CASE NUMBER:

99-149

STITES & HARBISON

ATTORNEYS

421 West Main Street
Post Office Box 634
Frankfort, KY 40602-0634
[502] 223-3477
[502] 223-4124 Fax
www.stites.com

Mark R. Overstreet
[502] 223-3477 Ext. 219
moverstreet@stites.com

April 15, 1999

BY HAND DELIVERY

Ms. Helen C. Helton
Executive Director
Public Service Commission of Kentucky
P.O. Box 615
730 Schenkel Lane
Frankfort, Kentucky 40602-0615

RE: **In the Matter of: Joint Application of Kentucky Power Company, American Electric Power Company, Inc. and Central and South West Corporation Regarding A Proposed Merger** 99-149

Dear Ms. Helton:

Please find enclosed and accept for filing the original and ten copies of the Joint Application of Kentucky Power Company, American Electric Power Company, Inc. and Central South West Corporation regarding the proposed merger of American Electric Power Company, Inc. and Central and South West Corporation.

Thank you for your assistance.

Very truly yours,

Mark R. Overstreet

KE057:KE131:1981:FRANKFORT

APPLICATION

COMMONWEALTH OF KENTUCKY
BEFORE THE
PUBLIC SERVICE COMMISSION OF KENTUCKY

IN THE MATTER OF :

JOINT APPLICATION OF KENTUCKY POWER COMPANY,)
AMERICAN ELECTRIC POWER COMPANY, INC.)
AND CENTRAL AND SOUTH WEST CORPORATION) CASE NO. 99-149
REGARDING A PROPOSED MERGER)

JOINT APPLICATION

Kentucky Power Company ("Kentucky Power"), American Electric Power Company, Inc. ("AEP") and Central and South West Corporation ("CSW") (collectively, the "Joint Applicants") respectfully apply to the Public Service Commission of Kentucky ("Commission") for an Order: (1) declaring that the Merger of CSW and AEP, with AEP being the surviving entity, may be consummated without approval by the Commission; or, alternatively, approving the Merger pursuant to KRS 278.020(4) and KRS 278.020(5); (2) approving the proposed regulatory plan and authorizing other steps necessary to implement the regulatory plan; (3) approving a tariff providing a net merger savings credit for customers of Kentucky Power; (4) making findings concerning the deferral of certain merger related expenses in conformity with SFAS 71. In support of their Joint Application, the Joint Applicants state:

Applicants

1. Kentucky Power is an electric utility organized as a corporation under the laws of the Commonwealth of Kentucky in 1919. A certified copy of Kentucky Power's Restated Articles of Incorporation and all amendments thereto is attached to this Joint Application as Exhibit 1. The post office address of Kentucky Power is 1701 Central Avenue, P.O. Box 1428, Ashland, Kentucky 41105-1428. Kentucky Power is engaged in the generation, purchase, transmission, distribution and sale of electric power. Kentucky Power serves approximately 170,000 customers in the following 20 counties of eastern Kentucky: Boyd, Breathitt, Carter, Clay, Elliott, Floyd, Greenup, Johnson, Knott, Lawrence, Leslie, Letcher, Lewis, Magoffin, Martin, Morgan, Owsley, Perry, Pike and Rowan. Kentucky Power also supplies electric power at wholesale to other utilities and municipalities in Kentucky for resale. Kentucky Power is a utility within the meaning of KRS 278.020(3).

2. AEP is a corporation organized under the laws of the State of New York. The mailing address of its principal executive offices is 1 Riverside Plaza, Columbus, Ohio 43215-2373. A certified copy of AEP's Restated Certificate of Incorporation and all amendments thereto is attached to this Joint Application as Exhibit 2. AEP is a holding company registered under the Public Utility Holding Company Act of 1935, 15 U.S.C. § 79 *et seq.* AEP, directly or indirectly, owns all of the outstanding common stock of seven domestic electric utility operating subsidiaries: Appalachian Power Company, Columbus Southern Power Company, Indiana Michigan Power Company, Kentucky Power Company, Kingsport Power Company, Ohio Power Company and Wheeling Power Company. AEP also is involved in various competitive ventures in the

United States and worldwide. AEP's utility operating subsidiaries are engaged primarily in the generation, transmission, distribution and sale of electric energy to over 3 million customers in seven states. The service area of AEP's domestic electric utility operation subsidiaries covers portions of Indiana, Kentucky, Michigan, Ohio, Tennessee, Virginia and West Virginia. AEP's 38 power plants have an aggregate capacity of approximately 23,800 megawatts. AEP has roughly 22,000 miles of transmission lines and 119,000 miles of distribution lines. AEP is not a utility within the meaning of KRS 278.010(3).

3. CSW is a corporation organized under the laws of the State of Delaware. A certified copy of its Certificate of Incorporation and all amendments thereto is attached to this Joint Application as Exhibit 3. CSW is a holding company registered under the Public Utility Holding Company Act of 1935, 15 U.S.C. § 79 *et seq.* CSW's mailing address is 1616 Woodall Rodgers Freeway, P.O. Box 660164, Dallas, Texas 75266-0164. CSW owns all of the outstanding common stock of four domestic electric utility operating subsidiaries: Central Power and Light Company, Public Service Company of Oklahoma, Southwestern Electric Power Company and West Texas Utilities Company. CSW also is involved in various competitive ventures in the United States and worldwide. CSW's domestic public utility operating subsidiaries are engaged in the purchasing, transmitting, distributing and selling of electricity to over 1.7 million customers in an area covering approximately 152,000 square miles in portions of Texas, Oklahoma, Arkansas and Louisiana. CSW's U. S. electric operating companies have 40 power plants with aggregate capacity of 14,171 megawatts. CSW has roughly

16,500 miles of transmission lines and 68,900 miles of distribution lines. CSW is not a utility within the meaning of KRS 278.010(3).

The Transaction

4. On December 21, 1997, the Boards of Directors of CSW and AEP held meetings and each approved the "Agreement and Plan of Merger By and Among American Electric Power Company, Inc., Augusta Acquisition Corporation and Central and South West Corporation" ("Agreement"), and the transactions contemplated thereby, pursuant to which a wholly owned subsidiary of AEP, Augusta Acquisition Corporation, will merge with and into CSW (the "Merger"). A copy of the Agreement is attached to this Joint Application as Exhibit 4. AEP will continue to be headquartered in Columbus, Ohio.

5. Upon consummation of the Merger, the four CSW domestic utility companies will cease to be wholly-owned subsidiaries of CSW, and will become wholly owned subsidiaries of AEP. The eleven domestic utility companies of CSW and AEP will retain their separate corporate identities, assets and liabilities, franchises and certificates of public convenience and necessity. In consideration of the Merger, each outstanding share of CSW will be converted into the right to receive 0.6 of a share of AEP (together with cash in lieu of fractional shares).

6. As part of the Merger, AEP's Board will be expanded from 12 to 15 members, with two AEP members retiring. Under the terms of the Agreement, five former members of the CSW Board will be nominated by AEP for election by the

shareholders of the merged company. Dr. E. Linn Draper, Jr. will continue as Chairman of the Board, President and Chief Executive Officer of AEP.

Request for Determination That Approval of the Merger Is Not Required Under Kentucky Law

7. KRS 278.020(4)[1] and KRS 278.020(5) do not obligate the Joint Applicants to obtain approval of the Merger.

8. Pursuant to KRS 278.020(4), CSW does not own or control any utility furnishing service in the Commonwealth or otherwise subject to the jurisdiction of this Commission. Kentucky Power and AEP Communications, LLC [2]are the only utilities owned or controlled by AEP and furnishing service in the Commonwealth or otherwise subject to the jurisdiction of this Commission. The Merger will not result in the transfer

[1] In a February 17, 1999 letter to AEP, the Commission Staff stated that it believes the Commission has authority to approve the Merger under KRS 278.020(5). The letter does not mention KRS 278.020(4). Applicants do not believe either subsection is applicable, and subsection (4) is even less arguably applicable than subsection (5). Nevertheless, out of an abundance of caution both subsections are addressed in this Joint Application.

[2] AEP Communications, LLC is an indirect wholly owned subsidiary of AEP and is authorized to provide non-switched private network service to third-parties in the Commonwealth. Order, *In the Matter of: The Application of AEP Communications, LLC for a Certificate of Authority to Provide Non-Switched Private Network and Other Services to Third Parties in the Commonwealth of Kentucky*, P.S.C. Case No. 97-495 (March 18, 1998). AEP Communications, LLC's name and tariff will not change as a result of the Merger, and AEP Communications will continue as a wholly-owned indirect subsidiary of AEP upon consummation of the Merger. The Commission by its January 8, 1998 Order in Administrative Case No. 370, *In the Matter of: Exemptions of Providers of Local Exchange Service Other Than Incumbent Local Exchange Carriers*, exempted carriers, such as AEP Communications, LLC, from the provisions of KRS 278.020(4), (5). Accordingly, AEP Communications, LLC is not made a party to this proceedings. To the extent the Commission believes approval also is required for AEP Communications, LLC under KRS 278.020(4), (5), the Joint Applicants request that such approval be granted.

by AEP, or the acquisition by CSW, of Kentucky Power, or of control or the right to control Kentucky Power. Specifically;

(a) Kentucky Power will continue to be a wholly owned subsidiary of AEP, and will retain its separate corporate identity, assets and liabilities, franchises and certificates of public convenience and necessity;

(b) The Joint Applicants do not contemplate any change in the Board of Directors of Kentucky Power or the executive officers of the company as a result of the Merger;

(c) Through the Merger, AEP is, in effect, acquiring CSW. Upon consummation of the Merger, the four CSW domestic utility companies will cease to be wholly-owned subsidiaries of CSW, and will become wholly owned subsidiaries of AEP. The eleven domestic utility companies of CSW and AEP will retain their separate corporate identities, assets and liabilities, franchises and certificates of public convenience and necessity;

(d) As part of the Merger, AEP's Board will be expanded from 12 to 15 members, with two AEP members retiring. Under the terms of the Agreement, five former members of the CSW Board will be nominated by AEP for election by the shareholders of the merged company;

(e) Dr. E. Linn Draper, Jr. will continue as Chairman of the Board, President and Chief Executive Officer of AEP;

(f) CSW has approximately 61,000 shareholders who will receive upon consummation of the Merger approximately 127 million shares of AEP. The effect of the Merger will be to broaden the ownership of AEP. The Joint Applicants are unaware of any association of CSW's current shareholders acting with a common purpose or goal with respect to their ownership of CSW's shares or the shares of AEP to be distributed in connection with the Merger, or with respect to the management or direction of AEP following the Merger. The Joint Applicants similarly are unaware of any agreement by an association of CSW's current shareholders to act in concert with respect to the purchasing, voting, holding or disposing of the AEP shares to be acquired through the Merger;

(g) Following the Merger, it is not anticipated that any person, as that term is defined in KRS 278.010(2), will hold or control ten per cent or more of the outstanding shares of AEP;

(h) It is not anticipated that any shareholder of CSW at the time of the Merger will obtain control, or the right to control, AEP as a result of the exchange of shares of AEP for all of the outstanding shares of CSW.

9. Pursuant to KRS 278.020(5), CSW does not own or control any utility furnishing service in the Commonwealth or otherwise subject to the jurisdiction of this Commission. Kentucky Power and AEP Communications, LLC are the only utilities owned or controlled by AEP furnishing service in the Commonwealth of Kentucky or otherwise subject to the jurisdiction of this Commission. The Merger will not result in the acquisition of control, either directly or indirectly, of Kentucky Power by a group,

syndicate, general or limited partnership, association, corporation, joint stock company, trust or other entity. Specifically,

(a) No group, syndicate, general or limited partnership, association, corporation, joint stock company, trust or other entity will, directly or indirectly, acquire as a result of the Merger, ten percent or more of the shares of AEP. Following the Merger, it is not anticipated that any individual or entity will hold or control ten percent or more of the outstanding shares of AEP;

(b) No group, syndicate, general or limited partnership, association, corporation, joint stock company, trust or other entity will, directly or indirectly, acquire as a result of the Merger, the power to direct or cause the direction of the management or policies of Kentucky Power, by ownership of the voting securities of Kentucky Power or AEP, by effecting a change in the composition of the Board of Directors of AEP or Kentucky Power, by contract or otherwise;

(c) Kentucky Power will continue to be a wholly owned subsidiary of AEP, and will retain its separate corporate identity, assets and liabilities, franchises and certificates of public convenience and necessity;

(d) The Joint Applicants do not contemplate any change in the Board of Directors of Kentucky Power or the executive officers of the company as a result of the Merger;

(e) AEP is, in effect, acquiring CSW through the Merger. Upon consummation of the Merger, the four CSW domestic utility companies will cease to be

wholly-owned subsidiaries of CSW, and will become wholly owned subsidiaries of AEP. The eleven domestic utility companies of CSW and AEP will retain their separate corporate identities, assets and liabilities, franchises and certificates of public convenience and necessity;

(f) As part of the Merger, AEP's Board will be expanded from 12 to 15 members, with two AEP members retiring. Under the terms of the Agreement, five former members of the CSW Board will be nominated by AEP for election by the shareholders of the merged company;

(g) Dr. E. Linn Draper, Jr. will continue as Chairman of the Board, President and Chief Executive Officer of AEP;

(h) The Merger is not intended to permit, nor will it permit, the former CSW shareholders to act in concert "to direct or cause the direction of the management or policies of [Kentucky Power]." No person or entity owns ten percent or more of the shares of CSW and following the Merger no person or entity is expected to own ten percent or more of the shares of the merged AEP. After the Merger, the former CSW shareholders will become AEP shareholders and as such, a part of a large, disparate and changing population. On the average day, almost 500,000 shares of AEP stock are traded. The former shareholders of CSW quickly will lose any group identity they may have had in the large pool of AEP shareholders. There is no mechanism that will enable the former CSW shareholders to act in concert, and as a practical matter, there is no realistic prospect they could or would maintain cohesion as a group.

Conditional Request for Approval of the Merger Pursuant to KRS 278.020

10. If the Commission determines the Merger must be approved pursuant to KRS 278.020(4) or KRS 278.020(5), or both, the Joint Applicants request that such approvals as the Commission deems are required be granted. The Joint Applicants request such approvals without prejudice to, or waiving, their position that the Merger is exempt from review under Kentucky law.

Approval of the Merger Is Consistent With the Requirements of KRS 278.020(5)

11. The Merger will be consummated in accordance with the law, is for a proper purpose and is in the public interest. The Merger is intended to benefit stakeholders in Kentucky Power and the merged AEP operating companies: customers, employees, shareholders and the communities in which the operating companies provide service.

The Merger Will Be Consummated In Accordance With The Law

12. The Merger will not be consummated absent the receipt of all required regulatory approvals. Prior to filing this Joint Application, AEP, CSW and one or more of their domestic companies have sought approval for the Merger from the Securities and Exchange Commission, the Federal Energy Regulatory Commission, the Federal Communications Commission and the Arkansas, Louisiana, Texas and Oklahoma public utility regulatory commissions. In addition, approval for a change in licensure is being sought from the Nuclear Regulatory Commission. At this time, conditional approval of the Merger has been received from the Arkansas Public Service Commission.

13. Since announcing the Merger in December, 1997, the Joint Applicants have sought to keep this Commission fully informed of the details of the transaction and its progress toward consummation. To that end, the Joint Applicants have provided the Commission with copies of all filings made with other regulatory bodies in which the Joint Applicants are seeking approval of the Merger.

14. Following the Merger, AEP will continue to be regulated as a Public Utility Holding Company by the Securities and Exchange Commission pursuant to the Public Utility Holding Company Act of 1935. In addition, following the Merger, Kentucky Power will remain a public utility and subject to the jurisdiction of this Commission and the Federal Energy Regulatory Commission to the same extent as prior to the Merger.

The Merger is For a Proper Purpose

15. The dramatic structural changes in the electric utility industry in the past several years, spurred in part by the Energy Policy Act of 1992 and FERC Orders 888 and 889, have yielded an increasingly competitive utility and energy services marketplace.

16. AEP and CSW share a common vision as to what will be required to compete successfully in this evolving utility and energy services marketplace. The Joint Applicants entered into the Agreement and Plan of Merger to enable the merged AEP to compete successfully in the future through increased scale, cost savings, competitive prices and services, increased financial strength and greater diversification of load, power sources and fuel mix. The Merger will create a company able to produce and

deliver low-cost power, a company ready to compete for the benefit of its customers and a high-quality, well-capitalized company positioned to handle the future.

The Merger Is Consistent With the Public Interest

17. The Merger is subject to review under the antitrust laws by the United States Department of Justice. Although the Joint Applicants do not believe the Merger will violate federal antitrust laws, it cannot be completed until the expiration or termination of the waiting period under the Hart-Scott-Rodino Antitrust Improvements Act of 1976.

18. The Merger must also be approved by the Securities and Exchange Commission under the Public Utility Holding Company Act of 1935, 15 U.S.C. § 79 *et seq.* The application is pending and the Joint Applicants believe that the Merger will be approved by the Securities and Exchange Commission.

19. The Merger will permit the Merged AEP (including Kentucky Power) to achieve further economies of scale in utility operations, product development and corporate services. In addition, the Merged AEP will enjoy a substantially larger and geographically more diverse customer base, thereby adding stability from both an economic and operational standpoint. The Merged AEP's significantly larger market capitalization will provide a stronger financial base that will permit the company to weather adverse economic conditions and to be better able to absorb risks.

20. The Merger will provide opportunities to eliminate duplication in corporate and administrative programs, to achieve greater efficiencies in operations and business

processes, to improve purchasing power and to achieve other efficiencies by combining the two work forces. It is estimated that these efficiencies and improvements will allow the Joint Applicants to capture Merger-related savings of approximately $2 billion, net of Merger costs over a ten year period. These Merger-related savings are in addition to fuel savings.

21. In connection with the Merger, the Joint Applicants have proposed a regulatory plan under which 100% of merger-related fuel costs flow through to customers through fuel adjustment clauses, and the estimated non-fuel Merger savings are shared by customers and shareholders. This treatment will continue until the earlier of ten years or the implementation of mandated unbundling and retail competition.

22. The Joint Applicants anticipate the Merger will result in fuel related savings (net of the cost of transmission and foregone net revenues) of $98 million over a ten year period. All of Kentucky Power's fuel-related savings will flow through to its customers by means of the fuel adjustment clause. It is estimated that Kentucky Power's share of these savings will be $3.4 million over a ten year period. The aggregate Kentucky retail jurisdictional portion of the projected fuel-related savings is $2.6 million. Customers of Kentucky Power will begin to receive these projected fuel-related savings following the Merger as the savings occur.

23. Under the regulatory plan, approximately 52% of the net non-fuel Merger savings allocated to Kentucky's retail jurisdictional customers of approximately $37.6 million will be returned to the customers by means of a Net Merger Savings Credit.

Kentucky Power's proposed tariff sheet embodying the Net Merger Savings Credit is filed as EXHIBIT REM-7.

24. The shareholder portion of the net non-fuel Merger savings, approximately 48% of the net non-fuel Merger savings, will be retained by shareholders by including their portion of the savings as a reasonable cost in any future rate proceeding during the ten years following the Merger. The amount to be included will be based upon the test year period.

25. The Joint Applicants propose under the regulatory plan to defer merger-related transaction, transition and regulatory processing and change in control costs, and to amortize the Merger costs on a straight-line basis over a five year period as shown on page 4 of EXHIBIT REM-3.

26. Under the regulatory plan, the Joint Applicants also will improve affiliate transactions accounting and reporting practices.

27. Transactions between Kentucky Power and American Electric Power Service Corporation ("AEPSC") will continue to be regulated by the Securities and Exchange Commission pursuant to the Public Utility Holding Company Act of 1935. Following the Merger, AEPSC will continue to provide to Kentucky Power the same services previously provided. American Electric Power Service Corporation will continue to bill costs directly to the greatest extent possible. Where costs cannot be billed directly, affiliate billings employing allocation factors developed by Joint Applicants in accordance with the allocation rules of the Securities and Exchange Commission will be used. Where volume is the major determinant of the cost of providing the service,

the allocation factors utilize the volume of activity that is generated in performing the service. Where cost is not related to volume, the most representative factor is used. AEP is seeking approval from the Securities and Exchange Commission for use of these new allocation factors.

28. The Merger will permit Kentucky Power to continue, and where necessary, to improve, its efforts to provide high-quality, reliable and economical service in an efficient fashion.

29. AEP currently employs a targeted marketing program to attract domestic industrial investment, as well as investment from Japan and Europe. In addition, AEP provides export assistance to existing customers exploring international markets. AEP also promotes economic development through the financing of industrial property and shell buildings, challenge grants to local development agencies and scholarships for economic development training. The Merger will not affect Kentucky Power's economic development efforts and it intends to continue to support economic development in its service area.

The Merger Satisfies the Requirements of KRS 278.020(4)

30. Upon consummation of the Merger, Kentucky Power will continue to possess the financial, technical and managerial abilities to provide reasonable service in the Commonwealth.

31. Following the Merger, the customers of Kentucky Power will receive service that meets or exceeds the service delivered prior to the Merger. Kentucky

Power intends to maintain its principal corporate office in Ashland and to maintain its presence throughout its service territory.

Financial Ability

32. Kentucky Power's capital structure will not be altered by the Merger; its common stock and debt obligations will remain outstanding. Kentucky Power will not assume any indebtedness nor issue any equity or indebtedness as a result of the Merger and its Board of Directors intends to maintain its balanced capital structure following the Merger.

33. Following the Merger, Kentucky Power will continue to benefit from AEP's policy of attaining and maintaining strong stand-alone credit ratings for all of its subsidiaries, including the management and operation of Kentucky Power to minimize costs and optimize cash flow, and to make equity capital available to fund Kentucky Power's total capital requirements as necessary. The merged AEP's greater financial strength, resulting from its larger capitalization and stronger cash flows, will enhance AEP's ability to execute its policy of assisting Kentucky Power in attaining and maintaining a strong stand-alone credit rating.

34. The financial ability of Kentucky Power to provide reasonable service in the Commonwealth also will be strengthened by the merged AEP and its subsidiaries' lower cost of providing energy and related services.

Technical and Managerial Ability

35. The technical and managerial capabilities of Kentucky Power will be enhanced by its ability to draw upon a larger and more-diverse pool of senior- and mid-

level management personnel, as well as technical talent within the merged AEP. The merged AEP also should permit Kentucky Power to attract and retain the most qualified management and technical personnel by providing greater opportunities in a larger company.

36. Following the Merger, existing management policy of directing the most talented persons to their appropriate positions will be continued.

Testimony and Application Exhibits

37. The following testimony is filed in support of this Joint Application:

WITNESS	SUBJECT MATTER OF TESTIMONY
Dr. E. Linn Draper, Jr.	Description of AEP, CSW, and Merger Transaction; Public Interest; Introduction of Other Witnesses.
Thomas J. Flaherty	Scope of Analysis; Benefits Created from Utility Mergers; Comparison to Other Transactions; Detailed Cost Savings Description; Costs to Achieve; Overview of Savings Allocation.
J. Craig Baker	System Integration Agreement; Production Related Benefits; Potential Capacity Benefits; AEP/CSW Interconnection Plans.
Richard E. Munczinski	Anticipated Benefits and Costs of Merger; Proposed Regulatory Plan; Reasonableness of Regulatory Plan; Affiliated Transactions.
Gerald R. Knorr	Affiliate Structure of Merged Entity; Transactions Among Affiliates; Allocation of Merger Savings and Costs Among Affiliates.

WITNESS	SUBJECT MATTER OF TESTIMONY
William H. Hieronymous	The Merger's Lack of Impact on Competition.
Thomas E. Mitchell	Proposed Merger Transaction; Method of Accounting for the Combination; Proposed Merger Pro Forma Financial Data; Federal Income Tax Implications of the Merger; Accounting Impact of Proposed Regulatory Treatment.
Timothy C. Mosher	Kentucky Power Overview; Safety; Economic/Community Development; Communications and Accountability.
Mark A. Bailey	Safe, Reliable and Adequate Service; Customer Service and Budget Resources; Effect of the Merger on Customer Service.

38. The following Exhibits are filed in Support of this Joint Application:

EXHIBIT NUMBER	DESCRIPTION
1	Certified copy of Kentucky Power Company's Restated Articles of Incorporation and all amendments thereto
2	Certified copy of American Electric Power Company, Inc.'s Restated Certificate of Incorporation and all amendments thereto
3	Certified copy of Central and South West Corporation's Certificate of Incorporation and all amendments thereto
4	"Agreement and Plan of Merger By and Among American Electric Power Company, Inc., Augusta Acquisition Corporation and Central and South West Corporation"

COMMUNICATIONS

39. The Joint Applicants respectfully request that all communications involving the Joint Application and this proceeding be directed to:

For Kentucky Power Company:

Mark R. Overstreet
Stites & Harbison
421 West Main Street
P.O. Box 634
Frankfort, Kentucky 40601-0634

Kevin F. Duffy
American Electric Power Service Corporation
1 Riverside Plaza
Columbus, Ohio 43215-2373

For American Electric Power Company, Inc.:

Mark R. Overstreet
Stites & Harbison
421 West Main Street
P.O. Box 634
Frankfort, Kentucky 40601-0634

Kevin F. Duffy
American Electric Power Service Corporation
1 Riverside Plaza
Columbus, Ohio 43215-2373

For Central and South West Corporation:

Rocky R. Miracle
1616 Woodall Rodgers Freeway (75202)
P. O. Box 660164
Dallas, TX 75266-0164

Relief Sought

Wherefore, Kentucky Power Company, American Electric Power Company, Inc. and Central and South West Corporation respectfully request the Public Service Commission of Kentucky:

1. To issue an Order declaring that the Merger of American Electric Power Company, Inc. and Central and South West Corporation is not subject to review or approval pursuant to KRS 278.020(4) or KRS 278.020(5);

2. To issue an Order in conformity with SFAS 71 stating that: "American Electric Power Company, Inc. and Central and South West Corporation will incur transaction, regulatory processing and transition costs to merge and combine the two companies. The Commission orders that the Kentucky retail jurisdictional share of the estimated Merger costs be deferred and amortized for recovery over five years. The amortization should begin with the date of the combination and continue for five years on a straight-line basis";

3. To issue an Order authorizing Kentucky Power Company to return to ratepayers by a Net Merger Savings Credit Rider the amounts shown in, and approving the tariff filed as, EXHIBIT REM-7;

4. Alternatively, if the Commission determines approval is required, to issue an Order finding that upon consummation of the Merger, Kentucky Power Company will retain the technical, financial and managerial ability to provide reasonable service in the Commonwealth, and approving the Merger pursuant to KRS 278.020(4);

5. Alternatively, if the Commission determines approval is required, to issue an Order finding that the Merger is in accordance with the law, is for a proper purpose and is consistent with the public interest, and approving the Merger pursuant to KRS 278.020(5);

6. Alternatively, if the Commission determines approval is required, to issue an Order approving the proposed regulatory plan and the steps necessary to implement it, specifically:

a. approving the regulatory treatment of the fuel saving arising from the integrated operations of the Joint Applicants;

b. authorizing the inclusion of estimated non-fuel Merger savings, net of costs to achieve and change in control payments, as an allowable expense in Kentucky Power Company's cost of service, with the amount to be included in the cost of service to be based upon the test year period.

7. To issue an Order granting Kentucky Power Company, American Electric Power Company, Inc. and Central and South West Corporation all additional authorizations and relief required for the consummation of the Merger or to which they may be entitled.

Respectfully Submitted,

Mark R. Overstreet
STITES & HARBISON
421 West Main Street
P.O. Box 634
Frankfort, Kentucky 40602-0634

Kevin F. Duffy
American Electric Power Service Corporation
1 Riverside Plaza
Columbus, Ohio 43215-2373

COUNSEL FOR KENTUCKY POWER COMPANY AND AMERICAN ELECTRIC POWER COMPANY, INC.

Mark R. Overstreet
STITES & HARBISON
421 West Main Street
P. O. Box 634
Frankfort, Kentucky 40602-0634

COUNSEL FOR CENTRAL AND SOUTH WEST CORPORATION

I, Timothy C. Mosher, Vice President of Kentucky Power Company, being duly cautioned and sworn, state that I have read the foregoing application, that I am familiar with the facts set forth therein, and that the facts as they pertain to Kentucky Power Company are true and correct to the best of my knowledge and belief.

Timothy C. Mosher
Original

State of Ohio)
)
County of Franklin)

The foregoing was sworn to before me this 8th day of April, 1999 by Timothy C. Mosher.

Edward J. Brady
Notary Public

My Commission Expires:

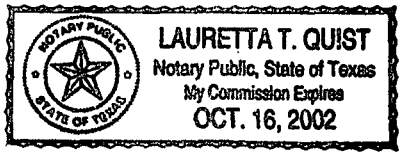
EDWARD J. BRADY, ATTORNEY AT LAW
NOTARY PUBLIC, STATE OF OHIO
My commission has no expiration date.
Section 147.03 R.C.

, Richard E. Munczinski, Senior Vice President-Corporate Planning of American Electric Power Company, Inc., being duly cautioned and sworn, state that I have read the foregoing application, that I am familiar with the facts set forth therein, and that the facts as they pertain to American Electric Power Company, Inc. are true and correct to the best of my knowledge and belief.

Richard E. Munczinski

STATE OF TEXAS §
§
COUNTY OF TRAVIS §

The foregoing was sworn to before me this 8th day of April, 1999 by Richard E. Munczinski.

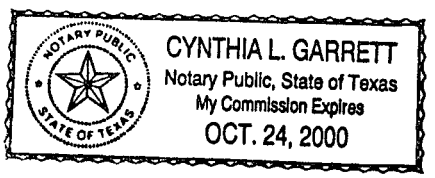


Lauretta T. Quist
Notary Public

My Commission Expires:
October 16, 2002

, Mark , Roberson of Central and South West Corporation, being duly cautioned and sworn, state that I have read the foregoing application, that I am familiar with the facts set forth therein, and that the facts as they pertain to Central and South West Corporation are true and correct to the best of my knowledge and belief.

Mark Roberson



State of Texas)
)
County of Travis)

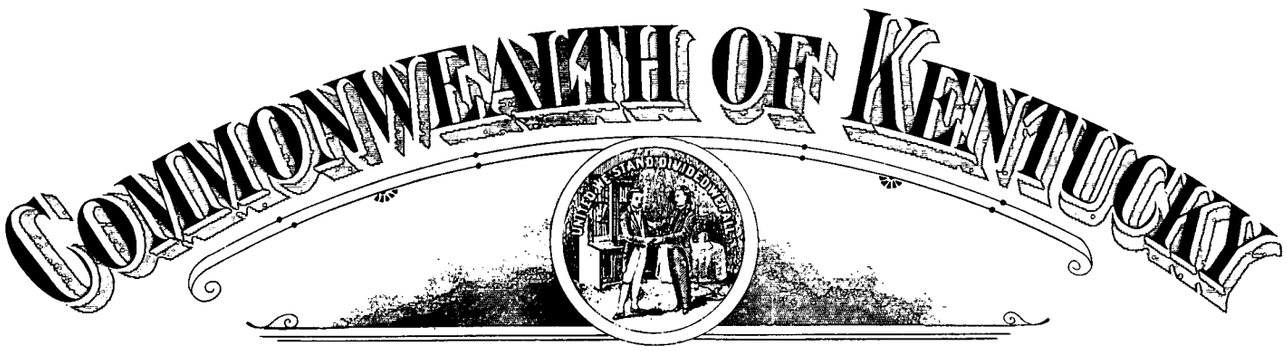
The foregoing was sworn to before me this 7th day of April, 1999 by Mark Roberson.

Cynthia L. Garrett
Notary Public

My Commission Expires:

October 24, 2000

IN THE NAME AND BY THE AUTHORITY OF THE



JOHN Y. BROWN III
SECRETARY OF STATE

CERTIFICATE

I, JOHN Y. BROWN III, Secretary of State for the Commonwealth of Kentucky, do certify that the foregoing writing has been carefully compared by me with the original record thereof, now in my official custody as Secretary of State and remaining on file in my office, and found to be a true and correct copy of ARTICLES OF AMENDMENT AMENDING AND RESTATING THE ARTICLES OF INCORPORATION OF KENTUCKY POWER COMPANY FILED DECEMBER 15, 1980, CERTIFICATE OF ASSUMED NAME OF AMERICAN ELECTRIC POWER ADOPTED BY KENTUCKY POWER COMPANY FILED NOVEMBER 1, 1995.

IN WITNESS WHEREOF, I have hereunto set my hand and affixed my official seal.

Done at Frankfort this 6TH day of APRIL, 19 99

John Y. Brown III
Secretary of State, Commonwealth of Kentucky

TLM

Commonwealth of Kentucky

OFFICE OF
SECRETARY OF STATE

FRANCES JONES MILLS
Secretary

FRANKFORT,
KENTUCKY

CERTIFICATE OF AMENDMENT & RESTATED TO ARTICLES OF INCORPORATION

I, FRANCES JONES MILLS, Secretary of State of the Commonwealth of Kentucky, do hereby certify that Amended & RESTATED Articles of Incorporation of

KENTUCKY POWER COMPANY

amended pursuant to Kentucky Revised Statutes, 271A, (2XX) duly signed and verified or acknowledged according to law, have been filed in my office by said corporation, and that all taxes, fees and charges payable upon the filing of said Articles of Amendment & RESTATED have been paid.

Given under my hand and seal of Office as Secretary of State, at Frankfort, Kentucky, this 15TH *day of* DECEMBER, *19* 80.

Frances Jones Mills
SECRETARY OF STATE

SECRETARY OF STATE

ASSISTANT SECRETARY OF STATE

ARTICLES OF AMENDMENT

AMENDING AND RESTATING

THE

ARTICLES OF INCORPORATION

OF

KENTUCKY POWER COMPANY

ORIGINAL COPY
FILED
SECRETARY OF STATE OF KENTUCKY

DEC 15 1980

Pursuant to the provisions of Sections 271A.290 and 271A.295 of Chapter 271A of the Kentucky Revised Statutes, known as the "Kentucky Business Corporation Act," the undersigned corporation adopts the following Articles of Amendment to amend and restate its Articles of Incorporation:

FIRST: The name of the Corporation is KENTUCKY POWER COMPANY.

SECOND: The following amendments to, and restatement of, the Articles of Incorporation were adopted by the Board of Directors and by the shareholders of the Corporation in the manner prescribed by the Kentucky Business Corporation Act:

RESOLVED, that Article (2) of the Articles of Incorporation of the Corporation, as amended, be, and it hereby is, deleted in its entirety, and that the following new Article (2) be, and it hereby is, inserted in its place:

(2) The duration of the Corporation shall be perpetual.;

and further

RESOLVED, that Article (3) of the Articles of Incorporation of the Corporation, as amended, be, and it hereby is, amended to read as follows:

(3) The purposes for which the Corporation is formed are as follows:

To generate and produce electricity and to transmit, distribute and sell the same to the public, either directly or through the sale of electric energy to other utilities, within and without the Commonwealth of Kentucky.

To transact any or all lawful business for which corporations may be incorporated under the Kentucky Business Corporation Act.;

and further

RESOLVED, that Articles (5) and (6) of the

RESOLVED, that Articles (7), (8) and (9) of the Articles of Incorporation of the Corporation, as amended, be, and they hereby are, renumbered, respectively, as Articles (5), (6) and (7); and further

RESOLVED, that the Articles of Incorporation of the Corporation, as heretofore and hereby amended be, and they hereby are, restated to read as follows:

RESTATED ARTICLES OF INCORPORATION

OF

KENTUCKY POWER COMPANY

---

(1) The name of the Corporation shall be KENTUCKY POWER COMPANY.

(2) The duration of the Corporation shall be perpetual.

(3) The purposes for which the Corporation is formed are as follows:

To generate and produce electricity and to transmit, distribute and sell the same to the public, either directly or through the sale of electric energy to other utilities, within and without the Commonwealth of Kentucky.

To transact any or all lawful business for which corporations may be incorporated under the Kentucky Business Corporation Act.

(4) The total number of shares of all classes of stock which the Corporation shall have authority to issue is two million (2,000,000) shares of Common Stock, of the par value of $50 each. The number of shares which are without par is none.

Each share of Common Stock shall be equal in all respects to every other share of Common Stock.

(5) The affairs of the Corporation are to be conducted by a Board of Directors, which shall consist of such number of members as shall from time to time be provided by the bylaws of this Corporation, but in no event less than three who shall be elected annually.

(6) The amount of indebtedness or liability which may be incurred by the Corporation at any time shall be unlimited.

(7) The private property of the stockholders of the Corporation shall not be subject to the payment of its corporate debts.;

and further

RESOLVED, that the foregoing Restated Articles of Incorporation of the Corporation shall supersede the Articles of Incorporation of the Corporation and all prior amendments thereto.

THIRD: Except for the designated amendments thereto, the foregoing Restated Articles of Incorporation correctly set forth without change the corresponding provisions of the Articles of Incorporation of the Corporation as heretofore amended.

FOURTH: The Board of Directors of the Corporation, at a meeting duly called for, and held on, November 20, 1980, at which a quorum was present and acting throughout, adopted the foregoing resolutions amending and restating the Articles of Incorporation of the Corporation and directed that such resolutions be submitted to a vote at a meeting of shareholders. On November 20, 1980, the holders of all of the outstanding shares of the Corporation, which on such date consisted of 1,009,000 shares of Common Stock of the par value of $50 per share, executed and delivered to the Corporation their written waiver of notice of such a meeting and consent to the adoption of the foregoing resolutions.

FIFTH: The foregoing amendments do not provide for an exchange, reclassification or cancellation of issued shares, or effect a change in the amount of stated capital of the Corporation.

Dated this 25th day of November, 1980.

KENTUCKY POWER COMPANY

By _____
its Vice President

And _____
its Assistant Secretary

STATE OF NEW YORK)
) SS
COUNTY OF NEW YORK)

I, David G. Hume, a notary public, do hereby certify that on this 25th day of November, 1980, personally appeared before me G. P. Maloney, who, being by me first duly sworn, declared that he is a Vice President of Kentucky Power Company, that he signed the foregoing document as Vice President of the corporation, and that the statements therein contained are true.

David G. Hume
Notary Public

(NOTARIAL SEAL)

DAVID G. HUME
NOTARY PUBLIC, State of New York
No. 60-4548113
Qualified in Westchester County
Certificate filed in New York County
Commission Expires March 30, 1981

Prepared By: Richard P. Bourgerie
American Electric Power Service Corporation
2 Broadway
New York, N.Y. 10004

Richard P. Bourgerie
(signature of counsel)

28317

COMMONWEALTH OF KENTUCKY

BOB BABBAGE

SECRETARY OF STATE
CERTIFICATE OF ASSUMED NAME

THIS CERTIFIES THAT THE ASSUMED NAME OF American Electric Power

has been adopted by Kentucky Power Company

(Real Name - 365.015(1))

which is the REAL NAME of the

_____ General Partnership X Corporation

_____ Business Trust _____ Limited Partnership _____ Joint Venture

[YOU MUST CHECK ONE]

Sole proprietorships ARE NOT filed with the Secretary of State

organized and existing in the state of Kentucky, and whose address is

1701 Central Avenue, Ashland, Kentucky 41101

This Certificate of Assumed Name is Signed By:

Name John F. DiLorenzo, Jr.	Name
Secretary Title	Title
Name	Name
Title	Title
Name	Name
Title	Title
Name	Name
Title	Title

ACKNOWLEDGEMENT

State of Ohio County of Franklin

I, Brenda R. Heavill, notary public, do hereby certify that on this 31st day of October, 1995, personally appeared before me John F. DiLorenzo, Jr., who bring by me first duly sworn, declared that he/~~they~~ is/~~are~~ the Secretary of Kentucky Power Company, and that he/~~they~~ signed the foregoing document on behalf of the corporation/~~partnership/trust/or joint venture~~.

My Commission Expires 19th day of August, 1998.

Brenda R. Heavill
(Notary Public Signature)

BRENDA R. HEAVILL
NOTARY PUBLIC, STATE OF OHIO
MY COMMISSION EXPIRES AUG. 19, 1998

(See Reverse side for Instructions)
SSC-226 (8-91)

State of New York
Department of State } ss:

I hereby certify that the annexed copy has been compared with the original document in the custody of the Secretary of State and that the same is a true copy of said original.

Witness my hand and seal of the Department of State on APR 05 1999

Special Deputy Secretary of State

DOS-1266 (5/96)

CT-07

F9711-05000 158

RESTATED CERTIFICATE OF INCORPORATION
OF
AMERICAN ELECTRIC POWER COMPANY, INC.
Under Section 807 of the Business Corporation Law

The undersigned, being respectively the Vice President and Assistant Secretary of American Electric Power Company, Inc., hereby certify that:

I. Name. The name of the corporation is AMERICAN ELECTRIC POWER COMPANY, INC. The name under which the corporation was formed is American Gas and Electric Company.

II. Date of Filing of Certificate of Incorporation. The certificate of consolidation forming the corporation was filed by the Department of State on February 18, 1925.

III. Original Certificate Superseded. The certificate of incorporation, as amended heretofore, is hereby restated without further amendment or change to read as herein set forth in full:

1. The name of the corporation shall be AMERICAN ELECTRIC POWER COMPANY, INC.

2. The purposes for which the corporation is formed are:

(a) To acquire, hold and dispose of the stock, bonds, notes, debentures and other securities and obligations (hereinafter called "securities") of any person, firm, association, or corporation, private, public or municipal, or of any body politic, including, without limitation, securities of electric and gas utility companies; and while the owner of such securities, to possess and exercise in respect thereof all the rights, powers and privileges of ownership thereof, including voting power;

(b) To aid in any manner permitted by law any person, firm, association or corporation in whose securities the corporation may be interested, directly or indirectly, and to do any other act or thing permitted by law for the preservation, protection, improvement or enhancement of the value of such securities or the property represented thereby or securing the same or owned, held or possessed by such person, firm, association or corporation;

(c) To acquire, construct, own, maintain, operate and dispose of real or personal property used or useful in the business of an electric utility company or gas utility company and such other real or personal property as may be permitted by law; and

(d) To do everything necessary, proper, advisable or convenient for the accomplishment of the foregoing purposes, and to do all other things incidental

to them or connected with them that are not forbidden by law or by this certificate of incorporation.

3. The city and county in which the office of the corporation is to be located are the City and County of New York.

4.1. The aggregate number of shares which the corporation is authorized to issue is 300,000,000 shares of Common Stock of the par value of $6.50 each.

4.2. Each share of the Common Stock shall be equal in all respects to every other share of the Common Stock. Every holder of record of the Common Stock shall have one vote for each share of Common Stock held by him for the election of directors, and upon all other matters; provided, however, that at all elections of directors by stockholders each holder of record of shares of the Common Stock then entitled to vote, shall be entitled to as many votes as shall equal the number of votes which (except for this provision as to cumulative voting) he would be entitled to cast for the election of directors with respect to his shares of Common Stock multiplied by the number of directors to be elected, and such holder may cast all of such votes for a single director or may distribute them among the number of directors to be voted for, or any two or more or them, as he may see fit, which right, when exercised, shall be termed cumulative voting.

4.3. The corporation may, at any time and from time to time, issue and dispose of any of the authorized and unissued shares of the Common Stock for such consideration as may be fixed by the Board of Directors, subject to any provisions of law then applicable, and subject to the provisions of any resolutions of the stockholders of the corporation relating to the issue and disposition of such shares.

4.4. Upon any issuance for money or other consideration of any stock of the corporation, or of any securities convertible into any stock of the corporation, of any class whatsoever which may be authorized from time to time, no holder of stock of any kind shall have any preemptive or other right to subscribe for, purchase or receive any proportionate or other share of the stock or securities so issued, but the Board of Directors may dispose of all or any portion of such stock or securities as and when it may determine free of any such rights, whether by offering the same to stockholders or by sale or other disposition as the Board of Directors may deem advisable; provided, however, that if the Board of Directors shall determine to issue and sell any shares of Common Stock (including, for the purposes of this paragraph, any security convertible into Common Stock, but excluding shares of Common Stock and securities convertible into Common Stock theretofore reacquired by the corporation after having been duly issued, and excluding shares of Common Stock and securities convertible into Common Stock issued to satisfy conversion or option rights theretofore granted by the corporation) solely for money and other than by:

(i) a public offering thereof, or.

(ii) an offering thereof to or through underwriters or dealers who shall agree promptly to make a public offering thereof, or

(iii) any other offering thereof which shall have been authorized or approved by the affirmative vote, cast in person or by proxy, of the holders of record of a majority of the outstanding shares of Common Stock entitled to vote at the stockholders' meeting at which action shall have been taken with respect to such other offering,

such shares of Common Stock shall first be offered *pro rata*, except that the corporation shall not be obligated to offer or to issue any fractional interest in a full share of Common Stock, to the holders of record of the then outstanding shares of Common Stock (excluding outstanding shares of Common Stock held for the benefit of holders of scrip certificates or other instruments representing fractional interests in a full share of Common Stock) upon terms which, in the judgment of the Board of Directors of the corporation, shall be not less favorable (without deduction of such reasonable compensation for the sale, underwriting or purchase of such shares by underwriters or dealers as may lawfully be paid by the corporation) to the purchaser than the terms upon which such shares are offered to others than such holders of Common Stock; and provided that the time within which such preemptive rights shall be exercised may be limited to such time as to the Board of Directors may seem proper, not less, however, than fourteen (14) days after the mailing of notice that such preemptive rights are available and may be exercised.

5. Directors shall hold office after the expiration of their terms until their successors are elected and have qualified. Directors need not be stockholders.

6. To the fullest extent permitted by the New York Business Corporation Law as it exists on the date hereof or as it may hereafter be amended, no director of the corporation shall be liable to the corporation or its stockholders for damages for any breach of duty as a director. Any repeal or modification of the foregoing sentence by the stockholders of the corporation shall not adversely affect any right or protection of a director of the corporation existing at the time of such repeal or modification.

7.1.(A) In addition to any affirmative vote required by law or this certificate of incorporation (any other provision of this certificate of incorporation notwithstanding), and except as otherwise expressly provided in paragraph 7.2:

(1) any merger or consolidation of the corporation or any Subsidiary (as hereinafter defined) with (i) any Interested Stockholder (as hereinafter defined) or (ii) any other corporation (whether or not itself an Interested Stockholder) which is, or after such merger or consolidation would be, an Affiliate (as hereinafter defined) of an Interested Stockholder; or

(2) any sale, lease, license, exchange, mortgage, pledge, transfer or other disposition (in one transaction or a series of transactions) to or with any Interested Stockholder or any Affiliate of any Interested Stockholder of any assets of the

corporation or any Subsidiary having an aggregate Fair Market Value (as hereinafter defined) of $100,000,000 or more; or

(3) the issuance or transfer by the corporation or any Subsidiary (in one transaction or a series of transactions) of any securities of the corporation or any Subsidiary to any Interested Stockholder or any Affiliate of any Interested Stockholder having an aggregate Fair Market Value of $100,000,000 or more, other than the issuance of securities upon the conversion of convertible securities of the corporation or any Subsidiary which were not acquired by such Interested Stockholder (or such Affiliate) from the corporation or a Subsidiary; or

(4) the adoption of any plan or proposal for the liquidation or dissolution of the corporation proposed by or on behalf of any Interested Stockholder or any Affiliate of any Interested Stockholder; or

(5) any reclassification of securities (including any reverse stock split), or recapitalization or reorganization of the corporation, or any merger or consolidation of the corporation with any of its Subsidiaries, or any self tender offer for or repurchase of securities of the corporation by the corporation or any Subsidiary or any other transaction (whether of not with or into or otherwise involving any Interested Stockholder) which has the effect, directly or indirectly, of increasing the proportionate share of the outstanding shares of any class or series of equity or convertible securities of the corporation or any Subsidiary which is directly or indirectly owned by any Interested Stockholder or any Affiliate of any Interested Stockholder;

shall require the affirmative vote of the holders of at least (i) seventy-five per centum of the combined voting power of the then issued and outstanding capital stock of all classes and series of the corporation having voting powers (the "Voting Stock"), voting together as a single class, and (ii) a majority of the combined voting power of the then issued and outstanding Voting Stock beneficially owned by persons other than such Interested Stockholder, voting together as a single class, given at any annual meeting of stockholders or at any special meeting called for that purpose. Such affirmative vote shall be required notwithstanding the fact that no vote may be required, or that a lesser percentage may be specified, by law, by any other provision of this certificate of incorporation or in any agreement with any national securities exchange or otherwise.

(B) The term "Business Combination" as used herein shall mean any transaction which is referred to in any one or more of clauses (1) through (5) of sub-paragraph (A) of this paragraph 7.1.

7.2. The provisions of paragraph 7.1 shall not be applicable to any particular Business Combination, and such Business Combination shall require only such affirmative vote, if any, as is required by law, any other provision of this certificate of incorporation, and any agreement with any national securities exchange, if all of the conditions specified in either of the following sub-paragraphs (A) or (B) are met:

(A) The Business Combination shall have been approved by a majority of the Disinterested Directors (as hereinafter defined).

(B) All of the following conditions shall have been met:

(1) The aggregate amount of the cash and the Fair Market Value as of the date of the consummation of the Business Combination (the "Consummation Date") of consideration other than cash to be received per share by holders of Common Stock in such Business Combination shall be at least equal to the highest of the following (it being intended that the requirements of this clause (1) shall be required to be met with respect to every share of outstanding Common Stock, whether or not the Interested Stockholder has previously acquired any shares of Common Stock):

(i) (if applicable) the highest per share price (including any brokerage commissions, transfer taxes and soliciting dealers' fees) paid by the Interested Stockholder for any shares of Common Stock acquired by it (x) within the five-year period immediately prior to the first public announcement of the terms of the proposed Business Combination (the "Announcement Date") or (y) in the transaction in which it became an Interested Stockholder, whichever is higher;

(ii) the Fair Market Value per share of Common Stock on the Announcement Date or on the date on which the Interested Stockholder became an Interested Stockholder (such latter date is referred to herein as the "Determination Date"), whichever is higher; and

(iii) an amount which bears the same or greater percentage relationship to the Fair Market Value per share of Common Stock on the Announcement Date as the highest per share price determined in clause (B)(1)(i) above bears to the Fair Market Value per share of Common Stock on the date of the commencement of the acquisition of the Common Stock by such Interested Stockholder.

(2) The aggregate amount of cash and the Fair Market Value as of the Consummation Date of consideration other than cash to be received per share by holders of shares of any other class or series of outstanding Voting Stock shall be at least equal to the highest of the following (it being intended that the requirements of this clause (2) shall be required to be met with respect to every class or series of outstanding Voting Stock, whether or not the Interested Stockholder has previously acquired any shares of a particular class or series of Voting Stock):

(i) (if applicable) the highest per share price (including any brokerage commissions, transfer taxes and soliciting dealers' fees) paid by the Interested Stockholder for any shares of such class or series of Voting Stock acquired by it (x) within the five-year period immediately prior to the Announcement Date or (y) in the transaction in which it became an Interested Stockholder, whichever is higher;

(ii) the Fair Market Value per share of such class or series of Voting Stock on the Announcement Date or on the Determination Date, whichever is higher;

(iii) (if applicable) the highest preferential amount per share to which the holders of shares of such class or series of Voting Stock are entitled in the event of any liquidation, dissolution or winding up of the corporation, whether voluntary or involuntary; and

(iv) an amount which bears the same or greater percentage relationship to the Fair Market Value per share of such class or series of Voting Stock on the Announcement Date as the highest per share price determined in clause (B)(2)(i) above bears to the Fair Market Value per share of such Voting Stock on the date of the commencement of the acquisition of such Voting Stock by such Interested Stockholder.

(3) The consideration to be received by holders of a particular class or series of outstanding Voting Stock (including Common Stock) shall be in cash or in the same form as the Interested Stockholder has previously paid for shares of such class or series of Voting Stock. If the Interested Stockholder has paid for shares of any class or series of Voting Stock with varying forms of consideration, the form of consideration to be received by each holder of such class or series of Voting Stock shall be, at the option of such holder, either cash or the form used by the Interested Stockholder to acquire the largest number of shares of such class or series of Voting Stock previously acquired by it prior to the Announcement Date. The price determined in accordance with clauses (1) and (2) of this sub-paragraph (B) shall be subject to appropriate adjustment in the event of any stock dividend, stock split, combination of shares or similar event.

(4) After the Determination Date and prior to the Consummation Date:

(i) except as approved by a majority of the Disinterested Directors, there shall have been no failure to declare and pay at the regular dates therefor the full amount of any dividends

(whether or not cumulative) payable on any class or series of stock of the corporation having a preference over the Common Stock as to dividends or upon liquidation; and

(ii) there shall have been (x) no reduction in the quarterly rate of dividends paid on the Common Stock (except as necessary to reflect any subdivision of the Common Stock), except as approved by a majority of the Disinterested Directors, and (y) an increase in such quarterly rate of dividends paid on such Common Stock as necessary to reflect any reclassification (including any reverse stock split), recapitalization, reorganization, self tender offer for or repurchase of securities of the corporation by the corporation or any Subsidiary or any similar transaction which has the effect of reducing the number of outstanding shares of the Common Stock, unless the failure so to increase such quarterly rate is approved by a majority of the Disinterested Directors; and

(iii) such Interested Stockholder shall not have become the beneficial owner of any additional shares of Voting Stock except as part of the transaction which results in such Interested Stockholder becoming an Interested Stockholder or upon conversion of convertible securities acquired by it prior to becoming an Interested Stockholder or as a result of a pro rata stock dividend or stock split; and

(iv) such Interested Stockholder shall not have received the benefit, directly or indirectly (except proportionately as a stockholder), of any loans, advances, guarantees, pledges or other financial assistance or tax credits or other tax advantages provided by the corporation or any Subsidiary, whether in anticipation of or in connection with such Business Combination or otherwise; and

(v) such Interested Stockholder shall not have caused any material change in the corporation's business or capital structure, including, without limitation, the issuance of shares of capital stock of the corporation to any third party.

(5) A proxy or information statement describing the proposed Business Combination and complying with the requirements of the Securities Exchange Act of 1934, as amended (the "Act"), and the rules and regulations thereunder (or any subsequent provisions replacing the Act, rules and regulations), shall be mailed by and at the expense of the Interested Stockholder to public stockholders of the corporation at least 30 days prior to the Consummation Date (whether or not such proxy or information statement is required to be mailed pursuant to the Act). The proxy or information statement shall contain at the front thereof in a prominent place (i) any recommendation as to the advisability (or

inadvisability) of the Business Combination which a majority of the Disinterested Directors may choose to state, and (ii) if a majority of the Disinterested Directors so requests, the opinion of a reputable national investment banking firm as to the fairness (or not) of such Business Combination from the point of view of the remaining public stockholders of the corporation (such investment banking firm to be engaged solely on behalf of the remaining public stockholders, to be paid a reasonable fee for their services by the corporation upon receipt of such opinion, to be unaffiliated with such Interested Stockholder, and, to be selected by a majority of the Disinterested Directors).

(6) The holders of all outstanding shares of Voting Stock not beneficially owned by the Interested Stockholder prior to the consummation of any Business Combination shall be entitled to receive in such Business Combination cash or other consideration for their shares of such Voting Stock in compliance with clauses (1), (2) and (3) of sub-paragraph (B) of this paragraph 7.2 (provided, however, that the failure of any such holders who are exercising their statutory rights to dissent from such Business Combination and receive payment of the fair value of their shares to exchange their shares in such Business Combination shall not be deemed to have prevented the condition set forth in this clause (6) from being satisfied).

7.3. The following terms shall be deemed to have the meanings specified below:

(A) The term "person" shall mean any individual, firm, corporation, group (as such term is used in Regulation 13D-G of the rules and regulations under the Act, as in effect on January 1, 1988) or other entity.

(B) The term "Interested Stockholder" shall mean any person (other than the corporation, any Subsidiary or any pension, profit sharing, employee stock ownership, employee savings or other employee benefit plan, or any dividend reinvestment plan, of the corporation or any Subsidiary or any trustee of or fiduciary with respect to any such plan acting in such capacity) who or which:

(1) is the beneficial owner, directly or indirectly, of more than five per centum of the combined voting power of the then outstanding Voting Stock; or

(2) is an Affiliate of the corporation and at any time within the five-year period immediately prior to the date in question was the beneficial owner, directly or indirectly, of more than five per centum of the combined voting power of the then outstanding Voting Stock; or

(3) is an assignee of or has otherwise succeeded to any shares of Voting Stock which were at any time within the five-year period immediately prior to the date in question beneficially owned by an

Interested Stockholder, if such assignment or succession shall have occurred in the course of a transaction or series of transactions not involving a public offering within the meaning of the Securities Act of 1933, as amended (or any subsequent provisions replacing such).

(C) A person shall be deemed a "beneficial owner" of any Voting Stock:

(1) which such person or any of its Affiliates or Associates (as hereinafter defined) beneficially owns, directly or indirectly; or

(2) which such person or any of its Affiliates or Associates has (i) the right to acquire (whether such right is exercisable immediately or only after the passage of time), pursuant to any agreement, arrangement or understanding or upon the exercise of conversion rights, exchange rights, warrants or options, or otherwise, or (ii) the right to vote pursuant to any agreement, arrangement or understanding; or

(3) which is beneficially owned, directly or indirectly, by any other person with which such person or any of its Affiliates or Associates has any agreement, arrangement or understanding for the purpose of acquiring, holding, voting or disposing of any shares of Voting Stock.

(D) For the purpose of determining whether a person is an Interested Stockholder pursuant to sub-paragraph (B) of this paragraph 7.3, the number of shares of Voting Stock deemed to be outstanding shall include shares deemed owned through application of sub-paragraph (C) of this paragraph 7.3, but shall not include any other shares of Voting Stock which may be issuable pursuant to any agreement, arrangement or understanding, or upon exercise of conversion rights, exchange rights, warrants or options, or otherwise.

(E) The term "Affiliate" of, or a person "affiliated" with, a specified person shall mean a person that directly, or indirectly through one or more intermediaries, controls, or is controlled by, or is under common control with, the person specified.

(F) The term "Associate" as used to indicate a relationship with any person shall mean (1) any corporation or organization (other than the corporation or a Subsidiary) of which such person is an officer or partner or is, directly or indirectly, the beneficial owner of ten per centum or more of any class or series of equity securities, (2) any trust or other estate in which such person has a substantial beneficial interest or as to which such person serves as trustee or in a similar fiduciary capacity, and (3) any relative or spouse of such person, or any relative of such spouse, who has the same home as such person.

(G) The term "Subsidiary" shall mean any corporation of which a majority of any class or series of equity security is owned, directly or indirectly, by the corporation or by a Subsidiary or by the corporation and one or more

Subsidiaries; provided, however, that for the purposes of the definition of Interested Stockholder set forth in sub-paragraph (B) of this paragraph 7.3, the term "Subsidiary" shall mean only a corporation of which a majority of each class or series of equity security is owned, directly or indirectly, by the corporation.

(H) The term "Fair Market Value" shall mean: (1) in the case of stock, the highest closing sale price during the 30-day period immediately preceding the date in question of a share of such stock on the Composite Tape for New York Stock Exchange-Listed Stocks, or, if such stock is not quoted on the Composite Tape, on the New York Stock Exchange, or if such stock is not listed on such Exchange, on the principal United States securities exchange registered under the Act on which such stock is listed or, if such stock is not listed on any such exchange, the highest closing bid quotation with respect to a share of such stock during the 30-day period preceding the date in question on the National Association of Securities Dealers, Inc. Automated Quotations System or any similar system then in use, or if no such quotations are available, the fair market value on the date in question of a share of such stock as determined by a majority of the Disinterested Directors in good faith, in each case with respect to any class or series of such stock, appropriately adjusted for any dividend or distribution in shares of such stock or any subdivision or reclassification of outstanding shares of such stock into a greater number of shares of such stock or any combination or reclassification of outstanding shares of such stock into a smaller number of shares of such stock; and (2) in the case of property other than cash or stock, the fair market value of such property on the date in question as determined by a majority of the Disinterested Directors in good faith.

(I) In the event of any Business Combination in which the corporation is the survivor, the phrase "consideration other than cash to be received" as used in clauses (1) and (2) of sub-paragraph (B) of paragraph 7.2 shall include the shares of Common Stock and/or the shares of any other class or series of outstanding Voting Stock retained by the holders of such shares.

(J) The term "Disinterested Director" shall mean any member of the Board of Directors of the corporation who is unaffiliated with, and not a nominee of, the Interested Stockholder and who was a member of the Board of Directors prior to the Determination Date, and any successor of a Disinterested Director who is unaffiliated with, and not a nominee of, the Interested Stockholder and is recommended to succeed a Disinterested Director by a majority of the total number of Disinterested Directors then on the Board of Directors.

(K) References to "highest per share price" shall in each case with respect to any class or series of stock reflect an appropriate adjustment for any dividend or distribution in shares of such stock or any subdivision or reclassification of outstanding shares of such stock into a greater number of shares of such stock or any combination or reclassification of outstanding shares of such stock into a smaller number of shares of such stock.

7.4. A majority of the Board of Directors of the corporation shall have the power and duty to determine for the purpose of these paragraphs 7.1 through 7.6, on the basis of information known to them after reasonable inquiry, whether a person is an Interested Stockholder. Once the Board of Directors has made a determination, pursuant to the preceding sentence, that a person is an Interested Stockholder, a majority of the total number of directors of the corporation who would qualify as Disinterested Directors shall have the power and duty to interpret all of the terms and provisions of these paragraphs 7.1 through 7.6, and to determine on the basis of information known to them after reasonable inquiry all facts necessary to ascertain compliance therewith, including, without limitation, (A) the number of shares of Voting Stock beneficially owned by any person, (B) whether a person is an Affiliate or Associate of another, (C) whether the assets which are the subject of any Business Combination have, or the consideration to be received for the issuance or transfer of securities by the corporation or any Subsidiary in any Business Combination has, an aggregate Fair Market Value of $100,000,000 or more and (D) whether all of the applicable conditions set forth in sub-paragraph (B) of paragraph 7.2 have been met with respect to any Business Combination. Any determination pursuant to this paragraph 7.4 made in good faith shall be binding and conclusive on all parties.

7.5. Nothing contained in these paragraphs 7.1 through 7.6 shall be construed to relieve any Interested Stockholder from any fiduciary obligation imposed by law.

7.6. Notwithstanding any other provisions of this certificate of incorporation or the by-laws of the corporation (and notwithstanding the fact that a lesser percentage may be specified by law, this certificate of incorporation or the by-laws of the corporation), the affirmative vote of the holders of at least (A) seventy-five per centum of the combined voting power of the then issued and outstanding Voting Stock, voting together as a single class, and (B) a majority of the combined voting power of the then issued and outstanding Voting Stock beneficially owned by persons other than an Interested Stockholder, voting together as a single class, given at any annual meeting of stockholders or at any special meeting called for that purpose, shall be required to amend, alter, change or repeal, or adopt any provisions inconsistent with, these paragraphs 7.1 through 7.6; provided, however, that the foregoing provisions of this paragraph 7.6 shall not apply to, and such vote shall not be required for, any such amendment, alteration, change, repeal or adoption approved by a majority of the disinterested Directors, and any such amendment, alteration, change, repeal or adoption so approved shall require only such vote, if any, as is required by law, any other provision of this certificate of incorporation or the by-laws of the corporation.

8. The Secretary of State of the State of New York is hereby designated as the agent of the corporation upon whom any process in any action or proceeding against it may be served. The address to which the Secretary of State shall mail a copy of any process against the corporation served upon him is: c/o CT Corporation System, 1633 Broadway, New York, NY 10019.

9. The name of the registered agent upon whom and the address of the registered agent at which process against the corporation may be served is: c/o CT Corporation System, 1633 Broadway, New York, NY 10019.

IV. Manner of Authorization. The foregoing restatement of the certificate of incorporation was authorized by the unanimous affirmative vote of the Board of Directors of the corporation at its meeting duly called and held on the 29th day of October, 1997, a quorum being present.

IN WITNESS WHEREOF, the undersigned have signed this certificate this 29th day of October, 1997, and do affirm the contents to be true under the penalties of perjury.

G. P. Maloney, Vice President

John F. Di Lorenzo, Jr., Assistant Secretary

f 971195000 158

CT-07 CT-07

RESTATED CERTIFICATE OF INCORPORATION

OF

AMERICAN ELECTRIC POWER COMPANY, INC

UNDER SECTION 807 OF THE BUSINESS CORPORATION LAW

Scc

STATE OF NEW YORK
DEPARTMENT OF STATE
FILED NOV 05 1997
TAX $
BY:

AMERICAN ELECTRIC POWER
1 RIVERSIDE POWER
COLUMBUS, OH 43215-2373

13

97110500 163

State of New York
Department of State } ss:

I hereby certify that the annexed copy has been compared with the original document in the custody of the Secretary of State and that the same is a true copy of said original.

Witness my hand and seal of the Department of State on APR 05 1999

STATE OF NEW YORK
DEPARTMENT OF STATE
EXCELSIOR

Special Deputy Secretary of State

DOS-1266 (5/96)

F98020400071 3

CT-07

CERTIFICATE OF AMENDMENT
OF THE
CERTIFICATE OF INCORPORATION
OF
AMERICAN ELECTRIC POWER COMPANY, INC.
Under Section 805 of the Business Corporation Law

The undersigned, being respectively the Vice President and Secretary of American Electric Power Company, Inc., hereby certify that:

1. The name of the corporation is AMERICAN ELECTRIC POWER COMPANY, INC. The name under which the corporation was formed is American Gas and Electric Company.

2. The Department of State on February 18, 1925 filed the certificate of consolidation forming the corporation.

3. (A) The certificate of incorporation of the corporation, as heretofore amended, is hereby amended pursuant to section 801(b)(7) of the Business Corporation Law to effect an increase in the aggregate number of shares which the corporation shall have authority to issue from 300,000,000 shares of Common Stock, of the par value of $6.50 each, to 600,000,000 shares of Common Stock, of the par value of $6.50 each.

(B) Paragraph 4.1 of the certificate of incorporation of the corporation, as heretofore amended, is hereby amended to read as follows:

"4.1. The aggregate number of shares which the corporation is authorized to issue is 600,000,000 shares of Common Stock, of the par value of $6.50 each."

4. The manner in which this amendment to the certificate of incorporation of the corporation, as heretofore amended, was authorized was by the (i) unanimous affirmative vote of the Board of Directors of the corporation at its meeting duly called and held on the 28th day of January, 1998, a quorum being present, and (ii) affirmative vote of the holders of a majority of all outstanding shares entitled to vote thereon at the annual meeting of shareholders of the corporation duly called and held on the 27th day of May, 1998, a quorum being present.

IN WITNESS WHEREOF, the undersigned have signed this certificate this 13th day of January, 1999, and do affirm the contents to be true under the penalties of perjury.

Henry W. Fayne

Henry W. Fayne, Vice President

Susan Tomasky

Susan Tomasky, Secretary

[0-ESA AMARTINC 2 ESA]

F990204000713

CT-07 CT-07

CERTIFICATE OF AMENDMENT

OF THE

CERTIFICATE OF INCORPORATION

OF

AMERICAN ELECTRIC POWER COMPANY, INC.

UNDER SECTION 805 OF THE BUSINESS CORPORATION LAW

STATE OF NEW YORK
DEPARTMENT OF STATE
FEB 04 1999

FEB 04 1999
975,000.00
JAN
New York

AMERICAN ELECTRIC POWER
1 RIVERSIDE PLAZA
COLUMBUS, OH 43215

2 990204000735

Central and South West Corporation

1616 Woodall Rodgers Freeway
P.O. Box 660164 • Dallas, Texas 75266-0164
(214) 777-1115
Fax (214) 777-3067

KENNETH C. RANEY, JR.
Vice President
Associate General Counsel and Corporate Secretary

I, Kenneth C. Raney, Jr., do hereby certify that I am Secretary of Central and South West Corporation, a Delaware corporation, and as such Secretary, I do hereby further certify that the attached is a true and correct copy of the Second Restated Certificate of Incorporation and the Amendment of said Corporation adopted on April 23, 1990 and on May 20, 1991 respectively; and that it is in full force and effect at the time of this certification.

IN WITNESS WHEREOF, I have hereunto set my hand and affixed the seal of said Corporation this 1st day of April, 1999.

Kenneth C. Raney, jr.

Kenneth C. Raney, Jr., Secretary

EXHIBIT 3
Page 2 of 34

State of Delaware

Office of Secretary of State

I, MICHAEL HARKINS, SECRETARY OF STATE OF THE STATE OF DELAWARE DO HEREBY CERTIFY THE ATTACHED IS A TRUE AND CORRECT COPY OF THE CERTIFICATE OF RESTATED CERTIFICATE OF INCORPORATION OF CENTRAL AND SOUTH WEST CORPORATION FILED IN THIS OFFICE ON THE TWENTY-FIFTH DAY OF APRIL, A.D. 1990, AT 4 O'CLOCK P.M.

RECEIVED FOR RECORD
'90 APR 30 A9:19
EVELYN T. ALEMAR
RECORDER

DEPARTMENT OF STATE
OFFICE OF THE SECRETARY OF STATE
1835 1970 1798
DELAWARE

730115036

Michael Harkins, Secretary of State

AUTHENTICATION: 2633096

DATE: 04/26/1990

THE CORPORATION TRUST COMPANY

Associated with C T Corporation System

CORPORATION TRUST CENTER
1209 ORANGE STREET
WILMINGTON, DEL. 19801
(302) 658-7581

MAY 30 1990

MAILING ADDRESS:
P.O. BOX 631
WILMINGTON, DEL. 19899

RE: CENTRAL AND SOUTH WEST CORPORATION

MILBANK, TWEED, HADLEY & MCCLOY
ATT: MR. ANDREW BAUM
ONE CHASE MANHATTAN PLAZA
NEW YORK, NEW YORK 10005

Attached for the permanent records of this corporation, is the certified recorded copy of your document, which has just been released by the Recorder of Deeds of New Castle County.

THE CORPORATION TRUST COMPANY

George J. Coyle
Assistant Vice-President

Enclosure GJC:lms

7301L5036

FILED

APR 25 1996

4 PM

SECRETARY OF STATE

SECOND RESTATED CERTIFICATE OF INCORPORATION
OF
CENTRAL AND SOUTH WEST CORPORATION

CENTRAL AND SOUTH WEST CORPORATION, a Delaware corporation (the "Corporation"), certifies as follows:

Pursuant to the provisions of Sections 242 and 245 of Title 8 of the Delaware Code Annotated, the stockholders of the Corporation have duly adopted the following Second Restated Certificate of Incorporation. The Corporation filed its original Certificate of Incorporation under the name of Central and South West Utilities on July 31, 1925, and on February 3, 1947, filed a merger agreement with American Public Service by which the name of the Corporation was changed to Central and South West Corporation. The Corporation filed a Restated Certificate of Incorporation on April 30, 1974. This Second Restated Certificate of Incorporation restates and integrates the provisions of the Restated Certificate of Incorporation of April 30, 1974 as heretofore amended or supplemented and effects the following further amendments thereto:

(i) The provisions of Article FOURTH have been amended to (a) increase the total number of shares of Common Stock which the Corporation shall have authority to issue from 120,000,000 shares of Common Stock of the par value of $3.50 per share to 150,000,000 shares of Common Stock of the par value of $3.50 per share in the first paragraph of

Article Fourth; (b) delete the cumulative voting provisions in the second paragraph of Article FOURTH; and (c) delete the provisions which grant the stockholders preemptive rights on certain issues of the Corporation's Common Stock in the third paragraph of Article FOURTH;

(ii) The provisions of Article SEVENTH have been amended to (a) adopt a staggered board of directors, divided into three classes and serving three year terms with only one class of directors to be elected at each annual meeting of the stockholders and (b) provide that the board of directors shall appoint directors to fill any vacancies on the board or appoint directors to the board of directors in the event the number of directors on the board of directors is increased;

(iii) Article EIGHTH has been deleted in its entirety;

(iv) Articles NINTH, TENTH, ELEVENTH and TWELFTH have been renumbered as Articles EIGHTH, NINTH, TENTH and ELEVENTH, respectively; and

(v) A "fair price" provision, designed to insure that all of the stockholders are treated fairly and equitably in the event of certain unsolicited takeover actions has been adopted by the stockholders and included as Article TWELFTH.

FIRST: The name of the Corporation is Central and South West Corporation.

SECOND: The registered office of the Corporation in the State of Delaware is located at 1209 Orange Street, New

Castle County, Wilmington, Delaware 19801, and the name of its registered agent at that address is The Corporation Trust Company.

THIRD: The nature of the business of the Corporation or object or purposes proposed to be transacted, promoted or carried on by it are:

(1) To acquire in any lawful manner and to own, hold, sell, assign, transfer, exchange or otherwise dispose of, any stocks, bonds, debentures, obligations, notes, evidences of indebtedness, warrants, securities of any kind and property, both real and personal, of any kind; and while the owner of any such stocks, bonds, notes, debentures or other securities or obligations, to exercise all the powers, rights and privileges, including among other things the right to vote thereon for any and all purposes; and to invest and deal with the moneys of the Corporation in any lawful manner;

(2) To aid in any lawful manner by loan, contribution, guaranty or otherwise, the issuer of any stocks, bonds, debentures, evidences of indebtedness, obligations, warrants or securities of any kind at any time held, or controlled directly or indirectly, by the Corporation, and to do any and all lawful acts or things designed to protect, preserve, enhance or improve the value of any securities or property held by the Corporation; and to use the funds, assets and credit of the Corporation for any of said purposes;

(3) To guarantee and to assume the payment of any dividends on any shares of capital stock of any company in which the Corporation may, either directly or indirectly, have an interest as a stockholder or otherwise; and to assume and to guarantee, by endorsement or otherwise, the payment of the principal of and the interest on bonds, notes or other obligations created or to be created by any such company;

(4) To borrow money, to issue bonds, debentures, notes or other obligations, secured or unsecured, of the Corporation; to secure the same by mortgage or deed of trust or pledge or other lien upon any or all of the property, rights, privileges and franchises of the Corporation wheresoever situated, acquired or to be acquired; to confer upon the holders of any debentures, bonds, notes or other obligations of the Corporation, secured or unsecured, the right to convert the same into any class of stock of any series of the Corporation now or hereafter to be issued upon such terms as shall be fixed by the Board of Directors subject to the provisions hereof; to purchase and otherwise acquire shares of its own capital stock and to hold, sell, assign, transfer and reissue any or all of such shares; provided that the Corporation shall not use its funds or property for the purchase of its own shares of capital stock when such use shall cause any impairment of the capital of the Corporation, except as such purchase out of capital may be permitted by law; and provided further that shares of its

own capital stock owned by the Corporation shall not be voted upon, directly or indirectly;

(5) To conduct business in the State of Delaware and other states, the District of Columbia, territories and colonies of the United States and in foreign countries, and to have one or more offices out of the State of Delaware as well as within said state; provided, however, that nothing herein contained shall be deemed to authorize the Corporation to conduct, maintain or operate public utilities within the State of Delaware;

(6) To have and to exercise all the powers now or hereafter conferred by the laws of the State of Delaware upon corporations organized under the laws under which the Corporation is organized and any and all Acts amendatory thereof and supplemental thereto.

The foregoing clauses shall be construed both as objects and powers; and it is hereby expressly provided that the foregoing enumeration of specific powers shall not be held to limit or restrict in any manner the power of the Corporation, and that the Corporation shall possess such incidental powers as are reasonably necessary or convenient for the accomplishment of any of the objects or powers hereinbefore enumerated, either alone or in association with other corporations, associations, firms or individuals, to the same extent and as fully as individuals might or could do as principals, agents, contractors or otherwise.

FOURTH: The total number of shares of stock which the Corporation shall have authority to issue is 150,000,000 shares of Common Stock of the par value of $3.50 each.

Each share of Common Stock shall entitle the holder thereof to one vote at all meetings of stockholders. In the election of directors of the Corporation, the principle of cumulative voting shall not apply.

Any shares of Common Stock now or hereafter authorized, and any securities convertible into Common Stock, may be issued without first being offered to stockholders. The Common Stock may be issued and sold to such persons, and at a price, not less than the par value thereof, whether stockholders or not, and for such corporate purposes, as may be determined by the Board of Directors.

The Corporation may from time to time, when authorized by the Board of Directors, issue scrip for fractional shares of stock. Such scrip shall not confer upon the holder any right to dividends, or any voting or other rights of a stockholder of the Corporation, but the Corporation shall from time to time upon the surrender of such scrip for fractional shares within such time as the Board of Directors may determine, or without limit of time if the Board of Directors so determines, issue one or more whole shares of stock aggregating the number of whole shares issuable in respect of the scrip so surrendered; provided that the scrip so surrendered shall be properly endorsed for transfer if in registered form. The scrip may also at the option of the Board of Directors provide that, at the option of the Board of

Directors, there may be sold by the Corporation at public or private sale at any time on or after any determined date, in such manner and on such terms as the Board of Directors may in its absolute discretion determine, the number of shares of stock of the Corporation in respect of which such scrip certificates are then outstanding and thereafter the bearer of such scrip certificates, upon surrender thereof at the office or agency of the Corporation, shall be entitled to receive their proper proportion of the net proceeds of such sale but without interest and on and after the date of such sale shall be entitled to no other rights in respect of such scrip certificates.

The Corporation reserves the right to increase or decrease its authorized capital stock or to reclassify the same and to amend, alter, change or repeal any provision contained in this Second Restated Certificate of Incorporation, or any amendment hereto, in the manner now or hereafter prescribed by law, and all rights conferred upon stockholders in this Second Restated Certificate of Incorporation, or any amendment hereto, are granted subject to this reservation.

FIFTH: The Corporation shall have perpetual existence.

SIXTH: The private property of the stockholders of the Corporation shall not be subject to the payment of corporate debts to any extent whatever.

SEVENTH:

(1) At each annual meeting of stockholders, directors of the Corporation shall be elected to hold office until the expiration of the term for which they are elected, and until their successors have been duly elected and qualified; except that if any such election shall not be so held, such election shall take place at a stockholders' meeting called and held in accordance with the Delaware General Corporation Law. The directors of the Corporation shall be divided into three classes as nearly equal in size as is practicable, hereby designated Class I, Class II and Class III. The term of office of the initial Class I directors shall expire at the next succeeding annual meeting of stockholders, the term of office of the initial Class II directors shall expire at the second succeeding annual meeting of stockholders and the term of office of the initial Class III directors shall expire at the third succeeding annual meeting of stockholders. For the purposes hereof, the initial Class I, Class II and Class III directors shall be those directors elected at the April 19, 1990 annual meeting and designated as members of such Class. At each annual meeting after the April 19, 1990 annual meeting, directors to replace those of a Class whose terms expire at such annual meeting shall be elected to hold office until the third succeeding annual meeting and until their respective successors shall have been duly elected and shall qualify. If the number of directors is hereafter changed, any newly created

directorships or decrease in directorships shall be so apportioned among the classes as to make all classes as nearly equal in number as is practicable.

(2) Any director may be removed from office by the stockholders of the Corporation only for cause and only by the affirmative vote of the holders of eighty percent (80%) of the voting power of the outstanding shares of Common Stock.

(3) The number of directors constituting the entire Board of Directors shall be not less than nine (9) nor more than fifteen (15) as may be fixed from time to time by resolution adopted by a majority of the entire Board of Directors; provided, however, that no decrease in the number of directors constituting the entire Board of Directors shall shorten the term of any incumbent director. A majority of the entire Board of Directors may adopt a resolution at any time to increase the number of directors to not more than fifteen (15) and, by vote of a majority of the Board of Directors, elect a new director or directors to fill any such newly created directorship. Any such new director shall hold office until the next annual meeting of stockholders and until his successor shall have been duly elected and qualified.

(4) Vacancies occurring on the Board of Directors for any reason may be filled by vote of a majority of the remaining members of the Board of Directors, although less than a quorum, at any meeting of the Board of Directors. A

person so elected by the Board of Directors to fill a vacancy shall hold office until the next succeeding annual meeting of stockholders of the Corporation and until his or her successor shall have been duly elected and qualified.

EIGHTH: The following additional provisions are inserted for the management of the business and for the conduct of the affairs of this Corporation and for the creation, definition, limitation and regulation of the powers of the Corporation, the directors and the stockholders:

(1) The Board of Directors shall have power from time to time to fix and determine and to vary the amount to be reserved as working capital of the Corporation and, before the payment of any dividends or making any distribution of profits, it may set aside out of the net profits of the Corporation such sum or sums as it may from time to time in its absolute discretion think proper whether as a reserve fund to meet contingencies or for the equalizing of dividends or for repairing or maintaining any property of the Corporation or for such corporate purposes as the Board shall think conducive to the interests of the Corporation, subject only to such limitations as the Bylaws of the Corporation may from time to time impose.

(2) The Board of Directors shall also have power without the assent or vote of the stockholders to make, alter, amend and repeal the Bylaws of the Corporation; to fix the times for the declaration and payment of dividends; to authorize and cause to be executed and delivered

mortgages on and instruments of pledge, or any other instruments creating liens, on the real and personal property of the Corporation; and to make and determine the use and disposition of any surplus or net profits over and above the capital of the Corporation.

(3) Subject to direction by resolution of a majority of the stockholders, the Board of Directors shall have power from time to time to determine whether and to what extent and at what times and places and under what conditions and regulations the accounts and books of the Corporation (other than the stock ledger) or any of them, shall be open to the inspection of stockholders; and no stockholder shall have any right to inspect any account or book or document of the Corporation except as conferred by statute or authorized by the directors or by a resolution of the stockholders.

(4) The Board of Directors shall have the power to appoint an Executive Committee from among their number, which Committee, to the extent and in the manner provided in the Bylaws of the Corporation, shall have and may exercise all of the powers of the Board of Directors, so far as may be permitted by law, in the management of the business and affairs of the Corporation whenever the Board of Directors is not in session. The fact that the Executive Committee has acted shall be conclusive evidence that the Board of Directors was not in session at the time of such action.

(5) The Corporation shall be entitled to treat the person in whose name any share, right or option is

registered and the bearer of any scrip or right payable to bearer, as the owner thereof for all purposes, and shall not be bound to recognize any equitable or other claim to or interest in such share, right, option or scrip on the part of any other person, whether or not the Corporation shall have notice thereof, save as may be expressly provided by the laws of the State of Delaware.

NINTH: Whenever a compromise or arrangement is proposed between this Corporation and its creditors or any class of them and/or between this Corporation and its stockholders or any class of them, any court of equitable jurisdiction within the State of Delaware may, on the application in a summary way of this Corporation or of any creditor or stockholder thereof, or on the application of any receiver or receivers appointed for this Corporation under the provisions of Section 291 of Title 8 of the Delaware Code or on the application of trustees in dissolution or of any receiver or receivers appointed for this Corporation under the provisions of Section 279 of Title 8 of the Delaware Code order a meeting of the creditors or class of creditors, and/or of the stockholders or class of stockholders of this Corporation, as the case may be, to be summoned in such manner as the said Court directs. If a majority in number representing three-fourths in value of the creditors or class of creditors, and/or of the stockholders or class of stockholders of this Corporation, as the case may be, agrees to any compromise or arrangement and to any reorganization of this Corporation as a consequence of such compromise or arrangement, the said compromise or arrangement and

the said reorganization shall, if sanctioned by the Court to which the said application has been made, be binding on all the creditors or class of creditors, and/or on all the stockholders or class of stockholders, of this Corporation, as the case may be, and also on this Corporation.

TENTH: Authorized shares of Common Stock of the Corporation shall be issued in exchange for any remaining outstanding shares of Common Stock of Central and South West Utilities on the following basis:

(1) There shall be issued to each holder of such shares of Common Stock of Central and South West Utilities a number of shares of Common Stock of the Corporation computed by (i) multiplying the number of shares of Common Stock of Central and South West Utilities held by such holder by .8095, (ii) rounding the resulting product to the next lower whole number in the event such product is not a whole number, and (iii) multiplying such product as so rounded by four.

(2) There shall be paid to each holder of such shares of Common Stock of Central and South West Utilities, in any case in which the product of the number of shares of Common Stock of Central and South West Utilities held by him multiplied by .8095 is not a whole number, cash equal to $12.00 multiplied by the fraction by which such product exceeds the next lower whole number, in lieu of shares of Common Stock of the Corporation.

(3) Such shares of Common Stock of the Corporation shall be issued, and such cash paid, upon the surrender for cancellation, to the Corporation, of the certificates representing such shares of Common Stock of Central and South West Utilities, duly endorsed for transfer if required, and in satisfaction of all dividend and other rights in respect of such shares.

ELEVENTH: To the full extent permitted by the General Corporation Law of the State of Delaware or any other applicable laws as presently or hereafter in effect, no director of the Corporation shall be personally liable to the Corporation or its stockholders for or with respect to any acts or omissions in the performance of his or her duties as a director of the Corporation. No amendment to or repeal of this Article ELEVENTH shall apply to or have any effect on the liability or alleged liability of any director of the Corporation for or with respect to any acts or omissions of such director occurring prior to such amendment.

TWELFTH. A. Higher Vote for Certain Business Transactions. In addition to any affirmative vote required by law or this Second Restated Certificate of Incorporation or the Bylaws of the Corporation, and except as otherwise expressly provided in Section C of this Article TWELFTH:

(1) any merger or consolidation of the Corporation or any Subsidiary (as hereinafter defined) with (a) any Interested Stockholder (as hereinafter defined) or (b) any other company (whether or not itself an Interested

Stockholder) which is or after such merger or consolidation would be an Affiliate (as hereinafter defined) or Associate (as hereinafter defined) of an Interested Stockholder; or

(2) any sale, lease, exchange, mortgage, pledge, transfer or other disposition (in one transaction or a series of transactions) to or with any Interested Stockholder or any Affiliate or Associate of any Interested Stockholder, involving any assets or securities of the Corporation, any Subsidiary or any Interested Stockholder or any Affiliate or Associate of any Interested Stockholder, having an aggregate Fair Market Value (as hereinafter defined) in excess of $25,000,000; or

(3) the adoption of any plan or proposal for the termination, liquidation or dissolution of the Corporation proposed by or on behalf of an Interested Stockholder or any Affiliate or Associate of any Interested Stockholder; or

(4) any reclassification of securities (including any reverse stock split) or recapitalization of the Corporation or any merger or consolidation of the Corporation with any of its Subsidiaries or any other transaction (whether or not with or otherwise involving an Interested Stockholder) that has the effect, directly or indirectly, of increasing the proportionate share of any class or series of Common Stock (as hereinafter defined), or any securities convertible into Common Stock or into equity securities of the Corporation or any Subsidiary, that is beneficially owned by any Interested

Stockholder or any Affiliate or Associate of any Interested Stockholder; or

(5) any tender offer or exchange offer made by the Corporation for shares of Common Stock which may have the effect of increasing an Interested Stockholder's percentage beneficial ownership (as hereinafter defined) so that following the completion of the tender offer or exchange offer the Interested Stockholder's percentage beneficial ownership of the outstanding Common Stock may exceed 110% of the Interested Stockholder's percentage beneficial ownership immediately prior to the commencement of such tender offer or exchange offer; or

(6) the issuance or transfer by the Corporation or any Subsidiary (in one transaction or a series of transactions) of any securities of the Corporation or any Subsidiary to any Interested Stockholder or any Affiliate of any Interested Stockholder having an aggregate Fair Market Value in excess of $25,000,000; or

(7) any agreement, contract or other arrangement providing for any one or more of the actions specified in the foregoing clauses (1) to (6) shall require: (1) the affirmative vote of the holders of Voting Stock (as hereinafter defined) representing shares equal to at least eighty percent (80%) of the then issued and outstanding Voting Stock of the Corporation authorized to be issued from time to time under Article FOURTH of this Second Restated Certificate of Incorporation; and (2) the affirmative vote

of a majority of the then issued and outstanding Voting Stock of the Corporation, excluding any shares of Voting Stock beneficially owned by such Interested Stockholder. Such affirmative vote shall be required notwithstanding the fact that no vote may be required, or that a lesser percentage may be specified, by law or any agreement with any national securities exchange or otherwise.

B. Definition of "Business Combination". For the purposes of this Article TWELFTH the term "Business Combination" shall mean any transaction that is referred to in any one or more of clauses (1) through (6) of Section A of this Article TWELFTH.

C. When Higher Vote is Not Required. The provisions of the preceding Section A shall not be applicable to any particular Business Combination, and such Business Combination shall require only such affirmative vote, if any, as is required by law or by any other provision of this Second Restated Certificate of Incorporation or the Bylaws of the Corporation or any agreement with any national securities exchange, if all of the conditions specified in either of the following Paragraphs (1) or (2) are met or, in the case of a Business Combination not involving the payment of consideration to the holders of the Corporation's outstanding Common Stock, if the condition specified in the following Paragraph (1) is met:

(1) The Business Combination shall have been approved by a majority (whether such approval is made prior to or subsequent to the acquisition of beneficial ownership of the Voting Stock that caused the Interested Stockholder to

become an Interested Stockholder) of the Continuing Directors (as hereinafter defined).

(2) All of the following conditions shall have been met with respect to the outstanding Common Stock, whether or not the Interested Stockholder has previously acquired beneficial ownership of any shares of the Common Stock:

(a) The aggregate amount of cash and the Fair Market Value, as of the date of the consummation of the Business Combination, of consideration other than cash to be received per share by holders of the Common Stock in such Business Combination shall be at least equal to the highest amount determined under clauses (i), (ii), (iii), and (iv) below:

(i) (if applicable) the highest per share price (including any brokerage commissions, transfer taxes and soliciting dealers' fees) paid by or on behalf of the Interested Stockholder for any share of the Common Stock in connection with the acquisition by the Interested Stockholder of beneficial ownership of shares of the Common Stock (x) within the two-year period immediately prior to the first public announcement of the proposed Business Combination (the "Announcement Date") or (y) in the transaction in which it became an Interested Stockholder, whichever is higher, in either case as adjusted for any subsequent stock

split, stock dividend, subdivision or reclassification with respect to the Common Stock;

(ii) the Fair Market Value per share of the Common Stock on the Announcement Date or on the date on which the Interested Stockholder became an Interested Stockholder (the "Determination Date"), whichever is higher, as adjusted for any subsequent stock split, stock dividend, subdivision or reclassification with respect to the Common Stock;

(iii) (if applicable) the price per share equal to the Fair Market Value per share of the Common Stock determined pursuant to the immediately preceding clause (ii), multiplied by the ratio of (x) the highest price per share (including any brokerage commissions, transfer taxes and soliciting dealers' fees) paid by or on behalf of the Interested Stockholder for any share of the Common Stock in connection with the acquisition by the Interested Stockholder of beneficial ownership of shares of the Common Stock within the two-year period immediately prior to the Announcement Date, as adjusted for any subsequent stock split, stock dividend, subdivision or reclassification with respect to the Common Stock to (y) the Fair Market Value per share of the Common Stock on the first day in such two-year period on which the

Interested Stockholder acquired beneficial ownership of any shares of the Common Stock, as adjusted for any subsequent stock split, stock dividend, subdivision or reclassification with respect to Common Stock; and

(iv) the Corporation's net income per share of the Common Stock for the four full consecutive fiscal quarters immediately preceding the Announcement Date, multiplied by the higher of the then price/earnings multiple (if any) of such Interested Stockholder or the highest price/earnings multiple of the Corporation within the two-year period immediately preceding the Announcement Date (such price/earnings multiples being determined by dividing (x) an amount equal to the highest price per share during a day as reported in The Wall Street Journal from the Composite Tape for the New York Stock Exchange by (y) the immediately preceding publicly reported twelve-months earnings per share).

(b) The consideration to be received by holders of the Common Stock shall be in cash or in the same form as previously has been paid by or on behalf of the Interested Stockholder in connection with its direct or indirect acquisition of beneficial ownership of shares of such Common Stock. If the consideration previously paid by the Interested Stockholder to acquire Common

Stock varied among the recipients thereof as to form, the form of consideration to be paid for such Common Stock in connection with the Business Combination shall be either cash or the form used to acquire beneficial ownership of the largest number of shares of such Common Stock previously acquired by the Interested Stockholder.

(c) After the Determination Date and prior to the consummation of such Business Combination: (i) there shall have been no reduction in the annual rate of dividends paid on the Common Stock (except as necessary to reflect any stock split, stock dividend or subdivision of the Common Stock), except as approved by a majority of the Continuing Directors; (ii) there shall have been an increase in the annual rate of dividends paid on the Common Stock as necessary to reflect any reclassification (including any reverse stock split), recapitalization, reorganization or any similar transaction that has the effect of reducing the number of outstanding shares of Common Stock, unless the failure so to increase such annual rate is approved by a majority of the Continuing Directors; and (iii) such Interested Stockholder shall not have become the beneficial owner of any additional shares of Common Stock except as part of the transaction that results in such Interested Stockholder becoming an Interested Stockholder and except in a transaction that, after

BK1012PG0852

giving effect thereto, would not result in any increase in the Interested Stockholder's percentage of beneficial ownership of Common Stock.

(d) After the Determination Date, such Interested Stockholder shall not have received the benefit, directly or indirectly (except proportionately as a stockholder of the Corporation), of any loans, advances, guarantees, pledges or other financial assistance or any tax credits or other tax advantages provided by the Corporation, whether in anticipation of or in connection with such Business Combination or otherwise.

(e) A proxy or information statement describing the proposed Business Combination and complying with the requirements of the Securities Exchange Act of 1934, as amended, and the rules and regulations thereunder (the "Act") (or any subsequent provisions amending or replacing such Act, rules or regulations) shall be mailed to all stockholders of the Corporation at least 30 days prior to the consummation of such Business Combination (whether or not such proxy or information statement is required to be mailed pursuant to such Act or subsequent provisions). The proxy or information statement shall contain on the first page thereof, in a prominent place, any statement as to the advisability of the Business Combination that the Continuing Directors, or any of them, may choose to make and, if

deemed advisable by a majority of the Continuing Directors, the opinion of an investment banking firm selected by a majority of the Continuing Directors as to the fairness (or not) of the terms of the Business Combination from a financial point of view to the holders of the outstanding shares of the Common Stock other than the Interested Stockholder and its Affiliates or Associates (as hereinafter defined), such investment banking firm to be paid a reasonable fee for its services by the Corporation.

(f) Such Interested Stockholder shall not have made any major change in the Corporation's business or equity capital structure without the approval of a majority of the Continuing Directors.

D. Certain Definitions. The following definitions shall apply with respect to this Article TWELFTH:

(1) The term "Common Stock" or "Voting Stock" shall mean all common stock of the Corporation authorized to be issued from time to time under Article FOURTH of the Second Restated Certificate of Incorporation that by its terms may be voted on all matters submitted to stockholders of the Corporation generally.

(2) The term "person" shall mean any individual, firm, company or other entity and shall include any group comprised of any person and any other person with whom such person or any Affiliate or Associate of such person has any agreement, arrangement or understanding, directly or

indirectly, for the purpose of acquiring, holding, voting or disposing of the Common Stock.

(3) The term "Interested Stockholder" shall mean any person (other than the Corporation or any Subsidiary and other than any profit-sharing, employee stock ownership or other employee benefit or dividend reinvestment plan of the Corporation or any Subsidiary or any trustee of or fiduciary with respect to any such plan when acting in such capacity) who (a) is the beneficial owner of Voting Stock representing five percent (5%) or more of the votes entitled to be cast by the holders of all then outstanding shares of Voting Stock; or (b) is an Affiliate or Associate of the Corporation and at any time within the two-year period immediately prior to the Announcement Date was the beneficial owner of Voting Stock representing five percent (5%) or more of the votes entitled to be cast by the holders of all then outstanding shares of Voting Stock.

(4) A person shall be a "beneficial owner" of any Common Stock (a) which such person or any of its Affiliates or Associates beneficially owns, directly or indirectly; (b) which such person or any of its Affiliates or Associates has, directly or indirectly, (i) the right to acquire (whether such right is exercisable immediately or subject only to the passage of time), pursuant to any agreement, arrangement or understanding or upon the exercise of conversion rights, exchange rights, warrants or options, or otherwise, or (ii) the right to vote pursuant to any

agreement, arrangement or understanding; or (c) which is beneficially owned, directly or indirectly, by any other person with which such person or any of its Affiliates or Associates has any agreement, arrangement or understanding for the purpose of acquiring, holding, voting or disposing of any shares of Common Stock. For purposes of determining whether a person is an Interested Stockholder pursuant to Paragraph 4 of this Section D, the number of shares of Common Stock deemed to be outstanding shall include shares deemed beneficially owned by such person through application of Paragraph 5 of this Section D, but shall not include any other shares of Common Stock that may be issuable pursuant to any agreement, arrangement or understanding, or upon exercise of conversion rights, warrants, or options, or otherwise.

(5) An "Affiliate" of a specified person is a person that directly, or indirectly through one or more intermediaries, controls, or is controlled by, or is under common control with, the person specified. The term "Associate", used to indicate a relationship with any person, means (a) any company (other than the Corporation or any Subsidiary) of which such person is an officer or partner or is, directly or indirectly, the beneficial owner of ten percent (10%) or more of any class of equity securities, (b) any trust or other estate in which such person has a substantial beneficial interest or as to which such person serves as trustee or in a similar fiduciary

capacity, and (c) any relative or spouse of such person, or any relative of such spouse, who has the same home as such person or who is a director or officer of the Corporation or any of its parents or Subsidiaries.

(6) The term "Subsidiary" means any company of which a majority of any class of equity security is beneficially owned by the Corporation; provided however, that for the purposes of the definition of Interested Stockholder set forth in Paragraph (3) of this Section D, the term "Subsidiary" shall mean only a company of which a majority of each class of equity security is beneficially owned by the Corporation.

(7) The term "Continuing Director" means any member of the Board of Directors of the Corporation (the "Board of Directors"), who, while such person is a member of the Board of Directors, is not an Affiliate or Associate or representative of any Interested Stockholder and who was a member of the Board of Directors prior to the time that any Interested Stockholder became an Interested Stockholder, and any successor of a Continuing Director, who, while such successor is a member of the Board of Directors, is not an Affiliate or Associate or representative of any Interested Stockholder and who is recommended or elected to succeed the Continuing Director by a majority of Continuing Directors.

(8) The term "Fair Market Value" means (a) in the case of cash, the amount of such cash; (b) in the case of stock, the highest closing sale price during the 30-day period

immediately preceding the date in question of a share of such stock on the Composite Tape for New York Stock Exchange-Listed Stocks, or, if such stock is not quoted on the Composite Tape, on the New York Stock Exchange, or, if such stock is not listed on such Exchange, on the principal United States securities exchange registered under the Act on which such stock is listed, or, if such stock is not listed on any such exchange, the highest closing bid quotation with respect to a share of such stock during the 30-day period preceding the date in question on the National Association of Securities Dealers, Inc. Automated Quotations System or any similar system then in use, or if no such quotations are available, the fair market value on the date in question of a share of such stock as determined by a majority of the Continuing Directors in good faith; and (c) in the case of property other than cash or stock, the fair market value of such property on the date in question as determined in good faith by a majority of the Continuing Directors.

(9) In the event of any Business Combination in which the Corporation survives, the phrase "consideration other than cash to be received" as used in Paragraphs 2(a) and 2(b) of Section C of this Article TWELFTH shall include the shares of Common Stock and/or the shares of any other class of Voting Stock retained by the holders of such shares.

E. Powers of the Continuing Directors. A majority of the Continuing Directors shall have the power and duty to determine

for purposes of this Article TWELFTH, on the basis of information known to them after reasonable inquiry, (1) whether a person is an Interested Stockholder, (2) the number of shares of Common Stock or other securities beneficially owned by any person, (3) whether a person is an Affiliate or Associate of another, and (4) whether the assets that are the subject of any Business Combination have, or the consideration to be received for the issuance or transfer of securities by the Corporation or any Subsidiary in any Business Combination has, an aggregate Fair Market Value in excess of the amounts set forth in clauses (2) and (6) of Section A of this Article TWELFTH. Any such determination made in good faith by a majority of the Continuing Directors shall be binding and conclusive for all the purposes of this Article TWELFTH.

F. No Effect on Fiduciary Obligations of Interested Stockholders. Nothing contained in this Article TWELFTH shall be construed to relieve any Interested Stockholder from any fiduciary obligation imposed by law.

G. No Effect on Fiduciary Obligation of Directors. The fact that any Business Combination complies with the provisions of Section C, Paragraph 2 of this Article TWELFTH shall not be construed to impose any fiduciary duty, obligation or responsibility on the Board of Directors, or any member thereof, to approve such Business Combination or recommend its adoption or approval to the stockholders of the Corporation, nor shall such compliance limit, prohibit or otherwise restrict in any manner the Board of Directors, or any member thereof, with respect to

evaluations of or actions and responses taken with respect to such Business Combination.

IN WITNESS WHEREOF, said CENTRAL AND SOUTH WEST CORPORATION has caused this Second Restated Certificate of Incorporation to be signed by Ferd. C. Meyer, Jr., its Vice President and General Counsel, and its corporate seal to be hereunto affixed and attested by Philip I. McConnell, its Secretary, this 23 day of April, 1990.

CENTRAL AND SOUTH WEST CORPORATION

By Ferd C Meyer Jr.
Vice President

(Corporate Seal)

ATTEST:
Philip I. McConnell
Secretary

EXHIBIT 3
Page 33 of 34

State of Delaware

Office of Secretary of State

I, MICHAEL HARKINS, SECRETARY OF STATE OF THE STATE OF DELAWARE DO HEREBY CERTIFY THE ATTACHED IS A TRUE AND CORRECT COPY OF THE CERTIFICATE OF AMENDMENT OF CENTRAL AND SOUTH WEST CORPORATION FILED IN THIS OFFICE ON THE TWENTY-NINTH DAY OF MAY, A.D. 1991, AT 10 O'CLOCK A.M.

* * * * * * * * * * *

DEPARTMENT OF STATE
OFFICE OF THE SECRETARY OF STATE
1835 1793 1970
DELAWARE

721149184

Michael Harkins, Secretary of State

*3061943

AUTHENTICATION:

DATE: 05/29/1991

CERTIFICATE OF AMENDMENT
to
SECOND RESTATED CERTIFICATE OF INCORPORATION
of
CENTRAL AND SOUTH WEST CORPORATION

Central and South West Corporation (the "Corporation"), a corporation organized and existing under and by virtue of the laws of the State of Delaware, hereby certifies that:

1. In accordance with the provisions of Section 242 of the General Corporation Law of the State of Delaware (Title 8 of the Delaware Code), the Board of Directors and the Common Stockholders of the Corporation have duly adopted the following amendment to the Corporation's Second Restated Certificate of Incorporation, as heretofore amended (the "Certificate").

2. Article "Fourth" of the Certificate is hereby amended by changing the first sentence thereof to read as follows:

> "The total number of shares of stock which the Corporation shall have authority to issue is Three Hundred and Fifty Million (350,000,000) shares of Common Stock of the par value of $3.50 each."

IN WITNESS WHEREOF, Central and South West Corporation has caused this Certificate of Amendment to be signed by Ferd. C. Meyer, Jr., its Senior Vice President and General Counsel, and sealed with its corporate seal and attested by Frederic L. Frawley, its Secretary, this 20th day of May, 1991.

Central and South West Corporation

(CORPORATE SEAL)

By Ferd C Meyer
Senior Vice President
and General Counsel

ATTEST:

Frederic L. Frawley
Secretary

AGREEMENT AND PLAN OF MERGER

By and Among

American Electric Power Company, Inc.,

Augusta Acquisition Corporation

and

Central and South West Corporation

TABLE OF CONTENTS

Page

Page

AGREEMENT AND PLAN OF MERGER

THIS AGREEMENT AND PLAN OF MERGER, dated as of December 21, 1997, is by and among American Electric Power Company, Inc., a New York corporation ("AEP"), Augusta Acquisition Corporation, a Delaware corporation and a wholly owned subsidiary of AEP ("Newco"), and Central and South West Corporation, a Delaware corporation (the "Company"). AEP and Newco are sometimes collectively referred to herein as the "AEP Companies."

RECITALS:

The Board of Directors of the Company has determined that the business combination to be effected by means of the Merger is consistent with and in furtherance of the long-term business strategy of the Company and is fair to, and in the best interests of, the Company and its stockholders and has approved and adopted this Agreement and recommended approval and adoption of this Agreement by the stockholders of the Company.

The Board of Directors of AEP has determined that the business combination to be effected by means of the Merger is consistent with and in furtherance of the long-term business strategy of AEP and is fair to, and in the best interests of, AEP and its stockholders and has approved this Agreement, the Charter Amendment and the Share Issuance and recommended approval and adoption of the Charter Amendment and the Share Issuance by the stockholders of AEP.

The Board of Directors of Newco has determined that the business combination to be effected by means of the Merger is in the best interests of Newco and its stockholder and has approved and adopted this Agreement and recommended approval and adoption of this Agreement by AEP.

To give effect to the transactions contemplated hereby, upon the terms and subject to the conditions of this Agreement and in accordance with the Delaware Law, Newco will merge with and into the Company.

For Federal income tax purposes, it is intended that the Merger shall qualify as a reorganization under the provisions of Section 368(a) of the Code.

The Merger is intended to be treated as a "pooling of interests" for accounting purposes.

NOW, THEREFORE, in consideration of the foregoing and the respective representations, warranties, covenants and agreements set forth in this Agreement, the parties hereto agree as follows:

ARTICLE I

DEFINITIONS

SECTION 1.1 Definitions. Certain capitalized and other terms used in this Agreement are defined in Annex A hereto and are used herein with the meanings ascribed to them therein.

SECTION 1.2 Rules of Construction. Unless the context otherwise requires, as used in this Agreement: (a) a term has the meaning ascribed to it; (b) an accounting term not otherwise defined has the meaning ascribed to it in accordance with GAAP; (c) "or" is not exclusive; (d) "including" shall mean "including, without limitation;" (e) words in the singular include the plural; (f) words in the plural include the singular; (g) words applicable to one gender shall be construed to apply to each gender; (h) the terms "hereof," "herein," "hereby," "hereto" and derivative or similar words refer to this entire Agreement; and (i) the terms "Article" or "Section" shall refer to the specified Article or Section of this Agreement.

ARTICLE II

TERMS OF MERGER

SECTION 2.1 Statutory Merger. Subject to the terms and conditions and in reliance upon the representations, warranties, covenants and agreements contained herein, Newco shall merge (the "Merger") with and into the Company at the Effective Time. The terms and conditions of the Merger and the mode of carrying the same into effect shall be as set forth in this Agreement. As a result of the Merger, the separate corporate existence of Newco shall cease and the Company shall continue as the Surviving Corporation.

SECTION 2.2 Effective Time. As soon as practicable after the satisfaction or, if permissible, waiver of the conditions set forth in Article VIII, the parties hereto shall cause the Merger to be consummated by filing a Certificate of Merger (the "Certificate of Merger") with the Secretary of State of the State of Delaware, in such form as required by, and executed in accordance with the relevant provisions of, the Delaware Law.

SECTION 2.3 Effect of the Merger. At the Effective Time, the effect of the Merger shall be as provided in the applicable provisions of the Delaware Law. Without limiting the generality of the foregoing, and subject thereto, at the Effective Time, except as otherwise provided herein, all the property, rights, privileges, powers and franchises of Newco and the Company shall vest in the Surviving Corporation, and all debts, liabilities and duties of Newco and the Company shall become the debts, liabilities and duties of the Surviving Corporation.

SECTION 2.4 Certificate of Incorporation; Bylaws. At the Effective Time, the certificate of incorporation and the bylaws of the Company, as in effect immediately prior to the

Effective Time, shall be the certificate of incorporation and the bylaws of the Surviving Corporation.

SECTION 2.5 Directors and Officers. The directors of Newco immediately prior to the Effective Time shall be the directors of the Surviving Corporation, each to hold office in accordance with the certificate of incorporation and bylaws of the Surviving Corporation, and the officers of the Company immediately prior to the Effective Time shall be the officers of the Surviving Corporation, in each case until their respective successors are duly elected or appointed and qualified.

ARTICLE III

CONVERSION OF SECURITIES; EXCHANGE OF CERTIFICATES

SECTION 3.1 Merger Consideration; Conversion and Cancellation of Securities. On the date on which the Effective Time occurs, by virtue of the Merger and without any action on the part of the AEP Companies, the Company or any securityholder thereof:

(a) Subject to the other provisions of this Article III, each share of Company Common Stock issued and outstanding immediately prior to the Effective Time (exclusive of any shares to be cancelled pursuant to Section 3.1(c)) shall be converted into that number of shares of AEP Common Stock equal to the Common Stock Exchange Ratio. If between the date of this Agreement and the Effective Time the outstanding shares of Company Common Stock or AEP Common Stock shall have been changed into a different number of shares or a different class, by reason of any dividend, subdivision, reclassification, recapitalization, split, combination, exchange of shares or other transaction, the Common Stock Exchange Ratio shall be correspondingly adjusted to reflect such dividend, subdivision, reclassification, recapitalization, split, combination, exchange of shares or other transaction.

(b) All shares of Company Common Stock shall, upon conversion into shares of AEP Common Stock at the Effective Time, cease to be outstanding and shall automatically be cancelled and retired, and each certificate previously evidencing shares of Company Common Stock outstanding immediately prior to the Effective Time (exclusive of any shares to be cancelled pursuant to Section 3.1(c)) shall thereafter be deemed, for all purposes other than the payment of dividends or distributions, to represent that number of shares of AEP Common Stock into which such shares of Company Common Stock were converted pursuant to Section 3.1(a) and, if applicable, the right to receive cash pursuant to Section 3.2(e). The holders of certificates previously evidencing Company Common Stock shall cease to have any rights with respect to such Company Common Stock except as otherwise provided herein or by law.

(c) Notwithstanding any provision of this Agreement to the contrary, each share of Company Common Stock held in the treasury of the Company and each share

of Company Common Stock, if any, owned by AEP or any direct or indirect wholly owned subsidiary of AEP or of the Company immediately prior to the Effective Time shall be cancelled and extinguished without conversion thereof.

(d) Each share of common stock, par value $.01 per share, of Newco issued and outstanding immediately prior to the Effective Time shall be converted into one share of common stock, par value $3.50 per share, of the Surviving Corporation.

SECTION 3.2 Exchange of Certificates. (a) Exchange Fund. On or prior to the day of the Effective Time, AEP shall deposit, or cause to be deposited, with the Exchange Agent, for the benefit of the holders of Company Common Stock, for exchange in accordance with this Article III, through the Exchange Agent, certificates evidencing a number of shares of AEP Common Stock into which the number of shares of Company Common Stock issued and outstanding immediately prior to the Effective Time was converted pursuant to Section 3.1(a). The Exchange Agent shall, pursuant to irrevocable instructions from AEP, deliver AEP Common Stock, together with any cash to be paid in lieu of fractional interests in shares of AEP Common Stock pursuant to Section 3.2(e) and any dividends or distributions related thereto, in exchange for certificates theretofore evidencing Company Common Stock surrendered to the Exchange Agent pursuant to Section 3.2(c). Except as contemplated by Section 3.2(f), the Exchange Fund shall not be used for any other purpose.

(b) Letter of Transmittal. Promptly after the Effective Time, AEP will cause the Exchange Agent to send to each record holder of Company Common Stock immediately prior to the Effective Time a letter of transmittal and other appropriate materials for use in surrendering to the Exchange Agent certificates that prior to the Effective Time evidenced shares of Company Common Stock.

(c) Exchange Procedures. Promptly after the Effective Time, the Exchange Agent shall distribute to each former holder of Company Common Stock, upon surrender to the Exchange Agent for cancellation of one or more certificates that theretofore evidenced shares of Company Common Stock, certificates evidencing the appropriate number of shares of AEP Common Stock into which such shares of Company Common Stock were converted pursuant to the Merger, together with any cash to be paid in lieu of fractional interests in shares of AEP Common Stock pursuant to Section 3.2(e) and any dividends or distributions related thereto. If shares of AEP Common Stock are to be issued to a Person other than the Person in whose name the surrendered certificate or certificates are registered, it shall be a condition of issuance of AEP Common Stock that the surrendered certificate or certificates shall be properly endorsed, with signatures guaranteed, or otherwise in proper form for transfer and that the Person requesting such payment shall pay any transfer or other taxes required by reason of the issuance of AEP Common Stock to a Person other than the registered holder of the surrendered certificate or certificates or such Person shall establish to the satisfaction of AEP that such tax has been paid or is not applicable. Notwithstanding the foregoing, neither the Exchange Agent nor any party hereto shall be liable to any former holder of Company Common Stock for any AEP Common Stock, cash in lieu of fractional interests or dividends or distributions thereon delivered to a public official pursuant to any applicable escheat Law.

(d) Distributions with Respect to Unexchanged Shares of Company Common Stock. No dividends or other distributions declared or made with respect to AEP Common Stock with a record date after the Effective Time shall be paid to the holder of any certificate that theretofore evidenced shares of Company Common Stock until the holder of such certificate shall surrender such certificate. Subject to the effect of any applicable escheat Laws, following surrender of any such certificate, there shall be paid (i) to the holder of the certificates evidencing whole shares of AEP Common Stock issued in exchange therefor, without interest, (A) promptly, the amount of dividends or other distributions with a record date after the Effective Time theretofore paid with respect to such whole shares of AEP Common Stock, and (B) at the appropriate payment date, the amount of dividends or other distributions, with a record date after the Effective Time but prior to surrender and a payment date occurring after surrender, payable with respect to such whole shares of AEP Common Stock and (ii) to the holder of any certificate that theretofore evidenced shares of Company Common Stock, without interest, promptly the amount of any cash payable with respect to a fractional interest in a share of AEP Common Stock to which such holder is entitled pursuant to Section 3.2(e).

(e) No Fractional Shares. Notwithstanding anything herein to the contrary, no certificates or scrip evidencing fractional interests in shares of AEP Common Stock shall be issued in connection with the Merger, and any such fractional interests to which a holder of record of Company Common Stock at the Effective Time would otherwise be entitled will not entitle such holder to vote or to any rights of a stockholder of AEP. In lieu of any such fractional shares, each holder of record of Company Common Stock at the Effective Time who but for the provisions of this Section 3.2(e) would be entitled to receive a fractional interest of a share of AEP Common Stock pursuant to the Merger shall be paid cash, without any interest thereon, as hereinafter provided. AEP shall instruct the Exchange Agent to determine the number of whole shares and fractional shares of AEP Common Stock allocable to each holder of record of Company Common Stock at the Effective Time, to aggregate all such fractional shares into whole shares, to sell the whole shares obtained thereby in the open market at then prevailing prices on behalf of holders who otherwise would be entitled to receive fractional share interests and to distribute to each such holder such holder's ratable share of the total proceeds of such sale, after making appropriate deductions of the amount, if any, required for Federal income tax withholding purposes and after deducting any applicable transfer taxes. All brokers' fees and commissions and fees of the Exchange Agent incurred in connection with such sales shall be paid by AEP.

(f) Termination of Exchange Fund. Any portion of the Exchange Fund which remains unclaimed by the former holders of Company Common Stock for twelve months after the Effective Time shall be delivered to AEP, upon demand, and any former holders of Company Common Stock who have not theretofore complied with this Article III shall thereafter look only to AEP for AEP Common Stock, any cash to be paid in lieu of fractional interests in shares of AEP Common Stock and any dividends or other distributions to which they are entitled.

(g) Withholding of Tax. AEP shall be entitled to deduct and withhold from the consideration otherwise payable pursuant to this Agreement to any former holder of Company Common Stock such amounts as AEP (or any affiliate thereof) is required to deduct and withhold

with respect to the making of such payment under the Code, or any provision of state, local or foreign tax Law. To the extent that amounts are so withheld by AEP, such withheld amounts shall be treated for all purposes of this Agreement as having been paid to the former holder of Company Common Stock in respect of which such deduction and withholding was made by AEP.

(h) Lost Certificates. If any certificate evidencing shares of Company Common Stock shall have been lost, stolen or destroyed, upon the making of an affidavit of that fact by the Person claiming such certificate to be lost, stolen or destroyed and, if required by AEP, the posting by such Person of a bond, in such reasonable amount as AEP may direct, as indemnity against claims that may be made against it with respect to such certificate, the Exchange Agent will issue in exchange for such lost, stolen or destroyed certificate a certificate evidencing that number of shares of AEP Common Stock into which the shares of Company Common Stock evidenced by such lost, stolen or destroyed certificate were converted pursuant to Section 3.1(a), any cash in lieu of fractional interests in shares of AEP Common Stock to which the holder thereof may be entitled pursuant to Section 3.2(e) and any dividends or other distributions to which the holder thereof may be entitled pursuant to Section 3.2(d).

SECTION 3.3 Closing. The Closing shall take place at such time and place as the parties shall mutually agree on the second Business Day immediately following the date on which the last of the conditions set forth in Article VIII (other than conditions that by their nature are required to be performed on the Closing Date) is fulfilled or, if permissible, waived, or at such other place, time and date as the parties hereto may agree. At the conclusion of the Closing on the Closing Date, the parties hereto shall cause the Certificate of Merger relating to the Merger to be filed with the Secretary of State of the State of Delaware.

SECTION 3.4 Stock Transfer Books. At the Effective Time, the stock transfer books of the Company shall be closed and there shall be no further registration of transfers of shares of Company Common Stock thereafter on the records of the Company.

ARTICLE IV

REPRESENTATIONS AND WARRANTIES OF THE COMPANY

The Company hereby represents and warrants to the AEP Companies that:

SECTION 4.1 Organization and Qualification; Subsidiaries. The Company and each Subsidiary of the Company are legal entities duly organized, validly existing and in good standing under the Laws of their respective jurisdictions of incorporation or organization, have all requisite power and authority to own, lease and operate their respective properties and to carry on their respective businesses as they are now being conducted and are duly qualified and in good standing to do business in each jurisdiction in which the nature of the business conducted by them or the ownership or leasing of their respective properties makes such qualification necessary, other than any matters, including the failure to be so duly qualified and in good standing, that could not reasonably be expected to have a Material Adverse Effect on the

Company. Section 4.1 of the Company's Disclosure Letter sets forth, as of the date of this Agreement, a true and complete list of all the Company's directly or indirectly owned Subsidiaries, together with (A) the jurisdiction of incorporation or formation of each Subsidiary and the percentage of each Subsidiary's outstanding capital stock or other equity interests owned by the Company or another Subsidiary of the Company, and (B) an indication of whether each such Subsidiary is a Significant Subsidiary. Except as set forth in Section 4.1 of the Company's Disclosure Letter, neither the Company nor any of its Subsidiaries owns an equity interest in any other partnership or joint venture arrangement or other business entity that is Material to the Company.

SECTION 4.2 Certificate of Incorporation and Bylaws. The Company has heretofore marked for identification and furnished to AEP complete and correct copies of the certificate of incorporation and the bylaws or the equivalent organizational documents, in each case as amended or restated to the date hereof, of the Company and each of its Significant Subsidiaries. Neither the Company nor any of its Significant Subsidiaries is in violation of any of the provisions of its certificate of incorporation or bylaws (or equivalent organizational documents).

SECTION 4.3 Capitalization. (a) Company Common Stock. The authorized capital stock of the Company consists of 350,000,000 shares of Company Common Stock of which as of November 7, 1997: (A) 212,235,320 shares were issued and outstanding, all of which are duly authorized, validly issued, fully paid and nonassessable and not subject to preemptive rights created by statute, the Company's certificate of incorporation or bylaws or any agreement to which the Company is a party or is bound and (B) 10,410,363 shares were reserved for future issuance in the amounts and for the purposes set forth in Section 4.3(a) of the Company's Disclosure Letter. Except as set forth in Section 4.3(a) of the Company's Disclosure Letter, between November 7, 1997 and the date of this Agreement, no shares of Company Common Stock have been issued by the Company and the Company has not granted any options for, or other rights to purchase, shares of Company Common Stock.

(b) Reserved Shares. Except for shares to which reference is made in Section 4.3(a), no shares of Company Common Stock are reserved for issuance, and, except for the Company's Rights Agreement and stock options shares with respect to which are reserved for issuance as set forth in Section 4.3(a) of the Company's Disclosure Letter, there are no contracts, agreements, commitments or arrangements obligating the Company to (i) offer, sell, issue or grant any Equity Securities of the Company, (ii) redeem, purchase or acquire, or offer to purchase or acquire, any outstanding Equity Securities of the Company or (iii) grant any Lien on any shares of capital stock of the Company.

(c) Subsidiary Stock. The authorized, issued and outstanding capital stock of, or other equity interests in, each of the Company's Significant Subsidiaries are set forth in Section 4.3(c) of the Company's Disclosure Letter. Except as set forth in Section 4.3(c) of the Company's Disclosure Letter, (i) all the issued and outstanding common stock of each of the Company's Significant Subsidiaries is owned, directly or indirectly, by the Company; (ii) all the issued and outstanding shares of each class of capital stock of, or other equity interests in, each

of the Significant Subsidiaries of the Company have been duly authorized and are validly issued, and, with respect to capital stock, are fully paid and nonassessable, and were not issued in violation of any preemptive or similar rights of any past or present equity holder of such Significant Subsidiary; (iii) all such issued and outstanding shares, or other equity interests, that are indicated as owned by the Company or one of its Subsidiaries in Section 4.3(c) of the Company's Disclosure Letter are owned (A) beneficially as set forth therein and (B) free and clear of all Liens; (iv) no shares of capital stock of, or other equity interests in, any Significant Subsidiary of the Company are reserved for issuance; and (v) there are no contracts, agreements, commitments or arrangements obligating the Company or any of its Subsidiaries (A) to offer, sell, issue, grant, pledge, dispose of or encumber any Equity Securities of any of the Significant Subsidiaries of the Company, (B) to redeem, purchase or acquire, or offer to purchase or acquire, any outstanding Equity Securities of any of the Significant Subsidiaries of the Company or (C) to grant any Lien on any outstanding shares of capital stock of, or other equity interest in, any of the Significant Subsidiaries of the Company.

(d) Adverse Claims. Except for the Company's Rights Agreement and stock options shares with respect to which are reserved for issuance as set forth in Section 4.3(a) of the Company's Disclosure Letter, there are no voting trusts, proxies or other agreements, commitments or understandings of any character to which the Company or any of its Subsidiaries is a party or by which the Company or any of its Subsidiaries is bound with respect to the voting of any shares of capital stock of the Company or any of its Significant Subsidiaries, with respect to the registration of the offering, sale or delivery of any shares of capital stock of the Company or any of its Significant Subsidiaries under the Securities Act or otherwise relating to any shares of capital stock of the Company or any of its Significant Subsidiaries.

SECTION 4.4 Authorization of Agreement. The Company has all requisite corporate power and authority to execute and deliver this Agreement and each instrument required hereby to be executed and delivered by it at the Closing and, subject to obtaining the Required Company Vote, to perform its obligations hereunder and thereunder and to consummate the transactions contemplated hereby. The execution and delivery by the Company of this Agreement and each instrument required hereby to be executed and delivered by it at the Closing and the performance of its obligations hereunder and thereunder have been duly and validly authorized by all requisite corporate action on the part of the Company (other than, with respect to the Merger, the Required Company Vote). This Agreement has been duly executed and delivered by the Company and (assuming due authorization, execution and delivery hereof by the other parties hereto) constitutes a legal, valid and binding obligation of the Company, enforceable against the Company in accordance with its terms, except as the same may be limited by legal principles of general applicability governing the application and availability of equitable remedies.

SECTION 4.5 Regulation and Approvals. (a) Utility Regulation. The Company is a public utility holding company registered under, and subject to the provisions of, the Holding Company Act, and the Company is the parent, owning all the outstanding common stock, of four Domestic Public Utility Companies: (i) CP&L, which provides regulated retail electric service in the State of Texas; (ii) PSO, which provides regulated retail electric service in the State of Oklahoma; (iii) SWEPCO, which provides regulated retail electric service in the States of Texas,

Louisiana and Arkansas; and (iv) WTU, which provides regulated retail electric service in the State of Texas. In addition, the Company indirectly owns all of the outstanding stock of Seeboard, a regulated regional electricity company in England and Wales. Seeboard is a Foreign Utility Company. Except as aforesaid and as set forth in Section 4.5(a) of the Company's Disclosure Letter, neither the Company nor any of its Subsidiaries is subject to rate regulation as a public utility or public service company (or similar designation) by any state in the United States or any municipality or other political subdivision of any state, by the United States or any Governmental Authority of the United States or by any foreign country.

(b) Approvals. Except for the applicable requirements set forth in Section 4.5(b) of the Company's Disclosure Letter, no declaration, filing or registration with, no waiting period imposed by and no Permit or Order of, any Governmental Authority is required under any Law, Regulation or Order applicable to the Company or any of its Subsidiaries to permit the Company to execute, deliver or perform this Agreement or any instrument required hereby to be executed and delivered by it at the Closing, the failure to obtain which could reasonably be expected to have a Material Adverse Effect on the Company.

SECTION 4.6 No Violation. Assuming receipt of all Permits and Orders indicated as required in Section 4.5(b) and receipt of the Required Company Vote, neither the execution and delivery by the Company of this Agreement or any instrument required hereby to be executed and delivered by it at the Closing nor the performance by the Company of its obligations hereunder or thereunder will (a) violate or breach the terms of or cause a default under, or result in the termination of, or accelerate the performance required by, or result in a right of termination, cancellation or acceleration of any obligation under, or result in the creation of any lien, security interest, charge or encumbrance upon, any of the properties or assets of the Company or any of its Subsidiaries under (i) any Law, Regulation, Permit or Order applicable to the Company or any of its Subsidiaries, (ii) the certificate of incorporation or bylaws or similar organizational documents of the Company or any of its Subsidiaries or (iii) except as set forth in Section 4.6 of the Company's Disclosure Letter, any note, bond, mortgage, indenture, deed of trust, license, franchise, concession, lease, contract or agreement to which the Company or any of its Subsidiaries is a party or by which it or any of its properties or assets is bound, or (c) with the passage of time, the giving of notice or the taking of any action by a third Person, have any of the effects set forth in clause (a) of this Section, except in any such case for any matters described in clauses (i) and (iii) of this Section that could not reasonably be expected to have a material adverse effect upon the ability of the Company to perform its obligations under this Agreement or a Material Adverse Effect on the Company. Prior to the execution of this Agreement, the Board of Directors of the Company has taken all necessary action to cause this Agreement and the transactions contemplated hereby to be exempt from the provisions of Section 203 of the Delaware Law and to ensure that the execution, delivery and performance of this Agreement by the parties hereto will not cause any rights to be distributed or to become exercisable under the Company's Rights Agreement.

SECTION 4.7 Reports. (a) Reports. Since January 1, 1993, the Company and its Subsidiaries have filed or caused to be filed (i) all SEC Reports of the Company or any of its Subsidiaries required to be filed with the Commission and (ii) all other Reports of the

Company or any of its Subsidiaries required to be filed with any Governmental Authorities, including the FERC, the Commission (under the Holding Company Act), the NRC and State Regulatory Commissions, except where the failure to file any such Reports of the Company or any of its Subsidiaries could not reasonably be expected to have a Material Adverse Effect on the Company. The Company has made available to AEP a true and complete copy of each such SEC Report. The Reports of the Company and its Subsidiaries, including all those filed after the date of this Agreement and prior to the Effective Time, (i) were or will be prepared in all material respects in accordance with the requirements of applicable Law and (ii), in the case of the SEC Reports of the Company and its Subsidiaries, did not at the time they were filed, or will not at the time they are filed, contain any untrue statement of a material fact or omit to state a material fact required to be stated therein or necessary in order to make the statements therein, in the light of the circumstances under which they were made, not misleading.

(b) Financial Statements. The Company's Consolidated Financial Statements and any consolidated financial statements of the Company (including any related notes thereto) contained in any SEC Reports of the Company or any of its Subsidiaries filed with the Commission after the date of this Agreement (i) have been or will have been prepared in accordance with the published Regulations of the Commission and in accordance with GAAP (except (A) to the extent required by changes in GAAP, (B) with respect to unaudited financial statements as permitted by Form 10-Q and (C), with respect to SEC Reports of the Company or any of its Subsidiaries filed prior to the date of this Agreement, as may be indicated in the notes thereto) and (ii) fairly present the consolidated financial position of the Company and its Subsidiaries as of the respective dates thereof and the consolidated results of their operations and cash flows for the periods indicated (including, in the case of any unaudited interim financial statements, reasonable estimates of normal and recurring year-end adjustments).

(c) No Omissions. Except for matters disclosed in Section 4.7(c) of the Company's Disclosure Letter, or matters disclosed in the Company's SEC Reports filed with the Commission prior to the date hereof, there exist no liabilities or obligations of the Company and its Subsidiaries, whether accrued, absolute, contingent or threatened, that would be required to be reflected, reserved for or disclosed under GAAP in consolidated financial statements of the Company as of and for the period ended on the dates on which this representation and warranty is made or deemed to be made, other than (i) liabilities or obligations that are adequately reflected, reserved for or disclosed in the Company's Consolidated Financial Statements, (ii) liabilities or obligations incurred in the ordinary course of business of the Company consistent with past practice since September 30, 1997, (iii) liabilities or obligations the incurrence of which would not have been prohibited by Sections 6.1 or 6.2(a) had such sections been in effect since September 30, 1997 and (iv) other liabilities and obligations that could not reasonably be expected to have a Material Adverse Effect on the Company.

SECTION 4.8 No Material Adverse Effect; Conduct. (a) Material Adverse Changes. Except as set forth in Section 4.8(a) of the Company's Disclosure Letter, since September 30, 1997, no event (other than any event that is of general application to the electric utility industry in the United States or the United Kingdom) has occurred that, individually or together with other similar events, has had, and, to the Knowledge of the Company, no fact or

condition (other than any fact or condition that is of general application to the electric utility industry in the United States or the United Kingdom) exists that could reasonably be expected to have, a Material Adverse Effect on the Company.

(b) Proscribed Conduct. Except as set forth in Section 4.8(b) of the Company's Disclosure Letter, during the period from September 30, 1997 to the date of this Agreement, neither the Company nor any of its Subsidiaries has failed to conduct its business in the ordinary course consistent with past practice, other than any conduct that would not have been prohibited by Section 6.1 or Section 6.2(a) had such sections been in effect since September 30, 1997.

SECTION 4.9 Permits; Compliance. (a) General. The Company and its Subsidiaries have obtained all Orders and Permits that are necessary to carry on their businesses as currently conducted, except for any such Orders or Permits that the failure to possess, individually or in the aggregate, could not reasonably be expected to have a Material Adverse Effect on the Company. Except as set forth in Section 4.14 of the Company's Disclosure Letter, all such Orders and Permits are in full force and effect, have not been violated in any respect that could reasonably be expected to have a Material Adverse Effect on the Company and no suspension, revocation or cancellation thereof has occurred or, to the Knowledge of the Company, been threatened and there is no action, proceeding or investigation pending or, to the Knowledge of the Company, threatened regarding suspension, revocation or cancellation of any of such Permits or Orders, except where the suspension, revocation or cancellation of such Permits or Orders could not reasonably be expected to have a Material Adverse Effect on the Company.

(b) South Texas Nuclear Facility. CP&L is a co-owner of the South Texas Nuclear Facility, owning an undivided 25.2% interest therein. The operations of the South Texas Nuclear Facility are subject to the control of the STP Nuclear Operating Company (the "Operating Company"), in which the Company owns a like equity interest. Except as set forth in Section 4.9(b) of the Company's Disclosure Letter, to the Knowledge of the Company, the operations of the South Texas Nuclear Facility have at all times been conducted in compliance with applicable health, safety, regulatory and other legal requirements, except where the failure to be so in compliance in the aggregate could not reasonably be expected to have a Material Adverse Effect on the Company. Except as set forth in Section 4.9(b) of the Company's Disclosure Letter, to the Knowledge of the Company the operations of the South Texas Nuclear Facility are not the subject of any outstanding notices of violation or requests for information from the NRC or any other agency with jurisdiction over such facility. To the Knowledge of the Company, the Operating Company maintains, and is in compliance with, an emergency plan designed to protect the health and safety of the public in the event of an unplanned release of radioactive materials from the South Texas Nuclear Facility, and the NRC has determined that such plan is in compliance with its requirements. To the Knowledge of the Company, liability insurance to the full extent required by Law for operating nuclear facilities remains in full force and effect with respect to the South Texas Nuclear Facility, and the amount of such insurance has been approved by the NRC. To the Knowledge of the Company, plans for the decommissioning of the South Texas Nuclear Facility, and for the storage of spent nuclear fuel, conform with the requirements of applicable Law, and the owners of such facility, including the Company, have funded such plans to the extent required by Law.

SECTION 4.10 Litigation; Compliance with Laws. There are no actions, suits, investigations or proceedings (including any proceedings in arbitration) pending or, to the Knowledge of the Company, threatened against the Company or any of its Subsidiaries, at law or in equity, in any Court or before or by any Governmental Authority, except actions, suits or proceedings that (a) are fully and accurately disclosed in the Company's SEC Reports filed with the Commission prior to the date hereof, (b) are set forth in Section 4.10 or Section 4.14 of the Company's Disclosure Letter or (c), individually or, with respect to multiple actions, suits or proceedings that allege similar theories of recovery based on similar facts, in the aggregate, could not reasonably be expected to have a Material Adverse Effect on the Company. Except as set forth in Section 4.10 of the Company's Disclosure Letter, there are no Material claims pending or, to the Knowledge of the Company, threatened by any Persons against the Company or any of its Subsidiaries for indemnification pursuant to any statute, organizational document, contract or otherwise with respect to any action, suit, investigation or proceeding pending in any Court or before or by any Governmental Authority. Except as set forth in Section 4.10 or Section 4.14 of the Company's Disclosure Letter, the Company and its Subsidiaries are in substantial compliance with all applicable Laws and Regulations and are not in default with respect to any Order applicable to the Company or any of its Subsidiaries, except such events of noncompliance or defaults that, individually or in the aggregate, could not reasonably be expected to have a Material Adverse Effect on the Company.

SECTION 4.11 Ownership of AEP Common Stock. Neither the Company nor any of its Affiliates "beneficially own" (as such term is defined for purposes of Section 13(d) of the Exchange Act) any shares of AEP Common Stock (in whole or in part).

SECTION 4.12 Employee Benefit Plans. (a) Listing. Each Company Benefit Plan is listed in Section 4.12(a) of the Company's Disclosure Letter, including, with respect to Terminated Company Benefit Plans, the date of termination. True and correct copies of each of the following have been made available to AEP with respect to each Current Company Benefit Plan: (i) the three most recent annual reports (Form 5500) filed with the IRS, (ii) the plan document, (iii) the trust agreement, if any, (iv) the most recent summary plan description if required by ERISA, (v) the three most recent actuarial reports or valuations relating to each Current Company Benefit Plan subject to Title IV of ERISA and (vi) the most recent determination letter, if any, issued by the IRS with respect to any Current Company Benefit Plan intended to be qualified under Section 401 of the Code.

(b) Material Adverse Changes. With respect to each Company Benefit Plan, no event has occurred and, to the Knowledge of the Company, there exists no condition or set of circumstances in connection with which the Company or any of its Subsidiaries could be subject to any liability under the terms of such Company Benefit Plan, ERISA, the Code or any other applicable Law, other than any condition or set of circumstances that could not reasonably be expected to have a Material Adverse Effect on the Company.

(c) Qualified Status of Current Plans. Except as set forth in Section 4.12(c) of the Company's Disclosure Letter, each Current Company Benefit Plan intended to be qualified

under Section 401 of the Code (i) satisfies in form the requirements of such Section, (ii) has received a favorable determination letter from the IRS regarding such qualified status, (iii) has not, since receipt of the most recent favorable determination letter, been amended, and, (iv) to the Knowledge of the Company, has not been operated in a way that would adversely affect its qualified status.

(d) No Terminations of Current Plans. There has been no termination or partial termination of any Current Company Benefit Plan within the meaning of Section 411(d)(3) of the Code.

(e) Terminated Plans. Any Terminated Company Benefit Plan intended to have been qualified under Section 401 of the Code received a favorable determination letter from the IRS with respect to its termination.

(f) Claims. There are no actions, suits or claims pending (other than routine claims for benefits) or, to the Knowledge of the Company, threatened against, or with respect to, any Company Benefit Plan or its assets that could reasonably be expected to have a Material Adverse Effect on the Company and, to the Knowledge of the Company, no facts or circumstances exist that could give rise to any such actions, suits or claims.

(g) Pending Matters. To the Knowledge of the Company, there is no matter pending (other than routine qualification determination filings) with respect to any Company Benefit Plan before the IRS, the Department of Labor, the PBGC or other Governmental Authority.

(h) Timely Contributions. Except as set forth in Section 4.12(h) of the Company's Disclosure Letter, all contributions required to be made to Company Benefit Plans pursuant to their terms and the provisions of ERISA, the Code or any other applicable Law have been timely made.

(i) Current Plans Subject to Title IV of ERISA. As to each Current Company Benefit Plan subject to Title IV of ERISA, (i) there has been no event or condition that presents a significant risk of plan termination, (ii) no accumulated funding deficiency, whether or not waived, within the meaning of Section 302 of ERISA or Section 412 of the Code has been incurred, (iii) no reportable event within the meaning of Section 4043 of ERISA (for which the disclosure requirements of Regulation section 4043.1 et seq. promulgated by the PBGC have not been waived) has occurred within six years prior to the date of this Agreement, (iv) no notice of intent to terminate such Benefit Plan has been given under Section 4041 of ERISA, (v) no proceeding has been instituted under Section 4042 of ERISA to terminate such Benefit Plan, (vi) no liability to the PBGC has been incurred (other than with respect to required premium payments) and (vii) the assets of such Benefit Plan equal or exceed the actuarial present value of the benefit liabilities, within the meaning of Section 4041 of ERISA, under such Benefit Plan, based upon reasonable actuarial assumptions and the asset valuation principles established by the PBGC.

(j) Excess Parachute Payments. Except as set forth in Section 4.12(j) of the Company's Disclosure Letter and except for any Retention Agreement not prohibited by Section 6.2(a), in connection with the consummation of the transactions contemplated by this Agreement, no payments of money or other property, acceleration of benefits or provision of other rights have been or will be made under any Current Company Benefit Plan that could reasonably be expected to be nondeductible under Section 280G of the Code, whether or not some other subsequent action or event would be required to cause such payment, acceleration or provision to be triggered.

(k) No Required Increase in Contributions. Except as set forth in Section 4.12(k) of the Company's Disclosure Letter, the execution and delivery of this Agreement and the consummation of the transactions contemplated hereby will not (i) require the Company or any of its Subsidiaries to make a larger contribution to, or pay greater benefits or provide other rights under, any Current Company Benefit Plan than it otherwise would, whether or not some other subsequent action or event would be required to cause such payment or provision to be triggered or (ii) create or give rise to any additional vested rights or service credits under any Current Company Benefit Plan whether or not some other subsequent action or event would be required to cause such creation or acceleration to be triggered.

(l) Intentionally Omitted.

(m) Retiree Benefits. Except as set forth in Section 4.12(m) of the Company's Disclosure Letter, no Current Company Benefit Plan (other than a Company Benefit Plan maintained outside the United States that is either fully insured or fully funded through a retirement plan) provides retiree medical or retiree life insurance benefits to any Person and neither the Company nor any of its Subsidiaries is contractually or otherwise obligated (whether or not in writing) to provide any Person with life insurance or medical benefits upon retirement or termination of employment, other than as required by the provisions of Sections 601 through 608 of ERISA and Section 4980B of the Code.

(n) Multiemployer Plans. Except as set forth in Section 5.1 of AEP's Disclosure Letter, neither the Company nor any member of its Controlled Group contributes or has an obligation to contribute, and has not within six years prior to the date of this Agreement contributed, had an obligation to contribute, or had any other liability to a multiemployer plan within the meaning of Section 3(37) of ERISA.

(o) Collective Bargaining Contracts. Except as set forth in Section 4.12(o) of the Company's Disclosure Schedule, (i) no collective bargaining agreement is being negotiated by the Company or any of its Subsidiaries, (ii) there is no pending or, to the Knowledge of the Company, threatened labor dispute, strike or work stoppage against the Company or any of its Subsidiaries that could reasonably be expected to have a Material Adverse Effect on the Company, (iii) to the Knowledge of the Company, neither the Company or any of its Subsidiaries nor any representative or employee of the Company or any of its Subsidiaries has in the United States committed any Material unfair labor practices in connection with the operation of the business of the Company and its Subsidiaries, and (iv) there is no pending or, to the Knowledge

of the Company, threatened charge or complaint against the Company or any of its Subsidiaries by the National Labor Relations Board or any comparable agency of any state of the United States.

(p) Funding of Certain Benefits. Except as set forth in Section 4.12(p) of the Company's Disclosure Letter, the Company has not contributed, transferred or otherwise provided any cash, securities or other property to any grantee, trust, escrow or other arrangement that has the effect of providing or setting aside assets for benefits payable pursuant to any termination, severance or other change in control agreement.

SECTION 4.13 Taxes. (a) Tax Returns and Taxes. Except for such matters as could not reasonably be expected to have a Material Adverse Effect on the Company, (i) all Tax Returns that are required to be filed by or with respect to the Company or any of its Subsidiaries on or before the Effective Time have been or will be timely filed, (ii) all Taxes that are due and payable by the Company or any of its Subsidiaries on or before the Effective Time have been or will be timely paid in full or adequate reserves have been established for the payment of such Taxes, (iii) all withholding Tax requirements imposed on or with respect to the Company or any of its Subsidiaries and that are required to be satisfied at or before the Effective Time have been or will be satisfied in full in all respects and (iv) no penalty, interest or other charge is or will become due with respect to the late filing of any such Tax Return or late payment of any Tax by the Company or any of its Subsidiaries.

(b) Audits. Except as set forth in Section 4.13(b) of the Company's Disclosure Letter, all Material Tax Returns required to be filed by the Company or any of its Subsidiaries have been audited (and such audit has become final) by the applicable Governmental Authority or the applicable statute of limitations has expired for the period covered by such Tax Returns.

(c) Extensions of Time. Except as set forth in Section 4.13(c) of the Company's Disclosure Letter, there is not in force any extension of time with respect to the due date for the filing of any Material Tax Return required to be filed by the Company or any of its Subsidiaries or any waiver or agreement for any extension of time for the assessment or payment of any Tax due with respect to the period covered by any Tax Return filed, or required to be filed, by the Company or any of its Subsidiaries.

(d) Claims. No Material issues have been raised by any Taxing authority in connection with the audit or examination of any Tax Return filed, or required to be filed, by the Company or any of its Subsidiaries, and there is no claim against the Company or any of its Subsidiaries for any Taxes, and no assessment, deficiency or adjustment has been asserted or proposed with respect to any Tax Return, that, in either case, could reasonably be expected to have a Material Adverse Effect on the Company.

(e) Affiliated Group. Except as set forth in Section 4.13(e) of the Company's Disclosure Letter, none of the Company and its Subsidiaries, during the last ten years, has been a member of an affiliated group filing a consolidated Federal income Tax Return other than an affiliated group of which the Company is the common parent.

SECTION 4.14 Environmental Matters. Except for matters disclosed in Section 4.14 of the Company's Disclosure Letter, or matters disclosed in the Company's SEC Reports filed with the Commission prior to the date hereof, and except for matters that, individually or in the aggregate, could not reasonably be expected to have a Material Adverse Effect on the Company, (a) the properties, operations and activities of the Company and its Subsidiaries are in compliance with all applicable Environmental Laws; (b) the Company and its Subsidiaries and the properties and operations of the Company and its Subsidiaries are not subject to any existing, pending or, to the Knowledge of the Company, threatened action, suit, investigation, inquiry or proceeding by or before any Court or Governmental Authority under any Environmental Law; (c) all Permits, if any, required to be obtained or filed by the Company or any of its Subsidiaries under any Environmental Law in connection with the business of the Company and its Subsidiaries have been obtained or filed and are valid and currently in full force and effect; (d) to the Knowledge of the Company, there has been no release of any hazardous substance, pollutant or contaminant into the environment by the Company or its Subsidiaries or in connection with their properties or operations; (e) to the Knowledge of the Company, there has been no exposure of any Person or property to any hazardous substance, pollutant or contaminant in connection with the properties, operations and activities of the Company and its Subsidiaries; and (f) the Company and its Subsidiaries have made available to AEP all internal and external environmental audits and studies and all correspondence on substantial environmental matters (in each case relevant to the Company or any of its Subsidiaries) in the possession of the Company or its Subsidiaries.

SECTION 4.15 Insurance. The Company and its Subsidiaries own and are, and have been continuously since January 1, 1993, beneficiaries under all such insurance policies underwritten by reputable insurers that, as to risks insured, coverages and related limits and deductibles, are customary in the industries in which the Company and its Subsidiaries operate. Except as disclosed in Section 4.15 of the Company's Disclosure Letter, neither the Company nor any of it Subsidiaries has received any notice of cancellation or termination of any Material insurance policy as to which it is a named beneficiary. All Material insurance policies of the Company and its Subsidiaries are valid and enforceable against the underwriters thereof in accordance with their terms, except as the same may be limited by legal principles of general applicability governing the application and availability of equitable remedies.

SECTION 4.16 Pooling; Tax Matters. Neither the Company nor, to the Knowledge of the Company, any of its Affiliates has taken or agreed to take any action that would prevent the Merger from being treated as a "pooling of interests" in accordance with generally accepted accounting principles and the Regulations of the Commission or from constituting a reorganization within the meaning of section 368(a) of the Code.

SECTION 4.17 Affiliates. Section 4.17 of the Company's Disclosure Letter contains a true and complete list of all Persons who, to the Knowledge of the Company, may be deemed to be "affiliates" of the Company as such term is used in Rule 145 under the Securities Act, including all directors and executive officers of the Company.

SECTION 4.18 Opinion of Financial Advisor. The Company has received the opinion of Morgan Stanley & Co. Incorporated on the date of this Agreement to the effect that the consideration to be received by the holders of Company Common Stock in the Merger is fair, from a financial point of view, to such holders.

SECTION 4.19 Brokers. Except as set forth in Section 4.19 of the Company's Disclosure Letter, no broker, finder or investment banker (other than Morgan Stanley & Co. Incorporated) is entitled to any brokerage, finder's or other fee or commission in connection with the transactions contemplated by this Agreement based upon arrangements made by or on behalf of the Company. Prior to the date of this Agreement, the Company has made available to AEP complete and correct copies of all agreements between the Company and Morgan Stanley & Co. Incorporated pursuant to which such firm will be entitled to any payment relating to the transactions contemplated by this Agreement.

SECTION 4.20 Vote Required. The approval by the holders of a majority of the votes entitled to be cast by holders of the Company Common Stock, with each share of Company Common Stock being entitled to one vote per share, is the only vote of the holders of any class or series of capital stock of the Company or any of its Subsidiaries required to approve the Merger, this Agreement or the transactions contemplated hereby (the "Required Company Vote").

ARTICLE V

REPRESENTATIONS AND WARRANTIES OF THE AEP COMPANIES

The AEP Companies hereby represent and warrant to the Company that:

SECTION 5.1 Organization and Qualification; Subsidiaries. AEP and each Subsidiary of AEP are legal entities duly organized, validly existing and in good standing under the Laws of their respective jurisdictions of incorporation or organization, have all requisite power and authority to own, lease and operate their respective properties and to carry on their respective businesses as they are now being conducted and are duly qualified and in good standing to do business in each jurisdiction in which the nature of the business conducted by them or the ownership or leasing of their respective properties makes such qualification necessary, other than any matters, including the failure to be so duly qualified and in good standing, that could not reasonably be expected to have a Material Adverse Effect on AEP. Section 5.1 of AEP's Disclosure Letter sets forth, as of the date of this Agreement, a true and complete list of all of the directly or indirectly owned Subsidiaries of AEP, together with (A) the jurisdiction of incorporation of each Subsidiary and the percentage of each Subsidiary's outstanding voting securities owned by AEP or another Subsidiary of AEP, and (B) an indication of whether each such Subsidiary is a Significant Subsidiary. Except as set forth in Section 5.1 of AEP's Disclosure Letter, neither AEP nor any of its Subsidiaries owns an equity interest in any other partnership or joint venture arrangement or other business entity that is Material to AEP.

SECTION 5.2 Certificate of Incorporation and Bylaws. AEP has heretofore marked for identification and furnished to the Company complete and correct copies of the certificate of incorporation and the bylaws or the equivalent organizational documents, in each case as amended or restated to the date hereof, of AEP, Newco and each of AEP's Significant Subsidiaries. Neither AEP, Newco, nor any of AEP's Significant Subsidiaries is in violation of any of the provisions of its certificate of incorporation or bylaws (or equivalent organizational documents).

SECTION 5.3 Capitalization. (a) AEP Common Stock. The authorized capital stock of AEP consists of 300,000,000 shares of AEP Common Stock of which as of the date hereof: (A) 189,989,989 shares were issued and outstanding, all of which are duly authorized, validly issued, fully paid and nonassessable and not subject to preemptive rights created by statute, AEP's certificate of incorporation or bylaws or any agreement to which AEP is a party or is bound and (B) 51,581,493 shares were reserved for future issuance in the amounts and for the purposes set forth in Section 5.3(a) of AEP's Disclosure Letter.

(b) Reserved Shares. Except for shares to which reference is made in Section 5.3(a), no shares of AEP Common Stock are reserved for issuance, and there are no contracts, agreements, commitments or arrangements obligating AEP to (i) offer, sell, issue or grant any Equity Securities of AEP, (ii) to redeem, purchase or acquire, or offer to purchase or acquire, any outstanding Equity Securities of AEP or (iii) grant any Lien on any shares of capital stock of AEP.

(c) Subsidiary Stock. The authorized, issued and outstanding capital stock of, or other equity interests in, each of AEP's Significant Subsidiaries and Newco are set forth in Section 5.3(c) of AEP's Disclosure Letter. Except as set forth in Section 5.3(c) of AEP's Disclosure Letter, (i) all the issued and outstanding common stock of each of AEP's Significant Subsidiaries and Newco is owned, directly or indirectly, by AEP; (ii) all the issued and outstanding shares of each class of capital stock of, or other equity interests in, each of the Significant Subsidiaries of AEP and Newco have been duly authorized and are validly issued, and, with respect to capital stock, are fully paid and nonassessable, and were not issued in violation of any preemptive or similar rights of any past or present equity holder of such Significant Subsidiary; (iii) all such issued and outstanding shares, or other equity interests, that are indicated as owned by AEP, Newco or one of its Subsidiaries in Section 5.3(c) of AEP's Disclosure Letter are owned (A) beneficially as set forth therein and (B) free and clear of all Liens; (iv) no shares of capital stock of, or other equity interests in, any Significant Subsidiary of AEP or Newco are reserved for issuance; and (v) there are no contracts, agreements, commitments or arrangements obligating AEP or any of its Significant Subsidiaries or Newco (A) to offer, sell, issue, grant, pledge, dispose of or encumber any Equity Securities of any of the Significant Subsidiaries of AEP or Newco or (B) to redeem, purchase or acquire, or offer to purchase or acquire, any outstanding Equity Securities of any of the Significant Subsidiaries of AEP or Newco or (C) to grant any Lien on any outstanding shares of capital stock of, or other equity interest in, any of the Significant Subsidiaries of AEP or Newco.

(d) Adverse Claims. There are no voting trusts, proxies or other agreements, commitments or understandings of any character to which AEP or any of its Subsidiaries is a party or by which AEP or any of its Subsidiaries is bound with respect to the voting of any shares of capital stock of AEP, any of its Significant Subsidiaries or Newco, with respect to the registration of the offering, sale or delivery of any shares of capital stock of AEP or any of its Significant Subsidiaries or Newco under the Securities Act or otherwise relating to any shares of capital stock of AEP, any of its Significant Subsidiaries or Newco.

SECTION 5.4 Authorization of Agreement. Each of AEP and Newco has all requisite corporate power and authority to execute and deliver this Agreement and each instrument required hereby to be executed and delivered by it at the Closing and, subject to obtaining the Required AEP Vote, to perform its obligations hereunder and thereunder and to consummate the transactions contemplated hereby. The execution and delivery by each of AEP and Newco of this Agreement and each instrument required hereby to be executed and delivered by it at the Closing and the performance of their respective obligations hereunder and thereunder have been duly and validly authorized by all requisite corporate action on the part of AEP and Newco (other than the Required AEP Vote). This Agreement has been duly executed and delivered by AEP and Newco and (assuming due authorization, execution and delivery hereof by the Company) constitutes a legal, valid and binding obligation of each of AEP and Newco, enforceable against each of them in accordance with its terms, except as the same may be limited by legal principles of general applicability governing the application and availability of equitable remedies.

SECTION 5.5 Regulation and Approvals. (a) Utility Regulation. AEP is a public utility holding company registered under, and subject to the provisions of, the Holding Company Act, and AEP is the parent, owning all the outstanding common stock, of seven Domestic Public Utility Companies: (i) APCo, which provides regulated retail electricity service in the States of Virginia and West Virginia and which is also regulated in the State of Tennessee; (ii) CSPCo, which provides regulated retail electricity service in the State of Ohio; (iii) I&M, which provides regulated retail electricity service in the States of Indiana and Michigan; (iv) KEPCo, which provides regulated retail electricity service in the State of Kentucky; (v) KPC, which provides regulated retail electricity service in the State of Tennessee; (vi) OPCo, which provides regulated retail electricity service in the State of Ohio and which is also regulated in the State of West Virginia and (vii) WPC, which provides regulated retail electricity service in the State of West Virginia. In addition, AEP indirectly owns 50% of Yorkshire Electricity Group plc, a regulated regional electricity company in the United Kingdom ("Yorkshire"). Yorkshire is a Foreign Utility Company. Except for regulation of the aforesaid companies by FERC under the Federal Power Act, by the Commission under the Holding Company Act and by said states and as set forth in Section 5.5(a) of AEP's Disclosure Letter, neither AEP nor any of its Subsidiaries is subject to regulation as a public utility or a public service company (or similar designation) by any state in the United States or any municipality or other political subdivision of any state, by the United States or by any Governmental Authority of the United States or by any foreign country.

(b) Approvals. Except for the applicable requirements set forth in Section 5.5(b) of AEP's Disclosure Letter, no declaration, filing or registration with, no waiting period imposed by and no Permit or Order of, any Governmental Authority is required under any Law, Regulation or Order applicable to AEP or any of its Subsidiaries to permit AEP or Newco to execute, deliver or perform this Agreement or any instrument required hereby to be executed and delivered by either of them at the Closing, the failure to obtain which could reasonably be expected to have a Material Adverse Effect on AEP.

SECTION 5.6 No Violation. Assuming receipt of all Permits and Orders indicated as required in Section 5.5(b) and receipt of the Required AEP Vote, neither the execution and delivery by AEP or Newco of this Agreement or any instrument required hereby to be executed and delivered by either of them at the Closing nor the performance by AEP or Newco of their respective obligations hereunder or thereunder will (a) violate or breach the terms of or cause a default under, or result in the termination of, or accelerate the performance required by, or result in a right of termination, cancellation or acceleration of any obligation under, or result in the creation of any lien, security interest, charge or encumbrance upon, any of the properties or assets of AEP or any of its Subsidiaries under (i) any Law, Regulation, Permit or Order applicable to AEP or any of its Subsidiaries, (ii) the certificate of incorporation or bylaws or similar organizational documents of AEP or any of its Subsidiaries or (iii) any note, bond, mortgage, indenture, deed of trust, license, franchise, concession, lease, contract or agreement to which AEP or any of its Subsidiaries is a party or by which it or any of its properties or assets is bound, or (b) with the passage of time, the giving of notice or the taking of any action by a third Person, have any of the effects set forth in clause (a) of this Section, except in any such case for any matters described in clauses (i) and (iii) of this Section that could not reasonably be expected to have a material adverse effect upon the ability of AEP or Newco to perform their respective obligations under this Agreement or a Material Adverse Effect on AEP. Prior to the execution of this Agreement, the Board of Directors of AEP has taken all necessary action to cause this Agreement and the transactions contemplated hereby to be exempt from the provisions of Section 912 of the New York Law.

SECTION 5.7 Reports. (a) Reports. Since January 1, 1993, AEP and its Subsidiaries have filed or caused to be filed (i) all SEC Reports of AEP or any of its Subsidiaries required to be filed with the Commission and (ii) all other Reports of AEP or any of its Subsidiaries required to be filed with any other Governmental Authorities, including the FERC, the Commission (under the Holding Company Act), the NRC and State Regulatory Commissions, except where the failure to file any such Reports of AEP or any of its Subsidiaries could not reasonably be expected to have a Material Adverse Effect on AEP. AEP has made available to the Company a true and complete copy of each such SEC Report. The Reports of AEP and its Subsidiaries, including all those filed after the date of this Agreement and prior to the Effective Time, (i) were or will be prepared in all material respects in accordance with the requirements of applicable Law and (ii), in the case of the SEC Reports of AEP and its Subsidiaries, did not at the time they were filed, or will not at the time they are filed, contain any untrue statement of a material fact or omit to state a material fact required to be stated therein or necessary in order to make the statements therein, in the light of the circumstances under which they were made, not misleading.

(b) Financial Statements. The AEP Consolidated Financial Statements and any consolidated financial statements of AEP (including any related notes thereto) contained in any SEC Reports of AEP or any of its Subsidiaries filed with the Commission after the date of this Agreement (i) have been or will have been prepared in accordance with the published Regulations of the Commission and in accordance with GAAP (except (A) to the extent required by changes in GAAP, (B) with respect to unaudited financial statements as permitted by Form 10-Q and (C), with respect to SEC Reports of AEP filed prior to the date of this Agreement, as may be indicated in the notes thereto) and (ii) fairly present the consolidated financial position of AEP and its Subsidiaries as of the respective dates thereof and the consolidated results of their operations and cash flows for the periods indicated (including, in the case of any unaudited interim financial statements, reasonable estimates of normal and recurring year-end adjustments).

(c) No Omissions. Except for matters disclosed in Section 5.7(c) of AEP's Disclosure Letter, or matters disclosed in AEP's SEC Reports filed with the Commission prior to the date hereof, there exist no liabilities or obligations of AEP and its Subsidiaries, whether accrued, absolute, contingent or threatened, that would be required to be reflected, reserved for or disclosed under GAAP in consolidated financial statements of AEP as of and for the period ended on the dates on which this representation and warranty is made or deemed to be made, other than (i) liabilities or obligations that are adequately reflected, reserved for or disclosed in AEP's Consolidated Financial Statements, (ii) liabilities or obligations incurred in the ordinary course of business of AEP consistent with past practice since September 30, 1997, (iii) liabilities or obligations the incurrence of which would not have been prohibited by Section 6.1 or 6.2(b) had such sections been in effect since September 30, 1997 and (iv) other liabilities and obligations that could not reasonably be expected to have a Material Adverse Effect on AEP.

SECTION 5.8 No Material Adverse Effect; Conduct. (a) Material Adverse Changes. Except as set forth in Section 5.8(a) of AEP's Disclosure Letter, since September 30, 1997, no event (other than any event that is of general application to the electric utility industry in the United States or the United Kingdom) has occurred that, individually or together with other similar events, has had, and to the Knowledge of AEP, no fact or condition (other than any fact or condition that is of general application to the electric utility industry in the United States or the United Kingdom) exists that could reasonably be expected to have, a Material Adverse Effect on AEP.

(b) Proscribed Conduct. Except as set forth in Section 5.8(b) of AEP's Disclosure Letter, during the period from September 30, 1997 to the date of this Agreement, neither AEP nor any of its Subsidiaries has failed to conduct its business in the ordinary course consistent with past practice, other than any conduct that would not have been prohibited by Section 6.1 or Section 6.2(b) had such sections been in effect since September 30, 1997.

SECTION 5.9 Permits; Compliance. (a) General. To the Knowledge of AEP, AEP and its Subsidiaries have obtained all Orders and Permits that are necessary to carry on their businesses as currently conducted, except for any such Orders or Permits that the failure to possess, individually or in the aggregate, could not reasonably be expected to have a Material Adverse Effect on AEP. All such Orders and Permits are in full force and effect, have not been

violated in any respect that could reasonably be expected to have a Material Adverse Effect on AEP and no suspension, revocation or cancellation thereof has occurred or, to the Knowledge of AEP, been threatened and there is no action, proceeding or investigation pending or, to the Knowledge of AEP, threatened regarding suspension, revocation or cancellation of any of such Permits or Orders, except where the suspension, revocation or cancellation of such Permits or Orders could not reasonably be expected to have a Material Adverse Effect on AEP.

(b) Cook Nuclear Plant. A Subsidiary of AEP is the owner of the Cook Nuclear Plant. Except as set forth in Section 5.9(b) of AEP's Disclosure Letter, to the Knowledge of AEP, the operations of the Cook Nuclear Plant have at all times been conducted in compliance with applicable health, safety, regulatory and other legal requirements, except where the failure to be so in compliance in the aggregate could not reasonably be expected to have a Material Adverse Effect on AEP. Except as set forth in Section 5.9(b) of AEP's Disclosure Letter, to the Knowledge of AEP, the operations of the Cook Nuclear Plant are not the subject of any outstanding notices of violation or requests for information from the NRC or any other agency with jurisdiction over such facility. To the Knowledge of AEP, AEP maintains, and is in compliance with, an emergency plan designed to protect the health and safety of the public in the event of an unplanned release of radioactive materials from the Cook Nuclear Plant, and the NRC has determined that such plan is in compliance with its requirements. To the Knowledge of AEP, liability insurance to the full extent required by law for operating nuclear facilities remains in full force and effect with respect to the Cook Nuclear Plant, and the amount of such insurance has been approved by the NRC. To the Knowledge of AEP, plans for the decommissioning of the Cook Nuclear Plant, and for the storage of spent nuclear fuel, conform with the requirements of applicable law, and the owner of such facility has funded such plans to the extent required by Law.

SECTION 5.10 Litigation; Compliance with Laws. There are no actions, suits, investigations or proceedings (including any proceedings in arbitration) pending or, to the Knowledge of AEP, threatened against AEP or any of its Subsidiaries, at law or in equity, in any Court or before or by any Governmental Authority, except actions, suits or proceedings that (a) are fully and accurately disclosed in AEP's SEC Reports filed with the Commission prior to the date hereof, (b) are set forth in Section 5.10 or Section 5.14 of AEP's Disclosure Letter or (c) individually or, with respect to multiple actions, suits or proceedings that allege similar theories of recovery based on similar facts, in the aggregate, could not reasonably be expected to have a Material Adverse Effect on AEP. Except as set forth in Section 5.10 of AEP's Disclosure Letter, there are no Material claims pending or, to the Knowledge of AEP, threatened by any Persons against AEP or any of its Subsidiaries for indemnification pursuant to any statute, organizational document, contract or otherwise with respect to any action, suit, investigation or proceeding pending in any Court or before or by any Governmental Authority. Except as set forth in Section 5.10 of AEP's Disclosure Letter, AEP and its Subsidiaries are in substantial compliance with all applicable Laws and Regulations and are not in default with respect to any Order applicable to AEP or any of its Subsidiaries, except such events of noncompliance or defaults that, individually or in the aggregate, could not reasonably be expected to have a Material Adverse Effect on AEP.

SECTION 5.11 Ownership of Company Common Stock. Neither AEP nor any of its Affiliates "beneficially own" (as such term is defined for purposes of Section 13(d) of the Exchange Act) any shares of Company Common Stock.

SECTION 5.12 Employee Benefit Plans. (a) Listing. Each AEP Benefit Plan is listed in Section 5.12(a) of AEP's Disclosure Letter, including, with respect to Terminated AEP Benefit Plans, the date of termination. True and correct copies of each of the following have been made available to the Company with respect to each Current AEP Benefit Plan: (i) the three most recent annual reports (Form 5500) filed with the IRS, (ii) the plan document, (iii) the trust agreement, if any, (iv) the most recent summary plan description if required by ERISA, (v) the three most recent actuarial reports or valuations relating to each Current AEP Benefit Plan subject to Title IV of ERISA and (vi) the most recent determination letter, if any, issued by the IRS with respect to any Current AEP Benefit Plan intended to be qualified under Section 401 of the Code.

(b) Material Adverse Changes. With respect to each AEP Benefit Plan, no event has occurred and, to the Knowledge of AEP, there exists no condition or set of circumstances in connection with which AEP or any of its Subsidiaries could be subject to any liability under the terms of such AEP Benefit Plan, ERISA, the Code or any other applicable Law, other than any condition or set of circumstances that could not reasonably be expected to have a Material Adverse Effect on AEP.

(c) Qualified Status of Current Plans. Except as set forth in Section 5.12(c) of AEP's Disclosure Letter, each Current AEP Benefit Plan intended to be qualified under Section 401 of the Code (i) satisfies in form the requirements of such Section, (ii) has received a favorable determination letter from the IRS regarding such qualified status, (iii) has not, since receipt of the most recent favorable determination letter, been amended, and, (iv) to the Knowledge of AEP, has not been operated in a way that would adversely affect its qualified status.

(d) No Termination of Current Plans. Except as set forth in Section 5.12(d) of AEP's Disclosure Letter, there has been no termination or partial termination of any Current AEP Benefit Plan within the meaning of Section 411(d)(3) of the Code.

(e) Terminated Plans. Any Terminated AEP Benefit Plan intended to have been qualified under Section 401 of the Code received a favorable determination letter from the IRS with respect to its termination.

(f) Claims. There are no actions, suits or claims pending (other than routine claims for benefits) or, to the Knowledge of AEP, threatened against, or with respect to, any AEP Benefit Plan or its assets that could reasonably be expected to have a Material Adverse Effect on AEP and, to the Knowledge of AEP, no facts or circumstances exist that could give rise to any such actions, suits or claims.

(g) Pending Matters. To the Knowledge of AEP, there is no matter pending (other than routine qualification determination filings) with respect to any AEP Benefit Plan before the IRS, the Department of Labor, the PBGC or other Government Authority.

(h) Timely Contributions. All contributions required to be made to AEP Benefit Plans pursuant to their terms and the provisions of ERISA, the Code or any applicable Law have been timely made.

(i) Current Plans Subject to Title IV of ERISA. As to each Current AEP Benefit Plan subject to Title IV of ERISA, (i) there has been no event or condition that presents a significant risk of plan termination, (ii) no accumulated funding deficiency, whether or not waived, within the meaning of Section 302 of ERISA or Section 412 of the Code has been incurred, (iii) no reportable event within the meaning of Section 4043 of ERISA (for which the disclosure requirements of Regulation section 4043.1 et seq. promulgated by the PBGC have not been waived) has occurred within six years prior to the date of this Agreement, (iv) no notice of intent to terminate such Benefit Plan has been given under Section 4041 of ERISA, (v) no proceeding has been instituted under Section 4042 of ERISA to terminate such Benefit Plan, (vi) no liability to the PBGC has been incurred (other than with respect to required premium payments) and (vii) the assets of such Benefit Plan equal or exceed the actuarial present value of the benefit liabilities, within the meaning of Section 4041 of ERISA, under such Benefit Plan, based upon reasonable actuarial assumptions and the asset valuation principles established by the PBGC.

(j) Excess Parachute Payments. Except as set forth in Section 5.12(j) of AEP's Disclosure Letter, in connection with the consummation of the transactions contemplated by this Agreement, no payments of money or other property, acceleration of benefit or provision of other rights have been or will be made under any Current AEP Benefit Plan that could be reasonably be expected to be nondeductible under Section 280G of the Code, whether or not some other subsequent action or event would be required to cause such payment, acceleration or provision to be triggered.

(k) No Required Increase in Contributions. The execution and delivery of this Agreement and the consummation of the transactions contemplated hereby will not (i) require AEP or any of its Subsidiaries to make a larger contribution to, or pay greater benefits or provide other rights under, any Current AEP Benefit Plan than it otherwise would, whether or not some other subsequent action or event would be required to cause such payment or provision to be triggered or (ii) create or give rise to any additional vested rights or service credits under any Current AEP Benefit Plan, whether or not some other subsequent action or event would be required to cause such creation or acceleration to be triggered.

(l) Intentionally Omitted.

(m) Retiree Benefits. Except as set forth in Section 5.12(m) of AEP's Disclosure Letter, no Current AEP Benefit Plan (other than an AEP Benefit Plan maintained outside the United States that is either fully insured or fully funded through a retirement plan)

provides retiree medical or retiree life insurance benefits to any Person and neither AEP nor any of its Subsidiaries is contractually or otherwise obligated (whether or not in writing) to provide any Person with life insurance or medical benefits upon retirement or termination of employment, other than as required by the provisions of Sections 601 through 608 of ERISA and Section 4980B of the Code.

(n) Multiemployer Plans. Except as set forth in Section 5.12(n) of AEP's Disclosure Letter, neither AEP nor any member of its Controlled Group contributes or has an obligation to contribute, and has not within six years prior to the date of this Agreement contributed, had an obligation to contribute, or had any other liability to a multiemployer plan within the meaning of Section 3(37) of ERISA. Neither AEP nor any member of its Controlled Group participate in any multiemployer plan with withdrawal liability on the date hereof which could reasonably be expected to have a Material Adverse Effect on AEP.

(o) Collective Bargaining Contracts. Except as set forth in Section 5.12(o) of AEP's Disclosure Schedule, (i) no collective bargaining agreement is being negotiated by AEP or any of its Subsidiaries, (ii) there is no pending or, to the Knowledge of AEP, threatened labor dispute, strike or work stoppage against AEP or any of its Subsidiaries that could reasonably be expected to have a Material Adverse Effect on AEP, (iii) to the Knowledge of AEP, neither AEP or any of its Subsidiaries nor any representative or employee of AEP or any of its Subsidiaries has in the United States committed any Material unfair labor practices in connection with the operation of the business of AEP and its Subsidiaries, and (i) there is no pending or, to the Knowledge of AEP, threatened charge or complaint against AEP or any of its Subsidiaries by the National Labor Relations Board or any comparable agency of any state of the United States.

SECTION 5.13 Taxes. (a) Tax Returns and Taxes. Except for such matters as could not reasonably be expected to have a Material Adverse Effect on AEP, (i) all Tax Returns that are required to be filed by or with respect to AEP or any of its Subsidiaries on or before the Effective Time have been or will be timely filed, (ii) all Taxes that are due and payable by AEP or any of its Subsidiaries on or before the Effective Time have been or will be timely paid in full or adequate reserves have been established for the payment of such Taxes, (iii) all withholding Tax requirements imposed on or with respect to AEP or any of its Subsidiaries and that are required to be satisfied at or before the Effective Time have been or will be satisfied in full in all respects and (iv) no penalty, interest or other charge is or will become due with respect to the late filing of any such Tax Return or late payment of any Tax by AEP or any of its Subsidiaries.

(b) Audits. Except as set forth in Section 5.13(b) of AEP's Disclosure Letter, all Material Tax Returns required to be filed by AEP or any of its Subsidiaries have been audited (and such audit has become final) by the applicable Governmental Authority or the applicable statute of limitations has expired for the period covered by such Tax Returns.

(c) Extension of Time. Except as set forth in Section 5.13(c) of AEP's Disclosure Letter, there is not in force any extension of time with respect to the due date for the filing of any Material Tax Return required to be filed by AEP or any of its Subsidiaries or any waiver or agreement for any extension of time for the assessment or payment of any Tax due with respect

to the period covered by any Tax Return filed, or required to be filed, by AEP or any of its Subsidiaries.

(d) Claims. No Material issues have been raised by any Taxing authority in connection with the audit or examination of any Tax Return filed, or required to be filed, by AEP or any of its Subsidiaries, and there is no claim against AEP or any of its Subsidiaries for any Taxes, and no assessment, deficiency or adjustment has been asserted or proposed with respect to any Tax Return, that, in either case, could reasonably be expected to have a Material Adverse Effect on AEP.

(e) Affiliated Group. Except as set forth in Section 5.13(e) of AEP's Disclosure Letter, none of AEP and its Subsidiaries, during the last ten years, has been a member of an affiliated group filing a consolidated Federal income Tax Return other than an affiliated group of which AEP is the common parent.

SECTION 5.14 Environmental Matters. Except for matters disclosed in Section 5.14 of AEP's Disclosure Letter, or matters disclosed in AEP's SEC Reports filed with the Commission prior to the date hereof, and except for matters that, individually or in the aggregate, could not reasonably be expected to have a Material Adverse Effect on AEP, (a) the properties, operations and activities of AEP and its Subsidiaries are in compliance with all applicable Environmental Laws; (b) AEP and its Subsidiaries and the properties and operations of AEP and its Subsidiaries are not subject to any existing, pending or, to the Knowledge of AEP, threatened action, suit, investigation, inquiry or proceeding by or before any Court or Governmental Authority under any Environmental Law; (c) all Permits, if any, required to be obtained or filed by AEP or any of its Subsidiaries under any Environmental Law in connection with the business of AEP and its Subsidiaries have been obtained or filed and are valid and currently in full force and effect; (d) to the Knowledge of AEP, there has been no release of any hazardous substance, pollutant or contaminant into the environment by AEP or its Subsidiaries or in connection with their properties or operations; (e) to the Knowledge of AEP, there has been no exposure of any Person or property to any hazardous substance, pollutant or contaminant in connection with the properties, operations and activities of AEP and its Subsidiaries; and (f) AEP and its Subsidiaries have made available to the Company all internal and external environmental audits and studies and all correspondence on substantial environmental matters (in each case relevant to AEP or any of its Subsidiaries) in the possession of AEP or its Subsidiaries.

SECTION 5.15 Insurance. AEP and its Subsidiaries own and are, and have been continuously since January 1, 1993, beneficiaries under all such insurance policies underwritten by reputable insurers that, as to risks insured, coverages and related limits and deductibles, are customary in the industries in which AEP and its Subsidiaries operate. Except as disclosed in Section 5.15 of AEP's Disclosure Letter, neither AEP nor any of it Subsidiaries has received any notice of cancellation or termination of any Material insurance policy as to which it is a named beneficiary. All Material insurance policies of AEP and its Subsidiaries are valid and enforceable against the underwriters thereof in accordance with their terms, except as the same may be limited by legal principles of general applicability governing the application and availability of equitable remedies.

SECTION 5.16 Pooling; Tax Matters. Neither AEP nor, to the Knowledge of AEP, any of its Affiliates has taken or agreed to take any action that would prevent the Merger from being treated as a "pooling of interests" in accordance with generally accepted accounting principles and the Regulations of the Commission or from constituting a reorganization within the meaning of section 368(a) of the Code.

SECTION 5.17 Affiliates. Section 5.17 of AEP's Disclosure Letter contains a true and complete list of all Persons who, to the Knowledge of AEP, may be deemed to be "affiliates" of AEP as such term is used under Rule 145 under the Securities Act, including all directors and executive officers of AEP.

SECTION 5.18 Opinion of Financial Advisor. AEP has received the opinion of Salomon Smith Barney on the date of this Agreement to the effect that the consideration to be paid by AEP in the Merger is fair, from a financial point of view, to AEP.

SECTION 5.19 Brokers. Except as set forth in Section 5.19 of AEP's Disclosure Letter, no broker, finder or investment banker (other than Salomon Smith Barney) is entitled to any brokerage, finder's or other fee or commission in connection with the transactions contemplated by this Agreement based upon arrangements made by or on behalf of AEP. Prior to the date of this Agreement, AEP has made available to the Company complete and correct copies of all agreements between AEP and Salomon Smith Barney pursuant to which such firm will be entitled to any payment relating to the transactions contemplated by this Agreement.

SECTION 5.20 Vote Required. The affirmative vote of holders of a majority of the outstanding shares of AEP Common Stock is the only vote of holders of any class or series of capital stock of AEP necessary to approve the amendment to the restated certificate of incorporation of AEP in order to increase the number of authorized shares of AEP Common Stock to be issued in the Merger (the "Charter Amendment"); and the affirmative vote of holders of shares of AEP Common Stock representing a majority of the total votes cast at a meeting of the holders of outstanding shares of AEP Common Stock is the only vote of the holders of any class or series of AEP capital stock necessary under the rules of the NYSE to approve the issuance of shares of AEP Common Stock to be issued in the Merger (the "Share Issuance"). Such votes of the holders of shares of AEP Common Stock necessary to approve the Charter Amendment and the Share Issuance are hereinafter collectively referred to as the "Required AEP Vote" and are the only votes of the holders of any class or series of capital stock of AEP or its Subsidiaries required to approve the Merger, this Agreement or the transactions contemplated hereby, except for the vote of AEP as the sole stockholder of Newco. AEP, in its capacity as sole stockholder of Newco, has approved this Agreement and the transactions contemplated hereby.

SECTION 5.21 No Business Activities. Newco was organized solely for the purpose of the transactions contemplated hereby and has not conducted any activities other than in connection with the organization of Newco, the negotiation and execution of this Agreement and the consummation of the transaction contemplated hereby. Newco has no Subsidiaries.

ARTICLE VI

COVENANTS

SECTION 6.1 Affirmative Covenants. Each of the Company and AEP hereby covenants and agrees that, prior to the Effective Time, unless otherwise expressly contemplated by this Agreement or consented to in writing by the other, it will and will cause its Subsidiaries to:

(a) operate its business in the ordinary course consistent with past or then current industry practices;

(b) use all commercially reasonable efforts to preserve substantially intact its business organization and goodwill, maintain its rights and franchises, retain the services of its respective key employees and maintain its goodwill and relationships with its respective customers and suppliers;

(c) maintain and keep its properties and assets in as good repair and condition as at present, ordinary wear and tear excepted, and maintain supplies and inventories in quantities consistent with its customary business practice;

(d) use all commercially reasonable efforts to keep in full force and effect insurance and bonds comparable in amount and scope of coverage to that currently maintained;

(e) use all commercially reasonable efforts to maintain in effect all existing Orders and Permits pursuant to which such party or its Subsidiaries operate, and timely to apply for and obtain any additional Orders and Permits that are or will be required for the current or currently planned operations of such party or its Subsidiaries; and

(f) consult and confer with one another on a frequent and reasonable basis in order to ensure compliance with the covenants contained in this Agreement and otherwise as necessary to consummate and make effective the transactions contemplated by this Agreement, provided, that, except as otherwise expressly set forth herein, AEP and the Company shall each retain discretion and control over its affairs;

except for any matters that, individually or in the aggregate, could not reasonably be expected to have a Material Adverse Effect on the Company or AEP, as the case may be, provided, that, no action by the Company or its Subsidiaries or AEP or its Subsidiaries, as the case may be, with respect to matters specifically addressed by any provision of Section 6.2 shall be deemed a breach of this Section 6.1 unless such action would constitute a breach of one or more of such provisions of Section 6.2.

SECTION 6.2 Negative Covenants. (a) Company Covenants. The Company covenants and agrees that, except as expressly otherwise contemplated by this Agreement or

Section 6.2(a) of the Company's Disclosure Letter or otherwise consented to in writing by AEP, which consent shall not be unreasonably withheld, from the date of this Agreement until the Closing, it will not do, and will not permit any of its Subsidiaries to do, any of the following:

(i) (A) increase the compensation payable to or to become payable to any director or executive officer; (B) grant any severance or termination pay; (C) amend or otherwise modify the terms of any outstanding options, warrants or rights, the effect of which shall be to make such terms more favorable to the holders thereof; (D) take any action to accelerate the vesting of any outstanding Company stock options; (E) amend or take any other actions to increase the amount or accelerate the payment or vesting of any benefit under any Benefit Plan (including the acceleration of vesting, waiving of performance criteria or the adjustment of awards or any other actions permitted upon a change in control of such party or upon a filing under Section 13(d) or 14(d) of the Exchange Act with respect to such party), or (F) contribute, transfer or otherwise provide any cash, securities or other property to any grantee, trust, escrow or other arrangement that has the effect of providing or setting aside assets for benefits payable pursuant to any termination, severance, or other change in control agreement; except (i) pursuant to any contract, agreement or other legal obligation of the Company or any of its Subsidiaries existing at the date of this Agreement, (ii) increases in salary payable or to become payable upon promotion to an office having greater operational responsibilities, (iii), in the case of severance or termination payments, pursuant to the severance policy of the Company or its Subsidiaries existing at the date of this Agreement, (iv) in the case of options, warrants, rights or Benefit Plans, amendments required by ERISA or other applicable law and (v) except with respect to the management employees of the Company who are parties to Change of Control Agreements with the Company on the date hereof, any such increase, grant, amendment, modification or action in the ordinary course of business consistent with past practice;

(ii) (A) enter into any employment or severance agreement with, any director, officer or employee, either individually or as part of a class of similarly situated persons or (B) establish, adopt or enter into any new Benefit Plan; except employment and severance agreements entered into for the benefit of any newly employed or promoted officers or employees, in which case, the terms of such agreements shall be reasonably consistent with those existing at the date of such employment and except for Company Benefit Plans relating to health and life insurance benefits established, adopted or entered into in the ordinary course of business consistent with past practice;

(iii) declare or pay any dividend on, or make any other distribution in respect of, outstanding shares of capital stock of the Company or any Significant Subsidiary, except (A) dividends declared and paid by the Company with respect to the outstanding Company Common Stock at approximately the same times and at a rate per share of Company Common Stock not to exceed the rate per share of Company Common Stock as were declared and paid during the year ending December 31, 1997 and (B) dividends and distributions by a wholly owned Subsidiary of the Company to the Company or another wholly owned Subsidiary of the Company and (C) dividends and distributions

declared and paid with respect to outstanding shares of preferred stock or similar obligations of the Company's Subsidiaries;

(iv) (A) redeem, purchase or acquire any outstanding Equity Securities of the Company or any of its Significant Subsidiaries other than redemptions, repurchases and other acquisitions of Equity Securities in the ordinary course of business consistent with past practice and that will not cause a failure of the condition contained in Section 8.1(e) to be satisfied, including purchases, redemptions and other acquisitions (1) in connection with the administration of employee benefit, direct stock purchase and dividend reinvestment plans as in effect on the date hereof in the ordinary course of the operation of such plans, (2) required by the respective terms of any Equity Security, (3) in connection with the refunding of preferred Equity Securities or through the issuance of additional preferred Equity Securities or indebtedness, as the case may be, at a lower cost of funds (calculating such cost on an aggregate after-tax basis) or through the issuance of indebtedness not prohibited by Section 6.2(a)(xi), (4) of Company Common Stock in the open market to fund up to $10,000,000 in any fiscal year of any acquisitions not prohibited by Section 6.2(a)(vii), (5) in intercompany transactions and (6) by the Company or any of its wholly-owned Subsidiaries directly from any wholly-owned Subsidiary of the Company in exchange for capital contributions or loans to such Subsidiary); or (B) split, combine or reclassify the Company Common Stock or effect any recapitalization of the Company;

(v) offer, sell, issue or grant, or authorize the offering, sale, issuance or grant, of any Equity Securities of the Company or any of its Significant Subsidiaries; except issuances of (A) Company Common Stock (1) upon the exercise of Company stock options outstanding at the date of this Agreement in accordance with the terms thereof, (2) upon the expiration of any restrictions upon issuance of any grant existing at the date of this Agreement of restricted stock or stock bonus pursuant to the terms of any Benefit Plans of the Company or any of its Subsidiaries or (3) periodically pursuant to the terms of any Benefit Plans of the Company or any of its Subsidiaries; and (B) preferred stock or similar securities of any Subsidiary for the purpose of financing investments or capital expenditures not prohibited under this Agreement or refinancing existing indebtedness or preferred stock or similar obligations of such Subsidiary;

(vi) grant any Lien (other than Permitted Encumbrances) with respect to any shares of capital stock of, or other equity interests in, any Significant Subsidiary of the Company owned beneficially by the Company or any other Subsidiary of the Company;

(vii) acquire, by merging or consolidating with, by purchasing an equity interest in or a portion of the assets of, or in any other manner acquiring, any business or any corporation, partnership, association or other business organization or division thereof or otherwise acquire any assets of any other Person; except (A) the purchase of assets from suppliers or vendors in the ordinary course of business and consistent with past or then standard industry practice, (B) acquisitions of equity interests, assets (excluding the acquisition of assets permitted in clause (A) above) and businesses related to the core

domestic and U.K. regulated businesses in which the Company and its Subsidiaries are currently engaged (the "Company Core Businesses") the fair market value of the total consideration (including the value of indebtedness (other than non-recourse indebtedness) or other liability acquired or assumed) for which does not exceed 105% of the amount budgeted by the Company for such acquisitions as set forth in Section 6.2(a)(vii) of the Company's Disclosure Letter and (C) in connection with a Company Permitted Transaction;

(viii) except in connection with Company Permitted Transactions or as required by Law, sell, lease, exchange or otherwise dispose of, or grant any Lien (other than a Permitted Encumbrance) with respect to, any of the assets of the Company or any of its Subsidiaries that are Material to the Company, except dispositions of assets other than generation assets and inventories in the ordinary course of business and consistent with past practice;

(ix) adopt any amendments to its charter or bylaws or other organizational documents that could reasonably be expected to have a material adverse effect on the ability of the Company to perform its obligations under this Agreement;

(x) (A) change any of its methods of accounting in effect at September 30, 1997, except as may comply with GAAP, (B) make or rescind any election relating to Taxes that are Material to the Company (other than any election that must be made periodically and that is made consistent with past practice) or (C) change any of its methods of reporting income or deductions for Federal income tax purposes from those employed in the preparation of the Federal income tax returns for the taxable year ending December 31, 1996, except, in the case of each of clauses (A), (B) and (C), as may be required by Law and, in the case of clause (C), for matters that could not reasonably be expected to have a Material Adverse Effect on the Company;

(xi) except in connection with a Company Permitted Transaction or as required by Law, incur any obligations for borrowed money or purchase money indebtedness that are Material to the Company, whether or not evidenced by a note, bond, debenture or similar instrument, except (A) drawings under credit lines existing at the date of this Agreement or renewals or replacements thereof, (B) obligations evidenced by debt securities issued by a Subsidiary of the Company for the purpose of financing investments or capital expenditures permitted under this Agreement or refinancing existing indebtedness or preferred stock obligations of such Subsidiary and (C) indebtedness incurred in the ordinary course of business consistent with past or then standard industry practice;

(xii) unless required by the terms thereof, release any third Person from its obligations under any existing standstill agreement or similar agreement whether included in a confidentiality agreement or otherwise;

(xiii) except in connection with a Company Permitted Transaction or as required by Law, enter into any Material Contract with any third Person (other than customers and vendors in the ordinary course of business) that provides for an exclusive arrangement with that third Person or is substantially more restrictive on the Company or any of its Subsidiaries or substantially less advantageous to the Company or any of its Subsidiaries than Material Contracts existing on the date hereof;

(xiv) except in connection with a Company Permitted Transaction or as required by Law, make capital and non-fuel operational and maintenance expenditures relating to the Company Core Businesses in excess of 105% of the amount budgeted by the Company for capital and non-fuel operational and maintenance expenditures as set forth in Section 6.2(a)(vii) of the Company's Disclosure Letter;

(xv) except pursuant to any contract, agreement or other legal obligation of the Company or any of its Subsidiaries existing at the date of this Agreement, make, or commit to make, any investments in, or loans or capital contributions to, or to undertake any guarantees or other obligations with respect to, any joint venture (whether organized as a corporation, partnership or other legal entity) in excess of 105% of the amount budgeted by the Company for such investments relating to the Company Core Businesses as set forth in Section 6.2(a)(vii) of the Company's Disclosure Letter or in connection with a Company Permitted Transaction; or

(xvi) agree in writing or otherwise to do any of the foregoing.

(b) AEP Covenants. AEP covenants and agrees that, except as expressly contemplated by this Agreement or Section 6.2(b) of AEP's Disclosure Letter or otherwise consented to in writing by the Company, which consent shall not be unreasonably withheld, from the date of this Agreement until the Effective Time, it will not do, and will not permit any of its Subsidiaries to do, any of the following:

(i) (A) increase the compensation payable to or to become payable to any director or executive officer; (B) grant any severance or termination pay; (C) amend or otherwise modify the terms of any outstanding options, warrants or rights, the effect of which shall be to make such terms more favorable to the holders thereof; (D) amend or take any other actions to increase the amount or accelerate the payment or vesting of any benefit under any Benefit Plan (including the acceleration of vesting, waiving of performance criteria or the adjustment of awards or any other actions permitted upon a change in control of such party or upon a filing under Section 13(d) or 14(d) of the Exchange Act with respect to such party); except (i) pursuant to any contract, agreement or other legal obligation of AEP or any of its Subsidiaries existing at the date of this Agreement, (ii) increases in salary payable or to become payable upon promotion to an office having greater operational responsibilities, (iii), in the case of severance or termination payments, pursuant to the severance policy of AEP or its Subsidiaries existing at the date of this Agreement, (iv) in the case of options, warrants, rights or Benefit Plans, amendments required by ERISA or other applicable law and (v) any (including incentive)

increase, grant, amendment, modification or action in the ordinary course of business consistent with past practice;

(ii) (A) enter into any employment or severance agreement with, any director, officer or employee, either individually or as part of a class of similarly situated persons or (B) establish, adopt or enter into any new Benefit Plan; except (1) employment and severance agreements entered into for the benefit of any newly employed or promoted officers or employees, in which case, the terms of such agreements shall be reasonably consistent with those existing at the date of such employment, (2) that AEP may modify or enter into severance arrangements with management employees, which arrangements provide a level of severance benefits to such management employees generally comparable to the level of severance benefits which are, on the date of this Agreement, provided to similarly situated employees of the Company and (3) for AEP Benefit Plans relating to health and life insurance benefits established, adopted or entered into in the ordinary course of business consistent with past practice;

(iii) declare or pay any dividend on, or to make any other distribution in respect of, outstanding shares of capital stock of AEP or any Significant Subsidiary (other than Yorkshire), except (A) dividends declared and paid by AEP with respect to the outstanding AEP Common Stock at approximately the same times and rates and at a rate per share of AEP Common Stock not less than the rate per share of AEP Common Stock as were declared and paid during the year ended December 31, 1997 and (B) dividends and distributions by a wholly owned Subsidiary of AEP to AEP or another wholly owned Subsidiary of AEP and (C) dividends and distributions declared and paid with respect to outstanding shares of preferred stock or similar obligations of AEP's Subsidiaries.

(iv) (A) redeem, purchase or acquire, or offer to purchase or acquire, any outstanding Equity Securities of AEP or any of its Significant Subsidiaries other than redemptions, repurchases and other acquisitions of Equity Securities in the ordinary course of business consistent with past practice which will not cause a failure of the condition contained in Section 8.1(e) to be satisfied, including purchases, redemptions and other acquisitions (1) in connection with the administration of employee benefit; direct stock purchase and dividend reinvestment plans as in effect on the date hereof in the ordinary course of the operation of such plans, (2) required by the respective terms of any Equity Security, (3) in connection with the refunding of preferred Equity Securities or through the issuance of additional preferred Equity Securities or indebtedness, as the case may be, at a lower cost of funds (calculating such cost on an aggregate after-tax basis) or through the issuance of indebtedness not prohibited by Section 6.2(b)(xi), (4) of AEP Common Stock in the open-market to fund up to $10,000,000 in any fiscal year of any acquisitions not prohibited by Section 6.2(b)(vii), (5) in intercompany transactions and (6) by AEP or any of its wholly-owned Subsidiaries directly from any wholly-owned Subsidiary of AEP in exchange for capital contributions or loans to such Subsidiary; or (B) split, combine or reclassify AEP Common Stock or effect any recapitalization of AEP;

(v) offer, sell, issue or grant, or authorize the offering, sale, issuance or grant, of any Equity Securities of AEP or any of its Significant Subsidiaries; except issuances of (A) AEP Common Stock (1) upon the expiration of any restrictions upon issuance of any grant existing at the date of this Agreement of restricted stock or stock bonus pursuant to the terms of any Benefit Plans of AEP or any of its Subsidiaries or (2) periodically pursuant to the terms of any Benefit Plans of AEP or any of its Subsidiaries; (B) preferred stock or similar securities of any Subsidiary for the purpose of financing investments or capital expenditures not prohibited under this Agreement or refinancing existing indebtedness or preferred stock or similar obligations of such Subsidiary and (C) issuances of a number of shares of AEP Common Stock not in excess of 10% of the number of shares represented to be outstanding in Section 5.3 hereof;

(vi) grant any Lien (other than Permitted Encumbrances) with respect to any shares of capital stock of, or other equity interests in, any Significant Subsidiary of AEP owned beneficially by AEP or any other Subsidiary of AEP;

(vii) acquire, by merging or consolidating with, by purchasing an equity interest in or a portion of the assets of, or in any other manner acquiring, any business or any corporation, partnership, association or other business organization or division thereof or otherwise acquire any assets of any other Person; except (A) the purchase of assets from suppliers or vendors in the ordinary course of business and consistent with past or then standard industry practice and (B) acquisitions of equity interests, assets (excluding the acquisition of assets permitted in clause (A) above) and businesses related to the energy sector the fair market value of the total consideration (including the value of indebtedness (other than non-recourse indebtedness) or other liability acquired or assumed) for which does not exceed $2.5 billion in the aggregate (which amount shall be reduced by the amount permitted and expended for (x) capital expenditures (other than relating to the core domestic and United Kingdom regulated utility business in which AEP and its Subsidiaries are currently engaged (the "AEP Core Businesses")) pursuant to Section 6.2(b)(xiv) and (y) joint ventures pursuant to Section 6.2(b)(xv);

(viii) sell, lease, exchange or otherwise dispose of, or grant any Lien (other than a Permitted Encumbrance) with respect to, any of the assets of AEP or any of its Subsidiaries that are Material to AEP, except (A) dispositions of assets other than generation assets and inventories in the ordinary course of business and consistent with past practice, (B) divestitures of non-AEP Core Businesses and (C) except as required by Law;

(ix) adopt any amendments to its charter or bylaws or other organizational documents that could reasonably be expected to have a material adverse effect on the ability of AEP to perform its obligations under this Agreement;

(x) (A) change any of its methods of accounting in effect at September 30, 1997, except as may be required to comply with GAAP, (B) make or rescind any election relating to Taxes that are Material to AEP (other than any election that must be made

periodically and that is made consistent with past practice) or (C) change any of its methods of reporting income or deductions for Federal income tax purposes from those employed in the preparation of the Federal income tax returns for the taxable year ending December 31, 1996, except, in the case of each of clauses (A), (B) and (C), as may be required by Law and, in the case of clause (C), for matters that could not reasonably be expected to have a Material Adverse Effect on AEP;

(xi) except as required by Law, incur any obligations for borrowed money or purchase money indebtedness that are Material to AEP, whether or not evidenced by a note, bond, debenture or similar instrument, except (A) drawings under credit lines existing at the date of this Agreement or renewals or replacements thereof, (B) obligations evidenced by debt securities issued by a Subsidiary of AEP for the purpose of financing investments or capital expenditures permitted under this Agreement or refinancing existing indebtedness or preferred stock obligations of such Subsidiary, (C) purchase money indebtedness as to which Liens may be granted as permitted by Section 6.2(b)(vi), (D) indebtedness incurred in the ordinary course of business consistent with past practice and (E) indebtedness not in excess of $2.0 billion in the aggregate (in addition to the aggregate amount budgeted for indebtedness by AEP as set forth in Section 6.2(b)(xi) of AEP's Disclosure Letter);

(xii) unless required by the terms thereof, release any third Person from its obligations under any existing standstill agreement or similar agreement whether included in a confidentiality agreement or otherwise;

(xiii) except as otherwise required by Law, enter into any Material Contract with any third Person (other than customers and vendors in the ordinary course of business) that provides for an exclusive arrangement with that third Person or is substantially more restrictive on Augusta or any of its Subsidiaries or substantially less advantageous to Augusta or any of its Subsidiaries than Material Contracts existing on the date hereof;

(xiv) other than with respect to the AEP Core Businesses or except as required by Law, make capital expenditures in excess of $2.5 billion less the amounts permitted and expended in connection with acquisitions and joint ventures pursuant to Section 6.2(b)(vii) and Section 6.2(b)(xv);

(xv) except pursuant to any contract, agreement or other legal obligation of AEP or its Subsidiaries existing at the date of this Agreement, make or commit to make, any investments in, or loans or capital contributions to, or to undertake any guarantees or other obligations with respect to, any joint venture in excess of $2.5 billion (which amount shall be reduced by any amounts permitted and expended for capital expenditures (other than with respect to the AEP Core Businesses)) and acquisitions as set forth in Section 6.2(b)(xiv) and 6.2(b)(vii); or

(xvi) agree in writing or otherwise to do any of the foregoing.

SECTION 6.3 Access and Information. AEP and the Company shall each, and shall each cause its Subsidiaries to, (i) afford to the other party and its officers, directors, employees, accountants, consultants, legal counsel, agents and other representatives (collectively, the "Representatives" of such party) reasonable access at reasonable times upon reasonable prior notice to the officers, employees, agents, properties, offices and other facilities of such party and its Subsidiaries and to their books and records and (ii) furnish promptly to the other party and its Representatives such information concerning the business, properties, contracts, records and personnel of the furnishing party and its Subsidiaries (including financial, operating and other data and information) as may be reasonably requested, from time to time, by or on behalf of the other party. All documents furnished pursuant to this Section 6.3 shall be subject to the Confidentiality Agreement.

ARTICLE VII

ADDITIONAL AGREEMENTS

SECTION 7.1 Meeting of AEP Stockholders. AEP shall, promptly after the date of this Agreement, take all actions necessary in accordance with Law, the rules of the NYSE and its certificate of incorporation and bylaws to convene a special meeting of AEP's stockholders for the purpose of obtaining the Required AEP Vote (together with any adjournments thereof, the "AEP Stockholders' Meeting"), and AEP shall consult with the Company in connection therewith. Subject to Section 7.19, AEP shall take all commercially reasonable action to solicit from stockholders of AEP proxies in favor of the Share Issuance and the Charter Amendment and to secure the Required AEP Vote and the Board of Directors of AEP shall recommend approval of the Share Issuance and the Charter Amendment by the stockholders of AEP.

SECTION 7.2 Meeting of Company Stockholders. The Company shall, promptly after the date of this Agreement, take all actions necessary in accordance with Law, the rules of the NYSE and its certificate of incorporation and bylaws to convene a special meeting of the Company's stockholders to consider approval and adoption of this Agreement and the Merger (together with any adjournments thereof, the "Company Stockholders' Meeting"), and the Company shall consult with AEP in connection therewith. Subject to Section 7.19, the Company shall take all commercially reasonable action to solicit from stockholders of the Company proxies in favor of the approval and adoption of this Agreement and the Merger and to secure the Required Company Vote and the Board of Directors of the Company shall recommend approval of the transactions contemplated by this Agreement by the stockholders of the Company.

SECTION 7.3 Registration Statement; Joint Proxy Statement/Prospectus. (a) Joint Proxy Statement/Prospectus. As promptly as practicable after the execution of this Agreement, the parties shall prepare and file with the Commission the registration statement on form S-4 to be filed with the Commission in connection with the issuance of shares of AEP common stock in the Merger (the "Registration Statement") and the joint proxy statement relating to the meetings of AEP's and the Company's stockholders to be held in connection with the Merger (together with any amendments thereof or supplements thereto effected prior to the

effective date of the Registration Statement, the "Joint Proxy Statement/Prospectus"). The Joint Proxy Statement/Prospectus shall comply as to form in all material respects with the applicable provisions of the Securities Act and the Exchange Act and the Regulations thereunder. Each of the AEP Companies and the Company shall furnish all information concerning it and the holders of its capital stock as the other may reasonably request in connection with the preparation and filing of the Joint Proxy Statement/Prospectus. Each of the AEP Companies and the Company will use all commercially reasonable efforts to have or cause the Registration Statement to become effective as promptly as practicable, and shall take any action required to be taken under any applicable Federal or state securities Laws in connection with the issuance of shares of AEP Common Stock in the Merger (other than qualifying to do business in any jurisdiction in which they are currently not so qualified). As promptly as practicable after the Registration Statement shall have become effective, (x) AEP shall mail the Joint Proxy Statement/Prospectus to its stockholders entitled to notice of and to vote at the AEP Stockholders' Meeting and (y) the Company shall mail the Joint Proxy Statement/Prospectus to its stockholders entitled to notice of and to vote at the Company Stockholders' Meeting.

(b) Company Information. The information supplied by the Company for inclusion or incorporation by reference in the Registration Statement shall not, at the time the Registration Statement is declared effective, contain any untrue statement of a material fact or omit to state any material fact required to be stated therein or necessary in order to make the statements therein not misleading. The information supplied by the Company for inclusion or incorporation by reference in the Joint Proxy Statement/Prospectus shall not, at the date of the mailing of the Joint Proxy Statement/Prospectus (or any supplement thereto) and at the time of the AEP Stockholders' Meeting or of the Company Stockholders' Meeting or at the Effective Time, contain any untrue statement of a material fact or omit to state any material fact required to be stated therein or necessary in order to make the statements therein, in the light of the circumstances under which they were made, not misleading. If at any time prior to the Effective Time any event or circumstance relating to the Company or any of its Subsidiaries, or its or their respective officers or directors, should be discovered by the Company that should be set forth in an amendment to the Registration Statement or a supplement to the Joint Proxy Statement/Prospectus, the Company shall promptly inform AEP. All documents that the Company is responsible for filing with the Commission in connection with the transactions contemplated herein shall comply as to form in all material respects with the applicable requirements of the Securities Act and the Regulations thereunder and the Exchange Act and the Regulations thereunder.

(c) The AEP Companies Information. The information supplied by the AEP Companies for inclusion or incorporation by reference in the Registration Statement shall not, at the time the Registration Statement is declared effective, contain any untrue statement of a material fact or omit to state any material fact required to be stated therein or necessary in order to make the statements therein not misleading. The information supplied by AEP for inclusion or incorporation by reference in the Joint Proxy Statement/Prospectus shall not, at the date of the mailing of the Joint Proxy Statement/Prospectus (or any supplement thereto), at the time of the AEP Stockholders' Meeting or the Company Stockholders' Meeting or at the Effective Time, contain any untrue statement of a material fact or omit to state any material fact required to be

stated therein or necessary in order to make the statements therein, in the light of the circumstances under which they are made, not misleading. If at any time prior to the Effective Time any event or circumstance relating to AEP or any of its Subsidiaries, or to their respective officers or directors, should be discovered by AEP that should be set forth in an amendment to the Registration Statement or a supplement to the Joint Proxy Statement/Prospectus, AEP shall promptly inform the Company. All documents that the AEP Companies are responsible for filing with the Commission in connection with the transactions contemplated hereby shall comply as to form in all material respects with the applicable requirements of the Securities Act and the Regulations thereunder and the Exchange Act and the Regulations thereunder.

SECTION 7.4 Appropriate Action; Consents; Filings. (a) Applications. Each of the Company and AEP shall consult with one another, coordinate with respect to, and use all commercially reasonable efforts (i) subject to Section 7.19, to take, or to cause to be taken, all appropriate action, and to do, or to cause to be done, all things necessary, proper or advisable under applicable Law or otherwise to consummate and make effective the transactions contemplated by this Agreement, (ii) to obtain from any Governmental Authorities any Permits or Orders required to be obtained by AEP or the Company or any of their Subsidiaries in connection with the authorization, execution, delivery and performance of this Agreement and the consummation of the transactions contemplated hereby, including the Merger, (iii) to make all necessary filings, and thereafter make any other required submissions, with respect to this Agreement and the Merger required under (A) the Securities Act and the Exchange Act, and any other applicable Federal or state securities Laws, (B) the Holding Company Act, (C) the Federal Power Act, (D) the Atomic Energy Act, (E) the applicable State Regulatory Acts, (F) the HSR Act and (G) any other applicable Law; provided that AEP and the Company shall cooperate with each other in connection with the making of all such filings, including providing copies of all such documents to the nonfiling party and its advisors prior to filings and, if requested, shall accept all reasonable additions, deletions or changes suggested in connection therewith, and provided further that, except as otherwise expressly provided herein, each party shall retain discretion and control over its affairs. The Company and AEP shall furnish all information required for any application or other filing to be made pursuant to any applicable Law or any applicable Regulations of any Governmental Authority in connection with the transactions contemplated by this Agreement.

(b) Regulatory Plans. The Company and AEP have jointly retained Vinson & Elkins L.L.P. and Simpson Thacher & Bartlett to assist the parties in developing and implementing a collaborative regulatory plan in connection with the transactions contemplated hereby.

(c) Cooperation. AEP and the Company agree to cooperate and use all commercially reasonable efforts to resist or resolve any action including legislative, administrative or judicial action and to have vacated or overturned any Order of any Court or Governmental Authority that is in effect and that prevents or prohibits the consummation of the Merger or any other transactions contemplated by this Agreement; *provided, however,* that in no event shall either party take, or be required to take, any action that could reasonably be expected to have a Material Adverse Effect on AEP, the Company or the Combined Companies. Both

parties shall consult on a reasonable and frequent basis regarding matters relating to the operations of AEP and the Company prior to Closing, provided, that, except as otherwise expressly set forth herein, AEP and the Company shall each retain discretion over their own affairs.

(d) Third Party Consents. (i) Each of the Company and AEP shall give (or shall cause their respective Subsidiaries to give) any notices to third Persons, and use, and cause their respective Subsidiaries to use, all commercially reasonable efforts to obtain any consents from third Persons (A) necessary, proper or advisable to consummate the transactions contemplated by this Agreement, (B) otherwise required under any contracts, licenses, leases or other agreements in connection with the consummation of the transactions contemplated hereby or (C) required to prevent a Material Adverse Effect on the Company or AEP from occurring prior to the Effective Time or a Material Adverse Effect on the Combined Companies from occurring after the Effective Time (the "Third Party Consents").

(ii) If any party shall fail to obtain any consent from a third Person described in subsection (d)(i) above, such party shall use all commercially reasonable efforts, and shall take any such actions reasonably requested by the other parties, to limit the adverse effect upon the Company and AEP, their respective Subsidiaries, and their respective businesses resulting, or which could reasonably be expected to result after the Effective Time, from the failure to obtain such consent.

SECTION 7.5 Affiliates; Pooling; Tax Treatment. (a) Affiliates. Each of the Company and AEP shall use all commercially reasonable efforts to cause Persons (other than Subsidiaries) who are, or who become "affiliates," as such term is used in Rule 145 under the Securities Act, of the Company or AEP, as the case may be, after the date of this Agreement but prior to the date of the Company Stockholders' Meeting or the AEP Stockholders' Meeting, as the case may be, to execute and deliver a letter agreement substantially in the form of Annex B or Annex C hereto, as the case may be, not later than 10 days prior to the date of such meeting.

(b) Effective Registration Statement. AEP shall not be required to maintain the effectiveness of the Registration Statement for the purpose of resale by stockholders of the Company who may be Affiliates of the Company pursuant to Rule 145 under the Securities Act.

(c) Pooling. Each party hereto shall use all commercially reasonable efforts to cause the Merger to be treated for financial accounting purposes as a Pooling Transaction, and shall not take, and shall use all commercially reasonable efforts to prevent any Affiliate of such party from taking, any actions which could prevent the Merger from being treated for financial accounting purposes as a Pooling Transaction.

(d) Tax Reorganization. Each party hereto shall use all commercially reasonable efforts to cause the Merger to qualify, and shall not take, and shall use all commercially reasonable efforts to prevent any Affiliate of such party from taking, any actions which could prevent the Merger from qualifying as a reorganization under the provisions of Section 368(a) of the Code.

SECTION 7.6 Public Announcements. AEP and the Company shall consult with each other before issuing any press release or otherwise making any public statements with respect to the Merger or this Agreement and shall not issue any such press release or make any such public statement prior to such consultation.

SECTION 7.7 NYSE Listing. AEP shall use all commercially reasonable efforts to cause the shares of AEP Common Stock to be issued in the Merger to be approved for listing (subject to official notice of issuance) on the NYSE prior to the Effective Time.

SECTION 7.8 Company Rights Agreement. The Company shall take all action (including, if necessary, amending such Rights Agreement) so that the execution, delivery and performance of this Agreement and the consummation of the Merger and the other transactions contemplated hereby do not and will not result in the grant of any rights to any Person under the Company Rights Agreement or enable or require any outstanding rights to be exercised, distributed or triggered.

SECTION 7.9 Comfort Letters. (a) AEP Letter. AEP shall use all commercially reasonable efforts to cause Deloitte & Touche L.L.P. to deliver a letter dated as of the date of mailing of the Joint Proxy Statement/Prospectus, and addressed to AEP and the Company, in form and substance reasonably satisfactory to the Company and customary in scope and substance for agreed upon procedures letters delivered by independent public accounts in connection with registration statements and proxy statements similar to the Joint Proxy Statement/Prospectus.

(b) Company Letter. The Company shall use all commercially reasonable efforts to cause Arthur Andersen LLP to deliver a letter dated as of the date of mailing of the Joint Proxy Statement/Prospectus, and addressed to the Company and AEP, in form and substance reasonably satisfactory to AEP and customary in scope and substance for agreed upon procedures letters delivered by independent public accountants in connection with registration statements and proxy statements similar to the Joint Proxy Statement/Prospectus.

SECTION 7.10 Stock Options; Employee Benefit Plans. (a) Stock-Based Compensation.

(i) Stock Options. AEP agrees to assume, effective as of the Effective Time, each option to purchase shares of Company Common Stock granted under the Company's 1992 Long-term Incentive Plan or Directors' Compensation Plan (an "Outstanding Option") (whether or not vested) which remains as of such time unexercised in whole or in part and to substitute AEP Common Stock as purchasable under such assumed option ("Assumed Option"), with such assumption and substitution to be effected as follows:

(A) The Assumed Option shall not give the optionee additional benefits which he did not have under the Outstanding Option before such assumption;

(B) The number of shares of AEP Common Stock purchasable under any Assumed Option shall be equal to the number of whole shares of AEP Common Stock that the holder of the Outstanding Option being assumed would have received upon consummation of the Merger had such Outstanding Option been exercised in full prior to the Merger;

(C) The per share option price of the Assumed Option shall be equal to the per share option price of the Outstanding Option divided by the Common Stock Exchange Ratio; and

(D) The Assumed Option shall provide the optionee with the same benefit rights which he had under the Outstanding Option before such assumption.

Notwithstanding the foregoing, in the case of any Outstanding Option to which section 421 of the Code applies by reason of the qualification under section 422 of the Code, the exercise price, the number of shares purchasable pursuant to such option and the terms and conditions of exercise of such option shall comply with section 424(a) of the Code. As soon as practicable after the Effective Time, AEP shall deliver to the holders of the Outstanding Options appropriate agreements evidencing its assumption of such options.

(ii) Other Stock-Based Compensation. Effective as of the Effective Time, AEP agrees to assume the Company's 1992 Long-Term Incentive Plan and Director's Compensation Plan with respect to any stock-based compensation (other than the Outstanding Options) payable in the form of Company Common Stock as a result of the Merger ("Other Compensation"), and to substitute shares of AEP Common Stock with respect to such assumed Other Compensation. The number of shares of AEP Common Stock issuable with respect to such Other Compensation shall be equal to the number of whole shares of AEP Common Stock that the holder of Other Compensation being assumed would have received upon consummation of the Merger had such Other Compensation been paid in full prior to the Merger.

On or prior to the Effective Time, the Company shall take or cause to be taken all such actions, reasonably satisfactory to AEP, as may be necessary or desirable in order to authorize the transactions contemplated by subsections (i) and (ii) above. Further, AEP shall take all corporate actions necessary to reserve for issuance a sufficient number of shares of AEP Common Stock for delivery upon exercise of the Company Outstanding Options or issuance of the Company Other Compensation assumed by AEP pursuant to subsections (i) and (ii) above. Prior to the Effective Time, AEP shall file one or more registration statements on Form S-8 (or any successor or other appropriate forms) with respect to the shares of AEP Common Stock issuable in respect to the Assumed Options or Other Compensation and AEP Common Stock issuable in respect of the Assumed Options or Other Compensation and AEP shall use its commercially reasonable efforts to cause such registration statement to become effective promptly after the Effective Time and to maintain the effectiveness of such registration statement (and maintain the current status of the prospectus or prospectuses contained herein) for so long as any Assumed Options remain outstanding and to comply with applicable state securities and blue sky laws. So long as any

holder of an Assumed Options shall be subject to the reporting requirements under Section 16(a) of the Exchange Act, AEP shall have the Company's 1992 Long-Term Incentive Plan and Directors' Compensation Plan to be administered in a manner that complies with Rule 16b-3 promulgated under the Exchange Act.

(b) Separate Company Plans. From and after the Effective Time through July 1, 2002, AEP will continue or cause to be continued, without adverse change to any employee or former employee of the Company or any of its Subsidiaries, the Company Benefit Plans listed in Section 7.10(b) of the Company's Disclosure Letter, except that (i) any Company Common Stock investment fund offered under a Company Benefit Plan will be replaced by an AEP Common Stock investment fund or a traditional investment fund as determined by AEP (ii) premiums charged to participants may be increased under medical, dental, life, accidental death and dismemberment, and disability insurance plans (except that premiums charged to participants who retired from the Company or any of its Subsidiaries prior to 1993 (or survivors of such participants) may not be increased), and (iii) changes required by law, including changes required to maintain the qualified status of any Company Benefit Plan intended to be qualified under Section 401(a) of the Code, may be made. After July 1, 2002, AEP will provide the employees of the Company and its Subsidiaries with benefits that in the aggregate are at least as favorable as the benefits provided to similarly situated employees of AEP and its Subsidiaries. If, after July 1, 2002, an AEP Benefit Plan is made available to employees of the Company or any of its Subsidiaries, all periods of service with the Company and its Subsidiaries will be credited to such employees for all purposes of the AEP Benefit Plan, including the accrual of benefits and eligibility to receive benefits for which a specified period of service is required under the AEP Benefit Plan. No earlier than July 1, 2002, the Company's Cash Balance Retirement Plan shall be merged into a defined benefit pension plan maintained by AEP or one of its Subsidiaries. The retirement benefit for employees of the Company or its Subsidiaries who become participants in such merged plan will be determined under the AEP pension plan formula for all years of service (including years of service with the Company and its Subsidiaries) but such retirement benefit will not be less than the benefit accrued under the Company's Cash Balance Retirement Plan determined immediately prior to such plan merger plus the benefit determined under the AEP pension plan formula for years of service beginning on the date of such plan merger. If employees of the Company or any of its Subsidiaries become participants in a health plan maintained by AEP or any of its Subsidiaries, all preexisting condition limitations under the AEP health plan for such employees will be waived. In addition, if such AEP health plan participation becomes effective as of any date other than the first day of a calendar year, such employees will receive credit under the AEP health plan for any co-payments and deductibles incurred by such employees in the same calendar year under the Company's Medical Plan.

(c) Retiree and Disability Benefits. From and after July 1, 2002, AEP will provide access to retiree medical and life insurance coverage for any employee or director of the Company or any of its Subsidiaries who retires or becomes disabled prior to July 1, 2002 and who was eligible for such coverage under plans of the Company and its Subsidiaries in effect on the date of such individual's retirement. Further, for any such employees or directors who retired or became disabled prior to 1993, such coverage shall be continued without adverse change to such retired or disables employees or directors. In addition, with respect to any such employee

who becomes disabled before July 1, 2002, so long as such employee continues to satisfy the eligibility requirements for disability benefits under the Company's Disability Income Plan in effect on such date AEP will offer such disabled employee medical coverage without charge to such disabled employee.

(d) Certain Nonqualified Arrangements. From and after the Effective Time through July 1, 2002, AEP will maintain the Company's Supplemental Executive Retirement Plan and Executive Deferred Compensation Plan without adverse change to any employee participating in the Plan until all benefits have been paid in accordance with the terms of the Plan; provided, however, that no deferrals shall be permitted under such plan after the Effective Time. If the Company's Supplemental Executive Retirement Plan or Executive Deferred Savings Plan is terminated or otherwise discontinued after July 1, 2002, AEP will make available to the class of employees of the Company and its Subsidiaries who were eligible to participate in the Company's Supplemental Executive Retirement Plan or Executive Deferred Savings Plan any nonqualified deferred compensation plan or plans it maintains to supplement benefits in the AEP Benefit Plans that are qualified plans. In addition, employees of the Company and its Subsidiaries will be given credit for service with the Company and its Subsidiaries for all purposes of such supplemental plans, and the supplemental plans will assume the obligation of the Supplemental Executive Retirement Plan or the Executive Deferred Savings Plan, as applicable, to pay the benefits that have accrued under the Supplemental Executive Retirement Plan or the Executive Deferred Savings Plan at the time of such termination or discontinuance.

(e) Memorial Gifts Program. The Company will take all action necessary to terminate the Memorial Gifts Program as of the Effective Time; provided, however, that all then-existing commitments under such Program will not be adversely affected by such termination and will be honored in accordance with their terms.

(f) Agreement by AEP. AEP agrees to honor without modification or contest, and agrees to cause the Surviving Corporation to honor without modification or contest, and to make required payments when due under all Change of Control Agreements and all Retention Agreements, including any modifications to such Change of Control Agreements or Retention Agreements permitted by Section 6.2(a).

(g) The provisions of Sections 7.10(d) and (f) are intended to be for the benefit of, and shall be enforceable by, each Person entitled to benefits or payments thereunder and the heirs and representatives of such Person.

SECTION 7.11 Indemnification of Directors and Officers. (a) Until six years from the Effective Time, the certificate of incorporation and bylaws of the Company as the corporation surviving the Merger (in this Section 7.11 called the "Surviving Corporation") as in effect immediately after the Effective Time shall not be amended to reduce or limit the rights of indemnity afforded to the present and former directors and officers of the Company thereunder or as to the ability of the Company to indemnify such persons or to hinder, delay or make more difficult the exercise of such rights of indemnity or the ability to indemnify. The Surviving

Corporation will at all times exercise the powers granted to it by its certificate of incorporation, its bylaws and applicable law to indemnify to the fullest extent possible the present and former directors, officers, employees and agents of the Company against claims made against them arising from their service in such capacities prior to the Effective Time.

(b) If any claim or claims shall, subsequent to the Effective Time and within six years thereafter, be made against any present or former director, officer, employee or agent of the Company based on or arising out of the services of such Person prior to the Effective Time in the capacity of such Person as a director, officer, employee or agent of the Company, the provisions of subsection (a) of this Section respecting the certificate of incorporation and bylaws of the Surviving Corporation shall continue in effect until the final disposition of all such claims.

(c) AEP hereby agrees after the Effective Time to guarantee the payment of the Surviving Corporation's indemnification obligations described in Section 7.11(a) up to an amount determined as of the Effective Time equal to (i) the fair market value of any assets of the Surviving Corporation or any of its Subsidiaries distributed to AEP or any of its Subsidiaries (other than the Surviving Corporation and its Subsidiaries), minus (ii) any liabilities of the Surviving Corporation or any of its Subsidiaries assumed by AEP or any of its Subsidiaries (other than the Surviving Corporation and its Subsidiaries), minus (iii) the fair market value of any assets of AEP or any of its Subsidiaries (other than the Surviving Corporation and its Subsidiaries) contributed to the Surviving Corporation or any of its Subsidiaries and (iv) plus any liabilities of AEP or any of its Subsidiaries (other than the Surviving Corporation and its Subsidiaries) assumed by the Surviving Corporation or any of its Subsidiaries.

(d) Notwithstanding subsection (a), (b) or (c) of this Section 7.11, AEP and the Surviving Corporation shall be released from the obligations imposed by such subsection if AEP shall assume the obligations of the Surviving Corporation thereunder by operation of Law or otherwise. Notwithstanding anything to the contrary in this Section 7.11, neither AEP nor the Surviving Corporation shall be liable for any settlement effected without its written consent, which shall not be unreasonably withheld.

(e) AEP shall cause to be maintained in effect until six years from the Effective Time the current policies of directors' and officers' liability insurance maintained by the Company (or substitute policies providing at least the same coverage and limits and containing terms and conditions that are not materially less advantageous) with respect to claims arising from facts or events which occurred before the Effective Time; *provided, however,* that in no event shall AEP or the Surviving Corporation be required to expend more than 200 percent of the greater of (i) current annual premiums and (ii) annual premiums for the year in which the Closing occurs paid by the Company for such insurance; *provided, further*, that, if AEP or the Surviving Corporation is unable to obtain insurance for any period for 200 percent of the greater of such annual premiums, then the obligation of AEP and the Surviving Corporation pursuant hereto shall be to obtain the best coverage reasonably available under the circumstances subject to the foregoing limitations on premiums.

(f) The provisions of this Section 7.11 are intended to be for the benefit of, and shall be enforceable by, each Person entitled to indemnification hereunder and the heirs and representatives of such Person.

(g) AEP shall not permit the Surviving Corporation to merge or consolidate with any other Person unless the Surviving Corporation shall ensure that the surviving or resulting entity assumes the obligations imposed by subsections (a), (b), (c) and (e) of this Section.

SECTION 7.12 Newco. Prior to the Effective Time, Newco shall not conduct any business or make any investments other than as specifically contemplated by this Agreement and will not have any assets (other than the minimum amount of cash required to be paid to Newco for the valid issuance of its stock to AEP).

SECTION 7.13 Event Notices. From and after the date of this Agreement until the Effective Time, each party hereto shall promptly notify the other party hereto of (i) the occurrence or nonoccurrence of any event the occurrence or nonoccurrence of which would be likely to cause any condition to the obligations of such party to effect the Merger and the other transactions contemplated by this Agreement not to be satisfied and (ii) the failure of such party to comply with any covenant or agreement to be complied with by it pursuant to this Agreement which would be likely to result in any condition to the obligations of such party to effect the Merger and the other transactions contemplated by this Agreement not to be satisfied. No delivery of any notice pursuant to this Section 7.13 shall cure any breach of any representation or warranty or any failure to comply with any covenant or agreement of such party contained in this Agreement or otherwise limit or affect the remedies available hereunder to the party receiving such notice.

SECTION 7.14 Board of Directors. At the Effective Time, the Board of Directors of AEP shall be expanded to fifteen members and reconstituted to include all then current board members of AEP, the Chairman of the Company on the date hereof, and four additional outside directors of the Company to be nominated by AEP.

SECTION 7.15 Headquarters. At and after the Effective Time, the principal corporate office of the Combined Companies shall be located in Columbus, Ohio; and the Combined Companies shall maintain a significant presence in the states currently served by the Company.

SECTION 7.16 Rate Matters. Each of the Company and AEP shall, and shall cause its Significant Subsidiaries to, discuss with the other any changes in its or its Significant Subsidiaries' rates or charges (other than automatic cost pass-through rate adjustment clauses), standards of service or accounting from those in effect on the date hereof and consult with the other prior to making any filing (or any amendment thereto), or effecting any agreement, commitment, arrangement or consent with governmental regulators, whether written or oral, formal or informal, with respect thereto (provided that except as otherwise expressly provided herein each party shall retain discretion and control over its affairs), and except as set forth in Section 7.16 of the Company's Disclosure Letter, no party will make any filing to change its

rates or charges, standards of service or accounting that could reasonably be expected to have a Material Adverse Effect on the Combined Companies.

SECTION 7.17 Coordination of Dividends. Each of the Company and AEP shall coordinate with the other regarding the declaration and payment of any dividends in respect of the Company Common Stock and AEP Common Stock and the record dates and the payment dates relating thereto, it being the intention of the Company and AEP that holders of the Company Common Stock shall not receive two dividends, or fail to receive one dividend, for any single calendar quarter with respect to their shares of Company Common Stock and/or any shares of AEP Common Stock that any such holder receives in exchange therefor pursuant to the Merger.

SECTION 7.18 Transition Management. As soon as practicable after the date hereof, the parties shall create a special transition management task force (the "Task Force"). The Task Force shall examine various alternatives regarding the manner in which to best organize and manage the business of the Combined Companies after the Effective Time, subject to applicable Law.

SECTION 7.19 Acquisition Proposals. Each of AEP and the Company agrees that neither it nor any of its Subsidiaries nor any of the officers and directors of it or its Subsidiaries shall, and that it shall direct and use its best efforts to cause its and its Subsidiaries' employees, agents and representatives (including any investment banker, attorney or accountant retained by it or any of its Subsidiaries) not to, directly or indirectly, initiate, solicit, encourage or otherwise facilitate (including by way of furnishing information) any inquiries or the making of any proposal or offer with respect to a merger, reorganization, share exchange, consolidation, business combination, recapitalization, liquidation, dissolution or similar transaction involving, or any purchase or sale of all or any significant portion of the assets or 10% or more of the equity securities of, it or any of its Subsidiaries that, in any such case, could reasonably be expected to interfere with the completion of the Merger or the other transactions contemplated by this Agreement (any such proposal or offer being hereinafter referred to as an "Acquisition Proposal"). Each of AEP and the Company further agrees that neither it nor any of its Subsidiaries nor any of the officers and directors of it or its Subsidiaries shall, and that it shall direct and use its best efforts to cause its and its Subsidiaries' employees, agents and representatives (including any investment banker, attorney or accountant retained by it or any of its Subsidiaries) not to, directly or indirectly, have any discussion with or provide any confidential information or data to any Person relating to an Acquisition Proposal, or engage in any negotiations concerning an Acquisition Proposal, or otherwise facilitate any effort or attempt to make or implement an Acquisition Proposal or accept an Acquisition Proposal. Notwithstanding the foregoing, the Board of Directors of AEP or the Company shall be permitted to (A) to the extent applicable, comply with Rule 14e-2(a) promulgated under the Exchange Act with regard to an Acquisition Proposal, (B) in response to an unsolicited bona fide written Acquisition Proposal by any Person, recommend such an unsolicited bona fide written Acquisition Proposal to its stockholders, or withdraw or modify in any adverse manner its approval or recommendation of this Agreement or (C) engage in any discussions or negotiations with, or provide any information to, any Person in response to an unsolicited bona fide written

Acquisition Proposal by any such Person, if and only to the extent that, in any such case as is referred to in clause (B) or (C), (i) the Required AEP Vote or the Required Company Vote, as the case may be, shall not have been obtained, (ii) the Board of Directors of AEP or the Company, as the case may be, concludes in good faith that such Acquisition Proposal (x) in the case of clause (B) above would, if consummated, constitute a Superior Proposal or (y) in the case of clause (C) above could reasonably be expected to constitute a Superior Proposal, (iii) the Board of Directors of AEP or the Company, as the case may be, determines in good faith upon the basis of written advice of outside legal counsel that such action is necessary for such Board of Directors to act in a manner consistent with its fiduciary duties under applicable law, (iv) prior to providing any information or data to any Person in connection with an Acquisition Proposal by any such Person, the AEP Board of Directors or the Company Board of Directors, as the case may be, receives from such Person an executed confidentiality agreement containing customary terms and provisions and (v) prior to providing any information or data to any Person or entering into discussions or negotiations with any Person, the Board of Directors of AEP or the Board of Directors of the Company, as the case may be, notifies the other party immediately of such inquiries, proposals or offers received by, any such information requested from, or any such discussions or negotiations sought to be initiated or continued with, any of its representatives indicating, in connection with such notice, the name of such Person and the material terms and conditions of any proposals or offers. AEP and the Company agree that they will keep the other party informed, on a current basis, of the status and terms of any such proposals or offers and the status of any such discussions or negotiations. Each of AEP and the Company agrees that it will immediately cease and cause to be terminated any existing activities, discussions or negotiations with any parties conducted heretofore with respect to any Acquisition Proposal. Each of AEP and the Company agrees that it will take the necessary steps to promptly inform the individuals or entities referred to in the first sentence of this Section 7.19 of the obligations undertaken in this Section 7.19. Nothing in this Section 7.19 shall (x) permit either AEP or the Company to terminate this Agreement (except as specifically provided in Article IX hereof) or (y) affect any other obligation of AEP or the Company under this Agreement.

SECTION 7.20 Workforce Matters. Subject to applicable collective bargaining agreements, for a period of 2 years following the Effective Time, any reductions in workforce in respect of employees of the Combined Company and their Subsidiaries shall be made on a fair and equitable basis, in light of the circumstances and the objectives to be achieved, giving consideration to previous work history, job experience, and qualifications, without regard to whether employment prior to the Effective Time was with the Company or its Subsidiaries or AEP or its Subsidiaries, and any employees whose employment is terminated or jobs are eliminated by AEP or any of its Subsidiaries during such period shall be entitled to participate on a fair and equitable basis in the job opportunity and employment placement programs offered by the Combined Companies or any of their prospective Subsidiaries. Any workforce reductions carried out following the Effective Time by the Combined Companies and their Subsidiaries shall be done in accordance with all applicable collective bargaining agreements, and all laws and regulations governing the employment relationship and termination thereof including, without limitation, the Worker Adjustment and Retraining Notification Act and regulations promulgated thereunder, and any comparable state or local law. As provided generally in Section 10.7, nothing in this Section is intended to confer upon any Person (other than the parties hereto),

including any current or future employee of AEP or the Company or any subsidiary of either of them, any right, benefit or remedy of any nature whatsoever.

ARTICLE VIII

CLOSING CONDITIONS

SECTION 8.1 Conditions to Obligations of Each Party. The respective obligations of each party to effect the Merger and the other transactions contemplated hereby shall be subject to the satisfaction at or prior to the Effective Time of the following conditions, any or all of which may be waived by a party with respect to its obligations, in whole or in part, to the extent permitted by applicable Law:

(a) Effectiveness of the Registration Statement. The Registration Statement shall have been declared effective by the Commission under the Securities Act; and no stop order suspending the effectiveness of the Registration Statement shall have been issued by the Commission and not withdrawn and no proceedings brought by the Commission for that purpose shall be pending.

(b) Stockholder Approval. (i) The Company shall have obtained the Required Company Vote in connection with the adoption of this Agreement by the stockholders of the Company and (ii) AEP shall have obtained the Required AEP Vote in connection with the approval of the Share Issuance and the Charter Amendment by the stockholders of AEP.

(c) No Prohibiting Law, Regulation or Order. No Court or Governmental Authority shall have enacted, issued, promulgated, enforced or entered any Law, Regulation or Order (whether temporary, preliminary or permanent) that is in effect and that has the effect of making the Merger illegal or otherwise prohibiting consummation of the Merger.

(d) Required Orders. All Orders necessary for the consummation of the Merger and the other transactions contemplated hereby shall have been obtained at or prior to the Effective Time and such Orders shall have become Final Orders and no Final Orders shall impose terms or conditions or qualifications that, individually or in the aggregate, could reasonably be expected to have a Material Adverse Effect on the Combined Companies.

(e) Pooling of Interests. Each of AEP and the Company shall have received a letter of its independent public accountants, dated the Closing Date, in form and substance reasonably satisfactory, in each case, to AEP and the Company, stating that the transactions effected pursuant to this Agreement will qualify as a pooling of interests transaction under GAAP and applicable Commission Regulations.

(f) NYSE Listing. The shares of AEP Common Stock to be issued pursuant to the Merger shall have been listed, subject to official notice of issuance, on the NYSE.

(g) Divestiture Event. There shall not have occurred and remain in effect a Divestiture Event with respect to either AEP or the Company.

SECTION 8.2 Additional Conditions to Obligations of the AEP Companies. The obligations of the AEP Companies to effect the Merger and the other transactions contemplated hereby shall be subject to the satisfaction at or prior to the Effective Time of the following conditions, any or all of which may be waived by the AEP Companies, in whole or in part, to the extent permitted by applicable Law:

(a) Representations and Warranties. Each of the representations and warranties of the Company contained in this Agreement that is qualified as to materiality shall be true and correct in all respects and each of those that is not so qualified as to materiality shall be true and correct in all material respects as of the date of this Agreement and as of the Closing as though made again at and as of the Closing (except for representations and warranties that expressly speak only as of a specific date or time other than the date hereof or the Closing Date which need only be true and correct as of such date), provided, that no representation or warranty of the Company shall be deemed to be untrue or incorrect as a result of the occurrence of a Divestiture Event or any change or effect arising out of or resulting from any foreign, federal or state legislative or regulatory action with respect to (i) the regulation or deregulation of the electric utility industry in such jurisdiction, or (ii) health or the environment, including the conservation or protection of the environment. The AEP Companies shall have received a certificate of the Chief Executive Officer and the Chief Financial Officer of the Company, dated the Closing Date, to such effect.

(b) Agreements and Covenants. The Company shall have performed or complied with, in all material respects, all agreements and covenants required by this Agreement to be performed or complied with by it at or prior to the Closing. The AEP Companies shall have received a certificate of the Chief Executive Officer and the Chief Financial Officer of the Company, dated the Closing Date, to such effect.

(c) Tax Opinion. AEP shall have received the opinion dated the Closing Date of Simpson Thacher & Bartlett to the effect that (i) the Merger will constitute a reorganization under section 368(a) of the Code, (ii) the Company, AEP and Newco will each be a party to that reorganization, and (iii) no gain or loss will be recognized by the Company, AEP or Newco by reason of the Merger. In rendering their opinion, such counsel may require and rely upon representations, including those contained in certificates of officers of the Company, Newco and AEP.

(d) Investment Banker's Opinion. AEP shall have received, on or prior to the date of mailing of the Joint Proxy Statement/Prospectus to the holders of AEP Common

Stock, a written opinion from Salomon Smith Barney, dated the date of such mailing, confirming the opinion to which reference is made in Section 5.18.

(e) Company Required Consents. The Company Required Consents shall have been obtained.

SECTION 8.3 Additional Conditions to Obligations of the Company. The obligations of the Company to effect the Merger and the other transactions contemplated hereby shall be subject to the satisfaction at or prior to the Effective Time of the following conditions, any or all of which may be waived by the Company, in whole or in part, to the extent permitted by applicable Law:

(a) Representations and Warranties. Each of the representations and warranties of the AEP Companies contained in this Agreement that is qualified as to materiality shall be true and correct in all respects and each of those that is not so qualified as to materiality shall be true and correct in all material respects as of the date of this Agreement and as of the Closing as though made again at and as of the Closing (except for representations and warranties that expressly speak only as of a specific date or time other than the date hereof or the Closing Date which need only be true and correct as of such date), provided, that no representation or warranty of AEP shall be deemed to be untrue or incorrect as a result of the occurrence of a Divestiture Event or any change or effect arising out of or resulting from any foreign, federal or sate legislative or regulatory action with respect to (i) the regulation or deregulation of the electric utility industry in such jurisdiction, or (ii) health or the environment, including the conservation or protection of the environment. The Company shall have received a certificate of the Chief Executive Officer and the Chief Financial Officer of AEP, dated the Closing Date to such effect.

(b) Agreements and Covenants. The AEP Companies shall have performed or complied with, in all material respects, all agreements and covenants required by this Agreement to be performed or complied with by them at or prior to the Closing. The Company shall have received a certificate of the Chief Executive Officer and the Chief Financial Officer of AEP, dated the Closing Date, to such effect.

(c) Tax Opinion. The Company shall have received the opinion dated the Closing Date of Christy & Viener to the effect that (i) the Merger will constitute a reorganization under section 368(a) of the Code, (ii) AEP, the Company and Newco will each be a party to that reorganization and (iii) no gain or loss will be recognized by the stockholders of the Company upon the receipt of shares of AEP Common Stock in exchange for shares of Company Common Stock pursuant to the Merger except with respect to any cash received in lieu of fractional interests in shares of AEP Common Stock or cash received pursuant to statutory dissenters rights. In rendering their opinion, such counsel may require and rely upon representations, including those contained in certificates of officers of the Company, Newco and AEP.

(d) Investment Banker's Opinion. The Company shall have received, on or prior to the date of mailing of the Joint Proxy Statement/Prospectus to the holders of Company Common Stock, a written opinion from Morgan Stanley & Co. Incorporated, dated the date of such mailing, confirming the opinion to which reference is made in Section 4.18.

(e) AEP Required Consents. The AEP Required Consents shall have been obtained.

ARTICLE IX

TERMINATION, AMENDMENT AND WAIVER

SECTION 9.1 Termination. This Agreement may be terminated at any time prior to the Effective Time, whether before or after receipt of the AEP Required Vote or before or after receipt of the Company Required Vote:

(a) Mutual Consent. By mutual written consent of AEP and the Company;

(b) Terminating Company Breach. By AEP, upon two Business Days' prior written notice to the Company, upon a breach of any representation, warranty, covenant or agreement on the part of the Company set forth in this Agreement, or if any representation or warranty of the Company shall have become untrue, in either case such that the conditions set forth in Section 8.2(a) or Section 8.2(b) would not be satisfied (a "Terminating Company Breach"); *provided that*, if such Terminating Company Breach is curable by the Company through the exercise of commercially reasonable efforts, for so long as the Company continues to exercise such commercially reasonable efforts AEP may not terminate this Agreement under this Section 9.1(b);

(c) Terminating AEP Breach. By the Company, upon two Business Days' prior written notice to AEP, upon breach of any representation, warranty, covenant or agreement on the part of the AEP Companies (or either of them) set forth in this Agreement, or if any representation or warranty of the AEP Companies (or either of them) shall have become untrue, in either case such that the conditions set forth in Section 8.3(a) or Section 8.3(b) would not be satisfied (a "Terminating AEP Breach"); *provided that*, if such Terminating AEP Breach is curable by the AEP Companies through the exercise of their commercially reasonable efforts, for so long as the AEP Companies continue to exercise such commercially reasonable efforts the Company may not terminate this Agreement under this Section 9.1(c);

(d) Divestiture Event. By either AEP or the Company, upon two Business Days' prior written notice to the other if there shall be any Divestiture Event; provided that, if such Divestiture Event is capable of being vacated, lifted or reversed on or before the Termination Date (as extended pursuant to Section 9.1(f) hereof) through the exercise

of commercially reasonable efforts and for so long as the party whose assets are subject to the Divestiture Event continues to exercise such commercially reasonable efforts, such party seeking to terminate may not terminate this Agreement under this Section 9.1(d).

(e) Law, Regulation or Order. By either AEP or the Company, upon two Business Days' prior written notice to the other, if there shall be any Law or Regulation issued or adopted or any Order which is final and nonappealable preventing the consummation of the Merger, unless the party relying on such Law, Regulation or Order as a basis for termination under this Section 9.1(e) has not complied with its obligations under Section 7.4;

(f) Termination Date. By either AEP or the Company, by written notice to the other, if the Merger shall not have been consummated before December 31, 1999 ("Termination Date"); *provided, however,* that this Agreement may be extended by written notice of either AEP or the Company to a date not later than June 30, 2000, if the Merger shall not have been consummated as a result of the Company or the AEP Companies having failed by December 31, 1999 to satisfy the conditions set forth in Section 8.1(c) or Section 8.1(d) but all other conditions to the Closing shall be fulfilled; provided further, that, the right to terminate the Agreement under this Section 9.1(f) shall not be available to any party whose failure to fulfill any obligation under this Agreement has been the cause of, or resulted in, the failure of the Effective Time to occur on or before such date.

(g) Stockholder Vote. By either AEP or the Company, upon two Business Days' prior written notice to the other if the transactions contemplated by this Agreement shall fail to receive the Required AEP Vote at the AEP Stockholders' Meeting or if this Agreement shall fail to receive the Required Company Vote at the Company Stockholders' Meeting;

(h) AEP Fiduciary Out. By AEP, at any time prior to receipt of the Required AEP Vote, upon two Business Days' prior written notice to the Company, if, the Board of Directors of AEP shall approve a Superior Proposal; provided, however, that (i) AEP shall have complied with Section 7.19, (ii) the Board of Directors of AEP shall have concluded in good faith, after giving effect to all concessions which may be offered by the Company pursuant to clause (iv) below, on the basis of the advice of its financial advisors and outside counsel, that such proposal is a Superior Proposal, (iii) the Board of Directors of AEP shall have concluded in good faith, after receipt of written advice of outside counsel, that notwithstanding all concessions which may be offered by the Company in negotiations entered into pursuant to clause (iv) below, such action is necessary for the AEP Board of Directors to act in a manner consistent with its fiduciary duties under applicable law; and (iv) prior to any such termination, AEP shall, and shall cause its respective financial and legal advisors to, negotiate with the Company to make such adjustments in the terms and conditions of this Agreement as would enable AEP to proceed with the transactions contemplated herein on such adjusted terms;

(i) Company Fiduciary Out. By the Company, at any time prior to receipt of the Required Company Vote, upon two Business Days' prior written notice to AEP, if, the Board of Directors of the Company shall approve a Superior Proposal; provided, however, that (i) the Company shall have complied with Section 7.19, (ii) the Board of Directors of the Company shall have concluded in good faith, after giving effect to all concessions which may be offered by AEP pursuant to clause (iv) below, on the basis of the advice of its financial advisors and outside counsel, that such proposal is a Superior Proposal, (iii) the Board of Directors of the Company shall have concluded in good faith, after receipt of the written advice of outside counsel, that notwithstanding all concessions which may be offered by AEP in negotiations entered into pursuant to clause (iv) below, such action is necessary for the Company Board of Directors to act in a manner consistent with its fiduciary duties under applicable law; and (iv) prior to any such termination, the Company shall, and shall cause its respective financial and legal advisors to, negotiate with AEP to make such adjustments in the terms and conditions of this Agreement as would enable the Company to proceed with the transactions contemplated herein on such adjusted terms;

(j) AEP Change of Recommendation. By the Company, upon two Business Days' prior written notice to AEP, if the Board of Directors of AEP or any committee thereof (A) shall withdraw or modify in any manner adverse to the Company its approval or recommendation of the Charter Amendment, the Share Issuance, this Agreement or the Merger, (B) shall fail to reaffirm such approval or recommendation upon the Company's request, (C) shall approve or recommend any Superior Proposal or (D) shall resolve to take any of the actions specified in clause (A), (B) or (C);

(k) Company Change of Recommendation. By AEP, upon two Business Days' prior written notice to the Company, if the Board of Directors of the Company or any committee thereof (A) shall withdraw or modify in any manner adverse to AEP its approval or recommendation of this Agreement or the Merger, (B) shall fail to reaffirm such approval or recommendation upon AEP's request, (C) shall approve or recommend any Superior Proposal or (D) shall resolve to take any of the actions specified in clause (A), (B) or (C); or

(l) Third Party Acquisition. By either AEP or the Company, by written notice to the other party, if (A) a third party acquires securities representing greater than 50% of the voting power of the outstanding voting securities of such other party or (B) individuals who as of the date hereof constitute the board of directors of such other party (together with any new directors whose election by such board of directors or whose nomination for election by the stockholders of such party was approved by a vote of a majority of the directors of such party then still in office who are either directors as of the date hereof or whose election or nomination for election was previously so approved) cease for any reason to constitute a majority of the board of directors of such party then in office.

The right of any party hereto to terminate this Agreement pursuant to this Section 9.1 shall remain operative and in full force and effect regardless of any investigation made by or on behalf of any party hereto, any Person controlling any such party or any of their respective officers, directors, representatives or agents, whether prior to or after the execution of this Agreement.

SECTION 9.2 Effect of Termination. Except as provided in Section 9.6 and Section 10.1 of this Agreement, in the event of the termination of this Agreement pursuant to Section 9.1, this Agreement shall forthwith become void, there shall be no liability on the part of the AEP Companies or the Company or any of their respective officers or directors to the other and all rights and obligations of any party hereto shall cease, except that nothing herein shall relieve any party from liability for any breach of this Agreement.

SECTION 9.3 Amendment. This Agreement may be amended by the parties hereto by action taken by or on behalf of their respective Boards of Directors at any time prior to the Effective Time; *provided, however,* that, after receipt of either the AEP Required Vote or the Company Required Vote, no amendment may be made which would reduce the amount or change the type of consideration into which each share of Company Common Stock shall be converted upon consummation of the Merger. This Agreement may not be amended except by an instrument in writing signed by the parties hereto.

SECTION 9.4 Waiver. At any time prior to the Effective Time, any party hereto may (a) extend the time for the performance of any of the obligations or other acts of the other party hereto, (b) waive any inaccuracies in the representations and warranties of the other party contained herein or in any document delivered pursuant hereto and (c) waive compliance by the other party with any of the agreements or, to the extent legally permissible, conditions contained herein. Any such extension or waiver shall be valid only if set forth in an instrument in writing signed by the party or parties to be bound thereby. For purposes of this Section 9.4, the AEP Companies shall be deemed to be one party.

SECTION 9.5 Fees, Expenses and Other Payments. Subject to Section 9.6, all Expenses incurred by the parties hereto shall be borne solely and entirely by the party which has incurred such Expenses; *provided, however,* that the share of all Expenses related to printing, filing and mailing the Registration Statement and the Joint Proxy Statement/Prospectus and all Commission and other regulatory filing fees incurred in connection with the Registration Statement and the Joint Proxy Statement/Prospectus allocable to the Company and to the AEP Companies as a group shall be 50% each; *and provided further* that AEP may, at its option and subject to Section 7.5(d), pay any Expenses of the Company.

SECTION 9.6 Certain Damages, Payments and Expenses. (a) Damages Payable Upon Termination for Breach or Withdrawal of Approval. If this Agreement is terminated pursuant to Section 9.1(h) or (i) (fiduciary out), Section 9.1(b) or (c) (breach), Section 9.1(j) or (k) (change of recommendation) or Section 9.1 (l) (acquisition of voting power or change of board), then the breaching party or party whose board has exercised its fiduciary out or changed its recommendation or whose voting stock has been acquired or whose board has changed, as the

case may be, shall promptly (but not later than five Business Days after receipt of notice that the amount is due from the other party) pay to the other party, as liquidated damages and expense reimbursement, an amount in cash equal to $20 million (the "Termination Fee").

(b) Other Termination Payments. If (i) this Agreement is terminated pursuant to (A) Section 9.1(f) (expiration date), (B) Section 9.1(h) or (i) (fiduciary out), (C) Section 9.1(g) (failure to obtain shareholder approval), (D) Section 9.1(j) or (k) (change of recommendation) or (E) pursuant to Section 9.1(b) or (c) (breach); and (ii) at the time of such termination (or in the case of clause (i)(C) above, prior to the meeting of such party's shareholders) there shall have been an Acquisition Proposal involving the Company or AEP (as the case may be, the "Target Party") or any of its Affiliates which, at the time of such termination (or such meeting, as the case may be), shall not have been (x) rejected by the Target Party and its Board of Directors and (y) withdrawn by the third party; and (iii) within eighteen months of any such termination described in clause (i) above, the Target Party or any of its Affiliates becomes a Subsidiary of such offeror or a Subsidiary of an Affiliate of such offeror or accepts a written offer or enters into a written agreement to consummate or consummates an Acquisition Proposal with such offeror or an Affiliate thereof, then such Target Party (jointly and severally with its Affiliates), upon the signing of a definitive agreement relating to such Acquisition Proposal, or , if no such agreement is signed, then at the closing (and as a condition to the closing) of such Target Party becoming such a subsidiary or of such Acquisition Proposal, shall pay the Company or AEP, as the case may be, a termination fee equal to $225 million (the "Topping Fee") plus Expenses of such party not in excess of $20 million ("Out-of-Pocket Expenses"). If this Agreement is terminated by the Company or AEP pursuant to Section 9.1(l) (third party acquisition of voting power or change of board), then the Company or AEP, as the case may be, shall pay immediately the terminating party the Topping Fee plus Out-of-Pocket Expenses.

(c) Expenses. The Parties agree that the agreements contained in this Section 9.6 are an integral part of the transactions contemplated by this Agreement and constitute liquidated damages and not a penalty. If one party fails to promptly pay to the other any fee due hereunder, the defaulting party shall pay the costs and expenses (including legal fees and expenses) in connection with any action, including the filing of any lawsuit or other legal action, taken to collect payment, together with interest on the amount of any unpaid fee at the publicly announced prime rate of Citibank, N.A. from the date such fee was required to be paid.

(d) Limitation of Fees. Notwithstanding anything herein to the contrary, the aggregate amount payable to AEP and its Affiliates pursuant to Section 9.6(a) and Section 9.6(b) shall not exceed $245 million and the aggregate amount payable to the Company and its Affiliates pursuant to Section 9.6(a) and Section 9.6(b) shall not exceed $245 million.

(e) Exclusive Remedy. Subject to the following sentence, the payments required by Sections 9.6(a) and Section 9.6(b) shall constitute liquidated damages in full and complete satisfaction of, and shall be the sole and exclusive remedy for any loss, liability, damage or claim arising out of or in connection with the transactions contemplated by this Agreement, including any termination of this Agreement pursuant to Section 9.1. Notwithstanding the foregoing sentence, in the event of payment of the Termination Fee pursuant to Section 9.6(a), if (i) this

Agreement is terminated by a party as a result of a willful breach of representation, warranty, covenant or agreement by the other party, and (ii) the Topping Fee is not paid, the nonbreaching party may pursue any remedies available to it at law or in equity and shall, in addition to the Termination Fee, be entitled to recover such additional amounts as such nonbreaching party may be entitled to receive at law or in equity.

ARTICLE X

GENERAL PROVISIONS

SECTION 10.1 Effectiveness of Representations, Warranties and Agreements. (a) Effect of Investigation. Except as set forth in Section 10.1(b) of this Agreement, the representations, warranties, covenants and agreements of each party hereto shall remain operative and in full force and effect regardless of any investigation made by or on behalf of any other party hereto, any Person controlling any such party or any of their officers, directors, representatives or agents whether prior to or after the execution of this Agreement.

(b) Termination. The representations and warranties in this Agreement shall terminate at the Effective Time and the representations, warranties, covenants and agreements shall terminate upon the termination of this Agreement pursuant to Article IX, except that the covenants and agreements set forth in the last sentence of Section 6.3, Sections 9.2, 9.5 and 9.6 and Article X hereof shall survive termination of this Agreement.

SECTION 10.2 Notices. All notices and other communications given or made pursuant hereto shall be in writing and shall be deemed to have been duly given upon receipt, if delivered personally, mailed by registered or certified mail (postage prepaid, return receipt requested) to the parties at the following addresses (or at such other address for a party as shall be specified by like changes of address) or sent by electronic transmission to the telecopier number specified below:

(a) AEP. If to any of the AEP Companies, to:

American Electric Power Service Corporation
1 Riverside Plaza
Columbus, Ohio 43215
Attention: Donald M. Clements, Jr., Executive Vice President
Telecopier No.: 614-223-1552

with a copy to:

Simpson Thacher & Bartlett
425 Lexington Avenue
New York, New York 10017
Attention: James M. Cotter
Telecopier No.: (212) 455-2502

(b) Company. If to the Company, to:

Central and South West Corporation
1616 Woodall Rodgers Freeway
Dallas, Texas 75266-0164
Attention: Thomas V. Shockley, III, President
Telecopier No.: (214) 777-1528

with a copy to:

Vinson & Elkins L.L.P.
1001 Fannin
Houston, Texas 77002-6760
Attention: William E. Joor III
Telecopier No.: (713) 758-2346

SECTION 10.3 Headings. The headings contained in this Agreement are for reference purposes only and shall not affect in any way the meaning or interpretation of this Agreement.

SECTION 10.4 Severability. If any term or other provision of this Agreement is invalid, illegal or incapable of being enforced by any rule of law or public policy, all other conditions and provisions of this Agreement shall nevertheless remain in full force and effect so long as the economic or legal substance of the transactions contemplated hereby is not affected in any manner materially adverse to any party. Upon such determination that any term or other provision is invalid, illegal or incapable of being enforced, the parties hereto shall negotiate in good faith to modify this Agreement so as to effect the original intent of the parties as closely as possible in an acceptable manner to the end that transactions contemplated hereby are fulfilled to the extent possible.

SECTION 10.5 Entire Agreement. This Agreement (together with the Annexes, the Company's Disclosure Letter and AEP's Disclosure Letter) constitutes the entire agreement of the parties, and supersedes all prior agreements and undertakings, both written and oral, among the parties, with respect to the subject matter hereof, other than the Confidentiality Agreement which shall remain in full force and effect with respect to the subject matter thereof.

SECTION 10.6 Assignment. This Agreement shall not be assigned by operation of Law or otherwise.

SECTION 10.7 Parties in Interest. This Agreement shall be binding upon and inure solely to the benefit of each party hereto, and, except for the beneficiaries of the indemnities and covenants contained in Sections 7.11, 7.10(d) and 7.10(f) herein, nothing in this Agreement, express or implied, is intended to or shall confer upon any other Person any right, benefit or remedy of any nature whatsoever under or by reason of this Agreement.

SECTION 10.8 Failure or Indulgence Not Waiver; Remedies Cumulative. No failure or delay on the part of any party hereto in the exercise of any right hereunder shall impair such right or be construed to be a waiver of, or acquiescence in, any breach of any representation, warranty, covenant or agreement herein, nor shall any single or partial exercise of any such right preclude other or further exercise thereof or of any other right. All rights and remedies existing under this Agreement are cumulative to, and not exclusive to, and not exclusive of, any rights or remedies otherwise available.

SECTION 10.9 Governing Law. This Agreement shall be governed by, and construed in accordance with, the Laws of the State of Delaware, regardless of the Laws that might otherwise govern under applicable principles of conflicts of law; *provided, however,* that any matter involving the internal corporate affairs of any party hereto shall be governed by the provisions of the state of its incorporation.

SECTION 10.10 Counterparts. This Agreement may be executed in multiple counterparts, and by the different parties hereto in separate counterparts, each of which when executed shall be deemed to be an original but all of which taken together shall constitute one and the same agreement.

IN WITNESS WHEREOF, each of the parties hereto has caused this Agreement to be executed as of the date first written above by their respective officers thereunto duly authorized.

AMERICAN ELECTRIC POWER COMPANY, INC.

By: _____
E. Linn Draper, Jr.
Chairman of the Board, President and Chief Executive Officer

AUGUSTA ACQUISITION CORPORATION

By: _____
Donald M. Clements, Jr.
President

CENTRAL AND SOUTH WEST CORPORATION

By: _____
E.R. Brooks
Chairman and Chief Executive Officer

ANNEX A

SCHEDULE OF DEFINED TERMS

The following terms when used in the Agreement shall have the meanings set forth below unless the context shall otherwise require:

"Acquisition Proposal" shall have the meaning ascribed to such term in Section 7.19.

"Affiliate" shall, with respect to any Person, mean any other Person that controls, is controlled by or is under common control with the former.

"Agreement" shall mean the Agreement and Plan of Merger made and entered into as of December 21, 1997 among AEP, Newco and the Company, including any amendments thereto and each Annex (including this Annex A) and including AEP's Disclosure Letter and the Company's Disclosure Letter.

"APCo" shall mean Appalachian Power Company, a Virginia corporation.

"Atomic Energy Act" shall mean shall mean the Atomic Energy Act of 1954, as amended, and the Regulations promulgated thereunder.

"AEP" shall mean American Electric Power Company, Inc., a New York corporation, and its successors from time to time.

"AEP Benefit Plans" shall mean Benefit Plans with respect to AEP and its Subsidiaries.

"AEP Common Stock" shall mean the voting common stock, par value $6.50 per share, of AEP.

"AEP Companies" shall have the meaning ascribed to such term in the first paragraph of the Agreement.

"AEP Required Consents" shall mean any Third Party Consents relating to AEP the failure of which to obtain could reasonably be expected to have a Material Adverse Effect on the Combined Companies.

"AEP Stockholders' Meeting" shall have the meaning ascribed to such term in Section 7.1.

"AEP's Audited Consolidated Financial Statements" shall mean the consolidated balance sheets of AEP and its Subsidiaries as of December 31, 1996, 1995 and 1994 and the related consolidated statements of operations and cash flows for each of the three fiscal years in the three-year period ended December 31, 1996, together with the notes thereto, all as audited by

Deloitte & Touche L.L.P., independent accountants, under their report with respect thereto dated February 25, 1997 and included in AEP's Annual Report on Form 10-K for the year ended December 31, 1996 filed with the Commission.

"AEP's Consolidated Financial Statements" shall mean AEP's Audited Consolidated Financial Statements and AEP's Unaudited Consolidated Financial Statements.

"AEP's Disclosure Letter" shall mean a letter of even date herewith delivered by AEP to the Company concurrently with the execution of the Agreement, which, among other things, shall identify exceptions to AEP's representations, warranties and covenants contained in this Agreement by specific section and subsection references.

"AEP's Unaudited Consolidated Financial Statements" shall mean the unaudited consolidated balance sheet of AEP and its Subsidiaries as of September 30, 1997 and the related consolidated statements of operations and cash flows for the three-month periods and nine-month periods ended September 30, 1996 and September 30, 1997, together with the notes thereto, included in AEP's Quarterly Report on Form 10-Q for the quarter ended September 30, 1997 filed with the Commission.

"Benefit Plans" shall mean, with respect to a specified Person, any employee pension benefit plan (whether or not insured), as defined in Section 3(2) of ERISA, any employee welfare benefit plan (whether or not insured) as defined in Section 3(1) of ERISA, any plans that would be employee pension benefit plans or employee welfare benefit plans if they were subject to ERISA, such as foreign plans and plans for directors, any stock bonus, stock ownership, stock option, stock purchase, stock appreciation rights, phantom stock, severance, employment, change-in-control, deferred compensation and any bonus or incentive compensation plan, agreement, program or policy (whether qualified or nonqualified, written oral), sponsored, maintained or contributed to by the specified Person or any of its Subsidiaries for the benefit of any of the present or former directors, officers, employees, agents, consultants or other similar representatives providing services to or for the specified Person or any of its Subsidiaries in connection with such services or any such plans which have been so sponsored, maintained, or contributed to within six years prior to the date of the Agreement; *provided, however,* that such term shall not include (a) routine employment policies and procedures developed and applied in the ordinary course of business and consistent with past practice, including wage, vacation, holiday and sick or other leave policies, (b) workers compensation insurance and (c) directors and officers liability insurance.

"Business Day" means any day other than a day on which banks in the State of Texas or the State of New York are authorized or obligated to be closed.

"Certificate of Merger" shall have the meaning ascribed to such term in Section 2.2.

"Charter Amendment" shall have the meaning ascribed to such term in Section 5.20.

"Change of Control Agreements" shall mean the change in control or severance agreements identified as such in Section 4.12(j) of the Company's Disclosure Letter.

"Closing" shall mean a meeting, which shall be held in accordance with Section 3.3, of all Persons interested in the transactions contemplated by the Agreement at which all documents deemed necessary by the parties to the Agreement to evidence the fulfillment or waiver of all conditions precedent to the consummation of the transactions contemplated by the Agreement are executed and delivered.

"Closing Date" shall mean the date of the Closing as determined pursuant to Section 3.3.

"Code" shall mean the Internal Revenue Code of 1986, as amended, and the rules and regulations promulgated thereunder.

"Combined Companies" shall mean, before the Merger, the AEP Companies (together with all of their Subsidiaries) and the Company (together with all of its Subsidiaries) considered as a single business enterprise as if the Merger had been consummated immediately prior to the time of consideration, and after the Merger shall mean AEP (together with its Subsidiaries).

"Commission" shall mean the Securities and Exchange Commission, a Governmental Authority of the United States Government, and its successors from time to time.

"Common Stock Exchange Ratio" shall mean 0.60, as adjusted pursuant to the second sentence of Section 3.1(a) of the Agreement.

"Company" shall mean Central and South West Corporation, a Delaware corporation, and its successors from time to time.

"Company Benefit Plans" shall mean Benefit Plans with respect to the Company and its Subsidiaries.

"Company Common Stock" shall mean the common stock, par value $3.50 per share, of the Company.

"Company Permitted Transactions" shall mean (i) those transactions described in Section 6.1 of the Company's Disclosure Letter and (ii) individual transactions not otherwise permitted by Section 6.2(a) the total investment (including debt and equity and other liability acquired or assumed) with respect to which does not exceed $50 million per annum or $150 million per annum when aggregated with all other such transactions, provided that no transactions entered into in reliance on this clause (ii) shall involve a total investment (including debt and equity and other liability acquired or assumed) in excess of $75 million per annum in any one country.

"Company Required Consents" shall mean any Third Party Consents relating to the Company the failure of which to obtain could reasonably be expected to have a Material Adverse Effect on the Combined Companies.

"Company Stockholders' Meeting" shall have the meaning ascribed to such term in Section 7.2.

"Company's Audited Consolidated Financial Statements" shall mean the consolidated balance sheets of the Company and its Subsidiaries as of December 31, 1996, 1995 and 1994 and the related consolidated and combined statements of operations and cash flows for each of the three fiscal years in the three-year period ended December 31, 1996, together with the notes thereto, all as audited by Arthur Andersen LLP, independent accountants, under their report with respect thereto dated February 28, 1997 and included in the Company's Annual Report on Form 10-K for the year ended December 31, 1996 filed with the Commission.

"Company's Consolidated Financial Statements" shall mean the Company's Audited Consolidated Financial Statements and the Company's Unaudited Consolidated Financial Statements.

"Company's Disclosure Letter" shall mean a letter of even date herewith delivered by the Company to the AEP Companies concurrently with the execution of the Agreement, which, among other things, shall identify exceptions to the Company's representations, warranties and covenants contained in this Agreement by specific section and subsection references.

"Company's Rights Agreement" shall mean that certain Rights Agreement entered into or to be entered into between the Company and a rights agent, substantially in the form previously filed with the Commission except for any amendments or modifications thereto contemplated in the Agreement.

"Company's Unaudited Consolidated Financial Statements" shall mean the unaudited consolidated balance sheet of the Company and its Subsidiaries as of September 30, 1997 and the related consolidated statements of operations and cash flows for the three-month periods and nine-month periods ended September 30, 1996 and September 30, 1997, together with the notes thereto, included in the Company's Quarterly Report on Form 10-Q for the quarter ended September 30, 1997 filed with the Commission.

"Confidentiality Agreement" shall mean that certain confidentiality agreement between AEP and the Company dated October 17, 1997, as amended.

"Control" (including the terms "controlled," "controlled by" and "under common control with") shall mean the possession, directly or indirectly or as trustee or executor, of the power to direct or cause the direction of the management or policies of a Person, whether through the ownership of stock or as trustee or executor, by contract or credit arrangement or otherwise.

"Controlled Group" shall mean any organization which is a member of a controlled group of organizations within the meaning of Code sections 414(b), (c), (m) or (o).

"Cook Nuclear Plant" shall mean the Donald C. Cook nuclear plant located in Bridgman, Michigan.

"Court" shall mean any court or arbitration tribunal of the United States, any foreign country or any domestic or foreign state, and any political subdivision thereof, and shall include the European Court of Justice.

"CP&L" shall mean Central Power and Light Company, a Texas corporation and a Subsidiary of the Company.

"CSPCo" shall mean Columbus Southern Power Company, an Ohio corporation.

"Current AEP Benefit Plans" shall mean Benefit Plans that are sponsored, maintained, or contributed to by AEP or any of its Subsidiaries as of the date of the Agreement.

"Current Company Benefit Plans" shall mean Benefit Plans that are sponsored, maintained, or contributed to by the Company or any of its Subsidiaries as of the date of the Agreement.

"Delaware Law" shall mean the General Corporation Law of the State of Delaware.

"Divestiture Event" shall mean any Law, Regulation or Order adopted or issued by a Governmental Authority that requires the divestiture of a substantial portion of the generating assets of the Company and its Subsidiaries, taken as a whole, or AEP and its Subsidiaries, taken as a whole.

"Domestic Public Utility Company" shall mean a company that provides electric energy directly to retail customers under rates, terms and conditions determined by a State Regulatory Commission; provided that no company shall be a Domestic Public Utility Company solely by reason of engaging in power marketing or brokering or the wholesale sale of electric energy.

"Effective Time" shall mean the date and time of the completion of the filing of the Certificate of Merger with the Secretary of State of the State of Delaware in accordance with Section 2.2.

"Environmental Law or Laws" shall mean any and all laws, statutes, ordinances, rules, regulations, or orders of any Governmental Authority pertaining to health or the environment currently in effect and applicable to a specified Person and its Subsidiaries, including the Clean Air Act, as amended, the Comprehensive Environmental, Response, Compensation, and Liability Act of 1980 ("CERCLA"), as amended, the Federal Water Pollution Control Act, as amended, the Occupational Safety and Health Act of 1970, as amended, the Resource Conservation and Recovery Act of 1976 ("RCRA"), as amended, the Safe Drinking Water Act, as amended, the Toxic Substances Control Act, as amended, the Hazardous & Solid Waste Amendments Act of 1984, as amended, the Superfund Amendments and Reauthorization Act of 1986, as amended, the Hazardous Materials Transportation Act, as amended, the Oil Pollution Act of 1990, as amended ("OPA"), any state or local Laws implementing the foregoing Federal Laws, and all other environmental conservation or protection Laws. For purposes of the Agreement, the terms "hazardous substance" and "release" have the meanings specified in CERCLA; *provided,*

however, that to the extent the Laws of the state or locality in which the property is located establish a meaning for "hazardous substance" or "release" that is broader than that specified in either CERCLA or RCRA, such broader meaning shall apply, and the term "hazardous substance" shall include all dehydration and treating wastes, waste (or spilled) oil, and waste (or spilled) petroleum products, and (to the extent in excess of background levels) radioactive material, even if such are specifically exempt from classification as hazardous substances pursuant to CERCLA or RCRA or the analogous statutes of any jurisdiction applicable to the specified Person or its Subsidiaries or any of their respective properties or assets.

"ERISA" shall mean the Employee Retirement Income Security Act of 1974, as amended, and the Regulations promulgated thereunder.

"Equity Securities" shall mean, with respect to a specified Person, any shares of capital stock of, or other equity interests in, or any securities that are convertible into or exchangeable for any shares of capital stock of, or other equity interests in, or any outstanding options, warrants or rights of any kind to acquire any shares of capital stock of, or other equity interests in, such Person.

"Exchange Act" shall mean the Securities Exchange Act of 1934 and the Regulations promulgated thereunder.

"Exchange Agent" shall mean a bank or trust company having a net worth in excess of $100 million designated and appointed to act in the capacities required thereof under Section 3.2.

"Exchange Fund" shall mean the fund of AEP Common Stock and cash in lieu of fractional interests and dividends and distributions, if any, with respect to such shares of AEP Common Stock established at the Exchange Agent pursuant to Section 3.2.

"Expenses" shall mean all reasonable out-of-pocket expenses (including all fees and expenses of counsel, accountants, investment bankers, experts and consultants to a party hereto and its affiliates) incurred by a party or on its behalf in connection with or related to the authorization, preparation, negotiation, execution and performance of the Agreement, the preparation, printing, filing and mailing of the Registration Statement, Joint Proxy Statement/Prospectus, the solicitation of stockholder approvals and all other matters related to the consummation of the transactions contemplated hereby.

"Federal Power Act" shall mean the Federal Power Act, as amended, and the Regulations promulgated thereunder.

"FERC" shall mean the Federal Energy Regulatory Commission, a Governmental Authority of the United States Government, and its successors from time to time.

"Final Order" shall mean an Order that has not been reversed, stayed, enjoined, set aside, annulled or suspended, with respect to which any waiting period prescribed by Law before the transactions contemplated hereby may be consummated has expired (but without the requirement

for expiration of any applicable rehearing or appeal period), and as to which all conditions to the consummation of such transactions prescribed by Law, Regulation or Order have been satisfied.

"Foreign Utility Company" shall mean a foreign utility company as defined in section 33(a)(3) of the Holding Company Act.

"GAAP" shall mean accounting principles generally accepted in the United States consistently applied by a specified Person.

"Governmental Authority" shall mean any governmental or regulatory agency or authority (other than a Court but including a stock exchange or other self-regulatory body) of or within the United States, any foreign country, or any domestic or foreign state, and any political subdivision thereof, and shall include any multinational authority having governmental or quasi-governmental powers.

"Holding Company Act" shall mean the Public Utility Holding Company Act of 1935, as amended, and the Regulations promulgated thereunder.

"HSR Act" shall mean the Hart-Scott-Rodino Antitrust Improvements Act of 1976, as amended, and the Regulations promulgated thereunder.

"I&M" shall mean Indiana Michigan Power Company, an Indiana corporation.

"IRS" shall mean the Internal Revenue Service, a Governmental Authority of the United States Government, and its successors from time to time.

"Joint Proxy Statement/Prospectus" shall have the meaning ascribed to such term in Section 7.3(a).

"KEPCo" shall mean Kentucky Power Company, a Kentucky corporation.

"Knowledge" shall mean, with respect to either the Company or AEP, the actual knowledge of any executive officer of such party after reasonable inquiry.

"KPC" shall mean Kingsport Power Company, a Virginia corporation.

"Law" shall mean all laws, statutes, ordinances, rules and regulations of the United States, any foreign country, or any domestic or foreign state, and any political subdivision or agency thereof, including all decisions of Courts having the effect of law in each such jurisdiction.

"Lien" shall mean any mortgage, pledge, security interest, encumbrance, lien or charge of any kind (including any agreement to give any of the foregoing), any conditional sale or other title retention agreement, any lease in the nature thereof or the filing of or agreement to give any financing statement under the Uniform Commercial Code of any jurisdiction.

"Material" shall mean material to the business, condition (financial or otherwise) or results of operations or prospects of a specified Person and its subsidiaries, if any, taken as a whole; *provided, however,* that, as used in this definition the word "material" shall have the meaning accorded thereto in Section 11 of the Securities Act.

"Material Contract" shall mean each contract, lease, indenture, agreement, arrangement or understanding to which a specified Person or any of its Subsidiaries is a party or to which any of the assets or operations of such specified Person or any of its Subsidiaries is subject that is of a type that would be required to be included as an exhibit to a registration statement on Form S-1 pursuant to Paragraph (2), (4) or (10) of Item 601(b) of Regulation S-K under the Securities Act if such a registration statement were to be filed by such Person under the Securities Act on the date of determination.

"Material Adverse Effect" shall mean any change or effect that is material and adverse to the business, condition (financial or otherwise) or results of operations or prospects of a specified Person and its subsidiaries, if any, taken as a whole; *provided, however,* that, as used in this definition the word "material" shall have the meaning accorded thereto in Section 11 of the Securities Act.

"Merger" shall have the meaning ascribed to such term in Section 2.1 of the Agreement.

"Newco" shall mean Augusta Acquisition Corporation, a Delaware corporation and a wholly-owned Subsidiary of AEP formed for the sole purpose of affecting the Merger.

"New York Law" shall mean the New York Business Corporation Law.

"NRC" shall mean the Nuclear Regulatory Commission, a Governmental Authority of the United States Government, and its successors from time to time.

"NYSE" shall mean the New York Stock Exchange, Inc.

"OPCo" shall mean Ohio Power Company, an Ohio corporation.

"Operating Company" shall have the meaning ascribed to such term in Section 4.9(b).

"Order" shall mean any judgment, order or decree of any Court or Governmental Authority, Federal, foreign, state or local. Any reference in the Agreement to the "receipt" or "obtaining" of any Order shall mean making such declarations, filings or registrations; giving such notices; obtaining such consents or approvals; and having such waiting periods expire as are necessary to avoid a violation of Law.

"Out-of-Pocket Expenses" shall have the meaning ascribed to such term in Section 9.6(b).

"PBGC" shall mean the Pension Benefit Guaranty Corporation.

"Permit" shall mean any and all permits, licenses, authorizations, orders, consents, certificates, registrations or other approvals granted by any Governmental Authority. Any reference in the Agreement to the "receipt" or "obtaining" of any Permit shall mean making such declarations, filings or registrations; giving such notices; obtaining such consents or approvals; and having such waiting periods expire as are necessary to avoid a violation of Law.

"Permitted Encumbrances" shall mean the following:

(1) liens for taxes, assessments and other governmental charges not delinquent or which are currently being contested in good faith by appropriate proceedings; *provided* that, in the latter case, the specified Person or one of its Subsidiaries shall have set aside on its books adequate reserves with respect thereto;

(2) mechanics' and materialmen's liens not filed of record and similar charges not delinquent or which are filed of record but are being contested in good faith by appropriate proceedings; *provided* that, in the latter case, the specified Person or one of its Subsidiaries shall have set aside on its books adequate reserves with respect thereto;

(3) liens in respect of judgments or awards with respect to which the specified Person or one of its Subsidiaries shall in good faith currently be prosecuting an appeal or other proceeding for review and with respect to which such Person or such Subsidiary shall have secured a stay of execution pending such appeal or such proceeding for review; *provided* that such Person or such Subsidiary shall have set aside on its books adequate reserves with respect thereto;

(4) easements, leases, reservations or other rights of others in, or minor defects and irregularities in title to, property or assets of a specified Person or any of its Subsidiaries; *provided* that such easements, leases, reservations, rights, defects or irregularities do not materially impair the use of such property or assets for the purposes for which they are held; and

(5) any lien or privilege vested in any lessor, licensor or permittor for rent or other obligations of a specified Person or any of its Subsidiaries thereunder so long as the payment of such rent or the performance of such obligations is not delinquent.

"Person" shall mean an individual, partnership, limited liability company, corporation, joint stock company, trust, estate, joint venture, association or unincorporated organization, or any other form of business or professional entity, but shall not include a Governmental Authority.

"Pooling Transaction" shall mean a business combination that qualifies for financial accounting purposes, as a pooling of interests pursuant to Accounting Principles Board Opinion 16 and the interpretations thereof and the Staff Accounting Bulletins of the Commission and the interpretations thereof.

"PSO" shall mean Public Service Company of Oklahoma, an Oklahoma corporation.

"Registration Statement" shall have the meaning ascribed to such term in Section 7.3(a).

"Regulation" shall mean any rule or regulation of any Governmental Authority having the effect of Law.

"Representatives" shall have the meaning ascribed to such term in Section 6.3.

"Reports" shall mean, with respect to a specified Person, all reports, registrations, filings and other documents and instruments required to be filed by the specified Person or any of its Subsidiaries with any Governmental Authority (other than the Commission).

"Required AEP Vote" shall have the meaning ascribed to such term in Section 5.20.

"Required Company Vote" shall have the meaning ascribed to such term in Section 4.20.

"Retention Agreements" shall mean the retention agreements described in Section 6.2(a) of the Company's Disclosure Letter.

"SEC Reports" shall mean (1) all Annual Reports on Form 10-K, (2) all Quarterly Reports on Form 10-Q, (3) all proxy statements relating to meetings of stockholders (whether annual or special), (4) all Current Reports on Form 8-K and (5) all other reports, schedules, registration statements or other documents required to be filed during a specified period by a Person with the Commission pursuant to the Securities Act or the Exchange Act.

"Securities Act" shall mean the Securities Act of 1933, as amended, and the Regulations promulgated thereunder.

"Seeboard" shall mean SEEBOARD plc, a company incorporated in England and a Subsidiary of the Company.

"Share Issuance" shall have the meaning ascribed to such term in Section 5.20.

"Significant Subsidiary" shall mean any subsidiary of the Company or AEP, as the case may be, that would constitute a Significant Subsidiary of such party within the meaning of Rule 1-02 of Regulation S-X of the Commission.

"South Texas Nuclear Facility" shall mean the South Texas nuclear project located in Bay City, Texas.

"State Regulatory Commissions" shall mean: the Public Utility Commission of the State of Texas; the Public Service Commission of the State of Arkansas; the Corporation Commission of the State of Oklahoma; the Public Service Commission of the State of Louisiana; the Indiana Utility Regulatory Commission; the Kentucky Public Service Commission; the Michigan Public

Service Commission; the Ohio Public Utility Commission; the Tennessee Regulatory Commission; the Virginia State Corporation Commission; and the West Virginia Public Service Commission.

"State Regulatory Acts" shall mean the utility Laws regulating Domestic Public Utility Companies in the States of Arkansas, Oklahoma, Texas, Louisiana, Indiana, Kentucky, Michigan, Ohio, Tennessee, Virginia and West Virginia; in each case, as amended, and the Regulations promulgated thereunder.

A "Subsidiary" of a specified Person shall be any corporation, partnership, limited liability company, joint venture or other legal entity of which the specified Person (either alone or through or together with any other subsidiary) owns, directly or indirectly, over 50% of the stock or other equity or partnership interests the holders of which are generally entitled to vote for the election of the board of directors or other governing body of such corporation or other legal entity.

"Superior Proposal" a bona fide written Acquisition Proposal which the Board of Directors of AEP or the Board of Directors of the Company, as the case may be, concludes in good faith (after consultation with its financial advisors and legal counsel), taking into account all legal, financial, regulatory and other aspects of the proposal and the Person making the proposal, (i) would, if consummated, result in a transaction that is more favorable to such party's stockholders, from a strategic and financial point of view, than the transactions contemplated by this Agreement and (ii) is reasonably capable of being completed (provided that for purposes of this definition the term Acquisition Proposal shall have the meaning assigned to such term in Section 7.19 except that the reference to "10%" in the definition of "Acquisition Proposal" shall be deemed to be a reference to "50%" and "Acquisition Proposal" shall only be deemed to refer to a transaction involving AEP or the Company, as the case may be, or with respect to assets (including the shares of any Subsidiary of AEP or the Company) of AEP or the Company, as the case may be, and its Subsidiaries, taken as a whole, and not any of its Subsidiaries alone).

"Surviving Corporation" shall mean the Company as the corporation surviving the Merger.

"SWEPCO" shall mean Southwestern Electric Power Company, a Delaware corporation and a Subsidiary of the Company.

"Target Party" shall have the meaning ascribed to such term in Section 9.6(b).

"Task Force" shall have the meaning ascribed to such term in Section 7.18.

"Tax Returns" shall mean all returns, reports or other documents (including information returns) required to be filed by or under any Law with any Governmental Authority with respect to Taxes.

"Taxes" shall mean all taxes, charges, imposts, tariffs, fees, levies or other similar assessments or liabilities, including income taxes, ad valorem taxes, excise taxes, withholding taxes, stamp taxes or other taxes of or with respect to gross receipts, premiums, real property,

personal property, windfall profits, sales, use, transfers, licensing, employment, payroll and franchises imposed by or under any Law; and such terms shall include any interest, fines, penalties, assessments or additions to tax resulting from, attributable to or incurred in connection with any such tax or any contest or dispute thereof.

"Terminated AEP Benefit Plans" shall mean Benefit Plans that were sponsored, maintained, or contributed to by AEP or any of its Subsidiaries within six years prior to the date of this Agreement but which have been terminated prior to the date of the Agreement.

"Terminated Company Benefit Plans" shall mean Benefit Plans that were sponsored, maintained, or contributed to by the Company or any of its Subsidiaries within six years prior to the date of this Agreement but which have been terminated prior to the date of the Agreement.

"Terminating AEP Breach" shall have the meaning ascribed to such term in subsection 9.1(c) of the Agreement.

"Terminating Company Breach" shall have the meaning ascribed to such term in subsection 9.1(b) of the Agreement.

"Termination Date" shall have the meaning ascribed to such term in Section 9.1(f).

"Termination Fee" shall have the meaning ascribed to such term in Section 9.6(a).

"Third Party Consents" shall have the meaning ascribed to such term in Section 7.4(d)(i).

"Topping Fee" shall have the meaning ascribed to such term in Section 9.6(b).

"WPC" shall mean Wheeling Power Company, a West Virginia corporation.

"WTU" shall mean West Texas Utilities Company, a Texas corporation and a Subsidiary of the Company.

ANNEX B
[Central and South West Corporation Affiliates]

AFFILIATE'S AGREEMENT

American Electric Power Company, Inc.
1 Riverside Plaza
Columbus, Ohio 43215-2373

Central and South West Corporation
1616 Woodall Rodgers Freeway
P.O. Box 660164
Dallas, Texas 75266-0164

Ladies and Gentlemen:

The undersigned has been advised that, as of the date hereof, the undersigned may be deemed to be an "affiliate" of Central and South West Corporation, a Delaware corporation (the "Company"), as that term is defined for purposes of paragraphs (c) and (d) of Rule 145 of the Rules and Regulations (the "Rules and Regulations") of the Securities and Exchange Commission (the "SEC") under the Securities Act of 1933, as amended (the "Securities Act").

Pursuant to the terms and subject to the conditions of that certain Agreement and Plan of Merger by and among American Electric Power Company, Inc., a New York corporation ("AEP"), Augusta Acquisition Corporation, a newly formed Delaware corporation and a wholly owned Subsidiary of AEP ("Newco"), and the Company dated as of December 21, 1997 (the "Merger Agreement"), providing for, among other things, the merger of Newco with and into the Company (the "Merger"), the undersigned will be entitled to receive shares of common stock, par value $6.50 per share ("AEP Common Stock"), of AEP in exchange for shares of common stock, par value $3.50 per share ("Company Common Stock"), of the Company owned by me at the effective time of the Merger (the "Effective Time") as determined pursuant to the Merger Agreement.

The undersigned understands that the Merger will be treated for financial accounting purposes as a "pooling of interests" in accordance with generally accepted accounting principles and that the staff of the SEC has issued certain guidelines that should be followed to ensure the application of pooling of interests accounting to the transaction.

In consideration of the agreements contained herein, AEP's and the Company's reliance on this letter in connection with the consummation of the Merger and for other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the undersigned hereby represents, warrants and agrees that the undersigned has not made and will not make any

sale, transfer or other disposition of (i) Company Common Stock or AEP Common Stock within the 30 day period prior to the date of the consummation of the Merger or (ii) AEP Common Stock received by the undersigned pursuant to the Merger or otherwise owned by the undersigned until after such time as financial statements of AEP that include at least 30 days of combined operations of the Company and AEP after the Merger shall have been publicly reported, unless the undersigned shall have delivered to AEP, prior to any such sale, transfer or other disposition, a written opinion from Deloitte & Touche L.L.P., independent public accountants for AEP, or a written no-action letter from the accounting staff of the SEC, in either case in form and substance reasonably satisfactory to AEP, to the effect that such sale, transfer or other disposition will not cause the Merger not to be treated as a "pooling of interests" for financial accounting purposes in accordance with generally accepted accounting principles and the rules, regulations and interpretations of the SEC and (iii) AEP Common Stock received by the undersigned pursuant to the Merger in violation of the Securities Act or the Rules and Regulations. The undersigned has been advised that the offering, sale and delivery of the shares of AEP Common Stock pursuant to the Merger will have been registered with the SEC under the Securities Act on a Registration Statement on Form S-4. The undersigned has also been advised, however, that since the undersigned may be deemed to be an affiliate of the Company at the time the Merger is submitted for a vote of the stockholders of the Company, AEP Common Stock received by the undersigned pursuant to the Merger can be sold by the undersigned only (i) pursuant to an effective registration statement under the Securities Act of 1933 (the "Securities Act"), (ii) in conformity with the volume and other limitations of Rule 145 promulgated by the SEC under the Securities Act, or (iii) in reliance upon an exemption from registration that is available under the Securities Act.

The undersigned also understands that instructions will be given to the transfer agent for AEP Common Stock with respect to AEP Common Stock to be received by the undersigned pursuant to the Merger and that there will be placed on the certificates representing such shares of AEP Common Stock, or any substitutions therefor, a legend stating in substance as follows:

> "These shares were issued in a transaction to which Rule 145 promulgated under the Securities Act of 1933 applies. These shares may only be transferred in accordance with the terms of such Rule and an Affiliate's Agreement between the original holder of such shares and AEP, a copy of which agreement is on file at the principal offices of AEP."

It is understood and agreed that the legend set forth above shall be removed upon surrender of certificates bearing such legend by delivery of substitute certificates without such legend if the undersigned shall have delivered to AEP an opinion of counsel, in form and substance reasonably satisfactory to AEP, to the effect that (i) the sale or disposition of the shares represented by the surrendered certificates may be effected without registration of the offering, sale and delivery of such shares under the Securities Act and (ii) the shares to be so transferred may be publicly offered, sold and delivered by the transferee thereof without compliance with the registration provisions of the Securities Act.

By its execution hereof, AEP agrees that it will, as long as the undersigned owns any AEP Common Stock to be received by the undersigned pursuant to the Merger, take all reasonable efforts to make timely filings with the SEC of all reports required to be filed by it pursuant to the Securities Exchange Act of 1934, as amended, and will promptly furnish upon written request of the undersigned a written statement confirming that such reports have been so timely filed.

If you are in agreement with the foregoing, please so indicate by signing below and returning a copy of this letter to the undersigned, at which time this letter shall become a binding agreement between us.

Very truly yours,

By: _____
Name:
Title:
Date:
Address:

ACCEPTED this ___ day
of _____, 1998

AMERICAN ELECTRIC POWER COMPANY, INC.

By: _____
Name:
Title:

CENTRAL AND SOUTH WEST CORPORATION

By: _____
Name:
Title:

ANNEX C
[AEP Affiliates]

AFFILIATE'S AGREEMENT

American Electric Power Company, Inc.
1 Riverside Plaza
Columbus, Ohio 43215-2373

Central and South West Corporation
1616 Woodall Rodgers Freeway
P.O. Box 660164
Dallas, Texas 75266-0164

Ladies and Gentlemen:

The undersigned has been advised that, as of the date hereof, the undersigned may be deemed to be an "affiliate" of American Electric Power Company, Inc., a New York corporation ("AEP"), as that term is defined in the Rules and Regulations (the "Rules and Regulations") of the Securities and Exchange Commission (the "Commission") under the Securities Act of 1933, as amended (the "Securities Act").

The undertakings contained in this Affiliate's Agreement are being given by the undersigned in connection with that certain Agreement and Plan of Merger by and among AEP, Augusta Acquisition Corporation, a newly formed Delaware corporation and a wholly owned Subsidiary of AEP ("Newco"), and Cypress, a Delaware corporation (the "Company") dated as of December 21, 1997 (the "Merger Agreement"), providing for, among other things, the merger of Newco with and into the Company (the "Merger").

The undersigned understands that the Merger will be treated for financial accounting purposes as a "pooling of interests" in accordance with generally accepted accounting principles and that the staff of the SEC has issued certain guidelines that should be followed to ensure the application of pooling of interests accounting to the transaction.

In consideration of the agreements contained herein, AEP's and the Company's reliance on this letter in connection with the consummation of the Merger and for other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the undersigned hereby represents, warrants and agrees that the undersigned has not made and will not make any sale, transfer or other disposition of (i) AEP Common Stock or Company Common Stock within the thirty day period prior to the date of the consummation of the Merger or (ii) AEP Common Stock owned by the undersigned until such time as financial statements that include at least 30

days of combined operations of the Company and AEP after the Merger shall have been publicly reported, unless the undersigned shall have delivered to AEP prior to any such sale, transfer or other disposition, a written opinion from Deloitte & Touche L.L.P., independent public accountants for AEP, or a written no-action letter from the accounting staff of the SEC, in either case in form and substance reasonably satisfactory to AEP, to the effect that such sale, transfer or other disposition will not cause the Merger not to be treated as a "pooling of interests" for financial accounting purposes in accordance with generally accepted accounting principles and the rules, regulations and interpretations of the SEC.

If you are in agreement with the foregoing, please so indicate by signing below and returning a copy of this letter to the undersigned, at which time this letter shall become a binding agreement between us.

Very truly yours,

By: _____
Name:
Title:
Date:
Address:

ACCEPTED this ___ day
of _____, 1998

CENTRAL AND SOUTH WEST CORPORATION

By: _____
Name:
Title:

AMERICAN ELECTRIC POWER COMPANY, INC.

By: _____
Name:
Title:

Central and South West Corporation
1616 Woodall Rodgers Freeway
Dallas, Texas 75202-1234

December 21, 1997

American Electric Power, Inc.
1 Riverside Plaza
Columbus, Ohio 43215

Ladies and Gentlemen:

This letter is delivered pursuant to the provisions of that certain Agreement and Plan of Merger (the "Agreement") dated of even date herewith by and among American Electric Power, Inc., a New York corporation ("Augusta"), Augusta Acquisition Corporation, a Delaware corporation and wholly-owned subsidiary of Augusta, and Central and South West Corporation, a Delaware corporation (the "Company"). This letter, together with all Sections attached, is referred to in the Agreement as the "Company's Disclosure Letter." Notwithstanding the use of the terms Material and Material Adverse Effect in the Agreement, the inclusion of a particular disclosure in this letter shall not mean that the item or matter so disclosed is Material or could reasonably be expected to have a Material Adverse Effect. All capitalized terms used but not defined herein have the same meanings herein as ascribed to them in the Agreement.

Very truly yours,

CENTRAL AND SOUTH WEST CORPORATION

By: E R Brooks
Name: E. R. Brooks
Title: Chairman and Chief Executive Officer

Accepted by:

AMERICAN ELECTRIC POWER, INC.

By: E R Brooks
Name:
Title:

INDEX TO THE COMPANY'S DISCLOSURE LETTER

Section 4.1

Organization and Qualification; Subsidiaries

Name of Subsidiary of the Company	*Significant Subsidiary*	*Jurisdiction of Organization*	*Equity Interest Beneficially Owned by the Company or Another Subsidiary (%)*
Central Power & Light Company	Yes	TX	100 of common stock
Public Service Company of Oklahoma	Yes	OK	100 of common stock
Southwestern Electric Power Company	Yes	DE	100 of common stock
Southwest Arkansas Utilities Corporation	No	AR	100
West Texas Utilities Company	Yes	TX	100 of common stock
Central and South West Services, Inc.	No	TX	100
CSW Leasing, Inc.	No	DE	80
CSW Credit, Inc.	No	DE	100
CSW Communications, Inc.	No	DE	100
CSWC Southwest Holdings, Inc.	No	DE	100
CSWC TeleChoice Management, Inc.	No	DE	100
Southwest TeleChoice Management, L.L.C.	No	DE	50
CSWC TeleChoice, Inc.	No	DE	100
CSW/ICG ChoiceCom, L.P.	No	DE	50.5
CSW Energy, Inc.	No	TX	100
CSW Services International, Inc.	No	DE	100

Name of Subsidiary of the Company	*Significant Subsidiary*	*Jurisdiction of Organization*	*Equity Interest Beneficially Owned by the Company or Another Subsidiary (%)*
DECCO II, L.L.C.	No	DE	100
Diversified Energy Contractors Company, L.L.C.	No	DE	100
Diversified Energy Contractors, L.P.	No	DE	100
Orange Cogen Funding Corporation	No	DE	50
Sweeny Cogeneration Limited Partnership	No	DE	50
CSW Development-I, Inc.	No	DE	100
Polk Power GP II, Inc.	No	DE	50
Polk Power GP, Inc.	No	DE	50
Orange Cogeneration GP II, Inc.	No	DE	50
Orange Cogeneration GP, Inc.	No	DE	50
CSW Mulberry II, Inc.	No	DE	100
CSW Mulberry, Inc.	No	DE	100
Polk Power Partners, L.P.	No	DE	*
Noah I Power GP, Inc.	No	DE	100
Noah I Power Partners, LP	No	DE	95.5
Brush Cogeneration Partners	No	DE	50

*CSW Mulberry, Inc. holds a 45.75% limited partnership interest and Polk Power GP, Inc. holds a 1% general partnership interest in Polk Power Partners, L.P. Under the Limited Partnership Agreement for Polk Power Partners, L.P., Polk Power GP, Inc. generally has the power and authority to manage the affairs of Polk Power Partners, L.P. and CSW Mulberry, Inc. has such rights and powers as are customary for a limited partner, including but not limited to the right (in proportion to its interest) to consent to major transactions.

Name of Subsidiary of the Company	*Significant Subsidiary*	*Jurisdiction of Organization*	*Equity Interest Beneficially Owned by the Company or Another Subsidiary (%)*
CSW Orange II, Inc.	No	DE	100
CSW Orange, Inc.	No	DE	100
Orange Cogeneration L.P.	No	DE	50
Sacramento Power, Inc.	No	DE	50
CSW Development-II, Inc.	No	DE	100
CSW Fort Lupton, Inc.	No	DE	100
Thermo Cogeneration Partnership	No	DE	50
Newgulf Power Venture, Inc.	No	DE	100
CSW Sweeny GP I, Inc.	No	DE	100
CSW Sweeny GP II, Inc.	No	DE	100
CSW Sweeny LP I, Inc.	No	DE	100
CSW Sweeny LP II, Inc.	No	DE	100
CSW Development-3, Inc.	No	DE	100
CSW Northwest GP, Inc.	No	DE	100
CSW Northwest LP, Inc.	No	DE	100
Northwest Power Company LLC	No	WA	50
CSW Power Marketing, Inc.	No	DE	100
CSW Nevada, Inc.	No	DE	100
CSW International, Inc.	Yes	DE	100
Chile Energy Holdings L.L.C.	No	Cayman Islands	100
CSW Coelba L.L.C.	No	Cayman Islands	100
Coelba Funding Company L.L.C.	No	Cayman Islands	69
CSW International Energy Development Ltd.	No	Mauritius	100

Name of Subsidiary of the Company	*Significant Subsidiary*	*Jurisdiction of Organization*	*Equity Interest Beneficially Owned by the Company or Another Subsidiary (%)*
CSW Power do Brasil Ltda.	No	Brazil	100
Latin American Energy Holdings, Inc.	No	DE	100
S.C.E.L. Empreendimentos e Participacoes Ltda.	No	Brazil	100
Sol Energia	No	Chile	100
Sol Energia Holdings I	No	Chile	100
Sol Energia Holdings II	No	Chile	100
Tenaska CSW International Ltd.	No	Mauritius	50
CSW International Two, Inc.	Yes	DE	100
CSW UK Finance Company	Yes	England and Wales	100
CSW Investments	Yes	England and Wales	100
SEEBOARD GROUP plc	Yes	England and Wales	100
SEEBOARD plc	Yes	England and Wales	100
Appliance Protect Limited	No	England and Wales	100
Direct Power Limited	No	England and Wales	100
Durelectricty Limited	No	England and Wales	100
Electricity (UK) Limited	No	England and Wales	100
Electricity 2000 Limited	No	England and Wales	100
Energy Express Limited	No	England and Wales	100
First Electricity Limited	No	England and Wales	100
First Gas Limited	No	England and Wales	100
Gas 2000 Limited	No	England and Wales	100
Home Electricity Company Limited	No	England and Wales	100

Name of Subsidiary of the Company	*Significant Subsidiary*	*Jurisdiction of Organization*	*Equity Interest Beneficially Owned by the Company or Another Subsidiary (%)*
Home Energy Company Limited	No	England and Wales	100
Home Gas Company Limited	No	England and Wales	100
Home Power Company Limited	No	England and Wales	100
Horizon Natural Gas Limited	No	England and Wales	100
Light & Power (UK) Limited	No	England and Wales	100
Longfield Insurance Company Limited	No	Isle of Man	100
Nene Electrical Installations Limited	No	England and Wales	100
Nene Maintenance Services Limited	No	England and Wales	100
Powercare Limited	No	England and Wales	100
Premier Electricity Limited	No	England and Wales	100
Premier Utilities Limited	No	England and Wales	100
Seeb Limited	No	England and Wales	100
Seeboard (Consulting) Limited	No	England and Wales	100
Seeboard (Distribution) Limited	No	England and Wales	100
Seeboard (Generation) Limited	No	England and Wales	100
Seeboard Insurance Company Limited	No	Isle of Man	100
Seeboard (Property Development) Limited	No	England and Wales	100
Seeboard Final Salary Pension Plan Trustee Company Limited	No	England and Wales	100

Name of Subsidiary of the Company	*Significant Subsidiary*	*Jurisdiction of Organization*	*Equity Interest Beneficially Owned by the Company or Another Subsidiary (%)*
Seeboard International Limited	No	England and Wales	100 of ordinary shares
Seeboard Natural Gas Limited	No	England and Wales	100
Beacon Gas Limited	No	England and Wales	50
SEEBOARD Pension Investment Plan Trustee Company Limited	No	England and Wales	100
SEEBOARD Powerlink Limited	No	England and Wales	100
Seeboard Share Scheme Trustees Limited	No	England and Wales	100
SEEBOARD Trading Limited	No	England and Wales	100
Seepower Limited	No	England and Wales	100
Selectricity Limited	No	England and Wales	100
South Eastern Electricity Board Limited	No	England and Wales	100
South Eastern Electricity Limited	No	England and Wales	100
South Eastern Services Limited	No	England and Wales	100
South Eastern Utilities Limited	No	England and Wales	100
Southern Gas Limited	No	England and Wales	100
Torch Natural Gas Limited	No	England and Wales	100
UK Electricity Limited	No	England and Wales	100
UK Light and Power Limited	No	England and Wales	100
CSW International Three, Inc.	No	DE	100
CSW International (UK), Inc.	No	DE	100

Name of Subsidiary of the Company	*Significant Subsidiary*	*Jurisdiction of Organization*	*Equity Interest Beneficially Owned by the Company or Another Subsidiary (%)*
Energia International de CSW S.A. de C.V.	No	Mexico	100
Enertek S.A. de C.V.	No	Mexico	50.21
Energy Services, Inc.	No	DE	100
CP&L Capital I	No	DE	100 of common interests
PSO Capital I	No	DE	100 of common interests
SWEPCO Capital I	No	DE	100 of common interests
CSW International, Inc. (Cayman)	No	Cayman Islands	100
CSW Vale LLC	No	Cayman Islands	100
EnerShop Inc.	No	DE	100

Section 4.3(a)

Capitalization - Company Common Stock

As of November 7, 1997, 10,410,363 shares of Company Common Stock were reserved for future issuance for the following purposes and in the following amounts:

PowerShare direct purchase program	2,018,840 shares
Central and South West Corporation Retirement Savings Plan	4,392,722 shares
Central and South West Corporation 1992 Long Term Incentive Plan	3,912,100 shares
CSW Directors' Compensation Plan	86,701 shares

Section 4.3(c)

Capitalization - Significant Subsidiary Stock

As of November 7, 1997, the following is the authorized, issued and outstanding capital stock of, or other equity interest in, each of the Company's Significant Subsidiaries:

Name	*Shares Authorized*	*Shares Issued and Outstanding*
Central Power & Light Company	12,000,000 Common 3,035,000 Preferred	6,755,535 Common 1,659,524 Preferred
Public Service Company of Oklahoma	11,000,000 Common 700,000 Preferred	9,013,000 Common 52,709 Preferred
Southwestern Electric Power Company	7,600,000 Common 560,000 Preferred	7,536,640 Common 321,043 Preferred
West Texas Utilities Company	7,800,000 Common 60,000 Preferred	5,488,560 Common 23,675 Preferred
CSW International, Inc.	1,000 Common	1,000 Common
CSW International Two, Inc.	1,000 Common	1,000 Common
CSW UK Finance Company	1,000,000,000 shares	474,750,003 shares
CSW Investments	1,000,000,000 Class A/B/C/D shares	527,500,000 Class C shares 225,000,000 Class D shares
SEEBOARD GROUP plc	1,000,000 shares	50,001 shares
SEEBOARD plc	400,000,000 ordinary shares 1 red preferred share	250,493,705 ordinary shares no red preferred share

All of the shares, other than the preferred shares, reflected as outstanding above are owned by the Company or a Subsidiary of the Company. No shares of preferred stock reflected above are owned by the Company or any of its Significant Subsidiaries.

Section 4.5(a)

Utility Regulation

Name	*Regulatory Authority*
Central Power & Light Company	State of Texas; FERC
Public Service Company of Oklahoma	State of Oklahoma; FERC
Southwestern Electric Power Company	States of Texas, Arkansas and Louisiana; FERC
West Texas Utilities Company	State of Texas; FERC
CSW/ICG ChoiceCom, L.P.	States of Texas and Oklahoma; FCC
CSW International, Inc.	
• Brazil	Agencia Nacional de Energia Electrica (ANEEL); Departmento Nacional de Aguase Energia Electrica (DNAEE)
• Mexico	Comision Reguladora de Energia (CRE)
• Chile	Regulated Market (greater than 2000 kW) - Ministry of the Economy and National Energy Commission; Spot Market (generators) - Economic Load Dispatch (CDEC); Free Market (greater than 2000 kW) - freely negotiated
• England and Wales	Electricity Act 1989; Office of Electricity Regulation
CSW Energy, Inc.*	
• Brush Cogeneration and Thermo Cogeneration	State of Colorado
• Polk Power and Orange Cogeneration	State of Florida
• Sweeny Cogeneration	State of Texas
CSW Power Marketing, Inc.	FERC

12

* Qualifying Facility projects listed above are indirectly rate regulated based on avoided costs.

By order issued January 24, 1997, the SEC authorized the Company to invest the proceeds of the issuance and sale of common stock and debt in exempt wholesale generators ("EWGs") and foreign utility companies ("FUCOs"), as those terms are defined in sections 32 and 33 of the Holding Company Act, and to guarantee the obligations of such entities in an amount, when added to the Company's aggregate investment in all such entities, of up to 100% of the Company's consolidated retained earnings. In connection with such approval granted by the SEC, the Company made certain agreements with the Public Utility Commission of Texas ("PUCT") and with the Arkansas Public Service Commission ("APSC").

In its agreement with the PUCT, the Company agreed to generally comply with the requirements of PUCT Substantive Rule 23.18, and in its agreement with the APSC, the Company and SWEPCO agreed that electric rates charged to Arkansas ratepayers would not be adversely affected as a result of the Company's investments in FUCOs, EWGs, or other non-regulated businesses. The Company and SWEPCO also agreed if SWEPCO's bond ratings are downgraded to certain levels and for certain periods as specified in the agreement, due in whole or in part to CSW's investments in FUCOs, EWGs, or other non-regulated businesses, SWEPCO and the Company agree to a divestiture of SWEPCO transmission and distribution assets by written order of the APSC and under the procedures described in the agreement.

Section 4.5(b)

Approvals

The Company and its Subsidiaries must comply with the applicable requirements of the following Laws, Regulations and Orders in connection with the execution, delivery or performance of the Agreement or any instrument required to be executed and delivered by the Company or any of its Subsidiaries at the Closing:

(i) the Securities Act;
(ii) the Exchange Act;
(iii) the Holding Company Act;
(iv) the Federal Power Act;
(v) the Communications Act;
(vi) the applicable state statutory provisions, commission rules and general orders in Arkansas, Louisiana, Oklahoma and Texas;
(vii) the Atomic Energy Act;
(viii) state securities or blue sky laws;
(ix) the HSR Act;
(x) the NYSE; and
(xi) the filing and recordation of appropriate merger documents as required by the Delaware Law.

Although the mergers of Central and South West Corporation into Augusta Acquisition Corporation is not itself subject to any governmental approval in the United Kingdom, the fact that each of Central and South West Corporation and American Electric Power Company, Inc. has ownership interests in regional electricity companies may give rise to regulatory review in the United Kingdom.

Section 4.7(c)

No Omissions of Liabilities or Obligations

Reference is made to Section 4.10 of the Company's Disclosure Letter for a description of CP&L Municipal Franchise fee litigation.

Section 4.8(a)

Material Adverse Change

1. Those matters, liabilities and obligations excepted from the application of Section 4.7(c) of the Agreements because (i) they are disclosed in the Company's SEC Reports filed with the Commission prior to the date hereof or (ii) they are adequately reflected, reserved for or disclosed in the Company's Consolidated Financial Statements.

2. Those actions, suits, investigations or proceedings identified in Section 4.10 of this Company's Disclosure Letter or excepted from the application of Section 4.10 of the Agreement because they are fully and accurately disclosed in the Company's SEC Reports filed with the Commission prior to the date hereof.

3. Those matters disclosed in Section 4.14 of this Company's Disclosure Letter or excepted from the application of Section 4.14 of the Agreement because they are disclosed in the Company's SEC Reports filed with the Commission prior to the date hereof.

Section 4.8(b)

Proscribed Conduct

None.

Section 4.9(b)

South Texas Nuclear Facility

None.

Section 4.10

Litigation; Compliance with Laws

Franchise Fee Litigation

On May 13, 1996, the cities of San Juan and Pharr, Texas filed separate suits against CP&L in Hidalgo County, Texas based on CP&L's alleged underpayment of franchise payments to the cities. On December 31, 1996, the City of San Benito, Texas filed a similar suit in Cameron County, Texas. The City of San Juan filed its suit both individually, and as a class representative of the cities served by CP&L, in the 206th District Court of Hidalgo County. The City of Pharr filed its suit individually in the 332nd District Court of Hidalgo County and the City of San Benito filed its suit individually in the 357th District Court of Cameron County. The cities are represented by Ramon Garcia, a plaintiff's lawyer in Edinburg, Texas, who is also the Hidalgo County Democratic Party Chairman. CP&L has retained Morris Atlas, Bob Galligan, and Juan Hinojosa as local counsel in the San Juan and Pharr cases, and Ruben Pena as local counsel in the San Benito case.

Each of these cities asserts causes of action against CP&L for breach of contract, fraud, unjust enrichment, and negligent misrepresentation, and also asserts certain audit rights under CP&L's franchise ordinances. The cities seek payment of franchise fees based on revenues which appear to be outside the scope of CP&L's franchise ordinances (which require payment based on CP&L's sale of electricity) and on which CP&L has historically not paid franchise fees. Pharr and San Juan have indicated that they are primarily interested in transmission and wheeling revenues. San Benito has indicated that it is interested in CP&L's revenues from a power plant located within the city limits. CP&L has filed a counterclaim in each of the cases asserting that it is entitled to recover overpayments made to the cities pursuant to the franchise ordinances.

A class certification hearing in the San Juan case was held over four days between February and June 1997. On July 15, 1997, Judge Evins signed an order certifying the class on all claims. CP&L perfected an interlocutory appeal to the Corpus Christi Court of Appeals the next day. Following the submission of briefs, oral argument was held on December 17, 1997.

In related franchise fee litigation brought by the City of Wharton, HL&P received an adverse opinion from the Houston Court of Appeals affirming the trial court's certification of a class of HL&P cities. In late June, the Texas Supreme Court dismissed HL&P's appeal for lack of jurisdiction. The Court of Appeals' opinion could affect CP&L's ability to successfully contest the San Juan class on appeal. Class certification does not impact the merits of the litigation, but certainly raises the stakes at issue. HL&P has filed motions for summary judgment on certain issues that will also be raised in the litigation against CP&L. No hearings on these motions have taken place.

Rate Matters

On December 17, 1997, the Louisiana Public Service Commission initiated a proceeding to review SWEPCO's rates in Louisiana. The staff of the Arkansas Public Service Commission has indicated that it will review the rates of all investor-owned utilities in Arkansas, other than Entergy (which just completed a rate review), beginning in 1998.

Section 4.12(a)

Employee Benefit Plans - Company Benefit Plans

Central and South West Corporation Cash Balance Retirement Plan
Three officers of the Company (Thomas V. Shockley, III, Ferd. C. Meyer, Jr. and Thomas M. Hagan) are entitled to credit for 30 years of service under the prior (before amendment of the Plan) pension formula in the Cash Balance Retirement Plan if they retire on or after obtaining the age of 60.
Central and South West Corporation Retirement Savings Plan
Central and South West System Medical Plan - (Active and Retiree Provisions)
Central and South West System Group Life Insurance Plan - (Active and Retiree Provisions)
Central and South West System Employees' Disability Income Plan
Central and South West System Accident Protection Plan
Central and South West System Health Care Reimbursement Plan
Central and South West System Dependent Care Assistance Plan
Central and South West System Employees' Cafeteria Plan
Central and South West Corporation Special Executive Retirement Plan
Central and South West System Supplemental Disability Income Plan
Central and South West Corporation Executive Deferred Compensation Plan
Central and South West Corporation Executive Deferred Savings Plan
Central and South West Corporation 1992 Long-Term Incentive Plan
Central and South West Corporation Annual Incentive Plan
Central and South West Corporation Memorial Gifts Program
Central and South West Corporation Directors Compensation Plan, including:
- Central and South West Corporation 1985 Deferred Compensation Plan for Directors
- Central and South West Corporation Deferred Savings Plan for Directors
- Central and South West Corporation Medical Reimbursement Plan for Outside Directors
- Central and South West Corporation Memorial Gifts Program

Central and South West Corporation Severance Benefit Plan
Central and South West Corporation PayDay Plus
CSW Energy, Inc. Incentive Plan
CSW EnerShop Annual Incentive Plan
ChoiceCom Sales Commission Plan
ChoiceCom Bonus Review
1997 Sales Compensation Plan - Mass Markets
1997 Sales Compensation Plan - Middle Markets
Central and South West Corporation Educational Assistance Program
Central and South West Corporation Employees Assistance Plan
16 Change of Control Severance Agreements with Current Executives
20 Benefit Agreements with Former Executives
CSW Key Contributor Program

CSW Relocation Program for Exempt Employees
CSW Redeployment Program
Electricity Supply Pension Scheme
SEEBOARD Final Salary Pension Plan
SEEBOARD Pension Investment Plan
SEEBOARD Sharesave Plan
SEEBOARD Management Incentive Plan
Employments Agreements with employees in the U.K. required under U.K. Law.

Section 4.12(c)

Employee Benefit Plans - Qualified Status of Current Plans

(iii) Benefit Plan Amendments Since Favorable Determination Letter

1. The Cash Balance Retirement Plan (formerly, the Pension Plan) last received a favorable determination letter on April 8, 1997. That plan has been amended and restated effective July 1, 1997. The Company has not yet applied for a determination letter for that plan as amended and restated.

2. The Retirement Savings Plan (formerly, the Thrift Plus Plan) last received a favorable determination letter on October 26, 1994. That plan has been amended and restated effective July 1, 1997. The Company has not yet applied for a determination letter for that plan as amended and restated.

(iv) Benefit Plan Operations Affecting Qualified Status

1. The survivor annuities paid to certain spouses of deferred vested participants under the Cash Balance Retirement Plan in instances when the spouse was more than five years younger than the participant were calculated improperly. Specifically, an erroneously calculated actuarial reduction resulted in a smaller distribution for some individuals than was required. The estimated liability to pay amounts owned to the affected individuals is approximately $50,000. The Company intends to submit this defect to the Internal Revenue Service under the Voluntary Compliance Resolution Program (the "VCR Program").

2. For years 1992-1997, a smaller matching contribution was made under the Retirement Savings Plan to some participants than was required. The estimated liability to pay amounts owed to the affected participants is $500,000. The Company intends to submit this defect to the Internal Revenue Service under the VCR Program. The filing fee for the VCR Program will be $10,000.

Section 4.12(h)

Employee Benefit Plans - Timely Contributions

See "Benefit Plan Operations Affecting Qualified Status" in Section 4.12(c) of the Company's Disclosure Letter.

Section 4.12(j)

Employee Benefit Plans - Excess Parachute Payments

The Company has entered into the change in control agreements identified below and will enter into Retention Agreements with key employees following execution of the Agreement. In addition, the Long-Term Incentive Plan provides for the acceleration of certain benefits upon the consummation of the transactions contemplated in the Agreement. A portion of the payments made pursuant to these agreements would be reasonably likely to be non-deductible under Section 280G of the Internal Revenue Code of 1986, as amended.

Change-in-Control Agreements:

1. That certain Change in Control Agreement between Central and South West Corporation and E.R. Brooks, dated December 30, 1996.

2. That certain Change in Control Agreement between Central and South West Corporation and Thomas V. Shockley, III.

3. That certain Change in Control Agreement between Central and South West Corporation and Ferd. C. Meyer, Jr., dated November 20, 1996.

4. That certain Change in Control Agreement between Central and South West Corporation and Glenn Files, dated December 20, 1996.

5. That certain Change in Control Agreement between Central and South West Corporation and Thomas M. Hagan, dated November 19, 1996.

6. That certain Change in Control Agreement between Central and South West Corporation and Venita McCellon-Allen, dated November 19, 1996.

7. That certain Change in Control Agreement between Central and South West Corporation and Richard H. Bremer, dated November 27, 1996.

8. That certain Change in Control Agreement between Central and South West Corporation and Robert L. Zemanek, dated December 20, 1996.

9. That certain Change in Control Agreement between Central and South West Corporation and Terry D. Dennis, dated December 20, 1996.

10. That certain Change in Control Agreement between Central and South West Corporation and T.J. Ellis, dated December 5, 1996.

11. That certain Severance Agreement between Central and South West Corporation and Richard P. Verret, dated December 20, 1996.

12. That certain Change in Control Agreement between Central and South West Corporation and Bruce Evans, dated December 20, 1996.

13. That certain Change in Control Agreement between Central and South West Corporation and Pete Churchwell, dated December 20, 1996.

14. That certain Severance Agreement between Central and South West Corporation and Floyd Nickerson, dated December 20, 1996.

15. That certain Change in Control Agreement between Central and South West Corporation and Glenn D. Rosilier, dated December 20, 1996.

16. That certain Change in Control Agreement between Central and South West Corporation and Michael D. Smith, dated December 20, 1996.

Section 4.12(k)

Employee Benefit Plans - No Required Increase in Contributions

1. The Change in Control Agreements discussed in Section 4.12(j) of the Company's Disclosure Letter provide certain increased contributions, increased benefits and additional vesting and service credits.

2. Upon consummation of the transactions contemplated by the Agreement, (i) all stock options granted pursuant to the Long-Term Incentive Plan become immediately exercisable, (ii) all restrictions and conditions lapse with respect to restricted stock awards granted under that plan and (iii) all performance units granted under that plan are deemed fully earned.

Section 4.12(m)

Employee Benefit Plans - Retiree Benefits

1. The Company provides retiree medical benefits and retiree life insurance benefits to eligible retirees.

2. The Company provides retiree medical benefits to eligible retired directors.

3. The Company has entered into 20 agreements with certain former executives that provide for retiree medical benefits and/or retiree life insurance benefits and for accelerated or increased contributions, benefits, vesting and service credits.

Section 4.12(o)

Employee Benefit Plans - Collective Bargaining Contracts

The contract between PSO and IBEW Local Union No. 1012 expired on September 30, 1996. The Company negotiated with this local from July 24, 1996 until December 19, 1996, when PSO declared an impasse and implemented the provisions of the proposed contract. On January 23, 1997, the union filed an unfair labor practice grievance against PSO. A hearing has been scheduled in March 1998 by the National Labor Relations Board.

Section 4.12(p)

Funding of Certain Benefits

The Company has created and funded a rabbi trust for $500.

Section 4.13(b)

Taxes - Audits

The following tax returns have not been audited:

Federal Income Tax

The Federal income tax returns of the Company and its consolidated subsidiaries for the tax years 1993, 1994, 1995 and 1996 are currently under audit.

State Income/Franchise Tax

The Company and its consolidated subsidiaries operate in a number of states. Consequently, various tax returns from the years 1990 through 1997 are currently under audit.

United Kingdom

UK Tax Returns for all accounting periods up to and including the period ended March 31, 1994 have been agreed with and closed by UK Inland Revenue. Accounting periods subsequent to March 31, 1994 are currently under audit.

The following audits have not become final:

Federal Income Tax

The Federal income tax returns of the Company and its consolidated subsidiaries for the tax years through 1992 have been audited, and the Company is awaiting a tax refund. The Company is not currently pursuing appeals or litigation with respect to such years.

State Income/Franchise Tax

The Company and its consolidated subsidiaries operate in a number of states. Consequently, various tax returns from the years 1990 through the current year are currently under audit.

The following federal Tax Returns' statutes of limitations have been extended as set forth below:

Federal Income Tax

Tax years 1990, 1991 and 1992 have been extended through December 31, 1997.
Tax years 1993 and 1994 have been extended through September 15, 1999.

Section 4.13(c)

Taxes - Extensions of Time

See the disclosure provided in Section 4.13(b) of the Company's Disclosure Letter for extensions of time for the assessment or payment of any Tax due with respect to the period covered by any Tax Return.

Section 4.13(e)

Taxes - Affiliated Group

None.

Section 4.14

Environmental Matters

1. Anglo Iron Metal ("Anglo"), a salvage yard, alleges that several years ago Central Power & Light Company ("CP&L") sold it capacitors that have released contaminants on Anglo's property. Anglo has worked out an agreement with the United States Environmental Protection Agency ("EPA") to clean up the site under the Texas Natural Resource Conservation Commission ("TNRCC") Voluntary Cleanup Program and pay an undisclosed penalty. Anglo has asked CP&L to participate in cleanup and disposal activities. Anglo has notified CP&L that it has documents which it believes indicate a strong correlation between CP&L and PCBs at Anglo's facility. CP&L has declined to participate in Anglo's cleanup.

2. The Texas Water Commission requested that Southwestern Electric Power Company ("SWEPCO") sample in 1991 for selenium levels in fish at the Welsh and Pirkey Power plants' lakes. Based on those results, the Texas Department of Health issued an advisory regarding consumption of fish in these lakes.

3. The Oklaunion power generating facility maintains ponds into which wastewater is pumped and allowed to evaporate. Through regular monitoring, West Texas Utilities Company ("WTU") discovered that the ponds' permeability index was higher than the standards recommended by the Texas Water Commission. WTU voluntarily instituted corrective action to lower the permeability. The plan is to lower the levels of leakage. WTU is reporting its progress to the Texas Water Commission.

4. The Company and its Subsidiaries have several "grandfathered" gas-fired units in Texas. Because of the age of these plants, the plants are not required to have air permits. Texas is considering air quality legislation which, if passed, could require the "grandfathered" plants to incur air compliance costs, which costs could be substantial.

5. Some of the Subsidiaries' facilities have exceeded opacity limits. These excesses have been disclosed to the government and discussed with Representatives of Augusta.

6. A Subsidiary has exceeded an aluminum limitation in a water discharge permit. This has been reported to the government and discussed with Representatives of Augusta.

7. A Subsidiary has exceeded a copper limitation in a water discharge permit. This has been reported to the government and discussed with Representatives of Augusta.

8. EPA recently promulgated a more stringent National Ambient Air Quality Standard ("NAAQS") for particulates. While there is uncertainty about what will ultimately be required in response to this standard, there is a potential for the impact of the standard on the Company and its Subsidiaries to be substantial.

9. EPA recently promulgated a more stringent NAAQS for ozone. While there is uncertainty about what will ultimately be required in response to this standard, there is a potential for the impact of the standard on the Company and its Subsidiaries to be substantial. The Company has provided its worst case cost estimates with respect to this new standard to Representatives of Augusta.

Section 4.15

Insurance

The Company's Neil I Insurance policy relating to the South Texas Nuclear Plant was canceled after the Company sued to collect on a denied claim. Such insurance policy was later retroactively reinstated as if the cancellation had never taken place.

Section 4.17

Affiliates

Board of Directors of CSW

Glenn Biggs
Molly Shi Boren
E.R. Brooks
Donald M. Carlton
T.J. Ellis
Glenn Files
Joe H. Foy
Robert W. Lawless
James L. Powell
Thomas V. Shockley, III
Dr. Richard L. Sandor
Lloyd D. Ward

Executive Officers of CSW

E.R. Brooks	Chairman and Chief Executive Officer
Thomas V. Shockley, III	President and Chief Operating Officer
Glenn Files	Executive Vice President
Ferd. C. Meyer, Jr.	Senior Vice President and General Counsel
Glenn D. Rosilier	Senior Vice President and Chief Financial Officer
Thomas M. Hagan	Senior Vice President, External Affairs
Venita McCellon-Allen	Senior Vice President, Corporate Development and Assistant Corporate Secretary
Kenneth C. Raney, Jr.	Vice President, Associate General Counsel and Corporate Secretary
Stephen J. McDonnell	Vice President, Mergers and Acquisitions
Lawrence B. Connors	Controller
Wendy G. Hargus	Treasurer

Business Unit Heads

Central and South West Services, Inc.

Richard H. Bremer	President, Energy Services
Richard P. Verret	President, Power Generation
Robert L. Zemanek	President, Energy Delivery

SEEBOARD, plc

T.J. Ellis	Chairman and Chief Executive

Central Power & Light Company

M. Bruce Evans	President

Public Service Company of Oklahoma

T.D. Churchwell	President

Southwestern Electric Power Company

Michael D. Smith	President

West Texas Utilities Company

Floyd W. Nickerson	President

CSW Energy, Inc.

Terry D. Dennis	President and Chief Executive Officer

CSW International, Inc.

Terry D. Dennis	President and Chief Executive Officer

CSW Communications, Inc.

Donald A. Shahan	President

EnerShop Inc.

Richard H. Bremer	President

CSW Credit, Inc.

Glenn D. Rosilier	President

CSW Leasing, Inc.

Glenn D. Rosilier	President

Other Affiliates

See Section 4.1 of the Company's Disclosure Letter for a listing of subsidiaries of the Company that may be deemed to be "affiliates" of the Company as that term is used in Rule 145 under the Securities Act.

Section 4.19

Brokers

The terms of that certain engagement letter by and between the Company and Credit Suisse First Boston ("CSFB") provide for the payment to CSFB of £3,000,000 in the event that the Company acquires all or any part of Yorkshire Electricity Group PLC within one year following the termination of such agreement.

Section 6.1

Company Permitted Transactions

The following descriptions of Company Permitted Transactions contain information in addition to that necessary to identify the transactions as Company Permitted Transactions. Such additional information shall not be deemed to be a requirement that a Company Permitted Transaction be undertaken in precisely the manner described. Changes in the scope and investment of a transaction that are not substantial (as measured against such transaction taken as a whole) shall be permitted.

Active Projects:

Afsin-Elbistan A - Turkey

Description: CSW International, Inc. ("CSWI") is planning to refurbish 4 lignite plants located between the cities of Afsin and Elbistan, Turkey for approximately US$750 million. The plants provide power totaling approximately 1376MW. The funds for the refurbishment are expected to be provided through the revenues from electric sales from the plants and will not be equity-funded. An additional approximately $100 million equity may be required if CSWI pursues the additional Elbistan B project which is adjacent to the Elbistan A project.

During the next five years, CSWI will build two additional approximately 344MW power plants for approximately US$1.6 billion The construction is expected to be funded through plant revenue-streams with no equity requirements. The contract provides for a 20 year concession to operate the plants, with the return of all assets to the Turkish government at the end of the concession period. CSWI expects to operate the plants. The plants are mine-mouth, and the mines are expected to be operated by North American Coal. The project is expected to begin in the second quarter of 1998 and is expected to require an initial equity investment by CSWI of approximately US$60 million. In addition, during 1998 CSWI will establish a working capital line of credit of up to approximately US$150 million. The refurbishment and construction is expected to be funded through cash flows of four existing plants.

Estimated Commitments:		
	1997 Commitment:	US$0
	1998 Commitment:	US$60 million plus US$150 million working capital line of credit
	1999 Commitment:	US$100 million

Partners: CSWI - 22.5%
North American Coal - 22.5%
ERG Insaat Ticaret Ve Sanayi A.S. (Turkish engineering firm) - 55%

Status: Executed Memorandum of Understanding.
Initial draft of Shareholders Agreement.
Government approval required.

Sunshine (Chilgener - Chile)

Description: CSWI is purchasing an ownership share in a public Chilean generating company, Chilgener. CSWI has acquired a 4.9% interest, for approximately US$110 million, in Chilgener through direct purchases on the Chilean stock market. CSWI's ownership in Chilgener is not disclosed publicly. CSWI intends to purchase up to a 20% ownership in Chilgener during the first quarter of 1998. This additional investment is expected to cost approximately US$400 million. In 1998, CSWI expects to undertake financing of approximately US$510 million, resulting in a debt/equity ratio of approximately 75/25.

Estimated Commitments:		
	1997 Commitment:	US$112 million
	1998 Commitment:	US$400 million
	1998 Financing:	US$510 million

Partners: None.

Status: CSWI holds a 4.9% ownership.
Negotiating with other parties to acquired additional stock.

Shoreham Power Plant, South Coast Power Ltd.

Description: CSWI is planning to construct and operate a gas-fired power plant on the southern coast of England, requiring an investment of approximately US$150 million. The plant is expected to provide 500MW. Construction is expected to begin in the second quarter of 1998 and is expected to be completed July 2001.

Estimated Commitments:		
	1997 Commitment:	US$1.5 million
	1998 Commitment:	US$6.6 million
	1998 Construction Financing:	US$20 million
	1999 Commitment:	US$17.6 million
	1999 Construction Financing:	US$88 million

Partners: CSWI - 50%
Scottish Power - 50%

Status: Executed Memorandum of Understanding
Drafting Shareholder's Agreement.
Government permits and approvals have been obtained.

Vale Paranapanema (Additional Investment)

Description: CSWI currently owns 37% of Vale Paranapanema, a Brazilian electric holding company ("Vale"). Vale owns voting majorities in seven electric companies in southern Brazil. CSWI has currently invested US$80 million in Vale. Due to Vale's acquisition of CEMAT, an electric utility, in December 1997, CSWI can invest an additional US$69 million additional in Vale.

Estimated Commitments:		
	1996 Commitment:	US$40 million
	1997 Commitment:	US$40 million
	1998 Commitment:	US$69 million

Partners: None.

Status: CSWI is reviewing the investment opportunity and will determine whether the investment will be made.

Lajeado

Description: Vale plans to construct a 850 MW hydro facility in southern Brazil. Vale owns the concession to build the plant for an estimated total construction cost of US$700 million. CSWI has the right to directly invest in the project through a 10% equity interest of approximately US$70 million.

Estimated Commitments:		
	1997 Commitment:	$0
	1998 Commitment:	US$3.5 million equity/US$3.5 million debt
	1999 Commitment:	US$7.0 million equity/US$7.0 million debt

Partners: Vale

Status: Under evaluation.

Guna Power Plant, India

Description: A naptha-fired power plant providing 330MW is planned to be constructed in Guna, India. CSWI is expected to be required to invest approximately US$37 million. The construction is expected to begin in the second quarter of 1998, with completion in 2000.

Estimated Commitments:		
	1997 Commitment:	US$2.0 million
	1998 Commitment:	US$6.7 million
	1999 Commitment:	US$3.4 million
	1998 Construction Financing:	US$16.0 million
	1999 Construction Financing:	US$8.0 million

Partners: Steel Tubes of India, ltd - 26%
IG-One Limited (Mich. Consol. Nat. Gas) - 24%
Tenaska CSW International Ltd - 20%
IGC-STI Guna Company (ILLINOVA) - 20%
Unsubscribed - 10%

*CSWI & Tenaska 50/50 partnership, resulting in an effective ownership of CSWI of 10%.

Status: Joint Development Agreement is signed.
The supply from the plant has been allocated by the Indian government.
CEA clearance has been received but awaiting final governmental approvals.

Cajun - Louisiana

Description: CSWE plans to purchase Big Cajun I, a 2-unit 220 MW gas-fired station, and 86% of Big Cajun II, a 3-unit 1480 MW (Cajun's portion) coal fired station. Gulf States Utilities owns 42% of Big Cajun II. CSWE's total investment is expected to be $1,015 million. The initial investment of $1,015 million is expected to be financed with approximately 70-85% project non-recourse debt. CSW is guaranteeing a $25 million member cooperative note to the Rural Utility Service and plans to execute a 25 year power supply agreement with the existing Cajun member distribution cooperatives. The member cooperatives have a peak load of 1540 MW and serve over 300,000 customers. Currently, CSW has executed power supply agreements with 9 of the 12 member cooperatives.

Estimated Commitments:		
	1997 Commitment to date:	$8.2 million
	1998 Commitment:	$1,015 million
	1998 Financing:	$815 million

Status: Expect bankruptcy confirmation on 1/15/98.

Frontera, Texas

Description: CSW Energy, Inc. ("CSWE") plans to construct and operate an approximately 500 MW merchant plant in the Rio Grande Valley, Texas for approximately $200 million. The plant's expected completion date is May 1999.

Estimated Commitments:

1997 Commitment:	$0
1998 Commitment:	$110.0 million
1999 Commitment:	$81.0 million
1999 Financing:	$140.0 million*

*Assumes 100% CSWE ownership

Partners: Either 100% CSWE, or potentially 50% with a partner.

Status: Negotiating terms with potential partner.

Enneray, Mexico

Description: CSWE plans to construct a 209 MW cogeneration facility in Monterey, Mexico for approximately $109 million. The plant's expected completion date is January 2000.

Estimated Commitments:

1998 Commitment:	$39.0 million
1999 Commitment:	$51.0 million

Partners: None.

Status: Process of formalizing Memorandum of Understanding on power purchase and steam sales.

Sweeney Power Plant

Description: A three-unit cogeneration plant is being built in Sweeny, Texas. The final unit is expected to come on line in January 1998. The total cost of the project is approximately $194 million. In order to obtain qualifying facility status, CSWE has sold 50% of the project, with a buyback option. CSWE intends to exercise the buyback simultaneously with a final sale of the facility during the first quarter of 1998. CSWE will project finance Sweeny in 1998.

Estimated Commitments:

1997 Commitment to date:	$155 million
1998 Commitment:	$41 million
1998 Financing:	$125 million
1998 Sale to third party:	$35 million

Altamira, Mexico

Description: A 109 MW cogeneration unit is being constructed near Monterey, Mexico, with a thermal host of an industrial complex. The plant is expected to go on line in March 1998 at a total cost of approximately $75 million. CSWI owns 50% of the plant. CSWI has provided the construction financing to date and expects to seek project level financing of $53 million upon completion of the plant in the second quarter of 1998.

Commitments:		
	1997 Commitment to date:	$64 million
	1998 Commitment:	$11 million
	1998 Financing:	$53 million (CSWI portion is 50%)
	1998 Equity from ALPEK:	$11 million

Partners: CSWI - 50%
ALPEK - 50%

Status: Nearing completion, on line March 1998.

Other Activities of CSW Energy/CSW International:

1. Sale of Sweeny 50% interest (approx. $100 million)
2. Completion of employment contract with Don Butynski
3. Contract with Parallel Products for thermal host of Mulberry plant
4. Capital investment in Mulberry associated with Parallel Products (est. $1 million)

Potential New or Expanded Activities:

CSW Communications

1. Ongoing ordinary business of CSW/ICG ChoiceCom, L.P.

2. Investment in the Tulsa automated meter-reading project is expected to be $25 million.

3. Internet services to be offered by ChoiceCom with an expected $25 million investment.

4. Land mobile radio and tower leasing with an expected $10 million investment.

Marketing and Sales:

1. Offer natural gas to customers in Oklahoma beginning in 1998.

2. Expansion of office in Boston established to participate in competitive markets.

Power Marketing:

1. Pursuing new 50 MW wholesale load for City of Coffeyville. Investment in transmission related to this transaction is expected to be $11 million.

Business Ventures:

1. Annual capital requirements of $10 million.

Section 6.2(a)

Negative Covenants - Company Covenants

1. The Company may continue to operate, and to contribute to and manage the assets of any trust established to fund compensation and benefits under, the Company Benefit Plans and all other plans, programs, agreements, policies and arrangements providing compensation or benefits for any employee, director, former employees or former director of the Company or any of its Subsidiaries. In addition, the Company may amend, modify or terminate any Company Benefit Plan and any other plan, program, agreement, policy or arrangement providing compensation or benefits for any employee, director, former employee or former director of the Company or any of its Subsidiaries, and may adopt any new Company Benefit Plan or other plan, program, agreement, policy or arrangement providing compensation or benefits for any employee, director, former employee or former director of the Company or any of its Subsidiaries, provided that (i) any such action is for the purpose of making administrative or technical changes or is necessary to comply with the requirements of applicable Law or (ii) if any such action is not described in the foregoing clause, any increase in the cost of compensation and benefits resulting from such action would not exceed an amount equal to 10% of the applicable plan, program, agreement, policy or arrangement budget for the prior year.

2. The Company may make awards and pay compensation and benefits pursuant to the 1992 Long-Term Incentive Plan and its Annual Incentive Plan consistent with its past practice.

3. The Company, after consultation with Representatives of Augusta, may enter into retention agreements with key employees (other than those employees identified in Section 4.12(j) of the Company's Disclosure Letter as having change in control agreements with the Company) providing incremental compensation in an amount equal to the employee's annual salary which, in the aggregate, do not provide for total incremental compensation in excess of $15 million.

4. CSW Energy, Inc. may enter into an employment contract with Donald Butynski as president of its wholly-owned subsidiary, Diversified Energy Contractors Company. The agreement will contain provisions commonsurate with such a position, including, without limitation, salary, bonus, perquisites, other benefits and severance.

5. To the extent not inconsistent with Sections 4.6 and 7.8 of the Agreement, the Company may adopt, execute and implement the Company's Rights Plan, including (i) the dividend distribution of the rights, (ii) the making of adjustments to the purchase price, (iii) the sale and issuance of Company Common Stock or other securities of the Company, or the transfer of other assets, in exchange for rights and (iv) amending the Company's Rights Plan as permitted by the terms thereof.

Section 6.2(a)(vii)

Negative Covenants - Company Covenants - Expenditures

	1998	1999
	(in thousands)	
Central Power & Light	$ 9,472	$ 8,489
Nuclear	18,888	24,904
Nuclear Fuel	14,583	14,139
Production	14,583	14,139
Transmission	13,548	17,617
Distribution	65,428	69,340
General	7,470	9,486
AFUDC Debt	2,108	2,346
Removal Cost	11,938	7,280
	$143,435	$153,601
Public Service Company of Oklahoma		
Production	6,922	14,334
Transmission	3,699	4,692
Distribution	48,618	54,775
General	10,585	11,914
AFUDC Debt	1,679	1,779
Removal Cost	11,495	8,496
	$82,998	$95,990

	1998	1999
	(in thousands)	
Southwestern Electric Power Company		
Production	$ 26,091	$ 19,825
Transmission	22,640	31,431
Distribution	33,623	42,304
General	10,705	12,134
AFUDC Debt	2,318	3,050
Removal Cost	5,920	4,844
	$101,297	$113,588
West Texas Utilities Company		
Production	3,205	5,093
Transmission	10,234	9,023
Distribution	12,758	19,480
General	9,346	4,963
AFUDC Debt	1,087	1,269
Removal Cost	5,660	3,322
	$ 42,290	$ 43,150
SEEBOARD-Construction (1)	130,880	109,760
SEEBOARD-Other Investment	30,400	34,080
	$161,280	$143,840
CSW Services & CSW Parent	6,300	6,426
Total Core Business	$537,600	$556,595

	1998	1999
	(in thousands)	
Core Business Non-Fuel O&M		
CP&L	$ 342,420	$ 349,268
PSO	155,779	158,894
SWEPCO	187,269	191,014
WTU	106,158	108,281
SEEBOARD	240,087	244,889
CSW Corporate	40,107	40,909
Total	$1,071,820	$1,093,255

(1) Substantially all is Distribution

Section 7.10(b)

Separate Company Plans

Central and South West Corporation Cash Balance Retirement Plan
Central and South West Corporation Retirement Savings Plan
Central and South West System Medical Plan - (Active and Retiree Provisions)
Central and South West System Group Life Insurance Plan - (Active and Retiree Provisions)
Central and South West System Employees' Disability Income Plan
Central and South West System Accident Protection Plan
Central and South West System Health Care Reimbursement Plan
Central and South West System Dependent Care Assistance Plan
Central and South West System Employees' Cafeteria Plan
Central and South West Corporation Special Executive Retirement Plan
Central and South West System Supplemental Disability Income Plan
Central and South West Corporation Executive Deferred Compensation Plan
Central and South West Corporation Executive Deferred Savings Plan
Central and South West Corporation Severance Benefit Plan
CSW Redeployment Program
Electricity Supply Pension Scheme
SEEBOARD Final Salary Pension Plan
SEEBOARD Pension Investment Plan

Section 7.16

Rate Matters

See the discussion of Rate Matters included in Section 4.10 of this Company Disclosure Letter.

AMERICAN ELECTRIC POWER COMPANY, INC.
1 RIVERSIDE PLAZA
COLUMBUS, OHIO 43215

December 21, 1997

Central and South West Corporation
1616 Woodall Rodgers Freeway
Dallas, Texas 75202-1234

Ladies and Gentlemen:

Reference is made to the definition of "AEP's Disclosure Letter" in the Agreement and Plan of Merger, dated as of December 21, 1997, by and among American Electric Power Company, Inc. ("AEP"), Augusta Acquisition Corporation and Central and South West Corporation ("CSW") (the "Agreement"). This letter is AEP's Disclosure Letter as so defined. Notwithstanding the use of the terms Material and Material Adverse Effect in the Agreement, the inclusion of a particular disclosure herein shall not mean that the item or matter is Material or could reasonably be expected to have a Material Adverse Effect. Unless the context clearly requires otherwise, capitalized terms used herein have the same meaning ascribed to them in the Agreement.

Section 5.1 Organization and Qualification; Subsidiaries

Name of AEP Subsidiary	Jurisdiction of Incorporation	Percentage of Voting Securities Owned by Immediate Parent
American Electric Power Service Corporation	New York	100.0
AEP Communications, Inc.	Ohio	100.0
AEP Communications, LLC	Virginia	100.0
AEP Resources Services Company	Ohio	100.0
AEP Energy Services International, Ltd.	Cayman Islands	100.0
AEP Energy Services, Inc.	Ohio	100.0
AEP Generating Company	Ohio	100.0
AEP Investments, Inc.	Ohio	100.0
AEP Resources, Inc.	Ohio	100.0(a)
AEP Resources Australia Investments, Inc.	Delaware	100.0
AEP Resources Australia Pty., Ltd.	Australia	100.0
AEP Resources Australia Ventures, Inc.	Delaware	100.0
AEP Resources Delaware, Inc.	Delaware	100.0
AEP Resources International, Ltd.	Cayman Islands	100.0
AEP Pushan Power, LDC	Cayman Islands	99.0
Nanyang General Light Electric Company, Ltd.	People's Republic of China	70.0
AEP Resources Mauritius Company	Mauritius	99.0
AEP Resources Limited	United Kingdom	100.0
AEP Resources Project Management Company, Ltd.	Cayman Islands	100.0
AEP Pushan Power, LDC	Cayman Islands	1.0

Name of AEP Subsidiary	Jurisdiction of Incorporation	Percentage of Voting Securities Owned by Immediate Parent
Nanyang General Light Electric Company, Ltd.	People's Republic of China	70.0
AEP Resources Mauritius Company	Mauritius	1.0
AEPR Global Investments B.V.	Netherlands	100.0
AEPR Global Holland Holding B.V.	Netherlands	100.0
AEPR Global Ventures B.V.	Netherlands	100.0
AEI (Loy Yang) Pty. Ltd.	Australia	100.0
Appalachian Power Company	Virginia	98.6(a)
Cedar Coal Co.	West Virginia	100.0
Central Appalachian Coal Company	West Virginia	100.0
Southern Appalachian Coal Company	West Virginia	100.0
West Virginia Power Company	West Virginia	100.0
Augusta Acquisition Corporation	Delaware	100.0
Columbus Southern Power Company	Ohio	100.0(a)
Colomet, Inc.	Ohio	100.0
Conesville Coal Preparation Company	Ohio	100.0
Simco Inc.	Ohio	100.0
Franklin Real Estate Company	Pennsylvania	100.0
Indiana Franklin Realty, Inc.	Indiana	100.0
Indiana Michigan Power Company	Indiana	100.0(a)
Blackhawk Coal Company	Utah	100.0
Price River Coal Company	Indiana	100.0
Kentucky Power Company	Kentucky	100.0
Kingsport Power Company	Virginia	100.0
Ohio Power Company	Ohio	99.1(a)
Central Ohio Coal Company	Ohio	100.0
Southern Ohio Coal Company	West Virginia	100.0
Windsor Coal Company	West Virginia	100.0
Wheeling Power Company	West Virginia	100.0

(a) Significant Subsidiary. Yorkshire Power Group Limited, Yorkshire Holdings plc and Yorkshire Electricity Group plc are also Significant Subsidiaries.

Section 5.3(a) AEP Common Stock

Dividend Reinvestment Plan (46,305,737 shares)
Employee Savings Plan (5,275,756 shares)

Section 5.3(c) Subsidiary Stock

Name	Shares Authorized	Shares Issued and Outstanding
AEP Resources, Inc. Common	1,000	100

Yorkshire Power Group Limited		
Ordinary	440,000,100	440,000,002
Yorkshire Holdings plc		
Ordinary	50,000	50,000
Yorkshire Electricity Group plc		
Ordinary	220,000,000	159,270,954
Appalachian Power Company		
Common	30,000,000	13,499,500
Preferred	1,700,000	420,565
Columbus Southern Power Company		
Common	24,000,000	16,410,426
Preferred	250,000	250,000
Indiana Michigan Power Company		
Common	2,500,000	1,400,000
Preferred	1,570,000	778,800
Ohio Power Company		
Common	40,000,000	27,952,493
Preferred	1,562,403	294,021
Augusta Acquisition Corporation		
Common	1,000	100

AEP owns 100% of the outstanding shares of AEP Resources, Inc.
AEP Resources, Inc. owns 50% of the outstanding shares of Yorkshire Power Group Limited. An unaffiliated company owns the other 50% of such shares. Yorkshire Power Group Limited owns 100% of the outstanding shares of Yorkshire Holdings plc. Yorkshire Holdings plc owns 100% of the outstanding shares of Yorkshire Electricity Group plc. All of the Common shares of APCo, CSPCo, I&M and OPCo are owned by AEP. No Preferred shares of APCo, CSPCo, I&M and OPCo are owned by AEP.

Section 5.5(a) Utility Regulation

Name	Regulatory Authority
AEP Generating Company	FERC
Nanyang General Light Electric Company, Ltd	Henan Provincial Pricing Bureau

Section 5.5(b) Approvals

Securities Act
Exchange Act
Holding Company Act
Federal Power Act
Atomic Energy Act
HSR Act
State Securities or Blue Sky Laws
NYSE
Filings of Merger Documents under Delaware Law
Communications Act
Affiliate transaction filings under Indiana, Virginia and West Virginia Law

Although the merger of CSW into Augusta Acquisition Corporation is not itself subject to any governmental approval in the United Kingdom, the fact that each of CSW and AEP has ownership interests in regional electricity companies may give rise to regulatory review in the United Kingdom.

Section 5.7(c) No Omissions

No exceptions.

Section 5.8(a) Material Adverse Changes

1. Those matters, liabilities and obligations excepted from the application of Section 5.7(c) of the Agreement because (i) they are disclosed in AEP's SEC Reports filed with the Commission prior to the date hereof or (ii) they are adequately reflected, reserved for or disclosed in AEP's Consolidated Financial Statements.

2. Those actions, suits, investigations or proceedings identified in Section 5.10 of AEP's Disclosure Letter or excepted from the application of Section 5.10 of the Agreement because they are fully and accurately disclosed in AEP's SEC Reports filed with the Commission prior to the date hereof.

3. Those matters disclosed in Section 5.14 of AEP's Disclosure Letter or excepted from the application of Section 5.14 of the Agreement because they are disclosed in AEP's SEC Reports filed with the Commission prior to the date hereof.

4. Those matters disclosed in Section 5.9(b) of AEP's Disclosure Letter.

Section 5.8(b) Proscribed Conduct

No exceptions.

Section 5.9(b) Cook Nuclear Plant

(1) On September 9 and 10, 1997, during an NRC architect engineer design inspection, questions regarding the operability of certain safety systems cause company operations personnel to shut down Units 1 and 2 of the Cook Nuclear Plant. On September 19, 1997, the NRC issued a Confirmatory Action Letter requiring I&M to address certain issues identified in the letter. I&M met with the NRC on December 16, 1997 and resolved the technical issues identified in the letter. Several issues concerning short-term assessment results need to be addressed further with the NRC. I&M is working with the NRC to resolve these issues. At this time management is unable to determine when the units will be returned to service. If the units are not returned to service in a timely manner, it could have an adverse impact on results of operations and possibly financial condition.

(2) There is presently outstanding a fine of $25,000 from the NRC against I&M stemming from a "whistleblower" claim made in 1991 by an employee of a non-affiliated contractor at the Cook Nuclear Plant.

Section 5.10 Litigation; Compliance with Laws

See Section 5.9(b) above and Section 5.14 below.

Section 5.12(a) Listing

AEP System Retirement Plan
Comprehensive Medical Plan
Dental Assistance Plan
Sick Leave and Layoff Allowance Plan
Salary Continuation and Layoff Allowance
Employee Savings
Long Term Disability
Exempt Employee Group Accidental Death and Dismemberment Insurance (AD&D)
Optional Accidental Death and Dismemberment Insurance Plan (OAD&D)
Dependent Life Insurance
Group Life Insurance
Hyatt Group Legal
Long Term Care
Group Auto/Homeowners
Vacation Policy
Holidays
Educational Assistance

Relocation
Dependent Care Spending Accounts
Death in Family
Educational Matching Gifts
Service Awards
Performance Share Incentive Plan
Management Physical Examinations
Employee Assistance Plans
Supplemental Savings Plan
Management Incentive Compensation Plan
Senior Officer Annual Incentive Compensation Plan
Excess Benefit Plan (pension)
Mine Superintendent Incentive Compensation Plan
Fossil Plan Incentive Compensation Plan
Northern & Southern Hydro Incentive Compensation Plan
Region Service Organization Incentive Compensation Plan
Companywide Incentive Plan
Fuel Supply Mines, Conesville Prep and Cook Coal Terminal Incentive Compensation Plan
Fuel Supply River Transportation Incentive Compensation Plan
Annual Incentive Compensation Plan (AEP Energy Services, Inc.)
"Phantom Equity" Plan (AEP Energy Services, Inc.)
1982 and 1986 Deferred Compensation Plans

AEP and all its domestic Subsidiaries have a severance program for non-union employees which is triggered by a downsizing or restructuring. No employment agreements have been made available to CSW. Instead a spreadsheet listing the officers with employment agreements was provided. The following is a list of officers AEP has employment agreements with:

E. Linn Draper, Jr.
Paul D. Addis
Bruce H. Braine
Donald M. Clements
Luke M. Feck
Eugene E. Fitzpatrick
Rodney B. Plimpton
J. Craig Baker
Steven J. Lewis
Eric J. Van der Walde
C. David Mustine
Donald Boyd
Ali Azhad
Joseph Curia, Jr.
Douglas Penrod
David Dunn
Glen Riepl

Thomas J. Seeley
Paul Weilgus
Ronald Petty

Non-Employee Director Plans:
Deferred Compensation and Stock Plan
Stock Unit Accumulation Plan
Group 24-hour Accident Insurance

Employment contracts required by law in the United Kingdom

Section 5.12(c) Qualified Status of Current Plans

Amendments have been made to the Employee Savings Plan (addition of loan provision) and the AEP System Retirement Plan (clarification of earnings definition).

Section 5.12(d) No Termination of Current Plans

The Employee Stock Ownership Plan (PAYSOP) was terminated December 31, 1996.

Section 5.12(j) Excess Parachute Payments

No exceptions.

Section 5.12(m) Retiree Benefits

(1) AEP's plans provide retiree medical and life insurance benefits to retirees upon completion of ten years of service. While this provision can be unilaterally discontinued, there are no plans to take this action.

(2) See Section 5.12(a) above for a complete list of AEP's Benefit Plans.

Section 5.12(n) Multiemployer Plans

Multiemployer plans exist for our Fuel Supply operations employees represented by the UMWA. Funding is addressed in AEP 1996 Annual Report, Appendix A to Proxy.

Section 5.12(o) Collective Bargaining Contracts

(1) Certain AEP Subsidiaries are parties to a Collective Bargaining Agreement with the United Steel Workers of America which is effective through December 22, 1998.

(2) On December 17, 1997 a certified bargaining group of Cook Nuclear Plant mechanics, welders and electricians totalling about 70 people represented by IBEW voted in favor of unionizing. The results of the election are in the certification process.

Section 5.13(b) Audits

All Federal Tax Return issues have been resolved through 1993 (except with respect to corporate owned life insurance) and Federal Tax Returns for 1994, 1995 and 1996 are being audited. AEP and certain Subsidiaries file Tax Returns in various state and local jurisdictions. The tax year in certain of these jurisdictions may be open from 1991 forward. In the opinion of AEP, no substantial liabilities exist in any of these state and local jurisdictions.

Section 5.13(c) Extension of Time

No exceptions.

Section 5.13(e) Affiliated Group

No exceptions.

Section 5.14 Environmental Matters

(1) Title V Permits. In a recent review of Title V permits, it was discovered that an operating permit had never been obtained for the auxiliary boiler at the Mountaineer Plant. An application has been filed and is expected to be granted in the very near future.

(2) Comprehensive Environmental Response, Compensation and Liability Act ("CERCLA"). AEP Subsidiaries are presently defendants in five cases in which CERCLA response cost claims have been made. AEP Subsidiaries are presently Potentially Responsible Parties ("PRPs") at seven Federal CERCLA sites which are not in litigation.

In addition to these sites where AEP Subsidiaries are involved in litigation or have been named PRPs, AEP Subsidiaries have received CERCLA information requests for seven other sites where liability has not been resolved.

AEP Subsidiaries are presently PRPs under state law at one state site in Illinois, Wastex (I&M).

Management's present estimates do not anticipate material cleanup costs for identified sites for which AEP Subsidiaries have been declared PRPs or are defendants in CERCLA cost recovery litigation. However, if for reasons not currently identified significant

costs are incurred for cleanup, future results of operations and possibly financial condition would be adversely affected unless the costs can be recovered through rates.

AEP is aware of eight manufactured gas plants ("MGP") formerly operated by a combined gas and electric company in Michigan prior to acquisition of that company by AEP. These facilities were subsequently sold as part of the divestiture of other gas assets. There have been no efforts by governmental entities to require a clean up of these facilities. The current owner of these eight sites has requested available information which has been supplied by AEP. In addition, inquiries have been made by current owners of two other former MGP sites in Virginia and Wisconsin. In all of these instances, AEP has taken the position that there is an insufficient basis for cleanup liability.

A site at which MGP operations were discontinued was acquired by an AEP subsidiary and is used for the location of a substation.

(3) Asbestos. AEP has been named in a number of asbestos exposure law suits. There are more than 4,000 claimants. Several are still pending in two West Virginia counties. Settlements have resulted in approximately $7,500,000 paid to claimants in the last several years.

(4) Clean Air Act. Compliance with Phase I and Phase II under the Clean Air Act with respect to sulfur dioxide ("$SO"_2$) will be obtained through a combination of a wet scrubber installation at the Gavin Plant, fuel switching at most units, and SO_2 allowance purchases. The capital cost associated with this compliance plan has been provided to CSW.

Compliance with Phase I and Phase II under the Clean Air Act with respect to nitrogen oxide ("NO_x")will be obtained primarily through the installation of low NO_x burners, and flame attemperation techniques (cyclone units). The capital cost associated with this compliance plan has been provided to CSW.

The United States Environmental Protection Agency ("US EPA") currently has two initiatives underway for reducing ozone levels which will ultimately require significant reductions of NO_x emissions from utility coal fired boilers. One is the implementation of the new National Ambient Air Quality Standard ("NAAQS") for Ozone promulgated July 18. The second initiative is US EPA's announced (October, 1997) State Implementation Plan deficiency notice ("SIP Call") addressing the Ozone Transport issue which calls for significant reductions in NO_x from 22 states and the District of Columbia, including all of the AEP System states. US EPA expects to finalize the SIP Call in November of 1998. US EPA then plans to give states one more year to adopt formal rules implementing the SIP Call on a state by state basis. The SIP Call will establish NO_x budgets based on meeting the 1-hour ozone standard of 120 parts per billion and the new 8-hour standard of 80 parts per billion.

US EPA promulgated its final 8-hour ozone standard of 80 ppb on July 18, 1997. The Utility Air Regulatory Group filed an appeal of the rule in August of 1997 and requested an expedited court review. Many other trade organizations have also filed appeals

and the cases will be consolidated. It is anticipated that the court will decide on the case by April of 1999.

The Clean Air Act Amendments of 1990 ("CAAA") require states to submit proposed designations (attainment and non-attainment) to US EPA for approval within one year of the effective date of the rule (September 16, 1997). After the States file their proposed designations (by September 16, 1998), US EPA will have one year to approve the designations. US EPA has authority under the CAAA to extend their approval time one year, which is expected and would result in final designations by September of 2000. States will have up to 3 years after the final designations to submit their proposed SIPs to US EPA (September 2003). The CAAA also require that attainment be made within 5 years after the designations are made, which would require the implementation of controls by September 2005. Since September is at the end of the ozone season, it is reasonable to expect that the implementation of controls would not be required until the next ozone season, May 2006.

The impact on AEP operations as a result of these NO_x standards is currently under review. The cost of meeting these requirements could be substantial. Preliminary cost estimates have been shared with CSW.

(5) Particulate Matter and Regional Haze. On July 18, 1997, the United States Environmental Protection Agency published a revised National Ambient Air Quality Standard ("NAAQS") for ozone and a new NAAQS for fine particulate matter (less than 2.5 microns in size). The new ozone standard is expected to result in redesignation of a number of areas of the country that are currently in compliance with the existing standard to nonattainment status which could ultimately dictate more stringent emission restrictions for AEP System generating units. New stringent emission restrictions on AEP System generating units to achieve attainment of the fine particulate matter standard could also be imposed. The AEP System operating companies joined with other utilities to appeal the revised NAAQS and filed petitions for review in August and September 1997 in the U.S. Court of Appeals for the District of Columbia Circuit.

US EPA proposed regional haze rules on July 31, 1997, proposing that a control program be implemented to improve regional visibility in Class I (e.g. National Parks and Federal Lands) areas. Final rules are due in February 1998, with visibility monitoring scheduled to begin in 1999. The states would then determine which sources are reasonably anticipated to contribute to regional haze in 2001. It is possible, because of the close relationship between $PM_{2.5}$ and regional haze, that these two initiatives would be combined. It is reasonable to expect that $PM_{2.5}$ rules will take precedence, as they will be determined on a medical basis as opposed to an aesthetic basis.

The impact of $PM_{2.5}$ and regional haze on AEP System operations is currently under review, together with other environmental initiatives to identify possible synergies. CSW has been given a presentation regarding the synergy study.

The new $PM_{2.5}$ standard, if finalized, could lead to substantial reductions in allowable emissions of SO_2 from AEP System power plants.

(6) Enforcement Initiative. US EPA has undertaken an enforcement initiative which targets coal-fired power plants in US EPA Regions III, IV and V. This initiative is focused on identification of physical or operational changes made at these plants since 1977 which may have triggered new source review ("NSR") or new source performance standard requirements. The investigation appears to be premised on the assumption that industry restructuring will result in increased reliance on older, underutilized capacity producing significant increases in NO_x emissions. US EPA has identified 25 power plants which will receive visits by agency investigators. Interviews of key plant personnel and review of plant records should be expected. The agency will be reviewing public records and evaluating data from a variety of different sources including state environmental agency files and responses to requests for information made under Section 114 of the Clean Air Act to determine whether increases in emissions from these plants may have resulted from alterations not subjected to NSR.

Section 5.15 Insurance

No exceptions.

Section 5.17 Affiliates

Directors
Peter J. DeMaria
John P. DesBarres
E. Linn Draper, Jr.
Robert M. Duncan
Robert W. Fri
Lester A. Hudson, Jr.
Leonard J. Kujawa
Gerald P. Maloney
Angus E. Peyton
Donald G. Smith
Linda Gillespie Stuntz
Kathryn D. Sullivan
Morris Tanenbaum

Executive Officers

E. Linn Draper, Jr. (Chairman of the Board, President and Chief Executive Officer of AEP and of American Electric Power Service Corporation)
Peter J. DeMaria (Controller of AEP; Executive Vice President - Administration and Chief Accounting Officer of American Electric Power Service Corporation)

William J. Lhota (Executive Vice President of American Electric Power Service Corporation)
Gerald P. Maloney (Vice President and Secretary of AEP; Executive Vice President - Chief Financial Officer of American Electric Power Service Corporation)
James J. Markowsky (Executive Vice President - Power Generation of American Electric Power Service Corporation)

See Section 5.1 above for a listing of Subsidiaries deemed to be "affiliates" of AEP as that term is used in Rule 145 under the Securities Act.

Section 5.19 Brokers

No exceptions.

Section 6.2(b) AEP Covenants

Subsection (b)

For purposes of Section 6.2(b), any entity formed pursuant to the joint venture formed by AEP, Conoco, Inc. and E.I. Dupont de Nemours pursuant to their Agreement in Principle shall not be deemed a Significant Subsidiary of AEP.

Clause (ii)(B)(3)

AEP will establish a survivor benefit plan and AEP Resources, Inc., AEP Resources Services Company and AEP Communications, Inc. will establish long-term and annual incentive plans.

Clause (xi)(E)

The aggregate amount of $850,000,000 is budgeted for indebtedness by AEP.

Very truly yours,

AMERICAN ELECTRIC POWER COMPANY, INC.

By: _____
Name: E. Linn Draper, Jr.
Title: Chairman of the Board, President and Chief Executive Officer

Accepted by:

CENTRAL AND SOUTH WEST CORPORATION

By: _____
Name: E.R. Brooks
Title: Chairman and Chief Executive Officer

COMMONWEALTH OF KENTUCKY

BEFORE THE

PUBLIC SERVICE COMMISSION OF KENTUCKY

IN THE MATTER OF :

JOINT APPLICATION OF KENTUCKY POWER COMPANY,	)
AMERICAN ELECTRIC POWER COMPANY, INC.	)
AND CENTRAL AND SOUTH WEST CORPORATION	)CASE NO. 99-
REGARDING A PROPOSED MERGER	)

DIRECT TESTIMONY

OF

DR. E. LINN DRAPER, JR.

APRIL 1999

TESTIMONY INDEX

EXHIBITS

COMMONWEALTH OF KENTUCKY

BEFORE THE

PUBLIC SERVICE COMMISSION OF KENTUCKY

IN THE MATTER OF :

JOINT APPLICATION OF KENTUCKY POWER COMPANY, AMERICAN ELECTRIC POWER COMPANY, INC. AND CENTRAL AND SOUTH WEST CORPORATION REGARDING A PROPOSED MERGER	))))	CASE NO. 99-

DIRECT TESTIMONY

OF

DR. E. LINN DRAPER, JR.

APRIL 1999

I. INTRODUCTION

Q. PLEASE STATE YOUR NAME, POSITION AND BUSINESS ADDRESS FOR THE RECORD.

A. My name is E. Linn Draper, Jr. I am the Chairman, President, and Chief Executive Officer of American Electric Power Company, Inc. (AEP or the Company). My business address is 1 Riverside Plaza, Columbus, Ohio 43215-2373.

Q. WHAT ARE YOUR RESPONSIBILITIES?

A. As the Chief Executive Officer of AEP, I am charged with developing the strategic direction of the Company, recommending policy and implementing the policies set by the Company's Board of Directors. I have overall responsibility for the parent Company and all subsidiary companies.

Q. WOULD YOU DESCRIBE YOUR EDUCATIONAL QUALIFICATIONS AND BUSINESS EXPERIENCE?

A. I graduated from Rice University with a B.A. in 1964 and a B.S. in chemical engineering in 1965. I achieved a Ph.D. in nuclear engineering in 1970 from Cornell University. From 1969 through 1979, I taught engineering at The University of Texas College of Engineering. I held the position of assistant professor from September 1969 through August 1972. In 1972 I became an associate professor and Director of the Nuclear Engineering program. I joined Gulf States Utilities Company in 1979. I served Gulf States as Chairman of the Board, President and Chief Executive Officer from 1987 through 1992. In March 1992, I joined AEP as President of AEP and President and Chief Operating

Officer of American Electric Power Service Corporation (AEPSC). In April 1993, I became Chairman of the Board and Chief Executive Officer of AEP and all of its major subsidiaries.

Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY?

A. I will describe the proposed merger between AEP and Central and South West Corporation (CSW), and show how the merger will not result in any change in ownership or control of Kentucky Power Company (KPCO). I will also show how the merger will have only positive effects on Kentucky Power and its customers, and the citizens of Kentucky, and therefore is in the public interest. I will show how, upon consummation of the Merger, Kentucky Power will continue to possess the financial, technical and managerial abilities to provide reasonable service in the Commonwealth. Finally, I will introduce the testimony of other witnesses in this case who address specific merger issues.

II. DESCRIPTION OF AEP

Q. PLEASE DESCRIBE AEP AS IT IS CURRENTLY ORGANIZED.

A. AEP was incorporated under the laws of the state of New York in 1906 and reorganized in 1925. It is a public utility holding company which owns all the outstanding shares of common stock of seven domestic electric utility operating companies: Appalachian Power Company, Columbus Southern Power Company, Indiana Michigan Power Company, Kentucky Power Company, Kingsport Power Company, Ohio Power Company and Wheeling Power Company. The AEP operating companies serve almost 7.2 million people in parts of Ohio, Michigan,

Indiana, Kentucky, West Virginia, Virginia and Tennessee. AEP's 38 power plants have an aggregate capacity of approximately 23,800 megawatts. AEP has roughly 22,000 miles of transmission lines and 119,000 miles of distribution lines. AEP owns AEPSC, whose primary business is to provide services to the regulated electric operating companies, and AEP Generating Company, which sells power and energy at wholesale to certain AEP operating companies and to unaffiliated purchasers. Also, AEP is involved in various competitive business ventures in the U.S. and worldwide.

Q. DO YOU HAVE AN ORGANIZATION CHART SHOWING AEP AND ITS SUBSIDIARIES?

A. Yes. I have attached such a chart to this testimony as EXHIBIT ELD-1.

Q. HOW MANY CUSTOMERS ARE SERVED BY THE VARIOUS AEP UTILITIES?

A. The companies and the number of customers at the end of 1998 were:

COMPANY NAME	TOTAL CUSTOMERS*
Appalachian Power Company	888,000
Columbus Southern Power Company	640,000
Indiana Michigan Power Company	555,000
Kingsport Power Company	44,000
Kentucky Power Company	170,000
Ohio Power Company	685,000
Wheeling Power Company	41,000
TOTAL AEP	3,023,000

* Numbers have been rounded

Q. WHAT IS AEP'S VIEW OF THE FUTURE OF THE ELECTRIC UTILITY INDUSTRY?

A. We support customer choice and full retail competition. We believe that all customers should receive the benefits of competition, and that they should all receive those benefits at the same time. We also believe that competition will lower costs, maintain reliable universal service, provide sufficient generating capacity, and convey appropriate market signals to all customer segments.

Q. HOW HAS AEP STRUCTURED ITSELF TO RESPOND TO CHANGES IN THE ELECTRIC UTILITY INDUSTRY?

A. On January 1, 1996, AEP began to realign its organization to create distinct power generation and energy transmission and distribution groups. The realignment established four functional business units: Power Generation; Energy Delivery and Customer Relations; Nuclear Generation; and Corporate Development. Various administrative and other support services are provided to these business units by AEPSC. The business and support units are functional organizations placed over existing corporate structures. We will continue to adjust our organization to respond to changes in the industry and to the needs of our customers. As in the past, our goal is to remain a low-cost provider of reliable electric power.

III. DESCRIPTION OF CSW

Q. PLEASE DESCRIBE CSW AS IT IS CURRENTLY ORGANIZED.

A. CSW, like AEP, is a public utility holding company. It owns all of the common stock of four domestic electric utility operating companies: Central Power and Light Company, Public Service Company of Oklahoma, Southwestern Electric

Power Company and West Texas Utilities Company. The CSW operating companies serve about 4.3 million people in parts of Texas, Oklahoma, Louisiana and Arkansas. CSW's U.S. electric operating companies have 40 generating plants with an aggregate capacity of approximately 14,171 megawatts. CSW has roughly 16,500 miles of transmission lines and 68,900 of distribution lines. Like AEP, CSW owns a service corporation, Central and South West Services, Inc., whose primary business is to provide services to the regulated electric operating companies. Like AEP, CSW is also involved in various competitive business ventures in the U.S. and worldwide.

Q. DO YOU HAVE AN ORGANIZATION CHART SHOWING CSW AND ITS SUBSIDIARIES?

A. Yes. I have attached a chart to this testimony as EXHIBIT ELD-2.

Q. HOW MANY CUSTOMERS ARE SERVED BY THE VARIOUS CSW UTILITES?

A. The Companies and their customers at the end of 1998 were:

COMPANY NAME	TOTAL CUSTOMERS*
Central Power and Light Company	642,000
Public Service Company of Oklahoma	486,000
Southwestern Electric Power Company	419,000
West Texas Utilities Company	188,000
TOTAL CSW	1,735,000

* Numbers have been rounded

Q. DOES CSW HAVE A SIMILAR VISION OF THE FUTURE OF THE ELECTRIC UTILITY INDUSTRY?

A. Yes. No two companies are more closely aligned in their visions and philosophies than AEP and CSW. We are both pro-competition and eager for the day when customers have a choice of energy companies.

Q. PLEASE DESCRIBE THE PROPOSED MERGER.

A. Under the proposed merger, AEP will be the surviving company. Shareholders of CSW will receive .6 of a share of AEP stock for each share of CSW common stock they hold. At the conclusion of the transaction, the 61,000 former shareholders of CSW will become shareholders of AEP. As part of the transaction, AEP's Board will be expanded from 12 to 15 members, with two AEP board members retiring. Under the terms of the merger agreement, five directors, formerly on the CSW Board, will be nominated by AEP and elected by the shareholders of the merged company.

Q. WILL THE MERGER RESULT IN ANY CHANGE OF OWNERSHIP OR CONTROL OF KPCO?

A. No, it will not. KPCO is owned by AEP and will continue to be owned by AEP. The only effect will be a change in ownership of CSW. The four CSW domestic utility companies will cease to be wholly-owned subsidiaries of CSW, and will become wholly-owned subsidiaries of AEP. The eleven domestic utility companies of CSW and AEP will retain their separate corporate identities, assets and liabilities, franchises and certificates of convenience and necessity. A copy of the post-merger organization chart of the merged company is attached as EXHIBIT ELD-3. Needless to say, the organization of the company is a work in progress that is subject to change and evolution.

Q. WILL ANY GROUP OR ENTITY OTHER THAN AEP BE ACQUIRING CONTROL OF KPCO?

A. No. I am informed by counsel that the Kentucky Public Service Commission Staff believes that the merger requires the approval of the Kentucky Commission under a Kentucky statute which requires Commission approval when an entity acquires control of a utility furnishing service in Kentucky. As I stated in my prior answer, no one is acquiring control of KPCO. Although the transaction will take the form of a merger, AEP is in effect acquiring CSW. I will retain my positions of Chairman, President and Chief Executive Officer of AEP; and AEP's headquarters will continue to be located in Columbus, Ohio. Nevertheless, I understand that the Commission Staff believes that "the former CSW shareholders" constitute a group which is acquiring control of KPCO. I do not believe that the former CSW shareholders can reasonably be characterized as a group. AEP has approximately 134,000 common shareholders and approximately 191 million common shares outstanding. No person, entity or syndicate owns ten percent or more of the common shares of AEP. CSW currently has about 61,000 common shareholders and about 212 million shares outstanding. No person, entity or syndicate owns ten percent or more of the common shares of CSW. After the merger, the former CSW shareholders will become AEP shareholders – part of a large, disparate and ever-changing population. On an average day, almost 500,000 shares of AEP stock change hands. The former shareholders of CSW will quickly lose any group identity they may have had in this large pool of AEP common stockholders. There is no

mechanism which would enable them to act in concert as a group, and as a practical matter, there is no realistic prospect that they could or would maintain cohesion as a "group" or act together in any way.

Q. WHAT ABOUT THE CHANGE TO AEP'S BOARD OF DIRECTORS?

A. As indicated above, as part of the merger agreement, five directors, formerly on the CSW Board, will be nominated by AEP and elected by the shareholders of the merged company. The Merger does not entail any change in KPCO's board of directors.

Q. WILL THE MERGER ENTAIL ANY CHANGE IN THE MANAGEMENT OR POLICIES OF KPCO?

A. No. The management and policies will continue to be the same management and policies which have resulted in AEP and KPCO being low-cost, reliable providers of electric service. The only effects on KPCO and its customers will be positive in nature, as I will discuss below.

IV. PUBLIC INTEREST

Q. WILL THE PROPOSED MERGER BE IN THE PUBLIC INTEREST?

A. Yes, it will. For the reasons stated above, AEP believes, and has asked the Commission to find, that it does not have authority to approve the proposed merger. If the Commission nevertheless finds that it has authority to approve the merger, the Company has asked it to grant such approval, and I believe that the Commission should have no hesitation in doing so, because the merger will have only positive effects on KPCO, its customers and the citizens of Kentucky. I

generally describe these benefits in my testimony, and the other AEP witnesses will elaborate upon them in much greater detail. Overall, I believe that the proposed merger creates the kind of company regulators, legislators and government officials want operating in their states – a company able to produce and deliver low-cost power, a company ready to compete for the benefit of its customers and a high-quality, well-capitalized company positioned to handle the future.

Q. HOW WILL THE MERGER AFFECT THE TECHNICAL, MANAGEMENT AND FINANCIAL ABILITIES OF KPCO?

A. The AEP System has always been known for its technical abilities, having pioneered many advances in power supply and transmission which have enabled it to be a low-cost supplier. The addition of CSW, another technically strong system, can only enhance this technical competence. The quality of KPCO's management will be maintained or improved, as discussed later in my testimony. The merger will add to AEP's financial strength, as discussed in Section IV.C, below.

In the following sections of my testimony, I will show how the merger will result in efficiencies and major cost savings, will maintain or enhance the quality of service to KPCO's customers, will improve KPCO's financial condition, will not adversely affect competition, and will enhance economic and community development in Kentucky. In addition, I will describe generally the proposed regulatory plan which AEP proposes to assure that KPCO's customers share in

the cost saving that will result from the merger, and will discuss generally how the merger will have no effect on the Commission's ability to effectively regulate KPCO.

A. Efficiency, Cost Reductions and Diversity

Q. WHAT BENEFITS FROM THE MERGER MAKE IT IN THE PUBLIC INTEREST?

A. AEP and CSW see the benefits resulting from the merger to be reduced costs, increased efficiency, financial strength and greater diversification.

Q. WHAT COST REDUCTIONS WILL THE MERGER ACHIEVE?

A. Deloitte & Touche Consulting Group assisted management in estimating that the merger will produce approximately $2 billion in net non-fuel merger savings over a ten-year period, as described by Mr. Thomas J. Flaherty. We also anticipate net fuel-related savings over the same period of about $98 million, as discussed in the testimony of Mr. J. Craig Baker. Mr. Richard E. Munczinski explains how non-fuel savings will be shared and how fuel-related savings will be passed through to customers.

Q. PLEASE EXPLAIN HOW INCREASED EFFICIENCIES CAN BE ACHIEVED.

A. As competition intensifies within the industry, AEP and CSW believe that their combined resources will contribute to overall business success, and have importance in many areas, including utility operations, product development, and corporate services. The merger will lower the costs of providing energy and related services when compared to either AEP's or CSW's stand-alone costs and

will improve the efficiency of the combined companies by roughly doubling the customer base and providing synergies for the merged companies.

Q. HOW WILL DIVERSITY BENEFIT CUSTOMERS?

A. The merger will result in a combined company which has greater diversity in fuel and generation, which is expected to reduce dependence upon any one type of fuel source and reduce customer exposure to fluctuations in fuel prices. EXHIBIT ELD-4 shows in graphical form the increase in fuel diversity that results from the merger.

B. Customer Service and Safety

Q. WOULD THE MERGER RESULT IN THE DECLINE OF SERVICE TO KPCO CUSTOMERS?

A. No. We will meet current levels of service and strive to exceed those levels. Our commitment to providing high quality customer service is further described in the testimony of Mr. Bailey.

Q. WILL THE COST REDUCTIONS AFFECT RELIABILITY?

A. No. Both AEP and CSW have long histories of providing reliable electric service. AEP commits that its operating companies will meet or exceed previous levels of reliable service. We know how important reliability is to customers. The employee duplications discussed by Mr. Flaherty do not include the employees of any KPCO local or field office, line crew or generating plant personnel.

Q. WILL THIS MERGER REDUCE THE SUPPORT OR AUTHORITY OF LOCAL OPERATIONS?

A. Absolutely not. I commit that the local operations will continue to have the financial and personnel resources necessary to maintain high-quality, dependable service. They will have the day-to-day authority to make purchases, hire the crews, and add temporary customer service personnel to deal with whatever challenge may be presented to them. They will have standing orders to do whatever needs to be done to make repairs and restore service.

Q. WILL THE MERGER HAVE ANY ADVERSE IMPACT ON THE SAFETY OF CUSTOMERS OR EMPLOYEES?

A. No. AEP has an excellent safety record. In 1995, AEP was recognized by the National Safety Council for achieving one million hours without a lost time accident. Our philosophy on employee safety is summarized in our Employee Handbook: "No operating condition or urgency of service can ever justify endangering the life of anyone."

We have integrated safety management into every level of the organization. Accident prevention is part of the Company's culture. Additionally, we have an active safety outreach program for the general public, commercial contractors, AEP contractors and "first responders" (such as fire, ambulance and police). We will meld the health and safety practices of both companies. Mr. Mosher provides more details regarding our safety programs in his testimony.

C. Financial Strength

Q. HOW WILL THE MERGER INCREASE THE FINANCIAL STRENGTH OF THE APPLICANTS?

A. I believe the merger will produce a financially stronger company for the benefit of the AEP customers and securities owners. The merged company's greater financial strength will be derived from a larger capitalization and stronger cash flow. A larger capitalization will make the Company's common stock more attractive to investors because it will be a more liquid security, that is it will be relatively more efficient to buy and sell without significantly affecting its price. A larger capitalization will also improve the efficiency of debt securities. The stronger cash flow for the merged company will come from reduced common stock dividend requirements and revenue diversity. The reduced common stock dividend results from the exchange ratio of common stock for CSW shareholders equivalent to 0.6 shares of AEP stock. The revenue diversity will result from geographic and fuel mix improvements which will make the merged company less vulnerable to the weather, the local economy and fuel prices.

Q. HOW WILL THE MERGER'S FINANCIAL IMPACT BENEFIT KPCO'S CUSTOMERS?

A. The improved financial strength of the merged company as discussed above will benefit customers because it will make capital more accessible to finance customer needs. In addition, the merger will create financial synergies that are discussed by Mr. Flaherty.

Q. WHAT IMPACT WILL THE MERGER HAVE ON AEP'S OUTSTANDING PREFERRED STOCK AND DEBT OBLIGATIONS?

A. The AEP subsidiaries' securities will remain outstanding after the merger and will continue to be the responsibility of the issuing company.

Q. WILL THE MERGER REQUIRE ANY CHANGES TO THE AEP COMPANIES' MORTGAGES?

A. No changes are necessary as a result of the Merger.

Q. WILL THE FINANCIAL STABILITY OF THE AEP COMPANIES BE STRONGER AS A RESULT OF THE MERGER?

A. Yes, it will. The combined company will be financially stronger and, as Mr. Flaherty testifies, the AEP subsidiaries will participate in operational synergies that would not be otherwise available.

D. Customer Benefits

Q. WILL THIS MERGER PROVIDE CUSTOMER BENEFITS OVER BOTH THE SHORT AND LONG TERM?

A. Yes. Mr. Flaherty and Mr. Baker both computed the benefits of the merger over a ten-year period. In each of those years, the regulatory plan proposed by Mr. Munczinski will provide benefits to KPCO customers.

Q. HOW DOES THE RATEMAKING METHOD PROPOSED BY THE APPLICANTS ENSURE THAT CUSTOMERS WILL RECEIVE THE BENEFITS OF THE MERGER?

A. Our methodology ensures that Kentucky customers will receive the benefits of the merger. Mr. Flaherty discusses the non-fuel merger savings and costs to achieve the merger. Mr. J. Craig Baker calculates fuel-related savings. Mr. Gerald Knorr discusses how the benefits and costs will be shared by each operating company. Mr. Munczinski summarizes how the savings and costs are allocated to each jurisdiction and discusses the merger costs and how we propose to flow net merger savings through to customers. These witnesses demonstrate that Kentucky will gain its fair share of merger benefits and will not pay a disproportionate share of merger costs. As a result of the Applicants' plan, customers are ensured that they will receive the forecasted benefits.

E. Competition

Q. WILL THE MERGER ADVERSELY AFFECT COMPETITION IN KENTUCKY?

A. No. Applicants' witness Dr. William H. Hieronymus has conducted a study of the merged systems, utilizing the Federal Energy Regulatory Commission's (FERC) merger policy guidelines. He has found that based on the results of his analyses, and taking into account the mitigation measures proposed by the Applicants, the proposed merger does not pose any market power concerns within Kentucky.

F. Quality of Management

Q. WHAT IMPACT WILL THIS MERGER HAVE ON THE QUALITY OF MANAGEMENT OF KPCO?

A. On behalf of AEP, I commit that the quality of KPCO's management will be maintained or improved. The merged company will be able to integrate the capabilities, talents and strengths of the personnel of the two companies. The result will be a whole that is greater than the sum of its two constituent parts; a stronger, more effective company better able to compete with other energy companies in the evolving energy markets.

G. Public Utility Employees

Q. HOW WILL THIS MERGER BENEFIT EMPLOYEES?

A. The employees of the combined AEP/CSW system will have the advantage of working for a larger, stronger, more diversified company. We anticipate there will be new opportunities for professional growth of employees. AEP and CSW both have employee development and training programs, and we will be harmonizing those programs. In summary, AEP should be a magnet for talented energy professionals in the competitive environment.

Q. WILL THE MERGER CAUSE A REDUCTION IN THE NUMBER OF JOBS?

A. Yes, on a combined company basis. Any time functions are consolidated and efficiencies are gained, the number of jobs to perform those functions is, by definition, reduced. The loss of jobs is an unavoidable consequence of becoming more efficient and reducing costs. AEP intends to minimize the disruption that the merger may cause to its employees and the current employees of CSW. We will use normal attrition to the maximum extent possible to eliminate duplicate positions. We will absorb some employees as a result of

growth. We will provide severance packages and out-placement services to those employees who no longer have a position in AEP after the merger.

Q. WILL THE MERGER RESULT IN THE TRANSFER OF JOBS OUT OF KENTUCKY?

A. There should be no reductions in KPCO field personnel as a result of the merger. Few of the "affected" jobs are in the Kentucky service area of KPCO, and there will be minimal job reductions in employees having direct contact with the customer. Before the combined companies can determine exactly how many jobs will be transferred, it will be necessary to know how many employees will leave due to ordinary attrition. The conclusions of the various transition teams who are charged with making recommendations regarding the location and nature of functions for the combined company will also be needed. Based on management analyses of merger cost savings, conducted with the assistance of Deloitte & Touche Consulting Group, it would appear that most of the potentially affected jobs are currently held by service company employees in Dallas, Texas; Tulsa, Oklahoma; Columbus, Ohio and Canton, Ohio. Many of these jobs are in the middle and upper ranks of management.

Q. ARE THERE FACTORS THAT WILL MINIMIZE THE NUMBER OF JOB REDUCTIONS IN KENTUCKY?

A. Yes. Quality of service demands that certain functions remain in place. Many utility-related functions are tied to immovable assets, such as generating plants, transmission lines and distribution facilities, and the employees who operate and maintain these facilities will stay in the area. While the total number of

Applicants' system employees may be reduced, we will always have local employees within KPCO'S service territory able to respond to customers, regulators, and other policy-makers.

H. Benefits to Communities

Q. HOW WILL THIS MERGER BENEFIT THE COMMUNITIES SERVED BY KPCO?

A. As a good corporate citizen, we play an active role in our communities. We have a highly skilled economic development organization at AEP and strongly believe in its ability to support our objectives. The program receives significant support throughout the organization. Mr. Mosher testifies regarding the community development programs currently conducted by AEP.

Q. WHAT PROGRAMS DOES AEP HAVE FOR ECONOMIC/COMMUNITY DEVELOPMENT IN ITS SERVICE TERRITORIES?

A. AEP's current programs for economic development include a targeted marketing program to attract industrial investment both domestically as well as specific programs designed to attract investment from both Japan and Europe. We also have an export assistance program in which we assist our existing customers in exploring international markets. Other programs we use to promote economic development include financing industrial property and shell buildings, challenge grants for local development agencies and scholarships for economic development training. We utilize target marketing to help our communities market themselves. We have found these efforts to be more effective than extensive advertising campaigns. We have developed an extensive database for

tracking information on available sites, buildings and accompanying community data. AEP expects to continue its commitment to economic development.

I. Effectiveness of Regulation

Q. WILL THIS MERGER PRESERVE THE JURISDICTION OF THIS COMMISSION?

A. Yes. This Commission will preserve its jurisdiction over KPCO. The ten other state jurisdictions will also retain their regulatory authority over the operating companies. KPCO will remain a subsidiary of a holding company, just as it is today. On the federal level, FERC, Securities and Exchange Commission (SEC), Environmental Protection Agency and Nuclear Regulatory Commission will all retain their respective jurisdiction. This merger does not cause any change in the jurisdiction of any regulatory body.

Q. HOW WILL THE MERGER FACILITATE THE ABILITY OF THE COMMISSION TO REGULATE KPCO?

A. The combined companies will continue to follow regulatory accounting rules. We are in the process of seeking approval of the new service company agreement which has been filed with the SEC. As testified by Mr. Knorr, the agreement includes changes to the allocation methodologies for affiliate transactions. A copy of Applicant's filing with the SEC, including the new service agreement, was provided to the Commission when it was filed with the SEC. We will continue AEP's practice of compliance with Commission rules and orders. Mr. Munczinski describes the Company's commitment to work with its regulators to provide the necessary affiliate reporting to meet regulatory requirements.

J. Pooling of Interests

Q. WHAT IS THE METHOD OF FINANCING THE MERGER?

A. AEP will exchange its shares of stock for CSW shares of stock. There will be no borrowing to finance the merger. As proposed, the merger will not encumber any of the assets of KPCO or adversely affect the rates of its customers. Mr. Mitchell discusses the accounting for the merger as a pooling of interests and other accounting issues.

V. INTRODUCTION OF OTHER WITNESSES

Q. PLEASE INDICATE THE PERSONS WHO ARE SUBMITTING TESTIMONY ON BEHALF OF CSW AND AEP IN THIS PROCEEDING.

A. In addition to my testimony, testimony will be offered by:

Witness	Subjects
Thomas J. Flaherty	Scope of Analysis; Benefits Created from Utility Mergers; Comparison to Other Transactions; Detailed Cost Savings Description; Costs to Achieve; Overview of Savings Allocation.
J. Craig Baker	System Integration Agreement; Production Related Benefits; Potential Capacity Benefits; AEP/CSW Interconnection Plans.
Richard E. Munczinski	Anticipated Benefits and Costs of Merger; Proposed Regulatory Plan; Reasonableness of Regulatory Plan; Affiliated Transactions.
Gerald R. Knorr	Affiliate Structure of Merged Entity; Transactions Among Affiliates; Allocation of Merger Savings and Costs Among Affiliates.
William H. Hieronymus	The Merger's Lack of Impact on Competition.

Witness	Subjects
Thomas E. Mitchell	Proposed Merger Transaction; Method of Accounting for the Combination; Proposed Merger Pro Forma Financial Data; Federal Income Tax Implications of the Merger; Accounting Impact of Proposed Regulatory Treatment.
Timothy C. Mosher	Kentucky Power Overview; Safety; Economic/Community Development; Communications and Accountability.
Mark A. Bailey	Safe, Reliable and Adequate Service; Customer Service and Budget Resources; Effect of the Merger on Customer Service.

VI. CONCLUSION

Q. DO YOU HAVE AN OPINION WITH RESPECT TO THE ACTIONS THE COMMISSION SHOULD TAKE WITH REGARD TO THIS MERGER?

A. Yes. Because the merger does not involve an acquisition of KPCO, or any change in ownership or control of the company, the Commission should find that its approval is not required. If, however, the Commission finds that its approval is required, the Commission should promptly approve the merger, without condition. Mr. Munczinski's testimony discusses the relief that the Applicants are requesting in conjunction with the proposed regulatory plan.

Q. DOES THIS CONCLUDE YOUR DIRECT TESTIMONY?

A. Yes, it does.

COMMONWEALTH OF KENTUCKY

BEFORE THE PUBLIC SERVICE COMMISSION OF KENTUCKY

COUNTY OF BOYD

COMMONWEALTH OF KENTUCKY CASE NO. 99-

Affidavit

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

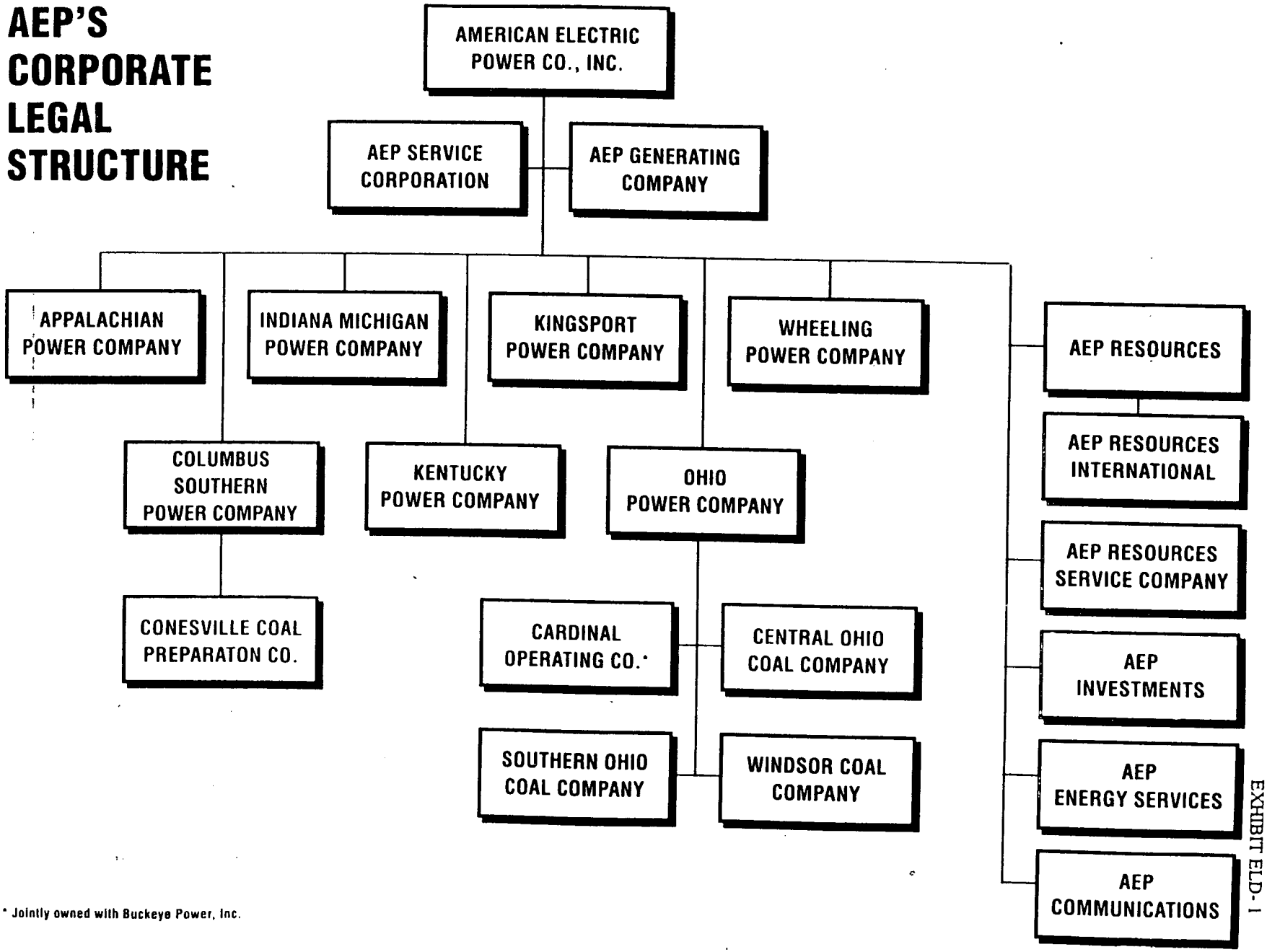
E. Linn Draper, Jr.
Dr. E. Linn Draper, Jr.

Subscribed and sworn to before me by Dr. E. Linn Draper, Jr., this 7th day of April 1999.

Sylvia A. Bragg
Notary Public

My Commission Expires 3-16-03

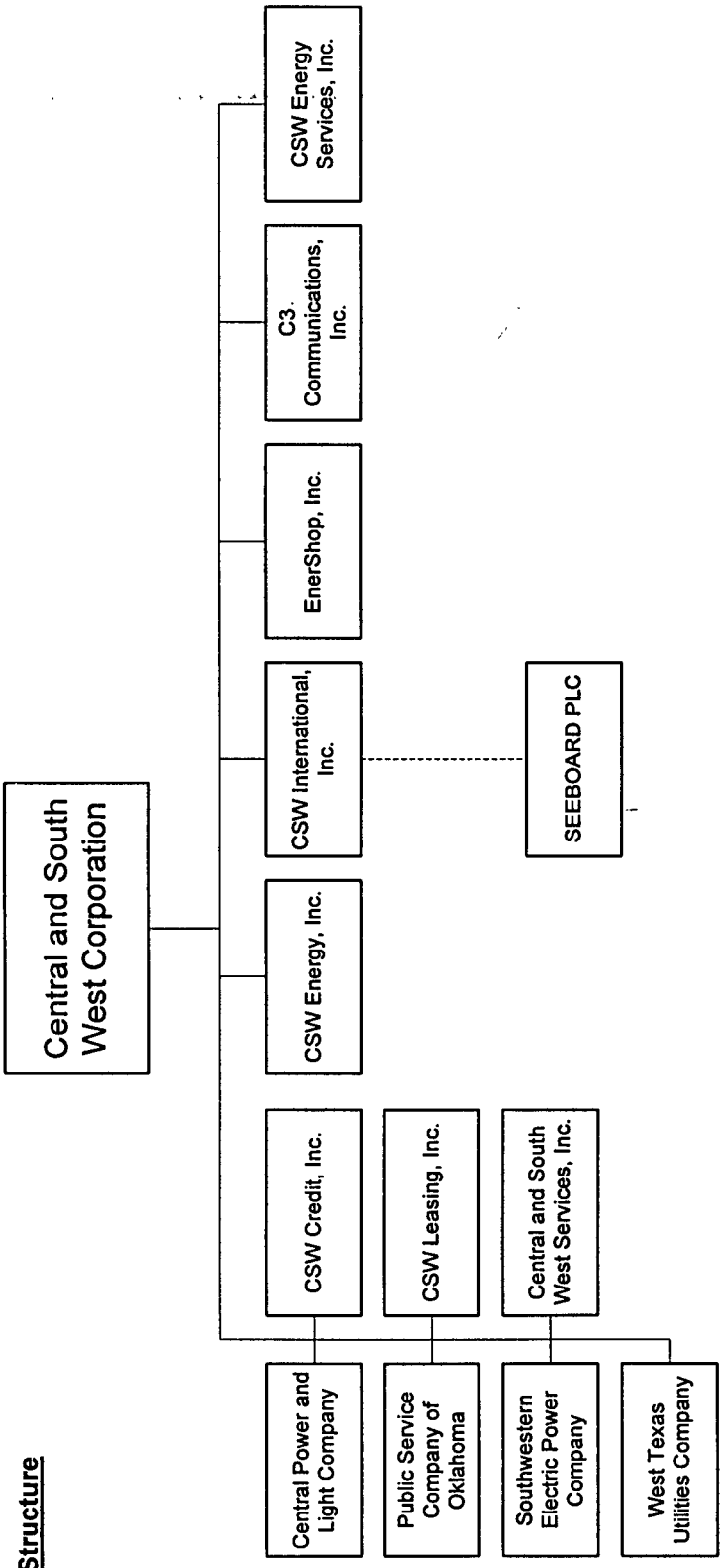
AEP'S CORPORATE LEGAL STRUCTURE



* Jointly owned with Buckeye Power, Inc.

EXHIBIT ELD-1

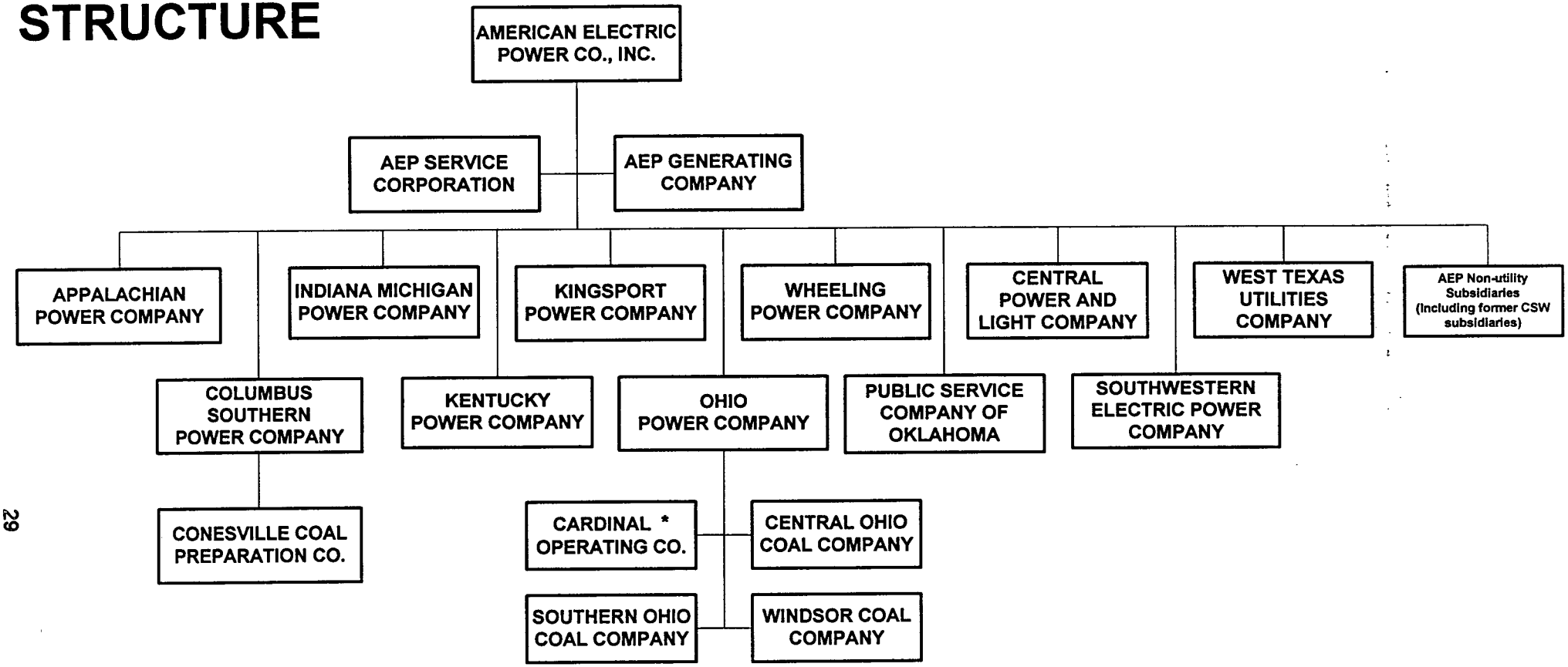
Current Legal Structure



CENTRAL AND SOUTH WEST CORPORATION MAJOR SUBSIDIARIES

COMPANY	BUSINESS
Central Power and Light Company	Electric Utility
Public Service Company of Oklahoma	Electric Utility
Southwestern Electric Power Company	Electric Utility
West Texas Utilities Company	Electric Utility
SEEBOARD plc	Regional electricity company in the United Kingdom which serves 2 million customers in southeast England
CSW Energy, Inc.	Develops, acquires, constructs, owns and operates nonutility power projects in the United States
CSW International, Inc.	Engages in international activities, including developing, acquiring, financing, and owning exempt wholesale generators and foreign utility companies
C3 Communications, Inc.	Provides metering automation services to utilities, energy-service providers and other customers, and offers telecommunications services through a joint venture
EnerShop[SM] Inc.	Provides energy management analysis and equipment to increase productivity and lower energy costs for commercial and governmental entities
CSW Energy Services, Inc.	Markets electricity in competitive retail markets
CSW Credit, Inc.	Buys the accounts receivable of CSW's electric utility subsidiaries and other utilities
CSW Leasing, Inc.	Owns leveraged leases of capital equipment
Central and South West Services, Inc.	Provides management and professional services, at cost, primarily for the corporation and its four U.S. electric companies

AEP'S POST-MERGER CORPORATE LEGAL STRUCTURE



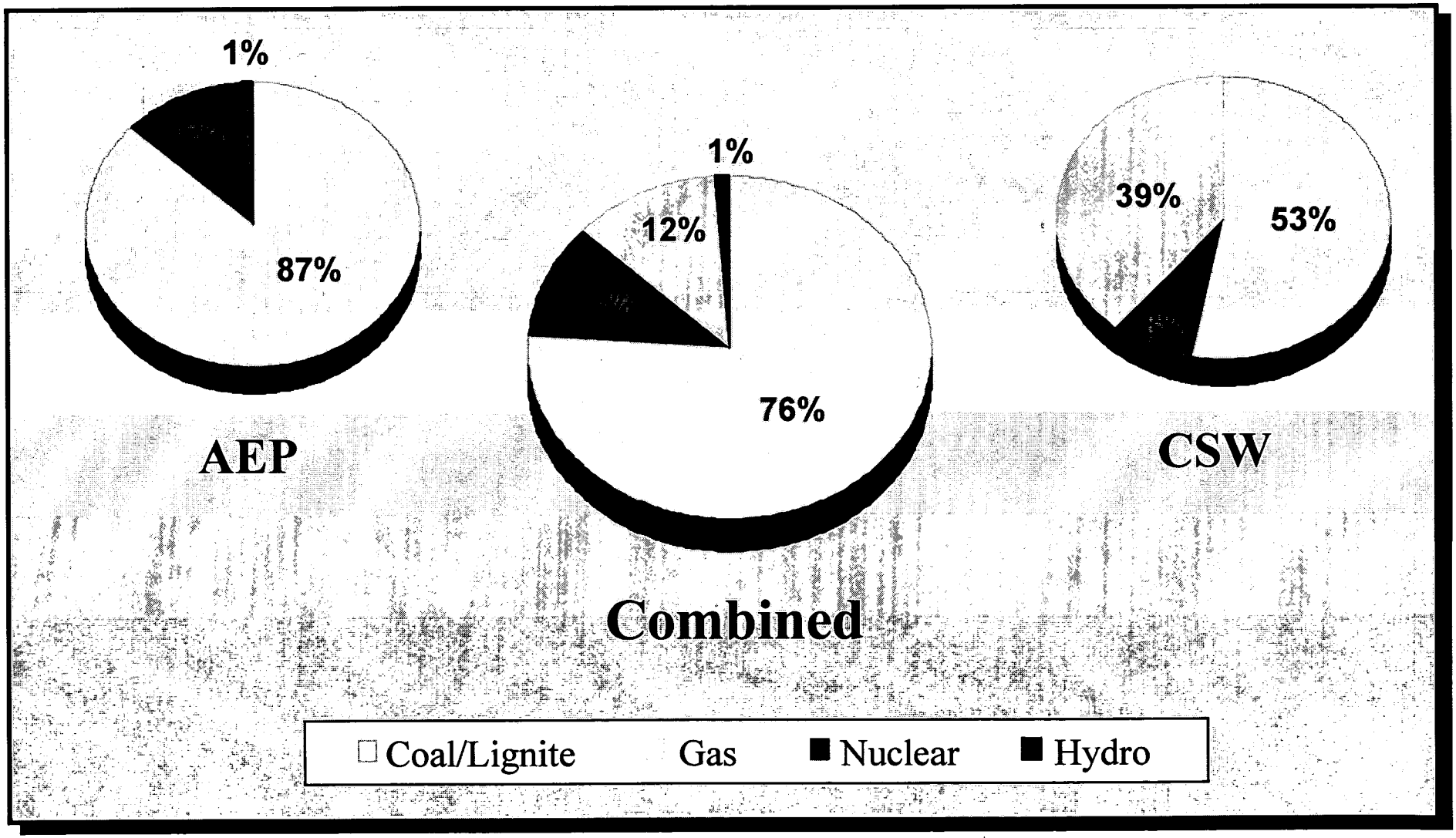
* Jointly owned with Buckeye Power, Inc.

EXHIBIT ELD-3

AEP AMERICAN® ELECTRIC POWER

Central and South West Corporation

Fuel Diversity*



* Prior to Applicants' Proposed Mitigation Plan.

EXHIBIT ELD-4

COMMONWEALTH OF KENTUCKY

BEFORE THE

PUBLIC SERVICE COMMISSION OF KENTUCKY

IN THE MATTER OF :

JOINT APPLICATION OF KENTUCKY POWER COMPANY, AMERICAN ELECTRIC POWER COMPANY, INC. AND CENTRAL AND SOUTH WEST CORPORATION REGARDING A PROPOSED MERGER	))) CASE NO. 99-)	

DIRECT TESTIMONY

OF

THOMAS J. FLAHERTY

APRIL 1999

TESTIMONY INDEX

TESTIMONY INDEX
(Continued)

EXHIBITS

COMMONWEALTH OF KENTUCKY

BEFORE THE

PUBLIC SERVICE COMMISSION OF KENTUCKY

IN THE MATTER OF :

JOINT APPLICATION OF KENTUCKY POWER COMPANY, AMERICAN ELECTRIC POWER COMPANY, INC. AND CENTRAL AND SOUTH WEST CORPORATION REGARDING A PROPOSED MERGER	))))	CASE NO. 99-

DIRECT TESTIMONY

OF

THOMAS J. FLAHERTY

APRIL 1999

I. INTRODUCTION AND QUALIFICATIONS

Q. PLEASE STATE YOUR NAME AND BY WHOM YOU ARE EMPLOYED.

A. My name is Thomas J. Flaherty, and I am the National Partner - Energy Consulting and a partner in the Deloitte & Touche Consulting Group LLC (Deloitte Consulting), a Delaware limited liability corporation. My business address is 2200 Ross Avenue, Suite 1600, Dallas, Texas 75201.

Q. WOULD YOU BRIEFLY SUMMARIZE YOUR ACADEMIC AND PROFESSIONAL BACKGROUND?

A. I graduated from the University of Oklahoma with a B.B.A. degree in Accounting and immediately joined Touche Ross, where I have been continuously employed since 1973. In December 1989, Touche Ross and Deloitte, Haskins & Sells merged and now conduct business under the firm name of Deloitte & Touche LLP. Since joining Touche Ross, I have specialized in the public utility industry and have performed a variety of assignments.

I have assisted managements from a number of electric and/or gas utilities in their identification, evaluation and integration of acquisitions, including: screening analysis; review of corporate restructuring alternatives; assessment of merger related cost reduction opportunities; development of regulatory strategies; planning and execution of merger integration; and, assignment and allocation of costs and benefits related to mergers and acquisitions. In addition to my involvement in merger and acquisition consulting for Deloitte Consulting, I have participated in numerous other utility consulting engagements in the areas of corporate growth, diversification,

restructuring, organizational analysis, business process reengineering, benchmarking, strategic planning, strategic marketing, litigation assistance, economic feasibility studies, regulatory planning and analysis and financial analysis.

I also have conducted or directed similar assignments for a variety of industries, including construction, retailing, publishing, health care, real estate and manufacturing, in addition to utilities. EXHIBIT TJF-1 to this testimony details my experience with regulated utilities.

Q. PLEASE SUMMARIZE YOUR EXPERIENCE IN UTILITY MERGERS AND ACQUISITIONS.

A. I have been involved in more than 100 actual, proposed or potential transactions involving electric, electric and gas combination, or gas utilities. I have experience working for both buyers and sellers and have assisted client managements in their assessment of a broad range of transactional issues, including the following:

- Target analysis
- Asset quality analysis
- Customer analysis
- Competitor analysis
- Synergy assessment
- Financial analysis
- Transaction structuring
- Regulatory strategy
- Testimony
- Integration planning

The publicly announced transactions in which I have been significantly involved, other than the one that is the subject of this proceeding are: Kansas Power & Light and Kansas Gas and Electric, IPALCO Enterprises and PSI Resources, Entergy and Gulf States Utilities, Southern Union and Western Resources (Missouri properties), Washington Water Power and Sierra Pacific Resources, Midwest

Resources and Iowa-Illinois Gas & Electric, Northern States Power Company and Wisconsin Energy Corporation, PECO Energy Company and PPL Resources, Public Service Company of Colorado and Southwestern Public Service Company, Baltimore Gas & Electric and Potomac Electric Power Company, Delmarva Power and Atlantic Energy, WPL Holdings, IES Industries and Interstate Power, Puget Sound Power & Light and Washington Energy, TU Electric and ENSERCH, Western Resources and Kansas City Power & Light, Western Resources and ONEOK, Inc. (Kansas, Oklahoma gas properties), Houston Industries and NORAM Energy, Ohio Edison and Centerior, ENOVA and Pacific Enterprises, Brooklyn Union Gas and Long Island Lighting, Allegheny Energy and DQE, Inc., LG&E Energy and KU Energy, and NIPSCO Industries and Bay State Gas.

Q. DO YOU HOLD ANY PROFESSIONAL CERTIFICATIONS?

A. Yes. I am a Certified Management Consultant and a member of the Institute of Management Consultants.

II. PURPOSE OF TESTIMONY

Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY?

A. I have been asked to appear for American Electric Power Company, Inc. (AEP) and Central and South West Corporation (CSW) (collectively, the Companies). Deloitte Consulting assisted the managements of both Companies in their identification and quantification of potential cost savings resulting from the merger.

In this testimony I: (1) describe the categories of nonproduction cost savings that are estimated by the managements of AEP and CSW to result from the merger of the Companies; (2) provide management's basis for its quantification of estimated cost savings; (3) describe the process by which such identified cost savings categories and estimated cost savings were derived by the Companies; (4) compare the level of cost savings identified in this merger with other transactions with which I am familiar, and; (5) address the first level of the Companies' allocation of net merger cost savings.

Q. HAVE YOU INCLUDED ANY EXHIBITS TO YOUR TESTIMONY?

A. Yes. EXHIBIT TJF-1 is a summary of my experience with regulated utilities, EXHIBIT TJF-2 provides a ten year summary of potential nonproduction merger cost savings, EXHIBIT TJF-3 provides a detailed breakout of potentially incurred costs to achieve the identified merger savings and EXHIBIT TJF-4 summarizes the allocation of cost savings into certain categories. Information on production related cost savings is contained in the testimony of Mr. J. Craig Baker.

III. SUMMARY OF TESTIMONY

Q. PLEASE SUMMARIZE YOUR TESTIMONY.

A. The merger of the Companies is anticipated to result in cost savings that should permit rates in the future to be below the level that otherwise would have been necessary on a stand-alone basis for either AEP or CSW. The approximately $2.4 billion of estimated nonproduction cost savings, before approximately $248 million of out-of-pocket costs to achieve these savings and $193 million of cost cutting measures planned or initiated

by each of the Companies prior to the merger (premerger initiatives), is expected by management of AEP and CSW to provide an opportunity to benefit all stakeholders, including customers, shareholders and employees, and result in a stronger, more competitive company.

These savings, by area, are identified further below:

Total Nonproduction Cost Savings

Savings Category		1999 - 2009 ($ Millions)
Corporate and Operations Support Staffing		$ 996
Corporate and Administrative Programs		1,044
Purchasing Economies (Nonfuel)		367
	Total Savings	2,407
Less:	Costs to Achieve	(248)
	Premerger Initiatives	(193)
	Net Savings	$ 1,966

The estimated nonproduction cost savings referenced above reflect only merger related savings. They reflect the consensus of both Companies and were jointly developed by management of the Companies, with the assistance of Deloitte Consulting. This joint management development of merger-related cost savings provides a sound basis for identification and quantification and results in well-documented, thoughtfully considered savings components. As a result, the process utilized by the Companies was comprehensive and captures all significant sources of merger savings typically available.

The estimated nonproduction cost savings reflect the potential creation of cost reduction or cost avoidance opportunities through the ability to consolidate separate, stand-alone operations into a single entity. This consolidation and integration thus may enable duplicative functions and positions to be eliminated; similar corporate activities to be combined, avoided or reduced in scope; external purchases of commodities and services to be aggregated; and capital expenditures to be avoided.

Based on my experience in other mergers and on my direct involvement with the identification, evaluation, and quantification efforts related to estimated cost savings in this and other transactions, the process utilized by the Companies for estimating potential merger cost savings was consistent with the process utilized by other companies in previous merger transactions. As a result, I believe the level of merger savings identified by the Companies is reasonably attainable provided that management of the combined Company executes its integration plans in a manner consistent with its intent and how other utilities have pursued similar opportunities.

The identified merger cost savings are also within the broad range of those developed by other companies in other similar situations. Although below the calculated averages of these other transactions, the lack of proximity in service territory, and the scale differences between AEP and CSW (AEP has more than twice the number of employees of CSW which limits the absolute savings available to no more than the smallest resource level), explain these differences. In essence, nonproduction merger cost savings are only available from corporate center and service company functional commonality and administrative and operating programs.

Recent utility mergers and acquisitions in other states have produced substantial benefits to customers in the form of operational synergies and cost savings that reduce rates or slow the rate of growth in rates. Benefits to customers, however, will not materialize without costs being incurred and risks being assumed. In any merger transaction, shareholders assume the risk that the merged entity will achieve the strategic, financial, and operational benefits set forth as the rationale for the proposed combination. To the extent these objectives are not attained (e.g., failing to realize cost savings), shareholders suffer from eroded equity value and/or lower returns. It is a well established regulatory principle that, to compensate for these risks and to reflect the shareholders' willingness to fund the costs necessary to realize potential cost savings, the costs to achieve both these savings and the underlying transaction should be fully recovered and the resulting net cost savings should be equitably shared with shareholders.

IV. SCOPE OF ANALYSIS

Q. WHAT PROCESS WAS UTILIZED BY THE COMPANIES IN DEVELOPING THE COST SAVINGS ASSOCIATED WITH THE PROPOSED MERGER?

A. The process began by collecting appropriate raw data regarding operations. The sources of this data included both public and private information. This information encompassed geographical and operational data; included numbers of positions, the various departments they worked in, their location, their salaries and benefits; and included other applicable information.

Next, the Companies, with the assistance of Deloitte Consulting, identified individual cost categories, including the actual past and expected future expenses for each individual category. Information used to accomplish this process included Company contractual information, various departmental reports, forecasts, and budgets, as well as departmental operating plans.

General operational philosophies for each Company were also identified. As part of this process, potential organizational and operational approaches were discussed and areas for potential savings were identified, with the assistance of Deloitte Consulting. This process resulted in the development of a set of area-by-area operating assumptions.

Finally, from all of the information and analyses identified above, savings estimates were developed, reviewed, analyzed, and revised by the managements, with the assistance of Deloitte Consulting, to produce the level of estimated savings reflected in my testimony.

Q. WHAT WAS THE SCOPE OF THE ASSISTANCE PROVIDED BY DELOITTE CONSULTING RELATED TO THE NONPRODUCTION SYNERGY SAVINGS ASSOCIATED WITH THIS PROPOSED MERGER?

A. Deloitte Consulting was asked to assist the managements of the Companies in the identification and quantification of both potential savings and additional costs necessary to realize those savings associated with the merger. This assistance was based upon previous experience and included assistance in the identification of necessary data elements and potential cost savings areas, discussion of potential

organizational and operational philosophies, discussion of potential assumptions to be utilized by Companies, assistance in the identification of estimated savings and costs to achieve and comparison of results to other previous transactions.

Q. WAS DELOITTE CONSULTING RETAINED TO PROVIDE ANY OTHER SERVICES IN CONNECTION WITH THE MERGER?

A. Yes. Deloitte Consulting was also engaged to (i) provide testimony in this proceeding and (ii) assist the Companies in integrating AEP and CSW into a combined operating entity once the proposed merger is consummated.

Q. WHAT PERSONNEL FROM THE MANAGEMENTS WERE INVOLVED IN THIS PROCESS?

A. A number of both senior management personnel, as well as middle management personnel from both companies, were actively involved in the cost savings identified and quantification described above.

Q. IS THIS PROCESS TYPICAL OF OTHER COST SAVING ESTIMATION PROCESSES THAT YOU HAVE BEEN ENGAGED IN?

A. Although the overall process undertaken by the Companies to identify cost savings was typical of other engagements that I have been involved in, certain elements of this process were unique in my experience. That is, the quantification of merger cost savings in this instance was principally conducted after the merger was announced. As a result, the information sharing process that necessarily supports a cost savings estimation process was more extensive than other transactions. This enabled both more data to be made available and more personnel to be accessible than is typically

the case with most mergers, where the bulk of the savings estimation process is accomplished before the merger is approved and announced. This more open environment among the companies further enhanced the savings quantification effort. For example, because the effort was principally conducted after both boards had voted to move forward, managements of both companies jointly (rather than separately) analyzed the identified saving areas by function and validated starting points, assumptions and preliminary approaches to the opportunities identified. As a result, the process utilized by the Companies was comprehensive and captures all significant sources of merger savings typically available.

Q. HOW WERE THE COST SAVINGS QUANTIFIED IN THIS PROCESS?

A. Estimates of cost savings were developed on a nominal cost basis over a ten-year period from April 1, 1999 to March 31, 2009. This provides a long-term view of attainable savings. This ten-year period is the same period traditionally utilized by this and other commissions with respect to review of merger cost savings.

Q. WHY WAS THIS TEN-YEAR PERIOD SELECTED?

A. This period represents the first ten years from the anticipated close of the transaction at March 31, 1999. At the time the planning for filing of the various regulatory dockets was occurring, a closing date of March 31, 1999 was considered accomplishable given the expectations of the Companies regarding regulatory complexity.

Q. WOULD IT BE NECESSARY TO REVISE THE QUANTIFICATION OF EXPECTED COST SAVINGS TO REFLECT THE EXTENDED MERGER CLOSURE DATE?

A. No, it would not. The initially estimated cost savings are still valid despite the later closing date then was originally anticipated. These cost savings sources are not affected by timing at all since they will always be available to the Companies. For example, positions that were initially determined to be duplicative will continue to be duplicative at a later date.

Q. WOULDN'T THE TOTAL ESTIMATED MERGER SAVINGS BE INCREASED AS THE CLOSE DATE BECOMES FURTHER EXTENDED?

A. Only nominally. While escalation would tend to increase estimated cost savings, the anticipated costs to achieve would also be similarly affected. Consequently, the net merger cost savings would not be significantly affected and therefore no revision would be necessary.

Q. ARE THE IDENTIFIED COST SAVINGS ONLY ATTAINABLE DURING THIS TEN-YEAR PERIOD?

A. No. The majority of the identified savings components could generate benefits that will continue beyond this period. For example, potential labor position reductions associated with the merger will be permanently eliminated since they relate to redundant functions. Likewise, potential purchasing power benefits will continue indefinitely as the cost of materials and supplies acquisition is reduced.

Although the cost savings estimated for the ten-year period generally will continue into future periods, cost savings are presented in nominal dollars and are limited to the first ten years following the merger.

Q. WHAT METHODS WERE USED TO QUANTIFY THE INDIVIDUAL COST SAVINGS COMPONENTS?

A. Cost savings were developed using three principal methods of quantification:

- Direct analysis - Use of actual costs and changes to these costs based on planned consolidation activities, e.g., position reductions were estimated based on detailed analyses of fully aligned individual functions and positions.

- Estimation - Determination, based upon more limited analysis of actual data, of potential merger-related cost reduction considering anticipated changes to markets and operations (e.g., reduction in materials and supplies costs from additional volume buying).

- Comparison to other transactions - Utilization of expectations in other proposed utility mergers as a proxy for the Companies' impacts (e.g., average insurance premium reductions based on expected or realized reductions achieved by other companies).

Of the three methods, the vast majority of the savings (approximately 70%) were quantified by using direct analysis. These methods of quantification are consistent with those utilized by other utility companies in prior mergers. For example, it is well recognized that insurance premiums will be reduced from a merger, however, the actual amount of the reduction will not be known until negotiations with

an insurance broker are finalized. Using other expected or realized reduction amounts is an appropriate method for quantification pending such negotiation.

Q. IS THE SAVINGS ANALYSIS PREDICATED UPON ANY PARTICULAR ORGANIZATIONAL STRUCTURE?

A. No. However, the cost savings related to the integration of common functions are predicated upon centralization of these functions, where appropriate and practical. This centralization could occur in several ways: within an expanded headquarters organization; within a corporate services entity, or by a combination or centralization of corporate and administrative-type services and decentralization of common technical support services into operating units. Any of these approaches would provide the Companies an opportunity to realize merger cost savings in those affected (and related) areas.

In quantifying cost savings, the maximum extent of centralization that appeared practical was assumed, without creating an ineffective, bureaucratic, and costly organization. This approach assumes that common corporate and administrative functions would generally be centralized in a service company, with common technical support or "mission critical" administrative functions either similarly centralized, or located as required within the various operating units. Both of the Companies already operate in service company environments that provide models for implementation. Given the geographic coverage of the Companies and the concentration of resources within potential business units, it is likely that certain of these business unit support

functions, e.g., budgeting, would be located within multiple operating areas throughout the system.

Q. CAN THE LEVEL OF SAVINGS ESTIMATED BY THE COMPANIES AND REFLECTED IN YOUR TESTIMONY BE ACHIEVED?

A. As I indicated earlier, the fact that the bulk of the cost savings analysis was performed after the merger was approved by the Companies' respective boards of directors meant that a larger number of management and employees were directly involved in the process. This broader involvement of management and employees enhances the nature and amount of information available. Further, the process utilized by the Companies for estimating potential merger cost savings was consistent with that utilized by other companies in previous merger transactions. As a result, the savings levels are reasonably attainable provided that management of the combined Company executes its integration plans in a manner consistent with its intent and how other utilities have pursued similar opportunities.

V. BENEFITS CREATED FROM UTILITY MERGERS

Q. IN GENERAL, HOW ARE SAVINGS CREATED FROM THE COMBINATION OF TWO UTILITIES?

A. The combination of two utilities enables the succeeding company to realize substantial benefits in the form of economies, efficiencies and operating effectiveness. These synergies relate to a variety of operational functions and potentially will result in

benefits that will accrue to customers. These potential savings areas are viewed as directly attributable to the merger and are not attainable in the absence of the merger.

Q. ARE THERE DIFFERENT TYPES OF COST SAVINGS THAT CAN RESULT FROM THE COMBINATION OF TWO UTILITIES?

A. Yes. In identifying potential cost savings, only those opportunities that are directly related to the merger were quantified. The distinction between merger and non-merger related savings is highlighted below:

- Created savings - These are savings that are directly related to the completion of a merger and could not be obtained absent the merger. For example, the reduction of total cost through the avoidance of duplication or overlap and the ability to extend resources over a broader base of activity would naturally occur through the consolidation of similar functions. Without the combination, both companies would continue to expend amounts on related activities, and as a result, would incur stand-alone cost levels higher than in consolidation. Approximately 95% of all cost savings in this merger would be directly created by the combination.

- Enabled savings - These savings result from the acceleration or "unlocking" of certain events that could give rise to savings and therefore are considered merger savings. For example, technology differences that exist between companies may provide an opportunity to share technology and achieve productivity improvements more rapidly and more cheaply than would have occurred on a stand-alone basis. For example, one company that has adopted an enterprise-wide information system will likely enjoy more seamless operation and management and higher productivity than a company that has individual, customized packaged applications. While the company without the integrated technology environment can obtain such productivity benefit from independent investment, the merger enables an existing technology environment to be more rapidly deployed and costly

stand-alone investment and concept feasibility analysis to be avoided. Only approximately 5% of the estimated savings might be considered enabled.

- Developed savings - Reductions in cost due to management decisions that could have been made on a stand-alone basis are unrelated to the merger. A decision to reengineer an organization will result in reduced costs but likely would have been achieved without the merger. None of the cost savings in this merger are in this category.

Q. WHAT TYPES OF SAVINGS HAVE BEEN QUANTIFIED WITH RESPECT TO THE AEP AND CSW MERGER?

A. The quantification effort focused on merger-related savings only, i.e., those savings that would not be attainable but for the combination of the two companies. The savings described in my testimony almost exclusively fall under the "created savings" category described above. Potential areas of benefit, and subsequently the resulting cost savings, are determined to be merger-related if they are not attainable by any action that management of either company could practically initiate on an independent basis. For example, management of either company could reduce labor costs by eliminating positions as part of a resource and function analysis. These reductions, however, would relate solely to that entity's independent operations.

Merger-related savings quantified result only from action taken by management in association with the combination of AEP and CSW: for example, the fact that both companies maintain separate investor relations activities provides an opportunity to consolidate these functions and avoid replication. This integration of similar functions and activities would not be possible without the merger of AEP and CSW. Thus, the

benefits identified are only those believed to be directly attributable to the merger. Additionally, cost savings or cost avoidances that result from the new size and economic scope of the combined entity are merger-related. For example, routine activities that could not be economically outsourced by either company individually may now be candidates for outsourcing, given the new combined entity's greater volumes. Similarly, activities that either of the companies now outsource might be performed more cost-effectively internally by the combined entity where volumes now justify specialized resources. The greater size of the combined entity should also enable it to be a more cost-effective purchaser of various products and services. Further, to the extent that the combination of two companies enables the companies to reduce costs by transferring technology or competencies to each other, these benefits are also merger-related if such actions could not have been effectively implemented by the companies independently, or if such transfers enable operating costs to be reduced more rapidly or to a lower level than otherwise would have been the case.

Each of the examples described above, as well as other additional cost savings or cost avoidances that are directly attributable to the merger, are considered merger-related synergies. Conversely, cost savings or avoidances that would have occurred even in the absence of the merger are not merger-related and should not be included in a calculation of the savings attributable to the merger.

Q. HOW DO SAVINGS RESULT FROM THE TYPICAL COMBINATION OF TWO UTILITIES?

A. Savings developed reflect those areas where the total level of costs can be affected by actions of management that are the direct result of the combination of AEP and CSW. These savings areas are derived from the operational synergies that are created upon integration of two independent operations. These savings areas would typically impact operations in the following ways:

- Cost reduction - The total cost of service is reduced as a result of the merger by avoiding duplication of the cost input required to achieve the same level of output. For example, similar operating functions, such as corporate planning, could now be integrated and would require less input to achieve results on a combined basis.

- Cost avoidance - The total cost of service is reduced due to the ability to forego certain types of parallel expenditures. For example, redundant expenditures required by both entities (e.g., information systems) could be avoided by selecting one set of development efforts to forgo duplication.

- Revenue enhancement - The creation of additional revenue streams by using existing regulated assets to supplement revenue sources could be a means to increase benefits for shareholders and customers. These revenue streams would be related directly to combining and packaging available resources, such as generation assets, in a more attractive manner, i.e., to produce or increase off-system sales, than could be achieved independently. No such revenue enhancement opportunities were identified in this transaction.

Q. WHAT CATEGORIES OF QUANTIFIABLE SAVINGS TYPICALLY RESULT FROM A UTILITY MERGER?

A. Quantifiable savings resulting from a merger typically can be categorized as follows:

- Corporate and Operations Support Staffing
- Corporate and Administrative Programs

- Purchasing Economies

Q. WERE THE "COSTS TO ACHIEVE" IDENTIFIED IN THE MERGER COST SAVINGS ANALYSIS?

A. Yes. Certain costs must be incurred to facilitate the realization of the identified cost savings. Costs to achieve are an inherent component of any merger transaction and are necessary to successfully complete a transaction and/or produce the level of intended benefits. These costs to achieve are expenses that are directly related to pursuing or executing the transaction and have the effect of reducing the level of distributable benefits. Were the total cost savings to be distributed without full recognition of these costs to achieve, the utilities would in effect be distributing a greater level of savings than in fact exist. In addition, if these out-of-pocket costs were not recoverable in rates, the Companies would effectively be required to support such expenditures without compensation. This would mean that customers would be compensated without any recognition of the costs to achieve those savings. Thus, to be equitable to all parties, it is only the net level of savings that is available for use by the companies. In all utility merger transactions of which I am aware, costs to achieve have been considered and recognized in determining the net level of benefits available to customers and shareholders.

VI. COMPARISON TO OTHER TRANSACTIONS

Q. ARE THE CATEGORIES OF SAVINGS IN THIS MERGER CONSISTENT WITH THOSE TYPICALLY IDENTIFIED IN UTILITY COMBINATIONS?

A. Yes, they are. There are, however, certain factors unique to this merger that affect the nature and level of synergies available.

Q. PLEASE ELABORATE ON THESE FACTORS.

A. Several factors typically affect the nature and level of merger synergies expected in utility combinations. These include: relative size (of the companies), relative cost position, location, capacity position, organization and management philosophy. Certain of these factors affect the quantified merger synergies in this merger:

- First, there are no overlapping service territories between AEP and CSW. Overlapping service territories provide additional savings opportunities e.g., reduction in facilities and sharing of resources;

- Second, AEP is substantially larger than CSW, which also affects the level of merger savings as scale differences can limit the extent of synergies available through combination. For example, in these instances where AEP has several times the number of resources dedicated to a function than would CSW, such as human resources, the impact of economies of scale would be limited by the smaller size of CSW. Two more evenly sized companies may experience relatively greater economies of scale since resource levels are more equivalent. In this case, relatively fewer resources are devoted to certain functions by one partner. As a result, economies of scale are lower than for two more equally-sized companies;

- Third, CSW has a partial ownership in a nuclear plant with three other entities but is not the operator, while AEP is an owner and operator. This eliminates any savings in the nuclear support areas, since these plants will remain stand-alone entities;

- Fourth, AEP and CSW are electric companies with no opportunity for cost reduction in gas operations areas as in many previous mergers;

- Fifth, CSW has primarily gas fired generation while AEP is primarily coal based thus eliminating most opportunities for generation engineering support synergies in this operating area; and

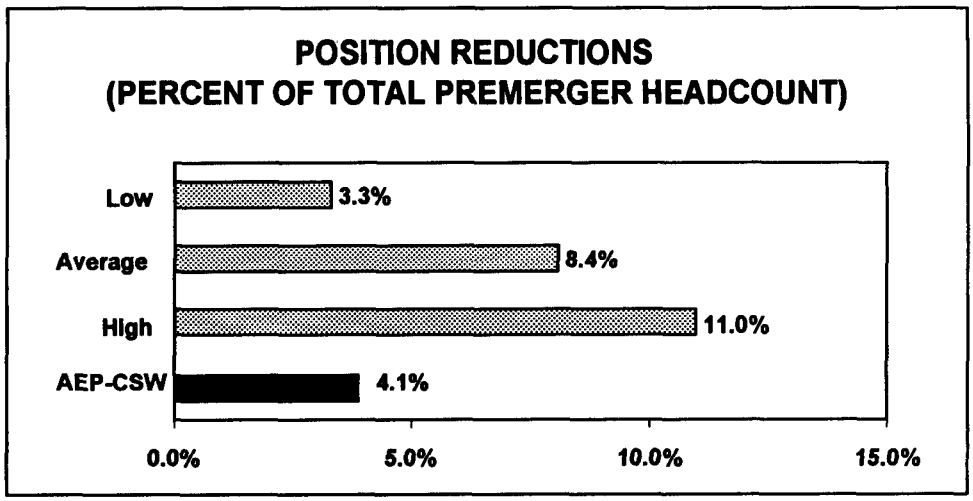
- Finally, AEP and CSW headquarters are approximately 1,000 miles apart and the boundaries of the service territories are even more distant. This distance increases the complexity of operations and can serve to limit the level of savings available compared to two more closely proximate companies.

Q. HOW DO THE AEP-CSW MERGER COST SAVINGS COMPARE TO THOSE IN OTHER TRANSACTIONS?

A. The anticipated synergies from the merger of AEP and CSW are within the range identified by other companies in other recent utility mergers, although they fall at the low end of the range for position reductions. In particular, anticipated position reductions and nonfuel Operations and Maintenance (O&M) expense reductions were reviewed -- two categories that provide a useful basis for comparative assessment of relative merger-related synergies. As indicated in the table immediately below, the position reductions that will result from this merger are slightly below the average of 14 of the most recent proposed utility transactions for which relevant data is available.[1]

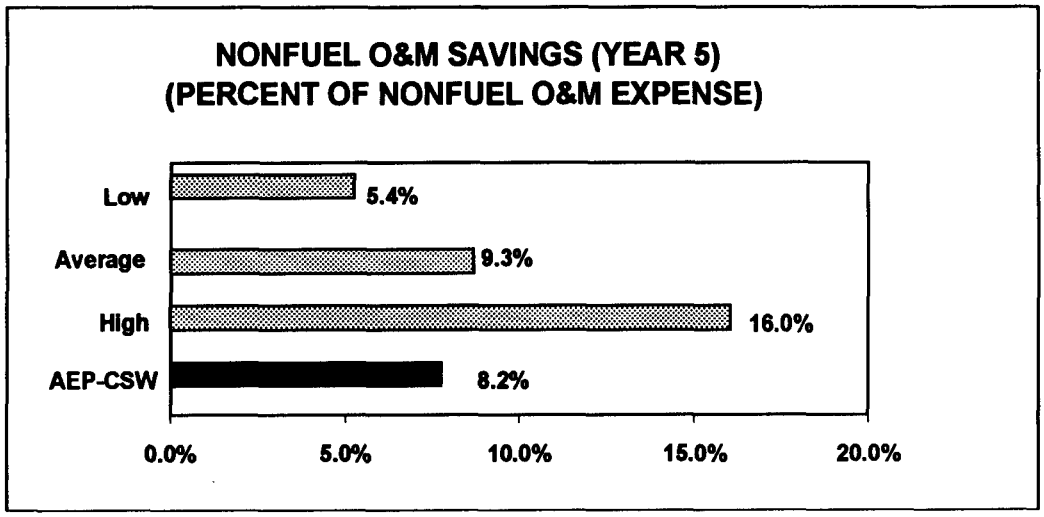
---

1 These 14 transactions are: Washington Water Power and Sierra Pacific Resources; Midwest Resources and Iowa-Illinois Gas & Electric; Northern States Power and Wisconsin Energy; Union Electric and CIPSCO; Public Service Company of Colorado and Southwestern Public Service; Baltimore Gas & Electric and Potomac Electric Power; Puget Sound Power & Light and Washington Energy; WPL Holdings, IES Industries and Interstate Power; Western Resources and Kansas City Power & Light; Delmarva Power and Atlantic Energy; Ohio Edison and Centerior Energy; Pacific Enterprises and ENOVA; Brooklyn Union and Long Island Lighting; and, LG&E Energy and KU Energy. The data I have presented are based upon estimated synergies.



The 4.1% position reduction amount for the merger of AEP and CSW reflects the estimated total number of position reductions (1061) compared to the total number of positions at both companies prior to the initiation of the merger (25,691). The 4.1% reduction amount is below the average reduction figure of 8.4% but is explained by the lack of overlapping operations and the scale differences between the Companies. However, none of the field workforce is affected by the combination, i.e., work volumes will not be reduced, thus those positions directly responsible for safety, reliability or service quality will not be negatively impacted. Some opportunity for levelizing the customer service workforce due to time zone differences is possible, however, this is not significant enough to offset the scale and geography disadvantage. This amount of 1,061 positions is lower than the approximately 1,300 announced by the Companies in December of 1997. This difference reflects a more detailed analysis conducted post-announcement by management and is based on the involvement of an expanded number of Company personnel.

Similarly, the nonfuel O&M reductions that will result from the merger are also below the average of the same 14 transactions.



Again, the lack of comprehensive geographic and functional overlap between the utility operations are the principle reasons for the disparity between AEP and CSW merger O&M synergies and the average synergies from other recently proposed utility or utility holding company mergers. This result is largely driven by the large amount of generation, transmission and distribution O&M expense in the denominator that is unaffected in this case, i.e., no cost savings reduce or offset cost levels in these categories, and the amount of customer service O&M expense in the denominator is only partially offset by merger savings since the call volumes are not avoided, simply redistributed. A factor that may increase the relative AEP-CSW comparison against the previous transaction average is related to the premerger initiatives of the two companies. AEP's and CSW's planned and continuing premerger cost reduction initiatives reduce the denominator and cause the comparison to approach the average. Few of the other 14 transactions had any, or any significant, premerger initiatives that

caused nonfuel O&M levels to be reduced. Based upon the divergent operational characteristics of AEP and CSW, and the broader cost reduction components typically included in either electric to electric or electric to electric/gas combination mergers, the cost savings and cost avoidances from this merger reflect those found within previous industry experience.

VII. DETAILED COST SAVINGS DESCRIPTION

A. Summary

Q. YOU PREVIOUSLY TESTIFIED THAT APPROXIMATELY $2.4 BILLION IN NONPRODUCTION MERGER COSTS SAVINGS HAVE BEEN QUANTIFIED BY THE COMPANIES, PRIOR TO CONSIDERING THE COSTS TO ACHIEVE. WOULD YOU IDENTIFY AND DEFINE THE PRINCIPAL CATEGORIES OF COST SAVINGS THAT COMPRISE THIS AMOUNT?

A. Yes. As EXHIBIT TJF-2 illustrates, there are three primary categories of cost savings that have been quantified. Each of these is described briefly below:

- Corporate and Operations Support Staffing - Position reductions related to redundancies associated with corporate, administrative and technical support functions.

- Corporate and Administrative programs - Reductions in nonlabor programs and expenses, such as insurance and shareholder services, resulting from economies of scale and cost avoidance.

- Purchasing Economies (nonfuel) - Aggregation of materials and supplies volumes and services contracts to increase purchasing power and to reduce required reorder volumes and associated carrying costs.

Q. ARE THERE ONLY THREE CATEGORIES OF COST SAVINGS THAT HAVE BEEN QUANTIFIED?

A. No. These categories represent only the general classification of cost savings. There are multiple, individual cost savings elements identified by management of the Companies with assistance from Deloitte Consulting that comprise these general categories. These are listed below and further illustrated in EXHIBIT TJF-2.

- Corporate and Operations Support Staffing
- Corporate and Administrative Programs
- Administrative and General Overhead
- Advertising
- Association Dues
- Benefits
- Credit Facilities
- Directors' Fees
- Facilities
- Insurance
- Information Systems
- Professional Services
- Research and Development
- Shareholder Services
- Telecommunications
- Purchasing Economies
- Procurement

- Contract Services
- Inventory Reduction

Q. WHAT ARE THE CATEGORIES OF AND APPROXIMATE COSTS NECESSARY TO ACHIEVE THE SAVINGS?

A. There are several categories of costs that must be incurred to achieve the identified savings that are expected by the Companies. These costs reflect expenditures necessary to effectuate the cost savings identified from the merger through company integration. These categories of costs to achieve, as listed below, are further illustrated in EXHIBIT TJF-3:

- Separation Costs
- Employee Retention
- Systems Integration
- Employee Relocation
- Directors' and Officers' Tail Liability Coverage
- Telecommunications
- Regulatory Process Costs
- Internal/External Communications
- Facilities Integration

- Transition Costs
- Transaction Costs

Estimated costs to achieve total approximately $248 million, which will principally be incurred in 1999 and 2000 (see EXHIBIT TJF-3), but will extend over the full ten-year period to reflect certain ongoing costs.

Q. ARE THERE ANY OTHER ITEMS THAT OFFSET MERGER SAVINGS?

A. Yes. Cost savings initiatives which were already planned prior to the merger were subtracted from the gross savings estimates because there is likely to be some overlap between these initiatives and identified cost savings resulting from the merger. These ongoing or future initiatives will contribute to lower total costs to customers and are estimated at $193 million over the ten-year period. The merger thus allows the Companies to achieve additional cost savings opportunities beyond those previously identified.

Q. WHAT IS THE ANTICIPATED LEVEL OF TOTAL COST SAVINGS AFTER THESE COSTS TO ACHIEVE ARE REFLECTED?

A. The total estimated nonproduction cost savings identified from the merger over the first ten years after the merger, after being adjusted for costs to achieve and premerger initiatives, are approximately $2.0 billion.

B. General Assumptions

1. Escalation Rates

Q. WHAT ASSUMPTIONS ABOUT THE ESCALATION OF COSTS WERE UTILIZED BY THE COMPANIES IN ESTIMATING COST SAVINGS?

A. For the most part, cost savings were estimated based on current cost and expense levels. To account for inflation and other economic factors appropriately, an escalation rate was then applied to year one savings levels to determine the level of savings in each of the subsequent years. Development of the estimated cost savings over the ten year period without application of an escalation factor would result in understatement of the total cost savings available over this period. Failure to apply an appropriate escalation factor ignores year-to-year specific category inflation.

Q. WAS THE SAME ESCALATION RATE USED FOR ALL SAVINGS CATEGORIES?

A. No. A differential existed in the anticipated escalation rates for the cost categories contemplated in the analysis (e.g., differences between salaries and other cost categories). For this reason, a single escalation rate could not be used for all cost savings categories. Although 3.0% was used for general inflation, a higher rate (4%) was used for salaries to reflect market requirements. This 4% level is consistent with the Companies' pre-merger, stand-alone assumptions for salary increases. Further, the 4% is less than long-term national forecasts of salary escalation and historical national salary escalation. Likewise, a higher escalation rate of 5% was used for advertising and professional services due to the professional labor content of those costs.

Professional salary growth historically is at the high end of wage and salary escalation. These escalation rates are comparable to those used by other companies with which I am familiar and to other longer-term estimates for general inflation.

2. Treatment of Capital Savings

Q. WERE THERE OTHER GENERAL ASSUMPTIONS OR METHODOLOGIES EMPLOYED IN THE COST SAVINGS ANALYSIS?

A. Yes. In treating capital deferrals and avoidance related to the merger, it would be inappropriate to count the entire amount of the capital expenditure deferred or avoided as cost savings. For example, if it were anticipated that the Companies could avoid installing a $10 million computer system in 1999, this $10 million reduction in expenditures in 1999 was not used for the actual savings. Including the $10 million as savings achieved in 1999 would not represent the avoided revenue requirements associated with that $10 million capital expenditure from either the company or customers' perspectives. Additionally, such a methodology would result in overstating the cost savings in the early years following the merger by taking credit for the entire avoided investment as cost savings in those years. Instead, it is more appropriate to reflect only the revenue requirements savings associated with capital deferral/avoidance as cost savings. The components of revenue requirements include, but are not limited to, financing, depreciation, insurance and property tax. This revenue requirements approach, rather than a cash flow approach, provides a more appropriate determination of the savings estimated to be generated due to the merger.

Q. WHAT METHODOLOGY WAS USED TO CAPTURE THESE CAPITAL DEFERRAL/AVOIDANCE SAVINGS?

A. A fixed charge rate for each year of the first ten years following completion of the merger was applied to each year's capital expenditure reductions. The fixed charge rate methodology, which reflects normal declining balance ratemaking treatment, was used to estimate annual savings levels. Fixed charge rates cover depreciation, insurance, property tax, income taxes and cost of capital and were determined by both AEP and CSW and then were blended to determine both general rates for long term assets and specific rates for information technology-related expenditures. The first year fixed charge rate for capital items other than information technology was 17.5% while for information technology items it was 34.9% in the first year, reflecting the more rapid (five year) depreciation period.

C. Cost Savings Summary

1. Corporate and Operations Support Staffing

Q. PLEASE DISCUSS IN MORE DETAIL THE NATURE OF THE COST SAVINGS CREATED THROUGH THE INTEGRATION OF THE CORPORATE AND OPERATIONS SUPPORT FUNCTIONS.

A The combined Companies expect to integrate existing corporate, administrative and technical support areas. Such integration would generate savings through the elimination of redundant positions within both headquarters and operations support in the following types of functions:

- Legal
- Finance
- Corporate Planning
- Information Systems
- Customer Service
- Fuel Supply
- Systems Planning
- Executive Management
- External Relations
- Accounting
- Human Resources
- Administrative Support
- Marketing
- Transmission & Distribution
- Technical Support
- Power Supply

A merger between the companies provides an opportunity to consolidate these functions and eliminate redundant activities. For example, the consolidation of two accounting departments would typically create significant savings. Potential redundancy within the two departments is identified through an alignment of functions between the Companies to ensure comparability across different organizational structures. Each individual function within the finance area, including budgets and forecasting, financial reporting, general accounting, tax accounting and accounts payable, among others, contains positions performing duplicate tasks. These overlapping positions could be eliminated without an impact on remaining work load volumes.

Q. HOW WAS THIS PRINCIPLE APPLIED TO DETERMINE THE POTENTIAL POSITION SAVINGS THAT WOULD RESULT FROM A MERGER OF THE COMPANIES?

A. The first step in determining corporate and operations support labor savings was to develop a detailed functional alignment of each Company. Both Companies provided

organizational and functional breakdowns of their respective companies that identified each position within its respective organization. The stand-alone company functional areas then were aligned so that position levels for similar functions/activities performed by the respective companies could be compared. The analysis maintained consistency between the intercompany functional categories and aligned representative activities between the Companies.

Upon completion of the functional alignment, the position levels necessary to perform the required activities under the merged company scenario were identified. In determining the appropriate future position levels of the merged company, the following items were considered:

- Impacts of geographic distance and system size on the ongoing approach to consolidation of the Companies;
- Duplicative or redundant activities that could subsequently be eliminated;
- Differences in existing management, operational and structural philosophies;
- Need for and ability to consolidate functions in one location and the impact of using linking technologies between functions at different headquarters locations; and
- The specific cost drivers, if any, of the functional areas that would affect appropriate position requirements.

Reviews of each functional area were performed to ensure that any potential reductions did not exceed the position levels of either company on a stand-alone basis. Thus, even where significant scale differences exist, e.g., AEP dedicates 50 resources

to a function and CSW only commits 20, reductions were limited to the lower position level, i.e., 20 resources.

Q. HOW ARE THESE CORPORATE AND OPERATIONS SUPPORT FUNCTIONS ASSUMED TO BE STRUCTURED TO REALIZE THESE POSITIONS SAVINGS?

A. The achievement of the estimated level of savings assumes that these functions will be centralized to the extent determined most practical, effective and efficient by the Companies. The position savings identified above are predicated on the centralization of many functions into a traditional service company like those presently maintained. Decentralization of certain functions or activities into operating units may also occur on a "mission critical" basis to avoid overcentralization and provision of necessary resources to support business unit accountability.

Q. PLEASE DESCRIBE THE RESULTS OF THE ANALYSIS DISCUSSED ABOVE.

A. As of mid-year, 1997, AEP had a total of 18,185 positions, 1,818 of which are associated with nonregulated and/or mining activities, leaving a balance of 16,367 in utility operations. CSW had a total of 7,506 positions at this same date with 255 related to nonregulated activities and 7,251 in the utility. Those positions which are field-related are unaffected for the purposes of the analysis. Examples of unaffected positions include distribution linemen or technicians working in the power plants. AEP had a total of 4,231 affected positions, while CSW had 2,581 affected positions. Thus, a large portion of the total positions that focus directly on service delivery to

customers is not directly impacted by the merger and does not jeopardize safety, service quality or reliability.

AEP had 3,270 positions associated with corporate and administrative functions, while CSW had 1,914. The combined corporate and administrative positions of the two companies were thus 5,184, or 20% of the combined Companies total positions of 25,691. Of this total, 3,525 positions were considered affectable. Approximately 787 corporate and administrative position reductions were identified by the Companies that could result from the consolidation of the Companies. This constitutes 15% of combined corporate and administrative positions, and 3% of the combined Companies' total positions. These reductions represent the anticipated level of functional duplication that would exist between the Companies and could be avoided through the creation of an integrated corporate and administrative organization.

AEP also had 7,061 positions in field support functions such as distribution engineering, while CSW had 3,892 positions in these categories. Of these amounts, 2,555 of these positions were considered affectable. Approximately 202 reductions in positions performing these functions were identified by the Companies, which constitutes 2% of positions in these categories or 1% of total positions.

AEP also had 6,036 positions in generation support functions such as generation engineering or fuel procurement, while CSW had 1,445 positions in these categories. There were 732 affectable positions in these functions. Approximately 72

reductions in positions performing these functions were identified by the Companies, which constitutes 1% of positions in these categories.

Q. WHAT ARE THE ESTIMATED TOTAL POSITION REDUCTIONS FROM THE COMBINATION OF THE COMPANIES?

A. Total position reductions are estimated at 1,061 or approximately 4.1% of total current combined company positions.

Q. WHEN ARE THESE POSITION REDUCTIONS ASSUMED TO OCCUR?

A. The Companies intend to achieve a number of these reductions (360) by the beginning of the first year following completion of the merger. Due to the extensive integration of information systems applications that will be required in association with consolidating operations of the Companies, the remaining reductions (701) in many functions will not be fully realized until the second or third years following completion of the merger. These reductions have been synchronized with anticipated system completion dates to reflect the timing of cut-overs and work practice standardization.

Q. ONCE THE POTENTIAL POSITION REDUCTIONS WERE IDENTIFIED, HOW WERE THE POSITION REDUCTION COST SAVINGS CALCULATED?

A. Average salary levels were calculated by function and then applied to the identified position reductions in those respective areas. The average blended salary for the position reductions identified is estimated to be approximately $58 thousand in 1999 dollars based on the expected salary levels in 1998 for each company weighted by the number of resources in each company and then escalated one year.

Q. ARE THERE COST SAVINGS ASSOCIATED WITH POSITION REDUCTIONS OTHER THAN SALARY EXPENSE?

A. Yes. Benefit costs are also considered when determining the cost savings associated with position reductions. Benefits include such items as health insurance, life insurance, employee investment plans, pension expense, accruals for retirement health benefits of active positions, incentives and bonuses, payroll taxes and others. A blended benefits loading rate of 34.4% was used to estimate average aggregate benefits cost. The resulting total compensation including benefits averaged $78 thousand in 1999 dollars.

Q. WAS ANY PORTION OF THESE CORPORATE AND OPERATIONS SUPPORT STAFFING SAVINGS ALLOCATED TO CONSTRUCTION?

A. Yes. A certain portion of these expenses are capitalized rather than expensed annually, reflecting their relation to the capital or construction elements of the business. Capitalized amounts thus are recovered over the life of the asset to which these costs are assigned. A blended capitalization rate of 10.5% was used for corporate positions, 42.2% for field support positions and 4.1% for generation support positions based on the stand-alone expectations of each company weighted by relative size.

Q. HOW WERE COST SAVINGS CALCULATED ON THE CONSTRUCTION PORTION OF CORPORATE AND OPERATIONS SUPPORT STAFFING REDUCTIONS?

A. The same method that I described previously for calculating cost savings related to avoiding capital expenditures was used. The annual fixed charge rates that I previously described were applied to the portion of position savings allocated to construction to convert these position savings to revenue requirements. The reduced revenue requirements represent the savings that result from the elimination of redundant construction related activities.

Q. WHAT WERE THE TOTAL SAVINGS ESTIMATED TO RESULT FROM CORPORATE AND OPERATIONS SUPPORT STAFFING CONSOLIDATION?

A. The total corporate and operations support position reductions were estimated to be 1,061 positions. The total cost savings from corporate and operations support staffing for the ten-year period are estimated at $996 million.

Q. COULD THESE POSITION SAVINGS HAVE BEEN ACHIEVED WITHOUT THE MERGER?

A. No. The position reductions described are attributed to the merger. The reduction opportunities arise from overlap and duplication in functional performance, rather than from stand-alone initiatives unrelated to the merger. The savings discussed above are triggered by the opportunity to combine functions and eliminate redundancy, not by assumed improvements in operating efficiencies. Both companies have ongoing continuous improvement programs in place, which have restrained cost levels and which are expected to continue through the ten year period. Attention was given to avoiding double-counting these initiatives by excluding those pre-merger initiatives identified prior to 1999 from the beginning point position analysis. In addition, those

continuing position reductions planned past-1998 were estimated and quantified and these annual amounts were then offset against potential savings to avoid capturing potential nonmerger impacts. The subject of premerger initiatives is discussed further elsewhere in this testimony.

2. Corporate And Administrative Programs

Q. WHAT COST SAVINGS CAN BE CREATED THROUGH CORPORATE PROGRAM AND EXPENDITURE CONSOLIDATION?

A. The integration of corporate and administrative functions reduces certain non-labor costs, primarily through the consolidation of overlapping or duplicative programs and expenses.

Two examples, insurance and information systems expenses, will illustrate how these savings are created through a merger:

- Insurance - Cost savings typically would be realized in the areas of property insurance and excess general liability insurance, among others. On a stand-alone basis, each company carries insurance (or is self-insured) in these areas independently. A larger combined company will have a reduced risk profile because of its broader asset base. In addition, asset concentration will be less significant, which should translate into lower rates for the combined company.

- Information systems - Organizations must facilitate systems development and support the information processing needs of each company. Companies typically have independent plans to develop a variety of systems in the future, including parallel systems development efforts. A combination would enable the companies to avoid incurring these duplicate capital expenditures. Additional information

systems savings could result from deferred capital projects, such as mainframe upgrades or personal computer purchases. Additionally, savings could be realized from the elimination of other duplicate costs, including disaster recovery, software support, miscellaneous software and hardware, license fees, and computer maintenance.

Q. WHAT ARE THE AMOUNTS, BY SPECIFIC AREA, OF THE CORPORATE AND ADMINISTRATIVE PROGRAM SAVINGS?

A. Savings were identified and quantified over the ten-year period in the following areas:

	Ten-Year Total ($000)
Administrative & General Overhead	74,302
Advertising	20,219
Association Dues	4,220
Benefits	84,575
Credit Facilities	1,374
Directors' Fees	5,516
Facilities	80,661
Information Services	440,446
Insurance	70,502
Professional Services	212,534
Research & Development	11,056
Shareholder Services	9,200
Telecommunications	29,146

Each of the aforementioned categories is described below.

a. Administrative and General Overhead

Q. WHAT TYPES OF EXPENSES ARE INCLUDED IN MISCELLANEOUS OVERHEAD EXPENSE AND HOW ARE THEY AFFECTED BY THE MERGER?

A. Miscellaneous overhead expense includes, but is not limited to, periodicals, postage (other than customer billing), stationery, telecommunications, transportation and office supply expenses. These costs are variable with the total number of positions and change as the number of positions increase or decrease. As position reductions are achieved through the merger, miscellaneous overhead expenses also are reduced.

Q. HOW WERE ESTIMATED COST SAVINGS FOR THIS AREA QUANTIFIED?

A. Miscellaneous overhead expenses were identified and separated between fixed and variable components and divided by the total positions for which they were applicable. The variable administrative and general costs for the Companies are incurred primarily by administrative and general (A&G) positions, and therefore were reduced by A&G position impacts only. The combined average miscellaneous overhead expense per A&G position was then multiplied by total merger-related A&G corporate position reductions to arrive at a merger savings level for this area. The estimated merger savings identified were $74.3 million for the ten year period.

Q. COULD THESE MISCELLANEOUS OVERHEAD EXPENSE SAVINGS BE ACHIEVED ABSENT A MERGER?

A. No. These savings are directly related to the position reductions that would result from the merger.

b. Advertising

Q. PLEASE DESCRIBE HOW ADVERTISING EXPENDITURES COULD BE AFFECTED BY THE MERGER OF THE COMPANIES.

A. The merger gives rise to cost savings resulting from the elimination of duplicate fixed production (e.g., studio, and distribution costs) and other program costs.

Q. WHAT IS THE LEVEL OF SAVINGS ESTIMATED AND HOW WAS THIS AMOUNT CALCULATED?

A. The total estimated savings in the area of advertising over the ten year period was $20.2 million. The savings reflect a reduction in the combined expenditures resulting primarily from the elimination of duplicative fixed production costs, national media buys and agency fees.

Q. COULD THE SAVINGS THAT HAVE BEEN IDENTIFIED IN THE ADVERTISING AREA BE ACHIEVED ABSENT A MERGER?

A. No. These savings are predicated directly on the assumption that there is a single, combined company jointly identifying, developing and producing required advertising.

c. Association Dues

Q. PLEASE DESCRIBE HOW DUES AND MEMBERSHIPS COULD BE AFFECTED BY THE MERGER OF THE COMPANIES.

A. Both companies are members of Edison Electric Institute. The combination will allow opportunities to realize an overall lower level of expenditures under the EEI formula compared to the expenditures under the formula on a stand-alone basis. These savings

arise due to the declining unit rate applied in each of the three factors after initial threshold levels are met.

Q. HOW WERE SAVINGS IN DUES AND MEMBERSHIPS QUANTIFIED?

A. A review of each company's industry and trade memberships was performed. A review for common organizations was conducted with overlapping memberships identified and the smaller expenditure was reduced or any formulaic calculations made to reflect the consolidation of memberships in these organizations. The resulting estimated savings identified were $4.2 million over the ten year period.

Q. COULD THE SAVINGS IN DUES AND MEMBERSHIPS BE ACHIEVED ABSENT A MERGER?

A. No. They can only be achieved by consolidating memberships. Otherwise, there will continue to be two sets of memberships under separate formulas.

d. Benefits

Q. WHAT LEVELS OF COST FOR ADMINISTRATION OF BENEFITS PROGRAMS ARE EXPECTED?

A. Estimates of total annual benefits costs for the Companies are approximately $329 million for AEP and approximately $158.7 million for CSW. These costs include medical, life insurance, pension and the administrative costs associated with those benefits programs. The estimated annual benefits administrative costs for the Companies are $6.2 million for AEP and $3.6 million for CSW.

Q. HOW CAN COST SAVINGS BE ACHIEVED IN THE AREA OF BENEFITS AND WHAT ARE THE ESTIMATED SAVINGS?

A. Benefits administration savings may be realized as a result of greater purchasing power for the combined entity when negotiating administration fees with third-party administrators. Additionally, purchasing power can be exercised in negotiating the dollar cost of benefits provided without reducing the level of benefits provided. The savings generated from the combination of the Companies were based on reducing benefit administration fees and benefit costs to reflect this purchasing power. Overall savings are approximately 4% of total costs to reflect this purchasing power. Savings in this area are expected to begin in 2002 to provide an adequate benefits plan redesign timeframe with total savings of $85.0 million through the ten year period.

Q. COULD THESE SAVINGS BE ACHIEVED ABSENT A MERGER?

A. No. These savings are predicated directly on the assumption that there is a combined company under a single benefits package.

e. Credit Facilities

Q. PLEASE DESCRIBE HOW CREDIT FACILITIES COULD BE AFFECTED BY THE MERGER OF THE COMPANIES.

A. The merger should allow the combination of the separate existing credit lines into one larger credit facility at an assumed lower percentage credit line fee when compared to the two existing separate credit facilities. The merger could also provide for the creation of a pool of funds available across both companies. Savings should be

realized in negotiating the dollar cost of the combined credit line fees based on the expected facility requirements and the consolidation of commercial banking sources. Additionally, the combined company may be able to reduce its total line of credit requirements based on improved cash flows as a result of the synergies achieved in the combination. This reduction also may result in savings as the fees would be charged on a lower combined credit line.

Q. HOW WERE THE SAVINGS IN THE AREA OF LINES OF CREDIT FEES QUANTIFIED?

A. Lines of credit fee reductions were calculated using both factors discussed above. First, a given percentage credit line fee for the combined company was estimated based on the anticipated capital facility requirement of the combined company. Additionally, seasonally diverse or improved cash flows are anticipated to reduce the total line of credit required for the operations of the combined company. The total savings for credit line fees over the ten-year period was $1.4 million. No assumptions were made relative to the use of a pool of funds for internal financing purposes.

Q. COULD THESE SAVINGS BE ACHIEVED ABSENT A MERGER?

A. No. These savings are predicated directly on the assumption that there is a single company with a lower credit line requirement than the two individual Companies would have in total.

f. Directors' Fees

Q. HOW ARE SAVINGS IN DIRECTORS' FEES DERIVED FROM UTILITY COMBINATIONS?

A. Typically, these reductions result from the reduced number of total directors in the combined company compared to the separate existing companies. The combined Company would require one board with a reduced number of directors when compared to the two separate existing boards. The fees are directly related to the number of directors and as the number of directors can be reduced the total fees paid for these directors can be reduced.

Q. HOW WERE COST SAVINGS ESTIMATES IN THIS CATEGORY DEVELOPED?

A. The number of directors for each Company was identified along with the associated costs. The Merger Agreement specifies that the combined board is to be comprised of five (5) fewer outside directors than the total of the two current boards which would result in reduced total fees. At an approximate annual cost of $62,000 per director, the savings would amount to $5.5 million for the full ten year period.

Q. COULD THE SAVINGS ASSOCIATED WITH DIRECTORS' FEES BE ACHIEVED ABSENT A MERGER?

A. No. These savings are directly merger-related in that they are derived from merger-related reductions in the number of board members required by the new Company when compared to the existing two companies. These savings could not be achieved

without the merger since the total number of directors would not have been affected on a stand alone basis.

g. Facilities

Q. WHAT COST SAVINGS CAN BE CREATED THROUGH CONSOLIDATION OF CORPORATE FACILITIES?

A. Cost savings in this area are normally made possible by the nature and geographic location of the various corporate and field functions and facilities. Cost savings can be created through the consolidation of proximate business offices, service centers, warehouses and staging areas. Streamlining the work force also permits a reduction of total facilities as positions can be consolidated into fewer locations. Due to the geographic distance between AEP and CSW, most of the support facility reduction opportunities, e.g., meter shops, warehouses, chemistry labs, etc. are not available in this merger. However, the reduced positions in the various headquarters locations of Columbus, Dallas and Tulsa and the duplicate Washington offices will still provide an opportunity to reduce total required headquarters square footage and either avoid lease expense or potentially provide revenue from sublet space.

Q. WHAT WAS THE MAGNITUDE OF SAVINGS ASSOCIATED WITH FACILITIES CONSOLIDATION?

A. Assuming prevailing market rates and average annual lease and facility operating costs for each of the Companies associated with the various corporate facilities, reduced

facilities costs for the total estimated square footage reduction were estimated at $69.2 million over the ten year period.

Q. COULD THESE SAVINGS BE ACHIEVED ABSENT A MERGER?

A. No. The facilities consolidation is possible only as the result of the consolidation of the Companies and of the position reductions described above. If the Companies were to remain as separate corporate entities, or if there was no merger to generate the position reductions, then these savings could not occur.

h. Information Services (IS)

Q. PLEASE BRIEFLY DESCRIBE THE MANAGEMENT INFORMATION SYSTEMS DEPARTMENTS OF THE COMPANIES.

A. Both AEP and CSW maintain information services (IS) departments to facilitate the systems development effort and support the information processing needs of each company. The need for systems development is ongoing and these departments are continuously involved in such efforts. Both Companies have independent plans to develop systems in a variety of areas over the next several years, including parallel systems development efforts. For example, both AEP and CSW expect to undertake and implement new Customer Information Systems in the near future. As a result of the merger, one of the two Companies will be able to avoid these expenditures.

Q. HOW WERE ESTIMATED SAVINGS IN THIS AREA DETERMINED, AND WHAT IS THEIR MAGNITUDE?

A. The merger should enable AEP and CSW to avoid spending duplicate amounts on separate systems. When the merger is consummated, the combined company plans to consolidate the respective IS departments, thus obviating the need for parallel, independent systems development efforts. Therefore, the merger can create savings in avoided costs that could not be achieved absent the combination. The merger will enable the combined IS department to utilize systems already in place and avoid redundant new systems development. For example, AEP could implement its recently installed financial system (PeopleSoft) in conjunction with CSW, which will result in the replacement of CSW's existing system and avoid additional expenditures for new financial systems at CSW.

Projected capital expenditures associated with the development of duplicative systems and future application development have been converted to revenue requirements assuming a 5-year depreciable life, which reflects the rapid obsolescence of technology in today's environment.

Operating savings also can occur due to the elimination of software leases and maintenance fees required to provide software support on personal computers. The IS savings estimate also includes savings from the consolidation of the Companies' two independent data centers into a single center, thereby eliminating one of the mainframe systems. Over the ten-year period, IS savings are estimated to total $440.4 million.

Q. COULD THESE SAVINGS BE ACHIEVED ABSENT A MERGER?

A. No. The elimination of duplicative system development hardware, software and consolidation of data center costs can only be achieved by consolidating the two IS departments into one. As a practical matter, it would be unlikely that two independent utilities would want to share such services, hardware and software.

i. Insurance

Q. PLEASE DESCRIBE THE RATIONALE OF HOW SAVINGS CAN BE ACHIEVED IN THE AREA OF INSURANCE.

A. Utilities generally require insurance coverage in the areas of property, directors' and officers' liability and excess casualty. On a stand-alone basis, each company independently carries insurance in these areas. A combined company may have a reduced risk profile because of its broader and more diverse asset base, which translates into lower rates. Further savings can be attained through the ability to carry higher deductibles given the combined company's increased financial strength.

Q. HOW WERE THE SAVINGS IN THE AREA OF INSURANCE QUANTIFIED IN THIS TRANSACTION?

A. Savings on insurance premiums were calculated for property coverage, directors and officers liability coverage and excess casualty insurance liability. These reductions were derived based on review of experience in other mergers regarding actual savings negotiated with insurance brokers in other mergers. The total estimated savings for insurance over the ten year period was $70.5 million.

Q. COULD THE SAVINGS THAT HAVE BEEN IDENTIFIED IN THE INSURANCE AREA BE ACHIEVED ABSENT A MERGER?

A. No. These savings are predicated directly on the assumption that there is a single company using the total purchasing power of the combined entity to achieve lower premium costs due to a different risk profile.

j. Professional Services

Q. WHAT GIVES RISE TO SAVINGS IN THE AREA OF PROFESSIONAL SERVICES?

A. Professional services functions include such areas as audit, taxation, legal, and general consulting. In many cases, these functions are duplicated at both companies. An explicit example of this would be in the case of external audits, which would be integrated over both companies at a lower total cost on a combined basis.

Q. HOW WERE SAVINGS IN THE AREA OF PROFESSIONAL SERVICES QUANTIFIED, AND WHAT WAS THEIR MAGNITUDE?

A. The savings calculated were generated from the reduction of the combined audit fees, legal fees and general consulting services. Audit savings were based on reducing the total stand-alone costs of the Companies to a level reflecting a combined, consolidated structure thus eliminating two separate holding company audits, for example. The Companies' legal fees and general consulting services fees also were reduced from current levels to reflect the ability to combine internal and external resources more efficiently and effectively. The total savings resulting from these reductions is $213

million for the ten year period based on the individual 1997 expenditures, by category, for each Company and anticipated future levels.

Q. COULD THESE SAVINGS BE ACHIEVED ABSENT A MERGER?

A. No. They can only be achieved by consolidating the use of professional services into one company. Otherwise, there will continue to be two sets of independent auditors, two sets of external legal counsel and overlapping sets of general consultants.

k. Research and Development

Q. PLEASE DESCRIBE THE TYPES OF EXPENSES INCLUDED IN RESEARCH AND DEVELOPMENT AND HOW THEY WOULD BE AFFECTED BY THE MERGER.

A. The largest component of research and development is Electric Power Research Institute (EPRI) funds. Since EPRI has a capped fee structure, and since the combined entity will fall into this category more often, the fees charged by EPRI will decrease slightly because of the combination. There are also stand-alone internal expenses incurred in the areas of generation, transmission and distribution and customer systems. The types of projects funded here include, but are not limited to, demand and load management and fuel efficiency. The combination will also allow for the reduction of expenses through the elimination of duplicate projects in these areas.

Q. HOW WERE SAVINGS IN THE AREA OF RESEARCH AND DEVELOPMENT QUANTIFIED?

A. The Companies' budgets and project descriptions were compiled and reviewed to determine overlapping research areas (areas that do not overlap, such as alternative energy research, were not considered in the analysis) . Savings are estimated based on this overlap. For example, both Companies are pursuing research in areas such as NOx emissions control, streamlined plant reliability maintenance, transmission grid system planning and residential heat pump and water heater testing. Given the scale differences in internal expenditures between the two Companies in these areas and the fact that more specific EPRI program dollars will be capped on a combined basis, the savings estimates are based on reducing applicable research and development expenses. Total estimated savings in this area were $11.1 million over the ten year period based on the 1997 expenditures for each Company and the anticipated requirements for continuing research and development.

Q. COULD THESE SAVINGS BE ACHIEVED ABSENT THE MERGER?

A. No. These savings are directly related to the merger in that they are derived from the elimination of research overlaps. The opportunity for consolidation would not exist absent the merger.

l. Shareholder Services

Q. HOW WILL THE MERGER OF THE COMPANIES IMPACT THE EXPENSES INCURRED BY THE CORPORATE SECRETARY AND SHAREHOLDER SERVICES DEPARTMENTS?

A. In addition to the labor savings identified, cost savings are anticipated to result through the combination of transfer agents, the elimination of duplicative investor relations activities and a reduction in the total cost of processing transactions.

Q. WHAT IS THE LEVEL OF SAVINGS THAT IS ESTIMATED TO BE ACHIEVED, AND HOW WAS IT CALCULATED?

A. The total ten-year estimated savings in the area of shareholder services is approximately $9.2 million based on the expenditures of each of the Companies in 1997. The savings were based on a reduction in the combined nonlabor shareholder services costs in duplicate activities such as stock transfer services. Further savings result from elimination of the smaller Company's costs associated with annual meetings, annual reports, dividend costs and systems development.

Q. COULD THESE SAVINGS BE ACHIEVED ABSENT A MERGER?

A. No. These savings are predicated directly on the elimination of costs related to duplicative activities or economies of scale from a larger company function.

m. Telecommunications

Q. WHAT TYPES OF EXPENSES ARE INCLUDED IN TELECOMMUNICATIONS EXPENSE AND HOW ARE THEY AFFECTED BY THE MERGER?

A. Telecommunications expense includes, but is not limited to, services costs incurred by the Companies. Services costs are comprised of local and long distance service, leased lines and cellular/paging costs. The combination will allow a reduction in these costs through purchasing economies and vendor consolidation. Specifically, AEP's primary

interexchange carrier is AT&T, whereas CSW uses MCI. A Custom Network Service Agreement (CNSA) negotiated by the combined entity could include consolidation of all long distance, leased circuits and wireless services under a single vendor.

Q. HOW WERE ESTIMATED COST SAVINGS FOR THIS AREA QUANTIFIED?

A. Services costs for the two Companies were combined and reviewed to consider quantity and types of leased circuits, usage, etc. The savings in this area were estimated based on this combined volume which would be available for negotiating a CNSA. Total estimated cost savings for this area were $29.1 million over the ten year period.

Q. COULD THESE TELECOMMUNICATIONS EXPENSE SAVINGS BE ACHIEVED ABSENT A MERGER?

A. No. These savings are directly related to the purchasing economies and vendor consolidation that would result from the merger. Such economies would not be available absent the merger.

3. Purchasing Economies

Q. MR. FLAHERTY, PLEASE DISCUSS THE COST SAVINGS THAT CAN BE CREATED THROUGH PURCHASING ECONOMIES.

A. Combining companies can achieve savings through the centralization of purchasing and inventory functions related to the construction, operation and maintenance of generating plants, service centers, warehouses and headquarters. The greater purchasing power and the relative quantity of both goods and services that can be

obtained as a result of the combination of companies provide additional cost savings. With respect to the purchase of goods (i.e., materials and supplies), savings can be realized in the procurement of commodity items, consumable equipment (e.g., conductors, wire, cable), and other equipment for electric utilities. Savings also may be realized from avoiding an initial reorder cycle from certain inventory item sharing. In addition, standardization of system components such as cable, meters, transformers, and conductors for electric utilities can be achieved through a common design process, providing additional savings opportunities.

With respect to the procurement of services, particularly contract services such as tree trimming and outage assistance, expenditures can be consolidated through a combination and typically contracted from fewer sources. Cost savings are created by achieving a lower per unit cost for the service provided due to a broader contract or the repackaging of work into more attractive options to the contractor. This volume purchasing of service is the primary method through which service procurement savings are realized.

a. Procurement

Q. WHAT ARE THE MERGER COST SAVINGS AVAILABLE FROM COMBINED PROCUREMENT OF MATERIALS AND SUPPLIES?

A. Procurement savings should result from larger purchasing volumes and the availability of greater purchasing power. Annual purchases for 1997 for AEP were estimated at approximately $367 million, while for CSW they were approximately $189 million.

Savings were estimated for each of the principal materials categories, e.g., consumables, and represent an estimated 7-8% reduction in total materials costs from extending the purchasing power across the broad range of commodity categories. This amount was determined based on the experience of other companies, review of certain component per unit costs, management's knowledge of vendors and potential approaches to material standardization and vendor concentration. The combined Company may experience a larger impact on CSW unit prices from the larger AEP procurement volume. Although both Companies are already significant purchasers of materials, AEP volumes exceed those of CSW and it is likely that either national distributors may be utilized or more direct purchasing will occur from manufacturers. This purchasing power enhancement reflects permanent economies of scale through lower unit costs. Total savings from procurement were estimated at $294.3 million over the ten year period.

Q. SHOULD ANY OF THE MATERIALS AND SUPPLIES SAVINGS BE TREATED AS CAPITAL SAVINGS?

A. Yes. Approximately 70% of the materials and supplies savings has been allocated to capital accounts based on the combined Company's estimated capitalization rate for all materials and supplies. Once again, the applicable yearly fixed charge rate was applied to convert the capital cost reductions into revenue requirement savings.

b. Inventory

Q. HOW ARE INVENTORY SAVINGS RESULTING FROM THE MERGER CALCULATED?

A. Similarity in the systems - electrical distribution and generation - will offer the potential for inventory reduction from standardization and limited sharing of parts and components. For example, each Company maintains common spare parts for their fossil generating and distribution facilities that can be shared. These spares will provide backup and reduce a reorder cycle when replacement is required. The combination will allow for some consolidation of existing inventory levels to maintain the appropriate level of spare parts that eliminates redundancy and duplication. The average 1997 inventory levels for nonfuel, nonnuclear material and supplies were identified at $152.4 million for AEP and $113.8 million for CSW. These levels were estimated to be reduced by 5% of the combined transmission and distribution related inventory and 2% of AEP's generation related inventory. These reductions reflect a one-time benefit and are based on the experience of previous companies and management's expectations for standardization and material substitutability. The annual fixed charge rate described above was then applied to the one-time permanent inventory reduction to calculate the total savings from inventory reductions. The total estimated inventory savings was $12.2 million for the ten year period. Nuclear inventory was excluded from this analysis.

The level of the one-time reduction reflects the experience of other companies in similar undertakings. Unique plant items, such as certain engineered equipment will

be less standardized and shareable. However, normal commodities and consumables, such as cable, and other engineered items such as valves are more standardized and common to both systems. The sharing of these items effectively reduces the need for inventory replenishment and extends the reorder cycle.

c. Contract Services

Q. WHAT IS THE NATURE OF SAVINGS FROM CONTRACT SERVICES AS A RESULT OF THE MERGER AND HOW WERE THEY QUANTIFIED?

A. Similar to consolidating materials and supplies purchasing volumes, the combined Company will be able to gain economies of scale from the aggregation of related work activities and increased purchasing power with service providers. Examples of these services include outage work, tree trimming, certain construction, etc.

The savings estimate also is dependent upon future negotiations with contractors and is similar to those estimated in prior transactions and represents purchasing power savings across the broad range of these services. AEP's total contract services for 1997 were $227.7 million, while for CSW they were $127.1 million. The combined Company thus should be able to achieve additional economies of scale and scope from negotiating with competing vendors.

Some contract services savings should be considered capital savings. A capitalization rate of 40% based on the estimated rate for the Companies was used to allocate contract services expenditures to capital accounts. These savings amounts were then converted to revenue requirements savings using the applicable fixed charge

rate for each year. The total estimated savings from contract services over the ten year period was $60.4 million based on 1997 dollar volumes escalated to 1999.

Q. PLEASE COMPARE THE METHODOLOGY USED TO QUANTIFY THE VARIOUS CATEGORIES OF PROCUREMENT AND INVENTORY SAVINGS WITH THE METHODOLOGY USED TO QUANTIFY OTHER ESTIMATED SAVINGS.

A. Procurement and inventory savings, which for the most part require a prediction of how well the combined Company will be able to use its increased size to negotiate better unit prices, are more difficult to quantify precisely than savings associated with the elimination of redundant expenses. It is somewhat easier today to analyze and determine which costs would be redundant in a consolidated organization. Predictions of future behavior cannot be determined so precisely.

Q. DOES THAT MEAN THAT THE ESTIMATED INVENTORY AND PROCUREMENT SAVINGS ARE LESS LIKELY TO OCCUR?

A. No. Review of the results of prior transactions shows that the expected purchasing power does emerge and that the savings level estimates made in such transactions prior to consummation can be achieved.

Q. COULD THESE SAVINGS BE ACHIEVED ABSENT A MERGER?

A. No. These savings are predicated directly on the assumption that there is a merged company that has greater purchasing power.

VIII. COSTS TO ACHIEVE

Q. PLEASE DESCRIBE THE APPROACH TO ESTIMATING THE COSTS THAT WILL BE INCURRED WITH THE INTEGRATION OF THE TWO COMPANIES.

A. Costs are incurred in all merger transactions from the process of combining the two entities and attaining the identified cost savings. These costs reflect out-of-pocket cash payments and usually are one-time pay outs incurred as a result of the merger.

Q. PLEASE EXPLAIN THE PROCESS BY WHICH THE COSTS TO ACHIEVE WERE ESTIMATED BY THE COMPANIES.

A. Management discussed the consolidation requirements and the estimated integration costs associated with the merger. The functional analysis described above that was used to determine duplicative functional areas where employee reductions would likely occur was used also to estimate the number of positions that would need to be relocated to achieve the merger cost savings. The costs that will be incurred in systems integration, telecommunications network requirements, internal and external communications and other miscellaneous expenses also were identified. The methodology used by the Companies to develop the costs to achieve estimates was comprehensive, and similar to that used by other companies in estimating such costs.

Q. WHAT EXPENSES ARE ESTIMATED TO BE INCURRED TO MERGE THE COMPANIES?

A. Costs to achieve are estimated over ten years, with the costs to be incurred in large part over the two years after the closing of the merger. These cost estimates are

consistent with estimates made by companies in other similar prior transactions and reflect differences in scale and scope and the unique circumstances of this merger.

Q. WHAT ARE THE PRIMARY COMPONENTS OF THE COSTS TO ACHIEVE THE ESTIMATED SAVINGS?

A. The primary components used to estimate costs to achieve were separation costs (estimated to cost $36.8 million), relocation costs ($12.0 million), retention costs ($10 million), systems integration ($106.8 million), telecommunications networking ($4.0 million), internal/external communications costs ($5.0 million), regulatory process costs ($17.6 million), transition costs ($16.9 million), Directors' and Officers' tail liability coverage ($3.6 million), and transaction costs ($35.3 million).

Q. PLEASE DESCRIBE THE MEANS THE COMPANIES ANTICIPATE USING TO ACHIEVE THE ESTIMATED POSITION REDUCTIONS.

A. A major component of the merger cost savings is the reduction in work force which is primarily due to the elimination of duplicative functions and tasks. These reductions are expected by the Companies to be achieved through a variety of means including attrition, controlled hiring, work force redeployment and work realignment, and through some targeted separation as well. For these targeted separations, out-of-pocket costs will be incurred to achieve the total position reductions.

Q. HOW WERE THE LEVEL OF COSTS TO ACHIEVE FOR WORK FORCE REDUCTIONS CALCULATED?

A. The estimate used for the severance package calculation was two weeks of base pay per year of service, plus nine (9) months of health benefits from the date of separation.

This package reflects general parameters utilized in other previous transactions. The Companies also anticipated that a limited number of positions will be offered severance packages in conjunction with the work force reductions. These programs are to be more fully defined during the transition process based on additional considerations of the management and human resources philosophy of the combined company and more specific analysis on the timing and location of reduced positions. An additional amount of $10 million for employee retention has also been identified to secure valuable positions, such as in the information technology area, during the transition period.

Q. EXPLAIN HOW RELOCATION COSTS WERE CALCULATED.

A. To provide for efficient consolidation, certain functional areas will be centralized and thus require employee relocation to a new site. Based on the functional analysis, it was determined that a number of positions (300) possibly would need to be relocated. Relocation expenses were estimated at a total of $12.0 million. The cost of the actual package to be offered to eligible positions has not yet been determined. The components of a relocation program could include moving expenses, house hunting costs, cost of living differentials, and closing costs. These cost estimates are consistent with estimates made by companies in prior similar transactions.

Q. EXPLAIN HOW SYSTEMS CONSOLIDATION AND TELECOMMUNICATIONS NETWORKING COSTS WERE CALCULATED.

A. Significant effort will be expended by the Companies in integrating the information technology and services functions of the Companies. These efforts will relate to

reducing redundancy, integrating systems, and linking data bases. Further, voice, data and video networks will need to be integrated through expanded telecommunications capabilities. Integration costs for these areas were estimated at $110.8 million total, comprised of $106.8 million and $4.0 million, respectively, for systems and telecommunications. These cost estimates cover contract programming, hardware changeout and conversion, increased T-1 capacity, and outside assistance and reflect scale, complexity, and platform differences. These expenses associated with systems and communications integration are expected to principally be incurred in the first two years after closing but will carry through the full period to reflect additional hardware lease costs.

Q. CAN YOU DESCRIBE THE REGULATORY PROCESS COSTS TO ACHIEVE RELATED TO THE MERGER?

A. To successfully complete the merger, certain costs will be incurred for preparation and pursuit of regulatory filings, such as those related to SEC, FERC, NRC and DOJ filings and the merger cases before the various state regulatory jurisdictions. These costs will include professional services for legal, tax, accounting and consulting assistance. Regulatory process costs are estimated at $17.6 million.

Q. PLEASE DESCRIBE THE ESTIMATED INTERNAL AND EXTERNAL COMMUNICATIONS COSTS TO ACHIEVE SAVINGS.

A. Communication expenses will arise from the need to disseminate merger information to the various stakeholders of the individual organizations and combined company. Informational brochures will be sent to employees, shareholders, rating agencies, and

state and federal commissions to explain the specifics of the merger. These expenditures are estimated to cost $5.0 million.

Q. PLEASE EXPLAIN THE TRANSACTION COST COMPONENT INCLUDED WITHIN THE TOTAL COSTS TO ACHIEVE.

A. Transaction costs include amounts paid to professional services firms for assistance with certain aspects of the merger. These costs specifically relate to fees paid to investment bankers for assistance in transaction structuring and negotiation and the provision of a fairness opinion, as well as, certain legal assistance. Total transaction fees are estimated at $35.3 million for the above categories and are paid in the first year of the transaction.

Q. ARE THERE ADDITIONAL COSTS TO ACHIEVE THE SAVINGS THAT WILL BE INCURRED?

A. Yes. Other costs that were estimated to be attributed to the merger are transition costs ($16.9 million) and D&O tail coverage ($3.6 million). Additional D&O tail liability coverage pays for incremental additions to premiums paid to protect directors and officers. Other transition costs would include the use of outside professional firms to assist in the integration of the combined Company and other expenses, such as, travel for the transition team and facilities refurbishment and leasehold improvements.

Q. WHAT IS THE AMOUNT OF PREMERGER INITIATIVES INCLUDED AS PART OF THE NET MERGER SAVINGS QUANTIFICATION?

A. The stand-alone forecasts for AEP for the period 1998-2006 indicates that the overall impact of these cost reduction efforts is to reduce operations and maintenance expense

and capital related amounts by approximately $3.8 billion cumulatively over this period on a "real" basis. That is, the currently forecasted total combined operation and maintenance expense and related capital amounts in 2009 will be $3.8 billion lower over the ten-year period than the level that would be expected with normal inflation applied to the 1998 level. Similar CSW's forecasts indicate "real" decrease of $778.8 million over the same period.

These cost reduction initiatives have been planned to create greater efficiencies for each Company. These cost reduction efforts are being accomplished through process improvement, reengineering, outsourcing, work elimination and contractor management. Since the AEP and CSW premerger initiatives will precede and carry through the period over which merger related savings are expected to occur, it is likely that there would be some overlap between the quantified merger cost savings and these internal efforts. Therefore, the quantified merger cost savings were adjusted downward to reflect these stand-alone impacts ($3.8 billion for AEP and $778.8 million for CSW over the ten-year period) to future costs and to avoid double-counting any of these savings.

IX. OVERVIEW OF SAVINGS ALLOCATION

Q. DID THE SCOPE OF YOUR ASSISTANCE ALSO INCLUDE ASSISTING THE COMPANIES IN THE ALLOCATION OF SYNERGY SAVINGS TO COMPANIES OR TO JURISDICTIONS?

A. No, it did not. However, I was involved in assisting the Companies in the initial allocation of estimated merger cost savings into certain categories, as illustrated in EXHIBIT TJF-4, which was utilized by Mr. Gerald Knorr to perform allocations to Companies.

Q. COULD YOU PLEASE EXPLAIN THE ASSISTANCE YOU PROVIDED WITH RESPECT TO THE INITIAL MERGER COST SAVINGS ALLOCATION PROCESS?

A. Yes. The results of the synergies analysis had to be put in a form that the Companies could utilize to perform the ultimate allocation of cost savings to Companies or to jurisdictions. We were asked to assist the Companies in the allocation process by using the data and analyses from the synergies analysis to develop an initial allocation. As a first step, we assisted the Companies in developing categories into which cost savings could be allocated. We further assisted with the creation of an allocation spreadsheet model, identification of allocation drivers and underlying data to support the allocation among categories, and review of the outcomes of these three activities with the Companies for consistency in choice of allocation factors and source of data.

Q. PLEASE DESCRIBE THE ALLOCATION PROCESS ITSELF.

A. The allocation methodology used a three-tiered allocation process. The first tier separated the net cost savings into two categories. The first category, "Non-Regulated-Direct", represented savings that related to non-regulated operations that did not flow from the service-company allocations; i.e., they were either savings from costs that are directly incurred in non-regulated operating companies and/or the

holding companies, or savings from costs that were charged to non-regulated operating companies and/or holding companies on a direct assignment basis. The allocation of savings for this category was determined primarily through detailed analysis of the underlying costs charged for each type of savings, although in a few instances an allocation driver was utilized. For example, a portion of savings in insurance costs were allocated to the "Non-Regulated-Direct" category based on the proportion of non-regulated fixed assets to total fixed assets.

The second category, "Regulated-Direct and Service Company", represented all other savings. This included savings from costs incurred in the regulated operating companies and/or costs incurred in the service companies. In summary, the purpose of this first tier allocation was to segregate the identifiable non-regulated savings from the total savings before further allocating savings all, or in part, to the regulated operating companies.

Q. PLEASE DESCRIBE THE SECOND TIER OF THE ALLOCATION PROCESS.

A. The "Regulated-Direct and Service Company" savings category identified in the first tier process was then further separated into two additional categories. The first category, "Regulated-Direct" contained those savings related to costs which are directly incurred by or directly assigned to the regulated operating companies. The second category, "Service Company", contained those savings related to costs which are incurred by the service companies.

Q. HOW WERE COST SAVINGS SEPARATED INTO THE "REGULATED-DIRECT" AND THE "SERVICE COMPANY" CATEGORIES?

A. The Companies undertook to align service company costs with each type of cost savings categorized between "Regulated-Direct" and "Service Company" so that it would match and follow the service company models. Some types of savings were allocated all to the "Regulated-Direct" category, others were allocated all to the "Service Company" category, and others were allocated across both categories.

Q. WERE THESE SAVINGS DIRECTLY ASSIGNED OR ALLOCATED USING ALLOCATION FACTORS?

A. Most of the savings were directly assigned to the "Regulated-Direct" or "Service Company" categories; however there were some types of savings where an allocation factor was utilized. For example, administrative and general overhead savings were allocated to the "Service Company" category based on the proportion of labor savings of the Service Company to total labor savings.

Q. WHAT DID THE THIRD TIER OF THE ALLOCATION PROCESS ACCOMPLISH?

A. This tier allocated the savings that had been categorized as "Regulated-Direct" into line of business categories. The lines of business identified by the Companies were fuel, generation, transmission, distribution, customer accounts, customer service, sales, and A&G.

Q. HOW WAS THE ALLOCATION FROM "REGULATED-DIRECT" TO LINE OF BUSINESS CATEGORIES PERFORMED?

A. Position reductions were directly assigned to the line of business categories. Some types of corporate programs savings categories could also be directly allocated based

on type of underlying cost or cost categorization definitions provided by the Companies, while other types of non-labor savings required allocation factors. For example, the savings in professional services were allocated to the lines of business in the same proportion as the professional services were incurred by line of business.

Q. WERE ALL TYPES OF SAVINGS TREATED SIMILARLY IN THE THREE TIERED ALLOCATION PROCESS?

A. Yes. Each type of savings was analyzed at each level of the allocation process, and where an allocation was to be made, it was done using either detailed analysis of the underlying costs or through identification of an appropriate allocation driver which would allocate the savings across the appropriate categories. For the elements in the savings analysis which make up the difference between gross savings and net savings, namely the pre-merger initiatives adjustment and the costs-to-achieve, the allocation was not done on a specific allocation factor basis. Instead, pre-merger initiatives adjustments and costs-to-achieve were allocated on a pro rata basis so that they followed gross savings. For example, if 10% of the gross savings were allocated to the "Service Company" category, then 10% of the pre-merger initiatives and 10% of the costs-to-achieve were also allocated to the "Service Company" category.

Q. HOW WERE THE RESULTS OF THIS ANALYSIS THEN USED FOR ADDITIONAL ALLOCATIONS?

A. The Companies have utilized this information to support the next step in the process - allocation to Companies. The approach utilized there is discussed in the testimony of Mr. Gerald Knorr.

Q. BASED ON THE THREE TIERED ALLOCATION PROCESS, WHAT WAS THE RESULTING BREAKDOWN OF NET SAVINGS INTO THE IDENTIFIED CATEGORIES?

A. The results of the first tier of the allocation process were as follows:

	($000's)	
Non-Regulated-Direct	$ 45,276	2.3%
Regulated-Direct and Service Company	1,920,062	97.7%
Total Net Cost Savings	$1,965,338	100.0%

The results of the second tier of the allocation process are presented below:

	($000's)	
Regulated-Direct	$ 565,118	29.4%
Service Company	1,354,943	70.6%
Total Regulated-Direct and Service Company	$1,920,062	100.0%

The results of the third tier of the allocation process further broke the Regulated-Direct savings as follows:

	($000's)	
Fuel	$ 1,601	0.3%
Generation	230,850	40.8%
Transmission	55,057	9.7%
Distribution	90,136	15.9%
Customer Accounts	5,605	1.0%
Customer Service	46,118	8.2%
Sales	16,266	2.9%
A&G	119,486	21.1%
Total Regulated-Direct	$565,118	100.0%

X. CONCLUSION

Q. DOES THIS CONCLUDE YOUR TESTIMONY?

A. Yes, it does.

COMMONWEALTH OF KENTUCKY

BEFORE THE PUBLIC SERVICE COMMISSION OF KENTUCKY

COUNTY OF BOYD

COMMONWEALTH OF KENTUCKY **CASE NO. 99-**

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

Thomas J. Flaherty

Thomas J. Flaherty

Subscribed and sworn to before me by the said Thomas J. Flaherty this 6th day of April, 1999.

Judith A. Alcorn

Notary Public, State of Texas

JUDITH A. ALCORN NOTARY PUBLIC STATE OF TEXAS EXPIRES 9/19/99

My Commission Expires: 9-19-99

SUMMARY OF REGULATED UTILITY EXPERIENCE

Alaska Public Utilities Commission
- Anchorage Sewer Utility

Arizona Corporation Commission
- U S WEST Communications - Docket No. E-1051-88-146

Beaumont, Texas
- Entex, Inc.
- Gulf States Utilities Company

California Public Utilities Commission
- The Washington Water Power Company and Sierra Pacific Power Company - Application No. 94-08-043
- Pacific Enterprises and ENOVA Corporation - Application No. A-96-10-038

Clark County
- Washington Public Power Supply

District of Columbia, Public Service Commissions
- Baltimore Gas and Electric Company and Potomac Electric Power Company - Formal Case No. 951

Colorado Public Utilities Commission
- Public Service Company of Colorado and Southwestern Public Service Company - Docket No. 95A-513EG

Delaware Public Service Commission
- Atlantic City Electric Company and Delmarva Power & Light Company - Docket No. 97-65

Federal Energy Regulatory Commission
- Baltimore Gas and Electric Company and Potomac Electric Power Company - Docket No. EC96-10-000
- IES Utilities Inc., Interstate Power Company, Wisconsin Power & Light Company, South Beloit Water, Gas & Electric Company, Heartland Energy Services and Industrial Energy Applications, Inc. - Docket No. EC96-13-000
- Trans-Alaska Pipeline System - Docket No. OR78-1
- Middle South Energy, Inc. - Docket No. ER-82-483-000
- Middle South Energy, Inc. - Docket No. ER-82-616-000

- Kansas Power and Light Company and Kansas Gas and Electric Company - Docket No. EC91-2-000
- Southwestern Public Service Company and Public Service Company of Colorado - Docket No. EC96-2-000
- The Washington Water Power Company and Sierra Pacific Power Company - Docket No. EC94-23-000
- Northern States Power Company and Wisconsin Energy Corporation - Docket Nos. EC95-16-000 and ER95-1357-000
- Midwest Power Systems Inc. and Iowa-Illinois Gas and Electric Company
- Ohio Edison Company, Pennsylvania Power Company, The Cleveland Electric Illuminating Company, and The Toledo Edison Company
- Atlantic City Electric Company and Delmarva Power & Light Company
- Union Electric and Central Illinois Public Service Company

Federal Power Commission
- Organization and Operations Review

Garland, Texas
- General Telephone Company of the Southwest
- Lone Star Gas Company

Georgia Public Service Commission
- Georgia Power Company - Docket No. 3673-U

Houston, Texas
- Houston Lighting & Power Company

Idaho Public Utilities Commission
- The Washington Water Power Company and Sierra Pacific Power Company - Case Nos. WWP-E-94-7 and WWP-G-94-4

Illinois Commerce Commission
- Illinois Power - Docket No. 84-0055
- Iowa-Illinois Gas and Electric Company and Mid-American Company Energy - Docket No. 94-0439
- Central Illinois Public Service Company, CIPSCO Incorporated and Union Electric Company - Docket No. 95-0551

Iowa Utilities Board
- Midwest Resources Inc., Midwest Power Systems Inc. and Iowa-Illinois Gas and Electric Company - Docket No. SPU-94-14
- IES Industries Inc., Interstate Power Company, WPL Holdings, Inc.

Iowa Electric Light and Power
- Organization and Operations Review

Kansas Corporation Commission
- Southwestern Bell Telephone Company - Docket Nos. 117,220-U and 123,773-U
- Kansas Gas & Electric - Docket No. 120,924-U
- Kansas Power and Light Company and Kansas Gas and Electric Company - Docket No. 174,155-U
- Western Resources and Kansas City Power and Light - Docket No. 190,362-U
- Western Resources, Inc. and Kansas City Power and Light - Docket No. 97-WSRE-676-MER

Kentucky Public Service Commission
- Louisville Gas & Electric Company - Case Nos. 5982, 6220, 7799, 8284, 8616 and 8924
- South Central Bell Telephone Company - Case Nos. 6848, 7774 and 8150
- Kentucky-American Water Company - Case No. 8571

Maryland, Public Service Commission of
- Baltimore Gas and Electric Company and Potomac Electric Power Company

Michigan Public Service Commission
- Wisconsin Electric Power Company and Northern States Power Company - Case No. U-10913

Minnesota Public Service Commission
- Continental Telephone Company - Docket No. PR-121-1
- Northern States Power Company - Docket No. E002/GR-89-865
- Northern States Power Company and Wisconsin Energy Corporation - Docket No. E,G002/PA-95-500

Mississippi Public Service Commission
- Mississippi Power & Light Company - Docket No. U-4285

Missouri Public Service Commission

- Union Electric Company - Case Nos. ER-84-168 and EO-85-17
- Union Electric Company and Central Illinois Public Service Company - Case No. EM-96-149
- Kansas City Power & Light Company - Case Nos. ER-85-128 and EO-85-185
- Kansas Power and Light Company and Kansas Gas and Electric Company - Case No. EM-91-213
- Southwestern Bell Telephone - Case No. TC-93-224
- Western Resources and Kansas City Power and Light

Nevada Public Service Commission

- Bell Telephone Company of Nevada - Docket No. 425
- Central Telephone Company - Docket No. 91-7026
- The Washington Water Power Company and Sierra Pacific Power Company - Docket No. 94-8024

New Jersey Board of Public Utilities

- Atlantic City Electric Company and Delmarva Power & Light Company - Docket No. EM-97-020103

New Mexico Public Service Commission

- Public Service Company of New Mexico
- Southwestern Public Service Company and Public Service Company of Colorado - Case No. 2678

New Mexico State Corporation Commission

- Continental Telephone of the West - Docket No. 942
- General Telephone Company of the Southwest - Docket Nos. 937 and 990
- Mountain States Telephone and Telegraph Company - Docket Nos. 943, 1052 and 1142
- U S WEST Communications - Docket No. 92-227-TC

New Orleans, Louisiana

- New Orleans Public Service Company

New York, State of, Public Service Commission

- Long Island Lighting Company and Brooklyn Union Gas Company - Case 95-G-0761

Ohio Public Utilities Commission

- Ohio Bell Telephone Company - Case No. 79-1184-TP-AIR
- Cleveland Electric Illuminating Company

Oklahoma Corporation Commission

- Organization and Operations Review

- Southwestern Bell Telephone Company - Cause No. 26755
- Public Service Company of Oklahoma - Cause Nos. 27068 and 27639
- Southwestern Bell Telephone Company - Cause No. 000662

Oregon, Public Utility Commission of
- Pacific Power and Light Company - Revenue Requirements Study
- Portland General Electric Company - Revenue Requirements Study
- The Washington Water Power Company and Sierra Pacific Power Company - Docket No. UM-696

Riverside, City of
- San Onofre Nuclear Generating Station

Sherman, Texas
- General Telephone Company of the Southwest

Tennessee Public Service Commission
- United Inter-Mountain Telephone Company - Docket Nos. U-6640, U-6988 and U-7117

Texas Attorney General
- Southwestern Bell Telephone Company

Texas, Public Utility Commission of
- Texas Power & Light Company - Docket Nos. 178 and 3006
- Southwestern Bell Telephone Company - Docket Nos. 2672, 3340, 4545 and 8585
- Houston Lighting & Power Company - Docket Nos. 2448, 5779 and 6668
- Lower Colorado River Authority - Docket No. 2503
- Gulf States Utilities Company - Docket No. 2677
- General Telephone Company of the Southwest - Docket Nos. 3094, 3690 and 5610
- Central Telephone Company - Docket No. 9981
- Southwestern Public Service Company and Public Service Company of Colorado - Docket No. 14980

Utah Public Service Commission
- Utah Power and Light Company - Docket No. 76-035-06

Vermont Public Service Board
- New England Telephone and Telegraph Company - Docket Nos. 3806 and 4546

Waco, Texas
- Texas Power & Light Company

Washington Utilities and Transportation Commission
- The Washington Water Power Company and Sierra Pacific Power Company - Docket No. UE-94-1053 and UE-94-1054
- Puget Sound Power and Light Company and Washington Natural Gas Company

Washington Metropolitan Area Transit Authority
- D.C. Transit

Wisconsin Public Service Commission
- Northern States Power Company and Wisconsin Energy Corporation
- WPL Holdings, IES Industries Inc., Interstate Power Company, Inc. - Docket No. 6680-UM-100

Wyoming Public Service Commission
- Cheyenne Light, Fuel and Power Company (Southwestern Public Service Company and Public Service Company of Colorado) - Docket Nos. 20003-EA-95-40 and 30005-GA-95-39
- Mountain States Telephone and Telegraph Company - Docket No. 9343, Subs. 5 and 9
- Organization and Operations Review
- Pacific Power and Light Company - Docket No. 9454, Sub. 11

MERGER SAVINGS SUMMARY ($000)

Potential Areas ($ in 000s)		1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	Total
Corporate and Operations Support Staffing: A7													
	Corporate	$17,124	$60,990	$77,031	$81,498	$86,094	$90,826	$95,700	$100,725	$105,908	$111,256	$29,679	$856,831
	Generation	2,662	7,402	7,750	8,111	8,484	8,870	9,270	9,685	10,114	10,560	2,755	85,664
	Field	1,200	3,463	3,965	4,475	4,993	5,519	6,054	6,600	7,156	7,724	2,551	53,700
	Total	20,986	71,856	88,747	94,084	99,571	105,215	111,025	117,010	123,178	129,539	34,985	996,195
Corporate & Administrative Programs:													
	Administrative & General Overhead	$1,868	$6,353	$7,176	$7,391	$7,613	$7,841	$8,076	$8,319	$8,568	$8,825	$2,272	$74,302
	Advertising	$1,191	$1,667	$1,750	$1,838	$1,930	$2,026	$2,128	$2,234	$2,346	$2,463	$647	$20,219
	Benefits	0	0	0	9,032	9,839	10,664	11,506	12,367	13,248	14,150	3,769	$84,575
	Insurance	4,361	6,047	6,288	6,540	6,802	7,074	7,357	7,651	7,957	8,275	2,152	$70,502
	Information Services (O&M)	4,614	9,689	11,306	11,898	12,522	13,181	13,875	14,608	15,381	16,197	4,066	$127,338
	Information Services (Capital)	1,659	10,727	20,218	30,114	39,855	43,931	46,890	42,515	38,162	33,733	5,303	$313,108
	Professional Services	12,517	17,523	18,399	19,319	20,285	21,300	22,365	23,483	24,657	25,890	6,796	$212,534
	Facilities	5,238	7,193	7,409	7,631	7,860	8,096	8,339	8,589	8,847	9,112	2,346	$80,661
	Shareholder Services	597	820	845	870	897	923	951	980	1,009	1,039	268	$9,200
	Directors' Fees	358	492	507	522	537	554	570	587	605	623	160	$5,516
	Association Dues	274	376	388	399	411	424	436	449	463	477	123	$4,220
	Research & Development	718	986	1,015	1,046	1,077	1,110	1,143	1,177	1,213	1,249	322	$11,056
	Telecommunications	1,893	2,599	2,677	2,758	2,840	2,925	3,013	3,104	3,197	3,293	848	$29,146
	Credit Facilities	89	123	126	130	134	138	142	146	151	155	40	$1,374
	Total	$35,377	$64,595	$78,106	$99,488	$112,603	$120,186	$126,791	$126,209	$125,803	$125,482	$29,111	$1,043,750
Purchasing Economies:													
	Procurement	$9,335	$15,321	$19,063	$22,802	$26,538	$30,276	$34,019	$37,774	$41,542	$45,325	$12,281	$294,276
	Inventory	0	0	1,473	1,473	1,473	1,473	1,473	1,473	1,473	1,473	368	$12,152
	Contract Services	2,778	4,095	4,572	5,063	5,570	6,092	6,632	7,190	7,768	8,367	2,247	$60,373
	Total	$12,112	$19,416	$25,108	$29,338	$33,581	$37,841	$42,124	$46,437	$50,783	$55,165	$14,896	$366,801
	Savings Subtotal	$68,475	$155,867	$191,960	$222,910	$245,755	$263,241	$279,940	$289,656	$299,764	$310,185	$78,992	$2,406,746
Total Savings		$68,475	$155,867	$191,960	$222,910	$245,755	$263,241	$279,940	$289,656	$299,764	$310,185	$78,992	$2,406,746
Cost to Achieve		109,784	58,940	22,489	7,624	7,803	7,970	8,073	7,732	7,732	7,732	2,203	$248,080
Pre-Merger Initiatives		1,548	4,347	7,426	11,041	15,393	20,183	25,191	30,217	33,233	35,368	9,381	193,327
Net Savings		($42,856)	$92,579	$162,046	$204,245	$222,559	$235,088	$246,677	$251,707	$258,800	$267,086	$67,408	$1,965,339

EXHIBIT TJF-2

COSTS TO ACHIEVE ($000)

	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	Total
Separation Costs												
Co Separation Programs	$10,658	$19,850	$2,674	$0	$0	$0	$0	$0	$0	$0	$0	$33,182
Executive Separation (1)	$531	$531	$531	$0	$0	$0	$0	$0	$0	$0	$0	$1,592
Separation Assistance (2)	$2,000	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$2,000
Total Separation Costs - Merger	$13,188	$20,380	$3,205	$0	$0	$0	$0	$0	$0	$0	$0	$36,773
Retention Costs	$10,000	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$10,000
System Integration Costs (5)	$8,695	$29,199	$14,924	$7,264	$7,443	$7,610	$7,713	$7,372	$7,372	$7,372	$1,843	$106,806
Regulatory Process Costs	$17,633	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$17,633
Relocation Costs (3)	$4,000	$4,000	$4,000	$0	$0	$0	$0	$0	$0	$0	$0	$12,000
Directors and Officers' Liability Tail Coverage (4)	$3,640	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$3,640
Telecommunications Costs	$360	$360	$360	$360	$360	$360	$360	$360	$360	$360	$360	$3,960
Internal/External Communications (2)	$5,000	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$5,000
Transition Costs (2)	$11,448	$5,500	$0	$0	$0	$0	$0	$0	$0	$0	$0	$16,948
Transaction Costs	$35,320	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$35,320
TOTAL COSTS TO ACHIEVE	$109,284	$59,440	$22,489	$7,624	$7,803	$7,970	$8,073	$7,732	$7,732	$7,732	$2,203	248,080

(1) Assumes 4 executive separations with three years compensation for separation
(2) Based on previous transactions
(3) Assumes 300 relocations at $40,000 per relocation
(4) Estimated at 1.5 times AEP's and CSW's D&O premium
(5) Includes O&M and revenue requirements costs

EXHIBIT TJF-3

ALLOCATION PROCESS

Three-Tiered Allocation Process

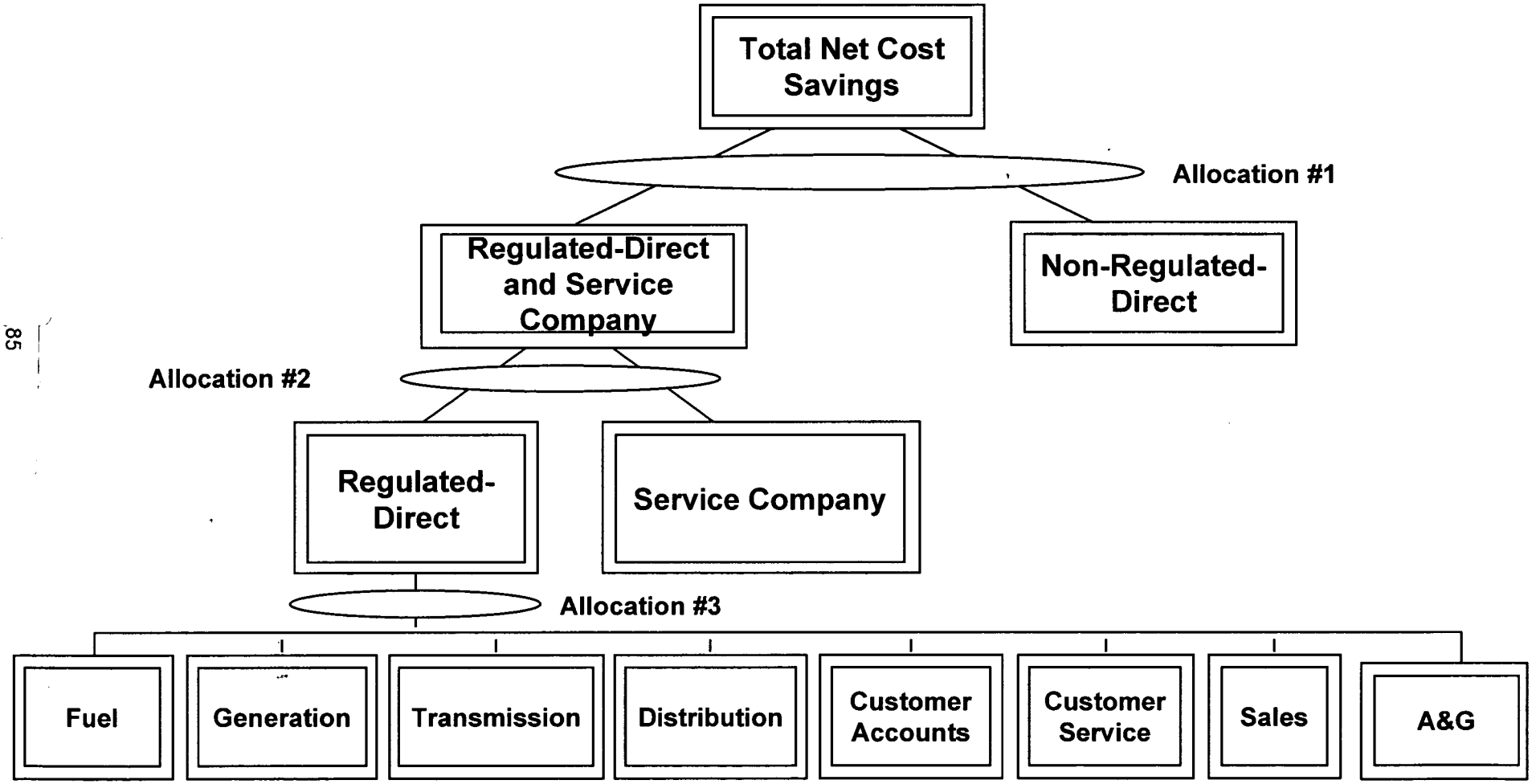


EXHIBIT TJF-4

COMMONWEALTH OF KENTUCKY

BEFORE THE

PUBLIC SERVICE COMMISSION OF KENTUCKY

IN THE MATTER OF :

JOINT APPLICATION OF KENTUCKY POWER COMPANY, AMERICAN ELECTRIC POWER COMPANY, INC. AND CENTRAL AND SOUTH WEST CORPORATION REGARDING A PROPOSED MERGER	))))	CASE NO. 99-

DIRECT TESTIMONY

OF

J. CRAIG BAKER

APRIL 1999

TESTIMONY INDEX

EXHIBITS

COMMONWEALTH OF KENTUCKY

BEFORE THE

PUBLIC SERVICE COMMISSION OF KENTUCKY

IN THE MATTER OF :

JOINT APPLICATION OF KENTUCKY POWER COMPANY, AMERICAN ELECTRIC POWER COMPANY, INC. AND CENTRAL AND SOUTH WEST CORPORATION REGARDING A PROPOSED MERGER	))))	CASE NO. 99-

DIRECT TESTIMONY

OF

J. CRAIG BAKER

APRIL 1999

I. INTRODUCTION

Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS FOR THE RECORD.

A. My name is J. Craig Baker. My business address is 1 Riverside Plaza, Columbus, Ohio 43215-2373.

Q. IN WHAT CAPACITY ARE YOU EMPLOYED?

A. I am Vice President-Transmission Policy for American Electric Power Service Corporation (AEPSC).

Q. WOULD YOU BRIEFLY DESCRIBE YOUR EDUCATIONAL AND PROFESSIONAL BACKGROUND?

A. I received a Bachelors Degree in Business Administration from Walsh College in 1970 and a Masters of Business Administration in Finance from Akron University in 1980. I joined the American Electric Power Company, Inc. (AEP) System in 1968 and through 1979 held various positions in the Computer Applications Division. I transferred to the System Operation Division in 1979 and held positions of Administrative Assistant and Assistant Manager. In 1985, I took the position of Staff Analyst in the Controllers Department and, in 1987, I became Manager-Power Marketing in the System Power Markets Department. In 1991, I became Director-Interconnection Agreements and Marketing. I became Vice President-Power Marketing for AEPSC and Senior Vice President of Energy Marketing for AEP Energy Services, Inc. in November 1996 and August 1997, respectively. On July 1, 1998, I became Vice President–Transmission Policy for American Electric Power Service Corporation (AEPSC).

Q. WHAT ARE YOUR CURRENT RESPONSIBILITIES?

A. I am responsible for AEP's participation in Regional Transmission Organization (RTO) discussions. I am also continuing to support AEP's participation in regulatory proceedings involving the proposed merger with Central and South West Corporation. This activity includes my sponsorship of this testimony.

Q. HAVE YOU APPEARED AS A WITNESS BEFORE ANY REGULATORY COMMISSION?

A. Yes, I have testified in proceedings before the Indiana Utility Regulatory Commission, the Public Utilities Commission of Ohio, the Public Service Commission of West Virginia, the Virginia State Corporation Commission and the Federal Energy Regulatory Commission (FERC). I have also submitted testimony regarding the proposed merger to the Public Utility Commission of Texas, the Arkansas Public Service Commission, the Louisiana Public Service Commission, and the Corporation Commission of the State of Oklahoma.

Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY?

A. I provide testimony supporting the proposed merger between Central and South West Corporation (CSW) and AEP. I describe the System Integration Agreement through which the companies will integrate their power supply resources. I explain the central economic dispatch of the merged company's generating units. I also sponsor the Applicants' estimates of the production-related benefits that will accrue as a result of the post-merger operations of the combined AEP and CSW systems (combined system).

II. SYSTEM INTEGRATION AGREEMENT

Q. PLEASE DESCRIBE THE SYSTEM INTEGRATION AGREEMENT.

A. The System Integration Agreement is an agreement among Appalachian Power Company, Kentucky Power Company, Ohio Power Company, Columbus Southern Power Company, and Indiana Michigan Power Company (collectively referred to in the agreement as the AEP Operating Companies) and Central Power and Light Company, Public Service Company of Oklahoma, Southwestern Electric Power Company, and West Texas Utilities Company (collectively, the CSW Operating Companies). It provides for integration and coordination of the power supply resources of the AEP Operating Companies and the CSW Operating Companies. It is intended to function as an agreement that will apply in addition to, not in substitution of, the existing AEP System interconnection agreement and the existing CSW System operating agreement. The System Integration Agreement provides for the distribution of power supply costs and benefits between two zones, the east zone and the west zone, corresponding to the pre-merger AEP and CSW systems, respectively. The existing AEP and CSW intra-system agreements will continue to govern the distribution of costs and benefits within the zones.

Q. IS THERE ANY PLAN TO MODIFY EITHER OF THE EXISTING OPERATING AGREEMENTS?

A. No, it is intended that these will remain in place in their current form to avoid cost shifts among the operating companies and zones and to reflect the existing ownership of generation assets.

Q. WHAT IS THE PURPOSE OF THE SYSTEM INTEGRATION AGREEMENT?

A. As set forth in the System Integration Agreement itself, its purpose is: "to provide the contractual basis for coordinated planning, operation and maintenance of the power

supply resources of the Combined System to achieve economies consistent with the provision of reliable electric service and an equitable sharing of the benefits and costs of such coordinated arrangements."

Q. DOES THIS SYSTEM INTEGRATION AGREEMENT DEAL WITH THE OPERATION OF THE OPERATING COMPANIES' TRANSMISSION SYSTEM IN ANY FASHION?

A. No, it does not. A system Transmission Integration Agreement has been filed at the FERC.

Q. HOW IS THE SYSTEM INTEGRATION AGREEMENT STRUCTURED?

A. The agreement has 14 articles dealing with:

1. Definitions;
2. Term of the agreement;
3. Objectives;
4. Relationship of the System Integration Agreement to the existing system operating agreements;
5. Responsibilities of the designated agent;
6. Responsibilities of the operating committee;
7. Arrangements for coordinated planning and operation;
8. Trading and marketing activities;
9. Specification of service schedules;
10. Billing procedures;
11. Force majeure;
12. Adherence to industry standards;
13. Miscellaneous provisions; and
14. Regulatory approvals and contract changes.

The agreement also contains four service schedules covering the actual mechanics for allocating costs and benefits between the two zones. These schedules apply to:

A) Allocation of capacity costs and purchased power costs;

B) Pricing system capacity exchanges;

C) Pricing system energy exchanges; and

D) Allocation of trading and marketing realizations.

Q. PLEASE DESCRIBE THE ROLE OF THE SERVICE CORPORATION UNDER THE SYSTEM INTEGRATION AGREEMENT.

A. AEPSC is the designated Agent. AEPSC's major functions are to coordinate the planning and design or purchase of new power supply resources; operation and maintenance of generating units; economic dispatch; centralized trading and marketing activities; acquisition and provision of transmission services needed for inter-zone power transfers; and billing and administration. All of these functions are to be provided on a combined system basis, treating the east zone and the west zone on an integrated basis. The Agent will function in coordination with the Operating Committee, which will have one representative from the AEP Operating Companies, one representative from the CSW Operating Companies and one representative from AEPSC.

Q. PLEASE DESCRIBE HOW THE SYSTEM INTEGRATION AGREEMENT ADDRESSES THE NEEDS OF THE TWO OPERATING ZONES OF THE COMBINED SYSTEM.

A. Article VII of the agreement deals with coordinated planning and operation. It provides that, to the extent practicable, power supply resources will be planned, developed and operated on a combined system basis to integrate the zones and maximize efficiency, reliability and cost effectiveness. New capacity will be planned to meet the combined system's requirements, subject to any regulatory, transmission, economic and operational constraints.

Article VII provides the ground rules for the economic dispatch of the combined system's generating resources and also establishes the ground rules for capacity and energy exchanges and emergency response between the zones.

Q. HOW WILL THE MERGED COMPANY'S RESOURCES BE DISPATCHED?

A. The generating resources of the combined system will be centrally dispatched. It is the intent of the Applicants, when and as practicable, to combine the control area functions of the east zone and the west zone. Except as provided in the Agreement, while operating as separate control areas (AEP, CSW-SPP and CSW-ERCOT), the pre-merger generation dispatch priorities and methodologies applicable within each control area shall continue to apply to that control area. The combined system dispatch will be conducted on a least-cost basis subject to availability of transmission entitlements linking the control areas. In determining the combined system's generation dispatch priorities, each zone's most economic generation will be used to serve its native load customers and previously committed firm load contracts.

The control areas will be centrally dispatched in real time to minimize total generation costs for the combined system, subject to any transmission constraints. Subject to those constraints, unit commitment will be performed to meet the combined system's obligations, taking into account the specific obligations within each control area.

A single control center will schedule the generating resources of the combined system on a day-ahead and an hour-ahead basis. The economic dispatch of all of the power supply resources of the combined system will be coordinated by this central control center. Initially, existing dispatch centers may send the pulses directing the

changes in unit operating status. Eventually, it is expected that all units will be directly pulsed from a single dispatch center.

Q. EXPLAIN THE ECONOMIC DISPATCH PROCESS AS IT WILL APPLY TO THE COMBINED SYSTEM.

A. Economic dispatch of the combined system will be performed in two steps. The first step is unit commitment. In this step, the system operator projects the system peak load requirements for a period and, to meet that requirement, schedules available generating units to be on-line in economic order subject to any operational or other constraints, including transfer limitations within the combined system. The operator will not load the less economic units unless the load requires them. The system operator will also examine the energy market to determine if lower cost reliable energy can be purchased in order to avoid loading higher cost generating sources.

Q. WHAT IS THE SECOND STEP?

A. The second step is the incremental loading of the on-line generation sources and purchases. This step is performed continuously and each unit's available generation is dispatched above its minimum load level in order to match the generation to the load. Generation of the system's various units is dispatched from lowest cost to highest cost. The economic dispatch will be subject to available transmission including the DC ties connecting the Southwest Power Pool (SPP) and the Electric Reliability Council of Texas (ERCOT) and the 250 MW tie between the east and the west zones.

The compensation arrangements for capacity and energy exchanges are described in the agreement's service schedules as I explain below.

Q. DESCRIBE SERVICE SCHEDULE A.

A. Service Schedule A allocates costs between the two zones. It covers capacity costs, purchased power costs, and system dispatch costs.

Existing capacity costs will continue to be the responsibility of the operating companies that owned the capacity before the merger. The cost of new capacity, which is to be installed or acquired for the benefit of the combined system, will be allocated between the zones based on the amount of new generation required in each zone as determined by the Agent.

Purchased power costs that are not capacity costs described above or assigned to a trading and marketing sale will be the responsibility of the zone that takes delivery of the energy. Within the zone, the costs of the purchase will be allocated in accordance with the existing AEP and CSW operating agreements. Other purchases are handled in Schedule D, the Trading and Marketing service schedule.

Q. HOW DOES SERVICE SCHEDULE B HANDLE CAPACITY EXCHANGES?

A. Capacity exchanges will be made for periods of one year or less when one zone has capacity available to sell and the other zone needs capacity to meet its reserve requirements and when the selling region's capacity market price is lower than the buying region's cost of capacity installation/purchase. In such cases, the capacity transfer price will be a split of the savings between capacity costs in the two zones.

The following table illustrates the operation of this provision:

	($/kW/Mo.)
Selling zone - capacity market price	2.00
Buying zone - capacity market price	4.00
Transfer price	3.00

In the example, a transfer occurs at a split savings price of $3/kW/Mo. and both zones benefit. The seller benefits from a higher price than the market in its zone while the buyer benefits from a capacity price that is lower than is otherwise available in its zone.

Q. HOW DOES SERVICE SCHEDULE C HANDLE ENERGY EXCHANGES?

A. Energy exchanges will fall into two basic categories:

a) Economic transfers of energy between the AEP East Zone and the AEP West Zone up to the amount of firm transmission entitlements between the zones shall be priced at the lower of (i) the recipient zone's decremental costs or (ii) one-half of the sum of the supplier zone's out-of-pocket cost and the recipient zone's decremental cost. (Decremental cost refers to the buying zone's cost, if the transfer did not take place, from the lower of either its cost of generating from its own resources, or the price the buying zone would have paid for the energy in its own zonal market.)

b) Economic transfers of energy between the zones in excess of the amount of firm transmission entitlements between the zones shall be priced at one-half of the sum of (i) the supplier zone's out-of-pocket cost, including all incremental transmission costs, and (ii) the recipient zone's decremental cost.

Q. PLEASE PROVIDE EXAMPLES OF HOW THESE ECONOMIC TRANSFERS ARE PRICED.

A. Examples for transfers of up to 250 MW include:

	($/MWh)			
	A	B	C	D
Selling zone - incremental cost	15	15	15	19
Selling zone – sales/purchase opportunity	20	20	30	15
Receiving zone - decremental generation	25	30	25	25
Receiving zone - purchase opportunity	25	25	25	25
Transfer price	22.50	22.50	25	20

In the situation depicted in columns A and B, transfers of up to 250 MW would occur at $22.50/MWh, which is one-half of the sum of the selling zone's out-of-pocket cost of $20 (in these cases, the selling zone's sales/purchase opportunity, since it is higher than the $15 incremental cost) and the receiving zone's decremental cost of $25 (which, in all cases, is the lower of the receiving zone's purchase opportunity or decremental generation) (i.e., $45 x .5 = $22.50). In the situation reflected in column C, the energy transfer occurs at a price equal to the receiving zone's decremental cost of $25, since it is lower than one-half of the selling zone's out-of-pocket cost of $30 and the receiving zone's decremental cost of $25 (i.e., $55 x .5 = $27.50). Finally, the case depicted in column D results in a $20 transfer price, which is one-half of the sum of the selling zone's out-of-pocket cost of $15 (in this case, the selling zone's sales/purchase opportunity, since it is lower than the incremental cost) and the receiving zone's decremental cost of $25 (i.e., $40 x .5 = $20).

After meeting the committed 250 MW transfer and all sales opportunities within a zone, further economy transfers, when available, will be priced as follows:

	($/MWh)		
	A	B	C
Selling zone - incremental cost	20	20	20
Receiving zone – decremental generation	28	30	24
Receiving zone – purchase opportunity	28	26	24
Transmission fee	4	4	4
Transfer price	26	25	-

In the situation depicted in column A, a transfer takes place at $26/MWh, which is one-half of the sum of the selling zone's out-of-pocket cost of $24 (the selling zone's incremental cost plus the transmission fee) and the receiving zone's decremental cost of $28 (i.e., $52 x .5 = $26). In the case reflected in column B, a transfer occurs at $25, which is one-half of the sum of the selling zone's out-of-pocket cost of $24 (the selling zone's incremental cost plus the transmission fee) and the receiving zone's decremental cost of $26, which in this case is a purchase opportunity (i.e., $50 x .5 = $25). Finally, in the situation reflected in column C, a transfer would probably not take place because the selling zone's out-of-pocket cost of $24 (the selling zone's incremental cost plus the transmission fee) equals the $24 receiving zone's decremental cost.

Q. HOW DOES THE AGREEMENT TREAT TRADING AND MARKETING ACTIVITIES?

A. AEPSC will centrally conduct all trading and marketing activities with the objective of optimizing use of the combined system's resources and maximizing the return from these activities.

Q. PLEASE EXPLAIN HOW SERVICE SCHEDULE D ALLOCATES TRADING AND MARKETING COSTS AND BENEFITS.

A. First, the costs and benefits attributable to long-term off-system sales (sales with terms of 1 year or greater) entered into prior to the merger are assigned to the zone in which the sales were initiated.

Next, each zone will be reimbursed for its energy costs associated with its generation allocated to trading and marketing activities. The realizations from trading and marketing activities (revenues minus energy costs) will be determined on an hourly basis and the sum of the hourly amounts for each billing month (adjusted to exclude previously existing long-term off-system sales) will be allocated between the zones. The sum of the hourly amounts for each billing period (adjusted to remove realizations associated with long-term off-system sales existing at the time of the merger) shall be allocated between the east zone and the west zone up to the level of realizations achieved in the Base Year in accordance with the Base Year Allocation. Any such trading and marketing realizations in excess of the level of realizations achieved in the Base Year will be shared according to the ratio of owned generating capacity in the two zones.

Additional overhead costs will be allocated between the zones in accordance with the same ratio as the marketing and trading realizations.

Q. IS THE SYSTEM INTEGRATION AGREEMENT AN EXHIBIT TO YOUR TESTIMONY?

A. Yes. It is attached as EXHIBIT JCB-1 for information purposes in this docket. The Agreement and its terms are subject to FERC jurisdiction. It has been filed with FERC in Docket No. ER 98-2770-000.

III. PRODUCTION-RELATED BENEFITS

Q. WHAT IS THE SUBJECT OF THIS PART OF YOUR TESTIMONY?

A. I discuss the Applicants' estimates of the production-related benefits and costs associated with the post-merger operations of the combined system.

Q. WHAT SAVINGS DO THE APPLICANTS ESTIMATE?

A. Based on the studies performed by the Applicants, the combined system should realize approximately $200 million in gross production-related savings in the first 10 years. After considering transmission wheeling costs of $39 million and foregone net revenue of $61 million, net production-related savings are expected to be $98 million. My testimony explains how these estimates were developed. In particular, I describe: (i) the energy-related benefits; (ii) the methods used to quantify such benefits; (iii) the potential for capacity-related benefits; and (iv) the plan to use transmission services acquired from Ameren and Western Resources to coordinate the dispatch and operation of the east and west zone resources and thereby achieve the production-related benefits that the Applicants expect the merger to make possible. EXHIBIT JCB-2 is a summary of these production-related benefits.

Q. WERE THE EXHIBITS YOU ARE NOW ABOUT TO DISCUSS PREPARED UNDER YOUR DIRECTION AND SUPERVISION?

A. Yes, these exhibits were prepared by AEP's Generation Planning Section and CSW's Strategic Research and Modeling Department, working at my direction and under my supervision. The exhibits accurately portray the results of the analyses, which were conducted in accordance with sound engineering principles using common industry planning procedures and software tools.

Q. PLEASE DESCRIBE THE PRODUCTION-RELATED BENEFITS THAT YOU EXPECT WILL RESULT FROM COMBINED SYSTEM OPERATIONS.

A. Production-related benefits will result from the economic transfer of energy among the east and west zone companies in order to displace relatively higher cost generation in one zone with relatively lower cost generation from the other zone. At the present time, the east zone operating companies and the west zone operating companies, interchange power within their zones under the terms of their respective operating agreements for the purpose of minimizing generation costs. Through the merger, the combined system will create additional opportunities for cost effective energy transfers.

These production-related savings that the merger will make possible will be partially offset by wheeling costs paid to Ameren and Western Resources in connection with transfers of energy across their transmission systems. The savings are net of foregone revenues either zone could have realized by selling the energy to unaffiliated entities, which protects against cost shifts between zones.

To demonstrate the potential for gross energy cost savings, EXHIBIT JCB-3 compares the forecast level of fuel cost savings by utilizing the 250 MW tie between the east zone and the west zone at its theoretical limit to several levels of hypothetical fuel cost savings that could be achieved. The hypothetical savings amounts reflect assumed fuel cost differentials of $2 to $10 per MWh for each unit of energy transferred between the zones. The analysis indicated that beginning in 1999, annual forecasted savings lie generally between the $8/MWh and $10/MWh bands. Assuming the transmission tie line is fully loaded 100 percent of

the time, the level of fuel savings would be about $21.9 million per year if $10 per MWh were saved on each MWh transferred across the tie. With savings at $8 per MWh, the benefit would be approximately $17.5 million per year. The estimated savings shown on EXHIBIT JCB-3 assume the availability of transmission service for the transfer of 250 MW in either direction. For the purpose of computing the production-related savings, we assumed that AEP would reserve and incur costs of approximately $3.9 million annually for 250 MW of firm transfer capability.

Q. HOW DID YOU COMPUTE THE ENERGY-RELATED PRODUCTION-RELATED BENEFITS?

A. The companies used PROMOD IV, a probabilistic production costing simulation model, first to make separate "uncombined" production cost runs for the existing AEP and CSW operating companies. This step determined the production costs that the AEP and CSW operating companies would incur on an uncombined basis. PROMOD runs were then made to model post-merger "combined" operations. The system resource plans for AEP and CSW were used as input for the pre- and post-merger PROMOD IV studies.

Q. WHAT MODIFICATIONS WERE MADE TO THE UNCOMBINED AND COMBINED PRODUCTION COST SIMULATIONS TO FACTOR OUT ANY BIAS ATTRIBUTABLE TO DIFFERENCES IN BASIC ASSUMPTIONS?

A. Both the uncombined and the combined production cost simulations reflected each company's resource plans which identify the additional resources needed to maintain adequate reliability. To assure that the results of comparing a combined plan to the merging parties' uncombined plans would not be influenced by differences in fuel

price forecasts, both companies' projections of gas prices and Powder River Basin low-sulfur coal prices were checked for consistency. In addition, the cost of SO_2 allowances and the SO_2 emission rates for all coal-fired units are included with the PROMOD IV inputs for pre- and post-merger simulations.

Q. ARE THE TRANSFERS OF POWER MODELED IN THE COMBINED CASE PROMOD RUNS PRIMARILY FROM THE EAST TO WEST OR FROM WEST TO EAST?

A. As shown in EXHIBIT JCB-4, the combined case PROMOD studies show the east zone to be a net exporter of coal-fired generation to the west zone following the merger. These transfers occur primarily during peak and shoulder hours. Exports from the west zone to the east zone come from available coal-fired capacity in the SPP area of the west zone during off-peak (week nights and weekends) hours.

Q. WHAT FACTORS ACCOUNT FOR THE EXPORT OF COAL-FIRED GENERATION FROM THE EAST ZONE TO REDUCE GAS-FIRED GENERATION IN THE WEST ZONE?

A. Transfers of coal-fired generation from the east zone to the west zone in the merged case result primarily from differences in the incremental cost of AEP's coal-fired generation and CSW's gas-fired generation. In peak and shoulder hours, coal-fired generation is generally on the margin for AEP, while CSW's marginal generation is generally gas-fired.

Q. WHAT IS THE RESULT OF THE INCREMENTAL COST DIFFERENCES?

A. In the combined system, the output from the coal-fired units in the east zone will displace relatively more expensive gas-fired generation in the west zone. The merger

creates the opportunity to reduce gas-fired generation in the west zone through purchases of relatively lower cost energy produced from AEP's coal-fired generation.

Q. HAVE YOU PERFORMED ANY SENSITIVITY ANALYSES OF THE PRODUCTION-RELATED SAVINGS CALCULATIONS?

A. Yes. Prices used for base, high and low gas cost scenarios are shown in EXHIBIT JCB-5. Gas prices assigned to specific units reflected the costs shown in the exhibit with an appropriate charge for transportation costs added. EXHIBIT JCB-6 shows the changes in savings from the base case in the high and low gas price scenarios. As can be seen in the exhibit, an increase in gas prices increases the merger savings by about $8 to $10 million per year demonstrating that gas price increases will make CSW's access to relatively cheaper AEP coal-fired generation more valuable. Conversely, a lower gas price reduces the savings associated with economy exchanges.

Q. HOW IS THE POTENTIAL FOR TRANSACTIONS WITH THE EXTERNAL MARKET CONSIDERED IN YOUR ANALYSIS?

A. With the exception of committed transactions, sales and purchases with third parties in the external market are not included in the base case production cost analysis. We wanted to evaluate the effects of the merger due solely to combining the resources of AEP and CSW.

Nevertheless, we did study the effects of the external markets by performing a sensitivity analysis. EXHIBIT JCB-7 shows the annual production-related savings under the base case, which excludes the external markets, and savings for the market sensitivity case in which CSW and AEP can make third-party sales and purchases into

the external markets which they serve. As this exhibit shows, the level of annual savings achieved in both cases is very similar.

Q. PLEASE DESCRIBE HOW THE SAVINGS INCLUDE FOREGONE REVENUES.

A. The combined system will be dispatched to transfer up to 250 MW of economic power between the east and west zones each hour. This transfer will take place before the zones' remaining generating sources are used to make energy sales in their respective markets. The transfer results in the delivering zone having less energy for sale within its zonal market, thereby leading to foregone revenues. The gross energy savings need to be adjusted by the foregone margins to determine the net benefits of the expected within-system economy transfers.

Q. HOW WILL FOREGONE SAVINGS BE DETERMINED?

A. Foregone savings will be determined with reference to market prices obtainable by the delivering zone. Market prices will be determined after the fact by reference to actual sales, regional market indices and/or logs of offers received. I calculated an estimated value on these foregone margins based on a 90% utilization of the 250 MW transmission link from east to west along with an assumed foregone realization of $6/MWh and assuming the selling of 52% of the energy available for uncommitted sales. These assumptions are consistent with AEP's experience.

Q. PLEASE SUMMARIZE YOUR FINDINGS CONCERNING PRODUCTION-RELATED SAVINGS.

A. My testimony demonstrates that the Applicants followed sound and comprehensive approaches to quantify these production-related benefits and that their estimates are reasonable.

IV. POTENTIAL CAPACITY BENEFITS

Q. BASED ON YOUR ANALYSES, ARE THERE ANY CAPACITY RELATED BENEFITS THAT COULD ACCRUE FROM THE MERGER?

A. Yes. Based on the projected resource needs of both companies over the 1999-2002 time period, it appears that capacity transfers of up to 250 MW from the east zone to the west zone could be made.

After meeting its reliability criterion of having a reserve margin of approximately 12% of firm load obligations at the time of the annual peak demand the east zone could have capacity available to transfer to the west zone over the 1999 to 2002 time period. Based on the reserve requirements in ERCOT/SPP, CSW shows a supply deficiency in the same time period, after accounting for resources which are currently being solicited. The deficit capacity situation of CSW and the available capacity situation of AEP produce a potential for capacity transfers among the merged companies.

The System Integration Agreement would allow capacity from the east zone to be made available to the west zone. However, given the alternative market into which the east zone could sell capacity and the markets from which the west zone could purchase capacity, the capacity exchange would need to be the most economical alternative in order for the transaction to take place. As the marketplace for firm capacity is extremely volatile, there is no guarantee that capacity exchanged between the west and the east zones for purposes of maintaining reserve margins would make more economical sense than a similar exchange with an unaffiliated entity.

Q. HAVE YOU REFLECTED THESE CAPACITY BENEFITS IN THE TOTAL PRODUCTION-RELATED SAVINGS?

A. No. Although a strong potential for capacity transfers due to the merger exists, the quantification of any savings is as volatile as the market itself. We have therefore not attempted to quantify the capacity savings or reflect them in the total production-related savings at this time. In this respect, the quantification of the production-related savings is conservative.

V. AEP/CSW INTERCONNECTION PLANS

Q. PLEASE EXPLAIN HOW AEP AND CSW PROPOSE TO USE TRANSMISSION SERVICE TO CENTRALLY DISPATCH THE COMBINED SYSTEM.

A. CSW and AEP plan to exchange electricity through a firm transmission path contracted through the Ameren and Western Resources transmission systems. Contracts for firm transmission service pursuant to the Ameren and Western Resources open access tariffs have been executed and the service is expected to be in place upon closing of the merger.

Q. WILL THIS FIRM TRANSMISSION CONTRACT PATH BE AVAILABLE FOR USE BY OTHERS?

A. Yes. We have filed with the FERC a Transmission Reassignment Tariff under which this contract path may be used by others when the Applicants do not plan to use it fully.

Q. WHAT ARE THE ESTIMATED ANNUAL COSTS OF THE 250 MW FIRM TRANSMISSION PATH AND THE TRANSMISSION LOSSES INCURRED ON THAT PATH?

A. The total cost of wheeling and losses are approximately $3.9 million per year. The total cost includes $3.2 million per year for firm transmission service and $0.7 million per year for losses.

Q. DO THE GROSS PRODUCTION-RELATED SAVINGS PRESENTED EARLIER CONSIDER THESE TRANSMISSION COSTS?

A. No, they do not. Those savings are determined outside the production cost simulations and would be subtracted from the gross production-related savings to result in the net total production-related savings. This results in a total production-related savings net of transmission costs of approximately $159 million over the ten-year period.

Q. PLEASE SUMMARIZE YOUR FINDINGS CONCERNING NET PRODUCTION-RELATED SAVINGS.

A. The net production-related savings quantified for the 1999 to 2008 time period are reasonable projections.

Q. DOES THIS CONCLUDE YOUR TESTIMONY?

A. Yes, it does.

COMMONWEALTH OF KENTUCKY

BEFORE THE PUBLIC SERVICE COMMISSION OF KENTUCKY

COUNTY OF BOYD

COMMONWEALTH OF KENTUCKY CASE NO. 99-

Affidavit

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

J. Craig Baker

Subscribed and sworn to before me by J. Craig Baker this 7 day of April 1999.

Notary Public

JAMES R. BACON
ATTORNEY AT LAW
NOTARY PUBLIC - STATE OF OHIO
MY COMMISSION HAS NO EXPIRATION DATE
SECTION 147.03 O.R.C.

My Commission Expires _____

SYSTEM INTEGRATION AGREEMENT

AMONG

APPALACHIAN POWER COMPANY
KENTUCKY POWER COMPANY
OHIO POWER COMPANY
COLUMBUS SOUTHERN POWER COMPANY
INDIANA MICHIGAN POWER COMPANY

AND

AMERICAN ELECTRIC POWER SERVICE CORPORATION,
AS AGENT

AND

CENTRAL POWER AND LIGHT COMPANY
PUBLIC SERVICE COMPANY OF OKLAHOMA
SOUTHWESTERN ELECTRIC POWER COMPANY
WEST TEXAS UTILITIES COMPANY

AND

CENTRAL AND SOUTH WEST SERVICES, INC.,
AS AGENT

SYSTEM INTEGRATION AGREEMENT

THIS SYSTEM INTEGRATION AGREEMENT ("Agreement") is made and entered into as of the ___ day of _____, 1998 by and among Appalachian Power Company ("APC"), Kentucky Power Company ("KPC"), Ohio Power Company ("OPC"), Columbus Southern Power Company ("CSP"), Indiana Michigan Power Company ("IM"), and their agent American Electric Power Service Corporation ("AEPSC"); and Central Power & Light Company ("CPL"), Public Service Company of Oklahoma ("PSO"), Southwestern Electric Power Company ("SWEPCO"), West Texas Utilities Company ("WTU"), and their agent Central and South West Services, Inc. ("CSWS"). The foregoing companies are referred to herein collectively as the Parties and individually as a Party.

WHEREAS, APC, KPC, OPC, CSP and IM (collectively, the "AEP Operating Companies") own and operate interconnected electric generation, transmission and distribution facilities with which they are engaged in the business of generating, transmitting and selling electric power and energy to the general public and to other electric utilities; and

WHEREAS, the AEP Operating Companies coordinate the planning, construction, operation and maintenance of their electric supply facilities on an integrated basis pursuant to an Interconnection Agreement dated July 6, 1951, as subsequently modified and supplemented (the "AEP Interconnection Agreement"); and

WHEREAS, CPL, PSO, SWEPCO and WTU (collectively, the "CSW Operating Companies") own and operate interconnected electric generation, transmission and distribution facilities with which they are engaged in the business

of generating, transmitting and selling electric power and energy to the general public and to other electric utilities; and

WHEREAS, the CSW Operating Companies coordinate the planning, construction, operation and maintenance of their electric supply facilities on an integrated basis pursuant to a Restated and Amended Operating Agreement dated January 1, 1997 (the "CSW Operating Agreement"); and

WHEREAS, American Electric Power Company, Inc., parent company of the AEP Operating Companies, and Central and South West Corporation, parent company of the CSW Operating Companies ("CSW"), have entered into an Agreement and Plan of Merger dated December 21, 1997 (the "Merger Plan"); and

WHEREAS, pursuant to the Merger Plan, Central and South West Corporation will be merged with and into a merger subsidiary of American Electric Power Company, Inc., with CSW to remain as a surviving holding company (the "Merger"); and

WHEREAS, following consummation of the Merger, it is contemplated that the AEP Operating Companies and the CSW Operating Companies will be electrically and operationally integrated to the extent practicable while preserving the basic terms and conditions of the AEP Interconnection Agreement and the CSW Operating Agreement; and

WHEREAS, the Parties desire to establish a framework under which the power supply resources of the AEP Operating Companies and the CSW Operating Companies will to the extent practicable be planned, operated, maintained and dispatched on a coordinated basis;

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

ARTICLE I
DEFINITIONS

1.1 AEP East Zone means the electric generation, transmission and distribution facilities of the AEP Operating Companies, in total, that constitute the AEP Control Area.

1.2 AEP Interconnection Agreement means the Interconnection Agreement among AEPSC and the AEP Operating Companies dated July 6, 1951, as the same has been or is subsequently modified and supplemented.

1.3 AEP Operating Companies for purposes of this Agreement means the following operating companies of American Electric Power Company, Inc. which, together with AEPSC, are parties to the AEP Interconnection Agreement: APC, KPC, OPC, CSP and IM, collectively.

1.4 AEPSC means American Electric Power Service Corporation.

1.5 AEP West Zone means the electric generation, transmission and distribution facilities of the CSW Operating Companies, in total, that constitute CSW's Control Areas in the SPP and ERCOT reliability councils.

1.6 Agent means the Parties' designated representative for the purposes specified in Section 5.1 and elsewhere in this Agreement.

1.7 Agreement means this System Integration Agreement, including all Service Schedules and attachments hereto.

1.8 APC means Appalachian Power Company.

1.9 Base Year Allocation means the relative percentages of the total Trading and Marketing realization from Off-System Sales (other than Off-System Sales having a term of one-year or longer entered into prior to the Merger) received by the AEP Operating Companies, on the one hand, and the CSW Operating Companies, on the other hand, during the last full twelve (12) calendar month period

prior to the Effective Time as defined in the Agreement and Plan of Merger (the "Base Year").

1.10 Combined System means the AEP East Zone and the AEP West Zone.

1.11 Control Area means an electric system or systems bounded by interconnection metering and telemetry, capable of controlling generation to maintain its interchange schedule with other Control Areas and contributing to frequency regulation of the interconnection.

1.12 CPL means Central Power and Light Company.

1.13 CSP means Columbus Southern Power Company.

1.14 CSW Operating Agreement means the Amended and Restated Operating Agreement among CSWS and the CSW Operating Companies dated January 1, 1997, as the same may be subsequently modified or supplemented.

1.15 CSW Operating Companies means CPL, PSO, SWEPCO and WTU, collectively.

1.16 CSWS means Central and South West Services, Inc.

1.17 ERCOT means the Electric Reliability Council of Texas.

1.18 FERC means the Federal Energy Regulatory Commission or a successor agency having jurisdiction over this Agreement.

1.19 Generating Resource means the electric power generating facilities or capacity owned by or under contract to a Party or Parties to meet the capacity and energy needs of the Party or Parties.

1.20 IM means Indiana Michigan Power Company.

1.21 Industry Standards means those principles, guides, criteria, standards and practices referred to in Section 12.1.

1.22 Interconnection Constraints has the meaning ascribed to that term in Section 7.2.

1.23 KPC means Kentucky Power Company.

1.24 Merger means the merger of Central and South West Corporation into a merger subsidiary of American Electric Power Company, Inc. pursuant to the terms and conditions of the Merger Plan.

1.25 Merger Plan means the Agreement and Plan of Merger between American Electric Power Company, Inc. and Central and South West Corporation dated as of December 21, 1997.

1.26 Native Load Customer for purposes of this Agreement means a wholesale or retail power customer on whose behalf a Party, by statute, franchise, regulatory requirement, or firm power supply contract, has undertaken an obligation to supply electricity to reliably meet the electric needs of such customer. The term "Native Load Customer" for purposes of this Agreement excludes customers and that portion of a customer's load served pursuant to contracts that do not obligate the supplier to install capacity to meet the customer's load requirements.

1.27 OPC means Ohio Power Company.

1.28 Off-System Purchases means purchases from a third party of energy and/or capacity to reduce costs or to provide reliability for the Combined System or to engage in Trading and Marketing Activities.

1.29 Off-System Sales means all sales of power and energy to non-Native Load Customers of the Parties to this Agreement.

1.30 Operating Committee means the administrative body established pursuant to Article VI for the purposes therein specified.

1.31 Out-of-Pocket Cost, unless otherwise specified, means all expenses incurred that would not otherwise have been incurred if the corresponding service

had not been arranged. Such expenses will include, but are not limited to, fuel, reactant, operation, maintenance, tax, SO_2 and other atmospheric emission allowances, transmission losses, margins associated with foregone sales opportunities and charges for any power and energy purchased which is reasonably allocated by the Agent to such service, and other expenses incurred which would not have been incurred if the service had not been arranged. In such cases where foregone sales opportunities are included, the Agent will be responsible for maintaining adequate documentation of these opportunities. This support may include but is not limited to actual sales during that period, regional market indices and/or logs of offers received.

1.32 Party or **Parties** means one or more of the following individually or collectively, as the context warrants: APC, KPC, OPC, CSP, IM, AEPSC, CPL, PSO, SWEPCO, WTU and CSWS.

1.33 PSO means Public Service Company of Oklahoma.

1.34 SPP means the Southwest Power Pool reliability council.

1.35 SWEPCO means Southwestern Electric Power Company.

1.36 Service Schedules means the Service Schedules attached to this Agreement and those that later may be agreed to by the Parties and accepted for filing by the FERC.

1.37 System Emergency means a condition which, if not promptly corrected, threatens to cause imminent harm to persons or property, including the equipment of a Party or a third party, or threatens the reliability of electric service provided by a Party to Native Load Customers.

1.38 Trading and Marketing Activities means all Off-System Sales and Off-System Purchases (other than purchases used to serve Native Load Customers) conducted on behalf of any of the Parties to this Agreement.

1.39 Trading and Marketing Realization means the difference between (i) revenues collected from Trading and Marketing Activities and (ii) the Out-of-Pocket Cost of such Trading and Marketing Activities and any transmission cost related to such activities.

1.40 WTU means West Texas Utilities Company.

ARTICLE II
TERM OF AGREEMENT

2.1 Term

This Agreement shall take effect upon consummation of the Merger, and shall continue in force and effect for a period of five (5) years from the effective date, continuing thereafter until terminated by mutual agreement or upon twelve (12) months' written notice from AEPSC to the other Parties.

2.2 Periodic Review

This Agreement will be reviewed periodically by the Operating Committee to determine whether revisions are necessary or appropriate.

ARTICLE III
OBJECTIVES

3.1 Purpose

The purpose of this Agreement is to provide the contractual basis for coordinated planning, operation and maintenance of the power supply resources of the Combined System to achieve economies consistent with the provision of reliable electric service and an equitable sharing of the benefits and costs of such coordinated arrangements.

ARTICLE IV
RELATIONSHIP TO OTHER AGREEMENTS AND SERVICES

4.1 Governing Provisions

This Agreement is intended to apply in addition to and not in lieu of the AEP Interconnection Agreement and the CSW Operating Agreement. The provisions of this Agreement shall, to the extent practicable, be construed and applied in a manner that is consistent with the AEP Interconnection Agreement and the CSW Operating Agreement. In the event of any inconsistency, however, the provisions of this Agreement shall control. This Agreement is further intended to apply to the power supply resources and loads served by the Combined System. It does not apply to the transmission facilities owned or operated by the AEP Operating Companies and CSW Operating Companies.

ARTICLE V
AGENT

5.1 Agent's Functions

The Parties hereby designate AEPSC as their Agent for the purposes of:

(a) coordinating the planning and design of generation to be installed for the Combined System and the acquisition of power supply resources;

(b) coordinating the operation and maintenance of the Combined System power supply resources;

(c) coordinating the economic dispatch for the power supply resources of the Combined System;

(d) conducting the Combined System's Trading and Marketing Activities;

(e) providing and or acquiring any additional power supply services for the loads served and sales made on behalf of the Combined System;

(f) developing all bills and billing information among the Parties pursuant to this Agreement;

(g) performing any and all functions of CSWS pursuant to the CSW Operating Agreement if and when CSWS ceases to perform those functions; and

(h) such other activities and duties as may be assigned from time to time by the Operating Committee.

5.2 Delegation and Acceptance of Authority

The Parties hereby delegate to the Agent and the Agent hereby accepts responsibility and authority for the duties listed in Section 5.1 and elsewhere in this Agreement. Except as herein expressly established otherwise, the Agent shall perform each of those duties in consultation with the Operating Committee.

ARTICLE VI
COMPOSITION AND DUTIES OF THE OPERATING COMMITTEE

6.1 Operating Committee

The Operating Committee is the administrative body created to administer this Agreement and shall consist of three (3) members. One member shall be a representative of the AEP Operating Companies, one member shall be a representative of the CSW Operating Companies and the third member shall be a representative of AEPSC.

6.2 Meeting Dates

The Operating Committee shall hold meetings at such times, means and places as the members shall determine from time to time. Minutes of each Operating Committee meeting shall be prepared and maintained.

6.3 Decisions

All decisions of the Operating Committee shall be by a majority vote of the members present or voting by proxy at the meeting at which the vote is taken. As necessary, recommendations will be made to the Chief Executive Officer or his designee.

6.4 Duties

The Operating Committee shall have the following duties, unless such duties are otherwise assigned by a vote of the Operating Committee to the Agent, in which case the Agent shall perform such duties. The Operating Committee will be responsible for:

(a) administering this Agreement and recommending any amendments hereto including such amendments which could result from any deregulation of any of the power supply resources of the Combined System;

(b) overseeing operation of the power supply resources of the Combined System;

(c) reviewing and making recommendations concerning the proportional sharing of costs and benefits under this Agreement;

(d) reviewing and, if necessary, amending the duties and responsibilities of the Agent;

(e) evaluating and making recommendations concerning capacity additions to meet the requirements of Native Load Customers; and

(f) ensuring coordination for other matters not specifically provided for herein that the Operating Committee considers necessary to operate the Combined System reliably and economically.

ARTICLE VII
COORDINATED PLANNING AND OPERATION

7.1 Coordinated System Planning

New capacity will be planned to meet the Combined System's requirements, subject to regulatory, transmission, economic and operational constraints and the existing interconnection and operating agreements of the Parties. To the extent practicable, the power supply resources of the AEP East Zone and the AEP West Zone shall be planned and developed on the basis that the Combined System constitutes an integrated electric system and that the objective of such planning and development shall be to maximize efficiency, reliability and cost effectiveness of the Combined System.

The Agent shall coordinate the power supply development for the Combined System.

7.2 Combined System Dispatch

It is the intent of the Parties, when and as practicable, to combine the Control Area functions of the AEP East Zone and the AEP West Zone; provided that, whether operating as separate or combined Control Areas, the Combined System will be centrally dispatched. Except as provided in this Agreement, while operating as separate Control Areas (AEP, CSW-SPP AND CSW-ERCOT), the pre-Merger dispatch priorities and methods applicable within each Control Area shall continue to apply to that Control Area. The Combined System dispatch will be conducted on a least-cost basis subject to availability of transmission entitlements linking the Control Areas (such availability limitations being referred to hereinafter as the "Interconnection Constraints"). In determining the Combined System's appropriate dispatch priorities, the AEP East Zone's most economic power supply resources will be used to serve the Native Load Customers of the AEP Operating Companies and

the AEP West Zone's most economic power supply resources will be used to serve the Native Load Customers of the CSW Operating Companies.

The Control Areas will be centrally dispatched in real time to minimize total generation costs for the Combined System, subject to the Interconnection Constraints. Similarly, subject to the Interconnection Constraints, unit commitment will be performed to meet the Combined System's obligations, taking into account the specific obligations within each Control Area.

7.3 Capacity Exchange

Whenever either the AEP East Zone or the AEP West Zone has surplus capacity relative to its capacity reserve requirements or otherwise has capacity available for sale, and the other zone has insufficient capacity relative to its capacity reserve requirements or otherwise requires capacity, the surplus zone, acting through the Agent, shall make its surplus capacity available to the other zone for periods of one (1) year or less, subject to the Interconnection Constraints.

7.4 Energy Exchange

The AEP East Zone and the AEP West Zone each shall make energy available from its Generating Resources to the other zone for the purposes and to the extent required by this Agreement.

7.5 Emergency Response

In the event of a System Emergency, no adverse distinction shall be made between the Native Load Customers of the AEP East Zone and those of the AEP West Zone. Each zone shall, when so instructed by the Agent, make its Generating Resources available in response to a System Emergency. Notwithstanding the foregoing, it is understood that the Interconnection Constraints may limit the ability of one zone to respond to a System Emergency in the other.

ARTICLE VIII
TRADING AND MARKETING

8.1 Centralized Trading and Marketing Activities

All Trading and Marketing Activities initiated or concluded after the effective date of this Agreement shall be conducted centrally under the direction of the Agent.

8.2 Coordination with Agent

Subject to compliance with applicable codes of conduct, the Parties shall promptly communicate any potential Trading and Marketing Activities to the Agent and shall cooperate in evaluating and facilitating such transactions as are determined by the Agent to be in the interest of the Combined System.

ARTICLE IX
ASSIGNMENT OF COSTS AND BENEFITS OF COORDINATED OPERATIONS

9.1 Service Schedules

The costs and revenues associated with coordinated operations as described in Articles VII and VIII shall be distributed in the manner provided from time to time in the Service Schedules attached to and incorporated by reference into this Agreement. It is understood and agreed that all such Service Schedules are intended to establish an equitable sharing of costs and/or benefits among the Parties, and that circumstances may, from time to time, require a reassessment of relative benefits and burdens or of the methods used in the Service Schedules to apportion the benefits and burdens. Upon a recommendation of the Operating Committee and agreement among the Parties, any of the Service Schedules may be amended as of any date agreed to by the Parties, subject to receipt of necessary regulatory authorization.

The initial Service Schedules incorporated into this Agreement are as follows:

Schedule A: Allocation of Capacity Costs and Purchased Power Costs;

Schedule B: Pricing for System Capacity Exchanges;

Schedule C: Pricing for System Energy Exchanges; and

Schedule D: Allocation of Trading and Marketing Realizations.

ARTICLE X
BILLING PROCEDURES

10.1 Records

The Agent shall maintain such records as may be necessary to determine the assignment of costs and benefits of coordinated operations pursuant to this Agreement. Such records shall be made available to the Parties upon request.

10.2 Monthly Statements

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

10.3 Billings and Payments

The Agent shall handle all billing between the Parties and other entities with which the Combined System engages in Trading and Marketing Activities pursuant to this Agreement. Payment among the Parties shall be by making remittance of the net amount billed or by making appropriate accounting entries on the books of the Parties.

10.4 Taxes

Should any federal, state, or local tax, surcharge or similar assessment, in addition to those that may now exist, be levied upon the electric power, energy or service to be provided in connection with this Agreement, or upon the provider of service as measured by the power, energy or service, or the revenue therefrom, such additional amount shall be included in the net billing as described in Section 10.3.

ARTICLE XI
FORCE MAJEURE

11.1 Events Excusing Performance

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

ARTICLE XII
INDUSTRY STANDARDS

12.1 Adherence to Reliability Criteria

The Parties agree to conform to all applicable national and regional electric reliability council principles, guides, criteria, and standards and industry standard practices (collectively, "Industry Standards") as they affect the implementation of this Agreement.

ARTICLE XIII
GENERAL

13.1 No Third Party Beneficiaries

This Agreement does not create rights of any character whatsoever in favor of any person, corporation, association, entity or power supplier, other than the Parties, and the obligations herein assumed by the Parties are solely for the use and benefit of said Parties. Nothing in this Agreement shall be construed as permitting or vesting, or attempting to permit or vest, in any person, corporation, association, entity or power supplier, other than the Parties, any rights hereunder or in any of the resources or facilities owned or controlled by the Parties or the use thereof.

13.2 Waivers

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

13.3 Successors and Assigns

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

13.4 Liability and Indemnification

Subject to any applicable state or federal law which may specifically restrict limitations on liability, each Party shall release, indemnify, and hold harmless the other Parties, their directors, officers and employees from and against any and all liability for loss, damage or expense alleged to arise from, or incidental to, injury to persons and/or damage to property in connection with its facilities or the production or transmission of electric energy by or through such facilities, or related to performance or non-performance of this Agreement, including any negligence arising hereunder. In no event shall any Party be liable to another Party for any indirect, special, incidental or consequential damages with respect to any claim arising out of this Agreement.

13.5 Section Headings

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

13.6 Notice

Any notice or demand for performance required or permitted under any of the provisions of this Agreement shall be deemed to have been given on the date such

notice, in writing, is deposited in the U.S. mail, postage prepaid, certified or registered mail, addressed to:

AMERICAN ELECTRIC POWER SERVICE CORPORATION
Vice President Power Marketing
1 Riverside Plaza
Columbus, Ohio 43215-2373

or in such other form or to such other address as the Parties may stipulate.

ARTICLE XIV
REGULATORY APPROVAL

14.1 Regulatory Authorization

This Agreement is subject to and conditioned upon acceptance for filing without material condition or modification by the FERC. In the event that this Agreement is not so accepted for filing in its entirety, any Party may terminate this Agreement immediately.

14.2 Changes

It is contemplated by the Parties that it may be appropriate from time to time to change, amend, modify or supplement this Agreement, including the Schedules and attachments which are a part of this Agreement, to reflect changes in operating practices or costs of operations or for other reasons. Any such changes to this Agreement shall be in writing executed by the Parties, subject to necessary regulatory authorizations.

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

APPALACHIAN POWER COMPANY

By:_____

Title:_____

KENTUCKY POWER COMPANY

By:_____

Title:_____

OHIO POWER COMPANY

By:_____

Title:_____

COLUMBUS SOUTHERN POWER COMPANY

By:_____

Title:_____

INDIANA MICHIGAN POWER COMPANY

By:_____

Title:_____

AMERICAN ELECTRIC POWER SERVICE CORPORATION

By:_____

Title:_____

CENTRAL POWER AND LIGHT COMPANY

By:_____

Title:_____

PUBLIC SERVICE COMPANY OF OKLAHOMA

By:_____

Title:_____

SOUTHWESTERN ELECTRIC POWER COMPANY

By:_____

Title:_____

WEST TEXAS UTILITIES COMPANY

By:_____

Title:_____

CENTRAL AND SOUTH WEST SERVICES, INC.

By_____

Title:_____

SERVICE SCHEDULE A

ALLOCATION OF CAPACITY COSTS AND PURCHASED POWER COSTS

A1 - Duration This Service Schedule A shall become effective and binding when the System Integration Agreement becomes effective, and shall continue in full force and effect throughout the duration of such Agreement, except as provided in Sections 9.1 and 14.2 of the Agreement. This Service Schedule A is a part of the Agreement and, as such, the use of terms in this Service Schedule A that are defined in the Agreement shall have the same meanings as set forth in the Agreement.

A2 - Capacity Costs The Operating Companies in the AEP East Zone on one hand and the Operating Companies in the AEP West Zone on the other hand each shall continue to have full responsibility for all fixed costs relating to its respective power supply resources that were in commercial operation prior to the effective date of the Agreement. When new power supply resources are acquired or installed after the effective date of the Agreement to meet the Combined System's capacity requirements, an allocation of the associated fixed capacity costs (including associated transmission costs) shall be made based on the decision to acquire or install the power supply resources, between the AEP East Zone and the AEP West Zone in proportion to the amount of new capacity required in each zone, as determined by the Agent. Once such allocation is made between the AEP East Zone and the AEP West Zone, the treatment of costs, as applicable, within these zones shall be governed respectively by the AEP Interconnection Agreement and the CSW Operating Agreement.

A3 - Purchased Power Costs Except in the case of (i) an Off-System Purchase which is allocated by the Agent to a Trading and Marketing Activity and (ii) the capacity costs allocated pursuant to Section A2 above, the cost of purchased power will be assigned to the zone (the AEP East Zone or the AEP West Zone) which takes physical delivery of the energy.

SERVICE SCHEDULE B

PRICING FOR SYSTEM CAPACITY EXCHANGES

B1 - Duration This Service Schedule B shall become effective and binding when the System Integration Agreement becomes effective, and shall continue in full force and effect throughout the duration of such Agreement, except as provided in Sections 9.1 and 14.2 of the Agreement. This Service Schedule B is a part of the Agreement and, as such, the use of terms in this Service Schedule B that are defined in the Agreement shall have the same meanings as set forth in the Agreement.

B2 - Capacity Transfer Price Capacity made available by either the AEP East Zone or the AEP West Zone to the other pursuant to Section 7.3 of the Agreement shall be priced at one-half the sum of (i) the foregone opportunity cost to sell capacity in the supplier zone and (ii) the decremental capacity purchase cost in the recipient zone, as determined by the Agent. If such capacity transfers require additional transmission-related costs, such transmission-related costs will be added to the foregone opportunity costs in determining the sharing of capacity-related savings.

SERVICE SCHEDULE C

PRICING FOR SYSTEM ENERGY EXCHANGES

C1 - Duration This Service Schedule C shall become effective and binding when the System Integration Agreement becomes effective, and shall continue in full force and effect throughout the duration of such Agreement, except as provided in Sections 9.1 and 14.2 of the Agreement. This Service Schedule C is a part of the Agreement and, as such, the use of terms in this Service Schedule C that are defined in the Agreement shall have the same meanings as set forth in the Agreement.

C2 - Energy Transfer Prices

(a) Economic transfers of energy between the AEP East Zone and the AEP West Zone up to the amount of firm transmission entitlements between the zones shall be priced at the lower of (i) the recipient zone's decremental costs or (ii) one-half of the sum of the supplier zone's Out-of-Pocket cost and the recipient zone's decremental cost.

(b) Economic transfers of energy between the zones in excess of the amount of firm transmission entitlements between the zones shall be priced at one-half of the sum of (i) the supplier zone's Out-of-Pocket Cost, including all incremental transmission costs, and (ii) the recipient zone's decremental cost.

(c) The Agent shall make any determinations necessary to implement the foregoing pricing provisions.

SERVICE SCHEDULE D

ALLOCATION OF TRADING AND MARKETING REALIZATIONS

D1 - Duration This Service Schedule D shall become effective and binding when the System Integration Agreement becomes effective, and shall continue in full force and effect throughout the duration of such Agreement, except as provided in Sections 9.1 and 14.2 of the Agreement. This Service Schedule D is a part of the Agreement and, as such, the use of terms in this Service Schedule D that are defined in the Agreement shall have the same meanings as set forth in the Agreement.

D2 - Allocation of Trading and Marketing Activity Costs The AEP East Zone and the AEP West Zone each shall be reimbursed, before determining the Trading and Marketing Realizations, for its respective Out-of-Pocket Costs and any transmission-related expenses incurred to supply energy for Trading and Marketing Activities. Costs attributable to long-term (defined for purposes of this Service Schedule D as having a term of one year or longer entered into prior to the Merger) Off-System Sales shall be assigned to the zone in which such sales were initiated. All additional overhead costs associated with Trading and Marketing Activities shall be allocated between the AEP East Zone and the AEP West Zone in accordance with the following Allocation of Trading and Marketing Realizations.

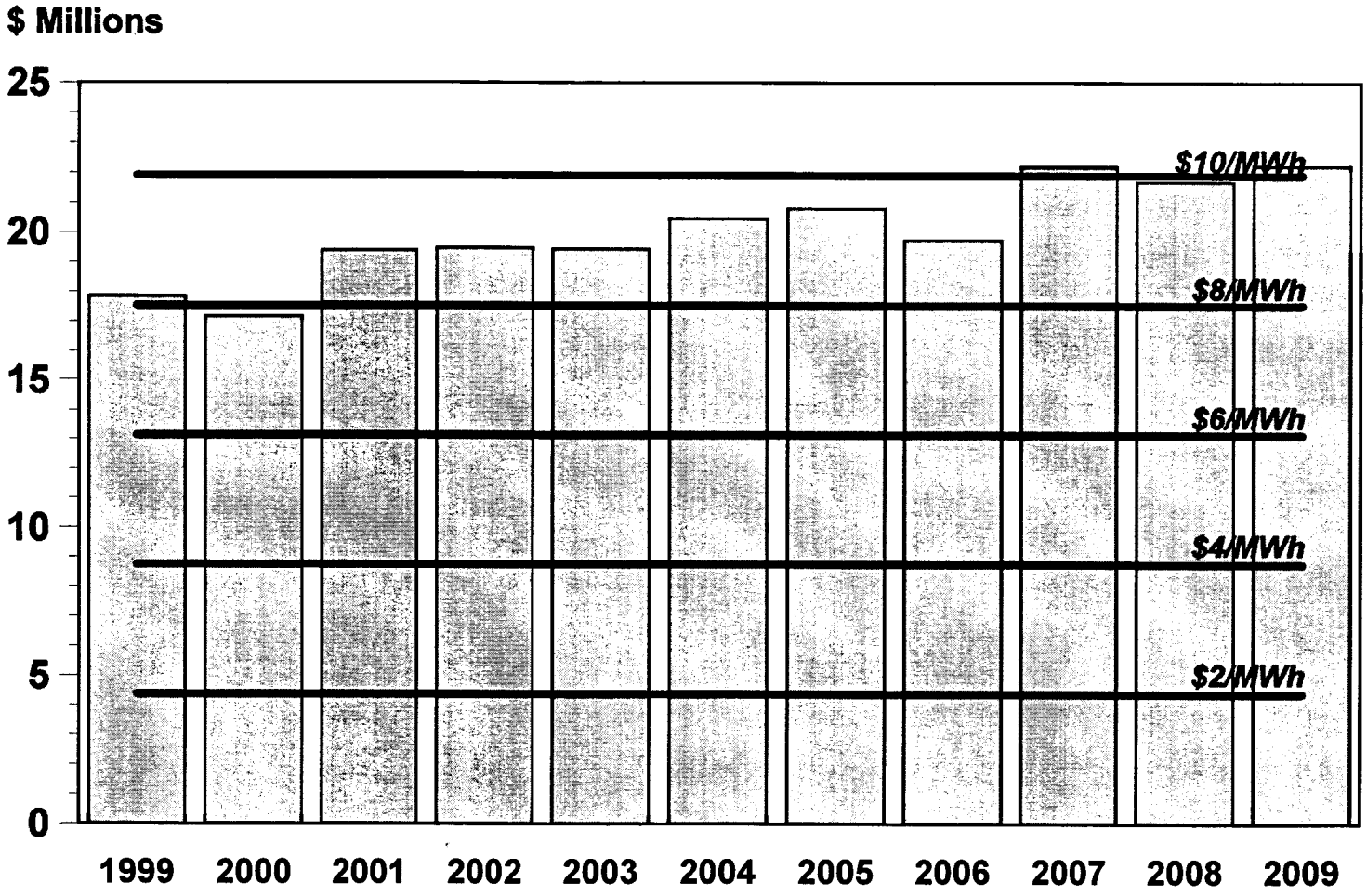
D3 - Allocation of Trading and Marketing Realizations The Agent shall determine the Trading and Marketing Realizations on an hourly basis. The sum of the hourly amounts for each billing period (adjusted to remove realizations associated with long-term Off-System Sales) shall be allocated between the AEP East Zone and the AEP West Zone up to the level of realizations achieved in the Base Year in accordance with the Base Year Allocation. Any such Trading and Marketing realizations in excess of the level of realizations achieved in the Base Year will be shared according to the ratio of owned generating capacity in the two zones. Realizations associated with long-term Off-System Sales shall be assigned to the zone in which such sales were initiated.

Summary of Net Production-Related Savings
(Millions of Dollars)

Year	Production-Related Savings	Cost of Firm Transmission Including Losses	Net Fuel-Related Savings	Foregone Net Revenues	Net Production-Related Savings
1999	17.8	3.9	13.9	6.1	7.8
2000	17.2	3.9	13.3	6.1	7.2
2001	19.4	3.9	15.5	6.1	9.4
2002	19.4	3.9	15.5	6.1	9.4
2003	19.4	3.9	15.5	6.1	9.4
2004	20.4	3.9	16.5	6.1	10.4
2005	20.8	3.9	16.9	6.1	10.8
2006	19.7	3.9	15.8	6.1	9.7
2007	22.2	3.9	18.3	6.1	12.2
2008	21.7	3.9	17.8	6.1	11.7
Total	198.0	39.0	159.0	61.0	98.0

EXHIBIT JCB-2

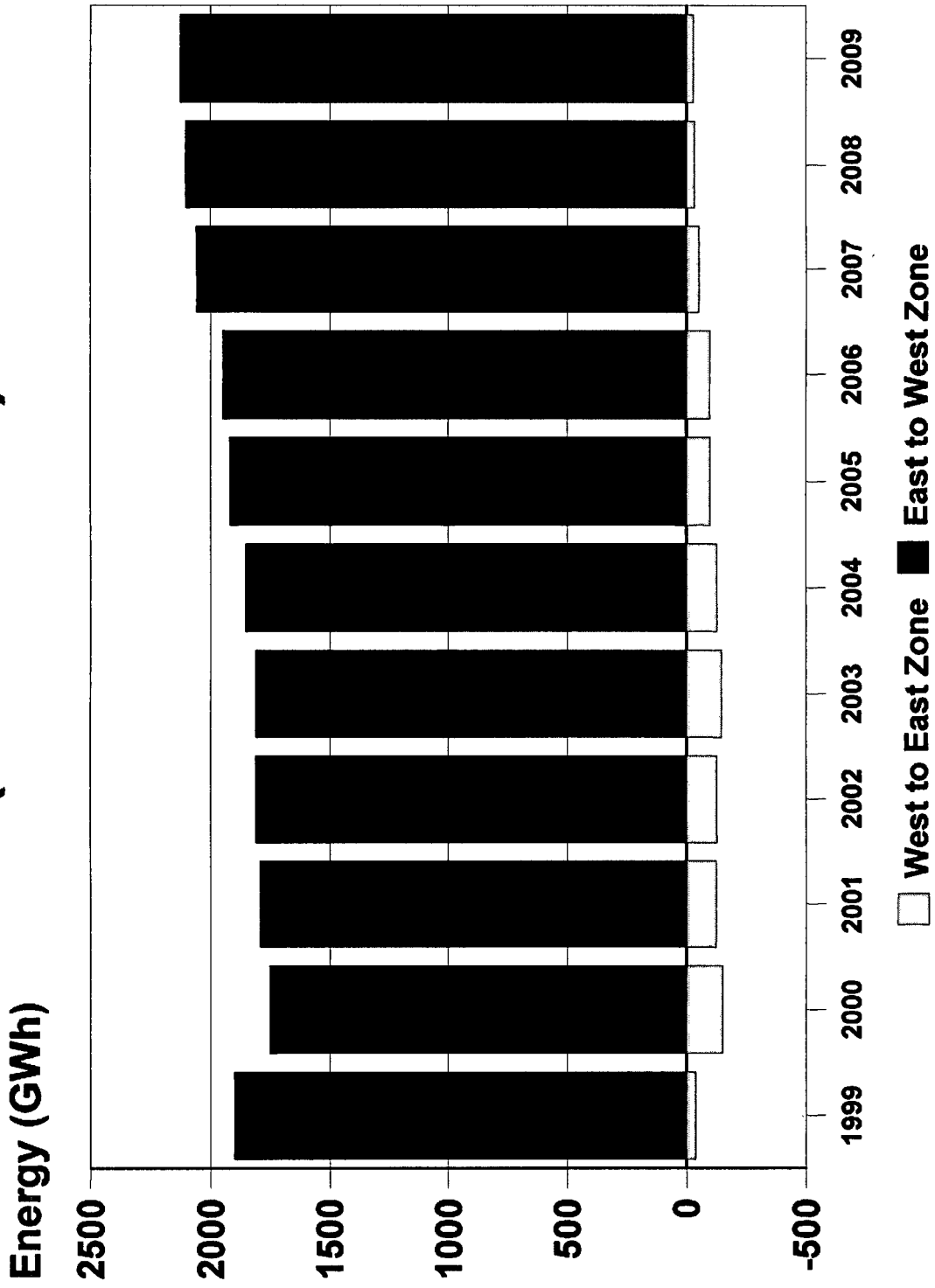
Total Production-Related Savings



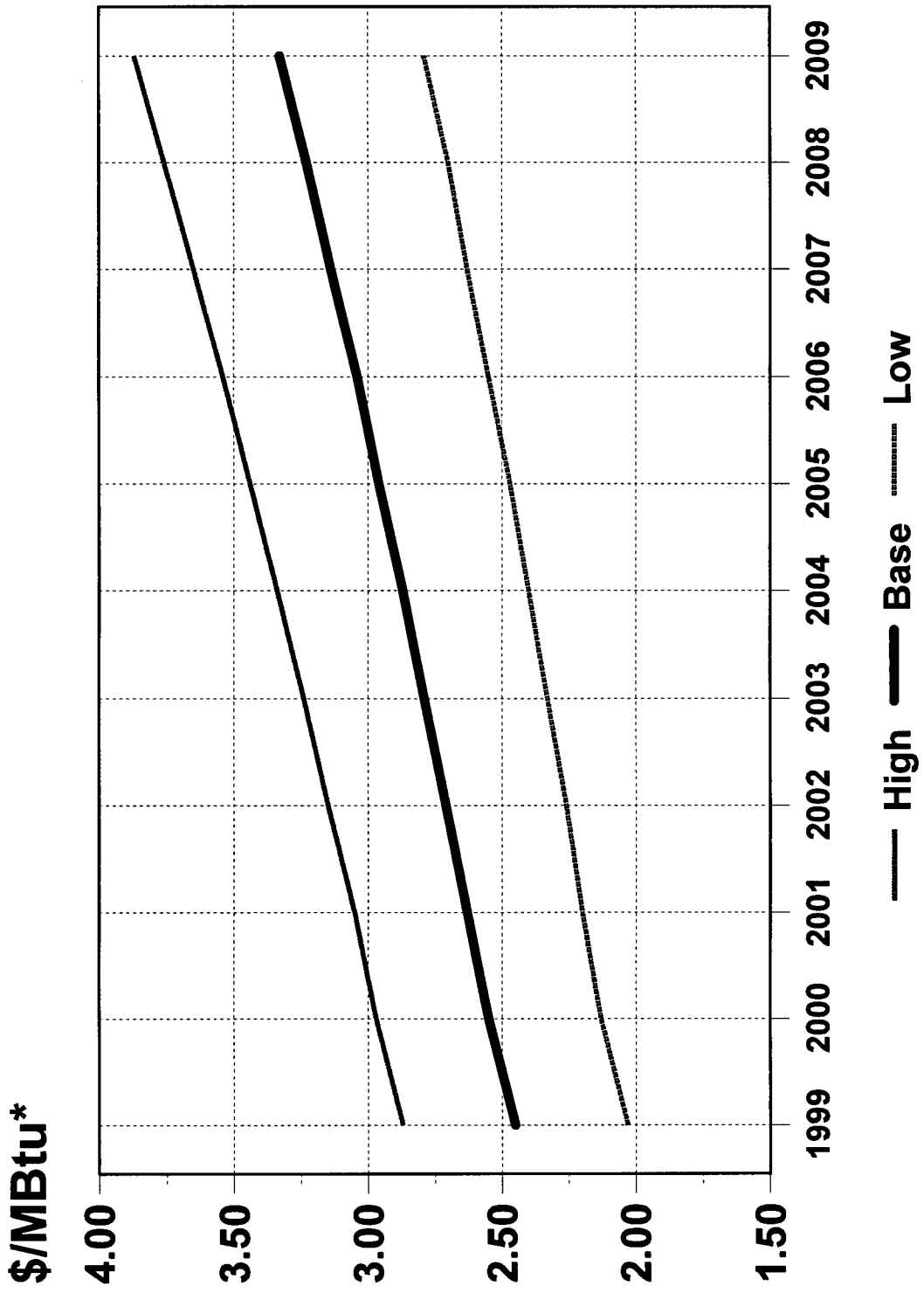
Values shown by columns are dollar savings assuming a bi-directional 250-MW intertie between the East and West zones. Lines labeled $/MWh represent the calculated savings that result from exchanging power at the designated savings rate across a 250-MW tie and assumes 100% tie utilization.

EXHIBIT JCB-3

Annual Tie-Line Energy Flows (Base Case)



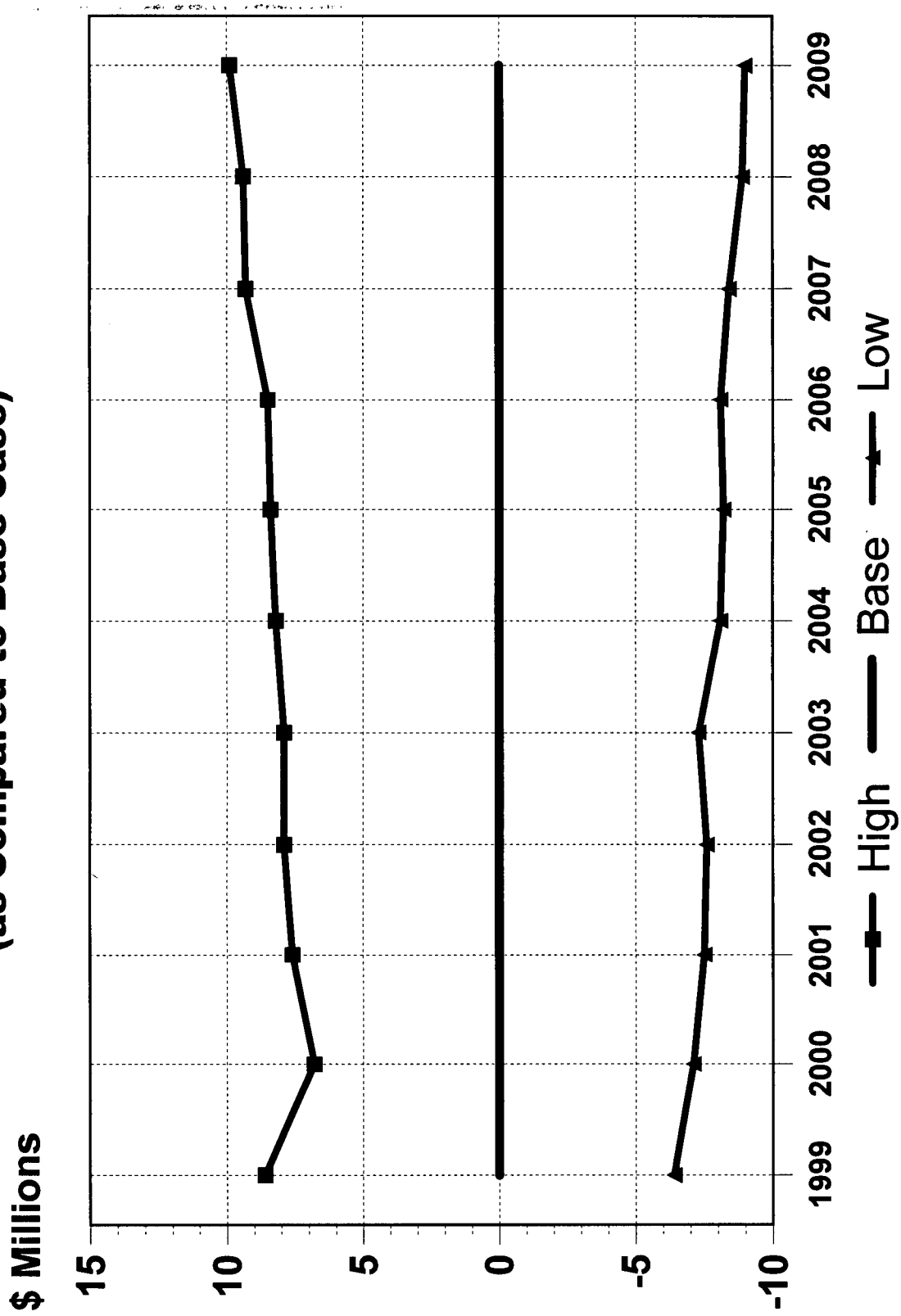
Gas Price Sensitivity



* Gas prices do not include transportation

Gas Price Sensitivity

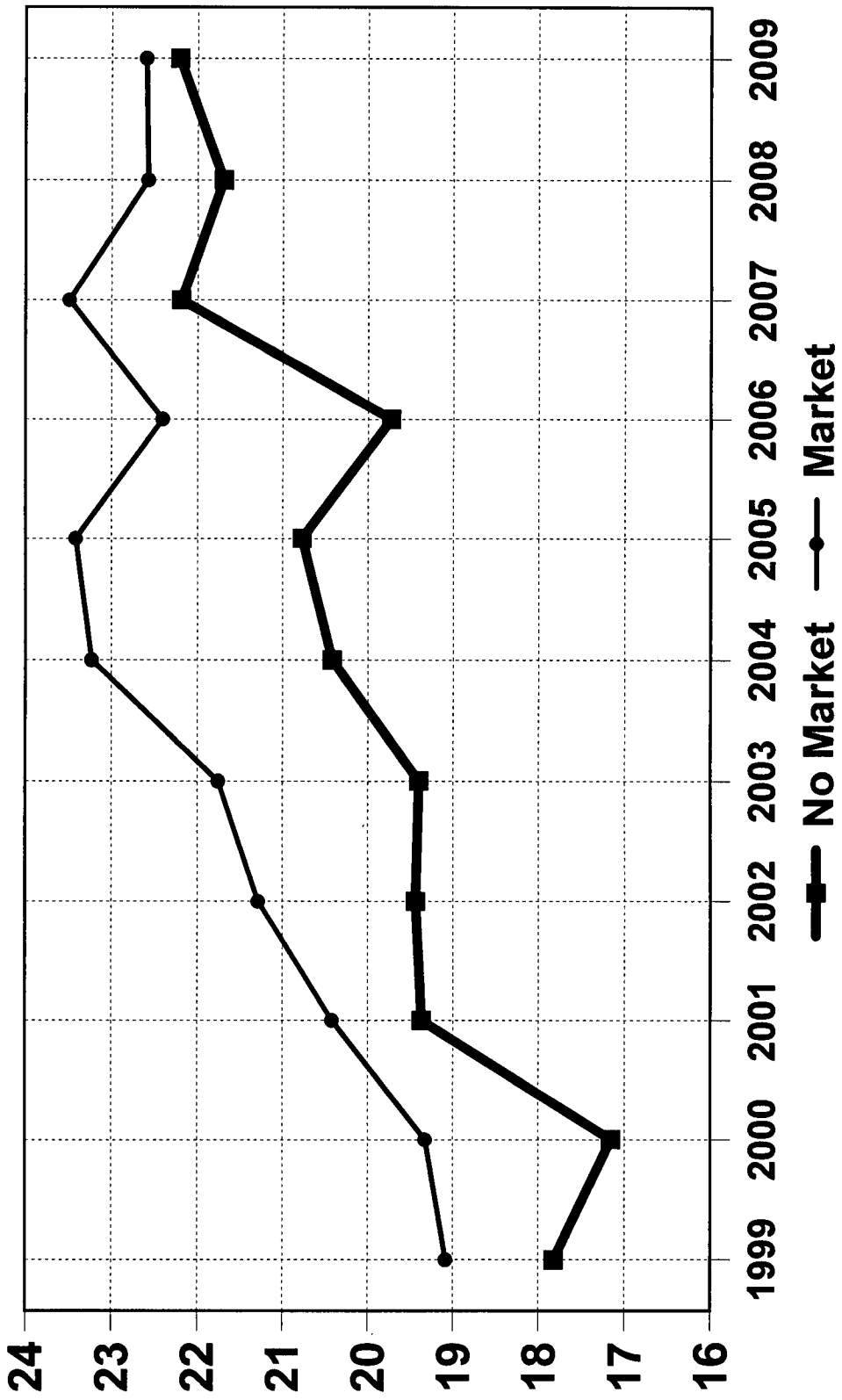
Change in Production-Related Savings With High and Low Gas Price Forecasts (as Compared to Base Case)



External Market Sensitivity

Effect of External Market on Production-Related Savings

$ Millions



COMMONWEALTH OF KENTUCKY

BEFORE THE

PUBLIC SERVICE COMMISSION OF KENTUCKY

IN THE MATTER OF:

JOINT APPLICATION OF KENTUCKY POWER COMPANY,	)
AMERICAN ELECTRIC POWER COMPANY, INC.	)
AND CENTRAL AND SOUTH WEST CORPORATION	)CASE NO. 99-
REGARDING A PROPOSED MERGER	)

DIRECT TESTIMONY

OF

RICHARD E. MUNCZINSKI

APRIL 1999

TESTIMONY INDEX

EXHIBITS

EXHIBIT REM-1	Listing of Testimony Filed Since 1990
EXHIBIT REM-2	A Graph that Summarizes the Major Elements of the Company's Proposed Regulatory Plan
EXHIBIT REM-3	Ten Year Summary and Allocations of Merger Costs and Benefits
EXHIBIT REM-4	Allocation of Fuel Merger Savings
EXHIBIT REM-5	Jurisdictional Allocation Factors for Merger Benefits and Costs
EXHIBIT REM-6	Calculation of Kentucky Retail Annual Net Merger Savings Credit
EXHIBIT REM-7	Net Merger Savings Credit Rider
EXHIBIT REM-8	Example of Base Rate Case Treatment of Non-Fuel Net Merger Savings

COMMONWEALTH OF KENTUCKY

BEFORE THE

PUBLIC SERVICE COMMISSION OF KENTUCKY

IN THE MATTER OF:

JOINT APPLICATION OF KENTUCKY POWER COMPANY,	)
AMERICAN ELECTRIC POWER COMPANY, INC.	)
AND CENTRAL AND SOUTH WEST CORPORATION	)CASE NO. 99-
REGARDING A PROPOSED MERGER	)

DIRECT TESTIMONY

OF

RICHARD E. MUNCZINSKI

APRIL 1999

I. INTRODUCTION

Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS FOR THE RECORD.

A. My name is Richard E. Munczinski and my business address is 1 Riverside Plaza, Columbus, Ohio 43215-2373.

Q. BY WHOM ARE YOU EMPLOYED AND WHAT IS YOUR POSITION?

A. I am employed by the American Electric Power Service Corporation (AEPSC), the service corporation subsidiary of American Electric Power Company, Inc. (AEP). Effective January 1, 1998, I was promoted to the position of Senior Vice President – Corporate Planning and Budgeting. Prior to that time I was Vice President – Regulatory Services within the Energy Pricing and Regulatory Services Department of AEPSC. I also have AEP management responsibility for the regulatory approvals required to implement the proposed business combination between AEP and Central and South West Corporation (CSW) (jointly referred to as "Applicants" or "Companies").

II. QUALIFICATIONS

Q. PLEASE DESCRIBE YOUR EDUCATIONAL BACKGROUND, PROFESSIONAL QUALIFICATIONS AND BUSINESS EXPERIENCE.

A. I received a Bachelors Degree in Electrical Engineering from Stevens Institute of Technology in 1974, and a Masters Degree in Management Science from Stevens Institute of Technology in 1979. In addition, I have attended the AEP-Darden (University of Virginia) executive training program. After working as an electrical engineer for several engineering consulting firms for the period of 1974

through 1977, I joined the AEPSC in 1978 as an assistant Project Control Engineer and was subsequently promoted to Project Control Engineer in 1979 and Senior Project Control Engineer in 1981. In 1982, I joined the Controller's Department (now Corporate Planning and Budgeting Department). I was promoted to manager of Financial Planning and Forecasting in 1985 and to Assistant Controller in 1990. In 1992, I was named Director of the Rate Division of the Rates Department (subsequently renamed the Regulatory Services Division and the Energy Pricing and Regulatory Services Department, respectively). In November 1996, I was promoted to Vice President – Regulatory Services.

During the period that I was with the Energy Pricing and Regulatory Services Department, I was responsible for the day-to-day operations of the Regulatory Services Division. I provided supervision, administration and rate case management for each of the five AEP State Office Regulatory Affairs Departments whose personnel are employees of the major AEP operating company subsidiaries' as well as supervision and direction to the Regulatory Services Staff at AEPSC.

Q. HAVE YOU APPEARED AS A WITNESS BEFORE ANY REGULATORY COMMISSION?

A. Yes, as shown in EXHIBIT REM-1, I previously have testified before the Public Utilities Commission of Ohio, the Virginia State Corporation Commission, the Public Service Commission of West Virginia, the Michigan Public Service Commission, the Arkansas Public Service Commission and the Federal Energy

Regulatory Commission (FERC). In addition, I have testified or submitted testimony before the Arkansas Public Service Commission, the Louisiana Public Service Commission, the Corporation Commission of the State of Oklahoma, the Public Utility Commission of Texas, and the FERC concerning regulatory approval of the proposed AEP/CSW merger.

III. PURPOSE OF TESTIMONY

Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY IN THIS PROCEEDING?

A. The primary purpose of my testimony is to describe and support the Applicants' proposed regulatory plan associated with the proposed merger. In describing the plan, the major elements of which are summarized on EXHIBIT REM-2, I also describe the anticipated benefits and costs of the merger. This proposed plan is a package proposal, the major elements of which include the flow through to customers of 100% of merger-related net fuel savings, and the sharing of estimated non-fuel merger savings. Under the regulatory plan, the Applicants request that estimated Kentucky jurisdictional costs to achieve, including change in control payments necessary to accomplish the merger, be deferred and amortized on a straight line basis over a five year period beginning with the date of closing. I also discuss whether regulatory conditions should be attached to the merger, and describe the regulatory approval process.

The regulatory plan provides for a sharing of the net non-fuel merger savings. The customer portion of these savings, approximately 52% of the net non-fuel merger savings or $37.6 million, will be returned to customers by a Net

Merger Savings Credit Rider. Applicants propose that this treatment continue until the earlier of ten years, or the implementation of mandated unbundling and retail competition. Under this proposed regulatory plan the fixed net non-fuel merger savings and costs would be used in future ratemaking proceedings during the 10-year plan period. Annual tracking mechanisms or true-up reviews are not necessary under the Applicants proposed regulatory plan.

The shareholder portion of net non-fuel merger savings, approximately 48% of the net non-fuel merger savings, will be retained by shareholders by including their portion of savings as a reasonable cost for any future state proceeding for 10 years following the close of merger.

If changes in retail base rates of KPCO in Kentucky occur within the first ten years after the effective date of the Merger, the Applicants propose certain appropriate adjustments as detailed later in this testimony.

If the electric utility industry in Kentucky is restructured prior to the end of the tenth year after the effective date of the merger, the customer rider benefits, costs amortization, and shareholder savings imputation should be reduced consistent with the functional segregation of unbundled restructured rates. The cost amortizations and shareholder savings imputations would continue for the ten year term for those functions subject to continued rate of return regulation. Also, the benefits would continue for the period of time in which the Net Merger Savings Credit Rider remains in effect for those functions subject to continued rate of return regulation.

Finally, the Applicants intend to improve affiliate transaction accounting and reporting practices. The enhancements will facilitate the Commission's ability to review affiliate transactions and will provide further assurances that regulated customers are protected. I discuss the Company's commitment to work with its regulators to develop and provide the information they need. Mr. Gerald R. Knorr discusses the allocation of costs for affiliate transactions.

Q. WHY DO YOU BELIEVE THE APPLICANTS PROPOSED REGULATORY PLAN SHOULD BE ADOPTED BY THIS COMMISSION?

A. The Applicants' plan is simple, easily understood and minimizes the potential for future litigation and regulatory disputes. It is the best approach for all stakeholders because it allows for a fair allocation of benefits based upon current projections, requires the one-time development of benefit measures which will apply in the future, and places a firm plan in place after merger approval, allowing all stakeholders to go forward towards a competitive future. The plan is flexible enough to work under either a continuation of regulation or a shift to retail competition and unbundling. The plan provide net benefits to ratepayers in both the short-term and the long-term. It further provides a ratemaking method that ensures that ratepayers will receive the forecasted benefits.

Q. PLEASE SUMMARIZE THE RELIEF APPLICANTS ARE REQUESTING THE COMMISSION PROVIDE IN RESPONSE TO THIS APPLICATION.

A. Applicants request that the Commission enter an order finding that no approval for the merger is required under KRS 278.020(4) and KRS 278.020(5); or

Alternatively, if the Commission finds that approval is required, Applicants request that the Commission issue an order finding:

1) that upon consummation of the Merger, Kentucky Power Company will retain the technical, financial, and managerial ability to provide reasonable service in the Commonwealth and approve the Merger pursuant to KRS 278.020(4);

2) that the Merger is in accordance with the law, is for a proper purpose and is consistent with the public interest, and approving the Merger pursuant to KRS 278.020(5);

3) that the proposed regulatory plan be adopted, specifically that the Commission:

   (a) Enter a finding approving Applicants' proposed regulatory treatment of the fuel savings arising from the integrated operations of the Applicants;

   (b) Authorize KPCO to return to ratepayers by a Net Merger Savings Credit Rider the amounts shown in, and approve the tariff filed as, EXHIBIT REM-7.

   (c) Estimated non-fuel merger savings, net of cost-to-achieve and change in control payments, will be included in cost of service as an allowable expense. The amount to be included in the cost of service shall be based upon the test year period as demonstrated by EXHIBIT REM-8.

   (d) Provide for deferral and amortization over a five year period of the estimated merger transaction and transition costs including change in control payments.

Finally, Applicants request that, without regard to whether the Commission determines approval is required, that the Commission include in its Order the specific language required by SFAS No. 71 as set forth in the testimony of Mr. T. E. Mitchell.

Q. PLEASE DESCRIBE THE EXHIBITS ATTACHED TO YOUR TESTIMONY?

A. I am sponsoring EXHIBIT REM-1, a listing of my filed testimony since 1990; EXHIBIT REM-2, a graph that summarizes the major elements of the Company's proposed regulatory plan; EXHIBIT REM-3, a four-page exhibit showing a ten year summary of estimated non-fuel net merger savings, allocation of merger savings to AEP operating companies and jurisdictions, allocation of merger savings, net of merger costs, to the Kentucky retail customers and Applicants' shareholders including the deferral and amortization of merger costs. Also, I am sponsoring EXHIBIT REM-4, the allocation of projected merger fuel benefits; EXHIBIT REM-5, the jurisdictional allocation factors for non-fuel Merger benefits and costs; EXHIBIT REM-6, the calculation of the Kentucky Retail Annual Net Merger Savings Credit; EXHIBIT REM-7, the Net Merger Savings Credit Rider; and EXHIBIT REM-8, the example of Base Rate Case Treatment of the non-fuel net merger savings.

IV. ANTICIPATED BENEFITS AND COSTS OF MERGER

Q. WHAT ARE THE ANTICIPATED IMPACTS OF THE MERGER UPON THE NON-FUEL COSTS OF KPCO?

A. KPCO anticipates receiving an aggregate total of approximately $73.8 million of merger operating cost benefits (net of all merger costs) over the ten years following merger closing. The aggregate Kentucky retail jurisdictional portion of the projected merger operating cost benefits is approximately $72.5 million. The smaller value reflects a deduction for the allocation of benefits to FERC

customers of KPCO and merger benefits allocated to below-the-line accounts. A summary of the allocation of the merger operating cost benefits and the costs to achieve is shown in EXHIBIT REM-3.

Q. WHAT ARE THE ANTICIPATED IMPACTS OF THE MERGER UPON THE FUEL COSTS OF KPCO?

A. EXHIBIT REM-4 is a page detailing the allocation of projected fuel savings to KPCO resulting from the merger. The projected savings for Kentucky retail customers is approximately $2.6 million over ten years.

Q. WHAT ARE THE MAJOR CATEGORIES OF NON-FUEL AND FUEL COST CHANGE?

A. Non-fuel cost savings are anticipated from improved efficiencies in administration and management, as described by Mr. Thomas J. Flaherty. Mr. J. Craig Baker discusses the projected savings in fuel costs arising from power transfers between CSW and AEP. Mr. Gerald R. Knorr discusses the allocation of non-fuel benefits among the subsidiaries of the merged company.

As noted on EXHIBIT REM-3, in order to implement the merger, certain transaction, transition and regulatory processing costs are required. Transaction costs are defined as those costs incurred to effect the business combination, including investment banking, consulting, change in control payments and legal services in connection with preparation of the Merger Agreement, obtaining shareholders' approvals of the business combination, and closing the merger. Regulatory processing costs are defined as those costs incurred to obtain regulatory approvals of the business combination. Transition costs are defined

as the costs (other than transaction and regulatory processing costs) necessary to achieve the combination of the two companies, including the costs of employee separation packages, systems integration, telecommunications, internal and external communications, employee retraining, facilities consolidation, directors' and officers' liability coverage, and transition management team activities.

Q. HOW WERE THE MERGER SAVING ESTIMATES PRESENTED BY MR. KNORR UTILIZED IN THE JURISDICTIONAL ALLOCATIONS?

A. The estimates of merger savings for each company are utilized in the jurisdictional allocations, after removing savings projected from below-the-line cost items which are not included in the cost of service determinations. Once merger savings have been allocated to each operating company, they were classified into various functional categories: Production-Demand, Production-Energy, Transmission, Distribution, Customer Accounts/Customer Services and Administrative and General. Production-Demand, Transmission and Distribution were allocated to jurisdictions within each AEP operating company using loss adjusted demand allocation factors, while Production-Energy was allocated using a loss adjusted energy allocation factors. Customer Accounts/Customer Services savings were allocated to each jurisdiction using the number of customers within each jurisdiction, while A&G savings were reclassified using labor factors into Production-Energy, Production-Demand, Transmission, Distribution and Customer Accounts/Customer Services and then allocated using the above methodology. The savings for below-the-line cost items are

listed as "Non-Operating" in the reconciliation of savings estimates which is presented on page 3 of EXHIBIT REM-3.

Q. WHAT ALLOCATION FACTORS WERE UTILIZED TO ALLOCATE COSTS AMONG RATEMAKING JURISDICTIONS?

A. The jurisdictional allocation factors used to allocate costs and savings are shown on EXHIBIT REM-5. For KPCO, twelve months ended September 30, 1997 data was used, which was the most current data then available.

Q. DO THE MERGER BENEFIT AND COST ALLOCATION CALCULATIONS SHOWN IN EXHIBIT REM-3 FAIRLY ESTIMATE THE NET COST CHANGES WHICH WILL RESULT FROM THE MERGER?

A. Yes. The estimates of total merger benefits result from detailed studies to project the incremental benefits and costs of combined operation. The allocation of cost changes to companies and jurisdictions utilize allocation methods which are appropriate for KPCO. The merger benefit and cost estimates shown on EXHIBIT REM-3 are sufficiently reliable to be used as a base for developing a plan to assure customers will receive benefits due to the merger.

V. PROPOSED REGULATORY PLAN

A. Fuel Savings

Q. WILL THERE BE FUEL SAVINGS FROM INTEGRATED OPERATIONS?

A. Yes. Mr. Baker identifies in his testimony the fuel savings which will arise from integrated operations.

Q. WILL THOSE FUEL SAVINGS FLOW THROUGH TO CUSTOMERS?

A. Fuel and purchased power savings will flow through to customers through a reduction in actual fuel costs used in determination of Kentucky Power Company's fuel adjustment clause factors. EXHIBIT REM-4 shows the allocation of estimated fuel savings by jurisdiction.

B. Costs to Achieve

Q. WHAT TYPE OF COSTS ARE ASSOCIATED WITH THE MERGER?

A. As I discussed earlier in this testimony, transaction, transition and regulatory processing costs are associated with the merger. Also included in my discussion of transaction costs are the change in control payments. These are essentially severance packages which are transaction costs.

Q. WHAT TREATMENT OF THE COSTS TO ACHIEVE THE MERGER ARE THE APPLICANTS REQUESTING?

A. The Applicants are requesting that the Commission include language in its Final Order allowing the combined company to defer and amortize $12 million of total merger costs reflected on page 4 of EXHIBIT REM-3. The Applicants are requesting that this amortization occur on a straight-line basis over a 5-year period. Mr. Thomas E. Mitchell's testimony contains the language that Applicants request the Commission to include in its order.

Q. WHAT DO THE AMOUNTS ON EXHIBIT REM-3 REFLECT?

A. These amounts reflect the merger transaction, transition and regulatory processing costs referenced above. EXHIBIT REM-3 indicates that the

Applicants seek to keep approximately 48% of the aggregate net merger savings over the ten year period to (i) allow for a fair allocation of benefits and (ii) recognize that the identified merger savings would not be achieved without the merger.

Q. UNDER THE APPLICANTS' PROPOSED REGULATORY PLAN, WILL THE CAPITALIZATION OF THE CHANGE IN CONTROL PAYMENTS RESULT IN INCREASED COSTS TO CUSTOMERS?

A. No. EXHIBIT REM-3 clearly demonstrates that the Applicants will recover these costs from the net merger savings.

Q. WHY IS RECOVERY OF COSTS TO ACHIEVE THE MERGER AS SHOWN ON EXHIBIT REM-3 APPROPRIATE REGULATORY POLICY?

A. Reasonable costs, which are necessary to effect the transaction, create the savings which are beneficial to customers. Substantial resources must be committed in advance to explore and negotiate merger transactions. In addition, these costs are necessary to effect the transaction. Like any other costs incurred by a utility, if these costs to achieve the merger meet the "reasonable and necessary" test, recovery as proposed by Applicants should be allowed. I know of no reason to treat such costs differently from any other costs a utility must incur.

C. Non-Fuel Cost Savings

Q. WHAT REGULATORY TREATMENT IS PROPOSED FOR THE CUSTOMER PORTION OF NON-FUEL SAVINGS RESULTING FROM THE MERGER?

A. KPCO proposes to return to customers by a Net Merger Savings Credit Rider the annual amounts shown in EXHIBIT REM-3. The annual Net Merger Savings Credit would continue for the earlier of ten years, or the effective date of unbundled rates implemented pursuant to a mandated program for retail competition.

If the electric utility industry in Kentucky is restructured prior to the end of the tenth year after the effective date of the merger, the customer rider benefits, costs amortization, and shareholder savings imputation should be reduced consistent with the functional segregation of unbundled restructured rates. The cost amortizations and shareholder savings imputations would continue for the ten year term for those functions subject to continued rate of return regulation. Also, the benefits would continue for the period of time in which the Net Merger Savings Credit Rider remains in effect for those functions subject to continued rate of return regulation.

Q. WHAT IS THE BASIS FOR THE LEVELS OF ANNUAL NET MERGER SAVINGS CREDIT WHICH ARE PROPOSED?

A. The levels of annual Net Merger Savings Credit provide customers the benefit of approximately 52% of the aggregate net projected non-fuel savings over the ten year period arising from the merger as shown on page 1 of EXHIBIT REM-3.

Q. ARE YOU AWARE OF ANY COMMISSION APPROVED REGULATORY PLANS THAT PROVIDE FOR A CASH PLAN (I.E., THE DIRECT REFUND TO CUSTOMERS OF A PORTION OF THE MERGER SAVINGS)?

A. Yes. The Company is aware of this Commission's approval of the merger between Kentucky Utilities and Louisville Gas and Electric which was approved by an order dated September 12, 1997. In that proceeding the Commission approved a tariff which authorized the Companies to apply a credit to the customers' monthly bill for a period of sixty months or five years. The credit was based on the Companies' best estimate of 50% of the net savings expected to be realized during the sixty months or five year period succeeding the effective date of the merger.

Q. DOES YOUR PROPOSAL INCLUDE ANY PROVISION FOR ADJUSTMENTS TO THE CUSTOMER PORTION OF MERGER SAVINGS IF MERGER SAVINGS ARE GREATER OR LESS THAN PROJECTED?

A. No. To minimize future litigation regarding the impacts of the merger, the Applicants will commit, as previously described, to the fixed levels of annual ratepayer savings shown on page 4 of EXHIBIT REM-3. This ensures that customers will receive the forecasted benefits, and Applicants will assure that level of benefits should merger savings not occur at the levels estimated.

Q. WHAT WOULD BE THE RATEMAKING TREATMENT OF THE NET NON-FUEL MERGER SAVINGS IN ANY RATE PROCEEDINGS WHICH OCCUR DURING THE TEN-YEAR COMMITMENT PERIOD?

A. Under the proposed regulatory plan, Kentucky Power Company's retail customers and shareholders would share in the non-fuel net merger savings during the ten-year commitment period. For this to occur, it is necessary that an

add-back to cost-of-service be recognized in any rate proceeding that may occur during the ten-year commitment period.

If changes in retail base rates of KPCO in Kentucky occur within the first ten years after the effective date of the merger, the following rate treatments will be reflected:

(a) Estimated non-fuel operation and maintenance expense merger savings net of cost-to-achieve will be included in cost of service as an allowable expense in order to avoid passing the net savings through to customers twice. The amount to be included in the cost of service shall be based upon the test year period.

(b) Amortization of costs to achieve will be included in cost of service as an allowable expense. The amount to be included in the cost of service shall be based upon the test year period. The unamortized balance of costs to achieve will not be included in rate base and no return will be allowed on the unamortized balance of costs to achieve.

(c) The Net Merger Savings Credit Rider will continue as described above.

(d) The provisions of this paragraph relating to cost amortization and shareholder savings imputation in the event of a base rate proceeding will terminate ten years after the effective date of the merger.

(e) Exhibit REM-8 is an example of the retail base rate treatment for a sample year, as described in (a) through (d) above, including the continuation of the Net Merger Savings Credit Rider.

Q. DOES THE COMPANY HAVE A PROPOSED TARIFF THAT WILL IMPLEMENT THE NET MERGER SAVINGS CREDIT RIDER?

A. Yes. Attached as EXHIBIT REM- 7 is the proposed tariff.

Q. PLEASE EXPLAIN HOW THE COMPANY'S NET MERGER SAVINGS CREDIT WILL BE CALCULATED.

A. The Kentucky retail customer share of the net non-fuel merger savings for each rate year (as shown on the bottom half of Page 4 of EXHIBIT REM-3), is divided by the estimated Kentucky retail kilowatt hour (KWH) sales for the applicable year to obtain the Net Merger Savings Credit to be applied to the Kentucky retail customers' KWH sales. The use of the KWH factor for distribution of funds has been used before by the Commission. For example, the Company's monthly fuel adjustment factor (FAC) utilizes the KWH methodology. It was also used for the rate reductions as a result of the Tax Reform Act of 1986. I believe it is equally appropriate here. The calculations are shown in EXHIBIT REM-6.

Q. WHAT ADDITIONAL STEPS ARE PROPOSED TO ENSURE THE DISTRIBUTION OF THE COMPANY'S RETAIL CUSTOMERS' SHARE OF THE FIXED NET NON-FUEL SAVINGS?

A. The Balancing Adjustment Factor (BAF), shown on EXHIBIT REM-7, which is similar to that used for the Company's fuel adjustment clause, will ensure that Kentucky retail customers receive their 52% portion of the fixed net non-fuel merger savings of $37,553,695.

Q. WHEN WILL THE NET MERGER SAVINGS CREDIT TAKE EFFECT AND HOW LONG WILL IT REMAIN IN EFFECT?

A. The Net Merger Savings Credit would begin in the Company's first full billing month available following thirty days from the consummation of the merger. The credit will continue until the earlier of ten years, or the implementation of mandated unbundling and retail competition.

VI. REASONABLENESS OF REGULATORY PLAN

Q. WHAT FACTORS GUIDED AEP AND CSW IN DETERMINING THE APPROPRIATE ELEMENTS OF THE PROPOSED REGULATORY PLAN?

A. Several factors were important. The plan must be fair to customers and shareholders. The plan must provide sufficient economic value or the merger will not occur. Investor-owned utilities must earn adequate returns or funds will not be available from investors to meet customers' needs. Because the combined company will be subject to the jurisdiction of eleven state regulatory commissions and to the FERC jurisdiction, the plan proposed in this case incorporates general principles that apply to all jurisdictions and, in many instances, have been implemented in other jurisdictions. In addition, the plan must be simple to apply, reduce costs and avoid the shifting of costs between jurisdictions. All of these factors were considered in formulating the proposed regulatory plan.

Q. WHY DO YOU BELIEVE THE PROPOSED REGULATORY PLAN IS REASONABLE FOR KENTUCKY CUSTOMERS?

A. The plan accomplishes a fair sharing of merger benefits in a manner that does not require complex regulatory proceedings in the future. Approval of a fixed

total level of savings that will be used to benefit customers shifts the risk of achieving the savings to shareholders. The plan does not result in the shifting of any potentially stranded costs between companies or jurisdictions. In addition, the plan is flexible enough to work under either a continuation of regulation or a shift to retail competition and unbundling.

Q. WHAT HAPPENS IF THE SAVINGS REALIZED FALL SHORT OF THE ESTIMATES SUBMITTED IN THIS FILING?

A. Applicants are guaranteeing a fixed level of benefits to customers, and will bear the risk of any failure to actually achieve the full amount of savings.

Q. WHY ARE THE APPLICANTS NOT PROPOSING TO TRACK ACTUAL SAVINGS?

A. The Applicants believe that the approval of specific accounting treatments provides clear commitments of benefits for customers while providing more flexibility to accommodate a transition toward competition. There is no "downside" for customers, only the assurance that customers will receive benefits from the merger under either regulation or competition.

The Applicants are unaware of any tracking mechanism that could accurately capture the changes that will occur in utilities' rate structures if retail competition is introduced. This is a concern in several other states. In addition, a tracking mechanism requires a continuing high level of regulatory oversight and additional cost for the company and the Commission. All tracking mechanisms are, to at least some degree, arbitrary. The potential for

controversy exists in future proceedings as to whether the mechanism has functioned to capture merger-related savings.

VII. REGULATORY CONDITIONS ATTACHED TO THE MERGER

Q. SHOULD THE COMMISSION ATTACH REGULATORY CONDITIONS TO ITS ORDER?

A. No. Although KPCO does not believe that Commission approval of the Merger is necessary under relevant statutes, this filing demonstrates that the terms and conditions of the Merger and the plans for operation of the merged company satisfy the criteria that the General Assembly has determined must be satisfied to approve a merger. Moreover, the Merger will not affect this Commission's ability to continue to provide KPCO with effective regulatory oversight. Applicants are willing to provide hold harmless provisions regarding stranded costs and adverse impacts from their proposed mitigation plan, as well as, a most favored nation provision which would provide adequate protections to KPCO's retail customers. Additionally, restrictions and conditions attached to approval of the Merger change the terms of the transaction, hamper the companies' flexibility, and are unnecessary to compel regulatory compliance in the future.

Q. IS AEP WILLING TO PROVIDE A HOLD HARMLESS COMMITMENT TO KENTUCKY REGARDING THE SHIFTING OF STRANDED COSTS FROM CSW STATES?

A. Yes. We have made similar commitments within the CSW states. AEP is willing to commit to the proposition that stranded costs should be determined on a stand-alone basis in both AEP states and the current CSW states.

Q. HAVE THE APPLICANTS PROPOSED A MITIGATION PLAN AT FEDERAL ENERGY REGULATORY COMMISSION?

A. Yes. Dr. Hieronymus determined that there were some impacts upon competition caused by the merger in the current CSW service area. In order to mitigate those impacts, the Applicants have proposed to divest 250 MW of the Frontera plant, located within Texas and 300 MW of the Northeastern plant located within Oklahoma. The sale of both plants will occur as soon as they can be accomplished without jeopardizing pooling of interest accounting treatment. The sale of the Northeastern plant also depends upon a reduction in native load requirements in Oklahoma. The Applicants will also conduct interim sales of energy for the period of time after closing and prior to the date the divestiture can occur. The Applicants have also offered additional transmission-related mitigation measures, all of which deal with operations in the Southwest Power Pool.

Q. IS AEP WILLING TO HOLD KENTUCKY CUSTOMERS HARMLESS FOR THE IMPACTS OF THE MITIGATION PLAN YOU HAVE PROPOSED AT THE FEDERAL ENERGY REGULATORY COMMISSION?

A. Yes. At the outset, there should not be any impact upon Kentucky at all, in light of the fact that all of the divestiture proposed by the Applicants at FERC would occur within the CSW service area. However, AEP is willing to make a similar

commitment to this Commission as it has in the CSW states to hold each state harmless from the impact of the divestiture plan as proposed by the Applicants at FERC.

Q. WILL THE APPLICANTS GIVE KENTUCKY A "MOST FAVORED NATIONS" PROVISION?

A. Yes. Applicants are willing to commit to a "most favored nations" provision to protect Kentucky Power's jurisdictional retail customers. Applicants commitment is as follows:

> "Applicants commit and agree that upon issuance of any final and non-appealable order from the FERC, SEC, or any state or other federal commission addressing the merger, through stipulation or otherwise, providing any benefits to ratepayers of any jurisdiction or imposing any conditions on Applicants that would benefit the ratepayers of any jurisdiction, such net benefits and conditions will be extended to Kentucky ratepayers to the extent necessary to achieve equivalent net benefits and conditions to the Kentucky ratepayers, provided the proposed merger is ultimately consummated."

VIII. AFFILIATED TRANSACTIONS

Q. WHAT COMMITMENTS ARE THE COMPANIES MAKING IN THE AREA OF ACCOUNTING FOR AFFILIATED TRANSACTIONS?

A. The Companies are well aware that each of the eleven state jurisdictions will be concerned that they are being allocated the correct affiliated costs, especially once the functions of the two service corporations are combined.

AEP has developed AEPSC allocation factors and practices that will enhance the allocation of the cost of shared services and protect customers by

providing for a fair and reasonable allocation of the cost of that portion of shared services that benefit regulated operations. These new factors have been filed with the SEC for review and approval. The proposed new factors are fully discussed and explained in Mr. Gerald R. Knorr's testimony.

AEP is also committed to working with each state commission to improve the reporting for affiliated transactions and their costs. AEP is installing new client server based accounting software to help it meet any reasonable reporting requirement that may be adopted at the state level and will make every effort to comply with any reasonable requirement.

Q. DO CSW AND AEP INTEND TO KEEP THIS COMMISSION INFORMED REGARDING OTHER MERGER APPROVALS?

A. Yes. CSW and AEP will provide the Commission and other intervenors in the Kentucky regulatory process with copies of regulatory approvals as they are received.

IX. CONCLUSION

Q. PLEASE SUMMARIZE YOUR TESTIMONY.

A. The regulatory plan and relief requested by Applicants will provide net benefits to KPCO customers in both the short term and the long term and will provide a rate making method that will ensure that customers will receive those benefits. The Commission will be able to effectively regulate AEP's and KPCO's operations in Kentucky. To the extent the Commission determines it has

jurisdiction to approve the proposed merger it should issue an order approving the merger as requested herein.

Q. DOES THIS CONCLUDE YOUR DIRECT TESTIMONY?

A. Yes, it does.

COMMONWEALTH OF KENTUCKY

BEFORE THE PUBLIC SERVICE COMMISSION OF KENTUCKY

COUNTY OF BOYD

COMMONWEALTH OF KENTUCKY CASE NO. 99-

Affidavit

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

Richard E. Munczinski

Subscribed and sworn to before me by Richard E. Munczinski this 6th day of April 1999.

Notary Public

EDWARD J. BRADY, ATTORNEY AT LAW
NOTARY PUBLIC, STATE OF OHIO
My commission has no expiration date.
Section 147.03 R.C.

My Commission Expires _____

RICHARD E. MUNCZINSKI
PREVIOUS TESTIMONY

Since 1990, Mr. Munczinski has testified or filed testimony, on behalf of electric utility operating subsidiaries of American Electric Power Company, Inc., in the following retail and wholesale proceedings:

PUBLIC UTILITIES COMMISION OF OHIO

- Case No. 91-418-EL-AIR

VIRGINIA STATE CORPORATION COMMISSION

- Case No. 900026
- Case No. 900041
- Case No. 960301
- Case No. 960269

PUBLIC SERVICE COMMISSION OF WEST VIRGINIA

- Case No. 90-198-E-GI
- Case No. 91-026-E-42T
- Case No. 96-0458-E-GI

MICHIGAN PUBLIC SERVICE COMMISSION

- Case Nos. U-11451 and U-11452

FEDERAL ENERGY REGULATORY COMMISSION

- Docket Nos. ER90-132-000 and ER90-133-000
- Docket Nos. ER90-269-000 through ER90-274-000
- Docket Nos. ER92-323-000 and ER92-324-000
- Docket Nos. EC98-40-000 et al.

ARKANSAS PUBLIC SERVICE COMMISSION

- Case No. 98-172-U

LOUISIANA PUBLIC SERVICE COMMISSION

- Docket No. U-23327

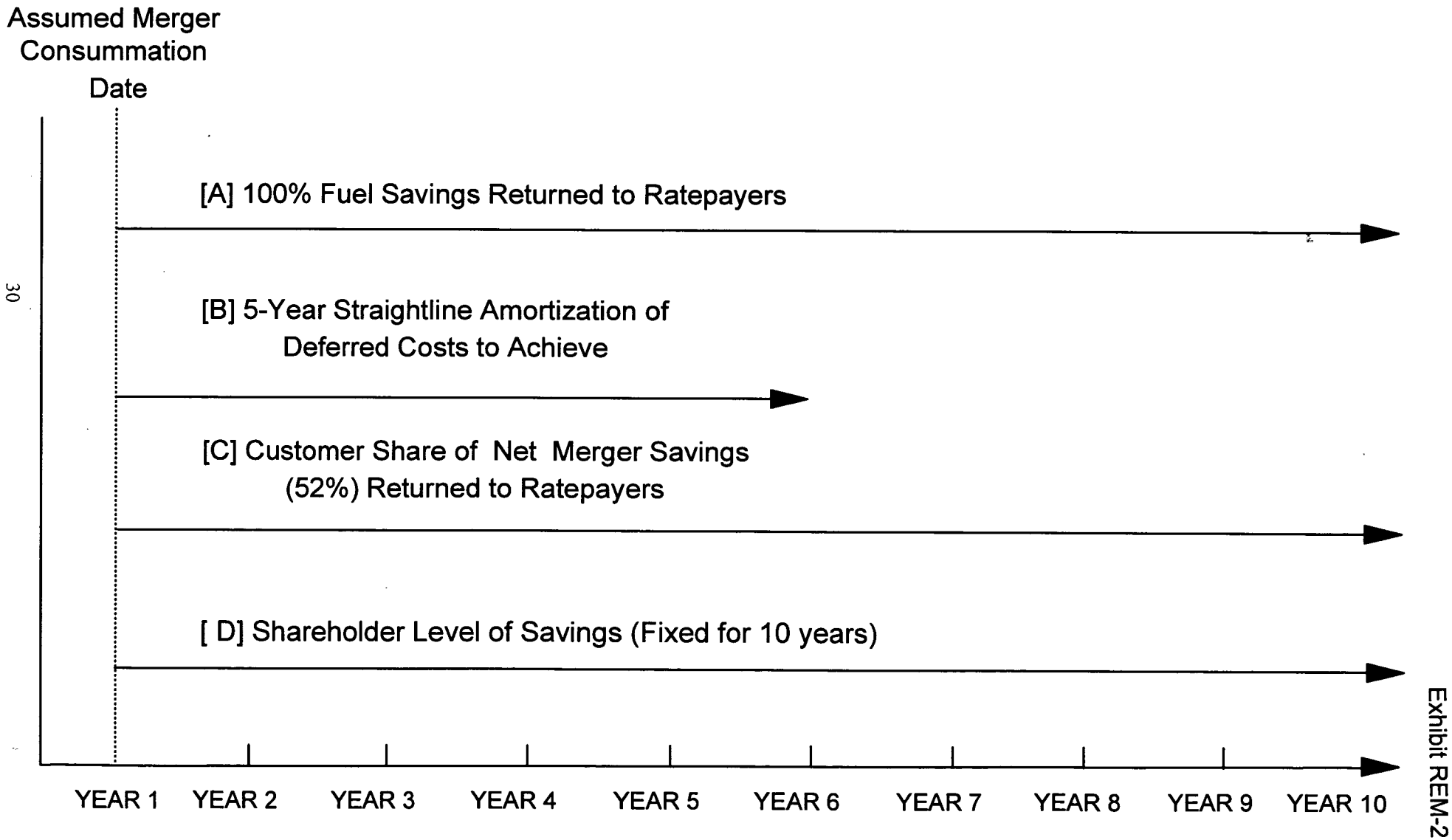
CORPORATION COMMISSION OF THE STATE OF OKLAHOMA

- CAUSE NO. PUD 980000444

PUBLIC UTILITY COMMISSION OF TEXAS

- PUC DOCKET NO. 19265

American Electric Power and Central and South West Summary of Major Regulatory Plan Elements



30

Exhibit REM-2

AMERICAN ELECTRIC POWER COMPANY, INC.
AND
CENTRAL AND SOUTH WEST CORPORATION
Ten Year Summary of Estimated Net Synergies
(Thousands of Dollars)

	Total	Below-the-line	Net	Shareholder Total	Shareholder Kentucky Retail	Customer Total	Customer AEP	Customer Kentucky Retail
Merger Savings, net of pre-merger initiatives	2,213,419	17,990	2,195,429	1,097,715	42,265	1,097,715	646,484	42,265
Costs to Achieve	248,080	2,217	245,863	122,932	4,711	122,932	71,965	4,711
Change in Control	69,030	617	68,413	68,413	2,622	-	-	-
Net Merger Savings	1,896,309	15,156	1,881,153	906,370	34,932	974,783	574,519	37,554
Percentage			100%	48%		52%		

AMERICAN ELECTRIC POWER CORPORATION
AND
CENTRAL AND SOUTH WEST CORPORATION
Allocation of Net Merger Savings
1999 thru 2009

Company	Jurisdiction	Merger Savings	Less Cost to Achieve	Net Savings	Customer 50% of Net Savings	Shareholder 50% of Net Savings	Shareholder Change in Control	Shareholder Net Savings
APCO	VA Retail	171,051,120	18,955,105	152,096,015	76,048,008	76,048,008	5,274,318	70,773,690
	WV Retail	149,119,293	16,519,256	132,600,037	66,300,019	66,300,019	4,596,537	61,703,482
	FERC	23,814,344	2,653,081	21,161,263	10,580,632	10,580,632	738,229	9,842,403
	KGPCO	15,887,799	1,770,084	14,117,715	7,058,858	7,058,858	492,532	6,566,326
	Other	5,803,623	645,511	5,158,112	2,579,056	2,579,056	179,616	2,399,440
	Total APCO	365,676,179	40,543,037	325,133,142	162,566,571	162,566,571	11,281,232	151,285,339
KgPCO	APCO Savings	15,887,799	1,770,084	14,117,715	7,058,858	7,058,858	492,532	6,566,326
	TN Retail	10,176,487	1,135,793	9,040,694	4,520,347	4,520,347	316,039	4,204,308
	Total KgPCO	26,064,286	2,905,877	23,158,409	11,579,205	11,579,205	808,571	10,770,634
CSP	OH Retail	198,891,727	22,371,504	176,520,223	88,260,112	88,260,112	6,224,943	82,035,169
	FERC	4,186,112	473,760	3,712,352	1,856,176	1,856,176	131,825	1,724,351
	Other(OH)	2,913,905	329,687	2,584,218	1,292,109	1,292,109	91,738	1,200,371
	Total CSP	205,991,744	23,174,951	182,816,793	91,408,397	91,408,397	6,448,506	84,959,891
I&M	IN Retail	198,461,962	22,014,022	176,447,940	88,223,970	88,223,970	6,125,473	82,098,497
	MI Retail	41,542,310	4,602,939	36,939,371	18,469,686	18,469,686	1,280,783	17,188,903
	FERC	29,616,846	3,296,264	26,320,582	13,160,291	13,160,291	917,196	12,243,095
	Total I&M	269,621,118	29,913,225	239,707,893	119,853,947	119,853,947	8,323,452	111,530,495
KPCO	KY Retail	84,529,633	9,422,245	75,107,388	37,553,694	37,553,694	2,621,770	34,931,924
	FERC	834,148	93,533	740,615	370,308	370,308	26,026	344,282
	Total KPCO	85,363,781	9,515,778	75,848,003	37,924,002	37,924,002	2,647,796	35,276,206
OPCO	OH Retail	319,180,317	35,513,645	283,666,672	141,833,336	141,833,336	9,881,787	131,951,549
	FERC	8,236,587	921,003	7,315,584	3,657,792	3,657,792	256,271	3,401,521
	WPCO	18,314,629	2,047,906	16,266,723	8,133,362	8,133,362	569,837	7,563,525
	Total OPCO	345,731,533	38,482,554	307,248,979	153,624,490	153,624,490	10,707,895	142,916,595
WPCO	OPCO Savings	18,314,629	2,047,906	16,266,723	8,133,362	8,133,362	569,837	7,563,525
	WV Retail	10,407,133	1,165,311	9,241,822	4,620,911	4,620,911	324,253	4,296,658
	Total WPCO	28,721,762	3,213,217	25,508,545	12,754,273	12,754,273	894,090	11,860,183
AEP	FERC	66,688,037	7,437,641	59,250,396	29,625,198	29,625,198	2,069,547	27,555,651
	IN Retail	198,461,962	22,014,022	176,447,940	88,223,970	88,223,970	6,125,473	82,098,497
	KY Retail	84,529,633	9,422,245	75,107,388	37,553,694	37,553,694	2,621,770	34,931,924
	MI Retail	41,542,310	4,602,939	36,939,371	18,469,686	18,469,686	1,280,783	17,188,903
	OH Retail	518,072,044	57,885,149	460,186,895	230,093,448	230,093,448	16,106,730	213,986,718
	VA Retail	171,051,120	18,955,105	152,096,015	76,048,008	76,048,008	5,274,318	70,773,690
	TN Retail	26,064,286	2,905,877	23,158,409	11,579,205	11,579,205	808,571	10,770,634
	WV Retail	177,841,055	19,732,473	158,108,582	79,054,291	79,054,291	5,490,627	73,563,664
	Other(VA)	5,803,623	645,511	5,158,112	2,579,056	2,579,056	179,616	2,399,440
	Other(OH)	2,913,905	329,687	2,584,218	1,292,109	1,292,109	91,738	1,200,371
	Total	1,292,967,975	143,930,649	1,149,037,326	574,518,663	574,518,663	40,049,173	534,469,490

AMERICAN ELECTRIC POWER CORPORATION
AND
CENTRAL AND SOUTH WEST CORPORATION

CO	Data		Total	Non Operating	Operating
APCO	O&M/RevReq		(400,575,029)	(2,872,303)	(397,702,726)
	Alloc of PMI		32,251,301	224,754	32,026,547
	Alloc of CTA		40,866,959	323,922	40,543,037
	Alloc of CIC		11,371,363	90,131	11,281,232
KgPCO	O&M/RevReq		(11,124,007)	(61,160)	(11,062,847)
	Alloc of PMI		891,136	4,776	886,360
	Alloc of CTA		1,142,675	6,882	1,135,793
	Alloc of CIC		317,954	1,915	316,039
CSP	O&M/RevReq		(225,859,731)	(1,924,182)	(223,935,549)
	Alloc of PMI		18,093,669	149,864	17,943,805
	Alloc of CTA		23,394,546	219,595	23,174,951
	Alloc of CIC		6,509,608	61,102	6,448,506
I&M	O&M/RevReq		(296,049,300)	(2,812,258)	(293,237,042)
	Alloc of PMI		23,835,885	219,961	23,615,924
	Alloc of CTA		30,231,561	318,336	29,913,225
	Alloc of CIC		8,412,030	88,578	8,323,452
KPCO	O&M/RevReq		(93,587,769)	(753,463)	(92,834,306)
	Alloc of PMI		7,529,467	58,942	7,470,525
	Alloc of CTA		9,601,032	85,254	9,515,778
	Alloc of CIC		2,671,518	23,722	2,647,796
OPCO	O&M/RevReq		(378,675,647)	(2,659,858)	(376,015,789)
	Alloc of PMI		30,492,309	208,053	30,284,256
	Alloc of CTA		38,783,497	300,943	38,482,554
	Alloc of CIC		10,791,634	83,739	10,707,895
WPCO	O&M/RevReq		(11,381,860)	(68,668)	(11,313,192)
	Alloc of PMI		911,412	5,353	906,059
	Alloc of CTA		1,173,083	7,772	1,165,311
	Alloc of CIC		326,416	2,163	324,253
Total O&M/RevReq			(1,417,253,343)	(11,151,892)	(1,406,101,451)
Total Alloc of PMI			114,005,179	871,703	113,133,476
Total Alloc of CTA			145,193,353	1,262,704	143,930,649
Total Alloc of CIC			40,400,523	351,350	40,049,173

	Total	Non Operating	Operating
Total O&M Rev Req	(1,417,253,343)	(11,151,892)	(1,406,101,451)
Less PMI	114,005,179	871,703	113,133,476
Total Merger Savings	(1,303,248,164)	(10,280,189)	(1,292,967,975)
Less CTA	145,193,353	1,262,704	143,930,649
Net Merger Savings	(1,158,054,811)	(9,017,485)	(1,149,037,326)

Note:

O&M = Operations and Maintenance Expense
PMI = Pre Merger Initiatives
CTA = Cost to Achieve
CIC = Change in Control Payments

AMERICAN ELECTRIC POWER CORPORATION
AND
CENTRAL AND SOUTH WEST CORPORATION
KENTUCKY RETAIL ALLOCATION OF NET MERGER SAVINGS

Calendar Year

Company	Year	Merger Savings	Cost to Achieve	Change In Control	Net Savings	Customer Net Savings	Shareholder Net Savings
KPCO	1999 *	2,538,588	(1,411,477)	(392,751)	734,360	563,556	170,804
KPCO	2000	5,743,902	(1,880,884)	(523,364)	3,339,654	1,931,509	1,408,145
KPCO	2001	6,995,627	(1,880,921)	(523,376)	4,591,330	2,557,353	2,033,977
KPCO	2002	8,062,723	(1,888,181)	(525,391)	5,649,151	3,087,271	2,561,880
KPCO	2003	8,761,818	(1,887,196)	(525,116)	6,349,506	3,437,311	2,912,195
KPCO	2004	9,279,502	(473,586)	(131,772)	8,674,144	4,402,958	4,271,186
KPCO	2005	9,730,793	0	0	9,730,793	4,865,397	4,865,396
KPCO	2006	9,947,356	0	0	9,947,356	4,973,678	4,973,678
KPCO	2007	10,225,834	0	0	10,225,834	5,112,917	5,112,917
KPCO	2008	10,566,883	0	0	10,566,883	5,283,442	5,283,441
KPCO	2009 *	2,676,607	0	0	2,676,607	1,338,304	1,338,303
Total		84,529,633	(9,422,245)	(2,621,770)	72,485,618	37,553,696	34,931,922

* Years 1999 and 2009 are partial years, 3/4 and 1/4, respectively

Annual Amount

Company	Rate Year	Merger Savings	Cost to Achieve	Change In Control	Net Savings	Customer Net Savings	Shareholder Net Savings
KPCO	1	3,974,564	(1,884,449)	(524,354)	1,565,761	1,045,057	520,704
KPCO	2	6,056,833	(1,884,449)	(524,354)	3,648,030	2,086,192	1,561,838
KPCO	3	7,262,401	(1,884,449)	(524,354)	4,853,598	2,688,976	2,164,622
KPCO	4	8,237,497	(1,884,448)	(524,354)	5,828,695	3,176,524	2,652,171
KPCO	5	8,891,239	(1,884,448)	(524,354)	6,482,437	3,503,396	2,979,041
KPCO	6	9,392,325	0	0	9,392,325	4,696,162	4,696,163
KPCO	7	9,784,934	0	0	9,784,934	4,892,467	4,892,467
KPCO	8	10,016,976	0	0	10,016,976	5,008,488	5,008,488
KPCO	9	10,311,096	0	0	10,311,096	5,155,548	5,155,548
KPCO	10	10,601,769	0	0	10,601,769	5,300,885	5,300,884
Total		84,529,633	(9,422,245)	(2,621,770)	72,485,620	37,553,695	34,931,925

Source of Data : Workpapers of R. E. Munczinski

AEP System
Allocation of Fuel Merger Benefit Spread to Jurisdictions
$000

	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	Total
APCo											
VA	493	429	563	564	563	624	650	593	748	719	5,946
WV	446	386	504	503	500	551	571	520	652	625	5,258
FERC	270	310	424	425	430	476	493	427	538	515	11,204
Total APCo	1,209	1,125	1,491	1,492	1,493	1,651	1,714	1,540	1,938	1,859	15,512
Kentucky											
Kentucky	222	191	249	249	248	275	287	263	332	320	2636
FERC	43	54	75	75	76	85	88	76	96	92	760
Total Kentucky	265	245	324	324	324	360	375	339	428	412	3396
I&M											
IN	421	366	476	475	473	521	540	490	612	586	4960
MI	80	70	90	90	90	98	101	92	114	109	934
FERC	216	222	302	301	301	335	346	300	379	361	5894
Total I&M	717	658	868	866	864	954	987	882	1,105	1,056	8957
Ohio											
Ohio	665	646	807	805	799	881	913	827	1,036	992	8371
Aluminum	198	75	92	90	89	97	99	89	110	104	1043
FERC	179	223	281	281	284	313	324	278	349	332	9414
Total Ohio	1,042	944	1,180	1,176	1,172	1,291	1,336	1,194	1,495	1,428	12258
CSP											
Ohio	546	478	629	632	632	705	738	679	860	832	6731
FERC	121	150	208	210	215	239	250	216	274	263	2,146
Total CSP	667	628	837	842	847	944	988	895	1,134	1,095	8877
Ultimates	3,071	2,641	3,410	3,408	3,394	3,752	3,899	3,553	4,464	4,287	35,879
FERC	829	959	1,290	1,292	1,306	1,448	1,501	1,297	1,636	1,563	13,121
Total AEP	3,900	3,600	4,700	4,700	4,700	5,200	5,400	4,850	6,100	5,850	49,000
Total CSW	3,900	3,600	4,700	4,700	4,700	5,200	5,400	4,850	6,100	5,850	49,000
TOTAL AEP/CSW	7,800	7,200	9,400	9,400	9,400	10,400	10,800	9,700	12,200	11,700	98,000

Merger Jurisdictional Allocation Factors
American Electric Power Operating Companies

		DEMAND	ENERGY	CUSTOMER
APCO	VA	0.450847	0.454940	0.516733
	WV	0.385312	0.382021	0.477736
	FERC	0.087346	0.083362	0.000033
	KgPCo	0.057373	0.059619	0.000001
	Other	0.019122	0.020058	0.005497
	Total	1.000000	1.000000	1.000000
CSP	OH	0.951000	0.948600	0.999990
	FERC	0.029700	0.028000	0.000008
	OSU	0.019300	0.023400	0.000002
	Total	1.000000	1.000000	1.000000
I&M	IN	0.727776	0.718291	0.781926
	MI	0.136900	0.150778	0.218020
	FERC	0.135323	0.130931	0.000054
	Total	1.000000	1.000000	1.000000
KPCO	KY	0.986400	0.988000	0.999986
	FERC	0.013600	0.012000	0.000014
	Total	1.000000	1.000000	1.000000
OPCO	OH	0.905700	0.904400	0.999968
	FERC	0.029500	0.028900	0.000031
	WPCo	0.064800	0.066700	0.000001
	Total	1.000000	1.000000	1.000000

AMERICAN ELECTRIC POWER CORPORATION
AND
CENTRAL AND SOUTH WEST CORPORATION
KENTUCKY RETAIL ALLOCATION OF MERGER SAVINGS

CALCULATION OF ANNUAL NET MERGER SAVINGS CREDIT

Rate Year	KPCO Retail Customer 52% Net Savings	KPCO Retail Annual KWH Sales	Annual Net Merger Savings Credit (Cents Per KWH)
1	$1,045,057	6,881,000,000	0.015
2	$2,086,192	6,991,000,000	0.030
3	$2,688,976	7,099,000,000	0.038
4	$3,176,524	7,207,000,000	0.044
5	$3,503,396	7,350,000,000	0.048
6	$4,696,162	7,492,000,000	0.063
7	$4,892,467	7,634,000,000	0.064
8	$5,008,488	7,776,000,000	0.064
9	$5,155,548	7,919,000,000	0.065
10	$5,300,885	8,061,000,000	0.066
	$37,553,695		

AMERICAN ELECTRIC POWER

CANCELING ORIGINAL SHEET NO. 25-1
CANCELING _____ SHEET NO. _____

P.S.C. ELECTRIC NO. 7

NET MERGER SAVINGS CREDIT (N.M.S.C.)

APPLICABLE.

To Tariffs R.S., R.S.-L.M.-T.O.D., Experimental R.S.-T.O.D., S.G.S., M.G.S., Experimental M.G.S.-T.O.D., L.G.S., O.P., C.I.P.-T.O.D., C.S.- I.R.P., M.W., O.L., and S.L.

RATE.

The Net Merger Savings Credit shall provide for a monthly adjustment to base rates on a rate per KWH of monthly consumption. The Net Merger Savings Credit shall be calculated according to the following formula:

Net Merger Savings Credit = M.S.F. + B.A.F.

Where:

(M.S.F.) Is the Merger Savings Factor per KWH which is based on the total Company net savings that are to be distributed to the Company's Kentucky retail jurisdictional customers in each 12-month period.

	Net Savings to be Distributed	Merger Savings Factor (M.S.F.)
Year 1*	$1,045,057	.015¢ per Kwh
Year 2	2,086,192	.030¢ per Kwh
Year 3	2,688,976	.038¢ per Kwh
Year 4	3,176,524	.044¢ per Kwh
Year 5	3,503,396	.048¢ per Kwh
Year 6	4,696,162	.063¢ per Kwh
Year 7	4,892,467	.064¢ per Kwh
Year 8	5,008,488	.064¢ per Kwh
Year 9	5,155,548	.065¢ per Kwh
Year 10	5,300,885	.066¢ per Kwh

*The Net Merger Savings Credit will begin in the first full billing month available following thirty days from the consummation of the merger.

(B.A.F.) Is the Balancing Adjustment Factor per KW for the second through the twelfth months of the current distribution year which reconciles any over- or under-distribution of the net savings from prior periods. The B.A.F. will be determined by dividing the difference between amounts which were expected to be distributed and the amounts actually distributed from the application of the Net Merger Savings Credit from the previous year by the expected Kentucky retail jurisdictional KWH. The final B.A.F. will be applied to customer billings in the second month following the Tenth distribution year.

TERMS OF DISTRIBUTION.

1. The total distribution to the Company's customers will, in no case, be less than the sum of the amounts shown above.

2. On or before the 21st of the first month of each distribution year following Year 1, the Company will file with the Commission a status report of the Net Merger Savings Credit. Such report shall include a statement showing the amounts which were expected to be distributed and the amounts actually distributed in previous periods, along with a calculation of the B.A.F. which will be implemented with customer billings in the second month of that distribution year to reconcile any previous over-or under-distributions.

3. The Net Merger Savings Credit shall be applied to the customer's bill following the rates and charges for electric service, but before application of the school tax, the franchise fee, sales tax or similar items.

DATE OF ISSUE _____ DATE EFFECTIVE _____

ISSUED BY E. K. WAGNER DIRECTOR OF REGULATORY AFFAIRS ASHLAND, KENTUCKY
NAME TITLE ADDRESS

Issued by authority of an Order of the Public Service Commission in Case No. _____ dated _____

AEP/CSW MERGER
EXAMPLE OF BASE RATE CASE TREATMENT
BASED ON YEAR 3 ($000)

CREDIT PER RIDER CONTINUES			(2,689)
INCLUDED IN TEST YEAR:			
GROSS MERGER SAVINGS		(7,262)	
CHANGE IN CONTROL AMORTIZATION	524		
OTHER CTA AMORTIZATION	1,884		
TOTAL CTA/CIC AMORTIZATION		2,408	
NET MERGER SAVINGS IN TEST YEAR		(4,854)	
ADD BACK TO TEST YEAR COST OF SERVICE:			
CUSTOMER SHARE (Exhibit REM-3, p. 4 of 4, Year 3, Col. 7)	2,689		
SHAREHOLDER PORTION (Exhibit REM-3, p. 4 of 4, Year 3, Col. 8)	2,165		
		4,854	
NET BASE RATE REDUCTION			0
KENTUCKY CUSTOMER RATE REDUCTION			(2,689)