounts such Bonds are credited, which may or may not be the Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time.

Beneficial Owners of Bonds may wish to take certain steps to augment the transmission to them of notices of significant events with respect to the Bonds, such as redemptions, tenders, defaults and proposed amendments to the Bond documents. For example, Beneficial Owners of the Bonds may wish to ascertain that the nominee holding the Bonds for their benefit has agreed to obtain and transmit notices to Beneficial Owners. In the alternative, Beneficial Owners may wish to provide their names and addresses to the registrar and request that copies of notices be provided directly to them.

Redemption notices shall be sent to DTC. If less than all of the Bonds within a subseries are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such Bond to be redeemed.

Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to the Bonds unless authorized by a Direct Participant in accordance with DTC's procedures. Under its usual procedures, DTC mails an Omnibus Proxy to the Issuer as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Redemption proceeds and principal and interest payments on the Bonds will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detailed information from the Company or the Trustee, on each payable date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC, the Company, the Trustee or the Issuer, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of redemption proceeds and principal and interest payments to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the Trustee, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

A Beneficial Owner shall give notice to elect to have its Bonds purchased or tendered, through its Participant, to the Trustee and Remarketing Agent, and shall effect delivery of such Bonds by causing the Direct Participant to transfer the Participant's interest in the Bonds, on DTC's records, to the Remarketing Agent. The requirement for physical delivery of the Bonds in connection with an optional tender or a mandatory tender for purchase will be deemed satisfied when the ownership rights in the Bonds are transferred by Direct Participants on DTC's records and followed by a book-entry credit of tendered Bonds to the Remarketing Agent's DTC account.

DTC may discontinue providing its services as depository with respect to the Bonds at any time by giving reasonable notice to the Issuer or the Trustee. Under such circumstances, in the event that a successor depository is not obtained, certificates for the Bonds are required to be printed and delivered.

The Issuer may decide to discontinue use of the system of book-entry transfers through DTC (or a successor depository). In that event, certificates for the Bonds will be printed and delivered and thereafter, transfer, exchange, and replacement of Bonds would be governed by the applicable terms of the Indenture.

The information in this section concerning DTC and DTC's book-entry-only system has been obtained from sources that the Issuer, the Company, the Remarketing Agents and the Trustee believe to be reliable, but none of the Issuer, the Company, the Remarketing Agents or the Trustee takes any responsibility for the accuracy thereof. None of the Issuer, the Company, the Remarketing Agents or the Trustee has any responsibility for the performance by DTC or its Participants of their respective obligations as described herein or under the rules and procedures governing their respective operations.

**NONE OF THE ISSUER, THE REMARKETING AGENTS, THE COMPANY, THE TRUSTEE OR ANY AGENT FOR PAYMENT ON OR REGISTRATION OF TRANSFER OR EXCHANGE HAVE RESPONSIBILITY WITH RESPECT TO (I) THE ACCURACY OF THE RECORDS OF THE SECURITIES DEPOSITORY OR ANY PARTICIPANT AS TO THE BENEFICIAL OWNERSHIP OF THE BONDS; (II) THE**

DELIVERY OF EITHER NOTICES OR PAYMENT TO ANY PARTY OTHER THAN THE SECURITIES DEPOSITORY OR ITS NOMINEE AS REGISTERED OWNER OF THE BONDS; (III) ANY CONSENT GIVEN OR OTHER ACTION TAKEN BY THE SECURITIES DEPOSITORY OR ITS NOMINEE AS THE OWNER OF RECORD OF ALL ISSUED AND OUTSTANDING BONDS; OR (IV) THE SELECTION BY THE SECURITIES DEPOSITORY OR ANY PARTICIPANTS OR ANY BENEFICIAL OWNERS TO RECEIVE PAYMENT IN THE EVENT OF A PARTIAL REDEMPTION OF BONDS.

#### THE AGREEMENT

*In addition to the description of certain provisions of the Agreement contained elsewhere herein, the following is a brief summary of certain provisions of the Agreement and does not purport to be comprehensive or definitive. All references herein to the Agreement are qualified in their entirety by reference to the Agreement for the detailed provisions thereof.*

#### Use of Bond Proceeds

The Bonds were issued to provide funds to refund the Refunded Bonds. Upon the sale of the Bonds, the proceeds of the Bonds were transferred to the trustee for the Refunded Bonds and used to redeem the Refunded Bonds.

#### Installment Payments

The Company will make Installment Payments under the Agreement to fund payments on the Bonds in such amounts which, together with other moneys available therefor in the Bond Fund or the Bond Purchase Fund created under the Indenture, will be sufficient to pay when due the principal of, premium, if any, and interest on and Purchase Price for the outstanding Bonds as they shall mature, be redeemed, be purchased or deemed purchased or otherwise become due as provided in the Indenture. The Company shall make such payments directly to the Trustee or the Paying Agent, as appropriate, for the account of the Issuer.

Installment Payment obligations of the Company under the Agreement will be absolute and unconditional, and the Company will make such payments free of any deductions and without abatement, diminution or setoff. In the event that the Company fails to make any such payments, the item or installment so in default will continue as an obligation of the Company until the amount in default has been fully paid.

#### Other Payments Under The Agreement

In addition to the Installment Payments, the Company agrees to pay taxes, assessments and other charges of any kind whatsoever that may at any time be lawfully levied or imposed with respect to the Facilities or the Installment Payments under the Agreement and all costs and expenses of the operations and maintenance of the Facilities. The Company also agrees to pay certain costs and expenses of the Issuer and the Trustee in connection with the Bonds and to indemnify such parties against certain liabilities arising in connection with the sale of the Bonds and the execution and delivery of the related bond documents.

#### Corporate Existence

The Company shall maintain its legal existence, will not dissolve or otherwise dispose of all or substantially all of its assets and will not consolidate with or merge into another entity or permit one or more other entities to consolidate with or merge into it; provided that the Company may, without violating the Agreement, (a) consolidate with or merge into another domestic entity (i.e., an entity organized and existing under the laws of one of the states of the United States of America, the District of Columbia or under the laws of the United States of America) or permit one or more other such entities to consolidate with or merge into it; or (b) sell or otherwise transfer, to another such entity, all or substantially all of its assets, and, if it so elects, thereafter dissolve; provided, in each of (a) and (b), that such surviving, resulting or transferee entity shall have irrevocably and unconditionally assumed the due and prompt performance of all of the obligations of the Company under the Agreement in the manner described under *Assumption* below.

### Assignment

The Company may assign its interest in, or any rights and obligations under, the Agreement (a) to another entity provided that the Company, under the terms of any such assignment, shall remain and be primarily responsible and liable for all of its obligations under the Agreement, including particularly the making of all payments required thereunder, when due if the entity to which an interest in the Agreement is assigned fails to perform such obligations; or (b) to one or more other entities in connection with a transaction permitted under the terms of the Agreement as described in *Corporate Existence* above; provided that one or more of such transferee entity or entities, or any entity controlling such entity or entities, shall have irrevocably and unconditionally assumed the due and prompt performance of all of the obligations of the Company under the Agreement in the manner described under "*Assumption*" below.

### Assumption

Any irrevocable, unconditional assumption of the due and prompt performance of all of the obligations of the Company under the Agreement by an entity or entities (collectively, the "Assignee") permitted under the Agreement ("*Assumption*") shall be evidenced by an instrument delivered concurrently with such assumption to the Issuer, the Paying Agent and the Trustee. If a transaction occurs pursuant to and as permitted by the Agreement in which the Company, either alone or collectively with other entities, is not the Assignee, the Company shall be relieved of liability under the Agreement. If an Assumption occurs, the Assignee shall be and act as the Company for all purposes of the Agreement.

### Defaults and Remedies

The Agreement provides that the occurrence and continuation of any one of the following shall constitute an "Event of Default" thereunder:

- (a) failure by the Company to pay Instalment Payments with respect to principal of or premium on any Bond at the times specified therein;
- (b) failure by the Company to pay Instalment Payments with respect to interest on any Bond at the times specified therein;
- (c) failure by the Company to pay Instalment Payments with respect to the Purchase Price of any Bond at the times specified therein and the continuation of such failure for a period of one Business Day or more;
- (d) failure by the Company to observe and perform any covenant, condition or agreement on its part required to be observed or performed in the Agreement, other than as referred to in (a), (b) or (c) above, for a period of 90 days after receipt by the Company of written notice specifying such failure and requesting that it be remedied, given to the Company by the Issuer or the Trustee, unless the Issuer and the Trustee (with the requisite bondholder consent) shall agree in writing to an extension of such time prior to its expiration; provided, however, that if the failure stated in the notice can, in the reasonable judgment of the Company, be corrected but cannot be corrected within the applicable period, the Issuer and the Trustee will not unreasonably withhold their consent to an extension of such time if corrective action is instituted within the applicable period and diligently pursued until the default is corrected;
- (e) certain events of dissolution, liquidation, insolvency, bankruptcy or reorganization involving the Company; or
- (f) an "Event of Default" (as defined in the Indenture) has occurred and is continuing under the Indenture.

The provisions of paragraph (d) above are subject to the following limitations: if by reason of acts of God, strikes, lockouts or other industrial disturbances; acts of public enemies; orders or regulations of any kind of the government of the United States of America or of the State of Texas or any of their departments, agencies, political subdivisions, or officials, or any civil or military authority; insurrections; riots, epidemics; landslides; lightning;

earthquakes; tidal waves; fires; hurricanes; tornadoes; blue northers; other storms; floods; washouts; droughts; arrests; restraints of government and people; civil disturbances; explosions; breakage or accident to machinery, transmission pipes, transmission facilities or canals; partial or entire failure of utilities; shortages of labor, material, supplies or transportation; or any other cause or event not reasonably within the control of the Company (collectively, "events of force majeure"), the Company is unable in whole or in part to carry out the agreements on the Company's part contained in the Agreement, the Company shall not be deemed in default during the continuance of such inability. The Company, however, will use its best efforts to remedy with all reasonable dispatch the cause or causes preventing the Company from carrying out such agreements; provided, that the settlement of strikes, lockouts and other industrial disturbances shall be entirely within the discretion of the Company, and the Company shall not be required to make settlement of strikes, lockouts, and other industrial disturbances by acceding to the demands of the opposing party or parties when such course is, in the judgment of the Company, unfavorable to the Company. The occurrence of any event of force majeure shall not suspend or otherwise abate, and the Company shall not be relieved from, any obligation under the Agreement to the extent that the failure of the Company to observe or perform any such obligation would result in the failure to pay when due the principal of, premium, if any, and interest on, or the Purchase Price for, the Bonds or would result in the interest on Bonds becoming includable in the gross income of the owners thereof for federal income tax purposes.

The above provisions, however, are subject to the conditions that, after any such Event of Default under the Agreement, subject to and as provided in the Indenture, the Trustee, with the requisite bondholder consent, will waive such Event of Default and rescind and annul any remedial step theretofore taken by it or by the Issuer with respect to such default and its consequences; but no such waiver, rescission or annulment shall extend to or affect any subsequent default or impair any right or remedy consequent thereon.

Whenever any Event of Default under the Agreement shall have occurred and is continuing, the Issuer, with the written consent of the Trustee, or the Trustee may take any one or more of the following remedial steps but only if acceleration of the principal amount of the Bonds has been declared pursuant to the Indenture:

(a) by notice in writing to the Company, declare the unpaid Installment Payments to be due and payable immediately, If concurrently with or prior to such notice the unpaid principal amount of the Bonds has been declared to be due and payable under the Indenture, and upon any such declaration the Installment Payments payable under the Agreement shall become and shall be immediately due and payable in the amount equal to the principal of and all accrued interest on the Bonds (without premium); provided, however, that an Event of Default shall be deemed waived and a declaration accelerating payment of unpaid Installment Payments payable under the Agreement shall be deemed rescinded without further action on the part of the Trustee or the Issuer upon any rescission by the Trustee of the corresponding declaration of acceleration of the Bonds under the Indenture;

(b) whatever action at law or in equity may appear necessary or desirable to collect the payment and other amounts then due or to enforce performance and observance of any obligation, agreement or covenant of the Company under the Agreement.

The Company has covenanted that, in case an Event of Default shall occur with respect to the payment of any Installment Payment then payable, upon demand of the Trustee, the Company will pay the whole amount that then shall have become due and payable, with interest (to the extent permitted by law) on such amount, at the rate of interest borne by the Bonds at the time of such failure, from the due date thereof until paid.

In case the Company shall fail to pay such amounts upon such demand, the Trustee shall be entitled and empowered to institute any action or proceeding at law or in equity for the collection of the sums so due and unpaid, and may prosecute any such action or proceeding to judgment or final decree, and may enforce any such judgment or final decree against the Company and collect, in the manner provided by law out of the property of the Company, the moneys adjudged or decreed to be payable.

#### **Certain Covenants Regarding Arbitrage and Tax Exemption**

The Issuer and the Company have agreed not to knowingly take any action or omit to take any action, which would result in a loss of the exemption from federal income taxation of interest on the Bonds by virtue of the Bonds being considered "arbitrage bonds" within the meaning of Section 143 of the Code.

The Issuer and the Company have agreed to refrain from taking any action which would adversely affect, and to take such action to assure, the treatment of the Bonds as obligations described in Section 103(a) of the Code, the interest on which is not includable in the "gross income" of the holder (other than the income of a "substantial user" of the Facilities or a "related person" within the meaning of Section 147(a) of the Code or Section 103(b)(13) of the 1954 Code, as applicable) for purposes of federal income taxation.

As discussed more fully under *THE FACILITIES*, the Company sold its interest in the Plant to unaffiliated third parties. The Company secured a covenant from such purchasers that, to the extent the purchased interest controls the Facilities, the Facilities will continue to be used for a tax-exempt purpose. A change in use of the Facilities by a subsequent owner, however, could adversely affect the tax-exempt status of the Bonds, which could result in a breach of the covenant described in the paragraph immediately above and thereby cause an Event of Default under the Indenture or result in an extraordinary mandatory redemption of the Bonds.

#### **Amendment of Agreement**

The Issuer and the Company may, in accordance with the Indenture, without the consent of, or notice to, the Bondholders, enter into an amendment to the Agreement, for any one or more of the following purposes:

- (i) to cure any ambiguity, formal defect or omission in the Agreement or to make such other changes which shall not have a material adverse effect upon the interests of the Bondholders;
- (ii) to grant to or confer upon the Trustee, for the benefit of the Bondholders, any additional rights, remedies, powers or authorities, or any additional security, that may lawfully be granted to or conferred upon the Owners or the Trustee;
- (iii) to subject to the Indenture additional revenues, properties or collateral;
- (iv) to add to the covenants and agreements of the Issuer contained in the Agreement other covenants and agreements thereafter to be observed for the protection of the Bondholders or to surrender or limit any right, power or authority therein reserved to or conferred upon the Issuer;
- (v) effective upon any Conversion Date, to make any amendment affecting only the Bonds being converted;
- (vi) to add provisions relating to the partial conversion of Bonds to a new Mode;
- (vii) to conform to the requirements of any Rating Agency;
- (viii) to add or modify provisions permitting a mandatory tender of Bonds in lieu of redemption;
- (ix) to add provisions permitting the addition of a credit facility or liquidity facility;
- (x) to make any change related to the Bonds that does not materially adversely affect the rights of any Bondholder; and
- (xi) to implement any succession to or assignment by the Company in accordance with the provisions of the Indenture and the Agreement.

Subject to certain terms and provisions of the Indenture, and exclusive of the purposes described in subparagraphs (i) through (xi) above, the Owners of a majority in aggregate principal amount of the Bonds then outstanding will have the right, from time to time, to approve amendments deemed necessary and desirable by the Issuer and the Company for the purposes of modifying, altering, amending, adding to or rescinding any of the terms or provisions contained in the Agreement, as it may be amended from time to time.

## THE INDENTURE

*In addition to the description of certain provisions of the Indenture contained elsewhere herein, the following is a brief summary of certain provisions of the Indenture and does not purport to be comprehensive or definitive. All references herein to the Indenture are qualified in their entirety by reference to the Indenture for the detailed provisions thereof.*

### **Bond Fund**

The Indenture creates and establishes with the Trustee a trust fund designated the "Matagorda County Navigation District Number One, Pollution Control Revenue Refunding Bonds (AEP Texas Central Company Project) Series 2008 Bond Fund" ("Bond Fund"), which will be used solely for the payment of the principal of, premium, if any, and interest on the Bonds. All Installment Payments made by the Company in connection with principal of, premium, if any, and interest on the Bonds will be made to the Trustee for deposit in the Bond Fund. There shall be deposited into the Bond Fund, when received: (i) all payments specified in the Agreement (except for certain payments of fees, expenses, and indemnification arising out of the Issuer's Unassigned Rights (as defined in the Agreement)); (ii) all moneys required to be so deposited in connection with any redemption of the Bonds; (iii) any amounts directed to be transferred into the Bond Fund pursuant to any provision of the Indenture, and (iv) all other moneys when received by the Trustee which are required to be deposited in the Bond Fund or which are accompanied by directions that such moneys are to be paid into the Bond Fund.

Moneys held in the Bond Fund shall be used solely for the payment of the principal of, premium, if any, and interest on the Bonds on the dates due for the payment of redemption thereof. The Issuer has authorized and directed the Trustee to withdraw sufficient funds from the Bond Fund to transfer to the Paying Agent to pay the principal of, premium, if any, and interest on the Bonds as the same become due and payable, which authorization and direction the Trustee has accepted.

### **Bond Purchase Fund**

The Indenture creates and establishes with the Paying Agent a separate fund designated the "Bond Purchase Fund" (the "Bond Purchase Fund"). The Bond Purchase Fund shall consist of two sub-accounts to be designated respectively the "Remarketing Account" and the "Company Purchase Account". Proceeds from the remarketing of tendered Bonds will be deposited by the Paying Agent, when and as received from the Remarketing Agent, into the Remarketing Account. Installment Payments with respect to the Purchase Price of the Bonds are to be deposited by the Paying Agent by and on behalf of the Company in the Company Purchase Account.

The Paying Agent shall disburse funds from the Remarketing Account to pay the Purchase Price of Bonds properly tendered for purchase upon surrender of such Bonds. The Paying Agent shall disburse funds from the Company Purchase Account, to pay the Purchase Price of Bonds properly tendered for purchase upon surrender of such Bonds.

The owner of a Bond does not have the option to require purchase of his or her Bond.

### **Investment**

Except as provided in the Indenture, any moneys held as part of the Bond Fund shall be invested or reinvested by the Trustee as provided in written instructions of the Company solely in Permitted Investments (as defined in the Indenture). Moneys held as part of the Bond Purchase Fund are to be held uninvested.

### **Moneys Held in Trust**

All moneys required to be deposited with or paid to the Trustee for the account of any fund under the Indenture shall be held by the Trustee in trust and, except for (i) moneys in the Bond Purchase Fund and the Rebate Fund (as defined in the Indenture), and (ii) moneys deposited with or paid to the Trustee for the redemption of Bonds, notice of the redemption for which has been duly given, shall, while held by the Trustee, be part of the trust estate and be subject to the security interest created by the Indenture.

### Events of Default and Remedies

The Indenture provides that each of the following constitutes an "Event of Default" thereunder:

- (a) default in the due and punctual payment of the principal of or premium, if any, on any outstanding Bond, as the same shall become due and payable, whether at the stated maturity thereof, upon any proceedings for redemption, or upon the maturity thereof by declaration of acceleration;
- (b) default in the due and punctual payment of the interest on any outstanding Bond, as the same shall become due and payable;
- (c) default in the due and punctual payment of the Purchase Price of any outstanding Bond, as the same shall become due and payable and the continuation of such default for a period of one Business Day or more;
- (d) default by the Issuer in its performance or observance of any of the other covenants, agreements or conditions contained in the Indenture, and the continuation thereof without corrective action for a period of 90 days after receipt by the Issuer and the Company of notice given by the Trustee or the Owners of not less than 25% in aggregate principal amount of all Bonds outstanding as specified in the Indenture; or
- (e) an Event of Default (as defined in the Agreement) has occurred and is continuing under the Agreement.

If any Event of Default occurs and is continuing, the Trustee may, and upon written request of the Owners of at least 25% in principal amount of all Bonds then outstanding, shall, by notice in writing to the Issuer and the Company, declare the principal of all Bonds then outstanding to be immediately due and payable, and upon such declaration the said principal, together with interest accrued thereon to the date of acceleration, shall become due and payable immediately at the place of payment provided therein, anything in the Indenture or in the Bonds to the contrary notwithstanding. Upon the occurrence of any such acceleration, the Trustee shall immediately declare all Installment Payments under the Agreement to be due and payable immediately.

If, after the principal of the Bonds has become due and payable, all arrears of interest upon those Bonds are paid by the Issuer, and the Issuer also performs all other things in respect to which it may have been in default under the Indenture and pays the reasonable charges of the Trustee and the Bondholders, including reasonable and necessary attorneys' fees, then, and in every such case, the Owners of a majority in principal amount of the Bonds then outstanding, by notice to the Issuer and to the Trustee, may annul such acceleration and its consequences. No such annulment shall extend to or affect any subsequent default or impair any right or remedy consequent thereon.

Upon the occurrence of an Event of Default, the Trustee may pursue any available remedy by suit at law or in equity to enforce the payment of the principal of, premium, if any, and interest on the Bonds then outstanding, and the performance by the Issuer of its obligations under the Indenture, including, without limitation, the following: (a) by mandamus, or other suit, action or proceeding at law or in equity, enforce all rights of the Bondholders and require the Issuer to carry out its obligations under the Indenture and the Acts (as defined in the Indenture); (b) bring suit upon the Bonds; (c) by action, suit or proceeding at law or in equity, require the Issuer to account as if it were the trustee of an express trust for the Bondholders; and (d) by action, suit or proceeding at law or in equity, enjoin any acts or things which may be unlawful or in violation of the rights of the Bondholders.

### Defeasance

Any Bond shall be deemed to have been paid and discharged when (i) payment of the principal of and premium, if any, on such Bond plus the interest thereon to the due date thereof (whether such due date be by reason of maturity or upon redemption as provided in the Indenture or otherwise) either (a) shall have been made in accordance with the terms of the Indenture, or (b) shall have been provided for by irrevocably depositing with the Trustee (which shall irrevocably set aside such deposit exclusively for payment), in trust solely for such payment, any combination of (1) sufficient moneys provided by the Company to make such payment and/or (2) Government

Obligations (as defined in the Indenture) acquired with moneys provided by the Company not subject to redemption or prepayment and maturing as to principal and interest in such amounts and at such times as will in the opinion of an independent certified public accountant delivered to the Trustee be sufficient to make such payment without reinvestment (and there shall be no reinvestment); (ii) all necessary and proper fees and expenses of the Trustee and the Paying Agent pertaining to the Bonds shall have been paid or, to the satisfaction of the Trustee and the Paying Agent, provided for; (iii) the Trustee shall have received in form satisfactory to it irrevocable instructions from an authorized representative of the Company to redeem such Bonds on the date next following on which such Bonds are required to be, or may at the option of the Owner be, tendered for purchase and either evidence that all redemption notices required by the Indenture have been given or irrevocable instructions to the Trustee to give such redemption notices has been given; and (iv) there shall have been delivered to the Trustee and the Issuer an opinion of Bond Counsel to the effect that the deposit of such moneys will not adversely affect the excludability from gross income for purposes of federal income taxation of interest on any of the Bonds.

#### **Discharge of Lien**

When all of the Bonds have been paid or deemed paid and the Issuer is not in default under any of the covenants and promises contained in the Bonds and the Indenture, and if the Issuer shall pay or cause to be paid to the Trustee all sums of money due or to become due according to the Indenture or the Bonds and the Agreement, then the rights under the Indenture will become null and void; provided, however, that the rights of the Trustee under the Indenture to receive its fees, charges and expenses shall survive the discharge of the Indenture until paid in full. See the caption *Defeasance* above for a discussion of the conditions under which the Bonds will be deemed to have been paid.

#### **The Trustee; New York Paying Agent**

To the extent permitted by law, the Trustee may invest in and treat itself as any other holder of the Bonds. The Trustee may resign under the Indenture at any time after notice to the Issuer, the Company, the Paying Agent and the Bondholders, such resignation to take effect only upon the appointment of a successor Trustee. The Trustee may be removed under the Indenture at any time by written notice signed by the Issuer and the Company and delivered to the Trustee, the Paying Agent and the Bondholders. Such removal shall take effect only upon the appointment of a successor Trustee. Every successor Trustee may be appointed by the Issuer with the consent of the Company and shall be a bank or trust company which (i) is organized as a corporation or banking association and doing business under the laws of the United States of America or any state thereof; (ii) is authorized under such laws to exercise corporate trust powers and to perform all the duties imposed upon it by the Indenture and the Agreement; (iii) is subject to supervision or examination by federal or state authority; (iv) has combined capital and surplus of at least \$75,000,000; (v) shall not have become incapable of acting or have been adjudged a bankrupt or an insolvent or have had a receiver appointed for itself or for any of its property or have had a public officer take charge or control of it or its property or affairs for the purpose of rehabilitation, conservation or liquidation; and (vi) is an institution rated or its holding company is rated at least "Baa3" by Moody's Investors Services, Inc. ("Moody's") (or Moody's shall have provided written evidence that such successor Trustee is otherwise acceptable to Moody's) if the Bonds are then rated by Moody's, and at least "BBB-" or "A-3" by Standard & Poor's, a division of The McGraw-Hill Companies ("S&P") (or S&P shall have provided written evidence that such successor Trustee is otherwise acceptable to S&P) if the Bonds are then rated by S&P. Should the Trustee cease to be eligible to act as trustee under the Indenture, it shall promptly notify the Owners of all Bonds then outstanding, the Issuer, the Paying Agent and the Company of such fact. The Issuer may appoint a temporary trustee until the appointment of such successor.

The Paying Agent is required to maintain an office, or have an agent with an office, in New York City at all times that Bonds are outstanding.

#### **Additional Notices**

Upon written request of any Owner of Bonds in an aggregate principal amount of at least \$1,000,000 (or any person or entity which provides written evidence acceptable to the Trustee and the Paying Agent that such person or entity has a legal or beneficial interest in Bonds in an aggregate principal amount of at least \$1,000,000), the Trustee or the Paying Agent, as appropriate, shall give an additional copy of any notice to be given by the

Trustee or the Paying Agent, as appropriate, under the Indenture by first-class mail to a second address specified by such Owner, person or entity. Any such additional notices shall be given simultaneously with the original notices.

Upon written request of any person or entity which provides evidence acceptable to the Trustee and the Paying Agent, as appropriate, that such person or entity has a legal or beneficial interest in at least \$1,000,000 in principal amount of Bonds, the Trustee or the Paying Agent, as appropriate, shall for the calendar year in which such request is received, provide one or more of the following as requested to such person or entity: (i) notices of redemption; (ii) notices of default; (iii) copies of all notices to which such person or entity is entitled under the Indenture to a specific second address; and (iv) outstanding balances by maturity, redemption history, including redemption date, amount and source of funds and distribution of the call to maturity.

#### Supplemental Indentures

The Issuer and the Trustee, with the written consent of the Company, but without the consent of or notice to the Bondholders, may enter into an indenture or indentures supplemental to the Indenture, for any of the following purposes:

- (a) to cure any ambiguity, formal defect or omission in the Indenture or to make such other changes which shall not have a material adverse effect upon the interests of the Bondholders;
- (b) to grant to or confer upon the Trustee, for the benefit of the Bondholders, any additional rights, remedies, powers or authorities, or any additional security, that may lawfully be granted to or conferred upon the Bondholders or the Trustee;
- (c) to subject to the Indenture additional revenues, properties or collateral;
- (d) to modify, amend or supplement the Indenture, or any indenture supplemental thereto, in such manner as to permit the qualification thereof under the Trust Indenture Act of 1939, as amended ("Trust Indenture Act") or any similar federal statute hereafter in effect, or to permit the qualification of the Bonds for sale under the securities laws of any of the states of the United States and, if the Issuer so determines, to add to the Indenture or any indenture supplemental thereto such other terms, conditions and provisions as may be permitted by the Trust Indenture Act or any similar federal statute;
- (e) to add to the covenants and agreements of the Issuer contained in the Indenture other covenants and agreements thereafter to be observed for the protection of the Bondholders or to surrender or limit any right, power or authority therein reserved to or conferred upon the Issuer;
- (f) effective upon any Conversion Date, to make any amendment affecting only the Bonds being converted, including, without limitation, amendments relating to assignment of the Company's obligations under the Agreement and release of the Company with respect to liability therefor;
- (g) to add provisions relating to the partial conversion of Bonds to a new Mode;
- (h) to conform the Indenture to the requirements of any rating agency;
- (i) to add or modify provisions permitting a mandatory tender of Bonds in lieu of redemption;
- (j) to add provisions permitting the addition of a credit facility or a liquidity facility;
- (k) to make any change related to the Bonds that does not materially adversely affect the rights of any Bond Owner; and
- (l) to implement any succession or assignment by the Company in accordance with the provisions of the Indenture and the Agreement.

Exclusive of the purposes described in subparagraphs (a) through (l) above, the Owners of a majority in aggregate principal amount of the Bonds then outstanding will have the right, from time to time, to approve any supplemental indenture deemed necessary and desirable by the Issuer for the purposes of modifying, altering, amending, adding to or rescinding any of the terms or provisions contained in the Indenture or any supplemental indenture. No modification or alteration may be made without the consent of the holders of all Bonds then outstanding and affected which permits (i) an extension of the maturity of the principal of, or the time for payment of any redemption premium or interest on, any Bond or a reduction in the principal amount of any Bond, or the rate of interest or redemption premium thereon, or a reduction in the amount of, or extension of the time of any payment required by, any Bond; (ii) a privilege or priority of any Bond over any other Bond (except as provided in the Indenture); (iii) a reduction in the aggregate principal amount of the Bonds required for consent to such a supplemental indenture; (iv) the deprivation of the Owner of any Bond then outstanding of the lien created by the Indenture; or (v) the amendment of the limitations described in this paragraph.

#### REMARKETING

Morgan Stanley & Co. LLC and The Huntington Investment Company (the "Series 2008-1 Remarketing Agents") will act as remarketing agents for the Series 2008-1 Bonds and Wells Fargo Bank, National Association and The Williams Capital Group, L.P. (the "Series 2008-2 Remarketing Agents", and collectively with the Series 2008-1 Remarketing Agents, the "Remarketing Agents") will act as the remarketing agents for the Series 2008-2 Bonds. Pursuant to separate Bond Remarketing Agreements (each, a "Remarketing Agreement") to be entered into between the Company and the respective Remarketing Agents, the Remarketing Agents will agree, subject to certain conditions, to reoffer the Bonds on the Conversion Date to the public at a purchase price equal to 100% of the principal amount thereof. The Company has agreed to pay a fee of \$301,325, plus expenses to the Series 2008-1 Remarketing Agents for the remarketing of the Series 2008-1 Bonds and a fee of \$300,000, plus expenses to the Series 2008-2 Remarketing Agents for the remarketing of the Series 2008-2 Bonds. Pursuant to the Remarketing Agreements the Company has agreed to indemnify the Remarketing Agents and their respective officers, directors and employees, against certain liabilities, including liabilities under the federal securities laws.

After the Bonds are released for sale to the public, the reoffering price and other selling terms may from time to time be varied by the Remarketing Agents and such Bonds may be reoffered and sold to certain dealers (including dealers depositing such Bonds into investment accounts) and others at prices lower than the public reoffering price set forth on the cover hereof.

In connection with this reoffering and in compliance with applicable law and industry practice, the Remarketing Agents may overallocate or effect transactions which stabilize, maintain or otherwise affect the market price of the Bonds at levels above those which might otherwise prevail in the open market, including entering stabilizing bids. A stabilizing bid means the placing of any bid, or the effecting of any purchase, for the purpose of pegging, fixing or maintaining the price of a security. In general, purchases of a security for the purpose of a stabilization could cause the price of the security to be higher than it might be in the absence of such purchases.

Neither the Issuer, the Company nor the Remarketing Agents make any representation or prediction as to the direction or magnitude of any effect that the transactions described above may have on the price of the Bonds. In addition, neither the Issuer, the Company nor the Remarketing Agents make any representation that the Remarketing Agents will engage in such transactions or that such transactions, once commenced, will not be discontinued without notice.

The Remarketing Agents and/or certain of their respective affiliates may engage in transactions with, and from time to time have performed services for, the Company in the ordinary course of business.

Morgan Stanley, parent company of Morgan Stanley & Co. LLC, the Remarketing Agent for the Series 2008-1 Bonds, has entered into a retail brokerage joint venture with Citigroup Inc. As part of the joint venture, Morgan Stanley & Co. LLC will distribute municipal securities to retail investors through the financial advisor network of a new broker-dealer, Morgan Stanley Smith Barney LLC. This distribution arrangement became effective on June 1, 2009. As part of this arrangement, Morgan Stanley & Co. LLC will compensate Morgan Stanley Smith Barney LLC for its selling efforts with respect to the Bonds.

Wells Fargo Securities is the trade name for certain securities-related capital markets and investment banking services of Wells Fargo & Company and its subsidiaries, including Wells Fargo Bank, National Association.

Wells Fargo Bank, National Association ("WFBNA"), has entered into an agreement (the "Distribution Agreement") with its affiliate, Wells Fargo Advisors, LLC ("WFA"), for the distribution of certain municipal securities offerings, including the Series 2008-2 Bonds. Pursuant to the Distribution Agreement, WFBNA will share a portion of its remarketing agent compensation, as applicable, with respect to the Series 2008-2 Bonds with WFA. WFBNA also utilizes the distribution capabilities of its affiliates, Wells Fargo Securities, LLC ("WFSLLC") and Wells Fargo Institutional Securities, LLC ("WFIS"), for the distribution of municipal securities offerings, including the Series 2008-2 Bonds. In connection with utilizing the distribution capabilities of WFSLLC, WFBNA pays a portion of WFSLLC's expenses based on its municipal securities transactions. WFBNA, WFSLLC, WFIS, and WFA are each wholly-owned subsidiaries of Wells Fargo & Company.

#### CONTINUING DISCLOSURE AGREEMENT

The Company has agreed to deliver certain continuing disclosure information satisfying the requirements of Rule 15c2-12 ("Rule") under the 1934 Act. The Company will undertake in a written agreement for the benefit of the holders and beneficial owners of the Bonds (the "Continuing Disclosure Undertaking") to provide the Municipal Securities Rulemaking Board ("MSRB") as the sole nationally recognized securities repository through the MSRB's Electronic Municipal Market Access ("EMMA") certain financial and operating data concerning the Company. In addition, the Company will undertake, for the benefit of the holders and beneficial owners of the Bonds, to provide to the MSRB through EMMA, in a timely manner (not in excess of ten (10) business days after the occurrence of such event), notices of any of the events enumerated in the Rule. Notices of the aforesaid events and any filing to be made under the Continuing Disclosure Undertaking may be made solely by transmitting such filing to the MSRB through EMMA as provided at <http://emma.msrb.org>. See "APPENDIX C – FORM OF CONTINUING DISCLOSURE UNDERTAKING" hereto.

Since November of 2008, several financial guaranty insurance providers sustained rating downgrades as a result of the credit crisis. As a result of the downgrades of such bond insurers, bonds insured by such financial guaranty insurance policies were downgraded. The Company recently became aware that it had not provided material event information described above regarding rating changes for bonds insured by financial guaranty insurance policies or given notices of such failures to information repositories in accordance with certain continuing disclosure undertakings to which the Company was subject. After becoming aware of such failures, the Company provided notices of such failures to the MSRB and the Company has put in place procedures in order to make such material event notices in the future.

The sole and exclusive remedy for breach or default under the Continuing Disclosure Undertaking is an action to compel specific performance of the undertakings of the Company and no person, including a holder of the Bonds, may recover monetary damages thereunder under any circumstances. A breach or default under the Continuing Disclosure Undertaking shall not constitute an event of default under the Indenture or the Agreement. In addition, if all or any part of the Rule ceases to be in effect for any reason, then, subject to the terms of the Continuing Disclosure Undertaking, the information required to be provided under the Continuing Disclosure Undertaking, insofar as the provision of the Rule no longer in effect required the provision of such information, shall no longer be required to be provided.

#### TAX MATTERS

##### Opinions

*Original Opinion.* On the date of original issuance of the Bonds, McCall, Parkhurst & Horton L.L.P., Dallas, Texas, Bond Counsel, rendered its opinion that, in accordance with statutes, regulations, published rulings and court decisions existing on the date thereof ("Existing Law"), (a) interest on the Bonds would be excludable from the "gross income" of the holders thereof, except for any holder who is treated pursuant to Section 147(a) of the Code or Section 103(b)(13) of the 1954 Code, as applicable, as a "substantial user" of the Facilities or a "related person" to such user; and (b) the Bonds would not be treated as "specified private activity bonds", the interest on

which would be included as an alternative minimum tax preference item under Section 57(a)(5) of the Code. Such opinion has not been updated. Since the date of the opinion, Bond Counsel has not been requested, nor has it undertaken, to review any events that may have occurred since it rendered its opinion that might affect the tax-exempt status of interest on the Bonds or that might change the opinion expressed herein. The original bond counsel opinion speaks only as of its date. Except as stated above, Bond Counsel will express no opinion as to any other federal, state or local tax consequences of the purchase, ownership or disposition of the Bonds. See Appendix B-1 for a form of such opinion.

In rendering its opinion, Bond Counsel relied upon (a) information furnished by the Company, and particularly written representations of officers and agents of the Company with respect to certain material facts that are solely within their knowledge relating to the use of the proceeds of the Bonds, the Refunded Bonds and certain obligations of the Issuer refinanced with the proceeds of the Refunded Bonds, and the construction, use and management of the Facilities, and (b) covenants of the Issuer, the Company and the Trustee with respect to arbitrage, the application of the proceeds to be received from the issuance and sale of the Bonds, the Refunded Bonds, and certain obligations of the Issuer refinanced with the proceeds of the Refunded Bonds and certain other matters. Failure of the Issuer or the Company to comply with these representations or covenants could cause the interest on the Bonds to become includable in gross income retroactively to the date of issuance of the Bonds.

*Conversion Opinion.* Upon conversion of the interest rate on the Bonds, Bond Counsel will render its conversion opinion to the effect that the conversion of the interest rate is permitted under the Indenture and will not, in and of itself, adversely affect the exclusion of the interest on the Bonds from the gross income of the owners of the Bonds for federal income tax purposes. See Appendix B-2 for the proposed form of such opinion.

Except as stated above, Bond Counsel will express no opinion as to any other federal, state, or local tax consequence of acquiring, carrying, owning or disposing of the Bonds. In particular, but not by way of limitation, Bond Counsel will not affirm, repeat or otherwise republish any opinion that was rendered at the time of initial delivery of the Bonds relating to qualification of the Bonds as obligations described in section 103 of the Code or the excludability of interest payable thereon from the gross income of the owners of the Bonds. Bond Counsel will note, however, that interest on the Bonds will be includable in the gross income of the owner thereof during any period that such Bonds are owned by either a "substantial user" of the facilities financed with the proceeds of the Bonds or a "related person" of such user, as provided in section 103(b)(13) of the Internal Revenue Code of 1954, as amended.

*Other Matters.* The law upon which Bond Counsel based its opinions is subject to change by the Congress and to subsequent judicial and administrative interpretation by the courts and the Department of the Treasury. There can be no assurance that such law or the interpretation thereof has not and will not be changed in a manner which would adversely affect the tax treatment of the purchase, ownership or disposition of the Bonds.

Bond Counsel's opinions are not a guarantee of a result, but represent its legal judgment based upon its review of existing statutes, regulations, published rulings and court decisions and the representations and covenants of the Issuer and the Company described above. No ruling has been sought from the Internal Revenue Service ("IRS") with respect to the matters addressed in the opinions of Bond Counsel, and no assurance can be given that the IRS would agree with the opinions of Bond Counsel if the tax-exempt status of the interest on the Bonds were the subject of an audit. If an audit is commenced, under current procedures the IRS is likely to treat the Issuer as the "taxpayer," and the owners of the Bonds would have no right to participate in the audit process. In responding to or defending an audit of the tax-exempt status of the interest on the Bonds, the Issuer may have different or conflicting interests from the owners of the Bonds.

#### **Collateral Federal Income Tax Consequences**

The following discussion is a summary of certain collateral federal income tax consequences resulting from the purchase, ownership or disposition of the Bonds. This discussion is based on existing statutes, regulations, published rulings and court decisions, all of which are subject to change or modification, retroactively.

The following discussion is applicable to investors, other than those who are subject to special provisions of the Code, such as financial institutions, property and casualty insurance companies, life insurance companies,

individual recipients of Social Security or Railroad Retirement benefits, certain S corporations with accumulated Subchapter C earnings and profits and excess passive investment income, foreign corporations subject to the branch profits tax and taxpayers who may be deemed to have incurred or continued indebtedness to purchase tax-exempt obligations.

**INVESTORS, INCLUDING THOSE WHO ARE SUBJECT TO SPECIAL PROVISIONS OF THE CODE, SHOULD CONSULT THEIR OWN TAX ADVISORS AS TO THE TAX TREATMENT WHICH MAY BE ANTICIPATED TO RESULT FROM THE PURCHASE, OWNERSHIP AND DISPOSITION OF TAX-EXEMPT OBLIGATIONS BEFORE DETERMINING WHETHER TO PURCHASE THE BONDS.**

Interest on the Bonds may be subject to the branch profits tax imposed by Section 884 of the Code on the effectively-connected earnings and profits of a foreign corporation doing business in the United States.

Under Section 6012 of the Code, holders of the tax-exempt obligations, such as the Bonds, may be required to disclose interest received or accrued during each taxable year on their returns of federal income taxation.

Section 1276 of the Code provides for ordinary income tax treatment of gain recognized upon the disposition of a tax-exempt obligation, such as the Bonds, if such obligation was acquired at a "market discount" and if the fixed maturity of such obligations is equal to, or exceeds, one year from the date of issue. Such treatment applies to "market discount bonds" to the extent such gain does not exceed the accrued market discount of such Bonds, although for this purpose, a *de minimis* amount of market discount is ignored. A "market discount bond" is one which is acquired by the holder at a purchase price which is less than the stated redemption price at maturity. The "accrued market discount" is the amount which bears the same ratio to the market discount on such obligations as the number of days during which the holder holds the obligation, bears to the number of days between the acquisition date and the final maturity date.

#### **State, Local and Foreign Taxes**

Investors should consult their own tax advisors concerning the tax implications of the purchase, ownership, or disposition of the Bonds under applicable state or local laws. Foreign investors should also consult their own tax advisors regarding the tax consequences unique to investors who are not United States persons.

#### **LEGAL MATTERS**

In connection with the original issuance of the Bonds, McCall, Parkhurst & Horton L.L.P. acted in the capacity of Bond Counsel for the purpose of rendering the opinion, the form of which is attached hereto as Appendix B-1, which includes an opinion as to the exclusion from gross income of the interest on the Bonds for federal income tax purposes. Such opinion has not been updated. Since the date of the opinion, Bond Counsel has not been requested, nor has it undertaken, to review any events that may have occurred since it rendered its opinion that might affect the tax-exempt status of interest on the Bonds or that might change the opinion expressed herein. The original bond counsel opinion speaks only as of its date. Bond Counsel will render its conversion opinion to the effect that the conversion of the interest rate is permitted under the Indenture and will not, in and of itself, adversely affect the exclusion of the interest on the Bonds from the gross income of the owners of the Bonds for federal income tax purposes. See Appendix B-2 for the proposed form of such opinion. Such firm was not and has not been requested to examine, and has not investigated or verified, any statements, records, material or matters relating to the financial condition or capabilities of the Company and has not assumed responsibility for the preparation of this Reoffering Circular, except that, in its capacity as Bond Counsel in connection with the reoffering of the Bonds, such firm has reviewed the information in this Reoffering Circular under the captions *INTRODUCTORY STATEMENT, THE BONDS, THE AGREEMENT, THE INDENTURE, TAX MATTERS* and *LEGAL MATTERS*.

Certain legal matters with respect to the Remarketing Agreements and certain related matters will be passed upon by Jeffrey D. Cross, Esq. or Thomas G. Berkemeyer, Esq., Deputy General Counsel and Associate General Counsel, respectively, of American Electric Power Service Corporation, an affiliate of the Company. Certain matters, other than the validity of the Bonds and the exclusion from gross income for federal income tax purposes of interest thereon, will be passed upon by Hunton & Williams LLP, New York, New York, counsel to the

Remarketing Agents. From time to time, Hunton & Williams LLP acts as counsel to the Company's affiliates for some matters.

The various legal opinions to be delivered concurrently with the delivery of the Bonds express the professional judgment of the attorneys rendering the opinions as to the legal issues explicitly addressed therein. In rendering a legal opinion, the attorney does not become an insurer or guarantor of the expression of professional judgment, of the transaction opined upon, or of the future performance of the parties to the transaction, nor does the rendering of an opinion guarantee the outcome of any legal dispute that may arise out of the transaction.

#### MISCELLANEOUS

The attached Appendices (including documents incorporated by reference therein) are an integral part of the Reoffering Circular and must be read together with all of the balance of this Reoffering Circular.

The Issuer does not assume any responsibility for the matters contained in this Reoffering Circular. All findings and determinations by the Issuer relating to the issuance and sale of the Bonds are, and have been, made by the Issuer for its own internal uses and purposes in performing its duties under Texas law.

## APPENDIX A

### AEP TEXAS CENTRAL COMPANY

AEP Texas Central Company (the "Company" or "TCC") is engaged in the transmission and distribution of electric power to approximately 799,000 retail customers through retail electric providers ("REPs") in southern and central Texas. The Company has sold all of its generation assets. At December 31, 2012, the Company had 996 employees. Among the principal industries served by TCC are chemical and petroleum refining, chemicals and allied products, oil and gas extraction, food processing, metal refining, plastics, and machinery equipment. The Company is a subsidiary of American Electric Power Company, Inc. ("AEP") and is a part of the AEP integrated utility system. In addition to its AEP System interconnections, the Company is a member of the Electric Reliability Council of Texas ("ERCOT"). Its principal executive office is 1 Riverside Plaza, Columbus, Ohio 43215 and the telephone number is (614) 716-1000.

### AVAILABLE INFORMATION

On July 31, 2007, the Company filed a Form 15 under the Securities Exchange Act of 1934 (1934 Act), which suspended its duty to file reports under Section 13 and 15(d) under the 1934 Act. Accordingly, the Company no longer files reports and other information with the Securities and Exchange Commission (SEC).

### FINANCIAL STATEMENTS

Annex 1 to this Appendix A contains the consolidated balance sheets of the Company as of December 31, 2012 and 2011 and the consolidated statements of income, comprehensive income (loss), changes in common shareholder's equity and cash flows for each of the three years in the period ended December 31, 2012 and the related notes thereto. Annex 2 to this Appendix A contains the unaudited condensed consolidated balance sheets of the Company as of March 31, 2013 and December 31, 2012 and the unaudited condensed consolidated statements of income, comprehensive income (loss), changes in common shareholder's equity and statements of cash flows of the Company for the three months in the period ended March 31, 2013 and 2012 and the related notes thereto.

### RISK FACTORS

Investing in the Bonds involves risk. Please see the risk factors described below. Before making an investment decision, you should carefully consider these risks. The risks and uncertainties described are those presently known to us. Additional risks and uncertainties not presently known to us or that we currently deem immaterial may also impair our business operations, our financial results and the value of the Bonds.

*We may not be able to recover the costs of our substantial planned investment in capital improvements and additions.*

Our business plan calls for extensive investment in capital improvements and additions including the construction of additional transmission facilities, modernizing existing infrastructure as well as other initiatives. We currently provide service at rates approved by The Public Utility Commission of Texas ("PUC") and ERCOT. If these regulatory commissions do not approve adjustments to the rates we charge, we would not be able to recover the costs associated with our planned extensive investment. This would cause our financial results to be diminished. While we may seek to limit the impact of any denied recovery by attempting to reduce the scope of our capital investment, there can be no assurance as to the effectiveness of any such mitigation efforts, particularly with respect to previously incurred costs and commitments.

*We may not recover costs incurred to begin construction on projects that are canceled.*

Our business plan for the construction of new projects involves a number of risks, including construction delays, nonperformance by equipment and other third party suppliers, and increases in equipment and labor costs. To limit the risks of these construction projects, we enter into equipment purchase orders and construction contracts and incur engineering and design service costs in advance of receiving necessary regulatory approvals and/or siting or environmental permits. If any of these projects is canceled for any reason, including our failure to

receive necessary regulatory approvals and/or siting or environmental permits, we could incur significant cancellation penalties under the equipment purchase orders and construction contracts. In addition, if we have recorded any construction work or investments as an asset we may need to impair that asset in the event the project is canceled.

*Rate regulation may delay or deny full recovery of capital improvements, additions, storm damage operations and maintenance expense repairs and other costs.*

We currently provide service at rates approved by one or more regulatory commissions. These rates are generally regulated based on an analysis of our expenses incurred in a test year. Thus, commission-approved rates may or may not match a utility's expenses at any given time. There may also be a delay between the timing of when these costs are incurred and when these costs are recovered. Traditionally, we have financed capital investments and improvements until the new asset was placed in service. Provided the asset was found to be a prudent investment, the asset was then added to rate base and entitled to a return through rate recovery. Similarly, we often finance the operations and maintenance expense to repair facilities damaged by storms or other severe weather events until the operations and maintenance storm costs, including any deferred regulatory assets, are recovered in rates. Long lead times in construction and scheduled repairs, the high costs of plant and equipment and volatile capital markets have heightened the risks involved in our capital investments, repairs and improvements. While we are actively pursuing strategies to accelerate rate recognition of investments and cash flow, including pre-approvals, a return on construction work in progress, rider/trackers, formula rates and the inclusion of future test-year projections into rates, there can be no assurance that these will be adopted, that the applicable regulatory commission will judge all of our costs to have been prudently incurred or that the regulatory process in which rates are determined will be done in a timely manner.

*Certain of our revenues and results of operations are subject to risks that are beyond our control.*

Our operations are structured to comply with all applicable federal and state laws and regulations and we take measures to minimize the risk of significant disruptions. Material disruptions at one or more of our operational facilities, however, could negatively impact our revenues, operating and capital expenditures and results of operations. Such events may also create additional risks related to the supply and/or cost of equipment and materials. We could experience unexpected but significant interruption due to several events, including, but not limited to:

- major facility or equipment failure.
- an environmental event such as a serious spill or release.
- fires, floods, droughts, earthquakes, hurricanes, tornados or other natural disasters.
- wars, terrorist acts (including cyber-terrorism) or threats and other catastrophic events.
- significant health impairments or disease events.
- other serious operational problems.

*Our financial performance may be adversely affected if we are unable to successfully operate our facilities or perform certain corporate functions.*

Our performance is highly dependent on the successful operation of our transmission and distribution facilities. Operating these facilities involves many risks, including:

- operator error and breakdown or failure of equipment or processes.
- operating limitations that may be imposed by environmental or other regulatory requirements.
- labor disputes.
- compliance with mandatory reliability standards, including mandatory cyber security standards.
- information technology failure that impairs our information technology infrastructure or disrupts normal business operations.
- information technology failure that affects our ability to access customer information or causes us to lose confidential or proprietary data that materially and adversely affects our reputation or exposes us to legal claims.

- catastrophic events such as fires, earthquakes, explosions, hurricanes, tornados, ice storms, terrorism (including cyber-terrorism), floods or other similar occurrences.

*Hostile cyber intrusions could severely impair our operations, lead to the disclosure of confidential information and damage our reputation.*

We own assets deemed as critical infrastructure, the operation of which is dependent on information technology systems. Further, the computer systems that run our facilities are not completely isolated from external networks. Parties that wish to disrupt the U.S. bulk power system or our operations could view our computer systems, software or networks as attractive targets for cyber attack. In addition, our business requires that we collect and maintain sensitive customer data, as well as confidential employee and shareholder information, which is subject to electronic theft or loss.

A successful cyber attack on the systems that control our transmission, distribution or other assets could severely disrupt business operations, preventing us from serving customers or collecting revenues. The breach of certain business systems could affect our ability to correctly record, process and report financial information. A major cyber incident could result in significant expenses to investigate and repair security breaches or system damage and could lead to litigation, fines, other remedial action, heightened regulatory scrutiny and damage to our reputation. In addition, the misappropriation, corruption or loss of personally identifiable information and other confidential data could lead to significant breach notification expenses and mitigation expenses such as credit monitoring. We maintain property and casualty insurance that may cover certain physical damage or third party injuries caused by potential cybersecurity incidents. However, other damage and claims arising from such incidents may not be covered or may exceed the amount of any insurance available. For these reasons, a significant cyber incident could reduce future net income and cash flows and impact financial condition.

In an effort to reduce the likelihood and severity of cyber intrusions, we have a comprehensive cybersecurity program designed to protect and preserve the confidentiality, integrity and availability of data and systems. In addition, we are subject to mandatory cybersecurity regulatory requirements. However, cyber threats continue to evolve and adapt, and, as a result, there is a risk that we could experience a successful cyber attack despite our current security posture and regulatory compliance efforts.

*If we are unable to access capital markets on reasonable terms, it could reduce future net income and cash flows and impact financial condition*

We rely on access to capital markets as a significant source of liquidity for capital requirements not satisfied by operating cash flows. Volatility and reduced liquidity in the financial markets could affect our ability to raise capital and fund our capital needs, including construction costs and refinancing maturing indebtedness. In addition, if capital is available only on less than reasonable terms or to borrowers whose creditworthiness is better than ours, capital costs could increase materially. Restricted access to capital markets and/or increased borrowing costs could reduce future net income and cash flows and impact financial condition.

*Downgrades in our credit ratings could negatively affect our ability to access capital.*

The credit ratings agencies periodically review our capital structure and the quality and stability of our earnings. Any negative ratings actions could constrain the capital available to us and could limit our access to funding for our operations. Our business is capital intensive, and we are dependent upon our ability to access capital at rates and on terms we determine to be attractive. In periods of market turmoil, access to capital is difficult for all borrowers. If our ability to access capital becomes significantly constrained, our interest costs will likely increase and could reduce future net income and cash flows and impact financial condition.

*Our operating results may fluctuate on a seasonal or quarterly basis and with general economic and weather conditions*

Electric power delivery is generally a seasonal business. In many parts of the country, demand for power peaks during the hot summer months, with market prices also peaking at that time. In other areas, power demand peaks during the winter. As a result, our overall operating results in the future may fluctuate substantially on a

seasonal basis. In addition, we have historically delivered less power, and consequently earned less income, when weather conditions are milder. Unusually mild weather in the future could diminish our results of operations and harm our financial condition. Conversely, unusually extreme weather conditions could increase our results of operations in a manner that would not likely be sustainable.

Further, deteriorating economic conditions generally result in reduced consumption by our customers, particularly industrial customers who may curtail operations or cease production entirely, while an expanding economic environment generally results in increased revenues. As a result, our overall operating results in the future may fluctuate on the basis of prevailing economic conditions.

***Failure to attract and retain an appropriately qualified workforce could harm our results of operations.***

Certain events, such as an aging workforce without appropriate replacements, mismatch of skillset or complement to future needs, or unavailability of contract resources may lead to operating challenges and increased costs. The challenges include lack of resources, loss of knowledge and a lengthy time period associated with skill development. In this case, costs, including costs for contractors to replace employees, productivity costs and safety costs, may rise. Failure to hire and adequately train replacement employees, including the transfer of significant internal historical knowledge and expertise to the new employees, or the future availability and cost of contract labor may adversely affect the ability to manage and operate our business. If we are unable to successfully attract and retain an appropriately qualified workforce, our results of operations could be negatively affected.

***Parties we have engaged to provide construction materials or services may fail to perform their obligations, which could harm our results of operations.***

Our business plan calls for extensive investment in capital improvements and additions, including the construction of additional transmission facilities as well as other initiatives. We are exposed to the risk of substantial price increases in the costs of materials used in construction. We have engaged numerous contractors and entered into a large number of agreements to acquire the necessary materials and/or obtain the required construction related services. As a result, we are also exposed to the risk that these contractors and other counterparties could breach their obligations to us. Should the counterparties to these arrangements fail to perform, we may be forced to enter into alternative arrangements at then-current market prices that may exceed our contractual prices and almost certainly cause delays in that and related projects. Although our agreements are designed to mitigate the consequences of a potential default by the counterparty, our actual exposure may be greater than these mitigation provisions. This would cause our financial results to be diminished, and we might incur losses or delays in completing construction.

***Collection of our revenues in Texas is concentrated in a limited number of REPs.***

Our revenues from the distribution of electricity in the ERCOT area of Texas are collected from REPs that supply the electricity we distribute to their customers. Currently, we do business with approximately one hundred REPs. In 2012, our largest REP accounted for 16% of our operating revenue and our second largest REP accounted for 7% of our operating revenues. Adverse economic conditions, structural problems in the Texas market or financial difficulties of one or more REPs could impair the ability of these REPs to pay for our services or could cause them to delay such payments. We depend on these REPs for timely remittance of payments. Any delay or default in payment could reduce future cash flows and impact financial condition.

***Carbon Dioxide Public Nuisance Claims***

In October 2009, the Fifth Circuit Court of Appeals reversed a decision by the Federal District Court for the District of Mississippi dismissing state common law nuisance claims in a putative class action by Mississippi residents asserting that carbon dioxide (CO<sub>2</sub>) emissions exacerbated the effects of Hurricane Katrina. The Fifth Circuit held that there was no exclusive commitment of the common law issues raised in plaintiffs' complaint to a coordinate branch of government and that no initial policy determination was required to adjudicate these claims. The court granted petitions for rehearing. An additional recusal left the Fifth Circuit without a quorum to reconsider the decision and the appeal was dismissed, leaving the district court's decision in place. Plaintiffs filed a petition with the U.S. Supreme Court asking the court to remand the case to the Fifth Circuit and reinstate the panel decision.

The petition was denied in January 2011. Plaintiffs refiled their complaint in federal district court. The court ordered all defendants to respond to the refiled complaints in October 2011. In March 2012, the court granted the defendants' motion for dismissal on several grounds, including the doctrine of collateral estoppel and the applicable statute of limitations. Plaintiffs appealed the decision to the Fifth Circuit Court of Appeals. Management will continue to defend against the claims. Management is unable to determine a range of potential losses that are reasonably possible of occurring.

#### *Alaskan Villages' Claims*

In 2008, the Native Village of Kivalina and the City of Kivalina, Alaska filed a lawsuit in Federal Court in the Northern District of California against AEP, AEPSC and 22 other unrelated defendants including oil and gas companies, a coal company and other electric generating companies. The complaint alleges that the defendants' emissions of CO<sub>2</sub> contribute to global warming and constitute a public and private nuisance and that the defendants are acting together. The complaint further alleges that some of the defendants, including AEP, conspired to create a false scientific debate about global warming in order to deceive the public and perpetuate the alleged nuisance. The plaintiffs also allege that the effects of global warming will require the relocation of the village at an alleged cost of \$95 million to \$400 million. In October 2009, the judge dismissed plaintiffs' federal common law claim for nuisance, finding the claim barred by the political question doctrine and by plaintiffs' lack of standing to bring the claim. The judge also dismissed plaintiffs' state law claims without prejudice to refiling in state court. The plaintiffs appealed the decision. In September 2012, the Ninth Circuit Court of Appeals affirmed the trial court's decision, holding that the Clean Air Act displaced Kivalina's claims for damages. Plaintiffs' petition for rehearing by the full court was denied in November 2012, but the plaintiffs could seek further review in the U.S. Supreme Court. Management believes the action is without merit and will continue to defend against the claims. Management is unable to determine a range of potential losses that are reasonably possible of occurring.

#### **RATIO OF EARNINGS TO FIXED CHARGES**

The Ratio of Earnings to Fixed Charges for each of the periods indicated is as follows:

<u>Twelve Months Period Ended</u>	<u>Ratio</u>
December 31, 2008	1.69
December 31, 2009	1.74
December 31, 2010	1.63
December 31, 2011	4.31
December 31, 2012	2.14
March 31, 2013	2.00

The Ratio of Earnings to Fixed Charges for the three months ended March 31, 2013 was 1.87. For the purposes of calculating the Ratio of Earnings to Fixed Charges, "earnings" represents income before income taxes, extraordinary items, and cumulative effect of accounting changes, plus fixed charges. "Fixed charges" consist of interest expense, amortization of debt issuance costs, and the portion of operating rental expense which management believes is representative of the interest within rental expense.

#### **INDEPENDENT AUDITORS**

The consolidated financial statements of AEP Texas Central Company and Subsidiaries as of December 31, 2012 and 2011, and for each of the three years in the period ended December 31, 2012, included in this Reoffering Circular have been audited by Deloitte & Touche LLP, independent auditors, as stated in their report appearing herein.

[THIS PAGE INTENTIONALLY LEFT BLANK]

**ANNEX 1**

# **AEP Texas Central Company And Subsidiaries**

**2012 Annual Report**

**Audited Consolidated Financial Statements**

**TABLE OF CONTENTS**

---

**Page  
Number**

Glossary of Terms	1
Independent Auditors' Report	2
Consolidated Statements of Income	3
Consolidated Statements of Comprehensive Income (Loss)	4
Consolidated Statements of Changes in Common Shareholder's Equity	5
Consolidated Balance Sheets	6
Consolidated Statements of Cash Flows	8
Index of Notes to Consolidated Financial Statements	9

**GLOSSARY OF TERMS**

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

<u>Term</u>	<u>Meaning</u>
AEP or Parent AEP System	American Electric Power Company, Inc., an electric utility holding company. American Electric Power System, an integrated electric utility system, owned and operated by AEP's electric utility subsidiaries.
AEPSC	American Electric Power Service Corporation, an AEP service subsidiary providing management and professional services to AEP and its subsidiaries.
AFUDC	Allowance for Funds Used During Construction.
AOCI	Accumulated Other Comprehensive Income.
CAA	Clean Air Act.
CO <sub>2</sub>	Carbon dioxide and other greenhouse gases.
CWIP	Construction Work in Progress.
EIS	Energy Insurance Services, Inc., a nonaffiliated captive insurance company and consolidated variable interest entity of AEP.
ERCOT	Electric Reliability Council of Texas regional transmission organization.
ETT	Electric Transmission Texas, LLC, an equity interest joint venture between AEP and MidAmerican Energy Holdings Company Texas Transeo, LLC formed to own and operate electric transmission facilities in ERCOT.
Federal EPA	United States Environmental Protection Agency.
FERC	Federal Energy Regulatory Commission.
FTR	Financial Transmission Right, a financial instrument that entitles the holder to receive compensation for certain congestion-related transmission charges that arise when the power grid is congested resulting in differences in locational prices.
IRS	Internal Revenue Service.
MTM	Mark-to-Market.
OPEB	Other Postretirement Benefit Plans.
OTC	Over the counter.
REP	Texas Retail Electric Provider.
PUCT	Public Utility Commission of Texas.
Risk Management Contracts	Trading and nontrading derivatives, including those derivatives designated as cash flow and fair value hedges.
TCC	AEP Texas Central Company, an AEP electric utility subsidiary.
Transition Funding	AEP Texas Central Transition Funding I LLC, AEP Texas Central Transition Funding II LLC and AEP Texas Central Transition Funding III LLC, wholly-owned subsidiaries of TCC and consolidated variable interest entities formed for the purpose of issuing and servicing securitization bonds related to Texas restructuring law.
Texas Restructuring Legislation	Legislation enacted in 1999 to restructure the electric utility industry in Texas.
True-up Proceeding	A filing made under the Texas Restructuring Legislation to finalize the amount of stranded costs and other true-up items and the recovery of such amounts.
Utility Money Pool	Centralized funding mechanism AEP uses to meet the short-term cash requirements of certain utility subsidiaries.
VIE	Variable Interest Entity.

## INDEPENDENT AUDITORS' REPORT

To the Board of Directors and Shareholder of  
AEP Texas Central Company:

We have audited the accompanying consolidated financial statements of AEP Texas Central Company and its subsidiaries (the "Company"), which comprise the consolidated balance sheets as of December 31, 2012 and 2011, and the related consolidated statements of income, comprehensive income (loss), changes in common shareholder's equity, and cash flows for each of the three years in the period ended December 31, 2012, and the related notes to the consolidated financial statements.

### Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

### Auditors' Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Company's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of AEP Texas Central Company and its subsidiaries as of December 31, 2012 and 2011, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2012 in accordance with accounting principles generally accepted in the United States of America.

*Deloitte & Touche LLP*

Columbus, Ohio  
February 26, 2013

**AEP TEXAS CENTRAL COMPANY AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF INCOME**  
For the Years Ended December 31, 2012, 2011 and 2010  
(In thousands)

	Years Ended December 31,		
	2012	2011	2010
<b>REVENUES</b>			
Electric Transmission and Distribution	\$ 983,591	\$ 917,647	\$ 886,611
Sales to AEP Affiliates	3,702	3,739	4,168
Other Revenues	1,565	1,446	1,686
<b>TOTAL REVENUES</b>	<b>988,858</b>	<b>922,832</b>	<b>892,465</b>
<b>EXPENSES</b>			
Other Operation	246,361	247,962	279,637
Maintenance	36,614	40,592	35,290
Depreciation and Amortization	340,955	280,567	260,829
Taxes Other Than Income Taxes	74,574	70,889	74,572
<b>TOTAL EXPENSES</b>	<b>698,504</b>	<b>640,010</b>	<b>650,328</b>
<b>OPERATING INCOME</b>	<b>290,354</b>	<b>282,822</b>	<b>242,137</b>
<b>Other Income (Expense):</b>			
Interest Income	269	4,535	472
Carrying Costs Income	7,775	322,608	-
Allowance for Equity Funds Used During Construction	1,967	2,642	4,653
Interest Expense	(138,903)	(139,526)	(148,848)
<b>INCOME BEFORE INCOME TAX EXPENSE</b>	<b>161,462</b>	<b>473,081</b>	<b>98,414</b>
Income Tax Expense	51,996	165,821	30,147
<b>INCOME BEFORE EXTRAORDINARY ITEM</b>	<b>109,466</b>	<b>307,260</b>	<b>68,267</b>
<b>EXTRAORDINARY ITEM, NET OF TAX</b>	<b>-</b>	<b>373,093</b>	<b>-</b>
<b>NET INCOME</b>	<b>109,466</b>	<b>680,353</b>	<b>68,267</b>
Preferred Stock Dividend Requirements Including Capital Stock Expense	-	469	236
<b>EARNINGS ATTRIBUTABLE TO COMMON STOCK</b>	<b>\$ 109,466</b>	<b>\$ 679,884</b>	<b>\$ 68,031</b>

*The common stock of TCC is owned by a wholly-owned subsidiary of AEP.*

*See Notes to Consolidated Financial Statements beginning on page 9.*

**AEP TEXAS CENTRAL COMPANY AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)**  
**For the Years Ended December 31, 2012, 2011 and 2010**  
(in thousands)

	Years Ended December 31,		
	2012	2011	2010
Net Income	\$ 109,466	\$ 680,353	\$ 68,267
<b>OTHER COMPREHENSIVE INCOME (LOSS), NET OF TAXES</b>			
Cash Flow Hedges, Net of Tax of \$60, \$107 and \$26 in 2012, 2011 and 2010, Respectively	112	(198)	(48)
<b>TOTAL COMPREHENSIVE INCOME</b>	<b>\$ 109,578</b>	<b>\$ 680,155</b>	<b>\$ 68,219</b>

*See Notes to Consolidated Financial Statements beginning on page 9*

**AEP TEXAS CENTRAL COMPANY AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF CHANGES IN COMMON SHAREHOLDER'S EQUITY**  
For the Years Ended December 31, 2012, 2011 and 2010  
(In thousands)

	Common Stock	Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total
<b>TOTAL COMMON SHAREHOLDER'S EQUITY - DECEMBER 31, 2009</b>	\$ 55,292	\$ 171,263	\$ 368,126	\$ 163	\$ 594,844
Common Stock Dividends			(41,820)		(41,820)
Preferred Stock Dividends			(236)		(236)
Gain on Reacquired Preferred Stock		32			32
Subtotal - Common Shareholder's Equity					<u>552,820</u>
Net Income			68,267		68,267
Other Comprehensive Loss				(48)	(48)
<b>TOTAL COMMON SHAREHOLDER'S EQUITY - DECEMBER 31, 2010</b>	<u>55,292</u>	<u>171,295</u>	<u>394,337</u>	<u>115</u>	<u>621,039</u>
Common Stock Dividends			(62,500)		(62,500)
Preferred Stock Dividends			(200)		(200)
Loss on Reacquired Preferred Stock		(233)			(233)
Subtotal - Common Shareholder's Equity					<u>558,106</u>
Net Income			680,353		680,353
Other Comprehensive Loss				(198)	(198)
<b>TOTAL COMMON SHAREHOLDER'S EQUITY - DECEMBER 31, 2011</b>	<u>55,292</u>	<u>171,062</u>	<u>1,011,990</u>	<u>(83)</u>	<u>1,238,261</u>
Common Stock Dividends			(689,824)		(689,824)
Subtotal - Common Shareholder's Equity					<u>548,437</u>
Net Income			109,466		109,466
Other Comprehensive Income				112	112
<b>TOTAL COMMON SHAREHOLDER'S EQUITY - DECEMBER 31, 2012</b>	<u>\$ 55,292</u>	<u>\$ 171,062</u>	<u>\$ 431,632</u>	<u>\$ 29</u>	<u>\$ 658,015</u>

*See Notes to Consolidated Financial Statements beginning on page 9.*

**AEP TEXAS CENTRAL COMPANY AND SUBSIDIARIES**  
**CONSOLIDATED BALANCE SHEETS**  
**ASSETS**  
**December 31, 2012 and 2011**  
(In thousands)

	December 31,	
	2012	2011
<b>CURRENT ASSETS</b>		
Cash and Cash Equivalents	\$ 100	\$ 422
Restricted Cash for Securitized Transition Funding	215,218	190,995
Accounts Receivable:		
Customers	70,178	73,696
Affiliated Companies	6,733	4,810
Accrued Unbilled Revenues	41,678	37,606
Miscellaneous	-	3,452
Allowance for Uncollectible Accounts	(1,293)	(374)
Total Accounts Receivable	117,296	119,190
Materials and Supplies	37,423	31,181
Prepayments and Other Current Assets	1,884	3,056
<b>TOTAL CURRENT ASSETS</b>	<b>371,921</b>	<b>344,844</b>
<b>PROPERTY, PLANT AND EQUIPMENT</b>		
Electric:		
Transmission	1,194,582	1,135,982
Distribution	2,120,155	2,002,508
Other Property, Plant and Equipment	264,328	259,410
Construction Work in Progress	104,788	58,906
<b>Total Property, Plant and Equipment</b>	3,683,853	3,456,806
Accumulated Depreciation and Amortization	771,854	737,522
<b>TOTAL PROPERTY, PLANT AND EQUIPMENT - NET</b>	<b>2,911,999</b>	<b>2,719,284</b>
<b>OTHER NONCURRENT ASSETS</b>		
Regulatory Assets	282,404	1,022,680
Securitized Transition Assets (December 31, 2012 and 2011 Amounts Include \$2,057,817 and \$1,561,658, Respectively, Related to Transition Funding)	2,116,833	1,626,511
Deferred Charges and Other Noncurrent Assets	26,191	25,122
<b>TOTAL OTHER NONCURRENT ASSETS</b>	<b>2,425,428</b>	<b>2,674,313</b>
<b>TOTAL ASSETS</b>	<b>\$ 5,709,348</b>	<b>\$ 5,738,441</b>

*See Notes to Consolidated Financial Statements beginning on page 9.*

**AEP TEXAS CENTRAL COMPANY AND SUBSIDIARIES**  
**CONSOLIDATED BALANCE SHEETS**  
**LIABILITIES AND COMMON SHAREHOLDER'S EQUITY**  
December 31, 2012 and 2011  
(dollars in thousands)

	December 31,	
	2012	2011
<b>CURRENT LIABILITIES</b>		
Advances from Affiliates	\$ 103,335	\$ 36,043
Accounts Payable:		
General	35,066	38,331
Affiliated Companies	15,736	7,785
Long-term Debt Due Within One Year – Nonaffiliated (December 31, 2012 and 2011 Amounts Include \$243,378 and \$171,574, Respectively, Related to Transition Funding)	243,378	231,574
Customer Deposits	20,283	13,283
Accrued Taxes	40,486	54,175
Accrued Interest (December 31, 2012 and 2011 Amounts Include \$40,045 and \$44,482, Respectively, Related to Transition Funding)	50,436	55,097
Other Current Liabilities	37,779	34,009
<b>TOTAL CURRENT LIABILITIES</b>	<b>546,499</b>	<b>470,297</b>
<b>NONCURRENT LIABILITIES</b>		
Long-term Debt – Nonaffiliated (December 31, 2012 and 2011 Amounts Include \$2,037,690 and \$1,515,697, Respectively, Related to Transition Funding)	2,681,188	2,159,142
Deferred Income Taxes	1,308,163	1,334,421
Regulatory Liabilities and Deferred Investment Tax Credits	467,888	430,980
Deferred Credits and Other Noncurrent Liabilities	47,595	105,340
<b>TOTAL NONCURRENT LIABILITIES</b>	<b>4,504,834</b>	<b>4,029,883</b>
<b>TOTAL LIABILITIES</b>	<b>5,051,333</b>	<b>4,500,180</b>
Commitments and Contingencies (Note 4)		
<b>COMMON SHAREHOLDER'S EQUITY</b>		
Common Stock – Par Value – \$25 Per Share:		
Authorized – 12,000,000 Shares		
Outstanding – 2,211,678 Shares	55,292	55,292
Paid-In Capital	171,062	171,062
Retained Earnings	431,632	1,011,990
Accumulated Other Comprehensive Income (Loss)	29	(83)
<b>TOTAL COMMON SHAREHOLDER'S EQUITY</b>	<b>658,015</b>	<b>1,238,261</b>
<b>TOTAL LIABILITIES AND COMMON SHAREHOLDER'S EQUITY</b>	<b>\$ 5,709,348</b>	<b>\$ 5,738,441</b>

See Notes to Consolidated Financial Statements beginning on page 9.

**AEP TEXAS CENTRAL COMPANY AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
For the Years Ended December 31, 2012, 2011 and 2010  
(In thousands)

	Years Ended December 31,		
	2012	2011	2010
<b>OPERATING ACTIVITIES</b>			
Net Income	\$ 109,466	\$ 680,353	\$ 68,267
Adjustments to Reconcile Net Income to Net Cash Flows from Operating Activities:			
Depreciation and Amortization	340,955	280,567	260,829
Deferred Income Taxes	(27,328)	127,155	4,572
Extraordinary Item, Net of Tax	-	(373,093)	-
Carrying Costs Income	(7,775)	(322,608)	-
Net Recovery of (Deferral of) Storm Costs	1,300	206	(2,676)
Allowance for Equity Funds Used During Construction	(1,967)	(2,642)	(4,653)
Change in Other Noncurrent Assets	(12,323)	(11,296)	(2,656)
Change in Other Noncurrent Liabilities	(9,224)	(27,181)	15,985
Changes in Certain Components of Working Capital:			
Accounts Receivable, Net	1,894	(5,193)	10,108
Materials and Supplies	(6,242)	(5,554)	1,299
Accounts Payable	5,406	(25,315)	27,852
Customer Deposits	7,000	410	642
Accrued Taxes, Net	(10,887)	2,070	(30,806)
Accrued Interest	(4,661)	(4,740)	(3,769)
Other Current Assets	281	51	2,873
Other Current Liabilities	4,766	2,728	(13,943)
Net Cash Flows from Operating Activities	<u>390,661</u>	<u>315,918</u>	<u>333,924</u>
<b>INVESTING ACTIVITIES</b>			
Construction Expenditures	(277,964)	(209,945)	(177,728)
Change in Restricted Cash for Securitized Transition Funding	(24,223)	(6,955)	(4,012)
Change in Advances to Affiliates, Net	-	141,584	(27,591)
Proceeds from Sales of Assets	7,517	15,327	67,790
Other Investing Activities	(471)	(1,487)	(1,071)
Net Cash Flows Used for Investing Activities	<u>(295,141)</u>	<u>(61,476)</u>	<u>(142,612)</u>
<b>FINANCING ACTIVITIES</b>			
Issuance of Long-term Debt - Nonaffiliated	793,304	59,656	-
Change in Advances from Affiliates, Net	67,292	36,043	-
Retirement of Long-term Debt - Nonaffiliated	(266,308)	(279,708)	(147,833)
Retirement of Cumulative Preferred Stock	-	(5,936)	(169)
Principal Payments for Capital Lease Obligations	(1,929)	(1,739)	(1,542)
Dividends Paid on Common Stock	(689,824)	(62,500)	(41,820)
Dividends Paid on Cumulative Preferred Stock	-	(200)	(236)
Other Financing Activities	1,623	90	362
Net Cash Flows Used for Financing Activities	<u>(95,842)</u>	<u>(254,294)</u>	<u>(191,238)</u>
Net Increase (Decrease) in Cash and Cash Equivalents	(322)	148	74
Cash and Cash Equivalents at Beginning of Period	422	274	200
Cash and Cash Equivalents at End of Period	<u>\$ 100</u>	<u>\$ 422</u>	<u>\$ 274</u>
<b>SUPPLEMENTARY INFORMATION</b>			
Cash Paid for Interest, Net of Capitalized Amounts	\$ 135,975	\$ 144,285	\$ 144,653
Net Cash Paid for Income Taxes	93,584	33,375	64,859
Noncash Acquisitions Under Capital Leases	3,252	718	887
Construction Expenditures Included in Current Liabilities as of December 31,	19,976	20,747	14,620

See Notes to Consolidated Financial Statements beginning on page 9

**INDEX OF NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

1. **Organization and Summary of Significant Accounting Policies**
2. **Extraordinary Item**
3. **Effects of Regulation**
4. **Commitments, Guarantees and Contingencies**
5. **Dispositions**
6. **Benefit Plans**
7. **Business Segments**
8. **Derivatives and Hedging**
9. **Fair Value Measurements**
10. **Income Taxes**
11. **Leases**
12. **Financing Activities**
13. **Related Party Transactions**
14. **Variable Interest Entities**
15. **Property, Plant and Equipment**
16. **Cost Reduction Programs**
17. **Unaudited Quarterly Financial Information**

## **1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

### **ORGANIZATION**

As a public utility, TCC engages in the transmission and distribution of electric power to 799,000 retail customers through REPs in its service territory in southern and central Texas. TCC consolidates AEP Texas Central Transition Funding LLC, AEP Texas Central Transition Funding II LLC and AEP Texas Central Transition Funding III LLC, its wholly-owned subsidiaries.

### **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

#### ***Rates and Service Regulation***

TCC's transmission and distribution rates are regulated by the PUCT. The FERC regulates TCC's affiliated transactions, including AEPSC intercompany service billings which are generally at cost, under the 2005 Public Utility Holding Company Act and the Federal Power Act. The FERC also has jurisdiction over the issuances and acquisitions of securities of the public utility subsidiaries, the acquisition or sale of certain utility assets and mergers with another electric utility or holding company. For non-power goods and services, the FERC requires that a nonregulated affiliate can bill an affiliated public utility company no more than market while a public utility must bill the higher of cost or market to a nonregulated affiliate. The PUCT also regulates certain intercompany transactions under its affiliate statutes. Both the FERC and state regulatory commissions are permitted to review and audit the relevant books and records of companies within a public utility holding company system.

The PUCT also regulates TCC's wholesale transmission operations and rates. The FERC claims jurisdiction over retail transmission rates when retail rates are unbundled in connection with restructuring. TCC's retail transmission rates in Texas are unbundled. Although TCC's retail transmission rates in Texas are unbundled, retail transmission rates are regulated, on a cost basis, by the PUCT.

#### ***Principles of Consolidation***

TCC's consolidated financial statements include TCC and its wholly-owned subsidiaries. Intercompany items are eliminated in consolidation. See Note 14 – Variable Interest Entities.

#### ***Accounting for the Effects of Cost-Based Regulation***

As a rate-regulated electric public utility company, TCC's financial statements reflect the actions of regulators that result in the recognition of certain revenues and expenses in different time periods than enterprises that are not rate-regulated. In accordance with accounting guidance for "Regulated Operations," TCC records regulatory assets (deferred expenses) and regulatory liabilities (deferred revenue reductions or refunds) to reflect the economic effects of regulation in the same accounting period by matching expenses with their recovery through regulated revenues and by matching income with its passage to customers in cost-based regulated rates.

#### ***Use of Estimates***

The preparation of these financial statements in conformity with accounting principles generally accepted in the United States of America (GAAP) requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. These estimates include, but are not limited to, inventory valuation, allowance for doubtful accounts, long-lived asset impairment, unbilled electricity revenue, valuation of long-term energy contracts, the effects of regulation, long-lived asset recovery, storm costs, the effects of contingencies and certain assumptions made in accounting for pension and postretirement benefits. The estimates and assumptions used are based upon management's evaluation of the relevant facts and circumstances as of the date of the financial statements. Actual results could ultimately differ from those estimates.

***Cash and Cash Equivalents***

Cash and Cash Equivalents include temporary cash investments with original maturities of three months or less.

***Restricted Cash for Securitized Transition Funding***

Restricted Cash for Securitized Transition Funding includes funds held by trustees primarily for the payment of securitization bonds and to secure the payments of the REPs.

***Inventory***

Materials and supplies inventories are carried at average cost.

***Accounts Receivable***

Customer accounts receivable primarily includes receivables from REPs and receivables related to other revenue-generating activities.

Revenue is recognized when power is delivered. To the extent that deliveries have occurred but a bill has not been issued, TCC accrues and recognizes, as Accrued Unbilled Revenues on the balance sheets, an estimate of the revenues for deliveries since the last billing.

***Allowance for Uncollectible Accounts***

TCC records bad debt reserves using the specific identification of receivable balances greater than 120 days delinquent, and for those balances less than 120 days where the collection is doubtful. For miscellaneous accounts receivable, bad debt expense is recorded for all amounts outstanding 180 days or greater at 100%, unless specifically identified. Miscellaneous accounts receivable items open less than 180 days may be reserved using specific identification for bad debt reserves.

***Concentrations of Credit Risk and Significant Customers***

TCC has significant customers which on a combined basis account for the following percentages of total operating revenues for the years ended December 31 and Accounts Receivable – Customers as of December 31:

Significant Customers of TCC: Centrica and Reliant Energy			
	2012	2011	2010
Percentage of Operating Revenues	34 %	34 %	37 %
Percentage of Accounts Receivable - Customers	28 %	28 %	29 %

Management monitors credit levels and the financial condition of TCC's customers on a continuing basis to minimize credit risk. The PUCT allows recovery in rates for a reasonable level of bad debt costs. Management believes adequate provision for credit loss has been made in the accompanying financial statements.

***Property, Plant and Equipment***

Electric utility property, plant and equipment are stated at original cost. Additions, major replacements and betterments are added to the plant accounts. Under the group composite method of depreciation, continuous interim routine replacements of items such as poles, transformers, etc. result in the original cost, less salvage, being charged to accumulated depreciation. The group composite method of depreciation assumes that on average, asset components are retired at the end of their useful lives and thus there is no gain or loss. The equipment in each primary electric plant account is identified as a separate group. The depreciation rates that are established take into account the past history of interim capital replacements and the amount of salvage received. These rates and the related lives are subject to periodic review. Removal costs are charged to regulatory liabilities. The costs of labor, materials and overhead incurred to operate and maintain the facilities are included in operating expenses.

Long-lived assets are required to be tested for impairment when it is determined that the carrying value of the assets may no longer be recoverable or when the assets meet the held-for-sale criteria under the accounting guidance for "Impairment or Disposal of Long-lived Assets." When it becomes probable that an asset in service or an asset under construction will be abandoned and regulatory cost recovery has been disallowed, the cost of that asset shall be removed from plant-in-service or CWIP and charged to expense.

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

#### ***Allowance for Funds Used During Construction (AFUDC)***

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

#### ***Valuation of Nonderivative Financial Instruments***

The book values of Cash and Cash Equivalents, Accounts Receivable, Advances from Affiliates and Accounts Payable approximate fair value because of the short-term maturity of these instruments.

#### ***Fair Value Measurements of Assets and Liabilities***

The accounting guidance for "Fair Value Measurements and Disclosures" establishes a fair value hierarchy that prioritizes the inputs used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurement) and the lowest priority to unobservable inputs (Level 3 measurement). Where observable inputs are available for substantially the full term of the asset or liability, the instrument is categorized in Level 2. When quoted market prices are not available, pricing may be completed using comparable securities, dealer values, operating data and general market conditions to determine fair value. Valuation models utilize various inputs such as commodity, interest rate and, to a lesser degree, volatility and credit that include quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets or liabilities in inactive markets, market corroborated inputs (i.e. inputs derived principally from, or correlated to, observable market data) and other observable inputs for the asset or liability. The AEP System's market risk oversight staff independently monitors its valuation policies and procedures and provides members of the Commercial Operations Risk Committee (CORC) various daily, weekly and monthly reports, regarding compliance with policies and procedures. The CORC consists of AEPSC's Chief Operating Officer, Chief Financial Officer, Executive Vice President of Energy Supply, Senior Vice President of Commercial Operations and Chief Risk Officer.

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

AEP utilizes its trustee's external pricing service to estimate the fair value of the underlying investments held in the benefit plan trusts. AEP's investment managers review and validate the prices utilized by the trustee to determine fair value. AEP's management performs its own valuation testing to verify the fair values of the securities. AEP receives audit reports of the trustee's operating controls and valuation processes. The trustee uses multiple pricing vendors for the assets held in the trusts.

Assets in the benefits trusts and Restricted Cash for Securitized Transition Funding are classified using the following methods. Equities are classified as Level 1 holdings if they are actively traded on exchanges. Items classified as Level 1 are investments in money market funds, fixed income and equity mutual funds and domestic equity securities. They are valued based on observable inputs primarily unadjusted quoted prices in active markets for identical assets. Items classified as Level 2 are primarily investments in individual fixed income securities and cash equivalents funds. Fixed income securities do not trade on an exchange and do not have an official closing price but their valuation inputs are based on observable market data. Pricing vendors calculate bond valuations using financial models and matrices. The models use observable inputs including yields on benchmark securities, quotes by securities brokers, rating agency actions, discounts or premiums on securities compared to par prices, changes in yields for U.S. Treasury securities, corporate actions by bond issuers, prepayment schedules and histories, economic events and, for certain securities, adjustments to yields to reflect changes in the rate of inflation. Other securities with model-derived valuation inputs that are observable are also classified as Level 2 investments. Investments with unobservable valuation inputs are classified as Level 3 investments. Benefit plan assets included in Level 3 are primarily real estate and private equity investments that are valued using methods requiring judgment including appraisals.

#### *Revenue Recognition*

#### *Regulatory Accounting*

TCC's financial statements reflect the actions of regulators that can result in the recognition of revenues and expenses in different time periods than enterprises that are not rate-regulated. Regulatory assets (deferred expenses) and regulatory liabilities (deferred revenue reductions or refunds) are recorded to reflect the economic effects of regulation in the same accounting period by matching expenses with their recovery through regulated revenues and by matching income with its passage to customers in cost-based regulated rates.

When regulatory assets are probable of recovery through regulated rates, TCC records them as assets on its balance sheets. TCC tests for probability of recovery at each balance sheet date or whenever new events occur. Examples of new events include the issuance of a regulatory commission order or passage of new legislation. If it is determined that recovery of a regulatory asset is no longer probable, TCC writes off that regulatory asset as a charge against income.

#### *Electricity Supply and Delivery Activities*

TCC recognizes revenues from electricity transmission and distribution delivery services. TCC recognizes the revenues on the statements of income upon delivery of the energy to the customer and includes unbilled as well as billed amounts.

#### *Maintenance*

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

#### *Income Taxes and Investment Tax Credits*

TCC uses the liability method of accounting for income taxes. Under the liability method, deferred income taxes are provided for all temporary differences between the book and tax basis of assets and liabilities which will result in a future tax consequence.

When the flow-through method of accounting for temporary differences is reflected in regulated revenues (that is, when deferred taxes are not included in the cost of service for determining regulated rates for electricity), deferred income taxes are recorded and related regulatory assets and liabilities are established to match the regulated revenues and tax expense.

Investment tax credits are accounted for under the deferral basis and are being amortized over the life of the plant investment.

TCC accounts for uncertain tax positions in accordance with the accounting guidance for "Income Taxes." TCC classifies interest expense or income related to uncertain tax positions as interest expense or income as appropriate and classifies penalties as Other Operation expense.

#### ***Excise Taxes***

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

#### ***Debt***

Gains and losses from the reacquisition of debt used to finance regulated electric utility plants are deferred and amortized over the remaining term of the reacquired debt in accordance with their rate-making treatment unless the debt is refinanced. If the reacquired debt is refinanced, the reacquisition costs are generally deferred and amortized over the term of the replacement debt consistent with its recovery in rates.

Debt discount or premium and debt issuance expenses are deferred and amortized generally utilizing the straight-line method over the term of the related debt. The straight-line method approximates the effective interest method and is consistent with the treatment in rates for regulated operations. The net amortization expense is included in Interest Expense.

#### ***Investments Held in Trust for Future Liabilities***

AEP has several trust funds with significant investments intended to provide for future payments of pension and OPEB benefits. All of the trust funds' investments are diversified and managed in compliance with all laws and regulations. The investment strategy for trust funds is to use a diversified portfolio of investments to achieve an acceptable rate of return while managing the interest rate sensitivity of the assets relative to the associated liabilities. To minimize investment risk, the trust funds are broadly diversified among classes of assets, investment strategies and investment managers. Management regularly reviews the actual asset allocations and periodically rebalances the investments to targeted allocations when appropriate. Investment policies and guidelines allow investment managers in approved strategies to use financial derivatives to obtain or manage market exposures and to hedge assets and liabilities. The investments are reported at fair value under the "Fair Value Measurements and Disclosures" accounting guidance.

#### ***Benefit Plans***

All benefit plan assets are invested in accordance with each plan's investment policy. The investment policy outlines the investment objectives, strategies and target asset allocations by plan.

The investment philosophies for AEP's benefit plans support the allocation of assets to minimize risks and optimize net returns. Strategies used include:

- Maintaining a long-term investment horizon.
- Diversifying assets to help control volatility of returns at acceptable levels.
- Managing fees, transaction costs and tax liabilities to maximize investment earnings.
- Using active management of investments where appropriate risk/return opportunities exist.
- Keeping portfolio structure style-neutral to limit volatility compared to applicable benchmarks.
- Using alternative asset classes such as real estate and private equity to maximize return and provide additional portfolio diversification.

The investment policy for the pension fund allocates assets based on the funded status of the pension plan. The objective of the asset allocation policy is to reduce the investment volatility of the plan over time. Generally, more of the investment mix will be allocated to fixed income investments as the plan becomes better funded. Assets will be transferred away from equity investments into fixed income investments based on the market value of plan assets compared to the plan's projected benefit obligation. The target asset allocations are as follows:

<u>Pension Plan Assets</u>	<u>Target</u>
Equity	40.0 %
Fixed Income	50.0 %
Other Investments	10.0 %

<u>OPEB Plans Assets</u>	<u>Target</u>
Equity	66.0 %
Fixed Income	33.0 %
Cash	1.0 %

The investment policy for each benefit plan contains various investment limitations. The investment policies establish concentration limits for securities. Investment policies prohibit the benefit trust funds from purchasing securities issued by AEP (with the exception of proportionate and immaterial holdings of AEP securities in passive index strategies). However, the investment policies do not preclude the benefit trust funds from receiving contributions in the form of AEP securities, provided that the AEP securities acquired by each plan may not exceed the limitations imposed by law. Each investment manager's portfolio is compared to a diversified benchmark index.

For equity investments, the limits are as follows:

- No security in excess of 5% of all equities.
- Cash equivalents must be less than 10% of an investment manager's equity portfolio.
- No individual stock may be more than 10% of each manager's equity portfolio.
- No investment in excess of 5% of an outstanding class of any company.
- No securities may be bought or sold on margin or other use of leverage.

For fixed income investments, the concentration limits must not exceed:

- 3% in any single issuer
- 5% for private placements
- 5% for convertible securities
- 60% for bonds rated AA+ or lower
- 50% for bonds rated A+ or lower
- 10% for bonds rated BBB- or lower

For obligations of non-government issuers, the following limitations apply:

- AAA rated debt: a single issuer should account for no more than 5% of the portfolio.
- AA+, AA, AA- rated debt: a single issuer should account for no more than 3% of the portfolio.
- Debt rated A+ or lower: a single issuer should account for no more than 2% of the portfolio.
- No more than 10% of the portfolio may be invested in high yield and emerging market debt combined at any time.

A portion of the pension assets is invested in real estate funds to provide diversification, add return and hedge against inflation. Real estate properties are illiquid, difficult to value and not actively traded. The pension plan uses external real estate investment managers to invest in commingled funds that hold real estate properties. To mitigate investment risk in the real estate portfolio, commingled real estate funds are used to ensure that holdings are diversified by region, property type and risk classification. Real estate holdings include core, value-added and development risk classifications and some investments in Real Estate Investment Trusts (REITs), which are publicly traded real estate securities classified as Level 1.

A portion of the pension assets is invested in private equity. Private equity investments add return and provide diversification and typically require a long-term time horizon to evaluate investment performance. Private equity is classified as an alternative investment because it is illiquid, difficult to value and not actively traded. The pension plan uses limited partnerships and commingled funds to invest across the private equity investment spectrum. The private equity holdings are with multiple general partners who help monitor the investments and provide investment selection expertise. The holdings are currently comprised of venture capital, buyout and hybrid debt and equity investment instruments. Commingled private equity funds are used to enhance the holdings' diversity.

AEP participates in a securities lending program with BNY Mellon to provide incremental income on idle assets and to provide income to offset custody fees and other administrative expenses. AEP lends securities to borrowers approved by BNY Mellon in exchange for cash collateral. All loans are collateralized by at least 102% of the loaned asset's market value and the cash collateral is invested. The difference between the rebate owed to the borrower and the cash collateral rate of return determines the earnings on the loaned security. The securities lending program's objective is providing modest incremental income with a limited increase in risk.

Trust owned life insurance (TOLI) underwritten by The Prudential Insurance Company is held in the OPEB plan trusts. The strategy for holding life insurance contracts in the taxable Voluntary Employees' Beneficiary Association (VEBA) trust is to minimize taxes paid on the asset growth in the trust. Earnings on plan assets are tax-deferred within the TOLI contract and can be tax-free if held until claims are paid. Life insurance proceeds remain in the trust and are used to fund future retiree medical benefit liabilities. With consideration to other investments held in the trust, the cash value of the TOLI contracts is invested in two diversified funds. A portion is invested in a commingled fund with underlying investments in stocks that are actively traded on major international equity exchanges. The other portion of the TOLI cash value is invested in a diversified, commingled fixed income fund with underlying investments in government bonds, corporate bonds and asset-backed securities.

Cash and cash equivalents are held in each trust to provide liquidity and meet short-term cash needs. Cash equivalent funds are used to provide diversification and preserve principal. The underlying holdings in the cash funds are investment grade money market instruments including commercial paper, certificates of deposit, treasury bills and other types of investment grade short-term debt securities. The cash funds are valued each business day and provide daily liquidity.

***Comprehensive Income (Loss)***

Comprehensive income (loss) is defined as the change in equity (net assets) of a business enterprise during a period from transactions and other events and circumstances from nonowner sources. It includes all changes in equity during a period except those resulting from investments by owners and distributions to owners. Comprehensive income (loss) has two components: net income (loss) and other comprehensive income (loss).

***Accumulated Other Comprehensive Income (Loss) (AOCI)***

AOCI is included on the balance sheets in the common shareholder's equity section. TCC's components of AOCI as of December 31, 2012 and 2011 are shown in the following table:

<u>Components</u>	<u>December 31,</u>	
	<u>2012</u>	<u>2011</u>
	(in thousands)	
Cash Flow Hedges, Net of Tax	\$ 29	\$ (83)

***Earnings Per Share (EPS)***

TCC is owned by a wholly-owned subsidiary of AEP. Therefore, TCC is not required to report EPS.

***Subsequent Events***

Management reviewed subsequent events through February 26, 2013, the date that TCC's 2012 annual report was issued.

## **2. EXTRAORDINARY ITEM**

### ***TCC Texas Restructuring***

In February 2006, the PUCT issued an order that denied recovery of capacity auction true-up amounts. Based on the February 2006 PUCT order, TCC recorded the disallowance as a \$421 million (\$273 million, net of tax) extraordinary loss in the December 31, 2005 financial statements. In July 2011, the Supreme Court of Texas reversed the PUCT's February 2006 disallowance of capacity auction true-up amounts and remanded for reconsideration the treatment of certain tax balances under normalization rules. Based upon the Supreme Court of Texas reversal of the PUCT's capacity auction true-up disallowance, TCC recorded a pretax gain of \$421 million (\$273 million, net of tax) in Extraordinary Item, Net of Tax on the statements of income in 2011.

Following a remand proceeding, the PUCT allowed TCC to retain contested tax balances in full satisfaction of its true-up proceeding, including carrying charges. Based upon the PUCT order, TCC recorded the reversal of regulatory credits of \$65 million (\$42 million, net of tax) and the reversal of \$89 million of accumulated deferred investment tax credits (\$58 million, net of tax) in Extraordinary Item, Net of Tax on the statements of income in 2011.

### 3. EFFECTS OF REGULATION

Regulatory assets and liabilities are comprised of the following items:

Regulatory Assets:	<u>December 31,</u> <u>2012</u> <u>2011</u>		<u>Remaining</u> <u>Recovery Period</u>
	(in thousands)		
<b><u>Noncurrent Regulatory Assets</u></b>			
<b>Regulatory assets not yet being recovered pending future proceedings to determine the recovery method and timing:</b>			
<b><u>Regulatory Assets Currently Earning a Return</u></b>			
Storm Related Costs	\$ 22,866	\$ 24,166	
<b><u>Regulatory Assets Currently Not Earning a Return</u></b>			
Rate Case Expense	<u>145</u>	<u>145</u>	
<b>Total Regulatory Assets Not Yet Being Recovered</b>	<b><u>23,011</u></b>	<b><u>24,311</u></b>	
<b>Regulatory assets being recovered:</b>			
<b><u>Regulatory Assets Currently Earning a Return</u></b>			
Capacity Auction True-Up	-	691,610	
Meter Replacement Costs	39,507	31,070	10 years
Unamortized Loss on Reacquired Debt	13,569	15,412	25 years
Advanced Metering System	1,252	1,409	8 years
<b><u>Regulatory Assets Currently Not Earning a Return</u></b>			
Pension and OPEB Funded Status	183,656	234,694	12 years
Income Taxes, Net	12,900	13,683	28 years
Restructuring Transition Costs	4,908	8,499	4 years
Transmission Cost Recovery Factor	<u>3,601</u>	<u>1,992</u>	1 year
<b>Total Regulatory Assets Being Recovered</b>	<b><u>259,393</u></b>	<b><u>998,369</u></b>	
<b>Total Noncurrent Regulatory Assets</b>	<b><u>\$ 282,404</u></b>	<b><u>\$ 1,022,680</u></b>	
Regulatory Liabilities:	<u>December 31,</u> <u>2012</u> <u>2011</u>		<u>Remaining</u> <u>Refund Period</u>
	(in thousands)		
<b><u>Noncurrent Regulatory Liabilities and Deferred Investment Tax Credits</u></b>			
<b>Regulatory liabilities being paid:</b>			
<b><u>Regulatory Liabilities Currently Paying a Return</u></b>			
Asset Removal Costs	\$ 332,086	\$ 314,892	(a)
Advanced Metering Infrastructure Surcharge	65,780	60,954	8 years
<b><u>Regulatory Liabilities Currently Not Paying a Return</u></b>			
Over-recovery of Transition Charges	56,988	40,749	15 years
Deferred Investment Tax Credits	10,810	11,614	50 years
Peak Demand Reduction/Energy Efficiency	<u>2,224</u>	<u>2,771</u>	1 year
<b>Total Regulatory Liabilities Being Paid</b>	<b><u>467,888</u></b>	<b><u>430,980</u></b>	
<b>Total Noncurrent Regulatory Liabilities and Deferred Investment Tax Credits</b>	<b><u>\$ 467,888</u></b>	<b><u>\$ 430,980</u></b>	

(a) Relieved as removal costs are incurred.

**4. COMMITMENTS, GUARANTEES AND CONTINGENCIES**

TCC is subject to certain claims and legal actions arising in its ordinary course of business. In addition, TCC's business activities are subject to extensive governmental regulation related to public health and the environment. The ultimate outcome of such pending or potential litigation cannot be predicted. For current proceedings not specifically discussed below, management does not anticipate that the liabilities, if any, arising from such proceedings would have a material effect on the financial statements.

**COMMITMENTS**

*Construction and Commitments*

TCC has substantial construction commitments to support its operations and environmental investments. In managing the overall construction program and in the normal course of business, TCC contractually commits to third-party construction vendors for certain material purchases and other construction services. Management forecasts approximately \$388 million of construction expenditures, excluding equity AFUDC, for 2013. TCC also purchases materials, supplies, services and property, plant and equipment under contract as part of its normal course of business. Certain supply contracts contain penalty provisions for early termination.

The following table summarizes TCC's actual contractual commitments as of December 31, 2012:

<u>Contractual Commitments</u>	<u>Less Than 1 Year</u>	<u>2-3 Years</u>	<u>4-5 Years</u>	<u>After 5 Years</u>	<u>Total</u>
	(In thousands)				
Construction Contracts for Capital Assets (a)	\$ 13,101	\$ -	\$ -	\$ -	\$ 13,101

(a) Represents only capital assets for which there are signed contracts. Actual payments are dependent upon and may vary significantly based upon the decision to build, regulatory approval schedules, timing and escalation of project costs.

**GUARANTEES**

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

*Indemnifications and Other Guarantees*

*Contracts*

TCC enters into certain types of contracts which require indemnifications. Typically these contracts include, but are not limited to, sale agreements, lease agreements, purchase agreements and financing agreements. Generally, these agreements may include, but are not limited to, indemnifications around certain tax, contractual and environmental matters. With respect to sale agreements, exposure generally does not exceed the sale price. The status of certain sale agreements is discussed in the "Dispositions" section of Note 5. As of December 31, 2012, there were no material liabilities recorded for any indemnifications.

*Lease Obligations*

TCC leases certain equipment under master lease agreements. See "Master Lease Agreements" section of Note 11 for disclosure of lease residual value guarantees.

## CONTINGENCIES

### *Insurance and Potential Losses*

TCC maintains insurance coverage normal and customary for an electric utility, subject to various deductibles. Insurance coverage includes all risks of physical loss or damage to assets, subject to insurance policy conditions and exclusions. Covered property generally includes substations, facilities and inventories. Excluded property generally includes transmission and distribution lines, poles and towers. The insurance programs also generally provide coverage against loss arising from certain claims made by third parties and are in excess of TCC's retentions. Coverage is generally provided by a combination of the protected cell of EIS and/or various industry mutual and/or commercial insurance carriers.

Some potential losses or liabilities may not be insurable or the amount of insurance carried may not be sufficient to meet potential losses and liabilities. Future losses or liabilities, if they occur, which are not completely insured, unless recovered from customers, could reduce future net income and cash flows and impact financial condition.

### *Carbon Dioxide Public Nuisance Claims*

In October 2009, the Fifth Circuit Court of Appeals reversed a decision by the Federal District Court for the District of Mississippi dismissing state common law nuisance claims in a putative class action by Mississippi residents asserting that CO<sub>2</sub> emissions exacerbated the effects of Hurricane Katrina. The Fifth Circuit held that there was no exclusive commitment of the common law issues raised in plaintiffs' complaint to a coordinate branch of government and that no initial policy determination was required to adjudicate these claims. The court granted petitions for rehearing. An additional recusal left the Fifth Circuit without a quorum to reconsider the decision and the appeal was dismissed, leaving the district court's decision in place. Plaintiffs filed a petition with the U.S. Supreme Court asking the court to remand the case to the Fifth Circuit and reinstate the panel decision. The petition was denied in January 2011. Plaintiffs refiled their complaint in federal district court. The court ordered all defendants to respond to the refiled complaints in October 2011. In March 2012, the court granted the defendants' motion for dismissal on several grounds, including the doctrine of collateral estoppel and the applicable statute of limitations. Plaintiffs appealed the decision to the Fifth Circuit Court of Appeals. Management will continue to defend against the claims. Management is unable to determine a range of potential losses that are reasonably possible of occurring.

### *Alaskan Villages' Claims*

In 2008, the Native Village of Kivalina and the City of Kivalina, Alaska filed a lawsuit in Federal Court in the Northern District of California against AEP, AEPSC and 22 other unrelated defendants including oil and gas companies, a coal company and other electric generating companies. The complaint alleges that the defendants' emissions of CO<sub>2</sub> contribute to global warming and constitute a public and private nuisance and that the defendants are acting together. The complaint further alleges that some of the defendants, including AEP, conspired to create a false scientific debate about global warming in order to deceive the public and perpetuate the alleged nuisance. The plaintiffs also allege that the effects of global warming will require the relocation of the village at an alleged cost of \$95 million to \$400 million. In October 2009, the judge dismissed plaintiffs' federal common law claim for nuisance, finding the claim barred by the political question doctrine and by plaintiffs' lack of standing to bring the claim. The judge also dismissed plaintiffs' state law claims without prejudice to refiling in state court. The plaintiffs appealed the decision. In September 2012, the Ninth Circuit Court of Appeals affirmed the trial court's decision, holding that the CAA displaced Kivalina's claims for damages. Plaintiffs' petition for rehearing by the full court was denied in November 2012, but the plaintiffs could seek further review in the U.S. Supreme Court. Management believes the action is without merit and will continue to defend against the claims. Management is unable to determine a range of potential losses that are reasonably possible of occurring.

***The Comprehensive Environmental Response Compensation and Liability Act (Superfund) and State Remediation***

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

Superfund addresses clean-up of hazardous substances that have been released to the environment. The Federal EPA administers the clean-up programs. Several states have enacted similar laws. As of December 31, 2012, TCC has been named potentially liable at one site under state law. In the instance where TCC has been named a defendant, disposal or recycling activities were in accordance with the then-applicable laws and regulations. Superfund does not recognize compliance as a defense, but imposes strict liability on parties who fall within its broad statutory categories. Liability has been resolved for a number of sites with no significant effect on net income.

Management evaluates the potential liability for each site separately, but several general statements can be made about potential future liability. Allegations that materials were disposed at a particular site are often unsubstantiated and the quantity of materials deposited at a site can be small and often nonhazardous. Although Superfund liability has been interpreted by the courts as joint and several, typically many parties are named for each site and several of the parties are financially sound enterprises. At present, management's estimates do not anticipate material cleanup costs for identified sites.

***Claims by the City of Brownsville, Texas Against TCC***

In 2007, the City of Brownsville, Texas filed a petition in the District Court of Dallas County, Texas. The petition sought recovery against TCC based on allegations of breach of contract, breach of fiduciary duty, unjust enrichment, constructive trust, conversion, breach of the Texas theft liability act and fraud allegedly occurring in connection with a transaction in which Brownsville purchased TCC's interest in the Oklaunion electric generating station. Following court proceedings and mediations, the parties reached a resolution in December 2012 and the matter was dismissed.

**5. DISPOSITIONS**

**2011**

***Texas Transmission Facilities***

In 2011, TCC sold \$10 million of transmission facilities to ETT. There were no gains or losses recorded on these sale transactions.

**2010**

***Texas Transmission Facilities***

In 2010, TCC sold \$66 million of transmission facilities to ETT. There were no gains or losses recorded on these sale transactions.

**6. BENEFIT PLANS**

For a discussion of investment strategy, investment limitations, target asset allocations and the classification of investments within the fair value hierarchy, see "Investments Held in Trust for Future Liabilities" and "Fair Value Measurements of Assets and Liabilities" sections of Note 1.

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

TCC recognizes its funded status associated with defined benefit pension and OPEB plans in its balance sheets. Disclosures about the plans are required by the "Compensation – Retirement Benefits" accounting guidance. TCC recognizes an asset for a plan's overfunded status or a liability for a plan's underfunded status and recognizes, as a component of other comprehensive income, the changes in the funded status of the plan that arise during the year that are not recognized as a component of net periodic benefit cost. TCC records a regulatory asset instead of other comprehensive income for qualifying benefit costs of regulated operations that for ratemaking purposes are deferred for future recovery. The cumulative funded status adjustment is equal to the remaining unrecognized deferrals for unamortized actuarial losses or gains, prior service costs and transition obligations, such that remaining deferred costs result in a regulatory asset and deferred gains result in a regulatory liability.

**Actuarial Assumptions for Benefit Obligations**

The weighted-average assumptions as of December 31 of each year used in the measurement of TCC's benefit obligations are shown in the following table:

Assumptions	Pension Plans		Other Postretirement Benefit Plans	
	2012	2011	2012	2011
Discount Rate	3.95 %	4.55 %	3.95 %	4.75 %
Rate of Compensation Increase	4.90 % (a)	4.90 % (a)	NA	NA

(a) Rates are for base pay only. In addition, an amount is added to reflect target incentive compensation for exempt employees and overtime and incentive pay for nonexempt employees.  
NA Not applicable.

A duration-based method is used to determine the discount rate for the plans. A hypothetical portfolio of high quality corporate bonds is constructed with cash flows matching the benefit plan liability. The composite yield on the hypothetical bond portfolio is used as the discount rate for the plan.

For 2012, the rate of compensation increase assumed varies with the age of the employee, ranging from 3.5% per year to 11.5% per year, with an average increase of 4.9%.

**Actuarial Assumptions for Net Periodic Benefit Costs**

The weighted-average assumptions as of January 1 of each year used in the measurement of TCC's benefit costs are shown in the following table:

	Pension Plans			Other Postretirement Benefit Plans		
	2012	2011	2010	2012	2011	2010
Discount Rate	4.55 %	5.05 %	5.60 %	4.75 %	5.25 %	5.85 %
Expected Return on Plan Assets	7.25 %	7.75 %	8.00 %	7.25 %	7.50 %	8.00 %
Rate of Compensation Increase	4.90 %	4.90 %	4.70 %	NA	NA	NA

NA Not applicable.

The expected return on plan assets for 2012 was determined by evaluating historical returns, the current investment climate (yield on fixed income securities and other recent investment market indicators), rate of inflation and current prospects for economic growth.

The health care trend rate assumptions as of January 1 of each year used for OPEB plans measurement purposes are shown below:

Health Care Trend Rates	2012	2011
Initial	7.00 %	7.50 %
Ultimate	5.00 %	5.00 %
Year Ultimate Reached	2020	2016

Assumed health care cost trend rates have a significant effect on the amounts reported for the OPEB health care plans. A 1% change in assumed health care cost trend rates would have the following effects:

	<u>1% Increase</u>	<u>1% Decrease</u>
	(In thousands)	
Effect on Total Service and Interest Cost		
Components of Net Periodic Postretirement Health Care Benefit Cost	\$ 1,373	\$ (1,089)
Effect on the Health Care Component of the Accumulated Postretirement Benefit Obligation	6,267	(4,732)

**Significant Concentrations of Risk within Plan Assets**

In addition to establishing the target asset allocation of plan assets, the investment policy also places restrictions on securities to limit significant concentrations within plan assets. The investment policy establishes guidelines that govern maximum market exposure, security restrictions, prohibited asset classes, prohibited types of transactions, minimum credit quality, average portfolio credit quality, portfolio duration and concentration limits. The guidelines were established to mitigate the risk of loss due to significant concentrations in any investment. The plans are monitored to control security diversification and ensure compliance with the investment policy. As of December 31, 2012, the assets were invested in compliance with all investment limits. See "Investments Held in Trust for Future Liabilities" section of Note 1 for limit details.

**Benefit Plan Obligations, Plan Assets and Funded Status as of December 31, 2012 and 2011**

The following tables provide a reconciliation of the changes in the plans' benefit obligations, fair value of plan assets and funded status as of December 31. The benefit obligation for the defined benefit pension and OPEB plans are the projected benefit obligation and the accumulated benefit obligation, respectively.

	<u>Pension Plans</u>		<u>Other Postretirement Benefit Plans</u>	
	<u>2012</u>	<u>2011</u>	<u>2012</u>	<u>2011</u>
	(In thousands)			
<b>Change In Benefit Obligation</b>				
Benefit Obligation as of January 1	\$ 347,273	\$ 333,234	\$ 139,929	\$ 131,786
Service Cost	5,199	5,000	2,459	2,218
Interest Cost	15,099	16,520	6,413	6,797
Actuarial Loss	5,430	13,744	7,731	19,122
Plan Amendment Prior Service Credit	-	-	(34,797)	(12,963)
Benefit Payments	(34,943)	(21,225)	(10,354)	(10,139)
Participant Contributions	-	-	2,493	2,342
Medicare Subsidy	-	-	800	766
<b>Benefit Obligation as of December 31</b>	<b>\$ 338,058</b>	<b>\$ 347,273</b>	<b>\$ 114,674</b>	<b>\$ 139,929</b>
<b>Change In Fair Value of Plan Assets</b>				
Fair Value of Plan Assets as of January 1	\$ 305,385	\$ 267,959	\$ 92,891	\$ 94,575
Actual Gain on Plan Assets	33,366	19,191	13,460	1,536
Company Contributions	13,223	39,460	5,647	4,577
Participant Contributions	-	-	2,493	2,342
Benefit Payments	(34,943)	(21,225)	(10,354)	(10,139)
<b>Fair Value of Plan Assets as of December 31</b>	<b>\$ 317,031</b>	<b>\$ 305,385</b>	<b>\$ 104,137</b>	<b>\$ 92,891</b>
<b>Underfunded Status as of December 31</b>	<b>\$ (21,027)</b>	<b>\$ (41,888)</b>	<b>\$ (10,537)</b>	<b>\$ (47,038)</b>

**Amounts Recognized on the Balance Sheets as of December 31, 2012 and 2011**

	<u>Pension Plans</u>		<u>Other Postretirement Benefit Plans</u>	
	<u>2012</u>	<u>2011</u>	<u>December 31, 2012</u>	<u>2011</u>
	(In thousands)			
Other Current Liabilities - Accrued Short-term Benefit Liability	\$ (290)	\$ (284)	\$ -	\$ -
Deferred Credits and Other Noncurrent Liabilities - Accrued Long-term Benefit Liability	(20,737)	(41,604)	(10,537)	(47,038)
Underfunded Status	<u>\$ (21,027)</u>	<u>\$ (41,888)</u>	<u>\$ (10,537)</u>	<u>\$ (47,038)</u>

**Amounts Included in Regulatory Assets as of December 31, 2012 and 2011**

<u>Components</u>	<u>Pension Plans</u>		<u>Other Postretirement Benefit Plans</u>	
	<u>2012</u>	<u>2011</u>	<u>December 31, 2012</u>	<u>2011</u>
	(In thousands)			
Net Actuarial Loss	\$ 171,954	\$ 187,753	\$ 57,782	\$ 60,668
Prior Service Cost (Credit)	1,195	(67)	(47,275)	(13,660)
<u>Recorded as</u>				
Regulatory Assets	\$ 173,149	\$ 187,686	\$ 10,507	\$ 47,008

Components of the change in amounts included in Regulatory Assets during the years ended December 31, 2012 and 2011 are as follows:

<u>Components</u>	<u>Pension Plans</u>		<u>Other Postretirement Benefit Plans</u>	
	<u>2012</u>	<u>2011</u>	<u>December 31, 2012</u>	<u>2011</u>
	(In thousands)			
Actuarial Loss (Gain) During the Year	\$ (5,649)	\$ 16,366	\$ 670	\$ 24,487
Prior Service Credit	-	-	(34,797)	(12,963)
Amortization of Actuarial Loss	(10,150)	(8,472)	(3,556)	(1,760)
Amortization of Prior Service Credit	1,262	1,270	1,182	62
Change for the Year	<u>\$ (14,537)</u>	<u>\$ 9,164</u>	<u>\$ (36,501)</u>	<u>\$ 9,826</u>

**Pension and Other Postretirement Plans' Assets**

The following table presents the classification of pension plan assets within the fair value hierarchy as of December 31, 2012:

Asset Class	Level 1	Level 2	Level 3	Other	Total	Year End Allocation
	(In thousands)					
<b>Equities:</b>						
Domestic	\$ 88,314	\$ -	\$ -	\$ -	\$ 88,314	27.9 %
International	33,539	-	-	-	33,539	10.5 %
Real Estate Investment Trusts	6,114	-	-	-	6,114	1.9 %
Common Collective Trust - International	-	293	-	-	293	0.1 %
<b>Subtotal - Equities</b>	<b>127,967</b>	<b>293</b>	<b>-</b>	<b>-</b>	<b>128,260</b>	<b>40.4 %</b>
<b>Fixed Income:</b>						
Common Collective Trust - Debt United States Government and Agency Securities	-	2,142	-	-	2,142	0.7 %
Corporate Debt	-	48,292	-	-	48,292	15.2 %
Foreign Debt	-	83,385	-	-	83,385	26.3 %
State and Local Government	-	13,410	-	-	13,410	4.2 %
Other - Asset Backed	-	2,969	-	-	2,969	0.9 %
Other - Asset Backed	-	2,405	-	-	2,405	0.8 %
<b>Subtotal - Fixed Income</b>	<b>-</b>	<b>152,603</b>	<b>-</b>	<b>-</b>	<b>152,603</b>	<b>48.1 %</b>
Real Estate	-	-	14,824	-	14,824	4.7 %
Alternative Investments	-	-	13,204	-	13,204	4.2 %
Securities Lending	-	5,423	-	-	5,423	1.7 %
Securities Lending Collateral (a)	-	-	-	(6,133)	(6,133)	(1.9)%
Cash and Cash Equivalents	-	8,490	-	-	8,490	2.7 %
Other - Pending Transactions and Accrued Income (b)	-	-	-	360	360	0.1 %
<b>Total</b>	<b>\$ 127,967</b>	<b>\$ 166,809</b>	<b>\$ 28,028</b>	<b>\$ (5,773)</b>	<b>\$ 317,031</b>	<b>100.0 %</b>

(a) Amounts in "Other" column primarily represent an obligation to repay cash collateral received as part of the Securities Lending Program.

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

The following table sets forth a reconciliation of changes in the fair value of assets classified as Level 3 in the fair value hierarchy for TCC's pension assets:

	Corporate Debt	Real Estate	Alternative Investments	Total Level 3
	(In thousands)			
Balance as of January 1, 2012	\$ 452	\$ 11,592	\$ 11,380	\$ 23,424
Actual Return on Plan Assets				
Relating to Assets Still Held as of the Reporting Date	-	1,710	521	2,231
Relating to Assets Sold During the Period	(159)	-	253	94
Purchases and Sales	(293)	1,522	1,050	2,279
Transfers into Level 3	-	-	-	-
Transfers out of Level 3	-	-	-	-
<b>Balance as of December 31, 2012</b>	<b>\$ -</b>	<b>\$ 14,824</b>	<b>\$ 13,204</b>	<b>\$ 28,028</b>

The following table presents the classification of OPEB plan assets within the fair value hierarchy as of December 31, 2012:

Asset Class	Level 1	Level 2	Level 3	Other	Total	Year End Allocation
	(in thousands)					
<b>Equities:</b>						
Domestic	\$ 28,027	\$ -	\$ -	\$ -	\$ 28,027	26.9 %
International	33,509	-	-	-	33,509	32.2 %
Subtotal - Equities	61,536	-	-	-	61,536	59.1 %
<b>Fixed Income:</b>						
Common Collective Trust - Debt	-	4,818	-	-	4,818	4.6 %
United States Government and Agency Securities	-	5,459	-	-	5,459	5.2 %
Corporate Debt	-	10,282	-	-	10,282	9.9 %
Foreign Debt	-	1,738	-	-	1,738	1.7 %
State and Local Government	-	483	-	-	483	0.5 %
Other - Asset Backed	-	653	-	-	653	0.6 %
Subtotal - Fixed Income	-	23,433	-	-	23,433	22.5 %
<b>Trust Owned Life Insurance:</b>						
International Equities	-	3,422	-	-	3,422	3.3 %
United States Bonds	-	10,797	-	-	10,797	10.3 %
Cash and Cash Equivalents	4,122	757	-	-	4,879	4.7 %
Other - Pending Transactions and Accrued Income (a)	-	-	-	70	70	0.1 %
<b>Total</b>	<b>\$ 65,658</b>	<b>\$ 38,409</b>	<b>\$ -</b>	<b>\$ 70</b>	<b>\$ 104,137</b>	<b>100.0 %</b>

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

The following table presents the classification of pension plan assets within the fair value hierarchy as of December 31, 2011:

Asset Class	Level 1	Level 2	Level 3	Other	Total	Year End Allocation
	(In thousands)					
<b>Equities:</b>						
Domestic	\$ 103,245	\$ -	\$ -	\$ -	\$ 103,245	33.8 %
International	28,306	-	-	-	28,306	9.3 %
Real Estate Investment Trusts	7,381	-	-	-	7,381	2.4 %
Common Collective Trust - International	-	9,116	-	-	9,116	3.0 %
<b>Subtotal - Equities</b>	<b>138,932</b>	<b>9,116</b>	<b>-</b>	<b>-</b>	<b>148,048</b>	<b>48.5 %</b>
<b>Fixed Income:</b>						
Common Collective Trust - Debt United States Government and Agency Securities	-	1,863	-	-	1,863	0.6 %
Corporate Debt	-	40,151	-	-	40,151	13.2 %
Foreign Debt	-	69,881	452	-	70,333	23.0 %
State and Local Government	-	13,531	-	-	13,531	4.4 %
Other - Asset Backed	-	3,410	-	-	3,410	1.1 %
	-	1,845	-	-	1,845	0.6 %
<b>Subtotal - Fixed Income</b>	<b>-</b>	<b>130,681</b>	<b>452</b>	<b>-</b>	<b>131,133</b>	<b>42.9 %</b>
Real Estate	-	-	11,592	-	11,592	3.8 %
Alternative Investments	-	-	11,380	-	11,380	3.7 %
Securities Lending	-	15,243	-	-	15,243	5.0 %
Securities Lending Collateral (a)	-	-	-	(16,734)	(16,734)	(5.5)%
Cash and Cash Equivalents	-	6,584	-	-	6,584	2.2 %
Other - Pending Transactions and Accrued Income (b)	-	-	-	(1,861)	(1,861)	(0.6)%
<b>Total</b>	<b>\$ 138,932</b>	<b>\$ 161,624</b>	<b>\$ 23,424</b>	<b>\$ (18,595)</b>	<b>\$ 305,385</b>	<b>100.0 %</b>

(a) Amounts in "Other" column primarily represent an obligation to repay cash collateral received as part of the Securities Lending Program.

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

The following table sets forth a reconciliation of changes in the fair value of assets classified as Level 3 in the fair value hierarchy for the pension assets:

	Corporate Debt	Real Estate	Alternative Investments	Total Level 3
	(In thousands)			
<b>Balance as of January 1, 2011</b>	<b>\$ -</b>	<b>\$ 5,779</b>	<b>\$ 9,029</b>	<b>\$ 14,808</b>
<b>Actual Return on Plan Assets</b>				
Relating to Assets Still Held as of the Reporting Date	-	1,618	673	2,291
Relating to Assets Sold During the Period	-	-	231	231
Purchases and Sales	-	4,195	1,447	5,642
Transfers into Level 3	452	-	-	452
Transfers out of Level 3	-	-	-	-
<b>Balance as of December 31, 2011</b>	<b>\$ 452</b>	<b>\$ 11,592</b>	<b>\$ 11,380</b>	<b>\$ 23,424</b>

The following table presents the classification of OPEB plan assets within the fair value hierarchy as of December 31, 2011:

Asset Class	Level 1	Level 2	Level 3	Other	Total	Year End Allocation
	(In thousands)					
<b>Equities:</b>						
Domestic	\$ 22,914	\$ -	\$ -	\$ -	\$ 22,914	24.7 %
International	25,062	-	-	-	25,062	27.0 %
Common Collective Trust - Global	-	6,534	-	-	6,534	7.0 %
Subtotal - Equities	47,976	6,534	-	-	54,510	58.7 %
<b>Fixed Income:</b>						
Common Collective Trust - Debt	-	4,561	-	-	4,561	4.9 %
United States Government and Agency Securities	-	5,323	-	-	5,323	5.7 %
Corporate Debt	-	10,024	-	-	10,024	10.8 %
Foreign Debt	-	2,125	-	-	2,125	2.3 %
State and Local Government	-	554	-	-	554	0.6 %
Other - Asset Backed	-	126	-	-	126	0.1 %
Subtotal - Fixed Income	-	22,713	-	-	22,713	24.4 %
<b>Trust Owned Life Insurance:</b>						
International Equities	-	3,046	-	-	3,046	3.3 %
United States Bonds	-	10,399	-	-	10,399	11.2 %
Cash and Cash Equivalents	1,108	1,543	-	-	2,651	2.9 %
Other - Pending Transactions and Accrued Income (a)	-	-	-	(428)	(428)	(0.5)%
<b>Total</b>	<b>\$ 49,084</b>	<b>\$ 44,235</b>	<b>\$ -</b>	<b>\$ (428)</b>	<b>\$ 92,891</b>	<b>100.0 %</b>

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

**Determination of Pension Expense**

The determination of pension expense or income is based on a market-related valuation of assets which reduces year-to-year volatility. This market-related valuation recognizes investment gains or losses over a five-year period from the year in which they occur. Investment gains or losses for this purpose are the difference between the expected return calculated using the market-related value of assets and the actual return.

Accumulated Benefit Obligation	December 31,	
	2012	2011
	(in thousands)	
Qualified Pension Plan	\$ 327,665	\$ 337,865
Nonqualified Pension Plan	3,181	3,491
<b>Total</b>	<b>\$ 330,846</b>	<b>\$ 341,356</b>

For the underfunded pension plans that had an accumulated benefit obligation in excess of plan assets, the projected benefit obligation, accumulated benefit obligation and fair value of plan assets of these plans as of December 31, 2012 and 2011 were as follows:

	Underfunded Pension Plans	
	2012	2011
	(In thousands)	
Projected Benefit Obligation	\$ 338,058	\$ 347,273
Accumulated Benefit Obligation	\$ 330,846	\$ 341,356
Fair Value of Plan Assets	317,031	305,385
Underfunded Accumulated Benefit Obligation	\$ (13,815)	\$ (35,971)

***Estimated Future Benefit Payments and Contributions***

TCC expects contributions and payments for the pension plans of \$8.7 million during 2013. The estimated contributions to the pension trust are at least the minimum amount required by the Employee Retirement Income Security Act and additional discretionary contributions may also be made to maintain the funded status of the plan.

The table below reflects the total benefits expected to be paid from the plan or from TCC's assets. The payments include the participants' contributions to the plan for their share of the cost. In November 2012, changes to the retiree medical coverage were announced. Effective for retirements after December 2012, contributions to retiree medical coverage will be capped reducing exposure to future medical cost inflation. Effective for employees hired after December 2013, retiree medical coverage will not be provided. In December 2011, the prescription drug plan was amended for certain participants. The impact of the changes is reflected in the Benefit Plan Obligation table as plan amendments. Future benefit payments are dependent on the number of employees retiring, whether the retiring employees elect to receive pension benefits as annuities or as lump sum distributions, future integration of the benefit plans with changes to Medicare and other legislation, future levels of interest rates and variances in actuarial results. The estimated payments for pension benefits and OPEB are as follows:

	Estimated Payments	
	Pension Plans	Other Postretirement Benefit Plans
	(In thousands)	
2013	\$ 24,092	\$ 9,555
2014	25,196	9,693
2015	25,947	10,029
2016	25,465	10,452
2017	27,035	10,894
Years 2018 to 2022, in Total	129,656	61,654

**Components of Net Periodic Benefit Cost**

The following table provides the components of net periodic benefit cost for the years ended December 31, 2012, 2011 and 2010:

	Pension Plans			Other Postretirement Benefit Plans		
	Years Ended December 31,					
	2012	2011	2010	2012	2011	2010
	(In thousands)					
Service Cost	\$ 5,199	\$ 5,000	\$ 5,555	\$ 2,459	\$ 2,218	\$ 2,462
Interest Cost	15,099	16,520	18,592	6,413	6,797	7,132
Expected Return on Plan Assets	(22,287)	(21,811)	(25,727)	(6,604)	(7,100)	(6,910)
Amortization of Transition Obligation	-	-	-	-	-	3,468
Amortization of Prior Service Credit	(1,262)	(1,270)	(1,271)	(1,182)	(62)	-
Amortization of Net Actuarial Loss	10,150	8,472	6,522	3,556	1,760	1,779
<b>Net Periodic Benefit Cost</b>	<b>6,899</b>	<b>6,911</b>	<b>3,671</b>	<b>4,642</b>	<b>3,613</b>	<b>7,931</b>
Capitalized Portion	(2,835)	(2,744)	(1,520)	(1,908)	(1,434)	(3,283)
<b>Net Periodic Benefit Cost Recognized as Expense</b>	<b>\$ 4,064</b>	<b>\$ 4,167</b>	<b>\$ 2,151</b>	<b>\$ 2,734</b>	<b>\$ 2,179</b>	<b>\$ 4,648</b>

Estimated amounts expected to be amortized to net periodic benefit costs (credits) and the impact on the balance sheet during 2013 are shown in the following table:

Components	Pension Plans	Other Postretirement Benefit Plans
	(In thousands)	
Net Actuarial Loss	\$ 11,442	\$ 4,003
Prior Service Cost (Credit)	320	(4,288)
<b>Total Estimated 2013 Amortization</b>	<b>\$ 11,762</b>	<b>\$ (285)</b>
<b>Expected to be Recorded as</b>		
Regulatory Asset	\$ 11,762	\$ (285)
<b>Total</b>	<b>\$ 11,762</b>	<b>\$ (285)</b>

**American Electric Power System Retirement Savings Plan**

TCC participates in an AEP sponsored defined contribution retirement savings plan, the American Electric Power System Retirement Savings Plan, for substantially all employees. This qualified plan offers participants an opportunity to contribute a portion of their pay, includes features under Section 401(k) of the Internal Revenue Code and provides for matching contributions. The matching contributions to the plan are 100% of the first 1% of eligible employee contributions and 70% of the next 5% of contributions. The cost for matching contributions totaled \$3.1 million in 2012, \$3 million in 2011 and \$2.8 million in 2010.

**7. BUSINESS SEGMENTS**

TCC has one reportable segment, an integrated electricity transmission and distribution business. TCC's other activities are insignificant.

**8. DERIVATIVES AND HEDGING**

**Cash Flow Hedging Strategies**

TCC's vehicle fleet is exposed to gasoline and diesel fuel price volatility. AEPSC, on behalf of TCC, enters into financial heating oil and gasoline derivative contracts in order to mitigate price risk of future fuel purchases. Not all fuel price risk exposure is hedged. The gross notional volumes of TCC's outstanding derivative contracts for heating oil and gasoline as of December 31, 2012 and 2011 were 801 thousand gallons and 812 thousand gallons, respectively.

According to the accounting guidance for "Derivatives and Hedging," TCC reflects the fair values of derivative instruments subject to netting agreements with the same counterparty net of related cash collateral. For certain risk management contracts, TCC is required to post or receive cash collateral based on third party contractual agreements and risk profiles. For the December 31, 2012 balance sheet, TCC had no netting of cash collateral paid to third parties against short-term and long-term risk management liabilities.

The following tables represent the gross fair value impact of TCC's derivative activity on the balance sheets as of December 31, 2012 and 2011:

**Fair Value of Derivative Instruments  
December 31, 2012**

<u>Balance Sheet Location</u>	<u>Hedging Contracts (a)</u>	<u>Gross Amounts Offset in the Statement of Financial Position (b)</u>	<u>Net Amounts of Assets/Liabilities Presented in the Statement of Financial Position (c)</u>
	(in thousands)		
Prepayments and Other Current Assets	\$ 62	\$ (28)	\$ 34
Deferred Charges and Other Noncurrent Assets	-	-	-
<b>Total Assets</b>	<b>62</b>	<b>(28)</b>	<b>34</b>
Other Current Liabilities	28	(28)	-
Deferred Credits and Other Noncurrent Liabilities	-	-	-
<b>Total Liabilities</b>	<b>28</b>	<b>(28)</b>	<b>-</b>
<b>Total MTM Derivative Contract Net Assets (Liabilities)</b>	<b>\$ 34</b>	<b>\$ -</b>	<b>\$ 34</b>

**Fair Value of Derivative Instruments  
December 31, 2011**

<u>Balance Sheet Location</u>	<u>Hedging Contracts (a)</u>	<u>Gross Amounts Offset in the Statement of Financial Position (b)</u>	<u>Net Amounts of Assets/Liabilities Presented in the Statement of Financial Position (c)</u>
	(in thousands)		
Prepayments and Other Current Assets	\$ -	\$ -	\$ -
Deferred Charges and Other Noncurrent Assets	-	-	-
<b>Total Assets</b>	<b>-</b>	<b>-</b>	<b>-</b>
Other Current Liabilities	129	(129)	-
Deferred Credits and Other Noncurrent Liabilities	-	-	-
<b>Total Liabilities</b>	<b>129</b>	<b>(129)</b>	<b>-</b>
<b>Total MTM Derivative Contract Net Assets (Liabilities)</b>	<b>\$ (129)</b>	<b>\$ 129</b>	<b>\$ -</b>

- (a) Derivative instruments within these categories are reported gross. These instruments are subject to master netting agreements and are presented on the balance sheets on a net basis in accordance with the accounting guidance for "Derivatives and Hedging."
- (b) Amounts include counterparty netting of risk management and hedging contracts and associated cash collateral in accordance with the accounting guidance for "Derivatives and Hedging."
- (c) There are no derivative contracts subject to a master netting arrangement or similar agreement which are not offset in the statement of financial position.

**Accounting for Cash Flow Hedging Strategies**

For cash flow hedges (i.e. hedging the exposure to variability in expected future cash flows that is attributable to a particular risk), TCC initially reports the effective portion of the gain or loss on the derivative instrument as a component of Accumulated Other Comprehensive Income (Loss) on its balance sheets until the period the hedged item affects Net Income. TCC records hedge ineffectiveness as a regulatory asset (for losses) or a regulatory liability (for gains).

TCC reclassifies gains and losses on heating oil and gasoline derivative contracts designated as cash flow hedges from Accumulated Other Comprehensive Income (Loss) on its balance sheets into Other Operation expense, Maintenance expense or Depreciation and Amortization expense, as it relates to capital projects, on its statements of income. During 2012, 2011 and 2010, TCC designated heating oil and gasoline derivatives as cash flow hedges. Hedge ineffectiveness was immaterial for this hedge strategy.

The following table provides details on designated, effective cash flow hedges included in Accumulated Other Comprehensive Income (Loss) on TCC's balance sheets and the reasons for changes in cash flow hedges for the years ended December 31, 2012, 2011 and 2010. All amounts in the following tables are presented net of related income taxes.

**Total Accumulated Other Comprehensive Income (Loss) Activity for Cash Flow Hedges  
Years Ended December 31, 2012, 2011 and 2010**

	Years Ended December 31,		
	2012	2011	2010
	(in thousands)		
Balance in AOCI as of January 1,	\$ (83)	\$ 115	\$ 163
Changes in Fair Value Recognized in AOCI	155	190	105
Amount of (Gain) or Loss Reclassified from AOCI to Statement of Income/within Balance Sheet:			
Other Operation Expense	(17)	(137)	(65)
Maintenance Expense	(10)	(101)	(36)
Property, Plant and Equipment	(16)	(150)	(52)
Balance in AOCI as of December 31,	<u>\$ 29</u>	<u>\$ (83)</u>	<u>\$ 115</u>

Cash flow hedges included in Accumulated Other Comprehensive Income (Loss) on TCC's balance sheets as of December 31, 2012 and 2011 were:

**Impact of Cash Flow Hedges on the Balance Sheet  
December 31, 2012 and 2011**

	December 31,	
	2012	2011
	(In thousands)	
Hedging Assets	\$ 34	\$ -
Hedging Liabilities	-	129
AOCI Gain (Loss) Net of Tax	29	(83)
Portion Expected to be Reclassified to Net Income During the Next Twelve Months	29	(83)

The actual amounts that TCC reclassifies from Accumulated Other Comprehensive Income (Loss) to Net Income can differ from the estimate above due to market price changes. As of December 31, 2012, the maximum length of time that TCC is hedging (with contracts subject to the accounting guidance for "Derivatives and Hedging") its exposure to variability in future cash flows related to forecasted transactions is 12 months.

**9. FAIR VALUE MEASUREMENTS**

*Fair Value Measurements of Long-term Debt*

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

The book values and fair values of TCC's Long-term Debt as of December 31, 2012 and 2011 are summarized in the following table:

	December 31,			
	2012		2011	
	<u>Book Value</u>	<u>Fair Value</u>	<u>Book Value</u>	<u>Fair Value</u>
	(in thousands)			
Long-term Debt	\$ 2,924,566	\$ 3,328,785	\$ 2,390,716	\$ 2,742,800

***Fair Value Measurements of Financial Assets and Liabilities***

For a discussion of fair value accounting and the classification of assets and liabilities within the fair value hierarchy, see the "Fair Value Measurements of Assets and Liabilities" section of Note 1.

The following tables set forth, by level within the fair value hierarchy, TCC's financial assets and liabilities that were accounted for at fair value on a recurring basis as of December 31, 2012 and 2011. As required by the accounting guidance for "Fair Value Measurements and Disclosures," financial assets and liabilities are classified in their entirety based on the lowest level of input that is significant to the fair value measurement. Management's assessment of the significance of a particular input to the fair value measurement requires judgment and may affect the valuation of fair value assets and liabilities and their placement within the fair value hierarchy levels. There have not been any significant changes in management's valuation techniques.

**Assets and Liabilities Measured at Fair Value on a Recurring Basis  
December 31, 2012**

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Other</u>	<u>Total</u>
	(In thousands)				
<b>Assets:</b>					
Restricted Cash for Securitized Transition Funding (a)	\$ 215,218	\$ -	\$ -	\$ 14	\$ 215,232
<b><u>Risk Management Assets</u></b>					
Cash Flow Hedges:					
Commodity Hedges (b)	-	62	-	(28)	34
<b>Total Assets</b>	<b>\$ 215,218</b>	<b>\$ 62</b>	<b>\$ -</b>	<b>\$ (14)</b>	<b>\$ 215,266</b>
<b>Liabilities:</b>					
<b><u>Risk Management Liabilities</u></b>					
Cash Flow Hedges:					
Commodity Hedges (b)	\$ -	\$ 28	\$ -	\$ (28)	\$ -

**Assets and Liabilities Measured at Fair Value on a Recurring Basis  
December 31, 2011**

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Other</u>	<u>Total</u>
	(In thousands)				
<b>Assets:</b>					
Other Cash Deposits (a)	\$ 190,995	\$ -	\$ -	\$ 14	\$ 191,009
<b>Liabilities:</b>					
<b><u>Risk Management Liabilities</u></b>					
Cash Flow Hedges:					
Commodity Hedges (b)	-	129	-	(129)	-

- (a) Amounts in "Other" column primarily represent cash deposits with third parties. Level 1 amounts primarily represent investments in money market funds.  
(b) Amounts in "Other" column primarily represent counterparty netting of risk management and hedging contracts and associated cash collateral under the accounting guidance for "Derivatives and Hedging."

There have been no transfers between Level 1 and Level 2 during the years ended December 31, 2012, 2011 and 2010.

**10. INCOME TAXES**

The details of TCC's income taxes before extraordinary item as reported are as follows:

	Years Ended December 31,		
	2012	2011	2010
	(in thousands)		
Income Tax Expense (Credit):			
Current	\$ 80,128	\$ 39,471	\$ 26,383
Deferred	(27,328)	127,155	4,572
Deferred Investment Tax Credits	(804)	(805)	(808)
<b>Income Tax Expense</b>	<b>\$ 51,996</b>	<b>\$ 165,821</b>	<b>\$ 30,147</b>

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

	Years Ended December 31,		
	2012	2011	2010
	(in thousands)		
Net Income	\$ 109,466	\$ 680,353	\$ 68,267
Extraordinary Item, Net of Tax of \$112,095 in 2011	-	(373,093)	-
Income Tax Expense	51,996	165,821	30,147
<b>Pretax Income</b>	<b>\$ 161,462</b>	<b>\$ 473,081</b>	<b>\$ 98,414</b>
Income Taxes on Pretax Income at Statutory Rate (35%)	\$ 56,512	\$ 165,578	\$ 34,445
Increase (Decrease) in Income Taxes resulting from the following items:			
Depreciation	922	1,227	1,291
Investment Tax Credits, Net	(804)	(805)	(808)
State and Local Income Taxes, Net	2,440	1,244	2,483
Parent Company Loss Benefit	(8,317)	(2,620)	(3,097)
Other	1,243	1,197	(4,167)
<b>Income Tax Expense</b>	<b>\$ 51,996</b>	<b>\$ 165,821</b>	<b>\$ 30,147</b>
<b>Effective Income Tax Rate</b>	<b>32.2 %</b>	<b>35.1 %</b>	<b>30.6 %</b>

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

	December 31,	
	2012	2011
	(in thousands)	
Deferred Tax Assets	\$ 138,876	\$ 121,789
Deferred Tax Liabilities	(1,454,218)	(1,464,073)
<b>Net Deferred Tax Liabilities</b>	<b>\$ (1,315,342)</b>	<b>\$ (1,342,284)</b>
Property Related Temporary Differences	\$ (532,790)	\$ (487,044)
Amounts Due from Customers for Future Federal Income Taxes	(4,515)	(4,789)
Accrued Pensions	10,883	17,792
Regulatory Assets	(19,535)	(271,165)
Securitized Transition Assets	(780,009)	(621,384)
All Other, Net	10,624	24,306
<b>Net Deferred Tax Liabilities</b>	<b>\$ (1,315,342)</b>	<b>\$ (1,342,284)</b>

***AEP System Tax Allocation Agreement***

TCC joins in the filing of a consolidated federal income tax return with its affiliates in the AEP System. The allocation of the AEP System's current consolidated federal income tax to the AEP System companies allocates the benefit of current tax losses to the AEP System companies giving rise to such losses in determining their current tax expense. The tax benefit of the Parent is allocated to its subsidiaries with taxable income. With the exception of the loss of the Parent, the method of allocation reflects a separate return result for each company in the consolidated group.

***Federal and State Income Tax Audit Status***

TCC and other AEP subsidiaries are no longer subject to U.S. federal examination for years before 2009. TCC and other AEP subsidiaries completed the examination of the years 2007 and 2008 in April 2011 and settled all outstanding issues on appeal for the years 2001 through 2006 in October 2011. The settlements did not materially impact TCC's and other AEP subsidiaries' net income, cash flows or financial condition. The IRS examination of years 2009 and 2010 started in October 2011. Although the outcome of tax audits is uncertain, in management's opinion, adequate provisions for federal income taxes have been made for potential liabilities resulting from such matters. In addition, TCC accrues interest on these uncertain tax positions. Management is not aware of any issues for open tax years that upon final resolution are expected to materially impact net income.

TCC and other AEP subsidiaries file income tax returns in various state and local jurisdictions. These taxing authorities routinely examine the tax returns and TCC and other AEP subsidiaries are currently under examination in several state and local jurisdictions. Management believes that previously filed tax returns have positions that may be challenged by these tax authorities. However, management believes that adequate provisions for income taxes have been made for potential liabilities resulting from such challenges and that the ultimate resolution of these audits will not materially impact net income. With few exceptions, TCC is no longer subject to state or local income tax examinations by tax authorities for years before 2008.

***Tax Credit Carryforward***

As of December 31, 2012, TCC had unused federal income tax credits of \$649 thousand, not all of which have an expiration date. Included in the credit carryforward are federal general business tax credits of \$135 thousand. If these credits are not utilized, the federal general business tax credits will expire in the years 2028 through 2031.

TCC anticipates future federal taxable income will be sufficient to realize the tax benefits of the federal tax credits before they expire unused.

***Uncertain Tax Positions***

TCC recognizes interest accruals related to uncertain tax positions in interest income or expense as applicable, and penalties in Other Operation expense in accordance with the accounting guidance for "Income Taxes."

The following table shows the amounts reported for interest expense, interest income and reversal of prior period interest expense:

	Years Ended December 31,		
	2012	2011	2010
	(in thousands)		
Interest Expense	\$ 91	\$ 238	\$ 648
Interest Income	-	(3,655)	-
Reversal of Prior Period Interest Expense	16	1,785	-

The following table shows balances for amounts accrued for the receipt of interest and the payment of interest and penalties:

	December 31,	
	2012	2011
	(in thousands)	
Accrual for Receipt of Interest	\$ -	\$ 122
Accrual for Payment of Interest Penalties	749	259

The reconciliation of the beginning and ending amount of unrecognized tax benefits is as follows:

	2012	2011	2010
	(in thousands)		
Balance as of January 1,	\$ 2,923	\$ 14,991	\$ 15,526
Increase - Tax Positions Taken During a Prior Period	589	1,948	849
Decrease - Tax Positions Taken During a Prior Period	(80)	(2,300)	(1,028)
Increase - Tax Positions Taken During the Current Year	-	-	-
Decrease - Tax Positions Taken During the Current Year	-	-	(356)
Decrease - Settlements with Taxing Authorities	(595)	(7,659)	-
Decrease - Lapse of the Applicable Statute of Limitations	(87)	(4,057)	-
Balance as of December 31,	<u>\$ 2,750</u>	<u>\$ 2,923</u>	<u>\$ 14,991</u>

The total amount of unrecognized tax benefits that, if recognized, would affect the effective tax rate is \$1.1 million, \$800 thousand and \$1.3 million for 2012, 2011 and 2010, respectively. Management believes there will be no significant net increase or decrease in unrecognized tax benefits within 12 months of the reporting date.

#### *Federal Tax Legislation*

The Patient Protection and Affordable Care Act and the related Health Care and Education Reconciliation Act (Health Care Acts) were enacted in March 2010. The Health Care Acts amend tax rules so that the portion of employer health care costs that are reimbursed by the Medicare Part D prescription drug subsidy will no longer be deductible by the employer for federal income tax purposes effective for years beginning after December 31, 2012. Because of the loss of the future tax deduction, a reduction in the deferred tax asset related to the nondeductible OPEB liabilities accrued to date was recorded by TCC in March 2010. This reduction, which was offset by recording net tax regulatory assets, did not materially affect TCC's net income, cash flows or financial condition for the year ended December 31, 2010.

The Small Business Jobs Act (the 2010 Act) was enacted in September 2010. Included in the 2010 Act was a one-year extension of the 50% bonus depreciation provision. The Tax Relief, Unemployment Insurance Reauthorization and the Job Creation Act of 2010 extended the life of research and development, employment and several energy tax credits originally scheduled to expire at the end of 2010. In addition, the 2010 Act extended the time for claiming bonus depreciation and increased the deduction to 100% for part of 2011 and 2010. The enacted provisions did not materially impact TCC's net income or financial condition but had a favorable impact on cash flows of approximately \$43 million in 2010.

In December 2011, the U.S. Treasury Department issued guidance regarding the deduction and capitalization of expenditures related to tangible property. The guidance was in the form of proposed and temporary regulations and generally is effective for tax years beginning in 2012. In November 2012, the effective date was moved to tax years beginning in 2014. Further, the notice stated that the U. S. Treasury Department anticipates that the final regulations will contain changes from the temporary regulations. Management will evaluate the impact of these regulations once they are issued.

The American Taxpayer Relief Act of 2012 (the 2012 Act) was enacted in January 2013. Included in the 2012 Act was a one-year extension of the 50% bonus depreciation. The 2012 Act also retroactively extended the life of research and development, employment and several energy tax credits, which expired at the end of 2011. The enacted provisions will not materially impact TCC's net income or financial condition but are expected to have a favorable impact on cash flows in 2013.

**11. LEASES**

Leases of property, plant and equipment are for periods up to 10 years and require payments of related property taxes, maintenance and operating costs. The majority of the leases have purchase or renewal options and will be renewed or replaced by other leases.

Lease rentals for both operating and capital leases are generally charged to Other Operation and Maintenance expense in accordance with rate-making treatment for regulated operations. The components of rental costs are as follows:

Lease Rental Costs	Years Ended December 31,		
	2012	2011	2010
		(in thousands)	
Net Lease Expense on Operating Leases	\$ 3,820	\$ 4,952	\$ 4,656
Amortization of Capital Leases	1,928	1,738	1,543
Interest on Capital Leases	213	253	177
<b>Total Lease Rental Costs</b>	<b>\$ 5,961</b>	<b>\$ 6,943</b>	<b>\$ 6,376</b>

The following table shows the property, plant and equipment under capital leases and related obligations recorded on TCC's balance sheets. Capital lease obligations are included in Other Current Liabilities and Deferred Credits and Other Noncurrent Liabilities on TCC's balance sheets.

	December 31,	
	2012	2011
	(in thousands)	
<b>Property, Plant and Equipment Under Capital Leases</b>		
Total Property, Plant and Equipment Under Capital Leases – Other	\$ 6,164	\$ 4,503
Accumulated Amortization	1,923	1,558
<b>Net Property, Plant and Equipment Under Capital Leases</b>	<b>\$ 4,241</b>	<b>\$ 2,945</b>
<b>Obligations Under Capital Leases</b>		
Nonecurrent Liability	\$ 2,735	\$ 1,758
Liability Due Within One Year	1,506	1,187
<b>Total Obligations Under Capital Leases</b>	<b>\$ 4,241</b>	<b>\$ 2,945</b>

Future minimum lease payments consisted of the following as of December 31, 2012:

Future Minimum Lease Payments	Noncancelable	
	Capital Leases	Operating Leases
	(in thousands)	
2013	\$ 1,659	\$ 3,125
2014	808	2,485
2015	660	2,213
2016	502	1,957
2017	397	1,430
Later Years	725	2,471
<b>Total Future Minimum Lease Payments</b>	<b>4,751</b>	<b>\$ 13,681</b>
Less Estimated Interest Element	510	
<b>Estimated Present Value of Future Minimum Lease Payments</b>	<b>\$ 4,241</b>	

**Master Lease Agreements**

TCC leases certain equipment under master lease agreements. Under the lease agreements, the lessor is guaranteed a residual value up to a stated percentage of either the unamortized balance or the equipment cost at the end of the lease term. If the actual fair value of the leased equipment is below the guaranteed residual value at the end of the lease term, TCC is committed to pay the difference between the actual fair value and the residual value guarantee. Historically, at the end of the lease term the fair value has been in excess of the unamortized balance. As of December 31, 2012, the maximum potential loss for these lease agreements was approximately \$2.6 million assuming the fair value of the equipment is zero at the end of the lease term.

**12. FINANCING ACTIVITIES**

**Preferred Stock**

In December 2011, TCC redeemed all of its outstanding preferred stock with a par value of \$5.3 million at a premium, resulting in a \$269 thousand loss, which is included in Preferred Stock Dividend Requirements Including Capital Stock Expense on TCC's statement of income.

Series	Number of Shares Redeemed Years Ended December 31,	
	2011	2010
4.00%	41,736	11
4.20%	15,301	2,000

**Long-term Debt**

There are certain limitations on establishing liens against TCC's assets under its indentures. None of the long-term debt obligations of TCC have been guaranteed or secured by AEP or any of its affiliates.

The following details long-term debt outstanding as of December 31, 2012 and 2011:

Type of Debt	Maturity	Weighted Average Interest Rate as of December 31,			Outstanding as of December 31,	
		2012	2012	2011	2012	2011
(In thousands)						
Senior Unsecured Notes	2033	6.65%	6.65%	6.65%	\$ 275,000	\$ 275,000
Pollution Control Bonds (a)	2012-2030	5.20%	4.40%-6.30%	1.125%-6.30%	369,555	429,555
Securitization Bonds	2013-2024 (b)	4.21%	0.88%-6.25%	4.98%-6.25%	2,281,437	1,687,746
Unamortized Discount, Net					(1,426)	(1,585)
<b>Total Long-term Debt Outstanding</b>					<b>2,924,566</b>	<b>2,390,716</b>
<b>Long-term Debt Due Within One Year</b>					<b>243,378</b>	<b>231,574</b>
<b>Long-term Debt</b>					<b>\$ 2,681,188</b>	<b>\$ 2,159,142</b>

- (a) Standby bond purchase agreements and insurance policies support certain series.
- (b) Dates represent the scheduled final payment dates for TCC's securitization bonds. The maturity date is one to two years later. These bonds have been classified for maturity and repayment purposes based on the scheduled final payment date.

Long-term debt outstanding as of December 31, 2012 is payable as follows:

	2013	2014	2015	2016	2017	After 2017	Total
	(in thousands)						
Principal Amount	\$ 243,378	\$ 258,099	\$ 273,690	\$ 253,709	\$ 263,060	\$ 1,634,056	\$ 2,925,992
Unamortized Discount, Net							(1,426)
<b>Total Long-term Debt Outstanding</b>							<b>\$ 2,924,566</b>

In January 2013, TCC retired \$105 million of its outstanding Securitization Bonds.

As of December 31, 2012, trustees held, on TCC's behalf, \$120 million of its reacquired Pollution Control Bonds.

**Dividend Restrictions**

**Federal Power Act**

The Federal Power Act prohibits TCC from participating "in the making or paying of any dividends of such public utility from any funds properly included in capital account." The term "capital account" is not defined in the Federal Power Act or its regulations. Management understands "capital account" to mean the book value of the common stock. This restriction does not limit the ability of TCC to pay dividends out of retained earnings.

**Utility Money Pool – AEP System**

The AEP System uses a corporate borrowing program to meet the short-term borrowing needs of the subsidiaries. The corporate borrowing program includes a Utility Money Pool, which funds AEP's utility subsidiaries. The AEP System Utility Money Pool operates in accordance with the terms and conditions approved in a regulatory order. The amount of outstanding borrowings from the Utility Money Pool as of December 31, 2012 and 2011 is included in Advances from Affiliates on TCC's balance sheets. TCC's Utility Money Pool activity and corresponding authorized borrowing limits for the years ended December 31, 2012 and 2011 are described in the following table:

Year	Maximum Borrowings from Utility Money Pool	Maximum Loans to Utility Money Pool	Average Borrowings from Utility Money Pool	Average Loans to Utility Money Pool	Borrowings from Utility Money Pool as of December 31,	Authorized Short-Term Borrowing Limit
	(in thousands)					
2012	\$ 103,335	\$ 720,746	\$ 54,849	\$ 53,036	\$ 103,335	\$ 250,000
2011	36,043	141,586	19,326	53,569	36,043	250,000

Maximum, minimum and average interest rates for funds either borrowed from or loaned to the Utility Money Pool for the years ended December 31, 2012, 2011 and 2010 are summarized in the following table:

Years Ended December 31,	Maximum Interest Rates for Funds Borrowed from Utility Money Pool	Minimum Interest Rates for Funds Borrowed from Utility Money Pool	Maximum Interest Rates for Funds Loaned to Utility Money Pool	Minimum Interest Rates for Funds Loaned to Utility Money Pool	Average Interest Rates for Funds Borrowed from Utility Money Pool	Average Interest Rates for Funds Loaned to Utility Money Pool
2012	0.56 %	0.39 %	0.48 %	0.46 %	0.46 %	0.47 %
2011	0.51 %	0.39 %	0.56 %	0.06 %	0.46 %	0.29 %
2010	- %	- %	0.55 %	0.09 %	- %	0.27 %

Interest expense and interest income related to the Utility Money Pool are included in Interest Expense and Interest Income, respectively, on TCC's statements of income. For amounts borrowed from and advanced to the Utility Money Pool, TCC incurred the following amounts of interest expense and earned the following amounts of interest income for the years ended December 31, 2012, 2011 and 2010:

	Years Ended December 31,		
	2012	2011	2010
	(In thousands)		
Interest Expense	\$ 201	\$ 13	\$ -
Interest Income	55	138	351

### 13. RELATED PARTY TRANSACTIONS

For other related party transactions, also see "Texas Transmission Facilities" sections of Note 5, "AEP System Tax Allocation Agreement" section of Note 10 and "Utility Money Pool – AEP System" section of Note 12.

#### *Affiliated Revenues*

TCC's other revenues derived from sales to affiliates for the years ended December 31, 2012, 2011 and 2010 were \$3.7 million, \$3.7 million and \$4.2 million, respectively. These related party revenues are reported in Sales to AEP Affiliates on TCC's statements of income.

#### *ERCOT Transmission Cost of Service*

TCC's net expenses allocated pursuant to the PUCT-approved ERCOT protocols for the years ended December 31, 2012, 2011 and 2010 were \$2.1 million, \$2.1 million and \$2.1 million, respectively. The net expenses are recorded in Other Operation expenses on TCC's statements of income.

#### *ERCOT Transmission Service Charges*

Pursuant to an order from the PUCT, ETT bills TCC for its ERCOT wholesale transmission services. ETT billed TCC \$6.5 million, \$4.4 million and \$2.7 million for transmission services in 2012, 2011 and 2010, respectively. The billings are recorded in Other Operation expenses on TCC's statements of income.

#### *Sales and Purchases of Property*

TCC had affiliated sales and purchases of electric property individually amounting to \$100 thousand or more and sales and purchases of meters and transformers for the years ended December 31, 2012, 2011 and 2010 as shown in the following table:

	Years Ended December 31,		
	2012	2011	2010
	(In thousands)		
Sales	\$ 7,517	\$ 4,915	\$ 1,681
Purchases	3,844	2,880	883

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

#### *Intercompany Billings*

TCC performs certain utility services for other AEP subsidiaries when necessary or practical. The costs of these services are billed on a direct-charge basis, whenever possible, or on reasonable basis of proration for services that benefit multiple companies. The billings for services are made at cost and include no compensation for the use of equity capital.

**14. VARIABLE INTEREST ENTITIES**

The accounting guidance for "Variable Interest Entities" is a consolidation model that considers if a company has a controlling financial interest in a VIE. A controlling financial interest will have both (a) the power to direct the activities of a VIE that most significantly impact the VIE's economic performance and (b) the obligation to absorb losses of the VIE that could potentially be significant to the VIE or the right to receive benefits from the VIE that could potentially be significant to the VIE. Entities are required to consolidate a VIE when it is determined that they have a controlling financial interest in a VIE and therefore, are the primary beneficiary of that VIE, as defined by the accounting guidance for "Variable Interest Entities." In determining whether TCC is the primary beneficiary of a VIE, management considers factors such as equity at risk, the amount of the VIE's variability TCC absorbs, guarantees of indebtedness, voting rights including kick-out rights, the power to direct the VIE, variable interests held by related parties and other factors. Management believes that significant assumptions and judgments were applied consistently.

AEP Texas Central Transition Funding I LLC, AEP Texas Central Transition Funding II LLC and AEP Texas Central Transition Funding III LLC, wholly-owned subsidiaries of TCC, (collectively Transition Funding) were formed for the sole purpose of issuing and servicing securitization bonds related to Texas Restructuring Legislation. Management has concluded that TCC is the primary beneficiary of Transition Funding because TCC has the power to direct the most significant activities of the VIE and TCC's equity interest could potentially be significant. Therefore, TCC is required to consolidate Transition Funding. The securitized bonds totaled \$2.3 billion and \$1.7 billion as of December 31, 2012 and 2011, respectively, and are included in current and long-term debt on the balance sheets. Transition Funding has securitized transition assets of \$2.1 billion and \$1.6 billion as of December 31, 2012 and 2011, respectively, which are presented separately on the face of the balance sheets. The securitized transition assets represent the right to impose and collect Texas true-up costs from customers receiving electric transmission or distribution service from TCC under recovery mechanisms approved by the PUCT. The securitization bonds are payable only from and secured by the securitized transition assets. The bondholders have no recourse to TCC or any other AEP entity. TCC acts as the servicer for Transition Funding's securitized transition asset and remits all related amounts collected from customers to Transition Funding for interest and principal payments on the securitization bonds and related costs.

The balances below represent the assets and liabilities of the Transition Funding that are consolidated. These balances include intercompany transactions that are eliminated upon consolidation.

**AEP TEXAS CENTRAL COMPANY AND SUBSIDIARIES  
VARIABLE INTEREST ENTITIES  
December 31, 2012 and 2011  
(In millions)**

	<u>Transition Funding</u>	
	<u>2012</u>	<u>2011</u>
<b>ASSETS</b>		
Current Assets	\$ 249,286	\$ 219,708
Other Noncurrent Assets	2,167,217 (a)	1,580,149
<b>Total Assets</b>	<b>\$ 2,416,503</b>	<b>\$ 1,799,857</b>
<b>LIABILITIES AND EQUITY</b>		
Current Liabilities	\$ 303,775	\$ 229,374
Noncurrent Liabilities	2,094,678	1,556,446
Equity	18,050	14,037
<b>Total Liabilities and Equity</b>	<b>\$ 2,416,503</b>	<b>\$ 1,799,857</b>

(a) Includes an intercompany item eliminated in consolidation of \$89 million.

AEPSC provides certain managerial and professional services to AEP's subsidiaries. AEP is the sole equity owner of AEPSC. AEP management controls the activities of AEPSC. The costs of the services are based on a direct charge or on a prorated basis and billed to the AEP subsidiary companies at AEPSC's cost. AEP subsidiaries have not provided financial or other support outside the reimbursement of costs for services rendered. AEPSC finances its operations through cost reimbursement from other AEP subsidiaries. There are no other terms or arrangements between AEPSC and any of the AEP subsidiaries that could require additional financial support from an AEP subsidiary or expose them to losses outside of the normal course of business. AEPSC and its billings are subject to

regulation by the FERC. AEP subsidiaries are exposed to losses to the extent they cannot recover the costs of AEPSC through their normal business operations. AEP subsidiaries are considered to have a significant interest in AEPSC due to their activity in AEPSC's cost reimbursement structure. However, AEP subsidiaries do not have control over AEPSC. AEPSC is consolidated by AEP. In the event AEPSC would require financing or other support outside the cost reimbursement billings, this financing would be provided by AEP. TCC's total billings from AEPSC for the years ended December 31, 2012, 2011 and 2010 were \$65 million, \$63 million and \$76 million, respectively. The carrying amount of liabilities associated with AEPSC as of December 31, 2012 and 2011 was \$10 million and \$7 million, respectively. Management estimates the maximum exposure of loss to be equal to the amount of such liability.

### 15. PROPERTY, PLANT AND EQUIPMENT

#### Depreciation

TCC provides for depreciation of Property, Plant and Equipment on a straight-line basis over the estimated useful lives of property, generally using composite rates by functional class. The following table provides the annual composite depreciation rates by functional class:

2012	Regulated				Nonregulated				
	Functional Class of Property	Property, Plant and Equipment	Accumulated Depreciation	Annual Composite Depreciation Rate	Depreciable Life Ranges	Property, Plant and Equipment	Accumulated Depreciation	Annual Composite Depreciation Rate	Depreciable Life Ranges
	(in thousands)			(in years)	(in thousands)				(in years)
Transmission	\$ 1,194,582	\$ 239,141	1.5%	50-81	\$ -	\$ -	NA	NA	NA
Distribution	2,120,155	431,152	3.6%	22-64	-	-	NA	NA	NA
CWIP	104,788	(9,344)	NM	NM	-	-	NA	NA	NA
Other	261,788	110,231	7.3%	15-40	2,540	674	NM	NM	NM
<b>Total</b>	<b>\$ 3,681,313</b>	<b>\$ 771,180</b>			<b>\$ 2,540</b>	<b>\$ 674</b>			

2011	Regulated				Nonregulated				
	Functional Class of Property	Property, Plant and Equipment	Accumulated Depreciation	Annual Composite Depreciation Rate	Depreciable Life Ranges	Property, Plant and Equipment	Accumulated Depreciation	Annual Composite Depreciation Rate	Depreciable Life Ranges
	(in thousands)			(in years)	(in thousands)				(in years)
Transmission	\$ 1,135,982	\$ 217,177	1.5%	50-81	\$ -	\$ -	NA	NA	NA
Distribution	2,002,508	402,267	3.6%	22-64	-	-	NA	NA	NA
CWIP	58,906	6,634	NM	NM	-	-	NA	NA	NA
Other	256,064	110,317	7.3%	NM	3,346	1,127	NM	NM	NM
<b>Total</b>	<b>\$ 3,453,460</b>	<b>\$ 736,395</b>			<b>\$ 3,346</b>	<b>\$ 1,127</b>			

2010	Regulated		Nonregulated		
	Functional Class of Property	Annual Composite Depreciation Rate	Depreciable Life Ranges	Annual Composite Depreciation Rate	Depreciable Life Ranges
			(in years)		(in years)
Transmission		1.6%	50-81	NA	NA
Distribution		3.5%	22-64	NA	NA
CWIP		NM	NM	NA	NA
Other		6.5%	NM	NM	NM

NA Not applicable.  
NM Not meaningful.

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

**Asset Retirement Obligations (ARO)**

TCC records ARO in accordance with the accounting guidance for "Asset Retirement and Environmental Obligations" for asbestos removal. TCC has identified, but not recognized, ARO liabilities related to electric transmission and distribution assets, as a result of certain easements on property on which assets are owned. Generally, such easements are perpetual and require only the retirement and removal of assets upon the cessation of the property's use. The retirement obligation is not estimable for such easements since TCC plans to use its facilities indefinitely. The retirement obligation would only be recognized if and when TCC abandons or ceases the use of specific easements, which is not expected.

The following is a reconciliation of the 2012 and 2011 aggregate carrying amounts of ARO for TCC:

Year	ARO as of January 1,	Accretion Expense	Liabilities Incurred	Liabilities Settled	Revisions in		ARO as of December 31,
					Cash Flow Estimates		
(in thousands)							
2012	\$ 1,869	\$ 117	\$ 15	\$ (45)	\$ 19		1,975
2011	1,550	99	220	-	-		1,869

**Allowance for Funds Used During Construction (AFUDC)**

TCC's amounts of allowance for borrowed and equity funds used during construction are summarized in the following table:

	Years Ended December 31,		
	2012	2011	2010
(in thousands)			
Allowance for Equity Funds Used During Construction	\$ 1,967	\$ 2,642	\$ 4,653
Allowance for Borrowed Funds Used During Construction	1,309	1,402	3,637

**16. COST REDUCTION PROGRAMS**

**2012 Sustainable Cost Reductions**

In April 2012, management initiated a process to identify strategic repositioning opportunities and efficiencies that will result in sustainable cost savings. Management selected a consulting firm to conduct an organizational and process evaluation and a second firm to evaluate current employee benefit programs. The process resulted in involuntary severances and is expected to be completed by the end of the first quarter of 2013. The severance program provides two weeks of base pay for every year of service along with other severance benefits.

TCC recorded a charge to expense during 2012 related to the sustainable cost reductions initiative.

Expense Allocation from AEPSC	Incurred	Settled	Remaining Balance as of December 31, 2012
(in thousands)			
\$ 2,453	\$ 702	\$ (2,456)	\$ 699

These expenses relate primarily to severance benefits. They are included primarily in Other Operation expense on the statement of income and Other Current Liabilities on the balance sheet.

**2010 Cost Reduction Initiatives**

In April 2010, management began initiatives to decrease both labor and non-labor expenses with a goal of achieving significant reductions in operation and maintenance expenses. A total of 2,461 positions was eliminated across the AEP System as a result of process improvements, streamlined organizational designs and other efficiencies. Many of these eliminated positions resulted from employees that elected retirement through voluntary severance. Most of the affected employees terminated employment as of May 31, 2010. The severance program provided two weeks of base pay for every year of service along with other severance benefits.

TCC recorded a charge to Other Operation expense during 2010 primarily related to severance benefits as the result of headcount reduction initiatives. The total amount incurred in 2010 by TCC was \$24.9 million.

**17. UNAUDITED QUARTERLY FINANCIAL INFORMATION**

In management's opinion, the unaudited quarterly information reflects all normal and recurring accruals and adjustments necessary for a fair presentation of the results of operations for interim periods. Quarterly results are not necessarily indicative of a full year's operations because of various factors. TCC's unaudited quarterly financial information is as follows:

	<u>March 31</u>	<u>2012 Quarterly Periods Ended</u>		<u>December 31</u>
		<u>June 30</u>	<u>September 30</u>	
		(In thousands)		
Total Revenues	\$ 210,995	\$ 260,448	\$ 287,667	\$ 229,748
Operating Income	69,464	77,177	87,445	56,268
Net Income	30,275	27,299	33,630	18,262
	<u>March 31</u>	<u>2011 Quarterly Periods Ended</u>		<u>December 31</u>
		<u>June 30</u>	<u>September 30</u>	
		(In thousands)		
Total Revenues	\$ 209,100	\$ 238,135	\$ 264,954	\$ 210,643
Operating Income	63,518	77,728	83,270	58,306
Income Before Extraordinary Item (a)	-	-	201,933	61,129
Extraordinary Item, Net of Tax (a)	-	-	273,452	99,641
Net Income	18,332	25,866	475,385 (b)	160,770 (b)

(a) See Note 2 for discussion of extraordinary item related to Texas Restructuring appeals recorded in the third and fourth quarters of 2011.

(b) Includes carrying costs income related to Texas Restructuring appeals recorded in the third and fourth quarters of 2011.

ANNEX 2

**AEP Texas Central Company  
And Subsidiaries**

**2013 First Quarter Report**

**Consolidated Financial Statements**

**TABLE OF CONTENTS**

---

	<b>Page Number</b>
Glossary of Terms	1
Condensed Consolidated Statements of Income – Unaudited	2
Condensed Consolidated Statements of Comprehensive Income (Loss) – Unaudited	3
Condensed Consolidated Statements of Changes in Common Shareholder's Equity – Unaudited	4
Condensed Consolidated Balance Sheets – Unaudited	5
Condensed Consolidated Statements of Cash Flows – Unaudited	7
Index of Condensed Notes to Condensed Consolidated Financial Statements – Unaudited	8

**GLOSSARY OF TERMS**

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

<b>Term</b>	<b>Meaning</b>
AEP or Parent	American Electric Power Company, Inc., a utility holding company.
AEP System	American Electric Power System, an integrated electric utility system, owned and operated by AEP's electric utility subsidiaries.
AEPSC	American Electric Power Service Corporation, an AEP service subsidiary providing management and professional services to AEP and its subsidiaries.
AOCI	Accumulated Other Comprehensive Income.
CAA	Clean Air Act.
CO <sub>2</sub>	Carbon dioxide and other greenhouse gases.
FERC	Federal Energy Regulatory Commission.
FTR	Financial Transmission Right, a financial instrument that entitles the holder to receive compensation for certain congestion-related transmission charges that arise when the power grid is congested resulting in differences in locational prices.
GAAP	Accounting Principles Generally Accepted in the United States of America.
IRS	Internal Revenue Service.
MTM	Mark-to-Market.
OPEB	Other Postretirement Benefit Plans.
OTC	Over the counter.
PUCT	Public Utility Commission of Texas.
Risk Management Contracts	Trading and nontrading derivatives, including those derivatives designated as cash flow and fair value hedges.
TCC	AEP Texas Central Company, an AEP electric utility subsidiary.
Transition Funding	AEP Texas Central Transition Funding I LLC, AEP Texas Central Transition Funding II LLC and AEP Texas Central Transition Funding III LLC, wholly-owned subsidiaries of TCC and consolidated variable interest entities formed for the purpose of issuing and servicing securitization bonds related to Texas restructuring law.
Texas Restructuring Legislation	Legislation enacted in 1999 to restructure the electric utility industry in Texas.
Utility Money Pool	Centralized funding mechanism AEP uses to meet the short-term cash requirements of certain utility subsidiaries.
VIE	Variable Interest Entity.

**AEP TEXAS CENTRAL COMPANY AND SUBSIDIARIES**  
**CONDENSED CONSOLIDATED STATEMENTS OF INCOME**  
For the Three Months Ended March 31, 2013 and 2012  
(in thousands)  
(Unaudited)

	<b>Three Months Ended March 31,</b>	
	<b>2013</b>	<b>2012</b>
<b>REVENUES</b>		
Electric Transmission and Distribution	\$ 224,961	\$ 209,740
Sales to AEP Affiliates	976	884
Other Revenues	641	371
<b>TOTAL REVENUES</b>	<b>226,578</b>	<b>210,995</b>
<b>EXPENSES</b>		
Other Operation	60,297	50,716
Maintenance	8,862	7,358
Depreciation and Amortization	75,094	66,745
Taxes Other Than Income Taxes	14,538	16,712
<b>TOTAL EXPENSES</b>	<b>158,791</b>	<b>141,531</b>
<b>OPERATING INCOME</b>	<b>67,787</b>	<b>69,464</b>
<b>Other Income (Expense):</b>		
Interest Income	13	123
Carrying Costs Income	-	7,775
Allowance for Equity Funds Used During Construction	92	351
Interest Expense	(35,900)	(30,979)
<b>INCOME BEFORE INCOME TAX EXPENSE</b>	<b>31,992</b>	<b>46,734</b>
Income Tax Expense	11,901	16,459
<b>NET INCOME</b>	<b>\$ 20,091</b>	<b>\$ 30,275</b>

*The common stock of TCC is owned by a wholly-owned subsidiary of AEP.*

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

**AEP TEXAS CENTRAL COMPANY AND SUBSIDIARIES**  
**CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)**  
**For the Three Months Ended March 31, 2013 and 2012**  
**(in thousands)**  
**(Unaudited)**

	<b>Three Months Ended March 31,</b>	
	<b>2013</b>	<b>2012</b>
Net Income	\$ 20,091	\$ 30,275
<b>OTHER COMPREHENSIVE INCOME, NET OF TAXES</b>		
Cash Flow Hedges, Net of Tax of \$22 and \$99 in 2013 and 2012, Respectively	40	183
<b>TOTAL COMPREHENSIVE INCOME</b>	<b>\$ 20,131</b>	<b>\$ 30,458</b>

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

**AEP TEXAS CENTRAL COMPANY AND SUBSIDIARIES**  
**CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN**  
**COMMON SHAREHOLDER'S EQUITY**  
**For the Three Months Ended March 31, 2013 and 2012**  
**(in thousands)**  
**(Unaudited)**

	<u>Common Stock</u>	<u>Paid-in Capital</u>	<u>Retained Earnings</u>	<u>Accumulated Other Comprehensive Income (Loss)</u>	<u>Total</u>
<b>TOTAL COMMON SHAREHOLDER'S EQUITY – DECEMBER 31, 2011</b>	\$ 55,292	\$ 171,062	\$ 1,011,990	\$ (83)	\$ 1,238,261
Common Stock Dividends			(674,824)		(674,824)
Net Income			30,275		30,275
Other Comprehensive Income				183	183
<b>TOTAL COMMON SHAREHOLDER'S EQUITY – MARCH 31, 2012</b>	<u>\$ 55,292</u>	<u>\$ 171,062</u>	<u>\$ 367,441</u>	<u>\$ 100</u>	<u>\$ 593,895</u>
<b>TOTAL COMMON SHAREHOLDER'S EQUITY – DECEMBER 31, 2012</b>	\$ 55,292	\$ 171,062	\$ 431,632	\$ 29	\$ 658,015
Common Stock Dividends			(1,250)		(1,250)
Net Income			20,091		20,091
Other Comprehensive Income				40	40
<b>TOTAL COMMON SHAREHOLDER'S EQUITY – MARCH 31, 2013</b>	<u>\$ 55,292</u>	<u>\$ 171,062</u>	<u>\$ 450,473</u>	<u>\$ 69</u>	<u>\$ 676,896</u>

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

**AEP TEXAS CENTRAL COMPANY AND SUBSIDIARIES**  
**CONDENSED CONSOLIDATED BALANCE SHEETS**  
**ASSETS**  
**March 31, 2013 and December 31, 2012**  
(in thousands)  
(Unaudited)

	March 31, 2013	December 31, 2012
<b>CURRENT ASSETS</b>		
Cash and Cash Equivalents	\$ 965	\$ 100
Restricted Cash for Securitized Transition Funding	139,164	215,218
Accounts Receivable:		
Customers	74,399	70,178
Affiliated Companies	3,111	6,733
Accrued Unbilled Revenues	40,385	41,678
Allowance for Uncollectible Accounts	(1,452)	(1,293)
Total Accounts Receivable	116,443	117,296
Materials and Supplies	38,581	37,423
Prepayments and Other Current Assets	2,646	1,884
<b>TOTAL CURRENT ASSETS</b>	<b>297,799</b>	<b>371,921</b>
<b>PROPERTY, PLANT AND EQUIPMENT</b>		
Electric:		
Transmission	1,204,184	1,194,582
Distribution	2,152,877	2,120,155
Other Property, Plant and Equipment	268,271	264,328
Construction Work in Progress	126,704	104,788
<b>Total Property, Plant and Equipment</b>	3,752,036	3,683,853
Accumulated Depreciation and Amortization	786,606	771,854
<b>TOTAL PROPERTY, PLANT AND EQUIPMENT – NET</b>	<b>2,965,430</b>	<b>2,911,999</b>
<b>OTHER NONCURRENT ASSETS</b>		
Regulatory Assets	285,216	282,404
Securitized Transition Assets (March 31, 2013 and December 31, 2012 Amounts Include \$2,007,155 and \$2,057,817, Respectively, Related to Transition Funding)	2,064,882	2,116,833
Deferred Charges and Other Noncurrent Assets	44,937	26,191
<b>TOTAL OTHER NONCURRENT ASSETS</b>	<b>2,395,035</b>	<b>2,425,428</b>
<b>TOTAL ASSETS</b>	<b>\$ 5,658,264</b>	<b>\$ 5,709,348</b>

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

**AEP TEXAS CENTRAL COMPANY AND SUBSIDIARIES**  
**CONDENSED CONSOLIDATED BALANCE SHEETS**  
**LIABILITIES AND COMMON SHAREHOLDER'S EQUITY**  
**March 31, 2013 and December 31, 2012**  
(dollars in thousands)  
(Unaudited)

	<b>March 31, 2013</b>	<b>December 31, 2012</b>
<b>CURRENT LIABILITIES</b>		
Advances from Affiliates	\$ 151,630	\$ 103,335
Accounts Payable:		
General	36,597	35,066
Affiliated Companies	11,149	15,736
Long-term Debt Due Within One Year – Nonaffiliated (March 31, 2013 and December 31, 2012 Amounts Include \$250,532 and \$243,378, Respectively, Related to Transition Funding)	250,532	243,378
Customer Deposits	19,214	20,283
Accrued Taxes	54,577	40,486
Accrued Interest (March 31, 2013 and December 31, 2012 Amounts Include \$23,304 and \$40,045, Respectively, Related to Transition Funding)	33,996	50,436
Other Current Liabilities	27,928	37,779
<b>TOTAL CURRENT LIABILITIES</b>	<b>585,623</b>	<b>546,499</b>
<b>NONCURRENT LIABILITIES</b>		
Long-term Debt – Nonaffiliated (March 31, 2013 and December 31, 2012 Amounts Include \$1,925,545 and \$2,037,690, Respectively, Related to Transition Funding)	2,569,056	2,681,188
Deferred Income Taxes	1,311,320	1,308,163
Regulatory Liabilities and Deferred Investment Tax Credits	466,926	467,888
Deferred Credits and Other Noncurrent Liabilities	48,443	47,595
<b>TOTAL NONCURRENT LIABILITIES</b>	<b>4,395,745</b>	<b>4,504,834</b>
<b>TOTAL LIABILITIES</b>	<b>4,981,368</b>	<b>5,051,333</b>
Rate Matters (Note 3)		
Commitments and Contingencies (Note 4)		
<b>COMMON SHAREHOLDER'S EQUITY</b>		
Common Stock – Par Value – \$25 Per Share:		
Authorized – 12,000,000 Shares		
Outstanding – 2,211,678 Shares	55,292	55,292
Paid-in Capital	171,062	171,062
Retained Earnings	450,473	431,632
Accumulated Other Comprehensive Income (Loss)	69	29
<b>TOTAL COMMON SHAREHOLDER'S EQUITY</b>	<b>676,896</b>	<b>658,015</b>
<b>TOTAL LIABILITIES AND COMMON SHAREHOLDER'S EQUITY</b>	<b>\$ 5,658,264</b>	<b>\$ 5,709,348</b>

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

**AEP TEXAS CENTRAL COMPANY AND SUBSIDIARIES**  
**CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS**  
For the Three Months Ended March 31, 2013 and 2012  
(in thousands)  
(Unaudited)

	<b>Three Months Ended March 31,</b>	
	<b>2013</b>	<b>2012</b>
<b>OPERATING ACTIVITIES</b>		
<b>Net Income</b>	<b>\$ 20,091</b>	<b>\$ 30,275</b>
<b>Adjustments to Reconcile Net Income to Net Cash Flows from Operating Activities:</b>		
Depreciation and Amortization	75,094	66,745
Deferred Income Taxes	2,969	512
Carrying Costs Income	-	(7,775)
Allowance for Equity Funds Used During Construction	(92)	(351)
Property Taxes	(19,563)	(20,971)
Change in Other Noncurrent Assets	(4,476)	(5,521)
Change in Other Noncurrent Liabilities	4,970	(2,800)
<b>Changes in Certain Components of Working Capital:</b>		
Accounts Receivable, Net	853	(2,148)
Materials and Supplies	(1,158)	220
Accounts Payable	(3,726)	(3,841)
Customer Deposits	(1,069)	929
Accrued Taxes, Net	14,091	19,040
Accrued Interest	(16,505)	(23,671)
Other Current Assets	(846)	135
Other Current Liabilities	(10,202)	(7,973)
<b>Net Cash Flows from Operating Activities</b>	<b>60,431</b>	<b>42,805</b>
<b>INVESTING ACTIVITIES</b>		
Construction Expenditures	(80,084)	(55,558)
Change in Restricted Cash for Securitized Transition Funding	76,054	81,448
Change in Advances to Affiliates, Net	-	(55,285)
Proceeds from Sales of Assets	2,427	1,170
Other Investing Activities	(553)	(31)
<b>Net Cash Flows Used for Investing Activities</b>	<b>(2,156)</b>	<b>(28,256)</b>
<b>FINANCING ACTIVITIES</b>		
Issuance of Long-term Debt – Nonaffiliated	-	793,304
Change in Advances from Affiliates, Net	48,295	(36,043)
Retirement of Long-term Debt – Nonaffiliated	(105,020)	(98,340)
Principal Payments for Capital Lease Obligations	(373)	(436)
Dividends Paid on Common Stock	(1,250)	(674,824)
Other Financing Activities	938	1,568
<b>Net Cash Flows Used for Financing Activities</b>	<b>(57,410)</b>	<b>(14,771)</b>
<b>Net Increase (Decrease) in Cash and Cash Equivalents</b>	865	(222)
<b>Cash and Cash Equivalents at Beginning of Period</b>	100	422
<b>Cash and Cash Equivalents at End of Period</b>	<b>\$ 965</b>	<b>\$ 200</b>
<b>SUPPLEMENTARY INFORMATION</b>		
Cash Paid for Interest, Net of Capitalized Amounts	\$ 49,925	\$ 54,140
Net Cash Paid for Income Taxes	-	6,255
Noncash Acquisitions Under Capital Leases	1,237	2,089
Construction Expenditures Included in Current Liabilities as of March 31,	20,300	18,480

*See Condensed Notes to Condensed Consolidated Financial Statements beginning on page 8*

**INDEX OF CONDENSED NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

	<u>Page Number</u>
Significant Accounting Matters	9
Comprehensive Income	9
Rate Matters	10
Commitments, Guarantees and Contingencies	10
Benefit Plans	12
Business Segments	12
Derivatives and Hedging	12
Fair Value Measurements	14
Income Taxes	17
Financing Activities	17
Variable Interest Entities	18
Sustainable Cost Reductions	19

**1. SIGNIFICANT ACCOUNTING MATTERS**

**General**

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

In the opinion of management, the unaudited condensed consolidated interim financial statements reflect all normal and recurring accruals and adjustments necessary for a fair presentation of the net income, financial position and cash flows for the interim periods. Net income for the three months ended March 31, 2013 is not necessarily indicative of results that may be expected for the year ending December 31, 2013. The condensed consolidated financial statements are unaudited and should be read in conjunction with the audited 2012 financial statements and notes thereto, which are included in TCC's 2012 Annual Report.

Management reviewed subsequent events through April 26, 2013, the date that the first quarter 2013 report was issued.

**2. COMPREHENSIVE INCOME**

**Presentation of Comprehensive Income**

The following table provides the components of changes in AOCI for the three months ended March 31, 2013. All amounts in the following table are presented net of related income taxes.

**Changes in Accumulated Other Comprehensive Income (Loss) by Component  
For the Three Months Ended March 31, 2013**

	<u>Cash Flow Hedges</u>		<u>Total</u>
	<u>Commodity</u>	<u>Interest Rate and Foreign Currency</u>	
		(in thousands)	
Balance in AOCI as of December 31, 2012	\$ 29	\$ -	\$ 29
Change in Fair Value Recognized in AOCI	61	-	61
Amounts Reclassified from AOCI	(21)	-	(21)
Net Current Period Other Comprehensive Income	40	-	40
Balance in AOCI as of March 31, 2013	<u>\$ 69</u>	<u>\$ -</u>	<u>\$ 69</u>

**Reclassifications Out of Accumulated Other Comprehensive Income**

The following table provides details of reclassifications from AOCI for the three months ended March 31, 2013.

**Reclassifications from Accumulated Other Comprehensive Income (Loss)  
For the Three Months Ended March 31, 2013**

<u>Gains and Losses on Cash Flow Hedges</u>	<u>Amount of (Gain) Loss Reclassified from AOCI (in thousands)</u>
Commodity:	
Other Operation Expense	\$ (11)
Maintenance Expense	(8)
Property, Plant and Equipment	(13)
Subtotal - Commodity	<u>(32)</u>
Interest Rate and Foreign Currency:	
Interest Expense	-
Subtotal - Interest Rate and Foreign Currency	<u>-</u>
Reclassifications from AOCI, before Income Tax (Expense) Credit	(32)
Income Tax (Expense) Credit	(11)
<b>Total Reclassifications from AOCI, Net of Income Tax (Expense) Credit</b>	<b><u>\$ (21)</u></b>

The following table provides details on designated, effective cash flow hedges included in Accumulated Other Comprehensive Income (Loss) on the condensed balance sheets and the reasons for changes in cash flow hedges for the three months ended March 31, 2012. All amounts in the following table are presented net of related income taxes.

**Total Accumulated Other Comprehensive Income (Loss) Activity for Cash Flow Hedges  
For the Three Months Ended March 31, 2012**

	<b>AOCI Activity for Cash Flow Hedges</b>	
	(In thousands)	
Balance in AOCI as of December 31, 2011	\$	(83)
Changes in Fair Value Recognized in AOCI		191
Amount of (Gain) or Loss Reclassified from AOCI to Statement of Income/within Balance Sheet:		
Other Operation Expense		(3)
Maintenance Expense		(2)
Property, Plant and Equipment		(3)
Balance in AOCI as of March 31, 2012	\$	100

**3. RATE MATTERS**

As discussed in TCC's 2012 Annual Report, TCC is involved in rate and regulatory proceedings at the FERC and the PUCT. The Rate Matters note within TCC's 2012 Annual Report should be read in conjunction with this report to gain a complete understanding of material rate matters still pending that could impact net income, cash flows and possibly financial condition. The following discusses ratemaking developments in 2013 and updates TCC's 2012 Annual Report.

*Regulatory Assets Not Yet Being Recovered*

	March 31, 2013	December 31, 2012
	(in thousands)	
<b>Noncurrent Regulatory Assets</b>		
<b>Regulatory assets not yet being recovered pending future proceedings:</b>		
<b><u>Regulatory Assets Currently Earning a Return</u></b>		
Storm Related Costs	\$ 22,541	\$ 22,866
<b><u>Regulatory Assets Currently Not Earning a Return</u></b>		
Medicare Part D	6,381	-
Rate Case Expenses	145	145
<b>Total Regulatory Assets Not Yet Being Recovered</b>	<b>\$ 29,067</b>	<b>\$ 23,011</b>

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

**4. COMMITMENTS, GUARANTEES AND CONTINGENCIES**

TCC is subject to certain claims and legal actions arising in its ordinary course of business. In addition, TCC's business activities are subject to extensive governmental regulation related to public health and the environment. The ultimate outcome of such pending or potential litigation cannot be predicted. For current proceedings not specifically discussed below, management does not anticipate that the liabilities, if any, arising from such proceedings would have a material effect on the financial statements. The Commitments, Guarantees and Contingencies note within TCC's 2012 Annual Report should be read in conjunction with this report.

## **GUARANTEES**

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

### *Indemnifications and Other Guarantees*

#### *Contracts*

TCC enters into certain types of contracts which require indemnifications. Typically these contracts include, but are not limited to, sale agreements, lease agreements, purchase agreements and financing agreements. Generally, these agreements may include, but are not limited to, indemnifications around certain tax, contractual and environmental matters. With respect to sale agreements, exposure generally does not exceed the sale price. The status of certain sale agreements is discussed in TCC's 2012 Annual Report "Dispositions" section of Note 5. As of March 31, 2013, there were no material liabilities recorded for any indemnifications.

#### *Master Lease Agreements*

TCC leases certain equipment under master lease agreements. Under the lease agreements, the lessor is guaranteed a residual value up to a stated percentage of either the unamortized balance or the equipment cost at the end of the lease term. If the actual fair value of the leased equipment is below the guaranteed residual value at the end of the lease term, TCC is committed to pay the difference between the actual fair value and the residual value guarantee. Historically, at the end of the lease term the fair value has been in excess of the unamortized balance. As of March 31, 2013, the maximum potential loss for these lease agreements was approximately \$2.3 million assuming the fair value of the equipment is zero at the end of the lease term.

## **CONTINGENCIES**

### *Carbon Dioxide Public Nuisance Claims*

In October 2009, the Fifth Circuit Court of Appeals reversed a decision by the Federal District Court for the District of Mississippi dismissing state common law nuisance claims in a putative class action by Mississippi residents asserting that CO<sub>2</sub> emissions exacerbated the effects of Hurricane Katrina. The Fifth Circuit held that there was no exclusive commitment of the common law issues raised in plaintiffs' complaint to a coordinate branch of government and that no initial policy determination was required to adjudicate these claims. The court granted petitions for rehearing. An additional recusal left the Fifth Circuit without a quorum to reconsider the decision and the appeal was dismissed, leaving the district court's decision in place. Plaintiffs filed a petition with the U.S. Supreme Court asking the court to remand the case to the Fifth Circuit and reinstate the panel decision. The petition was denied in January 2011. Plaintiffs refiled their complaint in federal district court. The court ordered all defendants to respond to the refiled complaints in October 2011. In March 2012, the court granted the defendants' motion for dismissal on several grounds, including the doctrine of collateral estoppel and the applicable statute of limitations. Plaintiffs appealed the decision to the Fifth Circuit Court of Appeals. Management will continue to defend against the claims. Management is unable to determine a range of potential losses that are reasonably possible of occurring.

### *Alaskan Villages' Claims*

In 2008, the Native Village of Kivalina and the City of Kivalina, Alaska filed a lawsuit in Federal Court in the Northern District of California against AEP, AEPSC and 22 other unrelated defendants including oil and gas companies, a coal company and other electric generating companies. The complaint alleges that the defendants' emissions of CO<sub>2</sub> contribute to global warming and constitute a public and private nuisance and that the defendants are acting together. The complaint further alleges that some of the defendants, including AEP, conspired to create a false scientific debate about global warming in order to deceive the public and perpetuate the alleged nuisance. The plaintiffs also allege that the effects of global warming will require the relocation of the village at an alleged cost of \$95 million to \$400 million. In October 2009, the judge dismissed plaintiffs' federal common law claim for nuisance, finding the claim barred by the political question doctrine and by plaintiffs' lack of standing to bring the claim. The judge also dismissed plaintiffs' state law claims without prejudice to refiling in state court. The

plaintiffs appealed the decision. In September 2012, the Ninth Circuit Court of Appeals affirmed the trial court's decision, holding that the CAA displaced Kivalina's claims for damages. Plaintiffs filed seeking further review in the U.S. Supreme Court. Management believes the action is without merit and will continue to defend against the claims. Management is unable to determine a range of potential losses that are reasonably possible of occurring.

## 5. BENEFIT PLANS

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

### *Components of Net Periodic Benefit Cost*

The following table provides the components of TCC's net periodic benefit cost (credit) for the plans for the three months ended March 31, 2013 and 2012:

	<u>Pension Plans</u>		<u>Other Postretirement Benefit Plans</u>	
	<u>Three Months Ended March 31, 2013</u>	<u>2012</u>	<u>Three Months Ended March 31, 2013</u>	<u>2012</u>
	(In thousands)			
Service Cost	\$ 1,211	\$ 1,300	\$ 295	\$ 615
Interest Cost	3,316	3,775	1,103	1,603
Expected Return on Plan Assets	(4,702)	(5,572)	(1,781)	(1,651)
Amortization of Prior Service Cost (Credit)	80	(315)	(1,072)	(295)
Amortization of Net Actuarial Loss	2,988	2,537	1,017	889
<b>Net Periodic Benefit Cost (Credit)</b>	<b>\$ 2,893</b>	<b>\$ 1,725</b>	<b>\$ (438)</b>	<b>\$ 1,161</b>

## 6. BUSINESS SEGMENTS

TCC has one reportable segment, an integrated electricity transmission and distribution business. TCC's other activities are insignificant.

## 7. DERIVATIVES AND HEDGING

### *Cash Flow Hedging Strategies*

TCC's vehicle fleet is exposed to gasoline and diesel fuel price volatility. AEPSC, on behalf of TCC, enters into financial heating oil and gasoline derivative contracts in order to mitigate price risk of future fuel purchases. Not all fuel price risk exposure is hedged. The gross notional volumes of TCC's outstanding derivative contracts for heating oil and gasoline as of March 31, 2013 and December 31, 2012 were 837 thousand gallons and 801 thousand gallons, respectively.

According to the accounting guidance for "Derivatives and Hedging," TCC reflects the fair values of derivative instruments subject to netting agreements with the same counterparty net of related cash collateral. For certain risk management contracts, TCC is required to post or receive cash collateral based on third party contractual agreements and risk profiles. For the March 31, 2013 condensed balance sheet, TCC netted \$2 thousand of cash collateral paid to third parties against short-term and long-term risk management liabilities. For the December 31, 2012 condensed balance sheet, TCC had no netting of cash collateral paid to third parties against short-term and long-term risk management liabilities.

The following tables represent the gross fair value impact of TCC's derivative activity on the condensed balance sheets as of March 31, 2013 and December 31, 2012:

**Fair Value of Derivative Instruments  
March 31, 2013**

<u>Balance Sheet Location</u>	<u>Hedging Contracts (a)</u>	<u>Gross Amounts Offset in the Statement of Financial Position (b)</u>	<u>Net Amounts of Assets/Liabilities Presented in the Statement of Financial Position (c)</u>
		(in thousands)	
Prepayments and Other Current Assets	\$ 93	\$ -	\$ 93
Deferred Charges and Other Noncurrent Assets	7	-	7
<b>Total Assets</b>	<b>100</b>	<b>-</b>	<b>100</b>
Other Current Liabilities	-	-	-
Deferred Credits and Other Noncurrent Liabilities	-	-	-
<b>Total Liabilities</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Total MTM Derivative Contract Net Assets (Liabilities)</b>	<b>\$ 100</b>	<b>\$ -</b>	<b>\$ 100</b>

**Fair Value of Derivative Instruments  
December 31, 2012**

<u>Balance Sheet Location</u>	<u>Hedging Contracts (a)</u>	<u>Gross Amounts Offset in the Statement of Financial Position (b)</u>	<u>Net Amounts of Assets/Liabilities Presented in the Statement of Financial Position (c)</u>
		(in thousands)	
Prepayments and Other Current Assets	\$ 62	\$ (28)	\$ 34
Deferred Charges and Other Noncurrent Assets	-	-	-
<b>Total Assets</b>	<b>62</b>	<b>(28)</b>	<b>34</b>
Other Current Liabilities	28	(28)	-
Deferred Credits and Other Noncurrent Liabilities	-	-	-
<b>Total Liabilities</b>	<b>28</b>	<b>(28)</b>	<b>-</b>
<b>Total MTM Derivative Contract Net Assets (Liabilities)</b>	<b>\$ 34</b>	<b>\$ -</b>	<b>\$ 34</b>

- (a) Derivative instruments within these categories are reported gross. These instruments are subject to master netting agreements and are presented on the condensed balance sheets on a net basis in accordance with the accounting guidance for "Derivatives and Hedging."
- (b) Amounts include counterparty netting of risk management and hedging contracts and associated cash collateral in accordance with the accounting guidance for "Derivatives and Hedging."
- (c) There are no derivative contracts subject to a master netting arrangement or similar agreement which are not offset in the statement of financial position.

***Accounting for Cash Flow Hedging Strategies***

For cash flow hedges (i.e. hedging the exposure to variability in expected future cash flows that is attributable to a particular risk), TCC initially reports the effective portion of the gain or loss on the derivative instrument as a component of Accumulated Other Comprehensive Income (Loss) on its condensed balance sheets until the period the hedged item affects Net Income. TCC records hedge ineffectiveness as a regulatory asset (for losses) or a regulatory liability (for gains).

TCC reclassifies gains and losses on heating oil and gasoline derivative contracts designated as cash flow hedges from Accumulated Other Comprehensive Income (Loss) on its condensed balance sheets into Other Operation expense, Maintenance expense or Depreciation and Amortization expense, as it relates to capital projects, on its condensed statements of income. During the three months ended March 31, 2013 and 2012, TCC designated heating oil and gasoline derivatives as cash flow hedges. Hedge ineffectiveness was immaterial for this hedge strategy.

For details on designated, effective cash flow hedges included in Accumulated Other Comprehensive Income (Loss) on TCC's condensed balance sheets and the reasons for changes in cash flow hedges for the three months ended March 31, 2013 and 2012, see Note 2.

Cash flow hedges included in Accumulated Other Comprehensive Income (Loss) on TCC's condensed balance sheets as of March 31, 2013 and December 31, 2012 were:

**Impact of Cash Flow Hedges on the Condensed Balance Sheet  
 March 31, 2013 and December 31, 2012**

	<u>March 31, 2013</u>		<u>December 31, 2012</u>
	(in thousands)		
Hedging Assets	\$ 99	\$	34
Hedging Liabilities	2		-
AOCI Gain Net of Tax	69		29
Portion Expected to be Reclassified to Net Income During the Next Twelve Months	67		29

The actual amounts that TCC reclassifies from Accumulated Other Comprehensive Income (Loss) to Net Income can differ from the estimate above due to market price changes. As of March 31, 2013, the maximum length of time that TCC is hedging (with contracts subject to the accounting guidance for "Derivatives and Hedging") its exposure to variability in future cash flows related to forecasted transactions is 21 months.

**8. FAIR VALUE MEASUREMENTS**

***Fair Value Hierarchy and Valuation Techniques***

The accounting guidance for "Fair Value Measurements and Disclosures" establishes a fair value hierarchy that prioritizes the inputs used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurement) and the lowest priority to unobservable inputs (Level 3 measurement). Where observable inputs are available for substantially the full term of the asset or liability, the instrument is categorized in Level 2. When quoted market prices are not available, pricing may be completed using comparable securities, dealer values, operating data and general market conditions to determine fair value. Valuation models utilize various inputs such as commodity, interest rate and, to a lesser degree, volatility and credit that include quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets or liabilities in inactive markets, market corroborated inputs (i.e. inputs derived principally from, or correlated to, observable market data) and other observable inputs for the asset or liability. The AEP System's market risk oversight staff independently monitors its valuation policies and procedures and provides members of the Commercial Operations Risk Committee (CORC) various daily, weekly and monthly reports, regarding compliance with policies and procedures. The CORC consists of AEPSC's Chief Operating Officer, Chief Financial Officer, Executive Vice President of Energy Supply, Senior Vice President of Commercial Operations and Chief Risk Officer.

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

For Restricted Cash for Securitized Transition Funding, items classified as Level 1 are investments in money market funds. They are valued based on observable inputs primarily unadjusted quoted prices in active markets for identical assets.

***Fair Value Measurements of Long-term Debt***

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

The book values and fair values of TCC's Long-term Debt as of March 31, 2013 and December 31, 2012 are summarized in the following table:

	<u>March 31, 2013</u>		<u>December 31, 2012</u>	
	<u>Book Value</u>	<u>Fair Value</u>	<u>Book Value</u>	<u>Fair Value</u>
	(In thousands)			
Long-term Debt	\$ 2,819,588	\$ 3,166,217	\$ 2,924,566	\$ 3,328,785

***Fair Value Measurements of Financial Assets and Liabilities***

The following tables set forth, by level within the fair value hierarchy, TCC's financial assets and liabilities that were accounted for at fair value on a recurring basis as of March 31, 2013 and December 31, 2012. As required by the accounting guidance for "Fair Value Measurements and Disclosures," financial assets and liabilities are classified in their entirety based on the lowest level of input that is significant to the fair value measurement. Management's assessment of the significance of a particular input to the fair value measurement requires judgment and may affect the valuation of fair value assets and liabilities and their placement within the fair value hierarchy levels. There have not been any significant changes in management's valuation techniques.

**Assets and Liabilities Measured at Fair Value on a Recurring Basis  
March 31, 2013**

<b>Assets:</b>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Other</u>	<u>Total</u>
	(in thousands)				
Restricted Cash for Securitized Transition Funding (a)	\$ 139,164	\$ -	\$ -	\$ 14	\$ 139,178
<b><u>Risk Management Assets</u></b>					
Cash Flow Hedges:					
Commodity Hedges	-	100	-	-	100
<b>Total Assets</b>	<b>\$ 139,164</b>	<b>\$ 100</b>	<b>\$ -</b>	<b>\$ 14</b>	<b>\$ 139,278</b>

**Assets and Liabilities Measured at Fair Value on a Recurring Basis  
December 31, 2012**

<b>Assets:</b>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Other</u>	<u>Total</u>
	(in thousands)				
Restricted Cash for Securitized Transition Funding (a)	\$ 215,218	\$ -	\$ -	\$ 14	\$ 215,232
<b><u>Risk Management Assets</u></b>					
Cash Flow Hedges:					
Commodity Hedges (b)	-	62	-	(28)	34
<b>Total Assets</b>	<b>\$ 215,218</b>	<b>\$ 62</b>	<b>\$ -</b>	<b>\$ (14)</b>	<b>\$ 215,266</b>
<b><u>Risk Management Liabilities</u></b>					
Cash Flow Hedges:					
Commodity Hedges (b)	\$ -	\$ 28	\$ -	\$ (28)	\$ -

(a) Amounts in "Other" column primarily represent cash deposits with third parties. Level 1 amounts primarily represent investments in money market funds

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

As of March 31, 2013, TCC had no liabilities measured at fair value on a recurring basis.

There were no transfers between Level 1 and Level 2 during the three months ended March 31, 2013 and 2012.

**9. INCOME TAXES**

***AEP System Tax Allocation Agreement***

TCC joins in the filing of a consolidated federal income tax return with its affiliates in the AEP System. The allocation of the AEP System's current consolidated federal income tax to the AEP System companies allocates the benefit of current tax losses to the AEP System companies giving rise to such losses in determining their current tax expense. The tax benefit of the Parent is allocated to its subsidiaries with taxable income. With the exception of the loss of the Parent, the method of allocation reflects a separate return result for each company in the consolidated group.

***Federal and State Income Tax Audit Status***

The IRS examination of years 2009 and 2010 started in October 2011. Although the outcome of tax audits is uncertain, in management's opinion, adequate provisions for federal income taxes have been made for potential liabilities resulting from such matters. In addition, TCC accrues interest on these uncertain tax positions. Management is not aware of any issues for open tax years that upon final resolution are expected to materially impact net income.

TCC and other AEP subsidiaries file income tax returns in various state and local jurisdictions. These taxing authorities routinely examine the tax returns and TCC and other AEP subsidiaries are currently under examination in several state and local jurisdictions. Management believes that previously filed tax returns have positions that may be challenged by these tax authorities. However, management believes that adequate provisions for income taxes have been made for potential liabilities resulting from such challenges and that the ultimate resolution of these audits will not materially impact net income. With few exceptions, TCC is no longer subject to state or local income tax examinations by tax authorities for years before 2008.

**10. FINANCING ACTIVITIES**

***Long-term Debt***

Principal payments made during the first three months of 2013 are shown in the table below:

<b>Principal Payments:</b>	<b>Type of Debt</b>	<b>Principal Amount Paid (In thousands)</b>	<b>Interest Rate (%)</b>	<b>Due Date</b>
	Securitization Bonds	\$ 37,581	5.96	2013
	Securitization Bonds	67,440	4.98	2013

As of March 31, 2013, trustees held, on TCC's behalf, \$120 million of its reacquired Pollution Control Bonds.

***Dividend Restrictions***

***Federal Power Act***

The Federal Power Act prohibits TCC from participating "in the making or paying of any dividends of such public utility from any funds properly included in capital account." The term "capital account" is not defined in the Federal Power Act or its regulations. Management understands "capital account" to mean the book value of the common stock. This restriction does not limit the ability of TCC to pay dividends out of retained earnings.

**Utility Money Pool – AEP System**

The AEP System uses a corporate borrowing program to meet the short-term borrowing needs of the subsidiaries. The corporate borrowing program includes a Utility Money Pool, which funds AEP's utility subsidiaries. The AEP System Utility Money Pool operates in accordance with the terms and conditions of the AEP System Utility Money Pool agreement filed with FERC. The amount of outstanding borrowings from the Utility Money Pool as of March 31, 2013 and December 31, 2012 is included in Advances from Affiliates on TCC's condensed balance sheets. TCC's Utility Money Pool activity and corresponding authorized borrowing limit for the three months ended March 31, 2013 are described in the following table:

Maximum Borrowings from Utility Money Pool	Maximum Loans to Utility Money Pool	Average Borrowings from Utility Money Pool	Average Loans to Utility Money Pool	Borrowings from Utility Money Pool as of March 31, 2013	Authorized Short-Term Borrowing Limit
\$ 154,277	\$ -	\$ 129,710	\$ -	\$ 151,630	\$ 250,000

(in thousands)

Maximum, minimum and average interest rates for funds either borrowed from or loaned to the Utility Money Pool for the three months ended March 31, 2013 and 2012 are summarized in the following table:

Three Months Ended March 31,	Maximum Interest Rate for Funds Borrowed from Utility Money Pool	Minimum Interest Rate for Funds Borrowed from Utility Money Pool	Maximum Interest Rate for Funds Loaned to Utility Money Pool	Minimum Interest Rate for Funds Loaned to Utility Money Pool	Average Interest Rate for Funds Borrowed from Utility Money Pool	Average Interest Rate for Funds Loaned to Utility Money Pool
2013	0.43 %	0.35 %	- %	- %	0.37 %	- %
2012	0.56 %	0.45 %	0.48 %	0.46 %	0.52 %	0.47 %

**11. VARIABLE INTEREST ENTITIES**

The accounting guidance for "Variable Interest Entities" is a consolidation model that considers if a company has a controlling financial interest in a VIE. A controlling financial interest will have both (a) the power to direct the activities of a VIE that most significantly impact the VIE's economic performance and (b) the obligation to absorb losses of the VIE that could potentially be significant to the VIE or the right to receive benefits from the VIE that could potentially be significant to the VIE. Entities are required to consolidate a VIE when it is determined that they have a controlling financial interest in a VIE and therefore, are the primary beneficiary of that VIE, as defined by the accounting guidance for "Variable Interest Entities." In determining whether TCC is the primary beneficiary of a VIE, management considers factors such as equity at risk, the amount of the VIE's variability TCC absorbs, guarantees of indebtedness, voting rights including kick-out rights, the power to direct the VIE, variable interests held by related parties and other factors. Management believes that significant assumptions and judgments were applied consistently.

AEP Texas Central Transition Funding I LLC, AEP Texas Central Transition Funding II LLC and AEP Texas Central Transition Funding III LLC, wholly-owned subsidiaries of TCC, (collectively Transition Funding) were formed for the sole purpose of issuing and servicing securitization bonds related to Texas Restructuring Legislation. Management has concluded that TCC is the primary beneficiary of Transition Funding because TCC has the power to direct the most significant activities of the VIE and TCC's equity interest could potentially be significant. Therefore, TCC is required to consolidate Transition Funding. The securitized bonds totaled \$2.2 billion and \$2.3 billion as of March 31, 2013 and December 31, 2012, respectively, and are included in current and long-term debt on the condensed balance sheets. Transition Funding has securitized transition assets of \$2 billion and \$2.1 billion as of March 31, 2013 and December 31, 2012, respectively, which are presented separately on the face of the condensed balance sheets. The securitized transition assets represent the right to impose and collect Texas true-up costs from customers receiving electric transmission or distribution service from TCC under recovery mechanisms approved by the PUCT. The securitization bonds are payable only from and secured by the securitized transition assets. The bondholders have no recourse to TCC or any other AEP entity. TCC acts as the servicer for Transition Funding's securitized transition asset and remits all related amounts collected from customers to Transition Funding for interest and principal payments on the securitization bonds and related costs.

The balances below represent the assets and liabilities of Transition Funding that are consolidated. These balances include intercompany transactions that are eliminated upon consolidation.

**AEP TEXAS CENTRAL COMPANY AND SUBSIDIARIES**  
**VARIABLE INTEREST ENTITIES**  
**March 31, 2013 and December 31, 2012**  
(In thousands)

ASSETS	Transition Funding	
	2013	2012
Current Assets	\$ 174,369	\$ 249,286
Other Noncurrent Assets (a)	2,113,659	2,167,217
<b>Total Assets</b>	<b>\$ 2,288,028</b>	<b>\$ 2,416,503</b>
LIABILITIES AND EQUITY		
Current Liabilities	\$ 293,139	\$ 303,775
Noncurrent Liabilities	1,976,831	2,094,678
Equity	18,058	18,050
<b>Total Liabilities and Equity</b>	<b>\$ 2,288,028</b>	<b>\$ 2,416,503</b>

(a) Includes an intercompany item eliminated in consolidation as of March 31, 2013 and December 31, 2012 of \$87 million and \$89 million, respectively

AEPSC provides certain managerial and professional services to AEP's subsidiaries. AEP is the sole equity owner of AEPSC. AEP management controls the activities of AEPSC. The costs of the services are based on a direct charge or on a prorated basis and billed to the AEP subsidiary companies at AEPSC's cost. AEP subsidiaries have not provided financial or other support outside the reimbursement of costs for services rendered. AEPSC finances its operations through cost reimbursement from other AEP subsidiaries. There are no other terms or arrangements between AEPSC and any of the AEP subsidiaries that could require additional financial support from an AEP subsidiary or expose them to losses outside of the normal course of business. AEPSC and its billings are subject to regulation by the FERC. AEP subsidiaries are exposed to losses to the extent they cannot recover the costs of AEPSC through their normal business operations. AEP subsidiaries are considered to have a significant interest in AEPSC due to their activity in AEPSC's cost reimbursement structure. However, AEP subsidiaries do not have control over AEPSC. AEPSC is consolidated by AEP. In the event AEPSC would require financing or other support outside the cost reimbursement billings, this financing would be provided by AEP. TCC's total billings from AEPSC for the three months ended March 31, 2013 and 2012 were \$15 million and \$14 million, respectively. The carrying amount of liabilities associated with AEPSC as of March 31, 2013 and December 31, 2012 was \$6 million and \$10 million, respectively. Management estimates the maximum exposure of loss to be equal to the amount of such liability.

**12. SUSTAINABLE COST REDUCTIONS**

In April 2012, management initiated a process to identify strategic repositioning opportunities and efficiencies that will result in sustainable cost savings. Management selected a consulting firm to facilitate an organizational and process evaluation and a second firm to evaluate current employee benefit programs. The process resulted in involuntary severances and was completed by the end of the first quarter of 2013. The severance program provides two weeks of base pay for every year of service along with other severance benefits.

TCC recorded a charge of \$3.2 million to Other Operation expense in 2012 primarily related to severance benefits as a result of the sustainable cost reductions initiative. In addition, the sustainable cost reduction activity for the three months ended March 31, 2013 is described in the following table:

Balance as of December 31, 2012	Expense Allocation from AEPSC	Incurred	Settled	Adjustments	Remaining Balance as of March 31, 2013
(in thousands)					
\$ 699	\$ 297	-	\$ (713)	\$ (229)	\$ 54

These expenses, net of adjustments, relate primarily to severance benefits and are included primarily in Other Operation expense on the condensed statements of income. The remaining liability is included in Other Current Liabilities on the condensed balance sheets. Management does not expect additional costs to be incurred related to this initiative.

**APPENDIX B-1**

**FORM OF ORIGINAL OPINION OF BOND COUNSEL**

**MATAGORDA COUNTY NAVIGATION DISTRICT NUMBER ONE  
POLLUTION CONTROL REVENUE REFUNDING BONDS  
(AEP TEXAS CENTRAL COMPANY PROJECT) SERIES 2008**

WE HAVE EXAMINED into the validity of the bonds described above (the "Bonds"), issued by the Matagorda County Navigation District Number One (the "Issuer") in the aggregate principal amount of \$120,265,000. The Bonds mature, bear interest and are subject to optional and mandatory redemption prior to maturity in the manner and under the terms and conditions described in the Indenture of Trust dated as of March 1, 2008 (the "Indenture") between the Issuer and The Bank of New York, as trustee (the "Trustee").

WE HAVE ACTED AS BOND COUNSEL for the Issuer for the purpose of rendering an opinion with respect to the authorization, issuance, delivery, legality, and validity of the Bonds under the laws and Constitution of the State of Texas, with respect to any exemption of the interest on the Bonds from federal income taxes, and for the other limited purposes set forth herein and in a supplemental opinion of even date herewith. We have not been requested to examine, and have not investigated or verified, any statements, records, material, or other matters relating to the financial condition or capabilities of the corporation hereinafter described, and we express no opinion with respect thereto.

WE HAVE EXAMINED the Constitution and laws of the State of Texas under which the Issuer was created and exists and pursuant to which it has authorized and issued the Bonds; certified copies of the proceedings of the governing body of said Issuer; certificates of AEP Texas Central Company, a Texas corporation (the "Company"); the Installment Payment Agreement dated as of March 1, 2008 (the "Agreement"), between the Issuer and the Company; the Indenture; resolutions of the Issuer, including the resolution authorizing the issuance of the Bonds, adopted March 12, 2008 (the "Bond Resolution"); certificates, resolutions, and representations of the Company and the Trustee, including certificates and representations with respect to certain material facts which are solely within the knowledge of the party rendering such certificates and representations; and the opinion of Thomas G. Berkemeyer, Esq., Assistant General Counsel to American Electric Power Service Corporation, an affiliate of the Company, upon which certifications, representations, and opinions we rely to the extent we consider appropriate; and other instruments authorizing and relating to the issuance of the Bonds, including one of the executed Bonds.

THE BONDS are secured by the Indenture whereunder the Trustee, or its successor as Trustee, is custodian of the Bond Fund created therein, and is obligated to enforce the rights of the owners of the Bonds, and to perform other duties, in the manner and under the conditions stated in the Indenture.

BASED ON SAID EXAMINATION, it is our opinion that the Issuer is a governmental agency and body politic and corporate of the State of Texas, validly operating and existing as a conservation and reclamation district and a river authority under Texas law with full power and authority to enter into and carry out the terms of the Agreement and the Indenture.

IT IS FURTHER OUR OPINION that the Bond Resolution has been duly and lawfully adopted and that the Bonds have been duly and validly authorized, issued, executed, authenticated, and delivered in accordance with law and the Indenture, and constitute valid, legal, binding, and enforceable special obligations of the Issuer in accordance with their terms and the terms of the Indenture, with the principal of, premium, if any, and interest on the Bonds being payable from, and secured by a first lien on and pledge of all of the right, title, and interest of the Issuer in and to the Agreement, together with all moneys payable thereunder, excluding certain rights relating to certain payments for expenses and indemnification of the Issuer. Pursuant to the Agreement, the Company has agreed to make payments to the Trustee for deposit into the Bond Fund established by the Indenture in amounts sufficient to pay and redeem, or provide for the payment and redemption of, the principal of, premium, if any, and interest on the Bonds, when due as required by the Indenture.

THE RIGHTS OF THE ISSUER under the Agreement have been duly and legally assigned in the Indenture to the Trustee and have been pledged to the payment of the principal of, premium, if any, and interest on the Bonds. It is our opinion that the Agreement has been duly and lawfully authorized, executed, and delivered by the Issuer, and is a legal, valid, binding, and enforceable obligation of the Issuer in accordance with its terms and conditions. Thomas G. Berkemeyer, Assistant General Counsel to American Electric Power Service Corporation, an affiliate of the Company, has rendered his opinion of even date herewith to the effect that the Agreement has been duly and lawfully authorized, executed, and delivered by the Company, and that it is a legal, valid, binding, and enforceable obligation of the Company. We note that said counsel has stated that the enforceability of the Agreement is subject to applicable bankruptcy, insolvency, reorganization, moratorium, or other similar laws relating to or affecting creditors' rights generally.

IT IS FURTHER OUR OPINION that the Indenture has been duly and lawfully authorized, executed, and delivered, that it is in full force and effect, that it is legal, valid, binding, and enforceable in accordance with its terms and conditions, and that it creates the valid pledge which it purports to create.

THE ISSUER has reserved the right to amend the Indenture as provided therein and subject to the restrictions therein stated.

THE OPINIONS contained herein are limited to the extent that (a) enforceability of the Bonds, the Bond Resolution, the Indenture and the Agreement may be limited by bankruptcy, insolvency, reorganization, moratorium and other laws affecting creditors' rights or remedies generally and (b) a particular court may refuse to grant certain equitable remedies, including, without limitation, specific performance, with respect to any of the provisions of the Bonds, the Bond Resolution, the Indenture and the Agreement.

IN OUR OPINION, except as discussed below, the interest on the Bonds will be excludable from the gross income of the owners of the Bonds for federal income tax purposes under the statutes, regulations, published rulings and court decisions existing on the date of this opinion. The exceptions are as follows:

- (1) interest on the Bonds will be includable in the gross income of the owner thereof during any period that such Bonds are owned by either a "substantial user" of the facilities financed with the proceeds of the Bonds or a "related person" of such user, as provided in the Internal Revenue Code of 1954, as amended;
- (2) interest on the Bonds will be subject to the branch profits tax imposed on foreign corporations by Section 884 of the Internal Revenue Code of 1986, as amended (the "Code"); and
- (3) interest on the Bonds will be subject to the tax imposed by section 1375 of the Code on the excess net passive income of certain S corporations that have Subchapter C earnings and profits.

IN OUR OPINION, the interest on the Bonds is not an alternative minimum tax preference item under Section 57(a)(5) of the Code.

IN EXPRESSING THIS OPINION as to the exclusion from gross income of interest, we have (a) relied upon information furnished by the Company, and particularly written representations of officers of the Company with respect to certain material facts which are solely within their knowledge, relating to the Facilities, as defined in the Agreement, and the use of the proceeds of the Bonds and of the prior bonds which have been refunded with the proceeds of the Bonds, and (b) assumed continuing compliance with covenants of the Company, the Issuer and the Trustee with respect to certain matters, including arbitrage and the application of Bond proceeds. Failure to comply with certain of these representations and covenants may cause interest on the Bonds to become includable in gross income retroactively to the date of their issuance.

EXCEPT AS STATED ABOVE, we express no opinion as to any other federal, state or local tax consequences of acquiring, carrying, owning or disposing of the Bonds. In particular, but not by way of limitation, we express no opinion with respect to the federal, state or local tax consequences arising from the enactment of any pending or future legislation.

Respectfully,

APPENDIX B-2

PROPOSED FORM OF CONVERSION OPINION OF BOND COUNSEL

LAW OFFICES  
M<sup>c</sup>CALL, PARKHURST & HORTON L.L.P.

600 CONGRESS AVENUE  
SUITE 1800  
AUSTIN, TEXAS 78701-3248  
TELEPHONE 512 478-8808  
FACSIMILE 512 472-8871

717 NORTH HARWOOD  
NINTH FLOOR  
DALLAS, TEXAS 75201-8587  
TELEPHONE 214 784-8200  
FACSIMILE 214 784-8288

700 N. ST. MARY'S STREET  
1525 ONE RIVERWALK PLACE  
SAN ANTONIO, TEXAS 78205-3503  
TELEPHONE 214 228-2600  
FACSIMILE 214 225-2604

June 3, 2013

Matagorda County Navigation  
District Number One  
1602 Main Street  
Palacios, Texas 77465

The Bank of New York Mellon Trust Company,  
National Association, as trustee and paying agent  
6525 West Campus Oval  
Suite 200  
New Albany, Ohio 43054

Morgan Stanley & Co. LLC  
Remarketing Agent for Series 2008-1 Bonds  
1585 Broadway  
11th Floor  
New York, New York 10036

AEP Texas Central Company  
c/o AEP Service Corporation  
One Riverside Plaza  
Columbus, Ohio 43214

Wells Fargo Bank, National Association  
Remarketing Agent for Series 2008-2 Bonds  
301 South College Street  
MAC D1053-043  
Charlotte, North Carolina 28202

Re: Matagorda County Navigation District Number One Pollution Control Revenue Refunding Bonds  
(AEP Texas Central Company Project) Series 2008

Ladies and Gentlemen:

We are acting as Bond Counsel in connection with the conversion of the interest rate for the captioned bonds (the "Bonds") pursuant to the Indenture of Trust dated as of March 1, 2008 (the "Indenture") between Matagorda County Navigation District Number One and The Bank of New York Mellon Trust Company, National Association (as successor to The Bank of New York), as trustee. All defined terms used herein shall have the meanings given such terms in the Indenture.

It is our understanding that the Company has directed the conversion of the interest rate period on the Bonds to a fixed interest rate period. The new Interest Rate Period for the Bonds will commence on June 3, 2013.

We are in receipt of (a) the Notice of Mandatory Tender given by the Paying Agent to the Bondholders (the "Tender Notice") and (b) a copy of the executed notice from the Company directing the conversion of the interest rate period on the Bonds (the "Company Notice").

Based upon our review of the Indenture, the Agreement, the Tender Notice and the Company Notice, we are of the opinion that the conversion of the interest rate period on the Bonds to a different interest rate period (a) is permitted under the Acts and the Indenture and (b) will not, in and of itself, adversely affect the exclusion of interest on the Bonds from gross income of the owners of the Bonds for federal income tax purposes.

Except as stated above, we express no opinion as to any other federal, state, or local tax consequence of acquiring, carrying, owning or disposing of the Bonds. In particular, but not by way of limitation, we do not hereby

affirm, repeat or otherwise republish any opinion that was rendered at the time of initial delivery of the Bonds relating to qualification of the Bonds as obligations described in section 103 of the Code or the excludability of interest payable thereon from the gross income of the owners of the Bonds. We note, however, that interest on the Bonds will be includable in the gross income of the owner thereof during any period that such Bonds are owned by either a "substantial user" of the facilities financed with the proceeds of the Bonds or a "related person" of such user, as provided in the Internal Revenue Code of 1986, as amended. There can be no assurance given that legislation will not be enacted by this or any future Congress in a form which will adversely affect the tax treatment of ownership of the Bonds.

This opinion is rendered to the addressees only and no other party is entitled to rely hereon without our written consent.

Respectfully submitted,

**APPENDIX C**

**PROPOSED FORM OF CONTINUING DISCLOSURE UNDERTAKING**

**AMENDED AND RESTATED  
RULE 15c2-12 UNDERTAKING OF  
AEP TEXAS CENTRAL COMPANY**

In connection with the \$120,265,000 principal amount of Matagorda County Navigation District Number One Pollution Control Revenue Refunding Bonds (AEP Texas Central Company Project), Series 2008-1 and Series 2008-2 (the "Bonds"), AEP Texas Central Company, a Texas corporation (the "Corporation"), hereby undertakes as follows:

(a) Solely for the purpose of enabling Morgan Stanley & Co. LLC, Wells Fargo Bank, National Association, The Huntington Investment Company and The Williams Capital Group, L.P., as remarketing agents of the Bonds, to comply with the requirements of Rule 15c2-12(b)(5) under the Securities Exchange Act of 1934, as in effect on June 3, 2013 (such Rule, as in effect on such date, being hereinafter called the "Rule"), the Corporation hereby undertakes (but only to the extent, and only for so long as, required for compliance with valid and effective provisions of the Rule), for the benefit of the holders of the Bonds, to provide to the persons specified in paragraph (b) hereof,

(i) not later than 120 days after the end of each fiscal year of the Corporation, the Corporation's audited annual financial statements, for the Corporation's most recent fiscal year then ended, of the type included in Appendix A to the Reoffering Circular dated May , 2013, relating to the Bonds (the "Audited Financial Statements"), which financial statements will be prepared in accordance with generally accepted accounting principles; provided, that if the audited financial statements of the Corporation are not available by the date required above, the Corporation will submit unaudited financial statements and submit audited financial statements as soon as they are available; and

(ii) in a timely manner (but not in excess of ten business days), notice (each an "Event Notice") of (I) the occurrence of any of the events enumerated in subdivisions (b)(5)(i)(C)(1) through (14) of the Rule or (II) a failure by the Corporation to provide the Audited Financial Statements by the date and to the extent required by paragraph (a)(i) hereof.

(b) To the extent required by paragraph (a) hereof, the Audited Financial Statements and Event Notices shall be provided to the Municipal Securities Rulemaking Board (the "MSRB") under its Electronic Market Access System.

(c) This Undertaking is made solely by the Corporation for the purpose stated in paragraph (a) and neither Matagorda County Navigation District Number One (the "Issuer") nor its members, officers or employees have any responsibility or liability for the sufficiency, performance or enforcement of this Undertaking.

(d) This Undertaking: (i) is not intended to impose obligations on the Corporation that are not required to achieve the purpose stated in paragraph (a) hereof; (ii) does not constitute an acknowledgment by the Corporation of the validity of the Rule; and (iii) is valid and binding only to the extent and for so long as the Rule is valid and remains in effect. The Corporation expressly reserves the right to contest the validity of all or any portion of the Rule, including, without limitation, as a defense in any action or proceeding. If the Rule or any portion thereof is determined to be invalid or is repealed, or is amended to reduce the undertakings required to be obtained from "obligated persons" within the meaning of the Rule, the obligations of the Corporation hereunder shall be correspondingly reduced or terminated. The Corporation expressly reserves the right to modify its performance of its obligations hereunder, to the extent not inconsistent with those portions, if any, of the Rule that remain valid and effective.

(e) The Corporation, its directors, officers, employees and stockholders shall have no liability under this Undertaking for any act or failure to act; notwithstanding anything contained in the Installment Payment Agreement dated as of March 1, 2008 (the "Agreement"), between the Issuer and the Corporation, the Indenture of

Trust dated as of March 1, 2008 (the "Indenture"), between the Issuer and The Bank of New York Mellon Trust Company, N.A., as trustee (the "Trustee"), or any other document, a failure by the Corporation to comply with any provision of this Undertaking shall not constitute an Event of Default under the Agreement, an Event of Default under the Indenture, or a default under any Bond; and the sole remedy shall be an action to compel performance. Except as may otherwise be required by the Rule, no person, other than the Trustee, acting pursuant to the Indenture, shall have any right, power or standing to enforce this Undertaking. It shall be a condition precedent to the right, power, and standing of any person to bring an action to compel performance under this Undertaking that (i) such person, not less than five business days prior to commencement of such actions, shall have actually delivered to the Corporation notice of such person's intent to commence such action and the nature of the non-performance complained of, together with reasonable proof that such person is a person otherwise having such right, power and standing, and (ii) the Corporation shall not have cured the non-performance complained of. Neither the commencement nor the successful completion of an action to compel performance hereunder shall entitle the Trustee or any other person to attorneys' fees or any other relief, other than an order or injunction compelling performance.

(f) [reserved].

(g) All obligations of the Corporation pursuant to this Undertaking shall terminate if and when the Corporation is no longer an "obligated person" with respect to the Bonds within the meaning of the Rule.

(h) Until such time as it shall be definitely established to the contrary, the Corporation may assume for purposes of the agreements contained in the Undertaking relating to Event Notices:

(1) the term "defaults" as used in the Rule means Events of Default as such term is defined in the Indenture;

(3) there are no "debt service reserves" or "liquidity providers", as such terms are used in the Rule; and

(4) there is no "property securing repayment" of the Bonds, other than the Agreement, within the meaning of the Rule.

(l) This Undertaking amends and restates in its entirety the Rule 15c2-12 Undertaking, dated March 29, 2008, of the Corporation.

IN WITNESS WHEREOF, the Corporation has duly authorized this Undertaking by the signature of its authorized officer.

AEP TEXAS CENTRAL COMPANY

By: \_\_\_\_\_  
Name: Renee V. Hawkins  
Title: Assistant Treasurer

Dated: June 3, 2013





**Kentucky Power Company**

**REQUEST**

Reference paragraph 45 of the application. Please provide any supporting rationale, analysis(es), studies, reports or other materials supporting Kentucky Power's anticipated use of "deferred tax accounting for the premium expense."

**RESPONSE**

The tax accounting depends on the nature of the issuance of the new bonds. If the new bonds are issued to the same bond holders, then the premium paid to retire the old bonds would be amortized over the life of the new bonds (-ie- tax would follow book accounting – no deferred taxes). The most likely scenario is that the new bonds are not issued to the same holders as the old bonds and the premium would be immediately deducted for tax purposes and a credit to ADFIT is recorded in Account 283. This ADFIT is then reversed as the premium is amortized for book purposes.

**WITNESS:** Marc D Reitter

**Kentucky Power Company**

**REQUEST**

Reference paragraphs 48-53 of the application relating to "Treasury Hedge Agreements and Interest Rate Management Agreements." Please provide any and all of company's analysis(es), studies, reports or other materials that project or otherwise quantify the expected net effect on revenue requirements.

**RESPONSE**

The instruments referenced above are tools available to the Company for interest rate risk management. Kentucky Power has not received or performed any analysis regarding projection or quantification of expected net effects on revenue requirements.

**WITNESS:** Marc D Reitter

**Kentucky Power Company**

**REQUEST**

Please reference the second amendment to the Renewable Energy Purchase Agreement between Kentucky Power Company and ecoPower Generation-Hazard LLC, filed on December 13, 2013, by Kentucky Power in Case No. 2013-00144 (Post-Case Referenced Correspondence File), paragraph 2(b), which extends the timing of various conditions precedent into early 2014. Please advise if Kentucky Power still contemplates closing the Merger and transfer of the Mitchell generating station by December 31, 2013. If not, why not.

**RESPONSE**

The transfer of the 50% undivided interest in the Mitchell generating station, and associated assets and liabilities, was completed on December 31, 2013.

**WITNESS:** Ranie K Wohnhas

**Kentucky Power Company**

**REQUEST**

Please provide the names, titles, corporate addresses and relevant experience for any witnesses Kentucky Power intends to call at any hearing deemed warranted by the Commission.

**RESPONSE**

At this time, Kentucky Power plans to call the following witnesses at hearings deemed warranted by the Commission:

Marc D. Reitter  
Manager Corporate Finance  
1 Riverside Plaza  
Columbus, Ohio 43215  
12 Years of Relevant Experience

Ranie K. Wohnhas  
Managing Director of Regulatory and Finance  
101 A Enterprise Drive  
Frankfort, Kentucky 40601  
34 Years of Relevant Experience

Additional witnesses may be called if needed.

**WITNESS:** Ranie K Wohnhas