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January 6, 2009

PUBLIC SERVICE COMMISSION

Stephanie Stumbo, Executive Director
Kentucky Public Service Commission
211 Sower Boulevard, PO Box 615
Frankfort, Kentucky 40602-0615

Re: Case No. 2008-00349

Dear Ms. Stumbo:

Please find attached for filing with the Commission an original and ten copies of an Answer to the 12/31/08 Response of Kentucky Power in the above-referenced case.

Sincerely,

Geoffrey M. Young

Geoffrey M. Young

Enclosures

cc: Parties listed on the Certificate of Service

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

JOINT APPLICATION PURSUANT TO 1994	)	
HOUSE BILL NO. 501 FOR THE APPROVAL	)	
OF KENTUCKY POWER COLLABORATIVE	)	
DEMAND-SIDE MANAGEMENT PROGRAMS,	)	
AND FOR AUTHORITY TO IMPLEMENT A	)	
TARIFF TO RECOVER COSTS, NET LOST	)	**CASE NO.**
REVENUES AND RECEIVE INCENTIVES	)	**2008-00349**
ASSOCIATED WITH THE IMPLEMENTATION	)	
OF THE KENTUCKY POWER COMPANY	)	
COLLABORATIVE DEMAND-SIDE	)	
MANAGEMENT PROGRAMS BEGINNING	)	
JANUARY 1, 2009	)	

ANSWER TO RESPONSE OF
KENTUCKY POWER RE
APPLICATION FOR REHEARING

On December 31, 2008, Kentucky Power Company ("Kentucky Power") submitted an unsolicited document titled, "Response of Kentucky Power Company To Mr. Young's 'Application For Rehearing.'" This document is my answer to the arguments Kentucky Power made therein.

1. Kentucky Power's First Argument Is a Deliberate Mischaracterization of My Position.

Kentucky Power stated, "Mr. Young first argues the Commission's jurisdiction is not limited to the rates and service of the entities regulated by the Commission." (Response

at 1) This statement is false. Here is what I actually wrote:

> *Because this particular statute [KRS 278.040(2)] is an enabling statute for* the Commission rather than a limiting one, it is not at all clear that it limits the Commission's authority in any way. Perhaps one might be justified in concluding that by specifying "rates and service" in this statute, the legislature was thereby prohibiting the Commission from regulating anything beyond or other than the jurisdictional utilities' rates and services. Such an interpretation, however, is not at all self-evident and might be overly restrictive of the Commission's authority. If the restrictive interpretation is valid, it would limit the types of proceedings the Commission may lawfully initiate and conduct. (Young, 12/22/08 Application for Rehearing at 3)

At most, I argued that KRS 278.040(2) might not limit the Commission's authority, or that the implications of the statute could be interpreted in more than one way. I stated that the issue "is not at all clear" and that the interpretation is "not at all self-evident." Kentucky Power deliberately characterized my comments as being stronger on this point than they were. The obvious reason they did so was to erect a straw man that they could then knock down. This is a common rhetorical ploy that is generally considered to be deceptive rather than logically sound. In fact, my "dispute, and remedy, if any," does not lie "with the Kentucky Supreme Court or the General Assembly." (Kentucky Power Response at 2) I have no dispute with either body at this time.

It is extremely interesting to read Kentucky Power's footnote number 4, which included language from the Opinion in Boone County Sewer & Water District v. Public Service Commission, 949 S.W.2d 588, 591 (Ky. 1997), as follows: "The powers of the PSC are purely statutory and it has only such powers as are conferred expressly or by necessity or fair implication..." (Id.) This means that in addition to having "exclusive jurisdiction over the regulation of rates and service of utilities," the Commission also has any powers that are conferred "by necessity or fair implication." Apparently there is a

penumbra of authority that extends slightly beyond "rates and service" to those related powers that the Commission needs in order to fulfill its regulatory mandate as established by the General Assembly – hence the reference to "necessity" – and to those powers that a reasonable person would consider to be related to the Commission's mandate by "fair implication." The Boone County Opinion that Kentucky Power cited thus actually supports my conclusion to the effect that the Commission's authority is not strictly limited by the phrase, "rates and service." I had not previously been aware of this support for my position in Kentucky case law, and I appreciate Kentucky Power's bringing it to my attention.

2. Kentucky Power's Second Argument Is Based on a Fallacy.

Kentucky Power stated, "But if the Commission lacks jurisdiction to consider the issues Mr. Young seeks to raise, it likewise lacks the ability to grant Mr. Young any relief with respect to the issues, including the ability to permit Mr. Young to intervene to raise issues outside the Commission's jurisdiction." (Response at 2) The fallacy is that the issues I seek to raise via full intervention in this case are squarely within the Commission's jurisdiction. What is more, Kentucky Power is fully aware of that fact.

In my 11/5/08 Petition to Intervene, I stated that I seek to raise issues, submit information requests, and possibly submit testimony related to Kentucky Power's DSM programs and DSM-related tariffs, which constitute the subject matter of this case. (Young, Petition at 2-4) In my Application for Rehearing, I pointed out that the Commission did not even attempt to challenge any aspect of the argument that showed that I have a special interest in Kentucky Power's rates and service. (Young, 12/22/08 Application for Rehearing at 4) Kentucky Power's Response attempts to convey the false impression that I

never stated a special interest in this proceeding that is within the Commission's jurisdiction. (Response at 1-3)

It is awfully easy to "win" an argument when one pretends that one's opponent never made the points he actually made. Another way to "win" an argument is to pretend that one's opponent made a number of weak arguments that in fact he did not make. Kentucky Power engaged in both of these fallacious techniques in its Response.

3. Kentucky Power's Third Argument Is Logically Absurd.

Kentucky Power's third argument consists, in its entirety, of the following sentence: "Moreover, even if the Commission's regulation were as expansive as Mr. Young insists, and it is not, the jurisdictional statute, not the regulation, would control." (Response at 2) The first half of this sentence is another misrepresentation of my position, but this time it is less blatant. The regulation that governs whether a petitioner shall be granted full intervention, 807 KAR 5:001, Section 3(8), is no more and no less "expansive" than the plain meaning of its own words. If I am "insisting" on anything here, it is only that the Commission follow its own regulations. (Hagan v. Farris, 807 S.W.2d 488, 490 (Ky. 1991); Young, 12/22/08 Application for Rehearing at 4)

The idea in the second half of the sentence, that a statute prevails over a regulation, is generally correct, but with one important proviso: The statute and the regulation need to be dealing with the same topic. I made a *prima facie* case that KRS 278.040(2) and 807 KAR 5:001, Section 3(8) have nothing to do with each other. (Id. at 3-4) Neither the Commission nor Kentucky Power has refuted that argument. If a given statute has no bearing on a given regulation, then to say that the statute prevails over the regulation is a mere absurdity.

4. Kentucky Power's Fourth Argument Is Merely an Unsupported Assertion.

Kentucky Power's fourth argument reduces to the idea that the Commission has ruled that I do not have a "special interest" in the proceeding, as defined by the Commission, that Kentucky Power agrees with the Commission, and that Kentucky Power therefore disagrees with me. (Response at 2-3) That argument is as unsupported, vacuous, and arbitrary as the Commission's finding was, as I showed in my 11/5/08 Application for Rehearing in Case No. 2008-00350 at 1-5. (*see also* Young, 11/5/08 Petition for Full Intervention at 1-3) Because the Commission's unsupported and arbitrary Denial Order in Case No. 2008-00349 was virtually identical to its unsupported and arbitrary Denial Order in Case No. 2008-00350, I incorporated my entire response, which took the form of an Application for Rehearing, into this case. (Young, 12/22/08 Application for Rehearing at 2) Kentucky Power appears to have ignored that fact.

5. Kentucky Power's Position Contradicts Major Policy Statements of AEP, the Corporation that Owns and Controls Kentucky Power.

The attached pages ("Attachment A") are from the web site of AEP, the corporation that owns and controls Kentucky Power. The first topic listed under the major heading, "Corporate Citizenship" is all about the challenge of climate change. The importance of this fact in the context of this case is that AEP has formally and officially recognized that burning coal in its power plants contributes to global warming. This is one of the points I made in my 11/5/08 Petition for Full Intervention (Petition at 2)

Another subheading listed under "Corporate Citizenship" is "Demand-Side Management," the subject of this case and Case No. 2008-00350. Some pertinent

statements AEP makes about DSM include the following:

- "AEP is committed to pursuing energy efficiency and DSM programs in all of the states in which we operate."

- "We believe these programs should be an important part of our Integrated Resource Plan."

- "Reasonable cost recovery is an issue for us, too, in some jurisdictions."

- "We support greater consistency across supply-side and demand-side cost recovery treatment but continue to face a regulatory preference for supply-side investments in many states."

- "Much to the frustration of some stakeholders, we previously did not have a clearly defined policy on energy efficiency. In 2007, therefore, we clarified our policy..."

- "We fully support programs that result in additional conservation and reduction – critical components in addressing climate change."

- "Many of our stakeholders, including customers, employees and regulators, agree with this philosophy [on demand-side efficiency] and we will continue to work with them to make it not just a philosophy but a reality."

- Under the subheading, "Challenges, Goals, Progress," one of the goals is: "Collaborate with stakeholders to bring cost-effective EE/DSM programs to regulators, resulting in both MW and MWh reductions, delaying demand for new generation."

Many of these statements of commitment are extremely promising to an environmentalist and energy efficiency specialist such as I, because they strongly suggest that it should be possible to work constructively with AEP/Kentucky Power on these issues in a collaborative manner.

Unfortunately, Kentucky Power's legal team does not seem to have gotten the message from its corporate headquarters in Columbus, Ohio. What we see in case Nos. 2008-00350 and 2008-00349 is an effort by Kentucky Power to slam the door against a well-informed stakeholder who has worked constructively with the utility for several years to improve its DSM programs, including the related cost recovery mechanisms and tariffs. When I worked for the Kentucky Division of Energy, I was an active member of the AEP/Kentucky Power DSM Collaborative. (Young, 11/5/08 Petition for Full Intervention at 3-4)

The position taken by Kentucky Power's legal team is actually quite extreme and radical when one stops to think about it. By strongly supporting the Commission's decision to deny full intervenor status to this environmentalist, Kentucky Power is saying, in effect, that nothing I could contribute to these proceedings could possibly have any relevance or value to the utility's DSM programs. Kentucky Power's legal team is saying, in effect, that AEP's stated policy of working with interested stakeholders is not going to apply to a certain environmentalist in Kentucky. Kentucky Power's legal team, in effect, is trying to carve out a "Geoff Young Exception" to the forward-looking policy embraced by their top corporate executives in Columbus. Besides being unreasonable and discriminatory, such an attitude represents a missed opportunity to implement some of AEP's and Kentucky Power's stated goals that relate to energy efficiency and the environment.

WHEREFORE, I respectfully renew my request that the Commission grant a hearing to reconsider and reverse its determination of 12/4/08 to deny my petition for full intervention in this proceeding. I also request that the Commission allow me to serve an information request upon Kentucky Power and require the utility to respond to it.

Respectfully submitted,

Geoffrey M. Young 1/6/09

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CERTIFICATE OF SERVICE

I hereby certify that an original and ten copies of the foregoing Answer to the Response of Kentucky Power were delivered to the office of Stephanie Stumbo, Executive Director of the Kentucky Public Service Commission, 211 Sower Boulevard, PO Box 615, Frankfort, Kentucky 40602-0615, and that copies were mailed to the following parties of record on this 6th day of January, 2009.

Errol K. Wagner
AEP/ Kentucky Power
101A Enterprise Drive
P.O. Box 5190
Frankfort, KY 40602

Dennis G. Howard II
Office of the Attorney General
Utility & Rate Intervention Division
1024 Capital Center Drive, Suite 200
Frankfort, KY 40601-8204

Signed,

Geoffrey M. Young 1/6/09

Geoffrey M. Young Date

Attachment A

Corporate Citizenship

Where AEP Stands On Climate Change

The world is poised to make the most dramatic change in energy production since the Industrial Revolution Our collective response to climate change is creating a transformation that will lead to profound consequences for all sectors of the global economy As one of the largest consumers of coal in the Western Hemisphere, AEP recognizes the urgent need to balance the growing demand for electricity with the imperative to protect the environment for future generations.

The scientific community, led largely by the Intergovernmental Panel on Climate Change, has provided scientific evidence that human activity has contributed to global warming AEP is helping to lead the discussion nationally and internationally to find a reasonable, achievable approach and enact federal energy policy that is realistic in time frame and does not seriously harm the U S economy We also are developing advanced coal technologies so that coal can continue to be the important energy resource it is today We support the adoption of an economywide, cap-and-trade greenhouse gas (GHG) reduction program that allows us to provide reliable, reasonably priced electricity to our customers and that fosters the international participation that is necessary to make meaningful progress

At AEP, we believe that cap-and-trade legislation should include:

- A cap that applies to all sectors of the economy and covers all GHGs.
- A framework that maximizes flexibility and minimizes cost.
- Phase-in of reduction requirements that matches available technology
- Unrestricted use of real and verifiable domestic and international emissions offsets, such as methane capture and destruction from landfills and livestock waste and international deforestation protection.
- Allowance allocations to electric generators and other sources based on historical emissions. This might include, if absolutely necessary, a small number of allowances (i e , less than 5 percent) to be auctioned or set aside for public purposes.
- Incentives for early voluntary actions or investments made to reduce emissions
- Long-term public and private funding to develop commercially viable technology

solutions, such as carbon capture and storage.

- Elimination of legal and regulatory barriers to the use of lowor no-carbon technologies or processes (e g , carbon capture, nuclear, wind)
- Regulatory pre-approval of utility cost recovery for effective energy efficiency and demand-side management (DSM) programs.
- A price ceiling (safety valve) on CO2 allowances to limit the economic burden on emitters and on the economy as a whole. Companies with compliance obligations can buy emission allowances from the federal government at the safety valve price.
- An appropriate trade measure to equalize the conditions of global trade should other countries fail to reduce GHGs

Cap-and-trade is widely considered the most effective system to reduce GHG emissions, although debate continues about whether permits should be allocated or sold at auction. We favor allowances, based on our experience with the Environmental Protection Agency's Acid Rain Program and the Chicago Climate Exchange (CCX), both of which allocate allowances based on historical emissions with little or no auction. The EPA program, with only a 3 percent auction of allowances, has been hailed as a major success because of the affordability it provides in reducing acid rain-causing emissions.

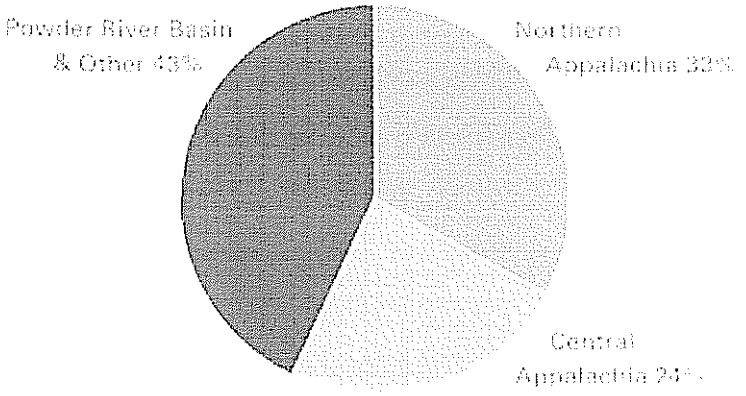
A large auction of allowances would require emitters to buy allowances to cover all of their emissions. This would place unfair costs on customers of regulated utilities, especially those whose electricity comes from coal.

Our stakeholders are divided on having a price ceiling, or "safety valve," in the legislation. The Environmental Defense Fund, for example, strongly opposes a safety valve and has urged us to abandon our support for that provision. Our customers, however, could be severely affected by escalating energy rates if carbon prices were entirely market-based, and would pay more for their energy, through no fault of their own, than customers of utilities that derive less of their power from coal. We believe a safety valve, which sets a ceiling on the cost of CO2 allowances, would protect the economy if carbon prices skyrocket. Some of our stakeholders are frustrated with this position. We have agreed to continue to discuss this issue to find common ground.

Some stakeholders have asked why we have not joined the United States Climate Action Partnership (USCAP), which provides general recommendations for establishing a mandatory domestic GHG cap-and-trade program that would reduce CO2 equivalent emissions by 60 percent to 80 percent by 2050. AEP's decision not to join USCAP is based on several factors, including:

1. The proposal's lack of a price-based safety valve to prevent undue economic harm
2. The recommendation that allowances transition to be fully auctioned instead of freely allocated
3. AEP's belief that near and intermediate-term emission reduction targets may be too onerous to be achieved cost-effectively

2008 Projected Coal Consumption by Origin



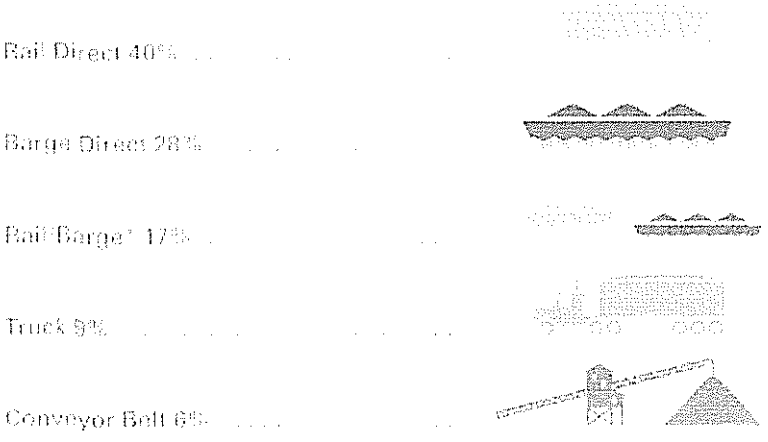
AEP burns approximately 76 million tons of coal per year

We support another GHG cap-and-trade proposal – Senate Bill 1966, the Low Carbon Economy Act of 2007, introduced by U.S. Sens. Jeff Bingaman (D – N.M.) and Arlen Specter (R – Pa.) that provides the best balance of current legislation in addressing these key issues.

The Role Of Coal In Our Future

For all its challenges, coal remains an important energy resource for the future. It is an abundant, domestic and relatively inexpensive source of energy. Fully one-half of America's daily electricity supply comes from coal and no other fuel is capable of meeting that need on a cost-effective basis. Twenty-five of AEP's 61 power plants burn coal to generate electricity, accounting for 68 percent of our total generating capacity.

Coal Delivery to AEP's Power Plants



In recent years, however, coal-fired power plants have become increasingly difficult to site and build. Our proposed Oklahoma plant was turned down, one of 59 U.S. plants that were cancelled, delayed, or abandoned in 2007 because of objections to coal. Such setbacks make it increasingly likely that demand for electricity will outstrip supply in the next decade. Given the aging infrastructure we have today, these delays may well cause higher prices and supply concerns – without creating any major environmental benefits.

We believe that climate change will not be solved through a single solution, but rather through multiple options and public policies to support them. Advanced coal technologies such as Integrated Gasification Combined Cycle (IGCC), ultra-supercritical pulverized coal, renewable energy sources, energy efficiency and DSM programs for consumers, new nuclear power plants, and new transmission and distribution infrastructure are all needed to make our electricity system more efficient and must all be part of the solution

Corporate Citizenship

Energy Efficiency and DSM in 2 States

Demand Side Management

AEP is committed to pursuing energy efficiency and DSM programs in all of the states in which we operate. We believe these programs should be an important part of our Integrated Resource Plan. The challenge is that we have some of the lowest electricity rates in the country, making it difficult for such programs to pass the "cost-effectiveness" tests that can motivate behavior changes. Reasonable cost recovery is an issue for us, too, in some jurisdictions. We support greater consistency across supply-side and demand-side cost recovery treatment but continue to face a regulatory preference for supply-side investments in many states.

Much to the frustration of some stakeholders, we previously did not have a clearly defined policy on energy efficiency. In 2007, therefore, we clarified our policy and developed a strategy (through our gridSMART℠ initiative) to take us beyond traditional energy efficiency and DSM programs.

We fully support programs that result in additional conservation and reduction – critical components in addressing climate change. We have ongoing programs in Kentucky and Texas, have recently initiated several programs in Arkansas, and have requested approval for programs and related cost recovery in Oklahoma and Indiana. As part of our gridSMART℠ initiative we will begin approaching regulators, customers and other stakeholders in the remaining states we serve. View a state-by-state review of energy efficiency programs and actions in AEP's service territory.

American Electric Power Co., Inc.

gy efficiency strategy must go far beyond changing light bulbs and rebates. Our gridSMART℠ initiative seeks to put consumers in control of electricity usage by giving them the information about when energy is at peak demand, and when there is excess capacity in the system – and enabling them to adjust their usage accordingly. Facilitating informed decisions by our customers will help us reduce the number and length of outages, improve service and postpone the need for new generation. (Read more about gridSMART℠ in the Energy Security, Reliability & Growth section.)

Overall, our philosophy on demand-side efficiency is to help our customers understand the true value of electricity, in the belief that they will be motivated to change how they use it – and be more likely to embrace technologies and rate structures that encourage energy conservation. Many of our stakeholders, including customers, employees and regulators, agree with this philosophy and we will continue to work with them to make it not just a philosophy but a reality.

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Corporate Citizenship

Energy Efficiency and DSM in 2 States

Energy Efficiency and DSM in 2 States

Demand-side management (DSM) is an issue that varies in appeal and popularity from state to state within the AEP service territory. Several factors, such as the cost of energy, generation capacity utilization, market structure, and the regulatory and legislative climate, will determine if a DSM program is in place. Within AEP two states, Texas and Kentucky, have DSM programs. AEP is looking at the dynamics of DSM programs overall to determine a strategy going forward.

Under a DSM program, a utility will provide educational materials and perform certain services, such as energy audits, for customers in order to show them how to use less energy. The objective is to avoid the capital cost of building new generation and to reduce emissions from generating electricity. Utilities are generally allowed to recoup the costs of operating these programs and, in some cases additional amounts, in their rates.

Texas

Texas implemented DSM programs as part of its restructuring legislation in 1999 and subsequent legislation. Each transmission and distribution utility's mandated goal is to save 10 percent of its five-year average rate of growth in demand. Results for AEP's three Texas companies are as follows:

	AEP Company	Capacity	MWH Saved	Company Expenditure
2002:	SWEPCO	1.24 MW	6,371 MWH	$ 1,839,898
	Texas Central	1.96 MW	8,295 MWH	$ 4,385,378
	Texas North	1.10 MW	6,549 MWH	$ 1,598,948
2003:	SWEPCO	1.34 MW	5,151 MWH	$1,749,854
	Texas Central	11.76 MW	38,883 MWH	$7,714,281
	Texas North	1.70 MW	7,817 MWH	$1,615,816
2004:	SWEPCO	1.19 MW	3,562 MWH	$2,533,250

	Texas Central	7 34 MW	25,528 MWH	$6,235,981
	Texas North	3 31 MW	11,235 MWH	$1,628,464
2005:	SWEPCO	3.70 MW	21,605 MWH	$1,903,418
	Texas Central	9.70 MW	32,033 MWH	$6,339,194
	Texas North	1 76 MW	6,144 MWH	$1,244,450
2006:	SWEPCO	0.90 MW	4,198 MWH	$1,656,948
	Texas Central	11 15 MW	33,134 MWH	$6,334,949
	Texas North	1 51 MW	4,759 MWH	$ 1,251,621
2007:	SWEPCO	1 638 MW	5,638MWH	$1,234,334
	Texas Central	9.49 MW	25,233 MWH	$5,043,682
	Texas North	1 367 MW	4,855 MWH	$987,134
Six-year Cumulative:		72 16 MW	250,990 MWH	$55,297,600

These are permanent reductions in customer energy use and demand. While the transmission and distribution companies are responsible for the achieving the savings, third parties market the actual DSM programs. AEP does not perform any of these energy efficiency services nor does it install any efficiency measures directly for end-use customers. The programs offered are based on commission-approved templates.

Kentucky

Kentucky Power's DSM program dates to 1994, when a number of groups representing a cross section of residential, commercial, and industrial customers established the Kentucky Power Demand-Side Management Collaborative. Kentucky Public Service Commission's statute KRS 278.285 enabled the program. The Commission approved recovery of the full cost for implementing the programs, revenues lost because of the programs and financial rewards for utilities implementing cost-effective DSM programs.

Kentucky Power developed 10 DSM programs. The Commission also assigned the cost for each program to be paid by the rate class being served by the program. The program's results are as follows:

	Capacity	MWH Saved	Program Expenditures
2002	1.57 MW	1,550 MWH	$566,520
2003	0 93 MW	858 MWH	$452,712

2004	1 19 MW	2,323 MWH	$549,437
2005	1.20 MW	1,155 MWH	$609,695
2006	1 53 MW	1,360 MWH	$684,151
2007	1 65 MW	1,523 MWH	$754,874
Six-Year Accumulative to Date	8 07 MW	8,769 MWH	$3,617,389
12-Year Accumulative to Date	19 86 MW	411,212 MWH	$8,652,554

Corporate Citizenship

Challenges, Goals, Progress

Challenge	Goal	Progress
Reduce or offset approximately 46 million metric tons of carbon dioxide equivalent emissions between 2003 and 2010, in spite of uncertainty how these voluntary reductions will be treated under federal climate legislation	Meet our CCX commitment through 2010 through a broad portfolio of actions: • Power plant efficiency improvements • Renewable generation • Off-system GHG reduction projects, including forestry • Direct purchase of emission credits through CCX	Through 2007, reduced or offset CO2 emissions by approximately 43 million metric tons through power plant efficiencies. • Completed purchase agreement for 4 6 million carbon credits between 2010-2017 from methane capture from livestock • Did not meet forestry goal due to competing interests for land that made it inefficient and too costly
With no further actions, AEP's emissions will increase by approximately 10 million to 15 million metric tons between 2010 and 2020, as new generating plants come online	Implement our post-2010 strategy to reduce carbon dioxide equivalent emissions by approximately 5 million metric tons per year: • Bring new carbon capture and storage technology to commercial operation • Invest in other advanced coal technologies, including IGCC and USC • Increase renewable energy • Invest in a range of offsets, including methane capture and forestry • Implement EE/DSM programs to reduce consumption. • Make efficiency improvements to power plants and retire less efficient, older plants • Offset corporate mobile fleet and aircraft emissions	Signed three long-term power agreements for 275 MW wind; 75 MW online January 2008 with remainder scheduled to be online December 2008 • Mountaineer chilled ammonia carbon capture and storage (CCS) project expected to begin operation in 2009 • Commercial operation of CCS at a power plant likely to begin in 2012 This project will reduce emissions by 1.5 million metric tons per year • Arkansas and Louisiana regulators gave conditional approval to USC plant; Texas approval pending. Oklahoma regulators rejected second USC plant • Proposed IGCC plant in West Virginia approved (decision pending in Virginia); legal challenge to Ohio IGCC sent back to PUCO • Identified efficiency improvements to power plants to potentially reduce CO2 emissions by 1 1 million tons per year, after 2015 • 31 percent of 542 new light-duty

Challenge	Goal	Progress
		vehicles ordered for 2008 are hybrid or flex fuel - Reduced mobile fleet emissions, including aircraft, through carbon credits
Implement cost-effective energy efficiency and DSM programs that motivate customers to reduce energy consumption	Collaborate with stakeholders to bring cost-effective EE/DSM programs to regulators, resulting in both MW and MWh reductions, delaying demand for new generation Obtain regulatory support for gridSMART℠ initiative, including traditional EE/DSM programs, new digital grid and smart metering technology Reduce 1,000 MW of demand by 2012 – 15 percent to come from AEP; 85 percent to come from customer programs Deploy 5 million smart meters by 2015, with regulatory support	Developed clearer policy on EE/DSM - For complete state-by-state information on 2007 EE/DSM activities, see www.AEP.com/cr/energyefficiency - Kicked off gridSMART℠ initiative that includes traditional EE/DSM program development and new technologies. Signed agreement with General Electric Co. to jointly develop and deploy equipment and technology programs to support this initiative - Working collaboratively with Indiana Utility Consumer Counsel to implement 10,000-meter pilot in South Bend, Ind. - Participation with Leadership Group of National Action Plan for Energy Efficiency
Reasonable and achievable carbon controls that encourage other nations to participate, as described in AEP's climate change policy	A market-based federal cap-and-trade program that includes all sectors and sources, rewards early action, allows GHG offsets, supports public and private funding for technology development, includes a safety valve on the market price for purchasing allowances that protects the economy, allowances allocated based on historical emissions with only a small number of allowances (less than 5 percent) auctioned or set aside for public benefit	AEP supports Senate Bill 1766, the Low Carbon Economy Act of 2007 introduced by U.S. Sens. Jeff Bingaman (D – N.M.) and Arlen Specter (R – Pa.) - Ongoing discussions with policymakers, industry peers and environmental stakeholders. - Supported Business Roundtable Energy Task Force report calling for diversified, domestic-based energy supply mix, increased EE/DSM and more investment in new technologies, such as carbon capture and storage - Broad support for AEP/IBEW provision for climate change legislation - Through participation in WBCSD, AEP is one of 10 global companies to develop report outlining policies and technologies needed for sustainable electricity future. Report presented at U.N. climate negotiations in Bali, Indonesia - Hosted e8 coal power plant

Challenge	Goal	Progress
		conference; engineers from India and Indonesia participated Through e8 participation. Galapagos wind energy project completed and brought online Wind turbines displace partial need for diesel fuel for electricity, reducing the risk of fuel spills and emissions that could harm the fragile ecosystem of the Archipelago Certified under Kyoto Protocol Clean Development Mechanism AEP donated and installed 12 photovoltaic panels and funded training for long-term repairs and maintenance of both the solar and wind equipment