

2004 Energy Delivery Companywide Incentive Plan

KPSC Case No. 2005-00341

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The following scale will be used for determining the financial and operating performance factors for the department. Results at intermediate levels of performance are interpolated.

2004 EDCIP Performance Measures and Targets

	0.0 Target	1.0 Target	2.0 Target
Financial Measures			
O&M Expense **	1081.1 M	\$ 1059.9 M	\$ 1034.3 M
Capital Expenditures **	729.5 M	\$ 715.8 M	\$ 700.44 M
3rd Party Margins	9.55 M	\$ 13.39 M	\$ 17.23 M
Transmission Revenue	127.4 M	\$ 137 M	\$ 146.6 M
Operating Measures			
Reliability SAIFI	1.58	1.48	1.38
Reliability CAIDI	163 minutes	155 minutes	147 minutes
Commission Complaints	1750	1570	1450
Customer Satisfaction	78%	80%	N/A

** Targets may change throughout the year due to inter-business unit budget transfers.

Formula and Key Provisions

The basic formula for calculating incentive awards is as follows:

$$\text{Eligible Earnings} \times \text{Target Award} \times \text{Performance Factor} = \text{Formula Award}$$

Actual awards may be modified, at management's discretion, as noted below in the Target Awards section.

The target award for employees in salary grade 30 or higher that change jobs during the Plan Year will reflect the weighted average target percent for each position held during the Plan Year. This weighted average will be calculated as the eligible earnings approximately attributable to each position times the target % for each position summed for all positions held during the Plan Year.

The target awards for any employees in positions below salary grade 30 for the entire Plan Year will be calculated based on the target percent for the position held at yearend.

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Target Awards

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The EDCIP establishes *potential* minimum, target and maximum individual award opportunities based on the employee's classification and his/her eligible earnings during the Plan Year. The annual award opportunities for employees are:

Group #	Employee Classification	Minimum Award	Target Award	Maximum Award
1	Nonexempt (except non-exempt supervisors)	Formula driven: Eligible Earnings x Target % x Performance Factor = Incentive Award	5%	10%
2	Exempt grades 1 - 7 and non-exempt supervisors	Discretion from first dollar	5%	10%
3	Exempt grades 8 - 12	Discretion from first dollar	7%	14%
4	Exempt grades 13 - 20	Discretion from first dollar	10%	20%
5	Exempt grades 21 - 29	Discretion from first dollar	15%	30%
6	Exempt grades 30+	Discretion from first dollar	25 - 50%	50 - 100%

Plan Eligible Earnings

For purposes of the Plan, eligible earnings include the following:

- | | |
|--|---------------------------------|
| Regular Earnings -- Straight Rate | Inclement Weather Pay |
| Paid Vacation | Lump Sum Merit Increase |
| Paid Personal Days Off | Grievance Settlement for Wages |
| Sick Pay (Non-occupational & Occupational) | Overtime - - Nonexempt & Exempt |
| Paid Jury Duty | Lump Sum General Increase |
| Paid Death In Family | Shift Premium |
| Paid Rest Period | Sunday Premium |

Earnings attributable to a leave of absence, regardless of earnings type, are not considered eligible for plan purposes. In addition, prior year incentive plan payments received in the current year is not included in eligible earnings.

Funding

For the 2004 Plan, an amount adequate to fund a 1.0 incentive award will be budgeted. The Business Unit and Corporate Accounting will coordinate the accrual of an incentive pool during the year that closely approximates the expected aggregate award pool at yearend based on expected yearend performance results, the participating population changes and estimated eligible earnings.

2004 Energy Delivery Companywide Incentive Plan

Plan Administration

A Plan Compensation Committee (the Committee), currently comprised of members of AEP's Executive Council, will administer the EDCIP. The CEO of American Electric Power Company, Inc. may change the composition and number of members of the Committee at any time for any reason. The Committee may delegate day-to-day authority to administer the Plan, as they deem appropriate. The Committee's interpretations of the Plan provisions are conclusive and binding on all Participants.

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The Committee has sole authority to amend or terminate the Plan and may do so at any time, for any reason, either with or without notice. The Committee may exercise this authority to adopt, delete, modify or adjust performance objectives, metrics and weights to the extent that the Committee determines that changes in AEP's structure or other significant business situations would produce performance results for a Plan Year that are not reflective of the underlying economics and profitability of the business. The Committee may also exercise this authority to modify the eligibility criteria for the Plan and add or delete Participants.

Plan Year

A "Plan Year" begins on January 1st and ends on December 31st of each year for which the Plan is in effect.

Participation

All full-time and regular part-time AEP Energy Delivery employees who are actively employed during the Plan year will be Participants in the Plan for such Plan Year except:

1. Employees participating in any other **annual** AEP incentive plan;
2. Employees participating in any other plan or agreement that explicitly excludes their participation in the EDCIP;
3. Employees represented by unions who decline the opportunity to participate in the EDCIP or all similar incentive plans;
4. Temporary employees and contract workers; and
5. Employees hired by AEP on or after December 1 of such Plan Year.

Participation in the EDCIP in any Plan Year shall not be viewed as conferring any right to continued employment or to continued participation in the Plan for any subsequent Plan Year.

Plan Participants are expected to comply with all applicable Company policies and directives as well as all applicable laws and regulations.

Award Eligibility

All Participants are eligible to receive an award for the Plan Year if they are **actively** employed at the end of such Plan Year.

If a Participant transfers during the Plan Year to a position in another AEP business unit or a position that is ineligible to participate in the Plan, then such Participant will be ineligible to receive an award under this Plan for such Plan Year. Their incentive award, if any, will be determined by the business unit or incentive plan in which they participate on the last day of such Plan Year.

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Payment of Awards

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Payment of awards will be made as soon as practicable following the calculation of performance results for the Plan Year, which typically occurs during the first quarter of the following year.

Termination Due to Death, Retirement or Reorganization

Participants are eligible for an award if their employment with AEP is terminated during the Plan Year due to death, retirement, or involuntary termination as the direct result of reorganization, restructuring or downsizing.

For the purposes of the Plan "retirement" is defined as termination of employment for any reason, other than cause, after the Participant attains at least age 55 and five years of AEP service.

Long-Term Disability

Employees who become inactive during the Plan Year due to participation in the AEP long-term disability plan will be eligible to receive an award for that year to the extent that they have eligible earnings for such Plan Year. Note that long-term disability benefits are not considered eligible earnings under the Plan.

2004 Energy Delivery Companywide Incentive Plan

Energy Delivery Companywide Incentive Plan (EDCIP) 2004 Individual Award Calculation Example Group 1 Example

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I. Participant Information

William Flint
Technician I / Non-exempt Grade 20T

Manager: **Betty Stone**

II. Incentive Award Opportunity

2004 <u>Elig Earnings</u>	<u>Funding Group</u>	Target Award as a % of <u>Elig Earnings</u>	<u>\$</u>	Individual Maximum Award as a % of <u>Elig Earnings</u>	<u>\$</u>
\$50,000	1	5.0%	\$2,500.00	10.0%	\$5,000.00

III. Energy Delivery Performance Scorecard

<u>2004 EDCIP Performance Objectives</u>	<u>Weight</u>	<u>Performance Score</u>	<u>Weighted Performance Score</u>
<u>Financial Measures (as a Percent of Plan)</u>			
Corporate Component (EPS)	25%	115.0%	28.8%
O&M Expense	20%	115.0%	23.0%
Capital Expenditures	12%	106.0%	12.7%
3rd Party Margins	3%	140.0%	4.2%
Transmission Revenue	3%	100.0%	3.0%
<u>Operating Measures</u>			
Reliability SAIFI	12.5%	100.0%	12.5%
Reliability CAIDI	12.5%	80.0%	10.0%
Commission Complaints	9%	85.0%	7.7%
Customer Satisfaction	3%	100.0%	3.0%
	100%		

Weighted Average Performance Score: 104.8%

Note: The Compensation Committee for the Energy Delivery CIP may, at its sole discretion, adjust CIP performance scores for extraordinary items and other events as they deem appropriate.

IV. Individual Award Calculation

Basic Award (Group 1 Only)

Target Award	\$2,500
Weighted Average Performance Score	104.8%
Basic 2004 Incentive Award:	\$2,621

Discretionary Award (Groups 2, 3, 4, 5 and 6 Only)

Target Award	N/A
Weighted Average Performance Score	104.8%
Allocated Discretionary Funding:	N/A
Recommended Discretionary Award:	N/A

Total 2004 Incentive Award: \$2,621

2004 Energy Delivery Companywide Incentive Plan

Energy Delivery Companywide Incentive Plan (EDCIP) 2004 Individual Award Calculation Example Group 5 Example

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I. Participant Information

Betty Stone Mgr Distribution System / Grade 026

Manager: **Casey Oliver**

II. Incentive Award Opportunity

2004 <u>Elig Earnings</u>	Funding <u>Group</u>	<u>Target Award</u>		<u>Individual Maximum Award</u>	
		as a % of <u>Elig Earnings</u>	<u>\$</u>	as a % of <u>Elig Earnings</u>	<u>\$</u>
\$100,000	5	15.0%	\$15,000.00	30.0%	\$30,000.00

III. Energy Delivery Performance Scorecard

<u>2004 EDCIP Performance Objectives</u>	<u>Weight</u>	<u>Performance Score</u>	<u>Weighted Performance Score</u>
<u>Financial Measures (as a Percent of Plan)</u>			
Corporate Component (EPS)	25%	115.0%	28.8%
O&M Expense	20%	115.0%	23.0%
Capital Expenditures	12%	106.0%	12.7%
3rd Party Margins	3%	140.0%	4.2%
Transmission Revenue	3%	100.0%	3.0%
<u>Operating Measures</u>			
Reliability SAIFI	12.5%	100.0%	12.5%
Reliability CAIDI	12.5%	80.0%	10.0%
Commission Complaints	9%	85.0%	7.7%
Customer Satisfaction	3%	100.0%	3.0%
	100%		

Weighted Average Performance Score:	104.8%
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Note: The Compensation Committee for the Energy Delivery CIP may, at its sole discretion, adjust CIP performance scores for extraordinary items and other events as they deem appropriate.

IV. Individual Award Calculation

Basic Award (Group 1 Only)

Target Award	N/A
Weighted Average Performance Score	104.8%
Basic 2004 Incentive Award:	N/A

Discretionary Award (Groups 2, 3, 4, 5 and 6 Only)

Target Award	\$15,000
Weighted Average Performance Score	104.8%
Allocated Discretionary Funding:	\$15,723
Recommended Discretionary Award:	\$20,000

Total 2004 Incentive Award:	\$20,000
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2004 General Services Incentive Plan

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The 2004 General Services Incentive Plan is part of an overall Shared Services Incentive Plan. As such, it shares some provisions with the incentive plans in the other Shared Services Lines of Business (LOBs): Information Technology, Supply Chain, and Human Resources.

While there is a common framework covering all of the Shared Services groups, a significant portion of the program is specific to General Services. General Services is a service organization that works hand in hand with its customers in many locations; therefore, a significant portion of the General Services plan will be directly tied to our customers' performance.

As in past years, the Shared Services/General Services Incentive Plan is designed to encourage and reward the following behaviors:

- Managing our costs and resources
- Focusing on customer service and satisfaction
- Supporting the business units in their efforts to succeed
- Contributing to corporate financial success

This document outlines the features of the General Services Incentive Plan.

Key Changes for 2004:

- Target percentages for most exempt employees have been improved.
- Awards for all exempt employees are discretionary from the first dollar. Individual awards will be subject to both positive and negative management discretion, as has long been the case for employees in grade 30 and higher positions. This means that superior individual performance could result in a larger or maximum payout and poor individual performance could result in a smaller or zero payout, regardless of corporate or business unit performance, but subject to the available incentive compensation pool.



Compensation Incentive Plan Details

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Target Payments

The 2004 General Services Incentive Plan establishes target payments based on salary grade as follows:

Group #	Description	Minimum	Target % ¹	Maximum
1	Nonexempt – Admin. & Physical Up to Salary Grade 7	Formula driven – Earnings x Target % x Performance Factor = Incentive Award	5%	10%
2	Exempt grades 1-7 (Includes non-exempt supervisors)	Discretionary from first dollar.	5%	10%
3	Exempt grades 8-12	Discretionary from first dollar.	7%	14%
4	Exempt grades 13-20	Discretionary from first dollar.	10%	20%
5	Exempt grades 21-29	Discretionary from first dollar.	15%	30%
6	Exempt grades 30+	Discretionary from first dollar.	25% - 50%	100%

¹As a percent of eligible earnings.

Formula

$$\text{Performance Factor}^1 \times \text{Target Award} \times \text{Eligible Earnings} = \text{Formula Award}^2$$

¹The performance factor can range from 0 to 2.0. However, in order for the performance factor to exceed a 1.0, the funding requirements listed under "Funding" must be met.

²Actual award may be modified by discretion as noted above.

Funding

For the 2004 Shared Services Incentive Plan, an amount adequate to fund a 1.0 incentive plan payout is built into Shared Services budgets. However, this should not be construed as a "guarantee" that a 1.0 payout would occur. A final performance measure of at least 1.0 must be achieved in order for a 1.0 incentive plan payout to occur.

Awards greater than 1.0 will not only depend on the corporate and General Services performance measures, but also on the composite performance of AEP's major business units. The incentive fund can be increased to the extent that the business units' composite performance exceeds 1.0, up to the maximum 2.0 level. In no event can the General Services performance factor exceed the business units' composite financial performance above the 1.0 level.



Performance Measures and Scales

Performance Measures

The following three categories will be used by General Services for 2004 Incentive Pay calculations. Each category is weighted as shown.

- 1) **AEP Corporate Performance (25%)** - measured by the corporation's Earnings Per Share compared to target for all nonexempt and exempt employees in salary grade 36 and below. This financial measure is a part of all AEP 2004 incentive plans. For individuals in salary grades 38 and above, the SOIP measures, weighted at 50% will make up this portion of the plan.
- 2) **General Services Financial Performance (25%)** - determined by General Service's actual expenditures compared to budget.
- 3) **Function/Departmental Performance Measures (50%)** - performance measures specific to each section within General Services for measuring their performance relative to the groups they support.

For 2004, each performance measure scale may range from 0 – 200% of target for all employees. While the overall performance measure categories, scales and formulas are similar throughout Shared Services, each LOB will be measured according to its own specific performance objectives. The following section outlines how the Performance Measures will work within General Services.

1. Corporate Component	25%
<ul style="list-style-type: none"> a) Corporate Earnings per Share (EPS) (Nonexempt & exempt employees in salary grade 36 and below.) 	25%
OR	
<ul style="list-style-type: none"> b) Senior Officer Incentive Plan (Exempt employees in salary grade 38 and above.) 	50%
	<u>Weight</u>
<ul style="list-style-type: none"> ▪ Earnings per share ▪ O&M Expense vs. Budget ▪ Diversity ▪ Environmental ▪ Safety - Severity Rate ▪ Safety - Recordable Accident Rate 	50% 15% 10% 10% 7.5% 7.5%



Performance Measures and Scales

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25%

2. General Services Financial Performance

Actual O&M vs. Budget	Performance Factor
97% or less	2.00
100%	1.00
101%	0.50
> 101%	0.00

(General Services will use a modified budget to actual formula, which takes into account controllable expenses. Fringe benefits, Stores Loading, Fuel and Lease expense will not be included in the variance to budget calculation.)

3. Function / Departmental Performance Measures

50%

Due to the diversity of the work performed by the different sections of General Services, this portion of the incentive plan will have different performance measures specific to each respective General Services section. The total score for the Function / Department results component will be capped at the higher of 1.00 or the Business Unit Composite score as shown below. The following table contains an illustrative example of how the function/department results can be affected by the Business Unit Composite Cap:

<u>Component</u>	<u>Weight</u>	<u>Score</u>	<u>Weighted Score</u>
Corporate Component	25%	100.0%	0.250
<u>Function / Department Results</u>			
Function / Dept. O&M	25%	90.0%	0.225
Other Function / Dept Goals	50%	150.0%	0.750
Total	100%		1.225
Business Unit Composite (Cap)			1.150
Aggregate Function / Department Award Score (lower of 1.225 and 1.15)			1.150



Administrative Guidelines

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Plan Administration

A Plan Compensation Committee (the Committee) currently comprised of members of AEP's Executive Council will administer the ICP. The CEO of American Electric Power Company, Inc may change the composition and number of members of the Plan Compensation Committee at any time for any reason. The Committee may delegate day-to-day authority to administer the Plan, as they deem appropriate. The Committee's interpretations of the Plan provisions are conclusive and binding on all Participants.

The Committee has sole authority to amend or terminate the Plan and may do so at any time, for any reason, either with or without notice. The Committee may exercise this authority to adopt, delete, modify or adjust performance objectives, metrics and weights to the extent that the Committee determines that changes in AEP's structure or other significant business situations would produce performance results for a Plan Year that are not reflective of the underlying economics and profitability of the business. The Committee may also exercise this authority to modify the eligibility criteria for the Plan and add or delete Participants.

Plan Year

A "Plan Year" begins on January 1st and ends on December 31st of each year for which the plan is in effect.

Participation

All full-time and regular part-time AEP employees who are actively employed during the plan year will be Participants in the ICP for such Plan Year except:

1. Employees participating in any other **annual** AEP incentive plan,
2. Employees participating in any other plan or agreement that explicitly excludes their participation in the Shared Services/General Services ICP,
3. Employees represented by unions at non-mining locations who decline the opportunity to participate in the ICP or all similar incentive plans,
4. Temporary employees and contract workers, and
5. Employees hired by AEP on or after December 1 of such Plan Year.

Participation in the ICP in any Plan Year shall not be viewed as conferring any right to continued employment or to continued participation in the Plan for any subsequent Plan Year.

Participant Responsibility

Plan participants are expected to comply with all applicable company policies and directives as well as all applicable laws and regulations.



Administrative Guidelines

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Award Eligibility

All Participants are eligible to receive an award for Plan Year if they are **actively** employed at the end of such Plan Year.

If a Participant transfers during the Plan Year to a position in another AEP business unit or a position that is ineligible to participate in the plan, then such Participant will be ineligible to receive an award for such Plan Year. Their incentive award, if any, will be determined by the business unit or incentive plan in which they participate on the last day of such Plan Year.

Termination Due to Death, Retirement or Reorganization

Participants are **eligible** for an award if their employment with AEP is terminated during the Plan Year due to death, retirement, or involuntary termination as the direct result of reorganization, restructuring or downsizing.

For the purposes of the Plan "Retirement" is defined as termination of employment for any reason after the Participant attains at least age 55 and five years of AEP service.

Plan Eligible Earnings

The General Services ICP Eligible Earnings include the following.

Regular Earnings – Straight Rate	Increment Weather Pay
Paid Vacation	Lump Sum Merit Increase
Paid Personal Days Off	Grievance Settlement for Wages
Sick Pay (Non-occupational & Occupational)	Overtime
Paid Jury Duty	Lump Sum General Increase
Paid Death In Family	Shift Premium
Paid Rest Period	Sunday Premium

Earnings attributable to a leave of absence, regardless of earnings type, are not considered eligible for plan purposes.

Long-Term Disability

Employees who become inactive during the Plan Year due to participation in an AEP long-term disability plan will be eligible to receive an award for that year to the extent that they have eligible earnings for such Plan Year. Note that long-term disability benefits are not General Services ICP eligible earnings.

Award Calculation

The basic formula for calculating initial incentive awards is as follows:

$$\text{Performance Factor} \times \text{Target Award} \times \text{Eligible Earnings} = \text{Formula Award}$$

- Actual award may be modified at management's discretion, as noted below in the *Target Awards* section.



Administrative Guidelines

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- The target awards for employees in positions that are salary grade 30 and higher will be prorated to reflect any promotions or demotions that occur during the plan year.
- The target awards for any employees in positions below salary grade 30 will be based on their position at year-end.

Award Payment

Payment of earned awards will be made as soon as practicable following the calculation of performance results for the Plan Year, which typically occurs during the first quarter of the following year.

2005 Kentucky Power Safety Focus Plan

The Kentucky Power 2005 Safety Focus Plan will continue to strive toward the ultimate goal of zero personal injuries and vehicle accidents. The program will set quarterly targets, each quarter will stand on its own merit and the program will be Zero based.

A target **Unit** is defined as a group of employees who have been assigned a target by their respective Operating Company (OpCo) Division/Department. Examples of units could include: Administrative Department, Region, District, and a combined group of departments within an Opco. division or a large work group under a Manager or Supervisor. The target Unit will be divided into high risk and low risk employees. The respective Directors and President will approve high risk and low risk employee classifications.

There will be three targets for the 2005 Safety Focus Plan. One target for OSHA recordable incidence rate or cases, one for vehicle accidents and a threshold target for average severity. These targets will be derived from overall ED targets.

The average severity rate threshold will be assigned to each target unit. The average severity performance of a target unit must be at or below the threshold in order for any payout to be awarded within the quarter. The average severity rate will be reset at the beginning of each plan quarter.

When the average severity threshold requirement is met (at or below the target) the following independent targets will determine plan payout by participating target units

1. Recordable Incidence Rate or cases weighted between 50 and 75%, based upon target unit emphasis.
2. Preventable vehicle accidents weighted between 25 and 50%, based upon target unit emphasis.

The OSHA recordable and vehicle accident targets typically will be independent (i.e. if a unit hits the recordable target in a quarter but miss the vehicle target, employees can still receive a payout). However, some units may establish more aggressive thresholds based on risk profile.

Failure to report a Recordable injury or Vehicle accident to supervision within 24 hours will result in the incident being counted twice when calculating awards. (The event will only be counted once for statistical purposes).

Eligibility

All regular full time and part time employees of record **pay grade 22** and below on the last day of the quarter are eligible for a safety focus award within their respective units. Employees who leave one target unit and join another ED target unit will be awarded based on where they are an employee of record on the last day of the quarter. There will be no prorating. Employees who

leave the payroll, transfer out of the OpCo. or retire prior to the last day of the quarter will not be eligible for an award.

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Recordable cases, vehicle accidents and severity days are chargeable to the target unit responsible for the employee at the time of the event and are not transferable to another unit when an employee transfers.

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Exception 1.

In the event a unit suffers a fatality, the target unit will receive no payout for the quarter for either category. In addition, the President of the Regulated Business will at his discretion determine payout reductions for the applicable region, department or the entire business division.

Payout Formula Per Quarter - Average Severity Threshold is "at or below" target.

High Risk Employees - To be defined by the President/Manager/Director

\$300 per participant - Incidence rate or cases and Vehicle accidents at 0.00 and 0 (depending on weighting)
\$0 for performance above the ceiling.

Low Risk Employees - To be defined by the President/Manager/Director

\$100 per participant - Incidence rate and Vehicle accidents at 0.00 and 0 (depending on weighting)
\$ 0 for performance above the ceiling.

In the event a target unit has elected recordable case targets, interpolation may occur to determine appropriate payout between the \$100 and \$33 dollar maximum and minimum. Part time employees of record on the last day of the quarter are eligible.

**GUIDELINES FOR VEHICLE ACCIDENTS FOR SAFETY FOCUS
PAY OUT**

Vehicle accidents that are preventable and by the rules will reduce the safety focus payout to 75% for the Distribution side of the organization and 50% payout for the CS&M side of the business. We will pay out 75% or 50% which ever is applicable of our total amount of safety focus for 1 preventable, minor vehicle accident in a group suffering not recordable personal injuries. A vehicle accident that results in major damage or liability to the company will result in the group losing 100% of safety focus payout. Examples of a major vehicle accident include rolling a vehicle causing major damage or injury. The SDS, Directors, and Managers will determine the severity of vehicle accidents on a case-by-case basis. ANY SAFETY FOCUS GROUP THAT HAS MORE THAN 1 preventable vehicle accident is eliminated from the pay out.

AMERICAN ELECTRIC POWER SYSTEM

2000 LONG-TERM INCENTIVE PLAN

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American Electric Power System 2000 Long-Term Incentive Plan

1. Purpose of the Plan

The purpose of the American Electric Power System 2000 Long-Term Incentive Plan is to promote the interests of AEP and its shareholders by strengthening AEP's ability to attract, motivate and retain employees and directors of AEP and its Subsidiaries upon whose judgment, initiative and efforts the financial success and growth of the business of AEP largely depend, to align further the interests of AEP's management with the shareholders, and to provide an additional incentive for employees and directors through stock ownership and other rights that promote and recognize the financial success and growth of AEP.

2. Definitions

Wherever the following capitalized terms are used in this Plan they shall have the meanings specified below:

- (a) "AEP" means American Electric Power Company, Inc., a New York corporation, and any successor thereto.
- (b) "AEP-CSW Merger" means the consummation of the transactions contemplated in the Agreement and Plan of Merger by and among American Electric Power, Inc., Augusta Acquisition Corporation and Central and South West Corporation dated as of December 21, 1997, as amended.
- (c) "Award" means an award of an Option, Restricted Stock, Stock Appreciation Right, Performance Award,

Phantom Stock or Dividend Equivalent granted under the Plan.

- (d) "Award Agreement" means an agreement entered into between AEP and a Participant setting forth the terms and conditions of an Award granted to a Participant.
- (e) "Board" means the Board of Directors of AEP.
- (f) "Change in Control" shall have the meaning specified in Section 12 hereof.
- (g) "Code" means the Internal Revenue Code of 1986, as amended.
- (h) "Committee" means the Human Resources Committee of the Board, or such other committee or subcommittee of the Board appointed by the Board to administer the Plan from time to time.
- (i) "Common Stock" means the common stock of AEP, \$6.50 par value.
- (j) "Date of Grant" means the date on which the Committee makes an Award under the Plan, or such later date as the Committee may specify that the Award becomes effective.
- (k) "Effective Date" means the Effective Date of this Plan, as defined in Section 15.1 hereof.
- (l) "Dividend Equivalent" means an Award under Section 11 hereof entitling the Participant to receive payments with respect to dividends declared on the Common Stock.
- (m) "Eligible Person" means any person who is an Employee or an Independent Director.
- (n) "Employee" means any person who is an employee of AEP or any Subsidiary; provided, however, that with respect to Incentive Stock Options, "Employee" means any person who is considered an employee of AEP or any Subsidiary for purposes of Section 424 of the Code.
- (o) "Fair Market Value" means, as of any applicable date, the closing price per share of the Common Stock as quoted in the New York Stock Exchange—Composite Transactions listing in *The Wall Street Journal* (or such other reliable publication as the Committee, in its discretion, may determine to rely upon) for the date as of which Fair Market Value is to be determined. If there are no sales on such date, then Fair Market Value shall be the closing price per share of the Common Stock as so quoted on the nearest date before the date as of which Fair Market Value is to be determined on which there are sales. If the Common Stock is not listed on the New York Stock Exchange on the date as of which Fair Market Value is to be determined, the Committee shall determine in good faith the Fair Market Value in whatever manner it considers appropriate. Fair Market Value shall be determined without regard to any restriction other than a restriction which, by its terms, will never lapse.
- (p) "Independent Director" means a member of the Board who is not an Employee.
- (q) "Incentive Stock Option" means an option to purchase Common Stock that is intended to qualify as an incentive stock option under Section 422 of the Code, or any successor provision thereto.
- (r) "Nonqualified Stock Option" means an option to purchase Common Stock that is not an Incentive Stock Option.
- (s) "Option" means an Incentive Stock Option or a Nonqualified Stock Option granted under Section 6 hereof.
- (t) "Participant" means any Eligible Person who holds an outstanding Award under the Plan.
- (u) "Phantom Stock" means an Award under Section 10 hereof entitling a Participant to a payment based on a

measure of value expressed as a share of Common Stock. No stock certificates shall be issued with respect to such Phantom Stock Units, but AEP shall maintain a bookkeeping account in the name of the Participant to which the Phantom Stock Units shall relate.

- (v) "Plan" means the American Electric Power System 2000 Long-Term Incentive Plan as set forth herein, as it may be amended from time to time.
- (w) "Performance Award" means an Award made under Section 9 hereof entitling a Participant to a payment based on the Fair Market Value of Common Stock (a "Performance Share") or based on specified dollar units (a "Performance Unit") at the end of a performance period if certain conditions established by the Committee are satisfied.
- (x) "Restricted Stock" means an Award under Section 8 hereof entitling a Participant to shares of Common Stock that are nontransferable and subject to forfeiture until specific conditions established by the Committee are satisfied.
- (y) "Section 162(m)" means Section 162(m) of the Code and the Treasury Regulations thereunder.
- (z) "Section 162(m) Participant" means any Participant who, in the sole judgment of the Committee, could be treated as a "covered employee" under Section 162(m) at the time income may be recognized by such Participant in connection with an Award that is intended to qualify for exemption under Section 162(m).
- (aa) "Stock Appreciation Right" or "SAR" means an Award under Section 7 hereof entitling a Participant to receive an amount, representing the difference between the base price per share of the right and the Fair Market Value of a share of Common Stock on the date of exercise.
- (bb) "Subsidiary" means any corporation (other than AEP) in an unbroken chain of corporations beginning with AEP if, at the time of granting an Award, each of the corporations, other than the last corporation in the unbroken chain, owns stock possessing 50 percent or more of the total combined voting power of all classes of stock in one of the other corporations in such chain.

3. Shares of Common Stock Subject to the Plan

3.1. *Calculation of Number of Shares Available.* Subject to the following provisions of this Section 3, the aggregate number of shares of Common Stock that may be issued pursuant to all Awards under the Plan is 9,500,000 shares of Common Stock.

If any share of Common Stock that is the subject of an Award is not issued and ceases to be issuable for any reason, or is forfeited, cancelled or returned to AEP for failure to satisfy vesting requirements or upon the occurrence of other forfeiture events, such share of Common Stock will no longer be charged against the foregoing maximum share limitations and may again be made subject to Awards under the Plan pursuant to such limitations.

3.2. *Accounting for Awards.* For purposes of this Section 3, if an Award is denominated in shares of Common Stock, the number of shares covered by such Award, or to which such Award relates, shall be counted on the Date of Grant of such Award against the aggregate number of shares available for granting Awards under the Plan; provided, however, that Awards that operate in tandem with (whether granted simultaneously with or at a different time from) other Awards may be counted or not counted under procedures adopted by the Committee in order to avoid double counting.

3.3. *Source of Shares of Common Stock Deliverable Under Awards.* The shares of Common Stock to be delivered under the Plan may be authorized but unissued shares, reacquired shares, shares acquired on the open market specifically for distribution under the Plan, or any combination thereof.

3.4. *Adjustments.* If there shall occur any recapitalization, reclassification, stock dividend, stock split, reverse stock split or other distribution with respect to the shares of Common Stock, or any similar corporate transaction or event in respect of the Common Stock such as the AEP-CSW Merger, then the Committee shall, in the manner and to the extent that it deems appropriate and equitable to the Participants and consistent with the terms of this Plan, cause a proportionate adjustment to be made in (a) the maximum numbers and kind of shares provided in Section 3.1 hereof, (b) the maximum numbers and kind of shares set forth in Sections 6.1, 7.1, 8.2 and 9.4 hereof, (c) the number and kind of shares of Common Stock, share units, or other rights subject to the then-outstanding Awards, (d) the price for each share or unit or other right subject to then outstanding Awards without change in the aggregate purchase price or value as to which such Awards remain exercisable or subject to restrictions, (e) the performance targets or goals appropriate to any outstanding Performance Awards (subject to such limitations as appropriate for Awards intended to qualify for exemption under Section 162(m)) or (f) any other terms of an Award that are affected by the event. Notwithstanding the foregoing, in the case of Incentive Stock Options, any such adjustments shall be made in a manner consistent with the requirements of Section 424(a) of the Code.

4. Administration of the Plan

4.1. *Committee Members.* Except as provided in Section 4.4 hereof, the Committee will administer the Plan. The Committee may exercise such powers and authority as may be necessary or appropriate for the Committee to carry out its functions as described in the Plan. No member of the Committee will be liable for any action or determination made in good faith by the Committee with respect to the Plan or any Award under it.

4.2. *Discretionary Authority.* Subject to the express limitations of the Plan, the Committee has authority in its discretion to determine the Eligible Persons to whom, and the time or times at which, Awards may be granted, the number of shares, units or other rights subject to each Award, the exercise, base or purchase price of an Award (if any), the time or times at which an Award will become vested, exercisable or payable, the performance criteria, performance goals and other conditions of an Award, and the duration of the Award. The Committee also has discretionary authority to interpret the Plan, to make all factual determinations under the Plan, and to determine the terms and provisions of the respective Award Agreements and to make all other determinations necessary or advisable for Plan administration. The Committee has authority to prescribe, amend, and rescind rules and regulations relating to the Plan. All interpretations, determinations, and actions by the Committee will be final, conclusive, and binding upon all parties.

4.3. *Changes to Awards.* The Committee shall have the authority to effect, at any time and from time to time, with the consent of the affected Participants, (a) the cancellation of any or all outstanding Awards and the grant in substitution therefor of new Awards covering the same or different numbers of shares of Common Stock and having an exercise or base price which may be the same as or different than the exercise or base price of the cancelled Awards or (b) the amendment of the terms of any and all outstanding Awards; provided, however, that the Committee shall not have the authority to reduce the exercise or base price of an Award by amendment or cancellation and substitution of an existing Award without the approval of AEP's shareholders. The Committee may in its discretion accelerate the vesting or exercisability of an Award at any time or on the basis of any specified event.

4.4. *Delegation of Authority.* As permitted by law, the Committee may delegate its authority as identified hereunder; provided, however, that the Committee may not delegate certain of its responsibilities hereunder if such delegation may jeopardize compliance with the "outside directors" provision of Section 162(m).

4.5. *Awards to Independent Directors.* The Independent Directors of the Board shall approve an Award to an Independent Director under the Plan. With respect to Awards to Independent Directors, all rights, powers and authorities vested in the Committee under the Plan shall instead be exercised by the Independent Directors of the Board, and all provisions of the Plan relating to the Committee shall be interpreted in a manner consistent with the foregoing by treating any such reference as a reference to the Independent Directors of the Board for such purpose.

5. Eligibility and Awards

All Eligible Persons are eligible to be designated by the Committee to receive an Award under the Plan. The Committee has authority, in its sole discretion, to determine and designate from time to time those Eligible Persons who are to be granted Awards, the types of Awards to be granted and the number of shares or units subject to the Awards that are granted under the Plan. Each Award will be evidenced by an Award Agreement as described in Section 13 hereof between AEP and the Participant that shall include the terms and conditions consistent with the Plan as the Committee may determine.

6. Stock Options

6.1. *Grant of Option.* An Option may be granted to any Eligible Person selected by the Committee; provided, however, that only Employees shall be eligible for Awards of Incentive Stock Options. Each Option shall be designated, at the discretion of the Committee, as an Incentive Stock Option or a Nonqualified Stock Option. The maximum number of shares of Common Stock that may be granted under Options to any one Participant during any three calendar year period shall be limited to 1,000,000 shares (subject to adjustment as provided in Section 3.4 hereof).

6.2. *Exercise Price.* The exercise price of the Option shall be determined by the Committee; provided, however, that the exercise price per share of an Option shall not be less than 100 percent of the Fair Market Value per share of the Common Stock on the Date of Grant. Notwithstanding the foregoing, in the event that options are assumed in a transaction which would satisfy the conditions of Section 424 of the Code (whether or not such section would otherwise be applicable), the Committee may grant Options with an exercise price per share less than 100 percent of the Fair Market Value on the date of grant.

6.3. *Vesting; Term of Option.* The Committee, in its sole discretion, shall prescribe in the Award Agreement the time or times at which, or the conditions upon which, an Option or portion thereof shall become vested and exercisable, and may accelerate the exercisability of any Option at any time.

6.4. *Option Exercise; Withholding.* Subject to such terms and conditions as shall be specified in an Award Agreement, an Option may be exercised in whole or in part at any time during the term thereof by written notice to AEP together with payment of the aggregate exercise price therefor. Payment of the exercise price shall be made (a) in cash or by cash equivalent, (b) at the discretion of the Committee, in shares of Common Stock acceptable to the Committee, valued at the Fair Market Value of such shares on the date of exercise, (c) at the discretion of the Committee, by a delivery of a notice that the Participant has placed a market sell order (or similar instruction) with a third party with respect to shares of Common Stock then issuable upon exercise of the Option, and that the third party has been directed to pay a sufficient portion of the net proceeds of the sale to AEP in satisfaction of the Option exercise price or (d) at the discretion of the Committee, by a combination of the methods described above or such other method as may be approved by the Committee. In addition to and at the time of payment of the exercise price, the Participant shall pay to AEP the full amount of any and all applicable income tax and employment tax amounts required to be withheld in connection with such exercise, payable under one or more of the methods described above for the payment of the exercise price of the Options as may be approved by the Committee.

6.5. *Additional Rules for Incentive Stock Options.* The terms of any Incentive Stock Option granted under the Plan shall comply in all respects with the provisions of Section 422 of the Code, or any successor provision thereto, and any regulations promulgated thereunder.

7. Stock Appreciation Rights

7.1. Grant of SARs. A Stock Appreciation Right granted to a Participant is an Award in the form of a right to receive, upon surrender of the right, but without other payment, an amount based on appreciation in the Fair Market Value of the Common Stock over a base price established for the Award, exercisable at such time or times and upon conditions as may be approved by the Committee. The maximum number of shares of Common Stock that may be subject to SARs granted to any one Participant during any three calendar year period shall be limited to 1,000,000 shares (subject to adjustment as provided in Section 3.4 hereof).

7.2. Tandem SARs. A Stock Appreciation Right may be granted in connection with an Option, either at the time of grant or at any time thereafter during the term of the Option. An SAR granted in connection with an Option will entitle the holder, upon exercise, to surrender such Option or any portion thereof to the extent unexercised, with respect to the number of shares as to which such SAR is exercised, and to receive payment of an amount computed as described in Section 7.4 hereof. Such Option will, to the extent and when surrendered, cease to be exercisable. An SAR granted in connection with an Option hereunder will have a base price per share equal to the per share exercise price of the Option, will be exercisable at such time or times, and only to the extent, that a related Option is exercisable, and will expire no later than the related Option expires.

7.3. Freestanding SARs. A Stock Appreciation Right may be granted without relationship to an Option and, in such case, will be exercisable as determined by the Committee. The base price of an SAR granted without relationship to an Option shall be determined by the Committee in its sole discretion; provided, however, that the base price per share of a freestanding SAR shall not be less than 100 percent of the Fair Market Value of the Common Stock on the Date of Grant.

7.4. Payment of SARs. An SAR will entitle the holder, upon exercise of the SAR, to receive payment of an amount determined by multiplying: (i) the excess of the Fair Market Value of a share of Common Stock on the date of exercise of the SAR over the base price of such SAR, by (ii) the number of shares as to which such SAR will have been exercised. Payment of the amount determined under the foregoing may be made, in the discretion of the Committee, in cash, in Restricted Stock or shares of unrestricted Common Stock (both valued at their Fair Market Value on the date of exercise), or a combination thereof.

8. Restricted Stock

8.1. Grants of Restricted Stock. An Award of Restricted Stock to a Participant represents shares of Common Stock that are issued subject to such restrictions on transfer and other incidents of ownership and such forfeiture conditions as the Committee may determine. The Committee may, in connection with an Award of Restricted Stock, require the payment of a specified purchase price. The Committee may grant and designate Awards of Restricted Stock that are intended to qualify for exemption under Section 162(m), as well as Awards of Restricted Stock that are not intended to so qualify.

8.2. Vesting Requirements. The restrictions imposed on an Award of Restricted Stock shall lapse in accordance with the vesting requirements specified by the Committee in the Award Agreement. Such vesting requirements may be based on the continued employment of the Participant with AEP or its Subsidiaries for a specified time period or periods, provided that any such restriction shall not be scheduled to lapse in its entirety earlier than the first anniversary of the Date of Grant. Such vesting requirements may also be based on the attainment of specified business goals or measures established by the Committee in its sole discretion.

In the case of any Award of Restricted Stock that is intended to qualify for exemption under Section 162(m), the vesting requirements shall be limited to the performance criteria identified in Section 9.3 below, and the terms of the Award shall otherwise comply with the Section 162(m) requirements described in Section 9.4 hereof; provided, however, that the maximum number of shares of Common Stock that may be subject to an Award of Restricted Stock granted to a Section 162(m) Participant during any one calendar year shall be separately limited to 200,000 shares (subject to adjustment as provided in Section 3.4 hereof).

8.3. Restrictions. Shares of Restricted Stock may not be transferred, assigned or subject to any encumbrance, pledge or charge until all applicable restrictions are removed or expire or unless otherwise allowed by the Committee. The Committee may require the Participant to enter into an escrow agreement providing that the certificates representing Restricted Stock granted or sold pursuant to the Plan will remain in the physical custody of an escrow holder until all restrictions are removed or expire. Failure to satisfy any applicable restrictions shall result in the subject shares of Restricted Stock being forfeited and returned to AEP, with any purchase price paid by the Participant to be refunded, unless otherwise provided by the Committee. The Committee may require that certificates representing Restricted Stock granted under the Plan bear a legend making appropriate reference to the restrictions imposed.

8.4. Rights as Shareholder. Subject to the foregoing provisions of this Section 8 and the applicable Award Agreement, the Participant will have all rights of a shareholder with respect to shares of Restricted Stock granted to the Participant, including the right to vote the shares and receive all dividends and other distributions paid or made with respect thereto, unless the Committee determines otherwise at the time the Restricted Stock is granted, as set forth in the Award Agreement.

8.5. Section 83(b) Election. The Committee may provide in an Award Agreement that the Award of Restricted Stock is conditioned upon the Participant refraining from making an election with respect to the Award under Section 83(b) of the Code. Irrespective of whether an Award is so conditioned, if a Participant makes an election pursuant to Section 83(b) of the Code with respect to an Award of Restricted Stock, the Participant shall be required to promptly file a copy of such election with AEP.

9. Performance Awards

9.1. Grant of Performance Awards. The Committee may grant Performance Awards under the Plan, which shall be represented by units denominated on the Date of Grant either in shares of Common Stock (Performance Shares) or in specified dollar amounts (Performance Units). The Committee may grant and designate Performance Awards that are intended to qualify for exemption under Section 162(m), as well as Performance Awards that are not intended to so qualify. At the time a Performance Award is granted, the Committee shall determine, in its sole discretion, one or more performance periods and performance goals to be achieved during the applicable performance periods, as well as such other restrictions and conditions as the Committee deems appropriate. In the case of Performance Units, the Committee shall also determine a target unit value or a range of unit values for each Award. The performance goals applicable to a Performance Award grant may be subject to such later revisions as the Committee shall deem appropriate to reflect significant unforeseen events such as changes in law, accounting practices or unusual or nonrecurring items or occurrences. Any such adjustments shall be subject to such limitations as the Committee deems appropriate in the case of a Performance Award granted to a Section 162(m) Participant that is intended to qualify for exemption under Section 162(m).

9.2. Payment of Performance Awards. At the end of the performance period, the Committee shall determine the extent to which performance goals have been attained or a degree of achievement between minimum and maximum levels in order to establish the level of payment to be made, if any. The Committee shall determine if payment is to be made in cash, Restricted Stock, shares of unrestricted Common Stock, Options or Phantom Stock, or a combination thereof. For any cash conversion to or from Performance Shares or Units, Phantom Stock units or shares of Common Stock, payment shall be calculated on the basis of the average of the Fair Market Value of the Common Stock for the last 20 trading days prior to the payment date.

9.3. *Performance Criteria.* The performance criteria upon which the payment or vesting of a Performance Award intended to qualify for exemption under Section 162(m) may be based shall be limited to the following business measures, which may be applied with respect to AEP, any Subsidiary or any business unit, and which may be measured on an absolute or relative-to-peer-group basis: (a) financial, such as total shareholder return and earnings per share, (b) operational, such as power generation efficiency, productivity and safety, and (c) strategic, such as entering new markets and product line introductions. In any event, the Committee may, at its discretion, reduce the number of Performance Awards earned by any Participant for a performance period. In the case of Performance Awards that are not intended to qualify for exemption under Section 162(m), the Committee shall designate performance criteria from among the foregoing or such other business criteria as it shall determine in its sole discretion.

9.4. *Section 162(m) Requirements.* In the case of a Performance Award granted to a Section 162(m) Participant that is intended to comply with the requirements for exemption under Section 162(m), the Committee shall make all determinations necessary to establish a Performance Award within 90 days of the beginning of the performance period (or such other time period required under Section 162(m)), including, without limitation, the designation of the Section 162(m) Participants to whom Performance Awards are made, the performance criteria or criterion applicable to the Award and the performance goals that relate to such criteria, and the dollar amounts or number of shares of Common Stock or Phantom Stock units payable upon achieving the applicable performance goals. As and to the extent required by Section 162(m), the terms of a Performance Award granted to a Section 162(m) Participant must state, in terms of an objective formula or standard, the method of computing the amount of compensation payable to the Section 162(m) Participant, and must preclude discretion to increase the amount of compensation payable that would otherwise be due under the terms of the Award. The maximum amount of compensation that may be payable to a Section 162(m) Participant during any one calendar year under a Performance Unit Award shall be \$5,000,000. The maximum number of Performance Share units that may be earned by a Section 162(m) Participant during any one calendar year shall be 200,000 (subject to adjustment as provided in Section 3.4 hereof).

10. Phantom Stock

10.1. *Grant of Phantom Stock.* Phantom Stock is an Award to a Participant of a number of hypothetical share units with respect to shares of Common Stock, with an initial value based on the average of the Fair Market Value of the Common Stock for the last 20 trading days prior to the Date of Grant. Phantom Stock shall be subject to such restrictions and conditions as the Committee shall determine. Sections 8.1 and 8.2 shall apply to Awards of Phantom Stock units in similar manner as they apply to shares of Restricted Stock, as interpreted by the Committee, with the limitation in Section 8.2 on the number of shares of Restricted Stock which may be granted applicable separately to Phantom Stock units. An Award of Phantom Stock may be granted, at the discretion of the Committee, together with an Award of Dividend Equivalent rights for the same number of shares covered thereby.

10.2. *Payment of Phantom Stock.* Upon the vesting date applicable to Phantom Stock granted to a Participant, an amount equal to one share of Common Stock upon such date shall be paid with respect to such Phantom Stock unit granted to the Participant. Payment may be made, at the discretion of the Committee, in cash, Restricted Stock, shares of unrestricted Common Stock, Options, or a combination thereof. Cash payments of Phantom Stock units shall be calculated on the basis of the average of the Fair Market Value of the Common Stock for the last 20 trading days prior to the payment date.

11. Dividend Equivalents

A Dividend Equivalent granted to a Participant is an Award in the form of a right to receive cash, shares of Common Stock, or other property equal in value to dividends paid with respect to a specific number of shares of Common Stock. Dividend Equivalents may be awarded on a free-standing basis or in connection with another Award, and may be paid currently or on a deferred basis. The Committee may provide at the Date of Grant or thereafter that the Dividend Equivalent shall be paid or distributed when accrued or shall be deemed to have been reinvested in additional shares of Common Stock or such other investment vehicles as the Committee may specify; provided, however, that Dividend Equivalents (other than free-standing Dividend Equivalents) shall be subject to all conditions and restrictions of the underlying Awards to which they relate.

12. Change in Control

12.1. *Effect of Change in Control.* The Committee may, in an Award Agreement, provide for the effect of a Change in Control on an Award. Such provisions may include any one or more of the following: (a) the acceleration or extension of time periods for purposes of exercising, vesting in, or realizing gain from any Award, (b) the waiver or modification of performance or other conditions related to the payment or other rights under an Award; (c) provision for the cash settlement of an Award for an equivalent cash value, as determined by the Committee, or (d) such other modification or adjustment to an Award as the Committee deems appropriate to maintain and protect the rights and interests of Participants upon or following a Change in Control.

12.2. *Definition of Change in Control.* For purposes hereof, a "Change in Control" shall be deemed to have occurred if:

- (a) any "person" or "group" (as such terms are used in Sections 13(d) and 14(d) of the Securities Exchange Act of 1934 ("Exchange Act")), other than any company owned, directly or indirectly, by the shareholders of AEP in substantially the same proportions as their ownership of shares of Common Stock or a trustee or other fiduciary holding securities under an employee benefit plan of AEP, becomes the "beneficial owner" (as defined in Rule 13d-3 under the Exchange Act), directly or indirectly, of more than 25 percent of the then outstanding voting stock of AEP;
- (b) during any period of two consecutive years, individuals who at the beginning of such period constitute the Board, together with any new directors (other than a director nominated by a person (i) who has entered into an agreement with AEP to effect a transaction described in Section 12.2(a), (c) or (d) hereof or (ii) who publicly announces an intention to take or consider taking actions (including, but not limited to, an actual or threatened proxy contest) which if consummated would constitute a Change in Control) whose election or nomination for election was approved by a vote of at least two-thirds of the directors then still in office who were either directors at the beginning of the period or whose election or nomination for election was previously so approved, cease for any reason (except for death, disability or voluntary retirement) to constitute at least a majority of the Board;
- (c) AEP consummates a merger or consolidation with any other entity, other than a merger or consolidation which would result in the voting securities of AEP outstanding immediately prior thereto continuing to represent (either by remaining outstanding or by being converted into voting securities of the surviving entity) at least 50 percent of the total voting power represented by the voting securities of AEP or such surviving entity outstanding immediately after such merger or consolidation; or
- (d) the shareholders of AEP approve a plan of complete liquidation of AEP, or an agreement for the sale or disposition by AEP (in one transaction or a series of transactions) of all or substantially all of AEP's assets.

Notwithstanding the foregoing, a Change in Control shall not be deemed to occur as a result of the AEP-CSW Merger, nor thereafter as a result of any event in (a) or (c) above, if directors who were members of the Board prior to such event continue to constitute a majority of the Board after such event.

13. Award Agreements

13.1. *Form of Agreement.* Each Award under this Plan shall be evidenced by an Award Agreement in a form approved by the Committee setting forth the number of shares of Common Stock, units or other rights (as applicable) subject to the Award, the exercise, base or purchase price (if any) of the Award, the time or times at which an Award will become vested, exercisable or payable, the duration of the Award and, in the case of Performance Awards, the applicable performance criteria and goals. The Award Agreement shall also set forth other material terms and conditions applicable to the Award as determined by the Committee consistent with the limitations of this Plan. Award Agreements evidencing Awards intended to qualify for exemption under Section 162(m) may be designated as such and shall contain such terms and conditions as may be necessary to meet the applicable requirements of Section 162(m). Award Agreements evidencing Incentive Stock Options shall contain such terms and conditions as may be necessary to meet the applicable provisions of Section 422 of the Code.

13.2. *Contract Rights; Amendment.* Any obligation of AEP to any Participant with respect to an Award shall be based solely upon contractual obligations created by an Award Agreement. No Award shall be enforceable until the Award Agreement has been signed on behalf of AEP by its authorized representative and signed by the Participant and returned to AEP. By executing the Award Agreement, a Participant shall be deemed to have accepted and consented to the terms of this Plan and any action taken in good faith under this Plan by and within the discretion of the Committee, the Board or their delegates. Award Agreements covering outstanding Awards may be amended or modified by the Committee in any manner that may be permitted for the grant of Awards under the Plan, subject to the consent of the Participant to the extent provided in the Award Agreement.

14. General Provisions

14.1. *Limits on Transfer of Awards; Beneficiaries.* Solely to the extent permitted by the Committee in an Award Agreement and subject to such terms and conditions as the Committee shall specify, Awards shall be nontransferable otherwise than as designated by the Participant by will or by the laws of descent and distribution and, during the lifetime of a Participant, Awards shall be exercised only by such Participant or by his guardian or legal representative. Notwithstanding the foregoing, the Committee may provide in the terms of an Award Agreement that the Participant shall have the right to designate a beneficiary or beneficiaries who shall be entitled to any rights, payments or other benefits specified under an Award Agreement following the Participant's death.

14.2. *Deferrals of Payment.* The Committee may permit a Participant to defer the receipt of payment of cash or delivery of shares of Common Stock that would otherwise be due to the Participant by virtue of the exercise of a right or the satisfaction of vesting or other conditions with respect to an Award. If any such deferral is to be permitted by the Committee, the Committee shall establish the rules and procedures relating to such deferral, including, without limitation, the period of time in advance of payment when an election to defer may be made, the time period of the deferral and the events that would result in payment of the deferred amount, the interest or other earnings attributable to the deferral and the method of funding, if any, attributable to the deferred amount.

14.3. *Rights as Shareholder.* A Participant shall have no rights as a holder of Common Stock with respect to any unissued securities covered by an Award until the date the Participant becomes the holder of record of these securities. Except as provided in Section 3.4 hereof, no adjustment or other provision shall be made for dividends or other shareholder rights, except to the extent that the Award Agreement provides for Dividend Equivalents, dividend payments or similar economic benefits.

14.4. *Employment or Service.* Nothing in the Plan, in the grant of any Award or in any Award Agreement shall confer upon any Eligible Person the right to continue in the capacity in which he is employed by or otherwise serves AEP or any Subsidiary.

14.5. *Securities Laws.* No shares of Common Stock will be issued or transferred pursuant to an Award unless and until all then applicable requirements imposed by federal and state securities and other laws, rules and regulations and by any regulatory agencies having jurisdiction, and by any stock exchanges upon which the Common Stock may be listed, have been fully met. As a condition precedent to the issuance of shares pursuant to the grant or exercise of an Award, AEP may require the Participant to take any reasonable action to meet such requirements. The Committee may impose such conditions on any shares of Common Stock issuable under the Plan as it may deem advisable, including, without limitation, restrictions under the Securities Act of 1933, as amended, under the requirements of any stock exchange upon which such shares of the same class are then listed, and under any blue sky or other securities laws applicable to such shares.

14.6. *Tax Withholding.* The Participant shall be responsible for payment of any taxes or similar charges required by law to be withheld from an Award or an amount paid in satisfaction of an Award, which shall be paid by the Participant on or prior to the payment or other event that results in taxable income in respect of an Award. The Award Agreement shall specify the manner in which the withholding obligation shall be satisfied with respect to the particular type of Award.

14.7. *Unfunded Plan.* The adoption of this Plan and any setting aside of cash amounts or shares of Common Stock by AEP with which to discharge its obligations hereunder shall not be deemed to create a trust or other funded arrangement. The benefits provided under this Plan shall be a general, unsecured obligation of AEP payable solely from the general assets of AEP, and neither a Participant nor the Participant's permitted transferees or estate shall have any interest in any assets of AEP by virtue of this Plan, except as a general unsecured creditor of AEP. Notwithstanding the foregoing, AEP shall have the right to implement or set aside funds in a grantor trust subject to the claims of AEP's creditors to discharge its obligations under the Plan.

14.8. *Other Compensation and Benefit Plans.* The adoption of the Plan shall not affect any other stock incentive or other compensation plans in effect for AEP or any Subsidiary, nor shall the Plan preclude AEP from establishing any other forms of stock incentive or other compensation for employees of AEP or any Subsidiary. The amount of any compensation deemed to be received by the Participant pursuant to an Award shall not constitute compensation with respect to which any other employee benefits of such Participant are determined, including, without limitation, benefits under any bonus, pension, profit sharing, life insurance or salary continuation plan, except as otherwise specifically provided by the terms of such plan.

14.9. *Plan Binding on Successors.* The Plan shall be binding upon AEP, its successors and assigns, and the Participant, his executor, administrator and permitted transferees and beneficiaries.

14.10. *Construction and Interpretation.* Whenever used herein, nouns in the singular shall include the plural, and the masculine pronoun shall include the feminine gender. Headings of Sections hereof are inserted for convenience and reference and constitute no part of the Plan.

14.11. *Severability.* If any provision of the Plan or any Award Agreement shall be determined to be illegal or unenforceable by any court of law in any jurisdiction, the remaining provisions hereof and thereof shall be severable and enforceable in accordance with their terms, and all provisions shall remain enforceable in any other jurisdiction.

14.12. *Governing Law.* The laws of the State of Ohio shall govern the validity and construction of this Plan and of the Award Agreements, without giving effect to principles relating to conflict of laws, except to the extent that such laws may be preempted by Federal law.

15. Effective Date, Termination and Amendment

15.1. *Effective Date; Shareholder Approval.* Subject to approval by the Securities and Exchange Commission, the Effective Date of the Plan shall be the date following adoption of the Plan by the Board on which the Plan is approved by the shareholders of AEP. Grants of Awards under the Plan may be made prior to the Effective Date (but after adoption of the Plan by the Board), subject to approval of the Plan by the Securities and Exchange Commission and the shareholders. At the sole discretion of the Board, in order to comply with the requirements of Section 162(m) for certain types of Awards under the Plan, the performance criteria set forth in Section 9.3 shall be reapproved by the shareholders no later than the first shareholder meeting that occurs in the fifth calendar year following the calendar year of the initial shareholder approval of such performance criteria.

15.2. *Termination.* The Plan shall remain in effect until terminated by action of the Board; provided, however, that no Incentive Stock Option may be granted hereunder after the tenth anniversary of the date the Plan is adopted by the Board.

Notwithstanding the foregoing, no termination of the Plan shall in any manner affect any Award theretofore granted without the consent of the Participant or the permitted transferee of the Award.

15.3. *Amendment.* The Board may at any time and from time to time and in any respect, amend or modify the Plan; provided, however, that no amendment or modification of the Plan shall be effective without the consent of AEP's shareholders that would (a) increase the number of shares of Common Stock reserved for issuance or (b) allow the grant of Options at an exercise price below Fair Market Value (except as otherwise permitted by Section 6.2), or allow the repricing of Options without AEP shareholder approval. In addition, the Board may seek the approval of any amendment or modification by AEP's shareholders to the extent it deems necessary or advisable in its sole discretion for purposes of compliance with Section 162(m) or Section 422 of the Code, the listing requirements of the New York Stock Exchange or for any other purpose. No amendment or modification of the Plan shall in any manner affect any Award theretofore granted without the consent of the Participant or the permitted transferee of the Award.

Kentucky Power Company

REQUEST

For each of the years 2000 through 2004, and for the test year, please provide the following information:

- a. Actual incentive compensation expenses booked, in total and broken out by type of incentive program.
- b. Portions of the incentive compensation expenses to be provided in response to part a above that are charged to O&M expense and to accounts other than O&M.

RESPONSE

a/b. Please refer to page 2 of this response.

WITNESS: Errol K Wagner

Kentucky Power Company
 Incentive Compensation Expense Booked on an Accrual Basis

<u>Period</u>	<u>Company</u>	<u>Commercial Operations</u>	<u>Generation</u>	<u>Energy Delivery</u>	<u>General Services</u>	<u>Safety Focus</u>	<u>Total</u>	<u>O&M Amount</u>	<u>Non O&M Amount</u>
2000	1,883,354	0	0	0	0	0	1,883,354	1,255,365	627,989
2001	0	656,418	0	797,669	51,098	178,574	1,683,759	1,104,806	578,953
2002	0	(42,026)	0	1,261,039	241,295	253,499	1,713,807	955,713	758,094
2003	0	29,312	769,474	627,273	233,683	0	1,659,742	1,148,762	510,980
2004	0	0	539,950	641,159	200,483	0	1,381,592	952,373	429,219
Test Year	0	0	760,481	1,080,661	173,201	0	2,014,343	1,322,814	691,529

Kentucky Power Company

REQUEST

With regard to the payroll information shown on Section V, S-7, page 3, please provide the following information:

- a. Confirm that this information shows that the unadjusted test year O&M expenses include \$20,137,863 for payroll expenses. If this is not correct, please explain.
- b. Identify the total O&M expense dollar amount included in the \$20,137,863 that represents incentive compensation. In addition, provide a breakout of this total test year incentive compensation amount by type of incentive compensation program.
- c. To the extent that additional incentive compensation expenses charged to KPCCo from AEPSC or other AEP affiliates are included in the unadjusted test year O&M expenses (but not as part of the total payroll expense of \$20,137,863), identify such additional incentive compensation expense and provide a breakout of these incentive compensation expenses by type of incentive compensation program.

RESPONSE

- a. Yes, O&M expenses include \$20,137,863 for payroll expenses.
- b. The amount of incentive compensation in the \$20,137,863 amount is \$1,747,661. Attached is the breakdown of the test year incentive compensation amount. There is only one incentive compensation program.

It was discovered that there was \$215,837 of incentive compensation not included in the \$29,767,000 of Total Wages and Salaries on Line No. 32 of Workpaper S-7, Page 4 of 5 in Section V. Of this \$215,837 incentive compensation amount, \$156,156 pertains to Total Operation and Maintenance, \$52,388 pertains to Construction, \$7,099 pertains to Retirement, \$186 pertains to ODD Temporary Facilities and \$8 pertains to Donations. The \$156,156 was included in Operation and Maintenance Expenses of \$365,416,246 in Section V, Schedule 5, Line No. 4, Column 3.

- c. The amount of incentive compensation charged to KPCCo from AEPSC for the Senior Officer Incentive Plan is \$76,368.

WITNESS: Errol K Wagner

KENTUCKY POWER COMPANY
d/b/a AMERICAN ELECTRIC POWER
DIRECT AND ALLOCATED INCENTIVE COMPENSATION
TWELVE MONTHS ENDED 06/30/2005

LINE NO. (1)	FUNCTION (2)	DIRECT PAYROLL DISTRIBUTION (3)	Allocation of Payroll Charges for Clearing Accounts (4)	Total (5)
<u>Operation</u>				
1	Production	\$452,528	\$99,218	\$551,746
2	Transmission	25,471	\$1,410	26,881
3	Distribution	113,949	\$6,309	120,258
4	Customer Accounts	129,407	\$7,165	136,572
5	Customer Service & Informational	33,228	\$1,840	35,068
6	Administrative & General	106,491	\$5,896	112,387
7	TOTAL Operation	\$861,074	\$121,838	\$982,912
<u>Maintenance</u>				
8	Production	\$334,805	\$9,182	\$343,987
9	Transmission	49,017	\$2,714	51,731
10	Distribution	309,174	\$29,070	338,244
11	Administrative & General	45,996	\$2,547	48,543
12	TOTAL Maintenance	\$738,992	\$43,513	\$782,505
<u>Total Operation & Maintenance</u>				
13	Production (LINE 1 + LINE 8)	\$787,333	\$108,400	\$895,733
14	Transmission (LINE 2 + LINE 9)	74,488	4,124	78,612
15	Distribution (LINE 3 + LINE 10)	423,123	35,379	458,502
16	Customer Accounts (LINE 4)	129,407	7,165	136,572
17	Customer Service & Informational (LINE 5)	33,228	1,840	35,068
18	Administrative & General (LINE 6 + LINE 11)	152,487	8,443	160,930
19	TOTAL Operation & Maintenance	\$1,600,066	\$165,351	\$1,765,417
20	<u>Construction</u>	\$552,054	\$30,580	\$582,634
21	<u>Plant Removal (Retirement)</u>	\$77,601	\$4,299	\$81,900
<u>Other Accounts</u>				
22	Fuel Stock Expense Undistributed	\$86,807	(\$86,807)	\$0
23	Stores Expense Undistributed	\$74,968	(\$74,968)	0
24	Clearing Accounts	\$48,545	(\$48,545)	0
25	ODD Temporary Facilities	\$2,215	0	2,215
26	Miscellaneous Deferred Debits	\$11,952	(\$11,952)	0
27	Research and Development	(\$42)	\$42	0
28	Miscellaneous Current and Accrued Liabilities	(\$22,000)	\$22,000	0
29	Donations	\$3,117	0	3,117
30	All Other General Ledger (GL)	\$0	0	0
31	TOTAL Other Accounts	\$205,562	(\$200,230)	\$5,332
32	TOTAL Salaries & Wages (LINES 19+20+21+31)	\$2,435,283	\$0	\$2,435,283

Kentucky Power Company

REQUEST

Please reconcile the test year base payroll amount of \$25,146,566 shown on Section V, S-4, page 6, line 1 to the test year payroll data shown on Section V, S-7, page 3.

RESPONSE

The \$25,146,566 as shown on Section V, S-4, page 6, line 1 is straight time labor only. The \$29,767,000 as shown on Section V, S-7, page 3, line 5 is total labor that includes overtime labor.

WITNESS: Ranie K Wohnhas

Kentucky Power Company

REQUEST

With regard to the employee benefit information shown on Section V, S-4, page 4, please provide the following information:

- a. Reconcile the per books test year pension expense amount of \$1,038,398 to the corresponding per books test year pension expense amount of \$1,051,138 shown in the response to KPSC-1-49, page 2 of 3.
- b. Provide the actual monthly costs (on an equivalent basis as the monthly costs shown on Section V, S-4, page 4, lines 1, 4, 7, 10, 13, and 16) for each month of the test year and for the months of July 2005 through October 2005 for the following employee benefit expenses: Medical Plan, Life Insurance, Dental Plan, Retirement (Pension) Plan, LTD insurance, and OPEB.
- c. Is the pro forma annualized OPEB amount of \$2,204,016 net of a similar "OPEB subsidy" amount similar to the unadjusted OPEB subsidy amount of \$843,367 in account 9260057? If so, what is the assumed annualized OPEB subsidy amount that has been assumed in the calculations and what is the basis for this amount? If not, why hasn't the annualized OPEB cost amount of \$2,204,016 been offset with the appropriate annualized OPEB subsidy amount?

RESPONSE

- a. The \$1,038,398 of per book test year pension expense is the sum of accounts 9260003 (Pension Plan - \$1,020,805) and 9260037 (Supplemental Pension - \$17,593). We excluded account 9260002 (Pension and Group Insurance Administration - \$30,332) since these costs are related to more than just pension costs. The \$1,051,138 included accounts 9260002 and 9260003 and inadvertently excluded account 9260037. The response to KPSC 1-49, page 2 of 3 for the retirement costs should have been \$1,038,398, which included account 9260037 and excluded account 9260002.
- b. Please refer to page 2 of this response for the actual monthly costs for the employee benefit expenses.
- c. Yes. The level is \$935,509 based upon the new 2005 OPEB total cost.

WITNESS: Ranie K. Wohnhas

Kentucky Power Company
Employee Benefit Plan Costs

	<u>July 04</u>	<u>Aug 04</u>	<u>Sep 04</u>	<u>Oct 04</u>	<u>Nov 04</u>	<u>Dec 04</u>	<u>Jan 05</u>	<u>Feb 05</u>	<u>Mar 05</u>	<u>Apr 05</u>	<u>May 05</u>	<u>June 05</u>	<u>July 05</u>	<u>Aug 05</u>	<u>Sep 05</u>	<u>Oct 05</u>
Medical Plan Costs	243,999	243,772	241,493	241,761	247,757	246,931	260,686	275,435	277,952	278,093	280,713	279,891	280,316	280,391	277,715	278,449
Life Insurance Costs	11,554	11,729	11,577	12,692	12,071	11,951	11,909	0	0	0	0	9,893	10,117	10,058	10,206	9,989
Dental Plan Costs	14,197	14,250	14,014	14,014	14,454	14,407	15,593	16,611	16,842	16,761	16,907	16,831	16,851	16,862	16,748	16,782
Retirement Plan Costs	47,567	47,567	47,567	47,567	47,567	47,567	109,424	109,424	157,651	125,499	125,499	125,499	125,499	125,499	125,499	125,499
Long Term Disability Ins Costs	22,202	2,140	1,842	3,749	254	101	9,977	14,702	15,696	15,788	15,638	16,390	15,549	16,231	15,546	852
OPEB Costs (1)	229,471	229,471	229,471	229,471	229,471	229,471	240,593	240,593	121,061	200,775	200,756	171,462	171,462	171,462	171,462	171,462

(1) The June 2005 booked cost of \$171,462 was not used in the annualization adjustment because it had been adjusted to reflect the 2005 annual amount over the remaining seven months of 2005. The adjusted 2005 level was \$2,204,016 or \$183,668 per month.

Kentucky Power Company

REQUEST

The response to KPSC-1-23b, page 16 shows fringe benefit "loading" cost credits of \$375,545 (pension), \$1,507,472 (group insurance), \$417,229 (savings plan) and \$1,355,211 (OPEB) in accounts 9260050, 9260051, 9260052 and 9260053. In this regard, please provide the following information:

- a. Provide a detailed description of what each of these "loading" cost credits represent.
- b. This information indicates that the loading for pension costs represents a percentage of 35.7% ($\$375,545/\$1,051,138$), for group insurance represents a percentage of 42.88% [$\$1,507,472/(\$93,378+\$3,118,484+\$118,480+\$184,881)$], for the savings plan represents a percentage of 37.59% ($\$417,229/\$1,109,927$), and for OPEB represents a percentage of 39.91% ($\$1,355,211/\$3,395,427$). If these loading ratios are not correct, provide the correct information.
- c. Confirm that the loading ratios identified in part b above represent the percentages of the identified employee benefit costs that are charged to accounts other than O&M expense. If this is not correct, provide the correct answer.

RESPONSE

- a. The "loading" cost credits of \$375,545 (pension), \$1,507,472 (group insurance), \$417,229 (savings plan) and \$1,355,211 (OPEB) in accounts 9260050, 9260051, 9260052 and 9260053 represent the portions of pension, group insurance, savings plan and OPEB expenses that are charged to accounts other than O&M expense.
- b. The loading ratios for pension costs, group insurance, savings plan and OPEB stated in the question are correct.
- c. The loading ratios identified in part b represent the percentages of the identified employee benefit costs that are charged to accounts other than O&M expense.

WITNESS: Errol K Wagner and Ranie K Wohnhas

Kentucky Power Company

REQUEST

As shown on Section V, S-4, page 4, line 20, the Company has assumed an O&M ratio of 67.65% for each of the employee benefit costs listed on this exhibit. For each of the employee benefits that are listed on this exhibit, provide the actual O&M ratios for each of the years 2002, 2003, and 2004, and for the test year ended 6/30/05.

RESPONSE

Attached is the O&M ratio for years 2002, 2004 and the test year ended June 30, 2005.

WITNESS: Errol K Wagner

Kentucky Power Company
Annualization of Insurance Costs
O&M Percentage of Employee Benefits
Years 2002, 2003, 2004 and the Test Year Ended June 30, 2005

LINE NO. (1)	Description (2)	(3)	Amount (4)	Year 2002 (5)	Year 2003 (6)	Year 2004 (7)	Test Year Ended June 30, 2005 (8)
1	Annualization of June 2005 Monthly Medical Plan Costs (\$279,891 X 12)	\$3,358,692					
2	Medical Plan Costs for the Twelve Months Ended 06/30/2005	\$3,118,484					
3	Adjustment to Test Year Medical Plan Cost		\$240,208	56.56%	64.82%	65.19%	67.65%
4	Annualization of June 2005 Life Insurance Costs (\$9,893 X 12)	\$118,716					
5	Life Insurance Costs for the Twelve Months Ended 06/30/2005	\$93,378					
6	Adjustment to Test Year Life Insurance Costs		\$25,338	56.56%	64.82%	65.19%	67.65%
7	Annualization of June 2005 Dental Plan Costs (\$16,831 X 12)	\$201,972					
8	Dental Plan Costs for the Twelve Months Ended 06/30/2005	\$184,881					
9	Adjustment to Test Year Dental Plan Costs		\$17,091	56.56%	64.82%	65.19%	67.65%
10	Annualization of June 2005 Retirement Plan Costs (\$125,499 X 12)	\$1,505,988					
11	Retirement Plan Costs for the Months Ended 06/30/2005	\$1,038,398					
12	Adjustment to Test Year Retirement Plan Costs		\$467,590	56.56%	64.82%	65.19%	67.65%
13	Annualization of June 2005 Long Term Disability Ins Costs (\$16,390 X 12)	\$196,680					
14	Long Term Disability Ins Costs for the Twelve Months Ended 06/30/2005	\$118,480					
15	Adjustment to Test Year Long Term Disability Insurance Premium Cost		\$78,200	56.56%	64.82%	65.19%	67.65%
16	Annualization of June 2005 OPEB Costs (\$171,462 X 12)	\$2,204,016					
17	Adjustment to Test year OPEB Cost	\$2,552,060					
18	Adjustment to Test Year OPEB Cost		(\$348,044)	56.56%	64.82%	65.19%	67.65%
19	Total Employee Benefit Plan Cost Adjustments (Ln 3 + Ln 6 + Ln 9 + Ln 12 + Ln 15 + Ln 18)		\$480,383				
20	Employee Benefit Plan Applicable to O&M (Ln 19 X 67.65%)		\$324,979				
21	Allocation Factor - OML		0.991				
22	KPSC Jurisdictional Amount (Ln 20 X Ln 21)		\$322,054				

Kentucky Power Company

REQUEST

With regard to the proposed annualized pension costs of \$1,505,988 shown on line 10 of Section V, S-4, page 4, please provide the following information:

- a. Are these the pro forma pension costs for KPCo-Distribution or for both KPCo-Distribution and KPCo-Transmission?
- b. Reconcile the proposed annualized cost amount of \$1,505,988 to the 2005 FAS 87 pension costs for KPCo shown in the middle of the first column of the response to KPSC-1-50, page 49 of 139.
- c. Confirm that this same response to KPSC-1-50, page 49 of 139, indicates that KPCo's projected pension costs for 2006 and the years beyond will experience significant decreases. In addition, explain the reasons for this. If you do not agree, explain your disagreement.

RESPONSE

- a. The proforma pension costs are for all of Kentucky Power, which includes generation, transmission and distribution.
- b. See AG-1st Set, Item No. 35, page 2 of 3 for the reconciliation. See AG-1st Set, Item No. 35, page 3 of 3 for the page referenced as ML-1, which is a supplemental page from the 2005 actuarial report.
- c. The projections of pension expense in the actuarial report are useful for high level planning purposes, however, they contain too much uncertainty to allow them to be used to modify the test year actual expenses. The actual future expense will be different from the projections due to changes in interest rates, variances in the actual rate of return on assets achieved versus what is expected, changes in employee demographics, the amount of contributions to the pension plan, and fluctuations in retirement rates, mortality rates, and salary increases. In addition, there may be future changes in accounting standards that would affect the reported expense level, as well as changes in federal legislation that could affect the minimum amount of funding required. The projections in the actuarial report also assume that the amount of Pension Benefit Guarantee Corporation premiums for the plan will remain constant; however, there are several proposals pending in Congress that would increase the amount of the premiums (which would decrease the plan's assets and thus increase pension expense). The projections of pension expense beyond 2005 presented in the actuarial report lack the sufficient precision necessary to be useful in adjusting test year expenses.

WITNESS: Errol Wagner and Hugh McCoy

<u>Page</u>	<u>Location</u>	<u>Column</u>	<u>Amount</u>	<u>(000's)</u>	<u>June 2005</u> <u>MonthlyAccrual</u>	<u>June 2005</u> <u>Annualized</u>
49 of 139	Kentucky Power Company - Distribution	FAS 87 Cost 2005	762,877	763	63,583	762,996
49 of 139	Kentucky Power Company - Generation	FAS 87 Cost 2005	509,587	510	42,500	510,000
49 of 139	Kentucky Power Company - Transmission	FAS 87 Cost 2005	211,176	211	17,583	210,996
116 of 139	Kentucky Power Company - Generation	Net Periodic Pension Cost	3,300	3	250	3,000
ML-1	Kentucky Power Company - Distribution	Net Periodic Pension Cost	18,933	19	1,583	18,996
		Total	1,505,873		125,499	1,505,988

AMERICAN ELECTRIC POWER
 EAST EXCESS PLAN
 2005 NET PERIODIC PENSION COST

ML - 1

Location	Service Cost	Projected Benefit Obligation	Market-Related Value of Assets	Interest Cost	Expected Return on Assets	Initial Transition (Asset)/ Obligation	Prior Service Cost	Gain/Loss Amortization	Net Periodic Pension Cost
AEP Energy Services, Inc.	\$1,346	\$6,153	\$0	\$395	\$0	\$0	\$850	\$139	\$2,730
AEP Pro Serv, Inc.	0	0	0	0	0	0	0	0	0
AEP T & D Services, LLC	0	0	0	0	0	0	0	0	0
American Electric Power Service Corporation	991,622	54,344,202	0	2,912,710	0	0	1,292,518	1,226,615	6,423,465
Appalachian Power Co - Distribution	28	303,406	0	15,972	0	0	6,409	6,848	29,257
Appalachian Power Co - Generation	14	276	0	15	0	0	13	6	48
Appalachian Power Co - Transmission	0	0	0	0	0	0	0	0	0
C3 Communications, Inc.	0	0	0	0	0	0	0	0	0
Cardinal Operating Company	118	52	0	9	0	0	2	1	130
AEP Texas Central Company - Distribution	0	0	0	0	0	0	0	0	0
AEP Texas Central Company - Generation	0	0	0	0	0	0	0	0	0
AEP Texas Central Company - Nuclear	0	0	0	0	0	0	0	0	0
AEP Texas Central Company - Transmission	0	0	0	0	0	0	0	0	0
Columbus Southern Power Co - Distribution	90	21,269	0	1,125	0	0	562	481	2,258
Columbus Southern Power Co - Generation	8	174	0	10	0	0	11	4	33
Columbus Southern Power Co - Transmission	0	0	0	0	0	0	0	0	0
Conesville Coal Preparation Company	0	0	0	0	0	0	0	0	0
Cook Coal Terminal	0	0	0	0	0	0	0	0	0
CSW Energy, Inc.	0	0	0	0	0	0	0	0	0
Elmwood	0	0	0	0	0	0	0	0	0
EnerShop Inc.	0	0	0	0	0	0	0	0	0
Indiana Michigan Power Co - Distribution	1,123	26,505	0	1,454	0	0	804	598	3,979
Indiana Michigan Power Co - Generation	0	0	0	0	0	0	0	0	0
Indiana Michigan Power Co - Nuclear	5,019	8,704	0	722	0	0	892	196	6,829
Indiana Michigan Power Co - Transmission	0	130,994	0	6,895	0	0	3,091	2,957	12,943
Kentucky Power Co - Distribution	470	192,810	0	10,174	0	0	3,937	4,352	18,933
Kentucky Power Co - Generation	0	0	0	0	0	0	0	0	0
Kentucky Power Co - Transmission	0	0	0	0	0	0	0	0	0
Kingsport Power Co - Distribution	0	0	0	0	0	0	0	0	0
Kingsport Power Co - Transmission	0	0	0	0	0	0	0	0	0
Memco	6,515	21,312	0	1,465	0	0	289	481	8,750
Ohio Power Co - Distribution	0	0	0	0	0	0	0	0	0
Ohio Power Co - Generation	104	281	0	20	0	0	7,101	6	7,231
Ohio Power Co - Transmission	0	0	0	0	0	0	0	0	0
Public Service Co of Oklahoma - Distribution	0	0	0	0	0	0	0	0	0
Public Service Co of Oklahoma - Generation	0	0	0	0	0	0	0	0	0
Public Service Co of Oklahoma - Transmission	0	0	0	0	0	0	0	0	0
Southwestern Electric Power Co - Distribution	0	0	0	0	0	0	0	0	0
Southwestern Electric Power Co - Generation	0	0	0	0	0	0	0	0	0
Southwestern Electric Power Co - Texas - Distribution	0	0	0	0	0	0	0	0	0
Southwestern Electric Power Co - Texas - Transmission	0	0	0	0	0	0	0	0	0
Southwestern Electric Power Co - Transmission	0	0	0	0	0	0	0	0	0
Water Transportation (Blackhawk)	0	0	0	0	0	0	0	0	0
AEP Texas North Company - Distribution	0	0	0	0	0	0	0	0	0
AEP Texas North Company - Generation	0	0	0	0	0	0	0	0	0
AEP Texas North Company - Transmission	0	0	0	0	0	0	0	0	0
Wheeling Power Co - Distribution	0	0	0	0	0	0	0	0	0
Wheeling Power Co - Transmission	0	0	0	0	0	0	0	0	0
Cedar Coal Co	0	0	0	0	0	0	0	0	0
Central Coal Company	0	0	0	0	0	0	0	0	0
Central Ohio Coal	0	0	0	0	0	0	0	0	0
Southern Ohio Coal - Martinka	0	0	0	0	0	0	0	0	0
Southern Ohio Coal - Melgs	0	0	0	0	0	0	0	0	0
Windsor	0	0	0	0	0	0	0	0	0
Price River Coal	0	0	0	0	0	0	0	0	0
Houston Pipeline (HPL)	14,145	63,230	0	4,073	0	0	1,780	1,427	21,425
Total	\$1,020,602	\$55,119,388	\$0	\$2,955,039	\$0	\$0	\$1,318,259	\$1,244,111	\$6,538,011

Kentucky Power Company

REQUEST

With regard to the proposed annualized net OPEB costs of \$2,204,016 shown on line 16 of Section V, S-4, page 4, please provide the following information:

- a. Reconcile the proposed annualized net cost amount of \$2,204,016 to the 2005 net OPEB costs for KPCo shown in the middle of the last column of the response to KPSC-1-51c, page 50 of 60.
- b. Confirm that this same response to KPSC-1-51c, pages 51 through 53 of 60 indicates that KPCo's projected pension costs for 2006 through 2008 will experience significant decreases. In addition, explain the reasons for this. If you do not agree, explain your disagreement.

RESPONSE

a.

Page	Location	Column	Amount
50 of 60	Kentucky Power Company-Distribution	Net Periodic Postretirement Benefit Cost	\$1,311,739
50 of 60	Kentucky Power Company-Generation	Net Periodic Postretirement Benefit Cost	700,699
50 of 60	Kentucky Power Company-Transmission	Net Periodic Postretirement Benefit Cost	191,576
		Total	\$2,204,014

b. The projections of post-retirement expense in the actuarial report are useful for high level planning purposes, however they contain too much uncertainty to allow them to be used to modify the test year actual expenses. The actual future expense achieved will be different from the projections due to changes in interest rates, variances in the actual rate of return on plan assets achieved versus what is expected, changes in employee demographics, the amount of contributions to the post retirement benefit plans, and fluctuations in retirement rates, mortality rates, and salary increases. In addition, there may be changes in accounting standards that would affect the reported expense level. The projections in the actuarial report also make assumptions on rate of inflation for medical expenses, which in the past has proven to be difficult to predict.

The retiree medical benefits provided by AEP works in coordination with the benefits provided by Medicare. The projections assume a constant level of benefits provided to retirees by Medicare, although changes in legislation may change the level of benefits from that program. Any changes in Medicare would result in either increases or decreases in the amount of the benefit that would be provided by the company, and could change the amount of the projected expense significantly. The projections of post-retirement benefit expense beyond 2005 presented in the actuarial report lack the sufficient precision necessary to be useful in adjusting test year expenses.

WITNESS: Errol Wagner and Hugh McCoy