

CASE

NUMBER:

99-149



RECYCLED PAPER MADE FROM 50% POST CONSUMER CONTENT

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

REQUEST:

AEP shall designate an employee who will act as a contact for State Commissions and consumer advocates seeking data and information regarding affiliate transactions and personnel transfers. Such employee shall be responsible for providing data and information requested by a State Commission for any and all transactions between the jurisdictional operating company and its affiliates, regardless of which affiliate(s) subsidiary(ies) or associate(s) of an AEP operating company from which the information is sought. [Reference: Merger Agt., Stipulation and Settlement, Pg. 11, Item Q]

RESPONSE:

Mr. Errol K. Wagner, AEP-Kentucky Regulatory Services Director, is the contact designee for the Kentucky Public Service Commissioners and Staff and the Kentucky Attorney General's Office regarding affiliate transactions and personnel transfers.

WITNESS: Errol K. Wagner



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

REQUEST:

Please provide designated employee or agent within Kentucky who will act as a contact for retail customers regarding service and reliability concerns and provide a contact for retail consumers for information, questions and assistance. Such AEP/Kentucky Power representative shall be able to deal with billing, maintenance and service reliability issues. [Merger Agt., Stipulation and Settlement, Pg. 11, Item R]

RESPONSE:

The Company would prefer customers to initially call the Customer Solution Centers, whose representatives are capable of answering questions concerning service, reliability concerns and billing issues. However, the AEP-Kentucky Regulatory Services Department, specifically the Regulatory Services Director, are also capable of dealing with billing, maintenance and service reliability issues.

WITNESS: Errol K. Wagner



RECYCLED PAPER MADE FROM 20% POST CONSUMER CONTENT

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

REQUEST:

AEP shall provide each signatory state a current list of employees or agents that are designated to work with each State Commission and consumer advocate concerning state regulatory matters, including, but not limited to, rate cases, consumer complaints, billing and retail competition issues. [Reference: Merger Agt., Stipulation and Settlement, Pg. 11, Item 5.]

RESPONSE:

Mr. Errol K. Wagner, AEP-Kentucky Regulatory Services Director, and the AEP-Kentucky Regulatory Services Department staff are the designated employees to work with Kentucky Public Service Commission and the Kentucky Attorney General's Office concerning state regulatory matters, including, but not limited to rate cases, consumer complaints, billing and retail competition issues.

WITNESS: Errol K. Wagner



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

REQUEST:

**The Company further commits to maintain in Kentucky a sufficient management team to ensure that safe, reliable and efficient electric service is provided and to respond to the needs and inquiries of its Kentucky customers.
[Reference: Merger Agt., Attachment C, Pg. 2, Item 6a]**

RESPONSE:

Please see the Company's response to Item No. 23 filed with the Commission on May 16, 2003.

WITNESS: Errol K. Wagner



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

REQUEST:

**AEP shall contract with an independent auditor who shall conduct biennial audits for ten years after merger consummation of affiliated transactions to determine compliance with the affiliate standards outlined in the Stipulation and Settlement Agreement. The results of such audits shall be filed with the State Commissions. Prior to the initial audit, AEP will conduct an informational meeting with State Commissions regarding how its affiliates and affiliate transactions will or have changed as a result of the proposed merger.
[Reference: Stipulation and Settlement Agreement, Page 11, Section 8(V)]**

RESPONSE:

Please see the Company's response to Item No. 24 filed with the Commission on May 16, 2003.

WITNESS: Errol K. Wagner

STITES & HARBISON

ATTORNEYS

August 29, 2002

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Mark R. Overstreet
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moverstreet@stites.com

RECEIVED

AUG 30 2002

PUBLIC SERVICE
COMMISSION

RE: *P.S.C. Case No.99-149*

Dear Mr. Dorman:

Enclosed please find and accept for filing an original and ten copies of Kentucky Power Company d/b/a American Electric Power's revised Net Merger Savings Credit tariff and supporting calculations. The amount of the credit has been revised to reflect the calculation of a new balancing adjustment factor. The Company proposes to place the tariff in effect on September 27, 2002.

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

Very truly yours,


Mark R. Overstreet

Enclosures

cc: David F. Boehm
Elizabeth E. Blackford
William H. Jones, Jr.

KE057:KE131:7823:FRANKFORT

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

RECEIVED

AUG 30 2002

PUBLIC SERVICE
COMMISSION

In the matter of:

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

RESPONSE OF KENTUCKY POWER COMPANY
d/b/a/
AMERICAN ELECTRIC POWER

Reporting Period: 2nd Quarter Ending June 30, 2002

Filing Date: 30 August 2002

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

REQUEST:

Furnish annual financial statements of AEP, including consolidating adjustments of AEP and its subsidiaries with a brief explanation of each adjustment and all periodic reports filed with the SEC. Including but not limited to the U5S and U-13-60 reports. All subsidiaries should prepare and have available monthly and annual financial information required to compile financial statements and to comply with other reporting requirements. The financial statements for any non-consolidated subsidiaries of AEP should be furnished to the Commission. [Reference: Merger Agt., Ky. PSC Order dated 6-14-99, pg 10 (Periodic Reports)]

RESPONSE:

Please see the Company's response to Item No. 1 filed with the Commission on May 15, 2002.

WITNESS: Errol K. Wagner

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

REQUEST:

On an annual basis file a general description of the nature of inter-company transactions with specific identification of major transactions and a description of the basis upon which cost allocations and transfer pricing have been established. This report should discuss the use of the cost or market standard for the sale or transfer of assets, the allocation factors used, and the procedures used to determine these factors if they are different from the procedures used in prior years. [Reference: Merger Agt., Ky. PSC Order dated 6-14-99, pg. 11, Item 1]

RESPONSE:

Please see the Company's response to Item No. 2 filed with the Commission on May 15, 2002.

WITNESS: Errol K. Wagner



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

REQUEST:

On an annual basis file a report that identifies professional personnel transferred from Kentucky Power to AEP or any of the non-utility subsidiaries and describes the duties performed by each employee while employed by Kentucky Power and to be performed subsequent to transfer. [Reference: Merger Agt., Ky. PSC Order dated 6/14/99, Reporting Requirements, Pg. 11, Item 2.]

RESPONSE:

Please see the Company's response to Item No. 3 filed with the Commission on May 15, 2002.

WITNESS: Errol K. Wagner

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

REQUEST:

AEP should file on a quarterly basis a report detailing Kentucky Power's proportionate share of AEP's total operating revenues, operating and maintenance expenses, and number of employees. [Reference: Merger Agt., Ky. PSC Order dated 6/14/99, Reporting Requirements, Pg. 11, Item 2]

RESPONSE:

2nd Quarter 2002

Below is the information detailing Kentucky Power's Proportionate Share of AEP's total operating revenues, operating and maintenance expenses and the number of employees for the 2nd Quarter ending June 30, 2002.

**Kentucky Power Company
 Report Proportionate Share of AEP
 (in millions, except number of employees)**

	Three Months June 30, 2002			Year to Date June 30, 2002			
	AEP	KPCO	SHARE		AEP	KPCO	SHARE
Revenues	14,912	308	2.1%	Revenues	27,942	653	2.3%
Operating/Maintenance Expense	14,094	264	1.9%	Operating/Maintenance Expense	26,138	555	2.1%
Number of Employees At 06/30/02*	22,356	417	1.9%	Number of Employees At 03/31/02*	22,356	417	1.9%

* See Response to Item No. 6

WITNESS: Errol K. Wagner



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

REQUEST:

AEP should file any contracts or other agreements concerning the transfer of such assets or the pricing of inter-company transactions with the Commission at the time the transfer occurs. [Reference: Merger Agt., Ky. PSC Order dated 6/14/99, Reporting Requirements, Pg. 11 (Special Reports)]

RESPONSE:

2nd Quarter 2002:

During the three month period ending June 30, 2002 there were 15 different transactions in which AEP/Kentucky sold assets to its affiliates. The assets transferred were various meters and transformers. The total dollar value of the assets transferred was \$48,585. The smallest dollar value transferred was one meter at a value of \$6.00. The largest dollar value transferred was 733 meters at a value of \$21,628.

WITNESS: Errol K. Wagner



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

REQUEST:

AEP should file a quarterly report of the number of employees of AEP and each subsidiary on the basis of payroll assignment. [Reference: Merger Agt., Ky. PSC Order dated 6/14/99, Reporting Requirements, Pg. 11, Item 1 (Special Reports)]

RESPONSE:

Please see attached.

WITNESS: Errol K. Wagner

EMPLOYEE COUNT BY LEGAL ENTITYEFFECTIVE 6/30/20022nd Qtr 2002

Co	Company	Employee Count
E01	Kingsport Power Company	54
E02	Appalachian Power Company	2592
E03	Kentucky Power Company	417
E04	Indiana Michigan Power Company	2578
E06	Wheeling Power Company	67
E07	Ohio Power Company	2248
E10	Columbus Southern Power Co	1160
E36	Louisiana Intrastate Gas Co	73
E39	Lig Liquids Company L.L.C.	36
E48	River Transportation Div I&MP	361
E54	Conesville Coal Prep Co	37
E59	AEP Energy Services	280
E61	AEP Service Corporation	7550
E69	AEP Pro Serv	64
ECC	Central Power & Light	1370
EEE	CSW Energy, Inc.	91
EEL	AEP Elmwood LLC	150
EHH	Enershop, Inc.	2
EMO	AEP MEMCO	342
ENW	C3 Networks GP, LLC	23
EPP	Public Service Co. of OK	987
ESS	SouthWestern Electric Power Co	1202
ETD	AEP T&D Services, LLC	1
EWV	West Texas Utilities	671
	TOTAL	22356

EMPLOYEE COUNT BY LEGAL ENTITY

EFFECTIVE 03/31/2002

KPSC CASE NO. 1999-149

Order dated June 14, 1999

Item No. 6

Page 3 of 3

Revised 1st Qtr 2002

Co	Descr	Count ID
E01	Kingsport Power Company	57
E02	Appalachian Power Company	2614
E03	Kentucky Power Company	427
E04	Indiana Michigan Power Company	2588
E06	Wheeling Power Company	64
E07	Ohio Power Company	2269
E10	Columbus Southern Power Co	1174
E36	Louisiana Intrastate Gas Co	65
E39	Lig Liquids Company L.L.C.	36
E48	River Transportation Div I&MP	332
E54	Conesville Coal Prep Co	37
E59	AEP Energy Services	270
E61	AEP Service Corporation	7616
E69	AEP Pro Serv	75
ECC	Central Power & Light	1357
EEE	CSW Energy, Inc.	92
EEL	AEP Elmwood LLC	137
EHH	Enershop, Inc.	3
EMO	AEP MEMCO	327
ENW	C3 Networks GP, LLC	26
EPP	Public Service Co. of OK	993
ESS	South Western Electric Power Co	1208
ETD	AEP T&D Services, LLC	1
EWV	West Texas Utilities	676
	TOTAL	22,444

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

REQUEST:

AEP should file an annual report containing the years of service at Kentucky Power and the salaries of professional employees transferred from Kentucky Power to AEP or its subsidiaries filed in conjunction with the annual transfer of employees report. [Reference: Merger Agt., Ky. PSC Order 6/14/99, Reporting Requirements, Pg. 12, Item 2]

RESPONSE:

Please see the Company's response to Item No. 7 filed with the Commission on May 15, 2002.

WITNESS: Errol K. Wagner



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

REQUEST:

AEP should file an annual report of cost allocation factors in use, supplemented upon significant change. [Reference: Merger Agt., Ky. PSC Order dated 6/14/99, Reporting Requirements, Pg. 12 Item 3]

RESPONSE:

Please see the Company's response to Item No. 8 filed with the Commission on May 15, 2002.

WITNESS: Errol K. Wagner

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

REQUEST:

AEP should file summaries of any cost allocation studies when conducted and the basis for the methods used to determine the cost allocation in effect. [Reference: Merger Agt., Ky. PSC Order dated 6/14/99, Reporting Requirements, Pg. 12, Item 4]

RESPONSE:

2nd Quarter 2002:

Kentucky Power Company did not perform any cost allocation studies during the quarter ended June 30, 2002. The methods used by Kentucky Power Company for cost allocations are documented in the AEP Cost Allocation Manual.

WITNESS: Errol K. Wagner

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

REQUEST:

AEP should file an annual report of the methods used to update or revise the cost allocation factors in use supplemented upon significant change. [Reference: Merger Agt., Ky. PSC Order dated 6/14/99, Reporting Requirements, Pg. 12, Item 5]

RESPONSE:

Please see the Company's response to Item No. 10 filed with the Commission on May 15, 2002.

WITNESS: Errol K. Wagner



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

REQUEST:

**AEP should file the current Articles of Incorporation and bylaws of affiliated companies in businesses related to the electric industry or that would be doing business with AEP.
[Reference: Merger Agt., Ky. PSC Order dated 6/14/99, Reporting Requirements, Pg. 12, Item 6]**

RESPONSE:

Please see the Company's response to Item 11 in the December 8, 2000 filing.

WITNESS: Errol K. Wagner



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

REQUEST:

AEP should file the current Articles of Incorporation of affiliated companies involved in non-related business. [Reference: Merger Agt., Ky. PSC Order dated 6/14/99, Reporting Requirements, Pg. 12, Item 7]

RESPONSE:

See the Company's response to Item 11 in the December 8, 2000 filing.

WITNESS: Errol K. Wagner



RECYCLED PAPER MADE FROM 20% POST CONSUMER CONTENT

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

REQUEST:

To the extent that the merger is subject to conditions or changes not reviewed in this case, the Joint Applicants should amend their filing to allow the Commission and all parties an opportunity to review the revisions to ensure that Kentucky Power and its customers are not adversely affected and that any additional benefits flow through the favored nations clause. [Reference: Merger Agt., Ky. PSC Order dated 6/14/99, Reporting Requirements, Pgs. 12-13]

RESPONSE:

Please see the Company's response to Item No. 13 filed with the Commission on May 15, 2002.

WITNESS: Errol K. Wagner



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

REQUEST:

The Joint Applicants should submit copies of final approval received from the FERC, SEC, FTC, DOJ, and all state regulatory commissions to the extent that these documents have not been provided. With each submittal, the Joint Applicants shall further state whether Paragraph 10 of the Settlement Agreement requires changes to the regulatory plan approved herein. [Reference: Merger Agt., Ky. PSC Order dated 6/14/99, Pg. 14 Item 7]

RESPONSE:

See the Company's response to Item 14 in the December 8, 2000 filing.

WITNESS: Errol K. Wagner



RECYCLED PAPER MADE FROM 20% POST CONSUMER CONTENT

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

REQUEST:

**Provide annual Service Reliability Report addressing the duration and frequency of customer disruptions (CAIDI and SAIFI), including storms for calendar 2001.
[Reference: Merger Agt., Attachment C, Pg. 1 Item I]**

RESPONSE:

Please see the Company's response to Item No. 15 filed with the Commission on May 15, 2002.

WITNESS: Errol K. Wagner

Kentucky Power Company
d/b/a
American Electric Power

REQUEST:

Provide annual Call Center Performance Measures for those centers that handle Kentucky customer calls (Call Center Average Speed of Answer (ASA) Abandonment Rate, and Call Blockage), for calendar year 2000. [Reference: Merger Agt., Attachment C, Pg. 1, Item 2]

RESPONSE:

Please see the Company's response to Item No. 16 filed with the Commission on May 15, 2002.

WITNESS: Errol K. Wagner



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

REQUEST:

**Will continue to completely inspect its Kentucky electric facilities every two years and perform tree trimming, lightning arrestor replacement, animal guarding and pole and cross arm replacements. Provide data for calendar year 2001.
[Reference: Merger Agt., Case 99-149, Attachment C, Page 1, Item 3]**

RESPONSE:

Please see the Company's response to Item No. 17 filed with the Commission on May 15, 2002.

WITNESS: Errol K. Wagner



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

REQUEST:

AEP/Kentucky Power management will compile outage data detailing each circuit's reliability performance. In addition, by monitoring repeated outages on a regular basis, the Company will identify and resolve reliability problems, which may go unnoticed by using CAIDI and SAIFI results. This data will be coupled with feedback from district field personnel and supervision and management concerning other locations and situations where the impacts of outages are quantified. This process will be used to develop a comprehensive work plan each year, which focuses efforts to improve service reliability. The Company will undertake all reasonable expenditures to achieve the goal of limiting customer outages.

[Reference: Merger Agt., Attachment C, Pg. 1, Item 4]

RESPONSE:

Please see the Company's response to Item No. 18 filed with the Commission on May 15, 2002.

WITNESS: Errol K. Wagner

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

REQUEST:

**Plans to continue to maintain a high quality workforce to meet customers' needs.
[Reference: Merger Agt, Attachment C, Pg. 2, Item 5]**

RESPONSE:

**Please see the Company's response to Item No. 19 filed with the Commission on
May 15, 2002.**

WITNESS: Errol K. Wagner



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

REQUEST:

AEP shall designate an employee who will act as a contact for State Commissions and consumer advocates seeking data and information regarding affiliate transactions and personnel transfers. Such employee shall be responsible for providing data and information requested by a State Commission for any and all transactions between the jurisdictional operating company and its affiliates, regardless of which affiliate(s) subsidiary(ies) or associate(s) of an AEP operating company from which the information is sought. [Reference: Merger Agt., Stipulation and Settlement, Pg. 11, Item Q]

RESPONSE:

Mr. Errol K. Wagner, AEP-Kentucky Regulatory Services Director, is the contact designee for the Kentucky Public Service Commissioners and Staff and the Kentucky Attorney General's Office regarding affiliate transactions and personnel transfers.

WITNESS: Errol K. Wagner



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

REQUEST:

Please provide designated employee or agent within Kentucky who will act as a contact for retail customers regarding service and reliability concerns and provide a contact for retail consumers for information, questions and assistance. Such AEP/Kentucky Power representative shall be able to deal with billing, maintenance and service reliability issues. [Merger Agt., Stipulation and Settlement, Pg. 11, Item R]

RESPONSE:

The Company would prefer customers to initially call the Customer Solution Centers, whose representatives are capable of answering questions concerning service, reliability concerns and billing issues. However, the AEP-Kentucky Regulatory Services Department, specifically the Regulatory Services Director, are also capable of dealing with billing, maintenance and service reliability issues.

WITNESS: Errol K. Wagner



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

REQUEST:

AEP shall provide each signatory state a current list of employees or agents that are designated to work with each State Commission and consumer advocate concerning state regulatory matters, including, but not limited to, rate cases, consumer complaints, billing and retail competition issues. [Reference: Merger Agt., Stipulation and Settlement, Pg. 11, Item 5.]

RESPONSE:

Mr. Errol K. Wagner, AEP-Kentucky Regulatory Services Director, and the AEP-Kentucky Regulatory Services Department staff are the designated employees to work with Kentucky Public Service Commission and the Kentucky Attorney General's Office concerning state regulatory matters, including, but not limited to rate cases, consumer complaints, billing and retail competition issues.

WITNESS: Errol K. Wagner



COMMONWEALTH OF KENTUCKY
PUBLIC SERVICE COMMISSION

730 SCHENKEL LANE
POST OFFICE BOX 615
FRANKFORT, KY. 40602
(502) 564-3940

CERTIFICATE OF SERVICE

RE: Case No. 99-149
AMERICAN ELECTRIC POWER

I, Stephanie Bell, Secretary of the Public Service Commission, hereby certify that the enclosed attested copy of the Commission's Order in the above case was served upon the following by U.S. Mail on June 14, 1999.

See attached parties of record.

Stephanie Bell

Secretary of the Commission

SB/hv
Enclosure

Errol K. Wagner
Director of Regulatory Affairs
American Electric Power
1701 Central Avenue
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Ashland, KY. 41105 1428

Honorable David F. Boehm
Honorable Michael L. Kurtz
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COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

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

ORDER

On April 15, 1999, Kentucky Power Company d/b/a American Electric Power ("Kentucky Power"), American Electric Power Company, Inc. ("AEP"), and Central and South West Corporation ("CSW") (collectively, the "Joint Applicants") applied to the Commission for an Order: (1) declaring that the merger of CSW and AEP, with AEP being the surviving entity, may be consummated without Commission approval or, alternatively, approving pursuant to KRS 278.020(4) and 278.020(5), the proposed regulatory plan and authorizing other steps necessary to implement the regulatory plan; (2) approving a tariff providing a net merger savings credit for Kentucky Power customers; and (3) making certain findings concerning the deferral of certain merger-related expenses in conformity with SFAS 71.

On April 20, 1999, the Commission established a procedural schedule that provided for discovery, an evidentiary hearing, and an opportunity for parties to file briefs. The Commission granted full intervention to the following entities: Attorney General's Office of Rate Intervention ("AG"), Kentucky Industrial Utility Customers ("KIUC"), and Kentucky Electric Steel Corporation (collectively, the "Intervenors").

Following several conferences held under the Commission's auspices, the parties resolved all disputed issues and executed a "Stipulation and Settlement Agreement" which they filed with the Commission on May 24, 1999. The Commission held a public hearing in this matter on May 28, 1999, at the Commission's offices in Frankfort, Kentucky.

OVERVIEW OF THE TRANSACTION

Kentucky Power, a Kentucky corporation, owns and operates facilities engaged in the generation, transmission, distribution and sale of electricity. It serves approximately 170,000 customers in the eastern Kentucky counties of Boyd, Breathitt, Carter, Clay, Elliott, Floyd, Greenup, Johnson, Knott, Lawrence, Leslie, Letcher, Lewis, Magoffin, Martin, Morgan, Owsley, Perry, Pike, and Rowan. It also supplies electricity to public utilities and municipalities in Kentucky for resale. Kentucky Power is a utility subject to Commission jurisdiction. KRS 278.010(3)(a).

AEP, a New York corporation, is a holding company registered under the Public Utility Holding Company Act of 1935.¹ It owns, directly or indirectly, 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, Kingsport Power Company, Ohio Power Company and Wheeling Power Company. Its subsidiaries provide electricity to over 3 million customers in Kentucky, Indiana, Michigan, Ohio, Tennessee, Virginia, and West Virginia.

¹ 15 U.S.C. §79 *et seq.*

CSW, a Delaware corporation, is a holding company registered under the Public Utility Holding Company Act of 1935. It 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. These subsidiaries provide electricity to over 1.7 million customers in areas of Texas, Oklahoma, Arkansas and Louisiana.

On December 21, 1997, AEP and CSW, with the approval of their respective Boards of Directors, executed a merger agreement. Under the terms of this agreement, shareholders of CSW will receive .6 of a share of AEP stock for each share of CSW common stock, resulting in CSW shareholders acquiring 40 percent of AEP's common stock. The four CSW domestic utility subsidiaries will become AEP subsidiaries. AEP's Board of Directors will be expanded from 12 to 15 members, with two AEP board members retiring. Five directors, formerly on the CSW Board of Directors, will be selected to serve upon AEP's Board.

The Joint Applicants estimate that the proposed merger will produce approximately \$2.4 billion in non-fuel savings over a 10-year period. After considering the cost to achieve these savings and pre-merger initiatives, the proposed merger is estimated to produce net merger savings of \$1.965 billion. Of this amount, Kentucky Power will be allocated \$73.8 million. These savings are expected to result from the elimination of duplicative functions and positions and greater economies of scale the merger is expected to produce.

Because of the geographical area served by the Joint Applicants and their affiliates and the nature of their operations, the utility regulatory commissions of six

states,² the Federal Energy Regulatory Commission ("FERC"), the Securities and Exchange Commission ("SEC"), the Federal Trade Commission ("FTC"), the United States Department of Justice ("DOJ"), and the Nuclear Regulatory Commission ("NRC") must approve the proposed merger. As of May 28, 1999, the NRC, Arkansas Public Service Commission, Indiana Utility Regulatory Commission, and Oklahoma Corporation Commission have granted their approval.

STIPULATION AND SETTLEMENT AGREEMENT

On May 24, 1999, the parties filed a "Stipulation and Settlement Agreement" ("Settlement Agreement") with the Commission. The most significant features of the Settlement Agreement are described below.

Merger Savings. The Settlement Agreement provides for the implementation of a Net Merger Savings Credit ("Merger Credit") tariff that will reduce customers' bills beginning in the first full billing month 30 days after the consummation of the merger. The Merger Credit will appear on each customer's monthly bill and will be based upon kWh consumption. The Merger Credit reflects non-fuel related merger savings and the associated merger costs based on estimated values included in AEP's merger filing with the FERC. Although the amounts are only estimates, the Joint Applicants have committed to guarantee their estimate of net merger savings. Associated merger costs

² Arkansas, Louisiana, Oklahoma, Texas, Indiana, and Kentucky. See Joint Applicants' Response to the Commission's Order of April 28, 1999, Item 2.

have been classified by AEP as either "Cost to Achieve" or "Change in Control Payments."³

The Merger Credit will be in effect for an initial eight-year period, with all associated merger costs amortized over the same eight years. The Cost to Achieve the merger will be shared by both customers and shareholders of AEP, while the Change in Control Payments will be borne solely by AEP shareholders. At the completion of the initial eight years, customers will have received 55 percent, or \$28.365 million, of the total net merger savings for the period.⁴ The Merger Credit will continue beyond the initial eight-year period, reflecting the gross merger savings estimated for the eighth year, and will be allocated between customers and shareholders in the same manner as was utilized during the initial eight-year period. This annual amount of customer savings will be \$5.243 million and will continue until Kentucky Power's next base rate case which will allocate total gross merger savings to customers. Should Kentucky Power file a base rate case during the initial eight-year period, the Merger Credit will remain in effect. Any legislatively mandated rates that are part of any legislation enacted to deregulate the electric industry in Kentucky will not diminish or offset, but will be in addition to, the bill reductions established in the Settlement Agreement.

Rate Moratorium. The Settlement Agreement provides that Kentucky Power will not request a general increase in its existing base rates and charges that will be

³ The Change in Control Payments relate to a special incentive plan adopted by CSW for 16 key employees in October 1996. See Joint Applicants' Response to Commission Staff's Information Request (requested at the informal conference of April 22, 1999), Item 4 at 61.

⁴ See Settlement Agreement, Attachment A. The annual Merger Credit amount ranges from \$1.464 million to \$4.626 million during the initial eight-year period.

effective prior to January 1, 2003, or three years from the effective date of the merger, whichever is later. Kentucky Power's fuel adjustment clause, environmental surcharge, demand side management adjustment clause and system sales tracker are not included in this rate moratorium. Kentucky Power, moreover, may seek a general rate adjustment during the moratorium period if, after a public evidentiary hearing, the Commission determines that events constituting a force majeure as defined in the Settlement Agreement have occurred. The Intervenors have agreed not to seek a reduction in base rates during the rate moratorium period. The Settlement Agreement does not preclude the Commission from initiating proceedings to investigate Kentucky Power's rates should it find that circumstances warrant such proceedings.

Fuel Savings. The Settlement Agreement provides that all savings of fuel and purchase power expenses that result from the proposed merger will flow directly to Kentucky Power's retail customers through its existing fuel adjustment clause mechanism. AEP further agrees to hold Kentucky Power's native load customers harmless from higher replacement power costs or foregone revenues caused by current AEP operating companies supplying power to the service area of the CSW operating companies.

Environmental Surcharge Litigation. The Settlement Agreement seeks to resolve all outstanding matters involving Kentucky Power's environmental surcharge

mechanism. It requires the dismissal of all appeals,⁵ including the Commission's, now before the Kentucky Court of Appeals involving the Commission's Orders in Case No. 96-489.⁶ All parties will dismiss their appeals without prejudice. The Settlement Agreement further provides that Kentucky Power may, beginning January 1, 2000, recover through its environmental surcharge mechanism the costs associated with the low NOx burners for Big Sandy Generating Units No. 1 and No. 2. Kentucky Power will forego any recovery of costs eligible for recovery prior to January 1, 2000.⁷ The Settlement Agreement also provides that the Commission's most recent review⁸ of Kentucky Power's environmental surcharge be closed without further adjustment.

⁵ Kentucky Power Company d/b/a American Electric Power v. Kentucky Public Service Commission, et al., No. 1998-CA-001337 (filed July 25, 1998); Com. of Ky., ex rel., A. B. Chandler, III, Attorney General v. Kentucky Public Service Commission, et al., No.1998-CA-001344 (filed July 28, 1998); Kentucky Industrial Utility Customers, Inc. v. Com. of Ky., ex rel., A.B. Chandler, III, Attorney General, No. 1998-CA-001417 (filed July 25, 1998); Kentucky Public Service Commission v. Com. of Ky., ex rel., A.B. Chandler, III, Attorney General, No. 1998-CA-001455 (filed July 27, 1998); Kentucky Power Company v. Kentucky Public Service Commission, et al., 1998-CA-002476 (filed Oct. 1, 1998).

⁶ Case No. 96-489, Application of Kentucky Power Company d/b/a American Electric Power to Assess a Surcharge under KRS 278.183 to Recover Costs of Compliance with the Clear Air Act and Those Environmental Requirements Which Apply to Coal Combustion Waste and By-Products.

⁷ In Commonwealth of Kentucky ex rel. Chandler v. Kentucky Public Service Commission, Nos. 97-CI-01138, 97-CI-01144, 97-CI-01319 (Ky. Franklin Cir. Ct. May 14, 1998), the Franklin Circuit Court reversed in part the Commission's Order of May 27, 1997 and directed the Commission to permit Kentucky Power's recovery of low NOx burner costs incurred after May 19, 1997.

⁸ Case No. 98-624, An Examination By The Public Service Commission of The Environmental Surcharge Mechanism of Kentucky Power Company d/b/a American Electric Power As Billed From January 1, 1998 to June 30, 1998.

Affiliated Standards. The Settlement Agreement provides for affiliate standards and guidelines that will apply to transactions between AEP operating companies and their affiliates. These standards will take effect upon the consummation of the merger and remain in effect "until new affiliate standards imposed by either the Commission or by the General Assembly."⁹

Quality of Service. The Settlement Agreement requires Kentucky Power and AEP to maintain service quality and reliability at existing levels. Kentucky Power and AEP agree to provide annually service reliability reports addressing the duration and frequency of customer disruptions and annual Call Center performance measures for those centers that handle Kentucky customer calls. They also commit to compile outage data detailing each circuit's reliability performance to identify and resolve reliability problems.

Most Favored Nations Provision. The Joint Applicants agree that if, in connection with the proposed merger, any state or federal regulatory commission imposes conditions on AEP that would benefit ratepayers in one jurisdiction, equivalent net benefits and conditions will be extended to Kentucky retail customers.

COMMISSION FINDINGS

Having thoroughly reviewed the Settlement Agreement, the Commission finds that the Settlement Agreement represents a reasonable resolution to the issues surrounding the proposed merger and should be approved. The Settlement Agreement allows for a fair and equitable distribution of the merger benefits between ratepayers

⁹ Settlement Agreement at 6.

and shareholders and protects Kentucky Power ratepayers from many of the potential risks posed by the merger.

The Commission notes that the Settlement Agreement imposes new reporting requirements on Kentucky Power in the areas of service quality and reliability. While we recognize the difficulties presented by the terrain and topography in portions of Kentucky Power's service territory, the Commission reminds Kentucky Power that its top priority must be service quality and reliability. In the event that Kentucky Power's quality of service experiences a decline, the Commission is prepared to require additional measures be taken.

The Commission also notes that the Settlement Agreement will end the lengthy and extensive litigation surrounding Kentucky Power's environmental surcharge mechanism. By this Order, we approve in principle those provisions and authorize our legal counsel to take all actions necessary to implement the Settlement Agreement's provisions and to dismiss all outstanding appeals pending before the Kentucky Court of Appeals. Because the issues dealing with Kentucky Power's environmental surcharge mechanism are addressed in other Commission proceedings that have not been consolidated with this proceeding, however, the Commission must implement certain of the provisions related to that mechanism through Orders in those proceedings. The Commission will issue those Orders as soon as possible.¹⁰

¹⁰ Within the next few days, the Commission will issue an Order in Case No. 98-624 to close Kentucky Power's current environmental surcharge proceedings. Implementing the provisions related to the recovery of the costs associated with the low NOx burners for Big Sandy Generating Units No. 1 and No. 2 will require the issuance of an Order in Case No. 96-489. That action will occur upon dismissal of all outstanding appeals.

REPORTING REQUIREMENTS

In previous cases,¹¹ the Commission has determined that to effectively monitor the activities of the jurisdictional utility, its parent company and related subsidiaries, and to protect ratepayers, certain additional reports should be furnished by the jurisdictional utility to the Commission on an annual, periodic, or other basis as appropriate. The Commission finds that similar requirements are appropriate in this case as well.¹²

Periodic Reports

The annual financial statements of AEP should be furnished, including consolidating adjustments of AEP and its subsidiaries with a brief explanation of each adjustment and all periodic reports filed with the SEC.¹³ All subsidiaries should prepare and have available monthly and annual financial information required to compile financial statements and to comply with other reporting requirements. The financial statements for any non-consolidated subsidiaries of AEP should be furnished to the Commission.

¹¹ See, e.g., Case No. 10296, The Application of Kentucky Utilities Company to Enter Into an Agreement and Plan of Exchange and to Carry Out Certain Transactions in Connection Therewith (Oct. 6, 1988); Case No. 89-374; Application of Louisville Gas and Electric Company for an Order Approving an Agreement and Plan of Exchange and to Carry Out Certain Transactions in Connection Therewith (May 25, 1990); Case No. 94-104, Application of the Cincinnati Gas & Electric Company and CINergy Corp. for Approval of the Acquisition of Control of The Union Light, Heat & Power Company by CINergy Corp. (May 13, 1994); Case No. 97-300, Joint Application of Louisville Gas and Electric Company and Kentucky Utilities Company for Approval of Merger (Sept. 12, 1997).

¹² The imposition of these requirements is consistent with KRS 278.020(5), KRS 278.230 and Paragraph 8 of the Stipulation and Settlement Agreement.

¹³ The requested SEC reports include, but are not limited to, the U5S and U-13-60 reports.

AEP should also furnish the following reports on an annual basis:

1. A general description of the nature of intercompany transactions with specific identification of major transactions, and a description of the basis upon which cost allocations and transfer pricing have been established. This report should discuss the use of the cost or market standard for the sale or transfer of assets, the allocation factors used, and the procedures used to determine these factors if they are different from the procedures used in prior years.

2. A report that identifies professional personnel transferred from Kentucky Power to AEP or any of the non-utility subsidiaries and describes the duties performed by each employee while employed by Kentucky Power and to be performed subsequent to transfer.

AEP should file on a quarterly basis a report detailing Kentucky Power's proportionate share of AEP's total operating revenues, operating and maintenance expenses, and number of employees.

Special Reports

Other special reports should be furnished to the Commission as necessary. In anticipation that transfers of utility assets and investments by AEP will occur in the future, AEP should file any contracts or other agreements concerning the transfer of such assets or the pricing of intercompany transactions with the Commission at the time the transfer occurs.

AEP should also file the following information:

1. A quarterly report of the number of employees of AEP and each subsidiary on the basis of payroll assignment.

2. An annual report containing the years of service at Kentucky Power and the salaries of professional employees transferred from Kentucky Power to AEP or its subsidiaries filed in conjunction with the annual transfer of employees report.

3. An annual report of cost allocation factors in use, supplemented upon significant change.

4. Summaries of any cost allocation studies when conducted and the basis for the methods used to determine the cost allocation in effect.

5. An annual report of the methods used to update or revise the cost allocation factors in use, supplemented upon significant change.

6. Current Articles of Incorporation and bylaws of affiliated companies in businesses related to the electric industry or that would be doing business with AEP.

7. Current Articles of Incorporation of affiliated companies involved in non-related business.

After consummation of the merger, AEP will remain a registered holding company under the Public Utility Holding Company Act of 1935 and under the oversight of several regulatory bodies. Where the same information sought in these reports has been filed with the SEC, FERC, or another state regulatory commission, AEP may provide copies of that filing rather than prepare separate reports. Further, AEP may request the Commission to review these reporting requirements after the merger is completed to determine if the documentation being provided is either excessive or redundant.

The Commission recognizes that the proposed merger has not yet received all necessary regulatory approvals. Consequently, the form or substance of the anticipated

benefits of the merger might ultimately vary from those reviewed in this case. To the extent that the merger is subject to conditions or changes not reviewed in this case, the Joint Applicants should amend their filing to allow the Commission and all parties an opportunity to review the revisions to ensure that Kentucky Power and its customers are not adversely affected and that any additional benefits flow through the favored nations clause.

MOTION FOR REHEARING

The Kentucky Association of Plumbing-Heating-Cooling Contractors, Inc. and Kentucky Propane Gas Association (collectively "Contractors") have moved for reconsideration of the Commission's Order of May 20, 1999 in which we denied their application for full intervention. In support of their motion, the Contractors state that they have an interest in this proceeding as the Joint Applicants have not expressly precluded the possibility of competing with their members or to refrain such competition pending completion of Administrative Case No. 369.¹⁴

Having considered the motion, the Commission does not find good cause to modify its May 20, 1999 Order. While the Commission acknowledges the Contractors' concerns regarding utility affiliate transactions, these concerns are more appropriately addressed in Administrative Case No. 369, which was initiated specifically to review these issues as they relate to all regulated utilities. Moreover, Commission approval of the Settlement Agreement neither binds nor limits our ability to deal with the issue of affiliated transactions. The Settlement Agreement contains no provision limiting the

¹⁴ Administrative Case No. 369, An Investigation of The Need For Affiliate Transaction Rules and Cost Allocation Requirements For All Jurisdictional Utilities.

scope of our discretion in this area. It specifically provides that its affiliate standards "apply from the date of closing of the merger until new affiliate standards imposed by state legislation or State Commission action become effective." Settlement Agreement at 6.

SUMMARY

After consideration of the evidence and being otherwise sufficiently advised, the Commission finds that:

1. The proposed merger of AEP and CSW will result in an indirect change in control of Kentucky Power and therefore requires prior Commission approval. KRS 278.020(4) and (5).

2. The proposed merger of AEP and CSW and the resulting indirect change in control of Kentucky Power is in accordance with law, for a proper purpose, and with the conditions and assurances established herein consistent with the public interest.

3. AEP and Kentucky Power have and, upon completion of the proposed merger, will retain the financial, managerial and technical abilities to provide reasonable utility service.

4. The "Stipulation and Settlement Agreement," appended hereto, is reasonable, does not conflict with any regulatory principle and should be approved.

5. The Contractor's Motion for Reconsideration should be denied.

6. AEP and Kentucky Power should file the reports and other information as specifically set out in this Order.

7. The Joint Applicants should submit copies of final approval received from the FERC, SEC, FTC, DOJ, and all state regulatory commissions to the extent that

these documents have not been provided. With each submittal, the Joint Applicants shall further state whether Paragraph 10 of the Settlement Agreement requires changes to the regulatory plan approved herein.

IT IS THEREFORE ORDERED that:

1. The Joint Applicants' Application for an Order declaring that the merger of AEP and CSW is not subject to approval pursuant to KRS 278.020(4) or (5) is denied.

2. The terms and conditions set forth in the Settlement Agreement, a copy of which is appended hereto, are adopted and approved and are incorporated into this Order as if fully set forth herein.

3. The proposed merger transaction and resulting indirect transfer of control are approved, subject to additional review in the event that the merger or the anticipated benefits are changed or modified as a result of action by other regulatory agencies.

4. The proposed Net Merger Savings Credit Tariff is approved.

5. Within 20 days of the date of this Order, Kentucky Power shall file revised tariff sheets reflecting the approved Net Merger Savings Credit Tariff.

6. AEP and Kentucky Power shall comply with all reporting requirements described herein.

7. The Kentucky retail jurisdictional share of the estimated transaction, regulatory processing and transition costs incurred to merge and combine AEP and CSW shall be deferred and amortized for recovery over eight years. This amortization shall begin with the date of the combination and shall continue for eight years on a straight-line basis.

8. The Joint Applicants shall within five days of the consummation of the proposed merger file a written notice setting forth the date of merger and the effective date of the Net Merger Saving Credit Tariff.

9. The proposed settlement of outstanding litigation involving Kentucky Power's environmental surcharge mechanism, as set forth in the Settlement Agreement, is approved. Commission counsel is authorized to execute all necessary documents to dismiss all appeals identified in Footnote 6 of this Order.

10. The Contractors' Motion for Reconsideration is denied.

Done at Frankfort, Kentucky, this 14th day of June, 1999.

By the Commission

ATTEST:


Executive Director

APPENDIX

AN APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE
COMMISSION IN CASE NO. 99-149 DATED 6/14/99

COMMONWEALTH OF KENTUCKY
BEFORE THE
PUBLIC SERVICE COMMISSION OF KENTUCKY

RECEIVED
MAY 24 1999
PUBLIC SERVICE
COMMISSION

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)

STIPULATION AND SETTLEMENT AGREEMENT

On February 17, 1999 the Staff of the Public Service Commission of Kentucky ("Commission") issued a letter stating staff's belief that the Commission has jurisdiction under KRS 278.020 (5) to review the proposed merger of Central and South West Corporation ("CSW") into American Electric Power Company, Inc. ("AEP") and requested that Kentucky Power Company ("Kentucky Power" "KPCO" or the "Company") advise in writing by March 8, 1999 of the date AEP would file an application for Commission approval of "the indirect change in control of Kentucky Power Company." On March 5, 1999 the Company issued a letter notifying the Commission that it would file the requested application by April 15, 1999. The letter also indicated that the Company expected to provide the Staff and the Commission with sufficient information to enable the Commission to approve its application within the sixty (60) day period prescribed by the statute. The letter further preserved the Company's legal arguments regarding the application of KRS 278.020 (5) to this merger.

On April 15, 1999 the Company, AEP and CSW filed a Joint Application with supporting testimony and workpapers. The proceeding was designated P.S.C. Case No. 99-149. On April 22, 1999 the Commission issued a letter indicating that the Commission staff had reviewed the Company's application and found that it met the minimum filing requirements.

On May 4, 1999 the Attorney General, Office of the Rate Intervention ("Attorney General"), and Kentucky Electric Steel, Inc. ("KESI") were granted full intervention in Case No. 99-149. On May 11, 1999 Kentucky Industrial Utility Customers, Inc. ("KIUC"), was also granted full intervention in Case No. 99-149. These parties will be referred to herein collectively as the "Intervenors".

On April 22, 1999 a Technical Conference was held at the Commission's offices. On May 4, May 11, May 17, and May 20, 1999 settlement conferences were held at the Commission's offices. Present were the Staff and counsel for the Intervenors, as well as Company representatives.

Solely for the purposes of compromise and settlement of the issues in this proceeding, Central and South West Corporation, American Electric Power Company, Inc., Kentucky Power Company, which does business in Kentucky as American Electric Power, the Attorney General, Kentucky Industrial Utility Customers, Inc. and Kentucky Electric Steel, Inc. (collectively referred to as the "Parties") have met and reached a settlement agreement ("Agreement") which they hereby submit and recommend for approval to the Commission. If the Commission does not approve the settlement agreement in its entirety and incorporate it in the Final Order, the proposed Agreement shall be null and void and deemed withdrawn, unless such change is agreed to by the Parties.

SETTLEMENT AGREEMENT

WHEREAS AEP and CSW have filed various applications before federal and state agencies seeking approvals necessary to consummate a proposed merger of the two companies, and

WHEREAS the Parties have met and explored various issues related to the proposed merger and their agreements and differences regarding the effects of the proposed merger on competition between electricity providers and on the terms and conditions under which retail electric utility service is provided, and

WHEREAS the Parties recognize the costs and uncertainty of litigation and the desirability of consensual voluntary resolution of their differences and the legitimate interests and good faith of each of the parties in achieving the objectives each desires to achieve, and

Whereas, the Parties agree as follows:

That AEP, KPCO and the Intervenors will recommend to the Commission that the following Agreement be adopted by the Commission in an order or other appropriate formal action that references this Agreement or incorporates all of the provisions thereof. Where appropriate, the Commission action may address or reserve other matters ancillary or incidental to the matters addressed in this Agreement, for immediate or future disposition, in a manner not inconsistent with the Agreement.

All appropriate terms are defined in the "Definitions" section of the Agreement.

The Parties:

1. - Will not oppose the proposed merger pending before the Federal Energy Regulatory Commission ("FERC").

2. Will not oppose AEP's filings previously made at the United States Securities and Exchange Commission ("SEC") in connection with the proposed merger, together with any non-material changes or supplements thereto.

AEP, or Kentucky Power Company, conditional on merger consummation will:

1. REGULATORY PLAN. KPCO will implement a Net Merger Savings Credit tariff that will reduce bills to customers by the annual amounts shown in Attachment A beginning with the first full billing month available following thirty days from the consummation of the merger. The annual bill reduction amounts shown in Attachment A will be refunded to customers based upon kwh consumption. Each individual year's bill reduction will apply for a twelve month period. A Balancing Adjustment Factor (B.A.F) per Kwh will be included for the second through the twelfth month of the current distribution year which will reconcile any over- or under-distribution of the net savings from prior years.

The merger savings and costs are based on estimated values included in AEP's filing with the Federal Energy Regulatory Commission ("FERC") in Docket No. EC98-40-000.

Absent a force majeure, KPCO will not file a petition, which, if approved, would have the effect, either directly or indirectly, of authorizing a general increase in basic rates and charges that would be effective prior to January 1, 2003 or three years from the effective date of the merger, whichever is later (the "rate moratorium"), and the Intervenors agree not to seek a reduction in base rates during the rate moratorium. During this period, the fuel adjustment clause, the environmental surcharge, the demand side management adjustment and the system sales tracker shall continue in force and shall not be subject to any freeze. During the rate moratorium period, and notwithstanding any force majeure event, any discount, including but not limited to, operating reserve and interruptible discounts contained in special contracts as currently approved by the Commission, shall remain in force and shall not be changed for any customer receiving the discount.

The Parties and the Commission will dismiss the appeals and cross-appeals in Case Nos. 98 CA 00137, 98 CA 001344, 98 CA 001417, 98 CA 001455 and 98 CA 002476. The dismissal shall be without prejudice in any other action with respect to the positions taken by the parties in the dismissed litigation.

Effective January 1, 2000, KPCO shall begin collecting the environmental surcharge, including the costs of the Low Nox burners for the Big Sandy generating plant's Unit No. 1 and Unit No. 2, in accordance with the decisions of the Franklin Circuit Court Opinion and Order dated April 30, 1998 and its Amended Opinion and Order dated May 14, 1998 in Consolidated Case Nos. 97-CI-01138, 97-CI-01144 and 97-CI-00137 (except those portions of the decision allowing retroactive recovery of the surcharge).

The parties further agree that there shall be no adjustment to the environmental surcharge as a result of the six month review in P.S.C. Case No. 98-624.

Notwithstanding any base rate proceeding during the eight year period after the consummation of the merger, the annual amounts shown in Attachment A will remain in effect. After the eight year period and absent a base rate proceeding, the Company will continue through the Net Merger Savings Credit to reduce bills to customers by the annual amount shown on Attachment A which is the customers' portion of the net savings without the amortization of the costs to achieve during the eighth year after the consummation of the merger.

KPCO must implement the above rate reductions in the manner and amounts described above notwithstanding any changes to the current regulatory structure in Kentucky. In the event that retail electric deregulation legislation is implemented in Kentucky or if there is any unbundling or restructuring, KPCO shall continue to apply the regulatory plan's provisions to regulated rates of its Kentucky retail jurisdictional customers.

Any legislatively mandated adjustments to base rates, of any kind, that are part of any retail electric deregulation legislation implemented in Kentucky shall not diminish or offset, but shall be in addition to, the bill reductions established in this proceeding.

Subject to this agreement, AEP and KPCO will defer and amortize their Kentucky retail jurisdictional estimated merger related costs-to-achieve over an 8-year recovery period. Costs to achieve the merger are those costs incurred to consummate the merger and combine the operations of AEP and CSW. These costs include, but are not limited to, investment banking fees; consulting and legal services incurred in connection with obtaining regulatory and shareholder approvals; transition planning and development costs; employee separation costs including severance costs, change-in-control payments and retraining costs; and facilities consolidation costs. The Commission will issue accounting orders or other orders necessary to authorize the deferral and amortization of merger costs.

If the merger is not consummated, the Company commits and agrees not to seek to recover termination fees, the "Out of Pocket" and "Topping Out" fees associated with the merger as described in Sections 9.5 and 9.6 of the *Agreement and Plan of Merger By and Among American Electric Power Company, Inc., Augusta Acquisition Corporation and Central and South West Corporation* dated December 21, 1997 (Merger Agreement); and further commit and agree not to seek to recover the fee that may be charged by Morgan Stanley.

In any proceeding to change base rates for KPCO to become effective after the consummation of the merger, the following rate treatment will be reflected:

- A. Estimated non-fuel merger savings, net of costs to achieve will be included in cost of service as an allowable expense in order to avoid duplication and to continue to provide shareholders with their share of the net savings. The amount to be included in the cost of service shall be based upon the test year period. (See Attachment B).

- B. Amortization of estimated 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. (See Attachment B.)

In any base rate proceeding after the eight year period, neither the merger savings credit rider nor the expense adjustments described in A. and B. above will be reflected in the test year.

2. **FUEL MERGER SAVINGS.** All savings of fuel and purchased power expenses resulting from the merger shall benefit retail customers through existing fuel clause recovery mechanisms applied by State Commissions. In circumstances when one or more AEP operating companies in one AEP zone are supplying power to the other AEP zone, and as a result, the supplying zone needs to purchase replacement power to serve its native load, AEP shall hold harmless the native load customers of the supplying zone from any price differential between the replacement power and the system power supplied to the other zone. Similarly, if one or more AEP operating companies in one AEP zone are supplying power to the other AEP zone, and as a result, the supplying zone loses the opportunity to sell power at a price higher than received from the zone being supplied, AEP shall credit the supplying zone for the foregone revenues.

3. For purposes of this Settlement Agreement, force majeure shall mean circumstances that cause any of the following to occur: a) the bond rating for Kentucky Power Company to fall below an investment grade rating of Baa3 (Moody's) or BBB- (Standard & Poors), or b) an increase in the federal and/or state income taxes of KPCO, which increase is the result of changes in federal or state income tax provisions, or c) an increase in KPCO's total electric operating expenses, excluding fuel and purchased power, due to circumstances beyond its control, and further excluding the costs of compliance with federal, state or local environmental requirements which apply to coal combustion wastes and by-products from facilities utilized for production of energy from coal.

For purposes of this force majeure provision, an increase is defined as an increase in expense in an annualized amount greater than five percent (5%) of AEP's Kentucky jurisdictional net revenues (i.e., operating revenues less fuel and purchased power) for the preceding twelve months.

A force majeure may only exist under the terms of this Settlement Agreement if the Commission finds in a rate application filed by the Company that the circumstances allowed for under this Settlement Agreement are a force majeure, as defined in this Agreement, after a public evidentiary hearing in which all the Parties may participate.

4. **STRANDED COSTS.** AEP and its operating companies agree not to seek or recover any stranded costs associated with the operating companies of one AEP zone from the retail customers of the other AEP zone.

5. **PROCEEDS OF FACILITY SALES.** Any proceeds from the sale of facilities shall go to the AEP operating company in whose rate base the facilities are included, for further disposition

in accordance with the rules and orders of the regulatory authorities whose jurisdiction encompasses the ultimate disposition of such proceeds.

6. **SYSTEM INTEGRATION AGREEMENTS.** To mitigate any perceived impacts of the merger on AEP's ability to exercise market power, AEP proposed in its FERC merger application a mitigation plan. To protect retail customers, AEP agrees to hold harmless the retail customers from any mitigation plan included in any FERC order approving the merger of AEP-CSW. To implement this Agreement in any general retail electric rate proceeding commenced by the filing of a petition on or after the date of this Agreement, in which an AEP operating company requests a change in its basic rates and charges, or in any other proceeding where so ordered by the State Commission, AEP shall have the burden therein to prove that such requested rate relief does not reflect mitigation-related costs.

AEP commits to file any allocation of the cost of new, modified or upgraded generation or transmission facilities whose costs will be subject to the System Integration Agreement or the System Transmission Agreement with the FERC and to notify each State Commission of any such filing at the time it is made. Notification to each State Commission will include an estimate of the cost of construction, an explanation of the reasons for constructing the facilities, studies supporting the construction of the facilities, and a proposed allocation of the facilities' costs. If AEP plans to purchase an in-service facility or already constructed and soon-to-be-in-service facility, AEP will follow the above described procedures and will include as part of the notification to the State Commission an explanation of the circumstances causing the AEP operating company to make the purchase in question.

7. **REGULATORY AUTHORITY.** AEP agrees not to seek to overturn, reverse, set aside, change or enjoin, whether through appeal or the initiation or maintenance of any action in any forum, a decision or order of a State Commission based on the assertion that the authority of the Securities and Exchange Commission as interpreted in *Ohio Power Co. v. FERC*, 954 F.2d 779 (D.C. Cir. 1992) cert. denied, 498 U.S. 73 (1992) impairs the State Commission's ability to examine and determine the reasonableness of non-power affiliate transaction costs to be passed to retail customers. The parties agree that the Ohio Power waiver does not include waiver of any arguments that AEP may have with respect to the reasonableness of SEC approved cost allocations. AEP will provide each State Commission with notice at least 30 days prior to any filings that propose new allocation factors with the SEC. The notice need not be in the precise form of the final filing but shall include, to the extent information is available, a description of the proposed factors and the reasons supporting such factors. AEP and State Commission Staff will make a good faith attempt to resolve their differences, if any, in advance of a filing being made at the SEC.

8. **AFFILIATE STANDARDS.** The following affiliate standards shall apply from the date of closing of the merger until new affiliate standards imposed by state legislation or State Commission action become effective.

A. The financial policies and guidelines for transactions between an AEP operating company and its affiliates shall reflect the following principles:

1. An AEP operating company's retail customers shall not subsidize the activities of the operating company's non-utility affiliates or its utility affiliates.
2. An AEP operating company's costs for jurisdictional rate purposes shall reflect only those costs attributable to its jurisdictional customers.
3. These principles shall be applied to avoid costs found to be just and reasonable for ratemaking purposes by the affected State Commission being left unallocated or stranded between various regulatory jurisdictions, resulting in the failure of the opportunity for timely recovery of such costs by the operating company and/or its utility affiliates; provided, however, that no more than one hundred percent of such costs shall be allocated on an aggregate basis to the various regulatory jurisdictions.
4. An AEP operating company shall maintain and utilize accounting systems and records that identify and appropriately allocate costs between the operating company and its affiliates, consistent with these cross-subsidization principles and such financial policies and guidelines.

B. Each State Commission shall have access to the employees, officers, books and records of any affiliate of its jurisdictional AEP operating company to the same extent and in like manner that each such State Commission has over a public utility operating within the state in which such State Commission exercises its regulatory authority if the affiliate had engaged in direct or indirect transactions with the jurisdictional AEP operating company. If such employees, officers, books and records can not be reasonably made available to a State Commission, then upon request of a State Commission, the AEP operating company shall, in accordance with state reimbursement rules, reimburse the State Commission for appropriate out-of-state travel expenses incurred in accessing the employees, officers, books and records. Each AEP operating company shall maintain, in accordance with generally accepted accounting principles, books, records, and accounts that are separate from the books, records, and accounts of its affiliates, consistent with Part 101 – Uniform System of Accounts Prescribed for Public Utilities and Licensees Subject to the Provisions of the Federal Power Act. Any objections to providing all books and records must be raised before the State Commission and the burden of showing that the request is unreasonable or unrelated to the proceeding is on the AEP operating company. The confidentiality of competitively sensitive information shall be maintained in accordance with each State Commission's rules and regulations.

- C In accordance with generally accepted accounting principles and consistent with state and federal guidelines, an AEP operating company shall record all transactions with its affiliates, whether direct or indirect. An AEP operating company and its affiliates shall maintain sufficient records to allow for an audit of the transactions involving the operating company and its affiliates. Asset transfers from an AEP operating company to a non-utility affiliate and asset transfers from a non-utility affiliate to an AEP operating company shall be at fully distributed costs in accordance with current Securities and Exchange Commission (SEC) issued requirements or other statutory requirements if the SEC has no jurisdiction.
- D. An AEP operating company shall not allow a non-utility affiliate to obtain credit under any arrangement that would permit a creditor, upon default, to have recourse to the operating company's assets. The financial arrangements of an AEP operating company's affiliates are subject to the following restrictions unless otherwise approved by that operating company's State Commission:
1. Any indebtedness incurred by a non-utility affiliate will be without recourse to the operating company.
 2. An AEP operating company shall not enter into any agreements under terms of which the operating company is obligated to commit funds in order to maintain the financial viability of a non-utility affiliate.
 3. An AEP operating company shall not make any investment in a non-utility affiliate under circumstances in which the operating company would be liable for the debts and/or liabilities of the non-utility affiliate incurred as a result of acts or omissions of a non-utility affiliate.
 4. An AEP operating company shall not issue any security for the purpose of financing the acquisition, ownership, or operation of a non-utility affiliate.
 5. An AEP operating company shall not assume any obligation or liability as guarantor, endorser, surety, or otherwise with respect to any security of a non-utility affiliate.
 6. An AEP operating company shall not pledge, mortgage or otherwise use as collateral any assets of the operating company for the benefit of a non-utility affiliate.
 7. AEP shall hold harmless the retail customers of an AEP operating company from any adverse effects of credit rating declines caused by the actions of non-utility affiliates.

Transactions between AEP operating companies and affiliates involving a money pool for the financing of short-term funding requirements are exempt from the requirements of this paragraph. Further, the provisions of this paragraph would not preclude AEP operating companies from issuing securities or assuming obligations related to their existing coal subsidiaries.

- E. Any untariffed, non-utility service provided by an AEP operating company or affiliated service company to any affiliate shall be itemized in a billing statement pursuant to a written contract or written arrangement. The AEP operating company and any affiliated service company shall maintain and keep available for inspection by the State Commission copies of each billing statement, contract and arrangement between the AEP operating company or affiliated service company and its affiliates that relates to the provision of such untariffed non-utility services.
- F. Any good or service provided by a non-utility affiliate to an AEP operating company shall be by itemized billing statement pursuant to a written contract or written arrangement. The operating company and non-utility affiliate shall maintain and keep available for inspection by the State Commission copies of each billing statement, contract and arrangement between the operating company and its non-utility affiliates that relates to the provision of such goods and services in accordance with applicable State Commission retention requirements.
- G. Employees responsible for the day to day operations of the AEP operating companies and those of affiliated exempt wholesale generators or affiliated power marketers shall operate independently of one another. AEP shall document all employee movement between and among all affiliates. Such information shall be made available to each State Commission and consumer advocate upon request.
- H. An AEP operating company may not own property in common with an affiliated exempt wholesale generator or affiliated power marketer.
- I. No market information obtained in the conduct of utility business may be shared with an affiliated exempt wholesale generator or affiliated power marketer, except where such information has been publicly disseminated or simultaneously shared with and made available to all non-affiliated entities who have requested such information. Customer specific information shall not be made available to an affiliated exempt wholesale generator or affiliated power marketer except under the same terms as such information would be made available to a non-affiliated company, and only with the written consent of the customer specifying the information to be released.
- J. A non-utility affiliate may use an AEP operating company's name or logo only if, in connection with such use, the affiliate makes adequate disclosures to the effect that (i) the two entities are separate; (ii) it is not necessary to purchase the

non-regulated product or service to obtain service from the operating company; and (iii) the customer will gain no advantage from the operating company by buying from the affiliate.

- K. An AEP operating company shall not condition or tie the provision of any product, service, pricing benefit, or waiver of associated terms or conditions, to the purchase of any good or service from its affiliated exempt wholesale generator or power marketer.
- L. Except as provided in paragraph M, an affiliated exempt wholesale generator or affiliated power marketer shall not share office space, office equipment, computer systems or information systems with an AEP operating company.
- M. Computer systems and information systems may be shared between an AEP operating company and non-utility affiliates only to the extent necessary for the provision of corporate support services; however, the operating company shall ensure that the proper security access and other safeguards are in place to ensure full compliance with these affiliate rules.
- N. An AEP operating company may engage in transactions directly related to the provision of corporate support services with its affiliates in accordance with requirements relating to service agreements. As a general principle, such provision of corporate support services shall not allow or provide a means for the transfer of confidential information from the operating company to the affiliate, create the opportunity for preferential treatment or unfair competitive advantage, create opportunities for cross-subsidization of affiliates, or otherwise provide any means to circumvent these affiliate rules.
- O. Except as provided in paragraph N, an AEP operating company may only make a product or service available to an affiliated exempt wholesale generator or an affiliated power marketer if the product or service is equally available to all non-affiliated exempt wholesale generators and power marketers on the same terms, conditions and prices, and at the same time. An AEP operating company shall process all requests for a product or service from affiliated and non-affiliated exempt wholesale generators and power marketers on a non-discriminatory basis.
- P. An AEP operating company which provides both regulated and non-regulated services or products, or an affiliate which provides services or products to an AEP operating company, shall maintain documentation in the form of written agreements, an organization chart of AEP (depicting all affiliates and AEP operating companies), accounting bulletins, procedure and work order manuals, or other related documents, which describe how costs are allocated between regulated and non-regulated services or products. Such documentation shall be available, subject to requests for confidential treatment, for review by State Commissions in accordance with Paragraph B. above.

- Q. AEP shall designate an employee who will act as a contact for State Commissions and consumer advocates seeking data and information regarding affiliate transactions and personnel transfers. Such employee shall be responsible for providing data and information requested by a State Commission for any and all transactions between the jurisdictional operating company and its affiliates, regardless of which affiliate(s), subsidiary(ies) or associate(s) of an AEP operating company from which the information is sought.
- R. AEP shall designate an employee or agent within each signatory state who will act as a contact for retail consumers regarding service and reliability concerns and to allow a contact for retail consumers for information, questions and assistance. Such AEP representative shall be able to deal with billing, maintenance and service reliability issues.
- S. AEP shall provide each signatory state a current list of employees or agents that are designated to work with each State Commission and consumer advocate concerning state regulatory matters, including, but not limited to, rate cases, consumer complaints, billing and retail competition issues.
- T. Thirty (30) days prior to filing any affiliate contract (including service agreements) with the SEC or the FERC an AEP operating company shall submit to each affected State Commission a copy of the proposed filing.
- U. Any violation of the provisions of these affiliate standards are subject to the enforcement powers and penalties at the State Commissions.
- V. AEP shall contract with an independent auditor who shall conduct biennial audits for ten years after merger consummation of affiliated transactions to determine compliance with these affiliate standards. The results of such audits shall be filed with the State Commissions. Prior to the initial audit, AEP will conduct an informational meeting with State Commissions regarding how its affiliates and affiliate transactions will or have changed as a result of the proposed merger.
- W. If the Public Utility Holding Company Act of 1935 is repealed or materially amended during the time this Agreement is in effect, and equivalent jurisdiction is not given to another federal agency, AEP will work with the State Commissions to ensure that AEP continues to furnish the State Commission with the appropriate information to regulate its jurisdictional AEP operation company. The State Commission may establish its reporting requirements regarding the nature of intercompany transactions concerning the operating company and a description of the basis upon which cost allocations and transfer pricing have been established in these transactions.

9. ADEQUACY AND RELIABILITY OF RETAIL ELECTRIC SERVICE. See Attachment C for the AEP/KENTUCKY POWER SERVICE QUALITY PROGRAM that has been agreed to by the parties.

10. STATUTORY AND OTHER ISSUES. Provided the proposed merger is ultimately consummated, AEP commits that upon issuance of any final and non-appealable order from any state or federal commission addressing the merger that provides benefits or imposes conditions on AEP that would benefit the ratepayers of any jurisdiction, such net benefits and conditions will be extended to all other retail customers to the extent necessary to achieve equivalent net benefits and conditions to all retail customers of AEP.

11. CONTINUED PARTICIPATION - Nothing in this Agreement is intended to preclude the Commission and its staff from addressing in a manner not inconsistent with this Agreement issues raised in the FERC Docket No. 98-40-000.

12. ENFORCEABILITY. AEP and KPCO will not assert in any action to enforce an order approving this Agreement that the Commission lacks the authority to have the provisions of this Agreement enforced under Kentucky law.

DEFINITIONS

1. "AEP zone" means either the area comprising the AEP operating companies providing service in Indiana, Michigan, Kentucky, Ohio, Tennessee, Virginia and West Virginia ("East") or the area comprising the former CSW operating companies providing service in Arkansas, Texas, Oklahoma and Louisiana ("West").

2. "AEP operating company" means an AEP affiliate that is a public utility subject to rate regulation by the FERC and/or a state utility regulatory agency.

3. "Affiliate" means an entity that is an operating company's holding company, a subsidiary of the operating company or a subsidiary of the holding company.

4. "Consumer advocate" means an agency of the state government designated as a representative of consumers in matters involving utility companies before the applicable State Commission.

5. "Entity" means a corporation or a natural person.

6. "Exempt wholesale generator" means an entity which is engaged directly or indirectly through one or more affiliates exclusively in the business of owning or operating all or part of a facility for generating electric energy and selling electric energy at wholesale and who:

- a. does not own a facility for the transmission of electricity, other than an essential interconnecting transmission facility necessary to affect a sale of electric energy at wholesale; and

- b. has applied to the FERC for a determination under 15 U.S.C. Section 79z-5a.
7. "FERC" means the Federal Energy Regulatory Commission, or any successor governmental agency.
8. "Non-Utility Affiliate" means an Affiliate which is not a domestic public utility. Non-utility affiliate includes a foreign affiliate.
9. "Holding Company" means AEP, or its successor in interest, or any Entity that owns directly or indirectly 10 percent or more of the voting capital stock of a utility operating company, or its successor in interest.
10. "Power Marketer" means an entity which:
- a. becomes an owner or broker of electric energy in a state for the purpose of selling the electric energy at wholesale;
 - b. does not own transmission or distribution facilities in a state;
 - c. does not have a certified service area; and
 - d. has been granted authority by the FERC to sell electric energy at market-based rates.
11. "SEC" means the United States Securities and Exchange Commission, or any successor governmental agency.
12. "Service Agreement" means the agreement entered into between American Electric Power Service Corp. and AEP's operating companies, under which services are provided by American Electric Power Service Corp. to the operating companies.
13. "Service Company" means an Affiliate whose primary business purpose is to provide, among other functions, administrative and general or operating services to AEP utility operating companies.
14. "Services" means the performance of activities having value to one party including, but not limited to, managerial, financial, accounting, legal, engineering, construction, purchasing, marketing, auditing, statistical, advertising, publicity, tax, research, and other similar services.
15. "Subsidiary" means any corporation 10 percent or more of whose voting capital stock is controlled by another Entity.
16. "Utility Affiliate" means an affiliate of a utility operating company that is also a public utility.

Presentation of Agreement To the Commission

1. The Parties shall move for the admission of this Agreement into evidence at the hearing scheduled for May 28, 1999, or such earlier time as the Commission may establish and sponsor evidence including testimony and exhibits as may be required to support Commission approval of this Agreement.
2. The Parties stipulate and agree to the issuance by the Commission of the Proposed Order in the form attached hereto as Attachment D. All of the terms and agreements contained in the Proposed Order are to be interpreted consistent with the provisions of this Agreement, which is to be attached to and incorporated by reference in the Final Order issued by the Commission.

Effect and Use of Agreement

1. This Agreement shall not constitute nor be cited as precedent or deemed an admission by any Party in any other proceeding except as necessary to enforce its terms before the Commission, or any State Court of competent jurisdiction. This Agreement is solely the result of compromise in the settlement process, shall not constitute a concession of subject matter jurisdiction, and except as expressly provided herein, is without prejudice to and shall not constitute a waiver of any position that any of the Parties may take with respect to any or all of the items resolved herein in any future regulatory or other proceedings and, failing approval by this Commission, shall not be admissible or discussed in any subsequent proceedings.
2. The evidence in this Case constitutes substantial evidence sufficient to support the Agreement and provides an adequate evidentiary basis upon which the Commission can make any finding of fact and conclusions of law necessary for the approval of the Agreement, as filed.
3. The issuance of the Final Order shall terminate any further proceedings in this Case.
4. In the event this Case is required to be litigated, the Parties expressly reserve all of their rights to make objections and motions to strike with respect to all testimony and exhibits and their right to cross-examine the witnesses presenting such testimony and exhibits.
5. The undersigned have represented and agreed that they are fully authorized to execute this Agreement on behalf of their designated clients who will be bound thereby.
6. The Parties to this Agreement shall not appeal the agreed Final Order or any other Commission order to the extent such orders are specifically implementing the provisions of this Agreement and shall support this Agreement in the event of any appeal by a person not a Party. This provision shall be enforceable by any Party, in any state court of competent jurisdiction.
7. The communications and discussions during the negotiations and conferences that produced the Agreement have been conducted on the explicit understanding that they are or

relate to offers of settlement and shall therefore be privileged and not admissible in any proceeding.

ACCEPTED and AGREED this 24th day of May, 1999.

Central and South West Corporation

By:

Mark R. Overstreet counsel for
Central and South West Corporation
Kentucky Power Company

By:

Mark R. Overstreet
Sites and Harbison

Mark R. Overstreet counsel for
Kentucky Power Company

AFP

By:

Richard E. Munczinski


Richard E. Munczinski
Senior Vice President
American Electric Power
Service Corporation

Attorney General


By: 

Elizabeth E. Blackford
Assistant Attorney General
Attorney General, Office of Rate
Intervention

Kentucky Industrial Utility Customers, *INC.*

By: 
David F. Boehm
Boehm, Kurtz, & Lowry

Kentucky Electric Steel, Inc.

By: 
William H. Jones, Jr.
VanAntwerp, Monge, Jones & Edwards, LLP

AEP/CSW MERGER
NET ANNUAL MERGER SAVINGS
AND KENTUCKY CUSTOMER BILL REDUCTIONS(\$000)

(1)	(2)	(3)	(4)
<u>RATE</u> <u>YEAR</u>	<u>NET</u> <u>MERGER SAVINGS</u>	<u>CUSTOMER BILL</u> <u>REDUCTION @ 55%</u>	<u>SHAREHOLDER</u> <u>NET SAVINGS @ 45%</u>
Year 1	2,469	1,464	1,005
Year 2	4,551	2,554	1,997
Year 3	5,757	3,185	2,572
Year 4	6,732	3,695	3,037
Year 5	7,385	4,037	3,348
Year 6	7,887	4,299	3,588
Year 7	8,279	4,505	3,774
Year 8	8,511	4,626	3,885
	<u>51,571</u>	<u>28,365</u>	<u>23,206</u>

Note: Annual Customer Bill Reduction after year 8 until next base rate case is \$5,242,785

**AEP/CSW MERGER
EXAMPLE OF BASE RATE CASE TREATMENT
BASED ON YEAR 3 (\$000)**

CREDIT PER RIDER CONTINUES		(3,184)
<u>INCLUDED IN TEST YEAR:</u>		
GROSS MERGER SAVINGS	(7,252)	
CHANGE IN CONTROL AMORTIZATION	328	
OTHER CTA AMORTIZATION	<u>1,178</u>	
TOTAL CTA/CIC AMORTIZATION	<u>1,506</u>	
NET MERGER SAVINGS IN TEST YEAR	(5,756)	
<u>ADD BACK TO TEST YEAR COST OF SERVICE:</u>		
CUSTOMER SHARE	3,184	
SHAREHOLDER PORTION	<u>2,572</u>	
	<u>5,756</u>	
NET BASE RATE REDUCTION		<u>0</u>
KENTUCKY CUSTOMER RATE REDUCTION		<u><u>(3,184)</u></u>

AEP/CSW MERGER
BASE RATE CASE TREATMENT
FOR INCLUSION IN COST OF SERVICE (\$000)

RATE YEAR	<u>Add Back to Test Year Cost of Service</u>	
	<u>CUSTOMER NET SAVINGS</u>	<u>SHAREHOLDER NET SAVINGS</u>
Year 1	1,464	1,005
Year 2	2,554	1,997
Year 3	3,185	2,572
Year 4	3,695	3,037
Year 5	4,037	3,348
Year 6	4,299	3,588
Year 7	4,505	3,774
Year 8	4,626	3,885
	<hr/> <hr/> 28,365	<hr/> <hr/> 23,206

AEP/CSW MERGER
AMORTIZATION OF ESTIMATED
COSTS TO ACHIEVE*

<u>RATE</u> <u>YEAR</u>	<u>AMOUNT</u>
Year 1	1,505,502
Year 2	1,505,502
Year 3	1,505,502
Year 4	1,505,502
Year 5	1,505,502
Year 6	1,505,502
Year 7	1,505,502
Year 8	1,505,501
TOTAL	<u><u>12,044,015</u></u> **

* Includes change in control payments.

**May not add due to roundings.

AEP/KENTUCKY POWER SERVICE QUALITY

Attachment C

Page 1 of 6

AEP/Kentucky Power (the Company) has as one of its highest priorities a desire to maintain and improve the quality and reliability of service to its customers. The Company commits that current levels of customer service and service reliability shall not degrade as a result of the merger and that it shall undertake all reasonable efforts to improve the quality and reliability of its service. In order to assure the Commission and Kentucky customers of continued excellent service quality in the post-merger environment, the Company commits and agrees to do the following:

1. To maintain the overall quality and reliability of its electric service at levels no less than it has achieved in the calendar years 1995-1998. The Company will provide service reliability reports annually indicating its calendar year Kentucky Customer Average Interruption Duration Index (CAIDI) and Kentucky System Average Interruption Frequency Index (SAIFI). These indices shall be determined and reported, including all storms. Definitions for these measures are included on page 4. On page 6 are listed Kentucky Power's annual SAIFI and CAIDI performance for the years 1995 through 1998.

2. To provide annual Call Center performance measures for those centers which handle Kentucky customer calls. These will include the Call Center Average Speed of Answer (ASA), Abandonment Rate, and Call Blockage. Definitions for these measures are also included on page 5.

a) The performance measures described in paragraphs 1 and 2 above shall be provided by the end of May of the year following the calendar year in question.

3. Will continue to completely inspect its Kentucky electric facilities every two years and perform tree trimming, lightning arrestor replacement, animal guarding and pole and cross arm replacements.

4. AEP/Kentucky Power management will compile outage data detailing each circuit's reliability performance. In addition, by monitoring repeated outages on a regular basis, the Company will identify and resolve reliability problems which may go unnoticed by using CAIDI and SAIFI results. This data will be coupled with feedback from district field personnel and supervision and management concerning other locations and situations where the impact of outages are quantified. This process will be used to develop a comprehensive work plan each year which focuses efforts to improve service reliability. The Company will undertake all reasonable expenditures to achieve the goal of limiting customer outages.

AEP/KENTUCKY POWER SERVICE QUALITY

Attachment C
Page 2 of 6

5. Plans to continue to maintain a high quality workforce to meet its customers' needs.

6. Shall designate an employee or agent within Kentucky who will act as a contact for retail consumers regarding service and reliability concerns and to provide a contact for retail consumers for information, questions and assistance. Such AEP/Kentucky Power representative shall be able to deal with billing, maintenance and service reliability issues.

a) The company further commits to maintain in Kentucky a sufficient management team to ensure that safe, reliable and efficient electric service is provided and to respond to the needs and inquiries of its Kentucky customers.

7. In the event the Commission adopts industry generic rules concerning customer service standards, AEP/Kentucky Power shall have at its option, the right to incorporate them into this agreement.

a) AEP/Kentucky Power will have the opportunity to revisit with the Commission the agreed upon measure(s) should the Company wish to propose a specific performance-based ratemaking proposal provided the proposal either includes a reliability measure(s) and/or a customer satisfaction survey measure that contains service reliability as a component.

b) These standards can be changed during the term of this agreement to reflect any performance-based ratemaking plans or rules which the Commission adopts either for AEP/Kentucky Power and/or generically for the electric utility industry.

8. If retail access is mandated by the Kentucky General Assembly and/or the Commission and/or by federal legislation, AEP/Kentucky Power shall have the right to petition the Commission for modifications to this service quality agreement that are made necessary by the mandating of retail access.

a) Any such petition must establish the necessity of the proposed modifications and provide appropriate protections to ensure that AEP/Kentucky Power's quality of service will not decline. The Commission will act upon the petition within 90 days or the petition will be deemed to be automatically approved.

AEP/KENTUCKY POWER SERVICE QUALITY

Attachment C
Page 3 of 6

9. All prudent costs incurred to comply with the items contained in this Agreement, once incurred, will constitute known and measurable expenses that Kentucky Power shall have an opportunity to recover in accordance with traditional ratemaking principles, through recognition of these costs in its revenue requirement in future rate review.

AEP/KENTUCKY POWER SERVICE QUALITY

Attachment C
Page 4 of 6

AEP RELIABILITY MEASURES

- 1) System Average Interruption Frequency Index (SAIFI) is defined as the number of customers interrupted divided by the number of customers served. It is calculated by the equation:

$$\text{SAIFI} = \frac{\text{Number of customers interrupted}}{\text{Number of customers served}}$$

2. Customer Average Interruption Duration Index (CAIDI) is defined as the number of customer hours of interruption divided by the number of customers interrupted. It is calculated by the equation:

$$\text{CAIDI} = \frac{\text{Sum of all customer hours of interruption}}{\text{Number of customers interrupted}}$$

AEP/KENTUCKY POWER SERVICE QUALITY

Attachment C
Page 5 of 6

AEP CALL CENTER MEASURES

- 1) Average Speed of Answer (ASA) is defined as the average time that elapses in seconds between the instant when a call is answered and the time it is connected to a Call Center representative (CSR) or an interactive voice recorder (IVR). It is calculated using the equation:

$$\text{Average Speed of Answer (seconds)} = \frac{\text{Time for all calls between call answer and CSR/IVR connection}}{\text{Total number of calls made to the Call Center}}$$

- 2) Abandonment Rate is the percentage of callers who hang up before being connected to a Call Center representative (CSR) or an interactive voice recorder (IVR). It is calculated using the equation:

$$\text{Abandonment Rate (percent)} = \frac{\{\text{Total number of callers who hang up}\}}{\{\text{Total number of calls made to the Call Center}\}} \times 100$$

- 3) Call Blockage is the percentage of non-outage call attempts which do not get connected to a Call Center (busy signal, etc.). It is calculated using the equation:

$$\text{Call Blockage (percent)} = \frac{\{\text{Total number of non-outage calls that do not get connected}\}}{\{\text{Total number of non-outage calls made to the Call Center}\}} \times 100$$

AEP/KENTUCKY POWER SERVICE QUALITY

Attachment C
Page 6 of 6

AEP/Kentucky Power Reliability Performance (includes all storms)

<u>Year</u>	<u>SAIFI</u>	<u>CAIDI</u>
1995	1.794	4.12
1996	1.530	3.10
1997	1.343	3.04
1998	1.519	5.96

Attachment D

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))

On February 17, 1999 the Staff of the Public Service Commission of Kentucky ("Commission") issued a letter stating staff's belief that the Commission has jurisdiction under KRS 278.020 (5) to review the proposed merger of Central and South West Corporation ("CSW") into American Electric Power Company, Inc. ("AEP") and requested that Kentucky Power Company ("Kentucky Power" "KPCO" or the "Company") advise in writing by March 8, 1999 of the date AEP would file an application for Commission approval of "the indirect change in control of Kentucky Power Company." On March 5, 1999 the Company issued a letter notifying the Commission that it would file the requested application by April 15, 1999. The letter also indicated that the Company expected to provide the Staff and the Commission with sufficient information to enable the Commission to approve its application within the sixty (60) day period prescribed by the statute. The letter further preserved the Company's legal arguments regarding the application of KRS 278.020 to this merger.

On April 15, 1999, the Company, AEP and CSW filed a Joint Application with supporting testimony and work papers. The proceeding was designated P.S.C. Case No. 99-149.

On April 22, 1999, the Commission issued a letter indicating that the Commission staff had reviewed the Company's application and found that it met the minimum filing requirements.

On May 4, 1999, the Attorney General, Office of the Rate Intervention ("Attorney General"), and Kentucky Electric Steel, Inc. ("KESI") were granted full intervention in Case No. 99-149. On May 11, 1999, Kentucky Industrial Utility Customers, Inc. ("KIUC"), was also granted full intervention in Case No. 99-149. These parties will be referred to herein collectively as the "Intervenors."

On April 22, 1999, a Technical Conference was held at the Commission's offices. On May 4, 1999, May 11, 1999, May 17, 1999 and May 20, 1999 settlement conferences were held at the Commission's offices. All parties to the proceeding and the Commission staff were present and participated in the settlement conferences.

Having considered the evidence and being duly advised, the Commission now finds:

1. Notice and Jurisdiction. Due and timely notice of the hearing to consider the settlement proposed by the parties was given. Kentucky Power is a "utility" within the meaning of that term in KRS 278.010(3)(a) and is subject to the jurisdiction of the Commission in the manner and to the extent provided by the laws of the Commonwealth of Kentucky.

2. The Settlement Agreement. As described in the Settlement Agreement, a copy of which is attached hereto as Exhibit A and incorporated herein by reference, the Settlement Agreement contains, among other things, provisions regarding (a) net non-fuel merger savings; (b) fuel and purchased power merger savings; (c) limitation on requests for stranded cost recovery; (d) allocation of proceeds from the sale of facilities; (e) system integration agreements; (f) Ohio Power waiver; (g) affiliate standards; (h) maintenance and enhancement of the adequacy

and reliability of retail electric service, including certain reporting requirements, (i) settlement of the existing environmental surcharge litigation (Kentucky Court of Appeals Case Nos. 98-CA-00137, 98-CA-01344, 98-CA-01417, 98-CA-01455); and (j) settlement of the pending six month review of KPCO's environmental surcharge in P.S.C. Case No. 98-624. The Settlement Agreement was agreed to by all parties to this proceeding.

The Settlement Agreement further provides that if the proposed merger is ultimately consummated, AEP commits that upon issuance of any final and non-appealable order from any state or federal commission addressing the merger that provides benefits or imposes conditions on AEP that would benefit the ratepayers of any jurisdiction, such net benefits and conditions will be extended to all other retail customers to the extent necessary to achieve equivalent net benefits and conditions to all retail customers of AEP.

The Settlement Agreement also provides that, upon approval by the Commission, the Intervenors, the Commission and its Staff shall not oppose the proposed merger before FERC or oppose AEP's previously made merger-related filings with the Securities and Exchange Commission.

The Settlement Agreement further states that it shall not constitute nor be cited as precedent or deemed an admission by any party in any other proceeding except as necessary to enforce its terms before the Commission, or any State Court of competent jurisdiction on these particular issues. The Settlement Agreement provides that it is solely the result of compromise in the settlement process, shall not constitute a concession of subject matter jurisdiction, and except as expressly provided therein, is without prejudice to and shall not constitute a waiver of any position that any of the parties thereto may take with respect to any or all of the items resolved therein in any future regulatory or other proceedings.

The Settlement Agreement states that if the Commission does not approve the Settlement Agreement in its entirety, it shall be null and void and deemed withdrawn, unless such change is approved by the parties.

At a hearing held May 28, 1999, Richard E. Munczinski, Senior Vice President-Corporate Planning and Budgeting of American Electric Power Service Corporation, the service corporation subsidiary of AEP, and Errol K. Wagner, Director of Regulatory Affairs for Kentucky Power testified in support of Commission approval of the Settlement Agreement. Mr. Munczinski discussed the negotiating process which resulted in the Settlement Agreement and the public benefits that would result from its approval. Mr. Wagner testified regarding the mechanism by which the bill reductions will be implemented by Kentucky Power.

During the course of this proceeding information about the proposed merger was requested from and provided by Kentucky Power, AEP and CSW. Additional information about the proposed merger has since been developed in the course of FERC proceedings and proceedings before other state commissions. After lengthy and detailed negotiations, Kentucky Power, CSW, AEP, the Attorney General, Office for Rate Intervention, Kentucky Industrial Consumers, Inc. and Kentucky Electric Steel have reached a unanimous agreement on terms and conditions that help ensure that Kentucky consumers will fairly share in the benefits achieved by the merger and that Kentucky consumers will be protected against any detrimental effects. The Parties recommend that the Commission approve the Settlement Agreement as a fair and just settlement of differences regarding merger-related issues.

Having reviewed the Settlement Agreement and the evidence relating thereto, the Commission finds that the recommendation of the Parties should be approved. The Commission further finds that the Settlement Agreement is a fair and reasonable resolution of the merger-

related issues of concern to the Commission and the Intervenors and should be approved in its entirety without modification.

The Commission finds that AEP and Kentucky Power have and will retain the financial, technical and managerial abilities to provide reasonable service.

The Commission further finds that the proposed merger of AEP and CSW is in accordance with the law, for a proper purpose and is consistent with the public interest.

IT IS THEREFORE ORDERED BY THE PUBLIC SERVICE COMMISSION OF KENTUCKY that:

1. The Settlement Agreement shall be and hereby is approved in its entirety without modification and that the merger of AEP and CSW is approved pursuant to KRS 278.020(4) and KRS 278.020(5).
2. Kentucky Power shall implement the Net Merger Savings Credit Tariff in the amounts shown in the tariff filed as Exhibit 2 to this Order, which tariff is approved.
3. American Electric Power, Inc. and Central and South West Corporation will incur transaction, regulatory processing and transition costs to merge the two companies. The Commission orders that the Kentucky retail jurisdictional share of the estimated merger costs be deferred and amortized for recovery over eight years. The amortization should begin with the date of the combination and continue for eight years on a straight-line basis.
4. The proposed regulatory plan is approved as are the steps necessary to implement it, specifically:
 - a. the regulatory treatment of the fuel saving arising from the integrated operations of AEP, CSW and Kentucky Power as set forth in the Settlement Agreement;

b. Kentucky Power is authorized to include as an allowable expense in cost of service the non-fuel merger savings, net of cost to achieve and amortization of estimated costs to achieve as set forth in Attachment B to the Settlement Agreement.

5. Effective January 1, 2000, KPCO shall begin collecting the environmental surcharge, including the costs of the Low Nox burners for the Big Sandy generating plant's Unit No. 1 and Unit No. 2, in accordance with the Opinion and Order of the Franklin Circuit Court dated April 30, 1998, as amended by Opinion and Order dated May 14, 1998 in Consolidated Case Nos. 97-CI-00137, 97-CI-01138, 97-CI-01144 (except those portions of the decisions allowing retroactive recovery of the surcharge).

6. The Commission approves the settlement of the environmental surcharge litigation (Kentucky Court of Appeals Case Nos. 98-CA-00137, 98-CA-01344, 98-CA-01417, 98-CA-01455, and 98 CA 002476) as described in the Settlement Agreement and authorizes its counsel to execute to necessary documents to dismiss the appeals and cross-appeals therein.

7. The pending review of KPCO's environmental surcharge in P.S.C. Case No. 98-624 shall be terminated and that proceeding is ordered closed without adjustment to the surcharge.

8. This Order shall be effective on and after the date of its approval.

By the Commission

STIPULATION AND
SETTLEMENT AGREEMENT

AMERICAN ELECTRIC POWER

CANCELING

ORIGINALSHEET NO. 25-1

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., Q.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:

$$\text{Net Merger Savings Credit} = \text{M.S.F.} + \text{B.A.F.}$$

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 <u>Distributed</u>	Merger Savings Factor <u>(M.S.F.)</u>
Year 1*	\$1,463,815	.021¢ per Kwh
Year 2	2,553,660	.037¢ per Kwh
Year 3	3,184,645	.045¢ per Kwh
Year 4	3,695,003	.051¢ per Kwh
Year 5	4,037,167	.055¢ per Kwh
Year 6	4,299,432	.057¢ per Kwh
Year 7	4,504,920	.059¢ per Kwh
Year 8	4,626,369	.059¢ per Kwh
Year 9	5,242,785	.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 and will continue until the effective date of a Commission order changing the Company's base rates after Year 8 of this tariff.

(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 effective date of a Commission order changing the Company's base rates after Year 8 of this tariff.

TERMS OF DISTRIBUTION.

- The total distribution to the Company's customers will, in no case, be less than the sum of the amounts shown for the first eight years above.
- 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.
- 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

COMMONWEALTH OF KENTUCKY
BEFORE THE
PUBLIC SERVICE COMMISSION OF KENTUCKY

RECEIVED
JUN 03 1999
PUBLIC SERVICE
COMMISSION

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))

**Opposition of Joint Applicants to Motion of
Kentucky Association of Plumbing-Heating-Cooling Contractors, Inc.
And Kentucky Propane Gas Association for Reconsideration**

Kentucky Power Company, American Electric Power Company, Inc. and Central and South West Corporation ("Joint Applicants") for their Opposition to the Motion of Kentucky Association of Plumbing-Heating-Cooling Contractors, Inc. ("KAPHCC") and Kentucky Propane Gas Association ("KPGA") for Reconsideration of the Commission's May 20, 1999 Order denying the KAPHCC and KPGA leave to intervene, state:

1. In their motion to reconsider, the KAPHCC and the KPGA do not argue that the Commission's factual findings in support of its Order denying their motion to intervene were unsupported by substantial evidence, or that the Commission misapplied the law. Instead, they simply disagree with the manner in which the Commission exercised its discretion. Yet, the discretion is the Commission's, and the KAPHCC and KPGA's disagreement is an inadequate basis for reconsideration. Moreover, the Commission's decision not to address issues involving affiliate transactions and codes of conduct on a piecemeal basis in this merger case is fully

consistent with its decision in the KU Energy/LG&E Energy merger to defer the KAHPPCC's arguments to Administrative Case No. 369. In the Matter of: Joint Application of Louisville Gas & Electric Company and Kentucky Utilities Company for Approval of Merger, P.S.C. Case No. 97-300 at 31 (September 12, 1997).

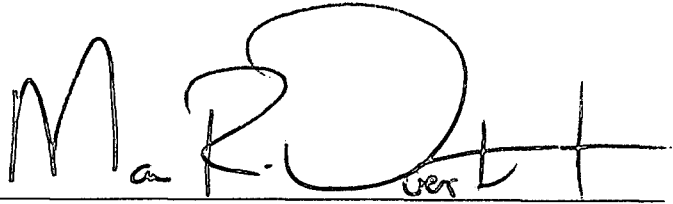
2. Conceding that the Joint Applicants do not compete with their members, the KAPHCC and KPGA nevertheless argue that such hypothesized competition may occur at some unspecified time in the future. The mere possibility of competition at some indeterminate point is too slender of a reed upon which to premise intervention. Indeed, KAPHCC and KPGA fail to cite any authority suggesting that such an ephemeral possibility rises to the level of "a special interest in the proceeding which is not otherwise adequately represented." 807 KAR 5:001, Section 3(8). Certainly, no argument is advanced as to why such speculation concerning possible future acts unrelated to the merger of Central and South West Corporation and American Electric Power, Inc. constitutes a "special interest" in this merger proceeding.

3. KAHPPCC and KPGA alternatively argue that if they are not permitted to intervene, the Commission should impose certain limitations on the future actions of American Electric Power, Inc. and Kentucky Power Company pending the final resolution of the issues being addressed by the Commission in Administrative Case No. 369. No basis is advanced by KAHPPCC and KPGA as to why American Electric Power, Inc. and Kentucky Power Company should be treated differently from every other utility in the Commonwealth, including those that might actually be competing with the KAHPPCC and KPGA's members.

4. Intervention by KAHPPCC and KPGA now, after the parties have reached a unanimous settlement, and after the Commission has conducted a hearing on the unanimous

settlement, and only twelve days prior to the conclusion of the statutory period for the Commission's review, clearly would unduly complicate and disrupt this case.

Dated: June 3, 1999

A handwritten signature in black ink, appearing to read 'Mark R. Overstreet'. The signature is written in a cursive style with a large, prominent 'O' in the middle. Below the signature is a horizontal line.

Mark R. Overstreet
STITES & HARBISON
421 West Main Street
P.O. Box 634
Frankfort, Kentucky 40602
Telephone: (502) 223-3477
COUNSEL FOR JOINT APPLICANTS,
AMERICAN ELECTRIC POWER COMPANY,
INC., KENTUCKY POWER COMPANY AND
CENTRAL AND SOUTH WEST CORPORATION

CERTIFICATE OF SERVICE

I hereby certify that a copy of the foregoing Joint Applicants' Opposition to the Motion of Kentucky Association of Plumbing-Heating-Cooling Contractors, Inc. and Kentucky Propane Gas Association for full intervention was served by first class mail on this 3rd day of June, 1999 upon:

Elizabeth E. Blackford
Assistant Attorney General
Office of Rate Intervention
1024 Capital Center Drive
Frankfort, Kentucky 40601

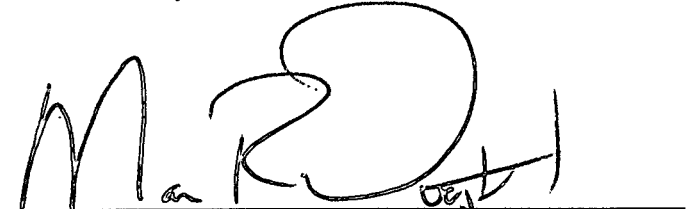
James W. Brew
Brickfield Burchette Ritts, P.C.
1025 Thomas Jefferson Street, N.W.
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Boehm, Kurtz & Lowry
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36 East Seventh Street
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William H. Jones, Jr.
VanAntwerp, Monge, Jones & Edwards, LLP
1544 Winchester Avenue
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Ashland, Kentucky 41105-1111

John David Myles
413 Sixth street
Shelbyville, Kentucky 40065



Mark R. Overstreet

John David Myles
Attorney at Law

413 SIXTH STREET
SHELBYVILLE, KENTUCKY 40065

RECEIVED

MAY 27 1999

PUBLIC SERVICE COMMISSION
633-3252

May 27, 1999

Hon. Helen C. Helton
Executive Director
Kentucky Public Service Commission
730 Schenkel Lane
Frankfort, Kentucky 40601

RE: Case No. 99-149

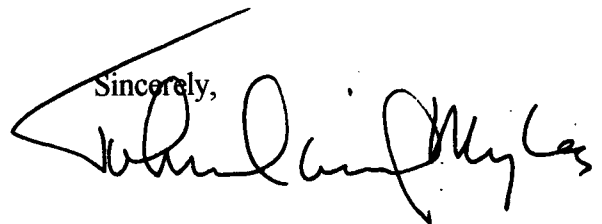
Dear Ms. Helton:

Enclosed please find the original and twelve copies of a Motion for Reconsideration filed on behalf of the Kentucky Association of Plumbing-Heating-Cooling Contractors and the Kentucky Propane Gas Association.

If I can provide any further information to assist the Commission or Staff in its review of this motion, please let me know.

Thank you for your assistance in this matter.

Sincerely,



COMMONWEALTH OF KENTUCKY
Before the
PUBLIC SERVICE COMMISSION

RECEIVED

MAY 27 1999

PUBLIC SERVICE
COMMISSION

In the Matter of:

JOINT APPLICATION OF KENTUCKY POWER)
COMPANY AND AMERICAN ELECTRIC)
POWER COMPANY, INC., AND CENTRAL)
AND SOUTH WEST CORPORATION)
REGARDING A PROPOSED MERGER)

Case No. 99-149

MOTION FOR RECONSIDERATION

Come now the Kentucky Association of Plumbing-Heating-Cooling Contractors, Inc., (KAPHCC), and the Kentucky Propane Gas Association (KPGA) (jointly, Movants), by counsel, and for their motion state as follows:

Movants urge the Commission to reconsider its decision and Order entered May 20, 1999, in this case. In that Order, the Commission took the rare step of denying the motion of KAPHCC and KPGA for leave to intervene. In doing so, the Commission relied on the assertion of the Joint Applicants that they are not now competing with Movants' members and upon the existence of Administrative Case No. 369.

Addressing those grounds of decision in order, the Movants would first note that the concept that no stricture is needed if that which it would prevent is not then being done is questionable at best and at worst would make prevention impossible. At a more practical level, the Joint Applicants nowhere state that they will not in the future compete unfairly with Movants' members. Nor do they make the more limited statement that they will refrain from doing so until the Commission has reached decisions in Administrative Case No. 369. In fact, by objecting to Movants' Motion to Intervene, they seek to keep

their options open. While the Joint Applicants have every right to pursue such a strategy, nothing obliges the Commission to play along.

Concerning Administrative Case No. 369, Movants remain grateful for the Commission's decision to open the case and for the extensive efforts Commission staff has devoted to it. However, Movants also remain extremely concerned at the length of time the case has taken thus far and with the Commission's decision to defer consideration of the Code of Conduct until it has acted on the proposed Affiliate Transaction Guidelines. Administrative Case No. 369 is fast approaching its second anniversary on the Commission's docket. During this time, those who are improperly using the advantages of utility status to compete against Movants' members have continued to do so and others have been free to begin such practices.

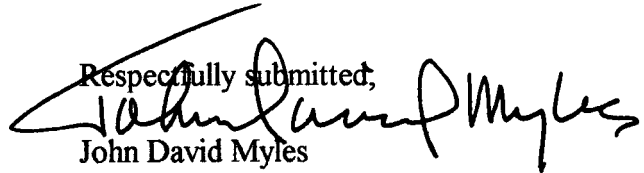
Under the circumstances, Movants would be remiss if they did not take every opportunity to protect their members. The issues of concern to Movants are clearly matters of public interest. Their relevance to the current proceedings is amply demonstrated by the fact that they were addressed by several of the other states which have considered the Joint Applicants' proposed merger.

For these reasons, Movants urge the Commission to reconsider its May 20, 1999, Order and grant them full intervention in this proceeding. Failing that, Movants urge the Commission to condition any approval of the merger upon a representation of the Joint Applicants that they will not undertake activities in competition with Movants' members until the Commission has completed its consideration of Administrative Case No. 369 and established the appropriate ground rules for such competition. If the absence of such competition and the existence of Administrative Case No. 369 are a sufficient basis for denying intervention to Movants, the Commission should act in the public interest to ensure that these conditions continue until orders have been issued in the "more

appropriate docket."

At the very least, the Commission should put the Joint Applicants and the other parties in Administrative Case No. 369 on notice that its acceptance, should it decide to approve the merger with accompanying documents, of filed affiliate transaction language in no way binds or limits the scope of the issues being considered in Administrative Case No. 369 as they relate to the Joint Applicants or other parties in that case or limits the scope of the Commission's discretion in addressing those issues.

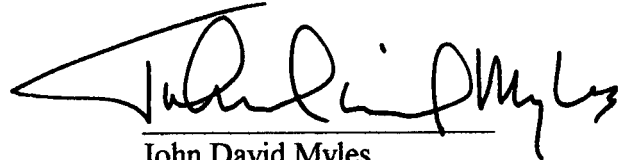
Respectfully submitted,



John David Myles
Counsel for Movants
413 Sixth Street
Shelbyville, Kentucky 40065
(502) 633-3252

CERTIFICATE OF SERVICE

This is to certify that true and accurate copies of the foregoing Motion for Reconsideration have been mailed, first class postage prepaid to the persons listed on the attached service list this 27th day of May, 1999.



John David Myles
Counsel for Movants

Errol K. Wagner
Director of Regulatory Affairs
American Electric Power
1701 Central Avenue
P. O. Box 1428
Ashland, KY 41105 1428

Honorable David F. Boehm
Honorable Michael L. Kurtz
Boehm, Kurtz & Lowry
2110 CBLD Center
36 East Seventh Street
Cincinnati, OH 45202

Honorable Kevin F. Duffy
Counsel for Kentucky Power and
American Electric Power
Company, Inc.
1 Riverside Plaza
Columbus, OH 43215 2373

Honorable Mark R. Overstreet
Counsel for Central and South West
Stites & Harbison
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Frankfort, KY 40602 0634

Honorable Elizabeth E. Blackford
Honorable G. Dennis Howard, II
Assistant Attorney General
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Frankfort, KY 40601

Honorable Richard S. Taylor
Attorney at Law
315 High Street
Frankfort, KY 40601

Honorable Peter Brickfield
Honorable James W. Brew
Brickfield, Burchette & Ritts, P.C.
1025 Thomas Jefferson Street, NW
Eighth Floor West Tower
Washington, DC 20007

Honorable William H. Jones
Vanantwerp, Monge, Jones & Edwards
1544 Winchester Avenue
Fifth Floor
Ashland, KY 41101

STITES & HARBISON

ATTORNEYS

May 26, 1999

BY HAND DELIVERY

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

RE: Kentucky Public Service Commission Case No. 99-149

Dear Ms. Helton:

Please accept for filing pursuant to the Commission Order dated April , an original and ten copies of the Direct Testimony of Richard E. Munczinski in Support of the Stipulation and Settlement Agreement and the Direct Testimony of Errol K. Wagner Support of the Stipulation and Settlement Agreement. Copies of the testimony have been served today by overnight delivery on all parties of record. In addition, copies of the testimony, excluding EXHIBIT REM-1, have been served by facsimile transmission all parties of record.

Very truly yours,


Mark R. Overstreet

cc: William H. Jones, Jr.
Elizabeth E. Blackford
James W. Brew
Gerald Wuetcher
Richard G. Raff
Richard S. Taylor

KE057:KE131:2215:FRANKFORT

RECEIVED
MAY 26 1999
PUBLIC SERVICE
COMMISSION

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COMMONWEALTH OF KENTUCKY
BEFORE THE
PUBLIC SERVICE COMMISSION OF KENTUCKY

RECEIVED
MAY 26 1999
PUBLIC SERVICE
COMMISSION

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)

DIRECT TESTIMONY
OF
RICHARD E. MUNCZINSKI
IN SUPPORT OF STIPULATION
AND SETTLEMENT AGREEMENT

May 26, 1999

CERTIFICATE OF SERVICE

I hereby certify that a copy of the foregoing "Direct Testimony of Richard E. Munczinski in Support of Stipulation and Settlement Agreement" was served by overnight delivery and facsimile transmission (without Exhibit REM-1), on this 26th day of May, 1999 upon:

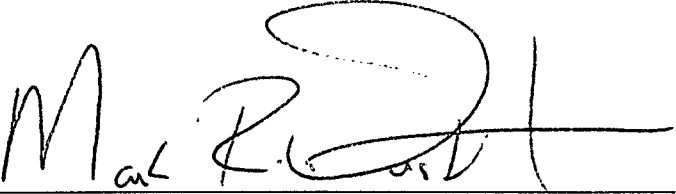
Elizabeth E. Blackford
Assistant Attorney General
Office of Rate Intervention
1024 Capital Center Drive
Frankfort, Kentucky 40601

David F. Boehm
Boehm, Kurtz & Lowry
2110 CBLD Center
36 East Seventh Street
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Ashland, Kentucky 41105-1111

Richard S. Taylor
Capital Link Consultants
315 High Street
Frankfort, Kentucky 40601



Mark R. Overstreet

1
2
3
4
5
6

**DIRECT TESTIMONY
OF
RICHARD E. MUNCZINSKI
IN SUPPORT OF
STIPULATION AND SETTLEMENT AGREEMENT**

7 **Q. Please state your name and business address.**

8 A. My name is Richard E. Munczinski and my business address is 1 Riverside Plaza, Columbus,
9 Ohio 43215-2373.

10

11 **Q. By whom are you employed and what is your position?**

12 A. I am employed by the American Electric Power Service Corporation ("AEPSC"), the service
13 corporation subsidiary of American Electric Power Company, Inc. ("AEP") as Senior Vice
14 President - Corporate Planning and Budgeting.

15

16 **Q. What is your responsibility in connection with the proposed merger of AEP and
17 Central and South West Corporation ("CSW")?**

18 A. I have AEP management responsibility for the regulatory approvals required to implement
19 the proposed business combination between AEP and CSW.

20

21 **Q. Please describe your business experience with AEPSC.**

22 A. I joined AEPSC in 1978 as an assistant Project Control Engineer and was subsequently
23 promoted to Project Control Engineer in 1979 and Senior Project Control Engineer in 1981.

1 In 1982, I joined the Controller's Department (now Corporate Planning and Budgeting
2 Department). I was promoted to manager of Financial Planning and Forecasting in 1985 and
3 to Assistant Controller in 1990. In 1992, I was named Director of the Rate Division of the
4 Rates Department (subsequently renamed the Regulatory Services Division and the Energy
5 Pricing and Regulatory Services Department, respectively). In November 1996, I was
6 promoted to Vice President - Regulatory Services. In this position, I provided supervision,
7 administration and rate case management for each of the five AEP State Office Regulatory
8 Affairs Departments whose personnel are employees of the major AEP operating company
9 subsidiaries as well as supervision and direction to the Regulatory Services Staff at AEPSC.
10 On January 1, 1998, I assumed my present position.

11
12 **Q. What is the purpose of your direct testimony?**

13 A. The purpose of my direct testimony is to identify, describe and support the Stipulation and
14 Settlement Agreement ("Agreement") which was filed with the Commission on May 24,
15 1999, by AEP, Kentucky Power Company ("KPCO"), the AEP operating company that
16 provides retail electric utility service in the State of Kentucky, and the Attorney General,
17 Office of the Rate Intervention, ("Attorney General"), Kentucky Electric Steel, Inc.
18 ("KESI"), Kentucky Industrial Utility Customers, Inc. ("KIUC"). The Attorney General,
19 KESI, and KIUC are collectively referred to herein as the "Intervenors". My testimony also
20 confirms the recommendation by AEP, KPCO, CSW and the Intervenors that the Merger be

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18 ("KESI"), Kentucky Industrial Utility Customers, Inc. ("KIUC"). The Attorney General,
19 KESI, and KIUC are collectively referred to herein as the "Intervenors". My testimony also
20 confirms the recommendation by AEP, KPCO, CSW and the Intervenors that the Merger be

1 approved by the Commission upon the terms set forth in the Agreement. AEP, KPCO, CSW
2 and the Intervenors are collectively referred to herein as the "Parties".

3
4 Mr. Errol Wagner is providing testimony supporting the rate design methodology used to
5 allocate the annual customer bill reductions to KPCO's Kentucky jurisdictional customers.

6
7 **Q. Please identify the document that has been marked for identification as EXHIBIT**
8 **REM-1.**

9 A. EXHIBIT REM-1 is a copy of the Agreement.

10
11 **Q. What was your involvement in the negotiation of the Agreement?**

12 A. I was responsible for the negotiation of the Agreement on behalf of AEP, CSW and KPCO.
13 I executed the Agreement on behalf of AEP. Mark R. Overstreet, counsel for KPCO and
14 CSW, executed the Agreement on their behalf. Elizabeth E. Blackford, Assistant Attorney
15 General executed the Agreement on behalf of the Attorney General. William H. Jones, Jr.
16 executed the Agreement on behalf of KESI, and David F. Boehm executed the Agreement
17 on behalf of the KIUC.

18
19 **Q. Please describe the process which lead to the execution of the Agreement.**

20 A. AEP, Kentucky Power and CSW filed their Joint Application in this case on April 15,
21 1999. That same day, courtesy copies of the Joint Application were delivered by KPCO

1 to the Attorney General's Office of Rate Intervention and KIUC, both of whom are often
2 parties to proceedings involving KPCO before this Commission. On April 22, 1999, at
3 KPCO's request, a technical conference was conducted at the Commission's offices to
4 enable the Staff, and representatives of KIUC and the Attorney General to ask questions
5 concerning the merger and the Joint Application. Also present and participating in the
6 conference were representatives of KESI, a customer of Kentucky Power.

7
8 Following the conclusion of that meeting, the parties agreed that the Joint Applicants
9 would make a settlement proposal and that the parties would meet again on May 4, 1999
10 to discuss settlement of the case. Subsequent to the May 4, 1999 meeting the parties
11 continued to exchange settlement proposals and met at the Commission's offices on May
12 11, 1999, May 17, 1999 and May 20, 1999. Concurrent with these discussions, the
13 discovery process continued, with the Intervenors serving initial and supplemental data
14 requests and the Joint Applicants providing responses in accordance with the procedural
15 schedule established by the Commission.

16
17 In the negotiations the Parties sought to ensure that (a) Kentucky consumers would
18 benefit from the proposed merger and that the merger would not be anti-competitive and
19 that (b) AEP and KPCO would be able to achieve in a timely manner the benefits which
20 they sought from the merger.

1 AEP and KPCO also desired assurance that this Commission would not oppose the
2 proposed merger in pending approval proceedings before the Federal Energy Regulatory
3 Commission ("FERC") and would not oppose merger-related filings made by AEP with
4 the Securities and Exchange Commission ("SEC"). Eventually, after extensive good faith
5 negotiation, the parties were able to resolve their differences by compromise and
6 incorporate in the Agreement which they now recommend the Commission approve in its
7 entirety without modification as a fair and just settlement of the issues.

8
9 On May 21, 1999, the parties agreed in principal to a settlement of the proceeding in
10 accordance with the Agreement (EXHIBIT REM-1). The executed Stipulation and
11 Settlement Agreement was filed with the Commission on May 24, 1999.

12
13 **Q. Is this a unanimous settlement?**

14 A. Yes, this is a unanimous settlement. I believe it is important to emphasize that although there
15 was give and take on all sides during the negotiations, all of the parties to this proceeding
16 recommend that the Commission approve the merger of AEP and CSW upon the terms set
17 forth in the Agreement.

18
19 **Q. Have Kentucky Power, KIUC, the Attorney General and the Commission Staff**
20 **agreed to settle the environmental surcharge litigation now pending in the**
21 **Kentucky Court of Appeals (Case Nos. 98 CA 00137, 98 CA 001344, 98 CA 001417,**

1 **98 CA 001455, 98 CA 002476)?**

2 A. Yes. The effect of the dismissal of the Kentucky Court of Appeals cases will be to leave
3 in effect the Franklin Circuit Court decisions in Case Nos. 97-CI-01138, 97-CI-001144
4 and 97-CI-00137, except that Kentucky Power has agreed to forgo its right under the
5 circuit court's decision in those cases to retroactive recovery of the surcharge. As a
6 further concession, Kentucky Power agreed to delay until January 1, 2000 the collection
7 through the environmental surcharge of the costs of the Low NOx burners for the Big
8 Sandy generating plant's Unit No. 1 and Unit No. 2, in accordance with the Franklin
9 Circuit Court decision.

10

11 The parties agreed that the dismissal shall be without prejudice in any other action with
12 respect to the positions taken by the parties in the dismissed litigation.

13

14 Finally, as part of the settlement the parties agreed that the six month review of Kentucky
15 Power's environmental surcharge as part of P.S.C. Case No. 98-624 would be closed
16 without further adjustment.

17

18 **Q. Please summarize the commitments made by AEP and KPCO in the Agreement?**

19 A. The substantive commitments of AEP and KPCO are contained in Sections 1 through 12 of
20 the Agreement. These provisions benefit KPCO's Kentucky retail customers in particular,
21 but many are capable of being adopted and applied in other AEP states as well.

1 1. In Section 1 (Regulatory Plan), KPCO commits to implement a Net Merger
2 Savings Credit tariff that will reduce bills to Kentucky retail customers in order to allow
3 them to share in the net non-fuel cost savings resulting from the proposed merger. The bill
4 reductions will be made beginning with the first full billing month available following thirty
5 days from the consummation of the merger. The annual bill reduction amounts will be
6 refunded to customers based upon kwh consumption. Section 1 contains provisions that
7 ensure that the net non-fuel merger savings bill reductions will remain in effect if KPCO has
8 a base rate case during the eight year period following the closing on the merger and that
9 KPCO will retain the share of the net non-fuel merger savings allocated to AEP's
10 shareholders. After eight years, the tariff will continue in effect until KPCO has a base rate
11 case at which time the tariff shall terminate and savings will be reflected in KPCO
12 rates. Mr. Wagner will testify regarding the details of this tariff. Section 1 also provides
13 that AEP and KPCO will defer and amortize their Kentucky jurisdictional estimated merger-
14 related costs-to-achieve over an eight year recovery period. Section 1 further states that the
15 agreed to rate treatment for estimated non-fuel merger savings and amortization of estimated
16 costs to achieve will be to include them in cost of service as an allowable expense in any
17 base rate proceeding occurring during the 8 year period in order to avoid duplication to
18 customers, and to continue to provide shareholders with their share of cost savings. In
19 addition, Section 1 states that KPCO will not petition for a base rate increase that would be
20 effective prior to January 1, 2003 or three years from the effective date of the merger,
21 whichever is later (the "rate moratorium"), and the Intervenors agree not to seek a reduction

1 in base rates during the rate moratorium. Finally, as I discussed earlier, the Parties and the
2 Staff have agreed to settle the Environmental Surcharge litigation.

3
4 2. Pursuant to Section 2, all savings of fuel and purchased power expenses
5 resulting from the merger shall benefit retail customers through the existing fuel clause
6 recovery mechanism. Also, AEP agrees to hold harmless the native load customers in the
7 existing service area of the AEP operating companies (the "East Zone") from higher
8 replacement power costs or foregone revenues caused by such companies supplying power
9 to the service area of the CSW operating companies (the "West Zone").

10
11 3. In Section 3, the Parties established a procedure for determining the existence
12 of a force majeure event, applicable during the rate moratorium, under the terms of the
13 Settlement Agreement.

14
15 4. In Section 4, AEP and KPCO agree not to seek or recover in one AEP Zone
16 stranded costs from the other AEP Zone.

17
18 5. Under Section 5, any proceeds from the sales of facilities in the rate base of
19 an AEP operating company must go to that operating company for further disposition in
20 accordance with the rules and orders of the regulatory authorities having jurisdiction. This

1 would not preclude the parties to this Agreement from any arguments they may seek to put
2 forth as to the appropriate disposition of such proceeds.

3
4 6. AEP and CSW have proposed to FERC a plan to mitigate any perceived
5 impacts of the merger on market power. Section 6 provides that AEP will hold harmless the
6 retail customers from the costs of any mitigation plan adopted by FERC in connection with
7 approving the proposed merger. In any future general retail rate proceeding where an AEP
8 operating Company has requested a change in its rates and charges, AEP shall have the
9 burden to prove that such requested rate relief does not reflect mitigation-related costs. AEP
10 also agrees to file with FERC and give State Commissions notice of any such filings, at the
11 time it is made, of the allocation of new generation and transmission facilities (whether
12 constructed or purchased) when the costs will be subject to the System Integration
13 Agreement or the System Transmission Agreement. AEP also agrees to provide certain
14 information about such new facilities as part of its notification to the State Commissions.

15
16 7. Some transactions between AEP affiliated companies are subject to SEC
17 review and approval under the Public Utility Holding Company Act. In Section 7, AEP
18 agrees that it will not assert that any such SEC approval impairs the ability of the state
19 commissions to determine the reasonableness of non-power affiliate transaction costs being
20 passed to retail customers. This provision was fashioned in response to the "Ohio Power"
21 court decision cited in Section 7. AEP does not waive arguments that it may have with

1 respect to the reasonableness of SEC-approved cost allocations and agrees to notify the state
2 commissions at least 30 days prior to filing of any new allocation factors with the SEC and
3 make a good faith attempt to resolve any differences with State Commission Staff in advance
4 of any such filing with the SEC.

5
6 8. Section 8 describes affiliate standards and guidelines applicable to
7 transactions between AEP operating companies and their affiliates. These standards will be
8 effective from the date of closing of the merger until new affiliate standards imposed by state
9 legislation or Commission action become effective. These standards provide assurances that
10 the merger will not cause cost shifting, cost-subsidization or discriminatory treatment
11 between KPCO and non-regulated affiliates. This section also requires, among other things,
12 AEP to provide contact persons for state commissions, consumer advocates and retail
13 customers seeking certain types of information.

14
15 9. In Section 9, AEP agrees to maintain or improve the quality and reliability
16 of retail electric service and to submit service reports to the Commission.

17
18 10. Section 10 states that if in connection with approving the merger any state or
19 federal commission provides benefits or imposes conditions on AEP that would benefit the
20 ratepayers in one jurisdiction, AEP will extend equivalent net benefits and conditions to
21 retail customers in the other jurisdictions.

1 11. Section 11 ensures that the Commission and its Staff are not precluded from
2 addressing in a manner not inconsistent with the Agreement issues raised in the FERC
3 merger proceeding.

4
5 12. Section 12 provides that AEP and KPCO will not assert in any action to
6 enforce the Commission Order approving the Agreement that the Commission lacks
7 authority to have the provisions of the Agreement enforced in accordance with Kentucky
8 law.

9
10 **Q. What factors do AEP and KPCO consider important in evaluating the rate reduction**
11 **provisions described in Section 1?**

12 **A.** Several factors are important. The plan must be fair to customers and shareholders and must
13 provide sufficient value for the merged company. The Agreement adopts a fixed level of
14 merger savings and provides customers with current cash benefits reducing existing bills.

15
16 Because the AEP and CSW operating companies are subject to the jurisdiction of several
17 regulatory commissions and to FERC's jurisdiction, the plan should incorporate general
18 principles that are capable of being implemented in all jurisdictions. In addition, the plan
19 must be simple to apply, not be costly to implement and avoid the shifting of costs among
20 jurisdictions. AEP believes the Agreement is consistent with these factors.

21

1 **Q. Why are the rate reduction provisions reflected in the Agreement reasonable for**
2 **Kentucky customers?**

3 A. The Agreement provides Kentucky customers with current rate reductions and protects the
4 customers from higher rates due to the merger. The Agreement also accomplishes a fair
5 sharing of net merger benefits in a manner that does not require complex regulatory
6 proceedings in the future. Approval of a fixed total level of net merger savings that will be
7 used to benefit customers shifts the risk of achieving the estimated net savings to
8 shareholders. In addition, the Agreement is flexible enough to work under either a
9 continuation of regulation or a shift to retail competition and unbundling.

10

11 **Q. What happens if the savings realized by AEP and KPCO fall short of the estimates used**
12 **to develop the agreed-upon rate reductions?**

13 A. AEP and KPCO are guaranteeing a fixed level of benefits to customers and will bear the risk
14 of any failure to actually achieve the full amount of savings.

15

16 **Q. What commitments do AEP and KPCO receive in the Agreement?**

17 A. In return for the commitments of AEP and KPCO described above, the Agreement provides
18 that neither the Commission nor its Staff will oppose the proposed merger at FERC or
19 oppose AEP's previously made merger-related filings with the SEC, together with any non-
20 material changes or supplements thereto. In addition, the Intervenors agree not to seek a
21 reduction in base rates during the rate moratorium.

1 **Q. Why do AEP, KPCO and CSW believe the Merger, upon consummation in accordance**
2 **with the terms of the Agreement, will meet the Commission's standards for merger**
3 **approval?**

4 A. In addition to the reasons set out in the Joint Applicants' prefiled testimony, the Joint
5 Applicants believes the merger will have important and long-lasting benefits to the public
6 in the states where its operating companies provide service. AEP seeks support for the
7 merger from the regulatory commissions in these states. AEP has been proactive in making
8 agreements which it is not legally obligated to make in order to obtain this support, to
9 convince our regulators that consumers will benefit from the proposed merger and to avoid
10 time consuming and expensive litigation that might otherwise take place.

11
12 **Q. What action do the parties to the Agreement request the Commission to take?**

13 A. The parties to the Agreement request that the Commission approve the Agreement in its
14 entirety without modification. The parties have stipulated and agreed to the issuance by the
15 Commission of an Order approving the Agreement in the form of Attachment D to the
16 Agreement. In accordance with the Agreement, the proposed order will approve the
17 Agreement and terminate this proceeding. Certain additional actions will be required by the
18 Commission in order to implement the Agreement, including approving the Net Merger
19 Savings Credit tariff and issuing an accounting order authorizing the deferral and
20 amortization of the costs to achieve (see Attachment B, page 3 of 3 of EXHIBIT REM-1) the
21 merger.

1 Q. Does this conclude your prepared direct testimony on the Stipulation and Settlement
2 Agreement?

3 A. Yes.

COMMONWEALTH OF KENTUCKY

BEFORE THE PUBLIC SERVICE COMMISSION OF KENTUCKY

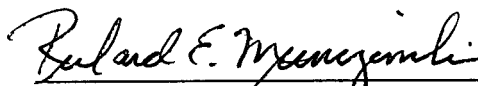
COUNTY OF BOYD

COMMONWEALTH OF KENTUCKY

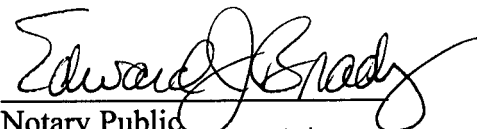
CASE NO. 99-149

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 24th day of May 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 _____

EXHIBIT

REM-1

COMMONWEALTH OF KENTUCKY
BEFORE THE
PUBLIC SERVICE COMMISSION OF KENTUCKY

RECEIVED
MAY 24 1999
PUBLIC SERVICE
COMMISSION

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)

STIPULATION AND SETTLEMENT AGREEMENT

On February 17, 1999 the Staff of the Public Service Commission of Kentucky ("Commission") issued a letter stating staff's belief that the Commission has jurisdiction under KRS 278.020 (5) to review the proposed merger of Central and South West Corporation ("CSW") into American Electric Power Company, Inc. ("AEP") and requested that Kentucky Power Company ("Kentucky Power" "KPCO" or the "Company") advise in writing by March 8, 1999 of the date AEP would file an application for Commission approval of "the indirect change in control of Kentucky Power Company." On March 5, 1999 the Company issued a letter notifying the Commission that it would file the requested application by April 15, 1999. The letter also indicated that the Company expected to provide the Staff and the Commission with sufficient information to enable the Commission to approve its application within the sixty (60) day period prescribed by the statute. The letter further preserved the Company's legal arguments regarding the application of KRS 278.020 (5) to this merger.

On April 15, 1999 the Company, AEP and CSW filed a Joint Application with supporting testimony and workpapers. The proceeding was designated P.S.C. Case No. 99-149. On April 22, 1999 the Commission issued a letter indicating that the Commission staff had reviewed the Company's application and found that it met the minimum filing requirements.

On May 4, 1999 the Attorney General, Office of the Rate Intervention ("Attorney General"), and Kentucky Electric Steel, Inc. ("KESI") were granted full intervention in Case No. 99-149. On May 11, 1999 Kentucky Industrial Utility Customers, Inc. ("KIUC"), was also granted full intervention in Case No. 99-149. These parties will be referred to herein collectively as the "Intervenors".

On April 22, 1999 a Technical Conference was held at the Commission's offices. On May 4, May 11, May 17, and May 20, 1999 settlement conferences were held at the Commission's offices. Present were the Staff and counsel for the Intervenors, as well as Company representatives.

Solely for the purposes of compromise and settlement of the issues in this proceeding, Central and South West Corporation, American Electric Power Company, Inc., Kentucky Power Company, which does business in Kentucky as American Electric Power, the Attorney General, Kentucky Industrial Utility Customers, Inc. and Kentucky Electric Steel, Inc. (collectively referred to as the "Parties") have met and reached a settlement agreement ("Agreement") which they hereby submit and recommend for approval to the Commission. If the Commission does not approve the settlement agreement in its entirety and incorporate it in the Final Order, the proposed Agreement shall be null and void and deemed withdrawn, unless such change is agreed to by the Parties.

SETTLEMENT AGREEMENT

WHEREAS AEP and CSW have filed various applications before federal and state agencies seeking approvals necessary to consummate a proposed merger of the two companies, and

WHEREAS the Parties have met and explored various issues related to the proposed merger and their agreements and differences regarding the effects of the proposed merger on competition between electricity providers and on the terms and conditions under which retail electric utility service is provided, and

WHEREAS the Parties recognize the costs and uncertainty of litigation and the desirability of consensual voluntary resolution of their differences and the legitimate interests and good faith of each of the parties in achieving the objectives each desires to achieve, and

Whereas, the Parties agree as follows:

That AEP, KPCO and the Intervenors will recommend to the Commission that the following Agreement be adopted by the Commission in an order or other appropriate formal action that references this Agreement or incorporates all of the provisions thereof. Where appropriate, the Commission action may address or reserve other matters ancillary or incidental to the matters addressed in this Agreement, for immediate or future disposition, in a manner not inconsistent with the Agreement.

All appropriate terms are defined in the "Definitions" section of the Agreement.

The Parties:

1. Will not oppose the proposed merger pending before the Federal Energy Regulatory Commission ("FERC").

2. Will not oppose AEP's filings previously made at the United States Securities and Exchange Commission ("SEC") in connection with the proposed merger, together with any non-material changes or supplements thereto.

AEP, or Kentucky Power Company, conditional on merger consummation will:

1. REGULATORY PLAN. KPCO will implement a Net Merger Savings Credit tariff that will reduce bills to customers by the annual amounts shown in Attachment A beginning with the first full billing month available following thirty days from the consummation of the merger. The annual bill reduction amounts shown in Attachment A will be refunded to customers based upon kwh consumption. Each individual year's bill reduction will apply for a twelve month period. A Balancing Adjustment Factor (B.A.F) per Kwh will be included for the second through the twelfth month of the current distribution year which will reconcile any over- or under-distribution of the net savings from prior years.

The merger savings and costs are based on estimated values included in AEP's filing with the Federal Energy Regulatory Commission ("FERC") in Docket No. EC98-40-000.

Absent a force majeure, KPCO will not file a petition, which, if approved, would have the effect, either directly or indirectly, of authorizing a general increase in basic rates and charges that would be effective prior to January 1, 2003 or three years from the effective date of the merger, whichever is later (the "rate moratorium"), and the Intervenor agree not to seek a reduction in base rates during the rate moratorium. During this period, the fuel adjustment clause, the environmental surcharge, the demand side management adjustment and the system sales tracker shall continue in force and shall not be subject to any freeze. During the rate moratorium period, and notwithstanding any force majeure event, any discount, including but not limited to, operating reserve and interruptible discounts contained in special contracts as currently approved by the Commission, shall remain in force and shall not be changed for any customer receiving the discount.

The Parties and the Commission will dismiss the appeals and cross-appeals in Case Nos. 98 CA 00137, 98 CA 001344, 98 CA 001417, 98 CA 001455 and 98 CA 002476. The dismissal shall be without prejudice in any other action with respect to the positions taken by the parties in the dismissed litigation.

Effective January 1, 2000, KPCO shall begin collecting the environmental surcharge, including the costs of the Low Nox burners for the Big Sandy generating plant's Unit No. 1 and Unit No. 2, in accordance with the decisions of the Franklin Circuit Court Opinion and Order dated April 30, 1998 and its Amended Opinion and Order dated May 14, 1998 in Consolidated Case Nos. 97-CI-01138, 97-CI-01144 and 97-CI-00137 (except those portions of the decision allowing retroactive recovery of the surcharge).

The parties further agree that there shall be no adjustment to the environmental surcharge as a result of the six month review in P.S.C. Case No. 98-624.

Notwithstanding any base rate proceeding during the eight year period after the consummation of the merger, the annual amounts shown in Attachment A will remain in effect. After the eight year period and absent a base rate proceeding, the Company will continue through the Net Merger Savings Credit to reduce bills to customers by the annual amount shown on Attachment A which is the customers' portion of the net savings without the amortization of the costs to achieve during the eighth year after the consummation of the merger.

KPCO must implement the above rate reductions in the manner and amounts described above notwithstanding any changes to the current regulatory structure in Kentucky. In the event that retail electric deregulation legislation is implemented in Kentucky or if there is any unbundling or restructuring, KPCO shall continue to apply the regulatory plan's provisions to regulated rates of its Kentucky retail jurisdictional customers.

Any legislatively mandated adjustments to base rates, of any kind, that are part of any retail electric deregulation legislation implemented in Kentucky shall not diminish or offset, but shall be in addition to, the bill reductions established in this proceeding.

Subject to this agreement, AEP and KPCO will defer and amortize their Kentucky retail jurisdictional estimated merger related costs-to-achieve over an 8-year recovery period. Costs to achieve the merger are those costs incurred to consummate the merger and combine the operations of AEP and CSW. These costs include, but are not limited to, investment banking fees; consulting and legal services incurred in connection with obtaining regulatory and shareholder approvals; transition planning and development costs; employee separation costs including severance costs, change-in-control payments and retraining costs; and facilities consolidation costs. The Commission will issue accounting orders or other orders necessary to authorize the deferral and amortization of merger costs.

If the merger is not consummated, the Company commits and agrees not to seek to recover termination fees, the "Out of Pocket" and "Topping Out" fees associated with the merger as described in Sections 9.5 and 9.6 of the *Agreement and Plan of Merger By and Among American Electric Power Company, Inc., Augusta Acquisition Corporation and Central and South West Corporation* dated December 21, 1997 (Merger Agreement); and further commit and agree not to seek to recover the fee that may be charged by Morgan Stanley.

In any proceeding to change base rates for KPCO to become effective after the consummation of the merger, the following rate treatment will be reflected:

- A. Estimated non-fuel merger savings, net of costs to achieve will be included in cost of service as an allowable expense in order to avoid duplication and to continue to provide shareholders with their share of the net savings. The amount to be included in the cost of service shall be based upon the test year period. (See Attachment B).

- B. Amortization of estimated 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. (See Attachment B.)

In any base rate proceeding after the eight year period, neither the merger savings credit rider nor the expense adjustments described in A. and B. above will be reflected in the test year.

2. FUEL MERGER SAVINGS. All savings of fuel and purchased power expenses resulting from the merger shall benefit retail customers through existing fuel clause recovery mechanisms applied by State Commissions. In circumstances when one or more AEP operating companies in one AEP zone are supplying power to the other AEP zone, and as a result, the supplying zone needs to purchase replacement power to serve its native load, AEP shall hold harmless the native load customers of the supplying zone from any price differential between the replacement power and the system power supplied to the other zone. Similarly, if one or more AEP operating companies in one AEP zone are supplying power to the other AEP zone, and as a result, the supplying zone loses the opportunity to sell power at a price higher than received from the zone being supplied, AEP shall credit the supplying zone for the foregone revenues.

3. For purposes of this Settlement Agreement, force majeure shall mean circumstances that cause any of the following to occur: a) the bond rating for Kentucky Power Company to fall below an investment grade rating of Baa3 (Moody's) or BBB- (Standard & Poors), or b) an increase in the federal and/or state income taxes of KPCO, which increase is the result of changes in federal or state income tax provisions, or c) an increase in KPCO's total electric operating expenses, excluding fuel and purchased power, due to circumstances beyond its control, and further excluding the costs of compliance with federal, state or local environmental requirements which apply to coal combustion wastes and by-products from facilities utilized for production of energy from coal.

For purposes of this force majeure provision, an increase is defined as an increase in expense in an annualized amount greater than five percent (5%) of AEP's Kentucky jurisdictional net revenues (i.e., operating revenues less fuel and purchased power) for the preceding twelve months.

A force majeure may only exist under the terms of this Settlement Agreement if the Commission finds in a rate application filed by the Company that the circumstances allowed for under this Settlement Agreement are a force majeure, as defined in this Agreement, after a public evidentiary hearing in which all the Parties may participate.

4. STRANDED COSTS. AEP and its operating companies agree not to seek or recover any stranded costs associated with the operating companies of one AEP zone from the retail customers of the other AEP zone.

5. PROCEEDS OF FACILITY SALES. Any proceeds from the sale of facilities shall go to the AEP operating company in whose rate base the facilities are included, for further disposition

in accordance with the rules and orders of the regulatory authorities whose jurisdiction encompasses the ultimate disposition of such proceeds.

6. **SYSTEM INTEGRATION AGREEMENTS.** To mitigate any perceived impacts of the merger on AEP's ability to exercise market power, AEP proposed in its FERC merger application a mitigation plan. To protect retail customers, AEP agrees to hold harmless the retail customers from any mitigation plan included in any FERC order approving the merger of AEP-CSW. To implement this Agreement in any general retail electric rate proceeding commenced by the filing of a petition on or after the date of this Agreement, in which an AEP operating company requests a change in its basic rates and charges, or in any other proceeding where so ordered by the State Commission, AEP shall have the burden therein to prove that such requested rate relief does not reflect mitigation-related costs.

AEP commits to file any allocation of the cost of new, modified or upgraded generation or transmission facilities whose costs will be subject to the System Integration Agreement or the System Transmission Agreement with the FERC and to notify each State Commission of any such filing at the time it is made. Notification to each State Commission will include an estimate of the cost of construction, an explanation of the reasons for constructing the facilities, studies supporting the construction of the facilities, and a proposed allocation of the facilities' costs. If AEP plans to purchase an in-service facility or already constructed and soon-to-be-in-service facility, AEP will follow the above described procedures and will include as part of the notification to the State Commission an explanation of the circumstances causing the AEP operating company to make the purchase in question.

7. **REGULATORY AUTHORITY.** AEP agrees not to seek to overturn, reverse, set aside, change or enjoin, whether through appeal or the initiation or maintenance of any action in any forum, a decision or order of a State Commission based on the assertion that the authority of the Securities and Exchange Commission as interpreted in *Ohio Power Co. v. FERC*, 954 F.2d 779 (D.C. Cir. 1992) cert. denied, 498 U.S. 73 (1992) impairs the State Commission's ability to examine and determine the reasonableness of non-power affiliate transaction costs to be passed to retail customers. The parties agree that the Ohio Power waiver does not include waiver of any arguments that AEP may have with respect to the reasonableness of SEC approved cost allocations. AEP will provide each State Commission with notice at least 30 days prior to any filings that propose new allocation factors with the SEC. The notice need not be in the precise form of the final filing but shall include, to the extent information is available, a description of the proposed factors and the reasons supporting such factors. AEP and State Commission Staff will make a good faith attempt to resolve their differences, if any, in advance of a filing being made at the SEC.

8. **AFFILIATE STANDARDS.** The following affiliate standards shall apply from the date of closing of the merger until new affiliate standards imposed by state legislation or State Commission action become effective.

A. The financial policies and guidelines for transactions between an AEP operating company and its affiliates shall reflect the following principles:

1. An AEP operating company's retail customers shall not subsidize the activities of the operating company's non-utility affiliates or its utility affiliates.
2. An AEP operating company's costs for jurisdictional rate purposes shall reflect only those costs attributable to its jurisdictional customers.
3. These principles shall be applied to avoid costs found to be just and reasonable for ratemaking purposes by the affected State Commission being left unallocated or stranded between various regulatory jurisdictions, resulting in the failure of the opportunity for timely recovery of such costs by the operating company and/or its utility affiliates; provided, however, that no more than one hundred percent of such costs shall be allocated on an aggregate basis to the various regulatory jurisdictions.
4. An AEP operating company shall maintain and utilize accounting systems and records that identify and appropriately allocate costs between the operating company and its affiliates, consistent with these cross-subsidization principles and such financial policies and guidelines.

B. Each State Commission shall have access to the employees, officers, books and records of any affiliate of its jurisdictional AEP operating company to the same extent and in like manner that each such State Commission has over a public utility operating within the state in which such State Commission exercises its regulatory authority if the affiliate had engaged in direct or indirect transactions with the jurisdictional AEP operating company. If such employees, officers, books and records can not be reasonably made available to a State Commission, then upon request of a State Commission, the AEP operating company shall, in accordance with state reimbursement rules, reimburse the State Commission for appropriate out-of-state travel expenses incurred in accessing the employees, officers, books and records. Each AEP operating company shall maintain, in accordance with generally accepted accounting principles, books, records, and accounts that are separate from the books, records, and accounts of its affiliates, consistent with Part 101 – Uniform System of Accounts Prescribed for Public Utilities and Licensees Subject to the Provisions of the Federal Power Act. Any objections to providing all books and records must be raised before the State Commission and the burden of showing that the request is unreasonable or unrelated to the proceeding is on the AEP operating company. The confidentiality of competitively sensitive information shall be maintained in accordance with each State Commission's rules and regulations.

- C In accordance with generally accepted accounting principles and consistent with state and federal guidelines, an AEP operating company shall record all transactions with its affiliates, whether direct or indirect. An AEP operating company and its affiliates shall maintain sufficient records to allow for an audit of the transactions involving the operating company and its affiliates. Asset transfers from an AEP operating company to a non-utility affiliate and asset transfers from a non-utility affiliate to an AEP operating company shall be at fully distributed costs in accordance with current Securities and Exchange Commission (SEC) issued requirements or other statutory requirements if the SEC has no jurisdiction.
- D. An AEP operating company shall not allow a non-utility affiliate to obtain credit under any arrangement that would permit a creditor, upon default, to have recourse to the operating company's assets. The financial arrangements of an AEP operating company's affiliates are subject to the following restrictions unless otherwise approved by that operating company's State Commission:
1. Any indebtedness incurred by a non-utility affiliate will be without recourse to the operating company.
 2. An AEP operating company shall not enter into any agreements under terms of which the operating company is obligated to commit funds in order to maintain the financial viability of a non-utility affiliate.
 3. An AEP operating company shall not make any investment in a non-utility affiliate under circumstances in which the operating company would be liable for the debts and/or liabilities of the non-utility affiliate incurred as a result of acts or omissions of a non-utility affiliate.
 4. An AEP operating company shall not issue any security for the purpose of financing the acquisition, ownership, or operation of a non-utility affiliate.
 5. An AEP operating company shall not assume any obligation or liability as guarantor, endorser, surety, or otherwise with respect to any security of a non-utility affiliate.
 6. An AEP operating company shall not pledge, mortgage or otherwise use as collateral any assets of the operating company for the benefit of a non-utility affiliate.
 7. AEP shall hold harmless the retail customers of an AEP operating company from any adverse effects of credit rating declines caused by the actions of non-utility affiliates.

Transactions between AEP operating companies and affiliates involving a money pool for the financing of short-term funding requirements are exempt from the requirements of this paragraph. Further, the provisions of this paragraph would not preclude AEP operating companies from issuing securities or assuming obligations related to their existing coal subsidiaries.

- E. Any untariffed, non-utility service provided by an AEP operating company or affiliated service company to any affiliate shall be itemized in a billing statement pursuant to a written contract or written arrangement. The AEP operating company and any affiliated service company shall maintain and keep available for inspection by the State Commission copies of each billing statement, contract and arrangement between the AEP operating company or affiliated service company and its affiliates that relates to the provision of such untariffed non-utility services.
- F. Any good or service provided by a non-utility affiliate to an AEP operating company shall be by itemized billing statement pursuant to a written contract or written arrangement. The operating company and non-utility affiliate shall maintain and keep available for inspection by the State Commission copies of each billing statement, contract and arrangement between the operating company and its non-utility affiliates that relates to the provision of such goods and services in accordance with applicable State Commission retention requirements.
- G. Employees responsible for the day to day operations of the AEP operating companies and those of affiliated exempt wholesale generators or affiliated power marketers shall operate independently of one another. AEP shall document all employee movement between and among all affiliates. Such information shall be made available to each State Commission and consumer advocate upon request.
- H. An AEP operating company may not own property in common with an affiliated exempt wholesale generator or affiliated power marketer.
- I. No market information obtained in the conduct of utility business may be shared with an affiliated exempt wholesale generator or affiliated power marketer, except where such information has been publicly disseminated or simultaneously shared with and made available to all non-affiliated entities who have requested such information. Customer specific information shall not be made available to an affiliated exempt wholesale generator or affiliated power marketer except under the same terms as such information would be made available to a non-affiliated company, and only with the written consent of the customer specifying the information to be released.
- J. A non-utility affiliate may use an AEP operating company's name or logo only if, in connection with such use, the affiliate makes adequate disclosures to the effect that (i) the two entities are separate; (ii) it is not necessary to purchase the

non-regulated product or service to obtain service from the operating company; and (iii) the customer will gain no advantage from the operating company by buying from the affiliate.

- K. An AEP operating company shall not condition or tie the provision of any product, service, pricing benefit, or waiver of associated terms or conditions, to the purchase of any good or service from its affiliated exempt wholesale generator or power marketer.
- L. Except as provided in paragraph M, an affiliated exempt wholesale generator or affiliated power marketer shall not share office space, office equipment, computer systems or information systems with an AEP operating company.
- M. Computer systems and information systems may be shared between an AEP operating company and non-utility affiliates only to the extent necessary for the provision of corporate support services; however, the operating company shall ensure that the proper security access and other safeguards are in place to ensure full compliance with these affiliate rules.
- N. An AEP operating company may engage in transactions directly related to the provision of corporate support services with its affiliates in accordance with requirements relating to service agreements. As a general principle, such provision of corporate support services shall not allow or provide a means for the transfer of confidential information from the operating company to the affiliate, create the opportunity for preferential treatment or unfair competitive advantage, create opportunities for cross-subsidization of affiliates, or otherwise provide any means to circumvent these affiliate rules.
- O. Except as provided in paragraph N, an AEP operating company may only make a product or service available to an affiliated exempt wholesale generator or an affiliated power marketer if the product or service is equally available to all non-affiliated exempt wholesale generators and power marketers on the same terms, conditions and prices, and at the same time. An AEP operating company shall process all requests for a product or service from affiliated and non-affiliated exempt wholesale generators and power marketers on a non-discriminatory basis.
- P. An AEP operating company which provides both regulated and non-regulated services or products, or an affiliate which provides services or products to an AEP operating company, shall maintain documentation in the form of written agreements, an organization chart of AEP (depicting all affiliates and AEP operating companies), accounting bulletins, procedure and work order manuals, or other related documents, which describe how costs are allocated between regulated and non-regulated services or products. Such documentation shall be available, subject to requests for confidential treatment, for review by State Commissions in accordance with Paragraph B. above.

- Q. AEP shall designate an employee who will act as a contact for State Commissions and consumer advocates seeking data and information regarding affiliate transactions and personnel transfers. Such employee shall be responsible for providing data and information requested by a State Commission for any and all transactions between the jurisdictional operating company and its affiliates, regardless of which affiliate(s), subsidiary(ies) or associate(s) of an AEP operating company from which the information is sought.
- R. AEP shall designate an employee or agent within each signatory state who will act as a contact for retail consumers regarding service and reliability concerns and to allow a contact for retail consumers for information, questions and assistance. Such AEP representative shall be able to deal with billing, maintenance and service reliability issues.
- S. AEP shall provide each signatory state a current list of employees or agents that are designated to work with each State Commission and consumer advocate concerning state regulatory matters, including, but not limited to, rate cases, consumer complaints, billing and retail competition issues.
- T. Thirty (30) days prior to filing any affiliate contract (including service agreements) with the SEC or the FERC an AEP operating company shall submit to each affected State Commission a copy of the proposed filing.
- U. Any violation of the provisions of these affiliate standards are subject to the enforcement powers and penalties at the State Commissions.
- V. AEP shall contract with an independent auditor who shall conduct biennial audits for ten years after merger consummation of affiliated transactions to determine compliance with these affiliate standards. The results of such audits shall be filed with the State Commissions. Prior to the initial audit, AEP will conduct an informational meeting with State Commissions regarding how its affiliates and affiliate transactions will or have changed as a result of the proposed merger.
- W. If the Public Utility Holding Company Act of 1935 is repealed or materially amended during the time this Agreement is in effect, and equivalent jurisdiction is not given to another federal agency, AEP will work with the State Commissions to ensure that AEP continues to furnish the State Commission with the appropriate information to regulate its jurisdictional AEP operation company. The State Commission may establish its reporting requirements regarding the nature of intercompany transactions concerning the operating company and a description of the basis upon which cost allocations and transfer pricing have been established in these transactions.

9. ADEQUACY AND RELIABILITY OF RETAIL ELECTRIC SERVICE. See Attachment C for the AEP/KENTUCKY POWER SERVICE QUALITY PROGRAM that has been agreed to by the parties.

10. STATUTORY AND OTHER ISSUES. Provided the proposed merger is ultimately consummated, AEP commits that upon issuance of any final and non-appealable order from any state or federal commission addressing the merger that provides benefits or imposes conditions on AEP that would benefit the ratepayers of any jurisdiction, such net benefits and conditions will be extended to all other retail customers to the extent necessary to achieve equivalent net benefits and conditions to all retail customers of AEP.

11. CONTINUED PARTICIPATION - Nothing in this Agreement is intended to preclude the Commission and its staff from addressing in a manner not inconsistent with this Agreement issues raised in the FERC Docket No. 98-40-000.

12. ENFORCEABILITY. AEP and KPCO will not assert in any action to enforce an order approving this Agreement that the Commission lacks the authority to have the provisions of this Agreement enforced under Kentucky law.

DEFINITIONS

1. "AEP zone" means either the area comprising the AEP operating companies providing service in Indiana, Michigan, Kentucky, Ohio, Tennessee, Virginia and West Virginia ("East") or the area comprising the former CSW operating companies providing service in Arkansas, Texas, Oklahoma and Louisiana ("West").

2. "AEP operating company" means an AEP affiliate that is a public utility subject to rate regulation by the FERC and/or a state utility regulatory agency.

3. "Affiliate" means an entity that is an operating company's holding company, a subsidiary of the operating company or a subsidiary of the holding company.

4. "Consumer advocate" means an agency of the state government designated as a representative of consumers in matters involving utility companies before the applicable State Commission.

5. "Entity" means a corporation or a natural person.

6. "Exempt wholesale generator" means an entity which is engaged directly or indirectly through one or more affiliates exclusively in the business of owning or operating all or part of a facility for generating electric energy and selling electric energy at wholesale and who:

- a. does not own a facility for the transmission of electricity, other than an essential interconnecting transmission facility necessary to affect a sale of electric energy at wholesale; and

b. has applied to the FERC for a determination under 15 U.S.C. Section 79z-5a.

7. "FERC" means the Federal Energy Regulatory Commission, or any successor governmental agency.

8. "Non-Utility Affiliate" means an Affiliate which is not a domestic public utility. Non-utility affiliate includes a foreign affiliate.

9. "Holding Company" means AEP, or its successor in interest, or any Entity that owns directly or indirectly 10 percent or more of the voting capital stock of a utility operating company, or its successor in interest.

10. "Power Marketer" means an entity which:

- a. becomes an owner or broker of electric energy in a state for the purpose of selling the electric energy at wholesale;
- b. does not own transmission or distribution facilities in a state;
- c. does not have a certified service area; and
- d. has been granted authority by the FERC to sell electric energy at market-based rates.

11. "SEC" means the United States Securities and Exchange Commission, or any successor governmental agency.

12. "Service Agreement" means the agreement entered into between American Electric Power Service Corp. and AEP's operating companies, under which services are provided by American Electric Power Service Corp. to the operating companies.

13. "Service Company" means an Affiliate whose primary business purpose is to provide, among other functions, administrative and general or operating services to AEP utility operating companies.

14. "Services" means the performance of activities having value to one party including, but not limited to, managerial, financial, accounting, legal, engineering, construction, purchasing, marketing, auditing, statistical, advertising, publicity, tax, research, and other similar services.

15. "Subsidiary" means any corporation 10 percent or more of whose voting capital stock is controlled by another Entity.

16. "Utility Affiliate" means an affiliate of a utility operating company that is also a public utility.

Presentation of Agreement To the Commission

1. The Parties shall move for the admission of this Agreement into evidence at the hearing scheduled for May 28, 1999, or such earlier time as the Commission may establish and sponsor evidence including testimony and exhibits as may be required to support Commission approval of this Agreement.
2. The Parties stipulate and agree to the issuance by the Commission of the Proposed Order in the form attached hereto as Attachment D. All of the terms and agreements contained in the Proposed Order are to be interpreted consistent with the provisions of this Agreement, which is to be attached to and incorporated by reference in the Final Order issued by the Commission.

Effect and Use of Agreement

1. This Agreement shall not constitute nor be cited as precedent or deemed an admission by any Party in any other proceeding except as necessary to enforce its terms before the Commission, or any State Court of competent jurisdiction. This Agreement is solely the result of compromise in the settlement process, shall not constitute a concession of subject matter jurisdiction, and except as expressly provided herein, is without prejudice to and shall not constitute a waiver of any position that any of the Parties may take with respect to any or all of the items resolved herein in any future regulatory or other proceedings and, failing approval by this Commission, shall not be admissible or discussed in any subsequent proceedings.
2. The evidence in this Case constitutes substantial evidence sufficient to support the Agreement and provides an adequate evidentiary basis upon which the Commission can make any finding of fact and conclusions of law necessary for the approval of the Agreement, as filed.
3. The issuance of the Final Order shall terminate any further proceedings in this Case.
4. In the event this Case is required to be litigated, the Parties expressly reserve all of their rights to make objections and motions to strike with respect to all testimony and exhibits and their right to cross-examine the witnesses presenting such testimony and exhibits.
5. The undersigned have represented and agreed that they are fully authorized to execute this Agreement on behalf of their designated clients who will be bound thereby.
6. The Parties to this Agreement shall not appeal the agreed Final Order or any other Commission order to the extent such orders are specifically implementing the provisions of this Agreement and shall support this Agreement in the event of any appeal by a person not a Party. This provision shall be enforceable by any Party, in any state court of competent jurisdiction.
7. The communications and discussions during the negotiations and conferences that produced the Agreement have been conducted on the explicit understanding that they are or

relate to offers of settlement and shall therefore be privileged and not admissible in any proceeding.

ACCEPTED and AGREED this 24th day of May, 1999.

Central and South West Corporation

By:

Mark R. Overstreet counsel for
Central and South West Corporation
Kentucky Power Company

By:

Mark R. Overstreet
Mark R. Overstreet
Sites and Harbison

Mark R. Overstreet counsel for
Kentucky Power Company

AFP

By:

Richard E. Munczinski

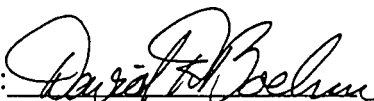
Richard E. Munczinski
Senior Vice President
American Electric Power
Service Corporation

Attorney General


By: 

Elizabeth E. Blackford
Assistant Attorney General
Attorney General, Office of Rate
Intervention

Kentucky Industrial Utility Customers, *INC.*

By: 
David F. Boehm
Boehm, Kurtz, & Lowry

Kentucky Electric Steel, Inc.

By: 
William H. Jones, Jr.
VanAntwerp, Monge, Jones & Edwards, LLP

AEP/CSW MERGER
NET ANNUAL MERGER SAVINGS
AND KENTUCKY CUSTOMER BILL REDUCTIONS(\$000)

(1)	(2)	(3)	(4)
RATE YEAR	NET MERGER SAVINGS	CUSTOMER BILL REDUCTION @ 55%	SHAREHOLDER NET SAVINGS @ 45%
Year 1	2,469	1,464	1,005
Year 2	4,551	2,554	1,997
Year 3	5,757	3,185	2,572
Year 4	6,732	3,695	3,037
Year 5	7,385	4,037	3,348
Year 6	7,887	4,299	3,588
Year 7	8,279	4,505	3,774
Year 8	8,511	4,626	3,885
	<u>51,571</u>	<u>28,365</u>	<u>23,206</u>

Note: Annual Customer Bill Reduction after year 8 until next base rate case is \$5,242,785

**AEP/CSW MERGER
EXAMPLE OF BASE RATE CASE TREATMENT
BASED ON YEAR 3 (\$000)**

CREDIT PER RIDER CONTINUES		(3,184)
<u>INCLUDED IN TEST YEAR:</u>		
GROSS MERGER SAVINGS	(7,252)	
CHANGE IN CONTROL AMORTIZATION	328	
OTHER CTA AMORTIZATION	<u>1,178</u>	
TOTAL CTA/CIC AMORTIZATION		<u>1,506</u>
NET MERGER SAVINGS IN TEST YEAR	(5,756)	
<u>ADD BACK TO TEST YEAR COST OF SERVICE:</u>		
CUSTOMER SHARE	3,184	
SHAREHOLDER PORTION	<u>2,572</u>	
		<u>5,756</u>
NET BASE RATE REDUCTION		<u>0</u>
KENTUCKY CUSTOMER RATE REDUCTION		<u><u>(3,184)</u></u>

AEP/CSW MERGER
BASE RATE CASE TREATMENT
FOR INCLUSION IN COST OF SERVICE (\$000)

RATE YEAR	<u>Add Back to Test Year Cost of Service</u>	
	<u>CUSTOMER NET SAVINGS</u>	<u>SHAREHOLDER NET SAVINGS</u>
Year 1	1,464	1,005
Year 2	2,554	1,997
Year 3	3,185	2,572
Year 4	3,695	3,037
Year 5	4,037	3,348
Year 6	4,299	3,588
Year 7	4,505	3,774
Year 8	4,626	3,885
	<hr/> <hr/> 28,365	<hr/> <hr/> 23,206

AEP/CSW MERGER
AMORTIZATION OF ESTIMATED
COSTS TO ACHIEVE*

<u>RATE YEAR</u>	<u>AMOUNT</u>
Year 1	1,505,502
Year 2	1,505,502
Year 3	1,505,502
Year 4	1,505,502
Year 5	1,505,502
Year 6	1,505,502
Year 7	1,505,502
Year 8	1,505,501
 TOTAL	 <u><u>12,044,015</u></u> **

* Includes change in control payments.

**May not add due to roundings.

AEP/KENTUCKY POWER SERVICE QUALITY

Attachment C
Page 1 of 6

AEP/Kentucky Power (the Company) has as one of its highest priorities a desire to maintain and improve the quality and reliability of service to its customers. The Company commits that current levels of customer service and service reliability shall not degrade as a result of the merger and that it shall undertake all reasonable efforts to improve the quality and reliability of its service. In order to assure the Commission and Kentucky customers of continued excellent service quality in the post-merger environment, the Company commits and agrees to do the following:

1. To maintain the overall quality and reliability of its electric service at levels no less than it has achieved in the calendar years 1995-1998. The Company will provide service reliability reports annually indicating its calendar year Kentucky Customer Average Interruption Duration Index (CAIDI) and Kentucky System Average Interruption Frequency Index (SAIFI). These indices shall be determined and reported, including all storms. Definitions for these measures are included on page 4. On page 6 are listed Kentucky Power's annual SAIFI and CAIDI performance for the years 1995 through 1998.

2. To provide annual Call Center performance measures for those centers which handle Kentucky customer calls. These will include the Call Center Average Speed of Answer (ASA), Abandonment Rate, and Call Blockage. Definitions for these measures are also included on page 5.

a) The performance measures described in paragraphs 1 and 2 above shall be provided by the end of May of the year following the calendar year in question.

3. Will continue to completely inspect its Kentucky electric facilities every two years and perform tree trimming, lightning arrestor replacement, animal guarding and pole and cross arm replacements.

4. AEP/Kentucky Power management will compile outage data detailing each circuit's reliability performance. In addition, by monitoring repeated outages on a regular basis, the Company will identify and resolve reliability problems which may go unnoticed by using CAIDI and SAIFI results. This data will be coupled with feedback from district field personnel and supervision and management concerning other locations and situations where the impact of outages are quantified. This process will be used to develop a comprehensive work plan each year which focuses efforts to improve service reliability. The Company will undertake all reasonable expenditures to achieve the goal of limiting customer outages.

AEP/KENTUCKY POWER SERVICE QUALITY

Attachment C
Page 2 of 6

5. Plans to continue to maintain a high quality workforce to meet its customers' needs.

6. Shall designate an employee or agent within Kentucky who will act as a contact for retail consumers regarding service and reliability concerns and to provide a contact for retail consumers for information, questions and assistance. Such AEP/Kentucky Power representative shall be able to deal with billing, maintenance and service reliability issues.
 - a) The company further commits to maintain in Kentucky a sufficient management team to ensure that safe, reliable and efficient electric service is provided and to respond to the needs and inquiries of its Kentucky customers.

7. In the event the Commission adopts industry generic rules concerning customer service standards, AEP/Kentucky Power shall have at its option, the right to incorporate them into this agreement.
 - a) AEP/Kentucky Power will have the opportunity to revisit with the Commission the agreed upon measure(s) should the Company wish to propose a specific performance-based ratemaking proposal provided the proposal either includes a reliability measure(s) and/or a customer satisfaction survey measure that contains service reliability as a component.
 - b) These standards can be changed during the term of this agreement to reflect any performance-based ratemaking plans or rules which the Commission adopts either for AEP/Kentucky Power and/or generically for the electric utility industry.

8. If retail access is mandated by the Kentucky General Assembly and/or the Commission and/or by federal legislation, AEP/Kentucky Power shall have the right to petition the Commission for modifications to this service quality agreement that are made necessary by the mandating of retail access.
 - a) Any such petition must establish the necessity of the proposed modifications and provide appropriate protections to ensure that AEP/Kentucky Power's quality of service will not decline. The Commission will act upon the petition within 90 days or the petition will be deemed to be automatically approved.

9. All prudent costs incurred to comply with the items contained in this Agreement, once incurred, will constitute known and measurable expenses that Kentucky Power shall have an opportunity to recover in accordance with traditional ratemaking principles, through recognition of these costs in its revenue requirement in future rate review.

AEP RELIABILITY MEASURES

- 1) System Average Interruption Frequency Index (SAIFI) is defined as the number of customers interrupted divided by the number of customers served. It is calculated by the equation:

$$\text{SAIFI} = \frac{\text{Number of customers interrupted}}{\text{Number of customers served}}$$

2. Customer Average Interruption Duration Index (CAIDI) is defined as the number of customer hours of interruption divided by the number of customers interrupted. It is calculated by the equation:

$$\text{CAIDI} = \frac{\text{Sum of all customer hours of interruption}}{\text{Number of customers interrupted}}$$

AEP CALL CENTER MEASURES

- 1) Average Speed of Answer (ASA) is defined as the average time that elapses in seconds between the instant when a call is answered and the time it is connected to a Call Center representative (CSR) or an interactive voice recorder (IVR). It is calculated using the equation:

$$\text{Average Speed of Answer (seconds)} = \frac{\text{Time for all calls between call answer and CSR/IVR connection}}{\text{Total number of calls made to the Call Center}}$$

- 2) Abandonment Rate is the percentage of callers who hang up before being connected to a Call Center representative (CSR) or an interactive voice recorder (IVR). It is calculated using the equation:

$$\text{Abandonment Rate (percent)} = \frac{\{\text{Total number of callers who hang up}\}}{\{\text{Total number of calls made to the Call Center}\}} \times 100$$

- 3) Call Blockage is the percentage of non-outage call attempts which do not get connected to a Call Center (busy signal, etc.). It is calculated using the equation:

$$\text{Call Blockage (percent)} = \frac{\{\text{Total number of non-outage calls that do not get connected}\}}{\{\text{Total number of non-outage calls made to the Call Center}\}} \times 100$$

AEP/KENTUCKY POWER SERVICE QUALITY

Attachment C
Page 6 of 6

AEP/Kentucky Power Reliability Performance (includes all storms)

<u>Year</u>	<u>SAIFI</u>	<u>CAIDI</u>
1995	1.794	4.12
1996	1.530	3.10
1997	1.343	3.04
1998	1.519	5.96

Attachment D

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))

On February 17, 1999 the Staff of the Public Service Commission of Kentucky ("Commission") issued a letter stating staff's belief that the Commission has jurisdiction under KRS 278.020 (5) to review the proposed merger of Central and South West Corporation ("CSW") into American Electric Power Company, Inc. ("AEP") and requested that Kentucky Power Company ("Kentucky Power" "KPCO" or the "Company") advise in writing by March 8, 1999 of the date AEP would file an application for Commission approval of "the indirect change in control of Kentucky Power Company." On March 5, 1999 the Company issued a letter notifying the Commission that it would file the requested application by April 15, 1999. The letter also indicated that the Company expected to provide the Staff and the Commission with sufficient information to enable the Commission to approve its application within the sixty (60) day period prescribed by the statute. The letter further preserved the Company's legal arguments regarding the application of KRS 278.020 to this merger.

On April 15, 1999, the Company, AEP and CSW filed a Joint Application with supporting testimony and work papers. The proceeding was designated P.S.C. Case No. 99-149.

On April 22, 1999, the Commission issued a letter indicating that the Commission staff had reviewed the Company's application and found that it met the minimum filing requirements.

On May 4, 1999, the Attorney General, Office of the Rate Intervention ("Attorney General"), and Kentucky Electric Steel, Inc. ("KESI") were granted full intervention in Case No. 99-149. On May 11, 1999, Kentucky Industrial Utility Customers, Inc. ("KIUC"), was also granted full intervention in Case No. 99-149. These parties will be referred to herein collectively as the "Intervenors."

On April 22, 1999, a Technical Conference was held at the Commission's offices. On May 4, 1999, May 11, 1999, May 17, 1999 and May 20, 1999 settlement conferences were held at the Commission's offices. All parties to the proceeding and the Commission staff were present and participated in the settlement conferences.

Having considered the evidence and being duly advised, the Commission now finds:

1. Notice and Jurisdiction. Due and timely notice of the hearing to consider the settlement proposed by the parties was given. Kentucky Power is a "utility" within the meaning of that term in KRS 278.010(3)(a) and is subject to the jurisdiction of the Commission in the manner and to the extent provided by the laws of the Commonwealth of Kentucky.

2. The Settlement Agreement. As described in the Settlement Agreement, a copy of which is attached hereto as Exhibit A and incorporated herein by reference, the Settlement Agreement contains, among other things, provisions regarding (a) net non-fuel merger savings; (b) fuel and purchased power merger savings; (c) limitation on requests for stranded cost recovery; (d) allocation of proceeds from the sale of facilities; (e) system integration agreements; (f) Ohio Power waiver; (g) affiliate standards; (h) maintenance and enhancement of the adequacy

and reliability of retail electric service, including certain reporting requirements, (i) settlement of the existing environmental surcharge litigation (Kentucky Court of Appeals Case Nos. 98-CA-00137, 98-CA-01344, 98-CA-01417, 98-CA-01455); and (j) settlement of the pending six month review of KPCO's environmental surcharge in P.S.C. Case No. 98-624. The Settlement Agreement was agreed to by all parties to this proceeding.

The Settlement Agreement further provides that if the proposed merger is ultimately consummated, AEP commits that upon issuance of any final and non-appealable order from any state or federal commission addressing the merger that provides benefits or imposes conditions on AEP that would benefit the ratepayers of any jurisdiction, such net benefits and conditions will be extended to all other retail customers to the extent necessary to achieve equivalent net benefits and conditions to all retail customers of AEP.

The Settlement Agreement also provides that, upon approval by the Commission, the Intervenors, the Commission and its Staff shall not oppose the proposed merger before FERC or oppose AEP's previously made merger-related filings with the Securities and Exchange Commission.

The Settlement Agreement further states that it shall not constitute nor be cited as precedent or deemed an admission by any party in any other proceeding except as necessary to enforce its terms before the Commission, or any State Court of competent jurisdiction on these particular issues. The Settlement Agreement provides that it is solely the result of compromise in the settlement process, shall not constitute a concession of subject matter jurisdiction, and except as expressly provided therein, is without prejudice to and shall not constitute a waiver of any position that any of the parties thereto may take with respect to any or all of the items resolved therein in any future regulatory or other proceedings.

The Settlement Agreement states that if the Commission does not approve the Settlement Agreement in its entirety, it shall be null and void and deemed withdrawn, unless such change is approved by the parties.

At a hearing held May 28, 1999, Richard E. Munczinski, Senior Vice President-Corporate Planning and Budgeting of American Electric Power Service Corporation, the service corporation subsidiary of AEP, and Errol K. Wagner, Director of Regulatory Affairs for Kentucky Power testified in support of Commission approval of the Settlement Agreement. Mr. Munczinski discussed the negotiating process which resulted in the Settlement Agreement and the public benefits that would result from its approval. Mr. Wagner testified regarding the mechanism by which the bill reductions will be implemented by Kentucky Power.

During the course of this proceeding information about the proposed merger was requested from and provided by Kentucky Power, AEP and CSW. Additional information about the proposed merger has since been developed in the course of FERC proceedings and proceedings before other state commissions. After lengthy and detailed negotiations, Kentucky Power, CSW, AEP, the Attorney General, Office for Rate Intervention, Kentucky Industrial Consumers, Inc. and Kentucky Electric Steel have reached a unanimous agreement on terms and conditions that help ensure that Kentucky consumers will fairly share in the benefits achieved by the merger and that Kentucky consumers will be protected against any detrimental effects. The Parties recommend that the Commission approve the Settlement Agreement as a fair and just settlement of differences regarding merger-related issues.

Having reviewed the Settlement Agreement and the evidence relating thereto, the Commission finds that the recommendation of the Parties should be approved. The Commission further finds that the Settlement Agreement is a fair and reasonable resolution of the merger-

related issues of concern to the Commission and the Intervenors and should be approved in its entirety without modification.

The Commission finds that AEP and Kentucky Power have and will retain the financial, technical and managerial abilities to provide reasonable service.

The Commission further finds that the proposed merger of AEP and CSW is in accordance with the law, for a proper purpose and is consistent with the public interest.

IT IS THEREFORE ORDERED BY THE PUBLIC SERVICE COMMISSION OF KENTUCKY that:

1. The Settlement Agreement shall be and hereby is approved in its entirety without modification and that the merger of AEP and CSW is approved pursuant to KRS 278.020(4) and KRS 278.020(5).
2. Kentucky Power shall implement the Net Merger Savings Credit Tariff in the amounts shown in the tariff filed as Exhibit 2 to this Order, which tariff is approved.
3. American Electric Power, Inc. and Central and South West Corporation will incur transaction, regulatory processing and transition costs to merge the two companies. The Commission orders that the Kentucky retail jurisdictional share of the estimated merger costs be deferred and amortized for recovery over eight years. The amortization should begin with the date of the combination and continue for eight years on a straight-line basis.
4. The proposed regulatory plan is approved as are the steps necessary to implement it, specifically:
 - a. the regulatory treatment of the fuel saving arising from the integrated operations of AEP, CSW and Kentucky Power as set forth in the Settlement Agreement;

b. Kentucky Power is authorized to include as an allowable expense in cost of service the non-fuel merger savings, net of cost to achieve and amortization of estimated costs to achieve as set forth in Attachment B to the Settlement Agreement.

5. Effective January 1, 2000, KPCO shall begin collecting the environmental surcharge, including the costs of the Low Nox burners for the Big Sandy generating plant's Unit No. 1 and Unit No. 2, in accordance with the Opinion and Order of the Franklin Circuit Court dated April 30, 1998, as amended by Opinion and Order dated May 14, 1998 in Consolidated Case Nos. 97-CI-00137, 97-CI-01138, 97-CI-01144 (except those portions of the decisions allowing retroactive recovery of the surcharge).

6. The Commission approves the settlement of the environmental surcharge litigation (Kentucky Court of Appeals Case Nos. 98-CA-00137, 98-CA-01344, 98-CA-01417, 98-CA-01455, and 98 CA 002476) as described in the Settlement Agreement and authorizes its counsel to execute to necessary documents to dismiss the appeals and cross-appeals therein.

7. The pending review of KPCO's environmental surcharge in P.S.C. Case No. 98-624 shall be terminated and that proceeding is ordered closed without adjustment to the surcharge.

8. This Order shall be effective on and after the date of its approval.

By the Commission

STIPULATION AND
SETTLEMENT AGREEMENT

AMERICAN ELECTRIC POWER

CANCELING ORIGINAL SHEET NO. 25-1
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., Q.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:

$$\text{Net Merger Savings Credit} = \text{M.S.F.} + \text{B.A.F.}$$

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 <u>Distributed</u>	Merger Savings Factor <u>(M.S.F.)</u>
Year 1*	\$1,463,815	.021¢ per Kwh
Year 2	2,553,660	.037¢ per Kwh
Year 3	3,184,645	.045¢ per Kwh
Year 4	3,695,003	.051¢ per Kwh
Year 5	4,037,167	.055¢ per Kwh
Year 6	4,299,432	.057¢ per Kwh
Year 7	4,504,920	.059¢ per Kwh
Year 8	4,626,369	.059¢ per Kwh
Year 9	5,242,785	.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 and will continue until the effective date of a Commission order changing the Company's base rates after Year 8 of this tariff.

(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 effective date of a Commission order changing the Company's base rates after Year 8 of this tariff.

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 for the first eight years 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

STITES & HARBISON

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May 26, 1999

BY HAND DELIVERY

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

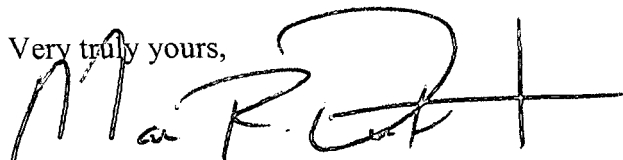
RE: P.S.C. Case No. 99-149

Dear Ms. Helton:

Please find enclosed original pages 16, 19 and 17 of the Stipulation and Settlement Agreement filed Monday, May 24, 1999 in this proceeding. The pages bear, respectively, the original signatures of Messrs. Munczinski and Jones, and Ms. Blackford.

Please substitute these pages for the duplicate signature pages attached to the original filed on May 24, 1999. If you have any questions, please do not hesitate to contact me.

Very truly yours,



Mark R. Overstreet

Enclosures

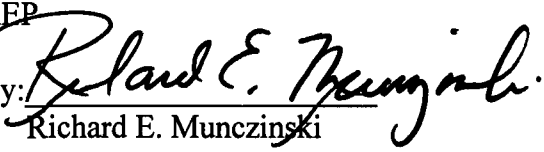
cc: William H. Jones, Jr.
Elizabeth E. Blackford
James W. Brew
Gerald Wuetcher
Richard G. Raff
Richard S. Taylor

KE057:KE131:2219:FRANKFORT

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MAY 26 1999
PUBLIC SERVICE
COMMISSION


AEP

By:

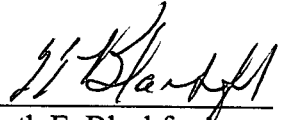


Richard E. Munczinski
Senior Vice President
American Electric Power
Service Corporation

Kentucky Electric Steel, Inc.

By: 
William H. Jones, Jr.
VanAntwerp, Monge, Jones & Edwards, LLP

Attorney General

By: 
Elizabeth E. Blackford
Assistant Attorney General
Attorney General, Office of Rate
Intervention

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May 24, 1999

BY HAND DELIVERY

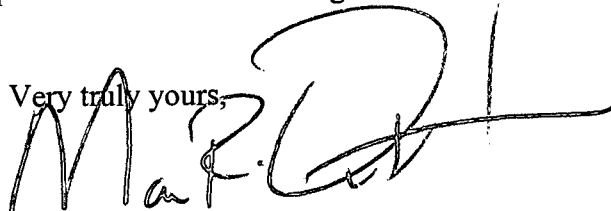
Helen Helton
Executive Director
Public Service Commission of Kentucky
730 Schenkel Lane
Frankfort, Kentucky 40601

RE: P.S.C. Case No. 99-149

Dear Ms. Helton:

Please accept for filing the original and ten copies of the unanimous Stipulation and Settlement Agreement by and between the parties to the above proceeding. The Joint Applicants expect to file testimony in support of the Stipulation and Settlement Agreement on Wednesday, May 26, 1999.

Very truly yours,



Mark R. Overstreet

Enclosure

cc: William H. Jones, Jr.
Elizabeth E. Blackford
James W. Brew
Richard S. Taylor
David F. Boehm

KE057:KE131:2204:FRANKFORT

COMMONWEALTH OF KENTUCKY
BEFORE THE
PUBLIC SERVICE COMMISSION OF KENTUCKY

RECEIVED
MAY 24 1999
PUBLIC SERVICE
COMMISSION

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)

STIPULATION AND SETTLEMENT AGREEMENT

On February 17, 1999 the Staff of the Public Service Commission of Kentucky ("Commission") issued a letter stating staff's belief that the Commission has jurisdiction under KRS 278.020 (5) to review the proposed merger of Central and South West Corporation ("CSW") into American Electric Power Company, Inc. ("AEP") and requested that Kentucky Power Company ("Kentucky Power" "KPCO" or the "Company") advise in writing by March 8, 1999 of the date AEP would file an application for Commission approval of "the indirect change in control of Kentucky Power Company." On March 5, 1999 the Company issued a letter notifying the Commission that it would file the requested application by April 15, 1999. The letter also indicated that the Company expected to provide the Staff and the Commission with sufficient information to enable the Commission to approve its application within the sixty (60) day period prescribed by the statute. The letter further preserved the Company's legal arguments regarding the application of KRS 278.020 (5) to this merger.

On April 15, 1999 the Company, AEP and CSW filed a Joint Application with supporting testimony and workpapers. The proceeding was designated P.S.C. Case No. 99-149. On April 22, 1999 the Commission issued a letter indicating that the Commission staff had reviewed the Company's application and found that it met the minimum filing requirements.

On May 4, 1999 the Attorney General, Office of the Rate Intervention ("Attorney General"), and Kentucky Electric Steel, Inc. ("KESI") were granted full intervention in Case No. 99-149. On May 11, 1999 Kentucky Industrial Utility Customers, Inc. ("KIUC"), was also granted full intervention in Case No. 99-149. These parties will be referred to herein collectively as the "Intervenors".

On April 22, 1999 a Technical Conference was held at the Commission's offices. On May 4, May 11, May 17, and May 20, 1999 settlement conferences were held at the Commission's offices. Present were the Staff and counsel for the Intervenors, as well as Company representatives.

Solely for the purposes of compromise and settlement of the issues in this proceeding, Central and South West Corporation, American Electric Power Company, Inc., Kentucky Power Company, which does business in Kentucky as American Electric Power, the Attorney General, Kentucky Industrial Utility Customers, Inc. and Kentucky Electric Steel, Inc. (collectively referred to as the "Parties") have met and reached a settlement agreement ("Agreement") which they hereby submit and recommend for approval to the Commission. If the Commission does not approve the settlement agreement in its entirety and incorporate it in the Final Order, the proposed Agreement shall be null and void and deemed withdrawn, unless such change is agreed to by the Parties.

SETTLEMENT AGREEMENT

WHEREAS AEP and CSW have filed various applications before federal and state agencies seeking approvals necessary to consummate a proposed merger of the two companies, and

WHEREAS the Parties have met and explored various issues related to the proposed merger and their agreements and differences regarding the effects of the proposed merger on competition between electricity providers and on the terms and conditions under which retail electric utility service is provided, and

WHEREAS the Parties recognize the costs and uncertainty of litigation and the desirability of consensual voluntary resolution of their differences and the legitimate interests and good faith of each of the parties in achieving the objectives each desires to achieve, and

Whereas, the Parties agree as follows:

That AEP, KPCO and the Intervenors will recommend to the Commission that the following Agreement be adopted by the Commission in an order or other appropriate formal action that references this Agreement or incorporates all of the provisions thereof. Where appropriate, the Commission action may address or reserve other matters ancillary or incidental to the matters addressed in this Agreement, for immediate or future disposition, in a manner not inconsistent with the Agreement.

All appropriate terms are defined in the "Definitions" section of the Agreement.

The Parties:

1. Will not oppose the proposed merger pending before the Federal Energy Regulatory Commission ("FERC").

2. Will not oppose AEP's filings previously made at the United States Securities and Exchange Commission ("SEC") in connection with the proposed merger, together with any non-material changes or supplements thereto.

AEP, or Kentucky Power Company, conditional on merger consummation will:

1. REGULATORY PLAN. KPCO will implement a Net Merger Savings Credit tariff that will reduce bills to customers by the annual amounts shown in Attachment A beginning with the first full billing month available following thirty days from the consummation of the merger. The annual bill reduction amounts shown in Attachment A will be refunded to customers based upon kwh consumption. Each individual year's bill reduction will apply for a twelve month period. A Balancing Adjustment Factor (B.A.F) per Kwh will be included for the second through the twelfth month of the current distribution year which will reconcile any over- or under-distribution of the net savings from prior years.

The merger savings and costs are based on estimated values included in AEP's filing with the Federal Energy Regulatory Commission ("FERC") in Docket No. EC98-40-000.

Absent a force majeure, KPCO will not file a petition, which, if approved, would have the effect, either directly or indirectly, of authorizing a general increase in basic rates and charges that would be effective prior to January 1, 2003 or three years from the effective date of the merger, whichever is later (the "rate moratorium"), and the Intervenor agree not to seek a reduction in base rates during the rate moratorium. During this period, the fuel adjustment clause, the environmental surcharge, the demand side management adjustment and the system sales tracker shall continue in force and shall not be subject to any freeze. During the rate moratorium period, and notwithstanding any force majeure event, any discount, including but not limited to, operating reserve and interruptible discounts contained in special contracts as currently approved by the Commission, shall remain in force and shall not be changed for any customer receiving the discount.

The Parties and the Commission will dismiss the appeals and cross-appeals in Case Nos. 98 CA 00137, 98 CA 001344, 98 CA 001417, 98 CA 001455 and 98 CA 002476. The dismissal shall be without prejudice in any other action with respect to the positions taken by the parties in the dismissed litigation.

Effective January 1, 2000, KPCO shall begin collecting the environmental surcharge, including the costs of the Low Nox burners for the Big Sandy generating plant's Unit No. 1 and Unit No. 2, in accordance with the decisions of the Franklin Circuit Court Opinion and Order dated April 30, 1998 and its Amended Opinion and Order dated May 14, 1998 in Consolidated Case Nos. 97-CI-01138, 97-CI-01144 and 97-CI-00137 (except those portions of the decision allowing retroactive recovery of the surcharge).

The parties further agree that there shall be no adjustment to the environmental surcharge as a result of the six month review in P.S.C. Case No. 98-624.

Notwithstanding any base rate proceeding during the eight year period after the consummation of the merger, the annual amounts shown in Attachment A will remain in effect. After the eight year period and absent a base rate proceeding, the Company will continue through the Net Merger Savings Credit to reduce bills to customers by the annual amount shown on Attachment A which is the customers' portion of the net savings without the amortization of the costs to achieve during the eighth year after the consummation of the merger.

KPCO must implement the above rate reductions in the manner and amounts described above notwithstanding any changes to the current regulatory structure in Kentucky. In the event that retail electric deregulation legislation is implemented in Kentucky or if there is any unbundling or restructuring, KPCO shall continue to apply the regulatory plan's provisions to regulated rates of its Kentucky retail jurisdictional customers.

Any legislatively mandated adjustments to base rates, of any kind, that are part of any retail electric deregulation legislation implemented in Kentucky shall not diminish or offset, but shall be in addition to, the bill reductions established in this proceeding.

Subject to this agreement, AEP and KPCO will defer and amortize their Kentucky retail jurisdictional estimated merger related costs-to-achieve over an 8-year recovery period. Costs to achieve the merger are those costs incurred to consummate the merger and combine the operations of AEP and CSW. These costs include, but are not limited to, investment banking fees; consulting and legal services incurred in connection with obtaining regulatory and shareholder approvals; transition planning and development costs; employee separation costs including severance costs, change-in-control payments and retraining costs; and facilities consolidation costs. The Commission will issue accounting orders or other orders necessary to authorize the deferral and amortization of merger costs.

If the merger is not consummated, the Company commits and agrees not to seek to recover termination fees, the "Out of Pocket" and "Topping Out" fees associated with the merger as described in Sections 9.5 and 9.6 of the *Agreement and Plan of Merger By and Among American Electric Power Company, Inc., Augusta Acquisition Corporation and Central and South West Corporation* dated December 21, 1997 (Merger Agreement); and further commit and agree not to seek to recover the fee that may be charged by Morgan Stanley.

In any proceeding to change base rates for KPCO to become effective after the consummation of the merger, the following rate treatment will be reflected:

- A. Estimated non-fuel merger savings, net of costs to achieve will be included in cost of service as an allowable expense in order to avoid duplication and to continue to provide shareholders with their share of the net savings. The amount to be included in the cost of service shall be based upon the test year period. (See Attachment B).

- B. Amortization of estimated 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. (See Attachment B.)

In any base rate proceeding after the eight year period, neither the merger savings credit rider nor the expense adjustments described in A. and B. above will be reflected in the test year.

2. **FUEL MERGER SAVINGS.** All savings of fuel and purchased power expenses resulting from the merger shall benefit retail customers through existing fuel clause recovery mechanisms applied by State Commissions. In circumstances when one or more AEP operating companies in one AEP zone are supplying power to the other AEP zone, and as a result, the supplying zone needs to purchase replacement power to serve its native load, AEP shall hold harmless the native load customers of the supplying zone from any price differential between the replacement power and the system power supplied to the other zone. Similarly, if one or more AEP operating companies in one AEP zone are supplying power to the other AEP zone, and as a result, the supplying zone loses the opportunity to sell power at a price higher than received from the zone being supplied, AEP shall credit the supplying zone for the foregone revenues.

3. For purposes of this Settlement Agreement, force majeure shall mean circumstances that cause any of the following to occur: a) the bond rating for Kentucky Power Company to fall below an investment grade rating of Baa3 (Moody's) or BBB- (Standard & Poors), or b) an increase in the federal and/or state income taxes of KPCO, which increase is the result of changes in federal or state income tax provisions, or c) an increase in KPCO's total electric operating expenses, excluding fuel and purchased power, due to circumstances beyond its control, and further excluding the costs of compliance with federal, state or local environmental requirements which apply to coal combustion wastes and by-products from facilities utilized for production of energy from coal.

For purposes of this force majeure provision, an increase is defined as an increase in expense in an annualized amount greater than five percent (5%) of AEP's Kentucky jurisdictional net revenues (i.e., operating revenues less fuel and purchased power) for the preceding twelve months.

A force majeure may only exist under the terms of this Settlement Agreement if the Commission finds in a rate application filed by the Company that the circumstances allowed for under this Settlement Agreement are a force majeure, as defined in this Agreement, after a public evidentiary hearing in which all the Parties may participate.

4. **STRANDED COSTS.** AEP and its operating companies agree not to seek or recover any stranded costs associated with the operating companies of one AEP zone from the retail customers of the other AEP zone.

5. **PROCEEDS OF FACILITY SALES.** Any proceeds from the sale of facilities shall go to the AEP operating company in whose rate base the facilities are included, for further disposition

in accordance with the rules and orders of the regulatory authorities whose jurisdiction encompasses the ultimate disposition of such proceeds.

6. **SYSTEM INTEGRATION AGREEMENTS.** To mitigate any perceived impacts of the merger on AEP's ability to exercise market power, AEP proposed in its FERC merger application a mitigation plan. To protect retail customers, AEP agrees to hold harmless the retail customers from any mitigation plan included in any FERC order approving the merger of AEP-CSW. To implement this Agreement in any general retail electric rate proceeding commenced by the filing of a petition on or after the date of this Agreement, in which an AEP operating company requests a change in its basic rates and charges, or in any other proceeding where so ordered by the State Commission, AEP shall have the burden therein to prove that such requested rate relief does not reflect mitigation-related costs.

AEP commits to file any allocation of the cost of new, modified or upgraded generation or transmission facilities whose costs will be subject to the System Integration Agreement or the System Transmission Agreement with the FERC and to notify each State Commission of any such filing at the time it is made. Notification to each State Commission will include an estimate of the cost of construction, an explanation of the reasons for constructing the facilities, studies supporting the construction of the facilities, and a proposed allocation of the facilities' costs. If AEP plans to purchase an in-service facility or already constructed and soon-to-be-in-service facility, AEP will follow the above described procedures and will include as part of the notification to the State Commission an explanation of the circumstances causing the AEP operating company to make the purchase in question.

7. **REGULATORY AUTHORITY.** AEP agrees not to seek to overturn, reverse, set aside, change or enjoin, whether through appeal or the initiation or maintenance of any action in any forum, a decision or order of a State Commission based on the assertion that the authority of the Securities and Exchange Commission as interpreted in *Ohio Power Co. v. FERC*, 954 F.2d 779 (D.C. Cir. 1992) cert. denied, 498 U.S. 73 (1992) impairs the State Commission's ability to examine and determine the reasonableness of non-power affiliate transaction costs to be passed to retail customers. The parties agree that the Ohio Power waiver does not include waiver of any arguments that AEP may have with respect to the reasonableness of SEC approved cost allocations. AEP will provide each State Commission with notice at least 30 days prior to any filings that propose new allocation factors with the SEC. The notice need not be in the precise form of the final filing but shall include, to the extent information is available, a description of the proposed factors and the reasons supporting such factors. AEP and State Commission Staff will make a good faith attempt to resolve their differences, if any, in advance of a filing being made at the SEC.

8. **AFFILIATE STANDARDS.** The following affiliate standards shall apply from the date of closing of the merger until new affiliate standards imposed by state legislation or State Commission action become effective.

A. The financial policies and guidelines for transactions between an AEP operating company and its affiliates shall reflect the following principles:

1. An AEP operating company's retail customers shall not subsidize the activities of the operating company's non-utility affiliates or its utility affiliates.
2. An AEP operating company's costs for jurisdictional rate purposes shall reflect only those costs attributable to its jurisdictional customers.
3. These principles shall be applied to avoid costs found to be just and reasonable for ratemaking purposes by the affected State Commission being left unallocated or stranded between various regulatory jurisdictions, resulting in the failure of the opportunity for timely recovery of such costs by the operating company and/or its utility affiliates; provided, however, that no more than one hundred percent of such costs shall be allocated on an aggregate basis to the various regulatory jurisdictions.
4. An AEP operating company shall maintain and utilize accounting systems and records that identify and appropriately allocate costs between the operating company and its affiliates, consistent with these cross-subsidization principles and such financial policies and guidelines.

B. Each State Commission shall have access to the employees, officers, books and records of any affiliate of its jurisdictional AEP operating company to the same extent and in like manner that each such State Commission has over a public utility operating within the state in which such State Commission exercises its regulatory authority if the affiliate had engaged in direct or indirect transactions with the jurisdictional AEP operating company. If such employees, officers, books and records can not be reasonably made available to a State Commission, then upon request of a State Commission, the AEP operating company shall, in accordance with state reimbursement rules, reimburse the State Commission for appropriate out-of-state travel expenses incurred in accessing the employees, officers, books and records. Each AEP operating company shall maintain, in accordance with generally accepted accounting principles, books, records, and accounts that are separate from the books, records, and accounts of its affiliates, consistent with Part 101 – Uniform System of Accounts Prescribed for Public Utilities and Licensees Subject to the Provisions of the Federal Power Act. Any objections to providing all books and records must be raised before the State Commission and the burden of showing that the request is unreasonable or unrelated to the proceeding is on the AEP operating company. The confidentiality of competitively sensitive information shall be maintained in accordance with each State Commission's rules and regulations.

- C In accordance with generally accepted accounting principles and consistent with state and federal guidelines, an AEP operating company shall record all transactions with its affiliates, whether direct or indirect. An AEP operating company and its affiliates shall maintain sufficient records to allow for an audit of the transactions involving the operating company and its affiliates. Asset transfers from an AEP operating company to a non-utility affiliate and asset transfers from a non-utility affiliate to an AEP operating company shall be at fully distributed costs in accordance with current Securities and Exchange Commission (SEC) issued requirements or other statutory requirements if the SEC has no jurisdiction.
- D. An AEP operating company shall not allow a non-utility affiliate to obtain credit under any arrangement that would permit a creditor, upon default, to have recourse to the operating company's assets. The financial arrangements of an AEP operating company's affiliates are subject to the following restrictions unless otherwise approved by that operating company's State Commission:
1. Any indebtedness incurred by a non-utility affiliate will be without recourse to the operating company.
 2. An AEP operating company shall not enter into any agreements under terms of which the operating company is obligated to commit funds in order to maintain the financial viability of a non-utility affiliate.
 3. An AEP operating company shall not make any investment in a non-utility affiliate under circumstances in which the operating company would be liable for the debts and/or liabilities of the non-utility affiliate incurred as a result of acts or omissions of a non-utility affiliate.
 4. An AEP operating company shall not issue any security for the purpose of financing the acquisition, ownership, or operation of a non-utility affiliate.
 5. An AEP operating company shall not assume any obligation or liability as guarantor, endorser, surety, or otherwise with respect to any security of a non-utility affiliate.
 6. An AEP operating company shall not pledge, mortgage or otherwise use as collateral any assets of the operating company for the benefit of a non-utility affiliate.
 7. AEP shall hold harmless the retail customers of an AEP operating company from any adverse effects of credit rating declines caused by the actions of non-utility affiliates.

Transactions between AEP operating companies and affiliates involving a money pool for the financing of short-term funding requirements are exempt from the requirements of this paragraph. Further, the provisions of this paragraph would not preclude AEP operating companies from issuing securities or assuming obligations related to their existing coal subsidiaries.

- E. Any untariffed, non-utility service provided by an AEP operating company or affiliated service company to any affiliate shall be itemized in a billing statement pursuant to a written contract or written arrangement. The AEP operating company and any affiliated service company shall maintain and keep available for inspection by the State Commission copies of each billing statement, contract and arrangement between the AEP operating company or affiliated service company and its affiliates that relates to the provision of such untariffed non-utility services.
- F. Any good or service provided by a non-utility affiliate to an AEP operating company shall be by itemized billing statement pursuant to a written contract or written arrangement. The operating company and non-utility affiliate shall maintain and keep available for inspection by the State Commission copies of each billing statement, contract and arrangement between the operating company and its non-utility affiliates that relates to the provision of such goods and services in accordance with applicable State Commission retention requirements.
- G. Employees responsible for the day to day operations of the AEP operating companies and those of affiliated exempt wholesale generators or affiliated power marketers shall operate independently of one another. AEP shall document all employee movement between and among all affiliates. Such information shall be made available to each State Commission and consumer advocate upon request.
- H. An AEP operating company may not own property in common with an affiliated exempt wholesale generator or affiliated power marketer.
- I. No market information obtained in the conduct of utility business may be shared with an affiliated exempt wholesale generator or affiliated power marketer, except where such information has been publicly disseminated or simultaneously shared with and made available to all non-affiliated entities who have requested such information. Customer specific information shall not be made available to an affiliated exempt wholesale generator or affiliated power marketer except under the same terms as such information would be made available to a non-affiliated company, and only with the written consent of the customer specifying the information to be released.
- J. A non-utility affiliate may use an AEP operating company's name or logo only if, in connection with such use, the affiliate makes adequate disclosures to the effect that (i) the two entities are separate; (ii) it is not necessary to purchase the

non-regulated product or service to obtain service from the operating company; and (iii) the customer will gain no advantage from the operating company by buying from the affiliate.

- K. An AEP operating company shall not condition or tie the provision of any product, service, pricing benefit, or waiver of associated terms or conditions, to the purchase of any good or service from its affiliated exempt wholesale generator or power marketer.
- L. Except as provided in paragraph M, an affiliated exempt wholesale generator or affiliated power marketer shall not share office space, office equipment, computer systems or information systems with an AEP operating company.
- M. Computer systems and information systems may be shared between an AEP operating company and non-utility affiliates only to the extent necessary for the provision of corporate support services; however, the operating company shall ensure that the proper security access and other safeguards are in place to ensure full compliance with these affiliate rules.
- N. An AEP operating company may engage in transactions directly related to the provision of corporate support services with its affiliates in accordance with requirements relating to service agreements. As a general principle, such provision of corporate support services shall not allow or provide a means for the transfer of confidential information from the operating company to the affiliate, create the opportunity for preferential treatment or unfair competitive advantage, create opportunities for cross-subsidization of affiliates, or otherwise provide any means to circumvent these affiliate rules.
- O. Except as provided in paragraph N, an AEP operating company may only make a product or service available to an affiliated exempt wholesale generator or an affiliated power marketer if the product or service is equally available to all non-affiliated exempt wholesale generators and power marketers on the same terms, conditions and prices, and at the same time. An AEP operating company shall process all requests for a product or service from affiliated and non-affiliated exempt wholesale generators and power marketers on a non-discriminatory basis.
- P. An AEP operating company which provides both regulated and non-regulated services or products, or an affiliate which provides services or products to an AEP operating company, shall maintain documentation in the form of written agreements, an organization chart of AEP (depicting all affiliates and AEP operating companies), accounting bulletins, procedure and work order manuals, or other related documents, which describe how costs are allocated between regulated and non-regulated services or products. Such documentation shall be available, subject to requests for confidential treatment, for review by State Commissions in accordance with Paragraph B. above.

- Q. AEP shall designate an employee who will act as a contact for State Commissions and consumer advocates seeking data and information regarding affiliate transactions and personnel transfers. Such employee shall be responsible for providing data and information requested by a State Commission for any and all transactions between the jurisdictional operating company and its affiliates, regardless of which affiliate(s), subsidiary(ies) or associate(s) of an AEP operating company from which the information is sought.
- R. AEP shall designate an employee or agent within each signatory state who will act as a contact for retail consumers regarding service and reliability concerns and to allow a contact for retail consumers for information, questions and assistance. Such AEP representative shall be able to deal with billing, maintenance and service reliability issues.
- S. AEP shall provide each signatory state a current list of employees or agents that are designated to work with each State Commission and consumer advocate concerning state regulatory matters, including, but not limited to, rate cases, consumer complaints, billing and retail competition issues.
- T. Thirty (30) days prior to filing any affiliate contract (including service agreements) with the SEC or the FERC an AEP operating company shall submit to each affected State Commission a copy of the proposed filing.
- U. Any violation of the provisions of these affiliate standards are subject to the enforcement powers and penalties at the State Commissions.
- V. AEP shall contract with an independent auditor who shall conduct biennial audits for ten years after merger consummation of affiliated transactions to determine compliance with these affiliate standards. The results of such audits shall be filed with the State Commissions. Prior to the initial audit, AEP will conduct an informational meeting with State Commissions regarding how its affiliates and affiliate transactions will or have changed as a result of the proposed merger.
- W. If the Public Utility Holding Company Act of 1935 is repealed or materially amended during the time this Agreement is in effect, and equivalent jurisdiction is not given to another federal agency, AEP will work with the State Commissions to ensure that AEP continues to furnish the State Commission with the appropriate information to regulate its jurisdictional AEP operation company. The State Commission may establish its reporting requirements regarding the nature of intercompany transactions concerning the operating company and a description of the basis upon which cost allocations and transfer pricing have been established in these transactions.

9. ADEQUACY AND RELIABILITY OF RETAIL ELECTRIC SERVICE. See Attachment C for the AEP/KENTUCKY POWER SERVICE QUALITY PROGRAM that has been agreed to by the parties.

10. STATUTORY AND OTHER ISSUES. Provided the proposed merger is ultimately consummated, AEP commits that upon issuance of any final and non-appealable order from any state or federal commission addressing the merger that provides benefits or imposes conditions on AEP that would benefit the ratepayers of any jurisdiction, such net benefits and conditions will be extended to all other retail customers to the extent necessary to achieve equivalent net benefits and conditions to all retail customers of AEP.

11. CONTINUED PARTICIPATION - Nothing in this Agreement is intended to preclude the Commission and its staff from addressing in a manner not inconsistent with this Agreement issues raised in the FERC Docket No. 98-40-000.

12. ENFORCEABILITY. AEP and KPCO will not assert in any action to enforce an order approving this Agreement that the Commission lacks the authority to have the provisions of this Agreement enforced under Kentucky law.

DEFINITIONS

1. "AEP zone" means either the area comprising the AEP operating companies providing service in Indiana, Michigan, Kentucky, Ohio, Tennessee, Virginia and West Virginia ("East") or the area comprising the former CSW operating companies providing service in Arkansas, Texas, Oklahoma and Louisiana ("West").

2. "AEP operating company" means an AEP affiliate that is a public utility subject to rate regulation by the FERC and/or a state utility regulatory agency.

3. "Affiliate" means an entity that is an operating company's holding company, a subsidiary of the operating company or a subsidiary of the holding company.

4. "Consumer advocate" means an agency of the state government designated as a representative of consumers in matters involving utility companies before the applicable State Commission.

5. "Entity" means a corporation or a natural person.

6. "Exempt wholesale generator" means an entity which is engaged directly or indirectly through one or more affiliates exclusively in the business of owning or operating all or part of a facility for generating electric energy and selling electric energy at wholesale and who:

- a. does not own a facility for the transmission of electricity, other than an essential interconnecting transmission facility necessary to affect a sale of electric energy at wholesale; and

- b. has applied to the FERC for a determination under 15 U.S.C. Section 79z-5a.
7. "FERC" means the Federal Energy Regulatory Commission, or any successor governmental agency.
8. "Non-Utility Affiliate" means an Affiliate which is not a domestic public utility. Non-utility affiliate includes a foreign affiliate.
9. "Holding Company" means AEP, or its successor in interest, or any Entity that owns directly or indirectly 10 percent or more of the voting capital stock of a utility operating company, or its successor in interest.
10. "Power Marketer" means an entity which:
- a. becomes an owner or broker of electric energy in a state for the purpose of selling the electric energy at wholesale;
 - b. does not own transmission or distribution facilities in a state;
 - c. does not have a certified service area; and
 - d. has been granted authority by the FERC to sell electric energy at market-based rates.
11. "SEC" means the United States Securities and Exchange Commission, or any successor governmental agency.
12. "Service Agreement" means the agreement entered into between American Electric Power Service Corp. and AEP's operating companies, under which services are provided by American Electric Power Service Corp. to the operating companies.
13. "Service Company" means an Affiliate whose primary business purpose is to provide, among other functions, administrative and general or operating services to AEP utility operating companies.
14. "Services" means the performance of activities having value to one party including, but not limited to, managerial, financial, accounting, legal, engineering, construction, purchasing, marketing, auditing, statistical, advertising, publicity, tax, research, and other similar services.
15. "Subsidiary" means any corporation 10 percent or more of whose voting capital stock is controlled by another Entity.
16. "Utility Affiliate" means an affiliate of a utility operating company that is also a public utility.

Presentation of Agreement To the Commission

1. The Parties shall move for the admission of this Agreement into evidence at the hearing scheduled for May 28, 1999, or such earlier time as the Commission may establish and sponsor evidence including testimony and exhibits as may be required to support Commission approval of this Agreement.
2. The Parties stipulate and agree to the issuance by the Commission of the Proposed Order in the form attached hereto as Attachment D. All of the terms and agreements contained in the Proposed Order are to be interpreted consistent with the provisions of this Agreement, which is to be attached to and incorporated by reference in the Final Order issued by the Commission.

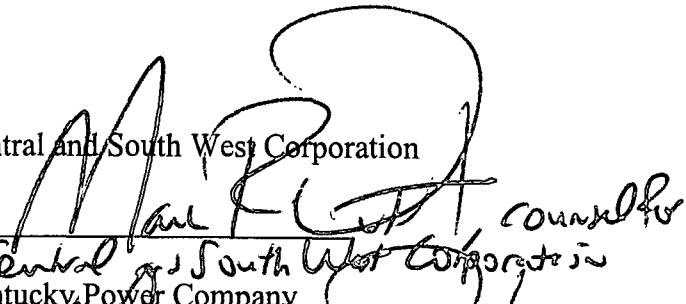
Effect and Use of Agreement

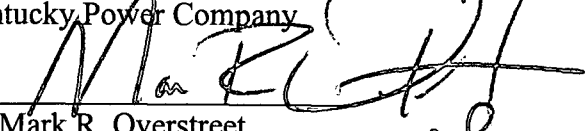
1. This Agreement shall not constitute nor be cited as precedent or deemed an admission by any Party in any other proceeding except as necessary to enforce its terms before the Commission, or any State Court of competent jurisdiction. This Agreement is solely the result of compromise in the settlement process, shall not constitute a concession of subject matter jurisdiction, and except as expressly provided herein, is without prejudice to and shall not constitute a waiver of any position that any of the Parties may take with respect to any or all of the items resolved herein in any future regulatory or other proceedings and, failing approval by this Commission, shall not be admissible or discussed in any subsequent proceedings.
2. The evidence in this Case constitutes substantial evidence sufficient to support the Agreement and provides an adequate evidentiary basis upon which the Commission can make any finding of fact and conclusions of law necessary for the approval of the Agreement, as filed.
3. The issuance of the Final Order shall terminate any further proceedings in this Case.
4. In the event this Case is required to be litigated, the Parties expressly reserve all of their rights to make objections and motions to strike with respect to all testimony and exhibits and their right to cross-examine the witnesses presenting such testimony and exhibits.
5. The undersigned have represented and agreed that they are fully authorized to execute this Agreement on behalf of their designated clients who will be bound thereby.
6. The Parties to this Agreement shall not appeal the agreed Final Order or any other Commission order to the extent such orders are specifically implementing the provisions of this Agreement and shall support this Agreement in the event of any appeal by a person not a Party. This provision shall be enforceable by any Party, in any state court of competent jurisdiction.
7. The communications and discussions during the negotiations and conferences that produced the Agreement have been conducted on the explicit understanding that they are or

relate to offers of settlement and shall therefore be privileged and not admissible in any proceeding.

ACCEPTED and AGREED this 24th day of May, 1999.

Central and South West Corporation

By:  counsel for
Central and South West Corporation
Kentucky Power Company

By: 
Mark R. Overstreet
Sites and Harbison counsel for
Kentucky Power Company

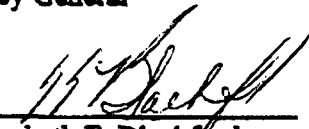
AFP

By:

Richard E. Munczinski


Richard E. Munczinski
Senior Vice President
American Electric Power
Service Corporation

Attorney General


By: 

Elizabeth E. Blackford
Assistant Attorney General
Attorney General, Office of Rate
Intervention

Kentucky Industrial Utility Customers, *INC.*

By: 
David F. Boehm
Boehm, Kurtz, & Lowry

Kentucky Electric Steel, Inc.

By: 

William H. Jones, Jr.

VanAntwerp, Monge, Jones & Edwards, LLP

AEP/CSW MERGER
NET ANNUAL MERGER SAVINGS
AND KENTUCKY CUSTOMER BILL REDUCTIONS(\$000)

(1)	(2)	(3)	(4)
RATE YEAR	NET MERGER SAVINGS	CUSTOMER BILL REDUCTION @ 55%	SHAREHOLDER NET SAVINGS @ 45%
Year 1	2,469	1,464	1,005
Year 2	4,551	2,554	1,997
Year 3	5,757	3,185	2,572
Year 4	6,732	3,695	3,037
Year 5	7,385	4,037	3,348
Year 6	7,887	4,299	3,588
Year 7	8,279	4,505	3,774
Year 8	8,511	4,626	3,885
	<u>51,571</u>	<u>28,365</u>	<u>23,206</u>

Note: Annual Customer Bill Reduction after year 8 until next base rate case is \$5,242,785

**AEP/CSW MERGER
EXAMPLE OF BASE RATE CASE TREATMENT
BASED ON YEAR 3 (\$000)**

CREDIT PER RIDER CONTINUES		(3,184)
<u>INCLUDED IN TEST YEAR:</u>		
GROSS MERGER SAVINGS		(7,252)
CHANGE IN CONTROL AMORTIZATION	328	
OTHER CTA AMORTIZATION	<u>1,178</u>	
TOTAL CTA/CIC AMORTIZATION		<u>1,506</u>
NET MERGER SAVINGS IN TEST YEAR		(5,756)
<u>ADD BACK TO TEST YEAR COST OF SERVICE:</u>		
CUSTOMER SHARE	3,184	
SHAREHOLDER PORTION	<u>2,572</u>	
		<u>5,756</u>
NET BASE RATE REDUCTION		<u>0</u>
KENTUCKY CUSTOMER RATE REDUCTION		<u><u>(3,184)</u></u>

AEP/CSW MERGER
BASE RATE CASE TREATMENT
FOR INCLUSION IN COST OF SERVICE (\$000)

RATE YEAR	<u>Add Back to Test Year Cost of Service</u>	
	<u>CUSTOMER NET SAVINGS</u>	<u>SHAREHOLDER NET SAVINGS</u>
Year 1	1,464	1,005
Year 2	2,554	1,997
Year 3	3,185	2,572
Year 4	3,695	3,037
Year 5	4,037	3,348
Year 6	4,299	3,588
Year 7	4,505	3,774
Year 8	4,626	3,885
	<hr/> <hr/> 28,365	<hr/> <hr/> 23,206

AEP/CSW MERGER
AMORTIZATION OF ESTIMATED
COSTS TO ACHIEVE*

<u>RATE</u> <u>YEAR</u>	<u>AMOUNT</u>
Year 1	1,505,502
Year 2	1,505,502
Year 3	1,505,502
Year 4	1,505,502
Year 5	1,505,502
Year 6	1,505,502
Year 7	1,505,502
Year 8	1,505,501
TOTAL	<u><u>12,044,015</u></u> **

* Includes change in control payments.

**May not add due to roundings.

AEP/KENTUCKY POWER SERVICE QUALITY

Attachment C
Page 1 of 6

AEP/Kentucky Power (the Company) has as one of its highest priorities a desire to maintain and improve the quality and reliability of service to its customers. The Company commits that current levels of customer service and service reliability shall not degrade as a result of the merger and that it shall undertake all reasonable efforts to improve the quality and reliability of its service. In order to assure the Commission and Kentucky customers of continued excellent service quality in the post-merger environment, the Company commits and agrees to do the following:

1. To maintain the overall quality and reliability of its electric service at levels no less than it has achieved in the calendar years 1995-1998. The Company will provide service reliability reports annually indicating its calendar year Kentucky Customer Average Interruption Duration Index (CAIDI) and Kentucky System Average Interruption Frequency Index (SAIFI). These indices shall be determined and reported, including all storms. Definitions for these measures are included on page 4. On page 6 are listed Kentucky Power's annual SAIFI and CAIDI performance for the years 1995 through 1998.
2. To provide annual Call Center performance measures for those centers which handle Kentucky customer calls. These will include the Call Center Average Speed of Answer (ASA), Abandonment Rate, and Call Blockage. Definitions for these measures are also included on page 5.
 - a) The performance measures described in paragraphs 1 and 2 above shall be provided by the end of May of the year following the calendar year in question.
3. Will continue to completely inspect its Kentucky electric facilities every two years and perform tree trimming, lightning arrestor replacement, animal guarding and pole and cross arm replacements.
4. AEP/Kentucky Power management will compile outage data detailing each circuit's reliability performance. In addition, by monitoring repeated outages on a regular basis, the Company will identify and resolve reliability problems which may go unnoticed by using CAIDI and SAIFI results. This data will be coupled with feedback from district field personnel and supervision and management concerning other locations and situations where the impact of outages are quantified. This process will be used to develop a comprehensive work plan each year which focuses efforts to improve service reliability. The Company will undertake all reasonable expenditures to achieve the goal of limiting customer outages.

5. Plans to continue to maintain a high quality workforce to meet its customers' needs.

6. Shall designate an employee or agent within Kentucky who will act as a contact for retail consumers regarding service and reliability concerns and to provide a contact for retail consumers for information, questions and assistance. Such AEP/Kentucky Power representative shall be able to deal with billing, maintenance and service reliability issues.

a) The company further commits to maintain in Kentucky a sufficient management team to ensure that safe, reliable and efficient electric service is provided and to respond to the needs and inquiries of its Kentucky customers.

7. In the event the Commission adopts industry generic rules concerning customer service standards, AEP/Kentucky Power shall have at its option, the right to incorporate them into this agreement.

a) AEP/Kentucky Power will have the opportunity to revisit with the Commission the agreed upon measure(s) should the Company wish to propose a specific performance-based ratemaking proposal provided the proposal either includes a reliability measure(s) and/or a customer satisfaction survey measure that contains service reliability as a component.

b) These standards can be changed during the term of this agreement to reflect any performance-based ratemaking plans or rules which the Commission adopts either for AEP/Kentucky Power and/or generically for the electric utility industry.

8. If retail access is mandated by the Kentucky General Assembly and/or the Commission and/or by federal legislation, AEP/Kentucky Power shall have the right to petition the Commission for modifications to this service quality agreement that are made necessary by the mandating of retail access.

a) Any such petition must establish the necessity of the proposed modifications and provide appropriate protections to ensure that AEP/Kentucky Power's quality of service will not decline. The Commission will act upon the petition within 90 days or the petition will be deemed to be automatically approved.

9. All prudent costs incurred to comply with the items contained in this Agreement, once incurred, will constitute known and measurable expenses that Kentucky Power shall have an opportunity to recover in accordance with traditional ratemaking principles, through recognition of these costs in its revenue requirement in future rate review.

AEP RELIABILITY MEASURES

- 1) System Average Interruption Frequency Index (SAIFI) is defined as the number of customers interrupted divided by the number of customers served. It is calculated by the equation:

$$\text{SAIFI} = \frac{\text{Number of customers interrupted}}{\text{Number of customers served}}$$

2. Customer Average Interruption Duration Index (CAIDI) is defined as the number of customer hours of interruption divided by the number of customers interrupted. It is calculated by the equation:

$$\text{CAIDI} = \frac{\text{Sum of all customer hours of interruption}}{\text{Number of customers interrupted}}$$

AEP CALL CENTER MEASURES

- 1) Average Speed of Answer (ASA) is defined as the average time that elapses in seconds between the instant when a call is answered and the time it is connected to a Call Center representative (CSR) or an interactive voice recorder (IVR). It is calculated using the equation:

$$\text{Average Speed of Answer (seconds)} = \frac{\text{Time for all calls between call answer and CSR/IVR connection}}{\text{Total number of calls made to the Call Center}}$$

- 2) Abandonment Rate is the percentage of callers who hang up before being connected to a Call Center representative (CSR) or an interactive voice recorder (IVR). It is calculated using the equation:

$$\text{Abandonment Rate (percent)} = \frac{\{\text{Total number of callers who hang up}\}}{\{\text{Total number of calls made to the Call Center}\}} \times 100$$

- 3) Call Blockage is the percentage of non-outage call attempts which do not get connected to a Call Center (busy signal, etc.). It is calculated using the equation:

$$\text{Call Blockage (percent)} = \frac{\{\text{Total number of non-outage calls that do not get connected}\}}{\{\text{Total number of non-outage calls made to the Call Center}\}} \times 100$$

AEP/Kentucky Power Reliability Performance
(includes all storms)

<u>Year</u>	<u>SAIFI</u>	<u>CAIDI</u>
1995	1.794	4.12
1996	1.530	3.10
1997	1.343	3.04
1998	1.519	5.96

Attachment D

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))

On February 17, 1999 the Staff of the Public Service Commission of Kentucky ("Commission") issued a letter stating staff's belief that the Commission has jurisdiction under KRS 278.020 (5) to review the proposed merger of Central and South West Corporation ("CSW") into American Electric Power Company, Inc. ("AEP") and requested that Kentucky Power Company ("Kentucky Power" "KPCO" or the "Company") advise in writing by March 8, 1999 of the date AEP would file an application for Commission approval of "the indirect change in control of Kentucky Power Company." On March 5, 1999 the Company issued a letter notifying the Commission that it would file the requested application by April 15, 1999. The letter also indicated that the Company expected to provide the Staff and the Commission with sufficient information to enable the Commission to approve its application within the sixty (60) day period prescribed by the statute. The letter further preserved the Company's legal arguments regarding the application of KRS 278.020 to this merger.

On April 15, 1999, the Company, AEP and CSW filed a Joint Application with supporting testimony and work papers. The proceeding was designated P.S.C. Case No. 99-149.

On April 22, 1999, the Commission issued a letter indicating that the Commission staff had reviewed the Company's application and found that it met the minimum filing requirements.

On May 4, 1999, the Attorney General, Office of the Rate Intervention ("Attorney General"), and Kentucky Electric Steel, Inc. ("KESI") were granted full intervention in Case No. 99-149. On May 11, 1999, Kentucky Industrial Utility Customers, Inc. ("KIUC"), was also granted full intervention in Case No. 99-149. These parties will be referred to herein collectively as the "Intervenors."

On April 22, 1999, a Technical Conference was held at the Commission's offices. On May 4, 1999, May 11, 1999, May 17, 1999 and May 20, 1999 settlement conferences were held at the Commission's offices. All parties to the proceeding and the Commission staff were present and participated in the settlement conferences.

Having considered the evidence and being duly advised, the Commission now finds:

1. Notice and Jurisdiction. Due and timely notice of the hearing to consider the settlement proposed by the parties was given. Kentucky Power is a "utility" within the meaning of that term in KRS 278.010(3)(a) and is subject to the jurisdiction of the Commission in the manner and to the extent provided by the laws of the Commonwealth of Kentucky.
2. The Settlement Agreement. As described in the Settlement Agreement, a copy of which is attached hereto as Exhibit A and incorporated herein by reference, the Settlement Agreement contains, among other things, provisions regarding (a) net non-fuel merger savings; (b) fuel and purchased power merger savings; (c) limitation on requests for stranded cost recovery; (d) allocation of proceeds from the sale of facilities; (e) system integration agreements; (f) Ohio Power waiver; (g) affiliate standards; (h) maintenance and enhancement of the adequacy

and reliability of retail electric service, including certain reporting requirements, (i) settlement of the existing environmental surcharge litigation (Kentucky Court of Appeals Case Nos. 98-CA-00137, 98-CA-01344, 98-CA-01417, 98-CA-01455); and (j) settlement of the pending six month review of KPCO's environmental surcharge in P.S.C. Case No. 98-624. The Settlement Agreement was agreed to by all parties to this proceeding.

The Settlement Agreement further provides that if the proposed merger is ultimately consummated, AEP commits that upon issuance of any final and non-appealable order from any state or federal commission addressing the merger that provides benefits or imposes conditions on AEP that would benefit the ratepayers of any jurisdiction, such net benefits and conditions will be extended to all other retail customers to the extent necessary to achieve equivalent net benefits and conditions to all retail customers of AEP.

The Settlement Agreement also provides that, upon approval by the Commission, the Intervenors, the Commission and its Staff shall not oppose the proposed merger before FERC or oppose AEP's previously made merger-related filings with the Securities and Exchange Commission.

The Settlement Agreement further states that it shall not constitute nor be cited as precedent or deemed an admission by any party in any other proceeding except as necessary to enforce its terms before the Commission, or any State Court of competent jurisdiction on these particular issues. The Settlement Agreement provides that it is solely the result of compromise in the settlement process, shall not constitute a concession of subject matter jurisdiction, and except as expressly provided therein, is without prejudice to and shall not constitute a waiver of any position that any of the parties thereto may take with respect to any or all of the items resolved therein in any future regulatory or other proceedings.

The Settlement Agreement states that if the Commission does not approve the Settlement Agreement in its entirety, it shall be null and void and deemed withdrawn, unless such change is approved by the parties.

At a hearing held May 28, 1999, Richard E. Munczinski, Senior Vice President-Corporate Planning and Budgeting of American Electric Power Service Corporation, the service corporation subsidiary of AEP, and Errol K. Wagner, Director of Regulatory Affairs for Kentucky Power testified in support of Commission approval of the Settlement Agreement. Mr. Munczinski discussed the negotiating process which resulted in the Settlement Agreement and the public benefits that would result from its approval. Mr. Wagner testified regarding the mechanism by which the bill reductions will be implemented by Kentucky Power.

During the course of this proceeding information about the proposed merger was requested from and provided by Kentucky Power, AEP and CSW. Additional information about the proposed merger has since been developed in the course of FERC proceedings and proceedings before other state commissions. After lengthy and detailed negotiations, Kentucky Power, CSW, AEP, the Attorney General, Office for Rate Intervention, Kentucky Industrial Consumers, Inc. and Kentucky Electric Steel have reached a unanimous agreement on terms and conditions that help ensure that Kentucky consumers will fairly share in the benefits achieved by the merger and that Kentucky consumers will be protected against any detrimental effects. The Parties recommend that the Commission approve the Settlement Agreement as a fair and just settlement of differences regarding merger-related issues.

Having reviewed the Settlement Agreement and the evidence relating thereto, the Commission finds that the recommendation of the Parties should be approved. The Commission further finds that the Settlement Agreement is a fair and reasonable resolution of the merger-

related issues of concern to the Commission and the Intervenors and should be approved in its entirety without modification.

The Commission finds that AEP and Kentucky Power have and will retain the financial, technical and managerial abilities to provide reasonable service.

The Commission further finds that the proposed merger of AEP and CSW is in accordance with the law, for a proper purpose and is consistent with the public interest.

IT IS THEREFORE ORDERED BY THE PUBLIC SERVICE COMMISSION OF KENTUCKY that:

1. The Settlement Agreement shall be and hereby is approved in its entirety without modification and that the merger of AEP and CSW is approved pursuant to KRS 278.020(4) and KRS 278.020(5).
2. Kentucky Power shall implement the Net Merger Savings Credit Tariff in the amounts shown in the tariff filed as Exhibit 2 to this Order, which tariff is approved.
3. American Electric Power, Inc. and Central and South West Corporation will incur transaction, regulatory processing and transition costs to merge the two companies. The Commission orders that the Kentucky retail jurisdictional share of the estimated merger costs be deferred and amortized for recovery over eight years. The amortization should begin with the date of the combination and continue for eight years on a straight-line basis.
4. The proposed regulatory plan is approved as are the steps necessary to implement it, specifically:
 - a. the regulatory treatment of the fuel saving arising from the integrated operations of AEP, CSW and Kentucky Power as set forth in the Settlement Agreement;

b. Kentucky Power is authorized to include as an allowable expense in cost of service the non-fuel merger savings, net of cost to achieve and amortization of estimated costs to achieve as set forth in Attachment B to the Settlement Agreement.

5. Effective January 1, 2000, KPCO shall begin collecting the environmental surcharge, including the costs of the Low Nox burners for the Big Sandy generating plant's Unit No. 1 and Unit No. 2, in accordance with the Opinion and Order of the Franklin Circuit Court dated April 30, 1998, as amended by Opinion and Order dated May 14, 1998 in Consolidated Case Nos. 97-CI-00137, 97-CI-01138, 97-CI-01144 (except those portions of the decisions allowing retroactive recovery of the surcharge).

6. The Commission approves the settlement of the environmental surcharge litigation (Kentucky Court of Appeals Case Nos. 98-CA-00137, 98-CA-01344, 98-CA-01417, 98-CA-01455, and 98 CA 002476) as described in the Settlement Agreement and authorizes its counsel to execute to necessary documents to dismiss the appeals and cross-appeals therein.

7. The pending review of KPCO's environmental surcharge in P.S.C. Case No. 98-624 shall be terminated and that proceeding is ordered closed without adjustment to the surcharge.

8. This Order shall be effective on and after the date of its approval.

By the Commission

STIPULATION AND
SETTLEMENT AGREEMENT

AMERICAN ELECTRIC POWER

CANCELING

ORIGINALSHEET NO. 25-1

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., Q.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:

$$\text{Net Merger Savings Credit} = \text{M.S.F.} + \text{B.A.F.}$$

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 <u>Distributed</u>	Merger Savings Factor <u>(M.S.F.)</u>
Year 1*	\$1,463,815	.021¢ per Kwh
Year 2	2,553,660	.037¢ per Kwh
Year 3	3,184,645	.045¢ per Kwh
Year 4	3,695,003	.051¢ per Kwh
Year 5	4,037,167	.055¢ per Kwh
Year 6	4,299,432	.057¢ per Kwh
Year 7	4,504,920	.059¢ per Kwh
Year 8	4,626,369	.059¢ per Kwh
Year 9	5,242,785	.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 and will continue until the effective date of a Commission order changing the Company's base rates after Year 8 of this tariff.

(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 effective date of a Commission order changing the Company's base rates after Year 8 of this tariff.

TERMS OF DISTRIBUTION.

- The total distribution to the Company's customers will, in no case, be less than the sum of the amounts shown for the first eight years above.
- 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.
- 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. 99-149 dated _____



COMMONWEALTH OF KENTUCKY
PUBLIC SERVICE COMMISSION

730 SCHENKEL LANE
POST OFFICE BOX 615
FRANKFORT, KY. 40602
(502) 564-3940

May 20, 1999

To: All parties of record

RE: Case No. 99-149

We enclose one attested copy of the Commission's Order in
the above case.

Sincerely,

A handwritten signature in black ink that reads "Stephanie J. Bell".

Stephanie Bell
Secretary of the Commission

SB/sa
Enclosure

Errol K. Wagner
Director of Regulatory Affairs
American Electric Power
1701 Central Avenue
P. O. Box 1428
Ashland, KY 41105 1428

Honorable David F. Boehm
Honorable Michael L. Kurtz
Boehm, Kurtz & Lowry
2110 CBLD Center
36 East Seventh Street
Cincinnati, OH 45202

Honorable Kevin F. Duffy
Counsel for Kentucky Power and
American Electric Power
Company, Inc.
1 Riverside Plaza
Columbus, OH 43215 2373

Honorable Mark R. Overstreet
Counsel for Central and South West
Stites & Harbison
421 West Main Street
P. O. Box 634
Frankfort, KY 40602 0634

Honorable Elizabeth E. Blackford
Honorable G. Dennis Howard, II
Assistant Attorney General
1024 Capital Center Drive
Frankfort, KY 40601

Honorable Richard S. Taylor
Attorney at Law
315 High Street
Frankfort, KY 40601

Honorable Peter Brickfield
Honorable James W. Brew
Brickfield, Burchette & Ritts, P.C.
1025 Thomas Jefferson Street, NW
Eighth Floor West Tower
Washington, DC 20007

Honorable William H. Jones
Vanantwerp, Monge, Jones & Edwards
1544 Winchester Avenue
Fifth Floor
Ashland, KY 41101

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

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

O R D E R

On May 14, 1999, the Kentucky Association of Plumbing-Heating-Cooling Contractors, Inc. and the Kentucky Propane Gas Association (collectively referred to as "Contractors") filed a motion requesting full intervention on behalf of their respective members. The motion states that the Contractors "are encountering unfair competition from certain utilities of a sort which has been of concern to the Commission in Administrative Case No. 369,"¹ and they have a vital interest in the affiliate guidelines adopted by the Indiana Utility Regulatory Commission as part of its approval of the transaction under review in this case.

On May 18, 1999, Kentucky Power Company, American Electric Power Company, Inc., and Central and South West Corporation ("Joint Applicants") filed a response in opposition to the Contractors' motion for intervention. The Joint Applicants note that there has been no allegation that they have engaged in any activities in Kentucky in competition with the Contractors, and the Joint Applicants affirmatively state that they are not engaged in any such competitive activities. The Joint Applicants further state that since the issue of appropriate guidelines for affiliate transactions is

¹ Administrative Case No. 369, An Investigation of the Need for Affiliate Transaction Rules and Cost Allocation Requirements for All Jurisdictional Utilities.

already under review by the Commission in Administrative Case No. 369, the issue is more appropriately addressed in that proceeding.

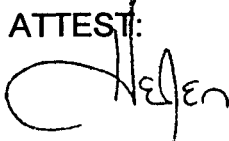
Based on the motion and the response, and being otherwise sufficiently advised, the Commission finds that the Contractors have not demonstrated a special interest sufficient to warrant intervention in this case. The Contractors do not allege, and the Joint Applicants specifically deny, that the Joint Applicants are engaged in any competitive activities in Kentucky. In addition, the interest of the Contractors is expressly limited to guidelines for affiliate transactions, an issue which is already under investigation by the Commission in Administrative Case No. 369, a docket which includes all affected utilities, the Contractors, and other interested parties. Thus, Administrative Case No. 369 is the more appropriate docket for investigating affiliate transaction guidelines.

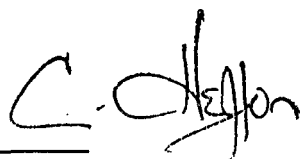
IT IS THEREFORE ORDERED that the Contractors' motion to intervene is denied.

Done at Frankfort, Kentucky, this 20th day of May, 1999.

By the Commission

ATTEST:


C. Nelson


C. Nelson

Executive Director



COMMONWEALTH OF KENTUCKY
PUBLIC SERVICE COMMISSION

730 SCHENKEL LANE
POST OFFICE BOX 615
FRANKFORT, KY. 40602
(502) 564-3940

May 19, 1999

To: All parties of record

RE: Case No. 99-149

We enclose one attested copy of the Commission's Order in
the above case.

Sincerely,

A handwritten signature in cursive script that reads "Stephanie Bell".

Stephanie Bell
Secretary of the Commission

SB/sh
Enclosure

Errol K. Wagner
Director of Regulatory Affairs
American Electric Power
1701 Central Avenue
P. O. Box 1428
Ashland, KY 41105 1428

Honorable David F. Boehm
Honorable Michael L. Kurtz
Boehm, Kurtz & Lowry
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Honorable Kevin F. Duffy
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Honorable Mark R. Overstreet
Counsel for Central and South West
Stites & Harbison
421 West Main Street
P. O. Box 634
Frankfort, KY 40602 0634

Honorable Elizabeth E. Blackford
Honorable G. Dennis Howard, II
Assistant Attorney General
1024 Capital Center Drive
Frankfort, KY 40601

Honorable Richard S. Taylor
Attorney at Law
315 High Street
Frankfort, KY 40601

Honorable Peter Brickfield
Honorable James W. Brew
Brickfield, Burchette & Ritts, P.C.
1025 Thomas Jefferson Street, NW
Eighth Floor West Tower
Washington, DC 20007

Honorable William H. Jones
Vanantwerp, Monge, Jones & Edwards
1544 Winchester Avenue
Fifth Floor
Ashland, KY 41101

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

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

O R D E R

The Commission, on its own motion, HEREBY ORDERS that an informal conference shall be held on May 20, 1999 at 2:00 p.m., Eastern Daylight Time, in Hearing Room 2 of the Commission's offices at 677 Comanche Trail, Frankfort, Kentucky.

Done at Frankfort, Kentucky, this 19th day of May, 1999.

By the Commission

ATTEST:


Executive Director

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

RECEIVED
MAY 11 1999
PUBLIC SERVICE
COMMISSION

In The Matter Of The Joint Application Of

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

SECOND REQUESTS FOR INFORMATION
PROPOUNDED BY THE ATTORNEY GENERAL

Comes now the intervenor, the Attorney General of the Commonwealth of Kentucky, by and through his Office for Rate Intervention, and submits these Requests for Information Kentucky Power Company D/B/A American Electric Power to be answered by the date specified in the Commission's Order of Procedure, and in accord with the following:

- (1) In each case where a request seeks data provided in response to a staff request, reference to the appropriate request item will be deemed a satisfactory response.
- (2) Please identify the company witness who will be prepared to answer questions concerning each request.
- (3) These requests shall be deemed continuing so as to require further and supplemental responses if the company receives or generates additional information within the scope of these requests between the time of the response and the time of any hearing conducted hereon.
- (4) If any request appears confusing, please request clarification directly from the Office of Attorney General.
- (5) To the extent that the specific document, workpaper or information as requested does not exist, but a similar document, workpaper or information does exist, provide the similar document, workpaper, or information.

(6) To the extent that any request may be answered by way of a computer printout, please identify each variable contained in the printout which would not be self evident to a person not familiar with the printout.

(7) If the company has objections to any request on the grounds that the requested information is proprietary in nature, or for any other reason, please notify the Office of the Attorney General as soon as possible.

(8) For any document withheld on the basis of privilege, state the following: date; author; addressee; indicated or blind copies; all persons to whom distributed, shown, or explained; and, the nature and legal basis for the privilege asserted.

(9) In the event any document called for has been destroyed or transferred beyond the control of the company state: the identity of the person by whom it was destroyed or transferred, and the person authorizing the destruction or transfer; the time, place, and method of destruction or transfer; and, the reason(s) for its destruction or transfer. If destroyed or disposed of by operation of a retention policy, state the retention policy.

Respectfully Submitted,



ELIZABETH E. BLACKFORD
ASSISTANT ATTORNEY GENERAL
1024 CAPITAL CENTER DRIVE
FRANKFORT KY 40601
(502) 696-5453
FAX: (502) 573-4814

CERTIFICATE OF SERVICE AND OF FILING

I hereby certify that this the 11th day of May, 1999, I have filed the original and ten copies of the foregoing with the Kentucky Public Service Commission at 730 Schenkel Lane, Frankfort, Ky., 40601, and that I have served the parties by mailing a copy of same, postage prepaid, to:

Errol K Wagner
Director of Regulatory Affairs
American Electric Power
1701 Central Avenue
P O Box 1428
Ashland KY 41105 1428

William H Jones
Vanantwerp Monge Jones & Edwards
1544 Winchester Avenue Fifth Floor
Ashland KY 41101
Counsel for Kentucky Electric Steel

Kevin F Duffy
1 Riverside Plaza
Columbus OH. 43215 2373
Counsel for Kentucky Power and
American Electric Power Company, Inc.

Mark R Overstreet
Stites & Harbison
421 West Main Street
P O Box 634
Frankfort KY 40602 0634
Counsel for Central and South West

Richard S Taylor
315 High Street
Frankfort KY 40601

Peter Brickfield
James W Brew
Brickfield Burchette & Ritts P C
Eighth Floor West Tower
1025 Thomas Jefferson Street NW
Washington DC 20007

and



SECOND DATA REQUESTS OF THE ATTORNEY GENERAL

AG-2-1 What is the date of the last general rate case of Indiana Michigan Power Company (I&M)?

AG-2-2 Were all or some portion of I&M's individual and/or all or some portion of the allocated portions of AEP's system-wide compliance costs for Phase I and Phase II compliance with the Clean Air Act as Amended included in the last I&M rate case? If the answer is that some portion of those expenses were not included in I&M's last rate case, please quantify the portion of expenses, as related to the company's total expenses of achieving compliance, that were not included in the last rate proceeding.

AG-2-3 Are the costs enumerated in AG-2-2 being recovered as a result of some proceeding outside a general rate case? If so, please name the proceeding, and please state the portion of the total costs recovered in that proceeding.

AG-2-4 Will I&M's individual or the allocated share of AEP system-wide costs of any added NOx compliance measures taken to comply with federal measures now under consideration that may arise during the period of the rate freezes operating in Indiana be recovered from I&M ratepayers during the period covered by the rate freezes? If the answer is yes, please describe the mechanism or means by which that recovery will occur.

AG-2-5 Does the company know or has the company projected the impact the failure, if any, to recover the costs set out in AG-2-2 and AG-2-4 during the periods of the rate freezes will have on I&M's financial rating? If so, what is that known or projected impact?

AG-2-6 Has the announcement of the rate freezes affected the financial rating of I&M? If so, what has the impact been?

AG-2-7 What are the dates of the last general rate cases of CSW's Central Power and Light Company (CPL), West Texas Utilities Company (WTU) and Southwestern Electric Power Company (SWEPCO)?

AG-2-8 Were some or all of CPL's, WTU's and/or SWEPCO's individual and/or some or all allocated portions of CSW's system-wide compliance costs for Phase I and Phase II compliance with the Clean Air Act as Amended included in the last rate cases of each of those companies? If the answer is that some portion of those expenses were not included in any of the companies' last rate cases, please quantify that portion of expenses, as related to each company's total expenses of achieving compliance, that were not included in the last rate proceeding.

AG-2-9 Are the costs enumerated in AG-2-8 being recovered as a result of some proceeding outside a general rate case? If so, please name the proceeding, and please state the portion of the total costs recovered in that proceeding.

AG-2-10 Will CPL's, WTU's and/or SWEPCO's individual or the allocated share of CSW system-wide costs of any added NOx compliance measures taken to comply with federal measures now under consideration that may arise during the period of the rate freezes operating in Texas be recovered from CPL, WTU and/or SWEPCO's ratepayers during the period covered by those rate freezes? If the answer is yes, please describe the mechanism or means by which that recovery will occur.

AG-2-11 Do the companies know or have the companies projected the impact the failure, if any, to recover the costs set out in AG-2-8 and AG-2-10 during the periods of the rate freezes will have on the financial ratings of CPL, WTU and SWEPCO? If so, what is that known or projected impact for each company?

AG-2-12 Has Kentucky Power Company (KPC) had a change in its financial rating as a result of its earnings for the past 3 years? If so, when did that change occur and what was the change?

AG-2-13 Has KPC had a change in its financial rating as a result of the Commission's decision in its environmental surcharge case, Administrative Action Number 96-489?

AG-2-14 Has KPC had a change in its financial rating as a result of the Franklin Circuit Court's decisions in the appeals of the Commission's Order in Administrative Action No. 96-489?

RECEIVED

COMMONWEALTH OF KENTUCKY
BEFORE THE
PUBLIC SERVICE COMMISSION OF KENTUCKY

MAY 18 1999
PUBLIC SERVICE
COMMISSION

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))

**Opposition of Joint Applicants to Motion of
Kentucky Association of Plumbing-Heating-Cooling Contractors, Inc.
And Kentucky Propane Gas Association to Intervene**

Kentucky Power Company, American Electric Power Company, Inc. and Central and South West Corporation ("Joint Applicants") for their Opposition to the Motion of Kentucky Association of Plumbing-Heating-Cooling Contractors, Inc. ("KAPHCC") and Kentucky Propane Gas Association ("KPGA") to Intervene, state:

On May 14, 1999 KAHPCC and KPGA moved to intervene in this merger case. The stated reason for the intervention is that their "members are encountering unfair competition from certain utilities of a sort that has been of concern to the Commission in Administrative Case No. 369"

KAHPCC and KPGA do not allege in their Motion that Kentucky Power is competing with their members. Although Kentucky Power provides services to its customers such as electrical contracting in switch yards, safety training and the testing of rubber goods, it does not compete with the members of KAHPCC. In fact, Kentucky Power typically refers its customers to local contractors for work in connection with its financing program.

The issues KAHPCC and KPGA seek to raise in this proceeding are, as KAHPCC and KPGA concede, being addressed in Administrative Case No. 369. As such, the issues should continue to be handled in that proceeding and not addressed on a piecemeal basis in this proceeding where they are immaterial.

In light of the posture of the case, the intervention of KAHPCC and KPGA is untimely and likely to complicate or disrupt this proceeding.

Wherefore, Kentucky Power Company, American Electric Power Company, Inc. and Central and South West Corporation respectfully request that the Motion of Kentucky Association of Plumbing-Heating-Cooling Contractors, Inc. and Kentucky Propane Gas Association for full intervention be denied.

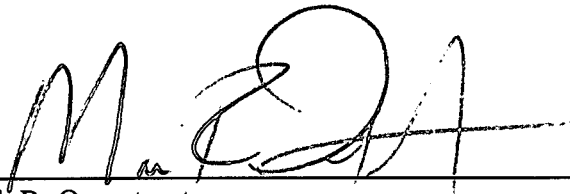
Respectfully Submitted,



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, 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

CERTIFICATE OF SERVICE

I hereby certify that a copy of the foregoing Joint Applicants' Opposition to the Motion of Kentucky Association of Plumbing-Heating-Cooling Contractors, Inc. and Kentucky Propane Gas Association for full intervention was served by first class mail on this 18th day of May, 1999 upon:

Elizabeth E. Blackford
Assistant Attorney General
Office of Rate Intervention
1024 Capital Center Drive
Frankfort, Kentucky 40601

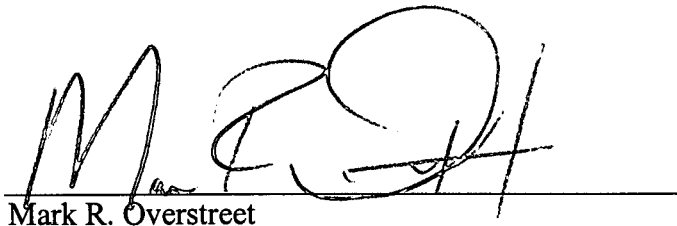
James W. Brew
Brickfield Burchette Ritts, P.C.
1025 Thomas Jefferson Street, N.W.
Eighth Floor, West Tower
Washington, D.C. 20007

Richard S. Taylor
Capital Link Consultants
315 High Street
Frankfort, Kentucky 40601

David F. Boehm
Boehm, Kurtz & Lowry
2110 CBLD Center
36 East Seventh Street
Cincinnati, Ohio 45202

William H. Jones, Jr.
VanAntwerp, Monge, Jones & Edwards, LLP
1544 Winchester Avenue
Fifth Floor
Ashland, Kentucky 41105-1111

John David Myles
413 Sixth street
Shelbyville, Kentucky 40065


Mark R. Overstreet

KE057:KE131:2167:FRANKFORT

John David Myles
Attorney at Law

413 SIXTH STREET
SHELBYVILLE, KENTUCKY 40065

(502) 633-3252

May 14, 1999

RECEIVED

MAY 14 1999

PUBLIC SERVICE
COMMISSION

Hon. Helen C. Helton
Executive Director
Kentucky Public Service Commission
730 Schenkel Lane
Frankfort, Kentucky 40601

RE: Case No. 99-149

Dear Ms. Helton:

Enclosed please find the original and twelve copies of a Motion for Full Intervention filed on behalf of the Kentucky Association of Plumbing-Heating-Cooling Contractors and the Kentucky Propane Gas Association.

If I can provide any further information to assist the Commission or Staff in its review of this motion, please let me know.

Thank you for your assistance in this matter.

Sincerely,

John David Myles

COMMONWEALTH OF KENTUCKY
Before the
PUBLIC SERVICE COMMISSION

In the Matter of:

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

MOTION FOR FULL INTERVENTION

Come now the Kentucky Association of Plumbing-Heating-Cooling Contractors, Inc., (KAPHCC), and the Kentucky Propane Gas Association (KPGA), by counsel, and for their motion state as follows:

KAPHCC, a Kentucky non-profit corporation whose principle address is 1501 Durrett Lane, Louisville, Kentucky 40213, and KPGA, a Kentucky non-profit corporation whose principle address is 512 Capital Avenue, Frankfort, Kentucky 40601, request full intervention pursuant to 807 KAR 5:001, Subsection 3(8) in Case No. 99-149.

KAPHCC represents some 280 plumbing, heating, and cooling contractors located throughout the Commonwealth of Kentucky. KPGA represents some forty-eight marketers who distribute propane gas to thousands of residential and commercial consumers in the Commonwealth of Kentucky through approximately 110 outlets across the state. KPGA also represents more than 190 supplier members who provide propane gas, propane-using appliances, and other equipment to member marketers and others.

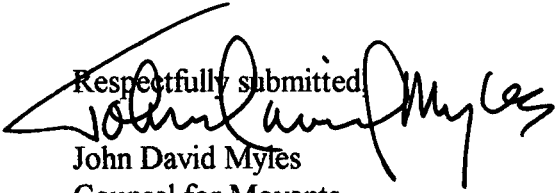
In their businesses, KAPHCC and KPGA members are encountering unfair competition from certain utilities of a sort which has been of concern to the Commission in Administrative Case No. 369 and which was obviously of great interest to the staff and the commissioners of the Indiana Utility Regulatory Commission when it reviewed this proposed merger. The proposed affiliate guidelines adopted by Indiana and their potential

application to the parties in this case and their potential effect on the proceedings in Administrative Case No. 369 are therefore of vital interest to KAPHCC, KPGA, and their members.

The interests of KAPHCC and KPGA will not otherwise be adequately represented as there is currently no party similarly situated actively participating in this proceeding. KAPHCC and KPGA are prepared to present issues and develop facts relating to the businesses of their members and their interaction with various regulated utilities which will assist the Commission in fully addressing the matters addressed by the affiliate guidelines contained in the parties' filing. Intervention by KAPHCC and KPGA will not unduly complicate or disrupt this proceeding.

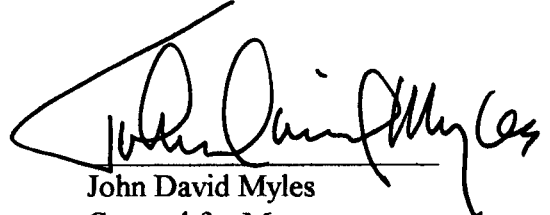
Therefore, KAPHCC and KPGA respectfully request that the Commission grant them full intervention and full rights of parties in this proceeding.

Respectfully submitted,


John David Myles
Counsel for Movants
413 Sixth Street
Shelbyville, Kentucky 40065
(502) 633-3252

CERTIFICATE OF SERVICE

This is to certify that true and accurate copies of the foregoing Motion for Full Intervention have been mailed, first class postage prepaid to the persons listed on the attached service list this 14th day of May, 1999.


John David Myles
Counsel for Movants

Errol K. Wagner
Director of Regulatory Affairs
American Electric Power
1701 Central Avenue
P. O. Box 1428
Ashland, KY 41105 1428

Honorable David F. Boehm
Honorable Michael L. Kurtz
Boehm, Kurtz & Lowry
2110 CBLD Center
36 East Seventh Street
Cincinnati, OH 45202

Honorable Kevin F. Duffy
Counsel for Kentucky Power and
American Electric Power
Company, Inc.
1 Riverside Plaza
Columbus, OH 43215 2373

Honorable Mark R. Overstreet
Counsel for Central and South West
States & Harbison
421 West Main Street
P. O. Box 634
Frankfort, KY 40602 0634

Honorable Elizabeth E. Blackford
Honorable G. Dennis Howard, II
Assistant Attorney General
1024 Capital Center Drive
Frankfort, KY 40601

Honorable Richard S. Taylor
Attorney at Law
315 High Street
Frankfort, KY 40601

Honorable Peter Brickfield
Honorable James W. Brew
Brickfield, Burchette & Ritts, P.C.
1025 Thomas Jefferson Street, NW
Eighth Floor West Tower
Washington, DC 20007

Honorable William H. Jones
Vanantwerp, Monge, Jones & Edwards
1544 Winchester Avenue
Fifth Floor
Ashland, KY 41101



COMMONWEALTH OF KENTUCKY
PUBLIC SERVICE COMMISSION

730 SCHENKEL LANE
POST OFFICE BOX 615
FRANKFORT, KY. 40602
(502) 564-3940

May 14, 1999

To: All parties of record

RE: Case No. 99-149

We enclose one attested copy of the Commission's Order in
the above case.

Sincerely,

A handwritten signature in cursive script that reads "Stephanie Bell".

Stephanie Bell
Secretary of the Commission

SB/hv
Enclosure

Errol K. Wagner
Director of Regulatory Affairs
American Electric Power
1701 Central Avenue
P. O. Box 1428
Ashland, KY 41105 1428

Honorable David F. Boehm
Honorable Michael L. Kurtz
Boehm, Kurtz & Lowry
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Counsel for Kentucky Power and
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1025 Thomas Jefferson Street, NW
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Washington, DC 20007

Honorable William H. Jones
Vanantwerp, Monge, Jones & Edwards
1544 Winchester Avenue
Fifth Floor
Ashland, KY 41101

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

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

O R D E R

The Commission, on its own motion, HEREBY ORDERS that an informal conference shall be held on May 17, 1999 at 9:30 a.m., Eastern Daylight Time, in Hearing Room 2 of the Commission's offices at 677 Comanche Trail, Frankfort, Kentucky.

Done at Frankfort, Kentucky, this 14th day of May, 1999.

By the Commission

ATTEST:


Executive Director



COMMONWEALTH OF KENTUCKY
PUBLIC SERVICE COMMISSION
730 SCHENKEL LANE
POST OFFICE BOX 615
FRANKFORT, KENTUCKY 40602
www.psc.state.ky.us
(502) 564-3940

May 7, 1999

Mark R. Overstreet
Stites & Harbison
421 West Main Street
P. O. Box 634
Frankfort, KY 40602-0634

RE: American Electric Power/ Kentucky Power Company
Case No. 99-149
Petition for Confidential Protection

Dear Mr. Overstreet,

The Commission has received the petition filed April 29, 1999, on behalf of American Electric Power and Kentucky Power Company to protect as confidential the power purchases planned for summer 1999 and the data to support the projections. A review of the information has determined that it is entitled to the protection requested on the grounds relied upon in the petition and it shall be withheld from public inspection.

If the information becomes publicly available or no longer warrants confidential treatment, you are required by 807 KAR 5:001, Section 7(9)(a) to inform the Commission so that the information may be placed in the public record.

Sincerely,

A handwritten signature in cursive script that reads "Helen C. Helton".

Helen C. Helton
Executive Director

cc: All parties of record



COMMONWEALTH OF KENTUCKY
PUBLIC SERVICE COMMISSION

730 SCHENKEL LANE
POST OFFICE BOX 615
FRANKFORT, KY. 40602
(502) 564-3940

May 11, 1999

To: All parties of record

RE: Case No. 99-149

We enclose one attested copy of the Commission's Order in
the above case.

Sincerely,

A handwritten signature in cursive script that reads "Stephanie Bell".

Stephanie Bell
Secretary of the Commission

SB/hv
Enclosure

Errol K. Wagner
Director of Regulatory Affairs
American Electric Power
1701 Central Avenue
P. O. Box 1428
Ashland, KY 41105 1428

Honorable David F. Boehm
Honorable Michael L. Kurtz
Boehm, Kurtz & Lowry
2110 CBLD Center
36 East Seventh Street
Cincinnati, OH 45202

Honorable Kevin F. Duffy
Counsel for Kentucky Power and
American Electric Power
Company, Inc.
1 Riverside Plaza
Columbus, OH 43215 2373

Honorable Mark R. Overstreet
Counsel for Central and South West
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421 West Main Street
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Frankfort, KY 40602 0634

Honorable Elizabeth E. Blackford
Honorable G. Dennis Howard, II
Assistant Attorney General
1024 Capital Center Drive
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Honorable Richard S. Taylor
Attorney at Law
315 High Street
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Honorable Peter Brickfield
Honorable James W. Brew
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Honorable William H. Jones
Vanantwerp, Monge, Jones & Edwards
1544 Winchester Avenue
Fifth Floor
Ashland, KY 41101

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

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

O R D E R

IT IS ORDERED that American Electric Power Company, Inc. ("AEP") shall file the original and 12 copies of the following information with the Commission no later than May 17, 1999, with a copy to all parties of record. Each copy of the data requested shall be placed in a bound volume with each item tabbed. When a number of sheets are required for an item, each sheet shall be appropriately indexed, for example, Item 1(a), Sheet 2 of 6. Include with each response the name of the witness who will be responsible for responding to questions relating to the information provided. Careful attention should be given to copied material to ensure that it is legible. Where information requested herein has been provided along with the original application, in the format requested herein, reference may be made to the specific location of said information in responding to this information request. When applicable, the information requested herein should be provided for total company operations and jurisdictional operations, separately.

1. Refer to the response to the Commission's April 28, 1999 Order, Item 1. The question was seeking information concerning the potential exposure of Kentucky Power in the event a termination of the merger occurred. It is fully understood that these fees or payments will not be payable unless the merger is terminated pursuant to

Section 9.1 of the Merger Agreement. With this clarification, provide the originally requested information.

2. Refer to the response to the Commission's April 28, 1999 Order, Item 15. The response only answered part of the request. Under the Affiliate Standards contained in the Indiana Settlement, would market information be readily available to an affiliate engaged in activities other than exempt wholesale generation or power marketing, such as telecommunication services or home appliance repair? Explain.

3. Refer to the response to the Commission's April 28, 1999 Order, Item 33. AEP/Kentucky Power have committed to provide the annual performance measures by the end of May of the year following the calendar year in question.

a. Explain why it will take five months to provide this information.

b. In the jurisdictions where this information is already provided routinely, indicate by jurisdiction how promptly AEP must provide this information.

c. Indicate how promptly AEP and CSW have committed to providing this information in other jurisdictions.

4. Refer to the response to the Commission's April 28, 1999 Order, Item 20. The first sentence is not responsive to the original request. The testimony was clear that "no revenue enhancement opportunities were identified in this transaction." The request referred to Mr. Flaherty's example of increased off-system sales as a revenue enhancement opportunity. The request asked for an explanation of why the combination of AEP and CSW would not create a greater level of such revenue enhancement opportunities than the two systems could expect operating independently of each other. Please provide the explanation sought by the original request.

5. Refer to the response to the Commission' April 28, 1999 Order, Item 22. It is proposed that the estimated "Net Production-Related Savings" of \$98 million arising from the merger be allocated on a 50/50 basis between AEP and CSW (as shown in Mr. Munczinski's Exhibit REM-4, \$49 million would be allocated to each company). Mr. Baker's Exhibit JCB-2 shows that the Net Production-Related Savings were calculated by taking the estimated \$198 million in Production-Related Savings, less the estimated \$39 million in Transmission Costs, less the estimated \$61 million in Foregone Net Revenues, to arrive at \$98 million in Net Production-Related Savings. As indicated in part (a) of the above-referenced response, the power flows over the 250 MW transmission path are projected to be predominately from the East Zone to the West Zone. Also in part a. of the response Mr. Baker indicates that the \$61 million in Foregone Net Revenues is an estimation of the amount that the East Zone (AEP) would not be receiving as a result of sales to the West Zone (CSW). Therefore, the Production-Related Savings occur due to AEP's coal-fired generation displacing CSW's higher priced gas-fired generation. In addition, the Foregone Net Revenues will be AEP's foregone revenues by virtue of its sales to CSW (presumably, the Transmission Costs would be costs borne by CSW as the party on the receiving end of these transactions). Given these circumstances, with the benefits being created by AEP and with AEP experiencing the greater amount of costs, i.e. lost revenues, explain why the 50/50 sharing is reasonable from the perspective of AEP.

6. Refer to the response to the Commission's April 28, 1999 Order, Item 24. Therein, Mr. Bailey delineates several measures already in place or planned for the future to improve system reliability in the Kentucky Power service area. Mr.

Bailey's direct testimony and exhibits identify the three primary measures used by AEP to monitor its service reliability and the three primary measures used to monitor the performance of its call centers. Is AEP willing to file with the Commission quarterly reports of these service reliability and performance measures?

Done at Frankfort, Kentucky, this 11th day of May, 1999.

By the Commission

ATTEST:


Executive Director



COMMONWEALTH OF KENTUCKY
PUBLIC SERVICE COMMISSION

730 SCHENKEL LANE
POST OFFICE BOX 615
FRANKFORT, KY. 40602
(502) 564-3940

May 11, 1999

To: All parties of record

RE: Case No. 99-149

We enclose one attested copy of the Commission's Order in
the above case.

Sincerely,

Stephanie Bell

Stephanie Bell
Secretary of the Commission

SB/hv
Enclosure

Errol K. Wagner
Director of Regulatory Affairs
American Electric Power
1701 Central Avenue
P. O. Box 1428
Ashland, KY 41105 1428

Honorable David F. Boehm
Honorable Michael L. Kurtz
Boehm, Kurtz & Lowry
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Counsel for Kentucky Power and
American Electric Power
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Honorable Peter Brickfield
Honorable James W. Brew
Brickfield, Burchette & Ritts, P.C.
1025 Thomas Jefferson Street, NW
Eighth Floor West Tower
Washington, DC 20007

Honorable William H. Jones
Vanantwerp, Monge, Jones & Edwards
1544 Winchester Avenue
Fifth Floor
Ashland, KY 41101

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

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

O R D E R

This matter arising upon the motion of the Kentucky Industrial Utility Customers, Inc. ("KIUC"), filed May 4, 1999, for full intervention, and it appearing to the Commission that the KIUC has a special interest which is not otherwise adequately represented, and that such intervention is likely to present issues and develop facts that will assist the Commission in fully considering the matter without unduly complicating or disrupting the proceedings, and this Commission being otherwise sufficiently advised,

IT IS HEREBY ORDERED that:

1. The motion of the KIUC to intervene is granted.
2. The KIUC shall be entitled to the full rights of a party and shall be served with the Commission's Orders and with filed testimony, exhibits, pleadings, correspondence, and all other documents submitted by parties after the date of this Order.
3. Should the KIUC file documents of any kind with the Commission in the course of these proceedings, it shall also serve a copy of said documents on all other parties of record.

Done at Frankfort, Kentucky, this 11th day of May, 1999.

By the Commission

ATTEST:


Executive Director



COMMONWEALTH OF KENTUCKY
PUBLIC SERVICE COMMISSION
730 SCHENKEL LANE
POST OFFICE BOX 615
FRANKFORT, KENTUCKY 40602
www.psc.state.ky.us
(502) 564-3940
Fax (502) 564-3460

Ronald B. McCloud, Secretary
Public Protection and
Regulation Cabinet

Helen Helton
Executive Director
Public Service Commission

Paul E. Patton
Governor

May 4, 1999

To: All Parties of Record

Re: Case No. 99-149

We enclose one attested copy of each of the Commission's Orders

In the above case:

Sincerely,

A handwritten signature in cursive script that reads "Stephanie Bell".

Stephanie Bell
Secretary of the Commission

SB/hv
Enclosures - 2



Errol K. Wagner
Director of Regulatory Affairs
American Electric Power
1701 Central Avenue
P. O. Box 1428
Ashland, KY 41105 1428

Honorable Kevin F. Duffy
Counsel for Kentucky Power and
American Electric Power
Company, Inc.
1 Riverside Plaza
Columbus, OH 43215 2373

Honorable Mark R. Overstreet
Counsel for Central and South West
Stites & Harbison
421 West Main Street
P. O. Box 634
Frankfort, KY 40602 0634

Honorable Elizabeth E. Blackford
Honorable G. Dennis Howard, II
Assistant Attorney General
1024 Capital Center Drive
Frankfort, KY 40601

Honorable Richard S. Taylor
Attorney at Law
315 High Street
Frankfort, KY 40601

Honorable Peter Brickfield
Honorable James W. Brew
Brickfield, Burchette & Ritts, P.C.
1025 Thomas Jefferson Street, NW
Eighth Floor West Tower
Washington, DC 20007

Honorable William H. Jones
Vanantwerp, Monge, Jones & Edwards
1544 Winchester Avenue
Fifth Floor
Ashland, KY 41101

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

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

O R D E R

This matter arising upon the motion of the Attorney General of the Commonwealth of Kentucky, by and through his Office of Rate Intervention ("Attorney General"), filed April 22, 1999, pursuant to KRS 367.150(8), for full intervention, such intervention being authorized by statute, and this Commission being otherwise sufficiently advised,

IT IS HEREBY ORDERED that the motion is granted and the Attorney General is hereby made a party to these proceedings.

Done at Frankfort, Kentucky, this 4th day of May, 1999.

By the Commission

ATTEST:


Executive Director

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

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

O R D E R

This matter arising upon the motion of Kentucky Electric Steel, Inc. ("KES"), filed April 27, 1999, for full intervention, and it appearing to the Commission that KES has a special interest which is not otherwise adequately represented, and that such intervention is likely to present issues and develop facts that will assist the Commission in fully considering the matter without unduly complicating or disrupting the proceedings, and this Commission being otherwise sufficiently advised,

IT IS HEREBY ORDERED that:

1. The motion of KES to intervene is granted.
2. KES shall be entitled to the full rights of a party and shall be served with the Commission's Orders and with filed testimony, exhibits, pleadings, correspondence, and all other documents submitted by parties after the date of this Order.
3. Should KES file documents of any kind with the Commission in the course of these proceedings, it shall also serve a copy of said documents on all other parties of record.

Done at Frankfort, Kentucky, this 4th day of May, 1999.

By the Commission

ATTEST:


Executive Director

BOEHM, KURTZ & LOWRY

ATTORNEYS AT LAW
2110 CBLD CENTER
36 EAST SEVENTH STREET
CINCINNATI, OHIO 45202
TELEPHONE (513) 421-2255
TELECOPIER (513) 421-2764

FILED
MAY 04 1999
PUBLIC SERVICE
COMMISSION

Via Overnight Mail

May 3, 1999

Hon. Helen Helton
Executive Director
Kentucky Public Service Commission
730 Schenkel Lane
Frankfort, Kentucky 40601


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, Case No. 99-149

Dear Ms. Helton:

Please find enclosed the original and ten copies each of the Petition to Intervene of Kentucky Industrial Utility Customers, Inc. in the above-referenced matter. By copy of this letter, all parties listed on the Certificate of Service have been served.

Please place this document of file.

Very Truly Yours,



David F. Boehm, Esq.
BOEHM, KURTZ & LOWRY

MLK/kew
Attachment

cc: Certificate of Service

CERTIFICATE OF SERVICE

I hereby certify that a copy of the foregoing was served by mailing a true and correct copy, by regular U.S. mail (unless otherwise noted) to all parties on this 3rd day of May, 1999.

Mark R. Overstreet, Esq.
Stites & Harbison
421 West Main Street
Frankfort, KY 40602


Richard G. Raff
Public Service Commission of
Kentucky
730 Schenkel Lane
Frankfort, KY 40602

William H. Jones, Esq.
VanAntwerp, Monge, Jones &
Edwards, LLP
1544 Winchester Avenue
Fifth Floor
Ashland, KY 41105

Elizabeth E. Blackford, Esq.
Assistant Attorney General
Office of Rate Intervention
1024 Capital Center Drive
Frankfort, KY 40601

Richard S. Taylor, Esq.
Attorney-at-Law
315 High Street
Frankfort, KY 40601

James W. Brew, Esq.
Brickfield, Burchette & Ritts, P.C.
1025 Thomas Jefferson Street, N.W.
Eighth Floor, West Tower
Washington, D.C. 20007



David F. Boehm, Esq.

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

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. 99-149

RECEIVED
MAY 04 1999
PUBLIC SERVICE
COMMISSION

**PETITION TO INTERVENE OF
KENTUCKY INDUSTRIAL UTILITY CUSTOMERS, INC.**

Pursuant to K.R.S. §278.310 and 807 KAR 5:001 Section 3(8), Kentucky Industrial Utility Customers, Inc. ("KIUC") requests that it be granted full intervenor status in the above-captioned proceeding and states in support thereof as follows:

1. KIUC is an association of the largest electric and gas public utility customers in Kentucky. The purpose of KIUC is to represent the industrial viewpoint on energy and utility issues before this Commission and before all other appropriate governmental bodies. The members of KIUC who purchase electricity from Kentucky Power Company ("KP") and American Electric Power ("AEP") and who will participate herein are: AK Steel Corporation, Calgon Carbon Corporation and Marathon-Ashland Petroleum, LLC. KIUC will supplement its Petition with the names of additional participating members as this information becomes known.
2. The matters being decided by the Commission in this case may have a significant impact on the rates paid by KIUC for electricity. Electricity represents a significant cost of doing business for KIUC. The attorneys for KIUC authorized to represent them in this proceeding and to take service of all documents are:

David F. Boehm, Esq.
Michael L. Kurtz, Esq.
BOEHM, KURTZ & LOWRY
2110 CBLD Center, 36 East Seventh Street
Cincinnati, Ohio 45202
(513) 421-2255

3. The position of KIUC cannot be adequately represented by any existing party. KIUC intends to play a constructive role in the Commission's decision making process herein and KIUC's participation will not unduly prejudice any party.

WHEREFORE, KIUC requests that it be granted full intervenor status in the above captioned proceeding.

Respectfully submitted,



David F. Boehm, Esq.

Michael L. Kurtz, Esq.

BOEHM, KURTZ & LOWRY

2110 CBLD Center, 36 East Seventh Street

Cincinnati, Ohio 45202

Ph: (513) 421-2255 Fax: (513) 421-2764

E-Mail: KIUC@aol.com

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

May 3, 1999



COMMONWEALTH OF KENTUCKY
PUBLIC SERVICE COMMISSION

730 SCHENKEL LANE
POST OFFICE BOX 615
FRANKFORT, KY. 40602
(502) 564-3940

April 30, 1999

Errol K. Wagner
Director of Regulatory Affairs
American Electric Power
1701 Central Avenue
P. O. Box 1428
Ashland, KY. 41105 1428

Honorable Kevin F. Duffy
Counsel for Kentucky Power and
American Electric Power
Company, Inc.
1 Riverside Plaza
Columbus, OH. 43215 2373

Honorable Mark R. Overstreet
Counsel for Central and South West
Stites & Harbison
421 West Main Street
P. O. Box 634
Frankfort, KY. 40602 0634

RE: Case No. 99-149

We enclose one attested copy of the Commission's Order in
the above case.

Sincerely,

A handwritten signature in cursive script that reads "Stephanie Bell".

Stephanie Bell
Secretary of the Commission

SB/hv
Enclosure

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

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

O R D E R

IT IS HEREBY ORDERED that an informal conference shall be held on May 4, 1999 at 9:30 a.m., Eastern Daylight Time, in Hearing Room 2 of the Commission's offices at 677 Comanche Trail, Frankfort, Kentucky, to discuss the issues presented by the application and the parties' requests for information.

Done at Frankfort, Kentucky, this 30th day of April, 1999.

By the Commission

ATTEST:


Executive Director

99-149

APR 29 1999
PUBLIC SERVICE
COMMISSION

**KENTUCKY POWER COMPANY
AMERICAN ELECTRIC POWER SYSTEM**

**ASSESSMENT
OF
GENERATION AND TRANSMISSION ADEQUACY
SUMMER 1999**

DISCUSSION AT KENTUCKY PSC OFFICES

April 29, 1999

**ECAR and MAIN Regions
Projected Peak Conditions - MW
Summer 1999**

	<u>ECAR</u>	<u>MAIN</u>
1. Total Internal Demand (TID)	94,996	48,157
Direct Control Load Mgt.	(92)	-
Interruptible Demand	<u>(3,224)</u>	<u>(2,661)</u>
2. Net Internal Demand (NID)	91,680	45,496
3. Net Capacity Resources	104,757	52,447
4. Margin (TID) - MW	9,761	4,290
- % Of TID	10.3%	8.9%
5. Margin (NID) - MW	13,077	6,951
- % Of NID	14.3%	15.3%
6. Margin (NID) Excluding Cook Plant		
- MW	11,017	
- % Of NID	12.0%	

**Kentucky Power Company and AEP System
Summer Peak Demands - MW
Actual 1998 vs. Projected 1999**

	<u>Actual 1998</u>	<u>Projected 1999</u>	<u>Increase</u>
<u>Kentucky Power Company</u>			
Peak Internal Demand	1,213 [08/28/98]	1,231	18 (1.5%)
<u>AEP System</u>			
Peak Internal Demand	19,414 [07/21/98]	19,793	379 (2.0%)
Buckeye Power Load	1,186	1,131	
Committed Off-System Sales (a)	<u>315</u>	<u>584</u>	
Total Demand	<u>20,915</u>	<u>21,508</u>	593 (2.8%)

Note: (a) Committed Sales Include:

Firm Power to RPL	8	8
Supplemental Power to VP	0	45
Long Term Power to NCEMC	204	205
Limited Term Power Sales	<u>103</u>	<u>326</u>
Sum	<u>315</u>	<u>584</u>

**American Electric Power System
(Including Buckeye Power)
Projected Peak Generation - MW
June, July and August 1999**

	<u>June</u>	<u>July</u>	<u>August</u>
1. Demand			
Peak Internal Demand	18,579	19,432	19,793
Buckeye Power Load	1,019	1,131	1,131
Committed Off-System Sales	<u>584</u>	<u>584</u>	<u>584</u>
Total Demand	20,182	21,147	21,508
 2. Generation Resources			
 Total Resources	25,041	25,046	25,046
 3. Reserve Margin			
Including all Generation Resources			
MW	4,859	3,899	3,538
% of Demand	24.1%	18.4%	16.4%
Excluding Cook Plant (2,060 MW)			
MW	2,799	1,839	1,478
% of Demand	13.9%	8.7%	6.9%

American Electric Power System Generation Capacity Margin Utilization Summer (August) 1999

1. Projected Margin

With Interruptible Loads Fully Served	1,478 MW
---------------------------------------	----------

2. Margin Utilization

Operating Reserve Requirements	900 MW
--------------------------------	--------

Typical Fossil-Capacity Random Outage	1,000 MW
---------------------------------------	----------

Additional Load Due to Severe Weather	1,300 MW
---------------------------------------	----------

3. Supplemental Capacity Resources

a. System Purchases - Hourly, Daily, etc.	to extent available
---	---------------------

b. Interruptibles with Buy-through Provisions	299 MW
---	--------

Interruptibles w/o Buy-through Provisions	375 MW
---	--------

c. Economic-Curtailable Loads	?
-------------------------------	---

Emergency-Curtailable Loads	?
-----------------------------	---

AEP Emergency Operating Plan Capacity Deficiency Procedure - Steps

1. Extra-load Capability of Generating Units	255 MW
2. Interruptible Loads	674
3. Supplementary Oil and Gas Firing (Regain Curtailed Gen.)	*
4. Emergency Hydro	25
5. Curtailment of Generating Station Use	25
6. Curtailment of Non-Essential Building Load	17
7. Voltage Reduction	147
8. Generating Plant Opacity Variance	15
9. Operation of Fourth St. Plant in Ft. Wayne (15 MW)	•
10. Curtailment of Short-Term Deliveries	326
11. Voluntary Load Curtailment	•
12. Mandatory Load Curtailment	•
13. Extension of Mandatory Load Curtailment	•

Kentucky Power Company and AEP System Transmission System Adequacy Summer 1999

1. Recent System Improvements
 - a. Inez Station
 - b. Wyoming Series Reactors
 - c. Dewey/Hazard Series Reactors

2. Expected AEP Transmission System Performance
 - a. Power-Flow Patterns
 - b. Transmission Service Reservations
 - c. Impact on KPCo Transmission Performance

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

RECEIVED

APR 28 1999

PUBLIC SERVICE
COMMISSION

IN THE MATTER OF:

JOINT APPLICATION OF KENTUCKY)
POWER COMPANY, AMERICAN ELECTRIC)
POWER COMPANY, INC. AND CENTRAL)
AND SOUTHWEST CORPORATION)
REGARDING A PROPOSED MERGER)

CASE NO. 99-149

Comes now the intervenor, the Attorney General of the Commonwealth of Kentucky, by and through his Office for Rate Intervention, and submits these Requests for Information to Kentucky Power Company, American Electric Power, Inc., and Central and Southwest Corporation to be answered by the date specified in the Commission's Order of Procedure, and in accord with the following:

- (1) In each case where a request seeks data provided in response to a staff request, reference to the appropriate request item will be deemed a satisfactory response.
- (2) Please identify the company witness who will be prepared to answer questions concerning each request.
- (3) These requests shall be deemed continuing so as to require further and supplemental responses if the company receives or generates additional information within the scope of these requests between the time of the response and the time of any hearing conducted hereon.
- (4) If any request appears confusing, please request clarification directly from the Office of Attorney General.
- (5) To the extent that the specific document, workpaper or information as requested does not exist, but a similar document, workpaper or information does exist, provide the similar document, workpaper, or information.

(6) To the extent that any request may be answered by way of a computer printout, please identify each variable contained in the printout which would not be self evident to a person not familiar with the printout.

(7) If the company has objections to any request on the grounds that the requested information is proprietary in nature, or for any other reason, please notify the Office of the Attorney General as soon as possible.

(8) For any document withheld on the basis of privilege, state the following: date; author; addressee; indicated or blind copies; all persons to whom distributed, shown, or explained; and, the nature and legal basis for the privilege asserted.

(9) In the event any document called for has been destroyed or transferred beyond the control of the company state: the identity of the person by whom it was destroyed or transferred, and the person authorizing the destruction or transfer; the time, place, and method of destruction or transfer; and, the reason(s) for its destruction or transfer. If destroyed or disposed of by operation of a retention policy, state the retention policy.

Respectfully Submitted,



ELIZABETH E. BLACKFORD
ASSISTANT ATTORNEY GENERAL
1024 Capital Center Drive
Frankfort, Kentucky 40601
(502) 696-5458

ATTORNEY GENERAL'S REQUESTS FOR INFORMATION

1. As explained at the informal conference and as discussed in the testimonies of Thomas Flaherty and Richard Munczinski, premerger initiatives are savings to be achieved internally by the individual regulated company in order to prevent the need for rate increases.
 - a. Absent the merger, would the identified premerger initiatives be implemented or occur?
 - b. Absent the merger, would the ratepayers be subject to any rate impact apart from the continuation of current rates resulting from the implementation of the premerger initiative?
2. As explained in the informal conference and discussed in the testimony of Thomas Flaherty, all merger savings are from identified sources and would not occur but for the merger. Please specifically identify those sources and the amounts of merger savings which are attributable to premerger initiatives as opposed to the merger.
3. Have the Applicant's considered treatment of the merger savings as regulatory assets and liabilities?
 - a. If so, please explain why the regulatory treatment proposed was chosen rather than treating the savings as regulatory assets and liabilities?
 - b. If not, are the Applicants opposed to treatment of the savings as regulatory assets and liabilities, and if they are opposed, please specifically describe the basis for that opposition.
4. Under the regulatory scheme set out in the testimony of Richard Munczinski, both the "customer share" and the "shareholder portion" of the merger savings are to be reflected in any future rate case as a reasonable expense. Were the rates to be established in such a rate case to continue to operate past the expiration of the ten year period of the net merger savings credit, would those expenses continue to be a part of the rate base?
5. Does Indiana have an environmental surcharge or any other mechanism similar to the environmental surcharge by which expenses incurred in achieving compliance with statutes and regulations may be recovered separately from a general rate case?

6. Does any state involved in the regulation of the subsidiary utilities of AEP and CSW other than Kentucky have an environmental surcharge or any other mechanism similar to the environmental surcharge by which expenses incurred in achieving compliance with statutes and regulations may be recovered separately from a general rate case? If so, please name the state and provide a copy of the statute or regulation establishing the mechanism.

CERTIFICATE OF SERVICE AND OF FILING

I hereby certify that this the 28th day of April, 1999, I have filed the original and ten copies of the foregoing with the Kentucky Public Service Commission at 730 Schenkel Lane, Frankfort, Ky., 40601, and that I have served the participants in the informal conference by a mailing a copy of same to:

MARK R OVERSTREET
STITES & HARBISON
P O BOX 634
FRANKFORT KY 40602 0634

JAMES W BREW
BRICKFIELD BURCHETTE RITTS P C
1025 THOMAS JEFFERSON STREET N W
EIGHTH FLOOR WEST TOWER
WASHINGTON D C 20007

WILLIAM H JONES JR
VANANTWERP MONGE JONES & EDWARDS LLP
1544 WINCHESTER AVENUE FIFTH FLOOR
ASHLAND KY 41105-1111

DAVID F BOEHM
BOEHM KURTZ & LOWRY
2110 CBLD CENTER
36 EAST SEVENTH STREET
CINCINNATI OH 45202



STITES & HARBISON

ATTORNEYS

April 26, 1999

RECEIVED

APR 27 1999

PUBLIC SERVICE
COMMISSION

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

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

RE: *P.S.C. Case No. 99-149*

Dear Ms. Helton:

I have contacted representatives of K.I.U.C, Kentucky Electric Steel and the Attorney General, and each has indicated they are available to meet with the staff of the Commission beginning at 9:30 a.m. on Tuesday, May 4, 1999 to discuss issues in the above proceeding. I thus request that an appropriate order be entered establishing the meeting.

At the conclusion of the meeting, it is contemplated that the parties would reconvene without staff at my office to discuss settlement.

Very truly yours,



Mark R. Overstreet

cc: William H. Jones, Jr.
Elizabeth E. Blackford
James W. Brew
Richard G. Raff
David F. Boehm

KE057:KE131:2029:FRANKFORT

American Electric Power
1701 Central Avenue
P.O. Box 1428
Ashland, KY 41105-1428



AMERICAN
ELECTRIC
POWER

RECEIVED
APR 22 1999
PUBLIC SERVICE
COMMISSION

Ms. Helen C. Helton
Executive Director
Public Service Commission
730 Schenkel Lane
P. O. Box 615
Frankfort, KY

21 April 1999

Dear Ms. Helton:

As requested by Commission Order dated 4/20/99 in Case No. 99-149, a duplicate of the notice and request to publish is enclosed.

Sincerely,

A handwritten signature in cursive script that reads 'Errol K. Wagner'.

Errol K. Wagner
Director of Regulatory Affairs

EKW/c

Encl.

RECEIVED

APR 21 1999

PSC
FINANCIAL ANALYSIS

April 21, 1999

KENTUCKY PRESS ASSOCIATION

ATTN: GLORIA DAVIS

FAX 502-875-2624

Dear Ms. Davis:

As you requested, we are 'faxing' information to be published in the Classified Section under "Legal Notices" in the following "legal" newspapers in the American Electric Power-Kentucky service area:

The Daily Independent
P.O. Box 311
Ashland, KY 41105-0311

Big Sandy News
P.O. Box 766
Louisa, KY 41230

Grayson Journal-Enquirer
113 Hord Street
Grayson, KY 41143

Greenup News-Times
P.O. Box 724
Greenup, KY 41144

The Morehead News
722 West First Street
Morehead, KY 40351

Lewis County Herald
206 Main Street
Vanceburg, KY 41179

The Manchester Enterprise
103 Third Street
Manchester, KY 40962

Floyd County Times
P.O. Box 391
Prestonsburg, KY 41653-0391

The Salyersville Independent
P.O. Box 29
Salyersville, KY 41465

The Jackson Times
1003 College Avenue
Jackson, KY 41339

The Mountain Eagle
P.O. Box 808
Whitesburg, KY 41858

Leslie County News
P.O. Box 917
Hyden, KY 41749

Hazard Herald-Voice
P.O. Box 869
Hazard, KY 41702

Troublesome Creek Times
P.O. Box 700
Hindman, KY 41822

The Booneville Sentinel
P.O. Box 129
Booneville, KY 41314

Appalachian News-Express
P.O. Box 802
Pikeville, KY 41502

The Mountain Citizen
P. O. Box 1029
Inez, KY 41224

Elliott County News
P.O. Box 187
West Liberty, KY 41472

Martin County Sun
P.O. Box 1314
Inez, KY 41224

The Paintsville Herald
West Third Street
Paintsville, KY 41240

Licking Valley Courier
P.O. Box 187
West Liberty, KY 41472

Kentucky Public Service Commission regulations state that the notice must appear "in a newspaper of general circulation in the areas that will be affected one (1) time not less than seven (7) nor more than twenty-one (21) days prior to the hearing giving the purpose, time, place and date of hearing."

The hearing is scheduled for May 28, 1999, therefore the notice must appear after May 7, 1999 but no later than May 19, 1999.

A copy of the final ad after it is reset should be 'faxed' to the below address for our approval.

As we discussed, immediately following publication, your office will prepare a notarized affidavit and forward it, along with the tear sheets, to the address below.

The invoice for any costs associated with the service should be mailed to the address below.

JANE CARTER
AMERICAN ELECTRIC POWER
REGULATORY AFFAIRS, 5th FLOOR
P.O. BOX 1428
ASHLAND, KY 41105-1428

If you have any questions, please call Jane at 606-327-1191.

Thank you,

Errol K. Wagner
Director of Regulatory Affairs

COPY OF AD ON FOLLOWING SHEET

NOTICE OF PUBLIC HEARING

A public hearing will be held on May 28, 1999 at 10:00 a.m., Eastern Daylight Time, in Hearing Room 1 of the offices of the Kentucky Public Service Commission, 730 Schenkel Lane, Frankfort, Kentucky for the purpose of cross-examination of witnesses of Applicants and intervenors in the Joint Application of Kentucky Power Company, American Electric Power Company, Inc. and Central South West Corporation Regarding a Proposed Merger.

Errol K. Wagner, Director of Regulatory
Affairs

Kentucky Power Company

d/b/a

American Electric Power

99-149
Response to Ex. 2

STATE OF INDIANA

INDIANA UTILITY REGULATORY COMMISSION

RECEIVED

APR 23 1999

PUBLIC SERVICE COMMISSION

CAUSE NO. 41210 INDIANA UTILITY REGULATORY COMMISSION

IN THE MATTER OF THE INVESTIGATION)
ON THE COMMISSION'S OWN MOTION)
INTO ANY AND ALL MATTERS RELATING)
TO THE MERGER OF AMERICAN)
ELECTRIC POWER, INC. AND CENTRAL)
AND SOUTH WEST CORPORATION)

STIPULATION AND SETTLEMENT AGREEMENT

On June 29, 1998, the Indiana Utility Regulatory Commission ("IURC" or "Commission") initiated this investigation regarding the proposed merger of American Electric Power Company, Inc. ("AEP"), the parent company of Indiana Michigan Power Company ("I&M"), and Central and South West Corporation ("CSW"). On September 2, 1998, the Commission appointed a Staff Negotiating Team "to attempt to negotiate a settlement of the issues presented in this cause." In a Docket Entry dated November 30, 1998 the presiding officers directed that "any negotiated settlement resolving the issues presented in this Cause should be filed with the Commission on or before March 5, 1999. . . ." The Commission extended that deadline at the request of the Staff Negotiating Team eventually to April 12, 1999.

Solely for the purposes of compromise and settlement of the issues in this proceeding, Indiana Michigan Power Company, which does business in Indiana as American Electric Power and the Staff Negotiating Team (collectively referred to as the "Parties") have met and reached a settlement agreement ("Agreement") which they hereby submit and recommend for approval to the Commission. If the Commission does not approve the settlement agreement in its entirety and incorporate it in the Final Order, the proposed Agreement shall be null and void and deemed withdrawn, unless such change is agreed to by the Parties.

SETTLEMENT AGREEMENT

WHEREAS AEP and CSW have filed various applications before federal and state agencies seeking approvals necessary to consummate a proposed merger of the two companies, and

WHEREAS AEP, I&M and the Staff Negotiating Team have met and explored over a period of months various issues related to the proposed merger and their agreements and differences

regarding the effects of the proposed merger on competition between electricity providers and on the terms and conditions under which retail electric utility service is provided, and

WHEREAS AEP, I&M and the Staff Negotiating Team recognize the costs and uncertainty of litigation and the desirability of consensual voluntary resolution of their differences and the legitimate interests and good faith of each of the parties in achieving the objectives each desires to achieve, and

WHEREAS the Staff Negotiating Team is authorized to make recommendations to the IURC regarding a fair and just settlement of differences in the public interest,

The Parties agree as follows:

The Staff Negotiating Team will recommend to the IURC that the following Agreement be adopted by the Commission in an order or other appropriate formal action that references this Agreement or incorporates all of the provisions thereof. Where appropriate, the Commission action may address or reserve other matters ancillary or incidental to the matters addressed in this Agreement, for immediate or future disposition, in a manner not inconsistent with the Agreement.

All appropriate terms are defined in the "Definitions" section of the Agreement.

THE IURC and STAFF:

1. Will not oppose the proposed merger pending before the Federal Energy Regulatory Commission ("FERC").
2. Will not oppose AEP's filings previously made at the United States Securities and Exchange Commission ("SEC") in connection with the proposed merger, together with any non-material changes or supplements thereto.

AEP, or its Indiana jurisdictional AEP operating company, conditional on merger consummation will:

1. **REGULATORY PLAN.** I&M will implement net merger savings reduction riders that will reduce bills to customers by the annual amounts shown in Attachment A beginning with the first revenue month after the consummation of the merger. The annual bill reduction amounts shown in Attachment A will be allocated to rate classes based upon total revenues, excluding fuel cost adjustment, and credited to customers' bills through the application of a per kilowatt hour factor specific to each rate class. Each individual year's bill reduction will apply for a twelve month period except for an adjustment during each third quarter to reconcile actual kWh

sales and projected kWh sales for the prior year. The last reduction will continue to apply in years following the end of year eight until base rates for the operating company are changed.

The merger savings and costs are based on estimated values included in AEP's filing with FERC in Docket No. EC98-40-000.

Notwithstanding any base rate proceeding during the eight year period after the consummation of the merger, the annual amounts shown in Attachment A will remain in effect.

I&M must implement the above bill reductions in the manner and amounts described above notwithstanding any changes to the current regulatory structure in Indiana. In the event that retail electric deregulation legislation is implemented in Indiana, or if there is any unbundling or restructuring, I&M shall continue to apply the regulatory plan's provisions to regulated rates of its Indiana customers.

Any legislatively mandated adjustments to base rates, of any kind, that are part of any retail electric deregulation legislation implemented in Indiana shall not diminish or offset, but shall be in addition to, the bill reductions established in this proceeding.

Subject to this agreement, AEP and I&M will defer and amortize their Indiana jurisdictional estimated merger related costs-to-achieve over an 8-year recovery period. Costs to achieve the merger are those costs incurred to consummate the merger and combine the operations of AEP and CSW. These costs include, but are not limited to, investment banking fees; consulting and legal services incurred in connection with obtaining regulatory and shareholder approvals; transition planning and development costs; employee separation costs including severance costs, change-in-control payments and retraining costs; and facilities consolidation costs. The IURC will issue accounting orders or other orders necessary to authorize the deferral and amortization of merger costs.

In any proceeding to change base rates for I&M to become effective after the consummation of the merger, the following rate treatment will be reflected:

- A. Estimated non-fuel merger savings, net of costs to achieve will be included in cost of service as an allowable expense in order to avoid duplication and to continue to provide shareholders with their share of the net savings. The amount to be included in the cost of service shall be based upon the test year period. (See Attachment B)
- B. Amortization of estimated 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. (See Attachment B)

In addition, the net merger savings allocated to the shareholders will be excluded from the earnings test in determining I&M's compliance with the provisions of I.C. 8-1-2-42(d)(2) and (3).

To mitigate potential stranded investment, I&M will increase the funding for the provision of paragraph 21 of the settlement agreement approved by the Commission in Cause No. 38702-FAC40-S1 in the additional amount of \$5.5 million annually starting January 1, 2001 for a three year period ending December 31, 2003. The rate filing limitation in paragraph 8 of that settlement agreement is extended by one year to January 1, 2005. In addition, I&M will abide by the provisions of paragraphs 8, 9, and 10 of that settlement agreement, regardless of the outcome of litigation in that Cause.

2. **FUEL MERGER SAVINGS.** All savings of fuel and purchased power expenses resulting from the merger shall benefit retail customers through existing fuel clause recovery mechanisms applied by State Commissions. In circumstances when one or more AEP operating companies in one AEP zone are supplying power to the other AEP zone, and as a result, the supplying zone needs to purchase replacement power to serve its native load, AEP shall hold harmless the native load customers of the supplying zone from any price differential between the replacement power and the system power supplied to the other zone. Similarly, if one or more AEP operating companies in one AEP zone are supplying power to the other AEP zone, and as a result, the supplying zone loses the opportunity to sell power at a price higher than received from the zone being supplied, AEP shall credit the supplying zone for the foregone revenues.

3. **STRANDED COSTS.** AEP and its operating companies agree not to seek or recover any stranded costs associated with the operating companies of one AEP zone from the retail customers of the other AEP zone.

4. **PROCEEDS OF FACILITY SALES.** Any proceeds from the sale of facilities shall go to the AEP operating company in whose rate base the facilities are included, for further disposition in accordance with the rules and orders of the regulatory authorities whose jurisdiction encompasses the ultimate disposition of such proceeds.

5. **SYSTEM INTEGRATION AGREEMENTS.** To mitigate any perceived impacts of the merger on AEP's ability to exercise market power, AEP proposed in its FERC merger application a mitigation plan. To protect retail customers, AEP agrees to hold harmless the retail customers from any mitigation plan included in any FERC order approving the merger of AEP-CSW. To implement this Agreement in any general retail electric rate proceeding commenced by the filing of a petition on or after the date of this Agreement, in which an AEP operating company requests a change in its basic rates and charges, or in any other proceeding where so ordered by the State Commission, AEP shall have the burden therein to prove that such requested rate relief does not reflect mitigation-related costs.

AEP commits to file any allocation of the cost of new, modified or upgraded generation or

transmission facilities whose costs will be subject to the System Integration Agreement or the System Transmission Agreement with the FERC and to notify each State Commission of any such filing at the time it is made. Notification to each State Commission will include an estimate of the cost of construction, an explanation of the reasons for constructing the facilities, studies supporting the construction of the facilities, and a proposed allocation of the facilities' costs. If AEP plans to purchase an in-service facility or already constructed and soon-to-be-in-service facility, AEP will follow the above described procedures and will include as part of the notification to the State Commission an explanation of the circumstances causing the AEP operating company to make the purchase in question.

6. **REGULATORY AUTHORITY.** AEP agrees not to seek to overturn, reverse, set aside, change or enjoin, whether through appeal or the initiation or maintenance of any action in any forum, a decision or order of a State Commission based on the assertion that the authority of the Securities and Exchange Commission as interpreted in *Ohio Power Co. v. FERC*, 954 F.2d 779 (D.C. Cir. 1992) cert. denied, 498 U.S. 73 (1992) impairs the State Commission's ability to examine and determine the reasonableness of non-power affiliate transaction costs to be passed to retail customers. The parties agree that the Ohio Power waiver does not include waiver of any arguments that AEP may have with respect to the reasonableness of SEC approved cost allocations. AEP will provide each State Commission with notice at least 30 days prior to any filings that propose new allocation factors with the SEC. The notice need not be in the precise form of the final filing but shall include, to the extent information is available, a description of the proposed factors and the reasons supporting such factors. AEP and State Commission Staff will make a good faith attempt to resolve their differences, if any, in advance of a filing being made at the SEC.

7. **REGIONAL TRANSMISSION ORGANIZATION.**

- A. Prior to December 31, 2000, AEP will file with the FERC an unconditional application, consistent with the RTO agreement and tariff, to transfer the operation and control of its bulk transmission facilities in Indiana, Michigan, Kentucky, Ohio, Tennessee, Virginia and West Virginia owned, controlled and/or operated by AEP to the Midwest Independent Transmission System Operator, Inc. or another FERC-approved Regional Transmission Organization directly interconnected with AEP transmission facilities. Provided that, if, by June 30, 2000, there is pending before the FERC for approval an RTO to which AEP is a signatory that includes two or more directly interconnected control areas, at least one of which is not affiliated with AEP, the December 31, 2000 date shall be extended to the date that is 75 days after the date on which the FERC issues an order either approving or disapproving the RTO.
- B. AEP shall endeavor to incorporate equitable reciprocal pricing arrangements with contiguous RTOs in the Alliance RTO or any other filing to which AEP is a signatory seeking FERC approval of the formation of a new RTO.

- C. AEP will provide generation dispatch information necessary for RTOs to monitor the effect of such dispatch on the loading of that RTO's constrained transmission facilities. This information must be provided to any RTO of which AEP is a member, and to RTOs providing service over any transmission facilities directly interconnected with the AEP east zone transmission facilities. Each of these RTOs shall determine the format, quantity, and timing of these data as necessary to perform this monitoring function. The information provided by AEP shall be equivalent to that provided by all parties, which have control of the dispatch of generation facilities, taking service from these RTO(s) and shall be subject to appropriate confidentiality provisions.
- D. AEP believes that its RTO commitment, as defined in this document, is in keeping with its goal of achieving a large, economically efficient RTO in the Eastern Interconnection.
- E. Nothing in this Agreement precludes the Commission, or its staff from actively participating in any proceedings at the FERC arising from any RTO filings made by AEP. However the Commission and its staff commits that it will not offer such participation as a reason to delay the consummation of the merger or to advocate a position before FERC inconsistent with Paragraph A. above.

8. AFFILIATE STANDARDS. The following affiliate standards shall apply from the date of closing of the merger until new affiliate standards imposed by state legislation or State Commission action become effective.

- A. The financial policies and guidelines for transactions between an AEP operating company and its affiliates shall reflect the following principles:
 1. An AEP operating company's retail customers shall not subsidize the activities of the operating company's non-utility affiliates or its utility affiliates.
 2. An AEP operating company's costs for jurisdictional rate purposes shall reflect only those costs attributable to its jurisdictional customers.
 3. These principles shall be applied to avoid costs found to be just and reasonable for ratemaking purposes by the affected State Commission being left unallocated or stranded between various regulatory jurisdictions, resulting in the failure of the opportunity for timely recovery of such costs by the operating company and/or its utility affiliates; provided, however,

that no more than one hundred percent of such costs shall be allocated on an aggregate basis to the various regulatory jurisdictions.

4. An AEP operating company shall maintain and utilize accounting systems and records that identify and appropriately allocate costs between the operating company and its affiliates, consistent with these cross-subsidization principles and such financial policies and guidelines.
- B. Each State Commission shall have access to the employees, officers, books and records of any affiliate of its jurisdictional AEP operating company to the same extent and in like manner that each such State Commission has over a public utility operating within the state in which such State Commission exercises its regulatory authority if the affiliate had engaged in direct or indirect transactions with the jurisdictional AEP operating company. If such employees, officers, books and records can not be reasonably made available to a State Commission, then upon request of a State Commission, the AEP operating company shall, in accordance with state reimbursement rules, reimburse the State Commission for appropriate out-of-state travel expenses incurred in accessing the employees, officers, books and records. Each AEP operating company shall maintain, in accordance with generally accepted accounting principles, books, records, and accounts that are separate from the books, records, and accounts of its affiliates, consistent with Part 101 – Uniform System of Accounts Prescribed for Public Utilities and Licensees Subject to the Provisions of the Federal Power Act. Any objections to providing all books and records must be raised before the State Commission and the burden of showing that the request is unreasonable or unrelated to the proceeding is on the AEP operating company. The confidentiality of competitively sensitive information shall be maintained in accordance with each State Commission's rules and regulations.
- C. In accordance with generally accepted accounting principles and consistent with state and federal guidelines, an AEP operating company shall record all transactions with its affiliates, whether direct or indirect. An AEP operating company and its affiliates shall maintain sufficient records to allow for an audit of the transactions involving the operating company and its affiliates. Asset transfers from an AEP operating company to a non-utility affiliate and asset transfers from a non-utility affiliate to an AEP operating company shall be at fully distributed costs in accordance with current Securities and Exchange Commission (SEC) issued requirements or other statutory requirements if the SEC has no jurisdiction.
- D. An AEP operating company shall not allow a non-utility affiliate to obtain credit under any arrangement that would permit a creditor, upon default, to have recourse to the operating company's assets. The financial arrangements of an

AEP operating company's affiliates are subject to the following restrictions unless otherwise approved by that operating company's State Commission:

1. Any indebtedness incurred by a non-utility affiliate will be without recourse to the operating company.
2. An AEP operating company shall not enter into any agreements under terms of which the operating company is obligated to commit funds in order to maintain the financial viability of a non-utility affiliate.
3. An AEP operating company shall not make any investment in a non-utility affiliate under circumstances in which the operating company would be liable for the debts and/or liabilities of the non-utility affiliate incurred as a result of acts or omissions of a non-utility affiliate.
4. An AEP operating company shall not issue any security for the purpose of financing the acquisition, ownership, or operation of a non-utility affiliate.
5. An AEP operating company shall not assume any obligation or liability as guarantor, endorser, surety, or otherwise in respect of any security of a non-utility affiliate.
6. An AEP operating company shall not pledge, mortgage or otherwise use as collateral any assets of the operating company for the benefit of a non-utility affiliate.
7. AEP shall hold harmless the retail customers of an AEP operating company from any adverse effects of credit rating declines caused by the actions of non-utility affiliates.

Transactions between AEP operating companies and affiliates involving a money pool for the financing of short-term funding requirements are exempt from the requirements of this paragraph. Further, the provisions of this paragraph would not preclude AEP operating companies from issuing securities or assuming obligations related to their existing coal subsidiaries.

- E. Any untariffed, non-utility service provided by an AEP operating company or affiliated service company to any affiliate shall be itemized in a billing statement pursuant to a written contract or written arrangement. The AEP operating company and any affiliated service company shall maintain and keep available for inspection by the State Commission copies of each billing statement, contract and arrangement between the AEP operating company or affiliated service company and its affiliates that relate to the provision of such untariffed non-utility services.

- F. Any good or service provided by a non-utility affiliate to an AEP operating company shall be by itemized billing statement pursuant to a written contract or written arrangement. The operating company and non-utility affiliate shall maintain and keep available for inspection by the State Commission copies of each billing statement, contract and arrangement between the operating company and its non-utility affiliates that relate to the provision of such goods and services in accordance with applicable State Commission retention requirements.
- G. Employees responsible for the day to day operations of the AEP operating companies and those of affiliated exempt wholesale generators or affiliated power marketers shall operate independently of one another. AEP shall document all employee movement between and among all affiliates. Such information shall be made available to each State Commission and consumer advocate upon request.
- H. An AEP operating company may not own property in common with an affiliated exempt wholesale generator or affiliated power marketer.
- I. No market information obtained in the conduct of utility business may be shared with an affiliated exempt wholesale generator or affiliated power marketer, except where such information has been publicly disseminated or simultaneously shared with and made available to all non-affiliated entities who have requested such information. Customer specific information shall not be made available to an affiliated exempt wholesale generator or affiliated power marketer except under the same terms as such information would be made available to a non-affiliated company, and only with the written consent of the customer specifying the information to be released.
- J. A non-utility affiliate may use an AEP operating company's name or logo only if, in connection with such use, the affiliate makes adequate disclosures to the effect that (i) the two entities are separate; (ii) it is not necessary to purchase the non-regulated product or service to obtain service from the operating company; and (iii) the customer will gain no advantage from the operating company by buying from the affiliate.
- K. An AEP operating company shall not condition or tie the provision of any product, service, pricing benefit, or waiver of associated terms or conditions, to the purchase of any good or service from its affiliated exempt wholesale generator or power marketer.
- L. Except as provided in paragraph M, an affiliated exempt wholesale generator or affiliated power marketer shall not share office space, office equipment, computer systems or information systems with an AEP operating company.

- M. Computer systems and information systems may be shared between an AEP operating company and non-utility affiliates only to the extent necessary for the provision of corporate support services; however, the operating company shall ensure that the proper security access and other safeguards are in place to ensure full compliance with these affiliate rules.
- N. An AEP operating company may engage in transactions directly related to the provision of corporate support services with its affiliates in accordance with requirements relating to service agreements. As a general principle, such provision of corporate support services shall not allow or provide a means for the transfer of confidential information from the operating company to the affiliate, create the opportunity for preferential treatment or unfair competitive advantage, create opportunities for cross-subsidization of affiliates, or otherwise provide any means to circumvent these affiliate rules.
- O. Except as provided in paragraph N, an AEP operating company may only make a product or service available to an affiliated exempt wholesale generator or an affiliated power marketer if the product or service is equally available to all non-affiliated exempt wholesale generators and power marketers on the same terms, conditions and prices, and at the same time. An AEP operating company shall process all requests for a product or service from affiliated and non-affiliated exempt wholesale generators and power marketers on a non-discriminatory basis.
- P. An AEP operating company which provides both regulated and non-regulated services or products, or an affiliate which provides services or products to an AEP operating company, shall maintain documentation in the form of written agreements, an organization chart of AEP (depicting all affiliates and AEP operating companies), accounting bulletins, procedure and work order manuals, or other related documents, which describe how costs are allocated between regulated and non-regulated services or products. Such documentation shall be available, subject to requests for confidential treatment, for review by State Commissions in accordance with Paragraph B. above.
- Q. AEP shall designate an employee who will act as a contact for State Commissions and consumer advocates seeking data and information regarding affiliate transactions and personnel transfers. Such employee shall be responsible for providing data and information requested by a State Commission for any and all transactions between the jurisdictional operating company and its affiliates, regardless of which affiliate(s), subsidiary(ies) or associate(s) of an AEP operating company from which the information is sought.

- R. AEP shall designate an employee or agent within each signatory state who will act as a contact for retail consumers regarding service and reliability concerns and to allow a contact for retail consumers for information, questions and assistance. Such AEP representative shall be able to deal with billing, maintenance and service reliability issues.
- S. AEP shall provide each signatory state a current list of employees or agents that are designated to work with each State Commission and consumer advocate concerning state regulatory matters, including, but not limited to, rate cases, consumer complaints, billing and retail competition issues.
- T. Thirty (30) days prior to filing any affiliate contract (including service agreements) with the SEC or the FERC an AEP operating company shall submit to each affected State Commission a copy of the proposed filing.
- U. Any violation of the provisions of these affiliate standards are subject to the enforcement powers and penalties at the State Commissions.
- V. AEP shall contract with an independent auditor who shall conduct biennial audits for eight years after merger consummation of affiliated transactions to determine compliance with these affiliate standards. The results of such audits shall be filed with the State Commissions. Prior to the initial audit, AEP will conduct an informational meeting with State Commissions regarding how its affiliates and affiliate transactions will or have changed as a result of the proposed merger.
- W. If the Public Utility Holding Company Act of 1935 is repealed or materially amended during the time this Agreement is in effect and equivalent jurisdiction is not given to another federal agency, AEP will work with the State Commissions to ensure that AEP continues to furnish the State Commission with the appropriate information to regulate its jurisdictional AEP operating company. The State Commission may establish its reporting requirements regarding the nature of intercompany transactions concerning the operating company and a description of the basis upon which cost allocations and transfer pricing have been established in these transactions.

9. **ADEQUACY AND RELIABILITY OF RETAIL ELECTRIC SERVICE.** AEP agrees to maintain or enhance the adequacy and reliability of retail electric service provided by each of the AEP operating companies. Service reports will be submitted to the State Commissions participating in this Agreement in the format described in Attachment C to this Agreement.

10. **STATUTORY AND OTHER ISSUES.** Provided the proposed merger is ultimately consummated, AEP commits that upon issuance of any final and non-appealable order from any state or federal commission addressing the merger that provides benefits or imposes conditions

on AEP that would benefit the ratepayers of any jurisdiction, such net benefits and conditions will be extended to all other retail customers to the extent necessary to achieve equivalent net benefits and conditions to all retail customers of AEP.

11. CONTINUED PARTICIPATION. Nothing in this Agreement is intended to preclude the Commission and its staff from addressing in a manner not inconsistent with this Agreement issues raised in FERC Docket No. EC98-40-000.

12. ENFORCEABILITY. AEP and I&M will not assert in any action to enforce an order approving this Agreement that the Commission lacks the authority to have the provisions of this Agreement enforced under Indiana law.

DEFINITIONS

1. "AEP zone" means either the area comprising the AEP operating companies providing service in Indiana, Michigan, Kentucky, Ohio, Tennessee, Virginia and West Virginia ("East") or the area comprising the former CSW operating companies providing service in Arkansas, Texas, Oklahoma and Louisiana ("West").

2. "AEP operating company" means an AEP affiliate that is a public utility subject to rate regulation by the FERC and/or a state utility regulatory agency.

3. "Affiliate" means an entity that is an operating company's holding company, a subsidiary of the operating company or a subsidiary of the holding company.

4. "Consumer advocate" means an agency of the state government designated as a representative of consumers in matters involving utility companies before the applicable State Commission.

5. "Entity" means a corporation or a natural person.

6. "Exempt wholesale generator" means an entity which is engaged directly or indirectly through one or more affiliates exclusively in the business of owning or operating all or part of a facility for generating electric energy and selling electric energy at wholesale and who:

- a. does not own a facility for the transmission of electricity, other than an essential interconnecting transmission facility necessary to affect a sale of electric energy at wholesale; and
- b. has applied to the FERC for a determination under 15 U.S.C. Section 79z-5a.

7. "FERC" means the Federal Energy Regulatory Commission, or any successor governmental agency.

8. "Non-Utility Affiliate" means an Affiliate which is not a domestic public utility. Non-utility affiliate includes a foreign affiliate.
9. "Holding Company" means AEP, or its successor in interest, or any Entity that owns directly or indirectly 10 percent or more of the voting capital stock of a utility operating company, or its successor in interest.
10. "Power Marketer" means an entity which:
- a. becomes an owner or broker of electric energy in a state for the purpose of selling the electric energy at wholesale;
 - b. does not own transmission or distribution facilities in a state;
 - c. does not have a certified service area; and
 - d. has been granted authority by the FERC to sell electric energy at market-based rates.
11. "Regional Transmission Organization" (RTO) means an organization that operates electric transmission equipment and facilities on a regional basis.
12. "SEC" means the United States Securities and Exchange Commission, or any successor governmental agency.
13. "Service Agreement" means the agreement entered into between American Electric Power Service Corp. and AEP's operating companies, under which services are provided by American Electric Power Service Corp. to the operating companies.
14. "Service Company" means an Affiliate whose primary business purpose is to provide, among other functions, administrative and general or operating services to AEP utility operating companies.
15. "Services" means the performance of activities having value to one party including, but not limited to, managerial, financial, accounting, legal, engineering, construction, purchasing, marketing, auditing, statistical, advertising, publicity, tax, research, and other similar services.
16. "Subsidiary" means any corporation 10 percent or more of whose voting capital stock is controlled by another Entity.
17. "Utility Affiliate" means an affiliate of a utility operating company that is also a public utility.

Presentation of Agreement To the Commission

1. The Parties shall move for the admission of this Agreement into evidence at the hearing scheduled for April 19, 1999 and sponsor evidence including testimony and exhibits as may be required to support Commission approval of this Agreement.
2. The Parties stipulate and agree to the issuance by the Commission of the Proposed Order in the form attached hereto as Attachment D. All of the terms and agreements contained in the Proposed Order, are to be interpreted consistent with the provisions of this Agreement, which is to be attached to and incorporated by reference in the Final Order issued by the Commission.

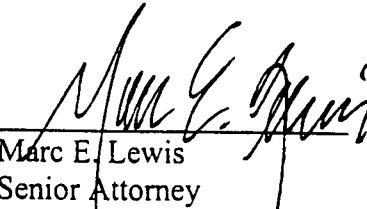
Effect and Use of Agreement

1. This Agreement shall not constitute nor be cited as precedent or deemed an admission by any Party in any other proceeding except as necessary to enforce its terms before the Commission, or any State Court of competent jurisdiction. This Agreement is solely the result of compromise in the settlement process, shall not constitute a concession of subject matter jurisdiction, and except as expressly provided herein, is without prejudice to and shall not constitute a waiver of any position that any of the Parties may take with respect to any or all of the items resolved herein in any future regulatory or other proceedings and, failing approval by this Commission, shall not be admissible or discussed in any subsequent proceedings.
2. The evidence in this Cause constitutes substantial evidence sufficient to support the Agreement and provides an adequate evidentiary basis upon which the Commission can make any finding of fact and conclusions of law necessary for the approval of the Agreement, as filed.
3. The issuance of the Final Order shall terminate any further proceedings in this Cause.
4. In the event this Cause is required to be litigated, the Parties expressly reserve all of their rights to make objections and motions to strike with respect to all testimony and exhibits and their right to cross-examine the witnesses presenting such testimony and exhibits.
5. The undersigned have represented and agreed that they are fully authorized to execute this Agreement on behalf of their designated clients who will be bound thereby.
6. The Parties to this Agreement shall not appeal the agreed Final Order or any other Commission order to the extent such orders are specifically implementing the provisions of this Agreement and shall support this Agreement in the event of any appeal by a person not a Party. This provision shall be enforceable by any Party, in any state court of competent jurisdiction.
7. The communications and discussions during the negotiations and conferences that produced the Agreement have been conducted on the explicit understanding that they are or

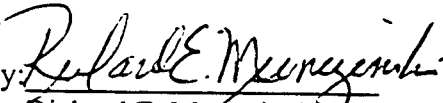
relate to offers of settlement and shall therefore be privileged and not admissible in any proceeding.

ACCEPTED and AGREED this 12th day of April, 1999.


Indiana Michigan Power Company

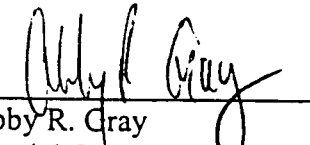
By: 
Marc E. Lewis
Senior Attorney

AEP

By: 
Richard E. Manczinski
Senior Vice President
American Electric Power
Service Corporation

IURC Staff Negotiating Team

By: 
Robert C. Glazier
Director of Utilities

By: 
Abby R. Gray
Special Counsel to the
Staff Negotiating Team

**AEP/CSW MERGER
NET ANNUAL MERGER SAVINGS
AND INDIANA CUSTOMER BILL REDUCTIONS (\$000)**

(1)	(2)	(3)	(4)
<u>Period</u>	<u>Net Merger Savings</u>	<u>Customer Bill Reduction</u>	<u>Shareholder Savings</u>
Year 1	5,591	3,306	2,286
Year 2	10,633	5,927	4,706
Year 3	13,531	7,434	6,097
Year 4	15,903	8,668	7,235
Year 5	17,437	9,465	7,972
Year 6	18,606	10,073	8,533
Year 7	19,515	10,546	8,969
Year 8	20,039	10,818	9,221
	121,255	66,238	55,017

AEP/CSW MERGER
EXAMPLE OF BASE RATE CASE TREATMENT
BASED ON YEAR 3 (\$000)

CREDIT PER RIDER CONTINUES		(7,434)
<u>INCLUDED IN TEST YEAR:</u>		
GROSS MERGER SAVINGS		(17,048)
CHANGE IN CONTROL AMORTIZATION	768	
OTHER CTA AMORTIZATION	<u>2,751</u>	
TOTAL CTA AMORTIZATION		<u>3,517</u>
NET MERGER SAVINGS IN TEST YEAR		(13,531)
<u>ADD BACK TO TEST YEAR COST OF SERVICE:</u>		
CUSTOMER SHARE (Attachment A, Col 3, Year 3)	7,434	
SHAREHOLDER PORTION (Attachment A, Col 4, Year 3)	<u>6,097</u>	
		<u>13,531</u>
NET BASE RATE REDUCTION		<u>0</u>
INDIANA CUSTOMER RATE REDUCTION		<u><u>(7,434)</u></u>

AEP/CSW MERGER
BASE RATE CASE TREATMENT
FOR INCLUSION IN COST OF SERVICE (\$000)

	<u>Add Back to Test Year Cost of Service</u>	
	<u>Customer</u>	<u>Shareholder</u>
	<u>Net Savings</u>	<u>Net Savings</u>
YEAR 1	3,306	2,286
YEAR 2	5,927	4,706
YEAR 3	7,434	6,097
YEAR 4	8,668	7,235
YEAR 5	9,465	7,972
YEAR 6	10,073	8,533
YEAR 7	10,546	8,969
YEAR 8	10,818	9,221

**AEP/CSW MERGER
AMORTIZATION OF ESTIMATED
COSTS TO ACHIEVE**

	<u>AMOUNT</u>
YEAR 1	3,517,436
YEAR 2	3,517,436
YEAR 3	3,517,436
YEAR 4	3,517,436
YEAR 5	3,517,436
YEAR 6	3,517,436
YEAR 7	3,517,436
YEAR 8	3,517,436
TOTAL	28,139,494 •

• May not add due to rounding

Quality of Service Reporting

Indiana Michigan Power will maintain the overall quality and reliability of its electric service at levels no less than it has achieved in the past decade.

Indiana Michigan Power will provide service reliability reports annually indicating its calendar year Indiana Customer Average Interruption Duration Index (CAIDI) and Indiana System Average Interruption Frequency Index (SAIFI). These indices shall be determined and reported, including all storms. Definitions for these measures are included in this Attachment.

Indiana Michigan Power also will provide annual Call Center performance measures for those centers which handle Indiana customer calls. These will include the Call Center Average Speed of Answer (ASA), Abandonment Rate, and Call Blockage. Definitions for these measures are included in this Attachment.

The performance information described above shall be provided by the end of May of the year following the calendar year in question.

AEP Reliability Measures

1) System Average Interruption Frequency Index (SAIFI) is defined as the number of customers interrupted divided by the number of customers served. It is calculated by the equation:

$$\text{SAIFI} = \frac{\text{number of customers interrupted}}{\text{number of customers served}}$$

2) Customer Average Interruption Duration Index (CAIDI) is defined as the number of customer hours of interruption divided by the number of customers interrupted. It is calculated by the equation:

$$\text{CAIDI} = \frac{\text{sum of all customer hours of interruption}}{\text{number of customers interrupted}}$$

AEP Call Center Measures

1) Average Speed of Answer (ASA) is defined as the average time that elapses in seconds between the instant when a call is answered and the time it is connected to a Call Center representative (CSR) or an interactive voice recorder (IVR). It is calculated using the equation:

$$\text{Average Speed of Answer} = \frac{\text{time for all calls between call answer and CSR/IVR connection}}{\text{total number of calls made to the Call Center}} \\ \text{(seconds)}$$

2) Abandonment Rate is the percentage of callers who hang up before being connected to a Call Center representative (CSR) or an interactive voice recorder (IVR). It is calculated using the equation:

$$\text{Abandonment Rate} = \frac{\{\text{total number of callers who hang up}\}}{\{\text{total number of calls made to the Call Center}\}} \times 100 \\ \text{(percent)}$$

3) Call Blockage is the percentage of non-outage call attempts which do not get connected to a Call Center (busy signal, etc.). It is calculated using the equation:

$$\text{Call Blockage} = \frac{\{\text{total number of non-outage calls that do not get connected}\}}{\{\text{total number of non-outage calls made to the Call Center}\}} \times 100 \\ \text{(percent)}$$

STATE OF INDIANA

INDIANA UTILITY REGULATORY COMMISSION

IN THE MATTER OF THE INVESTIGATION)
ON THE COMMISSION'S OWN MOTION)
INTO ANY AND ALL MATTERS RELATING) CAUSE NO. 41210
TO THE MERGER OF AMERICAN)
ELECTRIC POWER, INC. AND CENTRAL) APPROVED:
AND SOUTH WEST CORPORATION)

BY THE COMMISSION:

David E. Ziegner, Commissioner
Camie J. Swanson-Hull, Commissioner
Claudia J. Earls, Administrative Law Judge

On June 29, 1998, the Commission on its own motion initiated an investigation regarding the proposed merger of American Electric Power Company, Inc. ("AEP") and Central and South West Corporation ("CSW"). AEP is the parent company of Indiana Michigan Power Company ("I&M") which provides electric utility service in the State of Indiana. The Order noted that AEP and CSW had filed an application with the Federal Energy Regulatory Commission ("FERC") for approval of the merger under § 203 of the Federal Power Act.

Petitions to intervene in this matter were filed by the Citizens Action Coalition of Indiana, Inc., Indiana Consumers For Fair Utility Rates (an ad hoc group of industrial companies), PSI Energy, Inc. and Steel Dynamics, Inc¹. These petitions were granted and these persons were made parties to this proceeding. The Office of Utility Consumer Counselor also participated in this proceeding.

After receiving written comments of the parties on certain issues relating to the proposed merger and after holding a preliminary hearing on August 4, 1998, the Commission on September 2, 1998, issued an Order appointing a negotiating team of members of the Commission Staff (the "Staff Negotiating Team") to attempt to negotiate a settlement of the issues presented in this matter.

By docket entries, I&M was directed to respond to various data requests seeking information about the proposed merger and to provide to the Commission, the Staff Negotiating Team and the other parties certain documents relating thereto. I&M responded to the requests by providing the requested information and documents.

¹SDI subsequently withdrew from the proceeding.

During the course of this proceeding, status hearings were held at which time the Staff Negotiating Team submitted reports regarding the progress of negotiations. On April 9, 1999, I&M and the Staff Negotiating Team submitted to the Commission and recommended for approval a Stipulation and Settlement Agreement (the "Settlement Agreement") executed by I&M, AEP and the Staff Negotiating Team.

On April 15, 1999, the parties to the Settlement Agreement prefiled with the Commission prepared testimony and evidence in support of the Settlement Agreement. Pursuant to notice of hearing given as provided by law, a public evidentiary hearing on the Settlement Agreement was held on April 19, 1999, at 10:00 a.m. in Room TC10 of the Indiana Government Center South, Indianapolis, Indiana. At that time, the Settlement Agreement and evidence relating thereto were accepted into the record.

Having considered the evidence and being duly advised, the Commission now finds:

1. Notice and Jurisdiction. Due legal and timely notice of the settlement hearing was given and published as required by law. I&M is a "public utility" within the meaning of that term in IC 8-1-2-1 and is subject to the jurisdiction of the Commission in the manner and to the extent provided by the laws of the State of Indiana.

2. The Settlement Agreement. As described in the Settlement Agreement, a copy of which is attached hereto as Exhibit A and incorporated herein by reference, the Settlement Agreement contains, among other things, provisions regarding (a) net non-fuel merger savings; (b) fuel and purchased power merger savings; (c) limitation on requests for stranded cost recovery; (d) allocation of proceeds from the sale of facilities; (e) system integration agreements; (f) Ohio Power waiver; (g) regional transmission organization commitments; (h) affiliate standards; and (i) maintenance and enhancement of the adequacy and reliability of retail electric service, including certain reporting requirements.

The Settlement Agreement further provides that if any other state commission or any federal commission issues a final and non-appealable order addressing the merger that provides benefits or imposes conditions that would benefit ratepayers of another jurisdiction, AEP will extend equivalent net benefits and conditions to all AEP retail customers.

The Settlement Agreement also provides that, upon approval by the Commission, neither the Commission nor its Staff shall oppose the proposed merger before FERC or oppose AEP's previously made merger-related filings with the Securities and Exchange Commission.

The Settlement Agreement also states that it shall not constitute nor be cited as precedent or deemed an admission by any party in any other proceeding except as necessary to enforce its terms before the Commission, or any State Court of competent jurisdiction on these particular issues. The Settlement Agreement provides that it is solely the result of compromise in the settlement process, shall not constitute a concession of subject matter jurisdiction, and except as expressly provided therein, is without prejudice to and shall not constitute a waiver of any position that any of the

parties thereto may take with respect to any or all of the items resolved therein in any future regulatory or other proceedings.

The Settlement Agreement states that if the Commission does not approve the Settlement Agreement in its entirety, it shall be null and void and deemed withdrawn, unless such change is approved by the parties.

At the settlement hearing, Robert C. Glazier, Director of Utilities for the Indiana Utility Regulatory Commission, Richard E. Munczinski, Senior Vice President-Corporate Planning and Budgeting of American Electric Power Service Corporation, the service corporation subsidiary of AEP, and Kent D. Curry, Director of Regulatory Affairs for I&M, testified in support of Commission approval of the Settlement Agreement. Mr. Glazier and Mr. Munczinski discussed the negotiating process which resulted in the Settlement Agreement and the public benefits that would result from its approval. Mr. Curry testified regarding the mechanism by which the bill reductions will be implemented by I&M.

3. Commission Findings. In our Order dated June 29, 1998, the Commission stated that this investigation was commenced because the Commission believed that the proposed merger of AEP and CSW could have a significant impact on the electric industry and customers in Indiana and across the region and the Commission was concerned about the proposed merger's effect on reliability of service and the development of independent system operators. During the course of this proceeding considerable information about the proposed merger was requested from and provided by I&M. Additional information about the proposed merger has since been developed in the course of FERC proceedings and proceedings before other state commissions. After lengthy and detailed negotiations, I&M, AEP and the Staff Negotiating Team have reached agreement on terms and conditions which help ensure that Indiana consumers will fairly share in the benefits achieved by the merger and that Indiana consumers will be protected against any detrimental effects. The Staff Negotiating Team recommends that the Commission approve the Settlement Agreement as a fair and just settlement of differences regarding merger-related issues. Having reviewed the Settlement Agreement and the evidence relating thereto, the Commission finds that the recommendation of the Staff Negotiating Team should be approved. The Commission further finds that the Settlement Agreement is a fair and reasonable resolution of the merger-related issues of concern to the Commission and should be approved in its entirety without modification.

IT IS THEREFORE ORDERED BY THE INDIANA UTILITY REGULATORY COMMISSION that:

1. The Settlement Agreement shall be and hereby is approved in its entirety without modification.
2. I&M shall implement the bill reductions as set forth in the Agreement.

3. I&M shall be and hereby is authorized to defer and amortize its Indiana jurisdictional estimated merger related costs-to-achieve savings over an eight-year period, as set forth in the Agreement.

4. The investigation in this Cause commenced by our Order dated June 29, 1998 is hereby terminated.

5. This Order shall be effective on and after the date of its approval.

McCARTY, KLEIN, RIPLEY, SWANSON-HULL AND ZIEGNER CONCUR:

APPROVED:

I hereby certify that the above is a true and correct copy of the Order as approved.

Joseph M. Sutherland, Secretary to the Commission

STATE OF INDIANA

INDIANA UTILITY REGULATORY COMMISSION

[Handwritten signatures and initials]

IN THE MATTER OF THE APPLICATION)
OF INDIANA MICHIGAN POWER)
COMPANY FOR APPROVAL OF A NEW)
FUEL COST ADJUSTMENT CHARGE FOR)
ELECTRIC SERVICE, APPLICABLE FOR)
THE BILLING MONTHS OF OCTOBER,)
NOVEMBER AND DECEMBER 1998.)

CAUSE NO. 38702-FAC40-S1

APPROVED:

BY THE COMMISSION:

William D. McCarty, Chairman
Claudia J. Earls, Administrative Law Judge

MAR 5 6 1999

On July 17, 1998, Indiana Michigan Power Company d/b/a American Electric Power ("AEP") filed its Verified Application for a New Fuel Cost Adjustment Charge to be applicable for the billing months of October, November, and December 1998, pursuant to the provisions of I.C. 8-1-2-42.

Citizens Action Coalition of Indiana, Inc. ("CAC") and Indiana Consumers for Fair Utility Rates ("ICFUR") intervened and participated as parties in this proceeding (collectively "Intervenors"). Steel Dynamics, Inc. ("SDI") filed a "Petition to Intervene" on August 6, 1998. The Commission granted SDI's petition over the objections of AEP at the initial hearing held in Cause No. 38702-FAC40 on August 11, 1998. SDI's intervention was withdrawn on November 10, 1998. The Office of Utility Consumer Counselor ("OUCC") also participated as a party in this proceeding.

On August 26, 1998, the Commission issued an Order in Cause No. 38702-FAC40 that established the instant Subdocket to consider issues associated with the D.C. Cook Nuclear Power Plant Outage and the reasonableness of the fuel costs. At the hearing held on Tuesday, August 11, 1998, the parties agreed to a procedural schedule for the FAC40 Subdocket ("Subdocket"). Pursuant to motions and agreements by the parties, various changes were made to the procedural schedule and were approved by the Commission. AEP's testimony and exhibits were prefiled on July 17, 1998 along with its FAC40 application. AEP filed supplemental testimony on August 14, 1998. Intervenors prefiled testimony and exhibits on September 18, 1998, and on November 20, 1998. The OUCC prefiled testimony and exhibits on September 22, 1998 and November 20, 1998. AEP prefiled rebuttal testimony on February 9, 1999. On March 12, 1999, CAC, ICFUR, OUCC and AEP entered into a Stipulation and Settlement Agreement ("Settlement Agreement"). The parties jointly moved the Commission for leave to file conditionally a Settlement Agreement as a proffered resolution of this Cause, which motion was granted and satisfies the requirements of IC 8-1-2.5-4. The Settlement Agreement is sufficient to constitute a utility plan for a fixed term of years under

IC 8-1-2.5-6(c). AEP published notice to the public under IC 8-1-2.5-6(d) and the hearing on the Settlement Agreement was conducted in accordance with IC 8-1-2.5-6(e). Notices of the hearings in this Cause were also published by the Commission as required by law. The notice of hearing published by the Commission also contained a statement that to the extent the Settlement Agreement was deemed to require notice under IC 8-1-2.5, et seq, that the hearing on March 29, 1999 would be conducted in accordance with IC 8-1-2.5-6. On March 19, 1999 CAC, ICFUR, OUCC and AEP jointly filed testimony in support of the Settlement Agreement.

A public hearing was convened on March 15, 1999 in Room TC10, Indiana Government Center South, Indianapolis, Indiana and continued to March 29, 1999. The proofs of publication of the notices of the March 29, 1999 hearing were incorporated into the record of this Cause by reference. AEP, OUCC, CAC, and ICFUR were represented at the hearings. At the March 29, 1999 hearing, Steel Dynamics, Inc. ("SDI") appeared by counsel. SDI filed a "Petition to Intervene" at the hearing. The "Petition to Intervene" is discussed more fully in Rhetorical Paragraph 2, hereinbelow. At the March 29, 1999 hearing the Settlement Agreement and testimony in support thereof was offered and admitted into evidence without objection. Proposed tariffs were included with the evidence and an agreed proposed order was provided. All parties waived cross-examination.

Based upon the applicable law and evidence herein, the Commission now finds:

1. **Notice and Jurisdiction.** Due legal and timely notice of the March 29, 1999 hearing was given and published by the Commission as required by law. AEP is a public utility within the meaning of the Indiana Public Service Commission Act, as amended, and is subject to the jurisdiction of the Commission, in the manner and to the extent provided by the laws of the State of Indiana.

2. **SDI Intervention.**

a. **SDI's Position.** At the March 29, 1999 hearing, SDI filed a "Petition to Intervene" which contained the following allegations:

1. SDI owns and operates a steel production facility which purchases electric service from AEP pursuant to a Contract for Electric Service, approved by this Commission in Cause No. 40010 and amended in Cause No. 41345.

2. SDI relied upon the "treatment of nuclear prudence-related issues involving PSI Energy, Inc.'s Marble Hill plant that resulted in a substantial sum being returned to ratepayers. While current customers were to receive bill credits, former customers were to receive checks--refunds." SDI Petition, p. 2. SDI further alleges "[U]nder established Commission principles, the subject monies should be credited to the ratepayers that paid them." Id., p. 3.

3. SDI stated that it should be refunded all monies it paid to AEP from April through December, 1998, and that "it should not be excluded from being reimbursed for attorney's fees." Id., p. 4

4. SDI stated that it would file a "Protest" later on March 29, 1999. No "Protest" was ever filed.

5. SDI states that it became aware of the Settlement and requested a copy of it.

6. SDI alleges that there was no public notice of this Stipulation and Settlement.

b. Other Parties' Position. All parties to the Settlement objected to SDI's intervention. AEP noted that SDI withdrew its intervention in this case on November 10, 1998. AEP's counsel also stated that SDI, in an agreement with AEP, also agreed not to either directly or indirectly participate in this proceeding. ICFUR, CAC and the OUCC all stated that SDI had independently settled its differences with AEP and willingly withdrew from this Cause. Counsel for CAC stated that SDI should not be allowed "a second bite of the apple." Counsel for CAC also noted that the hearing in this Cause was noticed with regards to the Stipulation and Settlement Agreement and its treatment as an ARP filing. Counsel for AEP noted that notice of the filing of the Settlement was published in newspapers in all 23 newspapers covering all counties which AEP serves.

c. Commission Findings. The Commission's Rules of Practice and Procedure provide that petitions to intervene are to be filed at least five days prior to the hearing date. If filed closer to the hearing date, they may only be entertained by leave of the Commission. In its Petition to Intervene, SDI's counsel states that he was made aware of the Settlement Agreement. A hearing in this Cause was held on March 15, 1999. Had counsel for SDI appeared at such hearing, he could have been provided details concerning the Settlement Agreement. That hearing was noticed on the Commission docket. Counsel for SDI was subsequently provided a copy of the Settlement Agreement, but again offers no explanation for why the Petition to Intervene was not filed until the record was opened in this Cause on March 29, 1999. Our administrative rules are in place to assure the orderly presentation of evidence. Counsel for SDI did not appear at the March 29 hearing with witnesses. Granting of the late-filed intervention would have needlessly prolonged this proceeding.

More troubling, though, is SDI's repeated allegation that the Commission's Orders which stated that the monies collected would be "subject to refund" somehow limited this Commission's ability to reduce AEP's Fuel Adjustment Clause ("FAC") rates prospectively. Either SDI is unfamiliar with the historical workings of FAC Proceedings or its feigned ignorance is a poorly masked attempt to position itself as an injured party on appeal. The Fuel Adjustment Clause proceeding was initially enacted by the Legislature in 1971 and codified as IC 8-1-2-42. The statute was substantially revised by PL 75-1975. In our Order in Cause Nos. 33735-S1 and 33735-S2, issued March 24, 1976, we established a procedure whereby differences between the estimated fuel costs and actual fuel costs would be reconciled in subsequent FAC proceedings. We stated that the

procedure adopted there "should also allay the criticism of some persons who consider the present procedures as permitting an improper retroactive billing feature." Order, p. 8.

In State of Missouri ex rel. Utility Consumers' Council of Missouri, Inc. v. Missouri Public Service Commission, 585 SW2d 41, (1979) the Missouri Supreme Court stated that "in our mobile society customers move in and out of the territory of any particular utility as they change jobs or careers, new customers in, for example, October will be charged for an actual increase in fuel costs incurred in August when different customers were using electricity for air conditioning, etc." p. 287. The Missouri Supreme Court went on to state, "[W]e do not mean to imply that the method of allocation approved by the commission is not a good or reasonable one, if authorized, but simply to state that given these factors, fuel costs are not directly assignable to the fuel use of the customer . . ." Id.

In Indiana Gas Company, Inc. v. Office of Utility Consumer Counselor, 575 N.E.2d 1044 (1991), the Court of Appeals noted "[T]he clear legislative intent is to prevent the utility from overearning, and there is no indication that the resultant rates may not be set as interim rates, subject to refund. The Commission cannot divine the future, so overearning may only be prevented by an examination of the utility's earnings after the fact." p. 1052. The differences between FAC proceedings and other cases, such as the PSI case cited by SDI were clearly delineated by the Court in Indiana Gas. These differences were previously discussed by the Commission in our Order issued in this Cause on December 9, 1998. The Court in Indiana Gas also noted that the prohibition against retroactivity is to retain the "impetus of the 'invisible hand' described by classical economists as one of the prime benefits of the free market system." In the accompanying footnote, the Court quoted Adam Smith, who stated, "he is in this, as in many other cases, led by an invisible hand to promote an end which was no part of his intention. Nor is it always the worse for the society that was no part of it. By pursuing his own interest he frequently promotes that of the society more effectually than when he really intends to promote it." The Wealth of Nations, cited in Id., p. 1053.

In the instant proceeding, SDI was an integral instigator of the investigation into the D.C. Cook Nuclear Power Plant ("Cook Nuclear Plant") outage, and SDI filed testimony in this Cause which illustrated many questionable practices on the part of AEP. However, SDI withdrew from this case. As was stated in the hearing on March 29, 1999 by counsel for the OUCC, SDI "was an important element in the earlier stages of this litigation and SDI went to the company and they made their own peace." To somehow collaterally attack a Settlement Agreement as violating some imagined obligation to "refund" monies, is an attack without merit. The history of the FAC proceedings is replete with examples of over-earnings being utilized to reduce prospective FAC factors. As Mr. Curry testified at the March 29, 1999, hearing, to require AEP to develop a program to refund monies to historical customers based upon revisions in an FAC proceeding would be costly, time consuming, inefficient and without precedent. Although SDI states in its Petition to Intervene that "[U]nder established Commission principles, the subject monies should be credited to the ratepayers that paid them", this Commission is unaware of any time when variances from an FAC proceeding were reconciled except through the modification of future FAC factors.

SDI also alleged that there was improper notice of the prospective effect of the Settlement Agreement. The Commission notes that it published notice of the hearing in the Marion County and Allen County newspapers. While counsel for SDI questions the caption of the Cause, the Commission would note that the notice of the March 29, 1999 hearing contained specific cites to the Indiana Code sections relating to Alternative Regulatory Plans and provided much more information than would have been contained in a caption. In addition, AEP submitted proofs of publication of the notice of the filing of the Settlement Agreement which appeared in newspapers in every county where AEP serves including the county in which SDI is located. The Commission finds that SDI's allegation that notice of the filing of the prospective settlement agreement was defective is without merit.

The Commission also notes that SDI is not subject to the FAC charge pursuant to the contract approved in Cause No. 41345, and thus would have questionable interest in the resolution of this cause as it pertains to prospective FAC factors.

Based upon all the foregoing, the Commission finds that SDI's Petition to Intervene should be denied.

3. **Settlement Agreement.** The Settlement Agreement is attached hereto. Our brief discussion thereof is provided to support our findings with regard to the principal elements of the Settlement Agreement. This discussion is not provided to change or alter the terms of the parties' agreement.

As stated in the Settlement Agreement, this Cause involves disputed issues among the parties arising out of Cause Nos. 38702-FAC 39, 40, 41 and 42. The parties also have a pending dispute concerning Cause No. 38702-FAC 38. Due to the uncertainty as to the length of the ongoing temporary shutdown at the D.C. Cook Nuclear Power Plant ("Cook Nuclear Plant") that commenced September 9, 1997 (the "Outage"), it was the expectation of the parties that disputes could have continued to exist in future proceedings before the Commission. The Settlement Agreement resolves all issues in these proceedings and associated with the Outage and removes the subject to refund provisions of previous orders.

Under the Settlement Agreement, AEP shall be responsible for the costs associated with the Outage and shall only recover the Indiana jurisdictional share of such costs through the rates charged to AEP's Indiana jurisdictional retail customers in accordance with and to the extent authorized by specified provisions of the Settlement Agreement. Among other things, the Settlement Agreement provides for a fixed fuel adjustment charge. The Settlement Agreement requires AEP to credit to customers \$55 million by reducing the fixed fuel adjustment charge during the billing months of July, August and September 1999, subject to a one-time corrective reconciliation to true up for actual versus projected usage.

Absent a *force majeure*, the Settlement Agreement provides that AEP and the Intervenor shall not seek a change in the fixed fuel adjustment charge or AEP's basic rates and charges

approved in Cause No. 39314 that would be effective prior to January 1, 2004. The Settlement Agreement sets forth certain accounting authority to permit AEP to defer and amortize certain fuel and non-fuel operation and maintenance costs through the end of 2003. The Settlement Agreement also provides that AEP will not in any event, including the enactment of legislation providing for stranded cost recovery, seek or accept recovery of any unamortized balance of the deferrals authorized under paragraph 15 of the Settlement Agreement, except as authorized in paragraphs 2, 4, 5, and 15 of the Settlement Agreement.

The Settlement Agreement also provides that AEP will pay reasonable attorneys fees and expenses in accordance with the provisions of the Settlement Agreement. The Settlement Agreement also continues the flexible funding procedure previously authorized by the Commission in Cause No. 38702-FAC33 until the expiration of the fixed fuel adjustment charge. The flexible funding procedure approved in Cause No. 38702-FAC 33 authorizes AEP to periodically reclassify Indiana jurisdictional pre-April 7, 1983 spent nuclear fuel disposal funds as nuclear decommissioning funds depending on the status of the spent nuclear fuel trust funds. Absent a *force majeure*, the Settlement Agreement provides that AEP will be authorized and shall be obligated to increase by \$2,500,000 the annual provision for nuclear decommissioning approved in Cause No. 39314 through December 31, 2003. The Settlement Agreement and evidence submitted in support thereof attest that the Settlement Agreement is in the public interest and satisfies the criteria set forth in IC 8-1-2.5 *et seq.* for approval of an alternative regulatory plan.

4. **Discussion and Findings.** There is substantial evidence of record to support the conclusion that the Settlement Agreement is in the public interest and complies with applicable statutory provisions. The testimony submitted in this Cause by the various ratepayer groups had alleged that the additional fuel costs incident to the D.C. Cook outage were approximately \$60 million. The Settlement Agreement provides for the reconciliation of \$55 million of fuel costs which will be used to reduce the FAC factor during the billing months of June, July and August, 1999. This reduced factor will decrease consumers' electric bills during the peak months of usage. In addition, the fixed fuel adjustment charge and limitations on requests for changes in basic rates and charges should provide rate stability to customers and AEP. The accounting authority is reasonable under the circumstances and will promote efficiency. The evidence also demonstrates that the fixed fuel adjustment charge is significantly lower than the actual fuel costs being incurred during the Outage and is reflective of the level of fuel costs which may be expected with the normal level of generation from the Cook Nuclear Plant. The Settlement Agreement provides for a continuation of current base rates and charges and a fixed fuel factor which provide for performance based rewards and penalties designed to promote efficiency in the rendering of retail energy services. We find that approval of the plan set forth in the Settlement Agreement will be beneficial for AEP's customers and AEP and will promote energy utility efficiency, as contemplated by IC 8-1-2.5-6(a). Accordingly, we find that the Settlement Agreement is a reasonable resolution of the matters in this Cause and associated with the Outage.

5. **Further Discussion and Findings on Nuclear Decommissioning Funding.** The rates approved in AEP's last rate case recognized an annual Indiana jurisdictional provision in the

amount of \$18,732,300 for nuclear decommissioning. The parties in this proceeding request that AEP be granted accounting authority to increase its cash contributions to its nuclear decommissioning trust funds in an amount equal to \$2,500,000. The \$18,732,300 shall be allocated between Unit 1 and Unit 2 as provided in Cause No. 39314 and the additional \$2,500,000 shall be allocated equally between Unit 1 and Unit 2. The Commission further finds the annual amounts of decommissioning costs to be included in the cost of service for Cook Nuclear Plant Units No. 1 and No. 2 for the Indiana jurisdiction are, commencing April 1, 1999, \$10,982,400 and \$10,249,900, respectively, through December 31, 2003, and thereafter \$9,732,400 and \$8,999,900 previously authorized in Cause No. 39314, respectively.

6. **Conclusion.** Based on our review of the evidence, we find that the Settlement Agreement and associated tariffs should be approved in their entirety and without change.

IT IS THEREFORE ORDERED BY THE INDIANA UTILITY REGULATORY COMMISSION that:

1. The Settlement Agreement shall be and hereby is approved, including without limitation, the approvals enumerated below:

a. AEP shall credit \$55 million to customers in accordance with the Settlement Agreement.

b. The subject to refund language imposed by all orders entered in Cause Nos. 38702-FAC39, FAC40, FAC41 and FAC42 and under Cause No. 38702-FAC40(S1), including, but not limited to, the Order dated February 25, 1999 in Cause No. 38702-FAC42, shall be and hereby is removed and the fixed fuel adjustment charge of 0.591 mills per kWh is not and shall not be subject to refund in accordance with the Settlement Agreement.

c. AEP shall be and hereby is authorized to defer any unrecovered fuel revenues accrued between September 9, 1997 and December 31, 1999, including, but not limited to, the amount (excluding interest) credited to customers under Paragraph 1 of the Settlement Agreement. AEP shall be and hereby is authorized to amortize all such fuel deferrals on a straight-line basis over a five-year period ending December 31, 2003. AEP also shall be and hereby is authorized to defer and amortize up to \$150 million of that portion of non-fuel nuclear operation and maintenance expenses incurred during 1999 that is above the jurisdictional amount embedded in their current base rates of approximately \$130 million for non-fuel nuclear operation and maintenance expense. AEP shall be and hereby is authorized to amortize all such deferrals on a straight-line basis over a five year period ending December 31, 2003.

d. The fixed fuel adjustment charge of 0.591 mills per kWh authorized under Paragraph 4 and the procedure described in Paragraph 6 of the Settlement Agreement shall not be affected by any change in the Commission's fuel adjustment procedures that may result from the generic purchase power investigation initiated by the Commission in Cause No. 41363.

e. AEP shall be and hereby is authorized to continue the flexible funding procedure previously authorized by the Commission in Cause No. 38702-FAC33 until the expiration of the fixed fuel adjustment charge under Paragraph 7 of this Settlement Agreement. Absent a *force majeure*, AEP shall be and hereby is authorized, and AEP shall be obligated, to increase by \$2,500,000 the annual provision for nuclear decommissioning approved in Cause No. 39314 through December 31, 2003.

f. To the extent necessary, all approvals required under IC 8-1-2.5 *et seq.* shall be and hereby are granted.

2. The tariff sheets agreed to by the Parties to implement the fixed fuel adjustment charge provided for by the Settlement Agreement shall be and hereby are approved. AEP shall file copies of the tariff sheets with the Engineering Division of this Commission.

3. The Petition to Intervene filed by SDI shall be and hereby is DENIED.

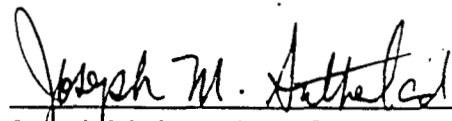
4. The Settlement Agreement and this Order shall not constitute nor be cited as precedent by any Party nor be deemed an admission by any of the Parties in any other proceeding, except as necessary to enforce the terms of the Settlement Agreement before the Commission or in a court of competent jurisdiction.

5. This Order shall be effective on and after the date of its approval.

McCARTY, KLEIN, RIPLEY, SWANSON-HULL AND ZIEGNER CONCUR:

APPROVED:

I hereby certify that the above is a true and correct copy of the Order as approved.



Joseph M. Sutherland, Secretary to the Commission

UJPC
EXHIBIT

DATE: 3-29-99 AT
REPORTER

STATE OF INDIANA

INDIANA UTILITY REGULATORY COMMISSION

IN THE MATTER OF THE APPLICATION)
 OF INDIANA MICHIGAN POWER COMPANY)
 FOR APPROVAL OF A NEW FUEL COST) CAUSE NO. 38702-FAC40-S1
 ADJUSTMENT CHARGE FOR ELECTRIC)
 SERVICE, APPLICABLE FOR THE BILLING)
 MONTHS OF OCTOBER, NOVEMBER, AND)
 DECEMBER 1998.)

STIPULATION AND SETTLEMENT AGREEMENT

Cause No. 38702-FAC40(S1) involves disputed issues among the parties arising out of Cause No. 38702-FAC 39, 40, 41 and 42. The parties also have a pending dispute concerning Cause No. 38702-FAC38. Due to the uncertainty as to the length of the ongoing temporary shutdown at the D.C. Cook Nuclear Power Plant ("Cook Nuclear Plant") that commenced September 9, 1997 (the "Outage"), it is the expectation of the Parties that disputes may continue to occur in future proceedings before the Indiana Utility Regulatory Commission ("Commission"). Solely for purposes of compromise and settlement, Indiana Michigan Power Company, which does business in Indiana as American Electric Power ("AEP"), the Indiana Office of Utility Consumer Counselor ("OUCC"), and Intervenor: Indiana Consumers for Fair Utility Rates ("ICFUR"), and Citizens Action Coalition of Indiana, Inc. ("CAC"), (all of the above collectively referred to as the "Parties") being all the parties to Cause No. 38-4702-FAC40(S1) and having been duly advised by their respective staff, experts and counsel, stipulate and agree that the terms and conditions set forth below represent a fair, reasonable and just resolution of all matters at issue in Cause Nos. 38702-FAC 38, 39, 40, 41 and 42 and Cause No. 38702-FAC40 (S1) and all issues associated with the Outage, subject to their

incorporation in a final Commission order ("Final Order") without modification or further condition, which may be unacceptable to any of the Parties. If the Commission does not approve the Settlement Agreement in its entirety and incorporate it in a Final Order as provided above, the entire Settlement Agreement shall be null and void and deemed withdrawn, unless otherwise agreed to in writing by the Parties. The Parties agree to submit this Stipulation and Settlement Agreement as a joint exhibit at the settlement hearing before the Commission. There are no other agreements in existence among the Parties relating to the matters covered by this Settlement Agreement which in any way affect this Settlement Agreement. ICFUR is an ad hoc group comprised of the following industrial customers: I/N Tck, Central Soya Co., Inc., Portland Forge, Rockwell Automation Dodge, Air Products and Chemicals, Inc., General Motors Corporation, and Praxair, Inc.

Terms and Conditions of Agreed Final Order

1. AEP will credit to customers \$55 million, which includes all applicable interest, by reducing the fixed fuel adjustment charge authorized under Paragraph 4 to (14,009) mills per kWh during the billing months of July, August and September 1999, subject to a one-time corrective reconciliation to true up for actual versus projected usage, as shown in the tariff provisions to be presented with the supplemental testimony.

2. AEP shall be responsible for all replacement fuel costs and operation and maintenance costs associated with the Outage and shall only recover the Indiana jurisdictional share of such costs through the basic and fuel rates charged to AEP's Indiana jurisdictional retail customers in

accordance with and to the extent authorized under paragraphs 1, 4, 5, and 15 of this Settlement Agreement.

3. This Settlement Agreement, including the fixed fuel adjustment charge agreed to herein, shall be used for the purpose of making a final determination of all matters at issue in Cause Nos. 38702-FAC39, FAC40, FAC41 and FAC42 and in Cause No 38702-FAC40-S1, including the reasonableness of AEP's fuel costs and all outage issues. The "subject to refund" language imposed by all orders entered in Cause Nos. 38702-FAC39, FAC40, FAC41 and FAC42 and under Cause No. 38702-FAC40-S1, including but not limited to the order dated February 25, 1999 in Cause No. 38702-FAC42, shall be removed.

4. Effective as of the beginning of the April 1999 billing month, and subject to the provisions of Paragraph 6, AEP shall be authorized, subject to the requirements of IC 8-1-2-42(d)(2), and (d)(3), to recover a fixed total fuel rate of 9.2 mills per kWh, which includes a base rate of 8.609 mills per kWh and a fuel adjustment charge of .591 mills per kWh, as shown in the tariff provisions to be presented with the supplemental testimony. The 0.591 mills per kWh charge authorized pursuant to this Settlement Agreement shall continue in effect without challenge, except for the IC 8-1-2-42(d)(2) and (d)(3) tests, by the Parties until a change authorized by this Settlement Agreement is approved by order of the Commission, or the 0.591 mills per kWh charge expires in accordance with the terms of Paragraph 7 of this Settlement Agreement, whichever occurs sooner.

5. The fixed fuel adjustment charge of 0.591 mills per kWh shall not be subject to refund for any reason except for the provisions of IC 8-1-2-42(d)(2) and (d)(3) tests. During the period in which the fixed fuel adjustment charge is in effect, a) AEP will have made every reasonable effort to acquire fuel and generate or purchase power or both so as to provide electricity to its retail customers

at the lowest fuel cost reasonably possible and b) AEP's estimate of its prospective average fuel costs will be reasonable.

6. In each semi-annual FAC filing AEP shall calculate the difference between AEP's actual incurred fuel costs in mills per kWh and 9.2 mills per kWh, for the period the fixed fuel adjustment charge of the 0.591 kWh is in effect. If at the end of the fixed fuel adjustment period, the weighted average of AEP's actual incurred fuel cost in mills per kWh before adjustment for the (d)(2) and (d)(3) tests is less than 9.2 mills per kWh, for the period of April 1, 1999 through December 31, 2003. (or for the fixed fuel adjustment period) then the dollar amount equal to the product of such difference in mills per kWh times the total kWh consumed during that period will be credited to customers as appropriate as soon as possible after the end of the fixed fuel adjustment period.

7. Absent a force majeure, a request for a change in the total fuel rate or the fixed fuel adjustment charge shall not be filed by AEP sooner than January 1, 2004. The charge in effect shall expire as of March 1, 2004 and unless and until otherwise ordered by the Commission the fixed fuel adjustment charge shall equal 0.00 mills per kWh thereafter.

8. Absent a force majeure, AEP shall not file a petition, which, if approved, would have the effect, either directly or indirectly, of authorizing a general increase in basic rates and charges that would be effective prior to January 1, 2004.

9. Absent a force majeure, AEP, OUCC, ICFUR, and the CAC shall not file prior to January 1, 2004 a petition under IC 8-1-2.5, *et seq.*, which, if approved, would have the effect, either directly or indirectly, of changing AEP's basic rates and charges in a manner proscribed by this Settlement Agreement, or which would otherwise conflict with this Settlement Agreement.

10. For purposes of this Settlement Agreement, force majeure shall mean circumstances wherein a) the Commission finds an emergency under IC 8-1-2-113, or b) the permanent closure of one or both units of the Cook Nuclear Plant, or c) a substantial and material increase in the costs related to compliance with new Federal or state environmental regulations or laws first promulgated or enacted after March 1, 1999, including but not limited to costs associated with compliance with new regulatory requirements for continuing operations, maintenance and licensing of nuclear generating stations. A force majeure may only exist under the terms of this Settlement Agreement if the Commission finds that the circumstances allowed for under this Settlement Agreement are in fact a force majeure, as defined in this Settlement Agreement, after a public evidentiary hearing in which all the Parties may participate. In the event AEP files with the Commission under the force majeure provisions of this Settlement Agreement for a change in the fixed fuel adjustment charge or a general increase in basic rates and charges, AEP will not seek to recover in the filing any unamortized balances of the deferrals authorized under paragraph 15 herein. AEP's inability to recover any unamortized balances or the economic impacts on AEP resulting therefrom will not constitute a force majeure under this Settlement Agreement or otherwise be compensable in a force majeure filing made for other reasons.

11. During the period in which this Settlement Agreement is in effect, and absent a filing by AEP under the force majeure provisions of this Settlement Agreement and except as provided in paragraph 20 of this Agreement, CAC, ICFUR, ICFUR's member companies and their counsel, will not initiate or directly or indirectly participate in a proceeding brought under IC 8-1-2-42, IC 8-1-2-54, IC 8-1-2-58, or IC 8-1-2-59 that seeks a general decrease during such period in AEP's jurisdictional retail electric base rates or the fixed fuel adjustment charge authorized pursuant to this

Settlement Agreement. CAC and ICFUR and their counsel shall not initiate or intervene in a lawsuit or other proceeding, in any jurisdiction, concerning the Outage.

12. The fixed fuel adjustment charge of 0.591 mills per kWh authorized under Paragraph 4 and the procedure described in Paragraph 6 shall not be affected by any change in the Commission's fuel adjustment procedures that may result from the generic purchase power investigation initiated by the Commission in Cause No. 41363.

13. CAC, ICFUR and the OUCC will, within two business days of an order of the Commission approving this Settlement Agreement becoming final and unappealable, dismiss with prejudice their Joint Motion for Rehearing/Reconsideration of the Commission's December 9, 1998 Order in FAC 38 ("Joint Motion"). Pending the Commission's review and disposition of this Settlement Agreement, the Joint Motion shall be held in abeyance.

14. AEP will pay reasonable attorney fees to OUCC, ICFUR and CAC based on the Indianapolis hourly prevailing market rate for practicing lawyers of public utilities law times actual hours worked. In addition, AEP shall reimburse OUCC, ICFUR and CAC for all other reasonable fees and other expenses incurred as a result of Cause No. 38702-FAC38, 39, 40, 41 and 42 and the subdocket herein resolved. The total amount of reasonable attorney fees and other fees and expenses paid under this Paragraph shall equal \$800,000. AEP will pay OUCC, ICFUR and CAC jointly by paying to an account identified by the requesting parties within seven (7) days of an order from the Commission approving this Settlement Agreement becoming final and unappealable. Any difference between the reasonable attorney fees and costs paid by AEP and those sought by OUCC, ICFUR and CAC shall be contributed to the Indiana Utility Ratepayer Trust.

15. AEP shall be authorized to defer any unrecovered fuel revenues accrued between September 9, 1997 and December 31, 1999, including but not limited to the amount (excluding interest) credited to customers under Paragraph 1 above. All fuel deferrals under this paragraph will be amortized on a straight-line basis over a five-year period ending December 31, 2003. AEP shall also be authorized to defer up to \$150 million of that portion of non-fuel nuclear operation and maintenance expenses incurred during 1999 that is above the jurisdictional amount embedded in their current base rates of approximately \$130 million for non-fuel nuclear operation and maintenance expense. All non-fuel nuclear operation and maintenance deferrals under this paragraph will be amortized on a straight-line basis over a five-year period ending December 31, 2003. All deferrals and amortizations under this paragraph shall be included in determining AEP's compliance with the provisions of IC 8-1-2-42 (d)(2) and (3).

16. AEP will not in any event, including the enactment of legislation providing for stranded cost recovery, seek or accept recovery of any unamortized balance of the deferrals authorized under paragraph 15 except as authorized in paragraphs 2, 4, 5, and 15 of this Settlement Agreement. AEP will not seek or accept recovery of compensation for the economic consequences stemming from the amortization, accelerated or otherwise, of any unamortized balance of the deferrals authorized under paragraph 15 which may be required by any event occurring on or after March 1, 1999.

17. In the event that the parties agree or the Commission determines that one or both units of the Cook Nuclear Plant is permanently closed prior to January 1, 2004, the fuel adjustment charge authorized by the Settlement Agreement shall expire sixty (60) days after any such permanent closure.

Unless and until otherwise ordered by the Commission, the fixed fuel adjustment charge shall equal 0.00 mills per kWh thereafter.

18. The Settlement Agreement is in the public interest, satisfies the criteria in I.C. 8-1-2.5 et. seq., and should be approved by the Commission.

19. All materials filed with and being maintained under seal with the Commission in accordance with a preliminary finding of confidentiality in this or any related proceeding shall be withdrawn. The Commission shall return all such materials to AEP within 2 days of the entry of the Commission Order approving this Settlement Agreement becoming final and unappealable while maintaining their confidential status in the interim.

20. The Parties to this Agreement and their counsel are free to participate in all proceedings concerning the proposed merger of AEP and Central South West Corporation. If that merger is approved, any savings ordered to be passed through to AEP's Indiana jurisdictional retail customers pursuant to such approval shall pass to customers without reduction notwithstanding this Settlement Agreement.

21. AEP will be authorized to continue the flexible funding procedure previously authorized by the Commission in Cause No. 38702-FAC33 until the expiration of the fixed fuel adjustment charge under Paragraph 7 of this Settlement Agreement. Absent a force majeure, AEP will be authorized and shall be obligated to increase by \$2.5 million the annual provision for nuclear decommissioning approved in Cause No. 39314 through December 31, 2003.

Presentation Of Settlement Agreement To the Commission

1. The Parties shall jointly move for leave to file this Settlement Agreement and additional supporting evidence to be subsequently prepared, reviewed and approved by the Parties and to continue the hearing now scheduled to begin March 15, 1999. Such evidence shall be supplemental to the evidence heretofore prefled by the Parties and shall include such evidence as may be required to support Commission approval of this Settlement Agreement under I.C. 8-1-2.5 et. seq. Solely for purposes of this Settlement Agreement, such evidence shall be admitted into evidence without objection and the Parties hereby waive cross-examination. The joint motion shall state that the Parties propose to submit this Settlement Agreement and the supporting evidence conditionally and that, if the Commission fails to approve the Settlement Agreement in its entirety without any change or with condition(s) unacceptable to any Party, the Settlement Agreement and supporting evidence shall be withdrawn and the Commission will continue to hear Cause 38702-FAC40-S1. The joint motion shall further state that the prefiling of the Settlement Agreement and the admission of the supporting evidence for hearing is conditioned upon the Commission granting the joint motion.

2. The Parties stipulate and agree to the issuance by the Commission of the Proposed Order in the form attached hereto as Appendix A. All of the terms and agreements contained in the Proposed Order are to be interpreted consistent with the provisions of this Settlement Agreement, which is to be attached to and incorporated by reference in the Final Order issued by the Commission.

Effect and Use of Settlement Agreement

1. This Settlement Agreement shall not constitute nor be cited as precedent by any person or deemed an admission by any Party in any other proceeding except as necessary to enforce its terms before the Commission, or any State Court of competent jurisdiction on these particular issues. This Settlement Agreement is solely the result of compromise in the settlement process, shall not constitute an admission of liability, and except as expressly provided herein, is without prejudice to and shall not constitute a waiver of any position that any of the Parties may take with respect to any or all of the items resolved herein in any future regulatory or other proceedings and, failing approval by this Commission, shall not be admissible or discussed in any subsequent proceedings.

2. The evidence in this Cause constitutes substantial evidence sufficient to support the Settlement Agreement and provides an adequate evidentiary basis upon which the Commission can make any finding of fact and conclusions of law necessary for the approval of the Settlement Agreement, as filed.

3. If and to the extent that the ratemaking treatment agreed to in this Settlement Agreement requires the Commission's approval under IC 8-1-2.5 et seq., the motion filed by the parties seeking approval of this Settlement Agreement is sufficient to constitute a petition under IC 8-1-2.5-4 and this Settlement Agreement is sufficient to constitute a utility plan for a fixed term of years under IC 8-1-2.5-6(c). AEP will provide notice to the public under IC 8-1-2.5-6(d) and the hearing on this Settlement Agreement will be the hearing required under IC 8-1-2.5-6(e). By approval of the Settlement Agreement, the Commission will establish rates and charges based on prices that use performance based rewards and penalties and which are designed to promote efficiency in the rendering of retail energy services.

4. The issuance of the Final Order shall terminate any further proceedings in this Cause. The Parties shall be obligated to provide responses and objections only to discovery pending as of March 5, 1999. All confidential discovery responses provided in this proceeding and depositions shall be used for purposes of Cause No. 38702-FAC40(S1) only.

5. If the Settlement Agreement is not approved by the Commission, an informal attorneys' conference will be promptly scheduled in which a procedural schedule will be fixed for the processing of the balance of this Cause. In the event this Cause is required to be litigated, the Parties expressly reserve all of their rights to make objections and motions to strike with respect to all testimony and exhibits and their right to cross-examine the witnesses presenting such testimony and exhibits.

6. The undersigned have represented and agreed that they are fully authorized to execute this Settlement Agreement on behalf of their designated clients who will be bound thereby.

7. The Parties shall not appeal the agreed Final Order or any other Commission order to the extent such orders are specifically implementing the provisions of this Settlement Agreement and shall support this Settlement Agreement in the event of any appeal by a person not a Party. This provision shall be enforceable by any Party, in any state court of competent jurisdiction.

8. The communications and discussions during the negotiations and conferences which produced the Settlement Agreement have been conducted on the explicit understanding that they are or relate to offers of settlement and shall therefore be privileged.

9. The Parties shall agree on the form, wording and timing of a public/media announcement of this Settlement Agreement and the terms thereof to be issued contemporaneous with the filing of this Settlement Agreement. No Party will release any information to the public or

media prior to the aforementioned announcement. All Parties may respond individually and without prior approval of the other Parties to questions from the public or media, provided that such responses are consistent with such announcement and do not disparage any of the Parties to this Settlement Agreement.

ACCEPTED and AGREED this 12th day of March, 1999.

Indiana Michigan Power Company

By: Marc E. Lewis
Marc E. Lewis

Office of Utility Consumer Counselor

By: Robert M. Glenn
Robert M. Glenn

Indiana Consumers for Fair Utility Rates

By: John F. Wickes, Jr.
John F. Wickes, Jr.

Citizens Action Coalition of Indiana, Inc.

By: Michael A. Mullett
Michael A. Mullett

STATE OF INDIANA

INDIANA UTILITY REGULATORY COMMISSION **FILED**

APR 14 1999

IN THE MATTER OF THE INVESTIGATION)
ON THE COMMISSION'S OWN MOTION)
INTO ANY AND ALL MATTERS RELATING)
TO THE MERGER OF AMERICAN)
ELECTRIC POWER, INC. AND CENTRAL)
AND SOUTH WEST CORPORATION)

INDIANA UTILITY
REGULATORY COMMISSION
CAUSE NO. 41210

PREPARED TESTIMONY AND EXHIBITS IN SUPPORT
OF STIPULATION AND SETTLEMENT AGREEMENT

Indiana Michigan Power Company ("I&M") which does business in Indiana as American Electric Power submits herewith its prepared testimony and exhibits in support of the Stipulation and Settlement Agreement between I&M, American Electric Power Company, Inc. and the Staff Negotiating Team which was filed with the Commission on April 12, 1999.

Respectfully submitted,

Marc E. Lewis msl

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(317) 231-7229

Attorneys For Indiana Michigan Power
Company d/b/a American Electric Power

CERTIFICATE OF SERVICE

I hereby certify that a copy of the foregoing document was served this 14th day of April, 1999 by United States mail, postage prepaid, upon the following:

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Bette J. Dodd
Lewis & Kappes, P.C.
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Indianapolis, IN 46282

Anne E. Becker
Robert M. Glennon
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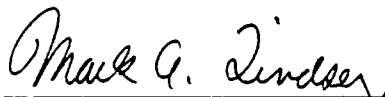
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Indianapolis, IN 46204

Ronald J. Brothers
Kay E. Pashos
PSI Energy, Inc.
1000 East Main Street
Plainfield, Indiana 46168



Mark A. Lindsey (19458-32)

Respondent's Exhibit 1

**IN THE MATTER OF THE INVESTIGATION
ON THE COMMISSION'S OWN MOTION
INTO ANY AND ALL MATTERS RELATING
TO THE MERGER OF
AMERICAN ELECTRIC POWER COMPANY, INC.
AND CENTRAL AND SOUTH WEST CORPORATION**

IURC CAUSE NO. 41210

**DIRECT TESTIMONY
OF
RICHARD E. MUNCZINSKI
IN SUPPORT OF STIPULATION
AND SETTLEMENT AGREEMENT**

SPONSORING RESPONDENT'S EXHIBIT 2

DIRECT TESTIMONY

1
2
3
4
5
6

**DIRECT TESTIMONY
OF
RICHARD E. MUNCZINSKI
IN SUPPORT OF
STIPULATION AND SETTLEMENT AGREEMENT**

7 **Q. Please state your name and business address.**

8 A. My name is Richard E. Munczinski and my business address is 1 Riverside Plaza, Columbus,
9 Ohio 43215-2373.

10
11 **Q. By whom are you employed and what is your position?**

12 A. I am employed by the American Electric Power Service Corporation ("AEPSC"), the service
13 corporation subsidiary of American Electric Power Company, Inc. ("AEP") as Senior Vice
14 President - Corporate Planning and Budgeting.

15
16 **Q. What is your responsibility in connection with the proposed merger of AEP and Central
17 and South West Corporation ("CSW")?**

18 A. I have AEP management responsibility for the regulatory approvals required to implement the
19 proposed business combination between AEP and CSW.

20
21 **Q. Please describe your business experience with AEPSC.**

22 A. I joined AEPSC in 1978 as an assistant Project Control Engineer and was subsequently
23 promoted to Project Control Engineer in 1979 and Senior Project Control Engineer in 1981.

24 In 1982, I joined the Controller's Department (now Corporate Planning and Budgeting

1 Department). I was promoted to manager of Financial Planning and Forecasting in 1985 and
2 to Assistant Controller in 1990. In 1992, I was named Director of the Rate Division of the
3 Rates Department (subsequently renamed the Regulatory Services Division and the Energy
4 Pricing and Regulatory Services Department, respectively). In November 1996, I was
5 promoted to Vice President - Regulatory Services. In this position, I provided supervision,
6 administration and rate case management for each of the five AEP State Office Regulatory
7 Affairs Departments whose personnel are employees of the major AEP operating company
8 subsidiaries as well as supervision and direction to the Regulatory Services Staff at AEPSC.
9 On January 1, 1998, I assumed my present position.

10
11 **Q. What is the purpose of your direct testimony?**

12 **A.** The purpose of my direct testimony is to identify, describe and support the Stipulation and
13 Settlement Agreement (the "Agreement") which was filed with the Commission on April 12,
14 1999, by AEP, Indiana Michigan Power Company ("I&M"), the AEP operating company that
15 provides electric utility service in the State of Indiana, and the Staff Negotiating Team (the
16 "Team"). My testimony also confirms the recommendation by AEP, I&M and the Team that
17 the Agreement be approved by the Commission.

18
19 Mr. Kent D. Curry is providing testimony supporting the rate design methodology used to
20 allocate the annual customer bill reductions to I&M's rate clauses.

1 Q. Please identify the document that has been marked for identification as Respondent's
2 Exhibit 2.

3 A. Respondent's Exhibit 2 is a copy of the Agreement.
4

5 Q. What was your involvement in the negotiation of the Agreement?

6 A. I was responsible for the negotiation of the Agreement on behalf of AEP and I&M. I
7 executed the Agreement on behalf of AEP. Marc E. Lewis executed the Agreement on behalf
8 of I&M. Robert C. Glazier, the Commission's Director of Utilities, and Abby R. Gray,
9 Special Counsel to the Staff Negotiating Team, executed the Agreement on behalf of the Staff
10 Negotiating Team.
11

12 Q. Please describe the process which lead to the execution of the Agreement.

13 A. In its Order in this proceeding dated September 2, 1998, the Commission appointed the Team
14 and directed it to attempt to negotiate a settlement of the issues presented in this cause. From
15 that date through the date the Agreement was filed (a period of seven months),
16 representatives of AEP, I&M and the Team conferred regularly both in person and otherwise
17 in an effort to reach a settlement which would (a) satisfy the Team that Indiana consumers
18 would benefit from the proposed merger and that the merger would not be anti-competitive
19 and (b) satisfy AEP, I&M and the Team that they would be able to achieve the benefits which
20 they sought from the merger in a timely manner. AEP and I&M also desired assurance that
21 this Commission would not oppose the proposed merger in pending approval proceedings

1 before the Federal Energy Regulatory Commission ("FERC") and would not oppose merger-
2 related filings made by AEP with the Securities and Exchange Commission ("SEC"). A
3 considerable amount of information about the merger was provided by AEP to the Team (and
4 other parties) during the course of this proceeding. Eventually, after extensive good faith
5 negotiation, AEP, I&M and the Team were able to resolve their differences by compromise
6 and incorporate in the Agreement stipulations and agreements which AEP, I&M and the
7 Team now recommend the Commission approve in their entirety without modification as a
8 fair and just settlement of the issues.

9
10 **Q. Does the Team agree with AEP and I&M that the Agreement is a fair and just**
11 **settlement of the issues?**

12 **A.** Yes. The Agreement states that the Team is authorized to make recommendations to the
13 Commission regarding a fair and just settlement of the differences in the public interest and
14 that the Team does recommend the Agreement for approval by the Commission. Mr. Robert
15 C. Glazier is also filing testimony in support of the negotiated Agreement.

16
17 **Q. Please summarize the commitments made by AEP and I&M in the Agreement?**

18 **A.** The substantive commitments of AEP and I&M are contained in Sections 1 through 12 of the
19 Agreement. These provisions benefit I&M's Indiana customers in particular, but many are
20 capable of being adopted and applied in other AEP states as well.

21

1 1. In Section 1 (Regulatory Plan), I&M commits to implement net merger
2 savings reduction riders that will reduce bills to Indiana retail customers in order to allow
3 them to share in the net non-fuel cost savings resulting from the proposed merger. The bill
4 reductions will be made beginning with the first revenue month after the effective date of the
5 merger pursuant to riders to I&M's tariffs. Section 1 contains provisions that ensure that the
6 net non-fuel merger savings bill reductions will remain in effect if I&M has a base rate case
7 during the eight year period following the closing on the merger and that I&M will be able
8 to retain the share of the net non-fuel merger savings allocated to AEP's shareholders. After
9 eight years, the riders will continue in effect until I&M has a base rate case at which time the
10 riders shall terminate and savings will be reflected in I&M's rates. Section 1 also provides that
11 AEP and I&M will defer and amortize their Indiana jurisdictional estimated merger-related
12 costs-to-achieve over an eight year recovery period. Section 1 further states that the agreed
13 to rate treatment for estimated non-fuel merger savings and amortization of estimated costs
14 to achieve will be to include them in cost of service as an allowable expense in any base rate
15 proceeding occurring during the 8 year period in order to avoid duplication and to continue
16 to provide shareholders with their share of cost savings. In addition, Section 1 states that for
17 the three year period beginning January 1, 2001, I&M will increase its annual provision for
18 nuclear decommissioning by \$5.5 million annually above the level provided for in the
19 settlement agreement in Cause No. 38702-FAC40-S1 (the "Subdocket") approved by the
20 Commission on March 30, 1999. I&M is already subject to a moratorium on filing any new
21 base rate case petition as a result of the Subdocket settlement agreement. Section 1 provides

1 that the moratorium provided for in the Subdocket settlement agreement shall be extended
2 by one year from January 1, 2004, to January 1, 2005.

3
4 2. Pursuant to Section 2, all fuel and purchased power cost savings resulting
5 from the merger will be included in the existing Indiana fuel clause recovery mechanisms for
6 the benefit of retail customers. Also, AEP agrees to hold harmless the native load customers
7 in the existing service area of the AEP operating companies (the "East Zone") from higher
8 replacement power costs or foregone revenues caused by such companies supplying power
9 to the service area of the CSW operating companies (the "West Zone").

10
11 3. In Section 3, AEP and I&M agree not to seek or recover in one AEP Zone
12 stranded costs from the other AEP Zone.

13
14 4. Under Section 4, any proceeds from the sales of facilities in the rate base of
15 an AEP operating company must go to that operating company for further disposition in
16 accordance with the regulation of that state. This would not preclude the parties to this
17 Agreement from any arguments they may seek to put forth as to the appropriate disposition
18 of such proceeds.

19
20 5. AEP and CSW have proposed to FERC a plan to mitigate any perceived
21 impacts of the merger on market power. Section 5 provides that AEP will hold harmless the

1 retail customers from the costs of any mitigation plan adopted by FERC in connection with
2 approving the proposed merger. In any future general retail rate proceeding where an AEP
3 operating Company has requested a change in its rates and charges, AEP shall have the
4 burden to prove that such requested rate relief does not reflect mitigation-related costs. AEP
5 also agrees to file with FERC and give State Commissions notice of the allocation of new
6 generation and transmission facilities (whether constructed or purchased) when the costs will
7 be subject to the System Integration Agreement or the System Transmission Agreement.
8 AEP also agrees to provide certain information about such projects as part of its notification
9 to the State Commissions.

10
11 6. Some transactions between AEP affiliated companies are subject to SEC
12 review and approval under the Public Utility Holding Company Act. In Section 6, AEP
13 agrees that it will not assert that any such SEC approval impairs the ability of the state
14 commissions to determine the reasonableness of non-power affiliate transaction costs being
15 passed to retail customers. This provision was fashioned in response to the "Ohio Power"
16 court decision cited in Section 6. AEP does not waive arguments that AEP may have with
17 respect to the reasonableness of SEC-approved cost allocations and agrees to notify the state
18 commissions at least 30 days prior to filing of any new allocation factors with the SEC and
19 make a good faith attempt to resolve any differences with State Commission Staff in advance
20 of any such filing with the SEC.

21

1 7. Section 7 contains a commitment by AEP within certain time frames to file
2 with FERC an application for approval to transfer operation and control of its bulk
3 transmission facilities in the East Zone to the Midwest Independent Transmission System
4 Operator, Inc. or another FERC-approved Regional Transmission Organization ("RTO")
5 directly connected with AEP transmission facilities. AEP also agrees to endeavor to
6 incorporate equitable reciprocal pricing arrangements with contiguous RTOs which AEP joins
7 and to provide generation dispatch information to RTOs in which AEP is a member or which
8 provide service over any transmission facilities directly interconnected with AEP east zone
9 transmissions facilities.

10
11 8. Section 8 describes affiliate standards and guidelines applicable to transactions
12 between AEP operating companies and their affiliates. These standards will be effective from
13 the date of closing of the merger until new affiliate standards imposed by state legislation or
14 IURC action become effective. These standards provide assurances that the merger will not
15 cause cost shifting, cost-subsidization or discriminatory treatment between I&M and non-
16 regulated affiliates. This section also requires, among other things, AEP to provide contact
17 persons for state commissions, consumer advocates and retail customers seeking certain types
18 of information.

19

1 9. In Section 9, AEP agrees to maintain or enhance the adequacy and reliability
2 of retail electric service and to submit service reports to the State Commissions participating
3 in the Agreement.
4

5 10. Section 10 states that if in connection with approving the merger any state or
6 federal commission provides benefits or imposes conditions on AEP that would benefit the
7 ratepayers in one jurisdiction, AEP will extend equivalent net benefits and conditions to retail
8 customers in the other jurisdictions.
9

10 11. Section 11 ensures that the Commission and its Staff are not precluded from
11 addressing in a manner not inconsistent with the Agreement issues raised in the FERC merger
12 proceeding.
13

14 12. Section 12 provides that AEP and I&M will not assert in any action to enforce
15 the Commission Order approving the Agreement that the Commission lacks authority to have
16 the provisions of the Agreement enforced in accordance with Indiana law.
17

18 **Q. What factors do AEP and I&M consider important in evaluating the rate reduction**
19 **provisions described in Section 1?**

1 A. Several factors are important. The plan must be fair to customers and shareholders and must
2 provide sufficient value for the merged company. The Agreement adopts a fixed level of
3 merger savings and provides customers with current cash benefits reducing existing bills.

4
5 Because the AEP and CSW operating companies are subject to the jurisdiction of several
6 regulatory commissions and to FERC's jurisdiction, the plan should incorporate general
7 principles that are capable of being implemented in all jurisdictions. In addition, the plan must
8 be simple to apply, not be costly to implement and avoid the shifting of costs among
9 jurisdictions. AEP believes the Agreement is consistent with these factors.

10
11 **Q. Why are the rate reduction provisions reflected in the Agreement reasonable for**
12 **Indiana customers?**

13 A. The Agreement provides Indiana customers with current rate reductions and protects the
14 customers from higher rates due to the merger. The Agreement also accomplishes a fair
15 sharing of merger benefits in a manner that does not require complex regulatory proceedings
16 in the future. Approval of a fixed total level of net merger savings that will be used to benefit
17 customers shifts the risk of achieving the estimated net savings to shareholders. In addition,
18 the Agreement is flexible enough to work under either a continuation of regulation or a shift
19 to retail competition and unbundling.

20

1 **Q.** What happens if the savings realized by AEP and I&M fall short of the estimates used
2 to develop the agreed-upon rate reductions?

3 **A.** AEP and I&M are guaranteeing a fixed level of benefits to customers and will bear the risk
4 of any failure to actually achieve the full amount of savings.

5
6 **Q.** What commitments do AEP and I&M receive in the Agreement?

7 **A.** In return for the commitments of AEP and I&M described above, the Agreement provides
8 that neither the Commission nor its Staff will oppose the proposed merger at FERC or oppose
9 AEP's previously made merger-related filings with the SEC, together with any non-material
10 changes or supplements thereto.

11
12 **Q.** Why does AEP believe the Agreement represents a fair and just compromise which is
13 in the public interest?

14 **A.** AEP believes the merger will have important and long-lasting benefits to the public in the
15 states where its operating companies provide service. AEP seeks support for the merger from
16 the regulatory commissions in these states. AEP has been proactive in making agreements
17 which it is not legally obligated to make in order to obtain this support, to convince our
18 regulators that consumers will benefit from the proposed merger and to avoid time consuming
19 and expensive litigation that might otherwise take place.

20
21 **Q.** What action do the parties to the Agreement request the Commission to take?

1 A. The parties to the Agreement request that the Commission approve the Agreement in its
2 entirety without modification. The parties have stipulated and agreed to the issuance by the
3 Commission of an Order approving the Agreement in the form of Attachment D to the
4 Agreement. In accordance with the Agreement, the proposed order will approve the
5 Agreement and terminate this proceeding. Certain actions will be required by the Commission
6 at a later time in order to implement the Agreement, including approving the net annual
7 merger savings rate reduction riders and issuing accounting orders authorizing the deferral
8 and amortization of the costs to achieve the merger.

9
10 **Q. Does this conclude your prepared direct testimony on the Stipulation and Settlement**
11 **Agreement?**

12 A. Yes

RESPONDENT'S EXHIBIT 2

STATE OF INDIANA
INDIANA UTILITY REGULATORY COMMISSION

FILED

APR 12 1999

INDIANA UTILITY
REGULATORY COMMISSION

IN THE MATTER OF THE INVESTIGATION)
ON THE COMMISSION'S OWN MOTION)
INTO ANY AND ALL MATTERS RELATING)
TO THE MERGER OF AMERICAN)
ELECTRIC POWER, INC. AND CENTRAL)
AND SOUTH WEST CORPORATION)

CAUSE NO. 41210

STIPULATION AND SETTLEMENT AGREEMENT

On June 29, 1998, the Indiana Utility Regulatory Commission ("TURC" or "Commission") initiated this investigation regarding the proposed merger of American Electric Power Company, Inc. ("AEP"), the parent company of Indiana Michigan Power Company ("I&M"), and Central and South West Corporation ("CSW"). On September 2, 1998, the Commission appointed a Staff Negotiating Team "to attempt to negotiate a settlement of the issues presented in this cause." In a Docket Entry dated November 30, 1998 the presiding officers directed that "any negotiated settlement resolving the issues presented in this Cause should be filed with the Commission on or before March 5, 1999. . . ." The Commission extended that deadline at the request of the Staff Negotiating Team eventually to April 12, 1999.

Solely for the purposes of compromise and settlement of the issues in this proceeding, Indiana Michigan Power Company, which does business in Indiana as American Electric Power and the Staff Negotiating Team (collectively referred to as the "Parties") have met and reached a settlement agreement ("Agreement") which they hereby submit and recommend for approval to the Commission. If the Commission does not approve the settlement agreement in its entirety and incorporate it in the Final Order, the proposed Agreement shall be null and void and deemed withdrawn, unless such change is agreed to by the Parties.

SETTLEMENT AGREEMENT

WHEREAS AEP and CSW have filed various applications before federal and state agencies seeking approvals necessary to consummate a proposed merger of the two companies, and

WHEREAS AEP, I&M and the Staff Negotiating Team have met and explored over a period of months various issues related to the proposed merger and their agreements and differences

regarding the effects of the proposed merger on competition between electricity providers and on the terms and conditions under which retail electric utility service is provided, and

WHEREAS AEP, I&M and the Staff Negotiating Team recognize the costs and uncertainty of litigation and the desirability of consensual voluntary resolution of their differences and the legitimate interests and good faith of each of the parties in achieving the objectives each desires to achieve, and

WHEREAS the Staff Negotiating Team is authorized to make recommendations to the IURC regarding a fair and just settlement of differences in the public interest,

The Parties agree as follows:

The Staff Negotiating Team will recommend to the IURC that the following Agreement be adopted by the Commission in an order or other appropriate formal action that references this Agreement or incorporates all of the provisions thereof. Where appropriate, the Commission action may address or reserve other matters ancillary or incidental to the matters addressed in this Agreement, for immediate or future disposition, in a manner not inconsistent with the Agreement.

All appropriate terms are defined in the "Definitions" section of the Agreement.

THE IURC and STAFF:

1. Will not oppose the proposed merger pending before the Federal Energy Regulatory Commission ("FERC").
2. Will not oppose AEP's filings previously made at the United States Securities and Exchange Commission ("SEC") in connection with the proposed merger, together with any non-material changes or supplements thereto.

AEP, or its Indiana jurisdictional AEP operating company, conditional on merger consummation will:

1. REGULATORY PLAN. I&M will implement net merger savings reduction riders that will reduce bills to customers by the annual amounts shown in Attachment A beginning with the first revenue month after the consummation of the merger. The annual bill reduction amounts shown in Attachment A will be allocated to rate classes based upon total revenues, excluding fuel cost adjustment, and credited to customers' bills through the application of a per kilowatt hour factor specific to each rate class. Each individual year's bill reduction will apply for a twelve month period except for an adjustment during each third quarter to reconcile actual kWh

sales and projected kWh sales for the prior year. The last reduction will continue to apply in years following the end of year eight until base rates for the operating company are changed.

The merger savings and costs are based on estimated values included in AEP's filing with FERC in Docket No. EC98-40-000.

Notwithstanding any base rate proceeding during the eight year period after the consummation of the merger, the annual amounts shown in Attachment A will remain in effect.

I&M must implement the above bill reductions in the manner and amounts described above notwithstanding any changes to the current regulatory structure in Indiana. In the event that retail electric deregulation legislation is implemented in Indiana, or if there is any unbundling or restructuring, I&M shall continue to apply the regulatory plan's provisions to regulated rates of its Indiana customers.

Any legislatively mandated adjustments to base rates, of any kind, that are part of any retail electric deregulation legislation implemented in Indiana shall not diminish or offset, but shall be in addition to, the bill reductions established in this proceeding.

Subject to this agreement, AEP and I&M will defer and amortize their Indiana jurisdictional estimated merger related costs-to-achieve over an 8-year recovery period. Costs to achieve the merger are those costs incurred to consummate the merger and combine the operations of AEP and CSW. These costs include, but are not limited to, investment banking fees; consulting and legal services incurred in connection with obtaining regulatory and shareholder approvals; transition planning and development costs; employee separation costs including severance costs, change-in-control payments and retraining costs; and facilities consolidation costs. The IURC will issue accounting orders or other orders necessary to authorize the deferral and amortization of merger costs.

In any proceeding to change base rates for I&M to become effective after the consummation of the merger, the following rate treatment will be reflected:

- A. Estimated non-fuel merger savings, net of costs to achieve will be included in cost of service as an allowable expense in order to avoid duplication and to continue to provide shareholders with their share of the net savings. The amount to be included in the cost of service shall be based upon the test year period. (See Attachment B)
- B. Amortization of estimated 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. (See Attachment B)

In addition, the net merger savings allocated to the shareholders will be excluded from the earnings test in determining I&M's compliance with the provisions of I.C. 8-1-2-42(d)(2) and (3).

To mitigate potential stranded investment, I&M will increase the funding for the provision of paragraph 21 of the settlement agreement approved by the Commission in Cause No. 38702-FAC40-S1 in the additional amount of \$5.5 million annually starting January 1, 2001 for a three year period ending December 31, 2003. The rate filing limitation in paragraph 8 of that settlement agreement is extended by one year to January 1, 2005. In addition, I&M will abide by the provisions of paragraphs 8, 9, and 10 of that settlement agreement, regardless of the outcome of litigation in that Cause.

2. **FUEL MERGER SAVINGS.** All savings of fuel and purchased power expenses resulting from the merger shall benefit retail customers through existing fuel clause recovery mechanisms applied by State Commissions. In circumstances when one or more AEP operating companies in one AEP zone are supplying power to the other AEP zone, and as a result, the supplying zone needs to purchase replacement power to serve its native load, AEP shall hold harmless the native load customers of the supplying zone from any price differential between the replacement power and the system power supplied to the other zone. Similarly, if one or more AEP operating companies in one AEP zone are supplying power to the other AEP zone, and as a result, the supplying zone loses the opportunity to sell power at a price higher than received from the zone being supplied, AEP shall credit the supplying zone for the foregone revenues.

3. **STRANDED COSTS.** AEP and its operating companies agree not to seek or recover any stranded costs associated with the operating companies of one AEP zone from the retail customers of the other AEP zone.

4. **PROCEEDS OF FACILITY SALES.** Any proceeds from the sale of facilities shall go to the AEP operating company in whose rate base the facilities are included, for further disposition in accordance with the rules and orders of the regulatory authorities whose jurisdiction encompasses the ultimate disposition of such proceeds.

5. **SYSTEM INTEGRATION AGREEMENTS.** To mitigate any perceived impacts of the merger on AEP's ability to exercise market power, AEP proposed in its FERC merger application a mitigation plan. To protect retail customers, AEP agrees to hold harmless the retail customers from any mitigation plan included in any FERC order approving the merger of AEP-CSW. To implement this Agreement in any general retail electric rate proceeding commenced by the filing of a petition on or after the date of this Agreement, in which an AEP operating company requests a change in its basic rates and charges, or in any other proceeding where so ordered by the State Commission, AEP shall have the burden therein to prove that such requested rate relief does not reflect mitigation-related costs.

AEP commits to file any allocation of the cost of new, modified or upgraded generation or

transmission facilities whose costs will be subject to the System Integration Agreement or the System Transmission Agreement with the FERC and to notify each State Commission of any such filing at the time it is made. Notification to each State Commission will include an estimate of the cost of construction, an explanation of the reasons for constructing the facilities, studies supporting the construction of the facilities, and a proposed allocation of the facilities' costs. If AEP plans to purchase an in-service facility or already constructed and soon-to-be-in-service facility, AEP will follow the above described procedures and will include as part of the notification to the State Commission an explanation of the circumstances causing the AEP operating company to make the purchase in question.

6. **REGULATORY AUTHORITY.** AEP agrees not to seek to overturn, reverse, set aside, change or enjoin, whether through appeal or the initiation or maintenance of any action in any forum, a decision or order of a State Commission based on the assertion that the authority of the Securities and Exchange Commission as interpreted in *Ohio Power Co. v. FERC*, 954 F.2d 779 (D.C. Cir. 1992) cert. denied, 498 U.S. 73 (1992) impairs the State Commission's ability to examine and determine the reasonableness of non-power affiliate transaction costs to be passed to retail customers. The parties agree that the Ohio Power waiver does not include waiver of any arguments that AEP may have with respect to the reasonableness of SEC approved cost allocations. AEP will provide each State Commission with notice at least 30 days prior to any filings that propose new allocation factors with the SEC. The notice need not be in the precise form of the final filing but shall include, to the extent information is available, a description of the proposed factors and the reasons supporting such factors. AEP and State Commission Staff will make a good faith attempt to resolve their differences, if any, in advance of a filing being made at the SEC.

7. **REGIONAL TRANSMISSION ORGANIZATION.**

- A. Prior to December 31, 2000, AEP will file with the FERC an unconditional application, consistent with the RTO agreement and tariff, to transfer the operation and control of its bulk transmission facilities in Indiana, Michigan, Kentucky, Ohio, Tennessee, Virginia and West Virginia owned, controlled and/or operated by AEP to the Midwest Independent Transmission System Operator, Inc. or another FERC-approved Regional Transmission Organization directly interconnected with AEP transmission facilities. Provided that, if, by June 30, 2000, there is pending before the FERC for approval an RTO to which AEP is a signatory that includes two or more directly interconnected control areas, at least one of which is not affiliated with AEP, the December 31, 2000 date shall be extended to the date that is 75 days after the date on which the FERC issues an order either approving or disapproving the RTO.
- B. AEP shall endeavor to incorporate equitable reciprocal pricing arrangements with contiguous RTOs in the Alliance RTO or any other filing to which AEP is a signatory seeking FERC approval of the formation of a new RTO.

- C. AEP will provide generation dispatch information necessary for RTOs to monitor the effect of such dispatch on the loading of that RTO's constrained transmission facilities. This information must be provided to any RTO of which AEP is a member, and to RTOs providing service over any transmission facilities directly interconnected with the AEP east zone transmission facilities. Each of these RTOs shall determine the format, quantity, and timing of these data as necessary to perform this monitoring function. The information provided by AEP shall be equivalent to that provided by all parties, which have control of the dispatch of generation facilities, taking service from these RTO(s) and shall be subject to appropriate confidentiality provisions.
- D. AEP believes that its RTO commitment, as defined in this document, is in keeping with its goal of achieving a large, economically efficient RTO in the Eastern Interconnection.
- E. Nothing in this Agreement precludes the Commission, or its staff from actively participating in any proceedings at the FERC arising from any RTO filings made by AEP. However the Commission and its staff commits that it will not offer such participation as a reason to delay the consummation of the merger or to advocate a position before FERC inconsistent with Paragraph A. above.

8. **AFFILIATE STANDARDS.** The following affiliate standards shall apply from the date of closing of the merger until new affiliate standards imposed by state legislation or State Commission action become effective.

- A. The financial policies and guidelines for transactions between an AEP operating company and its affiliates shall reflect the following principles:
 - 1. An AEP operating company's retail customers shall not subsidize the activities of the operating company's non-utility affiliates or its utility affiliates.
 - 2. An AEP operating company's costs for jurisdictional rate purposes shall reflect only those costs attributable to its jurisdictional customers.
 - 3. These principles shall be applied to avoid costs found to be just and reasonable for ratemaking purposes by the affected State Commission being left unallocated or stranded between various regulatory jurisdictions, resulting in the failure of the opportunity for timely recovery of such costs by the operating company and/or its utility affiliates; provided, however,

that no more than one hundred percent of such costs shall be allocated on an aggregate basis to the various regulatory jurisdictions.

4. An AEP operating company shall maintain and utilize accounting systems and records that identify and appropriately allocate costs between the operating company and its affiliates, consistent with these cross-subsidization principles and such financial policies and guidelines.
- B. Each State Commission shall have access to the employees, officers, books and records of any affiliate of its jurisdictional AEP operating company to the same extent and in like manner that each such State Commission has over a public utility operating within the state in which such State Commission exercises its regulatory authority if the affiliate had engaged in direct or indirect transactions with the jurisdictional AEP operating company. If such employees, officers, books and records can not be reasonably made available to a State Commission, then upon request of a State Commission, the AEP operating company shall, in accordance with state reimbursement rules, reimburse the State Commission for appropriate out-of-state travel expenses incurred in accessing the employees, officers, books and records. Each AEP operating company shall maintain, in accordance with generally accepted accounting principles, books, records, and accounts that are separate from the books, records, and accounts of its affiliates, consistent with Part 101 - Uniform System of Accounts Prescribed for Public Utilities and Licensees Subject to the Provisions of the Federal Power Act. Any objections to providing all books and records must be raised before the State Commission and the burden of showing that the request is unreasonable or unrelated to the proceeding is on the AEP operating company. The confidentiality of competitively sensitive information shall be maintained in accordance with each State Commission's rules and regulations.
- C. In accordance with generally accepted accounting principles and consistent with state and federal guidelines, an AEP operating company shall record all transactions with its affiliates, whether direct or indirect. An AEP operating company and its affiliates shall maintain sufficient records to allow for an audit of the transactions involving the operating company and its affiliates. Asset transfers from an AEP operating company to a non-utility affiliate and asset transfers from a non-utility affiliate to an AEP operating company shall be at fully distributed costs in accordance with current Securities and Exchange Commission (SEC) issued requirements or other statutory requirements if the SEC has no jurisdiction.
- D. An AEP operating company shall not allow a non-utility affiliate to obtain credit under any arrangement that would permit a creditor, upon default, to have recourse to the operating company's assets. The financial arrangements of an

AEP operating company's affiliates are subject to the following restrictions unless otherwise approved by that operating company's State Commission:

1. Any indebtedness incurred by a non-utility affiliate will be without recourse to the operating company.
2. An AEP operating company shall not enter into any agreements under terms of which the operating company is obligated to commit funds in order to maintain the financial viability of a non-utility affiliate.
3. An AEP operating company shall not make any investment in a non-utility affiliate under circumstances in which the operating company would be liable for the debts and/or liabilities of the non-utility affiliate incurred as a result of acts or omissions of a non-utility affiliate.
4. An AEP operating company shall not issue any security for the purpose of financing the acquisition, ownership, or operation of a non-utility affiliate.
5. An AEP operating company shall not assume any obligation or liability as guarantor, endorser, surety, or otherwise in respect of any security of a non-utility affiliate.
6. An AEP operating company shall not pledge, mortgage or otherwise use as collateral any assets of the operating company for the benefit of a non-utility affiliate.
7. AEP shall hold harmless the retail customers of an AEP operating company from any adverse effects of credit rating declines caused by the actions of non-utility affiliates.

Transactions between AEP operating companies and affiliates involving a money pool for the financing of short-term funding requirements are exempt from the requirements of this paragraph. Further, the provisions of this paragraph would not preclude AEP operating companies from issuing securities or assuming obligations related to their existing coal subsidiaries.

- E. Any untariffed, non-utility service provided by an AEP operating company or affiliated service company to any affiliate shall be itemized in a billing statement pursuant to a written contract or written arrangement. The AEP operating company and any affiliated service company shall maintain and keep available for inspection by the State Commission copies of each billing statement, contract and arrangement between the AEP operating company or affiliated service company and its affiliates that relate to the provision of such untariffed non-utility services.

- F. Any good or service provided by a non-utility affiliate to an AEP operating company shall be by itemized billing statement pursuant to a written contract or written arrangement. The operating company and non-utility affiliate shall maintain and keep available for inspection by the State Commission copies of each billing statement, contract and arrangement between the operating company and its non-utility affiliates that relate to the provision of such goods and services in accordance with applicable State Commission retention requirements.
- G. Employees responsible for the day to day operations of the AEP operating companies and those of affiliated exempt wholesale generators or affiliated power marketers shall operate independently of one another. AEP shall document all employee movement between and among all affiliates. Such information shall be made available to each State Commission and consumer advocate upon request.
- H. An AEP operating company may not own property in common with an affiliated exempt wholesale generator or affiliated power marketer.
- I. No market information obtained in the conduct of utility business may be shared with an affiliated exempt wholesale generator or affiliated power marketer, except where such information has been publicly disseminated or simultaneously shared with and made available to all non-affiliated entities who have requested such information. Customer specific information shall not be made available to an affiliated exempt wholesale generator or affiliated power marketer except under the same terms as such information would be made available to a non-affiliated company, and only with the written consent of the customer specifying the information to be released.
- J. A non-utility affiliate may use an AEP operating company's name or logo only if, in connection with such use, the affiliate makes adequate disclosures to the effect that (i) the two entities are separate; (ii) it is not necessary to purchase the non-regulated product or service to obtain service from the operating company; and (iii) the customer will gain no advantage from the operating company by buying from the affiliate.
- K. An AEP operating company shall not condition or tie the provision of any product, service, pricing benefit, or waiver of associated terms or conditions, to the purchase of any good or service from its affiliated exempt wholesale generator or power marketer.
- L. Except as provided in paragraph M, an affiliated exempt wholesale generator or affiliated power marketer shall not share office space, office equipment, computer systems or information systems with an AEP operating company.

- M. Computer systems and information systems may be shared between an AEP operating company and non-utility affiliates only to the extent necessary for the provision of corporate support services; however, the operating company shall ensure that the proper security access and other safeguards are in place to ensure full compliance with these affiliate rules.
- N. An AEP operating company may engage in transactions directly related to the provision of corporate support services with its affiliates in accordance with requirements relating to service agreements. As a general principle, such provision of corporate support services shall not allow or provide a means for the transfer of confidential information from the operating company to the affiliate, create the opportunity for preferential treatment or unfair competitive advantage, create opportunities for cross-subsidization of affiliates, or otherwise provide any means to circumvent these affiliate rules.
- O. Except as provided in paragraph N, an AEP operating company may only make a product or service available to an affiliated exempt wholesale generator or an affiliated power marketer if the product or service is equally available to all non-affiliated exempt wholesale generators and power marketers on the same terms, conditions and prices, and at the same time. An AEP operating company shall process all requests for a product or service from affiliated and non-affiliated exempt wholesale generators and power marketers on a non-discriminatory basis.
- P. An AEP operating company which provides both regulated and non-regulated services or products, or an affiliate which provides services or products to an AEP operating company, shall maintain documentation in the form of written agreements, an organization chart of AEP (depicting all affiliates and AEP operating companies), accounting bulletins, procedure and work order manuals, or other related documents, which describe how costs are allocated between regulated and non-regulated services or products. Such documentation shall be available, subject to requests for confidential treatment, for review by State Commissions in accordance with Paragraph B. above.
- Q. AEP shall designate an employee who will act as a contact for State Commissions and consumer advocates seeking data and information regarding affiliate transactions and personnel transfers. Such employee shall be responsible for providing data and information requested by a State Commission for any and all transactions requested, regardless of which affiliate(s), subsidiary(ies) or associate(s) of an AEP operating company from which the information is sought.
- R. AEP shall designate an employee or agent within each signatory state who will act as a contact for retail consumers regarding service and reliability concerns and

to allow a contact for retail consumers for information, questions and assistance. Such AEP representative shall be able to deal with billing, maintenance and service reliability issues.

- S. AEP shall provide each signatory state a current list of employees or agents that are designated to work with each State Commission and consumer advocate concerning state regulatory matters, including, but not limited to, rate cases, consumer complaints, billing and retail competition issues.
- T. Thirty (30) days prior to filing any affiliate contract (including service agreements) with the SEC or the FERC an AEP operating company shall submit to each affected State Commission a copy of the proposed filing.
- U. Any violation of the provisions of these affiliate standards are subject to the enforcement powers and penalties at the State Commissions.
- V. AEP shall contract with an independent auditor who shall conduct biennial audits for eight years after merger consummation of affiliated transactions to determine compliance with these affiliate standards. The results of such audits shall be filed with the State Commissions. Prior to the initial audit, AEP will conduct an informational meeting with State Commissions regarding how its affiliates and affiliate transactions will or have changed as a result of the proposed merger.
- W. If the Public Utility Holding Company Act of 1935 is repealed or materially amended during the time this Agreement is in effect and equivalent jurisdiction is not given to another federal agency, AEP will work with the State Commissions to ensure that AEP continues to furnish the State Commission with the appropriate information to regulate its jurisdictional AEP operating company. The State Commission may establish its reporting requirements regarding the nature of intercompany transactions concerning the operating company and a description of the basis upon which cost allocations and transfer pricing have been established in these transactions.

9. ADEQUACY AND RELIABILITY OF RETAIL ELECTRIC SERVICE. AEP agrees to maintain or enhance the adequacy and reliability of retail electric service provided by each of the AEP operating companies. Service reports will be submitted to the State Commissions participating in this Agreement in the format described in Attachment C to this Agreement.

10. STATUTORY AND OTHER ISSUES. Provided the proposed merger is ultimately consummated, AEP commits that upon issuance of any final and non-appealable order from any state or federal commission addressing the merger that provides benefits or imposes conditions on AEP that would benefit the ratepayers of any jurisdiction, such net benefits and conditions

will be extended to all other retail customers to the extent necessary to achieve equivalent net benefits and conditions to all retail customers of AEP.

11. **CONTINUED PARTICIPATION.** Nothing in this Agreement is intended to preclude the Commission and its staff from addressing in a manner not inconsistent with this Agreement issues raised in FERC Docket No. EC98-40-000.

12. **ENFORCEABILITY.** AEP and I&M will not assert in any action to enforce an order approving this Agreement that the Commission lacks the authority to have the provisions of this Agreement enforced under Indiana law.

DEFINITIONS

1. "AEP zone" means either the area comprising the AEP operating companies providing service in Indiana, Michigan, Kentucky, Ohio, Tennessee, Virginia and West Virginia ("East") or the area comprising the former CSW operating companies providing service in Arkansas, Texas, Oklahoma and Louisiana ("West").
2. "AEP operating company" means an AEP affiliate that is a public utility subject to rate regulation by the FERC and/or a state utility regulatory agency.
3. "Affiliate" means an entity that is an operating company's holding company, a subsidiary of the operating company or a subsidiary of the holding company.
4. "Consumer advocate" means an agency of the state government designated as a representative of consumers in matters involving utility companies before the applicable State Commission.
5. "Entity" means a corporation or a natural person.
6. "Exempt wholesale generator" means an entity which is engaged directly or indirectly through one or more affiliates exclusively in the business of owning or operating all or part of a facility for generating electric energy and selling electric energy at wholesale and who:
 - a. does not own a facility for the transmission of electricity, other than an essential interconnecting transmission facility necessary to affect a sale of electric energy at wholesale; and
 - b. has applied to the FERC for a determination under 15 U.S.C. Section 79z-5a.
7. "FERC" means the Federal Energy Regulatory Commission, or any successor governmental agency.

8. "Non-Utility Affiliate" means an Affiliate which is not a domestic public utility. Non-utility affiliate includes a foreign affiliate.
9. "Holding Company" means AEP, or its successor in interest, or any Entity that owns directly or indirectly 10 percent or more of the voting capital stock of a utility operating company, or its successor in interest.
10. "Power Marketer" means an entity which:
- a. becomes an owner or broker of electric energy in a state for the purpose of selling the electric energy at wholesale;
 - b. does not own transmission or distribution facilities in a state;
 - c. does not have a certified service area; and
 - d. has been granted authority by the FERC to sell electric energy at market-based rates.
11. "Regional Transmission Organization" (RTO) means an organization that operates electric transmission equipment and facilities on a regional basis.
12. "SEC" means the United States Securities and Exchange Commission, or any successor governmental agency.
13. "Service Agreement" means the agreement entered into between American Electric Power Service Corp. and AEP's operating companies, under which services are provided by American Electric Power Service Corp. to the operating companies.
14. "Service Company" means an Affiliate whose primary business purpose is to provide, among other functions, administrative and general or operating services to AEP utility operating companies.
15. "Services" means the performance of activities having value to one party including, but not limited to, managerial, financial, accounting, legal, engineering, construction, purchasing, marketing, auditing, statistical, advertising, publicity, tax, research, and other similar services.
16. "Subsidiary" means any corporation 10 percent or more of whose voting capital stock is controlled by another Entity.
17. "Utility Affiliate" means an affiliate of a utility operating company that is also a public utility.

Presentation of Agreement To the Commission

1. The Parties shall move for the admission of this Agreement into evidence at the hearing scheduled for April 19, 1999 and sponsor evidence including testimony and exhibits as may be required to support Commission approval of this Agreement.
2. The Parties stipulate and agree to the issuance by the Commission of the Proposed Order in the form attached hereto as Attachment D. All of the terms and agreements contained in the Proposed Order are to be interpreted consistent with the provisions of this Agreement, which is to be attached to and incorporated by reference in the Final Order issued by the Commission.

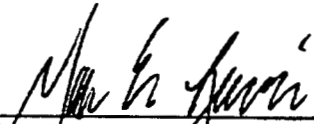
Effect and Use of Agreement

1. This Agreement shall not constitute nor be cited as precedent or deemed an admission by any Party in any other proceeding except as necessary to enforce its terms before the Commission, or any State Court of competent jurisdiction. This Agreement is solely the result of compromise in the settlement process, shall not constitute a concession of subject matter jurisdiction, and except as expressly provided herein, is without prejudice to and shall not constitute a waiver of any position that any of the Parties may take with respect to any or all of the items resolved herein in any future regulatory or other proceedings and, failing approval by this Commission, shall not be admissible or discussed in any subsequent proceedings.
2. The evidence in this Cause constitutes substantial evidence sufficient to support the Agreement and provides an adequate evidentiary basis upon which the Commission can make any finding of fact and conclusions of law necessary for the approval of the Agreement, as filed.
3. The issuance of the Final Order shall terminate any further proceedings in this Cause.
4. In the event this Cause is required to be litigated, the Parties expressly reserve all of their rights to make objections and motions to strike with respect to all testimony and exhibits and their right to cross-examine the witnesses presenting such testimony and exhibits.
5. The undersigned have represented and agreed that they are fully authorized to execute this Agreement on behalf of their designated clients who will be bound thereby.
6. The Parties to this Agreement shall not appeal the agreed Final Order or any other Commission order to the extent such orders are specifically implementing the provisions of this Agreement and shall support this Agreement in the event of any appeal by a person not a Party. This provision shall be enforceable by any Party, in any state court of competent jurisdiction.
7. The communications and discussions during the negotiations and conferences that produced the Agreement have been conducted on the explicit understanding that they are or


relate to offers of settlement and shall therefore be privileged and not admissible in any proceeding.

ACCEPTED and AGREED this 12th day of April, 1999.

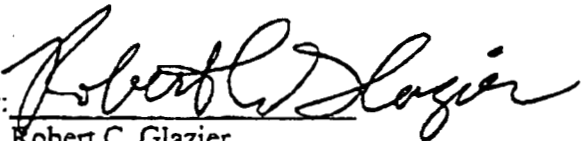
Indiana Michigan Power Company

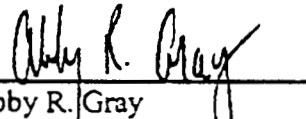
By: 
Marc E. Lewis
Senior Attorney

AEP

By: 
Richard E. Munczinski
Senior Vice President
American Electric Power
Service Corporation

IURC Staff Negotiating Team

By: 
Robert C. Glazier
Director of Utilities

By: 
Abby R. Gray
Special Counsel to the
Staff Negotiating Team

**AEP/CSW MERGER
NET ANNUAL MERGER SAVINGS
AND INDIANA CUSTOMER BILL REDUCTIONS (\$000)**

(1)	(2)	(3)	(4)
<u>Period</u>	<u>Net Merger Savings</u>	<u>Customer Bill Reduction</u>	<u>Shareholder Savings</u>
Year 1	5,591	3,306	2,286
Year 2	10,633	5,927	4,706
Year 3	13,531	7,434	6,097
Year 4	15,903	8,668	7,235
Year 5	17,437	9,465	7,972
Year 6	18,606	10,073	8,533
Year 7	19,515	10,546	8,969
Year 8	20,039	10,818	9,221
	121,255	66,238	55,017

**AEP/CSW MERGER
EXAMPLE OF BASE RATE CASE TREATMENT
BASED ON YEAR 3 (\$000)**

CREDIT PER RIDER CONTINUES		(7,434)
INCLUDED IN TEST YEAR:		
GROSS MERGER SAVINGS	(17,048)	
CHANGE IN CONTROL AMORTIZATION	768	
OTHER CTA AMORTIZATION	<u>2,751</u>	
TOTAL CTA AMORTIZATION	<u>3,517</u>	
NET MERGER SAVINGS IN TEST YEAR		(13,531)
ADD BACK TO TEST YEAR COST OF SERVICE:		
CUSTOMER SHARE (Attachment A, Col. 3, Year 3)	7,434	
SHAREHOLDER PORTION (Attachment A, Col. 4, Year 3)	<u>6,097</u>	
		<u>13,531</u>
NET BASE RATE REDUCTION		<u>0</u>
INDIANA CUSTOMER RATE REDUCTION		<u><u>(7,434)</u></u>

**AEP/CSW MERGER
BASE RATE CASE TREATMENT
FOR INCLUSION IN COST OF SERVICE (\$000)**

	<u>Add Back to Test Year Cost of Service</u>	
	<u>Customer</u>	<u>Shareholder</u>
	<u>Net Savings</u>	<u>Net Savings</u>
YEAR 1	3,306	2,286
YEAR 2	5,927	4,706
YEAR 3	7,434	6,097
YEAR 4	8,668	7,235
YEAR 5	9,465	7,972
YEAR 6	10,073	8,533
YEAR 7	10,546	8,969
YEAR 8	10,818	9,221

ATTACHMENT B

Page 3 of 3

**AEP/CSW MERGER
AMORTIZATION OF ESTIMATED
COSTS TO ACHIEVE**

	<u>AMOUNT</u>
YEAR 1	3,517,436
YEAR 2	3,517,436
YEAR 3	3,517,436
YEAR 4	3,517,436
YEAR 5	3,517,436
YEAR 6	3,517,436
YEAR 7	3,517,436
YEAR 8	3,517,436
 TOTAL	 28,138,494 *

* May not add due to rounding

Attachment C**Quality of Service Reporting**

Indiana Michigan Power will maintain the overall quality and reliability of its electric service at levels no less than it has achieved in the past decade.

Indiana Michigan Power will provide service reliability reports annually indicating its calendar year Indiana Customer Average Interruption Duration Index (CAIDI) and Indiana System Average Interruption Frequency Index (SAIFI). These indices shall be determined and reported, including all storms. Definitions for these measures are included in this Attachment.

Indiana Michigan Power also will provide annual Call Center performance measures for those centers which handle Indiana customer calls. These will include the Call Center Average Speed of Answer (ASA), Abandonment Rate, and Call Blockage. Definitions for these measures are included in this Attachment.

The performance information described above shall be provided by the end of May of the year following the calendar year in question.

AEP Reliability Measures

1) System Average Interruption Frequency Index (SAIFI) is defined as the number of customers interrupted divided by the number of customers served. It is calculated by the equation:

$$\text{SAIFI} = \frac{\text{number of customers interrupted}}{\text{number of customers served}}$$

2) Customer Average Interruption Duration Index (CAIDI) is defined as the number of customer hours of interruption divided by the number of customers interrupted. It is calculated by the equation:

$$\text{CAIDI} = \frac{\text{sum of all customer hours of interruption}}{\text{number of customers interrupted}}$$

AEP Call Center Measures

1) Average Speed of Answer (ASA) is defined as the average time that elapses in seconds between the instant when a call is answered and the time it is connected to a Call Center representative (CSR) or an interactive voice recorder (IVR). It is calculated using the equation:

$$\text{Average Speed of Answer (seconds)} = \frac{\text{time for all calls between call answer and CSR/IVR connection}}{\text{total number of calls made to the Call Center}}$$

2) Abandonment Rate is the percentage of callers who hang up before being connected to a Call Center representative (CSR) or an interactive voice recorder (IVR). It is calculated using the equation:

$$\text{Abandonment Rate (percent)} = \frac{\{\text{total number of callers who hang up}\}}{\{\text{total number of calls made to the Call Center}\}} \times 100$$

3) Call Blockage is the percentage of non-outage call attempts which do not get connected to a Call Center (busy signal, etc.). It is calculated using the equation:

$$\text{Call Blockage (percent)} = \frac{\{\text{total number of non-outage calls that do not get connected}\}}{\{\text{total number of non-outage calls made to the Call Center}\}} \times 100$$

Attachment D

STATE OF INDIANA

INDIANA UTILITY REGULATORY COMMISSION

IN THE MATTER OF THE INVESTIGATION)
 ON THE COMMISSION'S OWN MOTION)
 INTO ANY AND ALL MATTERS RELATING) CAUSE NO. 41210
 TO THE MERGER OF AMERICAN)
 ELECTRIC POWER, INC. AND CENTRAL) APPROVED:
 AND SOUTH WEST CORPORATION)

BY THE COMMISSION:

David E. Ziegner, Commissioner

Camie J. Swanson-Hull, Commissioner

Claudia J. Earls, Administrative Law Judge

On June 29, 1998, the Commission on its own motion initiated an investigation regarding the proposed merger of American Electric Power Company, Inc. ("AEP") and Central and South West Corporation ("CSW"). AEP is the parent company of Indiana Michigan Power Company ("I&M") which provides electric utility service in the State of Indiana. The Order noted that AEP and CSW had filed an application with the Federal Energy Regulatory Commission ("FERC") for approval of the merger under § 203 of the Federal Power Act.

Petitions to intervene in this matter were filed by the Citizens Action Coalition of Indiana, Inc., Indiana Consumers For Fair Utility Rates (an ad hoc group of industrial companies), PSI Energy, Inc. and Steel Dynamics, Inc¹. These petitions were granted and these persons were made parties to this proceeding. The Office of Utility Consumer Counselor also participated in this proceeding.

After receiving written comments of the parties on certain issues relating to the proposed merger and after holding a preliminary hearing on August 4, 1998, the Commission on September 2, 1998, issued an Order appointing a negotiating team of members of the Commission Staff (the "Staff Negotiating Team") to attempt to negotiate a settlement of the issues presented in this matter.

By docket entries, I&M was directed to respond to various data requests seeking information about the proposed merger and to provide to the Commission, the Staff Negotiating Team and the other parties certain documents relating thereto. I&M responded to the requests by providing the requested information and documents.

¹SDI subsequently withdrew from the proceeding.

During the course of this proceeding, status hearings were held at which time the Staff Negotiating Team submitted reports regarding the progress of negotiations. On April 9, 1999, I&M and the Staff Negotiating Team submitted to the Commission and recommended for approval a Stipulation and Settlement Agreement (the "Settlement Agreement") executed by I&M, AEP and the Staff Negotiating Team.

On April 15, 1999, the parties to the Settlement Agreement prefiled with the Commission prepared testimony and evidence in support of the Settlement Agreement. Pursuant to notice of hearing given as provided by law, a public evidentiary hearing on the Settlement Agreement was held on April 19, 1999, at 10:00 a.m. in Room TC10 of the Indiana Government Center South, Indianapolis, Indiana. At that time, the Settlement Agreement and evidence relating thereto were accepted into the record.

Having considered the evidence and being duly advised, the Commission now finds:

1. Notice and Jurisdiction. Due legal and timely notice of the settlement hearing was given and published as required by law. I&M is a "public utility" within the meaning of that term in IC 8-1-2-1 and is subject to the jurisdiction of the Commission in the manner and to the extent provided by the laws of the State of Indiana.

2. The Settlement Agreement. As described in the Settlement Agreement, a copy of which is attached hereto as Exhibit A and incorporated herein by reference, the Settlement Agreement contains, among other things, provisions regarding (a) net non-fuel merger savings; (b) fuel and purchased power merger savings; (c) limitation on requests for stranded cost recovery; (d) allocation of proceeds from the sale of facilities; (e) system integration agreements; (f) Ohio Power waiver; (g) regional transmission organization commitments; (h) affiliate standards; and (i) maintenance and enhancement of the adequacy and reliability of retail electric service, including certain reporting requirements.

The Settlement Agreement further provides that if any other state commission or any federal commission issues a final and non-appealable order addressing the merger that provides benefits or imposes conditions that would benefit ratepayers of another jurisdiction, AEP will extend equivalent net benefits and conditions to all AEP retail customers.

The Settlement Agreement also provides that, upon approval by the Commission, neither the Commission nor its Staff shall oppose the proposed merger before FERC or oppose AEP's previously made merger-related filings with the Securities and Exchange Commission.

The Settlement Agreement also states that it shall not constitute nor be cited as precedent or deemed an admission by any party in any other proceeding except as necessary to enforce its terms before the Commission, or any State Court of competent jurisdiction on these particular issues. The Settlement Agreement provides that it is solely the result of compromise in the settlement process, shall not constitute a concession of subject matter jurisdiction, and except as expressly provided therein, is without prejudice to and shall not constitute a waiver of any position that any of the

parties thereto may take with respect to any or all of the items resolved therein in any future regulatory or other proceedings.

The Settlement Agreement states that if the Commission does not approve the Settlement Agreement in its entirety, it shall be null and void and deemed withdrawn, unless such change is approved by the parties.

At the settlement hearing, Robert C. Glazier, Director of Utilities for the Indiana Utility Regulatory Commission, Richard E. Munczinski, Senior Vice President-Corporate Planning and Budgeting of American Electric Power Service Corporation, the service corporation subsidiary of AEP, and Kent D. Curry, Director of Regulatory Affairs for I&M, testified in support of Commission approval of the Settlement Agreement. Mr. Glazier and Mr. Munczinski discussed the negotiating process which resulted in the Settlement Agreement and the public benefits that would result from its approval. Mr. Curry testified regarding the mechanism by which the bill reductions will be implemented by I&M.

3. Commission Findings. In our Order dated June 29, 1998, the Commission stated that this investigation was commenced because the Commission believed that the proposed merger of AEP and CSW could have a significant impact on the electric industry and customers in Indiana and across the region and the Commission was concerned about the proposed merger's effect on reliability of service and the development of independent system operators. During the course of this proceeding considerable information about the proposed merger was requested from and provided by I&M. Additional information about the proposed merger has since been developed in the course of FERC proceedings and proceedings before other state commissions. After lengthy and detailed negotiations, I&M, AEP and the Staff Negotiating Team have reached agreement on terms and conditions which help ensure that Indiana consumers will fairly share in the benefits achieved by the merger and that Indiana consumers will be protected against any detrimental effects. The Staff Negotiating Team recommends that the Commission approve the Settlement Agreement as a fair and just settlement of differences regarding merger-related issues. Having reviewed the Settlement Agreement and the evidence relating thereto, the Commission finds that the recommendation of the Staff Negotiating Team should be approved. The Commission further finds that the Settlement Agreement is a fair and reasonable resolution of the merger-related issues of concern to the Commission and should be approved in its entirety without modification.

IT IS THEREFORE ORDERED BY THE INDIANA UTILITY REGULATORY COMMISSION that:

1. The Settlement Agreement shall be and hereby is approved in its entirety without modification.
2. I&M shall implement the bill reductions as set forth in the Agreement.

3. I&M shall be and hereby is authorized to defer and amortize its Indiana jurisdictional estimated merger related costs-to-achieve savings over an eight-year period, as set forth in the Agreement.

4. The investigation in this Cause commenced by our Order dated June 29, 1998 is hereby terminated.

5. This Order shall be effective on and after the date of its approval.

McCARTY, KLEIN, RIPLEY, SWANSON-HULL AND ZIEGNER CONCUR:

APPROVED:

I hereby certify that the above is a true
and correct copy of the Order as approved.

Joseph M. Sutherland, Secretary to the Commission

**IN THE MATTER OF THE INVESTIGATION
ON THE COMMISSION'S OWN MOTION
INTO ANY AND ALL MATTERS RELATING
TO THE MERGER OF
AMERICAN ELECTRIC POWER COMPANY, INC.
AND CENTRAL AND SOUTH WEST CORPORATION**

IURC CAUSE NO. 41210

**DIRECT TESTIMONY
OF
KENT D. CURRY
IN SUPPORT OF STIPULATION
AND SETTLEMENT AGREEMENT**

**SPONSORING EXHIBIT KDC-1
DIRECT TESTIMONY**

TESTIMONY OF KENT D. CURRY
ON BEHALF OF
INDIANA MICHIGAN POWER COMPANY

1 Q. Please state your name and business address.

2 A. My name is Kent D. Curry. My business address is One Summit Square, P. O. Box
3 60, Fort Wayne, Indiana, 46801.

4 Q. By whom are you employed and in what capacity?

5 A. I am employed by Indiana Michigan Power Company (I&M) as its Director of
6 Regulatory Affairs. I&M is authorized to do business in Indiana as American Electric
7 Power (AEP).

8 Q. Please briefly describe your educational and business experience.

9 A. I graduated from Indiana University in 1980 with a Bachelor of Science Degree in
10 Business Administration, majoring in Accounting. I have also taken graduate courses
11 in Mathematics, Economics, Statistics and Management at Indiana University/Purdue
12 University in Fort Wayne. In 1997 I completed the AEP Management Development
13 Program at The Ohio State University. I am a Certified Public Accountant licensed in
14 the State of Indiana.

15 In September 1980, I joined the AEP Service Corporation as a Customer
16 Accounting Auditor performing operational reviews of the area offices of I&M and
17 Michigan Power Company (MPCo). In April 1984, I joined I&M as a Rate Analyst in
18 I&M's Rates and Tariffs Department where my duties included accumulation,
19 preparation and presentation of data for various rate proceedings. In February 1986,
20 I was promoted to General Records Accounts Supervisor in I&M's Accounting
21 Department where my duties included preparation and review of journal entries to the
22 I&M books of account and the compilation and review of various financial reports. In
23 April 1990, I returned to the Rates and Tariffs Department as Rates and Tariffs
24 Supervisor. In that position I was responsible to the Rates, Tariffs and Contracts
25 Director for matters concerning the filing of rate cases and the supervision of the

1 preparation of various reports or studies as required. In January 1996, I was
2 promoted to Director of Rates and Regulations. On June 1, 1996, the department
3 name was changed to Energy Pricing and Regulatory Services and my title became
4 Director of Regulatory Affairs. My duties in this position involve the overall direction
5 and supervision of the Fort Wayne Regulatory Affairs office.

6 Q. Have you previously testified before any regulatory commissions?

7 A. Yes. I testified in prior AEP fuel cost adjustment proceedings before the Indiana Utility
8 Regulatory Commission and in AEP's general rate proceedings in Cause Nos. 38728
9 and 39314. I also submitted testimony in Cause No. 40458, AEP's application for
10 extension of its economic development rider. I also presented testimony on behalf of
11 AEP before the Michigan Public Service Commission and on behalf of MPCo before
12 the Federal Energy Regulatory Commission.

13 Q. What is the purpose of your testimony in this proceeding?

14 A. The purpose of my testimony is to describe for the Commission the rate design
15 methodology of the regulatory plan contained in the Stipulation and Settlement
16 Agreement (Agreement) filed April 12, 1999 in this proceeding and to support the
17 methodology as a fair, reasonable, and equitable means by which to allocate the
18 annual customer rate reductions to the AEP-Indiana rate classes.

19 In connection with this, I will be sponsoring Exhibit KDC-1 which provides a
20 sample merger savings allocation. In this example, the fourth year following
21 consummation of the proposed AEP / Central and South West Corporation (CSW)
22 merger will serve as the basis for my description and support of the rate design.

23 Q. Was Exhibit KDC-1 prepared by you or under your supervision?

24 A. Yes.

25 Q. What did you do to prepare to testify for this proceeding?

- 1 A. I reviewed the Agreement filed in this proceeding, the March 30, 1999 Order
2 Approving Settlement Agreement in Cause No. 38702-FAC40-S1, and I.C. 8-1-2-
3 42(d)(2) and (d)(3).
- 4 Q. What was the source of the data contained in Exhibit KDC-1?
- 5 A. The customer bill reduction shown on Exhibit KDC-1, Page 1 of 3, was provided to me
6 from Attachment A of the Agreement. The other amounts on Exhibit KDC-1 not
7 resulting from specific calculations were obtained from the books and records of AEP.
- 8 Q. Please generally describe the provisions of the regulatory plan pertaining to customer
9 bill reductions.
- 10 A. As stated in the Agreement AEP will implement net merger savings reduction riders
11 that will reduce bills to customers by the annual amounts shown in Attachment A (of
12 the Agreement) beginning with the first revenue month after the consummation of the
13 merger. The annual bill reduction amounts shown in Attachment A will be allocated
14 to rate classes based upon total revenues, excluding fuel cost adjustment, and
15 credited to customers' bills through the application of a per kilowatt hour factor
16 specific to each rate class. Each individual year's bill reduction will apply for a twelve
17 month period except for an adjustment during each third quarter to reconcile actual
18 kWh sales and projected kWh sales for the prior year. The last reduction will continue
19 to apply in years following the end of year eight until base rates for the [I&M] operating
20 company are changed.
- 21 In addition the Agreement states that notwithstanding any base rate proceeding
22 during the eight year period after the consummation of the merger, the annual
23 customer bill reductions will remain in effect.
- 24 Q. Please describe the rate design methodology of the regulatory plan.
- 25 A. Exhibit KDC-1, Page 1 of 3, shows the allocation to the rate classes of the Year 4

1 customer bill reduction provided to me from Attachment A of the Agreement. Billed
2 revenues excluding fuel clause adjustment revenues for 1998 were utilized in the
3 sample calculations as the basis of allocating the customer bill reduction to the rate
4 classes. Shown on Exhibit KDC-1, Page 2 of 3, is the sample derivation of Year 4
5 energy credit factors by rate class determined by dividing the allocated savings from
6 Exhibit KDC-1, Page 1 of 3, by 1998 billed energy in kilowatt-hours and rounding the
7 result to six decimal places.

8 Q. Is the rate design methodology contained in the Agreement a fair, reasonable, and
9 equitable means by which to allocate the annual customer bill reductions to the AEP
10 rate classes?

11 A. Yes. As shown on Exhibit KDC-1, Page 3 of 3, the rate design methodology
12 contained in the Agreement provides a fair, reasonable, and equitable means by
13 which to allocate the annual customer bill reductions to the AEP rate classes.
14 Specifically, Page 3 demonstrates that based upon the sample Year 4 energy credit
15 factors, the rate classes of residential, commercial (MGS), and industrial (IP/IRP) will
16 each receive a reduction of approximately 1.14% as the result of the AEP / CSW
17 merger savings. The rate design methodology is fair, reasonable, and equitable as,
18 regardless of rate class and irrespective of the base rate design of any particular rate
19 class, each tariff service rate class, by virtue of the consummation of the AEP / CSW
20 merger, will receive an equivalent bill reduction as a percentage of average electric
21 service cost.

22 Q. How will AEP implement the customer bill reductions of the Agreement?

23 A. Prior to consummation of the proposed AEP / CSW merger, AEP will make a 30-day
24 filing, with accompanying tariff sheet, with the Commission to establish the net merger
25 savings reduction riders specific to each rate class that will reduce bills to customers,

1 beginning with the first revenue month after the consummation of the merger, by the
2 effect, in total, of the Year 1 customer bill reduction amount shown in Attachment A
3 of the Agreement. The merger savings reduction riders, in the form of per-kilowatt
4 hour factors specific to each tariff service rate class, will be based upon the latest
5 available total revenues, excluding fuel cost adjustment. Prior to the beginning of the
6 second fiscal year following consummation of the merger AEP will make a 30-day
7 filing to establish the net merger savings reduction riders to effect the Year 2 customer
8 bill reduction and prior to the third quarter of the second fiscal year, a 30-day filing will
9 be made to establish the adjustment to the riders, as required by the Agreement, to
10 reconcile actual kWh sales and projected kWh sales for the prior fiscal year. The
11 adjusted riders will be in effect for the seventh through the ninth billing months of the
12 second fiscal year after which the riders will return to the unadjusted level. This
13 process, consisting of two 30-day filings per year, will be repeated annually through
14 the reconciliation of the eighth fiscal year. The last reconciled reduction will continue
15 to apply in years following the end of the eighth fiscal year until base rates for AEP
16 are changed.

17 Q. Does the Agreement in this proceeding refer to the Stipulation and Settlement
18 Agreement approved by Commission Order on March 30, 1999 in Cause No. 38702-
19 FAC40-S1?

20 A. The Agreement provides that to mitigate potential stranded investment, AEP will
21 increase the funding for the provision of paragraph 21 [nuclear decommissioning] of
22 the settlement agreement approved by the Commission in Cause No. 38702-FAC40-
23 S1 in the additional amount of \$5.5 million annually starting January 1, 2001 for a
24 three year period ending December 31, 2003. Further, the rate filing limitation in
25 paragraph 8 of that settlement agreement is extended by one year to January 1, 2005

1 and AEP will abide by the provisions of paragraphs 8, 9, and 10 of that settlement
2 agreement, regardless of the outcome of any litigation in that Cause.

3 In addition, the net merger savings allocated to shareholders will be excluded
4 from the earnings test in determining AEP's compliance with the provisions of I.C. 8-1-
5 2-42(d)(2) and (3) to which AEP remains subject under the terms of the Settlement
6 Agreement approved in Cause No. 38702-FAC40-S1.

7 Q. Does this conclude your direct testimony?

8 A. Yes.

AMERICAN ELECTRIC POWER CORPORATION
AND
CENTRAL AND SOUTH WEST CORPORATION
INDIANA RETAIL ALLOCATION OF MERGER SAVINGS
Sample Merger Savings Calculations
Year 4

CLASS SAVINGS ALLOCATION

	1998 BILLED REVENUES EXCL. FUEL CLAUSE		ALLOCATED SAVINGS
RS	\$277,935,216	36.759%	\$3,186,270
SGS	\$20,241,182	2.677%	\$232,042
MGS/IS	\$142,794,918	18.886%	\$1,637,038
LGS	\$91,056,061	12.043%	\$1,043,887
QP	\$31,867,075	4.215%	\$365,356
IP/IRP	\$165,522,182	21.892%	\$1,897,599
MS	\$6,090,801	0.806%	\$69,864
WSS	\$6,278,508	0.830%	\$71,944
EHS	\$3,173,878	0.420%	\$36,406
EHG	\$1,891,605	0.250%	\$21,670
OL	\$5,069,918	0.671%	\$58,162
SL	<u>\$4,171,718</u>	<u>0.552%</u>	<u>\$47,847</u>
TOTAL	<u>\$756,093,061</u>	<u>100.0%</u>	\$8,668,085
CUSTOMER BILL REDUCTION			<u>\$8,668,000</u>
DIFFERENCE			<u>\$85</u>

**AMERICAN ELECTRIC POWER CORPORATION
AND
CENTRAL AND SOUTH WEST CORPORATION
INDIANA RETAIL ALLOCATION OF MERGER SAVINGS
Sample Merger Savings Calculations**

Year 4

ENERGY CREDIT DEVELOPMENT

	1998 BILLED ENERGY	ENERGY CREDIT \$/kWh	CREDIT REVENUE VERIFICATION
RS	4,047,017,056	0.000787	\$3,185,002
SGS	229,797,377	0.001010	\$232,095
MGS/IS	2,207,131,117	0.000742	\$1,637,691
LGS	1,695,719,886	0.000616	\$1,044,563
QP	583,909,420	0.000626	\$365,527
IP/IRP	4,267,727,505	0.000445	\$1,899,139
MS	91,279,920	0.000765	\$69,829
WSS	144,904,774	0.000496	\$71,873
EHS	46,446,978	0.000784	\$36,414
EHG	27,198,918	0.000797	\$21,678
OL	42,539,314	0.001367	\$58,151
SL	<u>62,516,045</u>	0.000765	<u>\$47,825</u>
TOTAL	<u>13,446,188,310</u>		\$8,669,787
CUSTOMER BILL REDUCTION			<u>\$8,668,000</u>
DIFFERENCE			<u>\$1,787</u>

Merger Savings Rate Design - Comparison By Rate Class
Year 4

Residential Rate Class

1998 Billed Energy (kWh)	4,047,017,056
1998 Year End Customers	<u>384,794</u>
1998 Usage Per Average Customer (kWh)	10,517
Energy Credit (\$ / kWh)	<u>\$0.00079</u>
Annual Merger Savings Per Average Customer	<u>\$8.31</u>
1998 Billed Revenues Excl. Fuel Clause Adjustment	\$277,935,216
1998 Year End Customers	<u>384,794</u>
1998 Revenues Excl. FCA Per Average Customer (kWh)	<u>\$722.30</u>
Annual Merger Savings Per Average Customer (%)	<u>1.15049%</u>

Commercial (MGS) Rate Class

1998 Billed Energy (kWh)	2,207,131,117
1998 Year End Customers	<u>16,378</u>
1998 Usage Per Average Customer (kWh)	134,762
Energy Credit (\$ / kWh)	<u>\$0.00074</u>
Annual Merger Savings Per Average Customer	<u>\$99.72</u>
1998 Billed Revenues Excl. Fuel Clause Adjustment	\$142,794,918
1998 Year End Customers	<u>16,378</u>
1998 Revenues Excl. FCA Per Average Customer (kWh)	<u>\$8,718.70</u>
Annual Merger Savings Per Average Customer (%)	<u>1.14375%</u>

Industrial (IP/IRP) Rate Class

1998 Billed Energy (kWh)	4,267,727,505
1998 Year End Customers	<u>156</u>
1998 Usage Per Average Customer (kWh)	27,357,228
Energy Credit (\$ / kWh)	<u>\$0.00044</u>
Annual Merger Savings Per Average Customer	<u>\$12,037.18</u>
1998 Billed Revenues Excl. Fuel Clause Adjustment	\$165,522,182
1998 Year End Customers	<u>156</u>
1998 Revenues Excl. FCA Per Average Customer (kWh)	<u>\$1,061,039.63</u>
Annual Merger Savings Per Average Customer (%)	<u>1.13447%</u>

STATE OF INDIANA

INDIANA UTILITY REGULATORY COMMISSION

IN THE MATTER OF THE INVESTIGATION)
ON THE COMMISSION'S OWN MOTION)
INTO ANY AND ALL MATTERS RELATING) CAUSE NO. 41210
TO THE MERGER OF AMERICAN)
ELECTRIC POWER, INC. AND CENTRAL)
AND SOUTH WEST CORPORATION)

STAFF NEGOTIATING TEAM REPORT REGARDING SETTLEMENT
AGREEMENT BETWEEN AEP AND THE STAFF NEGOTIATING TEAM

PREPARED BY:

Robert C Glazier, Director of Utilities
Bradley Borum, Assistant Chief Economist
Joseph Sutherland, Director of Operations
Douglas Gotham, Associate Director of the State Utility Forecasting Group
Robert Boerger, Principal Accountant
Abby R. Gray, Special Counsel to the Staff Negotiating Team

DATE:
April 14, 1999

BRIEF HISTORY

On June 29, 1998 in Cause No. 41210, the Commission initiated an investigation into any and all matters relating to the proposed merger of American Electric Power, Inc. (AEP) and Central and South West Corporation (CSW). In that Order the Commission noted, "a merger of AEP and CSW will create the largest electric utility holding company in North America in terms of generating capacity." The Commission went on to say, "it believes that the proposed merger could have a significant impact on the electric industry and customers in both Indiana and across the region. We are also concerned about the proposed merger's effect on reliability of service and the development of independent system operators." The Commission indicated that it had concerns relating to the potential impact of the merger on Indiana ratepayers and in an attachment to the Order designated as "Exhibit A" the Commission listed the broad areas that it intended to investigate to the extent they ultimately effect jurisdictional Indiana ratepayers. Some of the more significant areas listed were: ISO issues; allocation of benefits and costs of merger; continued access to company records, reports and data; Ohio Power Gap problem and the effectiveness of state regulation of affiliate transactions; and effects of the merger on state regulatory initiatives.

On September 2, 1998 the Commission issued an order appointing a Staff Negotiating Team to attempt to negotiate a settlement of the issues presented in this cause. The order directed the Staff Negotiating Team "to co-ordinate its efforts, to the greatest extent possible, with all other states' utility commissions involved in examining the AEP/CSW merger." The order further indicated that "the negotiating team should

endeavor to involve representatives of the intervening parties in the negotiation process.” The order also indicated that there would be periodic status conferences held to provide information regarding the status of negotiations and that the Negotiating Team should submit written status reports.

On September 17, 1998 the Commission issued a docket entry requesting that AEP and CSW answer a series of data requests designated as “First Set of Data Requests”.

On November 30, 1998 the Commission issued a docket entry directing that any negotiated settlement should be filed with the Commission on or before March 5, 1999. The Staff Negotiating Team filed four requests for extension of time concluding with the Commission providing that a negotiated settlement should be filed no later than April 12, 1999.

PROCESS

The Staff Negotiating Team, in order to carry out the directives of the Commission, has participated in scores of meetings and teleconferences involving nine other state commissions, all intervenors in Cause No. 41210, interested parties in Ohio, the Federal Energy Regulatory Commission (FERC) Trial Staff, and AEP and CSW. These meetings and teleconferences have involved almost every possible combination of the entities listed. The two most notable face-to-face meetings occurred in St. Louis on September 24 and 25, 1998 between AEP/CSW and the state commission staffs of Indiana, Ohio, Oklahoma, Arkansas, Michigan, Louisiana, Kentucky, Missouri and Texas, and the other being held in Muncie, Indiana on February 24 and 25, 1999 with the

following entities in attendance along with the Indiana Staff Negotiating Team: AMP-Ohio, the Ohio Consumer Counselor, the staff of the Public Utility Commission of Ohio, Ohio Industrial Customers, the staff of the Michigan Public Service Commission, Indiana Consumers for Fair Utility Rates (ICFUR), Indiana Office of the Utility Consumer Counselor, Enron Corporation, and AEP. It should be noted that all intervenors in Indiana Cause No. 41210 and all interested parties in the Public Utility Commission of Ohio's investigation of the AEP/CSW merger were invited to this meeting. Some of the other meetings and conference calls are referenced in the three status reports of the Staff Negotiating Team filed in this Cause and attached to this report as Appendices A, B and C.

The Agreement of AEP and the Indiana Staff is the first substantive agreement entered into by a commission staff in regards to the proposed merger. Arkansas Staff did enter into an agreement with CSW, which was approved by the Arkansas Commission on August 13, 1998, but it did not deal with the breadth of issues that are dealt with in the Indiana Agreement. We understand that AEP/CSW is close to an agreement with the staffs of both Texas and Louisiana Commissions. Also, the Michigan Staff, who has worked closely with the Indiana Staff may be proposing a similar agreement to the Michigan Commission soon.

REVIEW OF THE AGREEMENT

As with most negotiated settlements, this Agreement is the result of intense negotiation with many "trade-offs" or "give and take" situations and therefore, should be looked at as a "package deal" and considered in its entirety.

Even though the Agreement is entered into by only two parties, AEP and the Staff Negotiating Team, the Agreement is the product of six months of continuous negotiations involving all the entities named in the Process Section with many of those parties having considerable input into the evolution of the final document. Also, it is important to note that many paragraphs in the Agreement are generic, i.e., applicable to all eleven State Commissions involved in the proposed merger and, due to the "most favored nation" clause contained in paragraph 10, will accrue to the benefit of the AEP retail customers in all eleven states. This is a result of the Indiana Staff being designated the lead state by the "Coalition of States" and thus negotiating for and on behalf of all the involved states.

Many of the benefits achieved in this Agreement could not be achieved by litigation at the FERC, but could only be acquired by settlement. For example, several states asked FERC to condition the merger on the Applicants making an Ohio Power Gap waiver commitment for ratemaking purposes at the state level. FERC in its November 10, 1998 order setting the proposed merger for hearing declined to impose such a condition on the merger, because "state commissions can impose in their own proceedings appropriate conditions to ensure that there is no impairment of effective regulation at the state level." (p. 44, FERC order, Nov. 10, 1998)

A discussion of the most significant paragraphs of the Agreement is as follows:

1. NON-FUEL MERGER SAVINGS

Fifty-five percent of the Indiana net retail savings projected over the first eight years of the merger will inure to the benefit of ratepayers in the form of bill reductions with the remaining forty-five percent going to shareholders. The net shared savings are

based on the savings and cost projections from the Flaherty Study which was filed by AEP/CSW in the FERC docket.

The Staff agreed to use these "guaranteed" net savings projections because it believes that these projections are high and that the ratepayer will receive higher bill reductions than if a tracking of actual savings and costs were used. Staff believes that the projected net benefits from mergers are usually over estimated when the mergers are initially proposed.

The allocation of savings to customers should not be affected by the implementation of competition and unbundling if the Indiana Legislature passes such legislation in the future, or if AEP decides to spin off any of its generation facilities.

In addition to the sharing of net merger benefits with customers, AEP agrees to contribute an additional \$5.5 million annually to the Nuclear Decommissioning Trust Fund starting in 2001 and continuing for three years through 2003 for a total contribution of \$16.5 million.

Considering the accrual of interest through the date of disposition of the Fund, Indiana retail customers will ultimately benefit by more than the \$16.5 million contributed by AEP. Additional contributions to the Fund lowers future liability to customers and diminishes the size of a potential stranded cost.

Further, the company agrees not to file a request for a change in basic rates and charges to be effective prior to January 1, 2005.

2. FUEL MERGER SAVINGS

All savings of fuel and purchased power costs resulting from the merger shall benefit retail customers. According to AEP, the AEP East operating companies will receive 50% of the projected net fuel savings (Data Request Response No. 8). I & M's share will flow to ratepayers through the FAC.

5. SYSTEM INTEGRATION AGREEMENTS

To protect retail customers, AEP agrees to hold harmless the retail customers from any mitigation plan included in any FERC order approving the merger.

6. REGULATORY AUTHORITY

This paragraph provides a waiver of the "Ohio Power Gap" problem by AEP. This will allow the IURC to examine and determine the reasonableness of non-power affiliate transaction costs. Also, AEP will provide each state commission with a notice at least 30 days prior to any filings that propose new allocation factors with the SEC. This will provide an opportunity for AEP and state commission staffs to resolve any differences in advance of a filing made at the SEC.

7. REGIONAL TRANSMISSION ORGANIZATION (RTO)

AEP agrees to file with FERC an unconditional application to join a FERC-approved regional transmission organization directly interconnected with AEP transmission facilities by December 31, 2000. The December 31, 2000 date may be extended if by June 30, 2000, AEP is a signatory to a filing at FERC for approval of an

RTO that includes two or more directly interconnected control areas, at least one of which is not affiliated with AEP. Such an RTO filing will extend the December 31, 2000 date to the date that is 75 days after the date on which FERC issues an order either approving or disapproving the proposed RTO.

The Staff Negotiating Team believes that AEP's commitment to participate in a FERC-approved RTO is consistent with IURC comments in FERC's inquiry concerning merger policy in Docket No. RM96-6-000. The IURC stated "transmission is the key to a competitive market. Given the importance of transmission generally, the arguments for the independent operation of transmission systems are compelling. To create a truly independent ISO, member utilities must grant control to an independent third party." (Comments of IURC in FERC Docket RM96-6-000, May 1, 1996, p.7)

AEP has also committed to make a best efforts attempt at achieving reciprocal pricing arrangements with contiguous RTOs in any filing to which AEP is a signatory seeking FERC approval of the formation of a new RTO.

AEP will provide generation dispatch information necessary to monitor the effect on constrained transmission facilities of any RTO to which it is a member and any other RTO providing service over any transmission facilities directly interconnected with AEP east zone transmission facilities. Also, AEP and the Staff Negotiating Team agree that the ultimate goal should be a large regional transmission organization perhaps encompassing the entire Eastern Interconnection.

The Staff Negotiating Team believes that the above commitment helps to avoid the First Energy problem by setting dates by which AEP must take specific actions to transfer operation and control of its transmission facilities to a FERC-approved RTO. On

October 29, 1997, the FERC approved the First Energy merger with the expectation that First Energy was to join an ISO to mitigate market power concerns. In a follow-up order issued November 10, 1998, the FERC expressed concern that First Energy had not shown any progress toward joining an ISO and ordered First Energy to file a report detailing its efforts regarding participation in an ISO. The merger was consummated on November 7, 1997, but First Energy has yet to join an ISO.

AEP's RTO commitment will provide AEP with some flexibility regarding which ISO they join and at the same time provides the IURC with a defined deadline. Even though there is not a "date certain", as we would prefer, it is not "open ended" as in the First Energy case and AEP must join an RTO. AEP's participation in a FERC-approved RTO should guard against abuse of vertical market power by requiring its transmission system to be operated truly independent of generation operations.

8. AFFILIATE STANDARDS

In order to provide a framework for oversight and monitoring of affiliate transactions the agreement contains extensive detailed affiliate standards under paragraph 8 which shall apply from the date of consummation of the merger until new affiliate standards imposed by state legislation or state commission action become effective. Of specific note is subparagraph B which provides access to the employees, officers, books and records of any affiliate. Also, if employees, officers, books and records can not be reasonably made available, AEP agrees to pay appropriate out-of-state travel expenses to access the employees, officers, books and records. AEP also commits that operating

companies, including I & M, will continue to maintain books and records that are separate from the books and records of their affiliates.

Subparagraph D provides that an AEP operating company shall not allow a non-utility affiliate to obtain credit under any arrangement that would permit a creditor, upon default, to have recourse to the operating company's assets. It provides seven specific restrictions on the financial arrangements of an AEP operating company's affiliates.

Subparagraph V requires that AEP contract with an independent auditor to conduct biennial audits for eight years after the consummation of the merger of affiliated transactions to determine compliance with these affiliate standards. The results of such audits will be filed with the state commissions.

Even though many of the requirements of the Public Utility Holding Company Act (PUHCA) are covered in the foregoing affiliates standards, AEP has agreed, if the PUHCA is repealed or materially amended and equivalent jurisdiction is not transferred to another federal agency, to work with the state commissions to ensure that AEP continues to furnish the state commission with the appropriate information to regulate its jurisdictional AEP operating company.

These Affiliate Standards provide a framework for regulatory oversight and monitoring of the activities of the merged companies as the electric industry transforms into a more competitive regime.

9. ADEQUACY AND RELIABILITY OF RETAIL ELECTRIC SERVICE

Paragraph 9 of the Agreement provides that AEP will maintain or enhance the adequacy and reliability of retail electric service and that it will provide reports to the state commissions regarding the quality of service on an annual basis.

10. STATUTORY AND OTHER ISSUES

Paragraph 10 is a "most favored nations" clause. This provides that any benefits or conditions provided to retail customers in any jurisdiction will be provided to all retail customers of AEP in all retail jurisdictions.

11. CONTINUED PARTICIPATION

Paragraph 11 of the Agreement allows the IURC and Staff to continue to participate in the FERC and SEC cases in order to support this Agreement and protect the public interest of Indiana.

ISSUES NOT COVERED IN THE AGREEMENT

CHANGES IN EMPLOYMENT LEVELS

It appears that employment in Indiana will not be negatively impacted as a result of the proposed merger. In response to IURC Data Request Question No. 32, AEP stated:

Staff reductions by company, by subsidiary and by department have not yet been determined and will not be determined until the transition teams' recommendations are made and the integration process is completed. However, there are likely to be few, if any, reductions of field personnel at the operating companies; most, if not all, reductions will come from the corporation and service company levels. There are no current plans to close any facilities in Indiana as a result of the AEP/CSW merger. Refer also to the direct testimony of Thomas J. Flaherty in Texas Docket No.

19265 in which he states at page 25 that none of the field work force is affected by the combination and that positions directly responsible for safety, reliability or service quality will not be negatively impacted.

COMPLIANCE WITH THE CLEAN AIR ACT AMENDMENTS OF 1990

In response to IURC Data Request Question No. 50, AEP stated:

The AEP/CSW merger should not affect the ability of I&M's coal-fired plants to comply with Phase II of the Clean Air Act Amendments. The Phase II compliance plan anticipates continued use of current coal supplies at most units and a possible fuel switch at Tanners Creek Unit 4 along with SO₂ allowances as part of a broader, AEP system compliance program. The Phase II compliance plan for NO_x includes installation of NO_x combustion technology at Tanners Creek Plant and inclusion of both Tanners Creek and Rockport units in an AEP system NO_x averaging plan. As indicated in response to Question 49, the merger of AEP and CSW could result in increased flexibility in meeting the requirements of Phase II across the combined systems.

In response to Question No. 49, AEP stated:

Compliance flexibility under Phase II of the CAAA acid rain program is provided in two areas. The SO₂ program, with its reliance on fully transferable SO₂ allowances, allows a utility system to effectively "bubble" its units in a broad system compliance plan. The merger of the AEP and CSW systems will result in a greater number of units in such a system plan, potentially increasing the flexibility of the compliance strategy. In addition, the NO_x program under Phase II allows for multi-unit NO_x averaging plans that can have a similar effect. The potential benefits of a combined system compliance plan could begin in the year 2000, the first year of Phase II. These potential benefits have not been quantified at this time.

CONCLUSION

The Staff Negotiating Team believes that this Settlement Agreement fairly balances the interests of AEP and its customers and is in the public interest.

RECOMMENDATIONS

The Staff recommends that the Commission:

1. Accept and approve the Settlement Agreement in its entirety without any change or condition that is unacceptable to any signatory;
2. Authorize and direct the Staff Negotiating Team and legal counsel to continue to participate at the FERC and SEC to support the settlement and to protect and foster the public interest in Indiana, in accordance with the restrictions in the agreement;
3. Issue an order in this Cause prior to April 27, 1999, which is the date scheduled for filing of direct testimony by state commissions in the FERC case.

INDIANA UTILITY REGULATORY COMMISSION

QUALIFICATIONS OF ROBERT C. GLAZIER

I am the Director of Utilities for the Indiana Utility Regulatory Commission and in that position I manage and supervise its Technical Staff. I have held that position since April, 1985. In that capacity, I direct the Staff in analyzing filings in utility cases and in various other technical matters of concern to the Commission. I am the chief technical/policy advisor to the Commission and also supervise the activities of the State Utility Forecasting Group at Purdue University. I started with the then Public Service Commission as its Chief Engineer in January, 1982 and held that position until my promotion to Director of Utilities.

Prior to joining the Commission, I was the Regional Hydrologist of Region 3, Office of Surface Mining, U.S. Department of Interior. I received a Bachelor of Science degree from Tufts University in Geology and Civil Engineering in 1964. In 1964, I attended the U.S. Air Force Officer Training School and was Commissioned a Second Lieutenant. I attained the rank of Captain and became the Commander of a geodetic survey detachment prior to my release from active duty in 1968. From 1968 to 1979 I was a hydraulic engineer with the Division of Water, Indiana Department of Natural Resources.

I am a Registered Professional Engineer and a Certified Professional Geologist. I am a member of the American Society of Civil Engineers and the Executive Committee of the Indiana Council for Economic Education. I am a 1985 graduate of the Governor's Executive Development Institute. I have attended various conferences, seminars and symposiums on utility regulation including the NARUC Advanced Regulatory Studies Program; the Workshop on Developing Public Utility Commission Rules and Procedures for Electric Utility Compliance with the Clean Air Act Amendments of 1990, sponsored by the U.S. EPA, U.S. DoE and NRRI; Emission Allowances: Market Opportunities and Strategies, presented by ICF Resources, Inc. and the National Seminar on Public Utility Commission Implementation of the Energy Policy Act of 1992, conducted by the NRRI and U.S. DOE.

I have been a member of many important committees including Governor Bayh's Acid Rain Working Group and Governor Orr's Acid Rain Task Force, and I was Chairman of the Commission's Executive Committee on the 1986 Tax Reform Act which resulted in \$138 million dollars in annual savings to Indiana utility ratepayers. I also was Chairman of the IURC round table discussions on FERC proposals to promote competition in the electric utility industry and directed the preparation of comments filed with FERC. In addition I was a member of the Regulated Utilities Workgroup of the Indiana Energy Policy Forum. I have been a guest lecturer on regulated and competitive utilities for several years at the Energy, Economics and the Environment summer seminar for practicing teachers sponsored by the Indiana Council for Economic Education. I am a recipient of "Sagamore of the Wabash" award, the highest honor which the Governor of Indiana bestows.

I have testified as an expert witness before the Indiana Natural Resources Commission in administrative hearings and before several Indiana Circuit Courts on behalf of the Department of Natural Resources. I have also presented testimony before the U.S. Department of Interior Administrative Law Board on behalf of the Office of Surface Mining and before various U.S. District Courts on behalf of the Department of Interior, the U.S. Army Corps of Engineers and the Commission. In my tenure with the Commission, I have testified before the Commission on many occasions, including Cause 39347, the petition of Southern Indiana Gas and Electric Company for approval of its Environmental Compliance Plan, Cause 39477, the petition of the Indiana Municipal Power Agency for approval to purchase a portion of a power plant, and Cause 39437, the petition of Indianapolis Power and Light Company for approval of its Environmental Compliance Plan. I was the chief negotiator for the IURC on the federal/three-state settlement of the merger of PSI Energy and CG&E to form CINergy and testified in Cause No. 39897 in which the Commission approved the settlement agreement.



COMMONWEALTH OF KENTUCKY
PUBLIC SERVICE COMMISSION

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April 28, 1999

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RE: Case No. 99-149

We enclose one attested copy of the Commission's Order in
the above case.

Sincerely,

Stephanie D. Bell

Stephanie Bell
Secretary of the Commission

SB/hv
Enclosure

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

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

O R D E R

IT IS ORDERED that Kentucky Power Company ("Kentucky Power"), American Electric Power Company, Inc. ("AEP"), and Central and South West Corporation ("CSW") (collectively "Joint Applicants") shall file the original and 12 copies of the following information with the Commission no later than May 4, 1999, with a copy to all parties of record. Each copy of the data requested shall be placed in a bound volume with each item tabbed. When a number of sheets are required for an item, each sheet shall be appropriately indexed, for example, Item 1(a), Sheet 2 of 6. Include with each response the name of the witness who will be responsible for responding to questions relating to the information provided. Careful attention should be given to copied material to ensure that it is legible. Where information requested herein has been provided along with the original application, in the format requested herein, reference may be made to the specific location of said information in responding to this information request. When applicable, the information requested herein should be provided for total company operations and jurisdictional operations, separately.

1. Refer to the Application, Exhibit 4, "Agreement and Plan of Merger," Article IX.

a. Based on the terms contained in Article IX, what is Kentucky Power's potential share of:

- (1) The \$20 million Termination Fee?
- (2) The \$225 million Topping Fee?
- (3) The \$20 million Out-of-Pocket Expenses?

b. If any of the fees or expenses listed above were incurred, who (Kentucky Power's shareholders or ratepayers) will bear them? Explain.

2. List all regulatory and governmental approvals either required or requested in conjunction with the proposed AEP/CSW merger. Include any approvals needed for investments outside of the United States. Indicate the status of each as of April 15, 1999.

3. Provide the organizational structure of CSW as of April 15, 1999, using the format contained in "AEP's Disclosure Letter" at Exhibit 4 of the Application, page 137 of 149.

4. Refer to Exhibit 4 of the Application, pages 106-107 of 149.

a. Are the Change in Control Agreements listed on these pages the source of change in control payments referred to in the Direct Testimony of Richard E. Munczinski?

b. If not, provide a brief description of these agreements and state the total dollars associated with these agreements.

5. At Exhibit 4 of the Application, page 123 of 149, "Company Permitted Transactions" are listed and described.

a. Update the status of the listed transactions as of April 15, 1999. Include any transactions that have been commenced since December 21, 1997.

b. (1) Does AEP have any "Permitted Transactions" as of April 15, 1999?

(2) If yes, describe each Permitted Transaction using the format contained in Exhibit 4 of the Application, pages 123-129 of 149.

6. Refer to the Application, Exhibit 4, page 137 of 149. Provide AEP's organizational structure as of April 15, 1999, using the format shown on page 137 of 149.

7. a. Has AEP acquired any natural gas production, transmission, distribution, or other related assets or operations since December 21, 1997?

b. If yes, describe each acquisition and how it will relate to AEP's current operations.

8. Refer to the Direct Testimony of Thomas J. Flaherty.

a. At page 14 of his testimony, Mr. Flaherty states that the estimates of cost savings were developed for a 10-year period beginning April 1, 1999.

(1) Over what time period were these estimates prepared?

(2) When were the final estimates completed?

b. At page 24 of his testimony, Mr. Flaherty states that since AEP and CSW are electric companies, there was no opportunity for cost reduction in gas operations areas as in other previous mergers. If AEP has acquired natural gas assets or operations, how would such acquisitions affect Mr. Flaherty's overall analysis of the potential merger savings?

9. Refer to the Direct Testimony of Richard E. Munczinski.

a. Describe the nature and purpose of the change in control payments.

b. Explain why any AEP operating company, shareholder or ratepayer should bear any cost associated with the change in control payments since the payments result from agreements that CSW executed with its officers in 1996.

10. Refer to the Direct Testimony of Richard E. Munczinski, page 20.

a. Does the use of a KWH factor to calculate the net merger savings eliminate the need to allocate net merger savings to Kentucky Power's various customer classes?

b. Does the method proposed to calculate the net merger savings credit for Kentucky Power differ from that proposed to any other state regulatory commissions by any other AEP operating companies? If yes, identify the state regulatory commission(s) to which a different method(s) was proposed and describe how that method differs from the proposal before this Commission.

c. Is the methodology proposed in this proceeding the same as that agreed to in the Stipulation and Settlement Agreement filed with the Indiana Utility Regulatory Commission ("IURC") on April 12, 1999 ("Indiana Settlement")? If not, describe the differences in the methodologies.

11. Refer to the Direct Testimony of Richard E. Munczinski, pages 23-25.

a. Assume the proposed merger is approved and consummated. As a condition for receiving final approval from another regulatory commission, a shift in AEP member load ratios to the detriment of Kentucky Power is required. All other things

being equal, explain how AEP's hold harmless provision would protect Kentucky Power's ratepayers from a change in the member load ratio resulting from this condition.

b. Under the most favored nation provision, explain how AEP envisions the "equivalent net benefits and conditions" clause operating.

c. Based on the provisions of the Indiana Settlement currently pending and the most favored nation provision set forth in the Munczinski Direct Testimony, identify each benefit or condition contained in the Indiana Settlement which would be extended to Kentucky ratepayers if the IURC adopts the agreement.

12. In its May 13, 1994 Order in Case No. 94-104,¹ the Commission identified and discussed the following areas of concern: Additional Regulatory Concerns, Protection of Utility Resources, Monitoring, and Reporting Requirements. To the extent that these concerns have not been addressed by the Applicants in their application or would not be addressed by the most favored nation provision as it relates to the Indiana Settlement if approved, how does AEP propose to address these concerns?

13. Refer to the Direct Testimony of Richard E. Munczinski, Exhibit REM-3, page 3 of 4. Identify the appropriate workpapers that show the allocation of the merger savings between non-operating and operating.

14. Refer to the Indiana Settlement, Section 8 – Affiliate Standards, pages 6 through 11. If adopted by the IURC, does AEP intend for these standards to be

¹ Case No. 94-104, Application of the Cincinnati Gas & Electric Company and CINergy Corp. for Approval of the Acquisition of Control of The Union Light, Heat & Power Company by CINergy Corp.

applicable to all subsidiaries and affiliates of AEP, regardless of any state regulatory commission action on the subject of affiliate transactions? Explain.

15. Refer to the Indiana Settlement, Section 8 – Affiliate Standards, Part I, page 9. Would market or customer specific information be readily available to an affiliate engaged in activities other than exempt wholesale generation or power marketing, such as telecommunication services or home appliance repair? Explain.

16. Refer to the Indiana Settlement, Attachment A. The attachment indicates that the total net merger savings over eight years for Indiana are \$121,255,000. However, Exhibit REM-3 of the Munczinski Direct Testimony, page 2 of 4, indicates that the net merger savings over ten years for Indiana Retail are \$176,447,940. Provide a reconciliation of these two amounts. To the extent possible, include references to workpapers and exhibits included with the Application filed in this proceeding.

17. Refer to the Application, Exhibit 4, page 116-117 of 149. In the "Agreement and Plan of Merger," CSW discloses that it and its subsidiaries have several older "grandfathered" gas-fired plants which are not required to have air quality permits, but which could be subject to legislation in Texas that would require them to incur "substantial" air compliance costs.

a. What is the current status of this legislation?

b. Define the term "substantial" as it is used in this section of the "Agreement and Plan of Merger."

18. Refer to "Agreement and Plan of Merger," Section 5.9(b).

a. What is the current status of the Cook Plant?

b. Has the Cook Plant's status had an adverse impact on AEP's operations and/or financial condition since June 1998?

19. Refer to the Application, Exhibit 4, page 145-146 of 149. (AEP's Disclosure Letter, Section 5.14(4).)

a. What is the current status of the appeal of EPA's 8-hour ozone standard filed by the Utility Air Regulatory Group?

b. In its Disclosure Letter, AEP states that the cost of meeting stricter NO_x standards could be "substantial." For purposes of this section, how is the term substantial defined or measured?

20. At page 22 of his testimony, Mr. Flaherty lists "Revenue Enhancement" as one of the savings areas derived from the operational synergies that are created upon the integration of two independent operations. He states that "[n]o such revenue enhancement opportunities were identified in this [AEP-CSW merger] transaction." He specifically refers to increased off-system sales as an example of such revenue enhancement opportunities. Explain why the combination of the AEP and CSW systems would not be expected to produce a greater level of off-system sales than the two systems could achieve independently.

21. When do AEP and CSW expect their proposed merger to be completed?

22. Refer to the Direct Testimony of J. Craig Baker, pages 16 -21.

a. (1) Explain why an analysis of external markets was not included in the base case production cost analysis set forth in Exhibit JCB-2.

(2) Explain why the analysis of external markets shown in Exhibit JCB-7 does not directly relate to the issue of foregone revenues.

b. The East Zone (the existing AEP system) is expected to a significant exporter of generation to the West Zone (the existing CSW system) and a relatively small importer of generation from the West Zone. Explain why this expectation does not indicate that a significant amount of the estimated foregone revenues are revenues that will be foregone by AEP rather than CSW?

c. (1) Have the Applicants performed any analysis or study to separate the estimated \$61 million in foregone net revenues by zone?

(2) (a) If yes, provide these analyses or studies.

(b) If no, explain why not.

23. At pages 7 and 8 of his direct testimony, Mr. Munczinski states that the costs to achieve the merger will be deferred and amortized over a 5-year period beginning with the date of closing. He further states that the Net Merger Savings Credit Rider, under which customers will receive their portion of non-fuel merger savings, will continue until the earlier of 10 years or the implementation of mandated unbundling and retail competition. Explain why customers would be charged the merger costs over a period of time that is equal to only one-half the time period over which the savings would be spread.

24. At page 12 of his direct testimony, Mr. Bailey states that "AEP commits that quality of service for KPCO customers will be maintained or where necessary improved as a result of this merger."

a. Explain how the proposed merger will improve service in those areas of Kentucky Power's service territory that have experienced and continue to experience long-standing reliability and service quality problems.

b. To what extent would the application of additional resources to these areas result in improvements in service quality and reliability?

25. On page 7 of 258 of his testimony, Dr. Hieronymous states that "the transfer of 250 MW of previously unavailable economic capacity from AEP to CSW actually increases supply in the area where CSW operates, which ordinarily would be expected to lower, rather than increase, prices." Using this same line of reasoning, will not the area in which AEP operates experience a decrease in available capacity, which will result in a price increase? Explain.

26. What are the results of the post-merger but pre-divestiture market power analysis (i.e., the Herfindahl-Hirschman Indexes ("HHIs")) for the CSW-SPP and CSW-ERCOT areas?

27. The Applicants state that their strategy of divesting 550 MW of generation capacity in CSW-SPP and CSW-ERCOT areas is designed to reduce market power and, thus, prevent the exploitation of customers (especially native load).

a. In view of Applicants' intention to connect AEP and CSW's systems by a 250 MW transmission line which will allow CSW access to AEP's generation, will the net divestiture of generation by Applicants be only 300 MW?

b. (1) What is the cost differential between the cost of power produced by CSW and that produced by AEP (including transmission charges)?

(2) What is the cost differential between the cost of power produced by Northeastern baseload coal generation in Oklahoma and that produced by AEP (including transmission charges)?

c. How does the commitment to waive native load priority with respect to CSW interconnections protect the customers of CSW?

28. At pages 28-29 of his testimony, Dr. Hieronymous states that modeling the NYPP and the PJM as single suppliers (but not as destination markets) tends to increase market concentration and thus are conservative assumptions. Will not the inclusion of New York, Pennsylvania, New Jersey, and Maryland into the relevant geographic area reduce AEP's market share (since all utilities in each of these states will be included in the analysis)? If yes, explain why the inclusion should be considered a conservative assumption.

29. Concerning the nine time periods evaluated in his analysis, Dr. Hieronymous defines the Super Peak as the Top 150 Load Hours. To what period does this Top 150 Load Hours apply?

30. a. How will the merged company maintain operating control of the Frontera and Northeastern plants when 50 percent of the former and all of the latter are to be divested?

b. Explain how the Northeastern plant may be considered as divested by AEP/CSW if AEP/CSW retains control over the dispatch of its capacity.

c. What are the results of a market power test conducted in the interim period (post-merger but pre-divestiture)?

31. a. Explain the logic behind a sensitivity analysis that assumes that transmission is priced regionally at losses.

b. Describe the differences, if any, between the ATC sensitivity analysis and the TTC sensitivity analysis.

c. Given AEP's opposition to joining the Midwest Independent System Operator ("MISO"), explain why Dr. Hieronymous' scenario which assumes that AEP joins the MISO is reasonable.

d. What are the differences between an independent system operator ("ISO") and the other types of regional transmission organizations ("RTO")? Which type of organization is the Alliance?

32. Provide a detailed summary of the files included on the CD-ROM that contains Dr. Hieronymous' workpapers. Explain the purpose of each file and describe its relevance to Dr. Hieronymous' analysis.

33. What assurances, if any, will the Applicants provide that Kentucky Power's customers will not suffer any decrease in service quality and reliability as a result of the proposed merger?

34. What additional resources, if any, will be allocated after the proposed merger to improving Kentucky Power's service quality and reliability?

Done at Frankfort, Kentucky, this 28th day of April, 1999.

By the Commission

ATTEST:


Executive Director

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

RECEIVED
APR 27 1999
**PUBLIC SERVICE
COMMISSION**

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. 99-149

MOTION TO INTERVENE

Comes now Kentucky Electric Steel, Inc. (KES) a Delaware Corporation with its corporate offices located at US Route 60 West, PO Box 3500, Ashland, KY 41105-3500 and moves that it be granted full intervention in the above captioned proceeding pursuant to 807 KAR 5:001(8).

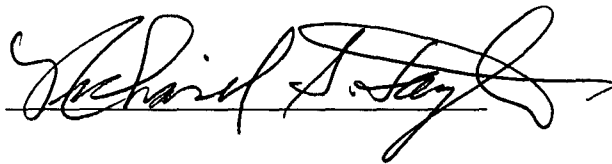
KES is an industrial customer of the Joint Applicant Kentucky Power Company and may be substantially affected by the proposed merger in that its rates may increase. KES is also concerned about the amount of energy or lack thereof that will be available to it. It is essential the KES have a reliable source of economical electric energy and; therefore, requests the Commission for full intervention.

KES believes it has a special interest in this proceeding which is not otherwise adequately represented or that full intervention by any other party is likely to present issues or to develop facts that set forth the concerns of KES. Intervention in the proceeding will not unduly complicate or disrupt the proceeding in the case.

CERTIFICATE OF SERVICE

I hereby certify that the original and twelve (12) copies has been filed with the Kentucky Public Service Commission and that a copy thereof has been served on the Joint Applicants by mailing a true and correct copy thereof, postage prepaid to Mark R. Overstreet, Stites & Harbison, 425 West Main Street, Frankfort, KY 40602-0634 and Kevin J. Duffy, American Electric Power Service Corporation, 1 Riverside Plaza, Columbus, Ohio, 43215-2375, attorneys for the Joint Applicants.

This 27th day of April 1999

A handwritten signature in cursive script, appearing to read "Richard S. Taylor", written over a horizontal line.

Richard S. Taylor
Attorney-at-Law
315 High Street
Frankfort, KY 40601

Peter J.P. Brickfield, Esq.
James W. Brew, Esq.
Brickfield, Burchette & Ritts, P.C.
1025 Thomas Jefferson Street, NW
Eighth Floor West
Washington, DC 20007

William H. Jones, Esq.
Vanantwerp, Monge, Jones & Edwards
1544 Winchester Avenue
Fifth Floor
Ashland, KY 41101

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

RECEIVED

APR 22 1999

In The Matter Of The Joint Application Of


KENTUCK POWER COMPANY, AMERICAN)
ELECTRIC POWER COMPANY, INC. AND)
CENTRAL AND SOUTH WEST CORPORATION)
REGARDING A PROPOSED MERGER)

CASE NO. 99-149

PUBLIC SERVICE
COMMISSION

MOTION TO INTERVENE

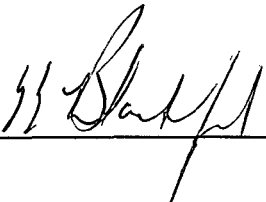
Comes the Attorney General, A. B. Chandler, III, pursuant to KRS 367.150 (8) which grants him the right and obligation to appear before regulatory bodies of the Commonwealth of Kentucky to represent the consumers' interests, and moves the Public Service Commission to grant him full intervenor status in this action pursuant to 807 KAR 5:001(8).



ELIZABETH E. BLACKFORD
G. DENNIS HOWARD, II
ASSISTANT ATTORNEY GENERAL
1024 CAPITAL CENTER DRIVE
FRANKFORT KY 40601
(502) 696-5453
FAX: (502) 573-4814

CERTIFICATE OF SERVICE AND OF FILING

I hereby certify that this the 23d day of April, 1999, I have filed the original and six copies of the foregoing with the Public Service Commission at 730 Schenkel Lane, Frankfort, KY 40601, and that I have served the parties by mailing a true copy of same to: Errol K. Wagner Director of Regulatory Affairs American Electric Power 1701 Central Avenue P. O. Box 1428 Ashland, KY. 41105 1428; Honorable Kevin F. Duffy Counsel for Kentucky Power and American Electric Power Company, Inc. 1 Riverside Plaza Columbus, OH. 43215 2373; and Honorable Mark R. Overstreet Counsel for Central and South West Stites & Harbison 421 West Main Street P. O. Box 634 Frankfort, KY. 40602 0634.





COMMONWEALTH OF KENTUCKY
PUBLIC SERVICE COMMISSION

730 SCHENKEL LANE
POST OFFICE BOX 615
FRANKFORT, KY. 40602
(502) 564-3940

April 22, 1999

Errol K. Wagner
Director of Regulatory Affairs
American Electric Power
1701 Central Avenue
P. O. Box 1428
Ashland, KY. 41105 1428

Honorable Kevin F. Duffy
Counsel for Kentucky Power and
American Electric Power
Company, Inc.
1 Riverside Plaza
Columbus, OH. 43215 2373

Honorable Mark R. Overstreet
Counsel for Central and South West
Stites & Harbison
421 West Main Street
P. O. Box 634
Frankfort, KY. 40602 0634

RE: Case No. 99-149
AMERICAN ELECTRIC POWER

The Commission staff has reviewed your application in the above case and finds that it meets the minimum filing requirements. Enclosed please find a stamped filed copy of the first page of your filing. This case has been docketed and will be processed as expeditiously as possible.

If you need further assistance, please contact my staff at 502/564-3940.

Sincerely,

A handwritten signature in black ink that reads "Stephanie Bell".

Stephanie Bell
Secretary of the Commission

SB/sh
Enclosure



COMMONWEALTH OF KENTUCKY
PUBLIC SERVICE COMMISSION

730 SCHENKEL LANE
POST OFFICE BOX 615
FRANKFORT, KY. 40602
(502) 564-3940

April 20, 1999

Errol K. Wagner
Director of Regulatory Affairs
American Electric Power
1701 Central Avenue
P. O. Box 1428
Ashland, KY. 41105 1428

Honorable Kevin F. Duffy
Counsel for Kentucky Power and
American Electric Power
Company, Inc.
1 Riverside Plaza
Columbus, OH. 43215 2373

Honorable Mark R. Overstreet
Counsel for Central and South West
Stites & Harbison
421 West Main Street
P. O. Box 634
Frankfort, KY. 40602 0634

RE: Case No. 99-149

We enclose one attested copy of the Commission's Order in
the above case.

Sincerely,

A handwritten signature in cursive script that reads "Stephanie Bell".

Stephanie Bell
Secretary of the Commission

SB/hv
Enclosure

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

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)

O R D E R

The Commission, having considered the motion of Kentucky Power Company, American Electric Power Company, Inc. and Central and South West Corporation (collectively "Applicants") for the entry of a procedural schedule and good cause having been shown, HEREBY ORDERS that:


1. The procedural schedule listed in Appendix A, which is attached hereto and incorporated herein, shall be followed.
2. All requests for information and responses thereto shall be appropriately indexed. All responses shall include the name of the witness who will be responsible for responding to the questions related to the information provided, with copies to all parties of record and 8 copies to the Commission.
3. Applicants shall give notice of the hearing in accordance with the provisions set out in 807 KAR 5:011, Section 8(5). At the time publication is requested, Applicants shall forward a duplicate of the notice and request to the Commission.
4. Motions for extension of time with respect to the schedule herein shall be made in writing and will be granted only upon a showing of compelling reasons.
5. Neither opening statements nor witnesses' summaries of prefiled direct testimony will be permitted.

6. Nothing contained herein shall prevent the Commission from entering further Orders in this matter.

Done at Frankfort, Kentucky, this 20th day of April, 1999.

By the Commission

ATTEST:


Executive Director

APPENDIX A

APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE
COMMISSION IN CASE NO. 99-149 DATED APRIL 20, 1999

Informal Conference to be held in Hearing Room 2 of
the Commission's offices, 677 Comanche Trail, Frankfort,
Kentucky, beginning at 10:00 a.m., Eastern Daylight Time 4/22/99

Initial requests for information to Applicants shall
be filed no later than 4/28/99

Applicants shall file responses to
the original requests for information no later than 5/4/99

All supplemental requests for information (to
include only those matters within the scope of
the initial requests) to Applicants shall be
filed no later than 5/11/99

Applicants shall file responses to
supplemental requests for information
no later than 5/17/99

Last day for Applicants to publish notice
of hearing date 5/19/99

Intervenors' testimony, if any, shall be filed in
verified prepared form no later than 5/24/99

Public Hearing is to begin at 10:00 a.m., Eastern
Daylight Time, in Hearing Room 1 of the Commission's
offices at 730 Schenkel Lane, Frankfort, Kentucky,
for the purpose of cross-examination of witnesses
of Applicants and Intervenors 5/28/99

Briefs, if any, shall be filed not later than 6/4/99



COMMONWEALTH OF KENTUCKY
PUBLIC SERVICE COMMISSION

730 SCHENKEL LANE
POST OFFICE BOX 615
FRANKFORT, KY. 40602
(502) 564-3940

April 15, 1999

Errol K. Wagner
Director of Regulatory Affairs
American Electric Power
1701 Central Avenue
P. O. Box 1428
Ashland, KY. 41105 1428

Honorable Kevin F. Duffy
Counsel for Kentucky Power and
American Electric Power
Company, Inc.
1 Riverside Plaza
Columbus, OH. 43215 2373

Honorable Mark R. Overstreet
Counsel for Central and South West
Stites & Harbison
421 West Main Street
P. O. Box 634
Frankfort, KY. 40602 0634

RE: Case No. 99-149
AMERICAN ELECTRIC POWER
(Transfer/Sale/Purchase/Merger) OF KENTUCKY POWER & CENTRAL AND SOUTH

This letter is to acknowledge receipt of initial application in the above case. The application was date-stamped received April 15, 1999 and has been assigned Case No. 99-149. In all future correspondence or filings in connection with this case, please reference the above case number.

If you need further assistance, please contact my staff at 502/564-3940.

Sincerely,

Stephanie Bell
Stephanie Bell
Secretary of the Commission

SB/jc

COMMONWEALTH OF KENTUCKY
BEFORE THE
PUBLIC SERVICE COMMISSION OF KENTUCKY

RECEIVED
APR 14 1999
PUBLIC SERVICE
COMMISSION

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))

**Motion to Enter Procedural Order and Schedule and to Schedule
Informal Conference**

Kentucky Power Company ("Kentucky Power"), American Electric Power Company, Inc. ("AEP") and Central and South West Corporation ("CSW") move the Commission to enter the attached procedural order and schedule, and to schedule an informal conference in this matter, and in support thereof, state as follows:

1. On April 15, 1999 Kentucky Power, AEP and CSW will file their Joint Application with respect to the merger of AEP and CSW.
2. If the Commission determines it has jurisdiction with respect to the merger, KRS 278.020(5) requires that the Commission act within 60 days of April 15, 1999, or on or before June 14, 1999.
3. Because of the exigencies imposed by KRS 278.020(5), a procedural schedule is required to permit all parties a full and fair opportunity to prepare for any hearing the Commission may order in this matter. The Order tendered with this motion is modeled on the

Order entered by the Commission in In the Matter of: Joint Application of Louisville Gas and Electric Company and Kentucky Utilities Company for Approval of Merger, P.S.C. Case No, 97-300.

4. AEP, CSW and Kentucky Power previously have provided copies of the tendered Procedural Order and Schedule to representatives of the Attorney General, Office of Rate Intervention and the Kentucky Industrial Utility Customers, Inc.

5. Counsel for the Attorney General, Office of Rate Intervention has requested that the due date for the intervenors' testimony be delayed from May 21, 1999 (the date provided by the schedule as originally circulated) until May 24, 1999. AEP, CSW and Kentucky Power believe that such a delay is unworkable as it would result in the loss of three days (May 22, May 23 and May 24), thereby making it difficult to adhere to the remainder of a very tight schedule. In an effort to address the Attorney General's concerns, AEP, CSW and Kentucky Power have offered to amend the proposed schedule to fix the due date for the intervenors' testimony as 2:00 p.m. on May 23, 1999. Such a delay will allow the parties and the Commission two full days to review the intervenors' testimony prior to the suggested beginning of any hearing the Commission might order in this matter. No other amendments to the Procedural Order and Schedule have been received.

6. To aid the Commission and the parties in their understanding of the merger and the Joint Application, AEP, CSW and Kentucky Power have offered to participate in an informal conference to be conducted by the Commission. Representatives of the Attorney General, Office of Rate Intervention and Kentucky Industrial Customers, Inc. have stated their willingness to

participate in such a conference and have indicated that they could do so on Friday, April 23, 1999.

Wherefore, Kentucky Power Company, American Electric Power Company, Inc. and Central and South West Corporation respectfully request:

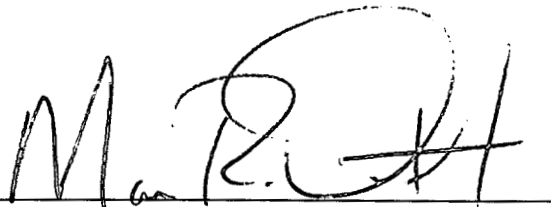
1. That the tendered Procedural Order And Schedule be entered;
2. That the Commission schedule an informal conference in this matter on Friday, April 23, 1999 at 10:00 a.m. prevailing time.

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, 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

CERTIFICATE OF SERVICE

I hereby certify that a copy of the foregoing Motion to Enter Procedural Order and Schedule and to Schedule Informal Conference was served by first class mail, postage prepaid, on this 14th day of April, 1999 upon:

Elizabeth E. Blackford
Assistant Attorney General
Office of Rate Intervention
1024 Capital Center Drive
Frankfort, Kentucky 40601

David F. Boehm
Boehm, Kurtz & Lowry
2110 CBLD Center
36 East Seventh Street
Cincinnati, OH 45202

Richard G. Raff
Public Service Commission of Kentucky
730 Schenkel Lane
P.O. Box 615
Frankfort, Kentucky 40602-0615

A handwritten signature in black ink, appearing to read 'M. R. Overstreet', written over a horizontal line.

Mark R. Overstreet

KE057:KE131:1980:FRANKFORT

COMMONWEALTH OF KENTUCKY
BEFORE THE
PUBLIC SERVICE COMMISSION OF KENTUCKY

RECEIVED
APR 14 1999
PUBLIC SERVICE
COMMISSION

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))

ORDER

The Commission, having considered the sixty day time limit set forth in KRS 278.020(5),
HEREBY ORDERS that:

1. The procedural schedule listed in Appendix A, which attached hereto and incorporated herein, shall be followed.
2. All requests for information and responses thereto shall be appropriately indexed. All responses shall include the name of the witness who will be responsible for responding to the questions related to the information provided, with copies to all parties of record and 10 copies to the Commission,
3. Kentucky Power Company shall give notice of the hearing in accordance with the provisions set out in 807 KAR 5:011, Section 8(5). At the time publication is requested, the Applicant shall forward a duplicate of the notice and request to the Commission.

4. Motions for extension of time with respect to the schedule herein shall be made in writing and will be granted only upon a showing of compelling reasons.

5. Nothing contained herein shall prevent the Commission from entering further Orders in this matter.

Done at Frankfort, Kentucky, this day of April, 1999.

By the Commission

APPENDIX A

APPENDIX TO ORDER OF KENTUCKY PUBLIC SERVICE
COMMISSION IN CASE NO. 99-__ DATED APRIL __, 1999

Informal Conference to be held at the Offices of the Commission
beginning at 10:00 a.m. prevailing time 4/23/99

Initial requests for information to the Joint Applicants shall
be filed no later than 4/26/99

Joint Applicants shall file responses to
the requests for information no later than..... 5/3/99

All supplemental requests for information (to
include only those matters within the scope of
the initial request) to Joint Applicants shall be
filed no later than 5/10/99

Joint Applicants shall file responses to
Supplemental requests for information
no later than..... 5/17/99

Last Day for Joint Applicants to publish
notice of hearing date..... 5/19/99

Intervenors' testimony, if any, shall be filed and
and delivered to all counsel in verified prepared form no later than 5/23/99
at 2:00 p.m.

Public Hearing is to begin at 10:00 a.m., Eastern
Daylight Time, in Hearing Room 1 of the Commission's
offices at 730 Schenkel Lane, Frankfort, Kentucky,
for the purpose of cross-examination of witnesses of the
Joint Applicants and intervenors..... 5/26/99

Briefs, if any, shall be filed no later than..... 6/4/99

American Electric
Service Corporation
1 Riverside Plaza
Columbus, OH 43215 2373

RECEIVED

MAR - 8 1999

PUBLIC SERVICE
COMMISSION

AEP
AMERICAN
ELECTRIC
POWER

March 5, 1999

Helen C. Helton
Executive Director
Commonwealth of Kentucky
Public Service Commission
730 Schenkel Lane
Frankfort, KY 40602

Wm. J. Lhota
Executive Vice President
614 223 1100

Re: Kentucky PSC Assertion of Jurisdiction over CSW Merger

Dear Ms. Helton:

In your letter of February 17, 1999, you indicate the Commission Staff believes that the Kentucky Commission has jurisdiction under KRS 278 020(5) to approve the proposed merger of Central and South West Corporation into AEP and you wish to be advised in writing by March 8, 1999 of the date AEP will file an application for Commission approval of "the indirect change in control of Kentucky Power Company." This is to notify you that we will file the requested application by April 15, 1999. We expect to provide you and the Commission with sufficient information to enable the Commission to approve our application within the sixty (60) day period prescribed by the statute.

To preserve any legal arguments regarding the application of this statute to this merger that might arise we respectfully note that by making this filing we should not be assumed to be agreeing with Staff's legal position. We continue to believe that the statute applies to acquisitions of Kentucky utilities, and not when a holding company which owns a Kentucky utility acquires other utilities, not located in Kentucky.

Very truly yours,

Wm. J. Lhota

Wm. J. Lhota

WJL:mjl