RECEIVED

APR 23 2013

PUBLIC SERVICE COMMISSION

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

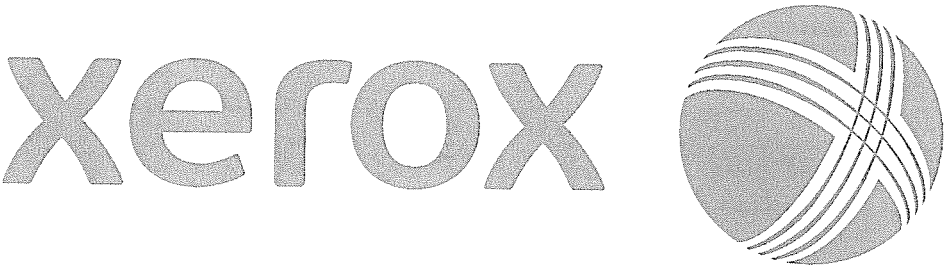
IN THE MATTER OF: THE APPLICATION OF KENTUCKY POWER COMPANY FOR (1) A CERTIFICATE OF PUBLIC CONVENIENCE AND NECESSITY AUTHORIZING THE TRANSFER TO THE COMPANY OF AN UNDIVIDED FIFTY PERCENT INTEREST IN THE MITCHELL GENERATING STATION AND ASSOCIATED ASSETS; (2) APPROVAL OF THE ASSUMPTION BY KENTUCKY POWER COMPANY OF CERTAIN LIABILITIES IN CONNECTION WITH THE TRANSFER OF THE MITCHELL GENERATING STATION; (3) DECLARATORY RULINGS; (4) DEFERRAL OF COSTS INCURRED IN CONNECTION WITH THE COMPANY'S EFFORTS TO MEET FEDERAL CLEAN AIR ACT AND RELATED REQUIREMENTS; AND (5) FOR ALL OTHER REQUIRED APPROVALS AND RELIEF	:	**Case No. 2012-00578**

KIUC'S RESPONSES TO
KENTUCKY POWER COMPANY'S
FIRST REQUEST FOR INFORMATION

KIUC ATTACHMENTS TO Q 1-3

kwalton

KPCO 1-3 (b) ML12 Transfer STRAT INPUT DAT
04/22/13 02:36 PM



25 yr amortization

						KPCo
					20%	
	$000	$000	$000	$000		154
	FOM	**Capital**	**Maj Capital**	**Transfer**		
	Mitchell 1	Mitchell 1	Mitchell 1	Mitchell 1		
2011	0	0	0			$0
2012	0	0	0			$0
2013	0	0	0			$0
2014	4,918	5,048	3,043	**107,182**		$21,034
2015	4,928	4,451	1,427			$21,865
2016	7,062	1,935	993			$24,408
2017	5,772	1,421	3,234			$23,769
2018	6,041	2,520	3,783			$24,919
2019	7,298	5,709	2,146			$27,275
2020	7,000	3,305	0			$27,438
2021	5,464	9,705	0			$27,260
2022	6,538	4,941	0			$29,024
2023	6,669	5,065	0			$29,863
2024	6,802	5,192	0			$30,722
2025	6,938	5,321	0			$31,602
2026	7,077	5,454	0			$32,503
2027	7,218	5,591	0			$33,426
2028	7,363	5,730	0			$34,372
2029	7,510	5,874	0			$35,340
2030	7,660	6,021	0			$36,332
2031	7,813	6,171	0			$37,348
2032	7,970	6,325	0			$38,389
2033	8,129	6,483	0			$39,454
2034	8,292	6,646	0			$40,546
2035	8,458	6,812	0			$41,664
2036	8,627	5,586	0			$42,614
2037	8,799	3,435	0			$43,267
2038	8,975	1,408	0			$43,640
2039	9,155	289	0			$27,745
2040	9,338	0	0			$137,359
						$262,967

770/790

As of 12/31/2013

(Transfer Date)

	Dr/(Cr)		
	Mitchell 1 & 2		
2014	535,911,367	770	MW

from file AM3 ML 12-31-13 forecast.xls

25 yr amortization

KPCo
20%
158

	$000 FOM Mitchell 2	$000 Capital Mitchell 2	$000 Maj Capital Mitchell 2	$000 Transfer Mitchell 2	
2011	0	0	0		$0
2012	0	0	0		$0
2013	0	0	0		$0
2014	4,880	5,048	3,043	**107,182**	$20,995
2015	6,265	4,451	1,427		$23,201
2016	6,016	1,935	993		$23,362
2017	5,906	1,421	3,234		$23,903
2018	6,781	2,520	3,783		$25,659
2019	6,440	5,709	2,146		$26,417
2020	7,036	3,305	0		$27,474
2021	5,408	9,705	0		$27,204
2022	6,537	4,941	0		$29,023
2023	6,667	5,065	0		$29,862
2024	6,801	5,192	0		$30,721
2025	6,937	5,321	0		$31,601
2026	7,075	5,454	0		$32,502
2027	7,217	5,591	0		$33,425
2028	7,361	5,730	0		$34,370
2029	7,508	5,874	0		$35,339
2030	7,659	6,021	0		$36,331
2031	7,812	6,171	0		$37,346
2032	7,968	6,325	0		$38,387
2033	8,127	6,483	0		$39,453
2034	8,290	6,646	0		$40,544
2035	8,456	6,812	0		$41,662
2036	8,625	5,586	0		$42,612
2037	8,797	3,435	0		$43,265
2038	8,973	1,408	0		$43,638
2039	9,153	289	0		$27,743
2040	9,336	0	0		$137,357
					$263,245

770/790

As of 12/31/2013

(Transfer Date)

	Dr/(Cr)		
	Mitchell 2		
2014	535,911,367	790	MW

from file AM3 ML 12-31-13 forecast.xls

25 yr amortization

						KPCo
					50%	
	$000	$000	$000	$000		385
	FOM	**Capital**	**Maj Capital**	**Transfer**		
	Mitchell 1	Mitchell 1	Mitchell 1	Mitchell 1		
2011	0	0	0			$0
2012	0	0	0			$0
2013	0	0	0			$0
2014	12,296	12,620	7,608	**267,956**		$52,584
2015	12,321	11,128	3,567			$54,663
2016	17,654	4,838	2,483			$61,020
2017	14,429	3,554	8,084			$59,422
2018	15,102	6,300	9,458			$62,298
2019	18,246	14,273	5,365			$68,187
2020	17,499	8,264	0			$68,596
2021	13,660	24,262	0			$68,149
2022	16,345	12,353	0			$72,560
2023	16,672	12,662	0			$74,657
2024	17,005	12,979	0			$76,805
2025	17,345	13,303	0			$79,005
2026	17,692	13,636	0			$81,258
2027	18,046	13,977	0			$83,566
2028	18,407	14,326	0			$85,930
2029	18,775	14,684	0			$88,351
2030	19,151	15,051	0			$90,831
2031	19,534	15,428	0			$93,370
2032	19,924	15,813	0			$95,972
2033	20,323	16,209	0			$98,636
2034	20,729	16,614	0			$101,365
2035	21,144	17,029	0			$104,161
2036	21,567	13,964	0			$106,536
2037	21,998	8,588	0			$108,168
2038	22,438	3,521	0			$109,100
2039	22,887	722	0			$69,361
2040	23,345	0	0			$343,398
						$657,417

770/790

As of 12/31/2013

(Transfer Date)

Dr/(Cr)

Mitchell 1 & 2

2014 535,911,367 770 MW

from file AM3 ML 12-31-13 forecast.xls

200	300	328
80	120	131

385
154

25 yr amortization

						KPCo
					50%	
	$000	$000	$000	$000		395
	FOM	**Capital**	**Maj Capital**	**Transfer**		
	Mitchell 2	Mitchell 2	Mitchell 2	Mitchell 2		
2011	0	0	0			$0
2012	0	0	0			$0
2013	0	0	0			$0
2014	12,199	12,620	7,608	**267,956**		$52,487
2015	15,661	11,128	3,567			$58,004
2016	15,040	4,838	2,483			$58,406
2017	14,764	3,554	8,084			$59,757
2018	16,953	6,300	9,458			$64,148
2019	16,100	14,273	5,365			$66,042
2020	17,589	8,264	0			$68,686
2021	13,520	24,262	0			$68,009
2022	16,341	12,353	0			$72,557
2023	16,668	12,662	0			$74,654
2024	17,002	12,979	0			$76,802
2025	17,342	13,303	0			$79,001
2026	17,689	13,636	0			$81,255
2027	18,042	13,977	0			$83,562
2028	18,403	14,326	0			$85,926
2029	18,771	14,684	0			$88,347
2030	19,147	15,051	0			$90,827
2031	19,530	15,428	0			$93,366
2032	19,920	15,813	0			$95,968
2033	20,319	16,209	0			$98,632
2034	20,725	16,614	0			$101,361
2035	21,139	17,029	0			$104,156
2036	21,562	13,964	0			$106,531
2037	21,993	8,588	0			$108,163
2038	22,433	3,521	0			$109,095
2039	22,882	722	0			$69,357
2040	23,340	0	0			$343,393
						$658,111

770/790

As of 12/31/2013
(Transfer Date)

	Dr/(Cr) Mitchell 2		
2014	535,911,367	790	MW

from file AM3 ML 12-31-13 forecast.xls

770.00
790

225	300	335	395
90	120	134	158

Total O&M including Fringes

X $1

		2013	2014	
Mitchell 1	Non-Labor BCO	4,335	4,347	4,966
	Straight-Time Labor + Fringes	9,981	12,528	12,986
	Overtime Labor + Fringes	967	-	-
	Total Fixed Costs	**15,283**	**16,875**	**17,952**
	NOMI	**8,275**	**4,717**	**4,889**
	Outage O&M	**7,080**	**3,000**	**1,800**
Mitchell 1 Total		**30,637**	**24,592**	**24,642**
Mitchell 2	Non-Labor BCO	4,335	4,347	4,966
	Straight-Time Labor + Fringes	9,981	12,528	12,986
	Overtime Labor + Fringes	967	-	-
	Total Fixed Costs	**15,283**	**16,875**	**17,952**
	NOMI	**7,270**	**4,523**	**4,904**
	Outage O&M	**1,305**	**3,000**	**8,466**
Mitchell 2 Total		**23,858**	**24,398**	**31,323**

Total Mitchell 1 and 2

Capital

X $1

Unit	Category	2013	2014	2015
Mitchell 1	Production Capital (Non-Outage)	1,453		
	Production Environmental Capital (Non-Outage	821		
	Total Production Capital (Non-Outage)	2,274		
	Production Capital (Outage)	7,827		
	Production Environmental Capital (Outage)	1,711		
	Total Production Capital (Outage)	9,538		
Mitchell 1	**Total Production Capital**	**11,812**	**25,239**	**22,255**

Mitchell 2	Production Capital (Non-Outage)	3,557		
	Production Environmental Capital (Non-Outage	711		
	Total Production Capital (Non-Outage)	4,268		
	Production Capital (Outage)	1,858		
	Production Environmental Capital (Outage)	1,034		
	Total Production Capital (Outage)	2,892		
Mitchell 2	**Total Production Capital**	**7,160**	**25,239**	**22,255**

Major Environmental Capital

X $1000

Unit	Category	2013	2014	2015
Mitchell 1	Major Environmental Capital MPECS			
	Major Environmental Capital MPHCS			
Mitchell 1	**Total Major Environmental Capital**	**-**	**15,216**	**7,134**
Mitchell 2	Major Environmental Capital MPECS			
	Major Environmental Capital MPHCS			
Mitchell 2	**Total Major Environmental Capital**	**-**	**15,216**	**7,134**
SOURCE	*GL 181-OH BL AM-ML 2012-21 Post.....*		30,432	14,268

*Notes:

1) 2021 actual budget numbers have not been scrubbed by the plants and are therefore projected.
2) Labor includes fringes. In 2013, the labor splits appear to be 85% to O&M; 13% to Fuels, and 2% to C
3) Unit 0 values were prorated by MWs.
4) BS1 Does not have the U0 FGD Landfill and Haul Road costs
5) Labor includes fringes. AM3 labor is allocated by MWs.
6) BS0 values for MPHCS were all allocated to BS2.
7) BS labor is distributed by MWs until 2015 when BS1 is scheduled for closure.
8) BS Fixed costs from 2015 to 2020 are estimated based on 2013 and 2014. Actual budget appears to h
9) Forecasted Zimmer capital is not sorted by outage and non-outage so it has been lumped into non-outa
10) Zimmer is the AEP portion.
11) High level estimates subject to future refinements.

Average O&M Outage dollars	
AM3	$10,125
BS2	$4,140
ML1	$15,933
ML2	$10,250
ZM	$5,255

Average Prod Capital Outage dollars	
AM3	$11,925
BS2	$6,420

ML1	$16,666
ML2	$6,700

2014	2015	2016
50,478	44,511	19,352
25,239	22,255	9,676

			Actual	Major GBI	Projected			
000								
5,705	5,701	5,838	5,896	5,971	5,942	6,055		
15,970	15,161	16,520	16,691	17,024	16,496	15,983		
-	-	-	-	-	-	606		
21,676	**20,862**	**22,357**	**22,587**	**22,996**	**22,438**	**22,644**		
4,605	**5,882**	**4,812**	**6,740**	**8,373**	**4,603**	**6,703**		
9,028	**2,115**	**3,036**	**7,165**	**3,630**	**280**	**3,343**		
35,309	**28,859**	**30,205**	**36,492**	**34,998**	**27,321**	**32,690**	**33,344**	**34,011**
5,705	5,701	5,838	5,896	5,971	5,942	6,055		
15,970	15,161	16,520	16,691	17,024	16,496	15,983		
-	-	-	-	-	-	606		
21,676	**20,862**	**22,357**	**22,587**	**22,996**	**22,438**	**22,644**		
4,620	**5,897**	**4,822**	**6,750**	**8,383**	**4,603**	**6,710**		
3,784	**2,769**	**6,726**	**2,864**	**3,800**	**-**	**3,329**		
30,081	**29,528**	**33,905**	**32,201**	**35,178**	**27,041**	**32,683**	**33,337**	**34,003**

000

2016	2017	2018	2019	2020	2021	2022	2023	2024
9,676	**7,107**	**12,601**	**28,546**	**16,527**	**48,525**	**24,707**	**25,324**	**25,958**

9,676	**7,107**	**12,601**	**28,546**	**16,527**	**48,525**	**24,707**	**25,324**	**25,958**

2016	**2017**	**2018**	**2019**	**2020**	**2021**	**2022**	**2023**	**2024**
					-	-	-	-
						-	-	-
4,966	**16,169**	**18,917**	**10,730**	**-**	**-**	**-**	**-**	**-**
					-	-	-	-
4,966	**16,169**	**18,917**	**10,730**	**-**	**-**	**-**	**-**	**-**
9,932	32,338	37,833	21,459	0	0			

Capital.

ave a former strategic plan applied with less labor.
age levelized through 2040.

Allowing for outlyers the estimated O&M outage will be **$10,000**.

Allowing for outlyers the estimated Prod capital outage will be $**12,000**

Zimmer O&M outage is the average of the 2012 and 2015 outages.

mated by
(1.03) to

Average 2012 $s	3% interest rate	(1+i) to the 4th power 2021	2022	2023	2024
10000	**O&M outage**	11255.09	11592.74	11940.52	12298.74
12000	**1300s Prod cap**	13506.11	13911.29	14328.63	14758.49
7000	**800s Prod cap**	7878.562	8114.919	8358.366	8609.117
5255	**ZM O&M outage**	5914.549	6091.985	6274.745	6462.987

2017	2018	2019	2020	2021	2022	2023	2024	2025
14,214	25,201	57,093	33,055	97,050	49,414	50,649	51,915	53,213
7,107	12,601	28,546	16,527	48,525	24,707	25,324	25,958	26,607

34,691	35,385	36,092	36,814	37,550	38,301	39,067	39,849	40,646
34,683	35,377	36,085	36,806	37,542	38,293	39,059	39,840	40,637

2025	2026	2027	2028	2029	2030	2031	2032	2033
26,607	27,272	27,953	28,652	29,369	30,103	30,855	31,627	32,417

26,607	27,272	27,953	28,652	29,369	30,103	30,855	31,627	32,417

2025	2026	2027	2028	2029	2030	2031	2032	2033
-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-

for 1300s and **$7,000** for 800s.

2025	2026	2027	2028	2029	2030	2031	2032	2033
12667.7	13047.73	13439.16	13842.34	14257.61	14685.34	15125.9	15579.67	16047.06
15201.24	15657.28	16127	16610.81	17109.13	17622.4	18151.08	18695.61	19256.48
8867.391	9133.412	9407.415	9689.637	9980.326	10279.74	10588.13	10905.77	11232.95
6656.877	6856.583	7062.281	7274.149	7492.373	7717.145	7948.659	8187.119	8432.732

2026	2027	2028	2029	2030	2031	2032	2033	2034
54,543	55,907	57,305	58,737	60,206	61,711	63,254	64,835	66,456
27,272	27,953	28,652	29,369	30,103	30,855	31,627	32,417	33,228

41,459	42,288	43,134	43,996	44,876	45,774	46,689
41,450	42,279	43,124	43,987	44,867	45,764	46,679

2034	2035	2036	2037	2038	2039	2040
33,228	34,059	27,928	17,176	7,042	1,444	-

33,228	34,059	27,928	17,176	7,042	1,444	-

2034	2035	2036	2037	2038	2039	2040
-	-	-	-	-	-	-
-	-	-	-	-	-	-
-	-	-	-	-	-	-
-	-	-	-	-	-	-
-	-	-	-	-	-	-

2034	2035	2036	2037	2038	2039	2040
16528.48	17024.33	17535.06	18061.11	18602.95	19161.03	19735.87
19834.17	20429.2	21042.07	21673.33	22323.53	22993.24	23683.04
11569.93	11917.03	12274.54	12642.78	13022.06	13412.72	13815.11
8685.714	8946.286	9214.674	9491.115	9775.848	10069.12	10371.2

2035	2036	2037	2038	2039
68,117	55,856	34,351	14,084	2,887
34,059	27,928	17,176	7,042	1,444

Kentucky Power
Annual Investment Carrying Charge
For Economic Analyses
As of 12/31/2011

	Investment Life (Years)						
	2	3	4	5	10	15	20
Return (1)	8.62	8.62	8.62	8.62	8.62	8.62	8.62
Depreciation (2)	48.91	31.64	23.01	17.85	7.71	4.50	3.01
FIT (3) (4)	2.31	1.65	1.78	1.48	1.42	1.73	1.80
Property Taxes, General & Admin Expenses	1.60	1.60	1.60	1.60	1.60	1.60	1.60
	61.44	43.52	35.01	29.55	19.35	16.45	15.03

Appalachian Power
Annual Investment Carrying Charge
For Economic Analyses
As of 12/31/2011

	Investment Life (Years)						
	2	3	4	5	10	15	20
Return (1)	8.06	8.06	8.06	8.06	8.06	8.06	8.06
Depreciation (2)	48.96	31.74	23.12	17.97	7.82	4.60	3.08
FIT (3) (4)	2.23	1.60	1.72	1.43	1.36	1.65	1.72
Property Taxes, General & Admin Expenses	1.48	1.48	1.48	1.48	1.48	1.48	1.48
	60.72	42.88	34.38	28.94	18.73	15.79	14.34

(1) Based on a 100% (as of 12/31/2011) and 0% incremental weighting of capital costs

(2) Sinking Fund annuity with R1 Dispersion of Retirements

(3) Assuming MACRS Tax Depreciation

(4) @ 35% Federal Income Tax Rate

s

25	30	33	40	50
8.62	8.62	8.62	8.62	8.62
2.17	1.66	1.45	1.09	0.80
1.58	1.44	1.37	1.26	1.16
1.60	1.60	1.60	1.60	1.60
13.98	13.32	13.04	12.58	12.18

s

25	30	33	40	50
8.06	8.06	8.06	8.06	8.06
2.23	1.71	1.49	1.12	0.81
1.50	1.36	1.30	1.19	1.10
1.48	1.48	1.48	1.48	1.48
13.28	12.61	12.33	11.85	11.45

Total O&M including Fringes

Unit 0 Costs Allocated

Fore $(000's)

Unit	Category	2013	2014	2015

Big Sandy 1	Non-Labor	1,352	1,321	1,375
	Straight-Time Labor	2,490	2,528	2,604
	Overtime Labor	78	48	50
	Total BCO	**3,919**	**3,897**	**4,028**
	NOMI	**245**	**326**	**388**
	Outage	**470**	**467**	**38**
Big Sandy 1 Total		**4,634**	**4,691**	**4,455**

Big Sandy 2 Total	Non-Labor	4,165	4,084	4,250
	Straight-Time Labor	7,661	7,780	8,013
	Overtime Labor	296	337	347
	Total BCO	**12,122**	**12,202**	**12,610**
	NOMI	**1,063**	**1,322**	**1,767**
	Outage	**2,360**	**738**	**4,242**
Big Sandy 2 Total		**15,545**	**14,261**	**18,619**

Mitchell 1	Non-Labor	4,335	4,347	4,966
	Straight-Time Labor	9,981	12,528	12,986
	Overtime Labor	967	-	-
	Total BCO	**15,283**	**16,875**	**17,952**
	NOMI	**8,275**	**4,717**	**4,889**
	Outage	**7,080**	**3,000**	**1,800**
Mitchell 1 Total		**30,637**	**24,592**	**24,642**

Mitchell 2 Total	Non-Labor	4,335	4,347	4,966
	Straight-Time Labor	9,981	12,528	12,986
	Overtime Labor	967	-	-
	Total BCO	**15,283**	**16,875**	**17,952**
	NOMI	**7,270**	**4,523**	**4,904**
	Outage	**1,305**	**3,000**	**8,466**
Mitchell 2 Total		**23,858**	**24,398**	**31,323**

		Production Capital *Unit 0 Costs Allocated* *Fore $(000's)*		
Unit	**Category**	**2013**	**2014**	**2015**
Big Sandy 1	Production (Outage)	-	-	-
	Production Environmental (Outage)			
	Total Production (Outage)	-	-	-
	Production (Non-Outage)	492	493	306
	Production Environmental (Non-Outage)	39	44	124
	Total Production (Non-Outage)	531	537	430
Big Sandy 1 Total		**531**	**537**	**430**
Big Sandy 2	Production (Outage)	564	4,857	9,969
	Production Environmental (Outage)	200	1,621	3,860
	Total Production (Outage)	764	6,478	13,829
	Production (Non-Outage)	3,986	1,885	1,397
	Production Environmental (Non-Outage)	121	116	365
	Total Production (Non-Outage)	4,107	2,001	1,762
Big Sandy 2 Total		**4,871**	**8,479**	**15,591**
Mitchell 1	Production (Outage)	7,827	2,025	1,500
	Production Environmental (Outage)	1,711	1,900	1,519
	Total Production (Outage)	9,538	3,925	3,019
	Production (Non-Outage)	1,453	3,571	7,437
	Production Environmental (Non-Outage)	821	266	236
	Total Production (Non-Outage)	2,274	3,836	7,673
Mitchell 1 Total		**11,812**	**7,762**	**10,691**
Mitchell 2	Production (Outage)	1,858	625	6,750
	Production Environmental (Outage)	1,034	3,569	437
	Total Production (Outage)	2,892	4,194	7,187
	Production (Non-Outage)	3,557	3,404	2,937
	Production Environmental (Non-Outage)	711	266	236
	Total Production (Non-Outage)	4,268	3,670	3,173
Mitchell 2 Total		**7,160**	**7,864**	**10,360**

Summary - All Units (BS1, BS2, ML1, ML2)				
	Production (Outage)	43,488	55,009	27,296
	Production Environmental (Non-Outage)	16,489	18,008	30,342
	Total Production Capital	**59,977**	**73,017**	**57,638**

Major Environmental Capital

Unit 0 Costs Allocated

Fore $(000's)

Benefiting Loc Level 7	Unit	2013	2014	2015
Big Sandy Plant	Big Sandy 1	10,000	55,000	10,000
	Big Sandy 2	-	-	798
Big Sandy Plant Total		**10,000**	**55,000**	**10,798**
Mitchell Plant	Mitchell 1	56,947	28,903	7,783
	Mitchell 2	53,707	33,223	7,811
Mitchell Plant Total		**110,654**	**62,126**	**15,594**
CCD	Zimmer 1	431	3,019	7,393
CCD Total		**431**	**3,019**	**7,393**

9) Forecasted Zimmer capital is not sorted by outage and non-outage so it has been lumped into non-outa

10) Zimmer is the AEP portion.

11) High level estimates subject to future refinements.

Average O&M Outage dollars	
AM3	$10,125
BS2	$4,140
ML1	$15,933
ML2	$10,250
ZM	$5,255

Average Prod Capital Outage dollars	
AM3	$11,925
BS2	$6,420
ML1	$16,666
ML2	$6,700

IRP Estimate ===>>>

2016	2017	2018	2019	2020	2021	2022	2023	2024

5,465	6,170	6,349	6,543	6,806	4,422	6,042	5,872	5,707
9,412	9,694	9,985	10,285	10,593	10,911	11,239	11,576	11,924
1,046	1,067	1,088	1,110	1,132	-	1,110	1,121	1,132
15,924	**16,930**	**17,422**	**17,938**	**18,531**	**15,333**	**18,391**	**18,569**	**18,763**
3,865	**5,241**	**5,235**	**5,360**	**5,493**	**5,493**	**5,557**	**5,625**	**5,670**
4,244	**7,856**	**5,563**	**4,373**	**5,359**	**5,359**	**5,873**	**5,465**	**5,445**
24,033	**30,026**	**28,221**	**27,671**	**29,383**	**26,186**	**29,822**	**29,659**	**29,877**

5,705	5,701	5,838	5,896	5,971	5,942	6,055	6,110	6,164
15,970	15,161	16,520	16,691	17,024	16,496	15,983	15,487	15,006
-	-	-	-	-	-	606	612	618
21,676	**20,862**	**22,357**	**22,587**	**22,996**	**22,438**	**22,644**	**22,208**	**21,788**
4,605	**5,882**	**4,812**	**6,740**	**8,373**	**4,603**	**6,703**	**6,691**	**6,119**
9,028	**2,115**	**3,036**	**7,165**	**3,630**	**280**	**3,343**	**3,595**	**3,711**
35,309	**28,859**	**30,205**	**36,492**	**34,998**	**27,321**	**32,690**	**32,494**	**31,617**

5,705	5,701	5,838	5,896	5,971	5,942	6,055	6,110	6,164
15,970	15,161	16,520	16,691	17,024	16,496	15,983	15,487	15,006
-	-	-	-	-	-	606	612	618
21,676	**20,862**	**22,357**	**22,587**	**22,996**	**22,438**	**22,644**	**22,208**	**21,788**
4,620	**5,897**	**4,822**	**6,750**	**8,383**	**4,603**	**6,710**	**6,696**	**6,123**
3,784	**2,769**	**6,726**	**2,864**	**3,800**	**-**	**3,329**	**3,444**	**2,768**
30,081	**29,528**	**33,905**	**32,201**	**35,178**	**27,041**	**32,683**	**32,348**	**30,679**

2016	2017	2018	2019	2020	2021	2022	2023	2024
22	-	-	-	-	-			
22	-	-	-	-	-			
694	466	560	492	508	192			
115	115	120	-	124	-			
809	581	680	492	632	192			
831	**581**	**680**	**492**	**632**	**192**			
1,563	382	13,744	110	-	55,372	10,580	10,685	10,792
2,882	1,987	3,257	-	-	-	1,688	1,704	1,721
4,444	2,368	17,001	110	-	55,372	12,267	12,390	12,514
3,859	2,206	2,141	1,515	1,563	1,016	2,391	2,415	2,439
334	334	349	-	381	-	244	247	249
4,192	2,539	2,489	1,515	1,943	1,016	2,636	2,662	2,689
8,637	**4,908**	**19,491**	**1,624**	**1,943**	**56,388**	**14,903**	**15,052**	**15,202**
6,167	1,100	500	36,017	10,750	22,400	10,790	10,898	11,007
2,134	1,674	2,597	2,169	2,863	-	2,025	2,045	2,066
8,301	2,774	3,097	38,186	13,613	22,400	12,815	12,944	13,073
1,298	1,314	2,222	1,324	1,386	1,960	2,685	2,712	2,739
891	431	236	728	236	411	520	525	530
2,188	1,744	2,458	2,052	1,622	2,371	3,204	3,236	3,269
10,489	**4,518**	**5,555**	**40,238**	**15,235**	**24,771**	**16,020**	**16,180**	**16,342**
850	704	1,306	600	750	45,670	7,225	7,297	7,370
4,030	-	9,199	324	2,863	343	2,664	2,691	2,718
4,880	704	10,505	924	3,613	46,013	9,889	9,988	10,088
1,298	1,314	2,222	1,324	1,386	2,120	2,391	2,415	2,439
891	291	376	728	236	411	506	511	516
2,188	1,604	2,598	2,052	1,622	2,531	2,897	2,926	2,956
7,068	**2,308**	**13,103**	**2,975**	**5,235**	**48,544**	**12,787**	**12,914**	**13,044**

23,183	17,207	42,624	39,540	23,290	132,028	49,329	49,822	50,320
29,434	68,831	26,223	26,154	25,797	42,451	34,081	34,422	34,766
52,617	**86,038**	**68,847**	**65,694**	**49,086**	**174,479**	**83,410**	**84,244**	**85,086**

2016	**2017**	**2018**	**2019**	**2020**	**2021**
-	-	-	-	-	-
10,539	21,603	12,304	-	0	-
10,539	**21,603**	**12,304**	**-**	**0**	**-**
3,501	17,557	15,829	25,617	1,750	1,750
3,512	22,255	34,777	1,750	1,750	1,750
7,012	**39,812**	**50,605**	**27,367**	**3,500**	**3,500**
15,614	5,293	31	-	0	1,863
15,614	**5,293**	**31**	**-**	**0**	**1,863**

age levelized through 2040.

Allowing for outlyers the estimated O&M outage will be **$10,000**.

Allowing for outlyers the estimated Prod capital outage will be $**12,000**

Zimmer O&M outage is the average of the 2012 and 2015 outages.

Average 2012 $s 10000	inflated by (1.03) to the 4th power			
3% interest rate	2021	2022	2023	2024
O&M outage	11255.09	11592.74	11940.52	12298.74

12000	**1300s Prod cap**	13506.11	13911.29	14328.63	14758.49
7000	**800s Prod cap**	7878.562	8114.919	8358.366	8609.117
5255	**ZM O&M outage**	5914.549	6091.985	6274.745	6462.987

2025	2026	2027	2028	2029	2030	2031	2032	2033

5,546	5,389	5,238	5,090	4,946	4,807	4,672	4,540	4,412
12,282	12,651	13,031	13,423	13,826	14,241	14,669	15,110	15,564
1,143	1,155	1,166	1,178	1,190	1,202	1,214	1,226	1,238
18,972	**19,196**	**19,435**	**19,691**	**19,962**	**20,250**	**20,554**	**20,875**	**21,214**
5,730	**5,788**	**5,844**	**5,903**	**5,962**	**6,021**	**6,081**	**6,142**	**6,203**
5,665	**5,728**	**5,804**	**5,790**	**5,857**	**5,942**	**5,999**	**6,055**	**6,106**
30,366	**30,712**	**31,083**	**31,384**	**31,781**	**32,213**	**32,634**	**33,072**	**33,523**

6,219	6,275	6,331	6,387	6,445	6,502	6,560	6,619	6,678
14,540	14,088	13,651	13,227	12,816	12,418	12,032	11,658	11,296
624	630	636	643	649	656	662	669	676
21,383	**20,993**	**20,618**	**20,257**	**19,910**	**19,576**	**19,255**	**18,946**	**18,650**
6,634	**6,611**	**6,584**	**6,742**	**6,778**	**6,835**	**6,921**	**6,982**	**7,051**
2,999	**2,869**	**3,402**	**3,415**	**3,378**	**3,309**	**3,373**	**3,477**	**3,492**
31,016	**30,473**	**30,604**	**30,414**	**30,066**	**29,720**	**29,548**	**29,405**	**29,193**

6,219	6,275	6,331	6,387	6,445	6,502	6,560	6,619	6,678
14,540	14,088	13,651	13,227	12,816	12,418	12,032	11,658	11,296
624	630	636	643	649	656	662	669	676
21,383	**20,993**	**20,618**	**20,257**	**19,910**	**19,576**	**19,255**	**18,946**	**18,650**
6,640	**6,616**	**6,589**	**6,747**	**6,784**	**6,841**	**6,927**	**6,987**	**7,057**
2,748	**2,532**	**3,053**	**2,996**	**2,904**	**2,932**	**2,970**	**3,060**	**3,062**
30,771	**30,141**	**30,260**	**30,001**	**29,598**	**29,349**	**29,151**	**28,994**	**28,768**

2025	2026	2027	2028	2029	2030	2031	2032	2033

10,900	11,009	11,119	11,230	11,343	11,456	11,571	11,686	11,803
1,739	1,756	1,774	1,791	1,809	1,827	1,846	1,864	1,883
12,639	12,765	12,893	13,022	13,152	13,284	13,416	13,551	13,686
2,464	2,488	2,513	2,538	2,564	2,589	2,615	2,641	2,668
252	254	257	259	262	265	267	270	273
2,716	2,743	2,770	2,798	2,826	2,854	2,883	2,911	2,941
15,354	**15,508**	**15,663**	**15,820**	**15,978**	**16,138**	**16,299**	**16,462**	**16,627**
11,117	11,229	11,341	11,454	11,569	11,684	11,801	11,919	12,039
2,086	2,107	2,128	2,150	2,171	2,193	2,215	2,237	2,259
13,204	13,336	13,469	13,604	13,740	13,877	14,016	14,156	14,298
2,766	2,794	2,822	2,850	2,878	2,907	2,936	2,966	2,995
536	541	546	552	557	563	568	574	580
3,302	3,335	3,368	3,402	3,436	3,470	3,505	3,540	3,575
16,505	**16,670**	**16,837**	**17,005**	**17,175**	**17,347**	**17,521**	**17,696**	**17,873**
7,444	7,518	7,593	7,669	7,746	7,824	7,902	7,981	8,061
2,745	2,773	2,800	2,828	2,857	2,885	2,914	2,943	2,973
10,189	10,291	10,394	10,498	10,603	10,709	10,816	10,924	11,033
2,463	2,488	2,513	2,538	2,563	2,589	2,615	2,641	2,668
522	527	532	537	543	548	554	559	565
2,985	3,015	3,045	3,076	3,106	3,137	3,169	3,200	3,232
13,174	**13,306**	**13,439**	**13,573**	**13,709**	**13,846**	**13,985**	**14,124**	**14,266**

50,823	51,332	51,845	52,363	52,887	53,416	53,950	54,490	55,034
35,114	35,465	35,820	36,178	36,540	36,905	37,274	37,647	38,023
85,937	**86,797**	**87,664**	**88,541**	**89,427**	**90,321**	**91,224**	**92,136**	**93,058**

for 1300s and **$7,000** for 800s.

2025	2026	2027	2028	2029	2030	2031	2032	2033
12667.7	13047.73	13439.16	13842.34	14257.61	14685.34	15125.9	15579.67	16047.06

15201.24	15657.28	16127	16610.81	17109.13	17622.4	18151.08	18695.61	19256.48
8867.391	9133.412	9407.415	9689.637	9980.326	10279.74	10588.13	10905.77	11232.95
6656.877	6856.583	7062.281	7274.149	7492.373	7717.145	7948.659	8187.119	8432.732

2034	2035	2036	2037	2038	2039	2040

4,288	4,167	4,049	3,935	3,824	3,716	3,612
16,031	16,513	17,009	17,519	18,046	18,588	19,146
1,251	1,263	1,276	1,288	1,301	1,314	1,328
21,569	**21,942**	**22,334**	**22,743**	**23,171**	**23,619**	**24,085**
6,265	**6,327**	**6,390**	**6,454**	**6,518**	**6,583**	**6,649**
6,172	**6,236**	**6,297**	**6,358**	**6,421**	**6,486**	**6,551**
34,005	**34,506**	**35,021**	**35,555**	**36,111**	**36,688**	**37,285**

6,738	6,798	6,859	6,920	6,982	7,044	7,107
10,946	10,606	10,276	9,957	9,648	9,348	9,058
682	689	696	703	710	717	724
18,366	**18,093**	**17,831**	**17,580**	**17,340**	**17,110**	**16,889**
7,124	**7,193**	**7,265**	**7,338**	**7,411**	**7,485**	**7,560**
3,508	**3,535**	**3,581**	**3,624**	**3,654**	**3,688**	**3,725**
28,998	**28,821**	**28,677**	**28,542**	**28,405**	**28,282**	**28,174**

6,738	6,798	6,859	6,920	6,982	7,044	7,107
10,946	10,606	10,276	9,957	9,648	9,348	9,058
682	689	696	703	710	717	724
18,366	**18,093**	**17,831**	**17,580**	**17,340**	**17,110**	**16,889**
7,130	**7,199**	**7,271**	**7,344**	**7,417**	**7,491**	**7,566**
3,075	**3,110**	**3,147**	**3,184**	**3,209**	**3,239**	**3,273**
28,571	**28,402**	**28,249**	**28,108**	**27,966**	**27,840**	**27,728**

2034	2035	2036	2037	2038	2039	2040

11,921	12,041	12,161	12,283	12,405	12,529	12,655
1,902	1,921	1,940	1,959	1,979	1,999	2,019
13,823	13,961	14,101	14,242	14,384	14,528	14,673
2,695	2,721	2,749	2,776	2,804	2,832	2,860
275	278	281	284	287	289	292
2,970	3,000	3,030	3,060	3,091	3,121	3,153
16,793	**16,961**	**17,130**	**17,302**	**17,475**	**17,649**	**17,826**
12,159	12,281	12,403	12,527	12,653	12,779	12,907
2,282	2,305	2,328	2,351	2,375	2,398	2,422
14,441	14,585	14,731	14,878	15,027	15,177	15,329
3,025	3,055	3,086	3,117	3,148	3,179	3,211
586	592	597	603	609	616	622
3,611	3,647	3,683	3,720	3,757	3,795	3,833
18,052	**18,232**	**18,414**	**18,599**	**18,785**	**18,972**	**19,162**
8,141	8,223	8,305	8,388	8,472	8,556	8,642
3,002	3,032	3,063	3,093	3,124	3,155	3,187
11,144	11,255	11,367	11,481	11,596	11,712	11,829
2,694	2,721	2,748	2,776	2,804	2,832	2,860
571	576	582	588	594	600	606
3,265	3,297	3,330	3,364	3,397	3,431	3,466
14,408	**14,552**	**14,698**	**14,845**	**14,993**	**15,143**	**15,295**

55,585	56,141	56,702	57,269	57,842	58,420	59,004
38,403	38,787	39,175	39,567	39,963	40,362	40,766
93,988	**94,928**	**95,877**	**96,836**	**97,804**	**98,783**	**99,770**

2034	2035	2036	2037	2038	2039	2040
16528.48	17024.33	17535.06	18061.11	18602.95	19161.03	19735.87

19834.17	20429.2	21042.07	21673.33	22323.53	22993.24	23683.04
11569.93	11917.03	12274.54	12642.78	13022.06	13412.72	13815.11
8685.714	8946.286	9214.674	9491.115	9775.848	10069.12	10371.2

Year	Month	Plant Name	Unit #	VOM	Fuel Handling c/MBTU
2012	8	MITC1_KP	1	1.58	6.550
2012	8	MITC2_KP	2	1.58	6.550

Lime (FGD)			$/mmbtu			
2007	L_ML	P			2007 LS_ML	P
2012	L_ML		0.0004		2012 LS_ML	
2013	L_ML		0.0004		2013 LS_ML	
2014	L_ML		0.0005		2014 LS_ML	
2015	L_ML		0.0005		2015 LS_ML	
2016	L_ML		0.0005		2016 LS_ML	
2017	L_ML		0.0005		2017 LS_ML	
2018	L_ML		0.0005		2018 LS_ML	
2019	L_ML		0.0005	1.0000	2019 LS_ML	
2020	L_ML		0.0005	1.0000	2020 LS_ML	
2021	L_ML		0.0006	1.2000	2021 LS_ML	
2022	L_ML		0.0006	1.0000	2022 LS_ML	
2023	L_ML		0.0007	1.1667	2023 LS_ML	
2024			0.0008		2024	
2025			0.0008		2025	
2026			0.0009		2026	
2027			0.0009		2027	
2028			0.0010		2028	
2029			0.0011		2029	
2030			0.0011		2030	
2031			0.0012		2031	
2032			0.0013		2032	
2033			0.0014		2033	
2034			0.0015		2034	
2035			0.0016		2035	
2036			0.0018		2036	
2037			0.0019		2037	
2038			0.0020		2038	
2039			0.0022		2039	
2040			0.0023		2040	

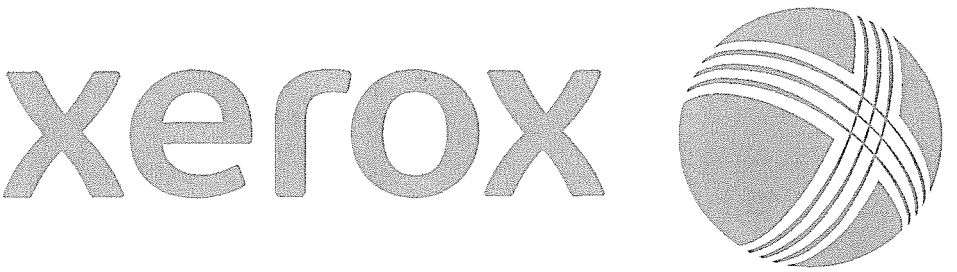
$/MBTU									
0.0655									
0.0655									
		Trona				Urea			
		2007	STR_ML	P		2007	SU_ML	P	
0.0962		2012	STR_ML	0.0120		2012	SU_ML	0.0925	
0.1011		2013	STR_ML	0.0124		2013	SU_ML	0.0977	
0.1160		2014	STR_ML	0.0128		2014	SU_ML	0.1006	
0.1115		2015	STR_ML	0.0136		2015	SU_ML	0.1034	
0.1171		2016	STR_ML	0.0141		2016	SU_ML	0.1081	
0.1230		2017	STR_ML	0.0145		2017	SU_ML	0.1110	
0.1291		2018	STR_ML	0.0149		2018	SU_ML	0.1148	
0.1354		2019	STR_ML	0.0154		2019	SU_ML	0.1193	
0.1423		2020	STR_ML	0.0158		2020	SU_ML	0.1228	
0.1493	1.0492	2021	STR_ML	0.0162	1.0253	2021	SU_ML	0.1267	1.0318
0.1569	1.0509	2022	STR_ML	0.0166	1.0247	2022	SU_ML	0.1304	1.0292
0.1646	1.0491	2023	STR_ML	0.0170	1.0241	2023	SU_ML	0.1346	1.0322
0.173		2024		0.0174		2024		0.1389	
0.181		2025		0.0178		2025		0.1434	
0.190		2026		0.0183		2026		0.1480	
0.199		2027		0.0187		2027		0.1528	
0.209		2028		0.0191		2028		0.1577	
0.219		2029		0.0196		2029		0.1628	
0.230		2030		0.0201		2030		0.1680	
0.241		2031		0.0206		2031		0.1735	
0.253		2032		0.0211		2032		0.1790	
0.266		2033		0.0216		2033		0.1848	
0.279		2034		0.0221		2034		0.1908	
0.292		2035		0.0226		2035		0.1969	
0.307		2036		0.0232		2036		0.2032	
0.322		2037		0.0237		2037		0.2098	
0.338		2038		0.0243		2038		0.2165	
0.354		2039		0.0249		2039		0.2235	
0.372		2040		0.0255		2040		0.2307	

Fuel Handling ESC 2%

	2011	
0.0655	2012	0.2666
0.0668	2013	0.2784
0.0681	2014	0.2980
0.0695	2015	0.2985
0.0709	2016	0.3107
0.0723	2017	0.3213
0.0738	2018	0.3331
0.0752	2019	0.3458
0.0767	2020	0.3581
0.0783	2021	0.3711
0.0798	2022	0.3843
0.0814	2023	0.3983
0.0831	2024	0.4128
0.0847	2025	0.4279
0.0864	2026	0.4436
0.0882	2027	0.4599
0.0899	2028	0.4769
0.0917	2029	0.4946
0.0936	2030	0.5130
0.0954	2031	0.5322
0.0973	2032	0.5521
0.0993	2033	0.5728
0.1013	2034	0.5944
0.1033	2035	0.6169
0.1054	2036	0.6404
0.1075	2037	0.6648
0.1096	2038	0.6902
0.1118	2039	0.7167
0.1140	2040	0.7442

kwalton

Amos Mitchell Transfer.pdf
04/22/13 02:33 PM



Steven J. Ross
202 429 6279
sross@steptoe.com

1330 Connecticut Avenue, NW
Washington, DC 20036-1795
202 429 3000 main
www.steptoe.com

Steptoe
STEPTOE & JOHNSON LLP

October 31, 2012

The Honorable Kimberly D. Bose
Secretary
Federal Energy Regulatory Commission
888 First Street, N.E.
Washington, D.C. 20426

Re: Appalachian Power Company
Kentucky Power Company
AEP Generation Resources Inc.
Docket No. EC13- -000

Dear Secretary Bose:

Pursuant to Section 203 of the Federal Power Act and Part 33 of the Regulations of the Federal Energy Regulatory Commission, American Electric Power Service Corporation ("AEPSC"), on behalf of Appalachian Company, Kentucky Power Company and AEP Generation Resources Inc. (collectively with AEPSC, the "Applicants"), hereby submits for filing the attached Application for Authorization to Transfer Jurisdictional Facilities Under Section 203 of the Federal Power Act. **AEPSC respectfully requests that the Commission establish December 17, 2012, as the comment date for this filing. The requested comment period is substantially longer than the twenty-one day period that the Commission typically establishes for Section 203 applications that do not raise competitive issues.**

Steptoe
STEPTOE & JOHNSON LLP

If you have any questions concerning this filing, please do not hesitate to contact the undersigned.

Respectfully submitted,

/s/
Steven J. Ross
Carol Gosain

Attorneys for Applicants

Attachment

UNITED STATES OF AMERICA
BEFORE THE
FEDERAL ENERGY REGULATORY COMMISSION

Appalachian Power Company	)	**Docket No. EC13-___-000**
Kentucky Power Company	)	
AEP Generation Resources Inc.	)	

APPLICATION FOR AUTHORIZATION TO TRANSFER JURISDICTIONAL ASSETS UNDER SECTION 203 OF THE FEDERAL POWER ACT

American Electric Power Service Corporation ("AEPSC"), on behalf of its affiliates, Appalachian Power Company ("APCo"), Kentucky Power Company ("KPCo") and AEP Generation Resources Inc. ("AEP Generation Resources") (collectively with AEPSC, the "Applicants"), hereby submits this application ("Application") pursuant to Sections 203(a)(1)(A) and 203(a)(1)(D) of the Federal Power Act ("FPA"), 16 U.S.C. §§ 824b(a)(1)(A) and 824b(a)(1)(D) (2006), and Part 33 of the Regulations of the Federal Energy Regulatory Commission ("FERC" or "Commission"), 18 C.F.R. Part 33 (2012). The Applicants seek any and all necessary authorizations and approvals for an internal asset transfer (the "Transaction") under which AEP Generation Resources, an indirect wholly-owned subsidiary of American Electric Power Company, Inc. ("AEP"), will transfer certain jurisdictional facilities, described below, to APCo and KPCo, which are wholly-owned subsidiaries of AEP.[1] The Applicants also respectfully request that the Commission grant limited waivers of certain Part 33 filing requirements. As the

[1] The Applicants previously filed in Docket No. EC12-70-000 an application for approval of an internal asset transfer involving the same facilities that are the subject of this pleading. That application was withdrawn without prejudice on February 28, 2012, because of certain developments before the Public Utilities Commission of Ohio.

Applicants demonstrate below, the proposed Transaction is consistent with the public interest and should be approved without a hearing.

I. BACKGROUND

A. Description of the Applicants and Related Parties

1. American Electric Power Company, Inc. and AEPSC

AEP is a multi-state electric utility holding company system whose operating companies provide electric service at wholesale and retail in parts of eleven states: APCo serves customers in Virginia and West Virginia (and one wholesale requirements customer in Tennessee); KPCo serves customers in Kentucky; Ohio Power Company ("Ohio Power") serves customers in Ohio (and one wholesale requirements customer in West Virginia); Indiana Michigan Power Company ("I&M") serves customers in Indiana and Michigan; Kingsport Power Company ("Kingsport") serves customers in Tennessee; Wheeling Power Company ("Wheeling") serves customers in West Virginia; Southwestern Electric Power Company serves customers in Arkansas, Louisiana, and the Southwest Power Pool, Inc. ("SPP") portion of Texas; Public Service Company of Oklahoma serves customers in Oklahoma; and AEP Texas Central Company and AEP Texas North Company serve customers in the Electric Reliability Council of Texas ("ERCOT") portion of Texas.

Those AEP operating companies located within the footprint of PJM Interconnection, L.L.C. ("PJM") are referred to as the "AEP East" companies (Ohio Power, APCo, KPCo, I&M, Kingsport and Wheeling), and the operating companies that are located within the SPP footprint are referred to as the "AEP SPP" companies. PJM and SPP are Commission-approved Regional Transmission Organizations ("RTOs"), and

the AEP East and AEP SPP companies have transferred functional control of their transmission facilities to PJM and SPP, respectively. AEP utilities in ERCOT have transferred functional control of their transmission facilities to the ERCOT RTO. The AEP SPP and ERCOT utilities will be unaffected by the Transaction.

AEPSC is a service company that provides management and professional services to AEP and its utility operating subsidiaries.

2. APCo and KPCo

Both APCo and KPCO are direct, wholly-owned subsidiaries of AEP.

APCo is a public utility that engages in the generation, transmission and distribution of electric power. It serves approximately 1 million retail customers in Virginia and West Virginia. APCo has six wholesale customers served under formula rates: Black Diamond Power Company (formerly known as the Musser Companies); Craig Botetourt Electric Cooperative, Inc.; Old Dominion Electric Cooperative, Inc.; the City of Radford, Virginia; the City of Salem, Virginia; and Virginia Polytechnic Institute and State University. APCo also has a full requirements wholesale power sales agreement (the "Kingsport Contract") with its affiliate company, Kingsport, which is discussed in more detail below. Kingsport serves retail customers in Tennessee and does not own any generating facilities. APCo's total owned generating capacity is currently about 6,800 MW.

APCo also owns about 6,900 circuit miles of transmission lines, and about 50,600 miles of distribution lines. APCo's transmission facilities are under the operational control of PJM, and transmission service is provided over such facilities by PJM pursuant to the PJM Open Access Transmission Tariff ("PJM OATT"). In addition to its AEP

System interconnections, APCo is interconnected with several unaffiliated utility companies.

KPCo likewise is a public utility that engages in the generation, transmission and distribution of electric power. KPCo serves about 173,000 retail customers in eastern Kentucky. It has two wholesale customers served under formula rates: the City of Olive Hill, Kentucky; and the City of Vanceburg, Kentucky. KPCo's total owned generating capacity is currently about 1,080 MW.

KPCo also owns about 1,250 circuit miles of transmission lines, and about 9,970 miles of distribution lines. KPCo's transmission facilities are under the operational control of PJM, and transmission service is provided over such facilities by PJM pursuant to the PJM OATT. In addition to its AEP System interconnections, KPCo is interconnected with several unaffiliated utility companies.

3. AEP Generation Resources

AEP Generation Resources is an indirect, wholly-owned subsidiary of AEP. AEP Generation Resources was formed on December 8, 2011, as a direct subsidiary of Ohio Power for the purposes of owning and operating the generating assets of Ohio Power (which is itself a direct, wholly-owned subsidiary of AEP). In a separate application under FPA Section 203 being filed contemporaneously herewith, approval is being sought for AEP Generation Resources to obtain generation units and associated interconnection facilities, as well as other generation-related assets, currently owned by Ohio Power (the "Corporate Separation Transaction"). Upon closing of the Corporate Separation Transaction, AEP Generation Resources will still be an indirect, wholly-owned subsidiary of AEP, but it will no longer be in the chain of ownership of Ohio

Power. The principal purpose of the Corporate Separation Transaction is to achieve structural corporate separation of Ohio Power's generation and marketing businesses from its transmission and distribution businesses, consistent with Ohio restructuring law and Ohio Power's structural corporate separation plan approved by the Public Utilities Commission of Ohio.

Among the assets to be transferred to AEP Generation Resources under the Corporate Separation Transaction are Ohio Power's existing interests in the John E. Amos generating station located in Winfield, West Virginia and the Mitchell generating station located in Moundsville, West Virginia, appurtenant interconnection facilities, and other assets and liabilities associated with those generating stations. Ohio Power currently owns an undivided two-thirds interest in Unit No. 3 of the Amos generating station (APCo owns the remaining undivided one-third interest) and a 100% interest in the Mitchell generating station. As described in Part II, below, the Applicants propose that, immediately upon closing of the Corporate Separation Transaction, AEP Generation Resources will, in turn, transfer those interests to APCo and KPCo.

The Applicants anticipate that at the time of the Transaction, AEP Generation Resources will be a public utility and will have authority from the Commission to make wholesale power sales at market-based rates.

B. The Pool Agreement

For the past 60 years, APCo and KPCo have been parties to a generation "pooling" arrangement among APCo and KPCo and their affiliate companies in AEP East that also owned generating facilities, i.e., Ohio Power and I&M (collectively with

APCo and KPCo, the "Pool Members").[2] Pursuant to this arrangement, the Pool Members have engaged in integrated planning and operation of their power supply facilities and allocated generation-related costs and benefits among the Pool Members. Under the existing Interconnection Agreement (the "Pool Agreement"), the Pool Members combine their power supply facilities to operate as an integrated system, with AEPSC as agent. Any surplus power not used by the Pool Members to meet their load obligations is sold on their behalf at market-based rates by AEPSC.

During the lengthy term of the Pool Agreement, the electric industry has undergone major changes, including with respect to electric markets and regulation. Such changes include evolving environmental regulations, the introduction of open access to transmission facilities, the advent of regional transmission organizations, movement toward industry deregulation, increased competition in wholesale generation markets, and the effects of these changes on costs, load and the array of supply and demand-side resources available to the Pool Members. These changes caused the Pool Members to give notice to each other of termination of the Pool Agreement effective January 1, 2014. Contemporaneously with the filing of this Section 203 application, an application is being filed under FPA Section 205 providing for the termination of the Pool Agreement and proposing a Power Coordination Agreement among APCo, KPCo

[2] Prior to December 31, 2011, AEP had two wholly-owned Ohio utility subsidiaries, Ohio Power and Columbus Southern Power Company ("CSP"). Both were members of the power pool. On December 31, 2011, CSP merged with and into Ohio Power, with Ohio Power being the surviving company, pursuant to a Commission-approved internal reorganization transaction. *Ohio Power Co.*, 136 FERC ¶ 62,001 (2011). In this Application, the term "Pool Members" embraces CSP, Ohio Power, APCo, KPCo, and I&M prior to December 31, 2011, and Ohio Power, APCo, KPCo, and I&M as of and after that date.

and I&M. Neither AEP Generation Resources nor Ohio Power will be a party to that new agreement.[3]

The Pool Members functioned as an integrated system under the Pool Agreement. Thus, as a group, the Pool Members jointly satisfied their combined needs for capacity and energy, even though if viewed individually, some Pool Members from time to time had surplus generating capacity and others were capacity deficit. For a number of years, APCo and KPCo have been capacity deficit Pool Members. Under the Pool Agreement, APCo and KPCo have made cost-based payments for capacity made available to them from their affiliate companies that had surplus capacity. As a result of the proposed termination of the Pool Agreement, APCo's and KPCo's short positions require them to obtain additional generation to enable them to satisfy their capacity requirements in PJM and provide baseload generation to meet their customers' energy requirements. The Transaction will accomplish that result in a cost-effective way that is consistent with the rationale underlying the Pool Agreement. Notably, while APCo and KPCo will incur the costs (and benefits) associated with owning and operating these generating assets, they will no longer make capacity and/or energy payments under the Pool Agreement.

[3] AEP Generation Resources and Ohio Power will have an agreement (the "Bridge Agreement") with APCo, KPCo, and I&M to address transition issues associated with termination of the Pool Agreement, such as how the companies will meet their Fixed Resource Requirement obligations in PJM through May 31, 2015, and how they will address existing marketing and trading arrangements with third parties. This agreement also is the subject of a separate application under FPA Section 205.

II. THE TRANSACTION

A. Description of the Transaction

The principal purpose of the Transaction is to transfer generation from AEP Generation Resources to APCo and KPCo so that they can satisfy their capacity requirements in PJM and provide baseload generation to meet their customers' energy requirements at the time that the Pool Agreement is terminated. The generation assets to be transferred include Ohio Power's existing interests in the John E. Amos and Mitchell generating plants. The John E. Amos generating plant is a three-unit coal-fired power plant located in Winfield, West Virginia, with an average annual capacity rating of 2,900 MW. Ohio Power has an undivided two-thirds interest in Unit No. 3 of that station (867 MW); APCo currently holds the remaining undivided one-third interest in Unit No. 3 (433 MW), and it owns all of Unit Nos. 1 and 2 of the Amos station. The Mitchell generating station is a two-unit coal-fired power plant located in Moundsville, West Virginia, with an average annual capacity rating of 1,560 MW. Ohio Power currently owns the entire station.

The proposed Transaction will occur immediately after closing of the Corporate Separation Transaction, which provides for Ohio Power's interests in the John E. Amos and Mitchell stations (along with its interests in other generating stations) to be transferred at net book value to AEP Generation Resources. Immediately upon closing of the Corporate Separation Transaction, however, the interests in Unit No. 3 of the John E. Amos station and the Mitchell station will be transferred to APCo and KPCo at the same net book value price. Specifically, APCo (which already owns an interest in Amos Unit No. 3) will obtain Ohio Power's former ownership interest in Unit No. 3 of the Amos

generating station and appurtenant interconnection facilities ("Amos 3 Facilities"), and related assets and liabilities, and a 50% undivided interest in the Mitchell generating station and appurtenant interconnection facilities ("Mitchell Facilities"), and related assets and liabilities. KPCo will obtain the remaining 50% undivided interest in the Mitchell Facilities, and related assets and liabilities.[4]

Several steps are involved in effecting the Transaction. First, immediately upon consummation of the Corporate Separation Transaction, AEP Generation Resources will contribute its interest in the Amos 3 Facilities and a 50% undivided interest in the Mitchell Facilities to a wholly-owned subsidiary of AEP Generation Resources, NEWCO Appalachian. In parallel, AEP Generation Resources will contribute the remaining 50% undivided interest in the Mitchell Facilities to another wholly-owned subsidiary of AEP Generation Resources, NEWCO Kentucky. Next, AEP Generation Resources will distribute its shares of NEWCO Appalachian and NEWCO Kentucky to its direct parent (which will be an intermediate holding company between AEP Generation Resources' ultimate parent, AEP, and AEP Generation Resources). Then, the intermediate holding company will distribute its shares of NEWCO Appalachian and NEWCO Kentucky to its direct parent, AEP.[5] Finally, NEWCO Appalachian will merge with and into APCo, with

[4] The limited, generation-related transmission assets to be transferred to APCo and KPCo are the transmission facilities associated with the generating plants located at or forming part of the generating plants.

[5] The Applicants do not believe that these intermediate steps trigger FPA Section 203(a)(2). Nonetheless, to the extent Section 203(a)(2) is triggered, Section 33.1(c)(2)(iii) provides a blanket authorization for a holding company to acquire any security of a subsidiary company within the holding company system. 18 C.F.R. § 33.1(c)(2)(iii).

APCo being the surviving entity, and NEWCO Kentucky will merge with and into KPCo, with KPCo being the surviving entity.

The Applicants intend to close the Transaction on or about December 31, 2013. The Applicants request that the Commission approve the Application without a hearing within the statutorily-prescribed period of 180 days from the date of filing of the Application.

B. Jurisdictional Facilities to be Transferred

The jurisdictional facilities that will be transferred to APCo are the Amos 3 Facilities and an undivided 50% interest in the Mitchell Facilities. The jurisdictional facilities that will be transferred to KPCo are an undivided 50% interest in the Mitchell Facilities.[6]

C. Contracts Related to the Transaction

Exhibit I contains the forms of the Asset Contribution Agreement between AEP Generation Resources and NEWCO Appalachian and the Asset Contribution Agreement between AEP Generation Resources and NEWCO Kentucky, as well as the forms of the Agreement and Plan of Merger of APCo and NEWCO Appalachian and the Agreement and Plan of Merger of KPCo and NEWCO Kentucky.[7] The distribution of the shares of NEWCO Appalachian and NEWCO Kentucky from AEP Generation Resources to its

[6] The disposition of the Amos 3 and Mitchell Facilities by AEP Generation Resources (which will be a public utility at the time of the Transaction) requires prior approval of the Commission under Section 203(a)(1)(A), 16 U.S.C. § 824b(a)(1)(A). The transfer of the generating units to APCo and KPCo requires prior approval of the Commission under Section 203(a)(1)(D), 16 U.S.C. § 824b(a)(1)(D).

[7] APCo and KPCo are also entering into an operating agreement with respect to the Mitchell generating station (which they will jointly own after the Transaction closes), under which APCo will operate the Mitchell generating station. That agreement is being contemporaneously filed with the Commission under FPA Section 205.

direct parent, and from its direct parent to AEP, will be carried out pursuant to board resolutions.

III. THE TRANSACTION IS CONSISTENT WITH THE PUBLIC INTEREST

Section 203 of the FPA provides that the Commission will authorize a proposed transaction under Section 203 if it determines that the transaction "will be consistent with the public interest."[8] The Commission has historically reviewed three factors when evaluating proposed transactions under the Section 203 public interest standard: (i) the effect on competition, (ii) the effect on rates, and (iii) the effect on regulation.[9] Additionally, Section 203(a)(4) states that the Commission must approve a proposed transaction if it finds that, in addition to being in the public interest based on the three factors above, it "will not result in cross-subsidization of a non-utility associate company or the pledge or encumbrance of utility assets for the benefit of an associate company, unless that cross-subsidization, pledge, or encumbrance will be consistent with the public interest."[10] As shown below, the Transaction is consistent with the public interest under the Commission's applicable standards.

A. No Adverse Effect on Competition

Order No. 642 identifies two types of analyses relevant to determining whether a transaction subject to Commission approval under Section 203 may pose potential adverse effects on competition: horizontal market power analysis and vertical market

---

[8] 16 U.S.C. § 824b(a)(4).

[9] *Revised Filing Requirements Under Part 33 of the Commission's Regulations,* Order No. 642, 65 Fed. Reg. 70983 (Nov. 28, 2000), FERC Stats. & Regs. ¶ 31,111 at 31,872-73 (2000) ("Order No. 642"); *order on reh'g*, Order No. 642-A, 94 FERC ¶ 61,289 (2001).

[10] 16 U.S.C. § 824b(a)(4).

power analysis.[11] The Commission consistently has held that internal corporate reorganizations that combine assets within the corporate family do not have adverse effects on competition.[12] That is the case here.

1. No Adverse Effect on Horizontal Competition

The Transaction will not have an adverse effect on horizontal competition. No generation will enter (or leave) the AEP corporate family as a result of the Transaction. Therefore, the Transaction cannot have a concentrating effect under the Commission's horizontal market power analysis, because the corporate family is treated as a single entity for purposes of that analysis.[13] Further, the Commission's regulations state that such an analysis is required "if, as a result of the proposed transaction, a single corporate entity obtains ownership or control over the generating facilities of previously unaffiliated merging entities."[14] Here, such an analysis is not required because no entity will take ownership or control of previously unaffiliated generation. In short, the Transaction will not affect horizontal competition.

---

[11] Order No. 642 at 31,872.

[12] *See Ameren Corp.*, 131 FERC ¶ 61,240 at P 18 (2010) ("*Ameren*") (finding that showing has been made that there will be no adverse effect on horizontal competition when the transaction involves an intra-corporate transfer of generating assets); *Cinergy Corp.*, 126 FERC ¶ 61,146 at P 32 (2009) ("*Cinergy*") ("Consistent with our precedent, we find that the Proposed Transaction is an internal corporate reorganization that will have no adverse effect on competition.") (citing *Calpine Power Servs. Co.*, 92 FERC ¶ 61,150 at 64,187-88 (2000); *PP&L Res., Inc.*, 90 FERC ¶ 61,203 at 61,649 (2000) (finding that a transaction that realigns assets under the same parent company will not change the concentration of generation ownership in the market and thus will not have an adverse effect on horizontal competition); *Allegheny Energy Supply Co.*, 89 FERC ¶ 62,063 at 64,105 (1999)); *see also* Order No. 642 at 31,902.

[13] *See Am. Elec. Power Serv. Corp.*, 100 FERC ¶ 61,346 (1999) (finding that "transfers that realign facilities under the same parent company generally will not change the concentration of generation ownership in the market" and thus do not raise competitive concerns).

[14] 18 C.F.R. § 33.3(a)(1).

2. No Adverse Effect on Vertical Competition

The Transaction likewise will not have an adverse effect on vertical competition. The Commission's regulations state that a vertical market power analysis is required "if, as a result of the proposed transaction, a single corporate entity has ownership or control over one or more merging entities that provides inputs to electricity products and one or more merging entities that provides electric generation products."[15] No such analysis is required here because the Transaction is internal and will not result in the AEP corporate family owning or controlling any new entities that provide inputs to electricity products or electric generation products.[16] Further, the Transaction does not involve the transfer of transmission facilities, except limited facilities needed to connect the generating units to the grid. Moreover, APCo and KPCo have turned over operational control of their transmission facilities to PJM, and wholesale transmission service over such facilities will continue to be provided pursuant to the rates and terms of the PJM OATT on file with the Commission, eliminating any concern about transmission-related vertical market power.[17] Consequently, the Transaction raises no vertical market power issues.

---

[15] 18 C.F.R. § 33.4 .

[16] *See Ameren*, 131 FERC ¶ 61,240 at P 18 (finding that internal corporate reorganization transaction creates no new vertical combinations of assets and thus does not raise any vertical market power concerns).

[17] *See Cinergy Corp.*, 140 FERC ¶ 61,180 at P 37 (2012) ("*Cinergy*") ("Consistent with our precedent, we find that, because the Proposed Transaction is an internal corporate reorganization and because operational control of Duke Ohio's transmission facilities has been turned over to PJM, the Proposed Transaction will have no adverse effect on horizontal or vertical competition."); *EDG Dev., Inc.*, 126 FERC ¶ 61,141 at P 23 (2009) ("Turning over operational control of transmission facilities to an independent entity mitigates any concerns about transmission-related vertical market power because it eliminates a company's ability to use its transmission system to harm competition.") (citing cases); *Okla. Gas & Elec. Co.*, 124 FERC ¶ 61,239 at P 57 (2008) ("[T]urning over functional control of an applicant's transmission facilities to a Commission-approved RTO mitigates vertical market power concerns.").

B. No Adverse Effect on Rates

In assessing the effect that a proposed transaction could have on rates, the Commission's primary concern is "the protection of wholesale ratepayers and transmission customers."[18] There will be no adverse impact on wholesale requirements customers or transmission customers as a result of the Transaction.

The Commission typically addresses this prong of its Section 203 analysis by reviewing the potential impact of a transaction on wholesale requirements customers served under cost-based contracts with formulaic provisions that automatically would track changes in costs resulting from the Transaction. The Commission typically does not focus on market-based rate sales or sales under cost-based arrangements that require separate filings to adjust the rates. The Commission also takes account of any proposal by applicants to mitigate any potential adverse rate impacts on wholesale customers.[19]

As described below, the Transaction will not cause any adverse impact on wholesale customers. Consistent with Commission policy and precedent under FPA Section 203, APCo and KPCo commit to hold their wholesale customers harmless from any transaction costs related to the Transaction for a period of five years following the closing date of the Transaction.[20]

---

[18] *See New England Power Co.*, 82 FERC ¶ 61,179 at 61,659, *order on reh'g*, 83 FERC ¶ 61,275 (1998).

[19] *Inquiry Concerning the Commission's Merger Policy Under the Federal Power Act: Policy Statement*, Order No. 592, 61 Fed. Reg. 68,595 (Dec. 30, 1996), FERC Stats. & Regs. ¶ 31,044 at 30,123-24 (1996); *order on reconsideration*, Order No. 592-A, 79 FERC ¶ 61,321 (1997).

[20] *See Cinergy*, 140 FERC ¶ 61,180 at P 44 (accepting five-year hold harmless commitment with respect to transaction-related costs and observing that if the applicants seek to recover transaction-related costs during that period, they must specifically identify the costs they are seeking to recover and demonstrate that those costs are exceeded by the savings produced by the transaction).

1. Wholesale Power Rates

a. APCo currently has six wholesale customers with formula rates,[21] as well as one contract under which it provides wholesale requirements service to its affiliate, Kingsport.[22] KPCo makes sales to two wholesale customers under formula rate agreements.[23] To the extent that the acquisition by APCo of the Amos 3 Facilities and an undivided 50% interest in the Mitchell Facilities and by KPCo of an undivided 50% interest in the Mitchell Facilities would affect rates under these agreements, any such effect stems from the fact that, as stand-alone companies that will no longer be able to access capacity under the Pool Agreement, APCo and KPCo have insufficient capacity to meet their obligations. The costs of owning and operating capacity (and the associated energy) acquired by APCo and KPCo (whether through acquisition of existing

---

[21] Black Diamond Power Company (formerly known as the Musser Companies); Craig Botetourt Electric Cooperative, Inc.; Old Dominion Electric Cooperative, Inc.; the City of Radford, Virginia; the City of Salem, Virginia; and Virginia Polytechnic Institute and State University. The pertinent rate schedules are as follows: APCo Rate Schedule No. 151, initially accepted for filing by letter order on May 26, 2006 in Docket No. ER06-848 (Black Diamond Power Company); APCo Rate Schedule No. 152, initially accepted for filing by letter order on June 8, 2006 in Docket No. ER06-905 (Craig Botetourt Electric Cooperative, Inc.); APCo Rate Schedule No. 153, initially accepted for filing by letter order on June 9, 2006 in Docket No. ER06-922 (City of Radford, Virginia); APCo Rate Schedule No. 154, initially accepted for filing by letter order on July 11, 2006 in Docket No. ER06-1049 (City of Salem, Virginia); APCo Rate Schedule No. 155, initially accepted for filing by letter order on August 3, 2007 in Docket No. ER07-1111 (Virginia Polytechnic Institute and State University); APCo Rate Schedule No. 156, initially accepted for filing by letter orders issued on May 29, 2008 and January 5, 2009 in Docket No. ER08-763 (Old Dominion Electric Cooperative, Inc.).

[22] The Kingsport Contract is APCo's First Revised Rate Schedule No. 23, which was initially accepted for filing by letter order issued on December 8, 2008 in Docket No. ER09-288. The non-fuel components of the Kingsport Contract are fixed. Therefore, the Transaction would have no automatic impact on non-fuel charges under the contract; to change those charges, APCo would need to make a filing with the Commission under FPA Section 205. Kingsport's fuel charges will reflect the cost of fuel consumed to serve its load.

[23] The City of Olive Hill, Kentucky; and the City of Vanceburg, Kentucky. The City of Olive Hill agreement is KPCo Rate Schedule 52, which was initially accepted for filing by letter order on January 25, 2006 in Docket No. ER06-358; the City of Vanceburg agreement is KPCo Rate Schedule 51, which was initially accepted for filing by letter order on January 25, 2006, in Docket No. ER06-340.

generation, construction of new generation, or a power purchase agreement) to satisfy their capacity requirements in PJM and provide baseload generation to meet their customers' energy requirements naturally will affect the rates that their wholesale customers pay.[24] It is also important to bear in mind that once the Transaction is effectuated, APCo and KPCo will no longer make capacity and/or energy payments under the Pool Agreement and thus they will no longer flow those costs through their respective formula rate contracts. In any event, APCo's and KPCo's wholesale customers were aware when they entered into long-term power purchase agreements that, during the terms of such agreements, APCo and KPCo, respectively, might need to build or acquire additional generating capacity to satisfy commitments under those agreements (as well as meet their retail load obligations) and that the costs associated with that capacity would flow through the formula rates. Moreover, these customers do not have a contractual right to receive service from specific generating resources; nor do their formula rate contracts limit APCo's or KPCo's rights to acquire generating resources as needed to serve their respective customers.[25]

---

[24] *See Boston Generating*, 113 FERC ¶ 61,016 at P 26 (2005) ("In reviewing an application under section 203, the Commission looks at the effects of the transaction on rates, not at rate changes that may occur regardless of the transaction."); *ITC Holdings Corp.*, 121 FERC ¶ 61,229 at PP 123-24 (2007) ("We disagree ... that increased investment in both transmission and generation assets cannot be a countervailing benefit that allows a transaction that may increase rates to be consistent with the public interest.... [T]he Commission finds that any increased costs ... attributable to prudent transmission investment do not make the Transaction contrary to the public interest."); *BHE Holdings, Inc.*, 133 FERC ¶ 61,231 at P 36 (2010) ("The Commission has been clear that hold harmless provisions should address costs related to the transaction and do not necessarily insulate customers from all rate increases.").

[25] *Accord Pub. Serv. Elec. & Gas Co.*, 88 FERC ¶ 61,299 at 61,917 (1999) (rejecting wholesale customer's argument that it would be adversely affected by a transaction that would change the mix of generating resources and thereby could raise energy prices, and observing that the customer had "no contractual right under the [agreement] to receive service from specific generating resources ... nor does the contract prevent the acquisition or sale of facilities by [seller]").

b. The parties to the Pool Agreement gave notice to each other of termination of the agreement effective January 1, 2014. Therefore, the Transaction will have no impact under that agreement. Moreover, contemporaneously with filing of this Section 203 application, AEPSC has filed an application under FPA Section 205 providing for the termination of the Pool Agreement and proposing a Power Coordination Agreement among APCo, I&M, and KPCo. Under the new arrangement, APCo, I&M, and KPCo will need to have sufficient capacity and energy to meet their respective loads.[26] That agreement will be subject to the Commission's review and approval in the Section 205 proceeding.

2. FERC-Jurisdictional Transmission Rates

AEP Generation Resources will not transfer any transmission facilities in connection with the Transaction, except limited facilities needed to connect the generating units to the grid. No transmission facilities that are part of the bulk transmission system or included in transmission ratebase will be transferred to APCo and KPCo. Therefore, the Transaction will not cause APCo and KPCo to incur additional transmission costs that will flow through AEP pricing zone rates under the PJM OATT.

[26] In a related proposed transaction for which Commission approval is being sought under FPA Section 203, Wheeling will merge into APCo and the full requirements wholesale power sales agreement between Ohio Power, as seller, and Wheeling, as purchaser, will terminate, thereby eliminating the capacity and energy payments that otherwise would be required from Wheeling under that agreement. After closing of the APCo/Wheeling merger, APCo will be responsible for serving what was previously Wheeling's load (in addition to APCo's own pre-merger load); the generating capacity obtained by APCo pursuant to the Transaction will become part of APCo's generation portfolio used to satisfy this responsibility.

C. No Adverse Effect on Regulation

The Transaction will not have an adverse impact on regulation, at either the federal or state level.

The Transaction will not diminish the Commission's regulatory authority. Each of APCo and KPCo will remain a "public utility" as defined in FPA Section 201(e)[27] and will continue to be subject to the Commission's Federal Power Act jurisdiction. Further, the Commission will have jurisdiction over wholesale sales from the generating assets of APCo and KPCo, including the Amos 3 and Mitchell Facilities, after the Transaction closes. Accordingly, the Transaction will have no adverse effect on federal regulation.

The Transaction also will not adversely affect state regulation. After the Transaction closes, APCo will continue to be subject to regulation by the Virginia State Corporation Commission and the Public Service Commission of West Virginia, and KPCo will continue to be subject to regulation by the Kentucky Public Service Commission. Accordingly, the Transaction will have no adverse effect on state regulation.

D. No Inappropriate Cross-Subsidization or the Pledge or Encumbrance of Utility Assets

Under the Energy Policy Act of 2005 amendments to FPA Section 203 and the Commission's implementing regulations adopted in Order No. 669, an applicant must provide assurance that the proposed transaction will not result in cross-subsidization of a non-utility associate company or a pledge or encumbrance of utility assets for the benefit of an associate company, unless that cross-subsidization, pledge, or encumbrance will be

[27] 16 U.S.C. § 824(e).

consistent with the public interest.[28] In Order Nos. 669, 669-A and 669-B,[29] the Commission established a four-factor test that applicants must satisfy to address the concerns identified in FPA Section 203 regarding any possible cross-subsidization or pledge or encumbrance of utility assets associated with a proposed transaction. Under this test, the Commission examines whether a proposed transaction results in, at the time of the transaction or in the future:

> (A) Any transfer of facilities between a traditional public utility associate company that has captive customers or that owns or provides transmission service over jurisdictional transmission facilities, and an associate company;
>
> (B) Any new issuance of securities by a traditional public utility associate company that has captive customers or that owns or provides transmission service over jurisdictional transmission facilities, for the benefit of an associate company;
>
> (C) Any new pledge or encumbrance of assets of a traditional public utility associate company that has captive customers or that owns or provides transmission service over jurisdictional transmission facilities, for the benefit of an associate company; or
>
> (D) Any new affiliate contract between a non-utility associate company and a traditional public utility associate company that has captive customers or that owns or provides transmission service over jurisdictional transmission facilities, other than non-power goods and services

[28] FPA Section 203(a)(4), 16 U.S.C. § 824b(a)(4).

[29] *Transactions Subject to FPA Section 203,* Order No. 669, 71 Fed. Reg, 1348 (Jan. 6, 2006), FERC Stats. & Regs. ¶ 31,200 at PP 91, 166, 193 (2005) ("Order No. 669"), *order on reh'g*, Order No. 669-A, 71 Fed. Reg. 28,422 (May 16, 2006), FERC Stats. & Regs. ¶ 31,214 (2006) ("Order No. 669-A"); *order on reh'g*, Order No. 669-B, 71 Fed. Reg. 42,579 (July 27, 2006), FERC Stats. & Regs. ¶ 31,225 (2006) ("Order No. 669-B").

> agreements subject to review under [FPA] sections 205 and 206.[30]

As required by Order Nos. 669-A and 669-B,[31] Applicants provide below a detailed showing regarding each of these factors, based on facts and circumstances that are known to the Applicants or are reasonably foreseeable.

Transfers of Facilities

The transfer of jurisdictional facilities pursuant to the Transaction will not result in any improper cross-subsidization of a non-utility affiliate. The Transaction is an internal asset transfer that involves the contemporaneous sequential transfer of certain generating units and related facilities from Ohio Power, a traditional public utility, to AEP Generation Resources (which will also be a public utility when the Transaction closes, although not a traditional one), and then immediately to APCo and KPCo, which are traditional public utilities.

The Transaction will not have an adverse effect on APCo's or KPCo's wholesale ratepayers. As explained above, the purpose of the Transaction is to allow APCo and KPCo to satisfy their post-Pool Agreement capacity and energy obligations by obtaining generating assets that were built by other Pool Members pursuant to the Pool Agreement. As discussed in Part I.B above, APCo and KPCo do not own enough generation to meet their needs. Under the Pool Agreement, they met those needs by making cost-based capacity payments to those Pool Members that had surplus capacity. Upon termination of the Pool Agreement, APCo and KPCo will need to have sufficient capacity and energy to

[30] 18 C.F.R. § 33.2(j)(1)(ii).

[31] Order No. 669-A at P 144; Order No. 669-B at P 49.

meet their load requirements and will no longer make such cost-based capacity payments. Further, the Amos 3 and Mitchell Facilities will transfer at net book value, just as they will have transferred from Ohio Power to AEP Generation Resources at net book value. Indeed, for all practical purposes, AEP Generation Resources serves merely as a conduit for the transfer of facilities between traditional public utilities.[32] Finally, APCo and KPCo have made the "hold harmless" commitment described above with regard to transaction costs incurred under the Transaction.

New Issuance of Securities

Neither APCo nor KPCo will issue any securities in connection with the Transaction for the benefit of an associate company. As discussed above, the Transaction is being undertaken to enable APCo and KPCo to satisfy their capacity requirements in PJM and provide baseload generation to meet their customers' energy requirements. The Transaction will accomplish that result in a cost-effective way that is consistent with the rationale underlying the Pool Agreement. APCo and KPCo will reflect the generating units on their balance sheets at Ohio Power's net book value. Financing for the Transaction will be provided in a way that generally maintains the companies' existing debt and equity ratios. AEP Generation Resources is the only non-traditional utility

[32] The Commission's practice is to look beyond the structure of a transaction in order to recognize the economic realities of the transaction. *See, e.g., Southwestern Pub. Serv. Co.*, 46 FERC ¶ 61,006 at 61,031 (1989) (stating that, for transactions among affiliates, the Commission's practice is to look "through the corporate form of affiliated corporations joined in a single system in order to recognize economic realities") (internal quotes and citation omitted); *see also San Diego Gas & Elec. Co. v. Alamito Co.*, 38 FERC ¶ 61,241 at 61,778 (1987) (observing that the Commission will focus on the substance rather than the form of a corporate transaction).

involved in the Transaction, and, as described above, it acts only as a pass-through for the transfer.

As described in a Section 203 application being filed contemporaneously herewith, as soon as practicable after closing of the transaction transferring the Amos 3 and Mitchell Facilities (as well as Ohio Power's interests in other generating units and associated interconnection facilities) from Ohio Power to AEP Generation Resources, Ohio Power pollution control revenue bonds ("PCRBs") that have tender dates prior to the closing would be transferred by Ohio Power to AEP Generation Resources. PCRBs that have tender dates after the closing would transfer to AEP Generation Resources on or about their tender dates. AEP Generation Resources would be made contractually responsible for costs of carrying the transferring PCRBs after closing. To the extent permitted, the series of Ohio Power PCRBs related to the Amos 3 and Mitchell Facilities would be further transferred to APCo and KPCo, as appropriate. To accomplish such transfer, each of APCo and KPCo would reissue new, separate PCRBs in its own name and transfer the proceeds from the reissued PCRBs to redeem the series of PCRBs related to the Amos 3 and Mitchell Facilities, releasing Ohio Power from any further obligation for such PCRBs.[33] APCo and KPCo would be made contractually responsible for costs of carrying these transferring PCRBs after closing.

[33] Such issuances by APCo and KPCo would be subject to state approval and thus would not require approval under FPA Section 204.

New Pledge or Encumbrance

Neither APCo nor KPCo will enter into any new pledge or encumbrance of its assets in connection with the Transaction, at the time of the Transaction or in the future. There are no other traditional utilities involved in the Transaction.

New Affiliate Contracts

Other than the Asset Contribution Agreements and the Merger Agreements, APCo and KPCo do not contemplate entering into any affiliate contracts related to the Transaction, at the time of the Transaction or in the future.[34] No other traditional utilities are involved in the Transaction.

As discussed above, the Pool Members have given each other notice to terminate the existing Pool Agreement. In connection with that termination, APCo, KPCo and I&M have agreed to enter into the Power Coordination Agreement, and APCo, KPCo, I&M, Ohio Power, and AEP Generation Resources have agreed to enter into the Bridge Agreement. These new arrangements will be subject to the Commission's review and authorization under FPA Section 205.

As shown above, the Transaction satisfies the Commission's four-factor test and will not result in improper cross-subsidization.

IV. THE TRANSACTION DOES NOT RUN AFOUL OF FPA SECTION 305(a)

FPA Section 305(a) does not prohibit the Transaction. As described in Part II.A above, the Transaction involves a distribution by AEP Generation Resources to its parent

[34] As noted above, APCo and KPCo are entering into an operating agreement under which APCo will operate the jointly-owned Mitchell station after closing of the Transaction. That agreement is being separately filed with the Commission under FPA Section 205.

companies of the shares of NEWCO Appalachian and NEWCO Kentucky (which will immediately be followed by a merger of such companies with and into APCo and KPCo, respectively). The distribution will include the Amos 3 and Mitchell Facilities. Section 305(a) states in pertinent part: "It shall be unlawful for any officer or director of any public utility ... to participate in the making or paying of any dividends of such public utility from any funds properly included in capital account."[35] The value of the generating units and related assets that AEP Generation Resources will distribute to its parent companies exceeds the retained earnings of AEP Generation Resources, which, at the time the Transaction is consummated, will have no retained earnings. The distribution is nonetheless permissible under Section 305(a), as explained below.

This case is like others in which the Commission has concluded that the concerns underlying FPA Section 305(a) are not present because it involves dividending of corporate interests as part of a corporate restructuring that "is less like a payment of dividends than it is a corporate restructuring with a one-time distribution of property ... rather than a payment of cash."[36] The concerns underlying enactment of FPA Section 305(a) included "that sources from which cash dividends were paid were not clearly identified and that holding companies had been paying out excessive dividends on the securities of their operating companies."[37] A central concern thus "was corporate officials raiding corporate coffers for their personal financial benefit."[38] A transaction is

---

[35] 16 U.S.C. § 825d(a).

[36] *See ALLETE, Inc.*, 107 FERC ¶ 61,041 at P 11 (2004) ("*ALLETE*").

[37] *Citizens Utils. Co.*, 84 FERC ¶ 61,158 at 61,865 (1998) (citation omitted) ("*Citizens*").

[38] *Id.*

not barred by FPA Section 305(a) in cases, like this one, where "none of these problems is evident."[39]

Like other cases that the Commission has found permissible under FPA Section 305(a), this case involves an internal corporate restructuring with one-time distributions of property.[40] The proposed Transaction "will have no adverse effect on the value of shareholders' interests" because shareholders "will have the same ownership interests after the separation as before."[41] Put differently, assets will simply be moved within the same corporate family, and shareholders' ownership interests will remain unaffected. Further, the source of the distribution is clearly identified, no "excessive dividends" will be paid, and the Transaction plainly has nothing to do with "corporate officials raiding corporate coffers for their personal financial benefit."[42]

V. PART 33 FILING REQUIREMENTS

Other than those information requirements for which a waiver is requested, Applicants are submitting the following information pursuant to the filing requirements in 18 C.F.R. § 33.2. Applicants respectfully request full or partial waiver of certain of the

---

[39] *Id.*

[40] *Cinergy*, 126 FERC ¶ 61,146 at P 69; *ALLETE*, 107 FERC ¶ 61,041 at PP 9-12; *Citizens*, 84 FERC ¶ 61,158 at 61,865.

[41] *ALLETE*, 107 FERC ¶ 61,041 at P 11.

[42] *Accord Delmarva Power & Light Co.*, 91 FERC ¶ 61,043 at 61,158 (2000) ("While both of the dividend payments at issue in this proceeding are from capital accounts, the proposed accounting entries reflecting these payments are clear. In addition, the dividend payments are not cash payments and the proposed entries, therefore, do not evidence any excessive payments of cash dividends. The dividend payments are payments of stock made from one affiliated corporation to another to accommodate an intra-corporate transfer of jurisdictional facilities, the ultimate aim of which is to separate transmission and distribution service from generation service within the ... family of companies. The dividend payments are not made to the public, and the record does not suggest any impropriety. The concerns underlying section 305(a) are not present in this proceeding.") (citing *Citizens*, 84 FERC ¶ 61,158 at 61,865).

information requirements of Part 33 on the grounds that (1) this is a purely internal asset transfer without the need for the higher level of scrutiny that might attach to a merger resulting in a combination of previously unaffiliated assets; and (2) this information would not assist the Commission in determining whether the Transaction is in the public interest. Consistent with 18 C.F.R. § 33.3(a)(1), Applicants have not submitted a horizontal market power analysis, or any other competition information under 18 C.F.R. § 33.3, because the Transaction will not result in an AEP entity obtaining ownership or control over facilities of a previously unaffiliated entity.

In Order No. 642, the Commission stated that applicants may request waiver of specific information requirements.[43] The Commission's practice is to grant such a waiver when the application contains "sufficient information to evaluate the proposed transaction."[44] Based on the foregoing, Applicants request that the Commission waive certain requirements under Part 33 (as requested herein) and waive any other filing requirements as may be applicable.

A. Section 33.2

1. The Exact Name and Principal Business Address of Applicants (18 C.F.R. § 33.2(a))

American Electric Power Service Corporation
1 Riverside Plaza
Columbus, OH 43215

Appalachian Power Company
1 Riverside Plaza
Columbus, OH 43215

[43] Order No. 642 at 31,877.

[44] *PSI Energy, Inc.*, 60 FERC ¶ 62,131 at 63,342 (1992); *Citizens Utils. Co.*, 41 FERC ¶ 62,064 at 63,180 (1987).

Kentucky Power Company
1 Riverside Plaza
Columbus, OH 43215

AEP Generation Resources Inc.
1 Riverside Plaza
Columbus, OH 43215

2. Name and Address of Persons Authorized to Receive Notices and Communications (18 C.F.R. § 33.2(b))

John C. Crespo*
Deputy General Counsel
Regulatory Services
American Electric Power
Service Corporation
1 Riverside Plaza
Columbus, OH 43215
(614) 716-3727
jccrespo@aep.com

Steven J. Ross*
Carol Gosain
STEPTOE & JOHNSON LLP
1330 Connecticut Avenue, N.W.
Washington, DC 20036
(202) 429-6279
sross@steptoe.com
cgosain@steptoe.com

Chad Heitmeyer*
Regulatory Case Manager
American Electric Power
Service Corporation
1 Riverside Plaza
Columbus, OH 43215
(614) 716-3303
caheitmeyer@aep.com

Applicants request that the persons marked with an asterisk be placed on the official service list for this proceeding and respectfully request waiver of Rule 203(b)(3), 18 C.F.R. § 385.203(b)(3). Applicants will serve a copy of this Application on the Kentucky Public Service Commission, the Public Service Commission of West Virginia and the Virginia State Corporation Commission. A copy of this filing will be posted to AEP's website at:

http://www.aep.com/investors/currentRegulatoryactivity/regulatory/ferc.aspx

3. Exhibit A - Description of Applicants – All Business Activities, including Regulatory Authorizations (18 C.F.R. § 33.2(c)(1))

A description of the Applicants and their primary businesses is provided in Part I.A. of this Application. Applicants seek a waiver of the need to provide any additional information under Section 33.2(c)(1).

4. Exhibit B – List of Energy Subsidiaries and Affiliates, Applicants' Ownership Interest and Description of their Primary Business (18 C.F.R. § 33.2(c)(2))

Applicants' energy subsidiaries, as well as their ownership interests therein, are listed in Exhibit B. Applicants seek a waiver of the need to provide any additional information related to any other AEP energy affiliates, which will be wholly unaffected by the Transaction.

5. Exhibit C – Organizational Charts Depicting Applicants' Current and Proposed Post-Transaction Corporate Structures (Including Any Pending but Not Implemented Changes) Indicating All Parent Companies, Energy Subsidiaries and Energy Affiliates (18 C.F.R. § 33.2(c)(3))

Applicants request waiver of this requirement because the Transaction is an asset transfer, will not result in the creation or elimination of any AEP subsidiaries or affiliates, and thus will not affect the corporate structure of the AEP corporate family.

6. Exhibit D – Description of All Joint Ventures, Strategic Alliances, Tolling Arrangements or Other Business Arrangements, Including Transfer of Operational Control to a Commission Approved RTO (18 C.F.R. § 33.2(c)(4))

Applicants seek a waiver to provide any additional information under 18 C.F.R. § 33.2(c)(4), as the Transaction does not involve any change in APCo or KPCo joint ventures or strategic alliances. APCo and KPCo have no tolling arrangements.

7. Exhibit E – Common Officers or Directors (18 C.F.R. § 33.2(c)(5))

A list of common officers and directors of AEP Generation Resources, APCo and KPCo is set out in Exhibit E.

8. Exhibit F – Description and Location of Wholesale Power Customers and Unbundled Transmission Customers Served by Applicants (18 C.F.R. § 33.2(c)(6))

APCo's wholesale power customers are discussed in Part III.B of the Application. A list of the AEP East unbundled transmission customers is included in Exhibit F.

9. Exhibit G – Description of the Applicants' Jurisdictional Facilities (18 C.F.R. § 33.2(d))

The generation units in which APCo and KPCo have ownership interests and the transmission facilities owned by APCo and KPCo are described in Exhibit G. AEP Generation Resources has no jurisdictional facilities at the time of filing of this Application.

10. Narrative Description of the Proposed Transaction (18 C.F.R. § 33.2(e))

A narrative description of the Transaction is provided in Part II of this Application. Applicants seek a waiver of the need to provide any additional information under Section 33.2(e).

11. Exhibit H – Facilities Associated with or Affected by the Transaction (18 C.F.R. § 33.2(e)(2))

A description of the jurisdictional facilities affected by the Transaction is provided in Part II.B of this Application. Applicants seek a waiver of the need to provide any additional information under Section 33.2(e)(2).

12. Exhibit I – Contracts Related to the Proposed Transaction (18 C.F.R. § 33.2(f))

Exhibit I contains the forms of the Asset Contribution Agreements and the Merger Agreements. While these documents have not yet been executed, consistent with Commission precedent, Applicants certify that, to the best of their knowledge, the final agreements will reflect the terms and conditions contained in the draft agreements in all material respects. The distribution of the shares of NEWCO Appalachian and NEWCO Kentucky from AEP Generation Resources to its direct parent, and from its direct parent to AEP, will be carried out pursuant to board resolutions.

13. Exhibit J – Public Interest Discussion and Any Other Information Relevant to Transaction (18 C.F.R. § 33.2(g))

The Transaction is in the public interest for the reasons set forth in Part III of this Application. Applicants seek waiver of the need to provide any additional information pursuant to Section 33.2(g).

14. Exhibit K – Maps (18 C.F.R. § 33.2(h))

The map attached as Exhibit K shows the APCo and KPCo service territories and the location of the generating units affected by the Transaction.

15. Exhibit L – Orders from Other Regulatory Bodies (18 C.F.R. § 33.2(i))

To date, the Applicants have not made any filings with other regulatory bodies for approval of the Transaction. The Applicants will submit to the Commission copies of any orders issued by other regulatory bodies relating to the Transaction that are issued before the date of final Commission action on the Application.

16. Exhibit M – Explanation Providing Assurance that the Proposed Transaction Will Not Result in Cross-Subsidization or Pledges or Encumbrances of Utility Assets (18 C.F.R. § 33.2(j))

The Applicants' detailed showing regarding the absence of any improper cross-subsidization is included in Part III of this Application. There are no material pledges or encumbrances of utility assets of APCo and KPCo. The Applicants request waiver of the need to provide any additional information pursuant to Section 33.2(j).

B. Proposed Accounting Entries (18 C.F.R. § 33.5)

Pursuant to 18 C.F.R. § 33.5, Applicants provide in Attachment A the proposed accounting entries for the Transaction. These proposed accounting entries are based on account balances as of December 31, 2011. While these balances reasonably represent the expected assets, liabilities and total capitalization to be transferred, the actual account balances at the time of the Transaction will be different and the methods employed will be more detailed and precise. The transfer of assets constituting an operating unit or system will be recorded through Account 102 consistent with the instructions of Electric Plant Instruction No. 5 of the Commission's Uniform System of Accounts. The Applicants will submit proposed final accounting entries within six months of the consummation of the Transaction reflecting all entries made on the books and records of APCo and KPCo pursuant to the Commission's Uniform System of Accounts, along with appropriate narrative explanations describing the basis for the entries.

C. Verifications (18 C.F.R. § 33.7)

Authorized representatives of APCo, KPCo, and AEP Generation Resources have executed the attached verifications required under Section 33.7 of the Commission's Regulations.

VI. CONCLUSION

WHEREFORE, for the reasons set forth above, Applicants respectfully request that the Commission: (1) find that the Transaction will not have an adverse effect on competition, rates, or regulation, and that this Application satisfies all applicable requirements for authorization of the Transaction under Section 203 of the FPA and Part 33 of the Commission's Regulations; (2) issue such approvals and related authorizations, based on the Application and supporting materials; and (3) waive any filing requirement or other regulation as the Commission may find necessary or appropriate to allow this Application to be granted as requested herein.

Respectfully submitted,

/s/

John C. Crespo
Deputy General Counsel – Regulatory Services
American Electric Power Service Corporation
1 Riverside Plaza
Columbus, OH, 43215

Steven J. Ross
Carol Gosain
STEPTOE & JOHNSON LLP
1330 Connecticut Avenue, N.W.
Washington, DC 20036

Attorneys for Applicants

Dated: October 31, 2012

Attachments

Applicants' energy subsidiaries, as well as their ownership interests therein, are listed below. Applicants seek a waiver of the need to provide any additional information related to any other AEP energy affiliates, which will be wholly unaffected by the Transaction.

Applicant	Energy Subsidiary	Ownership Interest
APCo	Cedar Coal Company	100%
APCo	Central Appalachian Coal Company	100%
APCo	Southern Appalachian Coal Company	100%
APCo	Central Coal Company	50%
KPCo	NONE	N/A
AEP Generation Resources	NONE	N/A

Common Officers and Directors (APCo, KPCo and AEP Generation Resources)

Common Directors

Nicholas K. Akins
Lisa M. Barton (APCo and KPCo)
David M. Feinberg (APCo and KPCo)
Mark C. McCullough (APCo and KPCo)
Robert P. Powers
Barbara D. Radous (APCo and KPCo)
Brian X. Tierney
Dennis E. Welch (APCo and KPCo)

Common Officers

Nicholas K. Akins, CEO
Lisa M. Barton, VP (APCo and KPCo)
Thomas G. Berkemeyer, Assistant Secretary
Joseph M. Buonaiuto, CAO (APCo and KPCo); Controller
Jeffrey D. Cross, Assistant Secretary (APCo and KPCo); VP (AEP Generation Resources)
David M. Feinberg, Secretary (APCo, KPCo and AEP Generation Resources); VP (AEP Generation Resources)
Renee V. Hawkins, Assistant Treasurer
Michael Heyeck, VP (APCo and KPCo)
Jeffery D. LaFleur, VP-Generation Assets (APCo); VP (KPCo)
Timothy K. Light, VP (APCo and KPCo)
Mark C. McCullough, VP (APCo and KPCo)
Scott N. Smith, VP (APCo and KPCo)
Robert P. Powers, VP (APCo and KPCo); President, COO (AEP Generation Resources)
Mark A. Pyle, VP-Tax
Barbara D. Radous, VP (APCo and KPCo)
Andrew B. Reis, Assistant Controller (APCo and KPCo)
Brian X. Tierney, CFO, VP
Dennis E. Welch, VP (APCo and KPCo)
Julie Williams, Assistant Controller (APCo and KPCo)
Charles E. Zebula, Treasurer

Exhibit F - Description and Location of Wholesale Power Customers and Unbundled Transmission Customers Served by Applicants

AEP PJM Zonal Network Interconnection Transmission Service Customers

1	AEP
2	Allegheny Power Company
3	American Municipal Power - Ohio, Inc.
4	Buckeye Power, Inc.
5	Central Virginia Electric Co-op
6	City of Auburn
7	City of Bedford
8	City of Bluffton
9	City of Bristol
10	City of Bryan
11	City of Clyde
12	City of Columbus
13	City of Danville
14	City of Dover
15	City of Dowagiac
16	City of Garrett
17	City of Jackson
18	City of Martinsville
19	City of Mishawaka
20	City of Niles
21	City of Olive Hill
22	City of Orville
23	City of Radford
24	City of Salem
25	City of Shelby
26	City of South Haven
27	City of St. Marys
28	City of St. Clairsville
29	City of Sturgis
30	City of Vanceburg
31	City of Wapakoneta
32	City of Warren
33	City of Westerville
34	Craig Botetourt Electric Cooperative
35	Dayton Power & Light Co.
36	The Black Diamond Power Co.(formerly known as the Musser Co.)
37	Hoosier Energy Rural Electric Cooperative, Inc.
38	Indiana Municipal Power Agency
39	Joint Operating Group
40	Ohio City
41	Old Dominion Electric Cooperative
42	Town of Avilla
43	Town of New Carlisle
44	Town of Richlands
45	Village of Arcadia
46	Village of Bloomdale
47	Village of Carey
48	Village of Cygnet
49	Village of Deshler
50	Village of Glouster
51	Village of Greenwich
52	Village of Paw Paw
53	Village of Plymouth
54	Village of Republic
55	Village of Shiloh
56	Village of Sycamore
57	Village of Wharton
58	Village of Woodsfield
59	Virginia Polytechnic Institute and State University
60	Wabash Valley Power Association, Inc.

	Non-Zonal NITS Customers
61	Buckeye Power, Inc (DPL)
62	Buckeye Power, Inc (FE)
63	Buckeye Power, Inc (Cinergy)

Exhibit G -- Description of the Applicants' Jurisdictional Facilities

Generation Assets (APCo)

Plant	Unit No.	Fuel	Location	Capacity (MW)*
Buck	1-3	Hydro	Ivanhoe, VA	5
Byllesby	1-4	Hydro	Ivanhoe, VA	7
Ceredo	1	Gas	Huntington, WV	80
Ceredo	2	Gas	Huntington, WV	80
Ceredo	3	Gas	Huntington, WV	80
Ceredo	4	Gas	Huntington, WV	80
Ceredo	5	Gas	Huntington, WV	81
Ceredo	6	Gas	Huntington, WV	81
Claytor	1-4	Hydro	Radford, VA	25
Clinch River	1	Coal	Cleveland, VA	233
Clinch River	2	Coal	Cleveland, VA	233
Clinch River	3	Coal	Cleveland, VA	234
Dresden	1-3	Gas	Dresden, OH	577
Glen Lyn	5	Coal	Glen Lyn, VA	94
Glen Lyn	6	Coal	Glen Lyn, VA	238
John E. Amos	1	Coal	Winfield, WV	800
John E. Amos	2	Coal	Winfield, WV	800
John E. Amos	3	Coal	Winfield, WV	433
Kanawha River	1	Coal	Glasgow, WV	200
Kanawha River	2	Coal	Glasgow, WV	200
Leesville	1-2	Hydro	Hurt, VA	8
London	1-3	Hydro	Handley, WV	10
Marmet	1-3	Hydro	Marmet, WV	10
Mountaineer	1	Coal	New Haven, WV	1,317
Niagara	1-2	Hydro	Vinton, VA	1
Philip Sporn	1	Coal	New Haven, WV	147
Philip Sporn	3	Coal	New Haven, WV	148
Reusens	1-5	Hydro	Lynchburg, VA	3
Smith Mountain PS	1-5	Hydro/PS	Sandy Level, VA	586
Winfield	1-3	Hydro	Winfield, WV	13
			TOTAL CAPACITY	**6,804**

Generation Assets (KPCo)

Plant	Unit No.	Fuel	Location	Capacity (MW)*
Big Sandy	1	Coal	Louisa, KY	278
Big Sandy	2	Coal	Louisa, KY	800
			TOTAL CAPACITY	**1,078**

* The capacity values shown on the above tables are the values used for purposes of the Pool Agreement and may differ slightly from the summer seasonal values shown on the Appendix B submitted with AEP's market-based rate filings. The table summarizes generation assets prior to the Amos and Mitchell Transfers.

Transmission Assets (APCo)

Applicant	Asset	Controlled By	Location Balancing Authority Area	Size (circuit miles)
APCo	765kV Lines	PJM	PJM	734
APCo	500kV Lines	PJM	PJM	97
APCo	345kV Lines	PJM	PJM	383
APCo	230kV Lines	PJM	PJM	106
APCo	88-138kV Lines	PJM	PJM	3,422
APCo	69kV or less Lines	PJM	PJM	2,123
			TOTAL	**6,865**

Transmission Assets (KPCo)

Applicant	Asset	Controlled By	Location Balancing Authority Area	Size (circuit miles)
KPCo	765kV Lines	PJM	PJM	258
KPCo	345kV Lines	PJM	PJM	8
KPCo	161kV Lines	PJM	PJM	46
KPCo	88-138kV Lines	PJM	PJM	335
KPCo	69kV or less Lines	PJM	PJM	605
			TOTAL	**1,252**

Exhibit I – Agreements Related to the Proposed Transaction

Exhibit I contains the following documents:

1. Asset Contribution Agreement Between AEP Generation Resources Inc. and NEWCO Appalachian (34 pages).

2. Asset Contribution Agreement Between AEP Generation Resources Inc. and NEWCO Kentucky (32 pages).

3. Agreement and Plan of Merger of Appalachian Power Company and NEWCO Appalachian (6 pages).

4. Agreement and Plan of Merger of Kentucky Power Company and NEWCO Kentucky (6 pages).

ASSET CONTRIBUTION AGREEMENT

BETWEEN

AEP GENERATION RESOURCES INC.

AND

[NEWCO APPALACHIAN]

Dated as of _____, 201_

Table of Contents

Page

EXHIBITS

SCHEDULES

ASSET CONTRIBUTION AGREEMENT

This **Asset Contribution Agreement** (this "Agreement"), dated as of _____ 201_, is between **AEP Generation Resources Inc.**, a Delaware corporation ("Transferor"), and **[NEWCO Appalachian]** a _____ corporation ("Transferee"). Collectively, Transferee and Transferor may be referred to herein as the "Parties" and each, individually, as a "Party."

W I T N E S S E T H

WHEREAS, Transferor owns the Mitchell Power Generation Facility in Moundsville, West Virginia which is comprised of two 800 MW generating units and associated plant, equipment and facilities and certain other assets, improvements, properties (both tangible, including real and personal property, and intangible), and rights associated therewith or ancillary thereto, all as more specifically described in Schedule 1.01 (the "Mitchell Plant").

WHEREAS, Transferor owns an undivided two-thirds interest in the Amos Plant Unit No. 3 in Winfield, West Virginia which is comprised of one 1300 MW generating unit and associated plant, equipment and facilities and certain other assets, improvements, properties (both tangible, including real and personal property, and intangible), common facilities and rights associated therewith or ancillary thereto, all as more specifically described in Schedule 1.01 ("Amos Unit 3").

WHEREAS, Transferor desires to transfer and assign to Transferee, and Transferee desires to acquire and assume from Transferor, the Transferred Assets (as hereinafter defined) and certain liabilities, upon the terms and conditions hereinafter set forth;

WHEREAS, Transferor and Transferee intend that the transfer of the Transferred Assets contemplated herein qualify as contributions to capital under Section 351 of the Internal Revenue Code of 1986, as amended; and

WHEREAS, Transferor directly owns all of the outstanding capital stock of Transferee.

NOW, THEREFORE, in consideration of the premises and the mutual covenants, agreements, representations and warranties hereinafter set forth, the Parties, intending to be legally bound, hereby agree as follows:

ARTICLE I
DEFINITIONS

Section 1.01 Definitions.

(a) As used in this Agreement, the following terms have the following meanings:

"**Affiliate**" means a Person that directly or indirectly through one or more intermediaries, controls, or is controlled by, or is under common control with, the Person specified. The term "control" (including the terms "controlling," "controlled by" and "under common control with") means the possession, direct or indirect, of the power to direct or cause the direction of the management and policies of a Person, whether through the ownership of voting securities, by contract or otherwise.

"**Amos Unit 3**" has the meaning set forth in the second Recital.

"**Amos Unit 3 Transferred Assets**" has the meaning set forth Section 2.01.

"**Ancillary Agreements**" means the Assumption Agreement, the Asset Transfer Agreement, the Deeds, the Assignment of Easements and Rights of Way, the Assignment of Real Property Leases, the Assignment of Contracts and any other agreements or instruments entered into between the Parties with respect to the transactions contemplated by this Agreement.

"**Asset Transfer Agreement**" means the Asset Transfer Agreement to be executed and delivered at Closing by Transferor to Transferee in substantially the form attached hereto as Exhibit E.

"**Assignment of Contracts**" means the Assignment of Contracts agreement to be entered into between Transferor and Transferee at Closing in substantially the form attached hereto as Exhibit A.

"**Assignment of Easements and Rights of Way**" means the Assignments of Easements and Rights of Way agreements to be entered into by Transferor and Transferee at Closing in substantially the form attached hereto as Exhibit B.

"**Assignment of Real Property Leases**" means the Assignment of Real Property Leases agreements to be entered into by Transferor and Transferee at Closing in substantially the form attached hereto as Exhibit C.

"**Assumed Liabilities**" has the meaning set forth in Section 2.03.

"**Assumed Payables**" means a certain amount of those payables owed by Transferor with respect to the Transferred Assets, as set forth in Schedule 1.02.

"**Assumption Agreement**" means mean the Assumption Agreement to be entered by Transferor and Transferee at Closing in substantially the form attached hereto as Exhibit D.

"**Business Day**" means a day other than a Saturday, Sunday or day on which banks are permitted or required to remain closed in the state of Ohio.

"**CERCLA**" means the Comprehensive Environmental Response, Compensation, and Liability Act of 1980, as amended from time to time.

"**Closing**" has the meaning set forth in Section 3.03.

"**Closing Date**" has the meaning set forth in Section 3.03.

"**Contracts**" has the meaning set forth in Section 4.01(i).

"**CWIP**" has the meaning set forth in the definition of "Improvements."

"**Debt**" means the long-term and short-term debt owed by Transferor as described in Schedule 1.03.

"**Deeds**" means those certain deeds to be executed and delivered at Closing by Transferor to Transferee.

"**Deferred Tax Assets**" means the Transferor's deferred tax assets relating to the Transferred Assets or any assumed Liability that is carried on its books.

"**Deferred Tax Liability**" means the Transferor's deferred tax liability relating to the Transferred Assets or any assumed Liability that is carried on its books.

"**Easements and Rights of Way**" means the easements and rights of way described in Schedule 1.04.

"**Effective Time**" has the meaning set forth in Section 3.03.

"**Emissions Allowances**" means all authorizations issued to Transferor by a Governmental Authority pursuant to a statutory or regulatory program promulgated by a Governmental Authority pursuant to which air emissions sources subject to the program are authorized to emit a prescribed quantity of air emissions.

"**Encumbrance**" means any security interest, pledge, mortgage, lien, charge, option to purchase, lease, claim, restriction, covenant, title defect, hypothecation, assignment, deposit arrangement or other encumbrance of any kind or any preference, priority or other security

agreement or preferential arrangement of any kind or nature whatsoever (including any conditional sale or title retention agreement).

"**Environmental Condition**" means the presence or Release to the environment, whether at the Real Property or otherwise, of Hazardous Substances, including any migration of Hazardous Substances through air, soil or groundwater at, to or from the Real Property or at, to or from any Off-Site Location, regardless of when such presence or Release occurred or is discovered.

"**Environmental Laws**" means all (i) Laws relating to pollution or protection of the environment, natural resources or human health and safety, including Laws relating to Releases or threatened Releases of Hazardous Substances or otherwise relating to the manufacture, formulation, generation, processing, distribution, use, treatment, storage, Release, transport, remediation, abatement, cleanup or handling of Hazardous Substances; (ii) Laws with regard to recordkeeping, notification, disclosure and reporting requirements respecting Hazardous Substances and (iii) Laws relating to the management or use of natural resources.

"**Environmental Permits**" has the meaning set forth in Section 4.01(g).

"**Excluded Liabilities**" has the meaning set forth in Section 2.04.

"**FERC**" means the Federal Energy Regulatory Commission.

"**Franklin Real Property**" means that certain real property held by Franklin Real Estate Company, a wholly owned subsidiary of the Parent, as agent for and for the benefit of Transferor's electric generation assets as more specifically described in Schedule 1.05.

"**Generation Transmission Assets**" has the meaning set forth in Section 2.01(p).

"**Good Utility Practice**" means any of the practices, methods and acts engaged in or approved by a significant portion of the electric utility industry during the relevant time period, or any of the practices, methods or acts which, in the exercise of reasonable judgment in light of the facts known at the time the decision was made, could have been expected to accomplish the desired result at a reasonable cost consistent with good business practices, reliability, safety and expedition.

"**Governmental Authority**" means any: (i) nation, state, county, city, town, village, district, or other jurisdiction of any nature; (ii) federal, state, local, municipal, foreign, or other government; (iii) governmental or quasi-governmental authority of any nature (including any governmental agency, branch, department, official, or entity and any court or other tribunal); (iv)

multi-national organization or body; or (v) body exercising, or entitled to exercise, any administrative, executive, judicial, legislative, police, regulatory, or taxing authority or power of any nature.

"**Hazardous Substances**" means (i) any petrochemical or petroleum products, oil or coal ash, radioactive materials, radon gas, asbestos in any form that is or could become friable, urea formaldehyde foam insulation and transformers or other equipment that contain dielectric fluid which may contain levels of polychlorinated biphenyls; (ii) any chemicals, materials or substances defined as or included in the definition of "hazardous substances," "hazardous wastes," "hazardous materials," "hazardous constituents," "restricted hazardous materials," "extremely hazardous substances," "toxic substances," "contaminants," "pollutants," "toxic pollutants," or words of similar meaning and regulatory effect under any applicable Environmental Law and (iii) any other chemical, material or substance, exposure to which is prohibited, limited or regulated by any applicable Environmental Law.

"**Improvements**" means all buildings, structures, machinery and equipment (including all fuel handling and storage facilities), fixtures, construction work in progress ("CWIP"), and other improvements, including all piping, cables and similar equipment forming part of the mechanical, electrical, plumbing or HVAC infrastructure of any building, structure or equipment, located on and affixed to the Real Property, the Leased Real Property and the Easements and Rights of Way.

"**Intellectual Property**" means all of the following and similar intangible property and related proprietary rights, interests and protections, however arising, (i) all software necessary to operate or maintain the Transferred Assets, (ii) confidential information, formulas, designs, devices, technology, know-how, research and development, inventions, methods, processes, compositions and other trade secrets, whether or not patentable and (iii) patented and patentable designs and inventions, all design, plant and utility patents, letters patent, utility models, pending patent applications and provisional applications and all issuances, divisions, continuations, continuations-in-part, reissues, extensions, reexaminations and renewals of such patents and applications.

"**Inventories**" means (i) all inventories of fuels and consumables owned by Transferor for use at the Plants, whether located on Real Property, Leased Real Property or the Easements and Rights of Way associated with the Plants or in transit thereto or stored offsite and (ii) all

materials and supplies, including without limitation, spare parts, owned by Transferor for use at or in connection with the Plants.

"**Knowledge**" means the actual and current knowledge of the corporate officer or officers of the specified Person charged with responsibility for the particular function as of the date of this Agreement, or, with respect to any certificate delivered pursuant to this Agreement, the date of delivery of the certificate, without any implication of verification or investigation concerning such knowledge.

"**Laws**" means all laws, statutes, rules, regulations, ordinances and other pronouncements having the effect of law of the United States, any foreign country and any domestic or foreign state, county, city or other political subdivision or of any Governmental Authority.

"**Leased Real Property**" has the meaning set forth in Section 4.01(e)(i).

"**Liability**" means any liability or obligation, whether known or unknown, whether asserted or not asserted, whether absolute or contingent, whether accrued or not accrued, whether liquidated or not liquidated, whether incurred or consequential, and whether due or to become due.

"**Material Adverse Effect**" means (i) any event, circumstance or condition materially impairing the ability of Transferor to perform its obligations under this Agreement or any Ancillary Agreement or (ii) any change in or effect on Transferor or the Transferred Assets that is materially adverse to the Transferred Assets, other than (a) any change resulting from changes in the international, national, regional or local wholesale or retail markets for electricity, (b) any change resulting from changes in the international, national, regional or local markets for fuel or consumables used at the Plants, (c) any change resulting from changes in the North American, national, regional or local electric transmission system, and (d) any change in Law generally applicable to similarly situated Persons.

"**Mitchell Plant**" has the meaning set forth in the first Recital.

"**Mitchell Plant Transferred Assets**" has the meaning set forth in Section 2.01.

"**Net Book Value**" means an amount in dollars, as reflected in the corresponding line item or items of the balance sheet of Transferor as of the applicable date for all Transferred Assets and all Assumed Liabilities. With respect to the Transferred Assets, Net Book Value is equal to total Transferred Assets net of accumulated depreciation or amortization as appropriate.

"**Off-Site Location**" means any real property other than the Real Property, the Leased Real Property or real property covered by the Easements and Rights of Way.

"**Organizational Documents**" means (i) the articles or certificate of incorporation and the bylaws of a corporation; (ii) the limited liability company or operating agreement and certificate of formation of a limited liability company; (iii) the partnership agreement and any statement of partnership of a general partnership; (iv) the limited partnership agreement and the certificate of limited partnership of a limited partnership; (v) any charter or similar document adopted or filed in connection with the creation, formation, or organization of a Person and (vi) any amendment to any of the foregoing.

"**Parent**" means American Electric Power Company, Inc.

"**Party**" has the meaning set forth in the first paragraph of this Agreement.

"**Permits**" has the meaning set forth in Section 4.0l(k).

"**Permitted Encumbrances**" means: (i) mechanics', carriers', workmen's, repairmen's or other like Encumbrances arising or incurred in the ordinary course of business that would not, individually or in the aggregate, reasonably be expected to have a Material Adverse Effect, (ii) Encumbrances for Taxes not yet due or which are being contested in good faith by appropriate proceedings and that would not, individually or in the aggregate, reasonably be expected to have a Material Adverse Effect; (iii) imperfections of title or encumbrances, if any, that, individually or in the aggregate, do not materially impair, and would not reasonably be expected to have a Material Adverse Effect; (iv) leases, subleases and similar agreements, and liens of any landlord or other third party on property over which Sellers have easement rights or on any Leased Real Property and subordination or similar agreements relating thereto; (v) leases, mineral reservations and conveyances, easements, covenants, rights-of-way and other similar restrictions of record; (vi) any conditions that may be shown by a current, accurate survey or physical inspection of the Real Property or the Leased Real Property made prior to the Closing; (vii) zoning, planning, conservation restriction and other land use and environmental regulations by Governmental Authorities; (viii) the respective rights and obligations of the Parties under this Agreement and the Ancillary Agreements; (ix) Encumbrances resulting from legal proceedings being contested in good faith by appropriate proceedings that would not, individually or in the aggregate, reasonably be expected to have a Material Adverse Effect; and (x) other

Encumbrances that would not, individually or in the aggregate, reasonably be expected to have a Material Adverse Effect.

"**Person**" means any individual, corporation (including any non-profit corporation), general or limited partnership, limited liability company, joint venture, estate, trust, association, organization, labor union, or other entity or Governmental Authority.

"**Plants**" means, collectively, the Mitchell Plant and Amos Unit 3.

"**Real Property**" has the meaning set forth in Section 2.01(b).

"**Real Property Leases**" has the meaning set forth in Section 4.01(e)(i).

"**Release**" means any release, spill, leak, discharge, disposal of, pumping, pouring, emitting, emptying, injecting, leaching, dumping or allowing to escape into or through the environment.

"**Tax**" means all federal, state, local and foreign taxes, charges, fees, levies, imposts, duties or other assessments, including, without limitation, income, gross receipts, excise, employment, sales, use, transfer, license, payroll, franchise, severance, stamp, occupation, windfall profits, environmental (including taxes under Code Section 59A), premium, federal highway use, commercial rent, customs duties, capital stock, paid up capital, profits, withholding, social security, single business and unemployment, disability, real property, personal property, registration, ad valorem, value added, alternative or add-on minimum, estimated, or other tax or governmental fee of any kind whatsoever, imposed or required to be withheld by any Governmental Authority, including any interest, penalties or additions thereto, whether disputed or not.

"**Transferee**" has the meaning set in the first paragraph of this Agreement.

"**Transferor**" has the meaning set forth in the first paragraph of this Agreement.

"**Transferred Assets**" has the meaning set forth in Section 2.01.

(b) Interpretation. In this Agreement, unless otherwise specified or where the context otherwise requires:

(i) a reference, without more, to a recital is to the relevant recital to this Agreement, to an Article or Section is to the relevant Article or Section of this Agreement, and to a Schedule or Exhibit is to the relevant Schedule or Exhibit to this Agreement;

(ii) words importing any gender shall include other genders;

(iii) words importing the singular only shall include the plural and vice versa;

(iv) the words "include," "includes" or "including" shall be deemed to be followed by the words "without limitation;"

(v) reference to any agreement, document or instrument means such agreement, document or instrument as amended or modified and in effect from time to time in accordance with the terms thereof;

(vi) reference to any applicable Law means, if applicable, such Law as amended, modified, codified, replaced or reenacted, in whole or in part, and in effect from time to time, including rules and regulations promulgated thereunder;

(vii) "or" is used in the inclusive sense of "and/or;"

(viii) references to documents, instruments or agreements shall be deemed to refer as well to all addenda, exhibits, schedules or amendments thereto;

(ix) the words "hereof," "herein" and "herewith" and words of similar import shall, unless otherwise stated, be construed to refer to this Agreement as a whole and not to any particular provision of this Agreement; and

(x) references to any party hereto or any other agreement or document shall include such party's successors and permitted assigns, but, if applicable, only if such successors and assigns are not prohibited by this Agreement.

ARTICLE II
TRANSFER OF ASSETS

Section 2.01 Transfer of Assets. Upon the terms and conditions set forth in this Agreement, at the Closing but effective as of the Effective Time, Transferor shall transfer, convey, assign and deliver to Transferee as a contribution to capital, and Transferee shall acquire and assume from Transferor as a contribution to capital, free and clear of all Encumbrances other than Permitted Encumbrances, (i) an undivided fifty percent (50%) ownership interest in and to the Mitchell Plant and the following described assets that are associated with or utilized in connection with the Mitchell Plant (the "Mitchell Plant Transferred Assets") and (ii) an undivided two-thirds ownership interest (constituting all of Transferor's interest) in and to Amos Unit 3 and the following described assets that are associated with or utilized in connection with

Amos Unit 3 (the "Amos Unit 3 Transferred Assets") (the Mitchell Plant Transferred Assets and the Amos Unit 3 Transferred Asserts are referred to collectively as the "Transferred Assets"):

(a) the real property (including the Improvements) described in Schedule 2.01(a) (and together with the Franklin Real Property, the "Real Property");

(b) the Real Property Leases (including the Improvements);

(c) the Easements and Rights of Way (including the Improvements) ;

(d) all Inventories;

(e) the Contracts;

(f) the Permits;

(g) the Environmental Permits;

(h) the Intellectual Property;

(i) the Emissions Allowances;

(j) the Deferred Tax Assets;

(k) all vehicles, equipment, machinery, furniture and other tangible personal property used in connection with the Plants or located on or at the Real Property, the Leased Real Property and the Easements and Rights of Way, a partial list of which is described on Schedule 2.01(k);

(l) the other assets described in Schedule 2.01(l);

(m) all unexpired, transferable warranties and guarantees from manufacturers, vendors and other third parties with respect to any Improvement or item of real or tangible personal property constituting part of the Transferred Assets;

(n) all books, purchase orders, operating records, operating, safety and maintenance manuals, engineering design plans, blueprints and as-built plans, specifications, procedures, studies, reports, equipment repair, safety, maintenance or service records, and similar items (subject to the right of Transferor to retain copies of same for its use), other than such items that are proprietary to third parties and accounting records (to the extent that any of the foregoing is contained in an electronic format, Transferor shall reasonably cooperate with

Transferee to transfer such items to Transferee in a format that is reasonably acceptable to Transferee);

(o) the electrical transmission facilities associated with the Plants located at or forming part of the Plants, including all energized switchyard facilities on the generation asset side of the appropriate interconnection points and real property directly associated therewith, all substation facilities and support equipment, as well as all permits, contracts and warranties related thereto, including those certain assets and facilities specifically identified on Schedule 2.01(o) (the "Generation Transmission Assets").

(p) without limitation of any of the foregoing, Transferor is transferring to Transferee the corresponding undivided ownership interests in and to all Mitchell Plant and Amos Unit 3 Plant power generation function equipment including, but not limited to, generation step-up transformers, turbine-generators, plant power distribution equipment such unit auxiliary transformers, forced draft fans, coal handling facilities, precipitator facilities, and protection and control equipment and systems that are associated with the Plants;

(q) the rights of Transferor in and to any causes of action against third parties relating to the Transferred Assets or any part thereof, including any claim for refunds (but excluding any refund, credit, penalty, payment, adjustment or reconciliation related to Taxes paid or due for periods ending prior to the Effective Time in respect of the Transferred Assets, whether such refund, credit, penalty, payment, adjustment or reconciliation is received as a payment or, subject to Section 3.02, as a credit against future Taxes payable), prepayments, offsets, recoupment, insurance proceeds, condemnation awards, judgments and the like, whether received as a payment or credit against future liabilities, relating specifically to Transferred Assets and relating to any period ending prior to, on or after the Effective Time;

(r) the rights of Transferor in, to and under all contracts, agreements, arrangements, permits or licenses of any nature and related to the Transferred Assets, which are not expressly excluded pursuant to Section 2.02 and of which the obligations of Transferor thereunder are not expressly excluded by Transferee pursuant to Section 2.04; and

(s) to the extent not otherwise described in this Section 2.01, all other assets and property, whether real or personal, tangible or intangible, that are associated with or used in connection with ownership and operation of the Plants.

Section 2.02 Excluded Assets. Notwithstanding anything to the contrary contained in Section 2.01 or elsewhere in this Agreement, nothing in this Agreement shall constitute or be construed as conferring on Transferee, and Transferee is not acquiring, any right, title or interest in and to any properties, assets, business, operation, or division of Transferor or any of its Affiliates (other than Transferee) not expressly set forth in Section 2.01.

Section 2.03 Assumed Liabilities. On the Closing Date, Transferee shall execute and deliver the Assumption Agreement, pursuant to which, among other things, Transferee shall assume the Liabilities described therein and, in addition, Transferee shall assume the following Liabilities (collectively, the "Assumed Liabilities"):

(a) on the terms and subject to the conditions set forth in this Agreement, at the Closing, Transferee shall assume and become responsible for, and shall thereafter pay, perform and discharge as and when due (i) fifty percent (50%) of the Liabilities arising under or related to the Mitchell Plant Transferred Assets whether arising from, or relating to, periods prior to, on or after the Effective Time and (ii) all of the Liabilities arising under or related to the Amos Unit 3 Transferred Assets whether arising from, or relating to, periods prior to, on or after the Effective Time;

(b) (i) fifty percent (50%) of all Liability of Transferor with respect to the Assumed Payables relating to the Mitchell Plant Transferred Assets and (ii) all Liability of Transferor with respect to the Assumed Payables relating to the Amos Unit 3 Transferred Assets;

(c) (i) fifty percent (50%) of all Liability of Transferor with respect to the Debt relating to the Mitchell Plant Transferred Assets to the extent relating to periods of time after the Effective Time and (ii) all Liability of Transferor with respect to the Debt relating to the Amos Unit 3 Transferred Assets to the extent relating to periods of time after the Effective Time;

(d) (i) fifty percent (50%) of all Liability of Transferor with respect to the Deferred Tax Liability relating to the Mitchell Plant Transferred Assets and (ii) all Liability of Transferor with respect to the Deferred Tax Liability relating to the Amos Unit 3 Transferred Assets; and

(e) (i) fifty percent (50%) of all Liability of the Transferor with respect to the property Taxes relating to the Mitchell Plant Transferred Assets and (ii) all Liability of Transferor with respect to the property Taxes relating to the Amos Unit 3 Transferred Assets.

2.04 Excluded Liabilities. Notwithstanding the foregoing provisions of Section 2.03, Transferee shall not assume by virtue of this Agreement, the Assumption Agreement or any other Ancillary Agreement, or the transactions contemplated hereby or thereby, or otherwise, and shall have no liability for any of the following Liabilities or any Liability of Transferor that is not related to the Transferred Assets (the "Excluded Liabilities"):

(a) any Liabilities of Transferor in respect of any assets of Transferor that are not Transferred Assets;

(b) any Liabilities in respect of Transferor's current income Taxes and any other Taxes not otherwise assumed pursuant to Section 2.03(d) and (e);

(c) any fines and penalties imposed by any Governmental Authority resulting from any act or omission by Transferor and not related to the Transferred Assets; and

(d) any Liability of Transferor arising as a result of its execution and delivery of this Agreement or any Ancillary Agreement, the performance of its obligations hereunder or thereunder, or the consummation by Transferor of the transactions contemplated hereby or thereby.

ARTICLE III
ASSET TRANSFER; CLOSING

Section 3.01 Asset Transfer. At Closing, Transferor shall transfer to Transferee the corresponding undivided ownership interests set forth in Section 2.01 in and to the Transferred Assets and the Assumed Liabilities at Net Book Value as of the Effective Time. In the event that final amounts for the Net Book Value of the Transferred Assets or the Assumed Liabilities are not available on the Closing Date, the final Net book Value for the Transferred Assets and the Assumed Liabilities, as applicable, shall be determined and agreed to by Transferee and Transferor within ninety (90) days after the Closing Date. Transferor and Transferee agree to furnish each other with such documents and other records as may be reasonably requested in

order to confirm the final Net book Value of the Transferred Assets and the Assumed Liabilities, as applicable.

Section 3.02 Proration.

(a) Transferee and Transferor agree that all of the items normally prorated, including those listed below, relating to the business and operation of the Transferred Assets shall be prorated as of the Effective Time, with Transferor liable to the extent such items relate to any time period through the Effective Time, and Transferee liable to the extent such items relate to periods subsequent to the Effective Time:

(i) personal property, real estate, occupancy and any other Taxes, assessments and other charges, if any, on or with respect to the business and operation of the Transferred Assets. Provided, however, that the Parties shall not prorate any Taxes, assessments or charges relating to the Transferred Assets that are to be assumed by Transferee pursuant to Section 2.03;

(ii) rent, Taxes and other items payable by or to Transferor under any of the Contracts to be assigned to and assumed by the Transferee hereunder; and

(iii) sewer rents and charges for water, telephone, electricity and other utilities.

(b) In connection with such proration, in the event that actual figures are not available at the Closing Date, the proration shall be based upon the actual amount of such Taxes or fees for the preceding year (or appropriate period) for which actual Taxes or fees are available and such Taxes or fees shall be re-prorated upon request of either the Transferor or the Transferee made within ninety (90) days after the date that the actual amounts become available. Transferor and Transferee agree to furnish each other with such documents and other records as may be reasonably requested in order to confirm all adjustment and proration calculations made pursuant to this Section 3.02.

Section 3.03 Closing. The transfer, assignment, conveyance and delivery of the Transferred Assets, and the consummation of the other transactions contemplated by this Agreement shall take place at a closing (the "Closing") to be held at the offices of American Electric Power, 1 Riverside Plaza, Columbus, Ohio 43204 at a time mutually acceptable to the

Parties on the date of the execution and delivery of this Agreement by each of the Parties (the "Closing Date"). The Closing shall be effective for all purposes as of [_____] (the "Effective Time").

Section 3.04 Closing Deliveries.

(a) At the Closing, Transferor will deliver, or cause to be delivered, to Transferee the following items:

(i) possession of the Transferred Assets;

(ii) an original of each of the Deeds, duly executed and acknowledged by Transferor;

(iii) an original of each Asset Transfer Agreement duly executed by Transferor;

(iv) an original of the Assumption Agreement duly executed by Transferor;

(v) an original of each Assignment of Easements and Rights of Way duly executed by Transferor;

(vi) an original of each Assignment of Real Property Leases duly executed by Transferor;

(vii) an original of each Assignment of Contracts duly executed by Transferor; and

(viii) such other documents as are contemplated by this Agreement or as the Transferee may reasonably request to carry out the purposes of this Agreement.

(b) At the Closing, Transferee will deliver, or cause to be delivered, to Transferor the following items:

(i) an original of each Asset Transfer Agreement duly executed by Transferee;

(ii) an original of the Assumption Agreement duly executed by Transferee;

(iii) an original of each Assignment of Easements and Rights of Way duly executed by Transferee;

(iv) an original of each Assignment of Real Property Leases duly executed by Transferee;

(v) an original of each Assignment of Contracts duly executed by Transferee; and

(vi) such other documents as are contemplated by this Agreement or as the Transferor may reasonably request, including vehicle titles, to consummate the transactions contemplated hereby.

ARTICLE IV
REPRESENTATIONS AND WARRANTIES

Section 4.01 Representations and Warranties of Transferor. Transferor represents and warrants to Transferee as follows:

(a) Organization and Good Standing; Qualification. Transferor is a corporation duly formed, validly existing and in good standing under the laws of the state of Delaware. Transferor has all requisite power and authority to own, lease or operate the Transferred Assets and to carry on its business as it is now being conducted.

(b) Authority and Enforceability. Transferor has full power and authority to execute and deliver, and carry out its obligations under, this Agreement and each Ancillary Agreement to which it is a party and to consummate the transactions contemplated hereby and thereby. The execution, delivery and performance by Transferor of this Agreement and each Ancillary Agreement to which it is a party, and the consummation of the transactions contemplated hereby and thereby, have been duly and validly authorized by all necessary action on the part of Transferor. Assuming the due authorization, execution and delivery of this Agreement and each Ancillary Agreement to which it is a party by Transferee, each of this Agreement and each such Ancillary Agreement constitutes a legal, valid and binding obligation of Transferor, enforceable against it in accordance with its terms, except as such enforceability may be limited by applicable bankruptcy, insolvency and other similar laws affecting the rights and remedies of creditors generally and by general principles of equity.

(c) No Violation; Consents and Approvals.

(i) Neither the execution, delivery and performance by Transferor of this Agreement and each Ancillary Agreement to which it is a party, nor the consummation by Transferor of the transactions contemplated hereby and thereby, will (i) conflict with or result in any breach of any provision of the Organizational Documents of Transferor; (ii) result in a default (or give rise to any right of termination, cancellation or acceleration), or require a consent, under any of the terms, conditions or provisions of any note, bond, mortgage, indenture, material agreement or other instrument or obligation to which Transferor is a party or by which it or any of the Transferred Assets may be bound, except for any such defaults or consents (or rights of termination, cancellation or acceleration) as to which requisite waivers or consents have been obtained or which would not, individually or in the aggregate, reasonably be expected to have a Material Adverse Effect; or (iii) constitute a violation of any law, regulation, order, judgment or decree applicable to Transferor, except for any such violations as would not, individually or in the aggregate, reasonably be expected to have a Material Adverse Effect.

(ii) Transferor has obtained all consents and approvals from each Governmental Authority necessary for the execution, delivery and performance of this Agreement by Transferor or of any Ancillary Agreement to which Transferor is a party, or the consummation by Transferor of the transactions contemplated hereby and thereby, other than such consents and approvals which, if not obtained or made, would not, individually or in the aggregate, reasonably be expected to have a Material Adverse Effect.

(d) Insurance. All material policies of property, liability, workers' compensation and other forms of insurance owned or held by, or on behalf of, Transferor and insuring the Transferred Assets are in full force and effect, all premiums with respect thereto covering all periods up to and including the date hereof have been paid (other than retroactive premiums), and no notice of cancellation or termination has been received with respect to any such policy which was not replaced on substantially similar terms prior to the date of such cancellation.

(e) Leased Real Property.

(i) Schedule 4.01(e) sets forth a description of each lease of real property held by Transferor (the "Real Property Leases") and the real property covered thereby (the "Leased Real Property") that is to be transferred as contemplated herein by Transferor to Transferee.

(ii) Each Real Property Lease (a) constitutes a legal, valid and binding obligation of Transferor and, to Transferor's Knowledge, constitutes a valid and binding obligation of the other parties thereto and (b) is in full force and effect and Transferor has not delivered or received any written notice of termination thereunder.

(iii) There is not under any Real Property Lease any default or event which, with notice or lapse of time or both, (a) would constitute a default by Transferor or, to Transferor's Knowledge, any other party thereto, (b) would constitute a default by Transferor or, to Transferor's Knowledge, any other party thereto which would give rise to an automatic termination, or the right of discretionary termination, thereof, or (c) would cause the acceleration of any of Transferor's obligations thereunder or result in the creation of any Encumbrance (other than any Permitted Encumbrance) on any of the Transferred Assets. There are no claims, actions, proceedings or investigations pending or, to the Knowledge of Transferor, threatened against Transferor or any other party to any Real Property Lease before any Governmental Authority or body acting in an adjudicative capacity relating in any way to any Real Property Lease or the subject matter thereof. Transferor has no Knowledge of any defense, offset or counterclaim arising under any Real Property Lease.

(f) Title; Condition of Assets.

(i) Subject to Permitted Encumbrances, Transferor holds title to the Real Property and the Easements and Rights of Way and has good and valid title thereto and to the other Transferred Assets that it purports to own or in which it has an interest, free and clear of all Encumbrances.

(ii) The tangible assets (real and personal) at, related to, or used in connection with Plants, taken as a whole, (a) are in good operating and usable condition and repair, free from any defects (except for ordinary wear and tear, in light of their respective ages and historical usages, and except for such defects as do not materially

interfere with the use thereof in the conduct of the normal operation and maintenance of the Transferred Assets taken as a whole) and (b) have been maintained consistent with Good Utility Practice.

(g) Environmental Matters. Except as disclosed in Schedule 4.01(g):

(i) Transferor holds, and is in compliance with, all permits, certificates, certifications, licenses and other authorizations issued by Governmental Authorities under Environmental Laws that are required for Transferor to conduct the business and operations of the Transferred Assets (collectively, "Environmental Permits"), and Transferor is otherwise in compliance with all applicable Environmental Laws with respect to the business and operations of the Transferred Assets, except for any such failures to hold or comply with required Environmental Permits, or such failures to be in compliance with applicable Environmental Laws, as would not, individually or in the aggregate, reasonably be expected to have a Material Adverse Effect;

(ii) Transferor has not received any written request for information, or been notified of any violation, or that it is a potentially responsible party, under CERCLA or any other Environmental Law for contamination or air emissions at the Plants, the Real Property, the Leased Real Property or the real property covered by the Easements and Rights of Way except for any such requests or notices that would result in liabilities under such laws as would not, individually or in the aggregate, reasonably be expected to have a Material Adverse Effect, and there are no claims, actions, proceedings or investigations pending or, to the Knowledge of Transferor, threatened against Transferor before any Governmental Authority or body acting in an adjudicative capacity relating in any way to any Environmental Laws or against Transferor or Parent concerning contamination or air emissions at the Plants, the Real Property, the Leased Real Property or the real property covered by the Easements and Rights of Way; and

(iii) there are no outstanding judgments, decrees or judicial orders relating to the Transferred Assets regarding compliance with any Environmental Law or to the investigation or cleanup of Hazardous Substances under any Environmental Law relating to the Transferred Assets, except for such outstanding judgments, decrees or

judicial orders as would not, individually or in the aggregate, reasonably be expected to have a Material Adverse Effect.

(iv) Section I of Schedule 4.01(g) lists all material Environmental Permits.

The representations and warranties made in this Section 4.01(g) are the exclusive representations and warranties of Transferor relating to environmental matters.

(h) Condemnation. There are no pending or, to the Knowledge of Transferor, threatened proceedings or governmental actions to condemn or take by power of eminent domain all or any part of the Transferred Assets.

(i) Contracts and Leases.

(i) Schedule 4.01(i) lists all written contracts, agreements, licenses (other than Environmental Permits, Permits or Intellectual Property) or personal property leases of Transferor that are material to the business or operations of the Transferred Assets (the "Contracts").

(ii) Each Contract (a) constitutes a legal, valid and binding obligation of Transferor and, to Transferor's Knowledge, constitutes a valid and binding obligation of the other parties thereto and (b) is in full force and effect and Transferor has not delivered or received any written notice of termination thereunder.

(iii) There is not under any Contract any default or event which, with notice or lapse of time or both, (a) would constitute a default by Transferor or, to Transferor's Knowledge, any other party thereto, (b) would constitute a default by Transferor or, to Transferor's Knowledge, any other party thereto which would give rise to an automatic termination, or the right of discretionary termination, thereof, or (c) would cause the acceleration of any of Transferor's obligations thereunder or result in the creation of any Encumbrance (other than any Permitted Encumbrance) on any of the Transferred Assets. There are no claims, actions, proceedings or investigations pending or, to the Knowledge of Transferor, threatened against Transferor or any other party to any Contract before any Governmental Authority or body acting in an adjudicative

capacity relating in any way to any Contract or the subject matter thereof. Transferor has no Knowledge of any defense, offset or counterclaim arising under any Contract.

(j) Legal Proceedings. Except as set forth on Schedule 4.01(j) there are no actions or proceedings pending or, to the Knowledge of Transferor, threatened against Transferor before any court, arbitrator or Governmental Authority, which, individually or in the aggregate, would reasonably be expected to have a Material Adverse Effect. Transferor is not subject to any outstanding judgments, rules, orders, writs, injunctions or decrees of any court, arbitrator or Governmental Authority that, individually or in the aggregate, would reasonably be expected to have a Material Adverse Effect.

(k) Permits.

(i) Transferor has all permits, licenses, franchises and other governmental authorizations, consents and approvals (other than Environmental Permits, which are addressed in Section 4.0l(k)) necessary to own and operate the Transferred Assets (collectively, "Permits"), except where any failures to have such Permits would not, individually or in the aggregate, reasonably be expected to have a Material Adverse Effect. Transferor has not received any written notification that Transferor is in violation, nor does Transferor have Knowledge of any violations, of any such Permits, or any Law or judgment of any Government Authority applicable to Transferor with respect to the Transferred Assets, except for violations that would not, individually or in the aggregate, reasonably be expected to have a Material Adverse Effect.

(ii) Section II of Schedule 4.01(k) lists all material Permits (other than Environmental Permits).

(l) Taxes. To the Knowledge of Transferor, Transferor has filed all Tax Returns that are required to be filed by it with respect to any Tax relating to the Transferred Assets, and Transferor has paid all Taxes that have become due as indicated thereon, except where such Tax is being contested in good faith by appropriate proceedings, or where any failures to so file or pay would not, individually or in the aggregate, reasonably be expected to have a Material Adverse Effect. There are no Encumbrances for Taxes on the Transferred Assets that are not Permitted Encumbrances.

(m) Intellectual Property. Transferor has such ownership of or such rights by license or other agreement to use all Intellectual Property necessary to permit Transferor to conduct its business with respect to the Transferred Assets as currently conducted, except where any failures to have such ownership, license or right to use would not, individually or in the aggregate, reasonably be expected to have a Material Adverse Effect. Transferor is not, nor has Transferor received any notice that Transferor is, in default (or with the giving of notice or lapse of time or both, would be in default) under any contract to use such Intellectual Property, and there are no material restrictions on the transfer of any material contract, or any interest therein, held by Transferor in respect of such Intellectual Property. Transferor has not received notice that it is infringing any Intellectual Property of any other Person in connection with the operation or business of the Transferred Assets.

(n) Compliance with Laws. Transferor is in compliance with all applicable Laws with respect to the ownership or operation of the Transferred Assets, except where any such failures to be in compliance would not, individually or in the aggregate, reasonably be expected to have a Material Adverse Effect.

(o) Limitation of Representations and Warranties. **EXCEPT FOR THE REPRESENTATIONS AND WARRANTIES SET FORTH IN THIS AGREEMENT AND IN ANY ANCILLARY AGREEMENT, TRANSFEROR IS NOT MAKING, AND HEREBY DISCLAIMS, ANY OTHER REPRESENTATIONS AND WARRANTIES, WRITTEN OR ORAL, STATUTORY, EXPRESS OR IMPLIED, CONCERNING TRANSFEROR OR THE TRANSFERRED ASSETS OR ANY PART THEREOF.**

Section 4.02 Representations and Warranties of Transferee. Transferee represents and warrants to Transferor as follows:

(a) Organization and Good Standing. Transferee is a corporation duly formed, validly existing and in good standing under the laws of the state of _____ and has all requisite power and authority to own, lease or operate its properties and to carry on its business as it is now being conducted.

(b) Authority and Enforceability. Transferee has full power and authority to execute and deliver and carry out its obligations under this Agreement and each Ancillary Agreement to which it is a party, and to consummate the transactions contemplated hereby and

thereby. The execution, delivery and performance by Transferee of this Agreement and each such Ancillary Agreement, and the consummation of the transactions contemplated hereby and thereby, have been duly and validly authorized by all necessary action by Transferee. Assuming the due authorization, execution and delivery of this Agreement and each such Ancillary Agreement by the other party or parties thereto, this Agreement and each such Ancillary Agreement constitutes a legal, valid and binding obligation of Transferee, enforceable against Transferee in accordance with its terms, except as such enforceability may be limited by applicable bankruptcy, insolvency and other similar laws affecting the rights and remedies of creditors generally and by general principles of equity.

(c) No Violation; Consents and Approvals.

(i) Neither the execution, delivery and performance by Transferee of this Agreement and each Ancillary Agreement to which Transferee is a party, nor the consummation by Transferee of the transactions contemplated hereby and thereby, will (a) conflict with or result in any breach of any provision of the Organizational Documents of Transferee; (b) result in a default (or give rise to any right of termination, cancellation or acceleration), or require a consent, under any of the terms, conditions or provisions of any note, bond, mortgage, indenture, material agreement or other instrument or obligation to which Transferee is a party or by which any of their respective material properties or assets may be bound, except for any such defaults or consents (or rights of termination, cancellation or acceleration) as to which requisite waivers or consents have been obtained or which would not, individually or in the aggregate, reasonably be expected to have a material adverse effect on the ability of Transferee to perform its obligations under this Agreement and the Ancillary Agreements; or (c) constitute a violation of any law, regulation, order, judgment or decree applicable to Transferee, except for any such violations as would not, individually or in the aggregate, reasonably be expected to have a material adverse effect on the ability of Transferee to perform its obligations under this Agreement and the Ancillary Agreements.

(ii) Transferee has obtained all consents and approvals from each Governmental Authority or other Person necessary for the execution and delivery of this Agreement or any Ancillary Agreement by Transferee, or the consummation by

Transferee of the transactions contemplated hereby and thereby, except for any such consents and approvals which, if not obtained or made, would not, individually or in the aggregate, reasonably be expected to have a material adverse effect on the ability of Transferee to perform its obligations under this Agreement and the Ancillary Agreements.

(d) Legal Proceedings. There are no actions or proceedings pending or, to the Knowledge of Transferee, threatened against Transferee before any court, arbitrator or Governmental Authority, which, individually or in the aggregate, would reasonably be expected to have a Material Adverse Effect on the ability of Transferee to perform its obligations under this Agreement and the Ancillary Agreements. Transferee is not subject to any outstanding judgments, rules, orders, writs, injunctions or decrees of any court, arbitrator or Governmental Authority which, individually or in the aggregate, would reasonably be expected to have a material adverse effect on the ability of Transferee to perform its obligations under this Agreement and the Ancillary Agreements.

ARTICLE V
CERTAIN COVENANTS AND AGREEMENTS

Section 5.01 Transfer Tax; Recording Costs. All transfer, use, stamp, sales and similar Taxes and recording costs incurred in connection with this Agreement and the transactions contemplated hereby shall be the sole responsibility of Transferee.

Section 5.02 Further Assurances.

(a) Subject to the terms and conditions of this Agreement, Transferor and Transferee shall use commercially reasonable efforts to take, or cause to be taken, all actions, and to do, or cause to be done, all things necessary, proper or advisable under applicable Laws to consummate and make effective the transfer of the Transferred Assets pursuant to this Agreement and the assumption of the Assumed Liabilities, including using commercially reasonable efforts with a view to obtaining all necessary consents, approvals and authorizations of, and making all required notices or filings with, third parties required to be obtained or made in order to consummate the transactions hereunder, including the transfer of the Environmental Permits and the Permits to Transferee. Neither Transferor, on the one hand, nor Transferee, on the other hand, shall, without prior written consent of the other, take or fail to take any action which might reasonably be expected to prevent or materially impede, interfere with or delay the transactions contemplated by this Agreement.

(b) In the event that any portion of the Transferred Assets shall not have been conveyed to Transferee at the Closing, Transferor shall, subject to paragraphs (c) and (d) immediately below, convey such asset to Transferee as promptly as practicable after the Closing.

(c) To the extent, if any, that Transferor's rights under any Contract, Real Property Leases or Easements and Rights of Way may not be assigned without the consent of any other party thereto, which consent has not been obtained by the Closing Date, this Agreement shall not constitute an agreement to assign the same if an attempted assignment would constitute a breach thereof or be unlawful. Transferor and Transferee agree that if any consent to an assignment of any Contract, Real Property Lease or Easement and Right of Way has not been obtained at the Closing Date, or if any attempted assignment would be ineffective or would impair Transferee's rights and obligations under the Contract, Real Property Lease or Easement and Right of Way in question, so that Transferee would not in effect acquire the

benefit of all such rights and obligations, Transferor, at its option and to the maximum extent permitted by law and such Contract, Real Property Lease or Easement and Right of Way , shall, after the Closing Date, (i) appoint Transferee to be Transferor's agent with respect to such Contract, Real Property Lease or Easement and Right of Way or (ii) to the maximum extent permitted by law and such Contract, Real Property Lease or Easement and Right of Way, enter into such reasonable arrangements with Transferee or take such other commercially reasonable actions to provide Transferee with the same or substantially similar rights and obligations of such Contract, Real Property Lease or Easement and Right of Way. From and after the Closing Date, Transferor and Transferee shall cooperate and use commercially reasonable efforts to obtain an assignment to Transferee of any such Contract, Real Property Lease or Easement and Right of Way.

(d) To the extent that Transferor's rights under any warranty or guaranty described in Section 2.01(r) may not be assigned without the consent of another Person, which consent has not been obtained by the Closing Date, this Agreement shall not constitute an agreement to assign the same, if an attempted assignment would constitute a breach thereof or be unlawful. The Parties agree that if any consent to an assignment of any such warranty or guaranty has not been obtained or if any attempted assignment would be ineffective or would impair Transferee's rights and obligations under the warranty or guaranty in question, so that Transferee would not in effect acquire the benefit of all such rights and obligations, Transferor shall use commercially reasonable efforts to the extent permitted by law and such warranty or guaranty, to enforce such warranty or guaranty for the benefit of Transferee to the maximum extent possible so as to provide Transferee with the benefits and obligations of such warranty or guaranty. Notwithstanding the foregoing, Transferor shall not be obligated to bring or file suit against any third party, provided that if Transferor determines not to bring or file suit after being requested by Transferee to do so, Transferor shall assign, to the extent permitted by law or any applicable agreement, its rights in respect of the claims so that Transferee may bring or file such suit.

Section 5.03 Survival. The representations and warranties of the Parties contained herein shall not survive the Closing and thereafter shall be of no further force and effect.

ARTICLE VI
MISCELLANEOUS PROVISIONS

Section 6.01 Notices. All notices and other communications hereunder shall be in writing and shall be deemed given (i) on the day when delivered personally or by e-mail (with confirmation) or facsimile transmission (with confirmation), (ii) on the next Business Day when delivered to a nationally recognized overnight delivery service, or (iii) five (5) Business Days after deposited as registered or certified mail (return receipt requested), in each case, postage prepaid, addressed to the recipient Party at its address set forth below (or to such other addresses and e-mail and facsimile numbers for a Party as shall be specified by like notice; provided, however, that any notice of a change of address or e-mail or facsimile number shall be effective only upon receipt thereof):

If to Transferor, to:

AEP Generation Resources Inc.

_____

_____

Attn:
Facsimile No.:
Email:

If to Transferee, to:

[NEWCO Appalachian]

_____

_____

Attn:
Facsimile No.:
Email:

Section 6.02 Waiver. The rights and remedies of the Parties are cumulative and not alternative. Neither the failure nor any delay by any Party in exercising any right, power, or privilege under this Agreement or the documents referred to in this Agreement will operate as a waiver of such right, power, or privilege, and no single or partial exercise of any such right, power, or privilege will preclude any other or further exercise of such right, power, or privilege or the exercise of any other right, power, or privilege. To the maximum extent permitted by applicable Law, (a) no claim or right arising out of this Agreement or the documents referred to in this Agreement can be discharged by one Party, in whole or in part, by a waiver or renunciation of the claim or right unless in writing signed by each other Party; (b) no waiver that may be given by a Party will be applicable except in the specific instance for which it is given; and (c) no notice to or demand on one Party will be deemed to be a waiver of any obligation of such Party or of the right of the Party giving such notice or demand to take further action without notice or demand as provided in this Agreement or the documents referred to in this Agreement.

Section 6.03 Entire Agreement; Amendment; Etc.

(a) This Agreement and the Ancillary Agreements, including the Schedules, Exhibits, documents, certificates and instruments referred to herein or therein, embody the entire agreement and understanding of the Parties hereto in respect of the transactions contemplated by this Agreement. There are no restrictions, promises, representations, warranties, covenants or undertakings, other than those expressly set forth or referred to herein or therein. This Agreement supersedes all prior or contemporaneous agreements, understandings or statements or agreements between the Parties, whether written or oral, with respect to the transactions contemplated hereby. Each Party acknowledges and agrees that no employee, officer, agent or representative of the other Party has the authority to make any representations, statements or promises in addition to or in any way different than those contained in this Agreement and the Ancillary Agreements, and that it is not entering into this Agreement or the Ancillary Agreements in reliance upon any reliance upon an representation, statement or promise of the other Party except as expressly stated herein or therein.

(b) This Agreement may not be amended, supplemented, terminated or otherwise modified except by a written agreement executed by Transferor and Transferee.

(c) This Agreement shall be binding upon and inure solely to the benefit of each Party hereto and nothing in this Agreement, express or implied, is intended to or shall confer upon any other Person any right, benefit or remedy of any nature whatsoever under or by reason of this Agreement.

Section 6.04 Assignment. This Agreement and all the of the provisions hereof shall be binding upon and inure to the benefit of the Parties hereto and their respective successors and permitted assigns, but neither this Agreement nor any of the rights, interests or obligations hereunder may be assigned by, on the one hand, Transferor, and on the other hand, Transferee, in whole or in part (whether by operation of law or otherwise), without the prior written consent of the other Party, and any attempt to make any such assignment without such consent will be null and void. Notwithstanding the foregoing, Transferor or Transferee may assign or otherwise transfer its rights hereunder and under any Ancillary Agreement to any bank, financial institution or other lender providing financing to Transferor or Transferee, as applicable, as collateral security for such financing; provided, however, that no such assignment shall (i) impair or materially delay the consummation of the transactions contemplated hereby or (ii) relieve or discharge Transferor or Transferee, as the case may be, from any of its obligations hereunder and thereunder.

Section 6.05 Severability. If any term or other provision of this Agreement is invalid, illegal or incapable of being enforced by any law or public policy, all other terms and provisions of this Agreement will nevertheless remain in full force and effect so long as the economic or legal substance of the transactions contemplated hereby is not affected in any manner materially adverse to any party hereto. Upon such determination that any term or other provision is invalid, illegal or incapable of being enforced, the Parties will negotiate in good faith to modify this Agreement so as to effect the original intent of the Parties as closely as possible in an acceptable manner in order that the transactions contemplated hereby are consummated as originally contemplated to the greatest extent possible.

Section 6.06 Governing Law. This Agreement, the construction of this Agreement, all rights and obligations between the Parties to this Agreement, and any and all claims arising out of or relating to the subject matter of this Agreement (including all tort and contract claims) will

be governed by and construed in accordance with the laws of the state of Ohio, without giving effect to choice of law principles thereof.

Section 6.07 Counterparts: Facsimile Execution. This Agreement may be executed in one or more counterparts, all of which will be considered one and the same agreement and will become effective when one or more counterparts have been signed by each of the Parties and delivered to each other Party, it being understood that the Parties need not sign the same counterpart. This Agreement may be executed by facsimile signature(s) or signatures in portable document format.

Section 6.08 Schedules. The Schedules to this Agreement are intended to be and hereby are specifically made a part of this Agreement.

Section 6.09 Specific Performance. The Parties hereto agree that irreparable damage would occur in the event any of the provisions of this Agreement were not to be performed in accordance with the terms hereof and that the Parties will be entitled to specific performance of the terms hereof in addition to any other remedies at law or in equity.

Signatures appear on following page

IN WITNESS WHEREOF, each of the Parties has caused this Asset Contribution Agreement to be executed on its behalf by its respective officer thereunto duly authorized, all as of the day and year first above written.

AEP GENERATION RESOURCES INC.

By: _____
Name: _____
Title: _____

[NEWCO APPALACHIAN]

By: _____
Name: _____
Title: _____

ASSET CONTRIBUTION AGREEMENT

BETWEEN

AEP GENERATION RESOURCES INC.

AND

[NEWCO KENTUCKY]

Dated as of _____, 201_

Table of Contents

Page

EXHIBITS

SCHEDULES

ASSET CONTRIBUTION AGREEMENT

This **Asset Contribution Agreement** (this "Agreement"), dated as of _____ 201_, is between **AEP Generation Resources Inc.**, a Delaware corporation ("Transferor"), and **[NEWCO Kentucky]** a _____ corporation ("Transferee"). Collectively, Transferee and Transferor may be referred to herein as the "Parties" and each, individually, as a "Party."

W I T N E S S E T H

WHEREAS, Transferor owns the Mitchell Power Generation Facility in Moundsville, West Virginia which is comprised of two 800 MW generating units and associated plant, equipment and facilities and certain other assets, improvements, properties (both tangible, including real and personal property, and intangible), and rights associated therewith or ancillary thereto, all as more specifically described in Schedule 1.01 (the "Mitchell Plant").

WHEREAS, Transferor desires to transfer and assign to Transferee, and Transferee desires to acquire and assume from Transferor, the Transferred Assets (as hereinafter defined) and certain liabilities, upon the terms and conditions hereinafter set forth;

WHEREAS, Transferor and Transferee intend that the transfer of the Transferred Assets contemplated herein qualify as contributions to capital under Section 351 of the Internal Revenue Code of 1986, as amended; and

WHEREAS, Transferor directly owns all of the outstanding capital stock of Transferee.

NOW, THEREFORE, in consideration of the premises and the mutual covenants, agreements, representations and warranties hereinafter set forth, the Parties, intending to be legally bound, hereby agree as follows:

ARTICLE I
DEFINITIONS

Section 1.01 Definitions.

(a) As used in this Agreement, the following terms have the following meanings:

"**Affiliate**" means a Person that directly or indirectly through one or more intermediaries, controls, or is controlled by, or is under common control with, the Person specified. The term "control" (including the terms "controlling," "controlled by" and "under common control with") means the possession, direct or indirect, of the power to direct or cause the direction of the management and policies of a Person, whether through the ownership of voting securities, by contract or otherwise.

"**Ancillary Agreements**" means the Assumption Agreement, the Asset Transfer Agreement, the Deeds, the Assignment of Easements and Rights of Way, the Assignment of Real Property Leases, the Assignment of Contracts and any other agreements or instruments entered into between the Parties with respect to the transactions contemplated by this Agreement.

"**Asset Transfer Agreement**" means the Asset Transfer Agreement to be executed and delivered at Closing by Transferor to Transferee in substantially the form attached hereto as Exhibit E.

"**Assignment of Contracts**" means the Assignment of Contracts agreement to be entered into between Transferor and Transferee at Closing, in substantially the form attached hereto as Exhibit A.

"**Assignment of Easements and Rights of Way**" means the Assignments of Easements and Rights of Way agreements to be entered into by Transferor and Transferee at Closing, in substantially the form attached hereto as Exhibit B.

"**Assignment of Real Property Leases**" means the Assignment of Real Property Leases agreements to be entered into by Transferor and Transferee at Closing, in substantially the form attached hereto as Exhibit C.

"**Assumed Liabilities**" has the meaning set forth in Section 2.03.

"**Assumed Payables**" means a certain amount of those payables owed by Transferor with respect to the Transferred Assets, as set forth in Schedule 1.02.

"**Assumption Agreement**" means the Assumption Agreement to be entered by Transferor and Transferee at Closing, in substantially the form attached hereto as Exhibit D.

"**Business Day**" means a day other than a Saturday, Sunday or day on which banks are permitted or required to remain closed in the state of Ohio.

"**CERCLA**" means the Comprehensive Environmental Response, Compensation, and Liability Act of 1980, as amended from time to time.

"**Closing**" has the meaning set forth in Section 3.03.

"**Closing Date**" has the meaning set forth in Section 3.03.

"**Contracts**" has the meaning set forth in Section 4.01(i).

"**CWIP**" has the meaning set forth in the definition of "Improvements."

"**Debt**" means the long-term and short-term debt owed by Transferor as described in Schedule 1.03.

"**Deeds**" means those certain deeds to be executed and delivered at Closing by Transferor to Transferee.

"**Deferred Tax Assets**" means the Transferor's deferred tax assets relating to the Transferred Assets or any assumed Liability that is carried on its books.

"**Deferred Tax Liability**" means the Transferor's deferred tax liability relating to the Transferred Assets or any assumed Liability that is carried on its books.

"**Easements and Rights of Way**" means the easements and rights of way as described in Schedule 1.04.

"**Effective Time**" has the meaning set forth in Section 3.03.

"**Emissions Allowances**" means all authorizations issued to Transferor by a Governmental Authority pursuant to a statutory or regulatory program promulgated by a Governmental Authority pursuant to which air emissions sources subject to the program are authorized to emit a prescribed quantity of air emissions.

"**Encumbrance**" means any security interest, pledge, mortgage, lien, charge, option to purchase, lease, claim, restriction, covenant, title defect, hypothecation, assignment, deposit arrangement or other encumbrance of any kind or any preference, priority or other security agreement or preferential arrangement of any kind or nature whatsoever (including any conditional sale or title retention agreement).

"**Environmental Condition**" means the presence or Release to the environment, whether at the Real Property or otherwise, of Hazardous Substances, including any migration of Hazardous Substances through air, soil or groundwater at, to or from the Real Property or at, to or from any Off-Site Location, regardless of when such presence or Release occurred or is discovered.

"**Environmental Laws**" means all (i) Laws relating to pollution or protection of the environment, natural resources or human health and safety, including Laws relating to Releases

or threatened Releases of Hazardous Substances or otherwise relating to the manufacture, formulation, generation, processing, distribution, use, treatment, storage, Release, transport, remediation, abatement, cleanup or handling of Hazardous Substances; (ii) Laws with regard to recordkeeping, notification, disclosure and reporting requirements respecting Hazardous Substances; and (iii) Laws relating to the management or use of natural resources.

"**Environmental Permits**" has the meaning set forth in Section 4.01(g).

"**Excluded Liabilities**" has the meaning set forth in Section 2.04.

"**FERC**" means the Federal Energy Regulatory Commission.

"**Franklin Real Property**" means that certain real property held by Franklin Real Estate Company, a wholly owned subsidiary of the Parent, as agent for and for the benefit of Transferor's electric generation assets as more specifically described in Schedule 1.05.

"**Generation Transmission Assets**" has the meaning set forth in Section 2.01(p).

"**Good Utility Practice**" means any of the practices, methods and acts engaged in or approved by a significant portion of the electric utility industry during the relevant time period, or any of the practices, methods or acts which, in the exercise of reasonable judgment in light of the facts known at the time the decision was made, could have been expected to accomplish the desired result at a reasonable cost consistent with good business practices, reliability, safety and expedition.

"**Governmental Authority**" means any: (i) nation, state, county, city, town, village, district, or other jurisdiction of any nature; (ii) federal, state, local, municipal, foreign, or other government; (iii) governmental or quasi-governmental authority of any nature (including any governmental agency, branch, department, official, or entity and any court or other tribunal); (iv) multi-national organization or body; or (v) body exercising, or entitled to exercise, any administrative, executive, judicial, legislative, police, regulatory, or taxing authority or power of any nature.

"**Hazardous Substances**" means (i) any petrochemical or petroleum products, oil or coal ash, radioactive materials, radon gas, asbestos in any form that is or could become friable, urea formaldehyde foam insulation and transformers or other equipment that contain dielectric fluid which may contain levels of polychlorinated biphenyls; (ii) any chemicals, materials or substances defined as or included in the definition of "hazardous substances," "hazardous wastes," "hazardous materials," "hazardous constituents," "restricted hazardous materials,"

"extremely hazardous substances," "toxic substances," "contaminants," "pollutants," "toxic pollutants," or words of similar meaning and regulatory effect under any applicable Environmental Law; and (iii) any other chemical, material or substance, exposure to which is prohibited, limited or regulated by any applicable Environmental Law.

"**Improvements**" means all buildings, structures, machinery and equipment (including all fuel handling and storage facilities), fixtures, construction work in progress ("CWIP"), and other improvements, including all piping, cables and similar equipment forming part of the mechanical, electrical, plumbing or HVAC infrastructure of any building, structure or equipment, located on and affixed to the Real Property, the Leased Real Property and the Easements and Rights of Way.

"**Intellectual Property**" means all of the following and similar intangible property and related proprietary rights, interests and protections, however arising, (i) all software necessary to operate or maintain the Transferred Assets, (ii) confidential information, formulas, designs, devices, technology, know-how, research and development, inventions, methods, processes, compositions and other trade secrets, whether or not patentable and (iii) patented and patentable designs and inventions, all design, plant and utility patents, letters patent, utility models, pending patent applications and provisional applications and all issuances, divisions, continuations, continuations-in-part, reissues, extensions, reexaminations and renewals of such patents and applications.

"**Inventories**" means (i) all inventories of fuels and consumables owned by Transferor for use at the Mitchell Plant, whether located on Real Property, Leased Real Property or the Easements and Rights of Way associated with the Mitchell Plant or in transit thereto or stored offsite and (ii) all materials and supplies, including without limitation, spare parts, owned by Transferor for use at or in connection with the Mitchell Plant.

"**Knowledge**" means the actual and current knowledge of the corporate officer or officers of the specified Person charged with responsibility for the particular function as of the date of this Agreement, or, with respect to any certificate delivered pursuant to this Agreement, the date of delivery of the certificate, without any implication of verification or investigation concerning such knowledge.

"**Laws**" means all laws, statutes, rules, regulations, ordinances and other pronouncements having the effect of law of the United States, any foreign country and any

domestic or foreign state, county, city or other political subdivision or of any Governmental Authority.

"**Leased Real Property**" has the meaning set forth in Section 4.01(e)(i).

"**Liability**" means any liability or obligation, whether known or unknown, whether asserted or not asserted, whether absolute or contingent, whether accrued or not accrued, whether liquidated or not liquidated, whether incurred or consequential, and whether due or to become due.

"**Material Adverse Effect**" means (i) any event, circumstance or condition materially impairing the ability of Transferor to perform its obligations under this Agreement or any Ancillary Agreement or (ii) any change in or effect on Transferor or the Transferred Assets that is materially adverse to the Transferred Assets, other than (a) any change resulting from changes in the international, national, regional or local wholesale or retail markets for electricity, (b) any change resulting from changes in the international, national, regional or local markets for fuel or consumables used at the Mitchell Plant, (c) any change resulting from changes in the North American, national, regional or local electric transmission system, and (d) any change in Law generally applicable to similarly situated Persons.

"**Mitchell Plant**" has the meaning set forth in the first Recital.

"**Net Book Value**" means an amount in dollars, as reflected in the corresponding line item or items of the balance sheet of Transferor as of the applicable date for all Transferred Assets and all Assumed Liabilities. With respect to the Transferred Assets, Net Book Value is equal to total Transferred Assets net of accumulated depreciation or amortization as appropriate.

"**Off-Site Location**" means any real property other than the Real Property, the Leased Real Property or real property covered by the Easements and Rights of Way.

"**Organizational Documents**" means (i) the articles or certificate of incorporation and the bylaws of a corporation; (ii) the limited liability company or operating agreement and certificate of formation of a limited liability company; (iii) the partnership agreement and any statement of partnership of a general partnership; (iv) the limited partnership agreement and the certificate of limited partnership of a limited partnership; (v) any charter or similar document adopted or filed in connection with the creation, formation, or organization of a Person and (vi) any amendment to any of the foregoing.

"**Parent**" means American Electric Power Company, Inc.

"**Party**" has the meaning set forth in the first paragraph of this Agreement.

"**Permits**" has the meaning set forth in Section 4.0l(k).

"**Permitted Encumbrances**" means: (i) mechanics', carriers', workmen's, repairmen's or other like Encumbrances arising or incurred in the ordinary course of business that would not, individually or in the aggregate, reasonably be expected to have a Material Adverse Effect, (ii) Encumbrances for Taxes not yet due or which are being contested in good faith by appropriate proceedings and that would not, individually or in the aggregate, reasonably be expected to have a Material Adverse Effect; (iii) imperfections of title or encumbrances, if any, that, individually or in the aggregate, do not materially impair, and would not reasonably be expected to have a Material Adverse Effect; (iv) leases, subleases and similar agreements, and liens of any landlord or other third party on property over which Sellers have easement rights or on any Leased Real Property and subordination or similar agreements relating thereto; (v) leases, mineral reservations and conveyances, easements, covenants, rights-of-way and other similar restrictions of record; (vi) any conditions that may be shown by a current, accurate survey or physical inspection of the Real Property or the Leased Real Property made prior to the Closing; (vii) zoning, planning, conservation restriction and other land use and environmental regulations by Governmental Authorities; (viii) the respective rights and obligations of the Parties under this Agreement and the Ancillary Agreements; (ix) Encumbrances resulting from legal proceedings being contested in good faith by appropriate proceedings that would not, individually or in the aggregate, reasonably be expected to have a Material Adverse Effect; and (x) other Encumbrances that would not, individually or in the aggregate, reasonably be expected to have a Material Adverse Effect.

"**Person**" means any individual, corporation (including any non-profit corporation), general or limited partnership, limited liability company, joint venture, estate, trust, association, organization, labor union, or other entity or Governmental Authority.

"**Real Property**" has the meaning set forth in Section 2.01(b).

"**Real Property Leases**" has the meaning set forth in Section 4.01(e)(i).

"**Release**" means any release, spill, leak, discharge, disposal of, pumping, pouring, emitting, emptying, injecting, leaching, dumping or allowing to escape into or through the environment.

"**Tax**" means all federal, state, local and foreign taxes, charges, fees, levies, imposts, duties or other assessments, including, without limitation, income, gross receipts, excise, employment, sales, use, transfer, license, payroll, franchise, severance, stamp, occupation, windfall profits, environmental (including taxes under Code Section 59A), premium, federal highway use, commercial rent, customs duties, capital stock, paid up capital, profits, withholding, social security, single business and unemployment, disability, real property, personal property, registration, ad valorem, value added, alternative or add-on minimum, estimated, or other tax or governmental fee of any kind whatsoever, imposed or required to be withheld by any Governmental Authority, including any interest, penalties or additions thereto, whether disputed or not.

"**Transferee**" has the meaning set in the first paragraph of this Agreement.

"**Transferor**" has the meaning set forth in the first paragraph of this Agreement.

"**Transferred Assets**" has the meaning set forth in Section 2.01.

(b) Interpretation. In this Agreement, unless otherwise specified or where the context otherwise requires:

(i) a reference, without more, to a recital is to the relevant recital to this Agreement, to an Article or Section is to the relevant Article or Section of this Agreement, and to a Schedule or Exhibit is to the relevant Schedule or Exhibit to this Agreement;

(ii) words importing any gender shall include other genders;

(iii) words importing the singular only shall include the plural and vice versa;

(iv) the words "include," "includes" or "including" shall be deemed to be followed by the words "without limitation;"

(v) reference to any agreement, document or instrument means such agreement, document or instrument as amended or modified and in effect from time to time in accordance with the terms thereof;

(vi) reference to any applicable Law means, if applicable, such Law as amended, modified, codified, replaced or reenacted, in whole or in part, and in effect from time to time, including rules and regulations promulgated thereunder;

(vii) "or" is used in the inclusive sense of "and/or";

(viii) references to documents, instruments or agreements shall be deemed to refer as well to all addenda, exhibits, schedules or amendments thereto;

(ix) the words "hereof," "herein" and "herewith" and words of similar import shall, unless otherwise stated, be construed to refer to this Agreement as a whole and not to any particular provision of this Agreement; and

(x) references to any party hereto or any other agreement or document shall include such party's successors and permitted assigns, but, if applicable, only if such successors and assigns are not prohibited by this Agreement.

ARTICLE II
TRANSFER OF ASSETS

Section 2.01 Transfer of Assets. Upon the terms and conditions set forth in this Agreement, at the Closing but effective as of the Effective Time, Transferor shall transfer, convey, assign and deliver to Transferee as a contribution to capital, and Transferee shall acquire and assume from Transferor as a contribution to capital, free and clear of all Encumbrances other than Permitted Encumbrances, an undivided fifty percent (50%) ownership interest in and to the following described assets (the "Transferred Assets"):

(a) the Mitchell Plant;

(b) the real property (including the Improvements) described in Schedule 2.01(b) (and together with the Franklin Real Property, the "Real Property");

(c) the Real Property Leases(including the Improvements) ;

(d) the Easements and Rights of Way (including the Improvements);

(e) all Inventories;

(f) the Contracts;

(g) the Permits;

(h) the Environmental Permits;

(i) the Intellectual Property;

(j) the Emissions Allowances;

(k) the Deferred Tax Assets;

(l) all vehicles, equipment, machinery, furniture and other tangible personal property used in connection with the Mitchell Plant or located on or at the Real Property, the Leased Real Property and the Easements and Rights of Way, a partial list of which is described on Schedule 2.01(l);

(m) the other assets described in Schedule 2.01(m);

(n) all unexpired, transferable warranties and guarantees from manufacturers, vendors and other third parties with respect to any Improvement or item of real or tangible personal property constituting part of the Transferred Assets;

(o) all books, purchase orders, operating records, operating, safety and maintenance manuals, engineering design plans, blueprints and as-built plans, specifications, procedures, studies, reports, equipment repair, safety, maintenance or service records, and similar items (subject to the right of Transferor to retain copies of same for its use), other than such items that are proprietary to third parties and accounting records (to the extent that any of the foregoing is contained in an electronic format, Transferor shall reasonably cooperate with Transferee to transfer such items to Transferee in a format that is reasonably acceptable to Transferee);

(p) the electrical transmission facilities associated with the Mitchell Plant located at or forming part of the Mitchell Plant, including all energized switchyard facilities on the generation asset side of the appropriate interconnection points and real property directly associated therewith, all substation facilities and support equipment, as well as all permits, contracts and warranties related thereto, including those certain assets and facilities specifically identified on Schedule 2.01(p) (the "Generation Transmission Assets");

(q) without limitation of any of the foregoing, Transferor is transferring to Transferee an undivided fifty percent (50%) ownership interest in and to all Mitchell Plant power generation function equipment including, but not limited to, generation step-up transformers, turbine-generators, plant power distribution equipment such unit auxiliary transformers, forced draft fans, coal handling facilities, precipitator facilities, and protection and control equipment and systems that are associated with the Mitchell Plant;

(r) the rights of Transferor in and to any causes of action against third parties relating to the Transferred Assets or any part thereof, including any claim for refunds (but excluding any refund, credit, penalty, payment, adjustment or reconciliation related to Taxes paid or due for periods ending prior to the Effective Time in respect of the Transferred Assets, whether such refund, credit, penalty, payment, adjustment or reconciliation is received as a payment or, subject to Section 3.02, as a credit against future Taxes payable), prepayments, offsets, recoupment, insurance proceeds, condemnation awards, judgments and the like, whether received as a payment or credit against future liabilities, relating specifically to Transferred Assets and relating to any period ending prior to, on or after the Effective Time;

(s) the rights of Transferor in, to and under all contracts, agreements, arrangements, permits or licenses of any nature and related to the Transferred Assets, which are not expressly excluded pursuant to Section 2.02 and of which the obligations of Transferor thereunder are not expressly excluded by Transferee pursuant to Section 2.04; and

(t) to the extent not otherwise described in this Section 2.01, all other assets and property, whether real or personal, tangible or intangible, that are associated with or used in connection with ownership and operation of the Mitchell Plant.

Section 2.02 Excluded Assets. Notwithstanding anything to the contrary contained in Section 2.01 or elsewhere in this Agreement, nothing in this Agreement shall constitute or be construed as conferring on Transferee, and Transferee is not acquiring, any right, title or interest in and to any properties, assets, business, operation, or division of Transferor or any of its Affiliates (other than Transferee) not expressly set forth in Section 2.01.

Section 2.03 Assumed Liabilities. On the Closing Date, Transferee shall execute and deliver the Assumption Agreement, pursuant to which, among other things, Transferee shall assume all Liabilities described therein and, in addition, Transferee shall assume fifty percent (50%) of the following Liabilities (collectively, the "Assumed Liabilities"):

(a) on the terms and subject to the conditions set forth in this Agreement, at the Closing, Transferee shall assume and become responsible for, and shall thereafter pay, perform and discharge as and when due the Liabilities arising under or related to the Transferred Assets whether arising from, or relating to, periods prior to, on or after the Effective Time;

(b) all Liability of Transferor with respect to the Assumed Payables;

(c) all Liability of Transferor with respect to the Debt to the extent relating to periods of time after the Effective Time;

(d) all Liability of Transferor with respect to the Deferred Tax Liability; and

(e) all Liability of the Transferor with respect to the property Taxes related to the Transferred Assets.

2.04 Excluded Liabilities. Notwithstanding the foregoing provisions of Section 2.03, Transferee shall not assume by virtue of this Agreement, the Assumption Agreement or any other Ancillary Agreement, or the transactions contemplated hereby or thereby, or otherwise, and shall have no liability for any of the following Liabilities or any Liability of Transferor that is not related to the Transferred Assets (the "Excluded Liabilities"):

(a) any Liabilities of Transferor in respect of any assets of Transferor that are not Transferred Assets;

(b) any Liabilities in respect of Transferor's current income Taxes and any other Taxes not otherwise assumed pursuant to Section 2.03(d) and (e);

(c) any fines and penalties imposed by any Governmental Authority resulting from any act or omission by Transferor and not related to the Transferred Assets; and

(d) any Liability of Transferor arising as a result of its execution and delivery of this Agreement or any Ancillary Agreement, the performance of its obligations hereunder or thereunder, or the consummation by Transferor of the transactions contemplated hereby or thereby.

ARTICLE III
ASSET TRANSFER; CLOSING

Section 3.01 Asset Transfer. Transferor shall transfer to Transferee an undivided fifty percent (50%) ownership interest in and to the Transferred Assets at Net Book Value as of the Effective Time. In the event that final amounts for the Net Book Value of the Transferred Assets are not available on the Closing Date, the final Net Book Value of the Transferred Assets shall be determined and agreed to by Transferee and Transferor within ninety (90) days after the

Closing Date. Transferor and Transferee agree to furnish each other with such documents and other records as may be reasonably requested in order to confirm the final Net Book Value of the Transferred Assets.

Section 3.02 Proration.

(a) Transferee and Transferor agree that all of the items normally prorated, including those listed below, relating to the business and operation of the Transferred Assets shall be prorated as of the Effective Time, with Transferor liable to the extent such items relate to any time period through the Effective Time, and Transferee liable to the extent such items relate to periods subsequent to the Effective Time:

(i) personal property, real estate, occupancy and any other Taxes, assessments and other charges, if any, on or with respect to the business and operation of the Transferred Assets. Provided, however, that the Parties shall not prorate any Taxes, assessments or charges relating to the Transferred Assets that are to be assumed by Transferee pursuant to Section 2.03;

(ii) rent, Taxes and other items payable by or to Transferor under any of the Contracts to be assigned to and assumed by the Transferee hereunder; and

(iii) sewer rents and charges for water, telephone, electricity and other utilities.

(b) In connection with such proration, in the event that actual figures are not available at the Closing Date, the proration shall be based upon the actual amount of such Taxes or fees for the preceding year (or appropriate period) for which actual Taxes or fees are available and such Taxes or fees shall be re-prorated upon request of either the Transferor or the Transferee made within ninety (90) days after the date that the actual amounts become available. Transferor and Transferee agree to furnish each other with such documents and other records as may be reasonably requested in order to confirm all adjustment and proration calculations made pursuant to this Section 3.02.

Section 3.03 Closing. The transfer, assignment, conveyance and delivery of the Transferred Assets, and the consummation of the other transactions contemplated by this Agreement, shall take place at a closing (the "Closing") to be held at the offices of American

Electric Power, 1 Riverside Plaza, Columbus, Ohio 43204 at a time mutually acceptable to the Parties on the date of the execution and delivery of this Agreement by each of the Parties (the "Closing Date"). The Closing shall be effective for all purposes as of [_____] (the "Effective Time").

Section 3.04 Closing Deliveries.

(a) At the Closing, Transferor will deliver, or cause to be delivered, to Transferee the following items:

(i) possession of the Transferred Assets;

(ii) an original of each of the Deeds, duly executed and acknowledged by Transferor;

(iii) an original of the Asset Transfer Agreement duly executed by Transferor;

(iv) an original of the Assumption Agreement duly executed by Transferor;

(v) an original of each Assignment of Easements and Rights of Way duly executed by Transferor;

(vi) an original of each Assignment of Real Property Leases duly executed by Transferor;

(vii) an original of the Assignment of Contracts duly executed by Transferor; and

(viii) such other documents as are contemplated by this Agreement or as the Transferee may reasonably request to carry out the purposes of this Agreement.

(b) At the Closing, Transferee will deliver, or cause to be delivered, to Transferor the following items:

(i) an original of the Asset Transfer Agreement duly executed by Transferee;

(ii) an original of the Assumption Agreement duly executed by Transferee;

(iii) an original of each Assignment of Easements and Rights of Way duly executed by Transferee;

(iv) an original of each Assignment of Real Property Leases duly executed by Transferee;

(v) an original of the Assignment of Contracts duly executed by Transferee; and

(vi) such other documents as are contemplated by this Agreement or as the Transferor may reasonably request, including vehicle titles, to consummate the transactions contemplated hereby.

ARTICLE IV
REPRESENTATIONS AND WARRANTIES

Section 4.01 Representations and Warranties of Transferor. Transferor represents and warrants to Transferee as follows:

(a) Organization and Good Standing; Qualification. Transferor is a corporation duly formed, validly existing and in good standing under the laws of the state of Delaware. Transferor has all requisite power and authority to own, lease or operate the Transferred Assets and to carry on its business as it is now being conducted.

(b) Authority and Enforceability. Transferor has full power and authority to execute and deliver, and carry out its obligations under, this Agreement and each Ancillary Agreement to which it is a party and to consummate the transactions contemplated hereby and thereby. The execution, delivery and performance by Transferor of this Agreement and each Ancillary Agreement to which it is a party, and the consummation of the transactions contemplated hereby and thereby, have been duly and validly authorized by all necessary action on the part of Transferor. Assuming the due authorization, execution and delivery of this Agreement and each Ancillary Agreement to which it is a party by Transferee, this Agreement and each such Ancillary Agreement constitutes a legal, valid and binding obligation of Transferor, enforceable against it in accordance with its terms, except as such enforceability may be limited by applicable bankruptcy, insolvency and other similar laws affecting the rights and remedies of creditors generally and by general principles of equity.

(c) No Violation; Consents and Approvals.

(i) Neither the execution, delivery and performance by Transferor of this Agreement and each Ancillary Agreement to which it is a party, nor the consummation by Transferor of the transactions contemplated hereby and thereby, will (i) conflict with or result in any breach of any provision of the Organizational Documents of Transferor; (ii) result in a default (or give rise to any right of termination, cancellation or acceleration), or require a consent, under any of the terms, conditions or provisions of any note, bond, mortgage, indenture, material agreement or other instrument or obligation to which Transferor is a party or by which it or any of the Transferred Assets may be bound, except for any such defaults or consents (or rights of termination, cancellation or acceleration) as to which requisite waivers or consents have been obtained or which would not, individually or in the aggregate, reasonably be expected to have a Material Adverse Effect; or (iii) constitute a violation of any law, regulation, order, judgment or decree applicable to Transferor, except for any such violations as would not, individually or in the aggregate, reasonably be expected to have a Material Adverse Effect.

(ii) Transferor has obtained all consents and approvals from each Governmental Authority necessary for the execution, delivery and performance of this Agreement by Transferor or of any Ancillary Agreement to which Transferor is a party, or the consummation by Transferor of the transactions contemplated hereby and thereby, other than such consents and approvals which, if not obtained or made, would not, individually or in the aggregate, reasonably be expected to have a Material Adverse Effect.

(d) Insurance. All material policies of property, liability, workers' compensation and other forms of insurance owned or held by, or on behalf of, Transferor and insuring the Transferred Assets are in full force and effect, all premiums with respect thereto covering all periods up to and including the date hereof have been paid (other than retroactive premiums), and no notice of cancellation or termination has been received with respect to any such policy which was not replaced on substantially similar terms prior to the date of such cancellation.

(e) Leased Real Property.

(i) Schedule 4.01(e) sets forth a description of each lease of real property held by Transferor (the "Real Property Leases") and the real property covered thereby (the "Leased Real Property") that is to be transferred as contemplated herein by Transferor to Transferee.

(ii) Each Real Property Lease (a) constitutes a legal, valid and binding obligation of Transferor and, to Transferor's Knowledge, constitutes a valid and binding obligation of the other parties thereto and (b) is in full force and effect and Transferor has not delivered or received any written notice of termination thereunder.

(iii) There is not under any Real Property Lease any default or event which, with notice or lapse of time or both, (a) would constitute a default by Transferor or, to Transferor's Knowledge, any other party thereto, (b) would constitute a default by Transferor or, to Transferor's Knowledge, any other party thereto which would give rise to an automatic termination, or the right of discretionary termination, thereof, or (c) would cause the acceleration of any of Transferor's obligations thereunder or result in the creation of any Encumbrance (other than any Permitted Encumbrance) on any of the Transferred Assets. There are no claims, actions, proceedings or investigations pending or, to the Knowledge of Transferor, threatened against Transferor or any other party to any Real Property Lease before any Governmental Authority or body acting in an adjudicative capacity relating in any way to any Real Property Lease or the subject matter thereof. Transferor has no Knowledge of any defense, offset or counterclaim arising under any Real Property Lease.

(f) Title; Condition of Assets.

(i) Subject to Permitted Encumbrances, Transferor holds title to the Real Property and the Easements and Rights of Way and has good and valid title thereto and to the other Transferred Assets that it purports to own or in which it has an interest, free and clear of all Encumbrances.

(ii) The tangible assets (real and personal) at, related to, or used in connection with Mitchell Plant, taken as a whole, (a) are in good operating and usable condition and repair, free from any defects (except for ordinary wear and tear, in light of their respective ages and historical usages, and except for such defects as do not

materially interfere with the use thereof in the conduct of the normal operation and maintenance of the Transferred Assets taken as a whole) and (b) have been maintained consistent with Good Utility Practice.

(g) Environmental Matters. Except as disclosed in Schedule 4.01(g):

(i) Transferor holds, and is in compliance with, all permits, certificates, certifications, licenses and other authorizations issued by Governmental Authorities under Environmental Laws that are required for Transferor to conduct the business and operations of the Transferred Assets (collectively, "Environmental Permits"), and Transferor is otherwise in compliance with all applicable Environmental Laws with respect to the business and operations of the Transferred Assets, except for any such failures to hold or comply with required Environmental Permits, or such failures to be in compliance with applicable Environmental Laws, as would not, individually or in the aggregate, reasonably be expected to have a Material Adverse Effect;

(ii) Transferor has not received any written request for information, or been notified of any violation, or that it is a potentially responsible party, under CERCLA or any other Environmental Law for contamination or air emissions at the Mitchell Plant, the Real Property, the Leased Real Property or the real property covered by the Easements and Rights of Way except for any such requests or notices that would result in liabilities under such laws as would not, individually or in the aggregate, reasonably be expected to have a Material Adverse Effect, and there are no claims, actions, proceedings or investigations pending or, to the Knowledge of Transferor, threatened against Transferor before any Governmental Authority or body acting in an adjudicative capacity relating in any way to any Environmental Laws or against Transferor or Parent concerning contamination or air emissions at the Mitchell Plant, the Real Property, the Leased Real Property or the real property covered by the Easements and Rights of Way; and

(iii) there are no outstanding judgments, decrees or judicial orders relating to the Transferred Assets regarding compliance with any Environmental Law or to the investigation or cleanup of Hazardous Substances under any Environmental Law relating to the Transferred Assets, except for such outstanding judgments, decrees or

judicial orders as would not, individually or in the aggregate, reasonably be expected to have a Material Adverse Effect.

(iv) Section I of Schedule 4.01(g) lists all material Environmental Permits.

The representations and warranties made in this Section 4.01(g) are the exclusive representations and warranties of Transferor relating to environmental matters.

(h) Condemnation. There are no pending or, to the Knowledge of Transferor, threatened proceedings or governmental actions to condemn or take by power of eminent domain all or any part of the Transferred Assets.

(i) Contracts and Leases.

(i) Schedule 4.01(i) lists all written contracts, agreements, licenses (other than Environmental Permits, Permits or Intellectual Property) or personal property leases of Transferor that are material to the business or operations of the Transferred Assets (the "Contracts").

(ii) Each Contract (a) constitutes a legal, valid and binding obligation of Transferor and, to Transferor's Knowledge, constitutes a valid and binding obligation of the other parties thereto and (b) is in full force and effect and Transferor has not delivered or received any written notice of termination thereunder.

(iii) There is not under any Contract any default or event which, with notice or lapse of time or both, (a) would constitute a default by Transferor or, to Transferor's Knowledge, any other party thereto, (b) would constitute a default by Transferor or, to Transferor's Knowledge, any other party thereto which would give rise to an automatic termination, or the right of discretionary termination, thereof, or (c) would cause the acceleration of any of Transferor's obligations thereunder or result in the creation of any Encumbrance (other than any Permitted Encumbrance) on any of the Transferred Assets. There are no claims, actions, proceedings or investigations pending or, to the Knowledge of Transferor, threatened against Transferor or any other party to any Contract before any Governmental Authority or body acting in an adjudicative

capacity relating in any way to any Contract or the subject matter thereof. Transferor has no Knowledge of any defense, offset or counterclaim arising under any Contract.

(j) Legal Proceedings. Except as set forth on Schedule 4.01(j) there are no actions or proceedings pending or, to the Knowledge of Transferor, threatened against Transferor before any court, arbitrator or Governmental Authority, which, individually or in the aggregate, would reasonably be expected to have a Material Adverse Effect. Transferor is not subject to any outstanding judgments, rules, orders, writs, injunctions or decrees of any court, arbitrator or Governmental Authority that, individually or in the aggregate, would reasonably be expected to have a Material Adverse Effect.

(k) Permits.

(i) Transferor has all permits, licenses, franchises and other governmental authorizations, consents and approvals (other than Environmental Permits, which are addressed in Section 4.0l(k)) necessary to own and operate the Transferred Assets (collectively, "Permits"), except where any failures to have such Permits would not, individually or in the aggregate, reasonably be expected to have a Material Adverse Effect. Transferor has not received any written notification that Transferor is in violation, nor does Transferor have Knowledge of any violations, of any such Permits, or any Law or judgment of any Government Authority applicable to Transferor with respect to the Transferred Assets, except for violations that would not, individually or in the aggregate, reasonably be expected to have a Material Adverse Effect.

(ii) Section II of Schedule 4.01(k) lists all material Permits (other than Environmental Permits).

(l) Taxes. To the Knowledge of Transferor, Transferor has filed all Tax Returns that are required to be filed by it with respect to any Tax relating to the Transferred Assets, and Transferor has paid all Taxes that have become due as indicated thereon, except where such Tax is being contested in good faith by appropriate proceedings, or where any failures to so file or pay would not, individually or in the aggregate, reasonably be expected to have a Material Adverse Effect. There are no Encumbrances for Taxes on the Transferred Assets that are not Permitted Encumbrances.

(m) Intellectual Property. Transferor has such ownership of or such rights by license or other agreement to use all Intellectual Property necessary to permit Transferor to conduct its business with respect to the Transferred Assets as currently conducted, except where any failures to have such ownership, license or right to use would not, individually or in the aggregate, reasonably be expected to have a Material Adverse Effect. Transferor is not, nor has Transferor received any notice that Transferor is, in default (or with the giving of notice or lapse of time or both, would be in default) under any contract to use such Intellectual Property, and there are no material restrictions on the transfer of any material contract, or any interest therein, held by Transferor in respect of such Intellectual Property. Transferor has not received notice that it is infringing any Intellectual Property of any other Person in connection with the operation or business of the Transferred Assets.

(n) Compliance with Laws. Transferor is in compliance with all applicable Laws with respect to the ownership or operation of the Transferred Assets, except where any such failures to be in compliance would not, individually or in the aggregate, reasonably be expected to have a Material Adverse Effect.

(o) Limitation of Representations and Warranties. **EXCEPT FOR THE REPRESENTATIONS AND WARRANTIES SET FORTH IN THIS AGREEMENT AND IN ANY ANCILLARY AGREEMENT, TRANSFEROR IS NOT MAKING, AND HEREBY DISCLAIMS, ANY OTHER REPRESENTATIONS AND WARRANTIES, WRITTEN OR ORAL, STATUTORY, EXPRESS OR IMPLIED, CONCERNING TRANSFEROR OR THE TRANSFERRED ASSETS OR ANY PART THEREOF**.

Section 4.02 Representations and Warranties of Transferee. Transferee represents and warrants to Transferor as follows:

(a) Organization and Good Standing. Transferee is a corporation duly formed, validly existing and in good standing under the laws of the state of _____ and has all requisite power and authority to own, lease or operate its properties and to carry on its business as it is now being conducted.

(b) Authority and Enforceability. Transferee has full power and authority to execute and deliver and carry out its obligations under this Agreement and each Ancillary Agreement to which it is a party, and to consummate the transactions contemplated hereby and

thereby. The execution, delivery and performance by Transferee of this Agreement and each such Ancillary Agreement, and the consummation of the transactions contemplated hereby and thereby, have been duly and validly authorized by all necessary action by Transferee. Assuming the due authorization, execution and delivery of this Agreement and each such Ancillary Agreement by the other party or parties thereto, each of this Agreement and each such Ancillary Agreement constitutes a legal, valid and binding obligation of Transferee, enforceable against Transferee in accordance with its terms, except as such enforceability may be limited by applicable bankruptcy, insolvency and other similar laws affecting the rights and remedies of creditors generally and by general principles of equity.

(c) No Violation; Consents and Approvals.

(i) Neither the execution, delivery and performance by Transferee of this Agreement and each Ancillary Agreement to which Transferee is a party, nor the consummation by Transferee of the transactions contemplated hereby and thereby, will (a) conflict with or result in any breach of any provision of the Organizational Documents of Transferee; (b) result in a default (or give rise to any right of termination, cancellation or acceleration), or require a consent, under any of the terms, conditions or provisions of any note, bond, mortgage, indenture, material agreement or other instrument or obligation to which Transferee is a party or by which any of their respective material properties or assets may be bound, except for any such defaults or consents (or rights of termination, cancellation or acceleration) as to which requisite waivers or consents have been obtained or which would not, individually or in the aggregate, reasonably be expected to have a material adverse effect on the ability of Transferee to perform its obligations under this Agreement and the Ancillary Agreements; or (c) constitute a violation of any law, regulation, order, judgment or decree applicable to Transferee, except for any such violations as would not, individually or in the aggregate, reasonably be expected to have a material adverse effect on the ability of Transferee to perform its obligations under this Agreement and the Ancillary Agreements.

(ii) Transferee has obtained all consents and approvals from each Governmental Authority or other Person is necessary for the execution and delivery of this Agreement or any Ancillary Agreement by Transferee, or the consummation by

Transferee of the transactions contemplated hereby and thereby, except for any such consents and approvals which, if not obtained or made, would not, individually or in the aggregate, reasonably be expected to have a material adverse effect on the ability of Transferee to perform its obligations under this Agreement and the Ancillary Agreements.

(d) Legal Proceedings. There are no actions or proceedings pending or, to the Knowledge of Transferee, threatened against Transferee before any court, arbitrator or Governmental Authority, which, individually or in the aggregate, would reasonably be expected to have a Material Adverse Effect on the ability of Transferee to perform its obligations under this Agreement and the Ancillary Agreements. Transferee is not subject to any outstanding judgments, rules, orders, writs, injunctions or decrees of any court, arbitrator or Governmental Authority which, individually or in the aggregate, would reasonably be expected to have a material adverse effect on the ability of Transferee to perform its obligations under this Agreement and the Ancillary Agreements.

ARTICLE V
CERTAIN COVENANTS AND AGREEMENTS

Section 5.01 Transfer Tax; Recording Costs. All transfer, use, stamp, sales and similar Taxes and recording costs incurred in connection with this Agreement and the transactions contemplated hereby shall be the sole responsibility of Transferee.

Section 5.02 Further Assurances.

(a) Subject to the terms and conditions of this Agreement, Transferor and Transferee shall use commercially reasonable efforts to take, or cause to be taken, all actions, and to do, or cause to be done, all things necessary, proper or advisable under applicable Laws to consummate and make effective the transfer of the Transferred Assets pursuant to this Agreement and the assumption of the Assumed Liabilities, including using commercially reasonable efforts with a view to obtaining all necessary consents, approvals and authorizations of, and making all required notices or filings with, third parties required to be obtained or made in order to consummate the transactions hereunder, including the transfer of the Environmental Permits and the Permits to Transferee. Neither Transferor, on the one hand, nor Transferee, on the other hand, shall, without prior written consent of the other, take or fail to take any action

which might reasonably be expected to prevent or materially impede, interfere with or delay the transactions contemplated by this Agreement.

(b) In the event that any portion of the Transferred Assets shall not have been conveyed to Transferee at the Closing, Transferor shall, subject to paragraphs (c) and (d) immediately below, convey such asset to Transferee as promptly as practicable after the Closing.

(c) To the extent, if any, that Transferor's rights under any Contract, Real Property Leases or Easements and Rights of Way may not be assigned without the consent of any other party thereto, which consent has not been obtained by the Closing Date, this Agreement shall not constitute an agreement to assign the same if an attempted assignment would constitute a breach thereof or be unlawful. Transferor and Transferee agree that if any consent to an assignment of any Contract, Real Property Lease or Easement and Right of Way has not been obtained at the Closing Date, or if any attempted assignment would be ineffective or would impair Transferee's rights and obligations under the Contract, Real Property Lease or Easement and Right of Way in question, so that Transferee would not in effect acquire the benefit of all such rights and obligations, Transferor, at its option and to the maximum extent permitted by law and such Contract, Real Property Lease or Easement and Right of Way , shall, after the Closing Date, (i) appoint Transferee to be Transferor's agent with respect to such Contract, Real Property Lease or Easement and Right of Way or (ii) to the maximum extent permitted by law and such Contract, Real Property Lease or Easement and Right of Way, enter into such reasonable arrangements with Transferee or take such other commercially reasonable actions to provide Transferee with the same or substantially similar rights and obligations of such Contract, Real Property Lease or Easement and Right of Way. From and after the Closing Date, Transferor and Transferee shall cooperate and use commercially reasonable efforts to obtain an assignment to Transferee of any such Contract, Real Property Lease or Easement and Right of Way.

(d) To the extent that Transferor's rights under any warranty or guaranty described in Section 2.01(r) may not be assigned without the consent of another Person, which consent has not been obtained by the Closing Date, this Agreement shall not constitute an agreement to assign the same, if an attempted assignment would constitute a breach thereof or be unlawful. The Parties agree that if any consent to an assignment of any such warranty or

guaranty has not been obtained or if any attempted assignment would be ineffective or would impair Transferee's rights and obligations under the warranty or guaranty in question, so that Transferee would not in effect acquire the benefit of all such rights and obligations, Transferor shall use commercially reasonable efforts to the extent permitted by law and such warranty or guaranty, to enforce such warranty or guaranty for the benefit of Transferee to the maximum extent possible so as to provide Transferee with the benefits and obligations of such warranty or guaranty. Notwithstanding the foregoing, Transferor shall not be obligated to bring or file suit against any third party, provided that if Transferor determines not to bring or file suit after being requested by Transferee to do so, Transferor shall assign, to the extent permitted by law or any applicable agreement, its rights in respect of the claims so that Transferee may bring or file such suit.

Section 5.03 Survival. The representations and warranties of the Parties contained herein shall not survive the Closing and thereafter shall be of no further force and effect.

ARTICLE VI
MISCELLANEOUS PROVISIONS

Section 6.01 Notices. All notices and other communications hereunder shall be in writing and shall be deemed given (i) on the day when delivered personally or by e-mail (with confirmation) or facsimile transmission (with confirmation), (ii) on the next Business Day when delivered to a nationally recognized overnight delivery service, or (iii) five (5) Business Days after deposited as registered or certified mail (return receipt requested), in each case, postage prepaid, addressed to the recipient Party at its address set forth below (or to such other addresses and e-mail and facsimile numbers for a Party as shall be specified by like notice; provided, however, that any notice of a change of address or e-mail or facsimile number shall be effective only upon receipt thereof):

If to Transferor, to:

AEP Generation Resources Inc.

_____

_____

Attn:

Facsimile No.:
Email:

If to Transferee, to:

[NEWCO Kentucky]

_____

_____

Attn:
Facsimile No.:
Email:

Section 6.02 Waiver. The rights and remedies of the Parties are cumulative and not alternative. Neither the failure nor any delay by any Party in exercising any right, power, or privilege under this Agreement or the documents referred to in this Agreement will operate as a waiver of such right, power, or privilege, and no single or partial exercise of any such right, power, or privilege will preclude any other or further exercise of such right, power, or privilege or the exercise of any other right, power, or privilege. To the maximum extent permitted by applicable Law, (a) no claim or right arising out of this Agreement or the documents referred to in this Agreement can be discharged by one Party, in whole or in part, by a waiver or renunciation of the claim or right unless in writing signed by each other Party; (b) no waiver that may be given by a Party will be applicable except in the specific instance for which it is given; and (c) no notice to or demand on one Party will be deemed to be a waiver of any obligation of such Party or of the right of the Party giving such notice or demand to take further action without notice or demand as provided in this Agreement or the documents referred to in this Agreement.

Section 6.03 Entire Agreement; Amendment; Etc.

(a) This Agreement and the Ancillary Agreements, including the Schedules, Exhibits, documents, certificates and instruments referred to herein or therein, embody the entire agreement and understanding of the Parties hereto in respect of the transactions contemplated by this Agreement. There are no restrictions, promises, representations, warranties, covenants or

undertakings, other than those expressly set forth or referred to herein or therein. This Agreement supersedes all prior or contemporaneous agreements, understandings or statements or agreements between the Parties, whether written or oral, with respect to the transactions contemplated hereby. Each Party acknowledges and agrees that no employee, officer, agent or representative of the other Party has the authority to make any representations, statements or promises in addition to or in any way different than those contained in this Agreement and the Ancillary Agreements, and that it is not entering into this Agreement or the Ancillary Agreements in reliance upon any reliance upon an representation, statement or promise of the other Party except as expressly stated herein or therein.

(b) This Agreement may not be amended, supplemented, terminated or otherwise modified except by a written agreement executed by Transferor and Transferee.

(c) This Agreement shall be binding upon and inure solely to the benefit of each Party hereto and nothing in this Agreement, express or implied, is intended to or shall confer upon any other Person any right, benefit or remedy of any nature whatsoever under or by reason of this Agreement.

Section 6.04 Assignment. This Agreement and all the of the provisions hereof shall be binding upon and inure to the benefit of the Parties hereto and their respective successors and permitted assigns, but neither this Agreement nor any of the rights, interests or obligations hereunder may be assigned by, on the one hand, Transferor, and on the other hand, Transferee, in whole or in part (whether by operation of law or otherwise), without the prior written consent of the other Party, and any attempt to make any such assignment without such consent will be null and void. Notwithstanding the foregoing, Transferor or Transferee may assign or otherwise transfer its rights hereunder and under any Ancillary Agreement to any bank, financial institution or other lender providing financing to Transferor or Transferee, as applicable, as collateral security for such financing; provided, however, that no such assignment shall (i) impair or materially delay the consummation of the transactions contemplated hereby or (ii) relieve or discharge Transferor or Transferee, as the case may be, from any of its obligations hereunder and thereunder.

Section 6.05 Severability. If any term or other provision of this Agreement is invalid, illegal or incapable of being enforced by any law or public policy, all other terms and provisions

of this Agreement will nevertheless remain in full force and effect so long as the economic or legal substance of the transactions contemplated hereby is not affected in any manner materially adverse to any party hereto. Upon such determination that any term or other provision is invalid, illegal or incapable of being enforced, the Parties will negotiate in good faith to modify this Agreement so as to effect the original intent of the Parties as closely as possible in an acceptable manner in order that the transactions contemplated hereby are consummated as originally contemplated to the greatest extent possible.

Section 6.06 Governing Law. This Agreement, the construction of this Agreement, all rights and obligations between the Parties to this Agreement, and any and all claims arising out of or relating to the subject matter of this Agreement (including all tort and contract claims) will be governed by and construed in accordance with the laws of the state of Ohio, without giving effect to choice of law principles thereof.

Section 6.07 Counterparts: Facsimile Execution. This Agreement may be executed in one or more counterparts, all of which will be considered one and the same agreement and will become effective when one or more counterparts have been signed by each of the Parties and delivered to each other Party, it being understood that the Parties need not sign the same counterpart. This Agreement may be executed by facsimile signature(s) or signatures in portable document format.

Section 6.08 Schedules. The Schedules to this Agreement are intended to be and hereby are specifically made a part of this Agreement.

Section 6.09 Specific Performance. The Parties hereto agree that irreparable damage would occur in the event any of the provisions of this Agreement were not to be performed in accordance with the terms hereof and that the Parties will be entitled to specific performance of the terms hereof in addition to any other remedies at law or in equity.

Signatures appear on following page

IN WITNESS WHEREOF, each of the Parties has caused this Asset Contribution Agreement to be executed on its behalf by its respective officer thereunto duly authorized, all as of the day and year first above written.

AEP GENERATION RESOURCES INC.

By: _____
Name: _____
Title: _____

[NEWCO KENTUCKY]

By: _____
Name: _____
Title: _____

AGREEMENT AND PLAN OF MERGER
OF
APPALACHIAN POWER COMPANY AND [NEWCO APPALACHIAN]

This Agreement and Plan of Merger is entered into as of this __ day of _____, 201_, under Title 13.1, Chapter 9, Article 12 of the Code of Virginia and Title 8, Chapter 1 of the Delaware Code, between **APPALACHIAN POWER COMPANY**, a Virginia corporation ("APCo"), and [**NEWCO APPALACHIAN**], a Delaware corporation.

RECITALS

1. APCo is a corporation duly organized, validly existing and in good standing under the laws of the Commonwealth of Virginia and is a wholly owned subsidiary of American Electric Power Company, Inc., a New York corporation ("AEP"), which is a public utility holding company. APCo is a regulated public utility engaged in the business of providing electric power and related services to its customers.

2. [NEWCO Appalachian] is a corporation duly organized, validly existing and in good standing under the laws of Delaware and is a wholly owned subsidiary of AEP. [NEWCO Appalachian] owns certain electric generating facilities; however, it is not a regulated public utility.

3. APCo currently has authorized 30,000,000 shares of common stock, no par value, of which 13,499,500 are issued and outstanding and held by AEP.

4. [NEWCO Appalachian] currently has authorized _____ shares of common stock, no par value, of which _____ are issued and outstanding and held by AEP.

5. The Federal Energy Regulatory Commission, the Virginia State Corporation Commission and the Public Service commission of West Virginia have authorized the merger of [NEWCO Appalachian] with and into APCo.

6. The Boards of Directors of APCo and [NEWCO Appalachian] have each determined that it is in the best interest of both companies and their shareholders to merge [NEWCO Appalachian] with and into APCo, and have, by resolutions, duly approved and adopted this Agreement and Plan of Merger. AEP, the sole shareholder of APCo and [NEWCO Appalachian], has approved this Agreement and Plan of Merger.

AGREEMENT

Now, therefore, in consideration of the premises and agreements contained herein, the parties agree as follows:

ARTICLE I
NAMES OF CORPORATIONS; MERGER

The names of the constituent corporations to the merger are "Appalachian Power Company" and ["NEWCO Appalachian]." In accordance with the laws of the Commonwealth of Virginia and this Agreement and Plan of Merger, [NEWCO Appalachian] shall be merged with and into APCo which shall be, and is herein referred to as, the "Surviving Corporation."

ARTICLE II
EFFECTIVE TIME

As soon as practicable after the execution hereof, Articles of Merger shall be filed, as required by the Virginia Stock Corporation Act, in the Clerk's Office of the State Corporation Commission of the Commonwealth of Virginia and Articles of Merger shall

be filed, as required by the Delaware Business Corporation Act, in the office of the Secretary of State of the State of Delaware. The merger shall become effective at [_____]. Such date and time shall be the "Effective Time" referred to in this Agreement and Plan of Merger.

ARTICLE III
EFFECT OF MERGER; ARTICLES OF INCORPORATION; BY-LAWS; DIRECTORS AND OFFICERS ON THE EFFECTIVE DATE

3.1 At the Effective Time, [NEWCO Appalachian] shall be merged with and into APCo (the "Merger"), the separate corporate existence of [NEWCO Appalachian] shall cease, and APCo shall be the continuing and Surviving Corporation in the merger and shall continue to exist under the laws of the Commonwealth of Virginia.

3.2 The Surviving Corporation shall have all the rights, privileges, immunities and powers and shall be subject to all of the duties and liabilities of a corporation organized under the Virginia Stock Corporation Act. Title to all real estate and other property owned by APCo and [NEWCO Appalachian] shall be vested in the Surviving Corporation and the Surviving Corporation shall have all the liabilities of APCo and [NEWCO Appalachian]. Any proceeding pending against APCo or [NEWCO Appalachian] at the Effective Time may be continued as if the Merger did not occur or the Surviving Corporation may be substituted in such proceeding in the case of any such proceeding against [NEWCO Appalachian].

3.3 The Restated Articles of Incorporation of APCo, as in effect immediately prior to the Effective Time, shall be the Restated Articles of Incorporation of the Surviving Corporation until they shall thereafter be duly altered or amended.

3.4 The By-Laws of APCo, as in effect immediately prior to the Effective Time, shall be the By-Laws of the Surviving Corporation until they shall thereafter be duly altered or amended.

3.5 The directors and officers of APCo immediately prior to the Effective Time shall continue to be the directors and officers of the Surviving Corporation until changed in accordance with law.

ARTICLE IV
CONVERSION OF SHARES

The manner of carrying into effect the Merger, and the manner and the basis of converting and canceling the capital stock of the constituent companies, shall be as follows: At the Effective Time, (1) each share of capital stock of APCo then issued and outstanding shall, by virtue of the Merger and without any action by the holder, thereof, constitute one issued and outstanding share of stock of the Surviving Corporation and shall include the same rights, privileges and preferences as appertained to the capital stock of APCo immediately prior to the merger; (2) each share of capital stock of [NEWCO Appalachian] then issued and outstanding shall, by virtue of the Merger and without any action by the holder thereof, be canceled and extinguished; and (3) no new or additional stock of the Surviving Corporation shall be issued in consummating the Merger.

ARTICLE V
MISCELLANEOUS

5.1 The parties to this Agreement and Plan of Merger shall pay the expenses incurred by each of them, respectively, in connection with the transactions contemplated herein.

5.2 The title of this Agreement and Plan of Merger and the headings herein set out are for the convenience of reference only and shall not be deemed to be part of this Agreement and Plan of Merger.

5.3 Subject to applicable law, this Agreement and Plan of Merger may be amended by agreement among the parties hereto and approved by their respective Board of Directors.

5.4 This Agreement and Plan of Merger and the legal relations among the parties hereto shall be governed by and construed in accordance with the laws of the Commonwealth of Virginia.

Signatures appear on the following page

IN WITNESS WHEREOF, each of APCo and [NEWCO Appalachian] have caused this Agreement and Plan of Merger to be executed on its behalf and in its corporate name as of the date first written above.

APPALACHIAN POWER COMPANY

By: _____
Name: _____
Title: _____

[NEWCO APPALACHIAN]

By: _____
Name: _____
Title: _____

AGREEMENT AND PLAN OF MERGER
OF
KENTUCKY POWER COMPANY AND [NEWCO KENTUCKY]

This Agreement and Plan of Merger is entered into as of this __ day of _____, 201_, under Title XXIII, Section 271B.11-080 of the Kentucky Revised Statutes and Title 8, Chapter 1 of the Delaware Code, between Kentucky Power Company ("Kentucky Power"), a Kentucky corporation, and [NEWCO Kentucky], a Delaware corporation.

RECITALS

1. Kentucky Power is a corporation duly organized, validly existing and in good standing under the laws of the State of Kentucky and is a wholly owned subsidiary of American Electric Power Company, Inc., a New York corporation ("AEP"), which is a public utility holding company. Kentucky Power is a regulated public utility engaged in the business of providing electric power and related services to its customers.

2. [NEWCO Kentucky] is a corporation duly organized, validly existing and in good standing under the laws of Delaware and is a wholly owned subsidiary of AEP. [NEWCO Kentucky] owns certain electric generating facilities; however, it is not a regulated public utility.

3. Kentucky Power currently has authorized 2,000,000 shares of common stock with a par value of $50 per share, of which 1,009,000 are issued and outstanding and held by AEP.

4. [NEWCO Kentucky] currently has authorized _____ shares of common stock, no par value, of which _____ are issued and outstanding and held by AEP.

5. The Federal Energy Regulatory Commission and the Kentucky Public Service Commission have authorized the merger of [NEWCO Kentucky] with and into Kentucky Power.

6. The Boards of Directors of Kentucky Power and [NEWCO Kentucky] have each determined that it is in the best interest of both companies and their shareholders to merge [NEWCO Kentucky] with and into Kentucky Power, and have, by resolutions, duly approved and adopted this Agreement and Plan of Merger. AEP, the sole shareholder of Kentucky Power and [NEWCO Kentucky] has approved this Agreement and Plan of Merger.

AGREEMENT

Now, therefore, in consideration of the premises and agreements contained herein, the parties agree as follows:

ARTICLE I
NAMES OF CORPORATIONS; MERGER

The names of the constituent corporations to the merger are "Kentucky Power Company" and ["NEWCO Kentucky"]. In accordance with the laws of the State of Kentucky and this Agreement and Plan of Merger, [NEWCO Kentucky] shall be merged with and into Kentucky Power which shall be, and is herein referred to as, the "Surviving Corporation."

ARTICLE II
EFFECTIVE TIME

As soon as practicable after the execution hereof, Articles of Merger shall be filed, as required by the Kentucky Business Corporation Act, in the office of the Secretary of State of the State of Kentucky and Articles of Merger shall be filed, as required by the Delaware Business Corporation Act, in the office of the Secretary of State of the State of Delaware. The merger shall become effective at [_____]. Such date and time shall be the "Effective Time" referred to in this Agreement and Plan of Merger.

ARTICLE III
EFFECT OF MERGER; ARTICLES OF INCORPORATION; BY-LAWS; DIRECTORS AND OFFICERS ON THE EFFECTIVE DATE

3.1 At the Effective Time, [NEWCO Kentucky] shall be merged with and into Kentucky Power and the separate corporate existence of [NEWCO Kentucky] shall cease, and Kentucky Power shall be the continuing and Surviving Corporation in the merger and shall continue to exist under the laws of the State of Kentucky.

3.2 The Surviving Corporation shall have all the rights, privileges, immunities and powers and shall be subject to all of the duties and liabilities of a corporation organized under the Kentucky Business Corporation Act. Title to all real estate and other property owned by Kentucky Power and [NEWCO Kentucky] shall be vested in the Surviving Corporation and the Surviving Corporation shall have all the liabilities of Kentucky Power and [NEWCO Kentucky]. Any proceeding pending against Kentucky Power or [NEWCO Kentucky] at the Effective Time

may be continued as if the Merger did not occur or the Surviving Corporation may be substituted in such proceeding in the case of any such proceeding against [NEWCO Kentucky].

3.3 The Restated Articles of Incorporation of Kentucky Power, as in effect immediately prior to the Effective Time, shall be the Restated Articles of Incorporation of the Surviving Corporation until they shall thereafter be duly altered or amended.

3.4 The By-Laws of Kentucky Power, as in effect immediately prior to the Effective Time, shall be the By-Laws of the Surviving Corporation until they shall thereafter be duly altered or amended.

3.5 The directors and officers of Kentucky Power immediately prior to the Effective Time shall continue to be the directors and officers of the Surviving Corporation until changed in accordance with law.

ARTICLE IV
CONVERSION OF SHARES

The manner of carrying into effect the Merger, and the manner and the basis of converting and canceling the capital stock of the constituent companies, shall be as follows: At the Effective Time, (1) each share of capital stock of Kentucky Power then issued and outstanding shall, by virtue of the Merger and without any action by the holder, thereof, constitute one issued and outstanding share of stock of the Surviving Corporation and shall include the same rights, privileges and preferences as appertained to the capital stock of Kentucky Power immediately prior to the merger; (2) each share of capital stock of [NEWCO Kentucky] then issued and outstanding shall, by virtue of the

Merger and without any action by the holder thereof, be canceled and extinguished; and (3) no new or additional stock of the Surviving Corporation shall be issued in consummating the Merger.

ARTICLE V
MISCELLANEOUS

5.1 The parties to this Agreement and Plan of Merger shall pay the expenses incurred by each of them, respectively, in connection with the transactions contemplated herein.

5.2 The title of this Agreement and Plan of Merger and the headings herein set out are for the convenience of reference only and shall not be deemed to be part of this Agreement and Plan of Merger.

5.3 Subject to applicable law, this Agreement and Plan of Merger may be amended by agreement among the parties hereto and approved by their respective Board of Directors.

5.4 This Agreement and Plan of Merger and the legal relations among the parties hereto shall be governed by and construed in accordance with the laws of the State of Kentucky.

Signatures appear on following page

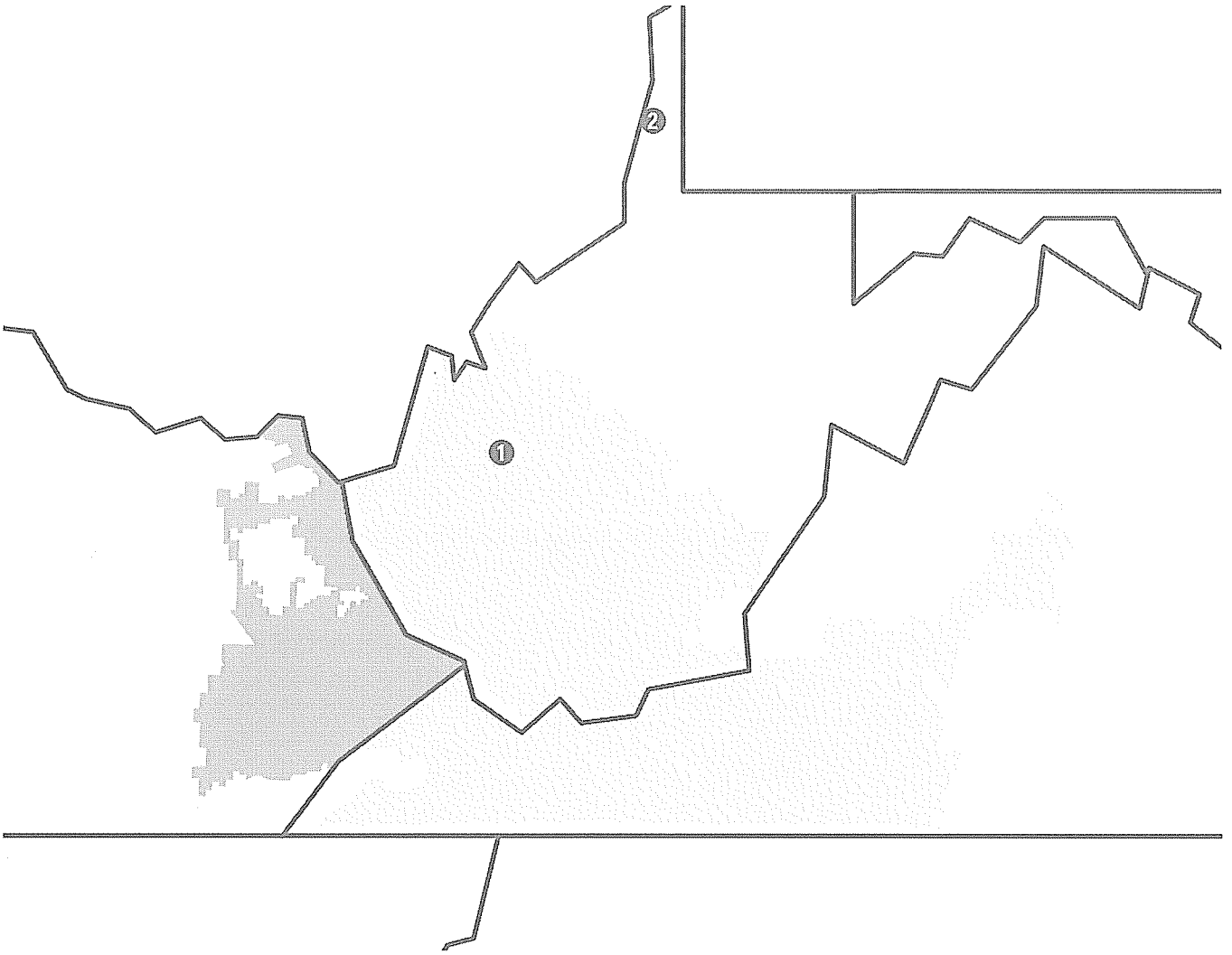
IN WITNESS WHEREOF, each of Kentucky Power and [NEWCO Kentucky] has caused this Agreement and Plan of Merger to be executed on its behalf and in its corporate name as of the date first written above.

KENTUCKY POWER COMPANY

By: _____
Name: _____
Title: _____

[NEWCO KENTUCKY]

By: _____
Name: _____
Title: _____



Appalachian Power Company Retail Service Territory Kentucky Power Company Retail Service Territory

Plant	Location
1 **John E. Amos**	Winfield, WV
2 **Mitchell**	Moundsville, WV

Note: These are the two plants subject to this Application.

APCO AND KPCO PROPOSED ACCOUNTING ENTRIES

APCo and KPCo are providing proposed accounting entries reflecting the proposed transfer of certain AEP Generation Resources' generation assets and related liabilities to APCo and KPCo, as described in Part II.

The proposed accounting entries in this filing are based on account balances as of December 31, 2011. While these balances reasonably represent the expected assets, liabilities and total capitalization to be transferred, the actual account balances at the time of the asset transfer will be different and the methods employed will be more detailed and precise. The transfer of assets constituting an operating unit or system will be recorded through Account 102 consistent with the instructions of Electric Plant Instruction No. 5 of the Commission's Uniform System of Accounts.

APCo and KPCo will submit proposed final accounting entries within six months of the consummation of the transaction reflecting all entries made on the books and records of APCo and KPCo pursuant to the Commission's Uniform System of Accounts, along with appropriate narrative explanations describing the basis for the entries.

FERC DOCKET NO. EC13-__-000
TRANSFER OF JURISDICTIONAL ASSETS

A. TO BE RECORDED ON THE BOOKS OF APPALACHIAN POWER COMPANY:

ENTRY 1: TO RECORD THE TRANSFER OF CERTAIN GENERATION ASSETS & RELATED LIABILITIES TO APCO (Based on 12/31/11 Balances)

		(in thousands)	
Account	**Account Description**	**Debit**	**Credit**
102	Electric Plant Purchased or Sold	1,462,020	
124	Other Investments	1,303	
151	Fuel Stock	38,201	
152	Fuel Stock Expenses Undistributed	1,086	
154	Plant Materials and Operating Supplies	17,698	
158.1, 158.2	Allowances	10,411	
186	Miscellaneous Deferred Debits (Property Taxes)	8,810	
190	Accumulated Deferred Income Tax	3,911	
201-226	Proprietary Capital & Long-term Debt		1,178,821
230	Asset Retirement Obligations		30,180
228.2	Accumulated Provision for Injuries and Damages		128
236	Taxes Accrued		8,810
242	Miscellaneous Current and Accrued Liabilities (W/C)		4,030
282	Accum. Deferred Income Taxes-Other Property		317,827
283	Accum. Deferred Income Taxes-Other		3,644
	Total	1,543,440	1,543,440

ENTRY 2: TO CLEAR THE BALANCE IN ACCOUNT 102 TO THE APPROPRIATE ELECTRIC PLANT ACCOUNTS, IN ACCORDANCE WITH CFR 18 PART 101, ELECTRIC PLANT INSTRUCTIONS 5(B).

		(in thousands)	
Account	**Account Description**	**Debit**	**Credit**
101-106, 114	Utility Plant	1,875,969	
107	Construction Work in Progress	31,716	
121	Nonutility Property	125	
102	Electric Plant Purchased or Sold		1,462,020
108, 111, 115	Accum Prov for Depreciation & Depletion - Utility		445,790
	Total	1,907,810	1,907,810

FERC DOCKET NO. EC13-__-000
TRANSFER OF JURISDICTIONAL ASSETS

B. TO BE RECORDED ON THE BOOKS OF KENTUCKY POWER COMPANY:

ENTRY 3: TO RECORD THE TRANSFER OF CERTAIN GENERATION ASSETS & RELATED LIABILITIES TO KPCO (Based on 12/31/11 Balances)

		(in thousands)	
Account	**Account Description**	**Debit**	**Credit**
102	Electric Plant Purchased or Sold	639,581	
124	Other Investments	1,303	
151	Fuel Stock	15,914	
152	Fuel Stock Expenses Undistributed	371	
154	Plant Materials and Operating Supplies	10,345	
158.1, 158.2	Allowances	4,270	
186	Miscellaneous Deferred Debits (Property Taxes)	3,784	
190	Accumulated Deferred Income Tax	1,980	
201-226	Proprietary Capital & Long-term Debt		519,072
230	Asset Retirement Obligations		4,978
236	Taxes Accrued		3,784
242	Miscellaneous Current and Accrued Liabilities (W/C)		595
282	Accum. Deferred Income Taxes-Other Property		147,624
283	Accum. Deferred Income Taxes-Other		1,495
	Total	677,548	677,548

ENTRY 4: TO CLEAR THE BALANCE IN ACCOUNT 102 TO THE APPROPRIATE ELECTRIC PLANT ACCOUNTS, IN ACCORDANCE WITH CFR 18 PART 101, ELECTRIC PLANT INSTRUCTIONS 5(B).

		(in thousands)	
Account	**Account Description**	**Debit**	**Credit**
101-106, 114	Utility Plant	874,397	
107	Construction Work in Progress	16,372	
102	Electric Plant Purchased or Sold		639,581
108, 111, 115	Accum Prov for Depreciation & Depletion - Utility		251,188
	Total	890,769	890,769

Verifications
(18 C.F.R.§ 33.7)

UNITED STATES OF AMERICA
BEFORE THE
FEDERAL ENERGY REGULATORY COMMISSION

Appalachian Power Company	)	
Kentucky Power Company	)	Docket No. EC13-___-000
AEP Generation Resources Inc.	)	

Verification of
Appalachian Power Company

County of Kanawha)
)
State of West Virginia)

Charles R. Patton, being duly sworn, deposes and says: That he is a President & COO of Appalachian Power Company, an Applicant in the above-referenced proceeding, and has the authority to verify the foregoing Application on behalf of Appalachian Power Company, that he has read said Application, and that, to the best of his knowledge, information and belief, all of the statements contained therein are true and correct.

Charles Patton

SUBSCRIBED AND SWORN to before me
on this 24th day of October, 2012.

Dorothy E. Philyaw
Notary Public

OFFICIAL SEAL
STATE OF WEST VIRGINIA
NOTARY PUBLIC
DOROTHY E. PHILYAW
APPALACHIAN POWER
PO BOX 1986
CHARLESTON, WV 25327-1986
My commission expires October 2, 2019

My commission expires: October 2, 2019

UNITED STATES OF AMERICA
BEFORE THE
FEDERAL ENERGY REGULATORY COMMISSION

Appalachian Power Company	)	
Kentucky Power Company	)	Docket No. EC13- -000
AEP Generation Resources Inc.	)	

Verification of
Kentucky Power Company

County of Franklin)
)
Commonwealth of Kentucky)

Gregory G. Pauley, being duly sworn, deposes and says: That he is a President & COO of Kentucky Power Company, an Applicant in the above-referenced proceeding, and has the authority to verify the foregoing Application on behalf of Kentucky Power Company, that he has read said Application. and that, to the best of his knowledge, information and belief, all of the statements contained therein are true and correct.

SUBSCRIBED AND SWORN to before me
on this 29th day of October, 2012.

"Notary Public"
Judy K. Rosquist
State at Large, Kentucky
My Commission Expires on Jan. 23, 2013

Judy K Rosquist
Notary Public

My commission expires: January 23, 2013

UNITED STATES OF AMERICA
BEFORE THE
FEDERAL ENERGY REGULATORY COMMISSION

Ohio Power Company	)	
AEP Generation Resources Inc.	)	Docket No. EC13-___-000

Verification of
AEP Generation Resources Inc.

County of Franklin)
)
State of Ohio)

Richard E. Munczinski, being duly sworn, deposes and says: That he is a Senior Vice President of AEP Service Corporation, on behalf of AEP Generation Resources Inc., an Applicant in the above-referenced proceeding, and has the authority to verify the foregoing Application on behalf of AEP Generation Resources Inc., that he has read said Application, and that, to the best of his knowledge, information and belief, all of the statements contained therein are true and correct.

Richard E. Munczinski

SUBSCRIBED AND SWORN to before me
on this 24th day of October, 2012.

Susan C. Wilson
Notary Public

Susan C. Wilson
Notary Public, State of Ohio
My Commission Expires 04-05-2016

My commission expires: April 5, 2016

kwalton

KPCO 1-3 (a) KY Affiliate Statute.pdf
04/22/13 02:33 PM

Regulatory Commission Order 888, 61 Fed. Reg. 21,540, and the applicable open access nondiscriminatory transmission tariffs; the federal laws regulated curtailments effectuated by the transmission providers, and the state law regulated the curtailments effectuated by transmission owners. Ky. Power Co. v. Huelsmann, 352 F. Supp. 2d 777, 2005 U.S. Dist. LEXIS 1339 (E.D. Ky. 2005).

KRS 278.214 is unconstitutional as it violates the dormant Commerce Clause, U.S. Const. art. I, § 8, by providing curtailment preference only to Kentucky customers and disadvantaging all similarly situated customers located outside Kentucky borders. Ky. Power Co. v. Huelsmann, 352 F. Supp. 2d 777, 2005 U.S. Dist. LEXIS 1339 (E.D. Ky. 2005).

278.216. Site compatibility certificate — Site assessment report — Commission action on application.

(1) Except for a utility as defined under KRS 278.010(9) that has been granted a certificate of public convenience and necessity prior to April 15, 2002, no utility shall begin the construction of a facility for the generation of electricity capable of generating in aggregate more than ten megawatts (10MW) without having first obtained a site compatibility certificate from the commission.

(2) An application for a site compatibility certificate shall include the submission of a site assessment report as prescribed in KRS 278.708(3) and (4), except that a utility which proposes to construct a facility on a site that already contains facilities capable of generating ten megawatts (10MW) or more of electricity shall not be required to comply with setback requirements established pursuant to KRS 278.704(3). A utility may submit and the commission may accept documentation of compliance with the National Environmental Policy Act (NEPA) rather than a site assessment report.

(3) The commission may deny an application filed pursuant to, and in compliance with, this section. The commission may require reasonable mitigation of impacts disclosed in the site assessment report including planting trees, changing outside lighting, erecting noise barriers, and suppressing fugitive dust, but the commission shall, in no event, order relocation of the facility.

(4) The commission may also grant a deviation from any applicable setback requirements on a finding that the proposed facility is designed and located to meet the goals of this section and KRS 224.10-280, 278.010, 278.212, 278.214, 278.218, and 278.700 to 278.716 at a distance closer than those provided by the applicable setback requirements.

(5) Nothing contained in this section shall be construed to limit a utility's exemption provided under KRS 100.324.

(6) Unless specifically stated otherwise, for the purposes of this section, "utility" has the same meaning as in KRS 278.010(3)(a) or (9).

(Enact. Acts 2002, ch. 365, § 13, effective April 24, 2002; 2003, ch. 150, § 3, effective June 24, 2003.)

278.218. Approval of commission for change in ownership or control of assets owned by utility.

(1) No person shall acquire or transfer ownership of or control, or the right to control, any assets that are owned by a utility as defined under KRS 278.010(3)(a) without prior approval of the commission, if the assets have an original book value of one million dollars ($1,000,000) or more and:
   (a) The assets are to be transferred by the utility for reasons other than obsolescence; or
   (b) The assets will continue to be used to provide the same or similar service to the utility or its customers.

(2) The commission shall grant its approval if the transaction is for a proper purpose and is consistent with the public interest.

(Enact. Acts 2002, ch. 365, § 14, effective April 24, 2002.)

278.220. Uniform system of accounts for utilities.

The commission may establish a system of accounts to be kept by utilities subject to its jurisdiction, or may classify utilities and establish a system of accounts for each class, and may prescribe the manner in which such accounts shall be kept. The system established shall conform as nearly as practicable to the uniform system of accounts prescribed by the National Association of Regulatory Utility Commissioners, except that the system established for telephone and telegraph companies shall conform as nearly as practicable to the system adopted or approved by the Federal Communications Commission and the system established for gas and electric companies shall conform as nearly as practicable to the system adopted or approved by the Federal Energy Regulatory Commission.

(3952-22: amend. Acts 1978, ch. 379, § 29, effective April 1, 1979; 1982, ch. 82, § 27, effective July 15, 1982; 1986, ch. 300, § 3, effective July 15, 1986.)

Cited: Public Serv. Comm'n v. Continental Tel. Co., 692 S.W.2d 794, 1985 Ky. LEXIS 240 (Ky. 1985); South Cent. Bell Tel. Co. v. Public Serv. Comm'n, 702 S.W.2d 447, 1985 Ky. App. LEXIS 717 (Ky. Ct. App. 1985); Public Serv. Comm'n v. Dewitt Water Dist., 720 S.W.2d 725, 1986 Ky. LEXIS 314 (Ky. 1986).

Collateral References. 73B C.J.S., Public Utilities, § 76.

278.2201. Prohibition against subsidy of nonregulated activity — Separate accounting.

A utility shall not subsidize a nonregulated activity provided by an affiliate or by the utility itself. The commission shall require all utilities providing nonregulated activities, either directly or through an

affiliate, to keep separate accounts and allocate costs in accordance with procedures established by the commission. The commission may promulgate administrative regulations that will assist the commission in enforcing this section.
(Enact. Acts 2000, ch. 511, § 2, effective July 14, 2000.)

278.2203. Cost allocation of regulated and nonregulated activity.

(1) A utility that engages in a nonregulated activity shall identify all costs of the nonregulated activity and report the costs in accordance with the guidelines in the USoA and the cost allocation methods described in subsection (2) of this section.
(2) In allocating costs between regulated and nonregulated activities, a utility shall utilize one (1) of the following cost allocation methods:
  (a) The fully distributed cost method; or
  (b) A cost allocation method recognized or mandated by the rules of the SEC promulgated pursuant to 15 U.S.C. sec. 79, et seq., or promulgated by the FERC or by the USDA.
(3) A utility's compliance with federal cost allocation methods shall constitute compliance with the provisions of KRS 278.010 to 278.450.
(4) Notwithstanding subsections (1) to (3) of this section, a utility may report an incidental nonregulated activity as a regulated activity if:
  (a) The revenue from the aggregate total of the utility's nonregulated incidental activities does not exceed the lesser of two percent (2%) of the utility's total revenue or one million dollars ($1,000,000) annually; and
  (b) The nonregulated activity is reasonably related to the utility's regulated activity.
(5) Nothing contained in this section shall be construed as requiring a utility to violate any cost allocation methods required to be employed under any service agreement validly existing as of July 14, 2000, for the term of the existing agreement, except where the commission makes the determination that a service agreement was executed for the purpose of avoiding provisions of KRS 278.010 to 278.450.

(Enact. Acts 2000, ch. 511, § 3, effective July 14, 2000.)

278.2205. Cost allocation manual for nonregulated activity — Contents — Maintenance.

(1) Any utility that engages in a nonregulated activity whose revenue exceeds the amount provided for incidental nonregulated activities under KRS 278.2203(4)(a), shall develop and maintain a CAM as described in subsections (2) to (5) of this section.
(2) A CAM shall contain the following information for a utility's jurisdictional operations in the Commonwealth:
  (a) A list of regulated and nonregulated divisions within the utility;
  (b) A list of all regulated and nonregulated affiliates of the utility to which the utility provides services or products and where the affiliates provide nonregulated activities as defined in KRS 278.010(21);
  (c) A list of services and products provided by the utility, an identification of each as regulated or nonregulated, and the cost allocation method generally applicable to each category;
  (d) A list of incidental, nonregulated activities that are subject to the provisions of KRS 278.2203(4);
  (e) A description of the nature of transactions between the utility and the affiliate; and
  (f) For each USoA account and subaccount, a report that identifies whether the account contains costs attributable to regulated operations and nonregulated operations. The report shall also identify whether the costs are joint costs that cannot be directly identified. A description of the methodology used to apportion each of these cost shall be included and the allocation methodology shall be consistent with the provisions of KRS 278.2203.
(3) Within two hundred seventy (270) days of July 14, 2000, the utility shall file:
  (a) A statement with the commission that certifies the CAM has been developed and will be adopted by the management, effective with the beginning of the next calendar year. The statement shall be signed by an officer of the utility; and
  (b) One (1) copy of the CAM.
(4) Within sixty (60) days of any material change in matters required to be listed in the CAM, the utility shall amend the CAM to reflect the change.
(5) The CAM shall be available for public inspection at the utility and at the commission.
(6) The CAM shall be filed as part of the initial filing requirement in a proceeding involving an application for an adjustment in rates pursuant to KRS 278.190.

(Enact. Acts 2000, ch. 511, § 4, effective July 14, 2000.)

278.2207. Transactions between utility and affiliate — Pricing requirements — Request for deviation.

(1) The terms for transactions between a utility and its affiliates shall be in accordance with the following:
   (a) Services and products provided to an affiliate by the utility pursuant to a tariff shall be at the tariffed rate, with nontariffed items priced at the utility's fully distributed cost but in no event less than market, or in compliance with the utility's existing USDA, SEC, or FERC approved cost allocation methodology.
   (b) Services and products provided to the utility by an affiliate shall be priced at the affiliate's fully distributed cost but in no event greater than market or in compliance with the utility's existing USDA, SEC, or FERC approved cost allocation methodology.

(2) A utility may file an application with the commission requesting a deviation from the requirements of this section for a particular transaction or class of transactions. The utility shall have the burden of demonstrating that the requested pricing is reasonable. The commission may grant the deviation if it determines the deviation is in the public interest.

(3) Nothing in this section shall be construed to interfere with the commission's requirement to ensure fair, just, and reasonable rates for utility services.

(Enact. Acts 2000, ch. 511, § 5, effective July 14, 2000.)

278.2209. Documentation regarding cost allocation.

In any formal commission proceeding in which cost allocation is at issue, a utility shall provide sufficient information to document that its cost allocation procedures and affiliate transaction pricing are consistent with the provisions of this chapter.

(Enact. Acts 2000, ch. 511, § 6, effective July 14, 2000.)

278.2211. Remedies for noncompliance utility and affiliate — Access to records — Disallowance of costs — Audit.

(1) If the commission finds that a utility has not complied with any provision of this chapter for any transaction between a utility and its affiliate, or if a utility has failed to provide sufficient evidence of its compliance, then the commission may:
   (a) Access the books and records of a utility's nonregulated affiliate; and
   (b) Order that the costs attached to any transactions be disallowed from rates.

(2) If, after inspecting an affiliate's books and records, the commission finds that a utility has not complied with any provision of KRS 278.010 to 278.450, the commission may perform a financial audit of the utility's affiliate to the extent necessary to ensure compliance with KRS 278.010 to 278.450.

(Enact. Acts 2000, ch. 511, § 7, effective July 14, 2000.)

278.2213. Separate recordkeeping for utility and affiliate — Prohibited business practices — Confidentiality of information — Notice of service available from competitor.

The provisions of this section shall govern a public utility company's activities related to the sharing of information, databases, and resources between its employees or an affiliate involved in the marketing or the provision of nonregulated activities and its employees or an affiliate involved in the provision of regulated activities.

(1) A utility and its affiliate shall be separate corporate entities and maintain separate books and records. If a utility and nonregulated affiliate have common officers, directors, or employees, the fees, compensation, and expenses of the individuals involved shall be subject to the cost allocation requirements set forth in KRS 278.2203 and 278.2207. Any utility that provides nonregulated activities shall separately account for all investments, revenues, and expenses in accordance with its filed cost allocation manual.

(2) A utility shall not provide advertising space in its billing envelope to its affiliates or for its nonregulated activities unless it offers the same to competing service providers on the same terms it provides to its affiliates. This subsection applies to nonregulated activities only.

(3) A utility shall not attempt to persuade customers to do business with its affiliates by offering rebates or discounts on tariffed services.

(4) All utility company employees engaged in the merchant function shall abide by all standards promulgated by applicable FERC orders and regulations.

(5) No utility employee shall share any confidential customer information with the utility's affiliates unless the customer has consented in writing, or the information is publicly available or is simultaneously made publicly available.

(6) All dealings between a utility and a nonregulated affiliate shall be at arm's length.

(7) Employees transferring from the utility to an affiliate shall not disclose to the affiliate confidential information or take with them any

competitively sensitive materials.

(8) Neither a utility nor its employees or agents shall solicit business on behalf of an affiliate or for its nonutility services.

(9) A utility that carries out any research and development or joint marketing and promotion with its affiliate for its nonregulated activities shall be subject to the cost allocation requirements set forth in KRS 278.2203.

(10) Except as provided in subsection (5) of this section, if a utility is engaged in a nonregulated activity, marketing employees for the nonregulated activity shall not have access to the customer information provided to the utility when the customer places an order for regulated service.

(11) A utility shall not provide any type of undue preferential treatment to a nonregulated affiliate to the detriment of a competitor.

(12) A utility shall notify the customer that competing suppliers of a nonregulated service exist if:
   (a) The utility receives a request for a recommendation from a customer seeking a specific service which is offered by the utility's affiliate or by the utility itself; and
   (b) The utility mentions itself or its affiliate when making the recommendation to the customer.

(13) The utility's name, trademark, brand, or logo shall not be used by a nonregulated affiliate in any type of visual or audio media without a disclaimer. The commission shall develop specifications for the disclaimer. The disclaimer shall be approved by the commission prior to use in any advertisement by the utility's affiliate.

(14) A utility shall not enter into any arrangements for financing nonregulated activities through an affiliate that would permit a creditor upon default to have recourse to the assets of the utility.

(15) A utility shall inform the commission of all new nonregulated activities begun by itself or by the utility's affiliate within a time to be set by the commission.

(16) Start-up costs associated with the formation of a nonregulated affiliate shall not be included in the utility's rate base.

(17) The commission may require the utility to file annual reports of information related to affiliate transactions when necessary to monitor compliance with these guidelines.

(Enact. Acts 2000, ch. 511, § 8, effective July 14, 2000.)

278.2215. Exemptions.

The provisions of KRS 278.2201 to 278.2213 and KRS 278.2215 and 278.2219 shall not apply to telecommunications utilities, telecommunications services, nonprofit water or sewer utilities, or water districts. Utilities organized under KRS Chapter 279 shall be exempt from KRS 278.2213.
(Enact. Acts 2000, ch. 511, § 9, effective July 14, 2000.)

278.2219. Waiver or deviation from requirements of KRS 278.2201 to 278.2213.

(1) Notwithstanding any provisions in KRS 278.2201 to the contrary, a utility may apply to the commission for a waiver or deviation from any or all provisions of KRS 278.2201 to 278.2213.

(2) The utility's application to the commission shall:
   (a) Demonstrate the basis of the utility's need to be granted a waiver or deviation; and
   (b) Contain, if appropriate, documentation regarding the costs and benefits of compliance with the provisions of KRS 278.2201 to 278.2213.

(3) The commission shall grant a waiver or deviation if the commission finds that compliance with the provisions of KRS 278.2201 to 278.2213 is impracticable or unreasonable. The findings of the commission shall be a final appealable order.

(Enact. Acts 2000, ch. 511, § 10, effective July 14, 2000.)

278.225. Time limitation on billing — Liability for unbilled service.

All service supplied by a utility shall be billed within two (2) years of the service. No customer shall be liable for unbilled service after two (2) years from the date of the service, unless the customer obtained the service through fraud, theft, or deception.
(Enact. Acts 1994, ch. 143, § 1, effective July 15, 1994.)

278.230. Access to property, books and records of utilities — Reports and information may be required.

(1) The commissioners and the officers and employees of the commission may, during all reasonable hours, enter upon the premises of any utility subject to its jurisdiction for the purpose of examining any books or records, or for making any examination or test, or for exercising any power provided for in this chapter, and may set up and use on such premises apparatus and appliances necessary for any such examination or test. The utility shall have the right to be represented at the making of any such examination, test or inspection.

(2) The books, accounts, papers and records of the

kwalton

KPCO 1-3 (a)WSJ Article 04.01.13 Sale of Coal F
04/22/13 02:34 PM

HEARD ON THE STREET
FINANCIAL ANALYSIS & COMMENTARY
Email: heard@wsj.com

There Is Life After Death for Coal Power

Owning a coal-fired power plant won't necessarily make you popular, funny or attractive. But after years of losses, it may finally make you money.

Coal is in retreat in the U.S., with demand down by about a fifth in the past five years. It isn't tough to see why. More than 90% of coal gets burned to produce power. Electricity use is down 2% over the past five years, and as the shale boom has made natural gas more competitive, coal's share of power production fell to 37% last year from 49% in 2007. Tightening emissions standards also favor gas over coal.

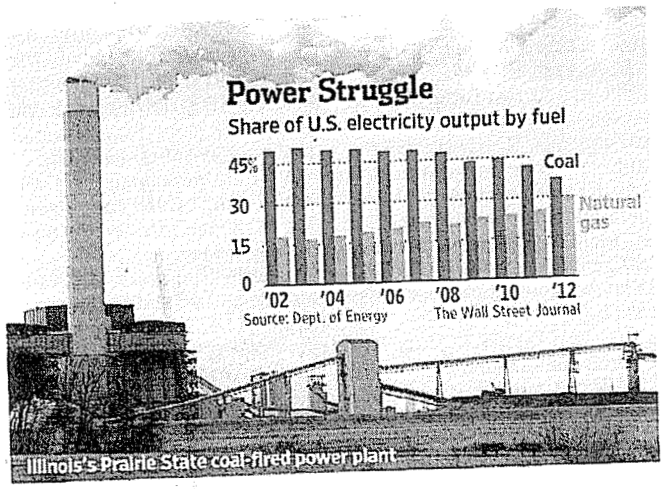
Little wonder, then, that many coal plants struggle with losses, and some now change hands at prices that even the phrase "fire sale" would flatter. But this could signal the market has bottomed out.

In early March, **Dominion Resources** sold three power plants totaling 4.1 gigawatts of capacity to **Energy Capital Partners**, a private-equity firm. After stripping out tax benefits, the implied underlying price paid per kilowatt of capacity was just over $100. In contrast, the Department of Energy estimates the cost of building a new coal-fired plant at about $3,000 per kilowatt—assuming you could even get the permission and funding to build one.

Days later, **Ameren** agreed to sell 4.1 gigawatts of coal-fired capacity to **Dynegy** for no cash but to take on $825 million of nonrecourse debt. Ameren even bought back some gas-fired plants and kept some cash in the business it sold. As Andy DeVries of CreditSights puts it: "Dynegy is getting paid $200 million to take" the coal plants.

Besides bad economics, utilities such as Dominion are shedding unregulated power stations to improve their risk profile. With utility stocks prized for their yields and stability, some are choosing to sell power plants exposed to volatile commodity prices and climate politics.

Greg Gordon, who runs ISI's utilities team, points to other signs of capitulation in power generation, such as **Edison Mission Energy**'s recent decision to seek bankruptcy protection and expectations that **Energy Future Holdings**, the former TXU, may restructure its debts this year. He recalls a similarly gloomy period around the end of 2005, when **Calpine** went bankrupt and utility stocks stalled. That turned out to be a buying opportunity as economic growth picked up and gas prices rose sharply, pushing up power prices.



Illinois's Prairie State coal-fired power plant

This time, an economic recovery, albeit fitful, is under way, but gas prices look stuck to the floor. So the key to coal-fired profits actually lies in the fact that some must close.

Doug Kimmelman, founder of Energy Capital, says the majority of the value in the deal with Dominion related to a 1.2-gigawatt plant in Kincaid, Ill. It was recently fitted with equipment to control sulfur dioxide emissions and sells power into the regional electricity market served by the **PJM Interconnection** transmission system.

PJM says that between November 2011 and January 2013, it received deactivation notices for 15.6 gigawatts of regional generation capacity, 89% of it coal-fired. That is more than for the entire nine years ending in 2011. ISI expects 24.5 gigawatts of coal-fired capacity to close nationwide between 2013 and 2015. Even some nuclear plants are closing as the effect of cheap gas on power prices undercuts them.

For surviving plants like Kincaid, closures of competing plants should mean a tighter balance of supply and demand, higher prices and higher profits. To get a sense of how big an impact plant closures can have, look at Dynegy. The company estimates that with the coal plants bought from Ameren, every 2.7 gigawatts of plant closures in its key Midwestern markets would add $190 million to annual earnings before interest, tax, depreciation and amortization. To put that in perspective, Dynegy's guidance for its 2013 Ebitda is $250 million to $275 million.

Is the era of U.S. coal-fired power in its sunset years? Yes, but it is far from over. And the power sector's notorious cyclicality remains very much alive, as does the chance to profit from it with the right timing.

—Liam Denning

Investors Must Adjust to Season of Change for U.S. Economy

Maybe this will be the year when spring isn't the season of the economy's discontent. Or at least the data might tell us that.

The economic data pub-

Hope Springs
Monthly change in nonfarm payrolls, in thousands
Feb:

and then let them go in January. And to come up with those adjustments, the number crunchers rely on what has happened in the past.

behind the recent strength in the Labor Department's monthly employment report. Economists at the Heritage Foundation have suggested

That is because at least some portion of the midyear pauses the economic data showed over the past two years was genuine. In 2011, Japan's tsunami and Washing-

kwalton

Ohio Power Reorg.pdf
04/22/13 02:34 PM

Steven J. Ross
202 429 6279
sross@steptoe.com

1330 Connecticut Avenue, NW
Washington, DC 20036-1795
202 429 3000 main
www.steptoe.com

Steptoe
STEPTOE & JOHNSON LLP

October 31, 2012

The Honorable Kimberly D. Bose
Secretary
Federal Energy Regulatory Commission
888 First Street, N.E.
Washington, D.C. 20426

Re: Ohio Power Company
AEP Generation Resources Inc.
Docket No. EC13- -000

Dear Secretary Bose:

Pursuant to Section 203 of the Federal Power Act and Part 33 of the Regulations of the Federal Energy Regulatory Commission, American Electric Power Service Corporation ("AEPSC"), on behalf of Ohio Power Company and AEP Generation Resources Inc. (collectively with AEPSC, the "Applicants"), hereby submits for filing the attached Application for Authorization to Transfer Jurisdictional Facilities Under Section 203 of the Federal Power Act. **The Applicants respectfully request that the Commission establish November 30, 2012, as the comment date for this filing, which is nine days longer than the twenty-one day period that the Commission typically establishes for Section 203 applications that do not raise competitive issues.**

If you have any questions concerning this filing, please do not hesitate to contact the undersigned.

Respectfully submitted,

/s/
Steven J. Ross
Carol Gosain
Attorneys for Applicants

Attachment

UNITED STATES OF AMERICA
BEFORE THE
FEDERAL ENERGY REGULATORY COMMISSION

Ohio Power Company	)	**Docket No. EC13-___-000**
AEP Generation Resources Inc.	)	

APPLICATION FOR AUTHORIZATION TO TRANSFER JURISDICTIONAL ASSETS UNDER SECTION 203 OF THE FEDERAL POWER ACT

American Electric Power Service Corporation ("AEPSC"), on behalf of its affiliates Ohio Power Company ("Ohio Power") and AEP Generation Resources Inc. ("AEP Generation Resources") (collectively with AEPSC, the "Applicants"), hereby submits this application ("Application") pursuant to Sections 203(a)(1)(A) and 203(a)(1)(D) of the Federal Power Act ("FPA"), 16 U.S.C. §§ 824b(a)(1)(A) and 824b(a)(1)(D) (2006), and Part 33 of the Regulations of the Federal Energy Regulatory Commission ("FERC" or "Commission"), 18 C.F.R. Part 33 (2012). As discussed more fully herein, Applicants respectfully request Commission authorization for an internal corporate reorganization that will result in the separation of Ohio Power's generation and power marketing businesses from its transmission and distribution businesses (the "Transaction"), consistent with Ohio restructuring law and Ohio Power's structural corporate separation plan approved by the Public Utilities Commission of Ohio ("Ohio Commission").[1] Each of the Applicants is a wholly-owned subsidiary of American Electric Power Company, Inc. ("AEP"). Pursuant to the Transaction, Ohio Power will

[1] The Commission has previously approved structural corporate separation transactions involving other major Ohio utilities, FirstEnergy and Duke Energy Ohio. *See FirstEnergy Corp.*, 94 FERC ¶ 61,179 (2001) (fossil/hydro assets); *FirstEnergy Corp.*, 112 FERC ¶ 61,243 (2005) (nuclear assets); *Cinergy Corp.*, 140 FERC ¶ 61,180 (2012) ("*Cinergy II*").

transfer certain jurisdictional facilities, described below, to AEP Generation Resources, a generation affiliate.[2] The Applicants also respectfully request that the Commission grant limited waivers of certain Part 33 filing requirements. As the Applicants demonstrate below, the proposed Transaction is consistent with the public interest and should be approved without a hearing.

I. INTRODUCTION

The restructuring of Ohio Power that is the subject of this Application is one of several discrete but inextricably interrelated transactions and arrangements.[3] A number of these transactions and arrangements will be the subject of separate filings with the Commission being made contemporaneously herewith. First, in conjunction with the separation of Ohio Power's generating and marketing businesses from its transmission and distribution businesses, AEP Generation Resources will have an interim partial requirements wholesale power sales agreement ("PSA") with Ohio Power to allow Ohio Power to meet the capacity needs and the energy needs beyond those satisfied by energy auctions conducted by Ohio Power associated with retail customers that are not served by alternative retail suppliers, as well as Ohio Power's capacity commitments associated

[2] As discussed below, the transfer has been approved by the Ohio Commission. *See* the order issued on August 8, 2012, by the Ohio Commission in Case Nos. 11-346-EL-SSO, *et al.* adopting, with modifications, Ohio Power's proposed Electric Security Plan ("ESP") (the "Ohio Commission ESP Order"), and an order issued on October 17, 2012, by the Ohio Commission in Case No. 12-1126-EL-UNC approving Ohio Power's structural corporate separation plan (the "Ohio Commission Corporate Separation Order").

[3] The Applicants previously filed in Docket No. EC12-71-000 an application for approval of an internal asset transfer involving the same facilities that are the subject of this pleading. That application was withdrawn without prejudice on February 28, 2012, because of certain developments before the Ohio Commission.

with retail customers that choose to be served by alternative retail suppliers. That agreement is the subject of a separate application under FPA Section 205.

Second, Ohio Power and the other parties to the existing Interconnection Agreement (the "Pool Agreement") provided each other with notice of termination of that agreement effective January 1, 2014. For 60 years, Ohio Power was a party to the Pool Agreement, under which it and other generation-owning AEP companies in the PJM footprint engaged in integrated planning and operation of their power supply facilities and allocated among themselves generation-related costs and benefits.

Contemporaneously with the filing of this Application, an application is being filed under FPA Section 205 providing for the termination of the Pool Agreement and proposing a Power Coordination Agreement among Appalachian Power Company ("APCo"), Kentucky Power Company ("KPCo") and Indiana Michigan Power Company ("I&M"). Ohio Power and AEP Generation Resources will not be parties to the Power Coordination Agreement. In conjunction with the filing to terminate the Pool Agreement, the members of the Pool Agreement will also be providing the Commission notice of termination of the AEP System Interim Allowance Agreement, which is a supplement to the Pool Agreement.

Third, AEP Generation Resources will also have an agreement (the "Bridge Agreement") with certain other AEP operating companies located within the footprint of PJM Interconnection, L.L.C. ("PJM") to address transition issues associated with termination of the Pool Agreement, such as how the companies will meet their PJM

Fixed Resource Requirement ("FRR")[4] obligations through May 31, 2015, and how they will address existing marketing and trading arrangements with third parties. This agreement also is the subject of a separate application under FPA Section 205.

Fourth, and related to termination of the Pool Agreement, a separate Section 203 application is being filed contemporaneously herewith for a transaction under which APCo and KPCo will obtain certain generation facilities currently owned by Ohio Power. That transaction will enable APCo and KPCo to satisfy their capacity requirements in PJM and provide baseload generation to meet their customers' energy requirements upon termination of the Pool Agreement.

Fifth, operating agreements related to the Mitchell and Sporn generating plants will be filed with the Commission under Section 205. Under those agreements, APCo will operate both the Mitchell plant, which it will own jointly with KPCo, and the Sporn plant, of which APCo owns Unit Nos. 1 and 3, and AEP Generation Resources will own Unit Nos. 2, 4, and 5.

Sixth and finally, in another separate and contemporaneous Section 203 filing, APCo and Wheeling Power Company ("Wheeling") are seeking Commission authority to merge Wheeling into APCo.

---

[4] The FRR provisions were added to the PJM Reliability Assurance Agreement ("RAA") in connection with PJM's Reliability Pricing Model ("RPM"). In conjunction with the development of the RPM rules, PJM developed the FRR alternative, under which a load-serving entity (designated as an "FRR Entity") has the option to submit an "FRR Capacity Plan" and meet a fixed capacity resource requirement rather than participate through the RPM capacity auction. In addition to meeting its own load obligations, an FRR Entity is required to reflect in its FRR Capacity Plan any retail load that switches to an alternative retail load-serving entity that opts not to submit its own FRR Capacity Plan. The FRR provisions of the RAA place the obligation to maintain sufficient capacity on the load-serving entity, which includes Ohio Power.

As discussed herein and in the related applications referenced above, it is AEP's intention that the Transaction that is the subject of this Application and both of the other Section 203 transactions mentioned above will close on or about December 31, 2013, and the Section 205 arrangements mentioned above will take effect on January 1, 2014. Each of these arrangements effectuates important aspects of the corporate restructuring that is the subject of this application and, therefore, AEPSC urges the Commission to accept or approve the interrelated filings so as to permit corporate restructuring to be implemented on January 1, 2014.

II. BACKGROUND

A. Description of the Applicants and Related Parties

1. American Electric Power Company, Inc. and AEPSC

AEP is a multi-state electric utility holding company system whose operating companies provide electric service at wholesale and retail in parts of eleven states: Ohio Power serves customers in Ohio (and one wholesale requirements customer in West Virginia); APCo serves customers in Virginia and West Virginia (and one wholesale requirements customer in Tennessee); KPCo serves customers in Kentucky; I&M serves customers in Indiana and Michigan; Kingsport Power Company ("Kingsport") serves customers in Tennessee; Wheeling serves customers in West Virginia; Southwestern Electric Power Company serves customers in Arkansas, Louisiana, and the Southwest Power Pool, Inc. ("SPP") portion of Texas; Public Service Company of Oklahoma serves customers in Oklahoma; and AEP Texas Central Company and AEP Texas North Company serve customers in the Electric Reliability Council of Texas ("ERCOT") portion of Texas.

Those AEP operating companies located within the PJM footprint are referred to as the "AEP East" companies (Ohio Power, APCo , KPCo, I&M, Kingsport, and Wheeling), and the operating companies that are located within the SPP footprint are referred to as the "AEP SPP" companies. PJM and SPP are Commission-approved Regional Transmission Organizations ("RTOs"), and the AEP East and AEP SPP companies have transferred functional control of their transmission facilities to PJM and SPP, respectively. AEP utilities in ERCOT have transferred functional control of their transmission facilities to the ERCOT RTO. The AEP SPP and ERCOT utilities will be unaffected by the Transaction.

AEPSC is a service company that provides management and professional services to AEP and its utility operating subsidiaries.

2. Ohio Power

Ohio Power is a wholly-owned subsidiary of AEP. Historically, AEP had two wholly-owned subsidiaries that were Ohio utilities, but these subsidiaries recently merged. One such subsidiary was Ohio Power Company (which, pre-merger, is referred to herein as "OPCo"), and the other was Columbus Southern Power Company ("CSP"). On January 18, 2011, OPCo and CSP filed an application with the Commission in Docket No. EC11-37 seeking authorization pursuant to FPA Section 203(a)(1)(B) for an internal corporate reorganization under which CSP would merge with and into OPCo, with OPCo being the surviving entity. The Commission approved the application on July 1, 2011.[5] The merger was consummated on December 31, 2011.[6]

[5] *Ohio Power Co.*, 136 FERC ¶ 62,001 (2011).

[6] As indicated above, post-merger, Ohio Power Company is referred to herein as "Ohio Power."

Ohio Power is an Ohio public utility, engaged in the generation, transmission and distribution of electric power in the northwestern, east central, eastern and southern sections of Ohio. Ohio Power serves about 1.5 million retail customers in Ohio. It serves more than 1,000 communities and operates in 61 of Ohio's 88 counties.

Ohio Power's generation is currently used to serve retail customers in Ohio Power's service area that are not served by a competitive retail electric service ("CRES") provider under Ohio's retail choice program and to meet, along with the other AEP East generating companies, AEP's FRR capacity obligations in PJM. Ohio Power also has a full requirements wholesale power sales agreement (the "Wheeling Contract") with its affiliate, Wheeling, which is discussed in more detail below. Wheeling serves retail customers in West Virginia and does not own any generating facilities.

Ohio Power has an ownership interest in some or all of the units in 15 generating stations, totaling about 11,700 MW, as shown in the below table. These interests will transfer to AEP Generation Resources under the Transaction.

Ohio Power Generation

Plant	Unit No.	Fuel	Location	Capacity (MW)
Cardinal	1 (Note A)	Coal	Brilliant, OH	592
Conesville	3	Coal	Conesville, OH	165
Conesville	4 (Note B)	Coal	Conesville, OH	339
Conesville	5	Coal	Conesville, OH	400
Conesville	6	Coal	Conesville, OH	400
Darby	1-6	Gas	Mount Sterling, OH	473
Gen. J.M. Gavin	1	Coal	Cheshire, OH	1,319
Gen. J.M. Gavin	2	Coal	Cheshire, OH	1,319
J.M. Stuart	1 (Note B)	Coal	Aberdeen, OH	150
J.M. Stuart	2 (Note B)	Coal	Aberdeen, OH	150
J.M. Stuart	3 (Note B)	Coal	Aberdeen, OH	150
J.M. Stuart	4 (Note B)	Coal	Aberdeen, OH	150
John E. Amos	3 (Note C)	Coal	Winfield, WV	867
Kammer	1	Coal	Moundsville, WV	207
Kammer	2	Coal	Moundsville, WV	207
Kammer	3	Coal	Moundsville, WV	206
Mitchell	1 (Note D)	Coal	Moundsville, WV	770
Mitchell	2 (Note D)	Coal	Moundsville, WV	790
Muskingum River	1	Coal	Waterford, OH	197
Muskingum River	2	Coal	Waterford, OH	197
Muskingum River	3	Coal	Waterford, OH	203
Muskingum River	4	Coal	Waterford, OH	210
Muskingum River	5	Coal	Waterford, OH	597
Philip Sporn	2	Coal	New Haven, WV	147
Philip Sporn	4	Coal	New Haven, WV	148
Philip Sporn	5 (Note E)	Coal	New Haven, WV	None
Picway	5	Coal	Lockbourne, OH	98
Racine[7]	1-2	Hydro	Racine, OH	25
W.C. Beckjord	6 (Note B)	Coal	New Richmond, OH	52
Waterford	1-4	Gas	Waterford, OH	830
William H. Zimmer	1 (Note B)	Coal	Moscow, OH	330
			Total Capacity (Note F)	11,688

[7] Racine is a hydroelectric plant. AEPSC will file an application to transfer the license for Racine to AEP Generation Resources.

Note A The Cardinal Plant consists of three coal-fired steam units, with Unit No. 1 owned by Ohio Power and Unit Nos. 2 and 3 owned by Buckeye Power, Inc. ("Buckeye").

Note B The capacity shown reflects Ohio Power's share of the pertinent unit, which it jointly owns with Duke Energy Ohio, LLC and Dayton Power and Light Co. The jointly-owned units are Conesville 4, Stuart 1-4, Beckjord 6, and Zimmer 1.[8] There are four small diesel units at the Stuart generating station with a total capacity of 10 MW, of which Ohio Power's share is 2.4 MW.

Note C Ohio Power owns two-thirds and APCo owns one-third of Amos Unit No. 3. Under a proposed transaction for which Commission authority is being sought under FPA Section 203, Ohio Power's interest in Amos Unit No. 3 would transfer to APCo immediately after closing of the instant Transaction, so that APCo would own all of Amos Unit No. 3.

Note D Under a proposed transaction for which Commission authority is being sought under FPA Section 203, Mitchell, which is currently wholly-owned by Ohio Power, would transfer to APCo and KPCo immediately after closing of the instant Transaction.

Note E Sporn Unit 5 was retired on February 13, 2012.

Note F The capacity values shown on the above table are the values used for purposes of the Pool Agreement and may differ slightly from the summer seasonal values shown on the Appendix B submitted with AEP's market-based rate filings.

The generation units shown in the above table and Notes, together with associated interconnection facilities,[9] constitute the "Facilities."

Ohio Power also has certain contractual entitlements to purchase power, which will transfer to AEP Generation Resources under the Transaction. Specifically, Ohio

---

[8] In an order recently issued in Docket No. EC12-90, the Commission approved the transfer of Duke Energy Ohio's interest in (i) the Beckjord plant to Duke Energy Beckjord, LLC, (ii) the Conesville plant to Duke Energy Conesville, LLC, (iii) the Zimmer plant to Duke Energy Zimmer, LLC, and (iv) the Stuart plant to Duke Energy Stuart, LLC. *See Cinergy II*, 140 FERC ¶ 61,180 at PP 4, 7.

[9] The limited, generation-related transmission assets to be transferred from Ohio Power to AEP Generation Resources are the transmission facilities associated with the generating plants located at or forming part of the generating plants.

Power has a FERC-approved unit power purchase agreement with its affiliate AEP Generating Company to purchase the output of the Lawrenceburg generating plant in Lawrenceburg, Indiana. In addition, Ohio Power has station agreements with Buckeye and its affiliates relating to the Robert P. Mone generating plant in Van Wert, Ohio and the Cardinal Plant, under which Ohio Power operates those generating plants and Ohio Power and Buckeye and its affiliates have certain rights to the capacity and energy of the plants. Finally, under the Inter-Company Power Agreement among Ohio Valley Electric Corporation ("OVEC") and its sponsoring companies (including Ohio Power), Ohio Power has certain rights to purchase power from generating resources owned by OVEC. These contractual entitlements will transfer to AEP Generation Resources.

Ohio Power has also entered into contracts to purchase renewable power from certain wind and solar generation facilities. Such renewable energy purchase agreements will not be transferred to AEP Generation Resources.[10]

Ohio Power also owns about 8,900 circuit miles of transmission lines, and about 45,400 miles of distribution lines. Ohio Power's transmission facilities are part of the AEP East Zone of the AEP Transmission System. Ohio Power's transmission facilities are under the operational control of PJM, and transmission service is provided over such facilities by PJM pursuant to the PJM Open Access Transmission Tariff ("PJM OATT"). In addition to its AEP System interconnections, Ohio Power is interconnected with several unaffiliated utility companies.

---

[10] The Ohio Commission concluded that because state-imposed renewable energy obligations will stay with Ohio Power, the renewable energy purchase agreements (including the renewable energy credits) should stay with Ohio Power. Ohio Corporate Separation Order at P 35.

3. AEP Generation Resources

AEP Generation Resources is an indirect, wholly-owned subsidiary of AEP. AEP Generation Resources was formed on December 8, 2011, as a direct subsidiary of Ohio Power for the purposes of owning and operating the generating assets of Ohio Power (which is itself a direct, wholly-owned subsidiary of AEP). Pursuant to the Transaction, AEP Generation Resources will acquire the generation units and associated interconnection facilities, as well as other generation-related assets, currently owned by Ohio Power, as described in Part III, below. Upon closing of the proposed Transaction, and after a series of Transaction steps described in Part III.A, below, AEP Generation Resources will still be an indirect, wholly-owned subsidiary of AEP, but it will no longer be in the chain of ownership of Ohio Power. Thus, the Transaction will achieve structural corporate separation of Ohio Power's generation and marketing businesses from its transmission and distribution businesses. The Applicants anticipate that at the time of the Transaction, AEP Generation Resources will be a public utility and will have authority from the Commission to make wholesale power sales at market-based rates.

Pursuant to an Electric Security Plan approved by the Ohio Commission, during a transition period from the closing of the Transaction through May 31, 2015, AEP Generation Resources will sell capacity and energy under the PSA, a partial requirements wholesale agreement with Ohio Power. The PSA will allow Ohio Power to serve Standard Service Offer ("SSO") customers, i.e., those Ohio Power retail customers that are not being served by a CRES provider during a transition period that will end on May 31, 2015. During this period, a portion or all of the energy for SSO customers will be procured by Ohio Power through competitive energy auctions. Therefore, under the

PSA, AEP Generation Resources will provide the capacity to meet Ohio Power's FRR obligations, but only a portion of the energy for SSO customers. Starting on June 1, 2015, any customer load that is not being served by a CRES provider will be served by winning bidders of a competitive bidding process for both capacity and energy. The PSA is the subject of a Section 205 application being filed contemporaneously herewith.

During and after the transition period, AEP Generation Resources will also make sales at market-based rates pursuant to its market-based rate authority. As indicated above, AEP Generation Resources will not be a party to the Pool Agreement or to the Power Coordination Agreement among the generation-owning AEP East operating companies.

AEP Generation Resources will, of course, be part of the AEP corporate family and, as such, it may engage in transactions with its utility affiliates and obtain certain services from AEPSC. Such transactions will comply with the Commission's applicable affiliate rules, except to the extent the Commission has granted a waiver therefrom.

B. Retail Regulatory Structure in Ohio

The Transaction is being undertaken by Ohio Power pursuant to Ohio restructuring law and has been approved by the Ohio Commission. Ohio Power's corporate separation plan is a cornerstone requirement of a broader Ohio Commission-approved Electric Security Plan that will implement full market-based pricing of generation service for retail customers in Ohio after a brief transition period.

Ohio Power is a public utility under Ohio state law subject to the jurisdiction of the Ohio Commission pursuant to Ohio Rev. Code Ann. §§ 4905.02 and 4905.03(A)(3).

In addition, it is an electric supplier under § 4933.81(A) with the right and authority to provide electric service granted by Ohio Rev. Code Ann. §§ 4933.81 through 4933.84.

In 1999, Ohio enacted legislation, Senate Bill 3 ("SB 3"), to restructure the state's electric industry by providing for Competitive Retail Electric Service. SB 3 permitted retail customers to choose their electricity suppliers beginning January 1, 2001. It also mandated that electric utilities supplying both competitive and non-competitive retail electric service implement and operate under an Ohio Commission-approved corporate separation plan.[11] Pursuant to SB 3, the Ohio Commission adopted corporate separation rules which also required each Ohio electric utility providing both competitive and non-competitive retail electric service to file with the Ohio Commission a proposed corporate separation plan. Those rules were revised and re-codified after Ohio enacted Senate Bill 221 in 2008, which significantly changed the state regulatory structure for Ohio utilities and established new policies for advanced and renewable energy resources; however, the rules still include the requirement to file and follow a corporate separation plan.[12]

On March 30, 2012, Ohio Power filed a modified Electric Security Plan ("ESP") that set out the contours of Ohio Power's plan for transitioning to full retail competition in Ohio. Among other things, the modified ESP described Ohio Power's proposal for full corporate separation under which Ohio Power's generation facilities would be separated from its transmission and distribution facilities. In the Ohio Commission ESP Order, the

---

[11] *See* Ohio R.C. § 4928.17(A).

[12] The rules are currently codified at Chapter 4901:1-37, Ohio Admin. Code. *See also In Re Adoption of Rules for Standard Service Offer, Corporate Separation, Reasonable Arrangements, and Transmission Riders for Electric Utilities Pursuant to Sections 4928.14, 4928.17 and 4905.31, Ohio Rev. Code, as Amended by Amended Substitute Senate Bill No. 221*, Case No. 08-777-EL-ORD, Finding and Order (Sept. 17, 2008), and Entry on Rehearing (Feb. 11, 2009).

Ohio Commission found, subject to its approval of the corporate separation plan, that Ohio Power "should divest its generation assets from its noncompetitive electric distribution assets by transfer to its separate competitive retail generation subsidiary, GenResources [referred to in this Application as AEP Generation Resources], as represented in this modified ESP." Ohio Commission ESP Order at 59.

Also on March 30, 2012, Ohio Power filed an application for approval to amend its corporate separation plan. The Ohio Commission approved that plan in the Ohio Commission Corporate Separation Order issued on October 17, 2012. In that order, the Ohio Commission concluded:

> With the imposition of the above conditions, the [Ohio] Commission believes that the necessary safeguards are in place to ensure that the statutory mandates pertaining to [Ohio Power's] transfer of generating assets and structural corporate separation are followed and that the policy of the state is effectuated. We conclude that [Ohio Power's] proposed structural corporate separation and amended corporate separation plan are in compliance with [applicable Ohio laws] and should be approved.

Ohio Commission Corporate Separation Order at 25. Copies of the Ohio Commission ESP Order and the Corporate Separation Order are included with Exhibit L hereto.

III. THE TRANSACTION

A. Description of the Transaction

The principal purpose of the Transaction is to effect full structural corporate separation of Ohio Power's generation and marketing businesses, on the one hand, from its transmission and distribution businesses, on the other, consistent with Ohio's corporate separation mandate. The Transaction is a fundamental requirement of an Ohio Commission-approved plan that will lead to full market-based pricing of generation service for retail customers and will promote retail shopping in Ohio.[13]

Pursuant to the Transaction, transmission and distribution-related assets of Ohio Power will remain in Ohio Power, which will essentially be a wires-only company upon closing, as more fully described below. Ohio Power's existing generation units and contractual entitlements, fuel-related assets and contracts, and other assets related to the generation business will be transferred at net book value to AEP Generation Resources, a wholly-owned subsidiary of Ohio Power.[14] The Ohio Commission expressly approved the transfer at net book value, ruling "we agree that it is appropriate for [Ohio Power] to transfer the assets at net book value and note that this approach is consistent with our

---

[13] As noted above, the Commission has previously approved structural corporate separation transactions involving other major Ohio utilities, FirstEnergy and Duke Energy Ohio. *See FirstEnergy Corp.*, 94 FERC ¶ 61,179 (2001) (fossil/hydro assets); *FirstEnergy Corp.*, 112 FERC ¶ 61,243 (2005) (nuclear assets); *Cinergy II*, 140 FERC ¶ 61,180. Further, the Commission has approved numerous similar transactions involving state-mandated corporate restructuring to separate generation from wires and promote retail competition. *See, e.g.*, *Pub. Serv. Elec. & Gas Co.*, 88 FERC ¶ 61,299 (1999); *Baltimore Gas & Elec. Co.*, 90 FERC ¶ 62,222 (2000).

[14] As noted in Part II.A.2, above, Ohio Power does not plan to transfer its renewable purchase agreements to AEP Generation Resources. That way, the renewable energy credits associated with those agreements will stay with Ohio Power, which will remain subject to state-imposed renewable energy obligations. *See* Ohio Commission Corporate Separation Order at P 35.

recent decision in the Duke case, and the [Ohio] Commission's decision in the Company's prior corporate separation case . . ., although the request was subsequently withdrawn." Ohio Commission Corporate Separation Order at P 42 (internal citations omitted). AEP Generation Resources will also assume at closing the liabilities associated with the transferred assets.[15]

The long-term indebtedness of Ohio Power is composed of general obligations that are not secured by the generation assets being transferred to AEP Generation Resources or by any other assets of the company. This unsecured, long-term indebtedness currently consists of two types: senior notes ("Senior Notes") and pollution control revenue bonds ("PCRBs").

In order to manage debt maturities before the closing of the Transaction, Ohio Power may issue new notes to AEP and use the proceeds to repay those debt maturities in the normal course of business. The notes would be subject to approval by the Ohio Commission.

It is intended that PCRBs that have tender dates prior to the closing of the Transaction will be transferred by Ohio Power to AEP Generation Resources as soon as practicable after closing in the following manner: AEP Generation Resources, or its holding company, would reissue new, separate PCRBs in its own name and use the proceeds to redeem the existing PCRBs, releasing Ohio Power from any further obligation for those PCRBs. The Applicants would expect the transfer of those PCRBs to be completed within six months of the closing of the Transaction. The Applicants also

[15] All liabilities associated with the assets being transferred will be assumed by AEP Generation Resources, including the retired plants and the liabilities associated with the retired plants.

intend that PCRBs that have tender dates after the closing of the Transaction would transfer to AEP Generation Resources in the manner described above on or about their tender dates.[16] AEP Generation Resources would be made contractually responsible for costs of carrying the transferring PCRBs after closing of the Transaction.[17] This arrangement is consistent with the Ohio Commission's ruling (at pages 17-18) in the Ohio Commission Corporate Separation Order.

The proposed Transaction includes several steps, each of which will occur one after another at closing. Consistent with Ohio Power's Ohio Commission-approved corporate separation plan, the Facilities will transfer from Ohio Power to AEP Generation Resources. The following three steps will comprise the transfer from Ohio Power to AEP Generation Resources: First, Ohio Power will contribute its generating units, generation-related assets and the associated liabilities to its direct, wholly-owned subsidiary, AEP Generation Resources. Next, Ohio Power will distribute its shares of AEP Generation Resources to AEP, the parent company.[18] Finally, AEP will contribute all of the stock of AEP Generation Resources to a wholly-owned subsidiary holding company. This intermediate holding company will be a direct subsidiary of AEP and thus in a separate

---

[16] As described in a Section 203 application being filed contemporaneously herewith, PCRBs associated with Ohio Power's interests in Amos Unit No. 3 and the Mitchell generating station would be further transferred to APCo and KPCo.

[17] If AEP Generation Resources did not have a waiver from the requirements of FPA Section 204, AEP Generation Resources would seek approval under FPA Section 204 for the above-described securities issuances, as appropriate.

[18] The Applicants do not believe that this intermediate step triggers FPA Section 203(a)(2). Nonetheless, to the extent Section 203(a)(2) is triggered, Section 33.1(c)(2)(iii) provides a blanket authorization for a holding company to acquire any security of a subsidiary company within the holding company system. 18 C.F.R. § 33.1(c)(2)(iii).

chain of ownership from the wires company, Ohio Power, thereby structurally separating Ohio Power from AEP Generation Resources in AEP's corporate structure, as shown in the post-Transaction organizational chart in Exhibit C.[19]

The Applicants intend to close the Transaction on or about December 31, 2013. The Applicants request that the Commission approve the Application without a hearing within the statutorily-prescribed period of 180 days from the date of filing of the Application.

B. Jurisdictional Facilities to be Transferred

The jurisdictional facilities that will be transferred to AEP Generation Resources are: (1) the Facilities;[20] (2) the Cardinal station operating agreement between Ohio Power and Buckeye;[21] and (3) the Wheeling Contract, but only if the APCo/Wheeling merger does not close at the same time as the Transaction closes.[22] Following the closing of the

---

[19] As described in a separate application under FPA Section 203 being filed contemporaneously herewith, immediately after closing of the Transaction, APCo will obtain the transferred interest in Unit No. 3 of the Amos generating plant and appurtenant interconnection facilities and related assets and liabilities (APCo already owns the remaining interest in Amos Unit No. 3) and a 50% undivided interest in the Mitchell generating plant and appurtenant interconnection facilities and related assets and liabilities (collectively, "Mitchell"), and KPCo will obtain the remaining 50% undivided interest in Mitchell. This Transaction is not, however, contingent upon the transfer of those interests to APCo and KPCo.

[20] The disposition by Ohio Power of its generation units and related jurisdictional assets requires prior approval of the Commission under Section 203(a)(1)(A), 16 U.S.C. § 824b(a)(1)(A). The transfer of the generating units to AEP Generation Resources (which will be a public utility at the time of the Transaction) requires prior approval of the Commission under Section 203(a)(1)(D), 16 U.S.C. § 824b(a)(1)(D).

[21] The Ohio Power Company First Revised Rate Schedule FPC No. 69 was accepted for filing by letter orders dated October 15, 2004, and November 30, 2004, in Docket No. ER04-1141. Under the Cardinal operating agreement, Ohio Power operates the Cardinal station, including Unit Nos. 2 and 3, which are owned by Buckeye.

[22] The Ohio Power Company First Revised Rate Schedule FERC No. 18 was accepted for filing by letter order issued on January 8, 2010 in Docket No. ER10-275. As noted above, Ohio Power provides wholesale requirements service to its affiliate, Wheeling, under the Wheeling Contract. In a separate Section 203 filing being made contemporaneously herewith, approval is being sought for a transaction under which Wheeling would merge with and into APCo, with APCo being the surviving company. The (continued)

Transaction, AEPSC will file with the Commission any necessary notices of succession and/or termination of then-effective Ohio Power rate schedules that will be affected by the Transaction.

C. Contracts Related to the Transaction

Exhibit I to this Application contains the form of the Asset Contribution Agreement between Ohio Power and AEP Generation Resources. The distribution by Ohio Power to AEP of the shares of AEP Generation Resources, and the contribution of such shares from AEP to an intermediate holding company, will be carried out pursuant to board resolutions. Consent and assignment agreements with third parties to effect certain of the transfers described in Part III.B above will be executed in the future.

IV. THE TRANSACTION IS CONSISTENT WITH THE PUBLIC INTEREST

Section 203 of the FPA provides that the Commission will authorize a proposed transaction under Section 203 if it determines that the transaction "will be consistent with the public interest."[23] The Commission has historically reviewed three factors when evaluating proposed transactions under the Section 203 public interest standard: (i) the effect on competition, (ii) the effect on rates, and (iii) the effect on regulation.[24] Additionally, Section 203(a)(4) states that the Commission must approve a proposed

---

Wheeling Contract will terminate upon closing of that merger transaction, which is anticipated to occur at the same time as closing of the instant Transaction. AEP Generation Resources will assume Ohio Power's obligations under the Wheeling Contract only if the APCo/Wheeling merger does not close contemporaneously with the Transaction, and then only until the APCo/Wheeling merger is effected, at which time the contract will terminate.

[23] 16 U.S.C. § 824b(a)(4).

[24] *Revised Filing Requirements Under Part 33 of the Commission's Regulations,* Order No. 642, 65 Fed. Reg. 70983 (Nov. 28, 2000), FERC Stats. & Regs. ¶ 31,111 at 31,872-73 (2000) ("Order No. 642"); *order on reh'g*, Order No. 642-A, 94 FERC ¶ 61,289 (2001).

transaction if it finds that, in addition to being in the public interest based on the three factors above, it "will not result in cross-subsidization of a non-utility associate company or the pledge or encumbrance of utility assets for the benefit of an associate company, unless that cross-subsidization, pledge, or encumbrance will be consistent with the public interest."[25] As shown below, the Transaction is consistent with the public interest under the Commission's applicable standards.

A. No Adverse Effect on Competition

Order No. 642 identifies two types of analyses relevant to determining whether a transaction subject to Commission approval under Section 203 may pose potential adverse effects on competition: horizontal market power analysis and vertical market power analysis.[26] The Commission consistently has held that internal corporate reorganizations that combine assets within the corporate family do not have adverse effects on competition.[27] That is the case here.

1. No Adverse Effect on Horizontal Competition

The Transaction will not have an adverse effect on horizontal competition. No generation will enter (or leave) the AEP corporate family as a result of the Transaction.

---

[25] 16 U.S.C. § 824b(a)(4).

[26] Order No. 642 at 31,872.

[27] *See Ameren Corp.*, 131 FERC ¶ 61,240 at P 18 (2010) ("*Ameren*") (finding that showing has been made that there will be no adverse effect on horizontal competition when the transaction involves an intra-corporate transfer of generating assets); *Cinergy Corp.*, 126 FERC ¶ 61,146 at P 32 (2009) ("*Cinergy I*") ("Consistent with our precedent, we find that the Proposed Transaction is an internal corporate reorganization that will have no adverse effect on competition.") (citing *Calpine Power Servs. Co.*, 92 FERC ¶ 61,150 at 64,187-88 (2000); *PP&L Res., Inc.*, 90 FERC ¶ 61,203 at 61,649 (2000) (finding that a transaction that realigns assets under the same parent company will not change the concentration of generation ownership in the market and thus will not have an adverse effect on horizontal competition); *Allegheny Energy Supply Co.*, 89 FERC ¶ 62,063 at 64,105 (1999)); *see also* Order No. 642 at 31,902.

Therefore, the Transaction cannot have a concentrating effect under the Commission's horizontal market power analysis, because the corporate family is treated as a single entity for purposes of that analysis.[28] Further, the Commission's regulations state that such an analysis is required "if, as a result of the proposed transaction, a single corporate entity obtains ownership or control over the generating facilities of previously unaffiliated merging entities."[29] Here, such an analysis is not required because no entity will take ownership or control of previously unaffiliated generation. In short, the Transaction will not affect horizontal competition.[30]

2. No Adverse Effect on Vertical Competition

The Transaction likewise will not have an adverse effect on vertical competition. The Commission's regulations state that a vertical market power analysis is required "if, as a result of the proposed transaction, a single corporate entity has ownership or control over one or more merging entities that provides inputs to electricity products and one or more merging entities that provides electric generation products."[31] No such analysis is required here because the Transaction is internal and will not result in the AEP corporate

---

[28] *See Am. Elec. Power Serv. Corp.*, 100 FERC ¶ 61,346 (1999) (finding that "transfers that realign facilities under the same parent company generally will not change the concentration of generation ownership in the market" and thus do not raise competitive concerns). In that 1999 order, the Commission approved a proposed transaction – like the instant Transaction – under which Ohio Power would structurally separate its generation and marketing businesses from its transmission and distribution businesses. However, that transaction was not consummated.

[29] 18 C.F.R. § 33.3(a)(1).

[30] As may be required under the Commission's regulations, following the closing of the Transaction and the related transactions, AEPSC will submit in the various AEP market-based rate dockets a notice of change in status that discusses the impact of the transactions on the AEP East utilities' market-based rate authority.

[31] 18 C.F.R. § 33.4.

family owning or controlling any new entities that provide inputs to electricity products or electric generation products.[32] Further, the Transaction does not involve the transfer of transmission facilities, except limited facilities needed to connect the generating units to the grid. AEP Generation Resources will own no transmission facilities except those limited facilities. Moreover, Ohio Power has turned over operational control of its transmission facilities to PJM, and wholesale transmission service over such facilities will continue to be provided pursuant to the rates and terms of the PJM OATT on file with the Commission, eliminating any concern about transmission-related vertical market power.[33] Consequently, the Transaction raises no vertical market power issues.

B. No Adverse Effect on Rates

In assessing the effect that a proposed transaction could have on rates, the Commission's primary concern is "the protection of wholesale ratepayers and transmission customers."[34] There will be no adverse impact on wholesale power customers or transmission customers as a result of the Transaction.

---

[32] *See Ameren*, 131 FERC ¶ 61,240 at P 18 (finding that internal corporate reorganization transaction creates no new vertical combinations of assets and thus does not raise any vertical market power concerns).

[33] *See Cinergy II*, 140 FERC ¶ 61,180 at P 37 ("Consistent with our precedent, we find that, because the Proposed Transaction is an internal corporate reorganization and because operational control of Duke Ohio's transmission facilities has been turned over to PJM, the Proposed Transaction will have no adverse effect on horizontal or vertical competition."); *EDG Dev., Inc.*, 126 FERC ¶ 61,141 at P 23 (2009) ("Turning over operational control of transmission facilities to an independent entity mitigates any concerns about transmission-related vertical market power because it eliminates a company's ability to use its transmission system to harm competition.") (citing cases); *Okla. Gas & Elec. Co.*, 124 FERC ¶ 61,239 at P 57 (2008) ("[T]urning over functional control of an applicant's transmission facilities to a Commission-approved RTO mitigates vertical market power concerns.").

[34] *See New England Power Co.*, 82 FERC ¶ 61,179 at 61,659, *order on reh'g*, 83 FERC ¶ 61,275 (1998).

The Commission typically addresses this prong of its Section 203 analysis by reviewing the potential impact of a transaction on wholesale requirements customers served under cost-based contracts with formulaic provisions that automatically would track changes in costs resulting from the Transaction. The Commission typically does not focus on market-based rate sales or sales under cost-based arrangements that require separate filings to adjust the rates. The Commission also takes account of any proposal by applicants to mitigate any potential adverse rate impacts on wholesale customers.[35]

As described below, the Transaction will not cause any adverse impact on wholesale customers. Consistent with Commission policy and precedent under FPA Section 203, Ohio Power commits to hold its wholesale transmission customers harmless from any transaction costs related to the Transaction for a period of five years following the closing date of the Transaction.[36] To the extent the Wheeling Contract remains effective after closing of the Transaction, AEP Generation Resources commits to hold Wheeling harmless from any transaction costs related to the Transaction until the earlier of five years following closing or the date on which the Wheeling Contract terminates.

1. Wholesale Power Rates

a. Ohio Power currently has only one cost-of-service wholesale power sales agreement. That agreement, the Wheeling Contract, is with its affiliate, Wheeling. As

---

[35] *Inquiry Concerning the Commission's Merger Policy Under the Federal Power Act: Policy Statement*, Order No. 592, 61 Fed. Reg. 68,595 (Dec. 30, 1996), FERC Stats. & Regs. ¶ 31,044 at 30,123-24 (1996); *order on reconsideration*, Order No. 592-A, 79 FERC ¶ 61,321 (1997).

[36] *See Cinergy II*, 140 FERC ¶ 61,180 at P 44 (accepting five-year hold harmless commitment with respect to transaction-related costs and observing that if the applicants seek to recover transaction-related costs during that period, they must specifically identify the costs they are seeking to recover and demonstrate that those costs are exceeded by the savings produced by the transaction).

explained above, AEPSC, on behalf of APCo and Wheeling, is filing with the Commission contemporaneously herewith an application under FPA Section 203 seeking approval for a transaction under which Wheeling would merge with and into APCo, with APCo being the surviving company.

The Applicants anticipate that the APCo/Wheeling merger will close at the same time as the transaction under which APCo will obtain the transferred interest in the Amos generating plant and Mitchell generating plants, as discussed above. If that is the case, AEP Generation Resources will not assume Ohio Power's obligations under the Wheeling Contract because that contract will be terminated. If, however, AEP Generation Resources does assume Ohio Power's obligations under the Wheeling Contract, the non-fuel components of that contract are fixed. Therefore, the Transaction would have no automatic impact on the non-fuel charges under the contract; to change those charges, AEP Generation Resources would need to make a filing with the Commission under FPA Section 205. Wheeling's fuel charges under the Wheeling Contract will reflect the actual cost of the fuel consumed to serve its load.

b. As discussed above, contemporaneously with filing of this Section 203 application, AEPSC has filed an application under FPA Section 205 providing for the termination of the Pool Agreement and proposing a Power Coordination Agreement among APCo, I&M and KPCo. Because the existing Pool Agreement will have terminated contemporaneously with consummation of the instant Transaction, the Transaction will not affect the rates of or charges to other Pool Agreement members or their respective wholesale customers. Moreover, the Power Coordination Agreement will

be subject to the Commission's review and approval in the related Section 205 proceeding.

2. FERC-Jurisdictional Transmission Rates

Ohio Power will not transfer any transmission facilities in connection with the Transaction, except limited facilities needed to connect the generating units to the grid.[37] No transmission facilities that are part of the bulk transmission system or included in transmission ratebase will be transferred.

Ohio Power has turned over operational control of its transmission facilities to PJM, and wholesale transmission service over such facilities will continue to be provided pursuant to the rates and terms of the OATT on file with the Commission. Ohio Power is currently a member of the AEP pricing zone under the PJM OATT. The AEP transmission zone rates are derived under a Commission-approved formula rate that tracks the costs of each of the transmission-owning AEP East companies. By letter order issued October 1, 2010, in Docket No. ER08-1329, the Commission approved a settlement that disposed of all issues relating to the formula rate;[38] the new formula rate was put in effect on June 1, 2010.

In addition, on April 21, 2011, in Docket No. ER10-355, the Commission approved a settlement agreement that included a formula rate for the "AEP East Transmission Companies" and the "AEP SPP Transmission Companies."[39] These

---

[37] As noted above, the limited, generation-related transmission assets to be transferred from Ohio Power to AEP Generation Resources are the transmission facilities associated with the generating plants located at or forming part of the generating plants.

[38] *Am. Elec. Power Serv. Corp.*, 133 FERC ¶ 61,007 (2010).

[39] *AEP Appalachian Transmission Co., Inc.*, 135 FERC ¶ 61,066 (2011).

entities are transmission-owning public utility subsidiaries of AEP Transmission Company, LLC, which AEP established to develop, construct, own and operate transmission facilities that will be interconnected to existing AEP operating companies' facilities within the PJM and SPP RTO regions.

a. The Transaction will not have an adverse impact on transmission customers within the AEP pricing zone of the PJM OATT. The rates for such customers are derived from a cost-of-service formula. The only cost component of the formula that could conceivably be affected by the Transaction is the Ohio Power equity ratio used for determining the overall AEP return on equity component, because following closing of the Transaction, Ohio Power will have a different capital structure than it has now. However, Ohio Power's equity ratio – and thus its cost of capital – will not increase as a result of the Transaction; therefore, to the extent there is any effect on transmission rates, the Transaction will cause them to decrease. Consequently, there will not be any adverse impact on wholesale customers taking service under the PJM OATT.

In addition to wholesale customers that take service under the PJM OATT, AEP retail customers in two jurisdictions – Ohio and Virginia – are billed (by Ohio Power and APCo) transmission costs based on the revenue requirement calculated under the AEP East formula rate in the PJM OATT. For the reason discussed in the preceding paragraph, to the extent such customers' rates will be affected by the Transaction, they will decrease. Accordingly, such customers likewise will not be adversely affected by the Transaction. The transmission component of the retail rates in jurisdictions other than Ohio and Virginia will be unaffected by the Transaction.

b. The formula rate in the AEP East Transmission Companies' and AEP SPP Transmission Companies' settlement approved in Docket No. ER10-355 is virtually identical to the formula in the settlement approved in Docket No. ER08-1329.[40] The formula rate for these standalone companies (i.e., the AEP East and AEP SPP Transmission Companies) will not be affected by the Transaction.

3. Retail Rates

The Ohio legislature and the Ohio Commission have mandated that Ohio utilities separate their generation and marketing businesses from their transmission and distribution businesses. The Transaction is being undertaken in compliance with this mandate. Any impact on retail customers from the separation of Ohio Power's generation and related assets has been carefully reviewed and considered by the Ohio Commission, which has approved the Transaction. Further, because Ohio has retail choice, ratepayers are protected by their ability to choose an alternative supplier. Indeed, the very purpose of the Ohio Commission-approved restructuring is to promote retail choice.

C. No Adverse Effect on Regulation

The Transaction will not have an adverse impact on regulation, at either the federal or state level.

The Transaction will not diminish the Commission's regulatory authority. Ohio Power will remain a "public utility" as defined in FPA Section 201(e)[41] and will continue

---

[40] *Compare AEP Appalachian Transmission Co., Inc.*, 135 FERC ¶ 61,066 (2011) *with Am. Elec. Power Serv. Corp.*, 133 FERC ¶ 61,007 (2010).

[41] 16 U.S.C. § 824(e).

to be subject to the Commission's Federal Power Act jurisdiction. AEP Generation Resources will also be a "public utility" and will be subject to regulation by the Commission. Further, the Commission will have jurisdiction over wholesale sales from the Facilities after the Transaction closes. Accordingly, the Transaction will have no adverse effect on federal regulation.

The Transaction also will not adversely affect state regulation. The Transaction is being undertaken in furtherance of state restructuring laws and policies, which require corporate separation, and has already been approved by the Ohio Commission. Moreover, Ohio Power will continue to be subject to regulation as an electric distribution utility by the Ohio Commission after the Transaction closes. Accordingly, the Transaction will not have an adverse effect on state regulation.[42]

D. No Inappropriate Cross-Subsidization or the Pledge or Encumbrance of Utility Assets

Under the Energy Policy Act of 2005 amendments to FPA Section 203 and the Commission's implementing regulations adopted in Order No. 669, an applicant must provide assurance that the proposed transaction will not result in cross-subsidization of a non-utility associate company or a pledge or encumbrance of utility assets for the benefit of an associate company, unless that cross-subsidization, pledge, or encumbrance will be consistent with the public interest.[43] In Order Nos. 669, 669-A and 669-B,[44] the

---

[42] *See Madison Gas & Elec. Co.*, 106 FERC ¶ 61,098 at P 20 (2004) (noting that regulatory harm will not occur with FERC having jurisdiction over wholesale sales and the state commission having jurisdiction over the facilities being transferred); *Texas-New Mexico Power Co.*, 105 FERC ¶ 61,028 at P 22 (2003) (stating general FERC policy to defer state regulatory matters concerning disposition of facilities to state commissions that have regulatory authority over such matters).

[43] FPA Section 203(a)(4), 16 U.S.C. § 824b(a)(4).

Commission established a four-factor test that applicants must satisfy to address the concerns identified in FPA Section 203 regarding any possible cross-subsidization or pledge or encumbrance of utility assets associated with a proposed transaction. Under this test, the Commission examines whether a proposed transaction results in, at the time of the transaction or in the future:

> (A) Any transfer of facilities between a traditional public utility associate company that has captive customers or that owns or provides transmission service over jurisdictional transmission facilities, and an associate company;
>
> (B) Any new issuance of securities by a traditional public utility associate company that has captive customers or that owns or provides transmission service over jurisdictional transmission facilities, for the benefit of an associate company;
>
> (C) Any new pledge or encumbrance of assets of a traditional public utility associate company that has captive customers or that owns or provides transmission service over jurisdictional transmission facilities, for the benefit of an associate company; or
>
> (D) Any new affiliate contract between a non-utility associate company and a traditional public utility associate company that has captive customers or that owns or provides transmission service over jurisdictional transmission facilities, other than non-power goods and services agreements subject to review under [FPA] sections 205 and 206.[45]

---

[44] *Transactions Subject to FPA Section 203,* Order No. 669, 71 Fed. Reg, 1348 (Jan. 6, 2006), FERC Stats. & Regs. ¶ 31,200 at PP 91, 166, 193 (2005) ("Order No. 669"), *order on reh'g*, Order No. 669-A, 71 Fed. Reg. 28,422 (May 16, 2006), FERC Stats. & Regs. ¶ 31,214 (2006) ("Order No. 669-A"); *order on reh'g*, Order No. 669-B, 71 Fed. Reg. 42,579 (July 27, 2006), FERC Stats. & Regs. ¶ 31,225 (2006) ("Order No. 669-B").

[45] 18 C.F.R. § 33.2(j)(1)(ii).

As required by Order Nos. 669-A and 669-B,[46] Applicants provide below a detailed showing regarding each of these factors, based on facts and circumstances that are known to the Applicants or are reasonably foreseeable.

Transfers of Facilities

The transfer of jurisdictional facilities pursuant to the Transaction will not result in any improper cross-subsidization of a non-utility affiliate. The Transaction is an internal corporate restructuring that involves the transfer of generating units and generation-related assets from Ohio Power, a traditional public utility, to its affiliate, AEP Generation Resources, which will also be a public utility when the Transaction closes, although not a traditional one. As explained above, the Transaction is being undertaken pursuant to Ohio restructuring law and is consistent with state regulatory objectives to (i) separate generation functions from transmission and distribution functions for Ohio electric utilities, (ii) transition to full market-based pricing of generation service for retail customers, and (iii) promote retail shopping in Ohio. The Transaction has been approved by the Ohio Commission, which has found that it is in the public interest.

The transfer of facilities from Ohio Power to AEP Generation Resources will not have an adverse effect on Ohio Power's ratepayers. As noted above, the Transaction is part of a state-approved plan to transition to fully-competitive markets in Ohio. Retail customers are also protected by having the right to choose an alternative supplier. Further, Ohio Power's transmission rates will not increase as a result of the Transaction, and in any event Ohio Power has made the "hold harmless" commitment described

[46] Order No. 669-A at P 144; Order No. 669-B at P 49.

above. Other than Ohio Power, no traditional utility will transfer any facilities in connection with the Transaction.

New Issuance of Securities

Ohio Power will not issue new securities in connection with the Transaction, at the time of the Transaction or in the future. There are no other traditional utilities involved in the Transaction.

New Pledge or Encumbrance

Ohio Power will not enter into any new pledge or encumbrance of its assets in connection with the Transaction, at the time of the Transaction or in the future. There are no other traditional utilities involved in the Transaction.

New Affiliate Contracts

Ohio Power will enter into the Asset Contribution Agreement in connection with the Transaction, the form of which is attached in Exhibit I to this Application.

Ohio Power will also enter into the PSA, which is a short-term wholesale requirements power sales agreement between AEP Generation Resources, as seller, and Ohio Power, as purchaser, during the transition period. The PSA is an integral part of Ohio restructuring, and the fundamental framework of that contract has been approved by the Ohio Commission. The PSA is subject to review and authorization by the Commission under FPA Section 205, and the Section 205 filing is being made contemporaneously herewith.

AEP Generation Resources will not be a party to the Power Coordination Agreement among APCo, I&M, and KPCo, which will be subject to the Commission's separate review and authorization under a Section 205 that is being made

contemporaneously herewith. Ohio Power and AEP Generation Resources will enter the Bridge Agreement with APCo, KPCo, and I&M to address transition issues associated with termination of the Pool Agreement, such as how the AEP companies will meet their FRR capacity obligations through May 31, 2015, and how they will address existing marketing and trading arrangements with third parties. That agreement also is subject to review and authorization by the Commission under FPA Section 205, and the Section 205 filing is being made contemporaneously herewith.

The Applicants do not contemplate entering into any other affiliate contracts related to the Transaction, at the time of the Transaction or in the future.

As shown above, the Transaction satisfies the Commission's four-factor test and will not result in improper cross-subsidization.

V. THE TRANSACTION DOES NOT RUN AFOUL OF FPA SECTION 305(a)

As described in Part III above, the Transaction involves a distribution by Ohio Power to AEP of the shares of AEP Generation Resources (which will immediately be followed by a contribution by AEP of such shares to a subsidiary holding company). The distribution will include all of Ohio Power's generation, as well as associated assets and liabilities, excluding the renewable energy purchase agreements. FPA Section 305(a) states in pertinent part: "It shall be unlawful for any officer or director of any public utility ... to participate in the making or paying of any dividends of such public utility from any funds properly included in capital account."[47] The net book value of the generating units and generation-related assets that Ohio Power will distribute to AEP

[47] 16 U.S.C. § 825d(a).

under the Transaction exceeds Ohio Power's retained earnings. This case is like others in which the Commission has concluded that the concerns underlying Section 305(a) are not present because it involves dividending of corporate interests as part of a corporate restructuring that "is less like a payment of dividends than it is a corporate restructuring with a one-time distribution of property ... rather than a payment of cash."[48] The concerns underlying enactment of Section 305(a) included "that sources from which cash dividends were paid were not clearly identified and that holding companies had been paying out excessive dividends on the securities of their operating companies."[49] A central concern thus "was corporate officials raiding corporate coffers for their personal financial benefit."[50] A transaction is not barred by Section 305(a) in cases, like this one, where "none of these problems is evident."[51]

Like other cases that the Commission has found permissible under Section 305(a), this case involves an internal corporate restructuring with one-time distributions of property.[52] The proposed corporate separation "will have no adverse effect on the value of shareholders' interests" because shareholders "will have the same ownership interests after the separation as before."[53] Put differently, assets will simply be moved within the same corporate family, and shareholders' ownership interests will remain unaffected.

---

[48] *See ALLETE, Inc.*, 107 FERC ¶ 61,041 at P 11 (2004) ("*ALLETE*").

[49] *Citizens Utils. Co.*, 84 FERC ¶ 61,158 at 61,865 (1998) (citation omitted) ("*Citizens*").

[50] *Id.*

[51] *Id.*

[52] *Cinergy I*, 126 FERC ¶ 61,146 at P 69; *ALLETE*, 107 FERC ¶ 61,041 at PP 9-12; *Citizens*, 84 FERC ¶ 61,158 at 61,865.

[53] *ALLETE*, 107 FERC ¶ 61,041 at P 11.

Further, the source of the distribution is clearly identified, no "excessive dividends" will be paid, and the Transaction plainly has nothing to do with "corporate officials raiding corporate coffers for their personal financial benefit."[54] Consistent with prior Commission rulings, Ohio Power commits that (i) the Transaction will not cause its equity, as a percentage of total capital, to fall below 30 percent, and (ii) upon closing of the transaction, it will retain an amount of debt that will be within the range that will accommodate preservation of its pre-Transaction credit rating.[55]

VI. PART 33 FILING REQUIREMENTS

Other than those information requirements for which a waiver is requested, Applicants are submitting the following information pursuant to the filing requirements in 18 C.F.R. § 33.2. Applicants respectfully request full or partial waiver of certain of the information requirements of Part 33 on the grounds that (1) this is a purely internal corporate reorganization without the need for the higher level of scrutiny that might attach to a merger resulting in a combination of previously unaffiliated assets; and (2) this information would not assist the Commission in determining whether the Transaction is in the public interest. Consistent with 18 C.F.R. § 33.3(a)(1), Applicants have not

---

[54] *Accord Delmarva Power & Light Co.*, 91 FERC ¶ 61,043 at 61,158 (2000) ("While both of the dividend payments at issue in this proceeding are from capital accounts, the proposed accounting entries reflecting these payments are clear. In addition, the dividend payments are not cash payments and the proposed entries, therefore, do not evidence any excessive payments of cash dividends. The dividend payments are payments of stock made from one affiliated corporation to another to accommodate an intra-corporate transfer of jurisdictional facilities, the ultimate aim of which is to separate transmission and distribution service from generation service within the ... family of companies. The dividend payments are not made to the public, and the record does not suggest any impropriety. The concerns underlying section 305(a) are not present in this proceeding.") (citing *Citizens*, 84 FERC ¶ 61,158 at 61,865).

[55] *See, e.g.*, *Cinergy I*, 126 FERC ¶ 61,146 at P 69.

submitted a horizontal market power analysis, or any other competition information under 18 C.F.R. § 33.3, because the Transaction will not result in an AEP entity obtaining ownership or control over facilities of a previously unaffiliated entity.

In Order No. 642, the Commission stated that applicants may request waiver of specific information requirements.[56] The Commission's practice is to grant such a waiver when the application contains "sufficient information to evaluate the proposed transaction."[57] Based on the foregoing, Applicants request that the Commission waive certain requirements under Part 33 (as requested herein) and waive any other filing requirements as may be applicable.

A. Section 33.2

1. The Exact Name and Principal Business Address of Applicants (18 C.F.R. § 33.2(a))

American Electric Power Service Corporation
1 Riverside Plaza
Columbus, OH 43215

Ohio Power Company
1 Riverside Plaza
Columbus, OH 43215

AEP Generation Resources Inc.
1 Riverside Plaza
Columbus, OH 43215

[56] Order No. 642 at 31,877.

[57] *PSI Energy, Inc.*, 60 FERC ¶ 62,131 at 63,342 (1992); *Citizens Utils. Co.*, 41 FERC ¶ 62,064 at 63,180 (1987).

2. Name and Address of Persons Authorized to Receive Notices and Communications (18 C.F.R. § 33.2(b))

John C. Crespo*
Deputy General Counsel
Regulatory Services
American Electric Power
Service Corporation
1 Riverside Plaza
Columbus, OH 43215
(614) 716-3727
(614) 716-2950 (fax)
jccrespo@aep.com

Steven J. Ross*
Carol Gosain
STEPTOE & JOHNSON LLP
1330 Connecticut Avenue, N.W.
Washington, DC 20036
(202) 429-6279
(202) 261-9832 (fax)
sross@steptoe.com
cgosain@steptoe.com

Chad Heitmeyer*
Regulatory Case Manager
American Electric Power
Service Corporation
1 Riverside Plaza
Columbus, OH 43215
(614) 716-3303
caheitmeyer@aep.com

Applicants request that the persons marked with an asterisk be placed on the official service list for this proceeding and respectfully request waiver of Rule 203(b)(3), 18 C.F.R. § 385.203(b)(3). Applicants will serve a copy of this Application on the Ohio Commission. A copy of this filing will be posted to AEP's website at: http://www.aep.com/investors/currentRegulatoryactivity/regulatory/ferc.aspx

3. Exhibit A - Description of Applicants – All Business Activities, including Regulatory Authorizations (18 C.F.R. § 33.2(c)(1))

A description of the Applicants and their primary businesses is provided in Part II.A of this Application. Applicants seek a waiver of the need to provide any additional information under Section 33.2(c)(1).

4. Exhibit B – List of Energy Subsidiaries and Affiliates, Applicants' Ownership Interest and Description of their Primary Business (18 C.F.R. § 33.2(c)(2))

Applicants' energy subsidiaries, as well as their ownership interests therein, are listed in Exhibit B. Applicants seek a waiver of the need to provide any additional information related to any other AEP energy affiliates, which will be wholly unaffected by the Transaction.

5. Exhibit C – Organizational Charts Depicting Applicants' Current and Proposed Post-Transaction Corporate Structures (Including Any Pending but Not Implemented Changes) Indicating All Parent Companies, Energy Subsidiaries and Energy Affiliates (18 C.F.R. § 33.2(c)(3))

The charts are included in Exhibit C to this Application. The organizational charts do not include AEP SPP or ERCOT operating companies or AEP East and AEP SPP Transmission Companies, as well as other companies within the AEP corporate family that will be unaffected by the Transaction.

6. Exhibit D – Description of All Joint Ventures, Strategic Alliances, Tolling Arrangements or Other Business Arrangements, Including Transfer of Operational Control to a Commission Approved RTO (18 C.F.R. § 33.2(c)(4))

Applicants seek a waiver to provide any additional information under 18 C.F.R. § 33.2(c)(4), as the Transaction does not involve any change in Ohio Power joint ventures or strategic alliances. Ohio Power has no tolling arrangements.

7. Exhibit E – Common Officers or Directors (18 C.F.R. § 33.2(c)(5))

A list of common officers and directors of Ohio Power and AEP Generation Resources is set out in Exhibit E.

8. Exhibit F – Description and Location of Wholesale Power Customers and Unbundled Transmission Customers Served by Applicants (18 C.F.R. § 33.2(c)(6))

Ohio Power's wholesale power customers are discussed in Part IV.B.1 of the Application. A list of the AEP East unbundled transmission customers is included in Exhibit F.

9. Exhibit G – Description of the Applicants' Jurisdictional Facilities (18 C.F.R. § 33.2(d))

Ohio Power's transmission facilities are described in Exhibit G. The generation units in which Ohio Power has an ownership interest are shown in the table in Part II.A.2 of this Application. AEP Generation Resources has no jurisdictional facilities at the time of filing of this Application. Upon closing of the Transaction, AEP Generation Resources will own the interests currently owned by Ohio Power in the generation units shown in the above-referenced table, as well as appurtenant interconnection facilities, as described in footnotes 9 and 37 of the Application.

10. Narrative Description of the Proposed Transaction (18 C.F.R. § 33.2(e))

A narrative description of the Transaction is provided in Part III of this Application. Applicants seek a waiver of the need to provide any additional information under Section 33.2(e).

11. Exhibit H – Facilities Associated with or Affected by the Transaction (18 C.F.R. § 33.2(e)(2))

A description of the jurisdictional facilities affected by the Transaction is provided in Parts II.A and III.B of this Application. Applicants seek a waiver of the need to provide any additional information under Section 33.2(e)(2).

12. Exhibit I – Contracts Related to the Proposed Transaction (18 C.F.R. § 33.2(f))

Exhibit I contains the form of the Asset Contribution Agreement. While this document has not yet been executed, consistent with Commission precedent, Applicants certify that, to the best of their knowledge, the final agreement will reflect the terms and conditions contained in the draft agreement in all material respects. The distribution by Ohio Power to AEP of the shares of AEP Generation Resources, and the contribution of such shares from AEP to an intermediate holding company, will be carried out pursuant to board resolutions.

13. Exhibit J – Public Interest Discussion and Any Other Information Relevant to Transaction (18 C.F.R. § 33.2(g))

The Transaction is in the public interest for the reasons set forth in Part IV of this Application. Applicants seek waiver of the need to provide any additional information pursuant to Section 33.2(g).

14. Exhibit K – Maps (18 C.F.R. § 33.2(h))

The map attached as Exhibit K shows the Ohio Power service territory and the location of the generating units affected by the Transaction.

15. Exhibit L – Orders from Other Regulatory Bodies (18 C.F.R. § 33.2(i))

As discussed in Part II.B, above, the Ohio Commission approved Ohio Power's proposed corporate separation plan in the Ohio Commission ESP Order and the Ohio Commission Corporate Separation Order. Those orders are attached in Exhibit L.

16. Exhibit M – Explanation Providing Assurance that the Proposed Transaction Will Not Result in Cross-Subsidization or Pledges or Encumbrances of Utility Assets (18 C.F.R. § 33.2(j))

The Applicants' detailed showing regarding the absence of any improper cross-subsidization is included in Part IV of this Application. Ohio Power has no material pledges or encumbrances of utility assets. The Applicants request waiver of the need to provide any additional information pursuant to Section 33.2(j).

B. Proposed Accounting Entries (18 C.F.R. § 33.5)

Pursuant to 18 C.F.R. § 33.5, Applicants provide in Attachment A the proposed accounting entries for the Transaction. These proposed accounting entries are based on account balances as of December 31, 2011. While these balances reasonably represent the expected assets, liabilities and total capitalization to be transferred, the actual account balances at the time of the Transaction will be different and the methods employed will be more detailed and precise. The transfer of assets constituting an operating unit or system will be recorded through Account 102 consistent with the instructions of Electric Plant Instruction No. 5 of the Commission's Uniform System of Accounts. The Applicants will submit proposed final accounting entries within six months of the consummation of the Transaction reflecting all entries made on the books and records of Ohio Power pursuant to the Commission's Uniform System of Accounts, along with appropriate narrative explanations describing the basis for the entries.

C. Verifications (18 C.F.R. § 33.7)

Authorized representatives of Ohio Power and AEP Generation Resources have executed the attached verifications required under Section 33.7 of the Commission's Regulations.

VII. CONCLUSION

WHEREFORE, for the reasons set forth above, Applicants respectfully request that the Commission: (1) find that the Transaction will not have an adverse effect on competition, rates, or regulation, and that this Application satisfies all applicable requirements for authorization of the Transaction under Section 203 of the FPA and Part 33 of the Commission's Regulations; (2) issue such approvals and related authorizations, based on the Application and supporting materials; and (3) waive any filing requirement or other regulation as the Commission may find necessary or appropriate to allow this Application to be granted as requested herein.

Respectfully submitted,

/s/

John C. Crespo
Deputy General Counsel – Regulatory Services
American Electric Power Service Corporation
1 Riverside Plaza
Columbus, OH 43215

Steven J. Ross
Carol Gosain
STEPTOE & JOHNSON LLP
1330 Connecticut Avenue, N.W.
Washington, DC 20036

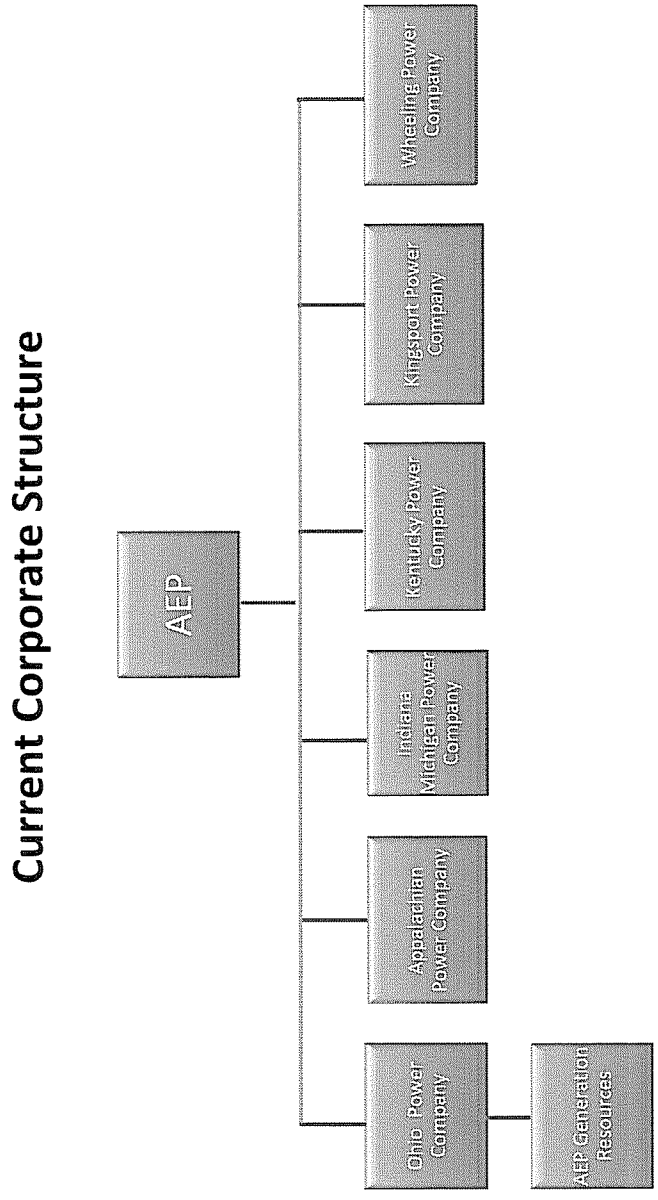
Attorneys for Applicants

Dated: October 31, 2012

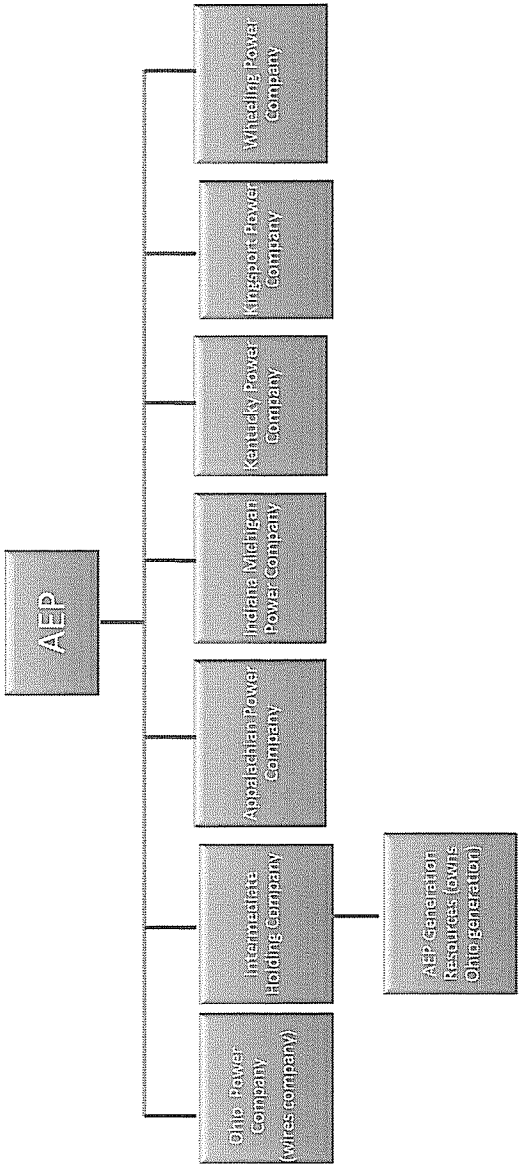
Attachments

Applicants' energy subsidiaries, as well as their ownership interests therein, are listed below. Ohio Power's interests in the below-referenced energy subsidiaries will be transferred to AEP Generation Resources upon consummation of the Transaction. Applicants seek a waiver of the need to provide any additional information related to any other AEP energy affiliates, which will be wholly unaffected by the Transaction.

Applicant	Energy Subsidiary	Ownership Interest
Ohio Power	Conesville Coal Preparation Company	100%
Ohio Power	Central Coal Company	50%
Ohio Power	Cardinal Operating Company	50%
AEP Generation Resources	NONE	N/A


Current Corporate Structure
AEP
Wheeling Power Company
Kingsport Power Company
Kentucky Power Company
Indiana Michigan Power Company
Appalachian Power Company
Ohio Power Company
AEP Generation Resources

Post-Transaction Corporate Structure



Common Officers and Directors (Ohio Power and AEP Generation Resources)

Common Directors

Nicholas K. Akins
Robert P. Powers
Brian X. Tierney

Common Officers

Nicholas K. Akins, CEO
Thomas G. Berkemeyer, Assistant Secretary
Joseph M. Buonaiuto, Controller, CAO (Ohio Power); Controller (AEP Generation Resources)
Jeffrey D. Cross, Assistant Secretary (Ohio Power); VP (AEP Generation Resources)
David M. Feinberg, Secretary (Ohio Power); Secretary, VP (AEP Generation Resources)*
Renee V. Hawkins, Assistant Treasurer
Robert P. Powers, VP (Ohio Power); President, COO (AEP Generation Resources)
Mark A. Pyle, VP-Tax
Brian X. Tierney, CFO, VP
Charles E. Zebula, Treasurer

*Also a Director of Ohio Power

Exhibit F - Description and Location of Wholesale Power Customers and Unbundled Transmission Customers Served by Applicants

AEP PJM Zonal Network Interconnection Transmission Service Customers

1	AEP
2	Allegheny Power Company
3	American Municipal Power - Ohio, Inc.
4	Buckeye Power, Inc.
5	Central Virginia Electric Co-op
6	City of Auburn
7	City of Bedford
8	City of Bluffton
9	City of Bristol
10	City of Bryan
11	City of Clyde
12	City of Columbus
13	City of Danville
14	City of Dover
15	City of Dowagiac
16	City of Garrett
17	City of Jackson
18	City of Martinsville
19	City of Mishawaka
20	City of Niles
21	City of Olive Hill
22	City of Orville
23	City of Radford
24	City of Salem
25	City of Shelby
26	City of South Haven
27	City of St. Marys
28	City of St. Clairsville
29	City of Sturgis
30	City of Vanceburg
31	City of Wapakoneta
32	City of Warren
33	City of Westerville
34	Craig Botetourt Electric Cooperative
35	Dayton Power & Light Co.
36	The Black Diamond Power Co.(formerly known as the Musser Co.)
37	Hoosier Energy Rural Electric Cooperative, Inc.
38	Indiana Municipal Power Agency
39	Joint Operating Group
40	Ohio City
41	Old Dominion Electric Cooperative
42	Town of Avilla
43	Town of New Carlisle
44	Town of Richlands
45	Village of Arcadia
46	Village of Bloomdale
47	Village of Carey
48	Village of Cygnet
49	Village of Deshler
50	Village of Glouster
51	Village of Greenwich
52	Village of Paw Paw
53	Village of Plymouth
54	Village of Republic
55	Village of Shiloh
56	Village of Sycamore
57	Village of Wharton
58	Village of Woodsfield
59	Virginia Polytechnic Institute and State University
60	Wabash Valley Power Association, Inc.

	Non-Zonal NITS Customers
61	Buckeye Power, Inc (DPL)
62	Buckeye Power, Inc (FE)
63	Buckeye Power, Inc (Cinergy)

Description of the Applicants' Jurisdictional Facilities—Transmission Assets
(Ohio Power)

Applicant & Its Energy Affiliates (Owner)	Asset	Controlled By	Location Balancing Authority Area	Size (circuit miles)
Ohio Power	765kV Lines	PJM	PJM	509
Ohio Power	345kV Lines	PJM	PJM	1,799
Ohio Power	88-138kV Lines	PJM	PJM	3,352
Ohio Power	69kV or less Lines	PJM	PJM	3,288
			TOTAL	**8,948**

Exhibit I – Agreements Related to the Proposed Transaction

Exhibit I contains the following document:

1. Asset Contribution Agreement Between Ohio Power Company and AEP Generation Resources Inc. (35 pages).

ASSET CONTRIBUTION AGREEMENT

BETWEEN

OHIO POWER COMPANY

AND

AEP GENERATION RESOURCES INC.

Dated as of _____, 201_

Table of Contents

EXHIBITS

SCHEDULES

ASSET CONTRIBUTION AGREEMENT

This **Asset Contribution Agreement** (this "Agreement"), dated as of _____ 201_, is between **Ohio Power Company**, an Ohio corporation ("Transferor"), and **AEP Generation Resources Inc.**, a Delaware corporation ("Transferee"). Collectively, Transferee and Transferor may be referred to herein as the "Parties" and each, individually, as a "Party."

W I T N E S S E T H

WHEREAS, Transferor owns or holds interests in certain electric generating plants and related facilities in the state of Ohio; leases for barges and towboats utilized in connection with the delivery of coal and other products to Transferor's generating plants; the Cook Coal Terminal (as hereinafter defined); and certain other assets, improvements, equipment, properties (both tangible, including real and personal property, and intangible), and rights associated therewith or ancillary thereto, all as more specifically described herein.

WHEREAS, Transferor desires to transfer and assign to Transferee, and Transferee desires to acquire and assume from Transferor, the Transferred Assets (as hereinafter defined) and certain liabilities, upon the terms and conditions hereinafter set forth;

WHEREAS, concurrently with, and as a condition to, the execution and delivery of this Agreement, Transferor and Transferee are executing and delivering an Assumption Agreement, pursuant to which, and subject to the terms and conditions thereof, Transferor has agreed to assign and Transferee has agreed to assume, concurrently with the closing of the transactions contemplated herein, certain liabilities of Transferor as described therein;

WHEREAS, Transferor and Transferee intend that the transfer of the Transferred Assets contemplated herein qualify as contributions to capital under Section 351 of the Internal Revenue Code of 1986, as amended; and

WHEREAS, Transferor directly owns all of the outstanding capital stock of Transferee.

NOW, THEREFORE, in consideration of the premises and the mutual covenants, agreements, representations and warranties hereinafter set forth, the Parties, intending to be legally bound, hereby agree as follows:

ARTICLE I

DEFINITIONS

Section 1.01 Definitions.

(a) As used in this Agreement, the following terms have the following meanings:

"**Affiliate**" means a Person that directly or indirectly through one or more intermediaries, controls, or is controlled by, or is under common control with, the Person specified. The term "control" (including the terms "controlling," "controlled by" and "under common control with") means the possession, direct or indirect, of the power to direct or cause the direction of the management and policies of a Person, whether through the ownership of voting securities, by contract or otherwise.

"**Ancillary Agreements**" means the Assumption Agreement, the Asset Transfer Agreement, the Deeds, the Assignment of Easements and Rights of Way, the Assignment of Real Property Leases, the Assignment of Contracts and any other agreements or instruments entered into between the Parties with respect to the transactions contemplated by this Agreement.

"**Asset Transfer Agreement**" means the Asset Transfer Agreement to be executed and delivered at Closing by Transferor to Transferee in substantially the form attached hereto as Exhibit E.

"**Assignment of Contracts**" means the Assignment of Contracts agreement to be entered into between Transferor and Transferee at Closing in substantially the form attached hereto as Exhibit A.

"**Assignment of Easements and Rights of Way**" means the Assignments of Easements and Rights of Way agreements to be entered into between Transferor and Transferee at Closing in substantially the form attached hereto as Exhibit B.

"**Assignment of Real Property Leases**" means the Assignment of Real Property Leases agreements to be entered into by and between Transferor and Transferee at Closing in substantially the form attached hereto as Exhibit C.

"**Assumed Liabilities**" has the meaning set forth in Section 2.03.

"**Assumed Payables**" means a certain amount of those payables owed by Transferor with respect to the Transferred Assets, as set forth in Schedule 1.01.

"**Assumption Agreement**" means the Assumption Agreement to be entered into between Transferor and Transferee at Closing in substantially the form attached hereto as Exhibit D.

"**Business Day**" means a day other than a Saturday, Sunday or day on which banks are permitted or required to remain closed in the state of Ohio.

"**Cardinal Stock**" means fifty percent of the outstanding capital stock of the Cardinal Operating Company owned by Transferor.

"**Central Coal Stock**" means fifty percent of the outstanding capital stock of the Central Coal Company owned by Transferor.

"**CERCLA**" means the Comprehensive Environmental Response, Compensation, and Liability Act of 1980, as amended from time to time.

"**Closing**" has the meaning set forth in Section 3.03.

"**Closing Date**" has the meaning set forth in Section 3.03.

"**Conesville Stock**" means the outstanding capital stock of the Conesville Coal Preparation Company, a wholly owned subsidiary of Transferor.

"**Contracts**" has the meaning set forth in Section 4.01(i).

"**Cook Coal Terminal**" means the rail to river coal transfer facility more specifically described in Schedule 1.02.

"**CWIP**" has the meaning set forth in the definition of "Improvements".

"**Debt**" means the long-term and short-term debt owed by Transferor as described in Schedule 1.03.

"**Deeds**" means those certain deeds to be executed and delivered at Closing by Transferor to Transferee.

"**Deferred Tax Assets**" means the Transferor's deferred tax assets relating to the Transferred Assets or any assumed Liability that is carried on its books.

"**Deferred Tax Liability**" means the Transferor's deferred tax liability relating to the Transferred Assets or any assumed Liability that is carried on its books.

"**Easements and Rights of Way**" means the easements and rights of way as described in Schedule 1.04.

"**Effective Time**" has the meaning set forth in Section 3.03.

"**Emissions Allowances**" means all authorizations issued to Transferor by a Governmental Authority pursuant to a statutory or regulatory program promulgated by a Governmental Authority pursuant to which air emissions sources subject to the program are authorized to emit a prescribed quantity of air emissions.

"**Encumbrance**" means any security interest, pledge, mortgage, lien, charge, option to purchase, lease, claim, restriction, covenant, title defect, hypothecation, assignment, deposit arrangement or other encumbrance of any kind or any preference, priority or other security agreement or preferential arrangement of any kind or nature whatsoever (including any conditional sale or title retention agreement).

"**Environment**" means soil, land surface, or subsurface strata, surface waters (including navigable waters, streams, ponds, drainage basins, reservoirs and wetlands), ground waters, stream sediments, ambient air, plant and animal life, and any other environmental medium or natural resource.

"**Environmental Condition**" means the presence or Release to the Environment, whether at the Real Property, the Leased Real Property or real property covered by the Easements and Rights of Way or otherwise, of Hazardous Substances, including any migration of Hazardous Substances through air, soil or groundwater at, to or from the Real Property, the Leased Real Property or the real property covered by the Easements and Rights of Way or at, to or from any Off-Site Location, regardless of when such presence or Release occurred or is discovered.

"**Environmental Laws**" means all (i) Laws relating to pollution or protection of the environment, natural resources or human health and safety, including Laws relating to Releases or threatened Releases of Hazardous Substances or otherwise relating to the manufacture, formulation, generation, processing, distribution, use, treatment, storage, Release, transport, remediation, abatement, cleanup or handling of Hazardous Substances; (iii) Laws with regard to recordkeeping, notification, disclosure and reporting requirements respecting Hazardous Substances; and (iii) Laws relating to the management or use of natural resources.

"**Environmental Permits**" has the meaning set forth in Section 4.01(g).

"**Excluded Assets**" has the meaning set forth in Section 2.02.

"**Excluded Liabilities**" has the meaning set forth in Section 2.04.

"**FERC**" means the Federal Energy Regulatory Commission.

"**Franklin Real Property**" means that certain real property held by Franklin Real Estate Company, a wholly owned subsidiary of the Parent, as agent for and for the benefit of Transferor's electric generation assets as more specifically described in Schedule 1.05.

"**Generating Plants**" means the electric generating plants and related equipment and facilities described in Schedule 1.06 that is owned by Transferor or in which Transfer holds a direct or indirect ownership interest.

"**Generation Transmission Assets**" has the meaning set forth in Section 2.01(t).

"**Good Utility Practice**" means any of the practices, methods and acts engaged in or approved by a significant portion of the electric utility industry during the relevant time period, or any of the practices, methods or acts which, in the exercise of reasonable judgment in light of the facts known at the time the decision was made, could have been expected to accomplish the desired result at a reasonable cost consistent with good business practices, reliability, safety and expedition.

"**Governmental Authority**" means any: (i) nation, state, county, city, town, village, district, or other jurisdiction of any nature; (ii) federal, state, local, municipal, foreign, or other government; (iii) governmental or quasi-governmental authority of any nature (including any governmental agency, branch, department, official, or entity and any court or other tribunal); (iv) multi-national organization or body; or (v) body exercising, or entitled to exercise, any administrative, executive, judicial, legislative, police, regulatory, or taxing authority or power of any nature.

"**Hazardous Substances**" means (i) any petrochemical or petroleum products, oil or coal ash, radioactive materials, radon gas, asbestos in any form that is or could become friable, urea formaldehyde foam insulation and transformers or other equipment that contain dielectric fluid which may contain levels of polychlorinated biphenyls; (ii) any chemicals, materials or substances defined as or included in the definition of "hazardous substances," "hazardous wastes," "hazardous materials," "hazardous constituents," "restricted hazardous materials," "extremely hazardous substances," "toxic substances," "contaminants," "pollutants," "toxic pollutants," or words of similar meaning and regulatory effect under any applicable Environmental Law; and (iii) any other chemical, material or substance, exposure to which is prohibited, limited or regulated by any applicable Environmental Law.

"**Improvements**" means all buildings, structures, machinery and equipment (including all fuel handling and storage facilities), fixtures, construction work in progress ("CWIP"), and other improvements, including all piping, cables and similar equipment forming part of the mechanical, electrical, plumbing or HVAC infrastructure of any building, structure or equipment, located on and affixed to the Real Property, the Leased Real Property and the Easements and Rights of Way.

"**Intellectual Property**" means all of the following and similar intangible property and related proprietary rights, interests and protections, however arising, (i) all software necessary to operate or maintain the Transferred Assets, (ii) confidential information, formulas, designs, devices, technology, know-how, research and development, inventions, methods, processes, compositions and other trade secrets, whether or not patentable and (iii) patented and patentable designs and inventions, all design, plant and utility patents, letters patent, utility models, pending patent applications and provisional applications and all issuances, divisions, continuations, continuations-in-part, reissues, extensions, reexaminations and renewals of such patents and applications.

"**Inventories**" means (i) all inventories of fuels and consumables owned by Transferor for use at the Generating Plants, whether located on Real Property, Leased Real Property or the Easements and Rights of Way associated with the Generating Plants or in transit thereto or stored offsite and (ii) all materials and supplies, including without limitation, spare parts, owned by Transferor for use at or in connection with the Generating Plants, the Cook Coal Terminal, the Rail Transportation Assets and the River Transportation Assets.

"**Knowledge**" means the actual and current knowledge of the corporate officer or officers of the specified Person charged with responsibility for the particular function as of the date of this Agreement, or, with respect to any certificate delivered pursuant to this Agreement, the date of delivery of the certificate, without any implication of verification or investigation concerning such knowledge.

"**Laws**" means all laws, statutes, rules, regulations, ordinances and other pronouncements having the effect of law of the United States, any foreign country and any domestic or foreign state, county, city or other political subdivision or of any Governmental Authority.

"**Leased Real Property**" has the meaning set forth in Section 4.01(e)(i).

"**Liability**" means any liability or obligation, whether known or unknown, whether asserted or not asserted, whether absolute or contingent, whether accrued or not accrued, whether liquidated or not liquidated, whether incurred or consequential, and whether due or to become due.

"**Material Adverse Effect**" means (i) any event, circumstance or condition materially impairing the ability of Transferor to perform its obligations under this Agreement or any Ancillary Agreement or (ii) any change in or effect on the Transferred Assets that is materially adverse to the Transferred Assets, other than (a) any change resulting from changes in the international, national, regional or local wholesale or retail markets for electricity, (b) any change resulting from changes in the international, national, regional or local markets for fuel or consumables used at the Generating Plants, (c) any change resulting from changes in the North American, national, regional or local electric transmission system, and (d) any change in Law generally applicable to similarly situated Persons.

"**Net Book Value**" means an amount in dollars, as reflected in the corresponding line item or items of the balance sheet of Transferor as of the applicable date for all Transferred Assets and all Assumed Liabilities. With respect to the Transferred Assets, Net Book Value is equal to total Transferred Assets net of accumulated depreciation or amortization as appropriate.

"**Off-Site Location**" means any real property other than the Real Property, the Leased Real Property or real property covered by the Easements and Rights of Way.

"**Organizational Documents**" means (i) the articles or certificate of incorporation and the bylaws of a corporation; (ii) the limited liability company or operating agreement and certificate of formation of a limited liability company; (iii) the partnership agreement and any statement of partnership of a general partnership; (iv) the limited partnership agreement and the certificate of limited partnership of a limited partnership; (v) any charter or similar document adopted or filed in connection with the creation, formation, or organization of a Person, and (vi) any amendment to any of the foregoing.

"**Parent**" means American Electric Power Company, Inc.

"**Party**" has the meaning set forth in the first paragraph of this Agreement.

"**PCRB Support Notes**" has the meaning set forth in Section 2.03(e).

"**Permits**" has the meaning set forth in Section 4.0l(k).

"**Permitted Encumbrances**" means: (i) mechanics', carriers', workmen's, repairmen's or other like Encumbrances arising or incurred in the ordinary course of business that would not, individually or in the aggregate, reasonably be expected to have a Material Adverse Effect, (ii) Encumbrances for Taxes not yet due or which are being contested in good faith by appropriate proceedings and that would not, individually or in the aggregate, reasonably be expected to have a Material Adverse Effect; (iii) imperfections of title or encumbrances, if any, that, individually or in the aggregate, do not materially impair, and would not reasonably be expected to have a Material Adverse Effect; (iv) leases, subleases and similar agreements, and liens of any landlord or other third party on property over which Sellers have easement rights or on any Leased Real Property and subordination or similar agreements relating thereto; (v) leases, mineral reservations and conveyances, easements, covenants, rights-of-way and other similar restrictions of record; (vi) any conditions that may be shown by a current, accurate survey or physical inspection of the Real Property or the Leased Real Property made prior to the Closing; (vii) zoning, planning, conservation restriction and other land use and environmental regulations by Governmental Authorities; (viii) the respective rights and obligations of the Parties under this Agreement and the Ancillary Agreements; (ix) Encumbrances resulting from legal proceedings being contested in good faith by appropriate proceedings that would not, individually or in the aggregate, reasonably be expected to have a Material Adverse Effect; and (x) other Encumbrances that would not, individually or in the aggregate, reasonably be expected to have a Material Adverse Effect.

"**Person**" means any individual, corporation (including any non-profit corporation), general or limited partnership, limited liability company, joint venture, estate, trust, association, organization, labor union, or other entity or Governmental Authority.

"**Pollution Control Revenue Bonds**" means the pollution control bonds held by the public and identified in Schedule 1.07.

"**Rail Transportation Assets**" means the railcar leases and associated rail equipment and facilities described in Schedule 1.08.

"**Real Property**" has the meaning set forth in Section 2.01(c).

"**Real Property Leases**" has the meaning set forth in Section 4.01(e)(i).

"**Release**" means any release, spill, leak, discharge, disposal of, pumping, pouring, emitting, emptying, injecting, leaching, dumping or allowing to escape into or through the environment.

"**River Transportation Assets**" means the barges and towboats leases and associated equipment and facilities described in Schedule 1.09.

"**Tax**" means all federal, state, local and foreign taxes, charges, fees, levies, imposts, duties or other assessments, including, without limitation, income, gross receipts, excise, employment, sales, use, transfer, license, payroll, franchise, severance, stamp, occupation, windfall profits, environmental (including taxes under Code Section 59A), premium, federal highway use, commercial rent, customs duties, capital stock, paid up capital, profits, withholding, social security, single business and unemployment, disability, real property, personal property, registration, ad valorem, value added, alternative or add-on minimum, estimated, or other tax or governmental fee of any kind whatsoever, imposed or required to be withheld by any Governmental Authority, including any interest, penalties or additions thereto, whether disputed or not.

"**Transferee**" has the meaning set in the first paragraph of this Agreement.

"**Transferor**" has the meaning set forth in the first paragraph of this Agreement.

"**Transferor Held Stock**" means, collectively, the Cardinal Stock, the Central Coal Stock and the Conesville Stock.

"**Transferor's Retained Real Property**" has the meaning set forth in Section 2.02(a).

"**Transferred Assets**" has the meaning set forth in Section 2.01.

(b) Interpretation. In this Agreement, unless otherwise specified or where the context otherwise requires:

(i) a reference, without more, to a recital is to the relevant recital to this Agreement, to an Article or Section is to the relevant Article or Section of this Agreement, and to a Schedule or Exhibit is to the relevant Schedule or Exhibit to this Agreement;

(ii) words importing any gender shall include other genders;

(iii) words importing the singular only shall include the plural and vice versa;

(iv) the words "include," "includes" or "including" shall be deemed to be followed by the words "without limitation;"

(v) reference to any agreement, document or instrument means such agreement, document or instrument as amended or modified and in effect from time to time in accordance with the terms thereof;

(vi) reference to any applicable Law means, if applicable, such Law as amended, modified, codified, replaced or reenacted, in whole or in part, and in effect from time to time, including rules and regulations promulgated thereunder;

(vii) "or" is used in the inclusive sense of "and/or;"

(viii) references to documents, instruments or agreements shall be deemed to refer as well to all addenda, exhibits, schedules or amendments thereto;

(ix) the words "hereof," "herein" and "herewith" and words of similar import shall, unless otherwise stated, be construed to refer to this Agreement as a whole and not to any particular provision of this Agreement; and

(x) references to any party hereto or any other agreement or document shall include such party's successors and permitted assigns, but, if applicable, only if such successors and assigns are not prohibited by this Agreement.

ARTICLE II
TRANSFER OF ASSETS

Section 2.01 Transfer of Assets. Upon the terms and conditions set forth in this Agreement, at the Closing but effective as of the Effective Time, Transferor shall transfer, convey, assign and deliver to Transferee as a contribution to capital, and Transferee shall acquire and assume from Transferor as a contribution to capital, free and clear of all Encumbrances other than Permitted Encumbrances, all of Transferor's right, title and interest to the following described assets (the "Transferred Assets"):

(a) the Generating Plants;

(b) the Cook Coal Terminal;

(c) the real property (including the Improvements) described in Schedule 2.10(c) (and together with the Franklin Real Property, the "Real Property");

(d) the Real Property Leases (including the Improvements);

(e) the Easements and Rights of Way (including the Improvements);

(f) the River Transportation Assets;

(g) the Rail Transportation Assets;

(h) all Inventories;

(i) the Contracts;

(j) the Permits;

(k) the Environmental Permits;

(l) the Intellectual Property;

(m) the Emissions Allowances;

(n) the Deferred Tax Assets;

(o) the Transferor Held Stock;

(p) all vehicles, equipment, machinery, furniture and other tangible personal property located on or at the Real Property, the Leased Real Property and the Easements and Rights of Way, a partial list of which is described on Schedule 2.01(p);

(q) the other assets described in Schedule 2.01(q);

(r) all unexpired, transferable warranties and guarantees from manufacturers, vendors and other third parties with respect to any Improvement or item of real or tangible personal property constituting part of the Transferred Assets;

(s) all books, purchase orders, operating records, operating, safety and maintenance manuals, engineering design plans, blueprints and as-built plans, specifications, procedures, studies, reports, equipment repair, safety, maintenance or service records, and similar items (subject to the right of Transferor to retain copies of same for its use), other than such items that are proprietary to third parties and accounting records (to the extent that any of the foregoing is contained in an electronic format, Transferor shall reasonably cooperate with Transferee to transfer such items to Transferee in a format that is reasonably acceptable to Transferee);

(t) the electrical transmission facilities associated with the Generating Plants located at or forming part of the Generating Plants, including all energized switchyard facilities

on the generation asset side of the appropriate interconnection points and real property directly associated therewith, all substation facilities and support equipment, as well as all permits, contracts and warranties related thereto, including those certain assets and facilities specifically identified on Schedule 2.01(t) (the "Generation Transmission Assets");

(u) without limitation of any of the foregoing, Transferor is transferring to Transferee all of Transferor's right, title and interest in and to all power generation function equipment including, but not limited to, generation step-up transformers, turbine-generators, plant power distribution equipment such unit auxiliary transformers, forced draft fans, coal handling facilities, precipitator facilities, and protection and control equipment and systems that are associated with the Generating Plants;

(v) the rights of Transferor in and to any causes of action against third parties relating to the Transferred Assets or any part thereof, including any claim for refunds (but excluding any refund, credit, penalty, payment, adjustment or reconciliation related to Taxes paid or due for periods ending prior to the Effective Time in respect of the Transferred Assets, whether such refund, credit, penalty, payment, adjustment or reconciliation is received as a payment or, subject to Section 3.02, as a credit against future Taxes payable), prepayments, offsets, recoupment, insurance proceeds, condemnation awards, judgments and the like, whether received as a payment or credit against future liabilities, relating specifically to Transferred Assets and relating to any period ending prior to, on or after the Effective Time;

(w) the rights of Transferor in, to and under all contracts, agreements, arrangements, permits or licenses of any nature and related to the Transferred Assets, which are not expressly excluded pursuant to Section 2.02 and of which the obligations of Transferor thereunder are not expressly excluded by Transferee pursuant to Section 2.04; and

(x) to the extent not otherwise described in this Section 2.01, all other assets and property, whether real or personal, tangible or intangible, that are associated with or used in connection with ownership and operation of the Generating Assets, the Cook Coal Terminal, the Rail Transportation Assets and the River Transportation Assets.

Section 2.02 Excluded Assets. Notwithstanding anything to the contrary contained in Section 2.01 or elsewhere in this Agreement, nothing in this Agreement shall constitute or be construed as conferring on Transferee, and Transferee is not acquiring, any right, title or interest

in and to (i) any properties, assets, business, operation, or division of Transferor or any of its Affiliates (other than Transferee) not expressly set forth in Section 2.01 or (ii) the following specific assets of Transferor that may be associated with the Transferred Assets, but which are specifically excluded from the transfer contemplated hereunder. Such assets, properties and rights are excluded from the Transferred Assets and shall remain the property of Transferor after the Closing (collectively, the "Excluded Assets"):

(a) the Transferor's real property and interests in real property, other than the portion thereof comprised of the Real Property, the Leased Real Property and the Easements and Rights of Way to be conveyed by the Deeds, the Assignment of Leased Real Property and the Assignments of Easements and Rights of Way (the "Transferor's Retained Real Property");

(b) all cash, cash equivalents, bank deposits, deferred fuel, deferred capacity, Ohio compliance renewable energy credits, unamortized credit line fees, and any receivables related to income Taxes attributable to the income of Transferor but only to the extent any such receivables are not a Deferred Tax Asset;

(c) all minute books, stock transfer books, corporate seals and other corporate records;

(d) certificates of deposit, shares of stock, securities, bonds, debentures, evidences of indebtedness (excluding the Debt);

(e) except to the extent otherwise described in the Transferred Assets, all tariffs, agreements and arrangements to which Transferor is a party for the purchase or sale of electric capacity and/or energy or for the purchase or sale of transmission or ancillary services involving the Transferred Assets or otherwise;

(f) all other assets and properties owned by Transferor or any of its Affiliates (other than Transferee) that do not constitute, are not used in connection with or are not ancillary to the ownership or operation of the Transferred Assets;

(g) all transmission facilities included in Transferor's FERC-jurisdictional rate base;

(h) all of Transferor's electric distribution assets; and

(i) the rights of Transferor under this Agreement and the Ancillary Agreements.

Section 2.03 Assumed Liabilities. On the Closing Date, Transferee shall execute and deliver the Assumption Agreement, pursuant to which, among other things, Transferee shall assume all Liabilities described therein and, in addition, Transferee shall assume the following Liabilities (collectively, the "Assumed Liabilities"):

(a) on the terms and subject to the conditions set forth in this Agreement, at the Closing, Transferee shall assume and become responsible for, and shall thereafter pay, perform and discharge as and when due the Liabilities arising under or related to the Transferred Assets whether arising from, or relating to, periods prior to, on or after the Effective Time;

(b) all Liability of Transferor with respect to the Assumed Payables;

(c) all Liability of Transferor with respect to the Debt to the extent relating to periods of time after the Effective Time;

(d) all Liability of Transferor with respect to the Deferred Tax Liability;

(e) all Liability of the Transferor with respect to its payment obligations under the Pollution Control Revenue Bonds which shall be accomplished through promissory notes from Transferee in favor of Transferor (the "PCRB Support Notes") pursuant to which Transferee shall provide funds to Transferor in amounts sufficient for Transferor to satisfy its principal and interest obligations under the Pollution Control Revenue Bonds when due; and

(f) all Liability of the Transferor with respect to the property Taxes related to the Transferred Assets.

2.04 Excluded Liabilities. Notwithstanding the foregoing provisions of Section 2.03, Transferee shall not assume by virtue of this Agreement, the Assumption Agreement or any other Ancillary Agreement, or the transactions contemplated hereby or thereby, or otherwise, and shall have no liability for any of the following Liabilities or any Liability of Transferor that is not related to the Transferred Assets (the "Excluded Liabilities"):

(a) any Liabilities of Transferor in respect of any Excluded Assets or other assets of Transferor that are not Transferred Assets;

(b) any Liabilities in respect of Transferor's current income Taxes and any other Taxes not otherwise assumed pursuant to Section 2.03(d) and (e);

(c) any fines and penalties imposed by any Governmental Authority resulting from any act or omission by Transferor and not related to the Transferred Assets; and

(d) any Liability of Transferor arising as a result of its execution and delivery of this Agreement or any Ancillary Agreement, the performance of its obligations hereunder or thereunder, or the consummation by Transferor of the transactions contemplated hereby or thereby.

ARTICLE III
ASSET TRANSFER; CLOSING

Section 3.01 Asset Transfer. Transferor shall transfer to Transferee the Transferred Assets and the Assumed Liabilities at Net Book Value as of the Effective Time. In the event that final amounts for the Net Book Value of the Transferred Assets or the Assumed Liabilities are not available on the Closing Date, the final Net Book Value of the Transferred Assets or the Assumed Liabilities, as applicable, shall be determined and agreed to by Transferee and Transferor within ninety (90) days after the Closing Date. Transferor and Transferee agree to furnish each other with such documents and other records as may be reasonably requested in order to confirm the final Net Book Value of the Transferred Assets and the Assumed Liabilities.

Section 3.02 Proration.

(a) Transferee and Transferor agree that all of the items normally prorated, including those listed below, relating to the business and operation of the Transferred Assets shall be prorated as of the Effective Time, with Transferor liable to the extent such items relate to any time period through the Effective Time, and Transferee liable to the extent such items relate to periods subsequent to the Effective Time:

(i) personal property, real estate, occupancy and any other Taxes, assessments and other charges, if any, on or with respect to the business and operation of the Transferred Assets. Provided, however, that the Parties shall not prorate any Taxes, assessments or charges relating to the Transferred Assets that are to be assumed by Transferee pursuant to Section 2.03;

(ii) rent, Taxes and other items payable by or to Transferor under any of the Contracts to be assigned to and assumed by the Transferee hereunder; and

(iii) sewer rents and charges for water, telephone, electricity and other utilities.

(b) In connection with such proration, in the event that actual figures are not available at the Closing Date, the proration shall be based upon the actual amount of such Taxes or fees for the preceding year (or appropriate period) for which actual Taxes or fees are available and such Taxes or fees shall be re-prorated upon request of either the Transferor or the Transferee made within ninety (90) days after the date that the actual amounts become available. Transferor and Transferee agree to furnish each other with such documents and other records as may be reasonably requested in order to confirm all adjustment and proration calculations made pursuant to this Section 3.02.

Section 3.03 Closing. The transfer, assignment, conveyance and delivery of the Transferred Assets, and the consummation of the other transactions contemplated by this Agreement, shall take place at a closing (the "Closing") to be held at the offices of American Electric Power, 1 Riverside Plaza, Columbus, Ohio 43204 at a time mutually acceptable to the Parties on the date of the execution and delivery of this Agreement by each of the Parties (the "Closing Date"). The Closing shall be effective for all purposes as of [_____] (the "Effective Time").

Section 3.04 Closing Deliveries.

(a) At the Closing, Transferor will deliver, or cause to be delivered, to Transferee the following items:

(i) possession of the Transferred Assets;

(ii) an original of each of the Deeds, duly executed and acknowledged by Transferor;

(iii) an original of the Asset Transfer Agreement duly executed by Transferor;

(iv) an original of the Assumption Agreement duly executed by Transferor;

(v) an original of each Assignment of Easements and Rights of Way duly executed by Transferor;

(vi) an original of each Assignment of Real Property Leases duly executed by Transferor;

(vii) an original of the Assignment of Contracts and Leases duly executed by Transferor;

(viii) the PCRB Support Notes duly executed by Transferor; and

(ix) such other documents as are contemplated by this Agreement or as the Transferee may reasonably request to carry out the purposes of this Agreement.

(b) At the Closing, Transferee will deliver, or cause to be delivered, to Transferor the following items:

(i) an original of the Asset Transfer Agreement duly executed by Transferee;

(ii) an original of the Assumption Agreement duly executed by Transferee;

(iii) an original of each Assignment of Easements and Rights of Way duly executed by Transferee;

(iv) an original of each Assignment of Real Property Leases duly executed by Transferee;

(v) an original of the Assignment of Contracts duly executed by Transferee; and

(vi) such other documents as are contemplated by this Agreement or as the Transferor may reasonably request, including vehicle titles, to consummate the transactions contemplated hereby.

ARTICLE IV
REPRESENTATIONS AND WARRANTIES

Section 4.01 Representations and Warranties of Transferor. Transferor represents and warrants to Transferee as follows:

(a) Organization and Good Standing; Qualification. Transferor is a corporation duly formed, validly existing and in good standing under the laws of the state of Ohio. Transferor has all requisite power and authority to own, lease or operate the Transferred Assets and to carry on its business as it is now being conducted.

(b) Authority and Enforceability. Transferor has full power and authority to execute and deliver, and carry out its obligations under, this Agreement and each Ancillary Agreement to which it is a party and to consummate the transactions contemplated hereby and thereby. The execution, delivery and performance by Transferor of this Agreement and each Ancillary Agreement to which it is a party, and the consummation of the transactions contemplated hereby and thereby, have been duly and validly authorized by all necessary action on the part of Transferor. Assuming the due authorization, execution and delivery of this Agreement and each Ancillary Agreement to which it is a party by Transferee, this Agreement and each such Ancillary Agreement constitutes a legal, valid and binding obligation of Transferor, enforceable against it in accordance with its terms, except as such enforceability may be limited by applicable bankruptcy, insolvency and other similar laws affecting the rights and remedies of creditors generally and by general principles of equity.

(c) No Violation; Consents and Approvals.

(i) neither the execution, delivery and performance by Transferor of this Agreement and each Ancillary Agreement to which it is a party, nor the consummation by Transferor of the transactions contemplated hereby and thereby, will (i) conflict with or result in any breach of any provision of the Organizational Documents of Transferor; (ii) result in a default (or give rise to any right of termination, cancellation or acceleration), or require a consent, under any of the terms, conditions or provisions of any note, bond, mortgage, indenture, material agreement or other instrument or obligation to which Transferor is a party or by which it or any of the Transferred Assets may be

bound, except for any such defaults or consents (or rights of termination, cancellation or acceleration) as to which requisite waivers or consents have been obtained or which would not, individually or in the aggregate, reasonably be expected to have a Material Adverse Effect; or (iii) constitute a violation of any law, regulation, order, judgment or decree applicable to Transferor, except for any such violations as would not, individually or in the aggregate, reasonably be expected to have a Material Adverse Effect.

(ii) Transferor has obtained all consents and approvals from each Governmental Authority necessary for the execution, delivery and performance of this Agreement by Transferor or of any Ancillary Agreement to which Transferor is a party, or the consummation by Transferor of the transactions contemplated hereby and thereby, other than such consents and approvals which, if not obtained or made, would not, individually or in the aggregate, reasonably be expected to have a Material Adverse Effect.

(d) Insurance. All material policies of property, liability, workers' compensation and other forms of insurance owned or held by, or on behalf of, Transferor and insuring the Transferred Assets are in full force and effect, all premiums with respect thereto covering all periods up to and including the date hereof have been paid (other than retroactive premiums), and no notice of cancellation or termination has been received with respect to any such policy which was not replaced on substantially similar terms prior to the date of such cancellation.

(e) Leased Real Property.

(i) Schedule 4.01(e) sets forth a description of each lease of real property held by Transferor (the "Real Property Leases") and the real property covered thereby (the "Leased Real Property") that is to be transferred as contemplated herein by Transferor to Transferee (but specifically excluding the Transferor's Retained Real Property).

(ii) Each Real Property Lease (a) constitutes a legal, valid and binding obligation of Transferor and, to Transferor's Knowledge, constitutes a valid and binding obligation of the other parties thereto and (b) is in full force and effect and Transferor has not delivered or received any written notice of termination thereunder.

(iii) There is not under any Real Property Lease any default or event which, with notice or lapse of time or both, (a) would constitute a default by Transferor or, to Transferor's Knowledge, any other party thereto, (b) would constitute a default by Transferor or, to Transferor's Knowledge, any other party thereto which would give rise to an automatic termination, or the right of discretionary termination, thereof, or (c) would cause the acceleration of any of Transferor's obligations thereunder or result in the creation of any Encumbrance (other than any Permitted Encumbrance) on any of the Transferred Assets. There are no claims, actions, proceedings or investigations pending or, to the Knowledge of Transferor, threatened against Transferor or any other party to any Real Property Lease before any Governmental Authority or body acting in an adjudicative capacity relating in any way to any Real Property Lease or the subject matter thereof. Transferor has no Knowledge of any defense, offset or counterclaim arising under any Real Property Lease.

(f) Title; Condition of Assets.

(i) Subject to Permitted Encumbrances, Transferor holds title to the Real Property and the Easements and Rights of Way and has good and valid title thereto and to the other Transferred Assets that it purports to own or in which it has an interest, free and clear of all Encumbrances.

(ii) The tangible assets (real and personal) at, related to, or used in connection with Generating Plants, the Transmission Assets and the Cook Coal Terminal, taken as a whole, (a) are in good operating and usable condition and repair, free from any defects (except for ordinary wear and tear, in light of their respective ages and historical usages, and except for such defects as do not materially interfere with the use thereof in the conduct of the normal operation and maintenance of the Transferred Assets taken as a whole) and (b) have been maintained consistent with Good Utility Practice.

(iii) Transferor owns and possesses all right, title and interest in and to the Subsidiary Stock free and clear of all Encumbrances.

(g) Environmental Matters. Section I of Schedule 4.01(g) lists all material Environmental Permits. Except as disclosed in Schedule 4.01(g):

(i) Transferor holds, and is in compliance with, all permits, certificates, certifications, licenses and other authorizations issued by Governmental Authorities under Environmental Laws that are required for Transferor to conduct the business and operations of the Transferred Assets (collectively, "Environmental Permits"), and Transferor is otherwise in compliance with all applicable Environmental Laws with respect to the business and operations of the Transferred Assets, except for any such failures to hold or comply with required Environmental Permits, or such failures to be in compliance with applicable Environmental Laws, as would not, individually or in the aggregate, reasonably be expected to have a Material Adverse Effect;

(ii) Transferor has not received any written request for information, or been notified of any violation, or that it is a potentially responsible party, under CERCLA or any other Environmental Law for contamination or air emissions at the Generating Plants, the Real Property, the Leased Real Property, the real property covered by the Easements and Rights of Way or the Cook Coal Terminal except for any such requests or notices that would result in liabilities under such laws as would not, individually or in the aggregate, reasonably be expected to have a Material Adverse Effect, and there are no claims, actions, proceedings or investigations pending or, to the Knowledge of Transferor, threatened against Transferor before any Governmental Authority or body acting in an adjudicative capacity relating in any way to any Environmental Laws or against Transferor or Parent concerning contamination or air emissions at the Generating Plants, the Real Property, the Leased Real Property, the real property covered by the Easements and Rights of Way or the Cook Coal Terminal;

(iii) no Environmental Condition exists that is reasonably expected to have a Material Adverse Effect; and

(iv) there are no outstanding judgments, decrees or judicial orders relating to the Transferred Assets regarding compliance with any Environmental Law or to the investigation or cleanup of Hazardous Substances under any Environmental Law relating to the Transferred Assets, except for such outstanding judgments, decrees or judicial orders as would not, individually or in the aggregate, reasonably be expected to have a Material Adverse Effect.

The representations and warranties made in this Section 4.01(g) are the exclusive representations and warranties of Transferor relating to environmental matters.

(h) Condemnation. There are no pending or, to the Knowledge of Transferor, threatened proceedings or governmental actions to condemn or take by power of eminent domain all or any part of the Transferred Assets.

(i) Contracts.

(i) Schedule 4.01(i) lists all written contracts, agreements, licenses (other than Environmental Permits, Permits or Intellectual Property) or personal property and non-real property leases (including (a) the barge and boat leases comprising a part of the River Transportation Assets and (b) the facilities lease for the Cook Coal Terminal) of Transferor that are material to the business or operations of the Transferred Assets (the "Contracts").

(ii) Each Contract (a) constitutes a legal, valid and binding obligation of Transferor and, to Transferor's Knowledge, constitutes a valid and binding obligation of the other parties thereto and (b) is in full force and effect and Transferor has not delivered or received any written notice of termination thereunder.

(iii) There is not under any Contract and Lease any default or event which, with notice or lapse of time or both, (a) would constitute a default by Transferor or, to Transferor's Knowledge, any other party thereto, (b) would constitute a default by Transferor or, to Transferor's Knowledge, any other party thereto which would give rise to an automatic termination, or the right of discretionary termination, thereof, or (c) would cause the acceleration of any of Transferor's obligations thereunder or result in the creation of any Encumbrance (other than any Permitted Encumbrance) on any of the Transferred Assets. There are no claims, actions, proceedings or investigations pending or, to the Knowledge of Transferor, threatened against Transferor or any other party to any Contract before any Governmental Authority or body acting in an adjudicative capacity relating in any way to any Contract or the subject matter thereof. Transferor has no Knowledge of any defense, offset or counterclaim arising under any Contract.

(j) Legal Proceedings. Except as set forth on Schedule 4.01(j) there are no actions or proceedings pending or, to the Knowledge of Transferor, threatened against Transferor before any court, arbitrator or Governmental Authority, which, individually or in the aggregate, would reasonably be expected to have a Material Adverse Effect. Transferor is not subject to any outstanding judgments, rules, orders, writs, injunctions or decrees of any court, arbitrator or Governmental Authority that, individually or in the aggregate, would reasonably be expected to have a Material Adverse Effect.

(k) Permits.

(i) Transferor has all permits, licenses, franchises and other governmental authorizations, consents and approvals (other than Environmental Permits, which are addressed in Section 4.0l(k)) necessary to own and operate the Transferred Assets (collectively, "Permits"), except where any failures to have such Permits would not, individually or in the aggregate, reasonably be expected to have a Material Adverse Effect. Transferor has not received any written notification that Transferor is in violation, nor does Transferor have Knowledge of any violations, of any such Permits, or any Law or judgment of any Government Authority applicable to Transferor with respect to the Transferred Assets, except for violations that would not, individually or in the aggregate, reasonably be expected to have a Material Adverse Effect.

(ii) Section II of Schedule 4.01(k) lists all material Permits (other than Environmental Permits).

(l) Taxes. To the Knowledge of Transferor, Transferor has filed all Tax Returns that are required to be filed by it with respect to any Tax relating to the Transferred Assets, and Transferor has paid all Taxes that have become due as indicated thereon, except where such Tax is being contested in good faith by appropriate proceedings, or where any failures to so file or pay would not, individually or in the aggregate, reasonably be expected to have a Material Adverse Effect. There are no Encumbrances for Taxes on the Transferred Assets that are not Permitted Encumbrances.

(m) Intellectual Property. Transferor has such ownership of or such rights by license or other agreement to use all Intellectual Property necessary to permit Transferor to conduct its business with respect to the Transferred Assets as currently conducted, except where

any failures to have such ownership, license or right to use would not, individually or in the aggregate, reasonably be expected to have a Material Adverse Effect. Transferor is not, nor has Transferor received any notice that Transferor is, in default (or with the giving of notice or lapse of time or both, would be in default) under any contract to use such Intellectual Property, and there are no material restrictions on the transfer of any material contract, or any interest therein, held by Transferor in respect of such Intellectual Property. Transferor has not received notice that it is infringing any Intellectual Property of any other Person in connection with the operation or business of the Transferred Assets.

(n) Compliance with Laws. Transferor is in compliance with all applicable Laws with respect to the ownership or operation of the Transferred Assets, except where any such failures to be in compliance would not, individually or in the aggregate, reasonably be expected to have a Material Adverse Effect.

(o) Limitation of Representations and Warranties. **EXCEPT FOR THE REPRESENTATIONS AND WARRANTIES SET FORTH IN THIS AGREEMENT AND IN ANY ANCILLARY AGREEMENT, TRANSFEROR IS NOT MAKING, AND HEREBY DISCLAIMS, ANY OTHER REPRESENTATIONS AND WARRANTIES, WRITTEN OR ORAL, STATUTORY, EXPRESS OR IMPLIED, CONCERNING TRANSFEROR OR THE TRANSFERRED ASSETS OR ANY PART THEREOF**.

Section 4.02 Representations and Warranties of Transferee. Transferee represents and warrants to Transferor as follows:

(a) Organization and Good Standing. Transferee is a corporation duly formed, validly existing and in good standing under the laws of the state of Delaware and has all requisite power and authority to own, lease or operate its properties and to carry on its business as it is now being conducted.

(b) Authority and Enforceability. Transferee has full power and authority to execute and deliver and carry out its obligations under this Agreement and each Ancillary Agreement to which it is a party, and to consummate the transactions contemplated hereby and thereby. The execution, delivery and performance by Transferee of this Agreement and each such Ancillary Agreement, and the consummation of the transactions contemplated hereby and thereby, have been duly and validly authorized by all necessary action by Transferee.

Assuming the due authorization, execution and delivery of this Agreement and each such Ancillary Agreement by the other party or parties thereto, this Agreement and each such Ancillary Agreement constitutes a legal, valid and binding obligation of Transferee, enforceable against Transferee in accordance with its terms, except as such enforceability may be limited by applicable bankruptcy, insolvency and other similar laws affecting the rights and remedies of creditors generally and by general principles of equity.

(c) No Violation; Consents and Approvals.

(i) Neither the execution, delivery and performance by Transferee of this Agreement and each Ancillary Agreement to which Transferee is a party, nor the consummation by Transferee of the transactions contemplated hereby and thereby, will (a) conflict with or result in any breach of any provision of the Organizational Documents of Transferee; (b) result in a default (or give rise to any right of termination, cancellation or acceleration), or require a consent, under any of the terms, conditions or provisions of any note, bond, mortgage, indenture, material agreement or other instrument or obligation to which Transferee is a party or by which any of their respective material properties or assets may be bound, except for any such defaults or consents (or rights of termination, cancellation or acceleration) as to which requisite waivers or consents have been obtained or which would not, individually or in the aggregate, reasonably be expected to have a material adverse effect on the ability of Transferee to perform its obligations under this Agreement and the Ancillary Agreements; or (c) constitute a violation of any law, regulation, order, judgment or decree applicable to Transferee, except for any such violations as would not, individually or in the aggregate, reasonably be expected to have a material adverse effect on the ability of Transferee to perform its obligations under this Agreement and the Ancillary Agreements.

(ii) Transferee has obtained all consents and approvals from each Governmental Authority or other Person necessary for the execution and delivery of this Agreement or any Ancillary Agreement by Transferee, or the consummation by Transferee of the transactions contemplated hereby and thereby, except for any such consents and approvals which, if not obtained or made, would not, individually or in the aggregate, reasonably be expected to have a material adverse effect on the ability of

Transferee to perform its obligations under this Agreement and the Ancillary Agreements.

(d) Legal Proceedings. There are no actions or proceedings pending or, to the Knowledge of Transferee, threatened against Transferee before any court, arbitrator or Governmental Authority, which, individually or in the aggregate, would reasonably be expected to have a Material Adverse Effect on the ability of Transferee to perform its obligations under this Agreement and the Ancillary Agreements. Transferee is not subject to any outstanding judgments, rules, orders, writs, injunctions or decrees of any court, arbitrator or Governmental Authority which, individually or in the aggregate, would reasonably be expected to have a material adverse effect on the ability of Transferee to perform its obligations under this Agreement and the Ancillary Agreements.

ARTICLE V
CERTAIN COVENANTS AND AGREEMENTS

Section 5.01 Transfer Tax; Recording Costs. All transfer, use, stamp, sales and similar Taxes and recording costs incurred in connection with this Agreement and the transactions contemplated hereby shall be the sole responsibility of Transferee.

Section 5.02 Further Assurances.

(a) Subject to the terms and conditions of this Agreement, Transferor and Transferee shall use commercially reasonable efforts to take, or cause to be taken, all actions, and to do, or cause to be done, all things necessary, proper or advisable under applicable Laws to consummate and make effective the transfer of the Transferred Assets pursuant to this Agreement and the assumption of the Assumed Liabilities, including using commercially reasonable efforts with a view to obtaining all necessary consents, approvals and authorizations of, and making all required notices or filings with, third parties required to be obtained or made in order to consummate the transactions hereunder, including the transfer of the Environmental Permits and the Permits to Transferee. Neither Transferor, on the one hand, nor Transferee, on the other hand, shall, without prior written consent of the other, take or fail to take any action which might reasonably be expected to prevent or materially impede, interfere with or delay the transactions contemplated by this Agreement.

(b) In the event that any portion of the Transferred Assets shall not have been conveyed to Transferee at the Closing, Transferor shall, subject to paragraphs (c) and (d) immediately below, convey such asset to Transferee as promptly as practicable after the Closing.

(c) To the extent, if any, that Transferor's rights under any Contract, Real Property Leases or Easements and Rights of Way may not be assigned without the consent of any other party thereto, which consent has not been obtained by the Closing Date, this Agreement shall not constitute an agreement to assign the same if an attempted assignment would constitute a breach thereof or be unlawful. Transferor and Transferee agree that if any consent to an assignment of any Contract, Real Property Lease or Easement and Right of Way has not been obtained at the Closing Date, or if any attempted assignment would be ineffective or would impair Transferee's rights and obligations under the Contract, Real Property Lease or Easement and Right of Way in question, so that Transferee would not in effect acquire the benefit of all such rights and obligations, Transferor, at its option and to the maximum extent permitted by law and such Contract, Real Property Lease or Easement and Right of Way, shall, after the Closing Date, (i) appoint Transferee to be Transferor's agent with respect to such Contract, Real Property Lease or Easement and Right of Way or (ii) to the maximum extent permitted by law and such Contract, Real Property Lease or Easement and Right of Way, enter into such reasonable arrangements with Transferee or take such other commercially reasonable actions to provide Transferee with the same or substantially similar rights and obligations of such Contract, Real Property Lease or Easement and Right of Way. From and after the Closing Date, Transferor and Transferee shall cooperate and use commercially reasonable efforts to obtain an assignment to Transferee of any such Contract, Real Property Lease or Easement and Right of Way.

(d) To the extent that Transferor's rights under any warranty or guaranty described in Section 2.01(r) may not be assigned without the consent of another Person, which consent has not been obtained by the Closing Date, this Agreement shall not constitute an agreement to assign the same, if an attempted assignment would constitute a breach thereof or be unlawful. The Parties agree that if any consent to an assignment of any such warranty or guaranty has not been obtained or if any attempted assignment would be ineffective or would impair Transferee's rights and obligations under the warranty or guaranty in question, so that Transferee would not in effect acquire the benefit of all such rights and obligations, Transferor

shall use commercially reasonable efforts to the extent permitted by law and such warranty or guaranty, to enforce such warranty or guaranty for the benefit of Transferee to the maximum extent possible so as to provide Transferee with the benefits and obligations of such warranty or guaranty. Notwithstanding the foregoing, Transferor shall not be obligated to bring or file suit against any third party, provided that if Transferor determines not to bring or file suit after being requested by Transferee to do so, Transferor shall assign, to the extent permitted by law or any applicable agreement, its rights in respect of the claims so that Transferee may bring or file such suit.

Section 5.03 Survival. The representations and warranties of the Parties contained herein shall survive for a period of three years from the Closing Date and thereafter shall be of no further force and effect.

Section 5.04 Indemnification by Transferor. Subject to the limitation forth in Section 5.03, Transferor hereby agrees to indemnify, defend and hold harmless Transferee and its respective shareholders, directors, officers and employees from and against any damages suffered or incurred by them arising out of (i) any breach of any representation or warranty made by Transferor, (ii) any breach by Transferor of any covenant or obligation of Transferor in this Agreement and (iii) the Excluded Liabilities.

Section 5.05 Indemnification by Transferee. Subject to the limitation forth in Section 5.03, Transferee hereby agrees to indemnify, defend and hold harmless Transferor and its respective shareholders, directors, officers and employees from and against any damages suffered or incurred by them arising out of (i) any breach of any representation or warranty made by Transferee, (ii) any breach by Transferee of any covenant or obligation of Transferee in this Agreement and (iii) the Assumed Liabilities.

ARTICLE VI
MISCELLANEOUS PROVISIONS

Section 6.01 Notices. All notices and other communications hereunder shall be in writing and shall be deemed given (i) on the day when delivered personally or by e-mail (with confirmation) or facsimile transmission (with confirmation), (ii) on the next Business Day when

delivered to a nationally recognized overnight delivery service, or (iii) five (5) Business Days after deposited as registered or certified mail (return receipt requested), in each case, postage prepaid, addressed to the recipient Party at its address set forth below (or to such other addresses and e-mail and facsimile numbers for a Party as shall be specified by like notice; provided, however, that any notice of a change of address or e-mail or facsimile number shall be effective only upon receipt thereof):

If to Transferor, to:

Ohio Power Company

_____

_____

Attn:
Facsimile No.:
Email:

If to Transferee, to:

AEP Generation Resources Inc.

_____

_____

Attn:
Facsimile No.:
Email:

Section 6.02 Waiver. The rights and remedies of the Parties are cumulative and not alternative. Neither the failure nor any delay by any Party in exercising any right, power, or privilege under this Agreement or the documents referred to in this Agreement will operate as a waiver of such right, power, or privilege, and no single or partial exercise of any such right, power, or privilege will preclude any other or further exercise of such right, power, or privilege or the exercise of any other right, power, or privilege. To the maximum extent permitted by

applicable Law, (a) no claim or right arising out of this Agreement or the documents referred to in this Agreement can be discharged by one Party, in whole or in part, by a waiver or renunciation of the claim or right unless in writing signed by each other Party; (b) no waiver that may be given by a Party will be applicable except in the specific instance for which it is given; and (c) no notice to or demand on one Party will be deemed to be a waiver of any obligation of such Party or of the right of the Party giving such notice or demand to take further action without notice or demand as provided in this Agreement or the documents referred to in this Agreement.

Section 6.03 Entire Agreement; Amendment; Etc.

(a) This Agreement and the Ancillary Agreements, including the Schedules, Exhibits, documents, certificates and instruments referred to herein or therein, embody the entire agreement and understanding of the Parties hereto in respect of the transactions contemplated by this Agreement. There are no restrictions, promises, representations, warranties, covenants or undertakings, other than those expressly set forth or referred to herein or therein. This Agreement supersedes all prior or contemporaneous agreements, understandings or statements or agreements between the Parties, whether written or oral, with respect to the transactions contemplated hereby. Each Party acknowledges and agrees that no employee, officer, agent or representative of the other Party has the authority to make any representations, statements or promises in addition to or in any way different than those contained in this Agreement and the Ancillary Agreements, and that it is not entering into this Agreement or the Ancillary Agreements in reliance upon any reliance upon an representation, statement or promise of the other Party except as expressly stated herein or therein.

(b) This Agreement may not be amended, supplemented, terminated or otherwise modified except by a written agreement executed by Transferor and Transferee.

(c) This Agreement shall be binding upon and inure solely to the benefit of each Party hereto and nothing in this Agreement, express or implied, is intended to or shall confer upon any other Person any right, benefit or remedy of any nature whatsoever under or by reason of this Agreement.

Section 6.04 Assignment. This Agreement and all the of the provisions hereof shall be binding upon and inure to the benefit of the Parties hereto and their respective successors and permitted assigns, but neither this Agreement nor any of the rights, interests or obligations

hereunder may be assigned by, on the one hand, Transferor, and on the other hand, Transferee, in whole or in part (whether by operation of law or otherwise), without the prior written consent of the other Party, and any attempt to make any such assignment without such consent will be null and void. Notwithstanding the foregoing, Transferor or Transferee may assign or otherwise transfer its rights hereunder and under any Ancillary Agreement to any bank, financial institution or other lender providing financing to Transferor or Transferee, as applicable, as collateral security for such financing; provided, however, that no such assignment shall (i) impair or materially delay the consummation of the transactions contemplated hereby or (ii) relieve or discharge Transferor or Transferee, as the case may be, from any of its obligations hereunder and thereunder.

Section 6.05 Severability. If any term or other provision of this Agreement is invalid, illegal or incapable of being enforced by any law or public policy, all other terms and provisions of this Agreement will nevertheless remain in full force and effect so long as the economic or legal substance of the transactions contemplated hereby is not affected in any manner materially adverse to any party hereto. Upon such determination that any term or other provision is invalid, illegal or incapable of being enforced, the Parties will negotiate in good faith to modify this Agreement so as to effect the original intent of the Parties as closely as possible in an acceptable manner in order that the transactions contemplated hereby are consummated as originally contemplated to the greatest extent possible.

Section 6.06 Governing Law. This Agreement, the construction of this Agreement, all rights and obligations between the Parties to this Agreement, and any and all claims arising out of or relating to the subject matter of this Agreement (including all tort and contract claims) will be governed by and construed in accordance with the laws of the state of Ohio, without giving effect to choice of law principles thereof.

Section 6.07 Counterparts: Facsimile Execution. This Agreement may be executed in one or more counterparts, all of which will be considered one and the same agreement and will become effective when one or more counterparts have been signed by each of the Parties and delivered to each other Party, it being understood that the Parties need not sign the same counterpart. This Agreement may be executed by facsimile signature(s) or signatures in portable document format.

Section 6.08 Schedules. The Schedules to this Agreement are intended to be and hereby are specifically made a part of this Agreement.

Section 6.09 Specific Performance. The Parties hereto agree that irreparable damage would occur in the event any of the provisions of this Agreement were not to be performed in accordance with the terms hereof and that the Parties will be entitled to specific performance of the terms hereof in addition to any other remedies at law or in equity.

Signatures appear on following page

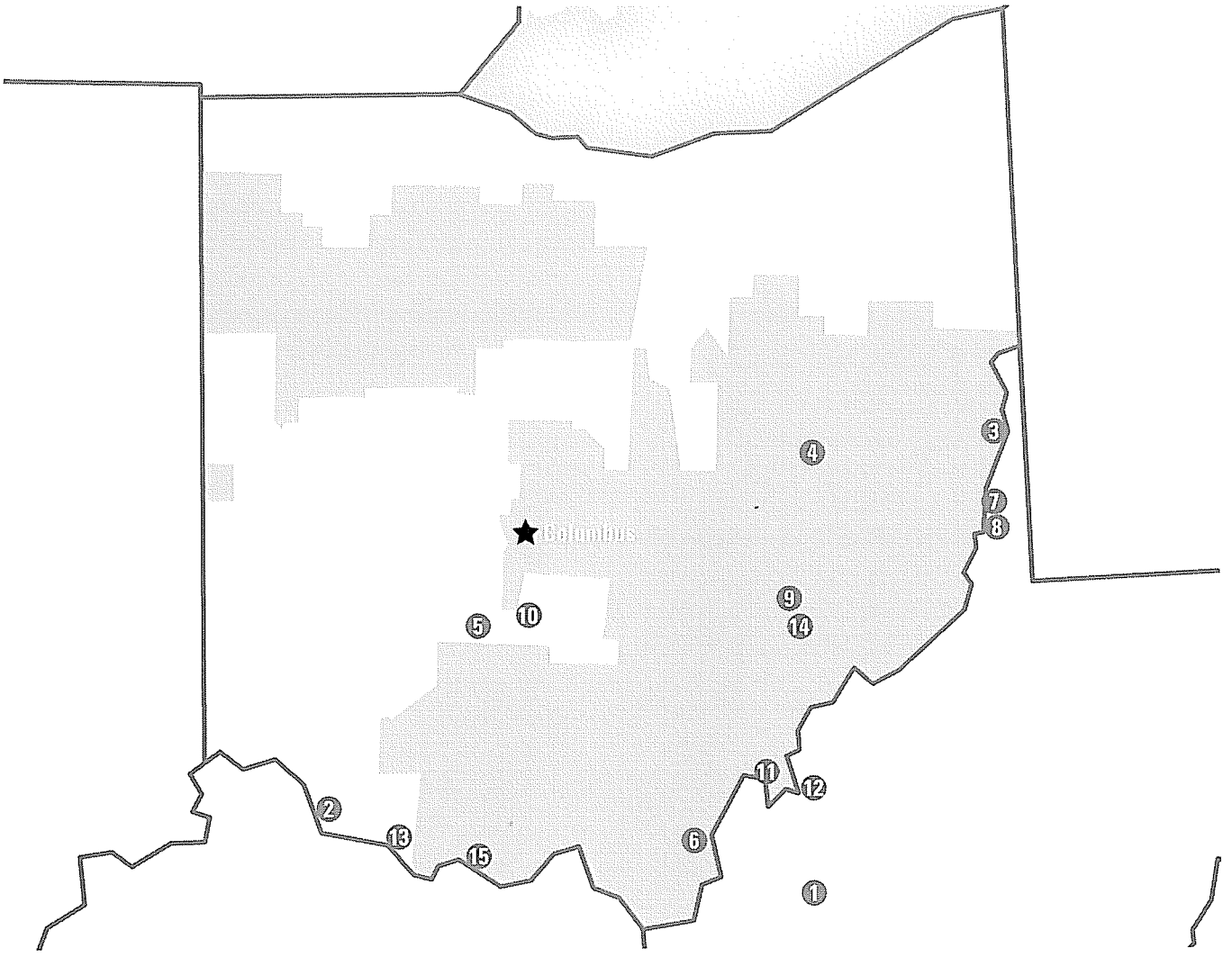
IN WITNESS WHEREOF, each of the Parties has caused this Asset Contribution Agreement to be executed on its behalf by its respective officer thereunto duly authorized, all as of the day and year first above written.

OHIO POWER COMPANY

By: _____
Name: _____
Title: _____

AEP GENERATION RESOURCES INC.

By: _____
Name: _____
Title: _____



Ohio Power Company Retail Service Territory

Plant	Location	Plant	Location
① **John E. Amos**	Winfield, WV	⑨ **Muskingum River**	Waterford, OH
② **Beckjord**	New Richmond, OH	⑩ **Picway**	Lockbourne, OH
③ **Cardinal**	Brilliant, OH	⑪ **Racine**	Racine, OH
④ **Conesville**	Conesville, OH	⑫ **Philip Sporn**	New Haven, WV
⑤ **Darby**	Mt. Sterling, OH	⑬ **J.M. Stuart**	Aberdeen, OH
⑥ **Gen. J.M. Gavin**	Cheshire, OH	⑭ **Waterford**	Waterford, OH
⑦ **Kammer**	Moundsville, WV	⑮ **W.H. Zimmer**	Moscow, OH
⑧ **Mitchell**	Moundsville, WV		

Exhibit L – Other Regulatory Approvals

COPIES OF AND LINKS TO DOCUMENTS IN OHIO COMMISSION PROCEEDINGS

1. October 17, 2012, Public Utilities Commission of Ohio, Finding and Order, Case No. 12-1126-EL-UNC, Approval of Amendment to Ohio Power's Corporate Separation Plan (26 pages).

   http://dis.puc.state.oh.us/TiffToPDf/A1001001A12J17B03115G93146.pdf

2. August 8, 2012, Public Utilities Commission of Ohio, Opinion and Order, Case No. 11-346-EL-SSO et al., Authority to Establish a Standard Service Offer in the Form of an Electric Security Plan (86 pages).

   http://dis.puc.state.oh.us/TiffToPDf/A1001001A12H08B40046F08138.pdf

BEFORE

THE PUBLIC UTILITIES COMMISSION OF OHIO

In the Matter of the Application of Ohio Power Company for Approval of an Amendment to its Corporate Separation Plan.	))))	Case No. 12-1126-EL-UNC

FINDING AND ORDER

The Commission finds:

(1) Ohio Power Company (OP, Company) is a public utility as defined in Section 4905.02, Revised Code, and, as such, is subject to the jurisdiction of this Commission.

(2) On January 27, 2011, in Case No. 11-346-EL-SSO, *et al.* (ESP 2), OP and Columbus Southern Power Company (CSP) filed an application for a standard service offer (SSO) pursuant to Section 4928.141, Revised Code.[1] The application was for an electric security plan (ESP) in accordance with Section 4928.143, Revised Code.

(3) On September 7, 2011, a stipulation and recommendation (ESP 2 stipulation) was filed by OP, Staff, and other parties to resolve the issues raised in 11-346 and several other cases pending before the Commission.[2]

(4) On December 14, 2011, the Commission issued an opinion and order in the ESP 2 and other pending cases, modifying

---

[1] *In the Matter of the Application of Columbus Southern Power Company and Ohio Power Company for Authority to Establish a Standard Service Offer Pursuant to Section 4928.143, Revised Code, in the Form of an Electric Security Plan,* Case Nos. 11-346-EL-SSO and 11-348-EL-SSO; *In the Matter of the Application of Columbus Southern Power Company and Ohio Power Company for Approval of Certain Accounting Authority,* Case Nos. 11-349-EL-AAM and 11-350-EL-AAM.

[2] *In the Matter of the Application of Ohio Power Company and Columbus Southern Power Company for Authority to Merge and Related Approvals,* Case No. 10-2376-EL-UNC; *In the Matter of the Application of Columbus Southern Power Company to Amend its Emergency Curtailment Service Riders,* Case No. 10-343-EL-ATA; *In the Matter of the Application of Ohio Power Company to Amend its Emergency Curtailment Service Riders,* Case No. 10-344-EL-ATA; *In the Matter of the Commission Review of the Capacity Charges of Ohio Power Company and Columbus Southern Power Company,* Case No. 10-2929-EL-UNC; *In the Matter of the Application of Columbus Southern Power Company for Approval of a Mechanism to Recover Deferred Fuel Costs Pursuant to Section 4928.144, Revised Code,* Case No. 11-4920-EL-RDR; *In the Matter of the Application of Ohio Power Company for Approval of a Mechanism to Recover Deferred Fuel Costs Pursuant to Section 4928.144, Revised Code,* Case No. 11-4921-EL-RDR.

and adopting the ESP stipulation (ESP 2 Order) which included approval of the request to merge CSP with and into OP to be effective December 31, 2011. Several applications for rehearing of the Commission's December 14, 2011, Order in the ESP 2 and consolidated cases were filed. On February 23, 2012, the Commission issued its Entry on Rehearing finding that the Stipulation, as a package, did not benefit ratepayers and was not in the public interest and, thus, did not satisfy the three-part test for the consideration of stipulations.

(5) On March 30, 2012, in Case No. 11-346-EL-SSO, *et al.* (modified ESP 2), OP filed a modified application for a SSO pursuant to Section 4928.141, Revised Code.[3] The modified application was also for an ESP in accordance with Section 4928.143, Revised Code.

(6) On March 30, 2012, in the above captioned case, OP also filed an application for approval to amend its corporate separation plan in accordance with Rule 4901:1-37-06(A) and 4901:1-37-09, Ohio Administrative Code (O.A.C.) and pursuant to the requirements of Section 4928.17, Revised Code. As a part of its application, OP seeks a waiver of Rules 4901:1-37-09(C)(4), and 4901:1-37-09(D), O.A.C. Rule 4901:1-37-09(C)(4), O.A.C., requires that an application to sell or transfer generating assets state the fair market value and the book value of the property to be transferred. Rule 4901:1-37-09(D), directs that a hearing be scheduled, if at the Commission's discretion, the application appears to be unjust, unreasonable or not in the public interest. If the application alters the jurisdiction of the Commission as to generation assets, the Commission shall fix a time and place for hearing, unless for good cause shown the hearing is waived.

(7) Pursuant to Rule 4901:1-37-06(B), O.A.C., a filing to revise or amend an electric utility's corporate separation plan shall be

---

[3] *In the Matter of the Application of Columbus Southern Power Company and Ohio Power Company for Authority to Establish a Standard Service Offer Pursuant to Section 4928.143, Revised Code, in the Form of an Electric Security Plan*, Case Nos. 11-346-EL-SSO and 11-348-EL-SSO; *In the Matter of the Application of Columbus Southern Power Company and Ohio Power Company for Approval of Certain Accounting Authority*, Case Nos. 11-349-EL-AAM and 11-350-EL-AAM.

deemed approved if not acted on by the Commission within 60 days after it is filed. By entry issued May 29, 2012, OP's application to revise its corporate separation plan was suspended, until the Commission specifically orders otherwise, to allow additional time to fully evaluate the proposed amendments.

(8) By entry issued July 9, 2012, a procedural schedule was established such that motions to intervene were due July 20, 2012, comments or objections were due July 27, 2012, and reply comments were due August 3, 2012.

(9) Motions to intervene were timely filed by the following parties: Industrial Energy Users-Ohio (IEU), Ohio Consumers' Counsel (OCC), Duke Energy Retail Sales, LLC (DER), Duke Energy Commercial Asset Management (DECAM), FirstEnergy Solutions Corporation (FES), Duke Energy Ohio, Inc. (Duke), Ohio Energy Group (OEG), Direct Energy Services, LLC and Direct Energy Business, LLC (jointly Direct Energy); Buckeye Power Inc. (Buckeye), OMA Energy Group (OMAEG), Ohio Hospital Association (OHA), the Kroger Company (Kroger), and Exelon Generation Company, LLC and Constellation NewEnergy, Inc. (jointly Exelon).

(10) Each movant for intervention states that it has a direct, real, and substantial interest in the issues raised by OP's revised corporate separation application. Further, each movant states that the disposition of this proceeding may, as a practical matter, impair or impede its ability to protect that interest. No memoranda contra any motion to intervene was filed. The Commission finds that the motions to intervene are reasonable and should be granted.

(11) In support of its application, OP states, among other things, that:

(a) The Commission granted OP and CSP authority to legally separate each company's distribution, transmission, and generation

functions in their electric transition plan cases.[4] Subsequently, the Commission authorized OP and CSP to continue to operate on a functional separation basis in their rate stabilization plan case.[5] Accordingly, AEP-Ohio has been operating pursuant to an interim functional corporate separation plan since 2001.[6]

(b) Corporate separation will be accomplished in several steps. OP formed a subsidiary, AEP Generation Resources Inc. (AEPGenCo) for the purposes of planning, constructing, owning, and operating the generating assets of OP. OP states that the new subsidiary is necessary in order to implement full structural corporate separation, as proposed in the Company's modified ESP 2 application and to facilitate its transition to a competitive market-based standard service offer. OP thus seeks approval to modify its existing corporate separation plan to reflect the new structure that would result from the transfer of certain generating assets and contractual entitlements.

(c) OP seeks Commission approval to transfer title of its generation assets, fuel and other generation-related assets at net book value to implement full legal corporate separation of its generation function. OP will transfer its generation assets, fuel and other generation-related assets to AEPGenCo to plan, construct, own and operate the generation assets.

(d) Corporate separation requires approval by the Federal Energy Regulatory Commission (FERC) and corporate separation will be implemented as soon as reasonably possible

---

[4] *In the Matter of the Applications of Columbus Southern Power Company and Ohio Power Company for Approval of Their Electric Transition Plans and for Receipt of Transition Revenues*, Case No. 99-1729-EL-ETP, *et al.*

[5] *In the Matter of the Application of Columbus Southern Power Company and Ohio Power Company for Approval of a Post-Market Development Period Rate Stabilization Plan*, Case No. 04-169-EL-UNC.

[6] *Id.*

after such approvals are received but not earlier than the effective date of the termination of the Interconnection Agreement among OP and other American Electric Power Company Inc. (AEP) system affiliates.[7]

(e) AEPGenCo will receive OP's existing generation assets, fuel and contractual entitlements[8] assets and can engage in sales for resale as regulated by the FERC. AEPGenCo will assume all liabilities associated with the generating assets to be transferred except as specifically provided.

(f) Subsequent to the transfer of the generation assets and liabilities from OP to AEPGenCo, AEPGenCo would transfer to Appalachian Power Company (APC) the interest in Unit 3 of the Amos generating plant and 80 percent of the Mitchell generating plant and transfer to Kentucky Power Company (KPC) 20 percent of the Mitchell generating plant.

(g) OP will retain all renewable energy purchase agreements (REPAs), as OP does not consider them "generation assets" as set forth in Section 4928.17, Revised Code or Chapter 4901:1-37, Ohio Administrative Code (O.A.C.). Specifically, OP would retain the Timber Road wind REPA, the Fowler Ridge II wind REPA, and the Wyandot solar REPA, since each was acquired to facilitate compliance with Section 4928.64, Revised Code.

(h) OP would also retain pollution control revenue bonds (PCRB) with tender dates after the closing of corporate separation. OP reasons that the PCRBs are a low cost component of

---

[7] AEP is the parent company of OP, AEPGenCo and American Electric Power Service Corporation (AEPSC).

[8] The contractual entitlements include purchase power agreements for the out put at the Lawrenceburg facility, Mone facility, the Cardinal Plant and the Ohio Valley Electric Corporation agreements.

OP's long-term debt portfolio which are not secured by generation assets, or any other asset. Furthermore, OP reasons that the PCRBs provide some financial flexibility and are tax exempt.

(i) OP contends that full structural corporate separation of OP's generating assets from its transmission and distribution functions is a fundamental component of the Company's transition to full market-based pricing of its generation service for retail customers and will promote retail shopping in Ohio. Further, OP states the change in its business model through corporate separation is critical to facilitating an auction-based SSO.

(j) OP will transfer its generation-related assets to AEPGenCo in exchange for all of the outstanding capital stock of AEPGenCo. OP will distribute its shares of AEPGenCo to AEP and AEP will then contribute all the stock of AEPGenCo to a sub-holding company that is not a subsidiary of OP that will survive corporate separation and isolates the utility from AEPGenCo.

(k) By Finding and Order issued June 2, 2010, in Case No. 09-464-EL-UNC (09-464), the Commission approved CSP's and OP's corporate separation plan wherein CSP and OP filed the necessary information to comply with the requirements of Rule 4901:1-37-05, O.A.C. Based on the Commission's approval in 09-464, OP submits amendments to its corporate separation plan to reflect the merger of CSP into OP and the full structural corporate separation of the generation business from its distribution and transmission business. As proposed, once FERC approves corporate separation pursuant to the plan, OP would update the list of affiliates and corporate structure and the cost allocation manual to

include AEPGenCo and to reflect the merger of CSP into OP.

(l) Upon corporate separation, until OP's SSO customers are served pursuant to auction, OP would purchase wholesale power from AEPGenCo pursuant to a full requirements contract. As proposed by OP, AEPGenCo would provide OP's SSO customers capacity from January 1, 2015 through May 31, 2015, but not energy under the wholesale power contract. As of June 1, 2015, energy and capacity for the Company's SSO customers would be procured through an SSO auction and the SSO contract between AEPGenCo and OP would terminate. OP states that the amendments to the corporate separation plan are the same amendments previously approved by the Commission in the Company's most recent corporate separation case which was subsequently withdrawn by the Company.[9]

(m) Addressing the filing requirements for an application to sell or transfer generating assets, as set forth in Rule 4901:1-37-09(C), O.A.C., OP states that the object and purpose of the proposed transfer of generating assets is to fulfill the mandate of Section 4928.17, Revised Code, and terminate the interim functional separation. AEPGenCo would receive OP's existing generation units and contractual entitlements and assume all liabilities associated with the transferred generation assets, including retired plants and the associated liabilities. Post corporate separation, AEPGenCo would be able to provide competitive retail generation service, as well as engage in sales for resale as regulated by FERC.

---

[9] Case No. 11-5333-EL-UNC, *In the Matter of the Application of Ohio Power Company for Approval of an Amendment to its Corporate Separation Plan*, Finding and Order (January 23, 2012).

(n) As full corporate separation requires approval by the FERC, OP states that corporate separation will be completed as soon as reasonable after the necessary approvals are received but not before the termination of the Pool Agreement, effective December 31, 2013, or such other date ordered by FERC. AEP-Ohio reasons that full structural corporate separation will facilitate an auction-based SSO. Further, OP believes that structural corporate separation advances the public interest by achieving the statutory mandate of Section 4928.17, Revised Code. Finally, OP proposes to transfer the generating assets at net book value and, accordingly, seeks a waiver of Rule 4901:1-37-09(C)(4), O.A.C., to the extent necessary.

(o) OP submits that there is no statutory requirement to provide the net book value and, therefore, the Commission may waive the requirement for good cause. OP offers that waiver of Rule 4901:1-37-09(C)(4), O.A.C., is reasonable in this case as OP seeks to transfer its generation assets to an affiliate within the same parent corporation. Further, OP states that transferring the generation assets based on an arbitrary determination of their fair market value is inappropriate.

(p) The sections of OP's existing corporate separation plan that are not affected by the proposed merger and structural corporate separation would continue to remain in effect.

(12) On August 22, 2012, OP filed a supplemental statement to update, as represented in its application, the list of affiliates, as of August 3, 2012, and to update the corporate organizational chart included within the Cost Allocation Manual to include AEPGenCo and, as a result of the merger, eliminate CSP. In response to a request of the Staff, OP also agrees to update the Cost Allocation Manual, and notify

Staff of the update, once the FERC approval is received and contemporaneous with the closing for corporate separation.

(13) On August 8, 2012, the Commission issued its Opinion and Order in OP's modified ESP proceeding (modified ESP 2 Order). As modified and approved, the Company's ESP 2 became effective with September 2012 billing and the modified ESP will continue through May 31, 2015. As a part of the modified ESP 2 proceeding, the Commission approved, with certain modifications, OP's request to transfer its generation assets, contracts and other assets and liabilities related to the generation business to AEPGenCo. Further, the August 8, 2012 Order deferred the terms and conditions of corporate separation to this proceeding.

(14) In accordance with the procedural schedule established, timely comments were filed by Staff, OCC, FES, Exelon, OMAEG, Kroger and IEU on July 27, 2012. Reply comments were filed by OP, FES, and IEU on August 3, 2012.

Applicable Law

(15) Section 4928.17, Revised Code, provides that an electric utility that, either directly or through an affiliate, engages in the business of supplying a noncompetitive retail electric service and a competitive retail electric service (CRES) or a product or service other than retail electric service must operate under a corporate separation plan. Pursuant to the statute, the corporate separation plan must be consistent with the policies of the state set forth in Section 4928.02, Revised Code, and achieve all of the following:

(a) provide, at minimum, for the provision of the CRES or the nonelectric product or service through a fully separated affiliate of the utility, and include separate accounting requirements, the code of conduct, and such other measures as are necessary to effectuate the state policy;

(b) satisfy the public interest in preventing unfair competitive advantage and preventing the abuse of market power; and

(c) be sufficient to ensure that the utility will not extend any undue preference or advantage to any affiliate, division, or part of its own business engaged in the business of supplying the CRES or nonelectric product or service, without compensation based upon fully loaded embedded costs charged to the affiliate; and ensure that any such affiliate, division, or part will not receive undue preference or advantage from any affiliate, division, or part of the business engaged in the business of supplying the noncompetitive retail electric service. No such utility, affiliate, division, or part shall extend such undue preference.

Section 4928.17, Revised Code, further provides that no electric distribution utility shall sell or transfer any generating asset that it wholly or partly owns at any time without obtaining prior Commission approval.

(16) Chapter 4901:1-37, O.A.C., sets forth the requirements pertaining to corporate separation for electric utilities. Specifically, the chapter is applicable to the activities of the utility and its transactions or other arrangements with its affiliates, any shared services of the utility with any affiliates, and the sale or transfer of generating assets. Rule 4901:1-37-09(B) through (D), O.A.C., set forth the filing requirements and the procedures to be followed for an application requesting approval of the sale or transfer of generating assets. Pursuant to Rule 4901:1-37-09(C), O.A.C., an application to sell or transfer generating assets must, at a minimum:

(a) clearly set forth the object and purpose of the sale or transfer, and the terms and conditions of the same;

(b) demonstrate how the sale or transfer will affect the current and future SSO;

(c) demonstrate how the proposed sale or transfer will affect the public interest; and

(d) state the fair market value and book value of all property to be transferred from the electric utility, and state how the fair market value was determined.

Rule 4901:1-37-09(D), O.A.C., provides that the Commission may fix a time and place for a hearing if the application to sell or transfer generating assets appears to be unjust, unreasonable, or not in the public interest. The rule further provides that the Commission shall fix a time and place for a hearing with respect to any application that proposes to alter the jurisdiction of the Commission over a generating asset. Finally, pursuant to Rule 4901:1-37-02(C), O.A.C., the Commission may waive any requirement in Chapter 4901:1-37, O.A.C., other than a requirement mandated by statute, for good cause shown.

Comments and Company Replies

Procedural Issues

(17) OMAEG contends that the Commission must hold a hearing on the application since it alters the jurisdiction of the Commission over generating assets in accordance with Rule 4901:1-37-09(D), O.A.C.

(18) OP submits that there is no statutory requirement that a hearing be held, and, therefore, the Commission may waive the hearing for good cause.

(19) Pursuant to Rule 4901:1-37-02(C), O.A.C., the Commission finds good cause exist to waive any requirement to hold a hearing on the corporate separation application. Given the fact that we have already approved the divestiture of OP's generating assets as a component of the modified ESP 2 cases, subject to approval of the amended corporate separation plan, and that such decision was reached following an extensive hearing, which included testimony in support of the divestiture of the generating assets, we find that the requirements of Rule 4901:1-37-09(D), O.A.C., do not apply to this proceeding.

(20) IEU filed a motion to dismiss and objections to OP's corporate separation application. In the motion to dismiss,

IEU argues that OP's application is inadequate such that the Commission cannot determine details necessary to assert the Commission's jurisdiction and to protect the public interest, including accounting details, balance sheets, and income statements to be assigned each business segment. IEU submits that the application fails to disclose information necessary for an audit or to verify compliance with the appropriate assignment of long-term debt, administrative and general expense between OP and AEPGenCo.

(21) In its reply to the various comments/objections, OP responds to IEU's motion to dismiss. First, OP offers that the motion to dismiss is improper pursuant to Rule 4901-1-12, O.A.C. Next, OP contends that IEU's claims that the application does not comply with Rule 4901:1-37-09(C), O.A.C., are incorrect. OP acknowledges, as does IEU, that the company has requested a waiver of Rule 4901:1-37-09(C)(4), O.A.C., which requires that the application state the fair market value and book value of the property to be transferred.

(22) Upon review of the application, the Company's supplemental statement, reply comments and taking into account the Commission decision in the Company's modified ESP 2 Order, the Commission concludes that OP's corporate separation application includes the necessary information required by Rule 4901:1-37-09(C)(1) through (3), O.A.C., and, therefore, the motion to dismiss the application is denied.

With respect to OP's request for a waiver of Rule 4901:1-37-09(C)(4), O.A.C., the Commission finds that such request is reasonable and should be granted pursuant to Rule 4901:1-37-02(C), O.A.C. Because OP seeks only to transfer its generating assets to an affiliate within the same parent corporation, in compliance with the mandate of Section 4928.17, Revised Code, we agree that it is appropriate for OP to transfer the assets at net book value and note that this approach is consistent with our recent decision in the Duke Energy Ohio Inc. case, Case No. 11-3549-EL-SSO et al., and the Commission's decision in OP's prior corporate separation case in Case No. 11-5333-EL-UNC, Finding and Order (January 23, 2012), although the request was

subsequently withdrawn. Accordingly, we deny IEU's request to dismiss this application.

(23) Along with its comments, on July 27, 2012, IEU also filed a motion for protective order in accordance with Rule 4901-1-24(D), O.A.C. IEU states that in its request to dismiss and objections, it refers to an exhibit marked as confidential by OP. While IEU takes no position on whether the information is a confidential trade secret under Ohio law, IEU states that it is filing this motion pursuant to a protective agreement with OP. OP did not file a motion for protective treatment of the exhibit nor did any party to the proceeding file a memorandum contra IEU's motion for protective order.

(24) After reviewing the information for which IEU seeks a protective order, the Commission notes that the information was provided during the hearing in OP's modified ESP 2. During the course of the hearing, the attorney examiner determined that the document marked IEU Ex. 121 was confidential (Tr. at 2172, 2197). The Commission confirms the ruling of the attorney examiner and finds that the document should likewise be afforded confidential treatment in this proceeding as well. Accordingly, the motion for protective treatment shall be granted.

(25) Further, we note that the Company, IEU and OCC have referred to evidence admitted into the record of the modified ESP 2 cases and that several issues raised are discussed in both proceedings. In light of the overlapping issues raised, the Commission, *sua sponte*, takes administrative notice of the specific exhibits presented in the modified ESP 2 cases which were admitted into evidence that are cited by the Company, Staff and other commenters in this matter.

Public Benefit

(26) OMAEG contends that OP makes two arguments in an attempt to demonstrate that its application for full corporate separation is just, reasonable, and in the public interest. First, OMAEG disputes that AEP-Ohio's claim that the transfer of its generation assets to AEPGenCo meets the mandates of Section 4928.17, Revised Code, is evidence of how the transfer of assets will benefit the public interest.

OMAEG insists that the application is deficient to support a Commission finding that OP's corporate separation plan complies with the statute and supports the policies set forth in Section 4928.02, Revised Code. Second, OMAEG reasons that OP's claims that structural corporate separation will advance market-based pricing for generation service, promote retail shopping in Ohio, and is critical to facilitating the Company's auction-based SSO, as a component of its modified ESP, is not supported by the information presented in this proceeding, independent from the Company's modified ESP 2 case.

(27) OP replies that approving the current application for full legal corporate separation fulfills the long-overdue statutory mandates, from its present "interim" functional separation to full legal separation. Further, OP reasons that full legal corporate separation promotes the public interest and existing state policy by facilitating AEP-Ohio's restructuring to facilitate competitively bid SSO and more competitive choices for electric service. Corporate separation will lead to full market-based pricing of generation service for retail customers and is a critical component of an auction-based SSO.

(28) The Commission believes that structural corporate separation facilitates the Company's transition to establishing SSO prices based on energy and capacity auctions in less than three years and, therefore, is beneficial to providing customers with options to secure lower cost retail electric service.

Conditions of Corporate Separation

(29) Although FES supports AEP-Ohio's immediate move to structural corporate separation, FES requests that the Commission make any approval of AEP-Ohio's corporate separation subject to the same conditions imposed by the Commission in Case No. 11-5333-EL-UNC, Finding and Order (January 23, 2012), the Company's previously approved corporate separation plan. FES also comments that AEPGenCo be required to operate independently and without subsidies from AEP-Ohio.

(30) IEU proposes more specific conditions be imposed on AEP-Ohio's request for full corporate separation:

(a) OP and its affiliates irrevocably consent to the Commission's exercise of its full authority as delegated by Section 4928.18, Revised Code.

(b) OP retain an independent auditor, at the expense of OP shareholders, to evaluate the corporate separation from the perspective of the public interest and make recommendations to the Commission.

(31) In its application, OP agreed to abide by conditions substantially similar to the conditions offered in the Duke Energy Ohio Inc., in Case No. 11-3549-EL-SSO, et al., (See Duke Stipulation at 25-27 filed October 24, 2011).

(32) Upon review of the application, the Company's supplemental statement, comments and reply comments, and taking into account the Commission decision in the Company's modified ESP 2 Order, the Commission concludes that OP's corporate separation application should be subject to the following conditions:[10]

(a) Staff, or an independent auditor at the Commission's discretion, shall audit the terms and conditions of the transfer of the generating assets to ensure compliance with Section 4928.17, Revised Code, and Chapter 4901:1-37, O.A.C., and any successors to the rules in that chapter, to ensure that no subsidiary or affiliate of OP that owns competitive generating assets has any competitive advantage due to its affiliation with OP. OP may file an application with the Commission to seek approval of the recovery of the costs associated with an independent audit.

---

[10] The Commission notes that these conditions are comparable to the conditions that we recently approved for Duke. *In the Matter of Application of Duke Energy Ohio, Inc. for Authority to Establish a Standard Service Offer Pursuant to Section 4928.143, Revised Code, in the Form of an Electric Security Plan, Accounting Modifications, and Tariffs for Generation Service,* Case No. 11-3549-EL-SSO, *et al.*, Opinion and Order (November 22, 2011) and OP's prior corporate separation proceeding.

(b) Staff shall be provided with access to all books, accounts, and records in compliance with Rule 4901:1-37-09(F), O.A.C.

(c) Following the transfer of the generating assets, OP shall not, without prior Commission approval, provide or loan funds to, provide any parental guarantee or other security for any financing for, and/or assume any liability or responsibility for any obligation of subsidiaries or affiliates that own generating assets; provided, however, that contractual obligations arising before the date of this finding and order shall be permitted to remain with OP, without prior Commission approval, for the remaining period of the contract, but only to the extent that assuming or transferring such obligations is prohibited, and can not be effectively negotiated by the terms of the contract or would result in substantially increased liabilities for OP if OP were to transfer such obligations to its subsidiary or affiliate and to the extent that AEPGenCo be made contractually responsible to OP for all costs resulting from such generation related liabilities. In order to facilitate verification of these obligations, OP shall identify such by October 31, 2013.

(d) OP shall ensure that all new contractual obligations have a successor-in-interest clause that transfers all of OP's responsibilities and obligations under such contracts and relieves OP from any performance or liability under the contracts upon the transfer of the generating assets to its subsidiary or affiliate.

(e) The above provisions do not restrict OP's ability to receive and pass through to the subsidiary or affiliate that owns the generating assets equity contributions from its parent that are in support of the generating assets, nor do they restrict OP's ability to receive dividends

from the subsidiary or affiliate that owns the generating assets and pass through such dividends to its parent.

(f) Generation-related costs associated with implementing corporate separation shall not be recoverable from OP customers.

(g) Any subsidiary or affiliate of OP to which generating assets are transferred shall not use or rely upon the ratings from credit rating agencies for OP. If such subsidiary or affiliate currently does not maintain separate ratings from the credit rating agencies, then upon transfer of any of the generating assets, it shall either seek to establish such ratings or shall tie its credit ratings to AEP as soon as practicable but no later than six months following such transfer.

(h) Further, in the modified ESP 2 Opinion and Order the Commission found:

> Despite the Staff's recommendation, the Commission approves AEP-Ohio's requests to retain the pollution control bonds contingent upon a filing with the Commission demonstrating that AEP-Ohio ratepayers have not and will not incur any costs associated with the cost of servicing the associated debt. More specifically, AEP-Ohio ratepayers shall be held harmless for the cost of the pollution control bonds, as well as any other generation or generation related debt or inter-company notes retained by AEP-Ohio.

Consistent with the Commission directives in the modified ESP 2 Order, and as OP recognizes in its application for rehearing of the modified ESP 2 Order, the Commission

believes the Company could achieve the Commission's directive by utilizing an intercompany note between OP and AEPGenCo wherein OP could retain the PCRB as OP requests and yet require AEPGenCo to provide to OP amounts sufficient to pay principal and interest on the PCRB.

The Commission is also aware that in the pending securitization application filed in Case No. 12-1969-EL-ATS, OP has reiterated its original request to either permanently retain the PCRB maturing after corporate separation or to transfer those bonds only when there is no defeasance costs.[11] The Commission reiterates its directive in the modified ESP 2 Order that PCRB maturing post corporate separation shall not be a cost recoverable, directly or indirectly, from OP distribution ratepayers. Therefore, the Commission will not permit OP to fund the defeasance costs of the PCRB with proceeds from the securitized bonds that are the subject of its application in Case No. 12-1969-EL-ATS. The Commission believes the Company could achieve the Commission's directive by utilizing an intercompany note between OP and AEPGenCo wherein OP could retain the PCRB as OP requests and yet require AEPGenCo to provide to OP amounts sufficient to pay principal and interest on the PCRB.

REPAs

(33) FES asks the Commission to treat the REPAs similarly such that either all the REPAs stay with OP or they should be transferred with the generation assets.

(34) OP responds, as the Company explained in its application, that transfer of the REPAs does not require Commission approval or need to be part of a corporate separation plan or amendment. Further, the Company emphasizes that it is not "cherry picking" the REPAs to be retained or transferred but would retain all of the existing REPAs.

(35) The Commission recognizes and approves, to the extent that it is necessary, OP's request to retain the existing REPAs

[11] Ohio Power Reply Comments at 5-6.

because the REPAs were entered into as a part of OP's compliance with Section 4928.64, Revised Code, and those compliance obligations remain with OP. Further, OP may financially settle the REPAs, in whole or in part, provided that the transactions are reasonable and the revenues from such transactions are credited to the benefit of the ratepayers through the mechanisms in which the REPA costs appear.

OP and AEPGenCo Contract

(36) FES opposes the contract between OP and AEPGenCo for the power needed after the effective date of corporate separation until energy is delivered pursuant to SSO auction. FES offers, as it argued in the modified ESP, that the contract between OP and AEPGenCo is subject to the requirements of Section 4928.143(B)(2)(a), Revised Code, and would violate the FERC Edgar standards as to the misuse of market power. FES requests that the Commission make clear that it is reserving judgment on the proposed contract between OP and AEPGenCo.

(37) IEU objects to the Company's corporate separation plan on the basis that it includes AEP-Ohio's plan to enter into a wholesale contract with AEPGenCo for energy and capacity. IEU argues that the contract is designed to provide AEPGenCo with an undue preference and competitive advantage as a consequence of the affiliate relationship and conflicts with the policies set forth in Section 4928.02, Revised Code. IEU offers that the proposed contract between OP and AEPGenCo, to serve SSO customers, violates Sections 4928.02 and 4928.17, Revised Code, and the Code of Conduct.

(38) In the modified ESP 2 Order, the Commission acknowledged that certain revenues paid to AEP-Ohio for generation-based services would be passed on to AEPGenCo. The Commission however, specifically did not expressly nor imply any endorsement of the terms or conditions of the AEP-Ohio contract with AEPGenCo, as it is subject to prior FERC approval. Therefore, the Commission makes no ruling, at this time on the AEPGenCo contract with OP.

Value of Generation Assets

(39) The transfer of the generating assets at net book value is objectionable to OCC who reasons that it is inconsistent with the objectives of Section 4928.17, Revised Code, the public policy set forth in Section 4928.02(H), Revised Code, and Rule 4901:1-37-04(C), O.A.C. OCC asserts that transferring the assets to AEPGenCo at net book value denies Ohio consumers any premium value associated with the generation facilities. OCC notes that the net book value of the generating assets is estimated at approximately $6 billion as of September 30, 2011.[12] As such, OCC reasons that the Commission should consider whether the transfer of the generating assets at net book value, rather than the market value, serves the public interest. Since the Commission has determined that Ohio consumers will be responsible for deferred capacity costs, as determined by the Commission in Case No. 10-2929-EL-UNC, equity would dictate, according to OCC, that Ohio consumers should share in the market premium associated with the generation assets.

(40) Similarly, IEU objects to OP's proposed transfer of its generating assets to an affiliate at net book value without submission of the book value and market value of the assets. IEU objects to this aspect of the application particularly in light of OP's request for above-market rates and charges for competitive services from the Commission and FERC, including the Commission's decision in Case No. 10-2929-EL-UNC, Order (July 2, 2012) (Capacity Case Order). IEU submits that OP's internal analysis demonstrates that future cash flow from its generating plant is more than the cash flow required to support the current book value of its generating assets at PJM's reliability pricing model-based pricing.[13] Further, IEU states that the corporate separation application fails to include the market value and book value of the property to be transferred.

---

[12] Modified ESP 2 cases, OCC Ex. 105, Tr. at 861.

[13] See Modified ESP 2 cases, OCC Ex. 104, Att. 4; IEU Ex. 117, Att. 5; IEU Ex. 120, Att. 3; IEU Ex. 121 (Confidential).

(41) First, OP argues that the commenters should be equitably estopped from opposing the transfer of the assets at the net book value given that they advocated for a transfer at net book value and the waiver of Rule 4901:1-37-09(C)(4), O.A.C., in the stipulation filed in the Duke Energy Ohio Inc. ESP and corporate separation cases.[14] Next, to the comments that call for a market valuation study, OP retorts that there is no basis in Ohio law which requires a market valuation before the transfer of assets, as Section 4928.17, Revised Code, does not require a market valuation study. Further, as to OCC's claims that customers are entitled to any premium on the generation assets, OP replies that the Commission has previously concluded that customers pay for electric service and are not investors in the utility plant.[15] Ratepayers have no ownership interest in the generation assets. OP further reasons that the General Assembly, as a part of Amended Substitute Senate Bill No. 3 (SB 3) required generation asset divestiture but did not provide for any gain on such assets to be flowed back to utility customers. OP concludes that the market valuation concept is a part of the Commission rules which has never been enforced against any electric utility in implementing corporate separation. The transfer of the generation asset from OP to AEPGenCo, does not create a premium or gain for AEP because it is merely the transfer of assets within the same holding company. The Company notes that commenters did not timely object to OP's request for waiver to provide the net book value, as conceded by OMAEG, and on that basis their request to deny the waiver should be rejected. OP argues that it is not in the public interest for the Commission to treat the two utilities differently, extending to Duke an undue and anticompetitive advantage, or to apply the same rule in an inconsistent manner.

---

[14] In Case No. 11-3549-EL-SSO et al., *In the Matter of the Application of Duke Energy Ohio, Inc. for Authority to Establish a Standard Service Offer Pursuant to Section 4928.143, Revised Code, in the Form of an Electric Security Plan, Accounting Modifications, and Tariffs for Generation Service.*

[15] *In the Matter of the Regulation of the Electric Fuel Component Contained within the Rate Schedules of Columbus Southern Power Company and Related Matters*, Case No. 88-102-EL-EFC, Opinion and Order at 14-16 (October 28, 1988); Entry on Rehearing at 8 (December 20, 1988).

OP submits that IEU's and OCC's reliance on the 2011 AEP accounting analysis submitted in the record of the original 11-346 ESP 2 proceeding is misplaced. OP offers that the accounting memorandum was based on a 30-year long-term analysis of the entire AEP-East generation fleet to determine whether the total expected revenue stream for the life of the assets exceeded their book value, in the aggregate, as opposed to an analysis as to the shopping load of OP based on RPM pricing. OP contends that the analysis was done for an unrelated purpose and des not support the demands of OCC or IEU as to market value of generating assets.

(42) Because OP seeks only to transfer its generating assets to an affiliate within the same parent corporation, in compliance with the mandate of Section 4928.17, Revised Code, we agree that it is appropriate for OP to transfer the assets at net book value and note that this approach is consistent with our recent decision in the Duke case, 11-3549, and the Commission's decision in the Company's prior corporate separation case in Case No. 11-5333-EL-UNC, although the request was subsequently withdrawn.

AEPGenCo Transactions with APC and KYC

(43) IEU opposes the transfer of the Amos Unit 3 and Mitchell Units to AEPGenCo and thereafter to APC and KYC. IEU reasons that the transfer to APC and KYC cannot be just, reasonable, and in the public interest as OP has not identified how the proposed transfer will affect future SSO customer rates as required by Commission rule.

(44) OP offers that, because the transfer of the Amos and Mitchell generating plants would occur through a separate and distinct transaction after OP's generation assets are transferred to AEPGenCo, the transfer of the Amos and Mitchell facilities to AP and KY are beyond this Commission's authority and jurisdiction under Section 4928.17, Revised Code. Further, OP offers that consideration of ownership of the generation assets after the transfer by the electric distribution utility, OP, is inconsistent with the Commission's application of its rules to other electric utilities.

(45) OP assures that all liabilities associated with the generating assets, being transferred will be assumed by AEPGenCo, including the liabilities associated with the retired plants. In the modified ESP 2 Order, the Commission directed OP that, "subject to our approval of the corporate separation plan, the electric distribution utility should divest its generation assets from its noncompetitive electric distribution utility assets by transfer to its separate competitive retail generation subsidiary," AEPGenCo. We further conclude, consistent with the Order in the modified ESP 2 cases, that OP should be authorized to transfer title to its generating assets to AEPGenCo, as set forth in its application. Thereafter, the transfer of certain generating assets held by AEPGenCo is beyond the jurisdiction of this Commission and, therefore, we conclude no action by this Commission is necessary.

Other Issues Raised by Staff and Interveners

(46) Staff and other commenters raise issues in regard to AEP-Ohio's implementation and the timing of a competitive bid process or energy auctions, the state compensation mechanism for capacity charges, the pool modification rider (PMR) proposed in the Company's modified ESP application, and the Company's retention of pollution control revenue bonds (PCRB) in this corporate separation proceeding. Staff requests that the corporate organization chart be updated.

(47) Further, FES reasons that, if the Commission approves the Retail Stability Rider (RSR) presented in the Company's modified ESP, the Commission should mandate that the RSR and the cost-based state compensation mechanism determined in Case No. 10-2929-EL-UNC terminate on the effective date of corporate separation. FES argues that upon the effective date of corporate separation, AEPGenCo is not a public utility and Chapter 4909, Revised Code, is not applicable and, therefore, AEPGenCo should not receive anti-competitive cross-subsidies from AEP-Ohio or deferred capacity charges in violation of Chapter 4909, Revised Code. FES cites testimony in the modified ESP 2 case which they say supports its contention that AEP-Ohio essentially intends to continue functional separation as to all generation related revenues and AEPGenCo. OCC states that OP

cannot be permitted to remit any of the RSR revenue to AEPGenCo. To do so, according to OCC, confers an unfair advantage to and an undue preference upon AEPGenCo, the unregulated generation affiliate. The RSR is in OCC's words "a revenue guarantee" for AEPGenCo that is contrary to the public interest to ensure fair competition.

(48) The Commission notes that the comments in this case were filed before the Commission issued the Order in the Company's modified ESP 2 cases. Each of the aforementioned issues raised in the immediately preceding finding were considered and addressed by the Commission in the modified ESP 2 Order issued August 8, 2012. Staff's request as to the corporate organization chart was addressed by the Company's supplemental filing on August 22, 2012.[16] As such, the Commission finds no need to address the issues further in this corporate separation proceeding.

Commission Conclusions

(49) The parties have been afforded an opportunity, in this proceeding, to comment on OP's amended corporate separation application and plan. Some of the concerns presented relate to the transfer of generation and generation-related assets. OP has provided sufficient details with respect to the object, purpose, and terms and conditions of the proposed transfer of generating assets, as well as demonstrated how the transfer will affect the SSO and the public interest, such that the Commission is satisfied that the transfer is just, reasonable, and in the public interest.

(50) In the modified ESP 2 Order, the Commission directed OP that, "subject to our approval of the corporate separation plan, the electric distribution utility should divest its generation assets from its noncompetitive electric distribution utility assets by transfer to its separate competitive retail generation subsidiary," AEPGenCo. We find that the conditions set forth above provide further assurance that liabilities will be appropriately transferred or that OP consumers will not be adversely affected. The Commission finds that the amended plan substantially

[16] Modified ESP 2 cases, Order at 32-40, 47-49, 57-60.

> complies with the requirements of Rule 4901:1-37-05, O.A.C. As the issues raised by the intervenors and Staff have been satisfactorily addressed by OP in its reply comments, as well as through our conditions above, or as part of the modified ESP 2 proceeding, the Commission finds that there is no need to hold a hearing in this matter.
>
> With the imposition of the above conditions, the Commission believes that the necessary safeguards are in place to ensure that the statutory mandates pertaining to OP's transfer of generating assets and structural corporate separation are followed and that the policy of the state is effectuated. We conclude that OP's proposed structural corporate separation and amended corporate separation plan are in compliance with Section 4928.17, Revised Code, and Chapter 4901:1-37, O.A.C., and should be approved.

It is, therefore,

ORDERED, That the motions to intervene, as discussed in findings (9) and (10) above, be granted. It is, further,

ORDERED, That OP's request to waive the hearing is granted, as discussed in finding (19). It is, further,

ORDERED, That IEU's motion to dismiss the application is denied as discussed in finding (22). It is, further,

ORDERED, That the motion for protective treatment, as discussed in findings (23) and (24) above, be granted. It is, further,

ORDERED, That OP's application for structural corporate separation, as modified herein, be approved. It is, further,

ORDERED, That a copy of this finding and order be served upon all parties and other interested persons of record in this case.

THE PUBLIC UTILITIES COMMISSION OF OHIO

Todd A. Snitchler, Chairman

Steven D. Lesser

Andre T. Porter

Cheryl L. Roberto

Lynn Slaby

GNS/dah

Entered in the Journal
OCT 17 2012

Barcy F. McNeal
Secretary

BEFORE

THE PUBLIC UTILITIES COMMISSION OF OHIO

In the Matter of the Application of Columbus Southern Power Company and Ohio Power Company for Authority to Establish a Standard Service Offer Pursuant to Section 4928.143, Revised Code, in the Form of an Electric Security Plan.	))))))	Case No. 11-346-EL-SSO Case No. 11-348-El-SSO
In the Matter of the Application of Columbus Southern Power Company and Ohio Power Company for Approval of Certain Accounting Authority.	))))	Case No. 11-349-EL-AAM Case No. 11-350-EL-AAM

OPINION AND ORDER

Table of Contents

The Commission, considering the above-entitled applications, and the record in these proceedings, hereby issues its opinion and order in these matters.

APPEARANCES:

Steven T. Nourse, Matthew J. Satterwhite, and Yazen Alami, American Electric Power Service Corporation, One Riverside Plaza, 29th Floor, Columbus, Ohio 43215-2373, and Porter, Wright, Morris & Arthur, LLP, by Daniel R. Conway and Christen Moore, 41 South High Street, Columbus, Ohio 43215, on behalf of Ohio Power Company.

Mike DeWine, Attorney General of the State of Ohio, by Werner L. Margard III, John H. Jones, and Steven L. Beeler, Assistant Attorneys General, 180 East Broad Street, Columbus, Ohio 43215-3793, on behalf of the Staff of the Public Utilities Commission of Ohio.

Bruce J. Weston, Interim Ohio Consumers' Counsel, Office of the Ohio Consumers' Counsel, by Maureen R. Grady, Joseph P. Serio, and Terry L. Etter, Assistant Consumers' Counsel, 10 West Broad Street, Columbus, Ohio 43215-3485, on behalf of the residential utility consumers of Ohio Power Company.

Boehm, Kurtz & Lowry, by Michael L. Kurtz, Kurt J. Boehm and Jody Kyler, 36 East Seventh Street, Suite 1510, Cincinnati, Ohio 45202, on behalf of Ohio Energy Group.

Taft, Stettinius & Hollister, LLP, by Mark S. Yurick and Zachary D. Kravitz, 65 East State Street, Suite 1000, Columbus, Ohio 43215-4213, on behalf of The Kroger Company.

McNees, Wallace & Nurick, LLC, by Samuel C. Randazzo, Frank P. Darr, and Joseph E. Oliker, 21 East State Street, Suite 1700, Columbus, Ohio 43215-4228, on behalf of Industrial Energy Users-Ohio.

Bell & Royer Co., LPA, by Barth E. Royer, 33 South Grant Avenue, Columbus, Ohio 43215-3927, on behalf of Dominion Retail, Inc.

Vorys, Sater, Seymour & Pease, LLP, by M. Howard Petricoff, Lija Kaleps-Clark, and Stephen M. Howard, 52 East Gay Street, Columbus, Ohio 43216-1008, and Covington & Burling, by William Massey, 1201 Pennsylvania Avenue, Washington, D.C. 20004, on behalf of The COMPETE Coalition.

Vorys, Sater, Seymour & Pease, LLP, by M. Howard Petricoff, Lija Kaleps-Clark, and Stephen M. Howard, 52 East Gay Street, Columbus, Ohio 43216-1008, on behalf of PJM Power Providers Group.

Vorys, Sater, Seymour & Pease, LLP, by M. Howard Petricoff and Lija Kaleps-Clark, 52 East Gay Street, Columbus, Ohio 43216-1008, and Joseph M. Clark, 6641 North High Street, Suite 200, Worthington, Ohio 43085, on behalf of Direct Energy Services, LLC and Direct Energy Business, LLC.

Vorys, Sater, Seymour & Pease, LLP, by M. Howard Petricoff and Lija Kaleps-Clark, 52 East Gay Street, Columbus, Ohio 43216-1008, on behalf of Retail Energy Supply Association.

Vorys, Sater, Seymour & Pease, LLP, by M. Howard Petricoff, Lija Kaleps-Clark, and Stephen M. Howard, 52 East Gay Street, Columbus, Ohio 43216-1008, and Eimer, Stahl, Klevorn & Solberg, LLP, by David Stahl and Scott Solberg, 224 South Michigan Avenue, Suite 1100, Chicago, Illinois 60604, on behalf of Exelon Generation Company, Constellation NewEnergy, Inc., and Constellation Energy Commodities Group, Inc.

Ice Miller, LLP, by Christopher L. Miller, Gregory J. Dunn, and Asim Z. Haque, 250 West Street, Columbus, Ohio 43215, on behalf of the Association of Independent Colleges and Universities of Ohio, the city of Hillsboro, the city of Grove City and the city of Upper Arlington.

Bricker & Eckler, LLP, by Lisa Gatchell McAlister and J. Thomas Siwo, 100 South Third Street, Columbus, Ohio 43215-4291, on behalf of Ohio Manufacturers Association-Energy Group.

Bricker & Eckler, LLP, by Thomas J. O'Brien, 100 South Third Street, Columbus, Ohio 43215-4291, and Richard L. Sites, 155 East Broad Street, 15th Floor, Columbus, Ohio 43215-3620, on behalf of Ohio Hospital Association.

Calfee, Halter & Griswold, LLP, by James F. Lang, Laura C. McBride, and N. Trevor Alexander, 1400 KeyBank Center, 800 Superior Avenue, Cleveland, Ohio 44114; Jones Day, by David A. Kutik and Allison E. Haedt, 901 Lakeside Avenue, Cleveland, Ohio 44114-1190, and Mark A. Hayden, 76 South Main Street, Akron, Ohio 44308, on behalf of FirstEnergy Solutions Corporation.

Joseph V. Maskovyak and Michael Smalz, Ohio Poverty Law Center, 555 Buttles Avenue, Columbus, Ohio 43215, on behalf of Appalachian Peace and Justice Network.

Keating, Muething & Klekamp PLL, by Kenneth P. Kreider, One East Fourth Street, Suite 1400, Cincinnati, Ohio 45202 and Holly Rachel Smith, HITT Business Center, 3803 Rectortown Road, Marshall, Virginia 20115, on behalf of Wal-Mart Stores East, LP, and Sam's East, Inc.

SNR Denton US, LLP, by Emma F. Hand, Daniel D. Barnowski, and Thomas Millar, James Rubin, 1301 K Street NW, Suite 600 East Tower, Washington, D.C. 20005, on behalf of Ormet Primary Aluminum Corporation.

Bricker & Eckler, by Christopher L. Montgomery, Matthew Warnock, and Terrence O'Donnell, 100 South Third Street, Columbus, Ohio 43215-4291, and Richard L. Sites, 155 East Broad Street, 15th Floor, Columbus, Ohio 43215-3620, on behalf of Paulding Wind Farm II, LLC.

Gregory J. Poulos, 471 East Broad Street, Suite 1520, Columbus, Ohio 43215, on behalf of EnerNOC Inc.

William, Allwein & Moser, by Christopher J. Allwien, 1373 Grandview Avenue, Suite 212, Columbus, Ohio 43212, on behalf of Natural Resources Defense Council.

Matthew White, 6100 Emerald Parkway, Dublin, Ohio 43016 and Whitt Sturtevant, LLP, by Mark A. Whitt, Melissa L. Thompson, and Andrew J. Campbell, 155 East Broad Street, Suite 2020, Columbus, Ohio 43215, on behalf of Interstate Gas Supply, Inc.

Bailey Cavalieri, LLC, by Dane Stinson, 10 West Broad Street, Columbus, Ohio 43215, on behalf of Ohio Association of School Business Officials, Ohio School Boards Association, Buckeye Association of School Administrators, and Ohio Schools Council.

Chad A. Endsley, 280 North High Street, P.O. Box 182383, Columbus, Ohio 43218, on behalf of the Ohio Farm Bureau Federation.

Buckley King, by Deim N. Kaelber, 10 West Broad Street, Suite 1300, Columbus, Ohio 43215, on behalf of Ohio Restaurant Association.

Elizabeth Watts and Rocco D'Ascenzo, 139 East Fourth Street, Cincinnati, Ohio 45202 and Eberly McMahon, LLC, by Robert A. McMahon, 2321 Kemper Lane, Suite 100, Cincinnati, Ohio 45206, on behalf of Duke Energy Ohio, Inc.

Amy B. Spiller and Jeanne W. Kingery, 139 East Fourth Street, Cincinnati, Ohio 43215, and Thompson Hine, LLP, by Philip B. Sineneng, 41 South High Street, Suite 1700, Columbus, Ohio 43215, on behalf of Duke Energy Retail Sales and Duke Energy Commercial Asset Management Inc.

Charles Howard and Sarah Bruce, 655 Metro Place South, Suite 270, Dublin, Ohio 43017, on behalf of Ohio Automobile Dealers Association.

Judi L. Sobecki, 1065 Woodman Drive, Dayton, Ohio 45432, on behalf of Dayton Power and Light Company.

Kegler, Brown, Hill & Ritter, LPA, by Roger P. Sugarman, 65 East State Street, Suite 1800, Columbus, Ohio 43215, on behalf of National Federation of Independent Business - Ohio Chapter.

Thompson Hine, LLP, by Carolyn S. Flahive, Stephanie Chmiel, and Michael Dillard, 41 South High Street, Suite 1700, Columbus, Ohio 43215, on behalf of Border Energy Electric Services, Inc.

The Behal Law Group, LLC, by Mr. Jack D'Aurora, 501 South High Street, Columbus, Ohio 43215, on behalf of University of Toledo Innovation Enterprises Corporation.

Hahn, Loeser & Parks, LLP, by Randy Hart, 200 Huntington Building, Cleveland, Ohio 44114, on behalf of Summit Ethanol, LLC d/b/a POET Biorefining-Leipsic and Fostoria Ethanol, LLC d/ b/a POET Biorefining-Fostoria.

Jay E. Jadwin, 155 West Nationwide Blvd., Suite 500, Columbus, Ohio 43215, on behalf of AEP Retail Energy Partners, LLC.

Matthew Cox Law, Ltd., by Matthew Cox, 4145 St. Theresa Boulevard, Avon, Ohio 44011, on behalf of the Council of Smaller Enterprises.

Williams, Allwein & Moser, by Todd M. Williams, Two Maritime Plaza, Toledo, Ohio 43604, on behalf of the Ohio Business Council for a Clean Economy.

Dickstein Shapiro LLP, by Larry F. Eisenstat, Richard Lehfeldt, and Robert L. Kinder, 1825 Eye St. NW, Washington, D.C. 20006, on behalf of CPV Power Development, Inc.

OPINION:

I. HISTORY OF THE PROCEEDINGS

A. First Electric Security Plan

On March 18, 2009, the Commission issued its opinion and order regarding Columbus Southern Power Company's (CSP) and Ohio Power Company's (OP) (jointly, AEP-Ohio or the Companies) application for an electric security plan (ESP 1 Order) in Case Nos. 08-917-EL-SSO and 08-918-EL-SSO. The ESP 1 Order was appealed to the Supreme Court of Ohio (Court). On April 19, 2011, the Court affirmed the ESP Order in numerous respects, but remanded the proceedings to the Commission. The Commission issued its order on remand on October 3, 2011. In the order on remand, the Commission found that AEP-Ohio should be authorized to continue its recovery of incremental capital carrying costs incurred after January 1, 2009, on past environmental investments (2001-2008) that were not previously reflected in the Companies' existing rates prior to the ESP 1 Order. In addition, the Commission found that the provider of last resort (POLR) charges authorized by the ESP 1 Order were not supported by the record on remand, and directed the Companies to eliminate the amount of the provider of last resort (POLR_ charges authorized in the ESP Order and file revised tariffs consistent with the order on remand.

B. Initial Proposed Electric Security Plan

On January 27, 2011, AEP-Ohio filed the instant application for a standard service offer (SSO) pursuant to Section 4928.141, Revised Code. This application is for approval of an electric security plan (ESP 2) in accordance with Section 4928.143, Revised Code. As filed, AEP-Ohio's SSO application for ESP 2 would commence on January 1, 2012, and continue through May 31, 2014.

The following parties were granted intervention by entries dated March 23, 2011, and July 8, 2011: Industrial Energy Users-Ohio (IEU), Duke Energy Retail Sales, LLC (Duke Retail), Ohio Energy Group (OEG), Ohio Hospital Association (OHA), Ohio Consumers' Counsel (OCC), Ohio Partners for Affordable Energy (OPAE),[1] The Kroger Company (Kroger), FirstEnergy Solutions Corporation (FES), Paulding Wind Farm II LLC (Paulding), Appalachian Peace and Justice Network (APJN), Ohio Manufacturers' Association Energy Group (OMAEG), AEP Retail Energy Partners LLC (AEP Retail), Distributed Wind Energy Association (DWEA),[2] PJM Power Providers Group (P3), Constellation NewEnergy, Inc. and Constellation Energy Commodities Group, Inc.

---

1 Subsequently, OPAE filed a motion to withdraw from the ESP 2 proceedings and the request granted in the Commission's December 14, 2011 Order.

2 On August 4, 2011, DWEA filed a motion to withdraw from the ESP 2 proceedings. DWEA's request to withdraw was granted in the December 14, 2011 Order.

(Constellation), COMPETE Coalition (Compete), Natural Resources Defense Council (NRDC), The Sierra Club (Sierra), city of Hilliard, Ohio (Hilliard), Retail Energy Supply Association (RESA), Exelon Generation Company, LLC (Exelon), city of Grove City, Ohio (Grove City), Association of Independent Colleges and Universities of Ohio (AICUO), Wal-Mart Stores East, LP and Sam's East, Inc., (Wal-Mart), Dominion Retail, Inc. (Dominion Retail), Environmental Law and Policy Center (ELPC), Ohio Environmental Council (OEC), Ormet Primary Aluminum Corporation (Ormet) and EnerNOC, Inc. (EnerNOC).

On September 7, 2011, numerous parties (Signatory Parties) to the ESP 2 proceedings filed a Joint Stipulation and Recommendation (Stipulation). The Stipulation proposed to resolve the ESP 2 cases as well as a number of other related AEP-Ohio matters pending before the Commission.[3] The evidentiary hearing in the ESP 2 cases was consolidated with the related proceedings for the sole purpose of considering the Stipulation. On December 14, 2011, the Commission issued its Opinion and Order, concluding that the Stipulation, as modified by the order, should be adopted and approved. As part of the December 14, 2011, Order, the Commission approved the merger of CSP with and into OP, with OP as the surviving entity.[4]

Several applications for rehearing of the Commission's December 14, 2011, Order in the ESP 2 and consolidated cases were filed. On February 23, 2012, the Commission issued its Entry on Rehearing finding that the Stipulation, as a package, did not benefit ratepayers and was not in the public interest and, thus, did not satisfy the three-part test for the consideration of stipulations. AEP-Ohio was directed to provide notice to the Commission within 30 days whether it intended to modify or withdraw its ESP.

C. Pending Modified Electric Security Plan

On March 30, 2012, AEP-Ohio filed a modified ESP (modified ESP) for the Commission's consideration. As proposed, the modified ESP would commence June 1, 2012, and continue through May 31, 2015. As proposed in the application, the Company states for all customer classes, customers in the CSP rate zone will experience, on average, an increase of two percent annually and customers in the OP rate zone will experience, on average, an increase of four percent annually. The modified ESP proposes the recovery of other costs through riders during the term of the electric security plan. In addition, the

---

3 Including an emergency curtailment proceeding in Case Nos. 10-343-EL-ATA and 10-344-EL-ATA (Emergency Curtailment Cases); a request for the merger of CSP with OP in Case No. 10-2376-EL-UNC (Merger Case); the Commission review of the state compensation mechanism for the capacity charge to be assessed on competitive retail electric service (CRES) providers in Case No. 10-2929-EL-UNC (Capacity Case); and a request for approval of a mechanism to recover deferred fuel costs and accounting treatment in Case Nos. 11-4920-EL-RDR and 11-4921-EL-RDR (Phase-in Recovery Cases).

4 By entry issued on March 7, 2012, the Commission again approved and confirmed the merger of CSP into OP, effective December 31, 2011, in the Merger Case.

modified ESP contains provisions addressing distribution service, economic development, alternative energy resource requirements, and energy efficiency requirements.

The modified ESP also sets forth that AEP-Ohio will begin an energy auction for 100 percent of its SSO load beginning in 2015, with full delivery and pricing through a competitive auction process for AEP-Ohio's SSO customers beginning in June 2015. Beginning six months after the final order in the modified ESP case, the application states AEP-Ohio will begin conducting energy auctions for five percent of the SSO load. In addition, the modified ESP provides for the elimination of American Electric Power Corporation's East Interconnection Pool Agreement and describes the plan for corporate separation of AEP-Ohio's generation assets from its distribution and transmission assets.

In addition to the parties previously granted intervention in this matter, following AEP-Ohio's submission of its modified ESP, the following parties, were granted intervention on April 26, 2012: Interstate Gas Supply, Inc. (IGS); The Ohio Association of School Business Officials, The Ohio School Boards Association, The Buckeye Association of School Administrators, and The Ohio Schools Council (collectively, Ohio Schools); Ohio Farm Bureau Federation; Ohio Restaurant Association; Duke Energy Ohio, Inc. (Duke); Duke Energy Commercial Asset Management Inc. (DECAM); Direct Energy Services, LLC and Direct Energy Business, LLC (Direct); The Ohio Automobile Dealers Association (OADA); The Dayton Power and Light Company; The Ohio Chapter of the National Federation of Independent Business (NFIB); Ohio Construction Materials Coalition; Council of Smaller Enterprises; Border Energy Electric Services, Inc.; University of Toledo Innovation Enterprises Corporation; Summit Ethanol, LLC d/b/a POET Biorefining-Leipsic and Fostoria Ethanol, LLC d/b/a POET Biorefining-Fostoria (Summit Ethanol); city of Upper Arlington, Ohio; Ohio Business Council for a Clean Economy; IBEW Local Union 1466 (IBEW); city of Hillsboro, Ohio; and CPV Power Development, Inc.

D. Summary of the Hearings on Modified Plan

1. Local Public Hearings

Four local public hearings were held in order to allow AEP-Ohio's customers the opportunity to express their opinions regarding the issues raised within the modified application. Public hearings were held in Canton, Columbus, Chillicothe, and Lima. At the local hearings, a total of 67 witnesses[5] offered testimony: 17 witnesses in Canton, 31 witnesses in Columbus, 10 witnesses in Chillicothe, and nine witnesses in Lima. In addition to the public testimony, numerous letters were filed in the docket regarding the proposed ESP applications.

5 One witness, Doug Leuthold, testified at both the Columbus and Lima public hearings.

At each of the public hearings, numerous witnesses testified in support of AEP-Ohio's modified ESP. Specifically, many witnesses testified on behalf of community groups and non-profit organizations that praised AEP-Ohio's charitable support to their organizations. Witnesses that testified in favor of the modified ESP also noted that AEP-Ohio maintains a positive corporate presence and promotes economic development endeavors throughout its service territory. Members of local unions testified in support of AEP-Ohio's proposal, explaining it would not only allow AEP-Ohio to retain jobs, but also create new jobs as AEP-Ohio continues to expand its infrastructure throughout the region.

Several residential customers testified at the public hearings in opposition to AEP-Ohio's modified ESP, noting an increase in customer rates would be burdensome in light of the current economic recession. Many of these witnesses pointed out that low-income and fixed-income residential customers would be particularly vulnerable to any rate increases. Several witnesses also argued that the proposed application might limit customers' ability to shop for a CRES supplier.

In addition, many witnesses testified on behalf of small business and commercial customers. These witnesses argued the proposed rate increases would be burdensome on small businesses who cannot take on any electric rate increases without either laying off employees or passing costs on to customers. Representatives on behalf of school districts also testified that the modified ESP could create a financial strain on schools throughout AEP-Ohio's service territory.

2. Evidentiary Hearing

The evidentiary hearing commenced on May 17, 2012. Twelve witnesses testified on behalf of AEP-Ohio, 10 witnesses on behalf of the Staff, and 54 witnesses offered testimony on behalf of various interveners to the cases. In addition, AEP-Ohio offered three witnesses on rebuttal. The evidentiary hearing concluded on June 15, 2012. Initial briefs and reply briefs were due June 29, 2012, and July 9, 2012, respectively. For those parties that filed a brief or reply brief addressing select issues, oral arguments were held before the Commission on July 13, 2012.

E. Procedural Matters

1. Motions to Withdraw

On May 4, 2012, the city of Hilliard filed a notice requesting to withdraw as an intervenor from the modified ESP cases. Also on May 4, 2012, IBEW filed a notice stating that it intends to withdraw as an intervenor in these proceedings. The Commission finds IBEW's and Hilliard's requests to withdraw reasonable and should be granted.

2. Motions for a Protective Order

On May 2, 2012, AEP-Ohio filed a motion for a protective order, seeking protective treatment of supplemental testimony and corresponding exhibits of AEP-Ohio witness Nelson containing confidential and proprietary information relating to the Turning Point Solar project (Turning Point). On May 4, 2012, OMAEG filed a motion for a protective order relating to proprietary business information of OSCO Industries, Summitville Tiles, Belden Brick, Whirlpool Corporation, Lima Refining, and AMG Vanadium. Also, on May 4, 2012, IEU filed a motion for a protective order seeking to protect confidential and proprietary information contained within witness Kevin Murray's testimony. FES filed a motion for protective treatment on May 4, 2012, for confidential items contained in attachments to witness Jonathan Lesser's testimony. In addition, Exelon filed a motion for protective order seeking protection of confidential and proprietary information contained within witness Fein's direct testimony. On May 11, 2012, AEP-Ohio filed an additional motion for protective order to support the protection of confidential AEP-Ohio information contained within IEU witness Murray, FES witness Lesser, and Exelon witness Fein's testimony. Finally, on the record in these proceedings May 17, 2012, AEP-Ohio also sought the continuation of protective treatment of exhibits attached to AEP-Ohio witness Jay Godfrey, as previously set forth in AEP-Ohio's July 1, 2011, motion for a protective order (Tr. at 24).

At the evidentiary hearing on May 17, 2012, the attorney examiners granted the motions for protective order, finding the information specified within the parties' motions constitutes confidential, proprietary, and trade secret information, and meets the requirements contained within Rule 4901-1-24, Ohio Administrative Code (O.A.C.) *(Id.* at 23-24). Rule 4901:1-24(F), O.A.C., provides that, unless otherwise ordered, protective orders prohibiting public disclosure pursuant to Rule 4901:1-24(D), O.A.C., shall automatically expire after 18 months. Therefore, confidential treatment shall be afforded for a period ending 18 months from the date of this order, until February 8, 2014. Until that date, the Docketing Division should maintain, under seal, the conditional diagrams, filed under seal. Rule 4901:1-24(F), O.A.C., requires any party wishing to extend a protective order to file an appropriate motion at least 45 days in advance of the expiration date, including a detailed discussion of the need for continued protection from disclosure. If no such motion to extend confidential treatment is filed, the Commission may release this information without prior notice to the parties.

In addition, on June 29, 2012, IEU and Ormet filed motions for protective order regarding items contained within their initial briefs. Specifically, both the information for which IEU and Ormet's are seeking confidential treatment was already determined to be confidential in the evidentiary hearing and was discussed in a closed record. On July 5, 2012, AEP-Ohio filed a motion for protective order over the items contained within Ormet and IEU's briefs, noting that it contains proprietary and trade secret information. On July 9, Ormet filed an additional motion for protective order for the same information, which it

also included in its reply brief filed on July 9, 2012. Similarly, AEP-Ohio filed a motion for protective order on July 12, 2012, in support of Ormet's motion, as it contains AEP-Ohio's confidential trade secret information. As the attorney examiners previously found the information contained within the IEU and Ormet's initial briefs and Ormet's reply brief was confidential in the evidentiary hearing, we affirm this decision and find that confidential treatment shall be afforded for a period ending 18 months from the date of this order, until February 8, 2014.

3. Requests for Review of Procedural Rulings

IEU argues that the record improperly includes evidence of stipulations as precedent. Specifically, IEU argues that several witnesses relied on Duke Energy-Ohio's ESP to indicate that certain proposed riders were appropriate. IEU also points out that a witness relied on AEP-Ohio's distribution rate case stipulation as evidence of AEP-Ohio's capital structure. IEU claims that these stipulations expressly state that no party or Commission order may cite to a stipulation as precedent, and accordingly, IEU requests that the references to stipulations be struck.

The Commission finds that IEU's request to strike portions of the record should be denied. We acknowledge that individual components agreed to by parties in one proceeding should not be binding on the parties in other proceedings, but we find that references to other stipulations in this proceeding were limited in scope and did not create any prejudicial impact on parties that signed the stipulations. Consistent with our Finding and Order in Case No. 11-5333-EL-UNC, we also note that, while parties may agree not to be bound by the provisions contained within a stipulation, these limitations do not extend to the Commission.

In addition, IEU claims the attorney examiners improperly denied IEU's motions to compel discovery. In its motions to compel discovery, IEU sought information related to AEP-Ohio's forecasts of the RPM price for capacity, which IEU alleges would have provided information relating to the transfer of AEP-Ohio's Amos and Mitchell generating units.

The Commission finds the attorney examiners' denials of IEU's motions to compel discovery were proper and should be upheld. As noted in AEP-Ohio's memorandum contra the motion to compel, the information IEU sought relates to AEP-Ohio forecasts beyond the period of this modified ESP. As these proceedings relate to the appropriateness of AEP-Ohio's modified ESP, we find that any forecasts beyond the terms contained within AEP-Ohio's application are irrelevant and unlikely to lead to discoverable information. Accordingly, the attorney examiners' ruling is affirmed.

On July 13, 2012, OCC filed a motion to strike four specific portions of AEP-Ohio's reply brief at pages 29-30, 33-34, 68-69, 97-99, including footnotes, and attachments A and

B, as OCC asserts the information is not based on the record in the modified ESP proceeding but reflects the Commission's Order issued in the Capacity Case on July 2, 2012. OCC submits that the Commission has previously recognized that "it is improper to rely on claims in the brief that are unsupported by evidence within the record." In this instance, OCC points out that AEP-Ohio attached to its reply brief, documents that were not part of the record evidence or designated late-filed exhibits, a statement by Standard and Poor's (Attachment A) and the Company's recalculation of its ESP/MRO test (Attachment B) based on the Commission's decision in the Capacity Case. Since neither document is part of the modified ESP record evidence, OCC reasons that the attachments are hearsay which are not excused by any exception to the hearsay rule. OCC also notes that the reply brief includes discussion of recent storms in the Midwest and the East Coast, and there is nothing in the record regarding the strength of the winds or the ability of the Company's system to withstand hurricane force winds. Furthermore, neither the attachments nor AEP-Ohio's assertions was subjected to cross-examination by the parties nor the parties afforded an opportunity to rebut the associated arguments of the Company. For these reasons, OCC requests that Attachments A and B and the specified portions of the reply brief be stricken.

In its memorandum contra, AEP-Ohio asserts that discussion of matters related to the Commission's Capacity Case decision were appropriate. AEP-Ohio notes that it is fair to rely on a Commission opinion and order and reasonable to consider the impact of the Capacity Case on these proceedings, as evidenced by Commission questions during the oral arguments held on July 13, 2012. In addition, AEP-Ohio points out that several parties' reply briefs also included significant discussion of the impact of the Capacity Case on the modified ESP. Similarly, AEP-Ohio notes that the attachments indicate the financial impact of the Capacity Case on AEP-Ohio, and that the items are consistent with the testimony of AEP-Ohio witness Hawkins. Finally, AEP-Ohio provides that its references to major storms that occurred this summer relate to customer expectations and AEP-Ohio's need for the DIR.

The Commission finds that OCC's motion to strike portions of AEP-Ohio's reply brief should be denied. The Company's reply brief reports the impact of the Commission's Order in the Capacity Case based on subject matters and information subjected to extensive cross-examination by the parties in the course of this proceeding. Furthermore, several of the parties to this proceeding discuss in their respective reply briefs the Order in the Capacity Case. For these reasons, we conclude that it would be improper to strike the portions of AEP-Ohio's reply brief, including Attachment B, which reflect AEP-Ohio's interpretation of the Commission Capacity Order as requested by OCC. We, likewise, deny OCC's request to strike the Company's reference to recent storms, where the Company offered support for its position on customer reliability expectations. Customer service reliability was an issue raised and discussed by AEP-Ohio as well as OCC. However, Attachment A to the Company's reply brief is a July 2, 2012 statement by

Standard & Poor's regarding the effect of the Commission's Capacity Charge Order, and should be stricken. We find that the Company's Attachment A is not part of the record and should not be considered by the Commission in this proceeding.

On July 20, 2012, OCC/APJN filed a motion to take administrative notice of several items contained within the record of the Capacity Case. Specifically, OCC/APJN seek administrative notice of pages 3, 9, and 12 of the direct testimony of AEP-Ohio witness Munczinski, pages 19-20 of the rebuttal testimony of AEP-Ohio witness Allen, pages 304, 348-350, and 815 of the hearing transcripts, and AEP-Ohio's post-hearing initial and reply briefs. OCC/APJN opine that the record should be expanded to include these materials in order to have a more thorough record on issues pertaining to customer rates. Further, OCC/APJN state that no parties would be prejudiced as parties, particularly those involved in the Capacity Case, who had opportunities to explain and rebut these items.

AEP-Ohio filed a memorandum contra OCC/APJN's motion on July 24, 2012. AEP-Ohio argues that OCC/APJN improperly seeks to add documents into the record at this late stage, is not only inappropriate, but also unnecessary as there are no further actions to these proceedings except the Commission opinion and order and rehearing. AEP-Ohio notes the Commission has broad discretion in handling its proceedings, but points out that the small subset of information could have a prejudicial effect to parties, and due process would require that other parties be permitted to add other items to the record. In addition, AEP-Ohio explains that OCC/APJN had the opportunity in the ESP proceedings to further explore areas of the Capacity Case that were related to parts of the modified ESP.

On August 6, 2012, FES also filed a memorandum contra OCC/APJN's motion. On August 7, 2012, OCC/APJN filed a motion to strike FES's memorandum contra. In support of its motion to strike, OCC/APJN argues that FES filed its memorandum contra 17 days after OCC/APJN filed its motion, past the procedural deadlines established by attorney examiner entry issued April 2, 2012. The Commission finds that OCC/APJN's motion to strike FES's memorandum contra OCC/APJN's motion should be granted. By entry issued April 2, 2012, the attorney examiner set an expedited procedural schedule establishing that any memoranda contra be filed within five calendar days after the service of any motions. Therefore, as FES filed its memorandum contra 17 days after OCC/APJN filed its motion, OCC/APJN's motion to strike shall be granted.

The Commission finds that OCC's motion to take administrative notice should be denied. AEP-Ohio correctly points out that the timing of OCC/APJN's request is troublesome and problematic. While the Commission has broad discretion to take administrative notice, it must be done in a manner that does not harm or prejudice any other parties that are participating in these proceedings. Were the Commission to take notice of this narrow window of information, we would be allowing a party to supplement

the record in a misleading manner. Further, while we acknowledge that parties may rely on the Commission's order in the Capacity Case, as it speaks for itself, to show effects on items in this proceeding, to exclusively select narrow and focused items in an attempt to supplement the record is not appropriate. Accordingly, we deny OCC's motion.

II. DISCUSSION

A. Applicable Law

Chapter 4928 of the Revised Code provides an integrated system of regulation in which specific provisions were designed to advance state policies of ensuring access to adequate, reliable, and reasonably priced electric service in the context of significant economic and environmental challenges. In reviewing AEP-Ohio's application, the Commission is cognizant of the challenges facing Ohioans and the electric industry and will be guided by the policies of the state as established by the General Assembly in Section 4928.02, Revised Code, amended by Senate Bill 221 (SB 221).

Section 4928.02, Revised Code, states that it is the policy of the state, *inter alia*, to:

(1) Ensure the availability to consumers of adequate, reliable, safe, efficient, nondiscriminatory, and reasonably priced retail electric service.

(2) Ensure the availability of unbundled and comparable retail electric service.

(3) Ensure diversity of electric supplies and suppliers.

(4) Encourage innovation and market access for cost-effective supply- and demand-side retail electric service including, but not limited to, demand-side management (DSM), time-differentiated pricing, and implementation of advanced metering infrastructure (AMI).

(5) Encourage cost-effective and efficient access to information regarding the operation of the transmission and distribution systems in order to promote both effective customer choice and the development of performance standards and targets for service quality.

(6) Ensure effective retail competition by avoiding anticompetitive subsidies.

(7) Ensure retail consumers protection against unreasonable sales practices, market deficiencies, and market power.

(8) Provide a means of giving incentives to technologies that can adapt to potential environmental mandates.

(9) Encourage implementation of distributed generation across customer classes by reviewing and updating rules governing issues such as interconnection, standby charges, and net metering.

(10) Protect at-risk populations including, but not limited to, when considering the implementation of any new advanced energy or renewable energy resource.

In addition, SB 221 enacted Section 4928.141, Revised Code, which provides that effective January 1, 2009, electric utilities must provide consumers with an SSO consisting of either a market rate offer (MRO) or an ESP. The SSO is to serve as the electric utility's default SSO.

AEP-Ohio's modified application in this proceeding proposes an ESP pursuant to Section 4928.141, Revised Code. Paragraph (B) of Section 4928.141, Revised Code, requires the Commission to hold a hearing on an application filed under Section 4928.143, Revised Code, to send notice of the hearing to the electric utility, and to publish notice in a newspaper of general circulation in each county in the electric utility's certified territory.

Section 4928.143, Revised Code sets out the requirements for an ESP. Under paragraph (B) of Section 4928.143, Revised Code an ESP must include provisions relating to the supply and pricing of generation service. The ESP, according to paragraph (B)(2) of Section 4928.143, Revised Code, may also provide for the automatic recovery of certain costs, a reasonable allowance for certain construction work in progress (CWIP), an unavoidable surcharge for the cost of certain new generation facilities, conditions or charges relating to customer shopping, automatic increases or decreases, provisions to allow securitization of any phase-in of the SSO price, provisions relating to transmission-related costs, provisions related to distribution service, and provisions regarding economic development.

The statute provides that the Commission is required to approve, or modify and approve the ESP, if the ESP, including its pricing and all other terms and conditions, including deferrals and future recovery of deferrals, is more favorable in the aggregate as compared to the expected results that would otherwise apply in an MRO under Section 4928.142, Revised Code. In addition, the Commission must reject an ESP that contains a surcharge for CWIP or for new generation facilities if the benefits derived for any purpose

for which the surcharge is established are not reserved or made available to those that bear the surcharge.

B. Analysis of the Application

1. Base Generation Rates

As part of its modified ESP application, AEP-Ohio proposes to freeze base generation rates until all rates are established through a competitive bidding process. AEP-Ohio maintains that the fixed pricing is a benefit to customers by providing reasonably priced electricity in furtherance of Section 4928.02(A), Revised Code. AEP-Ohio explains that while the base generation rates will remain frozen, it will relocate the current Environmental Investment Carrying Cost Rider (EICCR) into the base generation rates, which will result in the elimination of the EICCR. AEP-Ohio witness Roush provides the change is merely a roll in and will be "bill neutral" for all AEP-Ohio customers (AEP-Ohio Ex. 118 at 8; AEP-Ohio Ex. 111 at 10-11).

While AEP-Ohio's base generation rates will be frozen under the modified ESP, AEP-Ohio witness Roush notes that the generation rates are based on cost relationships, and include cross-subsidies among tariff classes, which, upon class rates being based on an auction, may result in certain customer classes being disproportionately impacted by rate changes. Mr. Roush notes that residential customers with high winter usage may face unexpected impacts, but that a possible solution may be to phase-out lower rates for high winter usage customers (*Id.* at 14-15).

OADA supports the adoption of the base generation rate design as proposed, advocating that the consistency in the rate design is beneficial for GS-2 customers (OADA Br. at 2). OCC and APJN claim that frozen base generation rates is not a benefit to customers, as the price of electricity offered by CRES providers have declined and may continue to decline through the term of the ESP (OCC Ex. 111 at 15). OCC and APJN also point out that the inclusion of numerous riders, including the retail stability rider (RSR) and the deferral created in the Capacity Case will result in increases in the rates residential customers continue to pay. (OCC/APJN Br. at 43-44.)

The Commission finds that AEP-Ohio's proposed base generation rates are reasonable. We note that AEP-Ohio's base generation rate design was generally unopposed, as most parties supported AEP-Ohio's proposal to keep base generation rates frozen. Although OCC and APJN conclude that the base generation rate plan does not benefit customers, OCC and APJN failed to justify their assertion and offer no evidence within the record other than the fact that the modified ESP contains several riders. Accordingly, the modified ESP's base generation rates should be approved. In addition, as AEP-Ohio raised the possibility of disproportionate rate impacts on customers when class rates are set by auction, we direct the attorney examiners to establish a new docket within

90 days from the date of this opinion and order and issue an entry establishing a procedural schedule to allow Staff and any interested party to consider means to mitigate any potential adverse rate impacts for customers upon rates being set by auction. Further, the Commission reserves the right to implement a new base generation rate design on a revenue neutral basis for all customer classes at any time during the term of the modified ESP.

2. Fuel Adjustment Clause and Alternative Energy Rider

(a) Fuel Adjustment Clause

The Commission approved the current fuel adjustment clause (FAC) mechanism in the Company's ESP 1 case pursuant to Section 4928.143(B)(2)(a), Revised Code.[6] In this modified ESP application, AEP-Ohio requests continuation of the current FAC mechanism, with modifications. The Company proposes to modify the FAC by separating out the renewable energy credit (REC) expense component of the fuel clause and recovering the REC expense through the newly proposed alternative energy rider (AER) mechanism. The Company also requests approval to unify the CSP and OP FAC rates into a single FAC rate effective June 2013. AEP-Ohio reasons that delaying unification of the FAC rates until June 2013, to coincide with the implementation of the Phase-In Recovery Rider (PIRR), limits the impact on both CSP and OP rate zones which results in a net decrease in rates of $0.69 per megawatt hour (MWh) for a typical CSP transmission voltage customer and a net increase in rates of $0.02 per MWh for a typical OP transmission voltage customer. (AEP-Ohio Ex. 111 at 5-6; AEP-Ohio Ex. 103 at 14-20.)

Beginning January 1, 2014, after corporate separation is effective, AEP-Ohio's generation affiliate, AEP Generation Resources Inc. (GenResources), will bill AEP-Ohio its actual fuel costs in the same manner and detail as currently performed by AEP-Ohio, and the costs will continue to be recovered through the FAC. As a component of the modified ESP, AEP-Ohio proposes that as of January 1, 2015, all energy and capacity to serve the Company's SSO load be supplied by auction, whereupon the FAC mechanism will no longer be necessary. (AEP-Ohio Ex. 103 at 14-20.)

In opposition to the FAC, Ormet argues that the FAC has caused significant increases in the cost of electric service, rising 22 percent for GS-4 customers since 2011. Ormet asks that the Commission temper the impact of FAC increases and improve the transparency of the cause for increasing FAC costs, as well as reconsider the FAC rate design, to avoid cost shifts between low load factor customers and high load factor customers. Ormet, a 98.5 percent load factor customer, asserts that it pays an equal share of the FAC costs as a customer that uses all its energy on-peak. As such, Ormet contends that the FAC rate design violates the principle of cost causation. Ormet suggests that this

6 In re *AEP-Ohio*, ESP 1 Order at 13-15 (March 18, 2009).

modified ESP presents the Commission with the opportunity, as it is within the Commission's jurisdiction, to redesign the FAC, such that FAC costs are separated into charges which reflect on-peak and off-peak usage. (Ormet Ex. 106B at 19; Ormet Br. at 13-15; Ormet Reply Br. at 14-16.)

The Company responds that Ormet's arguments on the FAC reflect improper calculations and is based on forecasted FAC rates. More importantly, AEP-Ohio points out that the FAC is ultimately based on actual FAC costs and any increases in the FAC rate cannot appropriately be attributed to the modified ESP. Ormet is served by AEP-Ohio pursuant to a unique arrangement and as such avoids charges that other similarly situated customers pay; however, the Company requests that Ormet not be permitted to avoid fuel costs. (AEP-Ohio Reply Br. at 5-6.)

The Commission notes that currently, through the FAC mechanism, AEP-Ohio recovers prudently incurred fuel and associated costs, including consumables related to environmental compliance, purchase power costs, emission allowances, and costs associated with carbon-based taxes. We note that, since January 1, 2012, AEP-Ohio has been collecting its full fuel expense and no further fuel expenses are being deferred.

We interpret Ormet's arguments to more accurately request the institution of a fuel rate cap on the FAC or to revise the FAC rate design. The Commission rejects Ormet's request to review and redesign the FAC. The FAC rate mechanism is reconciled to actual FAC costs each quarter and annually audited for accounting accuracy and prudency. Furthermore, as AEP-Ohio notes, Ormet's rates are set pursuant to its unique arrangement as opposed to the Company's SSO rates paid by other high load industrial and commercial customers. By way of Ormet's unique arrangement, Ormet is provided some rate stability and rate certainty and we see no need to redesign the FAC for Ormet's benefit. No other intervener took issue with the continuation and the proposed modification of the FAC. The Commission finds that the FAC rates should continue on a separate rate zone basis. We note that there are a few Commission proceedings pending that will affect the FAC rate for each rate zone which the Commission believes will be better reviewed and adjusted if the FAC mechanisms remain distinguishable. Further, as discussed, below, maintaining FAC rates on a separate basis is necessary to be consistent with our decision regarding recovery of the PIRR.

(b) Alternative Energy Rider

As noted above, AEP-Ohio proposes to begin recovery of REC expenses, associated with renewable energy purchase agreements (REPAs) or REC purchases by means of the new AER mechanism to be effective with this modified ESP. With the proposed modification, the Company will continue to recover the energy and capacity components of renewable energy cost through the FAC, until the FAC expires. After the FAC ends, energy and capacity associated with REPAs will be sold into the PJM Interconnection, LLC

(PJM) market and offset the total cost of the REPAs, with the balance of REC expense to be recovered from SSO customers through the AER. AEP-Ohio proposes that the AER be bypassable for shopping customers. The Company also proposes that where the REC is part of the REPA, the value of each component be based on the residual method using the monthly average PJM market price to value the energy component, the capacity will be valued using the price at which it can be sold into the PJM market and the remaining value would constitute the cost of the REC. The AER mechanism, according to AEP-Ohio, is consistent with Section 4928.143(B)(2)(a), Revised Code, and is essentially a partial unbundling of the FAC to provide greater price visibility of prudently-incurred REC compliance costs under Section 4928.66, Revised Code. The Company will make quarterly filings, in conjunction with the FAC, to facilitate the audit of the AER. AEP-Ohio reasons that the establishment of the AER for recovery of costs is uncontested, reasonable, and should be approved. The Company argues continuation and unification of the FAC and development and implementation of the AER, is reasonable and should be approved. (AEP-Ohio Ex. 103 at 18-19.)

Staff endorses the Company's requests to continue and consolidate the FAC rates for CSP and OP rate zones and to reclassify the RECs and REPA components for recovery through the AER, as proposed by the Company. However, Staff recommends that annual AER audit procedures be established and that the AER audit be conducted by the same auditor and in conjunction with the FAC audit to determine the appropriateness and recoverability of costs as a part of and between the AER and FAC mechanisms. As to the allocation of cost components, Staff agrees with the Company's proposal to allocate cost components of bundled products but suggests that the auditor detail how to best determine the cost components and how to apply the allocation to specific situations in the context of the FAC/AER audits. Staff recommends, and the Company agrees, that the auditor's allocation process be applied to AEP-Ohio's renewable generation from existing generation facilities. (Staff Ex. 104 at 2-3.)

No party took exception to the implementation of the AER mechanism. As proposed by AEP-Ohio, continuation of the FAC and establishment of the AER, through this modified ESP, is consistent with Section 4928.143(B)(2)(a), Revised Code, for the recovery of prudently incurred fuel costs and fuel-related costs and alternative energy and associated costs. We find the Company's proposal to continue the FAC and create the AER to better distinguish fuel and alternative energy costs to be reasonable and appropriate during the term of the modified ESP. We approve the continuation of the FAC and implementation of the AER mechanisms, consistent with the audit recommendations made by Staff. The next audit of AEP-Ohio's FAC shall also include an audit of the AER mechanisms and the allocation method for classification of the REPA components and their respective values. In all other respects, the Commission approves the continuation of the FAC rate mechanisms and the creation of the AER rate mechanism for each rate zone.

3. Timber Road

AEP-Ohio states that it conducted a request for proposal (RFP) process to competitively bid and secure additional renewable resources. As a result of AEP- Ohio's need for in-state renewables, AEP-Ohio only considered bids for projects in Ohio, and ultimately selected the proposal from Paulding for its Timber Road wind farm. Specifically, the Timber Road REPA will provide AEP-Ohio a 99 MW portion of Timber Road's electrical output, capacity and environmental attributes for 20 years as necessary for the Company to meet its increasing renewable energy benchmarks as required by Section 4928.64(C)(3), Revised Code. (AEP-Ohio Ex. 109 at 10-15; Paulding Ex. 101 at 1-4.)

AEP-Ohio testified that the 20-year agreement facilitates long-term financing by the developer, reduces up front costs, and allows for price certainty for AEP-Ohio customers. Paulding offers that although the project is capital intensive the fact that there are no fuel costs equates to no significant cost variables creating long-term risk for customers. AEP-Ohio argues that the Timber Road REPA provides the Company and its customers, with access to affordable renewable energy from an in-state resource supporting the state policy to facilitate the state's effectiveness in the global economy, Section 4928.02(N), Revised Code. (AEP-Ohio Ex. 109 at 16-18; Paulding Ex. 101 at 4-5.)

Staff supports AEP-Ohio's REPA with Paulding and the Timber Road contract as reasonable and prudent. Accordingly, Staff advocates its approval and that AEP-Ohio be permitted to recover costs associated with energy, capacity, and RECs outlined in the contract, subject to annual FAC and AER audits. The Company agrees with Staff that the implementation of the Timber Road REPA should be subject to the FAC and AER audit, as offered in the testimony of AEP-Ohio witness Nelson. AEP-Ohio commits to acquiring RECs to meet its portfolio requirements on behalf of its SSO load and to recover the costs through the AER once the FAC is terminated. (Staff Ex. 103 at 2-3; Tr. at 2498-2499; AEP-Ohio Ex. 103 at 18.)

The Commission finds that the long-term Timber Road REPA promotes diversity of supply, consistent with state policies set forth in Section 4928.02, Revised Code. Further, based on the evidence of record, the Timber Road project benefits Ohio consumers and supports the Ohio economy. Accordingly, the Commission finds it reasonable and appropriate to allow the Company to recover the cost of the Timber Road REPA through the bypassable FAC/AER mechanisms.

4. Generation Resource Rider

AEP-Ohio requests establishment of a non-bypassable, Generation Resource Rider (GRR) pursuant to Section 4928.143(B)(2), Revised Code, to recover the cost of new generation resources including, but not limited to, renewable capacity that the Company

owns or operates for the benefit of Ohio customers. At this time, the Company proposes the rider as a placeholder and expects that the only project to be included in the GRR will be the Turning Point facility, assuming need is established in Case Nos. 10-501-EL-FOR and 10-502-EL-FOR.[7] To be clear, although the Company provided an estimate of the revenue requirement for the Turning Point project, as requested by the Commission, AEP-Ohio is not seeking recovery of any costs for the Turning Point facility in this ESP. The Company asks that the GRR be established at zero with the amount of the rider to be determined, and the remaining statutory requirements to be met, as part of a subsequent Commission proceeding. (AEP-Ohio Ex. 103 at 20-21; AEP-Ohio Ex. 104; Tr. at 2514, 599, 1170, 2139- 2140.)

UTIE encourages the Commission's approval of the GRR as a regulatory mechanism pursuant to the authority granted under Section 4928.143(B)(2)(c), Revised Code, to adopt a non-bypassable surcharge for new electric generation (UTIE Br. at 1-2). NRDC and OEC support the proposed GRR, including the Timber Road REPA and the Turning Point project, with certain modifications, as permitted under Section 4928.143(B)(2)(c), Revised Code. NRDC and OEC recommend that the GRR be limited to only renewable and alternative energy projects or qualified energy efficiency projects, and also recommend that the Company develop a crediting system to ensure that shopping customers do not pay twice for renewable energy. NRDC and OEC reason that AEP-Ohio could make the RECs available to CRES providers based on the CRES provider's share of the load served or by liquidating the RECs in the market and crediting the revenue to the GRR. (NRDC Ex. 101 at 11; NRDC/OEC Reply Br. at 1.)

However, while Staff does not foresee any need for additional generation by AEP-Ohio, Staff and UTIE acknowledge and endorse the adoption of the GRR mechanism to facilitate the Commission's allowance for the construction of new generation facilities (Staff Ex. 110 at 7; Tr. at 4599; UTIE Reply Br. 1-2).

On the other hand, numerous interveners oppose the adoption of the GRR. IGS requests that the Commission reject the GRR or if it is not rejected, that the GRR be made bypassable or modified so the benefits flow to shopping customers (IGS Ex. 101 at 27-28). Wal-Mart requests that the GRR not be imposed on shopping customers because approval of a non-bypassable GRR would violate cost causation principles, send an incorrect price signal, and cause shopping customers to pay twice but receive no benefit (Wal-Mart Ex. 101 at 5-6).

---

[7] A stipulation between the Company and the Staff was filed agreeing, among other things, that as a result of the requirements of Sections 4928.143(B)(2)(c) and 4928.64(B)(2), Revised Code, which require AEP-Ohio to obtain alternative energy resources including solar resources in Ohio, the Commission should find that there is a need for the 49.9 MW Turning Point Solar project. The Commission decision in the case is pending.

RESA and Direct contend that the GRR will inhibit the growth of the competitive retail electric market and violates the state policy set forth in Section 4928.02(H), Revised Code, which prohibits the collection of generation-based rates through a non-bypassable rider. Similarly, IGS reasons that the GRR is intended to recover the cost for new generation to serve SSO customers and, therefore, the GRR amounts to an anticompetitive subsidy on CRES providers for the benefit of noncompetitive retail electric service, or, according to Wal-Mart, requires shopping customers to pay twice. IGS recommends that AEP-Ohio develop renewable energy projects on its own with recovery through market prices. RESA and Direct reason that AEP-Ohio's request is premature and creates uncertainty for CRES providers who are also required to comply with Ohio's renewable energy portfolio standards. RESA and Direct contend that, to the extent the Commission adopts the GRR, the GRR should not be assessed to shopping customers. RESA and Direct propose that the GRR be set at zero and incorporation of the Turning Point project or other facilities should occur in a separate case. (RESA Ex. 102 at 12; RESA/Direct Br. 18-21; IGS Br. at 13; Wal-Mart Ex. 101 at 5.)

To make the GRR benefit shopping and non-shopping customers, IGS suggests that AEP-Ohio sell the generated electricity on the market with revenues to be credited against the GRR or the renewable energy credits used to meet the requirements for all customers. IGS notes that AEP-Ohio witnesses agree that crediting the revenues against the GRR is reasonable. (IGS Ex. 101 at 27-28; Tr. 599, 1169-1170.)

OCC, APJN, IEU and FES contend that AEP-Ohio has inappropriately conflated two unrelated statutes, Sections 4928.143(B)(2)(c) and 4928.64, Revised Code, in support of the GRR. The goals of the two sections are different according to the interpretation of the aforementioned interveners. They contend that the purpose of Section 4928.64, Revised Code, is to require electric distribution utilities and CRES providers to comply with renewable energy benchmarks and paragraph (E) of Section 4928.64, Revised Code, directs that costs incurred to comply with the renewable energy benchmarks shall be bypassable. Whereas, according to IEU and FES, Section 4928.143(B)(2)(c), Revised Code, permits the Commission to implement a market safety valve under specific requirements should Ohio require additional generation. FES notes that AEP-Ohio has sufficient energy and capacity for the foreseeable future. IEU and FES interpret the two statutory provisions to affirmatively deny non-bypassable cost recovery under Section 4928.143(B)(2)(c), Revised Code, for renewable energy projects. IEU and FES contend that their interpretation is confirmed by the language in Section 4928.143(B), Revised Code, which states "Notwithstanding any other provision of Title XLIX of the Revised Code to the contrary except...division (E) of section 4928.64... ." Thus, FES reasons the Commission is expressly prohibited from authorizing a provision of an ESP which conflicts with Section 4928.64(E), Revised Code. (FES Br. at 87-90; IEU Br. 74-76; Tr. at 226-227.)

Further, IEU, FES, OCC, IGS and APJN argue that the statute requires, and AEP-Ohio has failed to demonstrate, the need for and the terms and conditions of recovery for

the Turning Point project in this proceeding pursuant to Section 4928.143(B)(2)(c), Revised Code. Finally, IEU submits that AEP-Ohio has failed to offer any evidence as to the effect of the GRR on governmental aggregation, as required in accordance with the Commission's obligation under Section 4928.20(K), Revised Code. For these reasons, IEU, IGS, FES, OCC and APJN request that the Company's request to implement the GRR be denied. (Tr. 1170, 570-574, 2644-2646; FES Br. at 87-94; FES Reply Br. at 22-24, IGS Reply Br. at 5-6; OCC/APJN Br. at 84-85; IEU Br. 74-76.)

Staff notes that there are a number of statutory requirements pursuant to Section 4928.143(B)(2)(c), Revised Code, that OP has not satisfied as a part of this modified ESP proceeding but will be addressed in a future proceeding, including the cost of the proposed facility, alternatives for satisfying the in-state solar requirements, a demonstration that Turning Point was or will be sourced by a competitive bid process, the facility is newly used and useful on or after January 1, 2009, the facility's output is dedicated to Ohio consumers and the cost of the facility, among other issues. Staff notes the need for the Turning Point facility has been raised by parties in another case and a decision by the Commission is pending.[8] Staff emphasizes that the statutory requirements would need to be addressed, and a decision made by the Commission, before recovery could commence via the GRR mechanism. Further, Staff suggests that it is in this future proceeding that parties should explore whether the GRR should be applied to shopping customers. (Staff Ex. 106 at 11-14.)

FES responds that the language of Section 4928.143(B)(2)(c), Revised Code, omits any asserted discretion of the Commission to consider the requirements to comply with the statute outside of the ESP case, as AEP-Ohio and Staff offer. Nor is it sufficient policy support, according to FES and IGS, that customers may transition from shopping to non-shopping and back during the useful life of the Turning Point facility as claimed by AEP-Ohio. The interveners argue AEP-Ohio overlooks that, as proposed by the Company, the load of all its non-shopping customers will be up for bid as of June 1, 2015. With that in mind, FES ponders why customers of AEP-Ohio competitors should pay for AEP-Ohio facilities after May 31, 2015. (FES Reply Br. at 24-25; IGS Reply Br. at 4.)

UTIE notes that parties that oppose the approval of the GRR, on the premise that it will require shopping customers to pay twice, overlook AEP-Ohio's proposal to allocate RECs between shopping and non-shopping customers, to sell the energy and capacity from the Turning Point facility into the market and credit such transactions against the GRR (UTIE Reply Br. at 2).

NRDC and OEC respond that it is disingenuous for parties to argue that establishing a placeholder rider as a part of an ESP is unlawful. The Commission has adopted placeholder riders in several previous Commission cases for AEP-Ohio, Duke

---

8 Case Nos. 10-501-EL-FOR and 10-502-EL-FOR.

Energy Ohio and the FirstEnergy operating companies.[9] Further, NRDC and OEC note that no party has waived its right to participate in subsequent GRR-related proceedings before the Commission. (NRDC/OEC Reply Br. at 2.)

The Company notes that four interveners support the adoption of the GRR and of the four supporters, two request modifications which are components already proposed by the Company.

First, AEP-Ohio addresses the arguments of FES and IEU that Section 4928.64(E), Revised Code, prohibits the use of Section 4928.143(B)(2)(c), Revised Code, for renewable generation projects. AEP-Ohio states that it recognizes the overlapping policies of the two statutes and offers that each section relates to the cost recovery aspect of the project, which as the Company interprets the statutes, will be addressed when cost recovery is requested in a future proceeding. Further, AEP-Ohio reasons that IEU's and FES's arguments are inappropriate as they would lead to the disallowance of a statutorily prescribed option merely because another option exists. In addition, AEP-Ohio contends, proper statutory construction seeks to give all statutes meaning and, therefore, both options are available to the Commission at its discretion.

It is premature, AEP-Ohio retorts, to assert as certain interveners have done, that the statutory requirements of Section 4928.143(B)(2)(c), Revised Code, have not been met by the Company. The statutory requirements of Section 4928.143(B)(2)(c), Revised Code, will be addressed in a separate proceeding before any costs can be recovered via the proposed GRR. AEP-Ohio asserts that the Commission is vested with the discretion to establish the GRR, as a zero-cost placeholder, as it has done in other Commission proceedings. The Company also proposes, and Staff agrees, that as a part of this future proceeding, the amount and prudency of costs associated with the Turning Point project and whether the GRR results in shopping customers paying twice for renewable energy compliance costs, among other issues will be determined. AEP-Ohio reiterates its plan to share the RECs from the Turning Point project between shopping and SSO customers on an annual basis. IGS, NRDC and Staff endorse AEP-Ohio's proposal to share the value of the Turning Point project between shopping and non-shopping customers. (AEP-Ohio Reply Br. at 7-10; Tr. at 2139-2140; NRDC/OEC Reply Br. at 1; Staff Ex. 110 at 7; Staff Br. at 20.)

The Commission interprets Section 4928.143(B)(2)(c), Revised Code, to permit a reasonable allowance for construction of an electric generating facility and the establishment of a non-bypassable surcharge, for the life of the facility where the electric utility owns or operates the generation facility and sourced the facility through a competitive bid process. Before authorizing recovery of a surcharge for an electric generation facility, the Commission must determine there is a need for the facility and to

---

[9] In re AEP-Ohio, ESP 1 (March 18, 2009); *In re Duke Energy-Ohio*, Case No. 08-920-EL-SSO (December 17, 2008); *In re FirstEnergy*, Case No. 08-935-EL-SSO (March 25, 2009).

continue recovery of the surcharge, establish that the facility is for the benefit of and dedicated to Ohio consumers. AEP-Ohio will be required to address each of the statutory requirements, in a future proceeding, and to provide additional information including the costs of the proposed facility, to justify recovery under the GRR. However, the Commission notes that there shall be no allowances for recovery approved unless the need and competitive requirements of this section are met.

Furthermore, we disagree with the arguments that the language in Section 4928.143(B)(2)(c), Revised Code, requires the Commission to first determine, within the ESP proceeding, that there was a need for the facility. The Commission is vested with the broad discretion to manage its dockets to avoid undue delay and the duplication of effort, including the discretion to decide, how, in light of its internal organization and docket considerations, it may best proceed to manage and expedite the orderly flow of its business, avoid undue delay and eliminate unnecessary duplication of effort. *Duff v. Pub. Util. Comm.* (1978), 56 Ohio St. 2d 367, 379; *Toledo Coalition for Safe Energy v. Pub. Util. Comm.* (1982), 69 Ohio St. 2d 559, 560. Accordingly, it is acceptable for the Commission to determine the need for the Turning Point facility as a part of the Company's long-term forecast case filed consistent with Section 4935.04, Revised Code, wherein the Commission evaluates energy plans and needs. To avoid the unnecessary duplication of processes, the Commission has undertaken the determination of need for the Turning Point project in the Company's long-term forecast proceeding. The Commission interprets the statute not to restrict our determination of the need and cost for the facility to the time an ESP is approved but rather to ensure the Commission holds a proceeding before it authorizes any allowance under the statute. FES raises the issue of whether shopping customers should incur charges associated with AEP-Ohio's construction of generation facilities. The Commission finds that Section 4928.143(B)(2)(c), Revised Code, specifically provides that the surcharge be non-bypassable. However, the statute also provides that the electric utility must dedicate the energy and capacity to Ohio consumers. AEP-Ohio has represented that any renewable energy credits will be shared with CRES providers proportionate with such providers' share of the load. Accordingly, as long as AEP-Ohio takes steps to share the benefits of the project's energy and capacity, as well as the renewable energy credits, with all customers, we find that the GRR should be non-bypassable. Further, in the subsequent application for any cost recovery AEP-Ohio will have the burden to demonstrate compliance with the statutory requirements set forth in Section 4928.143(B)(2)(c), Revised Code.

Accordingly, the Commission approves the Company's request to adopt as a component of this modified ESP the GRR mechanism, at a rate of zero. It is not unprecedented for the Commission to adopt a mechanism, with a rate of zero, as a part of

an ESP.[10] The Commission explicitly notes that in permitting the creation of the GRR, it is not authorizing the recovery of any costs, at this time.

5. Interruptible Service Rates

In its modified ESP, AEP-Ohio suggests it would be appropriate to restructure its current interruptible service provisions to make its offerings consistent with the options that will be available upon AEP-Ohio's participation in the PJM base residual auction beginning in June 2015. AEP-Ohio witness Roush provides that interruptible service is more frequently represented as an offset to standard service offer rates as opposed to a separate and distinct rate (AEP-Ohio Ex. 111 at 8). To make AEP-Ohio's interruptible service options consistent with the current regulatory environment, AEP-Ohio proposes that Schedule Interruptible Power-Discretionary (IRP-D) become available to all current customers and any potential customers seeking interruptible service (*Id.*). The IRP-D credit would increase to $8.21 per kw-month upon approval of the modified ESP (AEP-Ohio Ex. 100 at 9). AEP-Ohio proposes to collect any costs associated with the IRP-D through the RSR to reflect reductions in AEP-Ohio's base generation revenues (*Id.*).

OCC believes the IRP-D proposal violates cost causation principles, as the beneficiaries are customers with more than 1 MW of interruptible capacity, and does not apply to residential customers. OCC witness Ibrahim argues it is unfair for non-participating customers to make AEP-Ohio whole for any lost revenues associated with the IRP-D (OCC Ex. 110 at 11-12). Therefore, OCC recommends the IRP-D should not allow for any lost revenue associated with IRP-D credits to be collected through the RSR (*Id.*).

Staff suggests modifying the IRP-D credit based upon the state compensation mechanism approved in the Capacity Case (Staff Ex. 105 at 6-9). Staff witness Scheck recommended lowering the IRP-D credit to $3.34/kw-month (*Id.*). Further, Staff notes its preference of any interruptible service to be offered in conjunction with Commission approved reasonable arrangements, as opposed to tariff service (*Id*). EnerNOC states that a reasonable arrangement process is more transparent than an interruptible service credit, and notes that a subsidized IRP-D rate may impede AEP-Ohio's transition to a competitive market by reducing the amount of demand response resources that may participate in RPM auctions (EnerNOC Br. at 6-9).

OMAEG and OEG support the proposed IRP-D credit, but recommend it not be tied to approval of the RSR (OMAEG Br. at 21, OEG Br. at 15). Ormet also supports the IRP-D credit, noting that customers should be compensated for taking on an interruptible load (Ormet Br. at 21-22). OEG explains it is reasonable and consistent with state policy

---

[10] *In re AEP-Ohio*, ESP 1 (March 18, 2009); *In re Duke Energy-Ohio*, Case No. 08-920-EL-SSO (December 17, 2008); *In re FirstEnergy*, Case No. 08-935-EL-SSO (March 25, 2009).

objectives under Section 4928.02, Revised Code, as it will promote economic development and innovation and market access for AEP-Ohio's customers. OEG witness Stephen Baron provides that the credit is beneficial to customers that participate in the IRP-D program who received a discounted price for power in exchange for interruptible service, which retains existing AEP-Ohio customers and can attract new customers to benefit the state's economic development (Tr. IV at 1125-1126, OEG Ex. 102 at 6-8). Mr. Baron notes that the IRP-D is beneficial to AEP-Ohio as well by allowing AEP-Ohio to have increased flexibility in providing its service, thus increasing overall system reliability (OEG Ex. 102 at 6-8). However, Mr. Baron believes that costs associated with the IRP-D would be more appropriate to recover under the EE/PDR rider (*Id.* at 9-10). OEG also disputes Staff's proposal to lower the IRP-D credit to the capacity rate charged to CRES providers, as the credit is only available to SSO customers, and not customers of CRES providers (OEG Br. at 16-21).

The Commission finds the IRP-D credit should be approved as proposed at $8.21/kW-month. In light of the fact that customers receiving interruptible service must be prepared to curtail their electric usage on short notice, we believe Staff's proposal to lower the credit amount to $3.34/kW-month understates the value interruptible service provides both AEP-Ohio and its customers. In addition, the IRP-D credit is beneficial in that it provides flexible options for energy intensive customers to choose their quality of service, and is also consistent with state policy under Section 4928.02(N), Revised Code, as it furthers Ohio's effectiveness in the global economy. In addition, since AEP-Ohio may utilize interruptible service as an additional demand response resource to meet its capacity obligations, we direct AEP-Ohio to bid its additional capacity resources into PJM's base residual auctions held during the ESP.

The Commission agrees with several parties who correctly pointed out that the IRP-D credit should not be tied to the RSR. As we will discuss below, the RSR is tied to rate certainty and stability, and while we have no qualms in finding that the IRP-D is reasonable, it is more appropriate to allow AEP-Ohio to recover any costs associated with the IRP-D under the EE/PDR rider. As the IRP-D will result in reducing AEP-Ohio's peak demand and encourage energy efficiency, it should be recovered through the EE/PDR rider.

6. Retail Stability Rider

In its modified ESP, AEP-Ohio proposes a non-bypassable RSR. AEP-Ohio states the RSR is justified under Section 4928.143(B)(2)(d), Revised Code, as it promotes stability and certainty with retail electric service, and Section 4928.143(B)(2)(e), Revised Code, which allows for automatic increases or decreases by revenue decoupling mechanisms that relate to SSO service. AEP-Ohio provides that in addition to the RSR's promotion of rate stability and certainty, it is essential to ensure the Company does not suffer severe financial repercussions as a result of the proposed ESP's capacity pricing mechanism.

AEP-Ohio witness William Avera explains that the Commission has the duty to ensure there is not an unconstitutional taking that may result in material harm to AEP-Ohio (AEP-Ohio Ex. 150 at 4-6). Dr. Avera stresses that not only does the Commission maintain this obligation to avoid confiscation, but in the event the rate plan is confiscatory, AEP-Ohio's credit rating would likely drop, limiting the ability to attract future capital investments (*Id.*).

The proposed RSR functions as a generation revenue decoupling charge that all shopping and non-shopping customers would pay through June 2015. As proposed, the RSR relies on a 10.5 percent return on equity to develop the non-fuel generation revenue target of $929 million per year, which, throughout the term of the modified ESP, would collect approximately $284 million in revenue (AEP-Ohio Ex. 100, 116 at WAA-6). In establishing the 10.5 percent target, AEP-Ohio witness William Allen considered CRES capacity revenues as based on the proposed two-tiered capacity mechanism, auction revenues, and credit for shopped load to determine where the RSR should be set. AEP-Ohio notes that while the RSR is designed to produce consistent non-fuel generation revenues, the RSR does not guarantee a company total ROE of 10.5 percent, as there are other factors affecting total company earnings, which AEP-Ohio witness Sever estimated at 9.5 percent and 7.6 percent (AEP-Ohio Ex. 151 at 2-4, AEP-Ohio Ex. 108 at OJS-2). Thus, AEP-Ohio explains the RSR only ensures a stable level of revenues during the term of the ESP, not a stable ROE (*Id.* at 3). For every $10/MW-day decrease in the Tier 2 price for capacity, Mr. Allen explains the RSR would increase by $33M (or $.023/MWh) (AEP-Ohio Ex. 116 at 14-15). Mr. Allen explains that the $3 shopped load credit is based on AEP-Ohio's estimated margin it earns from off-system sales (OSS) made as a result of MWh freed as a result of customer shopping. In his testimony, Mr. Allen provides that AEP-Ohio only retains 40 percent of the OSS margins due to its participation in the AEP pool, and of that 40 percent only 50 to 80 percent of reduced retail sales result in additional OSS, thus demonstrating the $3/MWh credit is reasonably based on appropriate OSS assumptions (AEP-Ohio Ex. 151 at 5-8).

In designing the RSR, AEP-Ohio explains that a revenue target is preferable to an earnings target, as decoupling will provide greater stability and certainty for customers and is easier to objectively measure and audit as compared to earnings, which are prone to litigation as evidenced by SEET proceedings (AEP-Ohio Ex. 116 at 13-16). AEP-Ohio believes a revenue target provides for risks associated with generation operations to be on AEP-Ohio while avoiding the need for evaluating returns associated with a deregulated entity after corporate separation (*Id.*) As proposed, the RSR would average $2/MWh (*Id.* at WAA-6).

AEP-Ohio believes the RSR is beneficial in that it freezes non-fuel generation rates and allows for AEP-Ohio's transition to a fully competitive auction by June 2015 (AEP-Ohio Ex. 119 at 2-4). AEP-Ohio opines that the RSR mechanism reflects a careful balance

that will encourage customer shopping through discounted capacity prices while retaining reasonable rates for SSO customers and ensure that AEP-Ohio is not financially harmed as it transitions towards a competitive auction (*Id.*). AEP-Ohio also touts an increase in its interruptible service (IRP-D) credit upon approval of the RSR. AEP-Ohio witness Selwyn Dias explains that the increase in the IRP-D credit will benefit numerous major employers in the state of Ohio and promote economic development opportunities within AEP-Ohio's service territory (*Id.* at 7).

Without the Commission's approval of the RSR as proposed, AEP-Ohio claims that the modified ESP would result in confiscatory rates. In his rebuttal testimony, Mr. Allen argues that if the established capacity charge is below AEP-Ohio's costs, AEP-Ohio will face an adverse financial impact (AEP-Ohio Ex. 151 at 9). As such, AEP-Ohio points out that the 10.5 percent return on equity used to develop the RSR's target revenue is not only appropriate to prevent financial harm but is also necessary to avoid violating regulatory standards addressing a fair rate of return. Mr. Allen contends that the non-fuel generation revenue, which the RSR addresses, is separate and distinct from the total company earnings, which are not addressed by the RSR. This distinction, Mr. Allen states, shows the 10.5 percent return on equity is appropriate for the RSR because when the RSR is combined with total company earnings, AEP-Ohio would be looking at a total company return on equity of 7.5 percent in 2013. Therefore, AEP-Ohio argues it would be inappropriate to allow a RSR rate of return of less than 10.5 percent, as any reduction would lower the total company return on equity downward from 7.5 percent, harming AEP-Ohio's ability to attract capital and potentially putting the company in an adverse financial situation (*Id.* at 4-5).

DER, DECAM, FES, NFIB, OCC, and IEU all contend that the RSR lacks statutory authority to be approved. FES claims that Section 4928.143(B)(2)(d), Revised Code, only authorizes charges that provide stability and certainty regarding retail electric service, which AEP-Ohio has failed to show. OCC witness Daniel Duann argues that the RSR will raise customer rates and cause financial uncertainty to all native load customers (OCC Ex. 111 at 10). OCC contends that even if the RSR provided certainty and stability, it does not qualify as a term, condition, or charge pursuant to Section 4928.143(B)(2)(d), Revised Code (OCC Br. at 40). IEU and Exelon also argue the RSR violates Section 4928.02(H) Revised Code, as it would be tied to a distribution rate based on its charge to shopping customers despite the fact it is a non-bypassable charge designed to recover generation related costs (IEU Br. at 63-64, Exelon Br. at 12).

IEU, Ohio Schools, Kroger, and DECAM/DER argue that AEP-Ohio is improperly utilizing the RSR to attempt to recover transition revenue. IEU notes that AEP-Ohio's attempt to recover generation-related revenue that may not otherwise be collected by statute is an illegal attempt to recover transition revenue (IEU Ex. 124 at 4-10, 24-26). Kroger and Ohio Schools point out that not only has the opportunity to recover generation

transition costs expired with the establishment of electric retail competition in 2001, AEP-Ohio waived its right to generation transition costs when it stipulated to a resolution in Case Nos. 99-1729 and 99-1730 (Kroger Br. at 3-5, Ohio Schools Br. at 18-20). Exelon and FES maintain the RSR is anticompetitive and would stifle competition.

Ormet, OCC, Ohio Schools, OEG, and Exelon indicate that, if the RSR is approved, it should contain exemptions for certain customer classes. Ohio Schools request an exemption from the RSR, pointing out that not only are schools relying on limited funding, but also that the Commission has traditionally considered schools to be a distinct customer class that is entitled to special rate treatment (Ohio Schools Br. at 22-30, citing to Case Nos. 90-717-EL-ATA, 95-300-EL-AIR, 79-629-TP-COI, Ohio Schools Ex. 103, and Tr. XVI at 4573-4574). Exelon believes the RSR should not apply to shopping customers and should be bypassable. While Exelon notes it does not oppose affording AEP-Ohio protection as it transitions its business structure, witness David Fein argues that shopping customers will unfairly be forced pay both the CRES provider and AEP-Ohio for generation (Exelon Ex. 101 at 13-14).

On the contrary, Ormet believes the RSR should not apply to customers like Ormet who cannot shop, as Ormet neither causes costs associated with the RSR nor can Ormet receive the benefits associated with it (Ormet Ex. 106 at 15-17). Ormet maintains that the RSR, as currently proposed, violates cost causation principles (*Id.*). OCC and OEG suggest that if the RSR is approved, it should not be charged to SSO customers, as these customers are not the cause of the RSR costs, and it would be unfair to force these customers to subsidize shopping customers and CRES providers (OEG Br. at 5-6, OCC Ex. 111 at 16-17).

While OEG does not support the creation of the RSR, it understands the Commission may need to provide a means to ensure AEP-Ohio has the ability to attract capital, and as such suggests that the Commission look to AEP-Ohio actual earnings as opposed to revenue (OEG Ex. 101 at 12-18). OEG argues that the RSR's use of revenues does not accurately reflect a utility's financial condition or ability to attract capital in the way that earnings do, as evidenced by earnings being the foundation used by credit agencies to determine bond ratings (*Id.*). OEG witness Lane Kollen points out that revenues are just a single component of AEP-Ohio's earnings and do not reflect a full picture of AEP-Ohio's financial health (*Id.*). Mr. Kollen suggests that if the Commission were to look at AEP-Ohio's earnings, an appropriate return on equity (ROE) would be between seven percent and 11 percent (OEG Ex. at 4-6). If the Commission were to use revenues to determine AEP-Ohio's ROE, as proposed in the RSR, Mr. Kollen believes the ROE should be at seven percent, as it is still double the cost of AEP-Ohio's long-term debt and falls within the Ohio Supreme Court's zone of reasonableness (*Id.* at 7, Tr. X at 2877-79).

In the event the Commission adopts RPM priced capacity, RESA also supports the use of earnings as opposed to revenues in calculating the RSR in the event it is necessary to avoid confiscatory rates (RESA Ex. at 11, Br. at 13-16). RESA also suggests the Commission consider projecting an amount of money necessary for AEP-Ohio to earn a reasonable rate of return and set the RSR accordingly (RESA Br. at 14-16). RESA maintains that either of these alternatives may reduce the possibility that AEP-Ohio and its new affiliate make uneconomic investments or other risks that may result from AEP-Ohio receiving a guarantee of a certain level of annual income (*Id.*). NFIB and OADA express similar concerns that the RSR, as proposed, creates no incentive for AEP-Ohio to limit its expenses (NFIB Br. at 4-6, OADA Br. at 2-3).

In addition, several other parties suggest modifications to the RSR, including its proposed ROE. Ormet states that the 10.5 percent ROE is excessive and unreasonably high. Ormet witness John Wilson explained that AEP-Ohio failed to sustain its burden of showing 10.5 percent ROE was just and reasonable, and upon utilizing Staff's methodology in 11-351-EL-AIR, determined that, based on current economic conditions and AEP-Ohio and comparable utility financial figures, an appropriate ROE would be between eight and nine percent (Ormet Ex. 107 at 8-30). Kroger witness Kevin Higgins testified that the average ROE for electric utilities is 10.2 percent, and based on the fact that AEP-Ohio's proposed two-tier capacity mechanism is above market, the ROE should be below 10.2 percent (Kroger 101 at 10). FES and Wal-Mart state that AEP-Ohio failed to justify its 10.5 percent figure, with Wal-Mart witness Steve Chriss suggesting the ROE be no higher than 10.2 percent (Wal-Mart Ex. 101 at 8-9, FES Ex. 102 at 79-80).

OCC recommends that the Commission allocate the RSR in proportion to each class share of the switched kWh sales as opposed to customer class contribution to peak load, as an allocation based on contribution to peak load is not just and reasonable (OCC Ex. 110 at 8-9). OCC witness Ibrahim points out that the residential customer class share of switched kWh sales is only eight percent, thus, if the Commission reallocates RSR costs, residential customer increases would drop from six percent to three percent (*Id.* at 24-26). Kroger argues the RSR allocates costs to customers by demand, but recovers through an energy cost, resulting in cross subsidies amongst customers (Kroger Ex. 101 at 8). Kroger recommends that costs and charges should be aligned and based on demand as opposed to energy usage (*Id.*)

OCC, FES, and Ormet also submit modifications related to the calculation AEP-Ohio's shopping credit included within the RSR calculation. Ormet argues that AEP-Ohio underestimates its $3 shopping credit. Ormet states that based on AEP-Ohio's 2011 resale percentage of 80 percent, the actual shopping credit increases to $3.75 MWh, with the total amount increasing to $78.5 million (Ormet Br. at 10-12, citing to Tr. XVII at 4905). Ormet also shows that AEP-Ohio will not need to reduce the credit by 60 percent beginning in 2013, as AEP-Ohio will no longer be in the AEP pool, resulting in the credit increasing to

$6.50 per year in 2014 and 2015 (*Id.*). OCC also points out that the shopping credit should increase based on AEP-Ohio's 2011 shopping percentage, as well as the termination of the AEP pool agreement, and recommends the Commission adopt a shipping credit higher than $3/MWh but less than $12/MWh (OCC Br. at 49-54).

The Commission finds that, upon review of the record, it is apparent that no party disputes that the approval of the RSR will provide AEP-Ohio with sufficient revenue to ensure it maintains its financial integrity as well as its ability to attract capital. There is dispute, however, as to whether the RSR is statutorily justified, and, if it is justified, the amount AEP-Ohio should be entitled to recover, and how the recovery should be allocated among customers. The Commission must first determine whether RSR mechanism is supported by statute. Next, if we find that the Commission has the authority to approve the RSR, we must balance how much cost recovery, if any, should be permitted to ensure customers are not paying excessive costs but that the recovery is enough to allow AEP-Ohio to freeze its base generation rates and maintain a reasonable SSO plan for its current customers as well as for any shopping customers that may wish to return to AEP-Ohio's SSO plan.

In beginning our analysis, we first look to AEP-Ohio's justification of the RSR. While AEP-Ohio argues there are numerous statutory provisions that may provide support for the RSR, the thrust of its arguments in support of the RSR pertain to Section 4928.143(B)(2)(d), Revised Code, which AEP-Ohio notes is met by the RSR's promotion of rate stability and certainty. AEP-Ohio also suggests that Section 4928.143(B)(2)(e), Revised Code, which allows for automatic increases or decreases, justifies the RSR, as its design includes a decoupling mechanism.

Pursuant to Section 4928.143(B)(2)(d), Revised Code, an ESP may include terms, conditions, or charges relating to limitations on customer shopping for retail electric generation that would have the effect of stabilizing retail electric service or provide certainty regarding retail electric service. We believe the RSR meets the criteria of Section 4928.143(B)(2)(d), as it promotes stable retail electric service prices and ensures customer certainty regarding retail electric service. Further, it also provides rate stability and certainty through CRES services, which clearly fall under the classification of retail electric service, by allowing customers the opportunity to mitigate any SSO increases through increased shopping opportunities that will become available as a result of the Commission's decision in the Capacity Case.

In addition, we find that the RSR freezes any non-fuel generation rate increase that might not otherwise occur absent the RSR, allowing current customer rates to remain stable throughout the term of the modified ESP. While we understand that the non-bypassable components of the RSR will result in additional costs to customers, we believe any costs associated with the RSR are mitigated by the effect of stabilizing non-fuel

generation rates, as well as the guarantee that, in less than three years, AEP-Ohio will establish its pricing based on energy and capacity auctions, which this Commission again maintains is extremely beneficial by providing customers with an opportunity to pay less for retail electric service than they may be paying today.

Therefore, we find that the RSR provides certainty for retail electric service, as is consistent with Section 4928.143(B)(2)(d), Revised Code. Until May 31, 2015, AEP-Ohio's SSO rate, as a result of this RSR, will remain available for all customers, including those who are presently shopping, as well as those who may shop in the future. The ability for AEP-Ohio to maintain a fixed SSO rate is valuable, particularly if an unexpected, intervening event occurs during the term of the ESP, which could have the effect of increasing market prices for electricity. The ability for all customers within AEP-Ohio's service territory to have the option to return to AEP-Ohio's certain and fixed rates allows customers to explore shopping opportunities. This is an extremely beneficial aspect of the RSR and is undoubtedly consistent with legislative intent in providing that electric security plans may include retail electric service terms, conditions, and charges that relate to customer stability and certainty. Further, we reject the claim that the RSR allows for the collection of inappropriate transition revenues or stranded costs that should have been collected prior to December 2010 pursuant to Senate Bill 3, as AEP-Ohio does not argue its ETP did not provide sufficient revenues, and, in light of events that occurred after the ETP proceedings, including AEP-Ohio's status as an FRR entity, AEP-Ohio is able to recover its actual costs of capacity, pursuant to our decision in the Capacity Case. Therefore, anything over RPM auction capacity prices cannot be labeled as transition costs or stranded costs.

Moreover, we find that the certainty and stability the RSR provides would be all but erased by its design as a decoupling mechanism. We agree with OCC that the ability for AEP-Ohio to decouple the RSR would cause financial uncertainty, as truing up or down each year will create customer confusion in their rates. NFIB, OADA, and RESA correctly raise concerns that the RSR design creates no incentive for AEP-Ohio to limit its expenses and the Company may make uneconomic investments by its guaranteed level of annual income. While AEP-Ohio should have the opportunity to earn a reasonable rate of return, there is not a right to a guaranteed rate of return, and we will not allow AEP-Ohio to shift its risks onto customers. Thus, because its design may lead to a perverse outcome of AEP-Ohio making imprudent decisions, we find it necessary to remove the decoupling component from the RSR.

Although the RSR is justified by statute, AEP-Ohio has failed to sustain its burden of proving that its revenue target of $929 million is reasonable. The basis of AEP-Ohio's $929 million target is to ensure that its non-fuel generation revenues are stable and that stability may be ensured through a 10.5 percent ROE. However, as we previously established, it is inappropriate to guarantee a rate of return for AEP-Ohio, therefore, we

find it more appropriate to establish a revenue target that will allow AEP-Ohio the opportunity to earn a reasonable rate of return. We note that our analysis of an ROE is not to guarantee a rate of return, as evidenced by the removal of the decoupling components but rather to determine a revenue target that adequately ensures AEP-Ohio can keep its base generation rates frozen and maintain its financial health. Although we believe the more appropriate method to balance these factors would have been through the use of actual dollar figures that relate to stability, because AEP-Ohio utilized a ROE in calculating its proposals, and parties responded with alternative ROE proposals, the record limits us to this approach. Therefore, in determining an appropriate quantification for the RSR, we will consider a ROE of the non-fuel generation revenue only for the purpose of creating an appropriate revenue target that will ensure AEP-Ohio has sufficient capital while maintaining its frozen base generation rates.

Only three witnesses, AEP-Ohio witness Avera, OEG witness Kollen, and Ormet witness Wilson, developed thorough testimony exploring how an appropriate revenue target for the RSR should be established, all of which were driven by an analysis of AEP-Ohio's ROE. Although OEG witness Kollen proposed a mechanism driven by adjusting AEP-Ohio's ROE upward or downward if it does not fall within a zone of reasonableness, Mr. Kollen established that anything between seven and 11 percent could be deemed reasonable (OEG Ex. 101 at 8-9). Mr. Kollen preferred focusing on a zone of reasonableness, but notes that if the Commission preferred to establish a baseline revenue target, it should be set at $689 million (*Id.* at 16-18). Ormet witness Wilson utilized Staff models from Case No. 11-351 including discounted cash flow and capital asset pricing models, and updated calculations in the Staff models to reflect current economic factors, reaching a conclusion that AEP-Ohio's ROE should be between eight and nine percent (Ormet Ex. 107 at 8-18). AEP-Ohio used witness Avera to rebut Dr. Wilson's testimony, noting that Dr. Wilson did not consider a sufficient number of utilities in the proxy group, and the utilities that were considered were not similarly situated to AEP-Ohio (AEP-Ohio Ex. 150 at 5-6). Based on this information, Dr. Avera recommended an ROE range of 10.24 percent to 11.26 percent (*Id.*).

The Commission finds that all three experts provide credible methodologies for determining an appropriate ROE for AEP-Ohio, therefore, we find OEG witness Kollen's zone of reasonableness of seven to 11 percent to be an appropriate starting point. We again emphasize that the Commission does not want to guarantee a ROE nor establish what an appropriate ROE would be, but rather, establish a reasonable revenue target that would allow AEP-Ohio an opportunity to earn somewhere within the seven to 11 percent range. We believe AEP-Ohio's starting point of $929 is too high, particularly in light of the fact that AEP-Ohio is entitled to a deferral recovery pursuant to the Capacity Case but that a baseline of $689 million would be too low to support the certainty and stability the RSR provides. Accordingly, we find that a benchmark shall be set in the approximate middle of this range, and the $929 million benchmark shall be adjusted downward to $826 million.

While we have revised the benchmark amount down to $826 million, we also need to revisit the figures AEP-Ohio used in determining its RSR revenue amounts. In designing the RSR benchmark, Mr. Allen focused on four areas of revenue: retail non-fuel generation revenues; CRES capacity revenues; auction capacity revenues; and credit for shopped load (AEP-Ohio Ex. at WAA-6). In calculating the inputs for these revenue figures, Mr. Allen relied on AEP-Ohio's own estimates ofshopping loads of 65 percent for residential customers, 80 percent for commercial customers, and 90 percent for industrial customers by the end of 2012 (*Id.* at 5).

However, evidence within this record indicates Mr. Allen's projected shopping statistics may be higher than actual shopping levels. On rebuttal, FES presented shopping statistics based on actual AEP-Ohio numbers provided by Mr. Allen as of March 1, 2012, and May 31, 2012 (FES Ex. 120). FES concluded that, based on AEP-Ohio's actual shopping statistics to date, Mr. Allen's figures overestimated the amount of shopping by 36 percent for residential customers, 17 percent for commercial customers, and 29 percent for industrial customers, creating a total overestimate across all customer classes of 27.54 percent. The Commission finds it is more appropriate to utilize a shopping projection which is roughly the midpoint between AEP-Ohio's shopping projections and the more conservative shopping estimates offered by FES. Therefore, we will estimate shopping in the first year at 52 percent, and then increase the shopping projections for years two and three to 62 percent and 72 percent, respectively. These numbers represent a reasonable estimate and are consistent with shopping statistics of other EDUs throughout the State (*See* FES Ex. 114).

Based upon the Commission's revised shopping projections, we need to adjust the calculation of the RSR. The record indicates that lower shopping figures will result in changes to retail generation revenues, CRES margins, and OSS margins, which affects the credit for shopped load, all resulting in an adjustment to the RSR (*See* FES Ex. 121). Our adjustments are highlighted below.

	PY 12/13	PY 13/14	PY 14/15
Retail Non-Fuel Gen Revenues	$528	$419	$308
CRES Capacity Revenues	$32	$65	$344
Credit for Shopped Load	$75	$89	$104
Subtotal	$636	$574	$757
Revenue Target	$826	$826	$826
Retail Stability Rider Amount	$189	$251	$68

All figures in millions

To appropriately correct the RSR based on more conservative shopping projections, we begin our analysis with retail non-fuel generation revenues. As the figures of $402, $309, and $182 are based on Mr. Allen's assumed shopping figures, when we adjust these figures to 52, 62, and 72 percent shopping, AEP-Ohio's revenues would increase to $528 million, $419 million, and $308 million, respectively.

Conversely, as a result of decreasing the shopping statistics, CRES capacity revenues would decrease. Assuming our shopping estimates of 52, 62, and 72 percent, as well as the use of RPM capacity prices, the CRES capacity revenues lower to $32 million, $65 million, and $344 million. Finally, we need to adjust the credit for shopped load based on the revised non-shopping assumptions. Because we assume lower shopping statistics, AEP-Ohio will have less opportunity for off-system sales due to an increased load of its non-shopping customers, which will lower the credit to $75 million, $89 million, and $104 million for each year of the modified ESP. Accordingly, upon factoring in our revised revenue benchmark based on a nine percent return on equity, we find a RSR amount of $508 million is appropriate. The $508 million RSR amount is limited only to the term of the modified ESP.

Although our corrected RSR mechanism ensures customer stability and certainty by providing a means for AEP-Ohio to move towards competitive market pricing, in addition to the $508 million RSR, which allows AEP-Ohio to maintain frozen base generation rates and an accelerated auction process, we must also address the capacity charge deferral mechanism, created in the Capacity Case. As our decision in the Capacity Case to utilize RPM priced capacity considered the importance of developing competitive electric markets, we believe it is appropriate to begin recovery of the deferral costs through AEP-

Ohio's RSR mechanism, as the RSR allows for AEP-Ohio to continue to provide certainty and stability for AEP-Ohio's SSO plan while competitive markets continue to develop as a result of RPM priced capacity. Therefore we believe it is appropriate to begin collection of the deferral within the RSR.

Based on our conclusion that a $508 million RSR is reasonable, as well as our determination that AEP-Ohio is entitled to begin recovery of its deferral, AEP-Ohio will be permitted to collect its $508 million RSR by a recovery amount of $3.50/MWh, through May 31, 2014, and $4/MWh between June 1, 2014 and May 31, 2015. The upward adjustment by 50 cents to $4/MWh reflects the Commission's modification to expedite the timing and percentage of the wholesale energy auction beginning on June 1, 2014. Of the $3.50/MWh and $4/MWh RSR recovery amounts, AEP-Ohio must allocate $1.00 towards AEP-Ohio's deferral recovery, pursuant to the Capacity Case. At the conclusion of the modified ESP, the Commission will determine the deferral amount and make appropriate adjustments based on AEP-Ohio's actual shopping statistics and the amount that has been collected towards the deferral through the RSR, as necessary. Further, although this Commission is generally opposed to the creation of deferrals, the extraordinary circumstances presented before us, which allow for AEP-Ohio to fully participate in the market in two years and nine months as opposed to five years, necessitate that we remain flexible and utilize a deferral to ensure we reach our finish line of a fully-established competitive electric market.

Any remaining balance of this deferral that remains at the conclusion of this modified ESP shall be amortized over a three year period unless otherwise ordered by the Commission. In order to ensure this order does not create a disincentive to shopping, at the end of the term of the ESP, AEP-Ohio shall file its actual shopping statistics in this docket. To provide complete transparency as well as to allow for accurate deferral calculations, AEP-Ohio should maintain its actual monthly shopping percentages on a month-by-month basis throughout the term of this modified ESP, as well as the months of June and July of 2012. All determinations for future recovery of the deferral shall be made following AEP-Ohio's filing of its actual shopping statistics.

We believe this balance is in the best interests of both customers and AEP-Ohio. For customers, this keeps the RSR costs stable at $3.50/MWh and $4/MWh, and with $1.00 of the RSR being devoted towards paying back AEP-Ohio's deferrals, customers will avoid paying high deferral charges for years into the future. In addition, our modifications to the RSR will provide customers with a stable rate that will not change during the term of the ESP due to the elimination of the decoupling components of the RSR. Further, as result of the Capacity Case, customers may be able to lower their bill impacts by taking advantage of CRES provider offers allowing customers to realize savings that may not have otherwise occurred without the development of a competitive retail market. In addition, this mechanism is mutually beneficial for AEP-Ohio because the RSR will ensure

AEP-Ohio has sufficient funds to maintain its operations efficiently and revise its corporate structure, as opposed to a deferral only mechanism.

Finally, we find that the RSR should be collected as a non-bypassable rider to recover charges per kWh by customer class, as proposed. We note that several parties pitched reasons as to why certain customers classes should be excluded, but we believe these arguments are meritless. Ormet contends that the RSR should not apply to customers like Ormet who cannot shop. Interestingly, Ormet again tries to play both sides of the table, forgetting that it is the beneficiary of a unique arrangement that results in Ormet receiving a discount at the expense of other AEP-Ohio customers. We reject Ormet's argument, and note that while Ormet cannot shop pursuant to its unique arrangement, it directly benefits from AEP-Ohio's customers receiving stability and certainty, as these customers ultimately pay for Ormet's discounted electricity. We also find Ohio Schools' request to be excluded from the RSR to be without merit, as it too would result in other AEP-Ohio customers, including taxpayers that already contribute to the schools, paying significantly higher shares of the RSR. It is unreasonable to make AEP-Ohio's customers pay the schools twice.

In addition, in light of the fact that the Commission has established a revenue target to be reached through the RSR in this proceeding, the Commission finds that it is also appropriate to establish a significantly excessive earnings test (SEET) threshold to ensure that the Company does not reap disproportionate benefits from the ESP. The evidence in the record demonstrates that a 12 percent ROE would be at the high end of a reasonable range for return on equity (OEG Ex. 101 at 4-6; Kroger 101 at 10; Ormet Ex. 107 at 8-30; Wal-Mart Ex. 101 at 8-9, FES Ex. 102 at 79-80), and even AEP-Ohio witness Allen agreed that a ROE of 10.5 percent is appropriate. Accordingly, for purposes of this ESP, the Commission will establish a SEET threshold for AEP-Ohio of 12 percent.

Likewise, multiple parties argue that either shopping customers or SSO customers should be excluded from paying the RSR. For non-shopping customers, the RSR provides rate stability and certainty, and ensures all SSO rates will be market-based by June 2015. For shopping customers, the RSR not only keeps a reasonably priced SSO offer on the table in the event market prices increase, but it also enables CRES providers to provide offers that take advantage of current market prices, which is a benefit for shopping customers. Accordingly, we find the RSR, as justified by Section 4928.143(b)(2)(d), Revised Code is just and reasonable, and should be non-bypassable.

Finally, the Commission notes that our determination regarding the RSR is heavily dependent on the amount of SSO load still served by the Company. Accordingly, in the event that, during the term of the ESP, there is a significant reduction in non-shopping load for reasons beyond the control of the Company, other than for shopping, the

Company is authorized to file an application to adjust the RSR to account for such changes.

7. Auction Process

As part of its modified ESP, AEP-Ohio proposes a transition to a fully-competitive auction based SSO format. The first part of AEP-Ohio's proposal includes an energy-only, slice-of system auction of five percent that will occur prior to AEP-Ohio's SSO energy auction. The energy-only slice-of-system auction would commence upon a final order in this proceeding and the corporate separation plan, with the delivery period to extend to December 31, 2014 (AEP-Ohio Ex. 101 at 20-21). AEP-Ohio notes that specific details would be addressed upon the issuance of final orders in this proceeding (*Id*).

AEP-Ohio's transition proposal also includes a commitment to conduct an energy auction for 100 percent of the SSO load for delivery in January 2015. By June 1, 2015, AEP-Ohio will conduct a competitive bid procurement (CBP) process to commit to an energy and capacity auction to service its entire SSO load (*Id.* at 19-21, AEP-Ohio Ex. 100 at 10-11). AEP-Ohio witness Powers explained that the June 1, 2015 energy and capacity auction will permit competitive suppliers and marketers to bid into AEP-Ohio's load, as its FRR obligation will be terminated (*Id.*). AEP-Ohio anticipates the CBP process will be similar to other Ohio utility CBP filings, and explains that specific details of the CBP will be addressed in a future filing.

AEP-Ohio explains that the June 1, 2015, date to service its entire SSO load by auction is based on the need for AEP's interconnection pool to be terminated and AEP-Ohio's corporate separation plan being approved. AEP-Ohio witness Philip Nelson explains that an SSO auction occurring prior to pool termination may expose AEP-Ohio to significant financial harm, and if the auction occurs prior to corporate separation, it is possible that AEP-Ohio's generation may not be utilized in the auction (AEP-Ohio Ex. 103 at 8). Further, AEP-Ohio points out that a full auction prior to June 1, 2015, would conflict with its FRR commitment that continues until May 31, 2015 (AEP-Ohio Reply Br. at 46).

FES and DER/DECAM argue that AEP-Ohio could hold an immediate CBP without waiting for pool termination and corporate separation. FES witness Rodney Frame testified that the AEP pool agreement contains no provisions that would prevent a CBP (FES Ex. 103 at 3). DER/DECAM provide that a delay in the implementation of the CBP process harms customers by preventing them from taking advantage of the current market rates (DECAM Ex. 101 at 5).

Other parties, including RESA and Exelon, propose modifications to AEP-Ohio's proposed auction process. Exelon believes the first energy and capacity auction for the SSO load should be accelerated to June 1, 2014, in order to permit customers to take advantage of competition. Exelon witness Fein notes the June 1, 2014 date would be six

months after the date by which AEP-Ohio indicated its corporate separation and pool termination would be completed (Exelon Ex. 101 at 15-20). RESA makes a similar proposal, but that a June 1, 2014, auction be energy only, as this still allows AEP-Ohio six months to prepare for auction and provides customers with the benefits associated with a competitive market (RESA Br. at 16-17). On the contrary, OCC argues the interim auctions to be held during the first five months of 2015 would be detrimental to residential customers, and suggests that the Commission adopt a different approach (OCC Br. at 100-103). OCC contends that competitive market prices in 2015 may be higher than prices that would result from AEP-Ohio continuing to purchase energy from its affiliate, and recommends that the Commission require the agreement between AEP-Ohio and its affiliate to continue during the first five months of 2015, or, in the alternative, AEP-Ohio should purchase SSO capacity from its generation affiliate at RPM prices (*Id.* at 103).

In addition, Exelon also recommends that the Commission direct AEP-Ohio to conduct its CBP in a manner that is consistent with the processes that Duke Energy Ohio and FirstEnergy used in their most recent auctions. Exelon sets forth that establishing details of the CBP process in a timely manner will expedite AEP-Ohio's transition to competition and ensure there are no delays associated with settling these issues in later proceedings. Specifically, Exelon proposes that the CBP should be consistent with statutory directives set forth in Section 4928.142, Revised Code, and should ensure the dates for procurement events do not conflict with dates of other default service procurements conducted by other EDUs. Exelon warns that if the substantive issues of the procurement process are left open for interpretation, there may be uncertainty that could limit bidder participation and lead to less efficient prices. Exelon also recommends that the Commission ensure the CBP process is open and transparent by having substantive details established in a timely manner (Exelon Ex. 101 at 20-31).

The Commission finds that AEP-Ohio's proposed competitive auction process should be modified. First, we believe AEP-Ohio's energy only slice-of-system of five percent of the SSO load is too low, as AEP-Ohio will be at full energy auction by January 1, 2015, and the slice-of-system auctions will not commence until six months after the corporate separation order is issued. Accordingly, we find that increasing the percentage to a 10 percent slice-of-system auction will facilitate a smoother transition to a full energy auction.

Second, this Commission understands the importance of customers being able to take advantage of market-based prices and the benefits of developing a healthy competitive market, thus we reject OCC's arguments, as slowing the movement to competitive auctions would ultimately harm residential customers by precluding them from enjoying any benefits from competition. Based on the importance of customers having access to market-based prices and ensuring an expeditious transition to a full energy auction, in addition to making the modified ESP more favorable than the results

that would otherwise apply under Section 4928.142, Revised Code, we find that AEP-Ohio is capable of having an energy auction for delivery commencing on June 1, 2014. Therefore, we direct AEP-Ohio to conduct an energy auction for delivery commencing on June 1, 2014, for 60 percent of its load, and delivery commencing on January 1, 2015, for the remainder of AEP-Ohio's energy load. AEP-Ohio's June 1, 2015, energy and capacity auction dates are appropriate and should be maintained. In addition, nothing within this Order precludes AEP-Ohio or any affiliate from bidding into any of these auctions.

Finally, we agree with Exelon that the substantive details of the CBP process need to be established to maximize the number of participants in AEP-Ohio's auctions through an open and transparent auction process. We direct AEP-Ohio to establish a CBP process consistent with Section 4928.142, Revised Code, by December 31, 2012. The CBP should include guidelines to ensure an independent third party is selected to ensure there is an open and transparent solicitation process, a standard bid evaluation, and clear product definitions. We encourage AEP-Ohio to look to recent successful CBP processes, such as Duke Energy-Ohio's, in formulating its CBP. Further, AEP-Ohio is ordered to initiate a stakeholder process within 30 days from the date of this opinion in order.

8. CRES Provider Issues

The modified application includes a continuation of current operational switching practices, charges, and minimum stay provisions related to the process in which customers can switch to a Competitive Retail Electric Service (CRES) provider and subsequently return to the SSO rates (AEP-Ohio Ex. 111 at 4). AEP-Ohio points out that the application includes beneficial modifications for CRES providers and customers, including the addition of peak load contribution (PLC) and network service peak load (NSPL) information to the master customer list. AEP-Ohio witness Roush testified that AEP-Ohio also eliminates the 90-day notice requirement prior to enrolling with a CRES provider, the 12 month stay requirements for commercial and industrial customers that return to SSO rates beginning January 1, 2015, and requirements for residential and small commercial customers that return to SSO rates be required to stay on the SSO plan until April 15th of the following year, beginning on January 1, 2015 (*Id.*)

Exelon argues that AEP-Ohio needs to make additional changes in order to develop the competitive market. Specifically, Exelon requests the Commission implement rate and bill ready billing and a standard purchase of receivables (POR) program, eliminate the 90-day notice requirement immediately, and implement a process to provide CRES providers with data relating to PLC and NSPL values. Exelon witness Fein recommends that, consistent with the Duke ESP order, the Commission order AEP-Ohio provide via electronic data interchange, pertinent data including historical usage and historical interval data, NSPL and PLC data, and provide a quarterly updated list for CRES providers to show accounts that are currently enrolled with the CRES provider. (Exelon Ex. 101 at 33-34). Exelon maintains that this information will allow CRES providers to

more effectively serve customers and result in cost efficient competition (*Id.*) Mr. Fein further provides that clear implementation tariffs will lower costs for customers, plainly describe rules and contract terms, and allow both CRES providers and customers to easily understand AEP-Ohio's competitive process (*Id.* at 35-36).

RESA and IGS provide that AEP-Ohio's billing system is confusing to customers and creates numerous problems for CRES providers, all of which may be corrected through the implementation of a POR program that would provide customers with a single bill and collection point (RESA Ex. 101 at 12-17, IGS Ex. 101 at 15). IGS witness Parisi points out that switching statistics of natural gas utilities and Duke have increased upon the implementation of POR programs (IGS Ex. 1-1 at 18-19). RESA witness Rigenbach also recommends that the Commission direct AEP-Ohio to develop a web-based system to provide CRES providers access to customer usage and account data by May 31, 2014 (RESA Ex. 101 at 12-13). RESA and DER/DECAM also recommend that AEP-Ohio reduce or eliminate customer switching fees, as well as customer minimum stay periods (*Id.*, DER Ex. 101 at). FES witness Banks noted that the fees and minimum stay requirements hinders competition by making it difficult for customers to switch (FES Ex. 105 at 31).

While the Commission supports AEP-Ohio's provisions that encourage the development of competitive markets, modifications need to be made. AEP-Ohio witness Roush notes that customer PLC and NSPL information will be included in the master customer list, AEP-Ohio fails to make any commitment to the time frame this information would become available, nor the specific format in which customers would be able to access this data. We note that recent updates have been revised to the electronic data interchange (EDI) standards developed by the Ohio EDI Working Group (OEWG). This Commission values the efforts of OEWG in developing uniform operational standards and we expect AEP-Ohio to follow such standards and work within the group to implement solutions which are fair and reasonable, and do not discriminate against any CRES provider.

Accordingly, we direct AEP-Ohio to develop an electronic system to provide CRES providers access to pertinent customer data, including, but not limited to, PLC and NSPL values and historical usage and interval data no later than May 31, 2014. Within 30 days from the date of this opinion and order, we direct representatives from AEP-Ohio to schedule a meeting with members of the OEWG to develop a roadmap towards developing an EDI that will more effectively serve customers, and promote state policies in accordance with Section 4928.02, Revised Code. Further, as AEP-Ohio explains that it neither supports nor is opposed to the idea of a POR program (AEP-Ohio Reply Br. at 64-66), we encourage interested stakeholders to attend a workshop in conjunction with the five year rule review of Chapter 4901:1-10, O.A.C., as established in Case No. 12-2050-EL-ORD et al, to be held on August 31, 2012. In our recent order on FirstEnergy's electric

security plan (*See* Case No. 12-1230-EL-SSO), we noted that this workshop would be an appropriate place of stakeholders in the FirstEnergy proceedings to review issues related to POR programs. Similarly, we believe this workshop would also provide stakeholders in this proceeding an opportunity to further discuss the merits of establishing POR programs for other Ohio EDUs that are not currently using them. The Commission concludes that the modified ESP's modification to AEP-Ohio's switching rules, charges, and minimum stay provisions that are set to take effect on January 1, 2015, are consistent with AEP-Ohio's previously approved tariffs. Further, as we previously established in our original opinion and order in this case, these provisions are not excessive or inconsistent with other electric distribution utilities, and will further support the development of competitive markets beginning in January 1, 2015. Therefore, we find these provisions to be reasonable.

9. Distribution Investment Rider

The Company's modified ESP application includes a Distribution Investment Rider (DIR), pursuant to the provisions of Section 4928.143(B)(2)(h) or (d), Revised Code, and consistent with the approved settlement in the Company's distribution rate case,[11] to provide capital funding, including carrying cost on incremental distribution infrastructure to support customer demand and advanced technologies. Aging infrastructure, according to AEP-Ohio, is the primary cause of customer outages and reliability issues. AEP-Ohio reasons that the DIR will facilitate and encourage investments to maintain and improve distribution reliability, align customer expectations and the expectations of the distribution utility, as well as streamline recovery of the associated costs and reduce the frequency of base distribution rate cases. Replacement of aging distribution equipment will also support the advanced technologies of gridSMART which will reduce the duration of customer outages based on preliminary gridSMART Phase 1 information. The Company argues that its existing capital budget forecast includes an annual investment in excess of $150 million plus operations and maintenance in distribution assets. The DIR mechanism, as proposed by the Company, includes components to recover property taxes, commercial activity tax, and to earn a return on plant in-service based on a cost of debt of 5.46 percent, a return on common equity of 10.2 percent utilizing a 47.72 percent debt and 52.28 percent common equity capital structure. The net capital additions to be included in the DIR reflect gross plant in-service after August 31, 2010, as adjusted for accumulated depreciation, because August 31, 2010, is the date certain in the Company's most recent distribution rate case and any increase in net plant that occurs after that date is not recovered in base rates. The Company proposes to cap the DIR mechanism at $86 million in 2012, $104 million for 2013, $124 million for 2014 and $51.7 million for the period January 1 through May 31, 2015, for a total of $365.7 million. As the DIR mechanism is designed, for any year that the Company's investment would result in revenues to be

[11] *In re AEP-Ohio*, Case Nos. 11-351-EL-AIR, et al., Opinion and Order at 5-6 (December 14, 2011) in reference to paragraph IV.A.3 of the Joint Stipulation and Recommendation filed on November 23, 2011.

collected which exceed the cap, the overage would be recovered and be subject to the cap in the subsequent period. Symmetrically, for any year that the revenue collected under the DIR is less than the annual cap allowance, then the difference shall be applied to increase the cap for the subsequent period. The Company notes that the DIR revenue requirement must recognize the $62.344 million revenue credit reflected in the Commission approved Stipulation in the Company's distribution rate case.[12] As proposed by the Company, the DIR would be adjusted quarterly to reflect in-service net capital additions, excluding capital additions reflected in other riders, and reconciled for over and under recovery. The Company specifically requests through the DIR project, that when meters are replaced by the installation of smart meters, that the net book value of the replaced meter be included as a regulatory asset for recovery in a future filing. The DIR mechanism would be collected as a percentage of base distribution revenues. Because the DIR provides the Company with a timely cost recovery mechanism for distribution investment, AEP-Ohio will agree not to seek a change in distribution base rates with an effective date earlier than June 1, 2015. (AEP-Ohio Ex. 116 at 9-12; AEP-Ohio Ex. 110 at 18-19.)

The Company notes that Staff continuously monitors the Company's distribution system reliability by way of service complaints, electric outage reports and compliance provisions pursuant to Chapter 4901:1-10, O.A.C. In reliance on Staff testimony, the Company offers that the reliability of the distribution system was evaluated as a part of this case. (Staff Ex. 106 at 5-6; Tr. at 4339, 4345-4346.)

Customer expectations, as determined by AEP-Ohio, are aligned with the Company's expectations. AEP-Ohio witness Kirkpatrick offered that the updated customer survey results show that 19 percent of residential customers and 20 percent of commercial customers expect their reliability expectations to increase in the next five years. AEP-Ohio points out that when those customers are considered in conjunction with the customers who expect the utility to maintain the level of reliability, customer expectations increase to 90 percent of residential customers and 93 percent of commercial customers. AEP-Ohio states it is currently evaluating, based on several criteria, various asset categories with a high probability of failure and will develop a DIR program, with Staff input, taking into consideration the number of customers affected. (AEP-Ohio Ex. 110 at 11-19.)

OHA supports the adoption of the DIR as proposed by the Company (OHA Br. at 2). Kroger, OCC and APJN, on the other hand, ask the Commission to reject the DIR, as this case is not the proper forum to consider the recovery of distribution-related costs. Kroger, OCC and APJN reason that prudently incurred distribution costs are best considered in the context of a base distribution rate case where such cost are more thoroughly reviewed by the Commission. Kroger asserts that maintaining the distribution

---

12 *Id.*

system is a fundamental responsibility of the utility and the Company should continue to operate under the terms of its last distribution rate case until the next such proceeding. If the Commission elects to adopt the DIR mechanism, Kroger endorses Staff's position that the DIR be modified to account for accumulated deferred income taxes (ADIT) and accelerated tax depreciation. In addition, Kroger asserts that the DIR for the CSP rate zone and the OP rate zone are distinct and the cost of each unique service area should be maintained and the distribution costs assigned on the basis of cost causation. OCC and APJN add that the Company's reason for pursuing the DIR, as a component of the ESP rather than in the distribution case, is the expedience of cost recovery and when that rationale is considered in conjunction with the lack of detail on the projects to be covered within the DIR, suggest that the DIR is not needed. (Kroger Ex. 101 at 13-19; Kroger Reply Br. at 3-4; OCC/APJN Br. at 87-89; Tr. at 1184.)

OCC and APJN argue that in determining whether the DIR complies with the requirements of Section 4928.143(B)(2)(h), Revised Code, the Company focuses exclusively on the percentage of residential and commercial customers (71 percent and 73 percent, respectively) who do not believe that their electric service reliability expectations will increase rather than the minority of customers who expect their service reliability expectations to increase (19 percent and 20 percent, respectively). OCC and APJN note that 10 percent of residential customers and seven percent of commercial customers expect their reliability expectations to decrease over the next five years. At best, these interveners assert, the customer survey results are inconclusive regarding an expectation for reliability improvements as the majority of customers are content with the status quo. OCC and APJN state that with the lack of project details, and without providing an analysis of customer reliability expectation alignment with project cost and performance improvements, AEP-Ohio has failed to meet its burden of proof to support the DIR. Accordingly, OCC and APJN request that this provision of the modified ESP be rejected. (AEP-Ohio Ex. 110 at 11-12; OCC/APJN Br. at 987-994).

NFIB and COSE emphasize that the DIR, as AEP-Ohio witness Roush testified, would, if approved as proposed, result in General Service tariff rate customers receiving an increase of approximately 14.2 percent in distribution charges, about $2.00 monthly (NFIB/COSE Br. at 8-9;Tr. at 1162-1163).

Staff testified that consistent with the requirements of Rule 4901:1-10-10(B)(2), O.A.C., AEP-Ohio has rate zone specific minimum reliability performance standards, as measured by the customer average interruption duration index (CAIDI) and system average interruption frequency index (SAIFI).[13] According to Staff, development of each CAIDI and SAIFI takes into account the electric utility's three-year historical system performance, system design, technological advancements, the geography of the utility's

[13] See *In re AEP-Ohio*, Case No. 09-756-EL-ESS, Opinion and Order (September 8, 2010).

service territory, customer perception surveys and other relevant factors. Staff monitors the utility's compliance with the reliability standards. Staff offers that based on customer surveys, 75 to 80 percent of residential and commercial customers are satisfied overall with the Company's service reliability. However, the Company's 2011 reliability measures were below their reliability measures for 2010 for CSP and the SAIFI measure was worse in 2011 than in 2010 for OP. Accordingly, Staff determined that AEP-Ohio's reliability expectations are not currently aligned with the reliability expectations of its customers. Staff further offered that a number of conditions be imposed on the Commission's approval of the DIR, including that the Company be ordered to work with Staff to develop a distribution capital plan, that the DIR mechanism include an offset for ADIT, irrespective of the Company's asserted inconsistency with the distribution rate case settlement, and that gridSMART related cost not be recovered through the DIR, so as to better facilitate the tracking of gridSMART expenditures and savings and benefits of the gridSMART project. Further, Staff proposes that AEP-Ohio be directed to make quarterly filings to update the DIR mechanism, with the filed rate to be effective, unless suspended by the Commission, 60 days after filing. The DIR mechanism, as advocated by Staff, would be subject to annual audits after each May filing and, in addition, subject to a final reconciliation filing on or about May 31, 2015. With the final reconciliation, Staff recommends that any amounts collected by AEP-Ohio in excess of the established cap be refunded to customers as a one-time credit on customer bills. (Staff Ex. 106 at 6-11; Staff Ex. 108 at 3-4; Tr. at 4398.)

AEP-Ohio disagrees with the Staff's rationale that the Company's and customer's expectations are not aligned. The Company reasons that the Staff relies on the reliability indices and the fact that the Company performed below the level of the preceding year. AEP-Ohio notes that in the most recent customer survey results, with the same questions as the prior year, the Company received an 85 percent positive rating from residential customers and a 92 percent positive rating from commercial customers for providing reliable service. Further, AEP-Ohio points out that missing one of the eight applicable reliability standards during the two year period does not, under the rules, constitute a violation. The Company also notes that the reliability standards are affected by storms, which are not defined as major storms, and other factors like tree-caused outages. (Tr. at 4344-4345, 4347, 4366-4367; OCC Ex. 113, Att. JDW-2.)

AEP-Ohio also opposes Staff's recommendation to file the DIR plan in a separate docket, subject to an adversarial proceeding. The Company expresses great concern that this recommendation, if adopted, will result in the Commission micromanaging and becoming overly involved in the "day-to-day operations of the business units within the utility."

As to Staff's and Kroger's proposal to reduce the DIR to account for ADIT, the Company responds that such an adjustment would have resulted in a reduced DIR credit

if taken into account when the distribution rate case settlement was pending. AEP-Ohio argues that the decision on the DIR in the modified ESP should continue to mirror the understanding of the parties to the distribution rate case as any change would improperly impact the overall balanced ESP package. (AEP-Ohio Ex. 151 at 9-10.)

As authorized by Section 4928.143(B)(2)(h), Revised Code, an ESP may include the recovery of capital cost for distribution infrastructure investment to improve reliability for customers. A provision for distribution infrastructure and modernization incentives may, but need not, include a long-term energy delivery infrastructure modernization plan. We find that the DIR is an incentive ratemaking to accelerate recovery of the Company's investment in distribution service. In deciding whether to approve an ESP that contains any provision for distribution service, Section 4928.143(B)(2)(h), Revised Code, directs the Commission, as part of its determination, to examine the reliability of the electric utility's distribution system and ensure that customers' and the electric utility's expectations are aligned and that the electric utility is placing sufficient emphasis on and dedicating sufficient resources to the reliability of its distribution system.

In this modified ESP, there is some disagreement between Staff and the Company whether or not AEP-Ohio's reliability expectations are aligned with the expectations of its customers. The Company focuses on customer surveys to conclude that expectations are aligned while Staff interprets the slight degradation in the reliability performance measures to indicate that expectations are not aligned. Despite the different conclusions by the Company and Staff, the Commission finds that both Staff and the Company have demonstrated that indeed, customers have a high expectation of reliable electric service. Given that customer surveys are one component in the factor used to establish the reliability indices and the slight reduction in the level of measured performance on which the Staff concludes that reliability expectations are not aligned, we are convinced that it is merely a slight difference between the Company's and customers' expectations. We also recognize that customer satisfaction is dependent on whether the customer has recently experienced any service outages and how quickly service was restored.

The Commission finds that, adoption of the DIR and the improved service that will come with the replacement of aging infrastructure will facilitate improved service reliability and better align the Company's and its customers' expectations. The Company appears to be placing sufficient proactive emphasis on and will dedicate sufficient resources to the reliability of its distribution system. Having made such a finding, the Commission approves the DIR as an appropriate incentive to accelerate recovery of AEP-Ohio's prudently incurred distribution investment costs. We emphasize that the DIR mechanism shall not include any gridSMART costs; the gridSMART projects shall be separate and apart from the DIR mechanism and projects. With this clarification, we believe it is unnecessary to address the Company's request to allow the remaining net

book value of removed meters to be included as a regulatory asset recoverable through the DIR mechanism.

We agree with Staff and Kroger that the DIR mechanism be revised to account for ADIT. The Commission finds that it is not appropriate to establish the DIR rate mechanism in a manner which provides the Company with the benefit of ratepayer supplied funds. Any benefits resulting from ADIT should be reflected in the DIR revenue requirement. Therefore, the Commission directs AEP-Ohio to adjust its DIR to reflect the ADIT offset.

As was noted in the December 14, 2012 Order on the ESP 2, we find that granting the DIR mechanism requires Commission oversight. We believe that it is detrimental to the state's economy to require the utility to be reactionary or allow the performance standards to take a negative turn before we encourage the electric utility to proactively and efficiently replace and modernize infrastructure and, therefore find it reasonable to permit the recovery of prudently incurred distribution infrastructure investment costs. AEP-Ohio is correct to aspire to move from a reactive to a more proactive replacement maintenance program. The Company is directed to work with Staff to develop a plan to emphasize proactive distribution maintenance that focuses spending on where it will have the greatest impact on maintaining and improving reliability for customers. Accordingly, AEP-Ohio shall work with Staff to develop the DIR plan and file the plan for Commission review in a separate docket by December 1, 2012.

With these modifications, we approve the DIR mechanism, and direct Staff to monitor, as part of the prudence review, by an independent auditor for in-service net capital additions and compliance with the proactive distribution maintenance plan developed with the assistance of the Staff. The proactive distribution infrastructure plan shall quantify reliability improvements expected, ensure no double recovery, and include a demonstration of DIR expenditures over projected expenditures and recent spending levels. The DIR mechanism will be reviewed annually for accounting accuracy, prudency and compliance with the DIR plan developed by the Staff and AEP-Ohio.

10. Pool Modification Rider

The modified ESP application includes the planned termination of the AEP East Pool Agreement (Pool Agreement). As a provision of this ESP, AEP-Ohio requests approval of a Pool Termination Rider (PTR), initially set at zero. If the Company's corporate separation plan filed in Case No. 12-1126-EL-UNC is approved as proposed by the Company, and the Amos and Mitchell units are transferred as proposed to AEP-Ohio affiliates, then AEP-Ohio will not seek to implement the PTR irrespective of whether lost revenues exceed $35 million annually. However, if the corporate separation plan is denied or modified, then AEP-Ohio requests permission to file for the recovery of lost revenue in association with termination of the Pool Agreement via a non-bypassable rider. The PTR,

according to AEP-Ohio, is designed to offset the revenue losses caused by the termination of the Pool Agreement since a significant portion of AEP-Ohio's total revenues come from sales of power to other Pool members. The Company argues that with the termination of the Pool Agreement, the Company will need to find new or additional revenue to recover the costs of operating its generating assets, or it will need to reduce the cost associated with those assets. As AEP-Ohio claims the lost revenues[14] from capacity sales to Pool Agreement members cannot be mitigated by off-system sales in the market alone. The Company agrees that it will only seek to recover lost pool termination revenues in excess of $35 million per year during the term of the ESP. (AEP-Ohio Ex. 103 at 21-23.)

OCC, APJN, FES and IEU oppose the adoption of the PTR, as they reason there is no provision of Section 4928.143(B)(2), Revised Code, which authorizes such a charge and no Commission precedent for the PTR. IEU asserts that approval of the PTR would essentially be the recovery of above-market or transition revenue in violation of state law and the electric transition plan (ETP) Stipulations.[15] As proposed, the interveners claim that the PTR is one-sided to the benefit of the Company. FES offers that there is insufficient information in the record to allow the Commission to evaluate the terms and conditions of the PTR, as a part of the modified ESP, to require ratepayers to submit $350-$400 million over the term of the ESP. Furthermore, OCC and APJN note that the Commission has disregarded transactions related to the Pool Agreement for the purpose of considering revenue or sales margins from opportunity sales (capacity and energy) as to FAC costs or consideration of off-system sales in the evaluation of significantly excessive earnings test.[16] Accordingly, OCC and APJN reason that because the Commission has previously disregarded transactions related to the Pool Agreement, that it would be unfair and unreasonable to ensure AEP-Ohio is compensated for lost revenue based on the Pool Agreement at the cost of ratepayers. For these reasons, OCC and APJN believe the PTR should be rejected or modified such that AEP-Ohio customers receive the benefits from the Company's off-system sales. IEU says the PTR provides a competitive advantage to GenResources and, therefore, violates corporate separation requirements. (OCC/APJN Br. at 85-87; IEU Br. at 69; IEU Ex. 124 at 30-31; FES Br. at 106-109; Tr. at 582, 698.)

The Company dispels the assertion that there is no statutory basis for a pool termination cost recovery provision in an ESP on the basis that the Commission has already rejected this argument in its December 14, 2011, Order on the ESP 2, where the Commission determined a pool termination rider may be approved "pursuant to Section

---

14 AEP-Ohio would determine the amount of lost revenue by comparing the lost pool capacity revenue for the most recent 12 month period preceding the effective date of the change in the AEP Pool to increases in net revenue related to new wholesale transactions or decreases in generation asset costs as a result of terminating the Pool Agreement.

15 *In re AEP-Ohio*, Case Nos. 99-1729-EL-ETP and 99-1730-EL-ETP, Order (September 28, 2000).

16 *In re AEP-Ohio*, ESP I Order at 17 (March 18, 2009); *In re AEP-Ohio*, Case No. 10-1261-EL-UNC, Order at 29 (January 11, 2011).

4928.143(B), Revised Code," and further concluded that establishing a rider "at a zero rate does not violate any regulatory principle or practice."[17] According to the Company, the other criticisms that these parties raise regarding the PTR are objections as to how, or the extent to which, pool termination costs should be recoverable through the rider which are not ripe and should be addressed if, and only if, AEP-Ohio actually pursues recovery of any such costs in the future as part of a separate proceeding. (AEP-Ohio Reply Br. at 59-60.)

We find statutory support for the adoption of the PTR in Section 4928.143(B)(2)(h), Revised Code. The PTR serves as an incentive for AEP-Ohio to move to a competitive market to the benefit of its shopping and non-shopping customers, without regard to the possible loss of revenue associated with the termination of the Pool Agreement with the full transition to market for all SSO customers by no later than June 1, 2015. Therefore, we approve the PTR as a placeholder mechanism, initially established at a rate of zero, contingent upon the Commission's review of an application by the Company for such costs. The Commission notes that in permitting the creation of the PTR, it is not authorizing the recovery of any costs for AEP-Ohio, but is allowing for the establishment of a placeholder mechanism, and any recovery under the PTR must be specifically authorized by the Commission. If, and when, AEP-Ohio seeks recovery under the PTR, it will maintain the burden set forth in Section 4928.143, Revised Code. In addition, the Commission finds that in the event AEP-Ohio seeks recovery under the PTR, AEP-Ohio must first demonstrate the extent to which the Pool Agreement benefitted Ohio ratepayers over the long-term and the extent to which the costs and/or revenues should be allocated to Ohio ratepayers. Further, AEP-Ohio must demonstrate to the Commission that any recovery it seeks under the PTR is based upon costs which were prudently incurred and are reasonable. Importantly, this Commission notes that AEP-Ohio will only be permitted to requests recovery should this Commission modify or amend its corporate separation plan as filed in Case No. 12-1126-EL-UNC only as to divestiture of the generation assets; we specifically deny the Company's request for recovery through the PTR based on any other amendment or modification of the corporate separation plan by this Commission or the Federal Energy Regulatory Commission (FERC) or FERC's denial or impediment to the transfer of the Amos and Mitchell units to AEP-Ohio affiliates. As such, AEP-Ohio's right to recover lost revenues under the PTR is based exclusively on the actions, or lack thereof, of this Commission.

11. Capacity Plan

Pursuant to the Commission's Entry on Rehearing issued February 23, 2012, in the ESP 2 cases, and the Entry issued March 7, 2012, in the Capacity Case, the Commission directed that the Capacity Case proceed, without further delay, to facilitate the development of the record to address the issues raised, outside of the ESP proceeding.

17 *In re AEP-Ohio*, Case No. 11-346-EL-SSO et al., Order at 50 (December 14, 2011).

While the Capacity Case continued on an expedited schedule to determine the state compensation mechanism, AEP-Ohio nonetheless included, as a component of this modified ESP, a capacity provision different from its litigation position in the Capacity Case, which may be summarized as follows. As a component of this modified ESP, the Company proposes a two-tiered, capacity pricing mechanism, with a tier 1 rate of $145.79 per MW-day and a tier 2 rate of $255.00 per MW-day. Shopping customers, within each rate class, would receive tier 1 capacity rates in proportion to their relative retail sales level based on the Company's retail load. During 2012, 21 percent of the Company's total retail load would receive tier 1 capacity and in 2013, the percentage would increase to 31 percent. In 2014, through the end of the ESP, May 31, 2015, the tier 1 set aside percentage would increase to 41 percent of the Company's retail load. All other shopping customers would receive tier 2 capacity rates. For 2012, an additional allotment of tier 1 priced capacity will be available to non-mercantile customers who are part of a community that approved a governmental aggregation program on or before November 8, 2011, even if the set-aside has been exceeded. AEP-Ohio does not propose any special capacity set-aside for governmental aggregation programs after 2012. (AEP-Ohio Ex. 101 at 15; AEP-Ohio Ex. 116 at 6-7.)

AEP-Ohio argues that its embedded cost-based charge for capacity is $355.72 per MW-day, as supported by the Company in the Capacity Case. Further, AEP-Ohio projects, with forward energy pricing decreasing over the remainder of 2012 by approximately 25 percent and based upon the switching rates experienced by other Ohio electric utilities, that by the end of 2012 shopping rates in AEP-Ohio territory will increase to 65 percent of residential load, 80 percent of commercial load and 90 percent of industrial load (excluding one large customer). AEP-Ohio reasons that the two-tier capacity pricing mechanism is a discount from the Company's embedded cost of capacity which will provide CRES providers headroom, the ability to offer shopping customers lower competitive electric service rates and expand competition in the Company's service territory and, as a component of this modified ESP, balances the revenue losses likely to be experienced by the Company. Further, AEP-Ohio submits that the capacity pricing offered as a part of this modified ESP is intended to mitigate, in part, the financial harm the Company will potentially endure if the Company is required to provide capacity at PJM's RPM-based rate. (AEP-Ohio Ex. 116 at 4-5, 8-9; Tr. at 332-333.)

As an alternative to the two-tiered capacity mechanism, AEP-Ohio proposes as a component of the modified ESP, to charge CRES providers its embedded cost of capacity $355.72 per MW-day with a $10 per MWh bill credit to shopping customers, subject to a cap of $350 million through December 31, 2014. Shopping credits would be limited to up to 20 percent of the load of each customer class for June 2012 through May 2013, and increase to 30 percent for the period June 2013 through May 2014 and then to 40 percent for the period June 2014 through December 2014. AEP-Ohio's rationale for the alternative is to ensure shopping customers receive a direct and tangible benefit to shop that is fixed

and known regardless of the CRES provider selected. (AEP-Ohio Ex. 116 at 15-17; Tr. at 427, 1434.)

On July 2, 2012, the Commission issued the Order in the Capacity Case (Capacity Order) wherein the Commission determined $188.88 per MW-day as the appropriate charge to enable the Company to recover its capacity costs pursuant to its Fixed Resource Requirements (FRR) obligations from CRES providers.[18] However, the Capacity Order also directed that AEP-Ohio's capacity charge to CRES providers shall be the auction-based rate, as determined by PJM via its reliability pricing model (RPM), including final zonal adjustments, on the basis that the RPM rate will promote retail electric competition.[19]

In the Capacity Order, the Commission also authorized AEP-Ohio to modify its accounting procedures to defer the incurred capacity costs not recovered from CRES providers, commencing June 1, 2012, through the end of this modified ESP, with the recovery mechanism to be established in this proceeding.[20]

In this Order on the modified ESP, the Commission adopts, as part of the RSR, the recovery of the difference between the RPM-based capacity rate and AEP-Ohio's state compensation mechanism for capacity as determined by the Commission.

Staff endorses the Company's recovery of the difference between the state compensation mechanism for capacity and the RPM rate (Staff Reply Br. at 13). On the other hand, IEU, OCC and APJN argue that there is no record evidence in this modified ESP case, or any other proceeding, to determine an appropriate mechanism to collect deferred capacity charges in contradiction of the requirements in Section 4903.09, Revised Code, and the parties were not afforded due process on the issue. Furthermore, OCC and APJN reason that the capacity charge deferrals cannot be a provision of an ESP as the charges do not fall within one of the specified categories listed in Section 4928.143(B)(2), Revised Code, and there is no statutory basis under Chapter 4928, Revised Code, for such charges. OCC and APJN also contend approval of the recovery of deferred capacity charges violates state policies expressed in Section 4928.02, Revised Code, at paragraph (A), which requires reasonably priced retail electric service; at paragraph (H), which prohibits anticompetitive subsidies from noncompetitive retail electric service to competitive retail service; and at paragraph (L), which requires the Commission to protect at-risk populations. (OCC/APJN Reply Br. at 18; IEU Reply Br. 6-7).

---

18 In re Capacity Case, Order at 33-36 (July 2, 2012).

19 In re Capacity Case, Order at 23 (July 2, 2012).

20 In re Capacity Case, Order at 23 (July 2, 2012).

Certain parties that oppose the Commission's incorporation of the Capacity Case deferrals in the modified ESP overlook the fact that the Capacity Case was opened prior to each of the ESP 2 applications filed by AEP-Ohio and that each of the applications proposed a state compensation capacity charge and plan for resolution of the issue. The Commission rejects the Company's two-tier capacity plan and rates, proposed as a part of this modified ESP 2.

Furthermore, in accordance with Section 4928.144, Revised Code, the Commission may order any just and reasonable phase-in of any rate or price established under Sections 4928.141, 4928.142, or 4928.143, Revised Code, including carrying charges. Where the Commission establishes a phase-in, the Commission must also authorize the creation of the regulatory asset to defer the incurred costs equal to the amount not collected, plus carrying charges on the amount not collected, and authorize the recovery of the deferral and carrying charges by way of a non-bypassable surcharge.

Several of the interveners argue that because the record in the modified ESP was closed when the Capacity Order was issued, the deferral of capacity charges was not made an issue in the modified ESP case, the record does not support the deferral of capacity charges or that the parties were not afforded due process on the issue. We disagree. AEP-Ohio proposed certain capacity charges and a plan as a part of this modified ESP and consistent with the Commission's authority we may approve or modify and approve an ESP. Nothing in the Section 4928.144, Revised Code, limits the Commission's authority to modify the ESP to include deferrals on its own motion. With the Commission's decision to begin collecting the deferral in part through the RSR, all other issues raised on this matter are addressed in that section of the Order.

12. Phase-in Recovery Rider and Securitization

As part of AEP-Ohio's ESP 1 case, to mitigate the impact of the rate increase for customers, the Commission ordered, pursuant to Section 4928.144, Revised Code, the Company to phase-in any increase authorized over an established percentage for each year of the ESP.[21] The Commission authorized CSP and OP to establish a regulatory asset to record and defer fuel expenses, with carrying costs at the weighted average cost of capital (WACC), with recovery through a non-bypassable surcharge to commence January 1, 2012, and continue through December 31, 2018.[22] This aspect of the ESP 1 Order is final and non-appealable. On September 1, 2011, CSP and OP filed the Phase-in Recovery Case application to request the creation of the Phase-In Recovery Rider (PIRR), a mechanism to recover the accumulated deferred fuel costs, including carrying costs, to be effective with the first billing cycle of January 2012. The Phase-in Recovery Case was a part of the proposed ESP 2 Stipulation which was initially approved by the Commission on

21 ESP 1 Order at 22.

22 ESP 1 Order at 20-23; First ESP EOR at 6-10.

December 14, 2011. Consistent with the Commission's directive in the February 23, 2012 Entry on Rehearing rejecting the ESP Stipulation, a procedural schedule was established for the Phase-in Recovery Case to proceed independently of any ESP. On August 2, 2012, the Commission issued its decision on the Company's PIRR application.

Notwithstanding the Phase-in Recovery Case, as a part of this modified ESP case, AEP-Ohio requests that recovery of the deferred fuel expenses be delayed, while continuing to accrue carrying cost at WACC, until June 2013. The Company does not propose to extend the recovery period. AEP-Ohio also proposes that the PIRRs of CSP and OP be combined. The rationale presented by the Company for delaying collection of the PIRR is to coincide with and offset the consolidation of the FAC, which the Company reasons will minimize customer rate impacts. According to AEP-Ohio witness Roush, combining the PIRR rates will increase the rate for customers in the CSP rate zone and reduce the rate for customers in the OP rate zone. In this modified ESP proceeding, AEP-Ohio also requests that the Commission suspend the procedural schedule in the PIRR cases. (AEP-Ohio Ex. 118 at 8; AEP-Ohio Ex. 119 at 3; AEP-Ohio Ex. 111 at 5-6.)

AEP-Ohio witness Hawkins acknowledges that legislation permitting the securitization of the PIRR was passed in December 2011 but claims that securitization of the PIRR regulatory asset will likely take about nine months to finalize after the issuance of a final, non-appealable order. AEP-Ohio admits that securitization of the PIRR regulatory assets would reduce customer costs as a result of the reduction in carrying costs and provide the Company with capital to assist with the transition to market. (AEP-Ohio Ex. 102 at 7-8.)

OCC opposes the notion that AEP-Ohio be permitted to earn a return on its own capital at WACC while the PIRR is delayed at the Company's request. Further, OCC and APJN agree with Staff that collection of the PIRR should commence as soon as possible after the Commission issues its Order, the delay in collection amounts to an additional cost of $64.5 million. OCC and APJN argue that there is no justification for the delay and the delay at WACC only serves to benefit the Company. Since the delayed collection is at the Company's request, OCC and APJN advocate that no further carrying charges accrue or the carrying charge be reduced to the long-term cost of debt. (OCC Ex. 115 at 4-7; OCC Ex. 111 at 20-22; OCC/APJN Br. at 64-72)

Similarly, IEU argues that the delay of the PIRR violates Section 4928.144, Revised Code, which requires that the delay in collection at WACC be consistent with sound regulatory practice, just, and reasonable. IEU estimates the additional carrying cost will be at least an additional $40 to $45 million and reasons that AEP-Ohio was only authorized to collect WACC on deferred fuel costs through December 31, 2011, the end of ESP 1. (IEU Ex. 129 at 30-31, 14; Tr. at 3639, 4549.)

Ormet argues that the increased carrying charge to defer the implementation of the PIRR until June 2013 is excessive and presents a number of legal and pragmatic issues. Ormet notes that the interest to be incurred by delaying the implementation of the PIRR is based on an interest rate of 11.26 percent, more than AEP-Ohio utilized to determine the RSR. Ormet encourages the Commission to reduce the carrying cost, in light of the change in economic and financial circumstances since the ESP 1 Order, to the short-term cost of debt and to delay PIRR implementation until securitization is complete or at least until June 2013. (Ormet Br. at 23-24.)

Ormet and IEU request that the Company be directed to maintain the separate PIRR mechanisms for CSP and OP to reduce the impact on ratepayers. IEU notes that CSP customers have contributed approximately one percent of the total PIRR balance. Ormet notes that the deferred fuel expenses that are the basis of the PIRR, as provided in the ESP 1 Order, is a final non-appealable order for which AEP-Ohio may rely to seek securitization. AEP-Ohio has argued such in this case in its filing of March 6, 2012, and Ormet contends that pursuant to *Nationwide Ins. Co. v. Hall*, No. 1258, 1978 WL 214906 at *3 (Ohio App. 7 Dist. Mar. 23, 1978) AEP-Ohio can not now assert a contradictory legal position. (Tr. at 4543-4548; Ormet Ex. 106B at 9; Ormet Br. at 23-27; IEU Ex. 129 at 9-11; IEU Br. at 72)

Ormet asserts that blending the PIRR rate for CSP and OP rate zones constitutes a retroactive change in fuel costs for which AEP-Ohio has failed to offer any justification. Ormet states that at the time the fuel cost were incurred, CSP and OP were not merged and that the overwhelming majority of the PIRR balance is from the OP rate zone. The rationale offered by Ormet is that the blending of the FAC rate is fundamentally different from the blending of the PIRR rate, as FAC is an ongoing look at current and future fuel costs where the PIRR is the collection of previously incurred, deferred fuel costs. Ormet argues that the Commission has previously concluded that the distinction between retrospective and prospective is key to what constitutes prohibited retroactive ratemaking. Ormet asks that, consistent with the Commission's determination in the ESP 1 Entry on Remand Order, that the Commission find the blending of the CSP and OP PIRR balances equates to changing the rate for previously incurred but deferred fuel costs. (Tr. at 1187, 4536-4537, 4540; Ormet Br. at 27-31.)

The Company reasons that the PIRR regulatory asset is on the books of OP, as the surviving entity post-merger, along with all of the other assets and liabilities of the former CSP. Therefore, it is appropriate for all AEP-Ohio customers to pay the PIRR. AEP-Ohio notes that Staff advocates that the FAC and PIRR be immediately unified and implemented, because CSP customers benefit from a rate impact perspective with the merging of both rates (Tr. at 4539-4540).

Staff opposes the Company's request to delay recovery of the merged PIRR rates and recommends that the Commission direct recovery to commence upon approval of the modified ESP to avoid increased carrying charges associated with the dely. Staff notes that with a PIRR balance of approximately $549 million, delaying PIRR recovery until June 2013 results in additional carrying charges of $71 million at the WACC. Further, Staff supports the merger of the PIRR rates. (Staff Ex. 109 at 4-5.)

AEP-Ohio answers that the difference between the Company's proposal to delay collection of the PIRR in comparison to the Staff and certain interveners opposition to the delay is essentially a balancing or prioritizing between two goals: mitigating present rate impacts and reducing the total carrying charges. The Company's proposal was aimed at addressing the first goal and the Staff's position prioritizes the second goal. The Company contends that its proposal to delay implementation of the PIRR until June 2013 to coincide with the unification of FAC rates is reasonable, results in minimal immediate rate impacts to customers, and should be approved.

AEP-Ohio's request to suspend the procedural schedule in the PIRR case is moot, as it does not appear that the Company made a similar request in the Phase-in Recovery Cases, and given that the Commission has issued its decision on the PIRR application. Consistent with the Company's limited request as to the PIRR in this modified ESP, we will address the commencement of the amortization period for the PIRR, combining the PIRR rates for the CSP and OP rate zones and securitization. Any remaining issue raised as to the deferred fuel expense or the PIRR that is not addressed in the Phase-in Recovery Order or this modified ESP Order is denied.

As AEP-Ohio correctly points out, delaying collection of the PIRR to offset against the merged FAC rates, as opposed to immediately commencing collection of the PIRR, is indeed the prioritizing between two goals. AEP-Ohio's request to delay commencement of the amortization period for the PIRR is denied. In this case, where the accrued carrying charges during the requested delay are estimated to be an additional $40 to $71 million, it is unreasonable for the Commission to approve the delay and permit carrying charges to continue to accrue merely to facilitate one charge offsetting another. AEP-Ohio is directed to commence recovery of the PIRR charges as soon as practicable after the issuance of this Order.

We agree with the recommendation of Ormet and IEU to maintain separate PIRR rates for the CSP and OP rate zones. The PIRR balance was incurred primarily by OP customers, and according to cost causation principles, the recovery of the balance should be from OP customers. Further, as discussed above, the Commission directs that FAC rates should be maintained on a separate basis.

IEU argues that the PIRR fails to address the requirements of Section 4928.20(I), Revised Code,[23] that requires non-bypassable charges arising from a phase-in deferral are applicable to customers in governmental aggregation programs only in proportionate to the benefit received. IEU's claim that the PIRR violates Section 4928.20(I), Revised Code, is misdirected. The PIRR is not part of this ESP proceeding but was the directive of the Commission in the Company's prior ESP case. Therefore, the Commission finds that IEU should have raised this issue in the ESP 1 case or when the Commission established the PIRR and that Section 4928.144, Revised Code, as to the collection of the PIRR, is not applicable to this modified ESP proceeding.

The Commission notes that AEP-Ohio witness Hawkins testified that securitization of the PIRR regulatory assets would reduce customer costs through the reduction of the carrying cost and provide AEP-Ohio with the needed capital to assist with the transition to competition. AEP-Ohio also states that recovery of the PIRR can commence before securitization is complete. Ormet supports securitization of the PIRR. (AEP-Ohio Ex. 102 at 8; Ormet Br. at 24-25.)

Finally, while AEP-Ohio does not specifically propose securitization of the PIRR in the modified ESP, AEP-Ohio notes that securitization offers a benefit to both customers and AEP-Ohio. Further, no parties opposed the idea of securitizing the PIRR. Accordingly, we direct AEP-Ohio to take advantage of this extremely useful tool our General Assembly created for electric utilities and their customers through House Bill 364 and securitize the PIRR deferral balance. Securitization not only leads to lower utility bills for all customers as a result of reduced carrying costs, but also leads to lower borrowing costs for AEP-Ohio. The Commission finds it extremely important, particularly when our State has been hit by tough economic times, to keep customer utility bills as low as possible, and securitization of the PIRR provides us with a means to ensure we protect customer interests. Therefore, AEP-Ohio shall initiate the securitization process for the PIRR deferral balance as soon as practicable..

---

[23] Section 4928.20(I), Revised Code, states:

Customers that are part of a governmental aggregation under this section shall be responsible only for such portion of a surcharge under section 4928.144 of the Revised Code that is proportionate to the benefits, as determined by the commission, that electric load centers within the jurisdiction of the governmental aggregation as a group receive. The proportionate surcharge so established shall apply to each customer of the governmental aggregation while the customer is part of that aggregation. If a customer ceases being such a customer, the otherwise applicable surcharge shall apply. Nothing in this section shall result in less than full recovery by an electric distribution utility of any surcharge authorized under section 4928.144 of the Revised Code. Nothing in this section shall result in less than the full and timely imposition, charging, collection, and adjustment by an electric distribution utility, its assignee, or any collection agent, of the phase-in-recovery charges authorized pursuant to a final financing order issued pursuant to sections 4928.23 to 4928.2318 of the Revised Code.

13. Generation Asset Divestiture

The Company describes, but does not request as a part of this modified ESP, its proposed application for full corporate separation filed in Case No. 12-1126-EL-UNC (Corporate Separation Case), pursuant to the requirements of Section 4928.17, Revised Code, and Chapter 4901:1-37, O.A.C.[24] AEP-Ohio asserts full corporate separation is a necessary prerequisite for generation asset divestiture and AEP-Ohio's transition to an auction-based SSO. Pursuant to the proposed modified ESP and the Company's proposed corporate separation plan, AEP-Ohio will retain transmission and distribution-related assets, its REPAs and the associated RECs. AEP-Ohio will transfer to its generation affiliate, GenResources, existing generation units and contractual entitlements, fuel-related assets and contracts and other assets and liabilities related to the generation business.[25] The generation assets will be transferred at net book value. AEP-Ohio proposes to retain senior notes and pollution control revenue bonds, as such long-term debt is not secured by the generation assets being transferred to GenResources. The Company expects to complete termination of the Pool Agreement and full corporate separation by January 1, 2014.[26] (AEP-Ohio Ex. 103 at 4-6, 8, 21-22.)

AEP-Ohio is a Fixed Resource Requirement (FRR) entity, pursuant to the requirements of PJM Interconnection LLC (PJM), and must remain an FRR until June 1, 2015. To meet its FRR obligations after full corporate separation and before the proposed energy auctions for delivery commencing January 1, 2015, the Company states GenResources will provide AEP-Ohio, via a full requirements wholesale agreement, its load requirements to supply non-shopping customers. Pursuant to the proposed modified ESP, AEP-Ohio proposes that for the period January 1, 2015 through May 31, 2015, GenResources will provide AEP-Ohio only capacity, no energy, at $255 per MW-day and the contract between AEP-Ohio and GenResources will terminate effective June 1, 2015, when both energy and capacity will be provided to SSO customers through an auction. While AEP-Ohio is an FRR entity, the Company states it will make capacity payments to GenResources for the energy only auctions proposed in this modified ESP at $255 per MW-day. Generation-related revenues paid to AEP-Ohio by Ohio ratepayers will be passed through to GenResources for capacity and energy received for the SSO load, and AEP-Ohio will reimburse GenResources on a dollar-for-dollar basis for transmission, ancillary, and other service charges billed to GenResources by PJM to serve AEP-Ohio's

---

24 See *In the Matter of the Application of Ohio Power Company for Approval of Full Legal Corporate Separation and Amendment to its Corporate Separation Plan*, Case No. 12-1126-EL-UNC, filed March 30, 2012.

25 AEP-Ohio notes that after transferring the generation assets and liabilities to GenResources, GenResources will transfer Amos unit 3 and 80 percent of the Mitchell Plant to Appalachian Power Company (APCo) and transfer the balance of the Mitchell Plant to Kentucky Power Company (KYP), so the utilities can meet their respective load requirement absent the AEP East Pool Agreement (AEP-Ohio Ex. 101 at 22).

26 As a part of the modified ESP, AEP-Ohio requests approval for a Pool Termination Rider which is addressed in a separate section of this Order.

SSO load. In addition, AEP-Ohio will remit all capacity payments made by CRES providers pursuant to PJM's Reliability Assurance Agreement to GenResources as well as revenues from the Retail Stability Rider as compensation for fulfillment of AEP-Ohio's FRR obligations. (AEP-Ohio Ex. 101 at 23; AEP-Ohio Ex. 103 at 6-8; Tr. at 515-519.)

IEU, OCC and APJN argue that because AEP-Ohio has made the modified ESP filing contingent on receiving approval of the corporate separation plan yet failed to request consolidation of the Corporate Separation Case, the Commission cannot approve the corporate separation plan as a part of this proceeding. (OCC/APJN Br. at 73; IEU Br. 76-77.)

In fact, IEU argues that AEP-Ohio is not the FRR entity but, American Electric Power Service Corporation (AEPSC) is the FRR entity on behalf of all of the American Electric Power operating companies within PJM and, therefore, AEP-Ohio does not have any FRR obligation. Nor has AEP-Ohio offered into evidence, IEU notes, AEPSC's FRR capacity plan or indicated which of AEP-Ohio's generation assets are part of the capacity plan. IEU reasons that AEP-Ohio's generation assets are not dedicated to AEP-Ohio's distribution customers and may be replaced by other capacity resources. (IEU Ex. 125 at 23, AEP-Ohio Ex. 103 at 9.)

DER and DECAM argue that AEP-Ohio's proposal to contract with GenResources to serve the SSO load at the proposed capacity price after corporate separation is an illegal violation of the corporate separation laws and violates state policy causing a negative impact on the ability of unaffiliated CRES providers to compete in OP territory (Tr. at 812-813; DER/DECAM Br. at 11).

Staff opposes AEP-Ohio's request to retain $296 million in pollution control bonds, where there has not been, according to Staff, any demonstration that use of the intercompany notes would have a substantial negative affect on the generation affiliate's cost of debt. Staff proposes that AEP-Ohio be directed to make a filing with the Commission within six months after the completion of corporate separation, to demonstrate that there is not any substantial negative impact on AEP-Ohio if the debt or intercompany notes are not transferred to the generation affiliate. Therefore, Staff recommends that the Commission deny this aspect of the Company's ESP proposal at this time. Further, Staff recommends that the Corporate Organization chart be updated to reflect the legal entities that are related to American Electric Power Inc., as well as all reportable segments related to AEP-Ohio, in a format and manner similar to the information American Electric Power Inc. provides in its 10K filing to the Securities and Exchange Commission. (Staff Ex. 108 at 5-6; Tr. at 4405-4406.)

AEP-Ohio did not request consolidation of its pending corporate separation plan in conjunction with this modified ESP application, and as such the Commission will consider

the corporate separation application in a separate docket. As such, the primary issues to be considered in this modified ESP proceeding is how the divestiture of the generation assets and the agreement between AEP-Ohio and GenResources will impact SSO rates.

We find IEU's arguments, that AEP-Ohio is not the entity committed to an FRR obligation with PJM to be form over substance. AEPSC entered into the FRR agreement on behalf of AEP-Ohio and other AEP-Ohio operating affiliates and the legal obligation of AEP-Ohio is no less binding than if AEP-Ohio entered into the agreement directly.

The Commission finds that sufficient information regarding the proposed generation asset divestiture and corporate separation, as reflected in more detail in the Corporate Separation Case, has been provided in this modified ESP case to allow the Commission to reasonably conclude that termination of the Pool Agreement and corporate separation facilitate AEP-Ohio's transition to a competitive market in Ohio. With the modification and adoption of the modified ESP, as presented in this Order, the Commission may reasonably determine the ESP rates, including the rate impact of the generation asset divestiture, on the Company's SSO customers for the term of the modified ESP, where upon SSO rates will subsequently be subject to a competitive bidding process. While, AEP-Ohio proposes to enter into an agreement with GenResources to provide AEP-Ohio capacity at $255 per MW-day, we emphasize that based on the Commission's decision in the Capacity Case, AEP-Ohio will not receive any more than the state compensation capacity charge of $188.88 per MW-day from Ohio customers during the term of this ESP.

As the Commission understands the Company's description of the generation divestiture, all AEP-Ohio generation facilities, except Amos and Mitchell, will be transferred to GenResources at net book value. Amos and Mitchell will ultimately be transferred to AEP-Ohio operating affiliates at net book value.

Staff raises some concern with the implementation of corporate separation and the lack of the Company's transfer of all debt and/or intercompany notes to GenResources. Despite the Staff's recommendation, the Commission approves AEP-Ohio's requests to retain the pollution control bonds contingent upon a filing with the Commission demonstrating that AEP-Ohio ratepayers have not and will not incur any costs associated with the cost of servicing the associated debt. More specifically, AEP-Ohio ratepayers shall be held harmless for the cost of the pollution control bonds, as well as any other generation or generation related debt or inter-company notes retained by AEP-Ohio. AEP-Ohio shall file such information with the Commission, in this docket no later than 90 days after the issuance of this Order. Accordingly, the Commission finds that, subject to our approval of the corporate separation plan, the electric distribution utility should divest its generation assets from its noncompetitive electric distribution utility assets by transfer to its separate competitive retail generation subsidiary, GenResources, as represented in this modified ESP. The Company states that it has notified PJM of its intention to enter PJM's

auction process for the delivery year 2015-2016. The Commission will review the remaining issues presented in the Company's Corporate Separation Case.

In regards to the contract between AEP-Ohio and GenResources, FES contends that after corporate separation AEP-Ohio cannot simply pass-through the generation revenues it receives without evidence that the cost are prudent consistent with Section 4928.143(B)(2)(a), Revised Code, and AEP-Ohio has done nothing to establish that $255 per MW-day for capacity is prudent. The price of $255 per MW-day is unrelated to cost or market rates, and according to FES, appears to be well above market. Furthermore, Constellation and Exelon witness Fein testified that Exelon made an offer of energy and capacity and an offer for capacity only to serve AEP-Ohio's SSO load June 1, 2014 through May 31, 2016, at a cost lower than the Company is proposing as a part of this modified ESP. Constellation and Exelon emphasize that the PJM tariff does not prohibit an FRR entity from making bilateral purchases in the market to meet its capacity obligations. (Constellation/Exelon Ex. 101 at 17-19). FES notes that according to testimony offered by AEP-Ohio witness Nelson, the $255 MW-day for capacity is not based on costs nor indexed to the market rate. Furthermore, FES points out that AEPSC is negotiating the contract for both AEP-Ohio and GenResources. AEP-Ohio has no intent, based on the testimony of Mr. Nelson, to evaluate whether the cost of its contract with GenResources for SSO service could be reduced by contracting with another supplier. Based on the record evidence, FES argues that this aspect of the modified ESP does not comply with the requirements of Section 4928.143(B)(2)(a), Revised Code, and the contract between AEP-Ohio and GenResources, after corporate separation does not comply with the FERC *Edgar* guidelines, which direct that no wholesale sale of electric energy or capacity between a franchised public utility with captive customers and a market-regulated power sales affiliate may take place without first receiving FERC authorization for the transaction under section 205 of the Federal Power Act. (Tr. at 523-526; FES Br. at 102-105.)

The Commission finds, that once corporate separation is effective and AEP-Ohio procures its generation from GenResources that it is appropriate and reasonable for certain revenues to pass-through AEP-Ohio to GenResources. Specifically, the revenues AEP-Ohio receives, after corporate separation is implemented, from the RSR which are not allocated to recovery of the deferral, revenue equivalent to the capacity charge of $188.99/MW-day authorized in Case No. 10-2929-EL-UNC, generation-based revenues from SSO customers, and revenue for energy sales to shopping customers, should flow to to GenResources. We recognize, as AEP-Ohio acknowledges and FES discusses in its reply brief, that the contract between AEP-Ohio and GenResources is subject to prior FERC approval. We do not make, as a part of our review of the Company's modified ESP application, any expressed or implied endorsement of the terms or conditions of the AEP-Ohio contract with GenResources, as presented in this case.

14. GridSMART

The Company's modified ESP application proposes the continuation of the gridSMART rider approved by the Commission in the ESP 1 Order, with two modifications. First, AEP-Ohio requests that the gridSMART rates for the CSP rate zone be expanded to the OP rate zone. Second, AEP-Ohio requests that the net book value of meters retired as a result of the gridSMART project be deferred as a regulatory asset for accounting purposes. Currently, the net book value of meters replaced as a result of Phase 1 of the gridSMART project are charged to expense net of salvage and net of meter transfers and included in the over/under calculation of the rider. The Company expects to complete the installation of gridSMART equipment in Phase 1 and to complete gridSMART data submission to the U. S. Department of Energy on Phase 1 of the project by December 31, 2013, with the evaluation to be completed around March 31, 2014. Further, AEP-Ohio states that the Company intends to deploy elements of the gridSMART program throughout the AEP-Ohio service territory as part of the proposed DIR program proposed in this proceeding. (AEP-Ohio Ex. 107 at 10; AEP-Ohio Ex. 110 at 9-13.)

OCC and APJN submit that, to the extent that the Company proposes to include gridSMART costs in the DIR, there are numerous concerns that need to be addressed before the Company is authorized to proceed. Staff, OCC, and APJN retort that the Company's proposed expansion of the gridSMART project, before any evaluation and analysis of the success of gridSMART Phase 1, is inconsistent with sound business principles and should be rejected by the Commission. Therefore, these parties recommend that the Company not proceed with Phase 2 until evaluation of Phase 1, is complete, on or about March 31, 2014. (Staff Ex. 105 at 5-6; OCC/APJN Br. at 96-97.)

More specifically, Staff reasons that the costs of the expansion of various gridSMART technologies have not been determined, the benefits of the gridSMART expansion defined nor customer acceptance of such technologies evaluated. In addition, Staff claims that the Company has stated that certain components of the aging distribution infrastructure do not support gridSMART technologies. Despite Staff's position on the commencement of Phase 2 of the gridSMART project, Staff does not oppose the Company's installation, at the Company's expense and risk of recovery, of proven distribution technologies that can proceed independently of gridSMART, which address near term generation reliability concerns, such as integrated voltage variation control (IVVC), and do not present any security or interoperability issues or violate requirements set forth by the National Institute of Standards and Technology Interagency Report. Staff endorses the continuation of the gridSMART rider to be collected from all AEP-Ohio customers. Staff emphasizes that equipment should not be recoverable in the gridSMART rider until it is installed, has completed and passed thorough testing, and has been placed in-service. (Staff Ex. 105 at 3-6; Staff Ex. 107 at 3-13.)

AEP-Ohio points out that no intervener has expressed any opposition to the continuation and completion of gridSMART Phase 1 and, accordingly, AEP-Ohio requests approval of this aspect of the modified ESP. AEP-Ohio also requests that the Commission provide some policy guidance on whether the Company should proceed with the expansion of the gridSMART program.

As the Commission noted in AEP-Ohio's ESP 1 Order:

> [I]t is important that steps be taken by the electric utilities to explore and implement technologies... that will potentially provide long-term benefits to customers and the electric utility. GridSMART Phase 1 will provide CSP with beneficial information as to implementation, equipment preferences, customer expectations, and customer education requirements... More reliable service is clearly beneficial to CSP's customers. The Commission strongly supports the implementation of AMI [advanced metering infrastructure] and DA [distribution automation initiative], with HAN [home area network], as we believe these advanced technologies are the foundation for AEP-Ohio providing its customers the ability to better manage their energy usage and reduce their energy costs.

(ESP 1 Order at 34-35.)

The Commission is not wavering in its conviction as to the benefits of gridSMART. Thus, we direct AEP-Ohio to continue the gridSMART Phase 1 project and to complete the review and evaluation of the project. We are approving the Company's request to initiate Phase 2 of the gridSMART project, prior to the March 31, 2014, completion of the evaluation of gridSMART Phase 1, with those technologies that have to-date demonstrated success and are cost-effective. To require the Company to delay any further expansion or installation of gridSMART is unnecessarily restrictive with respect to the further deployment of successful individual smart grid systems and technologies used in the project. The Company shall file its proposed expansion of the gridSMART project, gridSMART Phase 2, as part of a new gridSMART application, including sufficient detail on the equipment and technology proposed for the Commission to evaluate the demonstrated success, cost-effectiveness, customer acceptance and feasibility of the proposed technology. However, the Company shall include, as Staff recommends, IVVC only within the distribution investment rider, as IVVC is not exclusive to the gridSMART project. IVVC supports the overall electric system reliability and can be installed without the presence of grid smart technologies, although IVVC enhances or is necessary for grid smart technology to operate properly and efficiently. Furthermore, the gridSMART Phase 1 rider was approved with specific limitations as to the equipment for which recovery

could be sought, and a dollar limitation.[27] Any gridSMART investment beyond the Phase 1 pilot, which is not subject to recovery through the DIR mechanism, should be recovered through a mechanism other than the current gridSMART rider, for example, through a gridSMART Phase 2 rider. The current gridSMART rider allows for recovery on an "as spent" basis, with audits directed toward truing-up expenditures with collections through the rider rate. Keeping subsequent non-DIR, gridSMART expenditures in a new separate recovery mechanism facilitates enforcement and a Commission determination that recovery of gridSMART investment occur only after the equipment is installed, tested, and is in-service. With these clarifications, the Commission approves the Company's request to continue, as a part of this modified ESP, the current gridSMART rider mechanism, subject to annual true-up and reconciliation based on the Company's prudently incurred costs, and to extend the rate to include OP as well as CSP customers.

We note that the gridSMART Phase 1 rider was last evaluated for prudency of expenditures, reconciled for over- and under-recoveries and the rate mechanism adjusted in Case No. 11-1353-EL-RDR, with the rate effective beginning September, 1, 2011. Despite the Commission's February 23, 2012 rejection of the application in this ESP 2 proceeding, the recovery of the gridSMART rate mechanism continued consistent with the Entry issued March 7, 2012. Accordingly, the gridSMART rider rate mechanism approved in Case No. 11-1353-EL-RDR shall continue at the current rate until revised by the Commission. We also note that in Case No. 11-1353-EL-RDR, the Commission deducted an amount from the Company's claim for the loss on the disposal of electro-mechanical meters. The Commission notes, as we stated in the Order issued August 4, 2011, that we will address the meter issue in the Company's pending gridSMART rider application, Case No. 12-509-EL-RDR, and nothing in this Order on the modified ESP should be interpreted to the contrary.

15. Transmission Cost Recovery Rider

Pursuant to Commission authority, as set forth in Section 4928.05(A)(2), Revised Code, and the rules in Chapter 4901:1-36, O.A.C., electric utilities may seek recovery of transmission and transmission-related costs. Through this modified ESP, AEP-Ohio proposes only that the transmission cost recovery rider (TCRR) mechanisms of the CSP and OP rate zones be combined. The Company proposes no other changes to the TCRR mechanism as a part of this ESP. (AEP-Ohio Ex. 111 at 6-7; AEP-Ohio Ex. 107 at 8.)

The Commission notes that the current TCRR process has been in place since 2009, and operates appropriately. As structured, with the TCRR mechanism any over- or under-recovery is accounted for in the next semi-annual review of the TCRR mechanism. For this reason, we do not expect any adverse rate impact for customers with the combining of the CSP and OP TCRR rate mechanisms. Given the merger of CSP into OP, effective as of

[27] ESP 1 Order at 37-38; ESP 1 Entry on Rehearing at 18-24 (July 23, 2009).

December 31, 2011, the Commission finds AEP-Ohio's request to combine the TCRR mechanism to be reasonable. The Commission directs that any over-recovery of transmission or transmission-related costs, as a result of combining the TCRR mechanisms, be reconciled in the over and under-recovery component of the Company's next TCRR rider update.

16. Enhanced Service Reliability Rider

As part of AEP-Ohio's ESP 1 case, AEP-Ohio proposed an enhanced service reliability rider (ESRR) program which included four components, of which only the transition to a cycle-based vegetation management program was approved by the Commission. In this modified ESP, AEP-Ohio requests continuation of the ESRR and the Company's transition to a four-year, cycle-based trimming program. Further, the Company proposes the unification of the ESRR rates for each rate zone into a single rate, adjusted for anticipated cost increases over the term of the ESP, with carrying cost on capital assets and annual reconciliation. AEP-Ohio admits that before the initiation of the transitional vegetation management program, the number of tree-related circuit outages had gradually increased. However, the Company states that with the initiation of the new vegetation management program, the number of tree-caused outages has been reduced and service reliability has improved. AEP-Ohio proposes to complete the transition from a performance-based program to a four-year, cycle-based trimming program for all of the Company's distribution circuits as approved by the Commission in the prior ESP. However, the Company notes that the vegetation management plan was implemented as a five-year transition program and, as a result of the delay in adopting a second ESP and increases in the expected costs to complete implementation of the cycle-based trimming program, it is now necessary to extend the implementation period to include an additional year into 2014. AEP-Ohio requests incremental funding for 2014 for both the completion of the transition to a cycle-based vegetation management program of $16 million and an incremental increase of $18 million annually to maintain the cycle-based program. (AEP-Ohio Ex. 107 at 8; AEP-Ohio Ex. 110 at 5-9.)

Staff supports the continuance of the ESRR through 2014 but not any cost incurred thereafter. Staff reasons that after 2014, the Company's transition to a four-year, cycle-based vegetation management program will be complete and regular maintenance pursuant to the program will be part of the Company's normal operations, the cost of which should be recovered through base rates not through the ESRR. Further, Staff argues that the ESRR funding level for the period 2012 through 2014 is overstated due to the increased ESRR baseline reflected in the Company's recent distribution rate case.[28] According to Staff, to reach the rate base in the Stipulation in the distribution rate case, Staff agreed to an increase in the revenue requirement for CSP and OP which incorporated an annual increase in vegetation management operation and maintenance expense of $17.8

[28] *In re AEP-Ohio*, Opinion and Order, Case No. 11-351-EL-AIR, et al. (December 14, 2011).

million annually for 2012 through 2014 over its recommendation in the Staff Report. For that reason, Staff asserts that vegetation management operation and maintenance expense must be reduced by $17.8 million annually for the period 2012 through 2014. Further, Staff recommends that the Commission direct AEP-Ohio to file, pursuant to Rule 4901:1-10-27(E)(2) and (3), O.A.C., by no later than December 31, 2013, a revised vegetation management program which commits the Company to complete end-to-end trimming on all of its distribution circuits every four years beginning January 1, 2014 and beyond. (Staff Ex. 106 at 11-14; Tr. at 4363-4365.)

AEP-Ohio retorts that Staff ignores the fact that the Stipulation, and the Commission Order approving the Stipulation, in the Company's distribution rate case do not detail any increase in the ESRR baseline. AEP-Ohio requests that the Commission reject Staff's view of the rate case settlement as unsupported and improper, after the issuance of a final, non-appealable order in the case. As to Staff's proposed termination of funding after 2014, the Company offers that such would undermine the benefits of the cycle-based trimming. (AEP-Ohio Reply Br. at 76-77.)

The Commission concludes that while the Stipulation in the distribution rate case reflects an increase in the baseline operations and maintenance expense from the level recommended in the Staff Report, there is no evidence in the Stipulation or the Commission's Order adopting the Stipulation which specifically supports a $17.8 million increase in operations and maintenance expense for the vegetation management program. Accordingly, the Commission approves the continuation of the vegetation management program, via the ESRR, and merger of the rates, as requested by the Company for the term of the modified ESP, through May 31, 2015. Within 90 days after the conclusion of the ESRR, the Company shall make the necessary filing for the final year review and reconciliation of the rider. We direct AEP-Ohio to file a revised vegetation management program consistent with this Order and Rule 4901:1-10-27(E)(2) and (3), O.A.C., by no later than December 31, 2012. We see no need to wait until December 2013 for the filing, as requested by Staff, in light of our ruling in this Order.

17. Energy Efficiency and Peak Demand Reduction Rider

Through this modified ESP, the Company proposes the continuation of the EE/PDR Rider, with the unification of the rates into a single rate. The EE/PDR rider would continue to be, as it has been since its adoption in the ESP 1 cases,[29] updated annually. AEP-Ohio notes the proposed regulatory accounting for the EE/PDR rider, is over-under accounting with no carrying charge on the investment and no carrying charge on the over/under balance. The Company states that it has developed energy efficiency and demand response programs for all customer segments and through the implementation of the programs customers have the potential to save approximately $630

[29] ESP 1 Order at 41-48; ESP 1 EOR at 27-31.

million in reduced electric service cost over the life of the programs. Further, the EE/PDR programs cause power plant emissions to be reduced. AEP-Ohio testified that its energy efficiency and peak demand response programs for 2009 through 2011 have been very successful in meeting the benchmarks. Staff endorses the Company's request to continue the EE/PDR rider. (AEP-Ohio Ex. 107 at 8; AEP-Ohio Ex. 118 at 11-12; Staff Br. at 31.)

The Commission approves the merger of the EE/PDR rider rates for the CSP and OP rate zones and, for the term of this modified ESP, the continuation of the EE/PDR rider as adopted in the ESP 1 Order and subsequently confirmed in each of the Company's succeeding EE/PDR cases. In addition, as we established in our analysis of the IRP-D credit, because the IRP-D credit promotes energy efficiency, it is appropriate for AEP-Ohio to recover any costs associated with the IRP-D under the EE/PDR rider, as opposed to the RSR. Further, the Commission directs AEP-Ohio to take the appropriate steps necessary to bid the energy efficiency savings funded by the EE/PDR rider into the next PJM base residual auction and all subsequent auctions held during the term of the ESP.

18. Economic Development Rider

AEP-Ohio's modified ESP application request approval to continue, with one modification, the non-bypassable Economic Development Rider (EDR). The EDR mechanism recovers the costs, incentives, and forgone revenues associated with new or expanding Commission-approved special arrangements for economic development and job retention. As currently designed, the EDR rate is a component of each customer's base distribution rates. The Company wishes to merge the EDR rates for each of the rate zones into a single EDR rate with the EDR rate to continue in all other respects as approved by the Commission in the ESP 1 Order and the Company's subsequent EDR cases. As currently approved by the Commission, the EDR is updated periodically and the regulatory accounting for the EDR, being over-under accounting with no carrying charge on the investment and a long-term interest carrying charge on any unrecovered balance. AEP-Ohio states that the EDR supports Ohio's effectiveness in the global economy as required in Section 4928.02(N), Revised Code. AEP-Ohio asserts that the proposed EDR is reasonable and should be adopted as part of the modified ESP. (AEP-Ohio Ex. 111 at 3, 7 and Ex. DMR-5; AEP-Ohio Ex. 107 at 8; AEP-Ohio Ex. 118 at 7, 13.)

Staff supports the Company's EDR proposal (Staff Br. at 31). However, OCC and APJN argue the Company allocates the EDR rider based only on distribution revenues as opposed to current total revenues (distribution, transmission and generation) between the customer classes in compliance with Rule 4901:1-38-08(A), O.A.C.[30] OCC and APJN note

30 Rule 4901:1-38-08(A)(4), O.A.C., states:

> The amount of the revenue recovery rider shall be spread to all customers in proportion to the current revenue distribution between and among classes, subject to change,

that the Commission approved Dayton Power & Light Company's EDR application with a similar allocation to the one they are proposing AEP-Ohio be required to adopt.[31]

The Company argues that because transmission and generation revenues are recovered only from its nonshopping customers, that OCC's and APJN's proposal would actually result in residential customers being responsible for a greater share of the delta revenues than under the current allocation method based only on distribution revenues paid by shopping and non-shopping customers. Further, AEP-Ohio notes that the Commission rejected this same proposal by OCC in the ESP 1 cases and requests that the Commission again reject the proposed change in the allocation methodology. (AEP-Ohio Reply Br. at 78.)

The Commission rejects OCC's and APJN's request to revise the basis for the EDR allocation, given the fact that the EDR is a non-bypassable rider recovered from shopping and non-shopping customers alike. We recognize that the EDR acts to attract new business and to facilitate the expansion of existing businesses in Ohio. In order to allow AEP-Ohio to effectively promote economic development to customers in its service territories, and continue its positive corporate presence in communities throughout Ohio, as evidenced by multiple witnesses at the public hearings, we find it reasonable for AEP to maintain its corporate headquarters in Columbus, Ohio, at a minimum, for the entire term of this ESP and the subsequent collection period associated with the deferral costs included in the RSR. Further, the Commission finds that, the EDR, as a non-bypassable rider, is recovered from all AEP-Ohio shopping and non-shopping customers. Therefore, we approve the Company's request to merge the EDR rates for the CSP and OP rate zones into a single rate and to otherwise continue the EDR mechanism as previously approved by the Commission in the Company's ESP 1 Order, as revised or clarified in its subsequent EDR proceedings.

Additionally, in light of the extenuating economic circumstances, the Commission hereby orders the Company to reinstate the Ohio Growth Fund, to be funded by shareholders at $2 million per year, or portion thereof, during the term of this ESP. The Ohio Growth Fund creates private sector economic development resources to support and work in conjunction with other resources to attract new investment and improve job growth in Ohio.

---

alteration, or modification by the commission. The electric utility shall file the projected impact of the proposed rider on all customers, by customer class.

31 See In re Dayton Power & Light Company, Case No. 12-815-EL-RDR, Order (April 25, 2012).

19. Storm Damage Recovery Mechanism

AEP-Ohio proposes a storm damage recovery mechanism be created to recover any incremental expenses incurred due to major storm events (AEP-Ohio Ex. 110 at 20). AEP-Ohio provides that the mechanism would be created in the amount of $5 million per year in accordance with the settlement in Case Nos. 11-351-EL-AIR and 11-352-EL-AIR. In support of the storm damage recovery mechanism, AEP-Ohio witness Kirkpatrick notes that absent the mechanism, forecasted operation and maintenance (O&M) funds would be constantly diverted to cover the expense of major storms, which could disrupt planned maintenance activities and impact system reliability. The determination of what a major storm is or is not would be determined by methodology outlined in the IEEE Guide for Electric Power Distribution Reliability Indices, as set forth in Rule 4901:1-10-10(B), O.A.C. (*Id.*) Any capital costs that would be incurred due to a major storm would either become a component of the DIR or would be addressed in a distribution rate case (*Id.* at 21). Upon approval of the storm damage recovery mechanism, AEP-Ohio will defer the incremental distribution expenses above or below the $5 million storm expense beginning with the effective date of January 1, 2012 (AEP-Ohio Ex. 107 at 10).

OCC notes that while AEP-Ohio's actual storm costs expenses are currently unknown, it is likely that AEP-Ohio will incur more than $5 million based on historic data, which indicates the average annual expenses amount to approximately $8.97 million per year (OCC Ex. 114 at 20-21). In addition, OCC explains that AEP-Ohio failed to specify the carry charge rate for any storm damage deferrals, but suggests the carrying charges not be calculated using AEP-Ohio's WACC, as the mechanism does not include capital costs (OCC Br. at 97-98). OCC suggests that AEP-Ohio utilize its cost of long-term debt to calculate carrying charges (*Id.*).

In establishing its storm damage recovery mechanism, AEP-Ohio failed to specify how recovery of the deferred asset would actually work or would occur. As proposed, it is unknown when AEP-Ohio would seek recovery, or whether anything over or under $5 million would become a deferred asset or liability. As it currently stands, the storm damage recovery mechanism is open-ended and should be modified.

Therefore, we find that AEP-Ohio may begin deferral of any incremental distribution expenses above or below $5 million, per year, subject to the following modifications. Further, throughout the term of the modified ESP, AEP-Ohio shall maintain a detailed accounting of all storm expenses within its storm deferral account, including detailed records of all incidental costs and capital costs. AEP-Ohio shall provide this information annually for Staff to audit to determine if additional proceedings are necessary to establish recovery levels or refunds as necessary.

In the event AEP-Ohio incurs costs due to one or more unexpected, large scale storms, AEP-Ohio shall open a new docket and file a separate application by December 31

each year throughout the term of the modified ESP, if necessary. In the event an application for additional storm damage recovery is filed, AEP-Ohio shall bear the burden of proof of demonstrating all the costs were prudently incurred and reasonable. Staff and any interested parties may file comments on the application within 60 days after AEP-Ohio dockets an application. If any objections are not resolved by AEP-Ohio, an evidentiary hearing will be scheduled, and parties will have the opportunity to conduct discovery and present testimony before the Commission. Thus, OCC's concern on the calculation of appropriate carrying charges is premature.

20. Other Issues

(a) Curtailable Service Riders

In ESP 1, based on the lack of certain information in the record, the Commission determined that customers under reasonable arrangements with AEP-Ohio, including, but not limited to, energy efficiency/peak demand reduction arrangements, economic development arrangements, unique arrangements, and other special tariff schedules that offer service discounts from the applicable tariff rates, are prohibited from also participating in a PJM demand response program (DRP), unless and until the Commission decides otherwise (First ESP EOR at 41). While the Commission opined on the ability of customers in reasonable arrangements with AEP-Ohio to participate in PJM DRPs, the Commission did not, in the context of the ESP 1, address the ability of AEP-Ohio's retail customers to participate in PJM DRPs.

On March 19, 2010, in Case Nos. 10-343-EL-ATA and 10-344-EL-ATA, AEP-Ohio filed an application to amend its emergency curtailment service riders to permit customers to be eligible to participate in AEP-Ohio's DRPs, integrate their customer-sited resources and assign the resources to AEP-Ohio to meet with the Company's peak demand reduction mandates or conditional retail participation in PJM DRPs.

As a part of this modified ESP, AEP-Ohio recognizes customer participation in the PJM directly or through third-party aggregators and proposes to eliminate two tariff services, Rider Emergency Curtailable Services and Rider Price Curtailable Service, as no customer currently receives service pursuant to either rider. EnerNOC endorses this aspect of AEP-Ohio's modified ESP application on the basis that its supports the provisions of Section 4928.02(D), Revised Code. (AEP-Ohio Ex. 100 at 9; AEP-Ohio Ex. 111 at 9; EnerNOC Br. at 5-6.).

We concur with the Company's request. Accordingly, the Company should eliminate Rider Emergency Curtailable Services and Rider Price Curtailable Service from its tariff service offerings and Case Nos. 10-343-EL-ATA and 10-344-EL-ATA, closed of record and dismissed.

(b) Customer Rate Impact Cap

In order to ensure no customers are unduly burdened by any unexpected rate impacts, as well as to mitigate any customer rate changes, we direct AEP-Ohio to cap customer rate increases at 12 percent over their current ESP I rate plan bill schedules for the entire term of the modified ESP, pursuant to our authority as set forth in Section 4928.144, Revised Code. The 12 percent limit shall be determined not by overall customer rate classes, but on an individual customer by customer basis. The customer rate impact cap applies to items approved within this modified ESP. Any rate changes that arise as a result of past proceedings, including any distribution proceedings, or in subsequent proceedings are not factored into the 12 percent cap. Further, the 12 percent cap shall be normalized for equivalent usage to ensure that at no point any individual customer's bill impacts shall exceed 12 percent. On May 31, 2013, AEP-Ohio should file, in a separate docket, a detailed accounting of its deferral impact created by the 12 percent rate cap. Upon AEP-Ohio's filing of its deferral calculations, the attorney examiners shall establish a procedural schedule, to consider, among other things, the deferral costs created, and the Commission will maintain the discretion to adjust the 12 percent limit, as necessary, throughout the term of the ESP.

(c) AEP-Ohio's Outstanding FERC Requests

The Commission takes notice that American Electric Power Service Corporation filed a renewed motion on AEP-Ohio's behalf for expedited rulings on July 20, 2012, in FERC docket numbers ER11-2183-001 and EL11-32-000. In the event FERC takes any action that may significantly alter the balance of this Commission's order, the Commission will make appropriate adjustments as necessary. Specifically, pursuant to Section 4928.143(F), Revised Code, at the end of each annual period of this modified ESP, the Commission shall consider if any such adjustments, including any that may arise as a result of a FERC order, lead to significantly excessive earnings for AEP-Ohio. In the event that the Commission finds that AEP-Ohio has significantly excessive earnings, AEP-Ohio shall return any amount in excess to consumers.

III. IS THE PROPOSED ESP MORE FAVORABLE IN THE AGGREGATE AS COMPARED TO THE RESULTS THAT WOULD OTHERWISE APPLY UNDER SECTION 4928.142, REVISED CODE.

AEP-Ohio contends that the ESP, as proposed, including its pricing and all other terms and conditions, is more favorable in the aggregate as compared to the expected results that would otherwise apply under an MRO. To properly conduct the statutory test, AEP-Ohio states that the proposed ESP must be viewed in the aggregate, which includes the statutory price test, other quantifiable benefits, and the consideration of non-quantifiable benefits (AEP Ex. 114 at 3-4). In evaluating all of these criteria, AEP-Ohio witness Laura Thomas concludes that the proposed ESP, in the aggregate, is more

favorable that the results that would otherwise apply under an MRO by approximately $952 million (AEP-Ohio Ex. 115 at Exhibit LJT-1, page 1). In addition, Ms. Thomas states that there are numerous benefits that are not readily quantifiable (*Id.*).

In conducting the statutory price test, Ms. Thomas explains that she utilized Section 4928.20(J), Revised Code's interpretation of market prices for guidance in determining the competitive benchmark price. In establishing the competitive benchmark price, AEP-Ohio used ten components, including the capacity component, which includes the capacity cost that a supplier would incur to serve a retail customer within AEP-Ohio's service territory (AEP-Ohio Ex. 114 at 15). AEP-Ohio concluded that the capacity cost to be utilized in the statutory price test should be $355.72/MW-day, based on the notion that AEP-Ohio will be operating under its FRR obligation and the full capacity cost rate for AEP-Ohio should be utilized in the competitive benchmark price. By using $355.72/MW-day, Ms. Thomas concludes that the statutory price test shows the ESP is more favorable than an MRO by $256 million (AEP-Ohio Ex. 114 at LJT-1 page 3). Ms. Thomas also conducted an alternative price test utilizing the two-tier capacity proposal numbers of $146 and $255 as the capacity costs, and concludes that modified ESP would be more favorable than an MRO $80 million (*Id.* at LJT-5 page 2). In light of the Commission's decision in Case No. 10-2929, AEP-Ohio indicates the use of the $188.88 capacity price would result in the MRO being slightly less favorable by $12.6 million, but when factoring in AEP-Ohio's energy-only slice-of-system auction the statutory price test comes out almost even, with the MRO being slightly more favorable by approximately 2.6 million (AEP-Ohio Reply Br. at 97-99, Attachment B).

In addition, as AEP-Ohio explains that the statutory test requires the proposed ESP be reviewed in the aggregate in addition to the price test, other quantifiable benefits need to be considered. Specifically, AEP-Ohio points to capacity price discount from AEP-Ohio's $355.72/MW-day to the two-tier discounted capacity pricing for CRES provides, which results in a benefit of $988 million. In addition, in her aggregate test, Ms. Thomas acknowledges that while the RSR is a benefit of the proposed modified ESP, the RSR will cost $284 million during the term of the modified ESP. Ms. Thomas explains that the GRR should not be considered in the aggregate analysis as the results would be the same under the proposed ESP or an MRO, but notes if the Commission determines otherwise the consideration of GRR would reduce the quantifiable benefits by approximately $8 million. By taking these additional quantifiable factors into consideration in addition to the results under the statutory test, AEP-Ohio asserts that the total quantifiable benefits of the modified ESP are $952 million based on the statutory price test using $355.72/MW-day (AEP-Ohio Ex. 115 at LJT-1).

Regarding non-quantifiable benefits, AEP-Ohio states that the modified ESP will provide price certainty for SSO customers while presenting increased customer shopping opportunities. AEP-Ohio provides that the modified ESP will ensure financial stability of

AEP-Ohio and provides for a necessary transition towards the competition while acknowledging AEP-Ohio's existing contractual and FRR obligations. AEP-Ohio also opines that the modified ESP advances state policies and is consistent with Section 4928.02, Revised Code.

In addition to the statutory test conducted by AEP-Ohio witness Thomas, several other parties conducted the statutory test pursuant to Section 4928.143, Revised Code. OCC, FES, IEU, DER and Staff allege that the statutory price test actually indicates that the modified ESP produces results that are less favorable than what would otherwise apply under an MRO by figures ranging from $50 million to $1.427 billion (*See* OCC Ex. 114, DER Ex. 102, IEU Ex. 125, FES Ex. 104, and Staff Ex. 110). Specifically, OCC witness Hixon points out that AEP-Ohio's assumption of a $355.72/MW-day capacity charge is inappropriate, but rather, the capacity charge approved by the Commission in Case No. 10-2929-EL-UNC should be utilized. Further, OCC notes that any costs associated with the GRR should be included in the statutory test, as the GRR would not be available under an MRO (*Id.* at 14-17). In addition, OCC points out that in considering any non-quantifiable benefits associated with the modified ESP, the aggregate test should consider additional costs to customers associated with items such as the DIR, ESRR, and gridSMART rider, which, while not readily quantifiable, are currently known to be costs associated with the modified ESP (*Id.* at 18).

FES and IEU raise similar concerns in utilizing AEP-Ohio's $989 million as a quantifiable benefit. FES states that the Commission previously found the consideration of discounted capacity pricing cannot be considered a benefit because it is too speculative (FES Ex. 104 at 14-16, IEU Ex. at 50-53). IEU, DER, and FES provide that AEP-Ohio overstated the competitive benchmark price by failing to use a market-based capacity price, and failed to properly consider the costs associated with the modified ESP including the RSR, GRR, and possibly the PRR (FES at 16-25, IEU at 49-72, DER Ex. 102 at 3-6). Mr. Schnitzer also concluded that the statutory test indicates that the modified ESP is worse for customers than the Stipulation ESP, and approval of the modified ESP would harm the development of a competitive retail market by limiting CRES providers' ability to provide alternative offers to customers (FES Ex. 104 at 38-41).

IEU, DER, and OCC argue that Ms. Thomas incorrectly assumed the MRO's blending requirement should have been accelerated, as it is unlikely the Commission would authorize an MRO with any blending other than the fault blending provisions of 70 percent ESP pricing and 30 percent market pricing, as is consistent with Section 4928.142, Revised Code (DER Ex. at 3-6, OCC Ex. 114 at 8-9). Further, IEU suggests the Commission consider the June 2015 to May 2016 deliver year as part of the statutory test analysis, as AEP-Ohio is seeking Commission approval to conduct a CBP for the entire SSO load beginning in June 2015 under this modified application (IEU Ex. 125 at 79).

Staff witness Fortney conducted the statutory test by blending the market rate with the SSO rates pursuant to Section 4928.142(D), Revised Code, but noted that the market rate is extremely uncertain due to volatility of forward contract prices. Mr. Fortney calculated the average rates under AEP-Ohio's modified ESP and compared them to the results that would occur under an MRO on RPM price capacity, $146.41, and $255. Mr. Fortney concluded that under all three scenarios the modified ESP is less favorable, but noted there are other non-quantifiable benefits, including AEP-Ohio's transition to competitive markets, which would be achieved more quickly than through an MRO (Staff Ex. 110 at 3-7). FES revised Mr. Fortney's statutory price test using the $188.88 price of capacity and concluded an MRO would be less expensive by $277 million (FES Reply Br. at B-1).

The Commission finds that, while AEP-Ohio made multiple errors in conducting the statutory test, we believe that these errors are correctible based on evidence contained within the record. Under Section 4928.143(C)(1), Revised Code, we must determine whether AEP-Ohio's has sustained its burden of proof of indicating whether the proposed electric security plan, as we've modified it, including its pricing, other terms and conditions including any deferrals and future recovery of deferrals, is more favorable in the aggregate as compared to results that would otherwise apply under Section 4928.142, Revised Code. Further, we must ensure our analysis looks at the entire modified ESP as a total package, as the Supreme Court of Ohio has held that Section 4928.143(C)(1), Revised Code, does not bind the Commission to a strict price comparison, but rather, instructs the Commission to consider other terms and conditions, as there is only one statutory test that looks at an entire ESP in the aggregate (*In re Columbus S. Power Co.*, 128 Ohio St. 3d 402, 407).

Therefore, as AEP-Ohio presented its analysis of this statutory test, we first look at the statutory pricing test, and then will explore other provisions, terms, and conditions of the proposed ESP that are both quantifiable and non-quantifiable. In considering AEP-Ohio's statutory price test, consistent with Section 4928.143(C)(1), Revised Code, we must look in part at the price AEP-Ohio's proposed ESP, as we've modified it, with the price of the results that would otherwise apply under Section 4928.142, Revised Code. The way AEP-Ohio calculated its statutory price test precludes us from accurately determining the results that would otherwise apply under a market rate offer, as it begins its analysis on June 1, 2012.

To accurately determine what would otherwise apply under Section 4928.142(A)(1), Revised Code, for the purposes of comparing it with this modified ESP, we begin by looking at the statute for guidance. Section 4928.142(A)(1), Revised Code, mandates that any electric distribution utility that wishes to establish its standard service offer price through a market rate offer must ensure the competitive bidding process provides for an open, fair, and transparent competitive solicitation process, with a clear product definition,

standardized bid evaluation criteria, oversight of the process by an independent third party, and an evaluation of the submitted bids prior to selecting a winner. For the Commission to appropriately predict the results that would otherwise occur under this section, we cannot, in good conscience, compare prices during a time period that has elapsed prior to the issuance of this order. Nor can we, by statute, compare this modified ESP price with what would otherwise apply under Section 4928.142, Revised Code, beginning today, as it would be impossible for AEP-Ohio to immediately establish an alternate plan under Section 4928.142, Revised Code, that meets all the statutory criteria. Therefore, for the Commission to appropriately compare the price components of this modified ESP with the results that would otherwise apply under Section 4928.142, Revised Code, we must determine the amount of time it would take AEP-Ohio to implement its standard service offer price with what would otherwise apply under Section 4928.142, Revised Code.

As FES witness Banks testified, a June 1, 2013 start date would provide AEP-Ohio sufficient time to plan for auctions, develop bidding rules, and the auction structure, all of which are requirements of Section 4928.142, Revised Code (FES Ex. 105 at 20). In light of this testimony, we believe that we should begin evaluating the statutory price test analysis approximately ten months from the present, in order to determine what would otherwise apply. Therefore, in considering this modified ESP with the results that would otherwise apply under the statutory price test, we will conduct the statutory price test for the period between June 1, 2013, and May 31, 2015.

Further, in conducting the statutory price test, Ms. Thomas erred by utilizing $355.72/MW-day for the capacity component of the competitive benchmark price. This number was unilaterally determined by AEP-Ohio and justified as AEP-Ohio's cost of capacity, which is entirely inconsistent with the Commission's determination of AEP-Ohio's cost of capacity being $188.88. Although we believe AEP-Ohio's use of the $355.72/MW-day capacity figure is flawed, we are not persuaded by parties who argue the capacity component should be market based and reflect RPM prices. These parties fail to consider that AEP-Ohio, as an FRR entity, will be supplying capacity for its customers throughout the term of this ESP, whether the customer is an SSO customer or the customer takes service through a CRES provider. Thus, even under the results that would otherwise apply consistent with Section 4928.142, Revised Code, due to AEP-Ohio's remaining FRR obligations, it would still be supplying capacity to all of its customers through 2015. We find it is inappropriate to consider market prices in establishing this capacity component, even though RPM prices are consistent with the state compensation mechanism, as AEP-Ohio is and will remain an FRR entity for the immediate future. In conducting the statutory price test, we shall use AEP-Ohio's cost of capacity of $188.88, as supported by Case 10-2929, for the competitive benchmark.

Next, we need to address the appropriate blending method under the statutory price test for the period of January 1, 2015 through June 1, 2015. In light of the clearly defined statutory blending percentages contained within Section 4928.142(D), Revised Code, as well as past Commission precedent in conducting the statutory price test, we do not find it appropriate to use a 100 percent blending rate for the final five months of the modified ESP. *See* Duke Energy Ohio, Case No. 10-2586-EL-SSO (February 23, 2011). Accordingly, we need to adjust the percentages of the MRO pricing component that is indicated in AEP-Ohio's reply brief to 90 percent of the generation service price and ten percent of the expected market price for the period between June 1, 2013 to May 31, 2014, consistent with Section 4928.142(D), Revised Code, and increase the MRO pricing component to 80 percent of the generation service price and 20 percent of the expected market price for the period of June 1, 2014, to May 31, 2015. By making these modifications to the competitive benchmark price, as well as the $188.88 cost of capacity figure, we conclude that the statutory price test indicates the modified ESP is more favorable than the results that would otherwise occur under Section 4928.142, Revised Code, by approximately $9.8 million.

Our analysis does not end here, however, as we must now consider the proposed ESP's other provisions that are quantifiable. As we previously established in the December 14, 2011, Opinion and Order, we believe AEP-Ohio must address costs associated with the GRR, as it is non-bypassable pursuant to Section 4928.143(B)(2)(c), Revised Code, and thus would not occur under an MRO. Therefore, the costs of approximately $8 million must be considered in our quantitative analysis. We understand that the GRR is a placeholder rider, but we find that the costs associated with the GRR are known and should therefore be included in the quantitative benefits. Likewise, we must consider the costs associated with the RSR of approximately $388 million in our quantitative analysis.[32] The inclusion of any deferral amount does not need to be included in our analysis, as it would still be recovered under an MRO pursuant to the Commission's decision in the Capacity Case. After including the statutory price test in favor of the ESP by $9.8 million, and the quantifiable costs of $388 million under the RSR and $8 million for the GRR, we find an MRO is more favorable by approximately $386 million.

By statute, our analysis does not end here, however, as we must consider the non-quantifiable aspects of the modified ESP, in order to view the proposed plan in the aggregate. We acknowledge that there may be costs associated with distribution related

---

32 The RSR determination of $388 million is calculated by taking the $508 million RSR recovery amount and subtracting the $1 figure to be devoted towards the Capacity Case deferral, as recovery of this deferral will occur under either an ESP or an MRO. Using LJT-5 in AEP-Ohio Ex. 114, when we consider the total connected load of 48 million kWh and multiply it by $1 over the term of the modified ESP, we reach a figure of $144 million to be devoted towards the Capacity Case deferral. However, as the RSR recovery amount increases to $4/MWh in the final year of the modified ESP, we also must account for an increase in the RSR of $24 million, which is also calculated by connected load in LJT-5. Therefore, the actual amount which should be included in the test is $388 million.

riders and the gridSmart and ESRR that currently are not readily quantifiable, we believe any of these costs are significantly outweighed by the non-quantifiable benefits this modified ESP leads to. Although these riders may end up having costs associated with them, they would support reliability improvements, which will benefit all AEP-Ohio customers, as well as provide the opportunity for customers to utilize efficiency programs that can lead to lower usage, and thus lower costs. Further, these costs will be mitigated by the increase in auction percentages, including the slice-by-slice auction, as we modified to ten percent each year, which will offset some of these costs in the statutory test and moderate the impact of the modified ESP. Further, the acceleration to 60 percent of AEP-Ohio's energy only auction by June 1, 2014, not only enables customers to take advantage of market based prices, but also creates a qualitative benefit which, while not yet quantifiable, may well exceed the costs associated with the GRR and RSR.

In addition, while the RSR and the inclusion of the deferral within the RSR are the most significant cost associated with the modified ESP, but for the RSR it would be impossible for AEP-Ohio to completely participate in full energy and capacity based auctions beginning in June 1, 2015. Although the decision for AEP-Ohio to transition towards competitive market pricing is something this Commission strongly supports and the General Assembly anticipated in enacting Senate Bill 221, the fact remains that the decision to move towards competitive market pricing is voluntary under the statute and in the event this ESP is withdrawn or even replaced with an MRO, there is no doubt that AEP-Ohio would not be fully engaged in the competitive marketplace by June 1, 2015.

The most significant of the non-quantifiable benefits is the fact that in just under two and a half years, AEP-Ohio will be delivering and pricing energy at market prices, which is significantly earlier than what would otherwise occur under an MRO option. If AEP-Ohio were to apply for an MRO it is not feasible to conclude that energy would be at market prices prior to June 1, 2015, even if the Commission were to accelerate the percentages set forth under Section 4928.142, Revised Code. Thirteen years ago our general assembly approved legislation to begin paving the way for electric utilities to transition towards market-based pricing, and provide consumers with the ability to choose their electric generation supplier. While the process has not been easy, we are confident that this plan will result in the outcome the general assembly intended under both Senate Bill 3 and Senate Bill 221, and this modified ESP is the only means in which this can be accomplished in less than two and a half years. Further, while the modified ESP will lead us towards true competition in the state of Ohio, it also ensures not only that customers will have a safe harbor in the event there is any uncertainty in the competitive markets by having a constant, certain, and stable option on the table, but also that AEP-Ohio maintains its financial stability necessary to continue to provide adequate, safe, and reliable service to its customers. Accordingly, we believe these non-quantifiable benefits significantly outweigh any of the costs.

Therefore, in weighing the statutory price test which favors the modified ESP by $9.8 million, as well as the quantifiable costs and benefits associated with the modified ESP, and the non-quantifiable benefits, as we find the modified ESP, is more favorable in the aggregate than what would otherwise apply under an MRO.

IV. CONCLUSION

Upon consideration of the modified ESP application filed by the Company and the provisions of Section 4928.143(C)(1), Revised Code, the Commission finds that the modified ESP, including its pricing and all other terms and conditions, including deferrals and future recovery of deferrals, as modified by this Order, is more favorable in the aggregate as compared to the expected results that would otherwise apply under Section 4928.142, Revised Code. Therefore, the Commission finds that the proposed ESP should be approved, with the modifications set forth in this Order. As modified herein, the plan provides rate stability for customers, revenue certainty for the Company, and facilitates a transition to market. To the extent that interveners have proposed modifications to AEP-Ohio's modified ESP that have not been addressed by this Opinion and Order, the Commission concludes that the requests for such modifications are denied.

AEP-Ohio is directed to file, by August 16, 2012, revised tariffs consistent with this Order, to be effective with bills rendered as of the first billing cycle in September 2012.

V. FINDINGS OF FACT AND CONCLUSIONS OF LAW:

(1) OP is a public utility as defined in Section 4905.02, Revised Code, and, as such, the Company is subject to the jurisdiction of this Commission.

(2) Effective December 31, 2011, CSP was merged with and into OP consistent with the Commission's December 14, 2011 Order in the ESP 2 cases. The merger was confirmed by entry issued March 7, 2012 in Case No. 10-2376-EL-UNC.

(3) On March 30, 2012, the Company filed modified applications for an SSO in accordance with Section 4928.141, Revised Code.

(4) On April 9, 2012, a technical conference was held regarding AEP-Ohio's modified ESP applications.

(5) Notice was published and public hearings were held in Canton, Columbus, Chillicothe, and Lima where a total of 66 witnesses offered testimony.

(6) A prehearing conference on the modified ESP application was held on May 7, 2012.

(7) The following parties filed for and were granted intervention in AEP-Ohio's modified ESP 2 proceeding: IEU, Duke Retail, OEG, OHA, OCC, OPAE, Kroger, FES, Paulding, APJN, OMAEG, AEP Retail, P3, Constellation, Compete, NRDC, Sierra Club, RESA, Exelon, Grove City, AICUO, Wal-Mart, Dominion Retail, ELPC, OEC, Ormet, Enernoc, IGS, Ohio Schools, Ohio Farm Bureau Federation, Ohio Restaurant Association; Duke, DECAM, Direct, The Ohio Automobile Dealers Association, Dayton Power and Light Company, NFIB, Ohio Construction Materials Coalition, COSE, Border Energy Electric Services, Inc., UTIE; (Summit Ethanol); city of Upper Arlington, Ohio; Ohio Business Council for a Clean Economy; city of Hillsboro, Ohio; and CPV Power Development, Inc.

(8) Motions for protective orders were filed by AEP-Ohio on July 1, 2011, May 2, 2012, by OMAEG, IEU, FES, and Exelon on May 4, 2012, AEP-Ohio on May 11, 2012. The attorney examiners granted the motions for protective order in the evidentiary hearing on May 17, 2012.

(9) Additional motions for protective order were filed by Ormet on June 29, 2012, and July 9, 2012, by IEU on June 29, 2012, and by AEP-Ohio on July 5, 2012 and July 12, 2012.

(10) The evidentiary hearing on the modified ESP 2 was called on May 17, 2012, and concluded on June 15, 2012.

(11) Briefs and reply briefs were filed on June 29, 2012, and July 9, 2012, respectively.

(12) Oral arguments before the Commission were held on July 13, 2012.

(13) The proposed modified ESP, as modified pursuant to this opinion and order, including the pricing and all other terms and conditions, deferrals and future recovery of the deferrals, and quantitative and qualitative benefits, is more favorable in the aggregate as compared to the expected results that would otherwise apply under Section 4928.142, Revised Code.

VI. ORDER:

It is, therefore,

ORDERED, That IBEW's and Hilliard's requests to withdraw from these proceedings are granted. It is, further,

ORDERED, That the motions for protective order as discussed herein be granted for 18 months from the date of this Order. It is, further,

ORDERED, That the Company should eliminate Rider Emergency Curtailable Services (ECS) and Rider Price Curtailable Service (PCS) from its tariff service offerings and Case Nos. 10-343-EL-ATA and 10-344-EL-ATA, closed of record and dismissed. It is, further,

ORDERED, That IEU's request to review the procedural rulings is denied. It is, further,

ORDERED, That OCC/APJN's motion to take administrative notice be denied. It is, further,

ORDERED, That OCC/APJN's motion to strike AEP-Ohio's reply brief be granted in part and denied in part. It is, further,

ORDERED, That the Company shall file proposed final tariffs consistent with this Order by August 16, 2012, subject to review and approval by the Commission. It is, further,

ORDERED, That a copy of this opinion and order be served on all parties of record.

THE PUBLIC UTILITIES COMMISSION OF OHIO

Todd A. Snitchler, Chairman

Steven D. Lesser

Andre T. Porter

Cheryl L. Roberto

Lynn Slaby

JJT/GNS/vrm

Entered in the Journal
AUG 08 2012

Barcy F. McNeal
Secretary

BEFORE

THE PUBLIC UTILITIES COMMISSION OF OHIO

In the Matter of the Application of Columbus Southern Power Company and Ohio Power Company for Authority to Establish a Standard Service Offer Pursuant to Section 4928.143, Revised Code, in the Form of an Electric Security Plan.	))))))	Case No. 11-346-EL-SSO Case No. 11-348-EL-SSO
In the Matter of the Application of Columbus Southern Power Company and Ohio Power Company for Approval of Certain Accounting Authority.	))))	Case No. 11-349-EL-AAM Case No. 11-350-EL-AAM

DISSENTING OPINION OF COMMISSIONER CHERYL L. ROBERTO

I decline to join my colleagues in finding that the quantitative advantage of $388 million dollars that an MRO would enjoy over the proposed ESP is overcome by the non-quantifiable benefit of moving to market two years and three months faster than what would have occurred under an MRO. For this reason, I do not find that the proposed modified ESP, as modified pursuant to the opinion and order, including the pricing and all other terms and conditions, deferrals and future recovery of the deferrals, and quantitative and qualitative benefits, is more favorable in the aggregate as compared to the expected results that would otherwise apply under Section 4928.142, Revised Code. Because of this conclusion, it is unnecessary for me to discuss further any individual conclusion within the order or feature of the ESP.

Cheryl L. Roberto

CLR/sc

Entered in the Journal

AUG 08 2012

Barcy F. McNeal

Barcy F. McNeal
Secretary

BEFORE

THE PUBLIC UTILITIES COMMISSION OF OHIO

In the Matter of the Application of Columbus Southern Power Company and Ohio Power Company for Authority to Establish a Standard Service Offer Pursuant to Section 4928.143, Revised Code, in the Form of an Electric Security Plan.	))))))	Case No. 11-346-EL-SSO Case No. 11-348-EL-SSO
In the Matter of the Application of Columbus Southern Power Company and Ohio Power Company for Approval of Certain Accounting Authority.	))))	Case No. 11-349-EL-AAM Case No. 11-350-EL-AAM

CONCURRING OPINION OF COMMISSIONER LYNN SLABY

I agree with the conclusions of the majority. However, I write separately to express my reservations on the use of a retail stability rider (RSR). It is my opinion that generally the use of an RSR with decoupling components lacks certain benefits to consumers. In addition, a company that receives that RSR has little, if any, incentive to look for more operating efficiencies to reduce consumer costs. Consequently, these inefficiencies could lead to additional costs to consumers in the long run. Although these concerns led to my reservations in this present case, I am also fully aware that certain cases present specific circumstances that necessitate setting aside individual concerns for the greater good.

In Case No. 10-2929-EL-UNC, the Commission agreed to defer the recovery of the difference between the market price and the companies' cost of generation. This created a need to establish a mechanism to recover those costs. Although I generally disagree with the use of RSRs for recovering deferred costs, in this case I side with the majority in order to meet our mission. Our mission is to ensure all residential and business consumers access to adequate, safe and reliable utility services at a fair price, while facilitating an environment that provides competitive choices. We as a Public Utilities Commission have to balance the rights of the consumer to ensure safe and reliable service at a fair cost while also making sure that companies receive sufficient revenues to provide that service in a safe and reliable manner.

This decision will help move the company to a fully competitive market at the end of the ESP term, which has been the overall goal of the state legislature since the adoption of Senate Bill 3 in 1999. Furthermore, by creating an RSR without decoupling components, we are stabilizing the rate structure over the next three years. This provides customers a stabilized rate or the opportunity to shop for a better rate, depending on what the market presents during the term of the ESP. Overall, this decision is not only important to the State statutory goal of free and open competition in the market place, but also to the philosophy of this Commission. Therefore, in this isolated case, I find the use of an RSR to be an appropriate mechanism to allow the Company to begin to recover its deferred costs.

Lynn Slaby

LS/sc

Entered in the Journal
AUG 08 2012

Barcy F. McNeal

Barcy F. McNeal
Secretary

OHIO POWER PROPOSED ACCOUNTING ENTRIES

Ohio Power is providing proposed accounting entries reflecting the proposed transfer of Ohio Power's generation assets and related liabilities to AEP Generation Resources, as described in Part III.

The proposed accounting entries in this filing are based on account balances as of December 31, 2011. While these balances reasonably represent the expected assets, liabilities and total capitalization to be transferred, the actual account balances at the time of corporate separation will be different and the methods employed will be more detailed and precise. The transfer of assets constituting an operating unit or system will be recorded through Account 102 consistent with the instructions of Electric Plant Instruction No. 5 of the Commission's Uniform System of Accounts.

Ohio Power will submit proposed final accounting entries within six months of the consummation of the transaction reflecting all entries made on the books and records of Ohio Power pursuant to the Commission's Uniform System of Accounts, along with appropriate narrative explanations describing the basis for the entries.

FERC DOCKET NO. EC13-__-000
TRANSFER OF JURISDICTIONAL ASSETS

A. TO BE RECORDED ON THE BOOKS OF OHIO POWER COMPANY:

ENTRY 1: TO RECORD THE TRANSFER OF OHIO POWER's GENERATION ASSETS & RELATED LIABILITIES TO AEP GENERATION RESOURCES INC. (Based on 12/31/11 Balances)

(in thousands)

Account	Line	Account Description	Debit	Credit
201-226	99	Proprietary Capital & Long-term Debt	4,742,832	
123.1	21	Investment in Subsidiary Companies	1,835	
144	42	Accum Prov For Uncollectible Accounts - Credit	55	
227	26	Obligations Under Capital Leases - Noncurrent	24,591	
228.2	28	Accumulated Provision for Injuries and Damages	503	
228.3	29	Accumulated Provision for Pensions and Benefits	128,488	
228.4	30	Accumulated Miscellaneous Operating Provisions	712	
230	34	Asset Retirement Obligations	236,046	
232	38	Accounts Payable	222,432	
233	39	Notes Payable to Associated Companies	396,953	
234	40	Accounts Payable to Associated Companies	211,535	
235	41	Customer Deposits	1,570	
236	42	Taxes Accrued	98,207	
237	43	Interest Accrued	1,574	
241	47	Tax Collections Payable	1,177	
242	48	Miscellaneous Current and Accrued Liabilities	59,498	
243	49	Obligations Under Capital Leases-Current	7,233	
244	50	Derivative Instrument Liabilities	51,421	
245	52	Derivative Instrument Liabilities-Hedges	3,039	
253	59	Other Deferred Credits	33,273	
255	57	Accumulated Deferred Investment Tax Credits	12,131	
281	62	Accum. Deferred Income Taxes-Accel. Amort.	353,460	
282	63	Accum. Deferred Income Taxes-Other Property	1,060,302	
283	64	Accum. Deferred Income Taxes-Other	218,140	
102	NA	Electric Plant Purchased or Sold		6,101,334
123	20	Investments in Associated Companies		430
124	24	Other Investments		104,373
132-134	36	Special Deposits		22,921
142	40	Customer Accounts Receivable		78,850
143	41	Other Accounts Receivable		8,058
146	44	Accounts Receivable from Assoc. Companies		459,409
151	45	Fuel Stock		252,655
152	46	Fuel Stock Expenses Undistributed		10,231
154	48	Plant Materials and Operating Supplies		134,386
158.1, 158.2	52	Allowances		49,820
165	57	Prepayments		20,552
171	59	Interest and Dividends Receivable		4,586
174	62	Miscellaneous Current and Accrued Assets		4,095
175	63	Derivative Instrument Assets		107,322
176	65	Derivative Instrument Assets - Hedges		584
183	73	Prelim. Survey and Investigation Charges (Electric)		1,971
186	78	Miscellaneous Deferred Debits		73,636
190	82	Accumulated Deferred Income Tax		431,794
		Total	7,867,007	7,867,007

FERC DOCKET NO. EC13-__-000
TRANSFER OF JURISDICTIONAL ASSETS

A. TO BE RECORDED ON THE BOOKS OF OHIO POWER COMPANY:

ENTRY 2: TO CLEAR THE BALANCE IN ACCOUNT 102 TO THE APPROPRIATE ELECTRIC PLANT ACCOUNTS, IN ACCORDANCE WITH CFR 18 PART 101, ELECTRIC PLANT INSTRUCTIONS 5(B).

(in thousands)

Account	Line	Account Description	Debit	Credit
102	NA	Electric Plant Purchased or Sold	6,101,334	
108, 111, 115	5	Accum Prov for Depreciation & Depletion - Utility	3,822,300	
122	19	Accum Prov for Depreciation & Amortization - Nonutility	10,019	
101-106, 114	2	Utility Plant		9,732,564
107	3	Construction Work in Progress		179,293
121	18	Nonutility Property		21,796
		Total	9,933,653	9,933,653

Verifications
(18 C.F.R.§ 33.7)

UNITED STATES OF AMERICA
BEFORE THE
FEDERAL ENERGY REGULATORY COMMISSION

Ohio Power Company	)	
AEP Generation Resources Inc.	)	Docket No. EC13-___-000

Verification of
Ohio Power Company

County of Franklin)
)
State of Ohio)

Pablo A.Vegas, being duly sworn, deposes and says: That he is a President & COO of Ohio Power Company, an Applicant in the above-referenced proceeding, and has the authority to verify the foregoing Application on behalf of Ohio Power Company, that he has read said Application, and that, to the best of his knowledge, information and belief, all of the statements contained therein are true and correct.

SUBSCRIBED AND SWORN to before me
on this 25th day of October, 2012.

Susan C. Wilson
Notary Public

Susan C. Wilson
Notary Public, State of Ohio
My Commission Expires 04-05-2016

My commission expires: April 5, 2016

UNITED STATES OF AMERICA
BEFORE THE
FEDERAL ENERGY REGULATORY COMMISSION

Appalachian Power Company	)	
Kentucky Power Company	)	Docket No. EC13-___-000
AEP Generation Resources Inc.	)	

Verification of
AEP Generation Resources Inc.

County of Franklin)
)
State of Ohio)

Richard E. Munczinski, being duly sworn, deposes and says: That he is a Senior Vice President of AEP Service Corporation, on behalf of AEP Generation Resources Inc., an Applicant in the above-referenced proceeding, and has the authority to verify the foregoing Application on behalf of AEP Generation Resources Inc., that he has read said Application, and that, to the best of his knowledge, information and belief, all of the statements contained therein are true and correct.

Richard E. Munczinski

SUBSCRIBED AND SWORN to before me
on this 24th day of October, 2012.

Susan C. Wilson
Notary Public

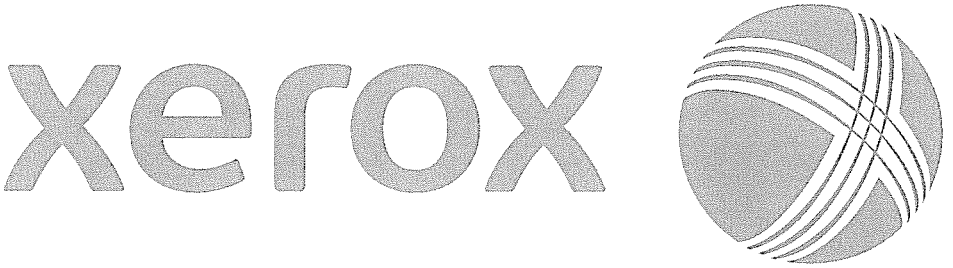
NOTARIAL SEAL
STATE OF OHIO

Susan C. Wilson
Notary Public, State of Ohio
My Commission Expires 04-05-2016

My commission expires: April 5, 2016

kwalton

Power Coordination and Bridge - KPCO.pdf
04/22/13 02:35 PM



Steven J. Ross
202 429 6279
sross@steptoe.com

1330 Connecticut Avenue, NW
Washington, DC 20036-1795
202 429 3000 main
www.steptoe.com

Steptoe
STEPTOE & JOHNSON LLP

October 31, 2012

The Honorable Kimberly D. Bose
Secretary
Federal Energy Regulatory Commission
888 First Street, N.E.
Washington, D.C. 20426

Re: Appalachian Power Company
Docket No. ER13- -000
Indiana Michigan Power Company
Docket No. ER13- -000
Kentucky Power Company
Docket No. ER13- -000
Ohio Power Company
Docket No. ER13- -000
AEP Generation Resources Inc.
Docket No. ER13- -000

Dear Secretary Bose:

On behalf of Appalachian Power Company ("APCo"), Indiana Michigan Power Company ("I&M"), Kentucky Power Company ("KPCo"), and Ohio Power Company ("Ohio Power"), American Electric Power Service Corporation ("AEPSC") hereby submits for filing, pursuant to Section 205 of the Federal Power Act ("FPA"), the Tariff Records associated with (i) the "Power Coordination Agreement among Appalachian Power Company, Indiana Michigan Power Company, Kentucky Power Company, and American Electric Power Service Corporation" ("Power Coordination Agreement") and (ii) the "Bridge Agreement among Appalachian Power Company, Indiana Michigan Power Company, Kentucky Power Company, Ohio Power Company, AEP Generation Resources Inc. ("AEP Generation Resources") and American Electric Power Service Corporation" ("Bridge Agreement"). In conjunction with these new rate schedules, AEPSC also provides notice of APCo's, I&M's, KPCo's, and Ohio Power's termination of (i) the Interconnection Agreement ("Pool Agreement") and (ii) the AEP System Interim Allowance Agreement ("IAA"). **AEPSC respectfully requests that the Commission establish November 30, 2012, as the comment date for this filing. This extended comment period would allow interested parties extra time (an additional nine days beyond what is set forth in 18 C.F.R. § 35.8) to comment on the filing.**

This filing includes the following documents in addition to the relevant Tariff Records:[1]

1. Attachment A - Clean Tariff Attachments for the Power Coordination Agreement (APCo Rate Schedule No. 300; I&M Rate Schedule No. 300; and KPCo Rate Schedule No. 300);
2. Attachment B - Clean Tariff Attachments for the Bridge Agreement (APCo Rate Schedule No. 301; I&M Rate Schedule No. 301; KPCo Rate Schedule No. 301; Ohio Power Rate Schedule No. 301; AEP Generation Resources Rate Schedule No. 301); and
3. Attachment C - Certificates of Concurrence signed on behalf of I&M, KPCo, Ohio Power, and AEP Generation Resources.

I. INTRODUCTION

APCo, I&M, KPCo, Ohio Power,[2] and AEPSC are wholly-owned subsidiaries of American Electric Power Company, Inc. ("AEP"). On February 10, 2012, AEPSC filed, on behalf of itself and APCo, I&M, KPCo, Ohio Power and AEP Generation Resources Inc. ("AEP Generation Resources"): (1) a Power Cost Sharing Agreement Among APCo, I&M, KPCo and AEPSC; (2) a Bridge Agreement Among APCo, I&M, KPCo, Ohio Power, AEP Generation Resources and AEPSC; (3) notices of termination of (a) the Interconnection Agreement among APCo, I&M, KPCo, Ohio Power and AEPSC and (b) the AEP System Interim Allowance Agreement among APCo, I&M, KPCo, Ohio Power and AEPSC; and (4) related concurrences. AEPSC explained that the filing was made in conjunction with other filings implementing Ohio Power's proposed corporate separation plan that, at that time, had been approved by the Public Utilities Commission of Ohio ("Ohio Commission"). The Commission assigned to these filings Docket Nos. ER12-1042, ER12-1043, ER12-1044, ER12-1045, and ER12-1046.

On February 28, 2012, AEPSC notified the Commission that by order issued on February 23, 2012, the Ohio Commission withdrew its earlier approval of the proposed restructuring for Ohio Power and, therefore, these AEP companies were reconsidering how best to move forward. For that reason, AEPSC stated that it was withdrawing each of the previous filings, including those made in the dockets referenced immediately above. AEPSC further indicated that the AEP companies intended to pursue the matters covered by the filings at a later date, and would make the necessary filings at that time. This filing covers the agreements and matters that were the subject of the filings previously made in Docket Nos. ER12-1042, ER12-1043, ER12-1044, ER12-1045, and ER12-1046.

---

[1] The same filing is being submitted in four Tariff IDs, so the relevant Tariff Records will vary with each of the four filings. Each of the filings includes Attachments A through C.

[2] On December 31, 2011, Columbus Southern Power Company ("CSP") was merged into and became part of Ohio Power.

II. BACKGROUND

Together with their affiliates Kingsport Power Company ("Kingsport") and Wheeling Power Company ("Wheeling"), APCo, I&M, KPCo, and Ohio Power make up the AEP East utilities. The AEP East utilities are members of and operate within the footprint of PJM Interconnection, L.L.C. ("PJM"). AEPSC is a service company that provides various services to the AEP East utilities and their affiliate utilities that operate within the footprints of the Southwest Power Pool ("SPP") and the Electric Reliability Council of Texas ("ERCOT"). The AEP utilities in SPP and ERCOT are not part of and are not affected by this filing.

The AEP East utilities have for decades operated as part of an integrated public utility holding company system under the now-repealed Public Utility Holding Company Act of 1935. As part of that arrangement, those companies that owned electric generating resources (APCo, CSP, I&M, KPCo, and Ohio Power) coordinated the planning and operations of their respective generating resources pursuant to their Interconnection Agreement ("Pool Agreement").[3] The parties to the Pool Agreement are referred to herein as the "Pool Members," which included CSP prior to January 1, 2012. Kingsport and Wheeling are not parties to the Pool Agreement, as they do not own generation; they purchase their power requirements from APCo and Ohio Power, respectively.[4] The Pool Members also are parties to the IAA, pursuant to which they have coordinated and integrated their compliance with certain environmental rules and regulations; Kingsport and Wheeling are also not parties to the IAA.

For the reasons discussed below, each Pool Member provided notice to the other Pool Members (and to AEPSC) that it will terminate its participation under the Pool Agreement in accordance with the termination provision in the agreement. In addition, the Pool Members have agreed to terminate the IAA. Three of the current Pool Members – APCo, I&M, and KPCo – together with AEPSC, have agreed to proceed under a new arrangement (the Power Coordination Agreement), and those members together with Ohio Power and AEP Generation Resources have agreed to enter into an interim arrangement to address post-Pool Agreement matters (the Bridge Agreement).

Before discussing the new Power Coordination Agreement and the Bridge Agreement, set out below is an overview of the current Pool Agreement and the reasons that the Pool Members provided notice to terminate that agreement. Also discussed below are the reasons that the Pool Members agreed to terminate the IAA as well.

---

[3] The Pool Agreement, which has been amended several times, is on file with the Commission as APCo's Rate Schedule No. 20, CSP's Rate Schedule No. 30, I&M's Rate Schedule No. 17, KPCo's Rate Schedule No. 11, and Ohio Power's Rate Schedule No. 23.

[4] In a related proposed transaction for which Commission approval is being sought under FPA Section 203, Wheeling will merge into APCo, and APCo will serve the former Wheeling retail load. Kingsport's retail load will continue to be served through a wholesale purchase agreement with APCo.

A. The Pool Agreement

As the Commission previously has recognized, under the Pool Agreement, generation is planned and operated on a single-system basis in order to meet the needs of the customers of all the members of the agreement. *AEP Generating Company and Kentucky Power Company*, 38 FERC ¶ 61,243 at 61,812 (1987). Each Pool Member's generating capacity obligation is determined based on its Member Load Ratio ("MLR"). MLRs are calculated monthly on the basis of each member's non-coincident peak ("NCP") demand in relation to the sum of the NCP demands of Pool Members during the preceding twelve months. Over the years, the Pool Members jointly satisfied the Pool's combined need for capacity and energy even though, if viewed individually, some Pool Members from time to time had surplus generating capacity and others were capacity deficit.

Under the Pool Agreement, Pool Members make or receive capacity payments based upon the extent to which they are deficit or surplus and the generation costs of the surplus members. The total capacity surplus in any given month for surplus members always equals the total capacity deficiency for the deficit members, producing a zero surplus/deficit balance for the Pool Members. The Pool Agreement also has an energy component. Energy transactions occur between the Pool Members such that each member has sufficient energy to meet its share of the system's total sales made in that month. A Pool Member that produces more energy than needed to meet its requirements sells the excess to members that need additional energy to meet their total energy requirement. The sale is made at the seller's average variable production cost for the month. The Pool Agreement also provides for the allocation among the Pool Members of the revenues and/or costs associated with power sales to, and purchases from, third parties. Each member receives its MLR share of the off-system sales margins associated with any such sales.

The Pool Agreement designates AEPSC as the Pool Members' agent. The agent is responsible for, among other things, the coordination of the members' respective generating resources, the arrangement of capacity and/or energy transactions with third parties, and the accounting for and preparation of the settlements for internal pool transactions among the Pool Members.

B. Termination of the Pool Agreement

Section 13.2 of the Pool Agreement provides:

> Any Member upon at least three years' prior written notice to the other Members and Agent may terminate this agreement at the expiration of said initial period [December 31, 1971] or at the expiration of any successive period of one year.

On December 17, 2010, in accordance with Section 13.2 of the Pool Agreement, each of the then five members of the pool provided notice to the other members (and to AEPSC) to terminate the Pool Agreement on January 1, 2014. Although the Pool Agreement has served the Pool Members and the other AEP East utilities and their customers well over the past six decades, cumulative changes in the structure of the electric industry led the Pool Members to determine that it was necessary to consider alternatives to the current structure, including having no

agreement among any of the AEP East utilities that own generation. These changes include evolving environmental regulations, the introduction of open access to transmission facilities, the advent of regional transmission organizations, movement toward industry deregulation, an increased emphasis on demand side management, and expanding competition.[5] In addition, Ohio Power is experiencing a substantial and growing number of retail customers switching to competitive retail service providers and is under a requirement to legally separate its generation and marketing business from its wires business in Ohio.

These changes have raised questions as to the continuing viability of the Pool Agreement. In July 2010, for example, the Virginia State Corporation Commission ("Virginia Commission") issued an order in an APCo rate proceeding that directed APCo and AEP to submit a report regarding "the steps that can be taken to ameliorate the negative effects of high capacity charges on APCo and its customers." APCo filed its report with the Virginia Commission, detailing, among other things, the history of the Pool Agreement, the changes over the years to the make-up of the members' respective generating resource portfolios, and trends in the capacity equalization rates and energy rates. As APCo's report noted,

> While it is undeniable that the [Pool Agreement] has provided tremendous benefits to each of the operating companies and their customers through its near 60 year existence, it has become increasingly difficult for AEP planners to confront the realities of today's electric utility industry with an allocation methodology from a far simpler era. This is evidenced by the fact that regulatory commissions, including the [Virginia Commission] and others have started to question . . . the Pool's viability in the current power supply environment.[6]

In addition to the concerns raised by the Virginia Commission, over the past several years the Ohio Commission has issued a series of orders implementing legislation providing for the restructuring of the electric industry in Ohio. In accordance with the legislative initiatives, Ohio Power continues to develop and implement plans in Ohio related to these initiatives, which include a plan for Ohio Power to separate its generation resources and related facilities from its

---

[5] For example, five of the seven states in which the AEP East utilities operate currently have alternative/renewable energy portfolio requirements or goals, and the resources that qualify and the applicable standards vary significantly over time; some renewable standards include the use of energy efficiency programs while others include specific energy efficiency requirements or goals. In addition, demand response programs are addressed differently in different states; some permit customers to enroll in PJM demand response programs (either directly or through a third party aggregator), while others require enrollment with the utility. Each of these programs requires an accommodation of state- and operating-company specific requirements that were not contemplated under the Pool Agreement.

[6] "Report of Capacity Matters" submitted by Appalachian Power Company in Virginia Commission Case No. PUE-2009-00030 (January 4, 2011).

transmission and distribution facilities.[7] Once such corporate separation is implemented, Ohio Power will be a transmission and distribution company. The consummation of corporate separation will make it infeasible for Ohio Power to further participate under the Pool Agreement because, like Kingsport and Wheeling, Ohio Power will not own or operate generating units that would be available to the other Pool Members. Moreover, in accordance with the Ohio restructuring plan approved by the Ohio Commission, Ohio Power will conduct energy auctions under which it will procure portions of its energy requirements from mid-2013 through May 31, 2015. Beginning January 1, 2015, Ohio Power will procure 100% of the energy associated with Ohio Power's non-switching customers via competitive energy auctions.

For the foregoing reasons, the Pool Members agreed to terminate the existing Pool Agreement.[8] The remaining Pool Members (*i.e.,* APCo, I&M, and KPCo) have agreed to move forward with a new arrangement that is discussed in detail in Section III below. As noted above, the Pool Members' respective December 17, 2010 notices of termination provided for termination of the Pool Agreement to be effective on January 1, 2014.

The Pool Members have carefully coordinated termination of the Pool Agreement with other arrangements in order to lessen any adverse impact on the Pool Members and their customers. For example, the Power Coordination Agreement discussed below provides a vehicle for the remaining Pool Members to participate collectively under a common capacity plan in PJM. That agreement also provides opportunities for collective creation and sharing of specified off-system sales margins. Similarly, the simultaneous timing of the termination of the IAA, discussed immediately below, allows for the benefits and burdens from terminating that agreement to be somewhat counterbalanced by the benefits and burdens of terminating the Pool Agreement. In addition, it is currently contemplated that APCo and KPCo will obtain baseload generation previously owned by Ohio Power that will be designed to address the fact that APCo and KPCo, which are capacity deficit, will no longer be able to access capacity from Pool Members that have surplus capacity.[9] Finally, the Bridge Agreement discussed below in Section

---

[7] The Ohio Commission approved the proposed corporate separation in two recently-issued orders. *In the Matter of the Application of Columbus Southern Power Company and Ohio Power Company to Establish a Standard Service Offer Pursuant to Section 4928.143, Revised Code, in the Form of an Electric Security Plan*, Case Nos. 11-346-EL-SSO and 11-348-EL-SSO (August 8, 2012), and *In the Matter of the Application of Ohio Power Company for Approval of an Amendment to its Corporate Separation Plan*, Case No. 12-1126-EL-UNC (October 17, 2012). The transfer of Ohio Power's assets is the subject of a contemporaneous filing made with this Commission pursuant to FPA Section 203. That transaction is expected to close on December 31, 2013, which coincides with the termination of the Pool Agreement and the proposed effective dates (January 1, 2014) of the agreements submitted with this filing.

[8] The Pool Agreement has not been submitted through eTariff and thus may be cancelled by means of a Transmittal Letter.

[9] As described in the Corporate Separation Application filed with the Ohio Commission, immediately after the Ohio Power generating assets are transferred to AEP Generation Resources, APCo will obtain the transferred interest in Unit No. 3 of the Amos generating plant

IV provides for a fair allocation of the cost of meeting pre-existing PJM Fixed Resource Requirement ("FRR")[10] obligations and settling existing marketing and trading positions that will survive termination of the Pool Agreement.

The Commission has had occasion to review issues concerning the proposed withdrawal of one or more members from an integrated holding company's pool arrangements in *Entergy Services, Inc.*, 129 FERC ¶ 61,143 (2009); *order denying reh'g*, 134 FERC ¶ 61,075 (2011); *aff'd, Council of the City of New Orleans, Louisiana v. FERC*, No. 11-1043 (D.C. Circuit, August 14, 2012) ("*Entergy*"). In that case, the Commission ruled that there are three specific questions concerning the proposed withdrawal: whether the members are permitted to leave the arrangement; whether they are required to compensate any remaining members; and whether they have any "continuing obligations" to the remaining members. 129 FERC ¶ 61,143 at P 58. As confirmed by review of Section 13.2, the Pool Agreement permits each Pool Member to terminate its agreement (the equivalent of withdrawing from the agreement), and neither requires a terminating Pool Member to compensate the other Pool Members nor imposes upon a terminating Pool Member any continuing obligation to the other Pool Members. Section 13.2 is straightforward: a terminating Pool Member must simply provide the other Pool Members with three years' prior written notice of its proposed termination.

In *Entergy*, the Commission further ruled that acceptance of the members' proposal to withdraw from the agreement does not turn on the justness and reasonableness of the potential successor arrangements; that determination is made when such arrangements are submitted for Commission review. 134 FERC ¶ 61,075 at P 24. As noted, APCo, I&M, and KPCo have agreed to a new set of arrangements, *i.e.*, the Power Coordination Agreement. That agreement is discussed below, and any issues surrounding the justness and reasonableness of that agreement may be resolved in this docket.

C. Termination of the IAA

The IAA originally was submitted for filing on September 30, 1994, in Docket No. ER94-1670, and was accepted for filing by Letter Order issued in that docket on December 30,

---

(APCo already owns the remaining interest in Amos Unit No. 3) and a 50% undivided interest in the Mitchell generating plant, and KPCo will obtain the remaining 50% undivided interest in the Mitchell plant. An application seeking approval of the transfers to APCo and KPCo is being filed with the Commission contemporaneously herewith in accordance with FPA Section 203.

[10] The FRR provisions were added to the PJM Reliability Assurance Agreement ("RAA") in connection with PJM's Reliability Pricing Model ("RPM"). In conjunction with the development of the RPM rules, PJM developed the FRR alternative, under which a load-serving entity (designated as an "FRR Entity") has the option to submit an "FRR Capacity Plan" and meet a fixed capacity resource requirement rather than participate through the RPM capacity auction. In addition to meeting its own load obligations, an FRR Entity is required to reflect in its FRR Capacity Plan any retail load that switches to an alternative retail load-serving entity that opts not to submit its own FRR Capacity Plan. The FRR provisions of the RAA place the obligation to maintain sufficient capacity on the load-serving entity, which includes Ohio Power.

1994, and made a supplement to each member's Pool Agreement rate schedule designation, as shown below. On June 21, 1996, AEPSC, on behalf of the Pool Members, filed Modification 1 to the IAA in Docket No. ER96-2213. This modification was accepted for filing by Letter Order issued in that docket on August 30, 1996. The current version of the IAA has been in effect since September 1, 1996, and has been given the following rate schedule designations:[11]

Appalachian Power Company	Supplement No. 9 to Rate Schedule No. 20
Columbus Southern Power Company	Supplement No. 3 to Rate Schedule No. 30
Indiana Michigan Power Company	Supplement No. 10 to Rate Schedule No. 17
Kentucky Power Company	Supplement No. 6 to Rate Schedule No. 11
Ohio Power Company	Supplement No. 9 to Rate Schedule No. 23

The IAA was developed and entered into in connection with the Pool Members' efforts to comply with the 1990 amendments to the Clean Air Act, and in particular Title IV thereto.[12] As implemented by the United States Environmental Protection Agency, the 1990 Amendments provided for, among other things, a sulfur dioxide (SO_2) emission allowances regime that eventually would affect nearly all of the Pool Members' electric generating units, with one allowance being equal to the right to emit one ton of SO_2. Consistent with the coordinated system operations under the Pool Agreement, the IAA was intended to provide for coordinated and integrated compliance with the 1990 Amendments through an equitable methodology to allocate emission allowances to the Pool Members and to allocate either the cost of acquiring, or the proceeds associated with the sale of, allowances to or from non-affiliated third parties. For administrative ease, each member would own its member load ratio share of allowances at the end of each year. The internal transfer price for the allowances was established as the System Cost of Compliance ($115.43/ton in 1995, escalated annually at a fixed rate of 10.56%). For 2011, the System Cost of Compliance was $575.29; that figured escalated to $636.04 for 2012.

Since the IAA was put into place in 1994 and subsequently modified in 1996, there have been significant changes in environmental rules and the markets associated with Title IV SO_2 emissions allowances that make the IAA obsolete. These developments include most notably: (1) additional environmental compliance obligations added since 1994 whose stringency on power plant emissions has or will eclipse obligations under Title IV for SO_2, (2) the continuing uncertainty surrounding the environmental compliance regulations, (3) the extension of AEP's environmental controls program, which has resulted in the addition of scrubbers to thirteen AEP East generating units, (4) elimination, in part as a result of the foregoing two factors, of any shortage of the Pool Members for Title IV SO_2 allowances, and (5) the emergence of a robust secondary market for Title IV SO_2 allowances and their current and projected availability at low cost from that market. For all these reasons, the Pool Members agree that the IAA should terminate when the Pool Agreement terminates effective on January 1, 2014.

---

[11] Because the IAA was designated as a Supplement to the rate schedule that was the Pool Agreement, terminating the Pool Agreement rate schedule would result in termination of the IAA, absent the IAA being removed from the relevant rate schedule.

[12] 104 Stat. 2584, 42 U.S.C.A. § 7561, *et seq.* ("1990 Amendments").

III. THE POWER COORDINATION AGREEMENT

The Power Coordination Agreement is designed to provide APCo, I&M, and KPCo with the opportunity to (a) participate collectively under a common FRR capacity plan in PJM, and (b) to participate in specified collective off-system sales and purchase activities. Ohio Power will not be a party to this agreement. The key difference between the Power Coordination Agreement and the current Pool Agreement is that under the new arrangement, generation will not be planned on a single-system basis; APCo, I&M, and KPCo individually will be required to own or contract for sufficient generation to meet their respective load and reserve obligations.[13] Likewise, the Power Coordination Agreement does not impose capacity equalization charges on deficit members.

The Power Coordination Agreement generally provides for APCO, I&M, and KPCo (referred to in the agreement individually as an "Operating Company" or collectively as the "Operating Companies") to coordinate their respective power supply resources. As with the current Pool Agreement, AEPSC will continue to act as the agent with responsibility for assisting each Operating Company in its evaluation of power supply resources to meet load requirements; assisting in the coordination and operation of each Operating Company's power supply resources; conducting off-system purchases and sales on behalf of the Operating Companies; and coordinating the procurement of fuel, consumables, emission allowances, and transportation services. *See* Article V. Governance under the Power Coordination Agreement will be accomplished through an Operating Committee consisting of representatives of each Operating Company and AEPSC as the agent. The Operating Committee's primary duties will be to review procedures for cost and benefit allocations under the agreement and to coordinate efforts to implement measures necessary for the reliable and economic use of the Operating Companies' respective power supply resources. *See* Article VI.

The key provisions of the Power Coordination Agreement are set out in Article VII ("Operating Company Planning and Operations") and the related service schedules. Section 7.1 provides that each of the Operating Companies will be individually responsible for planning to meet its capacity obligations. However, the Agent (AEPSC) will provide resource adequacy assessments (from the individual company and aggregate perspectives) and make recommendations to each Operating Company as to the need to add power supply resources. The Agent also will make recommendations as to the extent to which an Operating Company has temporary surplus power supply resources that could be made available to one or both of the other Operating Companies or to third parties. Service Schedule A ("Collective Participation in the Applicable Regional Transmission Organization Capacity Market") sets out the terms for collective participation under a common FRR "self-supply" plan to meet their capacity obligations in PJM. Article VII also provides for the Agent to coordinate the scheduling of planned generation outages (Section 7.2), and to coordinate the dispatch of the Operating

---

[13] As noted above, to reflect the fact that the Pool Agreement enabled deficit members (APCo and KPCo) to access the capacity and energy of those members with surplus generation (such as Ohio Power), APCo and KPCo plan to obtain baseload generating assets previously owned by Ohio Power to enable them to meet their respective load and reserve obligations.

Companies' respective generating resources subject to the direction of the applicable regional transmission organization ("RTO") (Section 7.3).

Section 7.5 sets out the terms for off-system transactions. Capacity transactions, discussed in Section 7.5.1, generally will be directly assigned to a specific Operating Company. Capacity purchases that are not directly allocated generally will be allocated to the Operating Company or Companies with the lowest expected capacity reserve margin(s) over the duration of the transaction. Capacity sales transactions that are not allocated to a specific Operating Company generally will be allocated to the Operating Company or Companies with the highest expected capacity reserve margin(s) over the duration of the transaction. This allocation method also applies to surplus capacity sales that occur under an RTO auction process; the implementation details are specified in Service Schedule A. That schedule discusses the treatment of auction revenues (A3) and the settlement procedures (A4).

Section 7.5.2 of the Power Coordination Agreement addresses directly assigned energy transactions with third parties. Purchases and/or sales initiated at the direction of a specific Operating Company generally will be directly assigned to that company. Costs and revenues associated with an Operating Company's off-system sales into and purchases from the RTO spot market will be directly assigned to that Operating Company. Section 7.5.3 applies to generation hedge transactions (for purposes of hedging generation output) and trading transactions (sales not associated with generation). The allocation of revenues and costs related to hedge transactions are specified in Service Schedule B ("Generation Hedge Transactions") and the allocation of revenues and costs related to trading transactions are specified in Service Schedule C ("Trading Transactions").

Service Schedule B specifies the details concerning the generation hedge transactions. Item B2 of the schedule specifies that monthly net costs and revenues associated with these transactions generally will be ratably allocated among the Operating Companies in proportion to their surplus MWhs (generation output and dedicated energy purchases in excess of retail and requirements wholesale load) for the month. Service Schedule C deals with trading transactions. Item C2 provides that transactions settled for a given month will be ratably allocated among the Operating Companies in proportion to each company's common shareholder equity balance, as determined based on the prior calendar year's books and effective beginning June of the subsequent year.

IV. BRIDGE AGREEMENT

In conjunction with and following the termination of the Pool Agreement, APCo, I&M, KPCo, Ohio Power, AEP Generation Resources and AEPSC (as agent) will operate under the Bridge Agreement. As its name implies, the Bridge Agreement is intended to be an interim arrangement that will be in place only for a short time. As discussed in more detail below, the Bridge Agreement addresses (a) the treatment of those purchases and sales made by the agent on behalf of the Pool Members that extend beyond termination of the Pool Agreement, and (b) how APCo, I&M, KPCo, and Ohio Power will fulfill their existing FRR obligations under the PJM Reliability Assurance Agreement ("RAA") through the PJM planning year 2014/2015 (ending

May 31, 2015). APCo, I&M, KPCo, and Ohio Power are referred to in the Bridge Agreement as "Operating Companies."

Article II of the Bridge Agreement provides that the term commences upon the termination of the Pool Agreement and terminates upon the later of the settlement of the contracts in the legacy marketing and trading portfolio or the end of Ohio Power's FRR obligations. Article III provides for AEPSC to serve as agent and to prepare summary reports of activities under the Bridge Agreement. Article IV provides for the creation of an Operating Committee composed of a representative of each of the parties, with AEPSC's representative serving as the chair of the Operating Committee. Certain functions under the Bridge Agreement may be delegated to one or more subcommittees.

The two key articles of the Bridge Agreement are Article V ("FRR Obligation") and Article VI ("Legacy Contracts"). The upcoming termination of the Pool Agreement required the Pool Members to adopt new arrangements to meet the AEP East FRR capacity obligations. Those arrangements are set out in Article V and, among other things, commit AEP Generation Resources to make its generation available to meet the Operating Companies' FRR capacity obligations through the PJM Planning Year that ends on May 31, 2015. After that, Ohio Power's role as an FRR Entity will terminate, and Ohio Power will participate in the RPM auctions to meet its residual capacity requirements. Section 5.1 provides for the Agent to analyze the Operating Companies' FRR obligations in light of projected changes to their capacity resources or their capacity requirements, and to recommend a capacity resource plan to meet those obligations. The plan for the Operating Companies will be reviewed and must be unanimously approved by the Operating Companies. Section 5.2 provides for the Agent to collect information during a PJM Planning Year and, based on that information, to alter the combination of capacity resources so as to meet the FRR capacity obligation in a way that minimizes compliance charges to the extent reasonably practicable. Section 5.3 provides that allocations of charges and credits associated with (i) capacity resource purchases and sales and (ii) FRR charges and credits will be based on an average of the Pool Members' MLRs for each of the last twelve months preceding termination of the Pool Agreement ("Final MLR"). Finally, Section 5.4 provides that the fulfillment of the Operating Companies' FRR capacity obligations, including the allocation of charges and credits, is governed by the Bridge Agreement and not by the Power Coordination Agreement discussed above until the 2015/2016 PJM planning year.

Article VI addresses the treatment of the "Legacy Contracts Portfolio," which includes "Legacy Trading Contracts" (power purchases and sales made pursuant to the Pool Agreement) and "Legacy Hedge Contracts" (physical and financial transactions that hedge the Pool Members' generation resources) that are in effect at the time that the Pool Agreement is terminated. Section 6.1.1 of the Bridge Agreement provides for the Agent to settle the Legacy Trading Contracts and Legacy Hedge Contracts in accordance with their contractual terms. Gains and losses from settlement and liquidation of the Legacy Trading Contracts will be allocated among the parties based on the Final MLR. That section further provides that the Agent may, from time to time, enter into new transactions on behalf of the Operating Companies to reduce the tenor and risk of the portfolio (such new arrangements will then be treated as

Legacy Trading Contracts), but such new arrangements cannot extend beyond the final delivery month of the agreements in the portfolio of Legacy Trading Contracts.

Section 6.1.2 provides for the Agent to allocate gains and losses from the settlement and liquidation of the Legacy Hedge Contracts to APCo, I&M, KPCo (collectively) and to AEP Generation Resources in a ratable manner based on the respective forecasted spot market energy sales of APCo, I&M, KPCo (collectively) and AEP Generation Resources determined as of the effective date of the Bridge Agreement. The forecasted spot market energy sales are derived from the forecasted output of generation minus forecasted internal load. If the forecasted internal load of either APCo, I&M, KPCo (collectively) or AEP Generation Resources exceeds the forecasted output of their respective owned or controlled generation for a given month, then APCo, I&M, KPCo or AEP Generation Resources, as applicable, will not receive any allocation of gains or losses for that month, unless both are in that position, in which case gains or losses will be allocated ratably among APCo, I&M, KPCo, and AEP Generation Resources in proportion to the forecasted output of their owned or contracted generation.

The remaining articles address standard commercial matters, such as billing (Article VII), force majeure (Article VIII), general miscellaneous terms (Article IX), and regulatory approvals (Article X).

V. EFFECTIVE DATES

AEPSC proposes that the termination of the current Pool Agreement (and the IAA) will occur on and the effective date of the proposed new Power Coordination Agreement will be January 1, 2014. The Tariff Records for the Power Coordination Agreement are thus being submitted with a January 1, 2014 proposed effective date. AEPSC proposes that the new Bridge Agreement also become effective upon the termination of the current Pool Agreement on January 1, 2014. The Tariff Records are thus also being submitted with a January 1, 2014 proposed effective date.

AEPSC submits that this filing raises no material issues of fact that require resolution though hearing procedures. AEPSC therefore respectfully requests that the Commission accept the filing without condition or modification and without initiating any further proceedings, and permit the Power Coordination Agreement and the Bridge Agreement to become effective on January 1, 2014, in conjunction with the termination of the Pool Agreement and the IAA.

VI. GENERAL FILING INFORMATION

In compliance with the requirements of 18 C.F.R. § 35.13, AEPSC states as follows:

A. General Information – 18 C.F.R. § 35.13(b)

The documents provided with this filing include this Transmittal Letter and the materials listed above. The persons upon whom this filing has been served are set out below in Section VII. A description of and the reasons for the rate changes proposed are discussed in this Transmittal Letter. AEPSC further states that there are no costs included in the agreements that have been alleged or judged in any administrative or judicial proceeding to be illegal,

duplicative, or unnecessary costs that are demonstrably the product of discriminatory employment practices.

B. Cost of Service Information – 18 C.F.R. § 35.13(c)

AEPSC requests waiver of those provisions in Section 35.13 that would require AEPSC to submit cost-of-service and revenue data. First, this filing qualifies for the abbreviated filing requirements under Section 35.13(a)(2)(iii) because the companies are not proposing a rate increase. In addition, the Power Coordination Agreement and the Bridge Agreement are entirely new arrangements and, therefore, no meaningful comparison may be made of revenues that were collected under prior arrangements. The Power Coordination Agreement provides for voluntary capacity and/or energy transactions at market prices, which, of course, fluctuate. The Bridge Agreement does not provide for any new transactions among the parties, but rather for the AEP East generating companies to continue to make their capacity available to meet the pre-existing FRR obligations. The Bridge Agreement also addresses marketing and trading positions under existing transactions, which will turn on prevailing market prices.

VII. CORRESPONDENCE AND SERVICE

AEPSC requests that any correspondence or communications with respect to this filing be sent to the following:

Chad Heitmeyer
Regulatory Case Manager
American Electric Power
Service Corporation
1 Riverside Plaza
Columbus, OH 43215
(614) 716-3303
caheitmeyer@aep.com

John C. Crespo
Deputy General Counsel – Regulatory Services
American Electric Power
Service Corporation
1 Riverside Plaza
Columbus, OH 43215
(614) 716-3727
jccrespo@aep.com

Steven J. Ross
Carol Gosain
Steptoe & Johnson LLP
1330 Connecticut Avenue, N.W.
Washington, DC 20036
(202) 429-6279
sross@steptoe.com
cgosain@steptoe.com

A copy of this filing will be served on the Indiana Utility Regulatory Commission, the Kentucky Public Service Commission, the Michigan Public Service Commission, the Public Utilities Commission of Ohio, the Tennessee Regulatory Authority, the Virginia State Corporation Commission, and the Public Service Commission of West Virginia. In addition, a copy of this filing will be posted on AEP's website at:

http://www.aep.com/investors/currentRegulatoryactivity/regulatory/ferc.aspx

VIII. CONCLUSION

For the foregoing reasons, AEPSC respectfully requests that the Commission accept for filing, without condition or modification, the Power Coordination Agreement and the Bridge Agreement. If you have any questions concerning this filing, please do not hesitate to contact the undersigned.

Respectfully submitted,

AMERICAN ELECTRIC POWER
SERVICE CORPORATION

/s/

John C. Crespo
Deputy General Counsel – Regulatory Services
American Electric Power
Service Corporation
1 Riverside Plaza
Columbus, OH 43215

Steven J. Ross
Carol Gosain
Steptoe & Johnson LLP
1330 Connecticut Avenue, N.W.
Washington, DC 20036

Attorneys for
American Electric Power Service Corporation

Attachments

Attachment A

Power Coordination Agreement Among Appalachian Power Company, Indiana Michigan Power Company, Kentucky Power Company and American Electric Power Service Corporation as Agent

1. Tariff Record, APCo – Rate Schedule No. 300
2. Tariff Record, KPCo – Rate Schedule No. 300
3. Tariff Record, I&M – Rate Schedule No. 300

RATE SCHEDULE No. 300

POWER COORDINATION AGREEMENT

among

APPALACHIAN POWER COMPANY,
INDIANA MICHIGAN POWER COMPANY,
KENTUCKY POWER COMPANY

and

AMERICAN ELECTRIC POWER SERVICE CORPORATION

as Agent

Tariff Submitter: **Appalachian Power Company**
FERC Program Name: **FERC FPA Electric Tariff**
Tariff Title: **APCo Rate Schedules and Service Agreements Tariffs**
Tariff Proposed Effective Date: **01/01/2014**
Tariff Record Title: **Power Coordination Agreement**
Option Code: **A**
Record Content Description: **Rate Schedule No. 300**

POWER COORDINATION AGREEMENT

THIS AGREEMENT is made and entered into as of this __ day of _____, 2013, by and among Appalachian Power Company ("APCo"), Indiana Michigan Power Company ("I&M"), Kentucky Power Company ("KPCo") and American Electric Power Service Corporation ("AEPSC") as agent ("Agent") to APCo, I&M and KPCo.

RECITALS:

WHEREAS, APCo, I&M and KPCo (collectively the "Operating Companies" or individually "Operating Company") own and operate electric generation, transmission and distribution facilities with which they are engaged in the business of generating, transmitting and selling electric power to the general public and to other electric utilities;

WHEREAS, the Operating Companies' electric facilities are now and have been for many years interconnected through their respective transmission facilities and transmission facilities of third parties at a number of points (hereby designated and hereinafter called "Interconnection Points");

WHEREAS, APCo, I&M and KPCo provide power to serve retail and wholesale customers in Indiana, Kentucky, Michigan, Tennessee, Virginia and West Virginia;

WHEREAS, APCo, I&M and KPCo believe that they can continue to achieve efficiencies and economic benefits through the coordinated operation of their respective power supply resources;

WHEREAS, the Operating Companies recognize that APCo, I&M and KPCo will (a) participate in the organized power markets of a regional transmission organization and (b) receive allocations of off-system sales and purchases with other parties on bases that fairly assign or allocate the costs and benefits of these transactions;

WHEREAS, the achievement of the foregoing will be facilitated by the performance of certain services by an Agent;

WHEREAS, AEPSC is the service company affiliate of APCo, I&M and KPCo and as such performs a variety of services on their behalf in accordance with applicable rules and regulations of the Federal Energy Regulatory Commission ("Commission"); and

WHEREAS, AEPSC is willing to serve as Agent to APCo, I&M and KPCo under this Agreement with respect to generation-related activities.

NOW, THEREFORE, in consideration of the premises and the mutual covenants and agreements herein set forth, the Parties mutually agree as follows:

ARTICLE I
DEFINITIONS

1.1 Agreement means this Power Coordination Agreement among APCo, I&M, KPCo and Agent, including all Service Schedules and attachments hereto.

1.2 Dedicated Wholesale Customer means a wholesale customer whose load is served by an Operating Company that has undertaken, by contract, an obligation to serve that customer's partial or full requirements load and to acquire power supply resources and other resources necessary to meet those requirements.

1.3 Generation Hedge Transactions means Off-System Transactions entered into for the purpose of hedging the output of the generation assets of one or more of the Operating Companies.

1.4 Industry Standards means all applicable national and regional electric reliability council and regional transmission organization principles, guides, criteria, standards and practices.

1.5 Internal Load means all sales of power by an Operating Company to its Retail Customers and Dedicated Wholesale Customers, including losses. As distinguished from Off-System Sales, Internal Load is principally characterized by the Operating Company assuming the load obligation as its own power commitment.

1.6 Off-System Sales means all wholesale power sales by an Operating Company other than sales to the Retail Customers and Dedicated Wholesale Customers that comprise the Operating Company's Internal Load.

1.7 Off-System Purchases means wholesale power purchases by an Operating Company or Operating Companies for any of the following reasons: (a) to reduce power supply costs, (b) to serve load requirements, (c) to provide reliability of supply, (d) to satisfy state specific requirements or goals or (e) to engage in Off-System Sales.

1.8 Off-System Transactions means Off-System Sales, Off-System Purchases and any other types of power-related wholesale transactions, whether physical or financial, on behalf of an Operating Company or Operating Companies, excluding sales to Internal Load customers.

1.9 Operating Committee means the administrative body established pursuant to Article VI for the purposes specified within this Agreement.

1.10 Party means each of APCo, I&M, KPCo and Agent, individually, and **Parties** means APCo, I&M, KPCo and Agent, collectively.

1.11 Retail Customer means a retail power customer on whose behalf an Operating Company has undertaken an obligation to obtain power supply resources in order to supply electricity to reliably meet the electric needs of that customer.

1.12 Service Schedules means the Service Schedules attached to this Agreement and those that later may be agreed to by the Parties and accepted for filing by the Commission, as they may be amended from time to time.

1.13 Spot Market means the day ahead, real time (balancing) or similar short-term energy market(s) operated by the applicable regional transmission organization(s), typically characterized by energy that is selected and delivered on an hourly, or more frequent, basis during that same day or the next calendar day.

1.14 System Emergency means a condition which, if not promptly corrected, threatens to cause imminent harm to persons or property, including the equipment of a Party or a Third Party, or threatens the reliability of electric service provided by an Operating Company to Retail Customers or Dedicated Wholesale Customers.

1.15 Third Party or Third Parties means any entity or entities that are not a Party or Parties.

1.16 Trading Transactions means Off-System Transactions that are not Generation Hedge Transactions or otherwise sourced or hedged from, dedicated to, or associated with the generation assets or Internal Load of the Operating Companies.

ARTICLE II
TERM OF AGREEMENT

2.1 Term and Withdrawal. Subject to Commission approval or acceptance for filing, this Agreement shall take effect on January 1, 2014, or such other date permitted by the Commission, and shall continue in full force and effect until (a) terminated by mutual agreement or (b) upon no less than twelve (12) months' written notice by one Party to each of the other Parties, after which time the notifying Party will be withdrawn from the Agreement and the

Agreement will continue in full force and effect for the remaining Parties except for such modifications necessary to remove the withdrawn Party.

ARTICLE III
OBJECTIVES

3.1 Purpose. The purpose of this Agreement is to provide a contractual basis for coordinating the power supply resources of the Operating Companies to achieve economies and efficiencies consistent with the provision of reliable electric service and an equitable sharing of the benefits and costs of such coordinated arrangements. This Agreement is based on the premise that each Operating Company will maintain sufficient long-term power supply resources to meet its Internal Load requirements.

ARTICLE IV
SCOPE AND RELATIONSHIP TO OTHER AGREEMENTS AND SERVICES

4.1 Scope. The transactions governed by this Agreement are subject to, and may be limited from time to time by applicable state and federal laws, and the regulations, rules, and orders of applicable regulatory agencies regarding the purchase and sale of energy and/or capacity among affiliates. This Agreement is not intended to preclude the Parties from entering into other arrangements between or among themselves or with Third Parties. This Agreement is intended to operate in addition to, not in lieu of, power market transactions and settlements that occur between each Operating Company or the Operating Companies collectively and any applicable regional transmission organizations.

4.2 Transmission. This Agreement is intended to apply to the coordination of the power supply resources of, and loads served by, the Operating Companies. It is not intended to

apply to the coordination of transmission facilities owned or operated by the Operating Companies.

ARTICLE V
AGENT

5.1 **Agent's Functions.** Subject to the direction of the Operating Committee, Agent agrees to:

(a) assist in evaluations concerning Operating Company power supply resource adequacy, including generation additions, retirements, acquisitions and dispositions;

(b) assist in the coordination of the operation and maintenance of the Operating Companies' respective power supply resources;

(c) administer the participation and financial settlement of the Operating Companies in the power markets of the applicable regional transmission organization;

(d) conduct Off-System Transactions on behalf of one or more Operating Companies;

(e) prepare and deliver to the Parties a monthly settlement statement and make available as requested supporting details for any Party to inspect for a period of time not to exceed three (3) years from the date expenses were incurred or revenues received;

(f) acquire and coordinate transmission and ancillary services from affiliated and non-affiliated transmission providers for use with respect to transactions between or among the Operating Companies under this Agreement and Off-System Transactions;

(g) assist in the coordination of the Operating Companies' procurement of, but not necessarily limited to, fuel, consumables, emission allowances and transportation services; and

(h) perform such other activities and duties as may be requested from time to time by a Party or Parties.

5.2 Appointment and Acceptance of Authority; Delegation of Duties

5.2.1 Appointment of Agent. As of the effective date of this Agreement as specified in Section 2.1, the Operating Companies delegate to AEPSC, as the Agent, and AEPSC, as the Agent, hereby accepts responsibility and authority for the duties listed in Section 5.1 and elsewhere in this Agreement and shall perform each of those duties under the direction of the Parties.

5.2.2 Delegation of Duties. With the prior written consent of the other Parties, AEPSC may assign all or a part of its responsibilities under this Agreement to another entity.

ARTICLE VI
COMPOSITION AND DUTIES OF THE OPERATING COMMITTEE

6.1 Operating Committee. By written notice to the other Parties, each Party shall name one representative ("Representative") to act for it in matters pertaining to this Agreement and its implementation. A Party may change its Representative at any time by written notice to the other Parties. The Representatives of the respective Parties shall comprise the Operating Committee. The Agent's Representative shall act as the chairman of the Operating Committee

("Chairman"). All decisions of the Operating Committee shall be by a simple majority vote of the Representatives.

6.2 Meeting Dates. The Operating Committee shall hold meetings at such times, means, and places as the members shall determine. Minutes of each Operating Committee meeting shall be prepared and maintained.

6.3 Duties. The Operating Committee shall have the duties listed below, unless such duties are otherwise assigned by a vote of the Operating Committee to the Agent, in which case the Agent shall perform such duties:

(a) reviewing and providing direction concerning the equitable sharing of costs and benefits under this Agreement among the Operating Companies;

(b) administering and interpreting this Agreement and making any amendments hereto, subject to any necessary regulatory approvals, including such amendments that are proposed in response to a change in regulatory requirements applicable to one or more of the Operating Companies or changes concerning an applicable regional transmission organization;

(c) reviewing and, if necessary, amending the duties and responsibilities of the Agent; and

(d) ensuring coordination for other matters not specifically provided for herein that the Operating Committee considers necessary to the reliable and economic use of each Operating Company's power supply resources.

In the event that an action of the Operating Committee results in a change to the settlement process(es) among the Operating Companies, such modified settlement will normally occur on a prospective basis only, however, this may include past billing periods back to the

beginning of the first full billing month preceding the date of action of the Operating Committee. Such modifications will be subject to the terms of Article IX as applicable.

ARTICLE VII
OPERATING COMPANY PLANNING AND OPERATIONS

7.1 Operating Company and System Planning. Each Operating Company, with support from the Agent, will be individually responsible for its own capacity planning. Each Operating Company will be responsible for maintaining an adequate level of generation resources to meet its own Internal Load requirements for capacity and energy, including any required reserve margins, and shall bear all of the resulting costs.

The Agent shall assess the adequacy of the power supply resources of the Operating Companies from the perspective of each Operating Company and the Operating Companies collectively, taking into account reserve requirements, capacity status in the applicable regional transmission organization, state integrated resource plans as applicable, each Operating Company's load forecast, changing regulatory structures and requirements and all other criteria applicable by law or regulation to each Operating Company. The Agent will subsequently make recommendations to each Operating Company regarding the need for additional power supply resources. In making this evaluation, the Agent, in conjunction with each Operating Company, will assess whether economies and efficiencies may be achieved by selecting power supply resources for joint ownership between or among more than one Operating Company, subject to regulatory, transmission, economic, and operational constraints and approvals. Similarly, the Agent, under the direction of the Operating Committee, will assess and make recommendations to each Operating Company as to whether that Operating Company

has power supply resources in excess of its needs (short-term or long-term) that could be made available to the other Operating Companies or Third Parties.

All capacity transactions between the Operating Companies will be made under such terms and at rates that are mutually agreeable to the Operating Companies. Transactions among the Operating Companies with Third Parties for sales and purchases of capacity under this Agreement shall be made as described under Section 7.5.1 and Service Schedule A. Notwithstanding any of the foregoing, the actual addition or disposition of power supply resources will be conditioned on compliance with all applicable state and other regulatory requirements and requirements of the applicable regional transmission organization.

7.2 Generation Resource Outage Planning. The Agent, on behalf of the Operating Companies, will coordinate the scheduling of planned generation resource outages in order to support reliability and manage costs.

7.3 Generation Resource Dispatch. The generation resources of each of the Operating Companies will be dispatched by the Agent under the direction of the applicable regional transmission organization.

7.4 Regional Transmission Organization Transactions. Each Operating Company shall be individually responsible for charges it incurs and credits it receives due to its participation in the power markets of a regional transmission organization. Such costs and revenues will be assigned or allocated directly by the applicable regional transmission organization or its agent where practical. The Operating Companies may collectively participate from time to time in specific markets of the regional transmission organization or to meet certain regional transmission or reliability organization requirements, in which case the allocation of

resulting revenues and/or costs, if any, will be performed as specified herein or as otherwise approved by the Operating Committee.

Notwithstanding the foregoing, in the event that two or more Operating Companies collectively participate in the capacity market of an applicable regional transmission organization, meaning that such Operating Companies' resources and load obligations are combined and administered collectively to participate in and satisfy the reliability requirements of the applicable regional transmission organization's capacity market, such participation will be administered and financially settled as described under Service Schedule A.

7.5 Off System Transactions

7.5.1 Capacity Purchases and Sales with Third Parties. Off-System Transactions of capacity initiated at the direction of an Operating Company will be directly assigned to that Operating Company whenever reasonably possible. Any Off-System Purchases of capacity not directly assigned to an Operating Company will normally be allocated to the Operating Company or Operating Companies with the lowest capacity reserve margin(s) over the applicable period at the time of the transaction. Any Off-System Sales of capacity not directly assigned to an Operating Company will normally be allocated to or among the Operating Company or Operating Companies with the highest reserve margin(s).

Notwithstanding the foregoing, Off-System Transactions of capacity that occur under the capacity auction processes of the applicable regional transmission organization will be directly assigned to a specific Operating Company based on the results of such auctions or, if two or more Operating Companies are collectively participating in a regional transmission organization's capacity

market, the Off-System Transactions of capacity will be allocated to such Operating Companies as specified under Service Schedule A.

7.5.2 Directly Assigned Energy Purchases and Sales with Third Parties. Off-System Transactions of energy initiated at the direction of an Operating Company will be directly assigned to that Operating Company whenever reasonably possible. Costs and revenues associated with each Operating Company's Off-System Sales of energy and Internal Load energy purchases from the applicable regional transmission organization in the Spot Market, including the purchase of any energy deficits or sales of any energy surpluses, will be directly assigned to that Operating Company.

7.5.3 Generation Hedge Transactions and Trading Transactions. Revenues and costs associated with Generation Hedge Transactions, including revenues and costs associated with the settlement of Generation Hedge Transactions in the Spot Market or other markets of the applicable regional transmission organization, will be allocated among the Operating Companies by the Agent as specified under Service Schedule B.

Revenues and costs associated with Trading Transactions, including revenues and costs associated with the settlement of Trading Transactions in the Spot Market or other markets of the applicable regional transmission organization, will be allocated among the Operating Companies by the Agent as specified under Service Schedule C.

7.6 Emergency Response. In the event of a System Emergency, no adverse distinction shall be made between the customers of any of the Operating Companies. Each

Operating Company shall, under the direction of the applicable regional transmission organization, make its power supply resources available in response to a System Emergency. Notwithstanding the foregoing, it is understood that transmission constraints or other factors may limit the ability of an Operating Company to respond to a System Emergency.

ARTICLE VIII
ASSIGNMENT OF COSTS AND BENEFITS OF COORDINATED OPERATIONS

8.1 Service Schedules. The costs and revenues associated with coordinated operations as described in Article VII shall be distributed among the Operating Companies in the manner provided in the Service Schedules utilizing the billing procedures described in Article IX. It is understood and agreed that all such Service Schedules are intended to establish an equitable sharing of costs and/or benefits among the Operating Companies, and that circumstances may, from time to time, require a reassessment of the relative costs and benefits of this Agreement, or of the methods used to apportion costs and benefits under the Service Schedules. Upon an action of the Operating Committee, any of the Service Schedules may be amended as of any date agreed to by the Operating Committee by majority vote, subject to the receipt of any necessary regulatory authorizations.

ARTICLE IX
BILLING PROCEDURES

9.1 Records. The Agent shall maintain such records as may be necessary to determine the assignment of costs and revenues of coordinated operations pursuant to this Agreement. Such records shall be made available to the Parties upon request for a period not to exceed three (3) years.

9.2 Monthly Statements. As promptly as practicable after the end of each calendar month, the Agent shall prepare a statement setting forth the monthly summary of costs and revenues allocated or assigned to the Operating Companies in sufficient detail as may be needed for settlements under the provisions of this Agreement. As required, the Agent may provide such statements on an estimated basis and then adjust those statements for actual results.

9.3 Billings and Payments. The Agent shall be responsible for all billing between the Operating Companies and other entities with which they engage in Off-System Transactions pursuant to this Agreement. Payments among the Operating Companies, if any, shall be made by remittance of the net amount billed or by making appropriate accounting entries on the books of the Parties. The entire amount shall be paid when due.

9.4 Taxes. Should any federal, state, or local tax, surcharge or similar assessment, in addition to those that may now exist, be levied upon the electric capacity, energy, or services to be provided in connection with this Agreement, or upon the provider of service as measured by the electric capacity, energy, or services, or the revenue therefrom, such additional amount shall be included in the net billing described in Section 9.3.

9.5 Billing Errors. If a Party discovers a billing error pertaining to a prior billing for reasons including, but not limited to, missing or erroneous data or calculations, including those caused by meter, computer or human error, a correction adjustment will be calculated. Except as the Operating Committee may authorize in the exercise of reasonable discretion, the correction adjustment shall not be applied to any period earlier than the beginning of the first full billing month preceding the discovery of the error, nor will interest accrue on such adjustment. The correction adjustment will be applied as soon as practicable to the next subsequent regular

monthly bill. Any overpaid amount attributed to such billing errors shall be returned by the owing Party upon determination of the correct amount with no interest.

9.6 Billing Omissions. Within one (1) year from the date on which a bill should have been delivered, if a Party's records reveal that the bill was not delivered, then the Agent shall deliver to the appropriate Party a bill within one (1) month of this determination. Any amounts collected or reimbursed due to such omissions shall exclude interest. The right to payment is waived with respect to any amounts not billed within this period.

9.7 Billing Disputes. The Parties shall have the right to dispute the accuracy of any bill or payment for a period not to exceed one month from the date on which the bill was initially delivered. Following this one-month period, the right to dispute a bill is permanently waived for any and all reasons including but not limited to, (a) errors, (b) omissions, (c) Agent's actions, and (d) the Operating Committee's decisions, Agreement interpretations and direction in the administration of the Agreement. Any amounts collected or reimbursed due to such disputes shall exclude interest.

ARTICLE X
FORCE MAJEURE

10.1 Events Excusing Performance. No Party shall be liable to another Party for or on account of any loss, damage, injury, or expense resulting from or arising out of a delay or failure to perform, either in whole or in part, any of the agreements, covenants, or obligations made by or imposed upon the Parties by this Agreement, by reason of or through strike, work stoppage of labor, failure of contractors or suppliers of materials (including fuel, consumables or other goods and services), failure of equipment, environmental restrictions, riot, fire, flood, ice, invasion, civil war, commotion, insurrection, military or usurped power, order of any court or

regulatory agency granted in any *bona fide* legal proceedings or action, or of any civil or military authority either *de facto* or *de jure,* explosion, Act of God or the public enemies, or any other cause reasonably beyond its control and not attributable to its neglect. A Party experiencing such a delay or failure to perform shall use due diligence to remove the cause or causes thereof; however, no Party shall be required to add to, modify or upgrade any facilities, or to settle a strike or labor dispute except when, according to its own best judgment, such action is advisable.

ARTICLE XI
DELIVERY POINTS

11.1 Delivery Points. All electric energy delivered under this Agreement shall be of the character commonly known as three-phase sixty-cycle energy, and shall be delivered at the various Interconnection Points where the transmission systems of the Operating Companies are interconnected, either directly or through transmission facilities of third parties, at the nominal unregulated voltage designated for such points, and at such other points and voltages as may be determined and agreed upon by the Operating Companies.

ARTICLE XII
GENERAL

12.1 Adherence to Industry Standards. The Parties agree to make their best efforts to conform to Industry Standards as they affect the implementation of and conduct pertaining to this Agreement.

12.2 No Third Party Beneficiaries. This Agreement does not create rights of any character whatsoever in favor of any person, corporation, association, entity or power supplier, other than the Parties, and the obligations herein assumed by the Parties are solely for the use and

benefit of the Parties. Nothing in this Agreement shall be construed as permitting or vesting, or attempting to permit or vest, in any person, corporation, association, entity or power supplier, other than the Parties, any rights hereunder or in any of the resources or facilities owned or controlled by the Parties or the use thereof.

12.3 Waivers. Any waiver at any time by a Party of its rights with respect to a default under this Agreement, or with respect to any other matter arising in connection with this Agreement, shall not be deemed a waiver with respect to any subsequent default or matter. Any delay, short of the statutory period of limitation, in asserting or enforcing any right under this Agreement, shall not be deemed a waiver of such right.

12.4 Successors and Assigns. This Agreement shall inure to the benefit of and be binding upon the Parties only, and their respective successors and assigns, and shall not be assignable by any Party without the written consent of the other Parties except to a successor in the operation of its properties by reason of a reorganization to comply with state or federal restructuring requirements, or a merger, consolidation, sale or foreclosure whereby substantially all such properties are acquired by or merged with those of such a successor.

12.5 Liability and Indemnification. SUBJECT TO ANY APPLICABLE STATE OR FEDERAL LAW THAT MAY SPECIFICALLY RESTRICT LIMITATIONS ON LIABILITY, EACH PARTY SHALL RELEASE, INDEMNIFY, AND HOLD HARMLESS THE OTHER PARTIES, THEIR DIRECTORS, OFFICERS AND EMPLOYEES FROM AND AGAINST ANY AND ALL LIABILITY FOR LOSS, DAMAGE OR EXPENSE ALLEGED TO ARISE FROM, OR BE INCIDENTAL TO, INJURY TO PERSONS AND/OR DAMAGE TO PROPERTY IN CONNECTION WITH ITS FACILITIES OR THE PRODUCTION OR TRANSMISSION OF ELECTRIC ENERGY BY OR THROUGH SUCH FACILITIES, OR

RELATED TO PERFORMANCE OR NON-PERFORMANCE OF THIS AGREEMENT, INCLUDING ANY NEGLIGENCE ARISING HEREUNDER. IN NO EVENT SHALL ANY PARTY BE LIABLE TO ANOTHER PARTY FOR ANY INDIRECT, SPECIAL, INCIDENTAL, OR CONSEQUENTIAL DAMAGES WITH RESPECT TO ANY CLAIM ARISING OUT OF THIS AGREEMENT.

12.6 Headings. The descriptive headings of the Articles, Sections and Service Schedules of this Agreement are used for convenience only, and shall not modify or restrict any of the terms and provisions thereof.

12.7 Notice. Any notice or demand for performance required or permitted under any of the provisions of this Agreement shall be deemed to have been given on the date such notice, in writing, is deposited in the U.S. mail, postage prepaid, certified or registered mail, addressed to the Parties at their principal place of business at 1 Riverside Plaza, Columbus, Ohio 43215, or in such other form or to such other address as the Parties may stipulate.

12.8 Interpretation. In this Agreement: (a) unless otherwise specified, references to any Article or Section are references to such Article or Section of this Agreement; (b) the singular includes the plural and the plural includes the singular; (c) unless otherwise specified, each reference to a requirement of any governmental entity or regional transmission organization includes all provisions amending, modifying, supplementing or replacing such governmental entity or regional transmission organization from time to time; (d) the words "including," "includes" and "include" shall be deemed to be followed by the words "without limitation"; (e) unless otherwise specified, each reference to any agreement includes all amendments, modifications, supplements, and restatements made to such agreement from time to time which are not prohibited by this Agreement; (f) the descriptive headings of the various Articles and

Sections of this Agreement have been inserted for convenience of reference only and shall in no way modify or restrict the terms and provisions thereof; and (g) "herein," "hereof," "hereto" and "hereunder" and similar terms refer to this Agreement as a whole.

ARTICLE XIII
REGULATORY APPROVAL

13.1 Regulatory Authorization. This Agreement is subject to and conditioned upon its approval or acceptance for filing without material condition or modification by the Commission. In the event that this Agreement is not so approved or accepted for filing in its entirety or without conditions or modifications unacceptable to any Party, or the Commission subsequently modifies this Agreement upon complaint or upon its own initiative (as provided for in Section 13.2), any Party may, irrespective of the notice provisions in Section 2.1, withdraw from this Agreement by giving thirty (30) days' advance written notice to the other Parties.

13.2 Changes. It is contemplated by the Parties that it may be appropriate from time to time to change, amend, modify, or supplement this Agreement, including the Service Schedules and any other attachments that may be made a part of this Agreement, to reflect changes in operating practices or costs of operations or for other reasons. Any such changes to this Agreement shall be in writing executed by the Parties and subject to approval or acceptance for filing by the Commission. It is the intent of the Parties that, to the maximum extent permitted by law, the provisions of this Agreement shall not be subject to change under Sections 205 and 206 of the Federal Power Act absent the written agreement of the Parties, and that the standard of review for changes unilaterally proposed by a Party, a Third Party, or the Commission, acting sua sponte or at the request of a Third Party, shall be the public interest standard of review set forth in *United Gas Pipe Line Co. v. Mobile Gas Service Corp.*, 350 U.S. 332 (1956), *Federal*

Power Commission v. Sierra Pacific Power Co., 350 U.S. 348 (1956), *Morgan Stanley Capital Group, Inc. v. Public Utility District No. 1 of Snohomish County*, 128 S.Ct. 2733 (2008), and *NRG Power Marketing, LLC v. Maine Public Utilities Commission*, 130 S.Ct. 693 (2010).

IN WITNESS WHEREOF, the Parties have caused this Agreement to be executed and attested by their duly authorized officers on the day and year first above written.

APPALACHIAN POWER COMPANY

By: _____

Title: _____

INDIANA MICHIGAN POWER COMPANY

By: _____

Title: _____

KENTUCKY POWER COMPANY

By: _____

Title: _____

AMERICAN ELECTRIC POWER SERVICE CORPORATION

By: _____

Title: _____

SERVICE SCHEDULE A
COLLECTIVE PARTICIPATION IN THE APPLICABLE REGIONAL TRANSMISSION ORGANIZATION CAPACITY MARKET

A1– Duration. This Service Schedule A shall become effective and binding when the Agreement of which it is a part becomes effective, and shall continue in full force and effect throughout the duration of the Agreement unless terminated or suspended.

A2 – Availability of Service. This Service Schedule A governs the administration and settlement of capacity during such times that multiple Operating Companies are participating, on a collective basis, in the capacity market of the applicable regional transmission organization as specified under Section 7.4.

A3 – Auction Sales Revenues. Any revenues resulting from capacity sold into the applicable regional transmission organization's planning year(s) capacity auction will normally be allocated to or among the Operating Company or Operating Companies with the highest reserve margin(s) over such planning year(s). Such allocation will occur regardless of which capacity resources of the Operating Companies are cleared and/or designated to fulfill the auction commitment.

A4 – Delivery Year and Post-Delivery Year Settlement. During a given regional transmission organization planning year (i.e., the delivery year), the Agent will manage the capacity resources needed to meet the combined Operating Companies' capacity obligations and commitments to the applicable regional transmission organization.

If capacity resource performance charges are assessed by the applicable regional transmission organization for a given delivery year, the total net charge will be allocated among the Operating Companies ratably in proportion to each Operating Company's contribution to the total charge. Each Operating Company's contribution to the total charge will be determined by

the Agent by computing a total MW position for each Operating Company by subtracting its total capacity obligation in MWs from its total capacity resources in MWs. This result will be further adjusted by adding or subtracting as applicable the net total MWs of actual under-performance or over-performance of each Operating Company's capacity resources during the delivery year as computed by the applicable regional transmission organization. Any Operating Company with a resulting net short MW position, meaning that its capacity obligation MWs are greater than its capacity resource MWs including any MWs of over-performance or under-performance, will be allocated a share of the total net performance charge from the applicable regional transmission organization based on the Operating Company's net short MW position.

If the total net charge assessed by the applicable regional transmission organization is greater than zero, such calculations and the corresponding allocation will be made following the end of the applicable delivery year. If a total net charge is assessed by the applicable regional transmission organization which is greater than zero (0), even though each Operating Company has a computed contribution of zero (0) as described above, the total net charge will be allocated utilizing each Operating Company's delivery year capacity obligation MWs.

SERVICE SCHEDULE B
GENERATION HEDGE TRANSACTIONS

B1 – Duration. This Service Schedule B shall become effective and binding when the Agreement of which it is a part becomes effective, and shall continue in full force and effect throughout the duration of the Agreement unless terminated or suspended.

B2 – Service. This Service Schedule B governs energy-related Off-System Transactions made pursuant to Section 7.5.3 of the Agreement that are associated with Generation Hedge Transactions as defined in Section 1.3. The total monthly net costs and revenues from the settlement of Generation Hedge Transactions will be allocated among the Operating Companies ratably in proportion to the total of each Operating Company's surplus MWhs for the month, as determined by the Agent. Surplus MWhs will be computed as the total of all MWs in hours in which an Operating Company's MW output of its generation assets and dedicated energy purchases, excluding Spot Market purchases, exceeded that Operating Company's Internal Load.

If the above allocation would result in any Operating Company being allocated revenues or costs associated with more than one hundred and fifteen percent (115%) of its monthly surplus MWhs as computed above, such excess(es) above that amount will be allocated to all of the Operating Companies ratably in proportion to the sum of each Operating Company's hourly MW output of its generation assets for the month.

SERVICE SCHEDULE C
TRADING TRANSACTIONS

C1 – Duration. This Service Schedule C shall become effective and binding when the Agreement of which it is a part becomes effective, and shall continue in full force and effect throughout the duration of the Agreement unless terminated or suspended.

C2 – Service. This Service Schedule C governs the financial allocation and settlement of Off-System Transactions made pursuant to Section 7.5.3 of the Agreement that are associated with Trading Transactions as defined in Section 1.16. All Trading Transactions settled for a given month will be allocated among the Operating Companies ratably in proportion to each Operating Company's total common shareholder equity balance. The total common shareholder equity balance for each Operating Company as of the end of the previous calendar year will be determined annually by the Agent. These balances will then be applied to allocate settled Trading Transactions among the Operating Companies during the subsequent twelve-month period beginning June 1 and ending May 31.

KENTUCKY POWER COMPANY

RATE SCHEDULE NO. 300

Joint Tariff Common Name: "Power Coordination Agreement"

Designated Filing Company: Appalachian Power Company (APCo)

Designated Filing Company Tariff Title: APCo Rate Schedules and Service Agreements Tariffs

Designated Filing Company Tariff Program: FPA (Cost Based)

Designated Filing Company Tariff Record Adopted by Reference (Record Content Description/Tariff Record Title): Rate Schedule No. 300, Power Coordination Agreement

No limitations: All versions of the agreement

Description of Tariff: Rate Schedule under which APCo, Indiana Michigan Power Company, Kentucky Power Company, and American Electric Power Service Corporation (in an agency role) coordinate operation of their power supply resources.

INDIANA MICHIGAN POWER COMPANY

RATE SCHEDULE NO. 300

Joint Tariff Common Name: "Power Coordination Agreement"

Designated Filing Company: Appalachian Power Company (APCo)

Designated Filing Company Tariff Title: APCo Rate Schedules and Service Agreements Tariffs

Designated Filing Company Tariff Program: FPA (Cost Based)

Designated Filing Company Tariff Record Adopted by Reference (Record Content Description/Tariff Record Title): Rate Schedule No. 300, Power Coordination Agreement

No limitations: All versions of the agreement

Description of Tariff: Rate Schedule under which APCo, Indiana Michigan Power Company, Kentucky Power Company, and American Electric Power Service Corporation (in an agency role) coordinate operation of their power supply resources.

Attachment B

Bridge Agreement Among Appalachian Power Company, Indiana Michigan Power Company, Kentucky Power Company, Ohio Power Company, AEP Generation Resources Inc. and American Electric Power Service Corporation as Agent

1. Tariff Record, APCo – Rate Schedule No. 301
2. Tariff Record, I&M – Rate Schedule No. 301
3. Tariff Record, KPCo – Rate Schedule No. 301
4. Tariff Record, OPCo – Rate Schedule No. 301
5. Tariff Record, AEP Generation Resources Inc. – Rate Schedule No. 301

RATE SCHEDULE No. 301

BRIDGE AGREEMENT

among

APPALACHIAN POWER COMPANY,
INDIANA MICHIGAN POWER COMPANY,
KENTUCKY POWER COMPANY,
OHIO POWER COMPANY,
AEP GENERATION RESOURCES INC.

and

AMERICAN ELECTRIC POWER SERVICE CORPORATION

as Agent

Tariff Submitter: **Appalachian Power Company**
FERC Program Name: **FERC FPA Electric Tariff**
Tariff Title: **APCo Rate Schedules and Service Agreements Tariffs**
Tariff Proposed Effective Date: **01/01/2014**
Tariff Record Title: **Bridge Agreement**
Option Code: **A**
Record Content Description: **Rate Schedule No. 301**

BRIDGE AGREEMENT

THIS AGREEMENT is made and entered into as of this __ day of _____, 2013, by and among Appalachian Power Company ("APCo"), Indiana Michigan Power Company ("I&M"), Kentucky Power Company ("KPCo"), Ohio Power Company ("OPCo" and, collectively with APCo, I&M and KPCo, the "Operating Companies"), AEP Generation Resources Inc. ("AEP Generation Resources") and American Electric Power Service Corporation ("Agent" and, collectively with APCo, I&M, KPCo, OPCo and AEP Generation Resources, the "Parties").

RECITALS:

WHEREAS, the Operating Companies are each wholly-owned subsidiaries of American Electric Power Company, Inc. ("AEP") and members of the Interconnection Agreement ("Pool Agreement"), which has been in effect since 1951;

WHEREAS, each member of the Pool Agreement has provided notice to the other members (and to the Agent) that it will terminate its participation in the Pool Agreement in accordance with the termination provisions thereof;

WHEREAS, pursuant to the Pool Agreement, the Operating Companies have made joint wholesale purchases and sales of physical power (at market based rates), and of financial power, for the purpose of hedging the output of the Operating Companies' generation assets, some of which will not expire until after the Pool Agreement terminates ("Legacy Hedge Contracts");

WHEREAS, in addition to the Legacy Hedge Contracts, the Operating Companies have made other joint wholesale purchases and sales of physical power (at market based rates), and of financial power and related commodities, pursuant to the Pool Agreement under joint purchase and sale contracts, some of which will also not expire until after the Pool Agreement terminates (collectively the "Legacy Trading Contracts");

WHEREAS, the Operating Companies desire to jointly share in the gains and losses resulting from the settlement and liquidation in the market of the Legacy Hedge Contracts and Legacy Trading Contracts (collectively, the "Legacy Off-System Sales Portfolio");

WHEREAS, the Operating Companies have previously elected to fulfill their capacity obligations to PJM pursuant to the Fixed Resource Requirement ("FRR") alternative under the

PJM Reliability Assurance Agreement through and including Planning Year 2014/2015 (the "Operating Companies' FRR Obligation") and desire to continue to fulfill those obligations;

WHEREAS, the Public Utilities Commission of Ohio in a Finding and Order issued October 17, 2012 in Case No. 12-1126-EL-UNC has authorized OPCo to conduct an internal corporate reorganization under which its generation and power marketing businesses will be separated from its transmission and distribution businesses consistent with Ohio restructuring law and OPCo's structural corporate separation plan;

WHEREAS, for the benefit of the Operating Companies, this Agreement commits the retained capacity resources of AEP Generation Resources, which it acquired from OPCo as a result of corporate separation and pursuant to the Asset Contribution Agreement, to fulfilling the Operating Companies' FRR Obligation through and including Planning Year 2014/2015; and

WHEREAS, pursuant to OPCo's corporate separation plan and the terms of the Asset Contribution Agreement between OPCo and AEP Generation Resources, AEP Generation Resources will succeed to all of OPCo's right, title and interest in and to its generation and power marketing business (excepting the limited generation assets specifically retained by OPCo) and to all associated liabilities, including all of OPCo's allocations of (1) gains and losses from the Legacy Off-System Sales Portfolio, (2) the Operating Companies' FRR Obligations, (3) FRR Charges and Credits, and (4) all costs and liabilities associated with the foregoing, from which AEP Generation Resources will indemnify, defend and hold harmless OPCo pursuant to the terms of the Asset Contribution Agreement.

NOW, THEREFORE, in consideration of the premises and the mutual covenants and agreements herein set forth, the Parties mutually agree as follows:

ARTICLE I
DEFINITIONS

1.1 Capacity Resources means, in respect of any Planning Year, the megawatts of net capacity from the Operating Companies and AEP Generation Resources eligible to satisfy the Operating Companies' FRR Obligation.

1.2 Capacity Requirement means, in respect of any Planning Year, the megawatts of net capacity from the Operating Companies and AEP Generation Resources required to satisfy the Operating Companies' FRR Obligation.

1.3 Commission means the Federal Energy Regulatory Commission.

1.4 Final MLR means, for each member of the Pool Agreement, the arithmetic average of the member's MLR for each of the twelve full calendar months preceding the termination of the Pool Agreement.

1.5 FRR Charges and Credits means all PJM charges and credits arising from or relating to the Operating Companies' FRR Obligation, including but not limited to capacity auction revenues and cost of compliance with the Operating Companies' FRR Obligations under the PJM Reliability Assurance Agreement.

1.6 Member Demand means Member Load Obligation determined on a clock-hour integrated kilowatt basis, as set forth in Section 5.4 of the Pool Agreement.

1.7 Member Load Obligation means an Operating Company's internal load plus any firm power sales to un-affiliated and affiliated companies other than the Operating Companies, principally characterized by the Operating Company assuming the load obligation as its own firm power commitment and by the Operating Company retaining advantages accruing from meeting the load, as set forth in Section 5.2 of the Pool Agreement.

1.8 Member Load Ratio or **MLR** means the ratio of a particular Operating Company's Member Maximum Demand in effect for a calendar month to the sum of all of the Operating Companies' Member Maximum Demands in effect for such month, as set forth in Section 5.6 of the Pool Agreement.

1.9 Member Maximum Demand means the Member Maximum Demand in effect for a calendar month for a particular Operating Company, which shall be equal to the maximum Member Demand experienced by said Operating Company during the twelve consecutive calendar months next preceding such calendar month, as set forth in Section 5.5 of the Pool Agreement.

1.10 Operating Committee means the administrative body established pursuant to Article IV for the purposes therein specified.

1.11 PJM means PJM Interconnection, LLC, a regional transmission organization approved by the Commission.

1.12 Planning Year means each period of June 1 through May 31 of the following year during the term of this Agreement, in whole or in part, which period constitutes a planning year as defined by PJM.

ARTICLE II

TERM OF AGREEMENT

2.1 Term. Subject to Commission approval or acceptance for filing, this Agreement shall take effect upon the effective date of the corporate separation of OPCo's generation and power marketing businesses from its transmission and distribution businesses and shall continue in full force and effect until the later of the settlement of the Legacy Off-System Sales Portfolio or the end of the Operating Companies' FRR Obligation under this Agreement, provided, however, that the Parties' obligations under Article V will only apply to the period starting on the effective date of this Agreement and ending May 31, 2015. The Agent will provide notice to the Operating Companies and AEP Generation Resources of the end of the term of this Agreement.

ARTICLE III

AGENT

3.1 Delegation and Acceptance of Authority. The Operating Companies and AEP Generation Resources hereby delegate to the Agent and the Agent hereby accepts responsibility and authority for the duties specified in this Agreement. Except as herein expressly established otherwise, the Agent shall perform each of those duties in consultation with the Operating Committee.

3.2 Reporting. The Agent shall provide periodic summary reports of its activities under this Agreement to the Parties and shall keep the Parties and the Operating Committee informed of situations or problems that may materially affect the outcome of these activities. Furthermore, the Agent agrees to report to the Parties and to the Operating Committee in such additional detail as is requested regarding specific issues or projects under its supervision as Agent. The Agent will carry out its responsibilities under this paragraph in accordance with the regulations of the Commission.

ARTICLE IV

OPERATING COMMITTEE

4.1 Operating Committee. By written notice to the other Parties, each Party shall name one representative ("Representative") to act for it in matters pertaining to this Agreement and its implementation. A Party may change its Representative at any time by written notice to the other Parties. The Representatives of the respective Parties shall comprise the Operating Committee. The Agent's Representative shall act as the chairman of the Operating Committee

("Chairman"). All decisions of the Operating Committee shall be by a simple majority vote of the Representatives.

4.2 Subcommittees. The Chairman, or any other Representative, subject to a majority of the Operating Committee concurring, may create a subcommittee or working group of the Operating Committee ("Subcommittee"). Membership in a Subcommittee will be determined by the Operating Committee. Subcommittees shall perform the duties assigned to them and shall report to the Operating Committee on all matters referred to them. Actions of a Subcommittee shall be reported in the form of proposals or recommendations to the Operating Committee and shall have no force or binding effect except by action of the Operating Committee.

4.3 Meeting Dates. The Operating Committee and each Subcommittee thereof shall hold meetings at such times, means, and places as the members shall determine. Minutes of each Operating Committee and Subcommittee meeting shall be prepared and maintained.

4.4 Information for Use of the Agent. The Parties shall cooperate in providing to the Agent the information it reasonably requests and shall supplement or correct any such information on a timely basis.

ARTICLE V
FRR OBLIGATION

5.1 Annual Capacity Resource Planning. Prior to each Planning Year, the Agent will analyze the impacts on the Operating Companies' FRR Obligation of projected and realized changes to Capacity Resources and Capacity Requirements and prepare a recommended Capacity Resource plan for the Operating Companies' FRR Obligation. The plan will describe whether additional Capacity Resources should be made available to the market and whether additional Capacity Resources should be procured for the applicable Planning Year. The portion of the Capacity Resource plan that applies to the Capacity Resources of the Operating Companies is subject to their unanimous written approval in consultation with the Agent. The portion of the Capacity Resource plan that applies to the Capacity Resources of AEP Generation Resources is subject to its written approval in consultation with the Agent. The Agent will have no duty to provide to AEP Generation Resources any portion of the Capacity Resource plan that applies to the Capacity Resources of the Operating Companies. If a Capacity Resource plan submitted by the Agent is rejected by the Operating Companies or by AEP Generation

Resources, then the Agent will revise and resubmit the plan in accordance with the foregoing procedures until the plan is accepted by both the Operating Companies and AEP Generation Resources.

5.2 Capacity Resource Plan Implementation. During each Planning Year, the Agent will collect Capacity Resource information from the Operating Companies and AEP Generation Resources and may alter the combination of Capacity Resources in the plan based on that information to maintain the Operating Companies' compliance with the PJM Reliability Assurance Agreement and to minimize compliance charges to the extent reasonably practicable. The Agent will implement the Capacity Resource plan for the Operating Companies' FRR Obligation, and any plan adjustments, with PJM. During each Planning Year, the Operating Companies and AEP Generation Resources will each perform testing of their Capacity Resources in accordance with the PJM Reliability Assurance Agreement and in consultation with the Agent.

5.3 Allocation of Capacity-Related Charges and Credits. The Agent will allocate PJM charges and credits associated with (1) Capacity Resource purchases and sales (excepting only those purchases and sales related to the generation assets specifically retained by OPCo) and (2) FRR Charges and Credits, among APCo, KPCo, I&M and AEP Generation Resources, as successor to the FRR obligations of OPCo, based on the Final MLR.

5.4 Other Agreements. The fulfillment of the Operating Companies' FRR Obligation, including the allocation of any associated charges and credits, for the Planning Years covered by this Article V, shall be governed by this Agreement and not by the Power Coordination Agreement among APCo, KPCo, I&M and the Agent.

ARTICLE VI
LEGACY CONTRACTS

6.1 Legacy Trading Portfolio. The Agent will settle and liquidate the Legacy Trading Portfolio in the market in accordance with the terms of the Legacy Trading Contracts and Legacy Hedge Contracts.

6.1.1 Legacy Trading Contracts. The Agent shall allocate gains and losses arising from the settlement and liquidation of the Legacy Trading Contracts in the market among APCo, KPCo, I&M and AEP Generation Resources, as successor to the generation-related obligations of OPCo, based on the Final MLR. The Agent may, from time to time, enter into new transactions on behalf of the Operating Companies that are

dedicated to the portfolio of Legacy Trading Contracts with the intent of reducing the tenor and/or risk of that portfolio, and those additional transactions will also be deemed Legacy Trading Contracts, provided that the Agent will not enter into any such transaction whose term extends beyond the final delivery month of the portfolio of Legacy Trading Contracts on the effective date of this Agreement.

6.1.2 Legacy Hedge Contracts. The Agent shall allocate gains and losses arising from the settlement and liquidation of the Legacy Hedge Contracts in the market to (1) APCo, KPCo and I&M collectively (the "Integrated AEP-East Utilities") and (2) AEP Generation Resources, as successor to the generation-related obligations of OPCo, in a ratable manner based on the respective forecasted spot market energy sales of the Integrated AEP-East Utilities, collectively, and AEP Generation Resources, determined as of the effective date of this Agreement. The forecasted spot market energy sales for the Integrated AEP-East Utilities, collectively, and AEP Generation Resources will be calculated in monthly increments based on the forecasted output of their owned or contracted generation minus forecasted internal load. The forecasted internal load for the Integrated AEP-East Utilities is defined as the forecasted amount of megawatt-hours associated with their retail and firm wholesale loads in the aggregate, using the most recent forecast available as of the effective date of this Agreement. The forecasted internal load for AEP Generation Resources is defined as the forecasted amount of megawatt-hours to be provided by AEP Generation Resources to OPCo, under the Ohio Power Supply Agreement between those parties, and to any non-Parties, under other firm wholesale contracts, if any, determined as of the effective date of this Agreement. The monthly forecasts will be calculated through and including the final delivery month of the portfolio of Legacy Hedge Contracts. Any allocation of gains and losses to the Integrated AEP-East Utilities will be shared among APCo, KPCo and I&M in a ratable manner based on their forecasted spot market energy sales. If the forecasted internal load of either the Integrated AEP-East Utilities or AEP Generation Resources exceeds the forecasted output of their respective owned or controlled generation for a given month, then the Integrated AEP-East Utilities or AEP Generation Resources, as applicable, will not receive any allocation of gains or losses for that month, unless both are in this position in which case gains or losses will be allocated ratably among APCo, KPCo, I&M

and AEP Generation Resources in proportion to the forecasted output of their owned or contracted generation.

6.2 **Legacy Trading Contracts Administration**. The Agent will administer the scheduling, billing, settlement and liquidation in the market of the Legacy Off-System Sales Portfolio, and will provide such information, reports and position data to each Party as is requested regarding the Party's allocation of the Legacy Off-System Sales Portfolio. Any gains and losses arising from the liquidation of the Legacy Off-System Sales Portfolio shall be governed and allocated by this Agreement and not by the Power Coordination Agreement among APCo, KPCo, I&M and the Agent.

ARTICLE VII
BILLING PROCEDURES

7.1 **Records**. The Agent will maintain the records necessary to determine the allocation of all gains, losses, charges and credits under this Agreement. Such records shall be made available to the Operating Companies and to AEP Generation Resources upon request for a period not to exceed three (3) years.

7.2 **Monthly Statements**. As promptly as practicable after the end of each calendar month, the Agent shall prepare a statement setting forth the monthly summary of all gains, losses, charges and credits allocated or assigned to the Parties in sufficient detail as may be needed for settlements under the provisions of this Agreement. As required, the Agent may provide such statements on an estimated basis and then adjust those statements for actual results.

7.3 **Billings and Payments**. The Agent shall handle all billing between the Parties and non-Parties regarding the Legacy Contract Portfolio and the Operating Companies' FRR Obligation. Payments by the Operating Companies and AEP Generation Resources shall be made by remittance of the net amount billed to the applicable Party or by making appropriate accounting entries on the books of the Parties. The entire amount shall be paid when due.

7.4 **Taxes**. Should any federal, state, or local tax, surcharge or similar assessment, in addition to those that may now exist, be levied upon the services to be provided in connection with this Agreement, or upon the provider of service as measured by the services or the revenue therefrom, such additional amount shall be included in the billing described in this Article VII.

7.5 **Billing Errors**. If the Agent or any other Party discovers a billing error pertaining to a prior billing for reasons including, but not limited to, billing omissions or missing

or erroneous data or calculations (including those caused by meter, computer or human error), a corrective adjustment will be calculated by the Agent. Except as the Operating Committee may authorize in the exercise of reasonable discretion, the correction adjustment shall not be applied to any period earlier than the beginning of the first full billing month preceding the discovery of the error, nor will interest accrue on such adjustment. The corrective adjustment will be applied as soon as practicable to the next subsequent regular monthly bill. Any overpaid amount attributed to such billing errors shall be returned by the owing Party upon determination of the correct amount with no interest.

7.6 **Billing Disputes**. The Parties shall have the right to dispute the accuracy of any bill or payment for a period not to exceed one month from the date on which the bill was initially delivered. Following this one month period, the right to dispute a bill is permanently waived for any and all reasons including but not limited to, (a) errors, (b) omissions, (c) Agent's actions, and (d) the Operating Committee's decisions, Agreement interpretations and direction in the administration of the Agreement. Any amounts collected or reimbursed due to such disputes shall exclude interest.

ARTICLE VIII
FORCE MAJEURE

8.1 **Events Excusing Performance**. No Party shall be liable to another Party for or on account of any loss, damage, injury, or expense resulting from or arising out of a delay or failure to perform, either in whole or in part, any of the agreements, covenants, or obligations made by or imposed upon the Parties by this Agreement, by reason of or through strike, work stoppage of labor, failure of contractors or suppliers of materials (including fuel, consumables or other goods and services), failure of equipment, environmental restrictions, riot, fire, flood, ice, invasion, civil war, commotion, insurrection, military or usurped power, order of any court or regulatory agency granted in any *bona fide* legal proceedings or action, or of any civil or military authority either *de facto* or *de jure*, explosion, Act of God or the public enemies, or any other cause reasonably beyond its control and not attributable to its neglect. A Party experiencing such a delay or failure to perform shall use due diligence to remove the cause or causes thereof; however, no Party shall be required to add to, modify or upgrade any facilities, or to settle a strike or labor dispute except when, according to its own best judgment, such action is advisable.

ARTICLE IX
GENERAL

9.1 No Third Party Beneficiaries. This Agreement does not create rights of any character whatsoever in favor of any person, corporation, association, entity or customer, other than the Parties, and the obligations herein assumed by the Parties are solely for the use and benefit of the Parties. Nothing in this Agreement shall be construed as permitting or vesting, or attempting to permit or vest, in any person, corporation, association, entity or customer, other than the Parties, any rights hereunder or in any of the resources or facilities owned or controlled by the Parties or the use thereof.

9.2 Waivers. Any waiver at any time by a Party of its rights with respect to a default under this Agreement, or with respect to any other matter arising in connection with this Agreement, shall not be deemed a waiver with respect to any subsequent default or matter. Any delay, short of the statutory period of limitation, in asserting or enforcing any right under this Agreement, shall not be deemed a waiver of such right, except as otherwise set forth herein.

9.3 Successors and Assigns. This Agreement shall inure to the benefit of and be binding upon the Parties only, and their respective successors and assigns, and shall not be assignable by any Party without the written consent of the other Parties except to a successor in the operation of its properties by reason of a reorganization, to comply with state or federal restructuring requirements, or a merger, consolidation, sale or foreclosure whereby substantially all such properties are acquired by or merged with those of such a successor.

9.4 Liability and Indemnification. SUBJECT TO ANY APPLICABLE STATE OR FEDERAL LAW THAT MAY SPECIFICALLY RESTRICT LIMITATIONS ON LIABILITY, EACH PARTY SHALL RELEASE, INDEMNIFY, AND HOLD HARMLESS THE OTHER PARTIES, THEIR DIRECTORS, OFFICERS AND EMPLOYEES FROM AND AGAINST ANY AND ALL LIABILITY FOR LOSS, DAMAGE OR EXPENSE ALLEGED TO ARISE FROM, OR BE INCIDENTAL TO, INJURY TO PERSONS AND/OR DAMAGE TO PROPERTY IN CONNECTION WITH ITS FACILITIES OR THE PRODUCTION OR TRANSMISSION OF ELECTRIC ENERGY BY OR THROUGH SUCH FACILITIES, OR RELATED TO PERFORMANCE OR NON-PERFORMANCE OF THIS AGREEMENT, INCLUDING ANY NEGLIGENCE ARISING HEREUNDER. IN NO EVENT SHALL ANY PARTY BE LIABLE TO ANOTHER PARTY FOR ANY INDIRECT, SPECIAL,

INCIDENTAL, OR CONSEQUENTIAL DAMAGES WITH RESPECT TO ANY CLAIM ARISING OUT OF THIS AGREEMENT.

9.5 Notice. Any notice or demand for performance required or permitted under any of the provisions of this Agreement shall be deemed to have been given on the date such notice, in writing, is delivered by hand or deposited in the U.S. mail, postage prepaid, addressed to the Parties at their principal place of business at 1 Riverside Plaza, Columbus, Ohio 43215, or in such other form or to such other address as the Parties may stipulate.

9.6 Interpretation. In this Agreement: (a) unless otherwise specified, references to any Article or Section are references to such Article or Section of this Agreement; (b) the singular includes the plural and the plural includes the singular; (c) unless otherwise specified, each reference to a requirement of any governmental entity or regional transmission organization includes all provisions amending, modifying, supplementing or replacing such governmental entity or regional transmission organization from time to time; (d) the words "including," "includes" and "include" shall be deemed to be followed by the words "without limitation"; (e) unless otherwise specified, each reference to any agreement includes all amendments, modifications, supplements, and restatements made to such agreement from time to time which are not prohibited by this Agreement; (f) the descriptive headings of the various Articles and Sections of this Agreement have been inserted for convenience of reference only and shall in no way modify or restrict the terms and provisions thereof; and (g) "herein," "hereof," "hereto" and "hereunder" and similar terms refer to this Agreement as a whole.

ARTICLE X
REGULATORY APPROVAL

10.1 Regulatory Authorization. This Agreement is subject to and conditioned upon its approval or acceptance for filing without material condition or modification by the Commission. In the event that this Agreement is not so approved or accepted for filing in its entirety without modification, or the Commission subsequently modifies this Agreement upon complaint or upon its own initiative, any Party may, irrespective of the notice provisions in Section 2.1, withdraw from this Agreement by giving thirty (30) days' advance written notice to the other Parties.

10.2 Changes. It is contemplated by the Parties that it may be appropriate from time to time to change, amend, modify, or supplement this Agreement to reflect changes in operating

practices, PJM procedures or for other reasons. Any such changes to this Agreement shall be in writing executed by the Parties and subject to approval or acceptance for filing by the Commission. It is the intent of the Parties that, to the maximum extent permitted by law, the provisions of this Agreement shall not be subject to change under Sections 205 and 206 absent the written agreement of the Parties, and that the standard of review for changes unilaterally proposed by a Party, a non-Party or the Commission, acting sua sponte or at the request of a non-Party, shall be the public interest standard of review set forth in *United Gas Pipe Line Co. v. Mobile Gas Service Corp.*, 350 U.S. 332 (1956), *Federal Power Commission v. Sierra Pacific Power Co.*, 350 U.S. 348 (1956), *Morgan Stanley Capital Group, Inc. v. Public Utility District No. 1 of Snohomish County*, 128 S.Ct. 2733 (2008), and *NRG Power Marketing, LLC v. Maine Public Utilities Commission*, 130 S.Ct. 693 (2010).

IN WITNESS WHEREOF, the Parties have caused this Agreement to be executed and attested by their duly authorized officers on the day and year first above written.

APPALACHIAN POWER COMPANY

By: _____

Title: _____

INDIANA MICHIGAN POWER COMPANY

By: _____

Title: _____

KENTUCKY POWER COMPANY

By: _____

Title: _____

OHIO POWER COMPANY

By: _____

Title: _____

AEP GENERATION RESOURCES INC.

By: _____

Title: _____

AMERICAN ELECTRIC POWER SERVICE CORPORATION

By: _____

Title: _____

INDIANA MICHIGAN POWER COMPANY

RATE SCHEDULE NO. 301

Joint Tariff Common Name: "Bridge Agreement"

Designated Filing Company: Appalachian Power Company (APCo)

Designated Filing Company Tariff Title: APCo Rate Schedules and Service Agreements Tariffs

Designated Filing Company Tariff Program: FPA (Cost Based)

Designated Filing Company Tariff Record Adopted by Reference (Record Content Description/Tariff Record Title): Rate Schedule No. 301, Bridge Agreement

No limitations: All versions of the agreement

Description of Tariff: Rate Schedule under which APCo, Indiana Michigan Power Company, Kentucky Power Company, Ohio Power Company and AEP Generation Resources Inc. will for an interim time period manage the off-system transactions of the parties beyond termination of the Pool Agreement and manage obligations to fulfill their Fixed Resource Requirement under PJM's Reliability Assurance Agreement.

KENTUCKY POWER COMPANY

RATE SCHEDULE NO. 301

Joint Tariff Common Name: "Bridge Agreement"

Designated Filing Company: Appalachian Power Company (APCo)

Designated Filing Company Tariff Title: APCo Rate Schedules and Service Agreements Tariffs

Designated Filing Company Tariff Program: FPA (Cost Based)

Designated Filing Company Tariff Record Adopted by Reference (Record Content Description/Tariff Record Title): Rate Schedule No. 301, Bridge Agreement

No limitations: All versions of the agreement

Description of Tariff: Rate Schedule under which APCo, Indiana Michigan Power Company, Kentucky Power Company, Ohio Power Company and AEP Generation Resources Inc. will for an interim time period manage the off-system transactions of the parties beyond termination of the Pool Agreement and manage obligations to fulfill their Fixed Resource Requirement under PJM's Reliability Assurance Agreement.

OHIO POWER COMPANY

RATE SCHEDULE NO. 301

Joint Tariff Common Name: "Bridge Agreement"

Designated Filing Company: Appalachian Power Company (APCo)

Designated Filing Company Tariff Title: APCo Rate Schedules and Service Agreements Tariffs

Designated Filing Company Tariff Program: FPA (Cost Based)

Designated Filing Company Tariff Record Adopted by Reference (Record Content Description/Tariff Record Title): Rate Schedule No. 301, Bridge Agreement

No limitations: All versions of the agreement

Description of Tariff: Rate Schedule under which APCo, Indiana Michigan Power Company, Kentucky Power Company, Ohio Power Company and AEP Generation Resources Inc. will for an interim time period manage the off-system transactions of the parties beyond termination of the Pool Agreement and manage obligations to fulfill their Fixed Resource Requirement under PJM's Reliability Assurance Agreement.

AEP GENERATION RESOURCES INC.

RATE SCHEDULE NO. 301

Joint Tariff Common Name: "Bridge Agreement"

Designated Filing Company: Appalachian Power Company (APCo)

Designated Filing Company Tariff Title: APCo Rate Schedules and Service Agreements Tariffs

Designated Filing Company Tariff Program: FPA (Cost Based)

Designated Filing Company Tariff Record Adopted by Reference (Record Content Description/Tariff Record Title): Rate Schedule No. 301, Bridge Agreement

No limitations: All versions of the agreement

Description of Tariff: Rate Schedule under which APCo, Indiana Michigan Power Company, Kentucky Power Company, Ohio Power Company and AEP Generation Resources Inc. will for an interim time period manage the off-system transactions of the parties beyond termination of the Pool Agreement and manage obligations to fulfill their Fixed Resource Requirement under PJM's Reliability Assurance Agreement.

Attachment C

1. Certificate of Concurrence – Indiana Michigan Power Company regarding the Power Coordination Agreement and Bridge Agreement

2. Certificate of Concurrence – Kentucky Power Company regarding the Power Coordination Agreement and Bridge Agreement

3. Certificate of Concurrence – Ohio Power Company regarding the Bridge Agreement

4. Certificate of Concurrence – AEP Generation Resources Inc. regarding the Bridge Agreement

CERTIFICATE OF CONCURRENCE

This is to certify that Indiana Michigan Power Company (I&M), an Indiana corporation, assents to and concurs in the FERC FPA Electric Tariff described below, which Appalachian Power Company (APCo), the designated filing company, has filed in its "APCo Rate Schedules and Service Agreements Tariffs" database.

1. **Name of Tariff Adopted by Reference:** Power Coordination Agreement

APCO Tariff Record Adopted by Reference: Rate Schedule No. 300, Power Coordination Agreement

Description of Tariff: Rate Schedule under which APCo, I&M, Kentucky Power Company and American Electric Power Service Corporation (in an agency role) coordinate operation of their power supply resources.

2. **Name of Tariff Adopted by Reference:** Bridge Agreement

APCO Tariff Record Adopted by Reference: Rate Schedule No. 301, Bridge Agreement

Description of Tariff: Rate Schedule under which APCo, I&M, Kentucky Power Company, Ohio Power Company and AEP Generation Resources Inc. will for an interim time period manage the off-system transactions of the parties beyond termination of the Pool Agreement and manage obligations to fulfill their Fixed Resource Requirement under PJM's Reliability Assurance Agreement.

By: /John C. Crespo/
John C. Crespo,
Deputy General Counsel – Regulatory Services
Dated: October 26, 2012

CERTIFICATE OF CONCURRENCE

This is to certify that Kentucky Power Company (KPCo), a Kentucky corporation, assents to and concurs in the FERC FPA Electric Tariffs described below, which Appalachian Power Company (APCo), the designated filing company, has filed in its "APCo Rate Schedules and Service Agreements Tariffs" database.

1. **Name of Tariff Adopted by Reference:** Power Coordination Agreement

APCO Tariff Record Adopted by Reference: Rate Schedule No. 300, Power Coordination Agreement

Description of Tariff: Rate Schedule under which APCo, Indiana Michigan Power Company, KPCo and American Electric Power Service Corporation (in an agency role) coordinate operation of their power supply resources.

2. **Name of Tariff Adopted by Reference:** Bridge Agreement

APCO Tariff Record Adopted by Reference: Rate Schedule No. 301, Bridge Agreement

Description of Tariff: Rate Schedule under which APCo, Indiana Michigan Power Company, KPCo, Ohio Power Company and AEP Generation Resources Inc. will for an interim time period manage the off-system transactions of the parties beyond termination of the Pool Agreement and manage obligations to fulfill their Fixed Resource Requirement under PJM's Reliability Assurance Agreement.

By: /John C. Crespo/
John C. Crespo,
Deputy General Counsel – Regulatory Services
Dated: October 26, 2012

CERTIFICATE OF CONCURRENCE

This is to certify that Ohio Power Company, an Ohio corporation, assents to and concurs in the FERC FPA Electric Tariff described below, which Appalachian Power Company (APCo), the designated filing company, has filed in its "APCo Rate Schedules and Service Agreements Tariffs" database.

Name of Tariff Adopted by Reference: Bridge Agreement

APCO Tariff Record Adopted by Reference: Rate Schedule No. 301, Bridge Agreement

Description of Tariff: Rate Schedule under which APCo, Indiana Michigan Power Company, Kentucky Power Company, Ohio Power Company and AEP Generation Resources Inc. will for an interim time period manage the off-system transactions of the parties beyond termination of the Pool Agreement and manage obligations to fulfill their Fixed Resource Requirement under PJM's Reliability Assurance Agreement.

By: /John C. Crespo/
John C. Crespo,
Deputy General Counsel – Regulatory Services
Dated: October 26, 2012

CERTIFICATE OF CONCURRENCE

This is to certify that AEP Generation Resources Inc. (AEP Generation Resources), a Delaware corporation, assents to and concurs in the FERC FPA Electric Tariff described below, which Appalachian Power Company (APCo), the designated filing company, has filed in its "APCo Rate Schedules and Service Agreements Tariffs" database.

Name of Tariff Adopted by Reference: Bridge Agreement

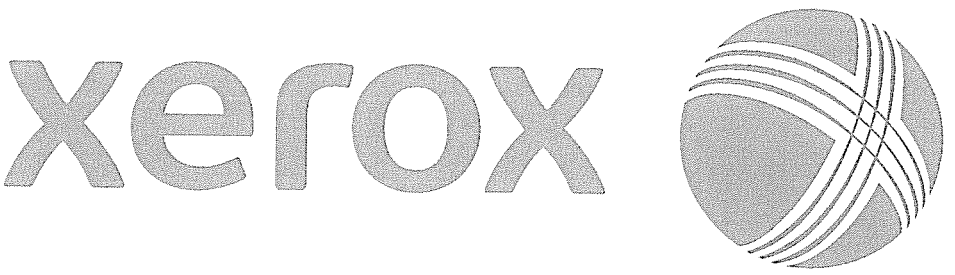
APCo Tariff Record Adopted by Reference: Rate Schedule No. 301, Bridge Agreement

Description of Tariff: Rate Schedule under which APCo, Indiana Michigan Power Company, Kentucky Power Company, Ohio Power Company and AEP Generation Resources Inc. will for an interim time period manage the off-system transactions of the parties beyond termination of the Pool Agreement and manage obligations to fulfill their Fixed Resource Requirement under PJM's Reliability Assurance Agreement.

By: /John C. Crespo/
John C. Crespo,
Deputy General Counsel – Regulatory Services
Dated: October 26, 2012

kwalton

Power Coordination and Bridge ER-233.pdf
04/22/13 02:35 PM



Steven J. Ross
202 429 6279
sross@steptoe.com

1330 Connecticut Avenue, NW
Washington, DC 20036-1795
202 429 3000 main
www.steptoe.com

Steptoe
STEPTOE & JOHNSON LLP

October 31, 2012

The Honorable Kimberly D. Bose
Secretary
Federal Energy Regulatory Commission
888 First Street, N.E.
Washington, D.C. 20426

Re: Appalachian Power Company
Docket No. ER13- -000
Indiana Michigan Power Company
Docket No. ER13- -000
Kentucky Power Company
Docket No. ER13- -000
Ohio Power Company
Docket No. ER13- -000
AEP Generation Resources Inc.
Docket No. ER13- -000

Dear Secretary Bose:

On behalf of Appalachian Power Company ("APCo"), Indiana Michigan Power Company ("I&M"), Kentucky Power Company ("KPCo"), and Ohio Power Company ("Ohio Power"), American Electric Power Service Corporation ("AEPSC") hereby submits for filing, pursuant to Section 205 of the Federal Power Act ("FPA"), the Tariff Records associated with (i) the "Power Coordination Agreement among Appalachian Power Company, Indiana Michigan Power Company, Kentucky Power Company, and American Electric Power Service Corporation" ("Power Coordination Agreement") and (ii) the "Bridge Agreement among Appalachian Power Company, Indiana Michigan Power Company, Kentucky Power Company, Ohio Power Company, AEP Generation Resources Inc. ("AEP Generation Resources") and American Electric Power Service Corporation" ("Bridge Agreement"). In conjunction with these new rate schedules, AEPSC also provides notice of APCo's, I&M's, KPCo's, and Ohio Power's termination of (i) the Interconnection Agreement ("Pool Agreement") and (ii) the AEP System Interim Allowance Agreement ("IAA"). **AEPSC respectfully requests that the Commission establish November 30, 2012, as the comment date for this filing. This extended comment period would allow interested parties extra time (an additional nine days beyond what is set forth in 18 C.F.R. § 35.8) to comment on the filing.**

This filing includes the following documents in addition to the relevant Tariff Records:[1]

1. Attachment A - Clean Tariff Attachments for the Power Coordination Agreement (APCo Rate Schedule No. 300; I&M Rate Schedule No. 300; and KPCo Rate Schedule No. 300);
2. Attachment B - Clean Tariff Attachments for the Bridge Agreement (APCo Rate Schedule No. 301; I&M Rate Schedule No. 301; KPCo Rate Schedule No. 301; Ohio Power Rate Schedule No. 301; AEP Generation Resources Rate Schedule No. 301); and
3. Attachment C - Certificates of Concurrence signed on behalf of I&M, KPCo, Ohio Power, and AEP Generation Resources.

I. INTRODUCTION

APCo, I&M, KPCo, Ohio Power,[2] and AEPSC are wholly-owned subsidiaries of American Electric Power Company, Inc. ("AEP"). On February 10, 2012, AEPSC filed, on behalf of itself and APCo, I&M, KPCo, Ohio Power and AEP Generation Resources Inc. ("AEP Generation Resources"): (1) a Power Cost Sharing Agreement Among APCo, I&M, KPCo and AEPSC; (2) a Bridge Agreement Among APCo, I&M, KPCo, Ohio Power, AEP Generation Resources and AEPSC; (3) notices of termination of (a) the Interconnection Agreement among APCo, I&M, KPCo, Ohio Power and AEPSC and (b) the AEP System Interim Allowance Agreement among APCo, I&M, KPCo, Ohio Power and AEPSC; and (4) related concurrences. AEPSC explained that the filing was made in conjunction with other filings implementing Ohio Power's proposed corporate separation plan that, at that time, had been approved by the Public Utilities Commission of Ohio ("Ohio Commission"). The Commission assigned to these filings Docket Nos. ER12-1042, ER12-1043, ER12-1044, ER12-1045, and ER12-1046.

On February 28, 2012, AEPSC notified the Commission that by order issued on February 23, 2012, the Ohio Commission withdrew its earlier approval of the proposed restructuring for Ohio Power and, therefore, these AEP companies were reconsidering how best to move forward. For that reason, AEPSC stated that it was withdrawing each of the previous filings, including those made in the dockets referenced immediately above. AEPSC further indicated that the AEP companies intended to pursue the matters covered by the filings at a later date, and would make the necessary filings at that time. This filing covers the agreements and matters that were the subject of the filings previously made in Docket Nos. ER12-1042, ER12-1043, ER12-1044, ER12-1045, and ER12-1046.

---

[1] The same filing is being submitted in four Tariff IDs, so the relevant Tariff Records will vary with each of the four filings. Each of the filings includes Attachments A through C.

[2] On December 31, 2011, Columbus Southern Power Company ("CSP") was merged into and became part of Ohio Power.

II. BACKGROUND

Together with their affiliates Kingsport Power Company ("Kingsport") and Wheeling Power Company ("Wheeling"), APCo, I&M, KPCo, and Ohio Power make up the AEP East utilities. The AEP East utilities are members of and operate within the footprint of PJM Interconnection, L.L.C. ("PJM"). AEPSC is a service company that provides various services to the AEP East utilities and their affiliate utilities that operate within the footprints of the Southwest Power Pool ("SPP") and the Electric Reliability Council of Texas ("ERCOT"). The AEP utilities in SPP and ERCOT are not part of and are not affected by this filing.

The AEP East utilities have for decades operated as part of an integrated public utility holding company system under the now-repealed Public Utility Holding Company Act of 1935. As part of that arrangement, those companies that owned electric generating resources (APCo, CSP, I&M, KPCo, and Ohio Power) coordinated the planning and operations of their respective generating resources pursuant to their Interconnection Agreement ("Pool Agreement").[3] The parties to the Pool Agreement are referred to herein as the "Pool Members," which included CSP prior to January 1, 2012. Kingsport and Wheeling are not parties to the Pool Agreement, as they do not own generation; they purchase their power requirements from APCo and Ohio Power, respectively.[4] The Pool Members also are parties to the IAA, pursuant to which they have coordinated and integrated their compliance with certain environmental rules and regulations; Kingsport and Wheeling are also not parties to the IAA.

For the reasons discussed below, each Pool Member provided notice to the other Pool Members (and to AEPSC) that it will terminate its participation under the Pool Agreement in accordance with the termination provision in the agreement. In addition, the Pool Members have agreed to terminate the IAA. Three of the current Pool Members – APCo, I&M, and KPCo – together with AEPSC, have agreed to proceed under a new arrangement (the Power Coordination Agreement), and those members together with Ohio Power and AEP Generation Resources have agreed to enter into an interim arrangement to address post-Pool Agreement matters (the Bridge Agreement).

Before discussing the new Power Coordination Agreement and the Bridge Agreement, set out below is an overview of the current Pool Agreement and the reasons that the Pool Members provided notice to terminate that agreement. Also discussed below are the reasons that the Pool Members agreed to terminate the IAA as well.

---

[3] The Pool Agreement, which has been amended several times, is on file with the Commission as APCo's Rate Schedule No. 20, CSP's Rate Schedule No. 30, I&M's Rate Schedule No. 17, KPCo's Rate Schedule No. 11, and Ohio Power's Rate Schedule No. 23.

[4] In a related proposed transaction for which Commission approval is being sought under FPA Section 203, Wheeling will merge into APCo, and APCo will serve the former Wheeling retail load. Kingsport's retail load will continue to be served through a wholesale purchase agreement with APCo.

A. The Pool Agreement

As the Commission previously has recognized, under the Pool Agreement, generation is planned and operated on a single-system basis in order to meet the needs of the customers of all the members of the agreement. *AEP Generating Company and Kentucky Power Company*, 38 FERC ¶ 61,243 at 61,812 (1987). Each Pool Member's generating capacity obligation is determined based on its Member Load Ratio ("MLR"). MLRs are calculated monthly on the basis of each member's non-coincident peak ("NCP") demand in relation to the sum of the NCP demands of Pool Members during the preceding twelve months. Over the years, the Pool Members jointly satisfied the Pool's combined need for capacity and energy even though, if viewed individually, some Pool Members from time to time had surplus generating capacity and others were capacity deficit.

Under the Pool Agreement, Pool Members make or receive capacity payments based upon the extent to which they are deficit or surplus and the generation costs of the surplus members. The total capacity surplus in any given month for surplus members always equals the total capacity deficiency for the deficit members, producing a zero surplus/deficit balance for the Pool Members. The Pool Agreement also has an energy component. Energy transactions occur between the Pool Members such that each member has sufficient energy to meet its share of the system's total sales made in that month. A Pool Member that produces more energy than needed to meet its requirements sells the excess to members that need additional energy to meet their total energy requirement. The sale is made at the seller's average variable production cost for the month. The Pool Agreement also provides for the allocation among the Pool Members of the revenues and/or costs associated with power sales to, and purchases from, third parties. Each member receives its MLR share of the off-system sales margins associated with any such sales.

The Pool Agreement designates AEPSC as the Pool Members' agent. The agent is responsible for, among other things, the coordination of the members' respective generating resources, the arrangement of capacity and/or energy transactions with third parties, and the accounting for and preparation of the settlements for internal pool transactions among the Pool Members.

B. Termination of the Pool Agreement

Section 13.2 of the Pool Agreement provides:

> Any Member upon at least three years' prior written notice to the other Members and Agent may terminate this agreement at the expiration of said initial period [December 31, 1971] or at the expiration of any successive period of one year.

On December 17, 2010, in accordance with Section 13.2 of the Pool Agreement, each of the then five members of the pool provided notice to the other members (and to AEPSC) to terminate the Pool Agreement on January 1, 2014. Although the Pool Agreement has served the Pool Members and the other AEP East utilities and their customers well over the past six decades, cumulative changes in the structure of the electric industry led the Pool Members to determine that it was necessary to consider alternatives to the current structure, including having no

agreement among any of the AEP East utilities that own generation. These changes include evolving environmental regulations, the introduction of open access to transmission facilities, the advent of regional transmission organizations, movement toward industry deregulation, an increased emphasis on demand side management, and expanding competition.[5] In addition, Ohio Power is experiencing a substantial and growing number of retail customers switching to competitive retail service providers and is under a requirement to legally separate its generation and marketing business from its wires business in Ohio.

These changes have raised questions as to the continuing viability of the Pool Agreement. In July 2010, for example, the Virginia State Corporation Commission ("Virginia Commission") issued an order in an APCo rate proceeding that directed APCo and AEP to submit a report regarding "the steps that can be taken to ameliorate the negative effects of high capacity charges on APCo and its customers." APCo filed its report with the Virginia Commission, detailing, among other things, the history of the Pool Agreement, the changes over the years to the make-up of the members' respective generating resource portfolios, and trends in the capacity equalization rates and energy rates. As APCo's report noted,

> While it is undeniable that the [Pool Agreement] has provided tremendous benefits to each of the operating companies and their customers through its near 60 year existence, it has become increasingly difficult for AEP planners to confront the realities of today's electric utility industry with an allocation methodology from a far simpler era. This is evidenced by the fact that regulatory commissions, including the [Virginia Commission] and others have started to question . . . the Pool's viability in the current power supply environment.[6]

In addition to the concerns raised by the Virginia Commission, over the past several years the Ohio Commission has issued a series of orders implementing legislation providing for the restructuring of the electric industry in Ohio. In accordance with the legislative initiatives, Ohio Power continues to develop and implement plans in Ohio related to these initiatives, which include a plan for Ohio Power to separate its generation resources and related facilities from its

---

[5] For example, five of the seven states in which the AEP East utilities operate currently have alternative/renewable energy portfolio requirements or goals, and the resources that qualify and the applicable standards vary significantly over time; some renewable standards include the use of energy efficiency programs while others include specific energy efficiency requirements or goals. In addition, demand response programs are addressed differently in different states; some permit customers to enroll in PJM demand response programs (either directly or through a third party aggregator), while others require enrollment with the utility. Each of these programs requires an accommodation of state- and operating-company specific requirements that were not contemplated under the Pool Agreement.

[6] "Report of Capacity Matters" submitted by Appalachian Power Company in Virginia Commission Case No. PUE-2009-00030 (January 4, 2011).

transmission and distribution facilities.[7] Once such corporate separation is implemented, Ohio Power will be a transmission and distribution company. The consummation of corporate separation will make it infeasible for Ohio Power to further participate under the Pool Agreement because, like Kingsport and Wheeling, Ohio Power will not own or operate generating units that would be available to the other Pool Members. Moreover, in accordance with the Ohio restructuring plan approved by the Ohio Commission, Ohio Power will conduct energy auctions under which it will procure portions of its energy requirements from mid-2013 through May 31, 2015. Beginning January 1, 2015, Ohio Power will procure 100% of the energy associated with Ohio Power's non-switching customers via competitive energy auctions.

For the foregoing reasons, the Pool Members agreed to terminate the existing Pool Agreement.[8] The remaining Pool Members (*i.e.,* APCo, I&M, and KPCo) have agreed to move forward with a new arrangement that is discussed in detail in Section III below. As noted above, the Pool Members' respective December 17, 2010 notices of termination provided for termination of the Pool Agreement to be effective on January 1, 2014.

The Pool Members have carefully coordinated termination of the Pool Agreement with other arrangements in order to lessen any adverse impact on the Pool Members and their customers. For example, the Power Coordination Agreement discussed below provides a vehicle for the remaining Pool Members to participate collectively under a common capacity plan in PJM. That agreement also provides opportunities for collective creation and sharing of specified off-system sales margins. Similarly, the simultaneous timing of the termination of the IAA, discussed immediately below, allows for the benefits and burdens from terminating that agreement to be somewhat counterbalanced by the benefits and burdens of terminating the Pool Agreement. In addition, it is currently contemplated that APCo and KPCo will obtain baseload generation previously owned by Ohio Power that will be designed to address the fact that APCo and KPCo, which are capacity deficit, will no longer be able to access capacity from Pool Members that have surplus capacity.[9] Finally, the Bridge Agreement discussed below in Section

---

[7] The Ohio Commission approved the proposed corporate separation in two recently-issued orders. *In the Matter of the Application of Columbus Southern Power Company and Ohio Power Company to Establish a Standard Service Offer Pursuant to Section 4928.143, Revised Code, in the Form of an Electric Security Plan*, Case Nos. 11-346-EL-SSO and 11-348-EL-SSO (August 8, 2012), and *In the Matter of the Application of Ohio Power Company for Approval of an Amendment to its Corporate Separation Plan*, Case No. 12-1126-EL-UNC (October 17, 2012). The transfer of Ohio Power's assets is the subject of a contemporaneous filing made with this Commission pursuant to FPA Section 203. That transaction is expected to close on December 31, 2013, which coincides with the termination of the Pool Agreement and the proposed effective dates (January 1, 2014) of the agreements submitted with this filing.

[8] The Pool Agreement has not been submitted through eTariff and thus may be cancelled by means of a Transmittal Letter.

[9] As described in the Corporate Separation Application filed with the Ohio Commission, immediately after the Ohio Power generating assets are transferred to AEP Generation Resources, APCo will obtain the transferred interest in Unit No. 3 of the Amos generating plant

IV provides for a fair allocation of the cost of meeting pre-existing PJM Fixed Resource Requirement ("FRR")[10] obligations and settling existing marketing and trading positions that will survive termination of the Pool Agreement.

The Commission has had occasion to review issues concerning the proposed withdrawal of one or more members from an integrated holding company's pool arrangements in *Entergy Services, Inc.*, 129 FERC ¶ 61,143 (2009); *order denying reh'g*, 134 FERC ¶ 61,075 (2011); *aff'd, Council of the City of New Orleans, Louisiana v. FERC*, No. 11-1043 (D.C. Circuit, August 14, 2012) ("*Entergy*"). In that case, the Commission ruled that there are three specific questions concerning the proposed withdrawal: whether the members are permitted to leave the arrangement; whether they are required to compensate any remaining members; and whether they have any "continuing obligations" to the remaining members. 129 FERC ¶ 61,143 at P 58. As confirmed by review of Section 13.2, the Pool Agreement permits each Pool Member to terminate its agreement (the equivalent of withdrawing from the agreement), and neither requires a terminating Pool Member to compensate the other Pool Members nor imposes upon a terminating Pool Member any continuing obligation to the other Pool Members. Section 13.2 is straightforward: a terminating Pool Member must simply provide the other Pool Members with three years' prior written notice of its proposed termination.

In *Entergy*, the Commission further ruled that acceptance of the members' proposal to withdraw from the agreement does not turn on the justness and reasonableness of the potential successor arrangements; that determination is made when such arrangements are submitted for Commission review. 134 FERC ¶ 61,075 at P 24. As noted, APCo, I&M, and KPCo have agreed to a new set of arrangements, *i.e.*, the Power Coordination Agreement. That agreement is discussed below, and any issues surrounding the justness and reasonableness of that agreement may be resolved in this docket.

C. Termination of the IAA

The IAA originally was submitted for filing on September 30, 1994, in Docket No. ER94-1670, and was accepted for filing by Letter Order issued in that docket on December 30,

---

(APCo already owns the remaining interest in Amos Unit No. 3) and a 50% undivided interest in the Mitchell generating plant, and KPCo will obtain the remaining 50% undivided interest in the Mitchell plant. An application seeking approval of the transfers to APCo and KPCo is being filed with the Commission contemporaneously herewith in accordance with FPA Section 203.

[10] The FRR provisions were added to the PJM Reliability Assurance Agreement ("RAA") in connection with PJM's Reliability Pricing Model ("RPM"). In conjunction with the development of the RPM rules, PJM developed the FRR alternative, under which a load-serving entity (designated as an "FRR Entity") has the option to submit an "FRR Capacity Plan" and meet a fixed capacity resource requirement rather than participate through the RPM capacity auction. In addition to meeting its own load obligations, an FRR Entity is required to reflect in its FRR Capacity Plan any retail load that switches to an alternative retail load-serving entity that opts not to submit its own FRR Capacity Plan. The FRR provisions of the RAA place the obligation to maintain sufficient capacity on the load-serving entity, which includes Ohio Power.

1994, and made a supplement to each member's Pool Agreement rate schedule designation, as shown below. On June 21, 1996, AEPSC, on behalf of the Pool Members, filed Modification 1 to the IAA in Docket No. ER96-2213. This modification was accepted for filing by Letter Order issued in that docket on August 30, 1996. The current version of the IAA has been in effect since September 1, 1996, and has been given the following rate schedule designations:[11]

Appalachian Power Company	Supplement No. 9 to Rate Schedule No. 20
Columbus Southern Power Company	Supplement No. 3 to Rate Schedule No. 30
Indiana Michigan Power Company	Supplement No. 10 to Rate Schedule No. 17
Kentucky Power Company	Supplement No. 6 to Rate Schedule No. 11
Ohio Power Company	Supplement No. 9 to Rate Schedule No. 23

The IAA was developed and entered into in connection with the Pool Members' efforts to comply with the 1990 amendments to the Clean Air Act, and in particular Title IV thereto.[12] As implemented by the United States Environmental Protection Agency, the 1990 Amendments provided for, among other things, a sulfur dioxide (SO_2) emission allowances regime that eventually would affect nearly all of the Pool Members' electric generating units, with one allowance being equal to the right to emit one ton of SO_2. Consistent with the coordinated system operations under the Pool Agreement, the IAA was intended to provide for coordinated and integrated compliance with the 1990 Amendments through an equitable methodology to allocate emission allowances to the Pool Members and to allocate either the cost of acquiring, or the proceeds associated with the sale of, allowances to or from non-affiliated third parties. For administrative ease, each member would own its member load ratio share of allowances at the end of each year. The internal transfer price for the allowances was established as the System Cost of Compliance ($115.43/ton in 1995, escalated annually at a fixed rate of 10.56%). For 2011, the System Cost of Compliance was $575.29; that figured escalated to $636.04 for 2012.

Since the IAA was put into place in 1994 and subsequently modified in 1996, there have been significant changes in environmental rules and the markets associated with Title IV SO_2 emissions allowances that make the IAA obsolete. These developments include most notably: (1) additional environmental compliance obligations added since 1994 whose stringency on power plant emissions has or will eclipse obligations under Title IV for SO_2, (2) the continuing uncertainty surrounding the environmental compliance regulations, (3) the extension of AEP's environmental controls program, which has resulted in the addition of scrubbers to thirteen AEP East generating units, (4) elimination, in part as a result of the foregoing two factors, of any shortage of the Pool Members for Title IV SO_2 allowances, and (5) the emergence of a robust secondary market for Title IV SO_2 allowances and their current and projected availability at low cost from that market. For all these reasons, the Pool Members agree that the IAA should terminate when the Pool Agreement terminates effective on January 1, 2014.

---

[11] Because the IAA was designated as a Supplement to the rate schedule that was the Pool Agreement, terminating the Pool Agreement rate schedule would result in termination of the IAA, absent the IAA being removed from the relevant rate schedule.

[12] 104 Stat. 2584, 42 U.S.C.A. § 7561, *et seq.* ("1990 Amendments").

III. THE POWER COORDINATION AGREEMENT

The Power Coordination Agreement is designed to provide APCo, I&M, and KPCo with the opportunity to (a) participate collectively under a common FRR capacity plan in PJM, and (b) to participate in specified collective off-system sales and purchase activities. Ohio Power will not be a party to this agreement. The key difference between the Power Coordination Agreement and the current Pool Agreement is that under the new arrangement, generation will not be planned on a single-system basis; APCo, I&M, and KPCo individually will be required to own or contract for sufficient generation to meet their respective load and reserve obligations.[13] Likewise, the Power Coordination Agreement does not impose capacity equalization charges on deficit members.

The Power Coordination Agreement generally provides for APCO, I&M, and KPCo (referred to in the agreement individually as an "Operating Company" or collectively as the "Operating Companies") to coordinate their respective power supply resources. As with the current Pool Agreement, AEPSC will continue to act as the agent with responsibility for assisting each Operating Company in its evaluation of power supply resources to meet load requirements; assisting in the coordination and operation of each Operating Company's power supply resources; conducting off-system purchases and sales on behalf of the Operating Companies; and coordinating the procurement of fuel, consumables, emission allowances, and transportation services. *See* Article V. Governance under the Power Coordination Agreement will be accomplished through an Operating Committee consisting of representatives of each Operating Company and AEPSC as the agent. The Operating Committee's primary duties will be to review procedures for cost and benefit allocations under the agreement and to coordinate efforts to implement measures necessary for the reliable and economic use of the Operating Companies' respective power supply resources. *See* Article VI.

The key provisions of the Power Coordination Agreement are set out in Article VII ("Operating Company Planning and Operations") and the related service schedules. Section 7.1 provides that each of the Operating Companies will be individually responsible for planning to meet its capacity obligations. However, the Agent (AEPSC) will provide resource adequacy assessments (from the individual company and aggregate perspectives) and make recommendations to each Operating Company as to the need to add power supply resources. The Agent also will make recommendations as to the extent to which an Operating Company has temporary surplus power supply resources that could be made available to one or both of the other Operating Companies or to third parties. Service Schedule A ("Collective Participation in the Applicable Regional Transmission Organization Capacity Market") sets out the terms for collective participation under a common FRR "self-supply" plan to meet their capacity obligations in PJM. Article VII also provides for the Agent to coordinate the scheduling of planned generation outages (Section 7.2), and to coordinate the dispatch of the Operating

---

[13] As noted above, to reflect the fact that the Pool Agreement enabled deficit members (APCo and KPCo) to access the capacity and energy of those members with surplus generation (such as Ohio Power), APCo and KPCo plan to obtain baseload generating assets previously owned by Ohio Power to enable them to meet their respective load and reserve obligations.

Companies' respective generating resources subject to the direction of the applicable regional transmission organization ("RTO") (Section 7.3).

Section 7.5 sets out the terms for off-system transactions. Capacity transactions, discussed in Section 7.5.1, generally will be directly assigned to a specific Operating Company. Capacity purchases that are not directly allocated generally will be allocated to the Operating Company or Companies with the lowest expected capacity reserve margin(s) over the duration of the transaction. Capacity sales transactions that are not allocated to a specific Operating Company generally will be allocated to the Operating Company or Companies with the highest expected capacity reserve margin(s) over the duration of the transaction. This allocation method also applies to surplus capacity sales that occur under an RTO auction process; the implementation details are specified in Service Schedule A. That schedule discusses the treatment of auction revenues (A3) and the settlement procedures (A4).

Section 7.5.2 of the Power Coordination Agreement addresses directly assigned energy transactions with third parties. Purchases and/or sales initiated at the direction of a specific Operating Company generally will be directly assigned to that company. Costs and revenues associated with an Operating Company's off-system sales into and purchases from the RTO spot market will be directly assigned to that Operating Company. Section 7.5.3 applies to generation hedge transactions (for purposes of hedging generation output) and trading transactions (sales not associated with generation). The allocation of revenues and costs related to hedge transactions are specified in Service Schedule B ("Generation Hedge Transactions") and the allocation of revenues and costs related to trading transactions are specified in Service Schedule C ("Trading Transactions").

Service Schedule B specifies the details concerning the generation hedge transactions. Item B2 of the schedule specifies that monthly net costs and revenues associated with these transactions generally will be ratably allocated among the Operating Companies in proportion to their surplus MWhs (generation output and dedicated energy purchases in excess of retail and requirements wholesale load) for the month. Service Schedule C deals with trading transactions. Item C2 provides that transactions settled for a given month will be ratably allocated among the Operating Companies in proportion to each company's common shareholder equity balance, as determined based on the prior calendar year's books and effective beginning June of the subsequent year.

IV. BRIDGE AGREEMENT

In conjunction with and following the termination of the Pool Agreement, APCo, I&M, KPCo, Ohio Power, AEP Generation Resources and AEPSC (as agent) will operate under the Bridge Agreement. As its name implies, the Bridge Agreement is intended to be an interim arrangement that will be in place only for a short time. As discussed in more detail below, the Bridge Agreement addresses (a) the treatment of those purchases and sales made by the agent on behalf of the Pool Members that extend beyond termination of the Pool Agreement, and (b) how APCo, I&M, KPCo, and Ohio Power will fulfill their existing FRR obligations under the PJM Reliability Assurance Agreement ("RAA") through the PJM planning year 2014/2015 (ending

May 31, 2015). APCo, I&M, KPCo, and Ohio Power are referred to in the Bridge Agreement as "Operating Companies."

Article II of the Bridge Agreement provides that the term commences upon the termination of the Pool Agreement and terminates upon the later of the settlement of the contracts in the legacy marketing and trading portfolio or the end of Ohio Power's FRR obligations. Article III provides for AEPSC to serve as agent and to prepare summary reports of activities under the Bridge Agreement. Article IV provides for the creation of an Operating Committee composed of a representative of each of the parties, with AEPSC's representative serving as the chair of the Operating Committee. Certain functions under the Bridge Agreement may be delegated to one or more subcommittees.

The two key articles of the Bridge Agreement are Article V ("FRR Obligation") and Article VI ("Legacy Contracts"). The upcoming termination of the Pool Agreement required the Pool Members to adopt new arrangements to meet the AEP East FRR capacity obligations. Those arrangements are set out in Article V and, among other things, commit AEP Generation Resources to make its generation available to meet the Operating Companies' FRR capacity obligations through the PJM Planning Year that ends on May 31, 2015. After that, Ohio Power's role as an FRR Entity will terminate, and Ohio Power will participate in the RPM auctions to meet its residual capacity requirements. Section 5.1 provides for the Agent to analyze the Operating Companies' FRR obligations in light of projected changes to their capacity resources or their capacity requirements, and to recommend a capacity resource plan to meet those obligations. The plan for the Operating Companies will be reviewed and must be unanimously approved by the Operating Companies. Section 5.2 provides for the Agent to collect information during a PJM Planning Year and, based on that information, to alter the combination of capacity resources so as to meet the FRR capacity obligation in a way that minimizes compliance charges to the extent reasonably practicable. Section 5.3 provides that allocations of charges and credits associated with (i) capacity resource purchases and sales and (ii) FRR charges and credits will be based on an average of the Pool Members' MLRs for each of the last twelve months preceding termination of the Pool Agreement ("Final MLR"). Finally, Section 5.4 provides that the fulfillment of the Operating Companies' FRR capacity obligations, including the allocation of charges and credits, is governed by the Bridge Agreement and not by the Power Coordination Agreement discussed above until the 2015/2016 PJM planning year.

Article VI addresses the treatment of the "Legacy Contracts Portfolio," which includes "Legacy Trading Contracts" (power purchases and sales made pursuant to the Pool Agreement) and "Legacy Hedge Contracts" (physical and financial transactions that hedge the Pool Members' generation resources) that are in effect at the time that the Pool Agreement is terminated. Section 6.1.1 of the Bridge Agreement provides for the Agent to settle the Legacy Trading Contracts and Legacy Hedge Contracts in accordance with their contractual terms. Gains and losses from settlement and liquidation of the Legacy Trading Contracts will be allocated among the parties based on the Final MLR. That section further provides that the Agent may, from time to time, enter into new transactions on behalf of the Operating Companies to reduce the tenor and risk of the portfolio (such new arrangements will then be treated as

Legacy Trading Contracts), but such new arrangements cannot extend beyond the final delivery month of the agreements in the portfolio of Legacy Trading Contracts.

Section 6.1.2 provides for the Agent to allocate gains and losses from the settlement and liquidation of the Legacy Hedge Contracts to APCo, I&M, KPCo (collectively) and to AEP Generation Resources in a ratable manner based on the respective forecasted spot market energy sales of APCo, I&M, KPCo (collectively) and AEP Generation Resources determined as of the effective date of the Bridge Agreement. The forecasted spot market energy sales are derived from the forecasted output of generation minus forecasted internal load. If the forecasted internal load of either APCo, I&M, KPCo (collectively) or AEP Generation Resources exceeds the forecasted output of their respective owned or controlled generation for a given month, then APCo, I&M, KPCo or AEP Generation Resources, as applicable, will not receive any allocation of gains or losses for that month, unless both are in that position, in which case gains or losses will be allocated ratably among APCo, I&M, KPCo, and AEP Generation Resources in proportion to the forecasted output of their owned or contracted generation.

The remaining articles address standard commercial matters, such as billing (Article VII), force majeure (Article VIII), general miscellaneous terms (Article IX), and regulatory approvals (Article X).

V. EFFECTIVE DATES

AEPSC proposes that the termination of the current Pool Agreement (and the IAA) will occur on and the effective date of the proposed new Power Coordination Agreement will be January 1, 2014. The Tariff Records for the Power Coordination Agreement are thus being submitted with a January 1, 2014 proposed effective date. AEPSC proposes that the new Bridge Agreement also become effective upon the termination of the current Pool Agreement on January 1, 2014. The Tariff Records are thus also being submitted with a January 1, 2014 proposed effective date.

AEPSC submits that this filing raises no material issues of fact that require resolution though hearing procedures. AEPSC therefore respectfully requests that the Commission accept the filing without condition or modification and without initiating any further proceedings, and permit the Power Coordination Agreement and the Bridge Agreement to become effective on January 1, 2014, in conjunction with the termination of the Pool Agreement and the IAA.

VI. GENERAL FILING INFORMATION

In compliance with the requirements of 18 C.F.R. § 35.13, AEPSC states as follows:

A. General Information – 18 C.F.R. § 35.13(b)

The documents provided with this filing include this Transmittal Letter and the materials listed above. The persons upon whom this filing has been served are set out below in Section VII. A description of and the reasons for the rate changes proposed are discussed in this Transmittal Letter. AEPSC further states that there are no costs included in the agreements that have been alleged or judged in any administrative or judicial proceeding to be illegal,

duplicative, or unnecessary costs that are demonstrably the product of discriminatory employment practices.

B. Cost of Service Information – 18 C.F.R. § 35.13(c)

AEPSC requests waiver of those provisions in Section 35.13 that would require AEPSC to submit cost-of-service and revenue data. First, this filing qualifies for the abbreviated filing requirements under Section 35.13(a)(2)(iii) because the companies are not proposing a rate increase. In addition, the Power Coordination Agreement and the Bridge Agreement are entirely new arrangements and, therefore, no meaningful comparison may be made of revenues that were collected under prior arrangements. The Power Coordination Agreement provides for voluntary capacity and/or energy transactions at market prices, which, of course, fluctuate. The Bridge Agreement does not provide for any new transactions among the parties, but rather for the AEP East generating companies to continue to make their capacity available to meet the pre-existing FRR obligations. The Bridge Agreement also addresses marketing and trading positions under existing transactions, which will turn on prevailing market prices.

VII. CORRESPONDENCE AND SERVICE

AEPSC requests that any correspondence or communications with respect to this filing be sent to the following:

Chad Heitmeyer
Regulatory Case Manager
American Electric Power
Service Corporation
1 Riverside Plaza
Columbus, OH 43215
(614) 716-3303
caheitmeyer@aep.com

John C. Crespo
Deputy General Counsel – Regulatory Services
American Electric Power
Service Corporation
1 Riverside Plaza
Columbus, OH 43215
(614) 716-3727
jccrespo@aep.com

Steven J. Ross
Carol Gosain
Steptoe & Johnson LLP
1330 Connecticut Avenue, N.W.
Washington, DC 20036
(202) 429-6279
sross@steptoe.com
cgosain@steptoe.com

A copy of this filing will be served on the Indiana Utility Regulatory Commission, the Kentucky Public Service Commission, the Michigan Public Service Commission, the Public Utilities Commission of Ohio, the Tennessee Regulatory Authority, the Virginia State Corporation Commission, and the Public Service Commission of West Virginia. In addition, a copy of this filing will be posted on AEP's website at:

http://www.aep.com/investors/currentRegulatoryactivity/regulatory/ferc.aspx

VIII. CONCLUSION

For the foregoing reasons, AEPSC respectfully requests that the Commission accept for filing, without condition or modification, the Power Coordination Agreement and the Bridge Agreement. If you have any questions concerning this filing, please do not hesitate to contact the undersigned.

Respectfully submitted,

AMERICAN ELECTRIC POWER
SERVICE CORPORATION

/s/

John C. Crespo
Deputy General Counsel – Regulatory Services
American Electric Power
Service Corporation
1 Riverside Plaza
Columbus, OH 43215

Steven J. Ross
Carol Gosain
Steptoe & Johnson LLP
1330 Connecticut Avenue, N.W.
Washington, DC 20036

Attorneys for
American Electric Power Service Corporation

Attachments

Attachment A

Power Coordination Agreement Among Appalachian Power Company, Indiana Michigan Power Company, Kentucky Power Company and American Electric Power Service Corporation as Agent

1. Tariff Record, APCo – Rate Schedule No. 300
2. Tariff Record, KPCo – Rate Schedule No. 300
3. Tariff Record, I&M – Rate Schedule No. 300

RATE SCHEDULE No. 300

POWER COORDINATION AGREEMENT

among

APPALACHIAN POWER COMPANY,
INDIANA MICHIGAN POWER COMPANY,
KENTUCKY POWER COMPANY

and

AMERICAN ELECTRIC POWER SERVICE CORPORATION

as Agent

Tariff Submitter: **Appalachian Power Company**
FERC Program Name: **FERC FPA Electric Tariff**
Tariff Title: **APCo Rate Schedules and Service Agreements Tariffs**
Tariff Proposed Effective Date: **01/01/2014**
Tariff Record Title: **Power Coordination Agreement**
Option Code: **A**
Record Content Description: **Rate Schedule No. 300**

POWER COORDINATION AGREEMENT

THIS AGREEMENT is made and entered into as of this __ day of _____, 2013, by and among Appalachian Power Company ("APCo"), Indiana Michigan Power Company ("I&M"), Kentucky Power Company ("KPCo") and American Electric Power Service Corporation ("AEPSC") as agent ("Agent") to APCo, I&M and KPCo.

RECITALS:

WHEREAS, APCo, I&M and KPCo (collectively the "Operating Companies" or individually "Operating Company") own and operate electric generation, transmission and distribution facilities with which they are engaged in the business of generating, transmitting and selling electric power to the general public and to other electric utilities;

WHEREAS, the Operating Companies' electric facilities are now and have been for many years interconnected through their respective transmission facilities and transmission facilities of third parties at a number of points (hereby designated and hereinafter called "Interconnection Points");

WHEREAS, APCo, I&M and KPCo provide power to serve retail and wholesale customers in Indiana, Kentucky, Michigan, Tennessee, Virginia and West Virginia;

WHEREAS, APCo, I&M and KPCo believe that they can continue to achieve efficiencies and economic benefits through the coordinated operation of their respective power supply resources;

WHEREAS, the Operating Companies recognize that APCo, I&M and KPCo will (a) participate in the organized power markets of a regional transmission organization and (b) receive allocations of off-system sales and purchases with other parties on bases that fairly assign or allocate the costs and benefits of these transactions;

WHEREAS, the achievement of the foregoing will be facilitated by the performance of certain services by an Agent;

WHEREAS, AEPSC is the service company affiliate of APCo, I&M and KPCo and as such performs a variety of services on their behalf in accordance with applicable rules and regulations of the Federal Energy Regulatory Commission ("Commission"); and

WHEREAS, AEPSC is willing to serve as Agent to APCo, I&M and KPCo under this Agreement with respect to generation-related activities.

NOW, THEREFORE, in consideration of the premises and the mutual covenants and agreements herein set forth, the Parties mutually agree as follows:

ARTICLE I
DEFINITIONS

1.1 Agreement means this Power Coordination Agreement among APCo, I&M, KPCo and Agent, including all Service Schedules and attachments hereto.

1.2 Dedicated Wholesale Customer means a wholesale customer whose load is served by an Operating Company that has undertaken, by contract, an obligation to serve that customer's partial or full requirements load and to acquire power supply resources and other resources necessary to meet those requirements.

1.3 Generation Hedge Transactions means Off-System Transactions entered into for the purpose of hedging the output of the generation assets of one or more of the Operating Companies.

1.4 Industry Standards means all applicable national and regional electric reliability council and regional transmission organization principles, guides, criteria, standards and practices.

1.5 Internal Load means all sales of power by an Operating Company to its Retail Customers and Dedicated Wholesale Customers, including losses. As distinguished from Off-System Sales, Internal Load is principally characterized by the Operating Company assuming the load obligation as its own power commitment.

1.6 Off-System Sales means all wholesale power sales by an Operating Company other than sales to the Retail Customers and Dedicated Wholesale Customers that comprise the Operating Company's Internal Load.

1.7 Off-System Purchases means wholesale power purchases by an Operating Company or Operating Companies for any of the following reasons: (a) to reduce power supply costs, (b) to serve load requirements, (c) to provide reliability of supply, (d) to satisfy state specific requirements or goals or (e) to engage in Off-System Sales.

1.8 Off-System Transactions means Off-System Sales, Off-System Purchases and any other types of power-related wholesale transactions, whether physical or financial, on behalf of an Operating Company or Operating Companies, excluding sales to Internal Load customers.

1.9 Operating Committee means the administrative body established pursuant to Article VI for the purposes specified within this Agreement.

1.10 Party means each of APCo, I&M, KPCo and Agent, individually, and **Parties** means APCo, I&M, KPCo and Agent, collectively.

1.11 Retail Customer means a retail power customer on whose behalf an Operating Company has undertaken an obligation to obtain power supply resources in order to supply electricity to reliably meet the electric needs of that customer.

1.12 Service Schedules means the Service Schedules attached to this Agreement and those that later may be agreed to by the Parties and accepted for filing by the Commission, as they may be amended from time to time.

1.13 Spot Market means the day ahead, real time (balancing) or similar short-term energy market(s) operated by the applicable regional transmission organization(s), typically characterized by energy that is selected and delivered on an hourly, or more frequent, basis during that same day or the next calendar day.

1.14 System Emergency means a condition which, if not promptly corrected, threatens to cause imminent harm to persons or property, including the equipment of a Party or a Third Party, or threatens the reliability of electric service provided by an Operating Company to Retail Customers or Dedicated Wholesale Customers.

1.15 Third Party or Third Parties means any entity or entities that are not a Party or Parties.

1.16 Trading Transactions means Off-System Transactions that are not Generation Hedge Transactions or otherwise sourced or hedged from, dedicated to, or associated with the generation assets or Internal Load of the Operating Companies.

ARTICLE II
TERM OF AGREEMENT

2.1 Term and Withdrawal. Subject to Commission approval or acceptance for filing, this Agreement shall take effect on January 1, 2014, or such other date permitted by the Commission, and shall continue in full force and effect until (a) terminated by mutual agreement or (b) upon no less than twelve (12) months' written notice by one Party to each of the other Parties, after which time the notifying Party will be withdrawn from the Agreement and the

Agreement will continue in full force and effect for the remaining Parties except for such modifications necessary to remove the withdrawn Party.

ARTICLE III
OBJECTIVES

3.1 Purpose. The purpose of this Agreement is to provide a contractual basis for coordinating the power supply resources of the Operating Companies to achieve economies and efficiencies consistent with the provision of reliable electric service and an equitable sharing of the benefits and costs of such coordinated arrangements. This Agreement is based on the premise that each Operating Company will maintain sufficient long-term power supply resources to meet its Internal Load requirements.

ARTICLE IV
SCOPE AND RELATIONSHIP TO OTHER AGREEMENTS AND SERVICES

4.1 Scope. The transactions governed by this Agreement are subject to, and may be limited from time to time by applicable state and federal laws, and the regulations, rules, and orders of applicable regulatory agencies regarding the purchase and sale of energy and/or capacity among affiliates. This Agreement is not intended to preclude the Parties from entering into other arrangements between or among themselves or with Third Parties. This Agreement is intended to operate in addition to, not in lieu of, power market transactions and settlements that occur between each Operating Company or the Operating Companies collectively and any applicable regional transmission organizations.

4.2 Transmission. This Agreement is intended to apply to the coordination of the power supply resources of, and loads served by, the Operating Companies. It is not intended to

apply to the coordination of transmission facilities owned or operated by the Operating Companies.

ARTICLE V
AGENT

5.1 **Agent's Functions.** Subject to the direction of the Operating Committee, Agent agrees to:

(a) assist in evaluations concerning Operating Company power supply resource adequacy, including generation additions, retirements, acquisitions and dispositions;

(b) assist in the coordination of the operation and maintenance of the Operating Companies' respective power supply resources;

(c) administer the participation and financial settlement of the Operating Companies in the power markets of the applicable regional transmission organization;

(d) conduct Off-System Transactions on behalf of one or more Operating Companies;

(e) prepare and deliver to the Parties a monthly settlement statement and make available as requested supporting details for any Party to inspect for a period of time not to exceed three (3) years from the date expenses were incurred or revenues received;

(f) acquire and coordinate transmission and ancillary services from affiliated and non-affiliated transmission providers for use with respect to transactions between or among the Operating Companies under this Agreement and Off-System Transactions;

(g) assist in the coordination of the Operating Companies' procurement of, but not necessarily limited to, fuel, consumables, emission allowances and transportation services; and

(h) perform such other activities and duties as may be requested from time to time by a Party or Parties.

5.2 Appointment and Acceptance of Authority; Delegation of Duties

5.2.1 Appointment of Agent. As of the effective date of this Agreement as specified in Section 2.1, the Operating Companies delegate to AEPSC, as the Agent, and AEPSC, as the Agent, hereby accepts responsibility and authority for the duties listed in Section 5.1 and elsewhere in this Agreement and shall perform each of those duties under the direction of the Parties.

5.2.2 Delegation of Duties. With the prior written consent of the other Parties, AEPSC may assign all or a part of its responsibilities under this Agreement to another entity.

ARTICLE VI
COMPOSITION AND DUTIES OF THE OPERATING COMMITTEE

6.1 Operating Committee. By written notice to the other Parties, each Party shall name one representative ("Representative") to act for it in matters pertaining to this Agreement and its implementation. A Party may change its Representative at any time by written notice to the other Parties. The Representatives of the respective Parties shall comprise the Operating Committee. The Agent's Representative shall act as the chairman of the Operating Committee

("Chairman"). All decisions of the Operating Committee shall be by a simple majority vote of the Representatives.

6.2 Meeting Dates. The Operating Committee shall hold meetings at such times, means, and places as the members shall determine. Minutes of each Operating Committee meeting shall be prepared and maintained.

6.3 Duties. The Operating Committee shall have the duties listed below, unless such duties are otherwise assigned by a vote of the Operating Committee to the Agent, in which case the Agent shall perform such duties:

(a) reviewing and providing direction concerning the equitable sharing of costs and benefits under this Agreement among the Operating Companies;

(b) administering and interpreting this Agreement and making any amendments hereto, subject to any necessary regulatory approvals, including such amendments that are proposed in response to a change in regulatory requirements applicable to one or more of the Operating Companies or changes concerning an applicable regional transmission organization;

(c) reviewing and, if necessary, amending the duties and responsibilities of the Agent; and

(d) ensuring coordination for other matters not specifically provided for herein that the Operating Committee considers necessary to the reliable and economic use of each Operating Company's power supply resources.

In the event that an action of the Operating Committee results in a change to the settlement process(es) among the Operating Companies, such modified settlement will normally occur on a prospective basis only, however, this may include past billing periods back to the

beginning of the first full billing month preceding the date of action of the Operating Committee. Such modifications will be subject to the terms of Article IX as applicable.

ARTICLE VII
OPERATING COMPANY PLANNING AND OPERATIONS

7.1 Operating Company and System Planning. Each Operating Company, with support from the Agent, will be individually responsible for its own capacity planning. Each Operating Company will be responsible for maintaining an adequate level of generation resources to meet its own Internal Load requirements for capacity and energy, including any required reserve margins, and shall bear all of the resulting costs.

The Agent shall assess the adequacy of the power supply resources of the Operating Companies from the perspective of each Operating Company and the Operating Companies collectively, taking into account reserve requirements, capacity status in the applicable regional transmission organization, state integrated resource plans as applicable, each Operating Company's load forecast, changing regulatory structures and requirements and all other criteria applicable by law or regulation to each Operating Company. The Agent will subsequently make recommendations to each Operating Company regarding the need for additional power supply resources. In making this evaluation, the Agent, in conjunction with each Operating Company, will assess whether economies and efficiencies may be achieved by selecting power supply resources for joint ownership between or among more than one Operating Company, subject to regulatory, transmission, economic, and operational constraints and approvals. Similarly, the Agent, under the direction of the Operating Committee, will assess and make recommendations to each Operating Company as to whether that Operating Company

has power supply resources in excess of its needs (short-term or long-term) that could be made available to the other Operating Companies or Third Parties.

All capacity transactions between the Operating Companies will be made under such terms and at rates that are mutually agreeable to the Operating Companies. Transactions among the Operating Companies with Third Parties for sales and purchases of capacity under this Agreement shall be made as described under Section 7.5.1 and Service Schedule A. Notwithstanding any of the foregoing, the actual addition or disposition of power supply resources will be conditioned on compliance with all applicable state and other regulatory requirements and requirements of the applicable regional transmission organization.

7.2 Generation Resource Outage Planning. The Agent, on behalf of the Operating Companies, will coordinate the scheduling of planned generation resource outages in order to support reliability and manage costs.

7.3 Generation Resource Dispatch. The generation resources of each of the Operating Companies will be dispatched by the Agent under the direction of the applicable regional transmission organization.

7.4 Regional Transmission Organization Transactions. Each Operating Company shall be individually responsible for charges it incurs and credits it receives due to its participation in the power markets of a regional transmission organization. Such costs and revenues will be assigned or allocated directly by the applicable regional transmission organization or its agent where practical. The Operating Companies may collectively participate from time to time in specific markets of the regional transmission organization or to meet certain regional transmission or reliability organization requirements, in which case the allocation of

resulting revenues and/or costs, if any, will be performed as specified herein or as otherwise approved by the Operating Committee.

Notwithstanding the foregoing, in the event that two or more Operating Companies collectively participate in the capacity market of an applicable regional transmission organization, meaning that such Operating Companies' resources and load obligations are combined and administered collectively to participate in and satisfy the reliability requirements of the applicable regional transmission organization's capacity market, such participation will be administered and financially settled as described under Service Schedule A.

7.5 Off System Transactions

7.5.1 Capacity Purchases and Sales with Third Parties. Off-System Transactions of capacity initiated at the direction of an Operating Company will be directly assigned to that Operating Company whenever reasonably possible. Any Off-System Purchases of capacity not directly assigned to an Operating Company will normally be allocated to the Operating Company or Operating Companies with the lowest capacity reserve margin(s) over the applicable period at the time of the transaction. Any Off-System Sales of capacity not directly assigned to an Operating Company will normally be allocated to or among the Operating Company or Operating Companies with the highest reserve margin(s).

Notwithstanding the foregoing, Off-System Transactions of capacity that occur under the capacity auction processes of the applicable regional transmission organization will be directly assigned to a specific Operating Company based on the results of such auctions or, if two or more Operating Companies are collectively participating in a regional transmission organization's capacity

market, the Off-System Transactions of capacity will be allocated to such Operating Companies as specified under Service Schedule A.

7.5.2 Directly Assigned Energy Purchases and Sales with Third Parties. Off-System Transactions of energy initiated at the direction of an Operating Company will be directly assigned to that Operating Company whenever reasonably possible. Costs and revenues associated with each Operating Company's Off-System Sales of energy and Internal Load energy purchases from the applicable regional transmission organization in the Spot Market, including the purchase of any energy deficits or sales of any energy surpluses, will be directly assigned to that Operating Company.

7.5.3 Generation Hedge Transactions and Trading Transactions. Revenues and costs associated with Generation Hedge Transactions, including revenues and costs associated with the settlement of Generation Hedge Transactions in the Spot Market or other markets of the applicable regional transmission organization, will be allocated among the Operating Companies by the Agent as specified under Service Schedule B.

Revenues and costs associated with Trading Transactions, including revenues and costs associated with the settlement of Trading Transactions in the Spot Market or other markets of the applicable regional transmission organization, will be allocated among the Operating Companies by the Agent as specified under Service Schedule C.

7.6 Emergency Response. In the event of a System Emergency, no adverse distinction shall be made between the customers of any of the Operating Companies. Each

Operating Company shall, under the direction of the applicable regional transmission organization, make its power supply resources available in response to a System Emergency. Notwithstanding the foregoing, it is understood that transmission constraints or other factors may limit the ability of an Operating Company to respond to a System Emergency.

ARTICLE VIII
ASSIGNMENT OF COSTS AND BENEFITS OF COORDINATED OPERATIONS

8.1 Service Schedules. The costs and revenues associated with coordinated operations as described in Article VII shall be distributed among the Operating Companies in the manner provided in the Service Schedules utilizing the billing procedures described in Article IX. It is understood and agreed that all such Service Schedules are intended to establish an equitable sharing of costs and/or benefits among the Operating Companies, and that circumstances may, from time to time, require a reassessment of the relative costs and benefits of this Agreement, or of the methods used to apportion costs and benefits under the Service Schedules. Upon an action of the Operating Committee, any of the Service Schedules may be amended as of any date agreed to by the Operating Committee by majority vote, subject to the receipt of any necessary regulatory authorizations.

ARTICLE IX
BILLING PROCEDURES

9.1 Records. The Agent shall maintain such records as may be necessary to determine the assignment of costs and revenues of coordinated operations pursuant to this Agreement. Such records shall be made available to the Parties upon request for a period not to exceed three (3) years.

9.2 Monthly Statements. As promptly as practicable after the end of each calendar month, the Agent shall prepare a statement setting forth the monthly summary of costs and revenues allocated or assigned to the Operating Companies in sufficient detail as may be needed for settlements under the provisions of this Agreement. As required, the Agent may provide such statements on an estimated basis and then adjust those statements for actual results.

9.3 Billings and Payments. The Agent shall be responsible for all billing between the Operating Companies and other entities with which they engage in Off-System Transactions pursuant to this Agreement. Payments among the Operating Companies, if any, shall be made by remittance of the net amount billed or by making appropriate accounting entries on the books of the Parties. The entire amount shall be paid when due.

9.4 Taxes. Should any federal, state, or local tax, surcharge or similar assessment, in addition to those that may now exist, be levied upon the electric capacity, energy, or services to be provided in connection with this Agreement, or upon the provider of service as measured by the electric capacity, energy, or services, or the revenue therefrom, such additional amount shall be included in the net billing described in Section 9.3.

9.5 Billing Errors. If a Party discovers a billing error pertaining to a prior billing for reasons including, but not limited to, missing or erroneous data or calculations, including those caused by meter, computer or human error, a correction adjustment will be calculated. Except as the Operating Committee may authorize in the exercise of reasonable discretion, the correction adjustment shall not be applied to any period earlier than the beginning of the first full billing month preceding the discovery of the error, nor will interest accrue on such adjustment. The correction adjustment will be applied as soon as practicable to the next subsequent regular

monthly bill. Any overpaid amount attributed to such billing errors shall be returned by the owing Party upon determination of the correct amount with no interest.

9.6 Billing Omissions. Within one (1) year from the date on which a bill should have been delivered, if a Party's records reveal that the bill was not delivered, then the Agent shall deliver to the appropriate Party a bill within one (1) month of this determination. Any amounts collected or reimbursed due to such omissions shall exclude interest. The right to payment is waived with respect to any amounts not billed within this period.

9.7 Billing Disputes. The Parties shall have the right to dispute the accuracy of any bill or payment for a period not to exceed one month from the date on which the bill was initially delivered. Following this one-month period, the right to dispute a bill is permanently waived for any and all reasons including but not limited to, (a) errors, (b) omissions, (c) Agent's actions, and (d) the Operating Committee's decisions, Agreement interpretations and direction in the administration of the Agreement. Any amounts collected or reimbursed due to such disputes shall exclude interest.

ARTICLE X
FORCE MAJEURE

10.1 Events Excusing Performance. No Party shall be liable to another Party for or on account of any loss, damage, injury, or expense resulting from or arising out of a delay or failure to perform, either in whole or in part, any of the agreements, covenants, or obligations made by or imposed upon the Parties by this Agreement, by reason of or through strike, work stoppage of labor, failure of contractors or suppliers of materials (including fuel, consumables or other goods and services), failure of equipment, environmental restrictions, riot, fire, flood, ice, invasion, civil war, commotion, insurrection, military or usurped power, order of any court or

regulatory agency granted in any *bona fide* legal proceedings or action, or of any civil or military authority either *de facto* or *de jure,* explosion, Act of God or the public enemies, or any other cause reasonably beyond its control and not attributable to its neglect. A Party experiencing such a delay or failure to perform shall use due diligence to remove the cause or causes thereof; however, no Party shall be required to add to, modify or upgrade any facilities, or to settle a strike or labor dispute except when, according to its own best judgment, such action is advisable.

ARTICLE XI
DELIVERY POINTS

11.1 Delivery Points. All electric energy delivered under this Agreement shall be of the character commonly known as three-phase sixty-cycle energy, and shall be delivered at the various Interconnection Points where the transmission systems of the Operating Companies are interconnected, either directly or through transmission facilities of third parties, at the nominal unregulated voltage designated for such points, and at such other points and voltages as may be determined and agreed upon by the Operating Companies.

ARTICLE XII
GENERAL

12.1 Adherence to Industry Standards. The Parties agree to make their best efforts to conform to Industry Standards as they affect the implementation of and conduct pertaining to this Agreement.

12.2 No Third Party Beneficiaries. This Agreement does not create rights of any character whatsoever in favor of any person, corporation, association, entity or power supplier, other than the Parties, and the obligations herein assumed by the Parties are solely for the use and

benefit of the Parties. Nothing in this Agreement shall be construed as permitting or vesting, or attempting to permit or vest, in any person, corporation, association, entity or power supplier, other than the Parties, any rights hereunder or in any of the resources or facilities owned or controlled by the Parties or the use thereof.

12.3 Waivers. Any waiver at any time by a Party of its rights with respect to a default under this Agreement, or with respect to any other matter arising in connection with this Agreement, shall not be deemed a waiver with respect to any subsequent default or matter. Any delay, short of the statutory period of limitation, in asserting or enforcing any right under this Agreement, shall not be deemed a waiver of such right.

12.4 Successors and Assigns. This Agreement shall inure to the benefit of and be binding upon the Parties only, and their respective successors and assigns, and shall not be assignable by any Party without the written consent of the other Parties except to a successor in the operation of its properties by reason of a reorganization to comply with state or federal restructuring requirements, or a merger, consolidation, sale or foreclosure whereby substantially all such properties are acquired by or merged with those of such a successor.

12.5 Liability and Indemnification. SUBJECT TO ANY APPLICABLE STATE OR FEDERAL LAW THAT MAY SPECIFICALLY RESTRICT LIMITATIONS ON LIABILITY, EACH PARTY SHALL RELEASE, INDEMNIFY, AND HOLD HARMLESS THE OTHER PARTIES, THEIR DIRECTORS, OFFICERS AND EMPLOYEES FROM AND AGAINST ANY AND ALL LIABILITY FOR LOSS, DAMAGE OR EXPENSE ALLEGED TO ARISE FROM, OR BE INCIDENTAL TO, INJURY TO PERSONS AND/OR DAMAGE TO PROPERTY IN CONNECTION WITH ITS FACILITIES OR THE PRODUCTION OR TRANSMISSION OF ELECTRIC ENERGY BY OR THROUGH SUCH FACILITIES, OR

RELATED TO PERFORMANCE OR NON-PERFORMANCE OF THIS AGREEMENT, INCLUDING ANY NEGLIGENCE ARISING HEREUNDER. IN NO EVENT SHALL ANY PARTY BE LIABLE TO ANOTHER PARTY FOR ANY INDIRECT, SPECIAL, INCIDENTAL, OR CONSEQUENTIAL DAMAGES WITH RESPECT TO ANY CLAIM ARISING OUT OF THIS AGREEMENT.

12.6 Headings. The descriptive headings of the Articles, Sections and Service Schedules of this Agreement are used for convenience only, and shall not modify or restrict any of the terms and provisions thereof.

12.7 Notice. Any notice or demand for performance required or permitted under any of the provisions of this Agreement shall be deemed to have been given on the date such notice, in writing, is deposited in the U.S. mail, postage prepaid, certified or registered mail, addressed to the Parties at their principal place of business at 1 Riverside Plaza, Columbus, Ohio 43215, or in such other form or to such other address as the Parties may stipulate.

12.8 Interpretation. In this Agreement: (a) unless otherwise specified, references to any Article or Section are references to such Article or Section of this Agreement; (b) the singular includes the plural and the plural includes the singular; (c) unless otherwise specified, each reference to a requirement of any governmental entity or regional transmission organization includes all provisions amending, modifying, supplementing or replacing such governmental entity or regional transmission organization from time to time; (d) the words "including," "includes" and "include" shall be deemed to be followed by the words "without limitation"; (e) unless otherwise specified, each reference to any agreement includes all amendments, modifications, supplements, and restatements made to such agreement from time to time which are not prohibited by this Agreement; (f) the descriptive headings of the various Articles and

Sections of this Agreement have been inserted for convenience of reference only and shall in no way modify or restrict the terms and provisions thereof; and (g) "herein," "hereof," "hereto" and "hereunder" and similar terms refer to this Agreement as a whole.

ARTICLE XIII
REGULATORY APPROVAL

13.1 Regulatory Authorization. This Agreement is subject to and conditioned upon its approval or acceptance for filing without material condition or modification by the Commission. In the event that this Agreement is not so approved or accepted for filing in its entirety or without conditions or modifications unacceptable to any Party, or the Commission subsequently modifies this Agreement upon complaint or upon its own initiative (as provided for in Section 13.2), any Party may, irrespective of the notice provisions in Section 2.1, withdraw from this Agreement by giving thirty (30) days' advance written notice to the other Parties.

13.2 Changes. It is contemplated by the Parties that it may be appropriate from time to time to change, amend, modify, or supplement this Agreement, including the Service Schedules and any other attachments that may be made a part of this Agreement, to reflect changes in operating practices or costs of operations or for other reasons. Any such changes to this Agreement shall be in writing executed by the Parties and subject to approval or acceptance for filing by the Commission. It is the intent of the Parties that, to the maximum extent permitted by law, the provisions of this Agreement shall not be subject to change under Sections 205 and 206 of the Federal Power Act absent the written agreement of the Parties, and that the standard of review for changes unilaterally proposed by a Party, a Third Party, or the Commission, acting sua sponte or at the request of a Third Party, shall be the public interest standard of review set forth in *United Gas Pipe Line Co. v. Mobile Gas Service Corp.*, 350 U.S. 332 (1956), *Federal*

Power Commission v. Sierra Pacific Power Co., 350 U.S. 348 (1956), *Morgan Stanley Capital Group, Inc. v. Public Utility District No. 1 of Snohomish County*, 128 S.Ct. 2733 (2008), and *NRG Power Marketing, LLC v. Maine Public Utilities Commission*, 130 S.Ct. 693 (2010).

IN WITNESS WHEREOF, the Parties have caused this Agreement to be executed and attested by their duly authorized officers on the day and year first above written.

APPALACHIAN POWER COMPANY

By: _____

Title: _____

INDIANA MICHIGAN POWER COMPANY

By: _____

Title: _____

KENTUCKY POWER COMPANY

By: _____

Title: _____

AMERICAN ELECTRIC POWER SERVICE CORPORATION

By: _____

Title: _____

SERVICE SCHEDULE A
COLLECTIVE PARTICIPATION IN THE APPLICABLE REGIONAL TRANSMISSION ORGANIZATION CAPACITY MARKET

A1– Duration. This Service Schedule A shall become effective and binding when the Agreement of which it is a part becomes effective, and shall continue in full force and effect throughout the duration of the Agreement unless terminated or suspended.

A2 – Availability of Service. This Service Schedule A governs the administration and settlement of capacity during such times that multiple Operating Companies are participating, on a collective basis, in the capacity market of the applicable regional transmission organization as specified under Section 7.4.

A3 – Auction Sales Revenues. Any revenues resulting from capacity sold into the applicable regional transmission organization's planning year(s) capacity auction will normally be allocated to or among the Operating Company or Operating Companies with the highest reserve margin(s) over such planning year(s). Such allocation will occur regardless of which capacity resources of the Operating Companies are cleared and/or designated to fulfill the auction commitment.

A4 – Delivery Year and Post-Delivery Year Settlement. During a given regional transmission organization planning year (i.e., the delivery year), the Agent will manage the capacity resources needed to meet the combined Operating Companies' capacity obligations and commitments to the applicable regional transmission organization.

If capacity resource performance charges are assessed by the applicable regional transmission organization for a given delivery year, the total net charge will be allocated among the Operating Companies ratably in proportion to each Operating Company's contribution to the total charge. Each Operating Company's contribution to the total charge will be determined by

the Agent by computing a total MW position for each Operating Company by subtracting its total capacity obligation in MWs from its total capacity resources in MWs. This result will be further adjusted by adding or subtracting as applicable the net total MWs of actual under-performance or over-performance of each Operating Company's capacity resources during the delivery year as computed by the applicable regional transmission organization. Any Operating Company with a resulting net short MW position, meaning that its capacity obligation MWs are greater than its capacity resource MWs including any MWs of over-performance or under-performance, will be allocated a share of the total net performance charge from the applicable regional transmission organization based on the Operating Company's net short MW position.

If the total net charge assessed by the applicable regional transmission organization is greater than zero, such calculations and the corresponding allocation will be made following the end of the applicable delivery year. If a total net charge is assessed by the applicable regional transmission organization which is greater than zero (0), even though each Operating Company has a computed contribution of zero (0) as described above, the total net charge will be allocated utilizing each Operating Company's delivery year capacity obligation MWs.

SERVICE SCHEDULE B
GENERATION HEDGE TRANSACTIONS

B1 – Duration. This Service Schedule B shall become effective and binding when the Agreement of which it is a part becomes effective, and shall continue in full force and effect throughout the duration of the Agreement unless terminated or suspended.

B2 – Service. This Service Schedule B governs energy-related Off-System Transactions made pursuant to Section 7.5.3 of the Agreement that are associated with Generation Hedge Transactions as defined in Section 1.3. The total monthly net costs and revenues from the settlement of Generation Hedge Transactions will be allocated among the Operating Companies ratably in proportion to the total of each Operating Company's surplus MWhs for the month, as determined by the Agent. Surplus MWhs will be computed as the total of all MWs in hours in which an Operating Company's MW output of its generation assets and dedicated energy purchases, excluding Spot Market purchases, exceeded that Operating Company's Internal Load.

If the above allocation would result in any Operating Company being allocated revenues or costs associated with more than one hundred and fifteen percent (115%) of its monthly surplus MWhs as computed above, such excess(es) above that amount will be allocated to all of the Operating Companies ratably in proportion to the sum of each Operating Company's hourly MW output of its generation assets for the month.

SERVICE SCHEDULE C
TRADING TRANSACTIONS

C1 – Duration. This Service Schedule C shall become effective and binding when the Agreement of which it is a part becomes effective, and shall continue in full force and effect throughout the duration of the Agreement unless terminated or suspended.

C2 – Service. This Service Schedule C governs the financial allocation and settlement of Off-System Transactions made pursuant to Section 7.5.3 of the Agreement that are associated with Trading Transactions as defined in Section 1.16. All Trading Transactions settled for a given month will be allocated among the Operating Companies ratably in proportion to each Operating Company's total common shareholder equity balance. The total common shareholder equity balance for each Operating Company as of the end of the previous calendar year will be determined annually by the Agent. These balances will then be applied to allocate settled Trading Transactions among the Operating Companies during the subsequent twelve-month period beginning June 1 and ending May 31.

KENTUCKY POWER COMPANY

RATE SCHEDULE NO. 300

Joint Tariff Common Name: "Power Coordination Agreement"

Designated Filing Company: Appalachian Power Company (APCo)

Designated Filing Company Tariff Title: APCo Rate Schedules and Service Agreements Tariffs

Designated Filing Company Tariff Program: FPA (Cost Based)

Designated Filing Company Tariff Record Adopted by Reference (Record Content Description/Tariff Record Title): Rate Schedule No. 300, Power Coordination Agreement

No limitations: All versions of the agreement

Description of Tariff: Rate Schedule under which APCo, Indiana Michigan Power Company, Kentucky Power Company, and American Electric Power Service Corporation (in an agency role) coordinate operation of their power supply resources.

INDIANA MICHIGAN POWER COMPANY

RATE SCHEDULE NO. 300

Joint Tariff Common Name: "Power Coordination Agreement"

Designated Filing Company: Appalachian Power Company (APCo)

Designated Filing Company Tariff Title: APCo Rate Schedules and Service Agreements Tariffs

Designated Filing Company Tariff Program: FPA (Cost Based)

Designated Filing Company Tariff Record Adopted by Reference (Record Content Description/Tariff Record Title): Rate Schedule No. 300, Power Coordination Agreement

No limitations: All versions of the agreement

Description of Tariff: Rate Schedule under which APCo, Indiana Michigan Power Company, Kentucky Power Company, and American Electric Power Service Corporation (in an agency role) coordinate operation of their power supply resources.

Attachment B

Bridge Agreement Among Appalachian Power Company, Indiana Michigan Power Company, Kentucky Power Company, Ohio Power Company, AEP Generation Resources Inc. and American Electric Power Service Corporation as Agent

1. Tariff Record, APCo – Rate Schedule No. 301
2. Tariff Record, I&M – Rate Schedule No. 301
3. Tariff Record, KPCo – Rate Schedule No. 301
4. Tariff Record, OPCo – Rate Schedule No. 301
5. Tariff Record, AEP Generation Resources Inc. – Rate Schedule No. 301

RATE SCHEDULE No. 301

BRIDGE AGREEMENT

among

APPALACHIAN POWER COMPANY,
INDIANA MICHIGAN POWER COMPANY,
KENTUCKY POWER COMPANY,
OHIO POWER COMPANY,
AEP GENERATION RESOURCES INC.

and

AMERICAN ELECTRIC POWER SERVICE CORPORATION

as Agent

Tariff Submitter: **Appalachian Power Company**
FERC Program Name: **FERC FPA Electric Tariff**
Tariff Title: **APCo Rate Schedules and Service Agreements Tariffs**
Tariff Proposed Effective Date: **01/01/2014**
Tariff Record Title: **Bridge Agreement**
Option Code: **A**
Record Content Description: **Rate Schedule No. 301**

BRIDGE AGREEMENT

THIS AGREEMENT is made and entered into as of this __ day of _____, 2013, by and among Appalachian Power Company ("APCo"), Indiana Michigan Power Company ("I&M"), Kentucky Power Company ("KPCo"), Ohio Power Company ("OPCo" and, collectively with APCo, I&M and KPCo, the "Operating Companies"), AEP Generation Resources Inc. ("AEP Generation Resources") and American Electric Power Service Corporation ("Agent" and, collectively with APCo, I&M, KPCo, OPCo and AEP Generation Resources, the "Parties").

RECITALS:

WHEREAS, the Operating Companies are each wholly-owned subsidiaries of American Electric Power Company, Inc. ("AEP") and members of the Interconnection Agreement ("Pool Agreement"), which has been in effect since 1951;

WHEREAS, each member of the Pool Agreement has provided notice to the other members (and to the Agent) that it will terminate its participation in the Pool Agreement in accordance with the termination provisions thereof;

WHEREAS, pursuant to the Pool Agreement, the Operating Companies have made joint wholesale purchases and sales of physical power (at market based rates), and of financial power, for the purpose of hedging the output of the Operating Companies' generation assets, some of which will not expire until after the Pool Agreement terminates ("Legacy Hedge Contracts");

WHEREAS, in addition to the Legacy Hedge Contracts, the Operating Companies have made other joint wholesale purchases and sales of physical power (at market based rates), and of financial power and related commodities, pursuant to the Pool Agreement under joint purchase and sale contracts, some of which will also not expire until after the Pool Agreement terminates (collectively the "Legacy Trading Contracts");

WHEREAS, the Operating Companies desire to jointly share in the gains and losses resulting from the settlement and liquidation in the market of the Legacy Hedge Contracts and Legacy Trading Contracts (collectively, the "Legacy Off-System Sales Portfolio");

WHEREAS, the Operating Companies have previously elected to fulfill their capacity obligations to PJM pursuant to the Fixed Resource Requirement ("FRR") alternative under the

PJM Reliability Assurance Agreement through and including Planning Year 2014/2015 (the "Operating Companies' FRR Obligation") and desire to continue to fulfill those obligations;

WHEREAS, the Public Utilities Commission of Ohio in a Finding and Order issued October 17, 2012 in Case No. 12-1126-EL-UNC has authorized OPCo to conduct an internal corporate reorganization under which its generation and power marketing businesses will be separated from its transmission and distribution businesses consistent with Ohio restructuring law and OPCo's structural corporate separation plan;

WHEREAS, for the benefit of the Operating Companies, this Agreement commits the retained capacity resources of AEP Generation Resources, which it acquired from OPCo as a result of corporate separation and pursuant to the Asset Contribution Agreement, to fulfilling the Operating Companies' FRR Obligation through and including Planning Year 2014/2015; and

WHEREAS, pursuant to OPCo's corporate separation plan and the terms of the Asset Contribution Agreement between OPCo and AEP Generation Resources, AEP Generation Resources will succeed to all of OPCo's right, title and interest in and to its generation and power marketing business (excepting the limited generation assets specifically retained by OPCo) and to all associated liabilities, including all of OPCo's allocations of (1) gains and losses from the Legacy Off-System Sales Portfolio, (2) the Operating Companies' FRR Obligations, (3) FRR Charges and Credits, and (4) all costs and liabilities associated with the foregoing, from which AEP Generation Resources will indemnify, defend and hold harmless OPCo pursuant to the terms of the Asset Contribution Agreement.

NOW, THEREFORE, in consideration of the premises and the mutual covenants and agreements herein set forth, the Parties mutually agree as follows:

ARTICLE I
DEFINITIONS

1.1 Capacity Resources means, in respect of any Planning Year, the megawatts of net capacity from the Operating Companies and AEP Generation Resources eligible to satisfy the Operating Companies' FRR Obligation.

1.2 Capacity Requirement means, in respect of any Planning Year, the megawatts of net capacity from the Operating Companies and AEP Generation Resources required to satisfy the Operating Companies' FRR Obligation.

1.3 Commission means the Federal Energy Regulatory Commission.

1.4 Final MLR means, for each member of the Pool Agreement, the arithmetic average of the member's MLR for each of the twelve full calendar months preceding the termination of the Pool Agreement.

1.5 FRR Charges and Credits means all PJM charges and credits arising from or relating to the Operating Companies' FRR Obligation, including but not limited to capacity auction revenues and cost of compliance with the Operating Companies' FRR Obligations under the PJM Reliability Assurance Agreement.

1.6 Member Demand means Member Load Obligation determined on a clock-hour integrated kilowatt basis, as set forth in Section 5.4 of the Pool Agreement.

1.7 Member Load Obligation means an Operating Company's internal load plus any firm power sales to un-affiliated and affiliated companies other than the Operating Companies, principally characterized by the Operating Company assuming the load obligation as its own firm power commitment and by the Operating Company retaining advantages accruing from meeting the load, as set forth in Section 5.2 of the Pool Agreement.

1.8 Member Load Ratio or **MLR** means the ratio of a particular Operating Company's Member Maximum Demand in effect for a calendar month to the sum of all of the Operating Companies' Member Maximum Demands in effect for such month, as set forth in Section 5.6 of the Pool Agreement.

1.9 Member Maximum Demand means the Member Maximum Demand in effect for a calendar month for a particular Operating Company, which shall be equal to the maximum Member Demand experienced by said Operating Company during the twelve consecutive calendar months next preceding such calendar month, as set forth in Section 5.5 of the Pool Agreement.

1.10 Operating Committee means the administrative body established pursuant to Article IV for the purposes therein specified.

1.11 PJM means PJM Interconnection, LLC, a regional transmission organization approved by the Commission.

1.12 Planning Year means each period of June 1 through May 31 of the following year during the term of this Agreement, in whole or in part, which period constitutes a planning year as defined by PJM.

ARTICLE II
TERM OF AGREEMENT

2.1 Term. Subject to Commission approval or acceptance for filing, this Agreement shall take effect upon the effective date of the corporate separation of OPCo's generation and power marketing businesses from its transmission and distribution businesses and shall continue in full force and effect until the later of the settlement of the Legacy Off-System Sales Portfolio or the end of the Operating Companies' FRR Obligation under this Agreement, provided, however, that the Parties' obligations under Article V will only apply to the period starting on the effective date of this Agreement and ending May 31, 2015. The Agent will provide notice to the Operating Companies and AEP Generation Resources of the end of the term of this Agreement.

ARTICLE III
AGENT

3.1 Delegation and Acceptance of Authority. The Operating Companies and AEP Generation Resources hereby delegate to the Agent and the Agent hereby accepts responsibility and authority for the duties specified in this Agreement. Except as herein expressly established otherwise, the Agent shall perform each of those duties in consultation with the Operating Committee.

3.2 Reporting. The Agent shall provide periodic summary reports of its activities under this Agreement to the Parties and shall keep the Parties and the Operating Committee informed of situations or problems that may materially affect the outcome of these activities. Furthermore, the Agent agrees to report to the Parties and to the Operating Committee in such additional detail as is requested regarding specific issues or projects under its supervision as Agent. The Agent will carry out its responsibilities under this paragraph in accordance with the regulations of the Commission.

ARTICLE IV
OPERATING COMMITTEE

4.1 Operating Committee. By written notice to the other Parties, each Party shall name one representative ("Representative") to act for it in matters pertaining to this Agreement and its implementation. A Party may change its Representative at any time by written notice to the other Parties. The Representatives of the respective Parties shall comprise the Operating Committee. The Agent's Representative shall act as the chairman of the Operating Committee

("Chairman"). All decisions of the Operating Committee shall be by a simple majority vote of the Representatives.

4.2 Subcommittees. The Chairman, or any other Representative, subject to a majority of the Operating Committee concurring, may create a subcommittee or working group of the Operating Committee ("Subcommittee"). Membership in a Subcommittee will be determined by the Operating Committee. Subcommittees shall perform the duties assigned to them and shall report to the Operating Committee on all matters referred to them. Actions of a Subcommittee shall be reported in the form of proposals or recommendations to the Operating Committee and shall have no force or binding effect except by action of the Operating Committee.

4.3 Meeting Dates. The Operating Committee and each Subcommittee thereof shall hold meetings at such times, means, and places as the members shall determine. Minutes of each Operating Committee and Subcommittee meeting shall be prepared and maintained.

4.4 Information for Use of the Agent. The Parties shall cooperate in providing to the Agent the information it reasonably requests and shall supplement or correct any such information on a timely basis.

ARTICLE V
FRR OBLIGATION

5.1 Annual Capacity Resource Planning. Prior to each Planning Year, the Agent will analyze the impacts on the Operating Companies' FRR Obligation of projected and realized changes to Capacity Resources and Capacity Requirements and prepare a recommended Capacity Resource plan for the Operating Companies' FRR Obligation. The plan will describe whether additional Capacity Resources should be made available to the market and whether additional Capacity Resources should be procured for the applicable Planning Year. The portion of the Capacity Resource plan that applies to the Capacity Resources of the Operating Companies is subject to their unanimous written approval in consultation with the Agent. The portion of the Capacity Resource plan that applies to the Capacity Resources of AEP Generation Resources is subject to its written approval in consultation with the Agent. The Agent will have no duty to provide to AEP Generation Resources any portion of the Capacity Resource plan that applies to the Capacity Resources of the Operating Companies. If a Capacity Resource plan submitted by the Agent is rejected by the Operating Companies or by AEP Generation

Resources, then the Agent will revise and resubmit the plan in accordance with the foregoing procedures until the plan is accepted by both the Operating Companies and AEP Generation Resources.

5.2 Capacity Resource Plan Implementation. During each Planning Year, the Agent will collect Capacity Resource information from the Operating Companies and AEP Generation Resources and may alter the combination of Capacity Resources in the plan based on that information to maintain the Operating Companies' compliance with the PJM Reliability Assurance Agreement and to minimize compliance charges to the extent reasonably practicable. The Agent will implement the Capacity Resource plan for the Operating Companies' FRR Obligation, and any plan adjustments, with PJM. During each Planning Year, the Operating Companies and AEP Generation Resources will each perform testing of their Capacity Resources in accordance with the PJM Reliability Assurance Agreement and in consultation with the Agent.

5.3 Allocation of Capacity-Related Charges and Credits. The Agent will allocate PJM charges and credits associated with (1) Capacity Resource purchases and sales (excepting only those purchases and sales related to the generation assets specifically retained by OPCo) and (2) FRR Charges and Credits, among APCo, KPCo, I&M and AEP Generation Resources, as successor to the FRR obligations of OPCo, based on the Final MLR.

5.4 Other Agreements. The fulfillment of the Operating Companies' FRR Obligation, including the allocation of any associated charges and credits, for the Planning Years covered by this Article V, shall be governed by this Agreement and not by the Power Coordination Agreement among APCo, KPCo, I&M and the Agent.

ARTICLE VI
LEGACY CONTRACTS

6.1 Legacy Trading Portfolio. The Agent will settle and liquidate the Legacy Trading Portfolio in the market in accordance with the terms of the Legacy Trading Contracts and Legacy Hedge Contracts.

6.1.1 Legacy Trading Contracts. The Agent shall allocate gains and losses arising from the settlement and liquidation of the Legacy Trading Contracts in the market among APCo, KPCo, I&M and AEP Generation Resources, as successor to the generation-related obligations of OPCo, based on the Final MLR. The Agent may, from time to time, enter into new transactions on behalf of the Operating Companies that are

dedicated to the portfolio of Legacy Trading Contracts with the intent of reducing the tenor and/or risk of that portfolio, and those additional transactions will also be deemed Legacy Trading Contracts, provided that the Agent will not enter into any such transaction whose term extends beyond the final delivery month of the portfolio of Legacy Trading Contracts on the effective date of this Agreement.

6.1.2 Legacy Hedge Contracts. The Agent shall allocate gains and losses arising from the settlement and liquidation of the Legacy Hedge Contracts in the market to (1) APCo, KPCo and I&M collectively (the "Integrated AEP-East Utilities") and (2) AEP Generation Resources, as successor to the generation-related obligations of OPCo, in a ratable manner based on the respective forecasted spot market energy sales of the Integrated AEP-East Utilities, collectively, and AEP Generation Resources, determined as of the effective date of this Agreement. The forecasted spot market energy sales for the Integrated AEP-East Utilities, collectively, and AEP Generation Resources will be calculated in monthly increments based on the forecasted output of their owned or contracted generation minus forecasted internal load. The forecasted internal load for the Integrated AEP-East Utilities is defined as the forecasted amount of megawatt-hours associated with their retail and firm wholesale loads in the aggregate, using the most recent forecast available as of the effective date of this Agreement. The forecasted internal load for AEP Generation Resources is defined as the forecasted amount of megawatt-hours to be provided by AEP Generation Resources to OPCo, under the Ohio Power Supply Agreement between those parties, and to any non-Parties, under other firm wholesale contracts, if any, determined as of the effective date of this Agreement. The monthly forecasts will be calculated through and including the final delivery month of the portfolio of Legacy Hedge Contracts. Any allocation of gains and losses to the Integrated AEP-East Utilities will be shared among APCo, KPCo and I&M in a ratable manner based on their forecasted spot market energy sales. If the forecasted internal load of either the Integrated AEP-East Utilities or AEP Generation Resources exceeds the forecasted output of their respective owned or controlled generation for a given month, then the Integrated AEP-East Utilities or AEP Generation Resources, as applicable, will not receive any allocation of gains or losses for that month, unless both are in this position in which case gains or losses will be allocated ratably among APCo, KPCo, I&M

and AEP Generation Resources in proportion to the forecasted output of their owned or contracted generation.

6.2 Legacy Trading Contracts Administration. The Agent will administer the scheduling, billing, settlement and liquidation in the market of the Legacy Off-System Sales Portfolio, and will provide such information, reports and position data to each Party as is requested regarding the Party's allocation of the Legacy Off-System Sales Portfolio. Any gains and losses arising from the liquidation of the Legacy Off-System Sales Portfolio shall be governed and allocated by this Agreement and not by the Power Coordination Agreement among APCo, KPCo, I&M and the Agent.

ARTICLE VII
BILLING PROCEDURES

7.1 Records. The Agent will maintain the records necessary to determine the allocation of all gains, losses, charges and credits under this Agreement. Such records shall be made available to the Operating Companies and to AEP Generation Resources upon request for a period not to exceed three (3) years.

7.2 Monthly Statements. As promptly as practicable after the end of each calendar month, the Agent shall prepare a statement setting forth the monthly summary of all gains, losses, charges and credits allocated or assigned to the Parties in sufficient detail as may be needed for settlements under the provisions of this Agreement. As required, the Agent may provide such statements on an estimated basis and then adjust those statements for actual results.

7.3 Billings and Payments. The Agent shall handle all billing between the Parties and non-Parties regarding the Legacy Contract Portfolio and the Operating Companies' FRR Obligation. Payments by the Operating Companies and AEP Generation Resources shall be made by remittance of the net amount billed to the applicable Party or by making appropriate accounting entries on the books of the Parties. The entire amount shall be paid when due.

7.4 Taxes. Should any federal, state, or local tax, surcharge or similar assessment, in addition to those that may now exist, be levied upon the services to be provided in connection with this Agreement, or upon the provider of service as measured by the services or the revenue therefrom, such additional amount shall be included in the billing described in this Article VII.

7.5 Billing Errors. If the Agent or any other Party discovers a billing error pertaining to a prior billing for reasons including, but not limited to, billing omissions or missing

or erroneous data or calculations (including those caused by meter, computer or human error), a corrective adjustment will be calculated by the Agent. Except as the Operating Committee may authorize in the exercise of reasonable discretion, the correction adjustment shall not be applied to any period earlier than the beginning of the first full billing month preceding the discovery of the error, nor will interest accrue on such adjustment. The corrective adjustment will be applied as soon as practicable to the next subsequent regular monthly bill. Any overpaid amount attributed to such billing errors shall be returned by the owing Party upon determination of the correct amount with no interest.

7.6 **Billing Disputes**. The Parties shall have the right to dispute the accuracy of any bill or payment for a period not to exceed one month from the date on which the bill was initially delivered. Following this one month period, the right to dispute a bill is permanently waived for any and all reasons including but not limited to, (a) errors, (b) omissions, (c) Agent's actions, and (d) the Operating Committee's decisions, Agreement interpretations and direction in the administration of the Agreement. Any amounts collected or reimbursed due to such disputes shall exclude interest.

ARTICLE VIII
FORCE MAJEURE

8.1 **Events Excusing Performance**. No Party shall be liable to another Party for or on account of any loss, damage, injury, or expense resulting from or arising out of a delay or failure to perform, either in whole or in part, any of the agreements, covenants, or obligations made by or imposed upon the Parties by this Agreement, by reason of or through strike, work stoppage of labor, failure of contractors or suppliers of materials (including fuel, consumables or other goods and services), failure of equipment, environmental restrictions, riot, fire, flood, ice, invasion, civil war, commotion, insurrection, military or usurped power, order of any court or regulatory agency granted in any *bona fide* legal proceedings or action, or of any civil or military authority either *de facto* or *de jure*, explosion, Act of God or the public enemies, or any other cause reasonably beyond its control and not attributable to its neglect. A Party experiencing such a delay or failure to perform shall use due diligence to remove the cause or causes thereof; however, no Party shall be required to add to, modify or upgrade any facilities, or to settle a strike or labor dispute except when, according to its own best judgment, such action is advisable.

ARTICLE IX
GENERAL

9.1 No Third Party Beneficiaries. This Agreement does not create rights of any character whatsoever in favor of any person, corporation, association, entity or customer, other than the Parties, and the obligations herein assumed by the Parties are solely for the use and benefit of the Parties. Nothing in this Agreement shall be construed as permitting or vesting, or attempting to permit or vest, in any person, corporation, association, entity or customer, other than the Parties, any rights hereunder or in any of the resources or facilities owned or controlled by the Parties or the use thereof.

9.2 Waivers. Any waiver at any time by a Party of its rights with respect to a default under this Agreement, or with respect to any other matter arising in connection with this Agreement, shall not be deemed a waiver with respect to any subsequent default or matter. Any delay, short of the statutory period of limitation, in asserting or enforcing any right under this Agreement, shall not be deemed a waiver of such right, except as otherwise set forth herein.

9.3 Successors and Assigns. This Agreement shall inure to the benefit of and be binding upon the Parties only, and their respective successors and assigns, and shall not be assignable by any Party without the written consent of the other Parties except to a successor in the operation of its properties by reason of a reorganization, to comply with state or federal restructuring requirements, or a merger, consolidation, sale or foreclosure whereby substantially all such properties are acquired by or merged with those of such a successor.

9.4 Liability and Indemnification. SUBJECT TO ANY APPLICABLE STATE OR FEDERAL LAW THAT MAY SPECIFICALLY RESTRICT LIMITATIONS ON LIABILITY, EACH PARTY SHALL RELEASE, INDEMNIFY, AND HOLD HARMLESS THE OTHER PARTIES, THEIR DIRECTORS, OFFICERS AND EMPLOYEES FROM AND AGAINST ANY AND ALL LIABILITY FOR LOSS, DAMAGE OR EXPENSE ALLEGED TO ARISE FROM, OR BE INCIDENTAL TO, INJURY TO PERSONS AND/OR DAMAGE TO PROPERTY IN CONNECTION WITH ITS FACILITIES OR THE PRODUCTION OR TRANSMISSION OF ELECTRIC ENERGY BY OR THROUGH SUCH FACILITIES, OR RELATED TO PERFORMANCE OR NON-PERFORMANCE OF THIS AGREEMENT, INCLUDING ANY NEGLIGENCE ARISING HEREUNDER. IN NO EVENT SHALL ANY PARTY BE LIABLE TO ANOTHER PARTY FOR ANY INDIRECT, SPECIAL,

INCIDENTAL, OR CONSEQUENTIAL DAMAGES WITH RESPECT TO ANY CLAIM ARISING OUT OF THIS AGREEMENT.

9.5 Notice. Any notice or demand for performance required or permitted under any of the provisions of this Agreement shall be deemed to have been given on the date such notice, in writing, is delivered by hand or deposited in the U.S. mail, postage prepaid, addressed to the Parties at their principal place of business at 1 Riverside Plaza, Columbus, Ohio 43215, or in such other form or to such other address as the Parties may stipulate.

9.6 Interpretation. In this Agreement: (a) unless otherwise specified, references to any Article or Section are references to such Article or Section of this Agreement; (b) the singular includes the plural and the plural includes the singular; (c) unless otherwise specified, each reference to a requirement of any governmental entity or regional transmission organization includes all provisions amending, modifying, supplementing or replacing such governmental entity or regional transmission organization from time to time; (d) the words "including," "includes" and "include" shall be deemed to be followed by the words "without limitation"; (e) unless otherwise specified, each reference to any agreement includes all amendments, modifications, supplements, and restatements made to such agreement from time to time which are not prohibited by this Agreement; (f) the descriptive headings of the various Articles and Sections of this Agreement have been inserted for convenience of reference only and shall in no way modify or restrict the terms and provisions thereof; and (g) "herein," "hereof," "hereto" and "hereunder" and similar terms refer to this Agreement as a whole.

ARTICLE X
REGULATORY APPROVAL

10.1 Regulatory Authorization. This Agreement is subject to and conditioned upon its approval or acceptance for filing without material condition or modification by the Commission. In the event that this Agreement is not so approved or accepted for filing in its entirety without modification, or the Commission subsequently modifies this Agreement upon complaint or upon its own initiative, any Party may, irrespective of the notice provisions in Section 2.1, withdraw from this Agreement by giving thirty (30) days' advance written notice to the other Parties.

10.2 Changes. It is contemplated by the Parties that it may be appropriate from time to time to change, amend, modify, or supplement this Agreement to reflect changes in operating

practices, PJM procedures or for other reasons. Any such changes to this Agreement shall be in writing executed by the Parties and subject to approval or acceptance for filing by the Commission. It is the intent of the Parties that, to the maximum extent permitted by law, the provisions of this Agreement shall not be subject to change under Sections 205 and 206 absent the written agreement of the Parties, and that the standard of review for changes unilaterally proposed by a Party, a non-Party or the Commission, acting sua sponte or at the request of a non-Party, shall be the public interest standard of review set forth in *United Gas Pipe Line Co. v. Mobile Gas Service Corp.*, 350 U.S. 332 (1956), *Federal Power Commission v. Sierra Pacific Power Co.*, 350 U.S. 348 (1956), *Morgan Stanley Capital Group, Inc. v. Public Utility District No. 1 of Snohomish County*, 128 S.Ct. 2733 (2008), and *NRG Power Marketing, LLC v. Maine Public Utilities Commission*, 130 S.Ct. 693 (2010).

IN WITNESS WHEREOF, the Parties have caused this Agreement to be executed and attested by their duly authorized officers on the day and year first above written.

APPALACHIAN POWER COMPANY

By: _____

Title: _____

INDIANA MICHIGAN POWER COMPANY

By: _____

Title: _____

KENTUCKY POWER COMPANY

By: _____

Title: _____

OHIO POWER COMPANY

By: _____

Title: _____

AEP GENERATION RESOURCES INC.

By: _____

Title: _____

AMERICAN ELECTRIC POWER SERVICE CORPORATION

By: _____

Title: _____

INDIANA MICHIGAN POWER COMPANY

RATE SCHEDULE NO. 301

Joint Tariff Common Name: "Bridge Agreement"

Designated Filing Company: Appalachian Power Company (APCo)

Designated Filing Company Tariff Title: APCo Rate Schedules and Service Agreements Tariffs

Designated Filing Company Tariff Program: FPA (Cost Based)

Designated Filing Company Tariff Record Adopted by Reference (Record Content Description/Tariff Record Title): Rate Schedule No. 301, Bridge Agreement

No limitations: All versions of the agreement

Description of Tariff: Rate Schedule under which APCo, Indiana Michigan Power Company, Kentucky Power Company, Ohio Power Company and AEP Generation Resources Inc. will for an interim time period manage the off-system transactions of the parties beyond termination of the Pool Agreement and manage obligations to fulfill their Fixed Resource Requirement under PJM's Reliability Assurance Agreement.

KENTUCKY POWER COMPANY

RATE SCHEDULE NO. 301

Joint Tariff Common Name: "Bridge Agreement"

Designated Filing Company: Appalachian Power Company (APCo)

Designated Filing Company Tariff Title: APCo Rate Schedules and Service Agreements Tariffs

Designated Filing Company Tariff Program: FPA (Cost Based)

Designated Filing Company Tariff Record Adopted by Reference (Record Content Description/Tariff Record Title): Rate Schedule No. 301, Bridge Agreement

No limitations: All versions of the agreement

Description of Tariff: Rate Schedule under which APCo, Indiana Michigan Power Company, Kentucky Power Company, Ohio Power Company and AEP Generation Resources Inc. will for an interim time period manage the off-system transactions of the parties beyond termination of the Pool Agreement and manage obligations to fulfill their Fixed Resource Requirement under PJM's Reliability Assurance Agreement.

OHIO POWER COMPANY

RATE SCHEDULE NO. 301

Joint Tariff Common Name: "Bridge Agreement"

Designated Filing Company: Appalachian Power Company (APCo)

Designated Filing Company Tariff Title: APCo Rate Schedules and Service Agreements Tariffs

Designated Filing Company Tariff Program: FPA (Cost Based)

Designated Filing Company Tariff Record Adopted by Reference (Record Content Description/Tariff Record Title): Rate Schedule No. 301, Bridge Agreement

No limitations: All versions of the agreement

Description of Tariff: Rate Schedule under which APCo, Indiana Michigan Power Company, Kentucky Power Company, Ohio Power Company and AEP Generation Resources Inc. will for an interim time period manage the off-system transactions of the parties beyond termination of the Pool Agreement and manage obligations to fulfill their Fixed Resource Requirement under PJM's Reliability Assurance Agreement.

AEP GENERATION RESOURCES INC.

RATE SCHEDULE NO. 301

Joint Tariff Common Name: "Bridge Agreement"

Designated Filing Company: Appalachian Power Company (APCo)

Designated Filing Company Tariff Title: APCo Rate Schedules and Service Agreements Tariffs

Designated Filing Company Tariff Program: FPA (Cost Based)

Designated Filing Company Tariff Record Adopted by Reference (Record Content Description/Tariff Record Title): Rate Schedule No. 301, Bridge Agreement

No limitations: All versions of the agreement

Description of Tariff: Rate Schedule under which APCo, Indiana Michigan Power Company, Kentucky Power Company, Ohio Power Company and AEP Generation Resources Inc. will for an interim time period manage the off-system transactions of the parties beyond termination of the Pool Agreement and manage obligations to fulfill their Fixed Resource Requirement under PJM's Reliability Assurance Agreement.

Attachment C

1. Certificate of Concurrence – Indiana Michigan Power Company regarding the Power Coordination Agreement and Bridge Agreement

2. Certificate of Concurrence – Kentucky Power Company regarding the Power Coordination Agreement and Bridge Agreement

3. Certificate of Concurrence – Ohio Power Company regarding the Bridge Agreement

4. Certificate of Concurrence – AEP Generation Resources Inc. regarding the Bridge Agreement

CERTIFICATE OF CONCURRENCE

This is to certify that Indiana Michigan Power Company (I&M), an Indiana corporation, assents to and concurs in the FERC FPA Electric Tariff described below, which Appalachian Power Company (APCo), the designated filing company, has filed in its "APCo Rate Schedules and Service Agreements Tariffs" database.

1. **Name of Tariff Adopted by Reference:** Power Coordination Agreement

APCO Tariff Record Adopted by Reference: Rate Schedule No. 300, Power Coordination Agreement

Description of Tariff: Rate Schedule under which APCo, I&M, Kentucky Power Company and American Electric Power Service Corporation (in an agency role) coordinate operation of their power supply resources.

2. **Name of Tariff Adopted by Reference:** Bridge Agreement

APCO Tariff Record Adopted by Reference: Rate Schedule No. 301, Bridge Agreement

Description of Tariff: Rate Schedule under which APCo, I&M, Kentucky Power Company, Ohio Power Company and AEP Generation Resources Inc. will for an interim time period manage the off-system transactions of the parties beyond termination of the Pool Agreement and manage obligations to fulfill their Fixed Resource Requirement under PJM's Reliability Assurance Agreement.

By: /John C. Crespo/
John C. Crespo,
Deputy General Counsel – Regulatory Services
Dated: October 26, 2012

CERTIFICATE OF CONCURRENCE

This is to certify that Kentucky Power Company (KPCo), a Kentucky corporation, assents to and concurs in the FERC FPA Electric Tariffs described below, which Appalachian Power Company (APCo), the designated filing company, has filed in its "APCo Rate Schedules and Service Agreements Tariffs" database.

1. **Name of Tariff Adopted by Reference:** Power Coordination Agreement

APCO Tariff Record Adopted by Reference: Rate Schedule No. 300, Power Coordination Agreement

Description of Tariff: Rate Schedule under which APCo, Indiana Michigan Power Company, KPCo and American Electric Power Service Corporation (in an agency role) coordinate operation of their power supply resources.

2. **Name of Tariff Adopted by Reference:** Bridge Agreement

APCO Tariff Record Adopted by Reference: Rate Schedule No. 301, Bridge Agreement

Description of Tariff: Rate Schedule under which APCo, Indiana Michigan Power Company, KPCo, Ohio Power Company and AEP Generation Resources Inc. will for an interim time period manage the off-system transactions of the parties beyond termination of the Pool Agreement and manage obligations to fulfill their Fixed Resource Requirement under PJM's Reliability Assurance Agreement.

By: /John C. Crespo/
John C. Crespo,
Deputy General Counsel – Regulatory Services
Dated: October 26, 2012

CERTIFICATE OF CONCURRENCE

This is to certify that Ohio Power Company, an Ohio corporation, assents to and concurs in the FERC FPA Electric Tariff described below, which Appalachian Power Company (APCo), the designated filing company, has filed in its "APCo Rate Schedules and Service Agreements Tariffs" database.

Name of Tariff Adopted by Reference: Bridge Agreement

APCO Tariff Record Adopted by Reference: Rate Schedule No. 301, Bridge Agreement

Description of Tariff: Rate Schedule under which APCo, Indiana Michigan Power Company, Kentucky Power Company, Ohio Power Company and AEP Generation Resources Inc. will for an interim time period manage the off-system transactions of the parties beyond termination of the Pool Agreement and manage obligations to fulfill their Fixed Resource Requirement under PJM's Reliability Assurance Agreement.

By: /John C. Crespo/
John C. Crespo,
Deputy General Counsel – Regulatory Services
Dated: October 26, 2012

CERTIFICATE OF CONCURRENCE

This is to certify that AEP Generation Resources Inc. (AEP Generation Resources), a Delaware corporation, assents to and concurs in the FERC FPA Electric Tariff described below, which Appalachian Power Company (APCo), the designated filing company, has filed in its "APCo Rate Schedules and Service Agreements Tariffs" database.

Name of Tariff Adopted by Reference: Bridge Agreement

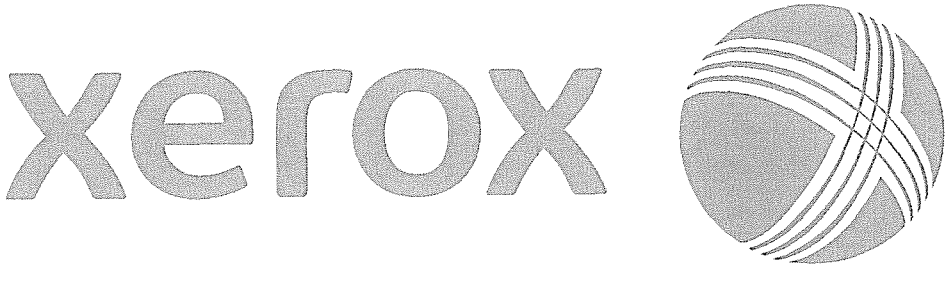
APCo Tariff Record Adopted by Reference: Rate Schedule No. 301, Bridge Agreement

Description of Tariff: Rate Schedule under which APCo, Indiana Michigan Power Company, Kentucky Power Company, Ohio Power Company and AEP Generation Resources Inc. will for an interim time period manage the off-system transactions of the parties beyond termination of the Pool Agreement and manage obligations to fulfill their Fixed Resource Requirement under PJM's Reliability Assurance Agreement.

By: /John C. Crespo/
John C. Crespo,
Deputy General Counsel – Regulatory Services
Dated: October 26, 2012

kwalton

Sporn Mitchell 2.pdf
04/22/13 02:35 PM



Steven J. Ross
202 429 6279
sross@steptoe.com

1330 Connecticut Avenue, NW
Washington, DC 20036-1795
202 429 3000 main
www.steptoe.com

Steptoe
STEPTOE & JOHNSON LLP

October 31, 2012

The Honorable Kimberly D. Bose
Secretary
Federal Energy Regulatory Commission
888 First Street, N.E.
Washington, D.C. 20426

Re: Appalachian Power Company
Docket No. ER13- -000
Kentucky Power Company
Docket No. ER13- -000
AEP Generation Resources Inc.
Docket No. ER13- -000

Dear Secretary Bose:

American Electric Power Service Corporation ("AEPSC"), on behalf of Appalachian Power Company ("APCo"), Kentucky Power Company ("KPCo"), and AEP Generation Resources Inc. ("AEP Generation Resources") (AEPSC, APCo, KPCo, and AEP Generation Resources collectively may be referred to as "AEP"), hereby submits for filing (i) the Sporn Plant Operating Agreement among APCo, AEP Generation Resources, and AEPSC ("Sporn Agreement"), and (ii) the Mitchell Plant Operating Agreement among APCo, KPCo, and AEPSC ("Mitchell Agreement"). **AEPSC respectfully requests that the Commission establish December 17, 2012 as the comment date for this filing. This extended comment period would allow interested parties extra time (an additional 26 days beyond what is set forth in 18 C.F.R. § 35.8) to comment on the filing.**

This filing includes the following documents in addition to the relevant Tariff Records:[1]

1. Attachment A – Clean Tariff Attachments for the Sporn Plant Operating Agreement (APCo Rate Schedule No. 302 and AEP Generation Resources Rate Schedule No. 302);
2. Attachment B - Clean Tariff Attachments for the Mitchell Plant Operating Agreement (APCo Rate Schedule No. 303 and KPCo Rate Schedule No. 303); and
3. Attachment C - Certificates of Concurrence signed on behalf of AEP Generation Resources and KPCo.

I. BACKGROUND

As described in detail in a Federal Power Act Section 203 application that AEPSC is submitting contemporaneously with this filing, the Public Utilities Commission of Ohio has approved a comprehensive restructuring of AEP's Ohio utility affiliate, Ohio Power Company ("Ohio Power").[2] Among other things, that restructuring provides for Ohio Power to separate its generation facilities from its transmission and distribution facilities. In a separate Section 203 application, APCo, KPCo, and AEP Generation Resources are seeking authority for (i) APCo to obtain from AEP Generation Resources Ohio Power's former interest in Unit No. 3 of the John E. Amos Plant and appurtenant interconnection facilities ("Amos Plant") (APCo already owns an interest in Amos Unit No. 3) and an 50% undivided interest in the Mitchell Power Generating Facility and appurtenant interconnection facilities ("Mitchell Plant"), and (ii) KPCo to obtain from AEP Generation Resources the remaining 50% undivided interest in the Mitchell Plant.

Once these transactions are consummated, AEP Generation Resources will operate the former Ohio Power generating facilities (other than Amos Unit No. 3, the Mitchell Plant, and the Philip Sporn Plant ("Sporn Plant")) as a standalone generating company. As discussed below, APCo will operate the Sporn Plant and the Mitchell Plant in accordance with the operating agreements that are the subject of this filing. APCo also will own and operate all the units at the Amos Plant. Therefore, as of the consummation of the transaction under which APCo will obtain Ohio Power's former interest in Amos Unit No. 3, the current operating agreement among APCo, Ohio Power, and AEPSC will be terminated.

The generating facilities covered by this filing are (i) four 150,000 kW coal-fired units (Sporn Unit Nos. 1-4) and one 450,000 kW coal-fired unit (Sporn Unit No. 5) at the Sporn Plant

---

[1] The same filing is being submitted in three Tariff IDs, so the relevant Tariff Records will vary with each of the three filings. Each of the three filings will include Attachments A through C for convenience of the reviewer.

[2] Prior to December 31, 2011, AEP had two Ohio utility affiliates, Ohio Power and Columbus Southern Power Company ("CSP"). On December 31, 2011, Ohio Power and CSP completed a reorganization transaction pursuant to which CSP was merged into Ohio Power. That transaction was approved by this Commission in an order issued on July 1, 2011, in Docket No. EC11-37. CSP's former generating resources are not at issue in this proceeding.

near New Haven, West Virginia and (ii) two 800,000 kW coal-fired units at the Mitchell Plant located in Moundsville, West Virginia. Under the current arrangements, APCo owns Sporn Unit Nos. 1 and 3, and Ohio Power owns Sporn Unit Nos. 2, 4, and 5. Sporn Unit No. 5 was retired on February 13, 2012. Because the plant is located in APCo's service territory, APCo has operated and maintained the Sporn Plant, including the units owned by Ohio Power, under the terms of an existing agreement between APCo and Ohio Power. Under the Ohio corporate separation plan noted above, AEP Generation Resources will obtain Sporn Unit Nos. 2, 4, and 5. APCo and AEP Generation Resources have agreed that APCo will continue to operate the Sporn Plant under the terms and conditions of the Sporn Agreement, which is discussed in more detail below.

Under the transactions described above, the Mitchell Plant ultimately will be transferred to APCo (which will acquire a 50% undivided interest) and KPCo (which will also acquire a 50% undivided interest). APCo and KPCo have agreed that APCo will operate the Mitchell Plant under the terms and conditions of the Mitchell Agreement, which is discussed in more detail below.

II. DISCUSSION

A. The Sporn Agreement

The Sporn Agreement supersedes the current operating agreement (which will be terminated), and sets out the terms under which APCo and AEPSC (as agent for APCo and AEP Generation Resources) will operate and maintain the Sporn Plant. Article One sets out APCo's and AEPSC's functions, including their obligations to operate and maintain the plant in accordance with good utility practices, to maintain the necessary books, records, and joint bank accounts for transactions involving the Sporn Plant, and to prepare statements detailing for AEP Generation Resources the monthly costs associated with operating and maintaining the plant. Article Two provides that each owner has the right to call on, at any and all times, the entire output of the Sporn Plant units that it owns. Article Three details each party's responsibilities and obligations for the costs of installing additional or replacement facilities at the plant, and specifies generally that the cost of facilities for jointly-owned property will be allocated in accordance with the ratio of each owner's ownership interest. Article Four discusses the owners' working capital requirements.

Article Five of the Sporn Agreement details the apportionment of the costs of operating and maintaining the Sporn Plant. That article provides for APCo and AEPSC to determine the operating and maintenance costs directly attributable to specific units, which will be allocated to the owner of those units, and the costs that are not directly attributable to specific units, which will be allocated 50% to each owner. Article Five further provides for AEPSC (subject to direction from the Operating Committee established pursuant to Article Six) to procure fuel for the Sporn Plant and to assess the associated fuel costs (including transportation and any carrying costs) to the respective owners. The article further provides that AEP Generation Resources may exercise an option to supply the fuel for one or more of the plants it owns, in which case AEP Generation Resources will still be allocated a portion of the fuel delivery and storage facility costs.

As just noted, Article Six provides for the establishment of an Operating Committee, consisting of representatives of each owner and AEPSC, as agent. Decisions by the Operating Committee must be agreed to by APCo and AEP Generation Resources. The Operating Committee's responsibilities include: (i) review and approval of annual budgets and operating plans, (ii) establishment of dispatch and unit commitment procedures, (iii) establishment of communication and coordination protocols, (iv) decisions on capital expenditures, (v) determinations on changes in unit capability and retirement(s), (vi) establishment of billing procedures, (vii) specification of fuel inspection and management procedures, and (viii) review and approval of changes to the Sporn Plant operating procedures, and plans to comply with environmental laws and other regulations, ordinances, and permits. The remaining articles include standard contract provisions addressing, among other things, compliance with regulatory requirements, limitations on liability, assignment, and dispute resolution.

B. The Mitchell Agreement

The Mitchell Agreement is similar to the Sporn Agreement. Like the Sporn Agreement, Article One of the Mitchell Agreement sets out APCo's and AEPSC's functions, including their obligations to operate and maintain the plant in accordance with good utility practices, to maintain the necessary books, records, and joint bank accounts for transactions involving the Mitchell Plant, and to prepare statements detailing for KPCo the monthly costs associated with operating and maintaining the plant. Article Two provides for the apportionment of capacity and energy between APCo and KPCo, and provides for APCo to accept, at all times, KPCo's share of the Mitchell Plant's total net capability into APCo's transmission facilities. Articles Three and Four of the Mitchell Agreement are substantially the same as Articles Three and Four of the Sporn Agreement.

Article Five provides for APCo and AEPSC to establish and maintain a sufficient coal pile to provide adequate fuel reserves for normal operations, and for the owners to make monthly investments in the common coal stock pile. APCo's and KPCo's respective shares of the investment in the common coal stock pile will be proportionate to their ownership shares in the Mitchell Plant. Article Six apportions the station costs, including fuel expenses, between APCo and KPCo. For example, APCo's and KPCo's respective shares of the monthly costs of the fuel consumed at the Mitchell Plant will be proportionate to their dispatch in each month. This article also apportions the monthly operating and maintenance costs in accordance with APCo's and KPCo's respective ownership interests.

Article Seven provides for the Operating Committee, which generally will have the same responsibilities as under Article Six of the Sporn Agreement. That article also sets out the unit commitment and dispatch provisions, including one owner's right to call on the Mitchell Plant capacity when the other owner has not committed its ownership interest in the plant. In addition, Article Seven includes provisions addressing emission allowances, as well as capital repairs and improvements. As with the Sporn Agreement, the remaining articles of the Mitchell Agreement include standard contract provisions addressing, among other things, compliance with regulatory requirements, limitations on liability, assignment, and dispute resolution.

III. GENERAL FILING INFORMATION

In compliance with the requirements of 18 C.F.R. § 35.13, AEPSC states as follows:

A. General Information – 18 C.F.R. § 35.13(b)

The documents provided with this filing include this Transmittal Letter and the materials listed above. The persons upon whom this filing has been served are set out below in Section IV. A description of and the reasons for the rate changes proposed are discussed in this Transmittal Letter. AEPSC further states that there are no costs in the agreements that have been alleged or judged in any administrative or judicial proceeding to be illegal, duplicative, or unnecessary costs that are demonstrably the product of discriminatory employment practices.

B. Cost of Service Information

AEPSC requests waiver of those provisions in Section 35.13 that would require AEPSC to submit cost-of-service data. Each of the joint operating agreements provides for the plant owners to pay the actual operating and maintenance costs, fuel and fuel handling expenses, and capital costs incurred for the installation of new or replacement facilities at the plants. The parties intend to comply with the affiliate pricing rules under Order No. 707 and will, if appropriate, request a waiver of those rules in a future proceeding.

C. Effective Date

AEPSC requests waiver of Section 35.3 to permit the Sporn Agreement and the Mitchell Agreement to become effective upon the closing of the Ohio restructuring transaction and the asset transfer transaction involving Amos Unit No. 3 and Mitchell, which are the subject of separate Section 203 applications that are being submitted contemporaneously with this filing. The parties anticipate that these closings will occur on or about December 31, 2013. The Tariff Records are thus being submitted with a January 1, 2014 proposed effective date.

IV. CORRESPONDENCE AND SERVICE

AEPSC requests that any correspondence or communications with respect to this filing be sent to the following:

Chad A. Heitmeyer
Regulatory Case Manager
American Electric Power
Service Corporation
1 Riverside Plaza
Columbus, OH 43215
(614) 716-3303
caheitmeyer@aep.com

John C. Crespo
Deputy General Counsel
Regulatory Services
American Electric Power
Service Corporation
1 Riverside Plaza
Columbus, OH 43215
(614) 716-3727
jccrespo@aep.com

Steptoe
STEPTOE & JOHNSON LLP

Steven J. Ross
Carol Gosain
Steptoe & Johnson LLP
1330 Connecticut Avenue, N.W.
Washington, DC 20036
(202) 429-6279
sross@steptoe.com
cgosain@steptoe.com

A copy of this filing will be served on the Kentucky Public Service Commission, the Public Service Commission of West Virginia, and the Virginia State Corporation Commission, and will be posted on AEP's website at:
http://www.aep.com/investors/currentRegulatoryactivity/regulatory/ferc.aspx

V. CONCLUSION

For the foregoing reasons, AEPSC respectfully requests that the Commission accept for filing, without condition or modification, the Sporn Agreement and the Mitchell Agreement. If you have any questions concerning this filing, please do not hesitate to contact the undersigned.

Respectfully submitted,

/s/
John C. Crespo
Deputy General Counsel – Regulatory Services
American Electric Power Service Corporation
1 Riverside Plaza
Columbus, OH 43215

Steven J. Ross
Carol Gosain
STEPTOE & JOHNSON LLP
1330 Connecticut Avenue, N.W.
Washington, DC 20036

Attorneys for
American Electric Power Service Corporation

Attachments

Attachment A

Sporn Plant Operating Agreement Among Appalachian Power Company, AEP Generation Resources Inc. and American Electric Power Service Corporation, as Agent

1. Tariff Record, APCo – Rate Schedule No. 302
2. Tariff Record, AEP Generation Resources Inc. – Rate Schedule No. 302

RATE SCHEDULE NO. 302

SPORN PLANT OPERATING AGREEMENT

APPALACHIAN POWER COMPANY

AEP GENERATION RESOURCES INC.

AND

AMERICAN ELECTRIC POWER SERVICE CORPORATION, AS AGENT

Tariff Submitter: **Appalachian Power Company**
FERC Program Name: **FERC FPA Electric Tariff**
Tariff Title: **APCo Rate Schedules and Service Agreements Tariffs**
Tariff Proposed Effective Date: **01/01/2014**
Tariff Record Title: **Sporn Plant Operating Agreement**
Option Code: **A**
Record Content Description: **Rate Schedule No. 302**

THIS SPORN PLANT OPERATING AGREEMENT ("Agreement") dated as of _____ is by and among Appalachian Power Company ("Appalachian"), a Virginia corporation qualified as a foreign corporation in West Virginia; AEP Generation Resources Inc. ("GenCo"), a Delaware corporation qualified as a foreign corporation in West Virginia (collectively hereinafter sometimes referred to as the "Owners"); and American Electric Power Service Corporation ("Agent"), a New York corporation qualified as a foreign corporation in West Virginia. Appalachian, GenCo and Agent may hereinafter be referred to individually as a "Party" and collectively as the "Parties".

WITNESSETH:

WHEREAS, Appalachian owns two operating 150,000 kilowatt generating units ("Sporn Unit Nos. 1 and 3") at the Philip Sporn Plant ("Sporn Plant") located along the Ohio River near New Haven, West Virginia, and GenCo has acquired from Ohio Power Company, and now owns, two operating 150,000 kilowatt generating units and one 450,000 kilowatt generating unit ("Sporn Unit Nos. 2, 4 and 5") at the Sporn Plant; and

WHEREAS, GenCo's Sporn Unit No. 5 was retired February 13, 2012; and

WHEREAS, the Owners desire that Appalachian operate and maintain the Sporn Plant in accordance with the provisions hereof, effective [January 1, 2014]; and

WHEREAS, the Owners are subsidiaries of American Electric Power Company, Inc., ("AEP") the parent company in an integrated public utility holding company system, and use the services of Agent (an affiliated company engaged solely in the business of furnishing essential services to the Owners and to other affiliated companies), as outlined in the service agreements between Agent and Appalachian Power Company and between Agent and AEP Generation Resources Inc.

NOW, THEREFORE, in consideration of the premises and for the purposes hereinabove recited, and in consideration of the mutual covenants hereinafter contained, the signatories agree as follows:

ARTICLE ONE

FUNCTIONS OF APPALACHIAN AND AGENT

1.1 Appalachian shall operate and maintain the Sporn Plant in accordance with good utility practice consistent with procedures employed by Appalachian at its other generating stations, and in conformity with the terms and conditions of this Agreement.

1.2 Appalachian shall keep all necessary books of record, books of account and memoranda of all transactions involving the Sporn Plant, and shall make computations and allocations on behalf of the Owners, as required under this Agreement. The books of record, books of account and memoranda shall be kept in such manner as to conform, where so required, to the Uniform System of Accounts prescribed by the Federal Energy Regulatory Commission ("FERC") for Public Utilities and Licensees ("Uniform System of Accounts"), and to the rules and regulations of other regulatory bodies having jurisdiction as they may from time to time be in effect.

1.3 The Owners may establish such joint bank accounts as may from time to time be appropriate.

1.4 As soon as practicable after the end of each month, Appalachian shall furnish to GenCo a statement setting forth the dollar amounts associated with the operation and maintenance of the Sporn Plant applicable to Appalachian and GenCo for such month in accordance

with the provisions of this Agreement. The Owners shall, on a timely basis, deposit sufficient dollar amounts in the appropriate bank accounts to cover their respective costs.

1.5 Appalachian may obtain such materials, labor and other services as it considers necessary in connection with the performance of the functions to be performed by it hereunder from such sources or through such persons as it may designate.

1.6 Agent, as directed by the Operating Committee and consistent with Agent's service agreements with Appalachian and GenCo, shall provide services necessary for the safe and efficient operation and maintenance of the Sporn Plant.

ARTICLE TWO

APPORTIONMENT OF CAPACITY AND ENERGY

2.1 Each Owner shall have the primary right to demand and use at any and all times the entire available kilowatt output capacity of the units it owns at the Sporn Plant and the electric energy associated with such capacity so demanded and used.

ARTICLE THREE

ADDITIONS, REPLACEMENTS AND RENEWALS

3.1 Installation of additional facilities or replacement of existing facilities with other facilities at the Sporn Plant may at any time or from time to time be made by either Owner on its side of the median line and the Owner making such installation or replacement shall pay the entire cost thereof and shall be vested with absolute title thereto; provided, however, that if the units of the Sporn Plant are being operated together as a single station at the time such installation or replacement is made, all features of such installation or

replacement which may affect the satisfactory, economical and/or safe operation of the Sporn Plant as a whole and all items which involve capital expenditures which cannot be performed under previously obtained authorizations from the other Owner shall be submitted in writing to the other Owner for approval by such Owner before such installation or replacement is made.

3.2 If any such installation or replacement requires structures or facilities to be installed upon the property of the other Owner, such other Owner shall grant any necessary easements for the structures or facilities which do not interfere with the use or development of its own units, and, if such structures or facilities are incorporated subsequently into an installation or replacement of its own, it shall purchase them at their book value. Each Owner shall be responsible for any liability or damage resulting from the installation or replacement of structures or facilities on the property of the other Owner.

3.3 The cost of new jointly-owned property and the costs incurred in installing any such new jointly-owned property that will serve all the Sporn Plant Units shall be apportioned between the Owners based upon the ratio of each Owner's capacity in the units it owns at the Sporn Plant to the sum of the capacity of all of the units at the Sporn Plant. Additions to existing jointly-owned property and replacements of sections of components of existing jointly-owned property shall be apportioned based upon the ratio of each Owner's capacity in the units it owns at the Sporn Plant to the sum of the capacity of all the units at the Sporn Plant.

3.4 The cost of new jointly-owned property and cost incurred in installing any such new jointly-owned property that will benefit less than all of the Sporn Units will be apportioned between the Owners based upon the ratio of each Owner's capacity in the

units it owns at the Sporn Plant which are benefited by the new jointly-owned property to the sum of the capacity in all units at the Sporn Plant which are benefited by the new jointly-owned property.

ARTICLE FOUR

WORKING CAPITAL REQUIREMENTS

4.1 Appalachian and GenCo shall periodically mutually determine the amount of funds required for use as working capital in meeting payrolls and other expenses incurred in the operation and maintenance of Sporn Plant and in buying materials and supplies (inclusive of fuel) for Sporn Plant.

4.2 Appalachian and GenCo shall from time to time provide their share of working capital requirements in respective amounts proportionate to the ratio of each Owner's capacity in the units it owns at the Sporn Plant to the sum of the capacity of all of the units at the Sporn Plant.

ARTICLE FIVE

APPORTIONMENT OF COST OF OPERATING AND MAINTAINING THE SPORN PLANT

5.1 The costs incurred during or accrued for each calendar month in operating the Sporn Plant, as shown by the cost statements described in Article One, shall be assigned between the Owners. Appalachian and Agent will, to the extent practicable, determine all Sporn Plant operating costs that are directly attributable to a specific unit for assignment to and payment by the Owner of that unit. The portion of the operating costs that benefit the entire Sporn Plant site which are to be allocated to GenCo but are not directly

attributable to a specific unit shall be equal to 50% of the total operating costs. The remaining portion of such non-attributable operating costs shall be allocated to Appalachian.

The Owners may, from time to time, amend the allocation formula to reflect retirement or decommissioning of a unit.

5.2 The costs incurred during or accrued for each calendar month in maintaining the Sporn Plant, as shown by the cost statements described in Article One, shall be assigned between the Owners. Appalachian and Agent will, to the extent practicable, determine all Sporn Plant maintenance costs that are directly attributable to a specific unit for assignment to and payment by the Owner of that unit. The portion of the maintenance costs that benefit the entire Sporn Plant site which are to be allocated to GenCo but are not directly attributable to a specific unit shall be equal to 50% of the total maintenance costs. The remaining portion of such non-attributable maintenance costs shall be allocated to Appalachian. The Owners may, from time to time, amend the allocation formula to reflect the retirement or decommissioning of a unit.

5.3 Agent, pursuant to direction from the Operating Committee (as defined in Article Six), shall continue to procure and deliver fuel to each of the operating generating units at the Sporn Plant. Except for any unit for which GenCo has exercised the option described in Section 5.3.1, each Owner will pay for the fuel costs of the units it owns at the Sporn Plant as determined in accordance with the last sentence of Section 5.3.2. Fuel costs will include the cost of the fuel itself, the cost of fuel transportation, and any carrying charges associated with fuel.

5.3.1 GenCo shall have the option, on six (6) months' notice to Appalachian and subject to no adverse impact on the operation of Appalachian's units, to supply the fuel necessary to operate one or more of the units it owns at the Sporn Plant. This option must be noticed at the same time as to all generating units at the Sporn Plant owned by GenCo that are served from the same physical fuel inventory. The option, once noticed, may not be revoked without Appalachian's consent.

(a) If it exercises the option described in this Section 5.3.1, GenCo shall have the right to use delivery and storage facilities, including rights of access, owned by Appalachian or Agent or under contract to Appalachian or Agent for the delivery to or storage of such fuel at the Sporn Plant, for use in connection with the unit(s) for which it has exercised such option. GenCo shall pay a monthly charge submitted by Appalachian reflecting the proportional cost of its use of fuel delivery and storage facilities in each month.

(b) In the event that GenCo exercises the option described in this Section 5.3.1 the Operating Committee will identify, and determine the appropriate allocation to GenCo of rights and obligations under, the applicable fuel supply contract(s), and any associated transportation contract(s), for fuel for the unit(s) as to which the option is exercised. Appalachian and Agent, as necessary, shall assign to GenCo, and GenCo shall accept assignment of, that portion of Appalachian's and Agents' rights

under such contracts which the Operating Committee has determined should be allocated to GenCo for fuel for the unit(s) as to which the option has been exercised. If GenCo exercises the option provided in this subsection, but for any reason the fuel supply that is GenCo's responsibility is not timely delivered to the subject generating unit(s), GenCo shall not have the right to commit or dispatch the units affected.

5.3.2. In the event that GenCo exercises the option to supply fuel described in Section 5.3.1 with respect to any unit, the specifications for the fuel(s) supplied for that unit will be established and, when appropriate, modified, by the Operating Committee. The Operating Committee will ensure that the specifications for the fuel to be supplied pursuant to the Section 5.3.1 option will have no adverse impact on the units owned by Appalachian. Fuel will be subject to inspection and certification procedures as the Operating Committee may decide. Fuel inventories at each unit that is the subject of the option, or at the Sporn Plant, may be physically commingled, but separate accounts will be maintained to reflect the fuel credited to each Owner and used by each Owner at each unit. The Operating Committee will develop procedures to avoid imbalances between the amount of fuel each Owner delivers and the amount of fuel each Owner uses, and shall take any steps necessary for the correction of any imbalance by settlement or payment as soon as feasible, but in no event shall imbalances be permitted to exist for more than six months without settlement or payment. The fuel costs of each Owner with respect to an individual unit will be equal to the sum of minimum load and

hourly average fuel costs (based on average heat rates at the unit's level of capacity utilization) associated with the Energy that each schedules from that unit.

5.3.3. In the event that GenCo exercises the option to supply fuel described in Section 5.3.1 with respect to any unit, Appalachian will assign to GenCo the fuel inventory, as of the date of the option takes effect, for the generating units affected by the exercise of the option.

ARTICLE SIX

OPERATING COMMITTEE

6.1 By written notice to each other, each of the Owners and Agent shall name one representative ("Operating Representative") and one alternate to act for it in matters pertaining to operating arrangements under this Agreement. For purposes of Sections 6.1 through 6.4 of this Agreement, Parties shall include the Owners and Agent. Any Party may change its Operating Representative or alternate at any time by written notice to the other Parties. The three Operating Representatives for the respective Parties, or their alternates, shall comprise the Operating Committee. All decisions, directives, or other actions by the Operating Committee must be by unanimous agreement of the Operating Representatives of the Owners. The Operating Representative of Agent, or of any third party that provides services in replacement of Agent, shall be free to express the views of Agent or such third party on any matter, but shall not have a vote on the Operating Committee. Except as otherwise provided in Sections 11.1, 11.2 and 11.3 with respect to a dispute referred to the Operating Committee by an Owner, the failure of the Owners' respective Operating Representatives to unanimously agree with respect to a matter

pending before the Operating Committee shall not be considered to be a dispute that would be subject to resolution under Article Eleven.

6.2 The Operating Committee shall have the following responsibilities.

a. Review and approval of an annual budget and annual operating plan, including determination of the emission allowances required to be acquired by the Owners.

b. Establishment and review of procedures and systems for dispatch, notification of dispatch, and unit commitment under this Agreement.

c. Establishment and monitoring of procedures for communication and coordination with respect to unit capacity availability, fuel-firing options, and scheduling of the generating capacity, including scheduling of outages for maintenance, repairs, equipment replacements, scheduled inspections, and other foreseeable cause of outages at any generating unit, as well as the return of any unit to availability following an unplanned outage.

d. Decisions on capital expenditures for facilities at the Sporn Plant owned jointly by the Owners.

e. Determinations as to changes in the unit capability of the units and decisions on unit retirement.

f. Establishment and modification of billing procedures under this Agreement.

g. Specification of fuels, oversight of fuel inspection and certification procedures, management of fuel inventories, and allocation of rights under fuel supply and transportation contracts in accordance with Section 5.3.1(b).

h. Establishment of, termination of, and approval of any change or amendment to the operating arrangements between Appalachian and Agent or any replacement third

party with respect to the Sporn Plant generating units; provided, however, that Agent or any replacement third party shall participate in discussions pursuant to Section 6.2.h only to the extent requested to do so by both Owners.

i. Review and approval of plans and procedures designed to insure compliance with any environmental law, regulation, ordinance or permit, including procedures for allocating and using emission allowances or for any programs that permit averaging at more than one unit for compliance.

j. Other duties as assigned by written agreement of the Owners.

6.3 The Operating Committee shall meet at least annually, and at such other times as any Party may reasonably request.

6.4 The Parties shall cooperate in providing to the Operating Committee the information it reasonably needs to carry out its duties, and to supplement or correct such information on a timely basis.

6.5 Appalachian and GenCo shall be individually responsible for any fees charged by FERC on the basis of the sales or transmission by each of capacity or energy at wholesale in interstate commerce.

6.6 Capital repairs and improvements for facilities at the Sporn Plant owned jointly by the Owners will be determined by the Operating Committee pursuant to the annual budgeting process set forth in Section 6.7. Expenditures that the Operating Committee determines have been or will be incurred exclusively for one Owner shall be assigned exclusively to that Owner.

6.7 At least 90 days before the start of each Operating Year, Appalachian and Agent shall submit to the Operating Committee a proposed annual budget with respect to the Sporn

Plant generating units, a proposed annual operating plan with respect to those generating units, and an estimate and schedule of costs to be incurred for major maintenance or replacement items with respect to those generating units during the next six-year period. The annual budget shall be presented on a month-by-month basis for each month during the next operating year, and shall include an operating budget, a capital budget, an estimate of the cost of any major repairs that are anticipated to occur during such operating year with respect to the Sporn Plant generating units, and an itemized estimate of all projected non-fuel variable operating expenses relating to the operation of those generating units during that operating year. The members of the Operating Committee will meet and work in good faith to agree upon the final annual budget and final annual operating plan. Once approved, the annual budget and annual operating plan shall remain in effect throughout the applicable operating year, subject to such changes, revisions, amendments, and updating as the Operating Committee may determine.

ARTICLE SEVEN

GOVERNMENTAL AUTHORITIES

This Agreement is subject to the regulatory powers of any State or Federal agency having jurisdiction.

ARTICLE EIGHT

LIMITATION OF LIABILITY

8.1 Notwithstanding anything in this Agreement to the contrary, neither of the Owners or Agent shall be liable under this Agreement for special, consequential, indirect, punitive

or exemplary damages, or for lost profits or business interruption damages, whether arising by statute, in tort or contract or otherwise.

ARTICLE NINE

MISCELLANEOUS

9.1 This Agreement shall inure to the benefit of and be binding upon the signatories hereto and their respective successors and assigns, but this Agreement may not be assigned by any signatory without the written consent of the others, which consent shall not be unreasonably withheld.

9.2 The interpretation and performance of this Agreement shall be in accordance with the laws of the State of Ohio, excluding conflict of laws principles that would require the application of the laws of a different jurisdiction.

9.3 This Agreement supercedes and replaces the Operating Agreement between Appalachian Power Company and Ohio Power Company, dated January 1, 1998, as of the date this Agreement becomes effective.

9.4 This Agreement supercedes all previous representations, understandings, negotiations, and agreements, either written or oral between the signatories or their representatives with respect to operation of the Sporn Plant, and constitutes the entire agreement of the signatories with respect to the operation of the Sporn Plant. Notwithstanding the foregoing, this Agreement does not supercede any previous agreements among any of the signatories allocating or transferring rights to capacity and associated energy, or ownership, of the Sporn Plant units.

9.5 Each Party shall designate in writing a representative to receive any and all notices required under this Agreement. Notices shall be in writing and shall be given to the representative designated to receive them, either by personal delivery, certified mail, facsimile, e-mail or any similar means, properly addressed to such representative at the address specified below:

APPALACHIAN POWER COMPANY

_____

_____

Attn:_____

Phone:_____

Facsimile:_____

Email:_____

AEP GENERATION RESOURCES INC.

_____

_____

Attn:_____

Phone:_____

Facsimile:_____

Email:_____

AMERICAN ELECTRIC POWER SERVICE CORPORATION

_____

_____

Attn:_____

Phone:_____

Facsimile:_____

Email:_____

All notices shall be effective upon receipt, or upon such later date following receipt as set forth in the notice. Any Party may, by written notice to the other Parties, change the representative or the address to which such notices are to be sent.

9.6 In the event that any of the provisions, or portions thereof, of this Agreement are held to be unenforceable or invalid by any court, the validity and enforceability of the remaining provisions, or portions thereof, shall not be affected.

9.7 This Agreement shall not be binding or effective until properly executed by each of the Parties hereto. This Agreement may be executed in any number of counterparts, each of which shall be deemed to be an original, and all of which, taken together, shall constitute but one and the same Agreement, which may be sufficiently evidenced by one counterpart.

ARTICLE TEN

EFFECTIVE DATE AND TERMINATION

Subject to FERC approval or acceptance for filing, this Agreement is effective at [January 1, 2014]. Subject to FERC approval or acceptance, if necessary, this Agreement may be terminated (a) upon not less than one year's written notice by either Owner; or (b) without notice

if FERC or any state commission with jurisdiction determines that performance hereunder conflicts with any rule, regulation or order of FERC or such state commission; or (c) at any time if either Appalachian or GenCo is no longer a direct or indirect wholly owned subsidiary of AEP; or (d) at any time by mutual agreement of Appalachian and GenCo to terminate this Agreement.

ARTICLE ELEVEN

DISPUTE RESOLUTION

11.1 If either Owner believes that a dispute has arisen as to the meaning or application of this Agreement, it shall present that matter to the Operating Committee in writing, and shall provide a copy of that writing to the other Owner.

11.2 If the Operating Committee is unable to reach agreement on any dispute within thirty (30) days after the dispute is presented to it, the matter shall be referred to the chief operating officers of the Owners for resolution in the manner that such individuals shall agree is appropriate; provided, however, that either Owner may invoke the arbitration provisions set forth in Section 11.3 at any time after the end of the thirty (30) day period provided for the Operating Committee to reach agreement if the Operating Committee has not reached agreement.

11.3 If the Owners are unable to resolve a dispute through the Operating Committee within thirty (30) days after the dispute is presented to the Operating Committee pursuant to Section 11.1, or through reference of the matter to the chief operating officers of the Owners pursuant to Section 11.2, either Owner may commence arbitration proceedings by providing written notice to the other Owner, detailing the nature of the dispute, designating the issue(s) to be arbitrated, identifying the provisions of this Agreement

under which the dispute arose, and setting forth such Owner's proposed resolution of such dispute.

11.3.1 Within ten (10) days of the date of the notice of arbitration, a representative of each Owner shall meet for the purpose of selecting an arbitrator. If the Owner's representatives are unable to agree on an arbitrator within fifteen (15) days of the date of the notice of arbitration, then an arbitrator shall be selected in accordance with the procedures of the American Arbitration Association ("AAA"). Whether the arbitrator is selected by the Owner's representatives or in accordance with the procedures of the AAA, the arbitrator shall have the qualifications and experience in the occupation, profession, or discipline relevant to the subject matter of the dispute.

11.3.2 Any arbitration proceeding shall be subject to the Federal Arbitration Act, 9 U.S.C. §§ 1 *et seq.* (1994), as it may be amended, or any successor enactment thereto, and shall be conducted in accordance with the commercial arbitration rules of the AAA in effect on the date of the notice to the extent not inconsistent with the provisions of this Article Eleven.

11.3.3 The arbitrator shall be bound by the provisions of this Agreement where applicable, and shall have no authority to modify any terms and conditions of this Agreement in any manner. The arbitrator shall render a decision resolving the dispute in an equitable manner, and may determine that monetary damages are due to an Owner or may issue a directive that an Owner take certain actions or refrain from taking certain actions, but shall not be authorized to order any other form of relief; provided, however, that nothing in this Article shall preclude

the arbitrator from rendering a decision that adopts the resolution of the dispute proposed by an Owner. Unless otherwise agreed to by the Owners, the arbitrator shall render a decision within one hundred twenty (120) days of appointment, and shall notify the Owners in writing of such decision and the reasons supporting such decision. The decision of the arbitrator shall be final and binding upon the Owners, and any award may be enforced in any court of competent jurisdiction.

11.3.4 The fees and expenses of the arbitrator shall be shared equally by the Owners, unless the arbitrator specifies a different allocation. All other expenses and costs of the arbitration proceeding shall be the responsibility of the Owner incurring such expenses and costs.

11.3.5 Unless otherwise agreed by the Owners, any arbitration proceedings shall be conducted in Columbus, Ohio.

11.3.6 Except as provided in this Article, the existence, contents, or results of any arbitration proceeding under this Article may not be disclosed without the prior written consent of the Owners, provided, however, that either Owner may make disclosures as may be required to fulfill regulatory obligations to any agencies having jurisdiction, and may inform its lenders, affiliates, auditors, and insurers, as necessary, under pledge of confidentiality, and may consult with expert consultants as required in connection with an arbitration proceeding under pledge of confidentiality.

11.3.7 Nothing in this Agreement shall be construed to preclude either Owner from filing a petition or complaint with FERC with respect to any claim over which

FERC has jurisdiction. In such case, the other Owner may request that FERC reject the petition or complaint or otherwise decline to exercise its jurisdiction. If FERC declines to act with respect to all or part of a claim, the portion of the claim not so accepted by FERC may be resolved through arbitration, as provided in this Article. To the extent that FERC asserts or accepts jurisdiction over all or part of a claim, the decisions, findings of fact, or orders of FERC shall be final and binding, subject to judicial review under the Federal Power Act, 16 U.S.C. § 791a *et seq., as amended from time to time,* and any arbitration proceedings that may have commenced prior to the assertion or acceptance of jurisdiction by FERC shall be stayed, pending the outcome of the FERC proceedings. The arbitrator shall have no authority to modify, and shall be conclusively bound by, any decisions, findings of fact, or orders of FERC; provided, however, that to the extent that any decisions, findings of fact, or orders of FERC do not provide a final or complete remedy to an Owner seeking relief, such Owner may proceed to arbitration under this Article to secure such a remedy, subject to any FERC decisions, findings, or orders.

11.4 The procedures set forth in this Article Eleven shall be the exclusive means for resolving disputes arising under this Agreement and shall survive this Agreement to the extent necessary to resolve any disputes pertaining to this Agreement. Except as provided in Sections 11.3 and 11.3.7, neither Owner shall have the right to bring any dispute for resolution by a court, agency, or other entity having jurisdiction over this Agreement, unless both Owners agree in writing to such procedure.

11.5 To the extent that a dispute involves the actions, inactions or responsibilities of Agent under this Agreement, the provisions of this Article shall be applicable to such dispute. For such purposes, Agent shall be treated as an Owner in applying the provisions of this Article.

IN WITNESS WHEREOF, the Parties hereto have caused this Agreement to be signed by their respective officers thereunto duly authorized, and their corporate seals to be hereunto affixed on the day and year first above written.

APPALACHIAN POWER COMPANY

BY _____

AEP GENERATION RESOURCES INC.

BY _____

AMERICAN ELECTRIC POWER SERVICE CORPORATION

BY _____

AEP GENERATION RESOURCES INC.

RATE SCHEDULE NO. 302

Joint Tariff Common Name: "Sporn Plant Operating Agreement"

Designated Filing Company: Appalachian Power Company (APCo)

Designated Filing Company Tariff Title: APCo Rate Schedules and Service Agreements Tariffs

Designated Filing Company Tariff Program: FPA (Cost Based)

Designated Filing Company Tariff Record Adopted by Reference (Record Content Description/Tariff Record Title): Rate Schedule No. 302, Sporn Plant Operating Agreement

No limitations: All versions of the agreement

Description of Tariff: Rate Schedule under which APCo, AEP Generation Resources Inc. and American Electric Power Service Corporation (in an agency role) will operate and maintain the Sporn Plant.

Attachment B

Mitchell Plant Operating Agreement Among Appalachian Power Company, Kentucky Power Company and American Electric Power Service Corporation, as Agent

1. Tariff Record, APCo – Rate Schedule No. 303
2. Tariff Record, KPCo – Rate Schedule No. 303

RATE SCHEDULE NO. 303

MITCHELL PLANT OPERATING AGREEMENT

APPALACHIAN POWER COMPANY

KENTUCKY POWER COMPANY

And

AMERICAN ELECTRIC POWER SERVICE CORPORATION, AS AGENT

Tariff Submitter: **Appalachian Power Company**
FERC Program Name: **FERC FPA Electric Tariff**
Tariff Title: **APCo Rate Schedules and Service Agreements Tariffs**
Tariff Proposed Effective Date: **01/01/2014**
Tariff Record Title: **Mitchell Plant Operating Agreement**
Option Code: **A**
Record Content Description: **Rate Schedule No. 303**

THIS MITCHELL PLANT OPERATING AGREEMENT ("Agreement"), dated _____ is by and among Appalachian Power Company ("Appalachian"), a Virginia corporation qualified as a foreign corporation in West Virginia; Kentucky Power Company, a Kentucky corporation qualified as a foreign corporation in West Virginia ("KPCo") (such two parties hereinafter sometimes referred to as the "Owners"); and American Electric Power Service Corporation ("Agent"), a New York corporation qualified as a foreign corporation in West Virginia. Appalachian, KPCo and Agent may hereinafter be referred to as a "Party" or collectively as the "Parties".

WITNESSETH:

WHEREAS, Appalachian and KPCo have acquired an undivided ownership interest in the Mitchell Power Generation Facility consisting of two 800MW generating units and associated plant, equipment and real estate, located in Moundsville, West Virginia, (the "Mitchell Plant"); and

WHEREAS, Appalachian now has an undivided 50% ownership interest in the Mitchell Plant and KPCo now has an undivided 50% ownership interest in the Mitchell Plant; and

WHEREAS, the Owners desire that Appalachian shall operate and maintain the Mitchell Plant in accordance with the provisions set forth herein; and

WHEREAS, the Owners are subsidiaries of American Electric Power Company, Inc., ("AEP") the parent company in an integrated public utility holding company system, and use the services of Agent, (an affiliated company engaged solely in the business of furnishing essential services to the Owners and to other affiliated companies), as outlined in the service agreements between Agent and Appalachian Power Company and between Agent and Kentucky Power Company.

NOW THEREFORE, in consideration of the premises and for the purposes hereinabove recited, and in consideration of the mutual covenants hereinafter contained, the signatories agree as follows:

ARTICLE ONE

FUNCTIONS OF APPALACHIAN AND AGENT

1.1 Appalachian shall operate and maintain the Mitchell Plant in accordance with good utility practice consistent with procedures employed by Appalachian at its other generating stations, and in conformity with the terms and conditions of this Agreement.

1.2 Appalachian shall keep all necessary books of record, books of account and memoranda of all transactions involving the Mitchell Plant, and shall make computations and allocations on behalf of the Owners, as required under this Agreement. The books of record, books of account and memoranda shall be kept in such manner as to conform, where so required, to the Uniform System of Accounts as prescribed by the Federal Energy Regulatory Commission ("FERC") for Public Utilities and Licensees ("Uniform System of Accounts"), and to the rules and regulations of other regulatory bodies having jurisdiction as they may from time to time be in effect.

1.3 The Owners shall establish such joint bank accounts as may from time to time be required or appropriate.

1.4 As soon as practicable after the end of the month, Appalachian shall furnish to KPCo a statement setting forth the dollar amounts associated with the operation and maintenance of the Mitchell Plant as allocated hereunder to Appalachian and KPCo for such month.

The Owners shall, on a timely basis, deposit sufficient dollar amounts in the appropriate bank accounts to cover their respective allocations of such costs.

1.5 Appalachian shall obtain such materials, labor and other services as it considers necessary in connection with the performance of the functions to be performed by it hereunder from such sources or through such persons as it may designate.

1.6 Agent, as directed by the Operating Committee and consistent with Agent's service agreements with Appalachian and KPCo, shall provide services necessary for the safe and efficient operation and maintenance of the Mitchell Plant.

ARTICLE TWO

APPORTIONMENT OF CAPACITY AND ENERGY

2.1 The Total Net Capability of the Mitchell Plant at the Mitchell Unit 1 and Unit 2 low-voltage busses, after taking into account auxiliary load demand, is 1,600,000 kilowatts. The Owners may from time to time modify the Total Net Capability of the Mitchell Plant as they may mutually agree.

2.2 The Total Net Generation of the Mitchell Plant during a given period, as determined by the requirements of Appalachian and KPCo, shall mean the electrical output of the Mitchell Plant generators during such period, measured in kilowatt hours by suitable instruments, reduced by the energy used by auxiliaries for the Mitchell Unit 1 and Unit 2 during such period.

2.3 In any hour, Appalachian and KPCo shall share the minimum load responsibility of Mitchell Unit 1 and Unit 2 in respective amounts proportionate to their ownership

interests in the Mitchell Plant at such time. Each Owner shall independently dispatch its share of the generating capacity between minimum and full load.

2.4 In any hour during which the Mitchell Units are out of service, the energy used by the out-of-service Units' auxiliaries during such hour shall be provided by Appalachian and KPCo in respective amounts proportionate to their ownership interests in the Mitchell Plant at such time.

2.5 Appalachian shall at all times accept KPCo's share of the Mitchell Plant Total Net Capability into its transmission system at the low-voltage busses of the Mitchell Plant, and shall deliver KPCo's share of energy used by the Mitchell Plant auxiliaries when the Units are out of service, as part of the energy interchange between and Appalachian and KPCo.

ARTICLE THREE

REPLACEMENTS, ADDITIONS, AND RETIREMENTS

3.1 Appalachian shall from time to time make or cause to be made any necessary additions to, replacements of, and retirements of capitalizable facilities associated with the Mitchell Plant as may be mutually agreed upon by the Owners.

3.2 The dollar amounts associated with any additions to, replacements of, or retirements of capitalizable facilities associated with the Mitchell Plant shall be allocated to Appalachian and KPCo in respective amounts proportionate to their ownership interests in the Mitchell Plant at the time such additions, replacements, or retirements are made.

ARTICLE FOUR

WORKING CAPITAL REQUIREMENTS

4.1 Appalachian and KPCo shall periodically mutually determine the amount of funds required for use as working capital in meeting payrolls and other expenses incurred in the operation and maintenance of the Mitchell Plant, and in buying materials and supplies (exclusive of fuel) for the Mitchell Plant.

4.2 Appalachian and KPCo shall from time to time provide their share of working capital requirements in respective amounts proportionate to their ownership interests at such time in the Mitchell Plant.

ARTICLE FIVE

INVESTMENT IN FUEL

5.1 Appalachian and Agent shall establish and maintain reserves of coal in stock pile for the Mitchell Plant of such quality and in such quantities as Appalachian and Agent shall determine to be required to provide adequate fuel reserves against interruptions of normal fuel supply.

5.2 The Owners shall make such monthly investments in the common coal stock pile associated with the Mitchell Plant as are necessary to maintain the number of tons in such coal stock pile, after taking into account the coal consumption from the common coal stock pile by Mitchell Unit 1 and Unit 2 during such month.

5.3 At any time, Appalachian's and KPCo's respective shares of the investment in the common coal stock pile shall be proportionate to their ownership interests at such time in the Mitchell Plant.

5.4 Fuel oil reserves and fuel oil charged to operation for the Mitchell Plant shall be owned and accounted for between the Owners in the same manner as coal.

ARTICLE SIX

APPORTIONMENT OF STATION COSTS

6.1 The allocation to the Owners of fuel expense associated with Mitchell Unit 1 and Unit 2 shall be determined by Appalachian and Agent as follows:

a. In any calendar month, the unit cost of coal received for the Mitchell Plant common coal stock pile shall be determined by dividing (i) the sum of the total delivered cost of coal received for the Mitchell Plant common coal stock pile during such month and the associated total coal storage costs, coal unloading costs and fuel handling costs incurred during such month by (ii) the total number of tons of coal delivered to the Mitchell Plant common coal stock pile during such month.

b. In any calendar month, the total cost of coal received for the Mitchell Plant common coal stock pile shall be determined by multiplying (i) the unit cost of coal received for such common coal stock pile for such month as determined by the provisions of Section 6.1(a) by (ii) the number of tons of coal received for such common stock pile during such month.

c. The number of tons of coal consumed by the Mitchell Plant in each calendar month from the Mitchell Plant common coal stock pile shall be determined and shall be converted into a dollar amount equal to the product of (i) the average cost per ton of coal associated with the Mitchell Plant in the Mitchell Plant coal stock

pile at the close of such month, and (ii) the number of tons of coal consumed by the Mitchell Plant from the Mitchell Plant common coal stock pile during such month. Such dollar amount shall be credited to the Mitchell Plant fuel in stock pile and charged to Mitchell Plant fuel consumed.

d. In each calendar month, Appalachian's and KPCo's respective shares of the Mitchell Plant fuel consumed expense as determined by the provisions of Section 6.1 (c) shall be proportionate to each Owner's dispatch of the Mitchell Plant in such month.

e. Fuel oil reserves will be owned and accounted for in the same manner as coal stock pile, and fuel oil consumed will be allocated to the Owners in the same manner as coal consumed.

6.2 For purposes of this Agreement, KPCo's Assigned Capacity in the Mitchell Plant shall be equal to 50% of the Total Net Capability, and Appalachian's Assigned Capacity shall be equal to 50% of the Total Net Capability.

6.3 For each calendar month, Appalachian and Agent will, to the extent practicable, determine all Mitchell Plant operations expenses and associated overheads, as accounted for under the FERC Uniform System of Accounts.

6.4 For each calendar month, Appalachian and Agent will, to the extent practicable, determine all Mitchell Plant maintenance expenses and associated overheads, as accounted for under the FERC Uniform System of Accounts.

6.5 In each calendar month, Appalachian's and KPCo's respective shares of operations and maintenance expenses associated with the Mitchell Plant, as determined in accordance with Sections 6.3 and 6.4, shall be proportionate to their respective ownership interests.

6.6 Each Owner shall bear the cost of all taxes attributable to its respective ownership interest in the Mitchell Plant.

ARTICLE SEVEN

OPERATING COMMITTEE AND OPERATIONS

7.1 By written notice to each other, the Owners and Agent each shall name one representative ("Operating Representative") and one alternate to act for it in matters pertaining to operating arrangements under this Agreement. Any Party may change its Operating Representative or alternate at any time by written notice to the other Parties. The Operating Representatives for the respective Parties, or their alternates, shall comprise the Operating Committee. All decisions, directives, or other actions by the Operating Committee must be by unanimous agreement of the Operating Representatives of Appalachian and KPCo. The Operating Representative of Agent, or of any third party that provides services in replacement of Agent, shall be free to express the views of Agent or such third party on any matter, but shall not have a vote on the Operating Committee. Except as otherwise provided in Sections 11.1, 11.2 and 11.3 with respect to a dispute referred to the Operating Committee by an Owner, the failure of the Owners' respective Operating Representatives to unanimously agree with respect to a matter pending before the Operating Committee shall not be considered to be a dispute that would be subject to resolution under Article Eleven.

7.2 The Operating Committee shall have the following responsibilities:

a. Review and approval of an annual budget and annual operating plan, including determination of the emission allowances required to be acquired by Appalachian and KPCo.

b. Establishment and review of procedures and systems for dispatch, notification of dispatch, and unit commitment under this Agreement, including any commitment of Called Capacity pursuant to Section 7.6.2.

c. Establishment and monitoring of procedures for communication and coordination with respect to the Mitchell Plant capacity availability, fuel-firing options, and scheduling of outages for maintenance, repairs, equipment replacements, scheduled inspections, and other foreseeable cause of outages, as well as the return to availability following an unplanned outage.

d. Decisions on capital expenditures, including unit upgrades and re-powering.

e. Determinations as to changes in the unit capability and decisions on unit retirement.

f. Establishment and modification of billing procedures under this Agreement.

g. Specification of fuels, oversight of fuel inspection and certification procedures, management of fuel inventories, and allocation of rights under fuel supply and transportation contracts.

h. Establishment of, termination of, and approval of any change or amendment to the operating arrangements between Appalachian and Agent or any replacement third party with respect to the Mitchell Plant generating units; provided, however, that Agent or any replacement third party shall participate in discussions pursuant to

this subsection 7.2.h only if and to the extent requested to do so by both Appalachian and KPCo.

i. Review and approval of plans and procedures designed to insure compliance with any environmental law, regulation, ordinance or permit, including procedures for allocating and using emission allowances or for any programs that permit averaging at more than one unit for compliance.

j. Other duties as assigned by agreement of Appalachian and KPCo.

7.3 The Operating Committee shall meet at least annually, and at such other times as any Party may reasonably request.

7.4 The Parties shall cooperate in providing to the Operating Committee the information it reasonably needs to carry out its duties, and to supplement or correct such information on a timely basis.

7.5 Appalachian and KPCo will each make an initial unit commitment one business day ahead of real-time dispatch.

7.6 For purposes of this Section and subsections of this Section, the terms "Party" or "Parties" refers only to Appalachian and KPCo, or both of them, as the case may be.

7.6.1 If Mitchell Unit 1 or Unit 2 is designated to be committed by both Parties, such unit will be brought on line or kept on line. If neither Party designates Mitchell Unit 1 or Unit 2 to be committed, such unit will remain off line or to be taken offline.

7.6.2 When a Mitchell Unit is designated to be committed by one Party, but designated not to be committed by the other Party, the unit will be brought on line or kept on line if the Party designating the unit for commitment undertakes to pay any

applicable start-up costs for the unit, as well as any applicable minimum running costs for the unit thereafter, in which event the unit shall be brought on line or kept on line, as the case may be. The Party so designating the unit to be committed shall have the right to schedule and dispatch up to all of the Available Capacity of the unit. Available Capacity means that portion of the Owners' aggregate Assigned Capacity that is currently capable of being dispatched. The Party exercising this right shall be referred to as the "Calling Party," and the capacity called by that Party in excess of its Assigned Capacity Percentage of the Available Capacity of that unit shall be referred to as its "Called Capacity." The other Party shall be referred to as the "Non-Calling Party". The Calling Party shall provide reasonable notice to the Non-Calling Party of its call, including any start-up or shut-down time for the Unit. For purposes of this Agreement, KPCo's Assigned Capacity Percentage shall be 50%, and Appalachian's Assigned Capacity Percentage shall be 50%.

7.6.3 The Non-Calling Party can reclaim any Called Capacity attributable to its Assigned Capacity share by giving the Calling Party notice equal to the normal start-up time for the unit. At the end of the notice period, the Non-Calling Party shall have the right to schedule and dispatch the recalled capacity. At that point, the Non-Calling Party shall resume its responsibility for its share of any applicable start-up costs for the unit and prospectively shall bear its responsibility for the costs associated with its Assigned Capacity from the unit.

7.6.4 If any capacity remains available but is not dispatched from a Party's Available Capacity committed as a result of the initial unit commitment, the other Party may

only schedule and dispatch such capacity pursuant to agreement with the non-dispatching Party.

7.7 Appalachian and KPCo shall be individually responsible for any fees charged by FERC on the basis of the sales or transmission by each of capacity or energy at wholesale in interstate commerce.

7.8 Emission Allowances. To the extent such assignment has not previously occurred, on or before the effective date of this Agreement, Appalachian and Agent will assign to KPCo a pro rata share of the remaining Emission Allowances for each vintage year of Emission Allowances, issued by the U.S. Environmental Protection Agency ("USEPA") pursuant to Title IV of the Clean Air Act Amendments of 1990 and any regulations thereunder, and any other emission allowance trading program created under the Clean Air Act and administered by USEPA or the State of West Virginia, including but not limited to the Clean Air Interstate Rule 40 CFR Parts 96 and 97, and any amendments thereto ("Emission Allowances"), that it has received from the Administrator of USEPA or the State of West Virginia with respect to the Mitchell Plant in the past and has not expended as of the date of assignment. In addition, Appalachian will assign to KPCo a pro rata share of such Emission Allowances which were purchased by Appalachian or Agent and held in any account for use at the Mitchell Plant. In each case, the number of such Emission Allowances to be assigned by Appalachian to KPCo will be determined by multiplying KPCo's Assigned Capacity Percentage, as specified in Section 7.6.2, by the total of such Emission Allowances that Appalachian or Agent has received or purchased for the Mitchell Plant and has not expended as of the date of assignment rounded to the nearest whole number. Emission Allowances received by Appalachian with respect to

the Mitchell Plant will be shared by the Appalachian and KPCo in accordance with the Assigned Capacity Percentage of each of them. To the extent that additional Emission Allowances are required for operation of the Mitchell Plant, Appalachian and KPCo will each be responsible for acquiring sufficient Emission Allowances to satisfy the Emission Allowances required because of its dispatch of energy from the Mitchell Plant, and the Emission Allowances required to satisfy the Emission Allowance surrender obligations attributable to the Mitchell Plant imposed under the Consent Decree between USEPA and Ohio Power Company entered on December 10, 2007, in Civil Action No. C2-99-1182 and consolidated cases by the U.S. District Court in the Southern District of Ohio. Agent will also determine the number and allocation of Emission Allowances to be supplied to any third-party unit operator under applicable designated representative agreements. On or before January 10 of each year, Agent shall determine and notify Appalachian and KPCo of the number of additional annual Emission Allowances consumed by each of them through December 31 of the previous year, and Appalachian and KPCo shall each transfer into the Mitchell Plant U.S. EPA Allowance Transfer System account that number of Emission Allowances with a small compliance margin by January 31 of that year. For seasonal Emission Allowance programs, Agent shall determine and notify Appalachian and KPCo of the number of additional seasonal Emission Allowances consumed by each of them during the applicable compliance period by the 10th day of the first month following the end of the compliance period, and Appalachian and KPCo shall each transfer into the appropriate Mitchell Plant U.S. EPA Allowance Transfer System Account that number of Emission Allowances with a small compliance margin by the last day of the first month following the end of the compliance period. In the event that

Appalachian or KPCo fails to surrender the required number of Emission Allowances by January 31 or the last day of the first month following any seasonal compliance period, Agent shall purchase the required number of Emission Allowances, and Appalachian or KPCo, as the case may be, shall reimburse Agent for such purchases, with interest at the Federal Funds Rate (as published by the Board of Governors of the Federal Reserve System as from time to time in effect) running from the date of such purchases to the date of payment. The Operating Committee will develop procedures to be implemented after the end of each calendar year to account for the Emission Allowances required by the use of the Mitchell Plant by Appalachian and KPCo and to correct any imbalance between Emission Allowances supplied and Emission Allowances used through the end of the preceding year by settlement or payment.

7.9 Capital repairs and improvements to the Mitchell Plant will be determined by the Operating Committee pursuant to the annual budgeting process set forth in Section 7.10. Expenditures that the Operating Committee determines have been or will be incurred exclusively for one Owner shall be assigned exclusively to that Owner.

7.10 At least 90 days before the start of each operating year, Appalachian and Agent shall submit to the Operating Committee a proposed annual budget with respect to the Mitchell Plant, a proposed annual operating plan, and an estimate and schedule of costs to be incurred for major maintenance or replacement items during the next six-year period. The annual budget shall be presented on a month-by-month basis for each month during the next operating year, and shall include an operating budget, a capital budget, an estimate of the cost of any major repairs that are anticipated will occur during such operating year with respect to the Mitchell Plant, and an itemized estimate of all

projected non-fuel variable operating expenses relating to the operation of the Mitchell Plant during that operating year. The members of the Operating Committee will meet and work in good faith to agree upon the final annual budget and final annual operating plan. Once approved, the annual budget and annual operating plan shall remain in effect throughout the applicable operating year, subject to such changes, revisions, amendments, and updating as the Operating Committee may determine.

ARTICLE EIGHT

EFFECTIVE DATE AND TERM

8.1 Subject to FERC approval or acceptance for filing, the effective date of this Agreement shall be [January 1, 2014].

8.2 Subject to FERC approval or acceptance, if necessary, this Agreement shall remain in force until such time as (i) KPCo or Appalachian has divested itself of all or any portion of its ownership interest in the Mitchell Plant, other than assignment or other transfer of such ownership interests to another AEP affiliate; or (ii) either KPCo or Appalachian is no longer a direct or indirect wholly owned subsidiary of AEP; or (iii) KPCo and Appalachian may mutually agree to terminate this Agreement.

ARTICLE NINE

GENERAL

9.1 This Agreement shall inure to the benefit of and be binding upon the signatories hereto and their respective successors and assigns, but this Agreement may not be assigned by

any signatory without the written consent of the others, which consent shall not be unreasonably withheld.

9.2 This Agreement is subject to the regulatory authority of any State or Federal agency having jurisdiction.

9.3 The interpretation and performance of this Agreement shall be in accordance with the laws of the State of Ohio, excluding conflict of laws principles that would require the application of the laws of a different jurisdiction.

9.4 This Agreement supercedes all previous representations, understandings, negotiations, and agreements, either written or oral between the signatories or their representatives with respect to operation of the Mitchell Plant, and constitutes the entire agreement of the signatories with respect to the operation of the Plant. Notwithstanding the foregoing, this Agreement does not supercede any previous agreements among any of the signatories allocating or transferring rights to capacity and associated energy, or ownership, of the Mitchell Plant.

9.5 Each party shall designate in writing a representative to receive any and all notices required under this Agreement. Notices shall be in writing and shall be given to the representative designated to receive them, either by personal delivery, certified mail, facsimile, e-mail or any similar means, properly addressed to such representative at the address specified below:

APPALACHIAN POWER COMPANY

_____

_____

Attn:_____

Phone:_____

Facsimile:_____

Email:_____

KENTUCKY POWER COMPANY

_____

_____

Attn:_____

Phone:_____

Facsimile:_____

Email:_____

AMERICAN ELECTRIC POWER SERVICE CORPORATION

_____

_____

Attn:_____

Phone:_____

Facsimile:_____

Email:_____

All notices shall be effective upon receipt, or upon such later date following receipt as set forth in the notice. Any Party may, by written notice to the other Parties, change the representative or the address to which such notices are to be sent.

ARTICLE TEN

LIMITATION OF LIABILITY

10.1 Notwithstanding anything in this Agreement to the contrary, neither of the Owners or Agent shall be liable under this Agreement for special, consequential, indirect, punitive or exemplary damages, or for lost profits or business interruption damages, whether arising by statute, in tort or contract or otherwise.

ARTICLE ELEVEN

DISPUTE RESOLUTION

11.1 If either Owner believes that a dispute has arisen as to the meaning or application of this Agreement, it shall present that matter to the Operating Committee in writing, and shall provide a copy of that writing to the other Owner.

11.2 If the Operating Committee is unable to reach agreement on any dispute within thirty (30) days after the dispute is presented to it, the matter shall be referred to the chief operating officers of the Owners for resolution in the manner that such individuals shall agree is appropriate; provided, however, that either Owner involved in a dispute may invoke the arbitration provisions set forth in Section 11.3 at any time after the end of the thirty (30)day period provided for the Operating Committee to reach agreement if the Operating Committee has not reached agreement.

11.3 If the Owners are unable to resolve a dispute through the Operating Committee within thirty (30) days after the dispute is presented to the Operating Committee pursuant to Section 11.1, or through reference of the matter to the chief operating officers of the Owners pursuant to Section 11.2, either Owner may commence arbitration proceedings by providing written notice to the other Owner, detailing the nature of the dispute,

designating the issue(s) to be arbitrated, identifying the provisions of this Agreement under which the dispute arose, and setting forth such Owner's proposed resolution of such dispute.

11.3.1 Within ten (10) days of the date of the notice of arbitration, a representative of each Owner shall meet for the purpose of selecting an arbitrator. If the Owner's representatives are unable to agree on an arbitrator within fifteen (15) days of the date of the notice of arbitration, then an arbitrator shall be selected in accordance with the procedures of the American Arbitration Association ("AAA"). Whether the arbitrator is selected by the Owner's representatives or in accordance with the procedures of the AAA, the arbitrator shall have the qualifications and experience in the occupation, profession, or discipline relevant to the subject matter of the dispute.

11.3.2 Any arbitration proceeding shall be subject to the Federal Arbitration Act, 9 U.S.C. §§ 1 *et seq.* (1994), as it may be amended, or any successor enactment thereto, and shall be conducted in accordance with the commercial arbitration rules of the AAA in effect on the date of the notice to the extent not inconsistent with the provisions of this Article.

11.3.3 The arbitrator shall be bound by the provisions of this Agreement where applicable, and shall have no authority to modify any terms and conditions of this Agreement in any manner. The arbitrator shall render a decision resolving the dispute in an equitable manner, and may determine that monetary damages are due to an Owner or may issue a directive that an Owner take certain actions or refrain from taking certain actions, but shall not be authorized to order any other

form of relief; provided, however, that nothing in this Article shall preclude the arbitrator from rendering a decision that adopts the resolution of the dispute proposed by an Owner. Unless otherwise agreed to by the Owners, the arbitrator shall render a decision within one hundred twenty (120) days of appointment, and shall notify the Owners in writing of such decision and the reasons supporting such decision. The decision of the arbitrator shall be final and binding upon the Owners, and any award may be enforced in any court of competent jurisdiction.

11.3.4 The fees and expenses of the arbitrator shall be shared equally by the Owners, unless the arbitrator specifies a different allocation. All other expenses and costs of the arbitration proceeding shall be the responsibility of the Owner incurring such expenses and costs.

11.3.5 Unless otherwise agreed by the Owners, any arbitration proceedings shall be conducted in Columbus, Ohio.

11.3.6 Except as provided in this Article, the existence, contents, or results of any arbitration proceeding under this Article may not be disclosed without the prior written consent of the Owners, provided, however, that either Owner may make disclosures as may be required to fulfill regulatory obligations to any agencies having jurisdiction, and may inform its lenders, affiliates, auditors, and insurers, as necessary, under pledge of confidentiality, and may consult with expert consultants as required in connection with an arbitration proceeding under pledge of confidentiality.

11.3.7 Nothing in this Agreement shall be construed to preclude either Owner from filing a petition or complaint with FERC with respect to any claim over which FERC

has jurisdiction. In such case, the other Owner may request that FERC reject the petition or complaint or otherwise decline to exercise its jurisdiction. If FERC declines to act with respect to all or part of a claim, the portion of the claim not so accepted by FERC may be resolved through arbitration, as provided in this Article. To the extent that FERC asserts or accepts jurisdiction over all or part of a claim, the decisions, findings of fact, or orders of FERC shall be final and binding, subject to judicial review under the Federal Power Act, 16 U.S.C. § 791a *et seq.,* as amended from time to time, and any arbitration proceedings that may have commenced prior to the assertion or acceptance of jurisdiction by FERC shall be stayed, pending the outcome of the FERC proceedings. The arbitrator shall have no authority to modify, and shall be conclusively bound by, any decisions, findings of fact, or orders of FERC; provided, however, that to the extent that any decisions, findings of fact, or orders of FERC do not provide a final or complete remedy to an Owner seeking relief, such Owner may proceed to arbitration under this Article to secure such a remedy, subject to any FERC decisions, findings, or orders.

11.4 The procedures set forth in this Article shall be the exclusive means for resolving disputes arising under this Agreement and shall survive this Agreement to the extent necessary to resolve any disputes pertaining to this Agreement. Except as provided in Sections 11.3 and 11.3.7, neither Owner shall have the right to bring any dispute for resolution before a court, agency, or other entity having jurisdiction over this Agreement, unless both Owners agree in writing to such procedure.

11.5 To the extent that a dispute involves the actions, inactions or responsibilities of Agent under this Agreement, the provisions of this Article shall be applicable to such dispute. For such purposes, Agent shall be treated as an Owner in applying the provisions of this Article.

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

APPALACHIAN POWER COMPANY

BY:_____

Title:_____

KENTUCKY POWER COMPANY

BY:_____

Title:_____

AMERICAN ELECTRIC POWER SERVICE CORPORATION

BY:_____

Title:_____

KENTUCKY POWER COMPANY

RATE SCHEDULE NO. 303

Joint Tariff Common Name: "Mitchell Plant Operating Agreement"

Designated Filing Company: Appalachian Power Company (APCo)

Designated Filing Company Tariff Title: APCo Rate Schedules and Service Agreements Tariffs

Designated Filing Company Tariff Program: FPA (Cost Based)

Designated Filing Company Tariff Record Adopted by Reference (Record Content Description/Tariff Record Title): Rate Schedule No. 303, Mitchell Plant Operating Agreement.

No limitations: All versions of the agreement

Description of Tariff: Rate Schedule under which APCo, Kentucky Power Company, and American Electric Power Service Corporation (in an agency role) will operate and maintain the Mitchell Plant.

Attachment C

1. Certificate of Concurrence – AEP Generation Resources Inc. regarding the Sporn Plant Operating Agreement

2. Certificate of Concurrence – Kentucky Power Company regarding the Mitchell Plant Operating Agreement

CERTIFICATE OF CONCURRENCE

This is to certify that AEP Generation Resources Inc. (AEP Generation Resources), a Delaware corporation, assents to and concurs in the FERC FPA Electric Tariff described below, which Appalachian Power Company (APCo), the designated filing company, has filed in its "APCo Rate Schedules and Service Agreements Tariffs" database.

Name of Tariff Adopted by Reference: Sporn Plant Operating Agreement

APCO Tariff Record Adopted by Reference: Rate Schedule No. 302, Sporn Plant Operating Agreement

Description of Tariff: Rate Schedule under which APCo, AEP Generation Resources and American Electric Power Service Corporation (in an agency role) will operate and maintain the Sporn Plant.

By: /John C. Crespo/
John C. Crespo,
Deputy General Counsel – Regulatory Services
Dated: October 26, 2012

CERTIFICATE OF CONCURRENCE

This is to certify that Kentucky Power Company (KPCo), a Kentucky corporation, assents to and concurs in the FERC FPA Electric Tariff described below, which Appalachian Power Company (APCo), the designated filing company, has filed in its "APCo Rate Schedules and Service Agreements Tariffs" database.

Name of Tariff Adopted by Reference: Mitchell Plant Operating Agreement

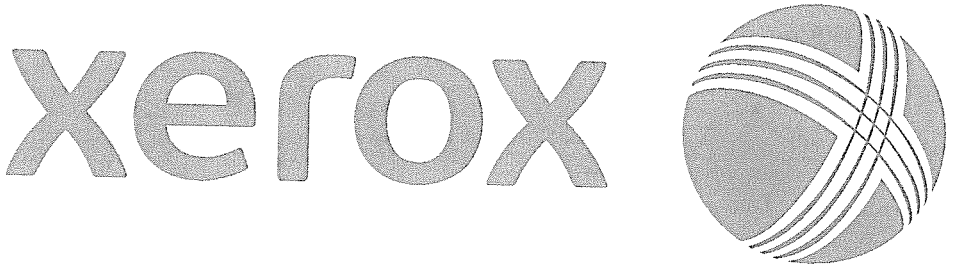
APCO Tariff Record Adopted by Reference: Rate Schedule No. 303, Mitchell Plant Operating Agreement

Description of Tariff: Rate Schedule under which APCo, KPCo and American Electric Power Service Corporation (in an agency role) will operate and maintain the Mitchell Plant.

By: /John C. Crespo/
John C. Crespo,
Deputy General Counsel – Regulatory Services
Dated: October 26, 2012

kwalton

Sporn Mitchell 3.pdf
04/22/13 02:35 PM



Steven J. Ross
202 429 6279
sross@steptoe.com

1330 Connecticut Avenue, NW
Washington, DC 20036-1795
202 429 3000 main
www.steptoe.com

Steptoe
STEPTOE & JOHNSON LLP

October 31, 2012

The Honorable Kimberly D. Bose
Secretary
Federal Energy Regulatory Commission
888 First Street, N.E.
Washington, D.C. 20426

Re: Appalachian Power Company
Docket No. ER13- -000
Kentucky Power Company
Docket No. ER13- -000
AEP Generation Resources Inc.
Docket No. ER13- -000

Dear Secretary Bose:

American Electric Power Service Corporation ("AEPSC"), on behalf of Appalachian Power Company ("APCo"), Kentucky Power Company ("KPCo"), and AEP Generation Resources Inc. ("AEP Generation Resources") (AEPSC, APCo, KPCo, and AEP Generation Resources collectively may be referred to as "AEP"), hereby submits for filing (i) the Sporn Plant Operating Agreement among APCo, AEP Generation Resources, and AEPSC ("Sporn Agreement"), and (ii) the Mitchell Plant Operating Agreement among APCo, KPCo, and AEPSC ("Mitchell Agreement"). **AEPSC respectfully requests that the Commission establish December 17, 2012 as the comment date for this filing. This extended comment period would allow interested parties extra time (an additional 26 days beyond what is set forth in 18 C.F.R. § 35.8) to comment on the filing.**

This filing includes the following documents in addition to the relevant Tariff Records:[1]

1. Attachment A – Clean Tariff Attachments for the Sporn Plant Operating Agreement (APCo Rate Schedule No. 302 and AEP Generation Resources Rate Schedule No. 302);
2. Attachment B - Clean Tariff Attachments for the Mitchell Plant Operating Agreement (APCo Rate Schedule No. 303 and KPCo Rate Schedule No. 303); and
3. Attachment C - Certificates of Concurrence signed on behalf of AEP Generation Resources and KPCo.

I. BACKGROUND

As described in detail in a Federal Power Act Section 203 application that AEPSC is submitting contemporaneously with this filing, the Public Utilities Commission of Ohio has approved a comprehensive restructuring of AEP's Ohio utility affiliate, Ohio Power Company ("Ohio Power").[2] Among other things, that restructuring provides for Ohio Power to separate its generation facilities from its transmission and distribution facilities. In a separate Section 203 application, APCo, KPCo, and AEP Generation Resources are seeking authority for (i) APCo to obtain from AEP Generation Resources Ohio Power's former interest in Unit No. 3 of the John E. Amos Plant and appurtenant interconnection facilities ("Amos Plant") (APCo already owns an interest in Amos Unit No. 3) and an 50% undivided interest in the Mitchell Power Generating Facility and appurtenant interconnection facilities ("Mitchell Plant"), and (ii) KPCo to obtain from AEP Generation Resources the remaining 50% undivided interest in the Mitchell Plant.

Once these transactions are consummated, AEP Generation Resources will operate the former Ohio Power generating facilities (other than Amos Unit No. 3, the Mitchell Plant, and the Philip Sporn Plant ("Sporn Plant")) as a standalone generating company. As discussed below, APCo will operate the Sporn Plant and the Mitchell Plant in accordance with the operating agreements that are the subject of this filing. APCo also will own and operate all the units at the Amos Plant. Therefore, as of the consummation of the transaction under which APCo will obtain Ohio Power's former interest in Amos Unit No. 3, the current operating agreement among APCo, Ohio Power, and AEPSC will be terminated.

The generating facilities covered by this filing are (i) four 150,000 kW coal-fired units (Sporn Unit Nos. 1-4) and one 450,000 kW coal-fired unit (Sporn Unit No. 5) at the Sporn Plant

---

[1] The same filing is being submitted in three Tariff IDs, so the relevant Tariff Records will vary with each of the three filings. Each of the three filings will include Attachments A through C for convenience of the reviewer.

[2] Prior to December 31, 2011, AEP had two Ohio utility affiliates, Ohio Power and Columbus Southern Power Company ("CSP"). On December 31, 2011, Ohio Power and CSP completed a reorganization transaction pursuant to which CSP was merged into Ohio Power. That transaction was approved by this Commission in an order issued on July 1, 2011, in Docket No. EC11-37. CSP's former generating resources are not at issue in this proceeding.

near New Haven, West Virginia and (ii) two 800,000 kW coal-fired units at the Mitchell Plant located in Moundsville, West Virginia. Under the current arrangements, APCo owns Sporn Unit Nos. 1 and 3, and Ohio Power owns Sporn Unit Nos. 2, 4, and 5. Sporn Unit No. 5 was retired on February 13, 2012. Because the plant is located in APCo's service territory, APCo has operated and maintained the Sporn Plant, including the units owned by Ohio Power, under the terms of an existing agreement between APCo and Ohio Power. Under the Ohio corporate separation plan noted above, AEP Generation Resources will obtain Sporn Unit Nos. 2, 4, and 5. APCo and AEP Generation Resources have agreed that APCo will continue to operate the Sporn Plant under the terms and conditions of the Sporn Agreement, which is discussed in more detail below.

Under the transactions described above, the Mitchell Plant ultimately will be transferred to APCo (which will acquire a 50% undivided interest) and KPCo (which will also acquire a 50% undivided interest). APCo and KPCo have agreed that APCo will operate the Mitchell Plant under the terms and conditions of the Mitchell Agreement, which is discussed in more detail below.

II. DISCUSSION

A. The Sporn Agreement

The Sporn Agreement supersedes the current operating agreement (which will be terminated), and sets out the terms under which APCo and AEPSC (as agent for APCo and AEP Generation Resources) will operate and maintain the Sporn Plant. Article One sets out APCo's and AEPSC's functions, including their obligations to operate and maintain the plant in accordance with good utility practices, to maintain the necessary books, records, and joint bank accounts for transactions involving the Sporn Plant, and to prepare statements detailing for AEP Generation Resources the monthly costs associated with operating and maintaining the plant. Article Two provides that each owner has the right to call on, at any and all times, the entire output of the Sporn Plant units that it owns. Article Three details each party's responsibilities and obligations for the costs of installing additional or replacement facilities at the plant, and specifies generally that the cost of facilities for jointly-owned property will be allocated in accordance with the ratio of each owner's ownership interest. Article Four discusses the owners' working capital requirements.

Article Five of the Sporn Agreement details the apportionment of the costs of operating and maintaining the Sporn Plant. That article provides for APCo and AEPSC to determine the operating and maintenance costs directly attributable to specific units, which will be allocated to the owner of those units, and the costs that are not directly attributable to specific units, which will be allocated 50% to each owner. Article Five further provides for AEPSC (subject to direction from the Operating Committee established pursuant to Article Six) to procure fuel for the Sporn Plant and to assess the associated fuel costs (including transportation and any carrying costs) to the respective owners. The article further provides that AEP Generation Resources may exercise an option to supply the fuel for one or more of the plants it owns, in which case AEP Generation Resources will still be allocated a portion of the fuel delivery and storage facility costs.

As just noted, Article Six provides for the establishment of an Operating Committee, consisting of representatives of each owner and AEPSC, as agent. Decisions by the Operating Committee must be agreed to by APCo and AEP Generation Resources. The Operating Committee's responsibilities include: (i) review and approval of annual budgets and operating plans, (ii) establishment of dispatch and unit commitment procedures, (iii) establishment of communication and coordination protocols, (iv) decisions on capital expenditures, (v) determinations on changes in unit capability and retirement(s), (vi) establishment of billing procedures, (vii) specification of fuel inspection and management procedures, and (viii) review and approval of changes to the Sporn Plant operating procedures, and plans to comply with environmental laws and other regulations, ordinances, and permits. The remaining articles include standard contract provisions addressing, among other things, compliance with regulatory requirements, limitations on liability, assignment, and dispute resolution.

B. The Mitchell Agreement

The Mitchell Agreement is similar to the Sporn Agreement. Like the Sporn Agreement, Article One of the Mitchell Agreement sets out APCo's and AEPSC's functions, including their obligations to operate and maintain the plant in accordance with good utility practices, to maintain the necessary books, records, and joint bank accounts for transactions involving the Mitchell Plant, and to prepare statements detailing for KPCo the monthly costs associated with operating and maintaining the plant. Article Two provides for the apportionment of capacity and energy between APCo and KPCo, and provides for APCo to accept, at all times, KPCo's share of the Mitchell Plant's total net capability into APCo's transmission facilities. Articles Three and Four of the Mitchell Agreement are substantially the same as Articles Three and Four of the Sporn Agreement.

Article Five provides for APCo and AEPSC to establish and maintain a sufficient coal pile to provide adequate fuel reserves for normal operations, and for the owners to make monthly investments in the common coal stock pile. APCo's and KPCo's respective shares of the investment in the common coal stock pile will be proportionate to their ownership shares in the Mitchell Plant. Article Six apportions the station costs, including fuel expenses, between APCo and KPCo. For example, APCo's and KPCo's respective shares of the monthly costs of the fuel consumed at the Mitchell Plant will be proportionate to their dispatch in each month. This article also apportions the monthly operating and maintenance costs in accordance with APCo's and KPCo's respective ownership interests.

Article Seven provides for the Operating Committee, which generally will have the same responsibilities as under Article Six of the Sporn Agreement. That article also sets out the unit commitment and dispatch provisions, including one owner's right to call on the Mitchell Plant capacity when the other owner has not committed its ownership interest in the plant. In addition, Article Seven includes provisions addressing emission allowances, as well as capital repairs and improvements. As with the Sporn Agreement, the remaining articles of the Mitchell Agreement include standard contract provisions addressing, among other things, compliance with regulatory requirements, limitations on liability, assignment, and dispute resolution.

III. GENERAL FILING INFORMATION

In compliance with the requirements of 18 C.F.R. § 35.13, AEPSC states as follows:

A. General Information – 18 C.F.R. § 35.13(b)

The documents provided with this filing include this Transmittal Letter and the materials listed above. The persons upon whom this filing has been served are set out below in Section IV. A description of and the reasons for the rate changes proposed are discussed in this Transmittal Letter. AEPSC further states that there are no costs in the agreements that have been alleged or judged in any administrative or judicial proceeding to be illegal, duplicative, or unnecessary costs that are demonstrably the product of discriminatory employment practices.

B. Cost of Service Information

AEPSC requests waiver of those provisions in Section 35.13 that would require AEPSC to submit cost-of-service data. Each of the joint operating agreements provides for the plant owners to pay the actual operating and maintenance costs, fuel and fuel handling expenses, and capital costs incurred for the installation of new or replacement facilities at the plants. The parties intend to comply with the affiliate pricing rules under Order No. 707 and will, if appropriate, request a waiver of those rules in a future proceeding.

C. Effective Date

AEPSC requests waiver of Section 35.3 to permit the Sporn Agreement and the Mitchell Agreement to become effective upon the closing of the Ohio restructuring transaction and the asset transfer transaction involving Amos Unit No. 3 and Mitchell, which are the subject of separate Section 203 applications that are being submitted contemporaneously with this filing. The parties anticipate that these closings will occur on or about December 31, 2013. The Tariff Records are thus being submitted with a January 1, 2014 proposed effective date.

IV. CORRESPONDENCE AND SERVICE

AEPSC requests that any correspondence or communications with respect to this filing be sent to the following:

Chad A. Heitmeyer
Regulatory Case Manager
American Electric Power
Service Corporation
1 Riverside Plaza
Columbus, OH 43215
(614) 716-3303
caheitmeyer@aep.com

John C. Crespo
Deputy General Counsel
Regulatory Services
American Electric Power
Service Corporation
1 Riverside Plaza
Columbus, OH 43215
(614) 716-3727
jccrespo@aep.com

Steptoe
STEPTOE & JOHNSON LLP

Steven J. Ross
Carol Gosain
Steptoe & Johnson LLP
1330 Connecticut Avenue, N.W.
Washington, DC 20036
(202) 429-6279
sross@steptoe.com
cgosain@steptoe.com

A copy of this filing will be served on the Kentucky Public Service Commission, the Public Service Commission of West Virginia, and the Virginia State Corporation Commission, and will be posted on AEP's website at:
http://www.aep.com/investors/currentRegulatoryactivity/regulatory/ferc.aspx

V. CONCLUSION

For the foregoing reasons, AEPSC respectfully requests that the Commission accept for filing, without condition or modification, the Sporn Agreement and the Mitchell Agreement. If you have any questions concerning this filing, please do not hesitate to contact the undersigned.

Respectfully submitted,

/s/
John C. Crespo
Deputy General Counsel – Regulatory Services
American Electric Power Service Corporation
1 Riverside Plaza
Columbus, OH 43215

Steven J. Ross
Carol Gosain
STEPTOE & JOHNSON LLP
1330 Connecticut Avenue, N.W.
Washington, DC 20036

Attorneys for
American Electric Power Service Corporation

Attachments

Attachment A

Sporn Plant Operating Agreement Among Appalachian Power Company, AEP Generation Resources Inc. and American Electric Power Service Corporation, as Agent

1. Tariff Record, APCo – Rate Schedule No. 302
2. Tariff Record, AEP Generation Resources Inc. – Rate Schedule No. 302

RATE SCHEDULE NO. 302

SPORN PLANT OPERATING AGREEMENT

APPALACHIAN POWER COMPANY

AEP GENERATION RESOURCES INC.

AND

AMERICAN ELECTRIC POWER SERVICE CORPORATION, AS AGENT

Tariff Submitter: **Appalachian Power Company**
FERC Program Name: **FERC FPA Electric Tariff**
Tariff Title: **APCo Rate Schedules and Service Agreements Tariffs**
Tariff Proposed Effective Date: **01/01/2014**
Tariff Record Title: **Sporn Plant Operating Agreement**
Option Code: **A**
Record Content Description: **Rate Schedule No. 302**

THIS SPORN PLANT OPERATING AGREEMENT ("Agreement") dated as of _____ is by and among Appalachian Power Company ("Appalachian"), a Virginia corporation qualified as a foreign corporation in West Virginia; AEP Generation Resources Inc. ("GenCo"), a Delaware corporation qualified as a foreign corporation in West Virginia (collectively hereinafter sometimes referred to as the "Owners"); and American Electric Power Service Corporation ("Agent"), a New York corporation qualified as a foreign corporation in West Virginia. Appalachian, GenCo and Agent may hereinafter be referred to individually as a "Party" and collectively as the "Parties".

WITNESSETH:

WHEREAS, Appalachian owns two operating 150,000 kilowatt generating units ("Sporn Unit Nos. 1 and 3") at the Philip Sporn Plant ("Sporn Plant") located along the Ohio River near New Haven, West Virginia, and GenCo has acquired from Ohio Power Company, and now owns, two operating 150,000 kilowatt generating units and one 450,000 kilowatt generating unit ("Sporn Unit Nos. 2, 4 and 5") at the Sporn Plant; and

WHEREAS, GenCo's Sporn Unit No. 5 was retired February 13, 2012; and

WHEREAS, the Owners desire that Appalachian operate and maintain the Sporn Plant in accordance with the provisions hereof, effective [January 1, 2014]; and

WHEREAS, the Owners are subsidiaries of American Electric Power Company, Inc., ("AEP") the parent company in an integrated public utility holding company system, and use the services of Agent (an affiliated company engaged solely in the business of furnishing essential services to the Owners and to other affiliated companies), as outlined in the service agreements between Agent and Appalachian Power Company and between Agent and AEP Generation Resources Inc.

NOW, THEREFORE, in consideration of the premises and for the purposes hereinabove recited, and in consideration of the mutual covenants hereinafter contained, the signatories agree as follows:

ARTICLE ONE

FUNCTIONS OF APPALACHIAN AND AGENT

1.1 Appalachian shall operate and maintain the Sporn Plant in accordance with good utility practice consistent with procedures employed by Appalachian at its other generating stations, and in conformity with the terms and conditions of this Agreement.

1.2 Appalachian shall keep all necessary books of record, books of account and memoranda of all transactions involving the Sporn Plant, and shall make computations and allocations on behalf of the Owners, as required under this Agreement. The books of record, books of account and memoranda shall be kept in such manner as to conform, where so required, to the Uniform System of Accounts prescribed by the Federal Energy Regulatory Commission ("FERC") for Public Utilities and Licensees ("Uniform System of Accounts"), and to the rules and regulations of other regulatory bodies having jurisdiction as they may from time to time be in effect.

1.3 The Owners may establish such joint bank accounts as may from time to time be appropriate.

1.4 As soon as practicable after the end of each month, Appalachian shall furnish to GenCo a statement setting forth the dollar amounts associated with the operation and maintenance of the Sporn Plant applicable to Appalachian and GenCo for such month in accordance

with the provisions of this Agreement. The Owners shall, on a timely basis, deposit sufficient dollar amounts in the appropriate bank accounts to cover their respective costs.

1.5 Appalachian may obtain such materials, labor and other services as it considers necessary in connection with the performance of the functions to be performed by it hereunder from such sources or through such persons as it may designate.

1.6 Agent, as directed by the Operating Committee and consistent with Agent's service agreements with Appalachian and GenCo, shall provide services necessary for the safe and efficient operation and maintenance of the Sporn Plant.

ARTICLE TWO

APPORTIONMENT OF CAPACITY AND ENERGY

2.1 Each Owner shall have the primary right to demand and use at any and all times the entire available kilowatt output capacity of the units it owns at the Sporn Plant and the electric energy associated with such capacity so demanded and used.

ARTICLE THREE

ADDITIONS, REPLACEMENTS AND RENEWALS

3.1 Installation of additional facilities or replacement of existing facilities with other facilities at the Sporn Plant may at any time or from time to time be made by either Owner on its side of the median line and the Owner making such installation or replacement shall pay the entire cost thereof and shall be vested with absolute title thereto; provided, however, that if the units of the Sporn Plant are being operated together as a single station at the time such installation or replacement is made, all features of such installation or

replacement which may affect the satisfactory, economical and/or safe operation of the Sporn Plant as a whole and all items which involve capital expenditures which cannot be performed under previously obtained authorizations from the other Owner shall be submitted in writing to the other Owner for approval by such Owner before such installation or replacement is made.

3.2 If any such installation or replacement requires structures or facilities to be installed upon the property of the other Owner, such other Owner shall grant any necessary easements for the structures or facilities which do not interfere with the use or development of its own units, and, if such structures or facilities are incorporated subsequently into an installation or replacement of its own, it shall purchase them at their book value. Each Owner shall be responsible for any liability or damage resulting from the installation or replacement of structures or facilities on the property of the other Owner.

3.3 The cost of new jointly-owned property and the costs incurred in installing any such new jointly-owned property that will serve all the Sporn Plant Units shall be apportioned between the Owners based upon the ratio of each Owner's capacity in the units it owns at the Sporn Plant to the sum of the capacity of all of the units at the Sporn Plant. Additions to existing jointly-owned property and replacements of sections of components of existing jointly-owned property shall be apportioned based upon the ratio of each Owner's capacity in the units it owns at the Sporn Plant to the sum of the capacity of all the units at the Sporn Plant.

3.4 The cost of new jointly-owned property and cost incurred in installing any such new jointly-owned property that will benefit less than all of the Sporn Units will be apportioned between the Owners based upon the ratio of each Owner's capacity in the

units it owns at the Sporn Plant which are benefited by the new jointly-owned property to the sum of the capacity in all units at the Sporn Plant which are benefited by the new jointly-owned property.

ARTICLE FOUR

WORKING CAPITAL REQUIREMENTS

4.1 Appalachian and GenCo shall periodically mutually determine the amount of funds required for use as working capital in meeting payrolls and other expenses incurred in the operation and maintenance of Sporn Plant and in buying materials and supplies (inclusive of fuel) for Sporn Plant.

4.2 Appalachian and GenCo shall from time to time provide their share of working capital requirements in respective amounts proportionate to the ratio of each Owner's capacity in the units it owns at the Sporn Plant to the sum of the capacity of all of the units at the Sporn Plant.

ARTICLE FIVE

APPORTIONMENT OF COST OF OPERATING AND MAINTAINING THE SPORN PLANT

5.1 The costs incurred during or accrued for each calendar month in operating the Sporn Plant, as shown by the cost statements described in Article One, shall be assigned between the Owners. Appalachian and Agent will, to the extent practicable, determine all Sporn Plant operating costs that are directly attributable to a specific unit for assignment to and payment by the Owner of that unit. The portion of the operating costs that benefit the entire Sporn Plant site which are to be allocated to GenCo but are not directly

attributable to a specific unit shall be equal to 50% of the total operating costs. The remaining portion of such non-attributable operating costs shall be allocated to Appalachian.

The Owners may, from time to time, amend the allocation formula to reflect retirement or decommissioning of a unit.

5.2 The costs incurred during or accrued for each calendar month in maintaining the Sporn Plant, as shown by the cost statements described in Article One, shall be assigned between the Owners. Appalachian and Agent will, to the extent practicable, determine all Sporn Plant maintenance costs that are directly attributable to a specific unit for assignment to and payment by the Owner of that unit. The portion of the maintenance costs that benefit the entire Sporn Plant site which are to be allocated to GenCo but are not directly attributable to a specific unit shall be equal to 50% of the total maintenance costs. The remaining portion of such non-attributable maintenance costs shall be allocated to Appalachian. The Owners may, from time to time, amend the allocation formula to reflect the retirement or decommissioning of a unit.

5.3 Agent, pursuant to direction from the Operating Committee (as defined in Article Six), shall continue to procure and deliver fuel to each of the operating generating units at the Sporn Plant. Except for any unit for which GenCo has exercised the option described in Section 5.3.1, each Owner will pay for the fuel costs of the units it owns at the Sporn Plant as determined in accordance with the last sentence of Section 5.3.2. Fuel costs will include the cost of the fuel itself, the cost of fuel transportation, and any carrying charges associated with fuel.

5.3.1 GenCo shall have the option, on six (6) months' notice to Appalachian and subject to no adverse impact on the operation of Appalachian's units, to supply the fuel necessary to operate one or more of the units it owns at the Sporn Plant. This option must be noticed at the same time as to all generating units at the Sporn Plant owned by GenCo that are served from the same physical fuel inventory. The option, once noticed, may not be revoked without Appalachian's consent.

(a) If it exercises the option described in this Section 5.3.1, GenCo shall have the right to use delivery and storage facilities, including rights of access, owned by Appalachian or Agent or under contract to Appalachian or Agent for the delivery to or storage of such fuel at the Sporn Plant, for use in connection with the unit(s) for which it has exercised such option. GenCo shall pay a monthly charge submitted by Appalachian reflecting the proportional cost of its use of fuel delivery and storage facilities in each month.

(b) In the event that GenCo exercises the option described in this Section 5.3.1 the Operating Committee will identify, and determine the appropriate allocation to GenCo of rights and obligations under, the applicable fuel supply contract(s), and any associated transportation contract(s), for fuel for the unit(s) as to which the option is exercised. Appalachian and Agent, as necessary, shall assign to GenCo, and GenCo shall accept assignment of, that portion of Appalachian's and Agents' rights

under such contracts which the Operating Committee has determined should be allocated to GenCo for fuel for the unit(s) as to which the option has been exercised. If GenCo exercises the option provided in this subsection, but for any reason the fuel supply that is GenCo's responsibility is not timely delivered to the subject generating unit(s), GenCo shall not have the right to commit or dispatch the units affected.

5.3.2. In the event that GenCo exercises the option to supply fuel described in Section 5.3.1 with respect to any unit, the specifications for the fuel(s) supplied for that unit will be established and, when appropriate, modified, by the Operating Committee. The Operating Committee will ensure that the specifications for the fuel to be supplied pursuant to the Section 5.3.1 option will have no adverse impact on the units owned by Appalachian. Fuel will be subject to inspection and certification procedures as the Operating Committee may decide. Fuel inventories at each unit that is the subject of the option, or at the Sporn Plant, may be physically commingled, but separate accounts will be maintained to reflect the fuel credited to each Owner and used by each Owner at each unit. The Operating Committee will develop procedures to avoid imbalances between the amount of fuel each Owner delivers and the amount of fuel each Owner uses, and shall take any steps necessary for the correction of any imbalance by settlement or payment as soon as feasible, but in no event shall imbalances be permitted to exist for more than six months without settlement or payment. The fuel costs of each Owner with respect to an individual unit will be equal to the sum of minimum load and

hourly average fuel costs (based on average heat rates at the unit's level of capacity utilization) associated with the Energy that each schedules from that unit.

5.3.3. In the event that GenCo exercises the option to supply fuel described in Section 5.3.1 with respect to any unit, Appalachian will assign to GenCo the fuel inventory, as of the date of the option takes effect, for the generating units affected by the exercise of the option.

ARTICLE SIX

OPERATING COMMITTEE

6.1 By written notice to each other, each of the Owners and Agent shall name one representative ("Operating Representative") and one alternate to act for it in matters pertaining to operating arrangements under this Agreement. For purposes of Sections 6.1 through 6.4 of this Agreement, Parties shall include the Owners and Agent. Any Party may change its Operating Representative or alternate at any time by written notice to the other Parties. The three Operating Representatives for the respective Parties, or their alternates, shall comprise the Operating Committee. All decisions, directives, or other actions by the Operating Committee must be by unanimous agreement of the Operating Representatives of the Owners. The Operating Representative of Agent, or of any third party that provides services in replacement of Agent, shall be free to express the views of Agent or such third party on any matter, but shall not have a vote on the Operating Committee. Except as otherwise provided in Sections 11.1, 11.2 and 11.3 with respect to a dispute referred to the Operating Committee by an Owner, the failure of the Owners' respective Operating Representatives to unanimously agree with respect to a matter

pending before the Operating Committee shall not be considered to be a dispute that would be subject to resolution under Article Eleven.

6.2 The Operating Committee shall have the following responsibilities.

a. Review and approval of an annual budget and annual operating plan, including determination of the emission allowances required to be acquired by the Owners.

b. Establishment and review of procedures and systems for dispatch, notification of dispatch, and unit commitment under this Agreement.

c. Establishment and monitoring of procedures for communication and coordination with respect to unit capacity availability, fuel-firing options, and scheduling of the generating capacity, including scheduling of outages for maintenance, repairs, equipment replacements, scheduled inspections, and other foreseeable cause of outages at any generating unit, as well as the return of any unit to availability following an unplanned outage.

d. Decisions on capital expenditures for facilities at the Sporn Plant owned jointly by the Owners.

e. Determinations as to changes in the unit capability of the units and decisions on unit retirement.

f. Establishment and modification of billing procedures under this Agreement.

g. Specification of fuels, oversight of fuel inspection and certification procedures, management of fuel inventories, and allocation of rights under fuel supply and transportation contracts in accordance with Section 5.3.1(b).

h. Establishment of, termination of, and approval of any change or amendment to the operating arrangements between Appalachian and Agent or any replacement third

party with respect to the Sporn Plant generating units; provided, however, that Agent or any replacement third party shall participate in discussions pursuant to Section 6.2.h only to the extent requested to do so by both Owners.

i. Review and approval of plans and procedures designed to insure compliance with any environmental law, regulation, ordinance or permit, including procedures for allocating and using emission allowances or for any programs that permit averaging at more than one unit for compliance.

j. Other duties as assigned by written agreement of the Owners.

6.3 The Operating Committee shall meet at least annually, and at such other times as any Party may reasonably request.

6.4 The Parties shall cooperate in providing to the Operating Committee the information it reasonably needs to carry out its duties, and to supplement or correct such information on a timely basis.

6.5 Appalachian and GenCo shall be individually responsible for any fees charged by FERC on the basis of the sales or transmission by each of capacity or energy at wholesale in interstate commerce.

6.6 Capital repairs and improvements for facilities at the Sporn Plant owned jointly by the Owners will be determined by the Operating Committee pursuant to the annual budgeting process set forth in Section 6.7. Expenditures that the Operating Committee determines have been or will be incurred exclusively for one Owner shall be assigned exclusively to that Owner.

6.7 At least 90 days before the start of each Operating Year, Appalachian and Agent shall submit to the Operating Committee a proposed annual budget with respect to the Sporn

Plant generating units, a proposed annual operating plan with respect to those generating units, and an estimate and schedule of costs to be incurred for major maintenance or replacement items with respect to those generating units during the next six-year period. The annual budget shall be presented on a month-by-month basis for each month during the next operating year, and shall include an operating budget, a capital budget, an estimate of the cost of any major repairs that are anticipated to occur during such operating year with respect to the Sporn Plant generating units, and an itemized estimate of all projected non-fuel variable operating expenses relating to the operation of those generating units during that operating year. The members of the Operating Committee will meet and work in good faith to agree upon the final annual budget and final annual operating plan. Once approved, the annual budget and annual operating plan shall remain in effect throughout the applicable operating year, subject to such changes, revisions, amendments, and updating as the Operating Committee may determine.

ARTICLE SEVEN

GOVERNMENTAL AUTHORITIES

This Agreement is subject to the regulatory powers of any State or Federal agency having jurisdiction.

ARTICLE EIGHT

LIMITATION OF LIABILITY

8.1 Notwithstanding anything in this Agreement to the contrary, neither of the Owners or Agent shall be liable under this Agreement for special, consequential, indirect, punitive

or exemplary damages, or for lost profits or business interruption damages, whether arising by statute, in tort or contract or otherwise.

ARTICLE NINE

MISCELLANEOUS

9.1 This Agreement shall inure to the benefit of and be binding upon the signatories hereto and their respective successors and assigns, but this Agreement may not be assigned by any signatory without the written consent of the others, which consent shall not be unreasonably withheld.

9.2 The interpretation and performance of this Agreement shall be in accordance with the laws of the State of Ohio, excluding conflict of laws principles that would require the application of the laws of a different jurisdiction.

9.3 This Agreement supercedes and replaces the Operating Agreement between Appalachian Power Company and Ohio Power Company, dated January 1, 1998, as of the date this Agreement becomes effective.

9.4 This Agreement supercedes all previous representations, understandings, negotiations, and agreements, either written or oral between the signatories or their representatives with respect to operation of the Sporn Plant, and constitutes the entire agreement of the signatories with respect to the operation of the Sporn Plant. Notwithstanding the foregoing, this Agreement does not supercede any previous agreements among any of the signatories allocating or transferring rights to capacity and associated energy, or ownership, of the Sporn Plant units.

9.5 Each Party shall designate in writing a representative to receive any and all notices required under this Agreement. Notices shall be in writing and shall be given to the representative designated to receive them, either by personal delivery, certified mail, facsimile, e-mail or any similar means, properly addressed to such representative at the address specified below:

APPALACHIAN POWER COMPANY

_____

_____

Attn:_____

Phone:_____

Facsimile:_____

Email:_____

AEP GENERATION RESOURCES INC.

_____

_____

Attn:_____

Phone:_____

Facsimile:_____

Email:_____

AMERICAN ELECTRIC POWER SERVICE CORPORATION

_____

_____

Attn:_____

Phone:_____

Facsimile:_____

Email:_____

All notices shall be effective upon receipt, or upon such later date following receipt as set forth in the notice. Any Party may, by written notice to the other Parties, change the representative or the address to which such notices are to be sent.

9.6 In the event that any of the provisions, or portions thereof, of this Agreement are held to be unenforceable or invalid by any court, the validity and enforceability of the remaining provisions, or portions thereof, shall not be affected.

9.7 This Agreement shall not be binding or effective until properly executed by each of the Parties hereto. This Agreement may be executed in any number of counterparts, each of which shall be deemed to be an original, and all of which, taken together, shall constitute but one and the same Agreement, which may be sufficiently evidenced by one counterpart.

ARTICLE TEN

EFFECTIVE DATE AND TERMINATION

Subject to FERC approval or acceptance for filing, this Agreement is effective at [January 1, 2014]. Subject to FERC approval or acceptance, if necessary, this Agreement may be terminated (a) upon not less than one year's written notice by either Owner; or (b) without notice

if FERC or any state commission with jurisdiction determines that performance hereunder conflicts with any rule, regulation or order of FERC or such state commission; or (c) at any time if either Appalachian or GenCo is no longer a direct or indirect wholly owned subsidiary of AEP; or (d) at any time by mutual agreement of Appalachian and GenCo to terminate this Agreement.

ARTICLE ELEVEN

DISPUTE RESOLUTION

11.1 If either Owner believes that a dispute has arisen as to the meaning or application of this Agreement, it shall present that matter to the Operating Committee in writing, and shall provide a copy of that writing to the other Owner.

11.2 If the Operating Committee is unable to reach agreement on any dispute within thirty (30) days after the dispute is presented to it, the matter shall be referred to the chief operating officers of the Owners for resolution in the manner that such individuals shall agree is appropriate; provided, however, that either Owner may invoke the arbitration provisions set forth in Section 11.3 at any time after the end of the thirty (30) day period provided for the Operating Committee to reach agreement if the Operating Committee has not reached agreement.

11.3 If the Owners are unable to resolve a dispute through the Operating Committee within thirty (30) days after the dispute is presented to the Operating Committee pursuant to Section 11.1, or through reference of the matter to the chief operating officers of the Owners pursuant to Section 11.2, either Owner may commence arbitration proceedings by providing written notice to the other Owner, detailing the nature of the dispute, designating the issue(s) to be arbitrated, identifying the provisions of this Agreement

under which the dispute arose, and setting forth such Owner's proposed resolution of such dispute.

11.3.1 Within ten (10) days of the date of the notice of arbitration, a representative of each Owner shall meet for the purpose of selecting an arbitrator. If the Owner's representatives are unable to agree on an arbitrator within fifteen (15) days of the date of the notice of arbitration, then an arbitrator shall be selected in accordance with the procedures of the American Arbitration Association ("AAA"). Whether the arbitrator is selected by the Owner's representatives or in accordance with the procedures of the AAA, the arbitrator shall have the qualifications and experience in the occupation, profession, or discipline relevant to the subject matter of the dispute.

11.3.2 Any arbitration proceeding shall be subject to the Federal Arbitration Act, 9 U.S.C. §§ 1 *et seq.* (1994), as it may be amended, or any successor enactment thereto, and shall be conducted in accordance with the commercial arbitration rules of the AAA in effect on the date of the notice to the extent not inconsistent with the provisions of this Article Eleven.

11.3.3 The arbitrator shall be bound by the provisions of this Agreement where applicable, and shall have no authority to modify any terms and conditions of this Agreement in any manner. The arbitrator shall render a decision resolving the dispute in an equitable manner, and may determine that monetary damages are due to an Owner or may issue a directive that an Owner take certain actions or refrain from taking certain actions, but shall not be authorized to order any other form of relief; provided, however, that nothing in this Article shall preclude

the arbitrator from rendering a decision that adopts the resolution of the dispute proposed by an Owner. Unless otherwise agreed to by the Owners, the arbitrator shall render a decision within one hundred twenty (120) days of appointment, and shall notify the Owners in writing of such decision and the reasons supporting such decision. The decision of the arbitrator shall be final and binding upon the Owners, and any award may be enforced in any court of competent jurisdiction.

11.3.4 The fees and expenses of the arbitrator shall be shared equally by the Owners, unless the arbitrator specifies a different allocation. All other expenses and costs of the arbitration proceeding shall be the responsibility of the Owner incurring such expenses and costs.

11.3.5 Unless otherwise agreed by the Owners, any arbitration proceedings shall be conducted in Columbus, Ohio.

11.3.6 Except as provided in this Article, the existence, contents, or results of any arbitration proceeding under this Article may not be disclosed without the prior written consent of the Owners, provided, however, that either Owner may make disclosures as may be required to fulfill regulatory obligations to any agencies having jurisdiction, and may inform its lenders, affiliates, auditors, and insurers, as necessary, under pledge of confidentiality, and may consult with expert consultants as required in connection with an arbitration proceeding under pledge of confidentiality.

11.3.7 Nothing in this Agreement shall be construed to preclude either Owner from filing a petition or complaint with FERC with respect to any claim over which

FERC has jurisdiction. In such case, the other Owner may request that FERC reject the petition or complaint or otherwise decline to exercise its jurisdiction. If FERC declines to act with respect to all or part of a claim, the portion of the claim not so accepted by FERC may be resolved through arbitration, as provided in this Article. To the extent that FERC asserts or accepts jurisdiction over all or part of a claim, the decisions, findings of fact, or orders of FERC shall be final and binding, subject to judicial review under the Federal Power Act, 16 U.S.C. § 791a *et seq., as amended from time to time,* and any arbitration proceedings that may have commenced prior to the assertion or acceptance of jurisdiction by FERC shall be stayed, pending the outcome of the FERC proceedings. The arbitrator shall have no authority to modify, and shall be conclusively bound by, any decisions, findings of fact, or orders of FERC; provided, however, that to the extent that any decisions, findings of fact, or orders of FERC do not provide a final or complete remedy to an Owner seeking relief, such Owner may proceed to arbitration under this Article to secure such a remedy, subject to any FERC decisions, findings, or orders.

11.4 The procedures set forth in this Article Eleven shall be the exclusive means for resolving disputes arising under this Agreement and shall survive this Agreement to the extent necessary to resolve any disputes pertaining to this Agreement. Except as provided in Sections 11.3 and 11.3.7, neither Owner shall have the right to bring any dispute for resolution by a court, agency, or other entity having jurisdiction over this Agreement, unless both Owners agree in writing to such procedure.

11.5 To the extent that a dispute involves the actions, inactions or responsibilities of Agent under this Agreement, the provisions of this Article shall be applicable to such dispute. For such purposes, Agent shall be treated as an Owner in applying the provisions of this Article.

IN WITNESS WHEREOF, the Parties hereto have caused this Agreement to be signed by their respective officers thereunto duly authorized, and their corporate seals to be hereunto affixed on the day and year first above written.

APPALACHIAN POWER COMPANY

BY _____

AEP GENERATION RESOURCES INC.

BY _____

AMERICAN ELECTRIC POWER SERVICE CORPORATION

BY _____

AEP GENERATION RESOURCES INC.

RATE SCHEDULE NO. 302

Joint Tariff Common Name: "Sporn Plant Operating Agreement"

Designated Filing Company: Appalachian Power Company (APCo)

Designated Filing Company Tariff Title: APCo Rate Schedules and Service Agreements Tariffs

Designated Filing Company Tariff Program: FPA (Cost Based)

Designated Filing Company Tariff Record Adopted by Reference (Record Content Description/Tariff Record Title): Rate Schedule No. 302, Sporn Plant Operating Agreement

No limitations: All versions of the agreement

Description of Tariff: Rate Schedule under which APCo, AEP Generation Resources Inc. and American Electric Power Service Corporation (in an agency role) will operate and maintain the Sporn Plant.

Attachment B

Mitchell Plant Operating Agreement Among Appalachian Power Company, Kentucky Power Company and American Electric Power Service Corporation, as Agent

1. Tariff Record, APCo – Rate Schedule No. 303
2. Tariff Record, KPCo – Rate Schedule No. 303

RATE SCHEDULE NO. 303

MITCHELL PLANT OPERATING AGREEMENT

APPALACHIAN POWER COMPANY

KENTUCKY POWER COMPANY

And

AMERICAN ELECTRIC POWER SERVICE CORPORATION, AS AGENT

Tariff Submitter: **Appalachian Power Company**
FERC Program Name: **FERC FPA Electric Tariff**
Tariff Title: **APCo Rate Schedules and Service Agreements Tariffs**
Tariff Proposed Effective Date: **01/01/2014**
Tariff Record Title: **Mitchell Plant Operating Agreement**
Option Code: **A**
Record Content Description: **Rate Schedule No. 303**

THIS MITCHELL PLANT OPERATING AGREEMENT ("Agreement"), dated _____ is by and among Appalachian Power Company ("Appalachian"), a Virginia corporation qualified as a foreign corporation in West Virginia; Kentucky Power Company, a Kentucky corporation qualified as a foreign corporation in West Virginia ("KPCo") (such two parties hereinafter sometimes referred to as the "Owners"); and American Electric Power Service Corporation ("Agent"), a New York corporation qualified as a foreign corporation in West Virginia. Appalachian, KPCo and Agent may hereinafter be referred to as a "Party" or collectively as the "Parties".

WITNESSETH:

WHEREAS, Appalachian and KPCo have acquired an undivided ownership interest in the Mitchell Power Generation Facility consisting of two 800MW generating units and associated plant, equipment and real estate, located in Moundsville, West Virginia, (the "Mitchell Plant"); and

WHEREAS, Appalachian now has an undivided 50% ownership interest in the Mitchell Plant and KPCo now has an undivided 50% ownership interest in the Mitchell Plant; and

WHEREAS, the Owners desire that Appalachian shall operate and maintain the Mitchell Plant in accordance with the provisions set forth herein; and

WHEREAS, the Owners are subsidiaries of American Electric Power Company, Inc., ("AEP") the parent company in an integrated public utility holding company system, and use the services of Agent, (an affiliated company engaged solely in the business of furnishing essential services to the Owners and to other affiliated companies), as outlined in the service agreements between Agent and Appalachian Power Company and between Agent and Kentucky Power Company.

NOW THEREFORE, in consideration of the premises and for the purposes hereinabove recited, and in consideration of the mutual covenants hereinafter contained, the signatories agree as follows:

ARTICLE ONE

FUNCTIONS OF APPALACHIAN AND AGENT

1.1 Appalachian shall operate and maintain the Mitchell Plant in accordance with good utility practice consistent with procedures employed by Appalachian at its other generating stations, and in conformity with the terms and conditions of this Agreement.

1.2 Appalachian shall keep all necessary books of record, books of account and memoranda of all transactions involving the Mitchell Plant, and shall make computations and allocations on behalf of the Owners, as required under this Agreement. The books of record, books of account and memoranda shall be kept in such manner as to conform, where so required, to the Uniform System of Accounts as prescribed by the Federal Energy Regulatory Commission ("FERC") for Public Utilities and Licensees ("Uniform System of Accounts"), and to the rules and regulations of other regulatory bodies having jurisdiction as they may from time to time be in effect.

1.3 The Owners shall establish such joint bank accounts as may from time to time be required or appropriate.

1.4 As soon as practicable after the end of the month, Appalachian shall furnish to KPCo a statement setting forth the dollar amounts associated with the operation and maintenance of the Mitchell Plant as allocated hereunder to Appalachian and KPCo for such month.

The Owners shall, on a timely basis, deposit sufficient dollar amounts in the appropriate bank accounts to cover their respective allocations of such costs.

1.5 Appalachian shall obtain such materials, labor and other services as it considers necessary in connection with the performance of the functions to be performed by it hereunder from such sources or through such persons as it may designate.

1.6 Agent, as directed by the Operating Committee and consistent with Agent's service agreements with Appalachian and KPCo, shall provide services necessary for the safe and efficient operation and maintenance of the Mitchell Plant.

ARTICLE TWO

APPORTIONMENT OF CAPACITY AND ENERGY

2.1 The Total Net Capability of the Mitchell Plant at the Mitchell Unit 1 and Unit 2 low-voltage busses, after taking into account auxiliary load demand, is 1,600,000 kilowatts. The Owners may from time to time modify the Total Net Capability of the Mitchell Plant as they may mutually agree.

2.2 The Total Net Generation of the Mitchell Plant during a given period, as determined by the requirements of Appalachian and KPCo, shall mean the electrical output of the Mitchell Plant generators during such period, measured in kilowatt hours by suitable instruments, reduced by the energy used by auxiliaries for the Mitchell Unit 1 and Unit 2 during such period.

2.3 In any hour, Appalachian and KPCo shall share the minimum load responsibility of Mitchell Unit 1 and Unit 2 in respective amounts proportionate to their ownership

interests in the Mitchell Plant at such time. Each Owner shall independently dispatch its share of the generating capacity between minimum and full load.

2.4 In any hour during which the Mitchell Units are out of service, the energy used by the out-of-service Units' auxiliaries during such hour shall be provided by Appalachian and KPCo in respective amounts proportionate to their ownership interests in the Mitchell Plant at such time.

2.5 Appalachian shall at all times accept KPCo's share of the Mitchell Plant Total Net Capability into its transmission system at the low-voltage busses of the Mitchell Plant, and shall deliver KPCo's share of energy used by the Mitchell Plant auxiliaries when the Units are out of service, as part of the energy interchange between and Appalachian and KPCo.

ARTICLE THREE

REPLACEMENTS, ADDITIONS, AND RETIREMENTS

3.1 Appalachian shall from time to time make or cause to be made any necessary additions to, replacements of, and retirements of capitalizable facilities associated with the Mitchell Plant as may be mutually agreed upon by the Owners.

3.2 The dollar amounts associated with any additions to, replacements of, or retirements of capitalizable facilities associated with the Mitchell Plant shall be allocated to Appalachian and KPCo in respective amounts proportionate to their ownership interests in the Mitchell Plant at the time such additions, replacements, or retirements are made.

ARTICLE FOUR

WORKING CAPITAL REQUIREMENTS

4.1 Appalachian and KPCo shall periodically mutually determine the amount of funds required for use as working capital in meeting payrolls and other expenses incurred in the operation and maintenance of the Mitchell Plant, and in buying materials and supplies (exclusive of fuel) for the Mitchell Plant.

4.2 Appalachian and KPCo shall from time to time provide their share of working capital requirements in respective amounts proportionate to their ownership interests at such time in the Mitchell Plant.

ARTICLE FIVE

INVESTMENT IN FUEL

5.1 Appalachian and Agent shall establish and maintain reserves of coal in stock pile for the Mitchell Plant of such quality and in such quantities as Appalachian and Agent shall determine to be required to provide adequate fuel reserves against interruptions of normal fuel supply.

5.2 The Owners shall make such monthly investments in the common coal stock pile associated with the Mitchell Plant as are necessary to maintain the number of tons in such coal stock pile, after taking into account the coal consumption from the common coal stock pile by Mitchell Unit 1 and Unit 2 during such month.

5.3 At any time, Appalachian's and KPCo's respective shares of the investment in the common coal stock pile shall be proportionate to their ownership interests at such time in the Mitchell Plant.

5.4 Fuel oil reserves and fuel oil charged to operation for the Mitchell Plant shall be owned and accounted for between the Owners in the same manner as coal.

ARTICLE SIX

APPORTIONMENT OF STATION COSTS

6.1 The allocation to the Owners of fuel expense associated with Mitchell Unit 1 and Unit 2 shall be determined by Appalachian and Agent as follows:

a. In any calendar month, the unit cost of coal received for the Mitchell Plant common coal stock pile shall be determined by dividing (i) the sum of the total delivered cost of coal received for the Mitchell Plant common coal stock pile during such month and the associated total coal storage costs, coal unloading costs and fuel handling costs incurred during such month by (ii) the total number of tons of coal delivered to the Mitchell Plant common coal stock pile during such month.

b. In any calendar month, the total cost of coal received for the Mitchell Plant common coal stock pile shall be determined by multiplying (i) the unit cost of coal received for such common coal stock pile for such month as determined by the provisions of Section 6.1(a) by (ii) the number of tons of coal received for such common stock pile during such month.

c. The number of tons of coal consumed by the Mitchell Plant in each calendar month from the Mitchell Plant common coal stock pile shall be determined and shall be converted into a dollar amount equal to the product of (i) the average cost per ton of coal associated with the Mitchell Plant in the Mitchell Plant coal stock

pile at the close of such month, and (ii) the number of tons of coal consumed by the Mitchell Plant from the Mitchell Plant common coal stock pile during such month. Such dollar amount shall be credited to the Mitchell Plant fuel in stock pile and charged to Mitchell Plant fuel consumed.

d. In each calendar month, Appalachian's and KPCo's respective shares of the Mitchell Plant fuel consumed expense as determined by the provisions of Section 6.1 (c) shall be proportionate to each Owner's dispatch of the Mitchell Plant in such month.

e. Fuel oil reserves will be owned and accounted for in the same manner as coal stock pile, and fuel oil consumed will be allocated to the Owners in the same manner as coal consumed.

6.2 For purposes of this Agreement, KPCo's Assigned Capacity in the Mitchell Plant shall be equal to 50% of the Total Net Capability, and Appalachian's Assigned Capacity shall be equal to 50% of the Total Net Capability.

6.3 For each calendar month, Appalachian and Agent will, to the extent practicable, determine all Mitchell Plant operations expenses and associated overheads, as accounted for under the FERC Uniform System of Accounts.

6.4 For each calendar month, Appalachian and Agent will, to the extent practicable, determine all Mitchell Plant maintenance expenses and associated overheads, as accounted for under the FERC Uniform System of Accounts.

6.5 In each calendar month, Appalachian's and KPCo's respective shares of operations and maintenance expenses associated with the Mitchell Plant, as determined in accordance with Sections 6.3 and 6.4, shall be proportionate to their respective ownership interests.

6.6 Each Owner shall bear the cost of all taxes attributable to its respective ownership interest in the Mitchell Plant.

ARTICLE SEVEN

OPERATING COMMITTEE AND OPERATIONS

7.1 By written notice to each other, the Owners and Agent each shall name one representative ("Operating Representative") and one alternate to act for it in matters pertaining to operating arrangements under this Agreement. Any Party may change its Operating Representative or alternate at any time by written notice to the other Parties. The Operating Representatives for the respective Parties, or their alternates, shall comprise the Operating Committee. All decisions, directives, or other actions by the Operating Committee must be by unanimous agreement of the Operating Representatives of Appalachian and KPCo. The Operating Representative of Agent, or of any third party that provides services in replacement of Agent, shall be free to express the views of Agent or such third party on any matter, but shall not have a vote on the Operating Committee. Except as otherwise provided in Sections 11.1, 11.2 and 11.3 with respect to a dispute referred to the Operating Committee by an Owner, the failure of the Owners' respective Operating Representatives to unanimously agree with respect to a matter pending before the Operating Committee shall not be considered to be a dispute that would be subject to resolution under Article Eleven.

7.2 The Operating Committee shall have the following responsibilities:

a. Review and approval of an annual budget and annual operating plan, including determination of the emission allowances required to be acquired by Appalachian and KPCo.

b. Establishment and review of procedures and systems for dispatch, notification of dispatch, and unit commitment under this Agreement, including any commitment of Called Capacity pursuant to Section 7.6.2.

c. Establishment and monitoring of procedures for communication and coordination with respect to the Mitchell Plant capacity availability, fuel-firing options, and scheduling of outages for maintenance, repairs, equipment replacements, scheduled inspections, and other foreseeable cause of outages, as well as the return to availability following an unplanned outage.

d. Decisions on capital expenditures, including unit upgrades and re-powering.

e. Determinations as to changes in the unit capability and decisions on unit retirement.

f. Establishment and modification of billing procedures under this Agreement.

g. Specification of fuels, oversight of fuel inspection and certification procedures, management of fuel inventories, and allocation of rights under fuel supply and transportation contracts.

h. Establishment of, termination of, and approval of any change or amendment to the operating arrangements between Appalachian and Agent or any replacement third party with respect to the Mitchell Plant generating units; provided, however, that Agent or any replacement third party shall participate in discussions pursuant to

this subsection 7.2.h only if and to the extent requested to do so by both Appalachian and KPCo.

i. Review and approval of plans and procedures designed to insure compliance with any environmental law, regulation, ordinance or permit, including procedures for allocating and using emission allowances or for any programs that permit averaging at more than one unit for compliance.

j. Other duties as assigned by agreement of Appalachian and KPCo.

7.3 The Operating Committee shall meet at least annually, and at such other times as any Party may reasonably request.

7.4 The Parties shall cooperate in providing to the Operating Committee the information it reasonably needs to carry out its duties, and to supplement or correct such information on a timely basis.

7.5 Appalachian and KPCo will each make an initial unit commitment one business day ahead of real-time dispatch.

7.6 For purposes of this Section and subsections of this Section, the terms "Party" or "Parties" refers only to Appalachian and KPCo, or both of them, as the case may be.

7.6.1 If Mitchell Unit 1 or Unit 2 is designated to be committed by both Parties, such unit will be brought on line or kept on line. If neither Party designates Mitchell Unit 1 or Unit 2 to be committed, such unit will remain off line or to be taken offline.

7.6.2 When a Mitchell Unit is designated to be committed by one Party, but designated not to be committed by the other Party, the unit will be brought on line or kept on line if the Party designating the unit for commitment undertakes to pay any

applicable start-up costs for the unit, as well as any applicable minimum running costs for the unit thereafter, in which event the unit shall be brought on line or kept on line, as the case may be. The Party so designating the unit to be committed shall have the right to schedule and dispatch up to all of the Available Capacity of the unit. Available Capacity means that portion of the Owners' aggregate Assigned Capacity that is currently capable of being dispatched. The Party exercising this right shall be referred to as the "Calling Party," and the capacity called by that Party in excess of its Assigned Capacity Percentage of the Available Capacity of that unit shall be referred to as its "Called Capacity." The other Party shall be referred to as the "Non-Calling Party". The Calling Party shall provide reasonable notice to the Non-Calling Party of its call, including any start-up or shut-down time for the Unit. For purposes of this Agreement, KPCo's Assigned Capacity Percentage shall be 50%, and Appalachian's Assigned Capacity Percentage shall be 50%.

7.6.3 The Non-Calling Party can reclaim any Called Capacity attributable to its Assigned Capacity share by giving the Calling Party notice equal to the normal start-up time for the unit. At the end of the notice period, the Non-Calling Party shall have the right to schedule and dispatch the recalled capacity. At that point, the Non-Calling Party shall resume its responsibility for its share of any applicable start-up costs for the unit and prospectively shall bear its responsibility for the costs associated with its Assigned Capacity from the unit.

7.6.4 If any capacity remains available but is not dispatched from a Party's Available Capacity committed as a result of the initial unit commitment, the other Party may

only schedule and dispatch such capacity pursuant to agreement with the non-dispatching Party.

7.7 Appalachian and KPCo shall be individually responsible for any fees charged by FERC on the basis of the sales or transmission by each of capacity or energy at wholesale in interstate commerce.

7.8 Emission Allowances. To the extent such assignment has not previously occurred, on or before the effective date of this Agreement, Appalachian and Agent will assign to KPCo a pro rata share of the remaining Emission Allowances for each vintage year of Emission Allowances, issued by the U.S. Environmental Protection Agency ("USEPA") pursuant to Title IV of the Clean Air Act Amendments of 1990 and any regulations thereunder, and any other emission allowance trading program created under the Clean Air Act and administered by USEPA or the State of West Virginia, including but not limited to the Clean Air Interstate Rule 40 CFR Parts 96 and 97, and any amendments thereto ("Emission Allowances"), that it has received from the Administrator of USEPA or the State of West Virginia with respect to the Mitchell Plant in the past and has not expended as of the date of assignment. In addition, Appalachian will assign to KPCo a pro rata share of such Emission Allowances which were purchased by Appalachian or Agent and held in any account for use at the Mitchell Plant. In each case, the number of such Emission Allowances to be assigned by Appalachian to KPCo will be determined by multiplying KPCo's Assigned Capacity Percentage, as specified in Section 7.6.2, by the total of such Emission Allowances that Appalachian or Agent has received or purchased for the Mitchell Plant and has not expended as of the date of assignment rounded to the nearest whole number. Emission Allowances received by Appalachian with respect to

the Mitchell Plant will be shared by the Appalachian and KPCo in accordance with the Assigned Capacity Percentage of each of them. To the extent that additional Emission Allowances are required for operation of the Mitchell Plant, Appalachian and KPCo will each be responsible for acquiring sufficient Emission Allowances to satisfy the Emission Allowances required because of its dispatch of energy from the Mitchell Plant, and the Emission Allowances required to satisfy the Emission Allowance surrender obligations attributable to the Mitchell Plant imposed under the Consent Decree between USEPA and Ohio Power Company entered on December 10, 2007, in Civil Action No. C2-99-1182 and consolidated cases by the U.S. District Court in the Southern District of Ohio. Agent will also determine the number and allocation of Emission Allowances to be supplied to any third-party unit operator under applicable designated representative agreements. On or before January 10 of each year, Agent shall determine and notify Appalachian and KPCo of the number of additional annual Emission Allowances consumed by each of them through December 31 of the previous year, and Appalachian and KPCo shall each transfer into the Mitchell Plant U.S. EPA Allowance Transfer System account that number of Emission Allowances with a small compliance margin by January 31 of that year. For seasonal Emission Allowance programs, Agent shall determine and notify Appalachian and KPCo of the number of additional seasonal Emission Allowances consumed by each of them during the applicable compliance period by the 10th day of the first month following the end of the compliance period, and Appalachian and KPCo shall each transfer into the appropriate Mitchell Plant U.S. EPA Allowance Transfer System Account that number of Emission Allowances with a small compliance margin by the last day of the first month following the end of the compliance period. In the event that

Appalachian or KPCo fails to surrender the required number of Emission Allowances by January 31 or the last day of the first month following any seasonal compliance period, Agent shall purchase the required number of Emission Allowances, and Appalachian or KPCo, as the case may be, shall reimburse Agent for such purchases, with interest at the Federal Funds Rate (as published by the Board of Governors of the Federal Reserve System as from time to time in effect) running from the date of such purchases to the date of payment. The Operating Committee will develop procedures to be implemented after the end of each calendar year to account for the Emission Allowances required by the use of the Mitchell Plant by Appalachian and KPCo and to correct any imbalance between Emission Allowances supplied and Emission Allowances used through the end of the preceding year by settlement or payment.

7.9 Capital repairs and improvements to the Mitchell Plant will be determined by the Operating Committee pursuant to the annual budgeting process set forth in Section 7.10. Expenditures that the Operating Committee determines have been or will be incurred exclusively for one Owner shall be assigned exclusively to that Owner.

7.10 At least 90 days before the start of each operating year, Appalachian and Agent shall submit to the Operating Committee a proposed annual budget with respect to the Mitchell Plant, a proposed annual operating plan, and an estimate and schedule of costs to be incurred for major maintenance or replacement items during the next six-year period. The annual budget shall be presented on a month-by-month basis for each month during the next operating year, and shall include an operating budget, a capital budget, an estimate of the cost of any major repairs that are anticipated will occur during such operating year with respect to the Mitchell Plant, and an itemized estimate of all

projected non-fuel variable operating expenses relating to the operation of the Mitchell Plant during that operating year. The members of the Operating Committee will meet and work in good faith to agree upon the final annual budget and final annual operating plan. Once approved, the annual budget and annual operating plan shall remain in effect throughout the applicable operating year, subject to such changes, revisions, amendments, and updating as the Operating Committee may determine.

ARTICLE EIGHT

EFFECTIVE DATE AND TERM

8.1 Subject to FERC approval or acceptance for filing, the effective date of this Agreement shall be [January 1, 2014].

8.2 Subject to FERC approval or acceptance, if necessary, this Agreement shall remain in force until such time as (i) KPCo or Appalachian has divested itself of all or any portion of its ownership interest in the Mitchell Plant, other than assignment or other transfer of such ownership interests to another AEP affiliate; or (ii) either KPCo or Appalachian is no longer a direct or indirect wholly owned subsidiary of AEP; or (iii) KPCo and Appalachian may mutually agree to terminate this Agreement.

ARTICLE NINE

GENERAL

9.1 This Agreement shall inure to the benefit of and be binding upon the signatories hereto and their respective successors and assigns, but this Agreement may not be assigned by

any signatory without the written consent of the others, which consent shall not be unreasonably withheld.

9.2 This Agreement is subject to the regulatory authority of any State or Federal agency having jurisdiction.

9.3 The interpretation and performance of this Agreement shall be in accordance with the laws of the State of Ohio, excluding conflict of laws principles that would require the application of the laws of a different jurisdiction.

9.4 This Agreement supercedes all previous representations, understandings, negotiations, and agreements, either written or oral between the signatories or their representatives with respect to operation of the Mitchell Plant, and constitutes the entire agreement of the signatories with respect to the operation of the Plant. Notwithstanding the foregoing, this Agreement does not supercede any previous agreements among any of the signatories allocating or transferring rights to capacity and associated energy, or ownership, of the Mitchell Plant.

9.5 Each party shall designate in writing a representative to receive any and all notices required under this Agreement. Notices shall be in writing and shall be given to the representative designated to receive them, either by personal delivery, certified mail, facsimile, e-mail or any similar means, properly addressed to such representative at the address specified below:

APPALACHIAN POWER COMPANY

_____

_____

Attn:_____

Phone:_____

Facsimile:_____

Email:_____

KENTUCKY POWER COMPANY

_____

_____

Attn:_____

Phone:_____

Facsimile:_____

Email:_____

AMERICAN ELECTRIC POWER SERVICE CORPORATION

_____

_____

Attn:_____

Phone:_____

Facsimile:_____

Email:_____

All notices shall be effective upon receipt, or upon such later date following receipt as set forth in the notice. Any Party may, by written notice to the other Parties, change the representative or the address to which such notices are to be sent.

ARTICLE TEN

LIMITATION OF LIABILITY

10.1 Notwithstanding anything in this Agreement to the contrary, neither of the Owners or Agent shall be liable under this Agreement for special, consequential, indirect, punitive or exemplary damages, or for lost profits or business interruption damages, whether arising by statute, in tort or contract or otherwise.

ARTICLE ELEVEN

DISPUTE RESOLUTION

11.1 If either Owner believes that a dispute has arisen as to the meaning or application of this Agreement, it shall present that matter to the Operating Committee in writing, and shall provide a copy of that writing to the other Owner.

11.2 If the Operating Committee is unable to reach agreement on any dispute within thirty (30) days after the dispute is presented to it, the matter shall be referred to the chief operating officers of the Owners for resolution in the manner that such individuals shall agree is appropriate; provided, however, that either Owner involved in a dispute may invoke the arbitration provisions set forth in Section 11.3 at any time after the end of the thirty (30)day period provided for the Operating Committee to reach agreement if the Operating Committee has not reached agreement.

11.3 If the Owners are unable to resolve a dispute through the Operating Committee within thirty (30) days after the dispute is presented to the Operating Committee pursuant to Section 11.1, or through reference of the matter to the chief operating officers of the Owners pursuant to Section 11.2, either Owner may commence arbitration proceedings by providing written notice to the other Owner, detailing the nature of the dispute,

designating the issue(s) to be arbitrated, identifying the provisions of this Agreement under which the dispute arose, and setting forth such Owner's proposed resolution of such dispute.

11.3.1 Within ten (10) days of the date of the notice of arbitration, a representative of each Owner shall meet for the purpose of selecting an arbitrator. If the Owner's representatives are unable to agree on an arbitrator within fifteen (15) days of the date of the notice of arbitration, then an arbitrator shall be selected in accordance with the procedures of the American Arbitration Association ("AAA"). Whether the arbitrator is selected by the Owner's representatives or in accordance with the procedures of the AAA, the arbitrator shall have the qualifications and experience in the occupation, profession, or discipline relevant to the subject matter of the dispute.

11.3.2 Any arbitration proceeding shall be subject to the Federal Arbitration Act, 9 U.S.C. §§ 1 *et seq.* (1994), as it may be amended, or any successor enactment thereto, and shall be conducted in accordance with the commercial arbitration rules of the AAA in effect on the date of the notice to the extent not inconsistent with the provisions of this Article.

11.3.3 The arbitrator shall be bound by the provisions of this Agreement where applicable, and shall have no authority to modify any terms and conditions of this Agreement in any manner. The arbitrator shall render a decision resolving the dispute in an equitable manner, and may determine that monetary damages are due to an Owner or may issue a directive that an Owner take certain actions or refrain from taking certain actions, but shall not be authorized to order any other

form of relief; provided, however, that nothing in this Article shall preclude the arbitrator from rendering a decision that adopts the resolution of the dispute proposed by an Owner. Unless otherwise agreed to by the Owners, the arbitrator shall render a decision within one hundred twenty (120) days of appointment, and shall notify the Owners in writing of such decision and the reasons supporting such decision. The decision of the arbitrator shall be final and binding upon the Owners, and any award may be enforced in any court of competent jurisdiction.

11.3.4 The fees and expenses of the arbitrator shall be shared equally by the Owners, unless the arbitrator specifies a different allocation. All other expenses and costs of the arbitration proceeding shall be the responsibility of the Owner incurring such expenses and costs.

11.3.5 Unless otherwise agreed by the Owners, any arbitration proceedings shall be conducted in Columbus, Ohio.

11.3.6 Except as provided in this Article, the existence, contents, or results of any arbitration proceeding under this Article may not be disclosed without the prior written consent of the Owners, provided, however, that either Owner may make disclosures as may be required to fulfill regulatory obligations to any agencies having jurisdiction, and may inform its lenders, affiliates, auditors, and insurers, as necessary, under pledge of confidentiality, and may consult with expert consultants as required in connection with an arbitration proceeding under pledge of confidentiality.

11.3.7 Nothing in this Agreement shall be construed to preclude either Owner from filing a petition or complaint with FERC with respect to any claim over which FERC

has jurisdiction. In such case, the other Owner may request that FERC reject the petition or complaint or otherwise decline to exercise its jurisdiction. If FERC declines to act with respect to all or part of a claim, the portion of the claim not so accepted by FERC may be resolved through arbitration, as provided in this Article. To the extent that FERC asserts or accepts jurisdiction over all or part of a claim, the decisions, findings of fact, or orders of FERC shall be final and binding, subject to judicial review under the Federal Power Act, 16 U.S.C. § 791a *et seq.,* as amended from time to time, and any arbitration proceedings that may have commenced prior to the assertion or acceptance of jurisdiction by FERC shall be stayed, pending the outcome of the FERC proceedings. The arbitrator shall have no authority to modify, and shall be conclusively bound by, any decisions, findings of fact, or orders of FERC; provided, however, that to the extent that any decisions, findings of fact, or orders of FERC do not provide a final or complete remedy to an Owner seeking relief, such Owner may proceed to arbitration under this Article to secure such a remedy, subject to any FERC decisions, findings, or orders.

11.4 The procedures set forth in this Article shall be the exclusive means for resolving disputes arising under this Agreement and shall survive this Agreement to the extent necessary to resolve any disputes pertaining to this Agreement. Except as provided in Sections 11.3 and 11.3.7, neither Owner shall have the right to bring any dispute for resolution before a court, agency, or other entity having jurisdiction over this Agreement, unless both Owners agree in writing to such procedure.

11.5 To the extent that a dispute involves the actions, inactions or responsibilities of Agent under this Agreement, the provisions of this Article shall be applicable to such dispute. For such purposes, Agent shall be treated as an Owner in applying the provisions of this Article.

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

APPALACHIAN POWER COMPANY

BY:_____

Title:_____

KENTUCKY POWER COMPANY

BY:_____

Title:_____

AMERICAN ELECTRIC POWER SERVICE CORPORATION

BY:_____

Title:_____

KENTUCKY POWER COMPANY

RATE SCHEDULE NO. 303

Joint Tariff Common Name: "Mitchell Plant Operating Agreement"

Designated Filing Company: Appalachian Power Company (APCo)

Designated Filing Company Tariff Title: APCo Rate Schedules and Service Agreements Tariffs

Designated Filing Company Tariff Program: FPA (Cost Based)

Designated Filing Company Tariff Record Adopted by Reference (Record Content Description/Tariff Record Title): Rate Schedule No. 303, Mitchell Plant Operating Agreement.

No limitations: All versions of the agreement

Description of Tariff: Rate Schedule under which APCo, Kentucky Power Company, and American Electric Power Service Corporation (in an agency role) will operate and maintain the Mitchell Plant.

Attachment C

1. Certificate of Concurrence – AEP Generation Resources Inc. regarding the Sporn Plant Operating Agreement

2. Certificate of Concurrence – Kentucky Power Company regarding the Mitchell Plant Operating Agreement

CERTIFICATE OF CONCURRENCE

This is to certify that AEP Generation Resources Inc. (AEP Generation Resources), a Delaware corporation, assents to and concurs in the FERC FPA Electric Tariff described below, which Appalachian Power Company (APCo), the designated filing company, has filed in its "APCo Rate Schedules and Service Agreements Tariffs" database.

Name of Tariff Adopted by Reference: Sporn Plant Operating Agreement

APCO Tariff Record Adopted by Reference: Rate Schedule No. 302, Sporn Plant Operating Agreement

Description of Tariff: Rate Schedule under which APCo, AEP Generation Resources and American Electric Power Service Corporation (in an agency role) will operate and maintain the Sporn Plant.

By: /John C. Crespo/
John C. Crespo,
Deputy General Counsel – Regulatory Services
Dated: October 26, 2012

CERTIFICATE OF CONCURRENCE

This is to certify that Kentucky Power Company (KPCo), a Kentucky corporation, assents to and concurs in the FERC FPA Electric Tariff described below, which Appalachian Power Company (APCo), the designated filing company, has filed in its "APCo Rate Schedules and Service Agreements Tariffs" database.

Name of Tariff Adopted by Reference: Mitchell Plant Operating Agreement

APCO Tariff Record Adopted by Reference: Rate Schedule No. 303, Mitchell Plant Operating Agreement

Description of Tariff: Rate Schedule under which APCo, KPCo and American Electric Power Service Corporation (in an agency role) will operate and maintain the Mitchell Plant.

By: /John C. Crespo/
John C. Crespo,
Deputy General Counsel – Regulatory Services
Dated: October 26, 2012

kwalton

Sporn Mitchell ER-238 .pdf
04/22/13 02:36 PM

Steven J. Ross
202 429 6279
sross@steptoe.com

1330 Connecticut Avenue, NW
Washington, DC 20036-1795
202 429 3000 main
www.steptoe.com

Steptoe
STEPTOE & JOHNSON LLP

October 31, 2012

The Honorable Kimberly D. Bose
Secretary
Federal Energy Regulatory Commission
888 First Street, N.E.
Washington, D.C. 20426

Re: Appalachian Power Company
Docket No. ER13- -000
Kentucky Power Company
Docket No. ER13- -000
AEP Generation Resources Inc.
Docket No. ER13- -000

Dear Secretary Bose:

American Electric Power Service Corporation ("AEPSC"), on behalf of Appalachian Power Company ("APCo"), Kentucky Power Company ("KPCo"), and AEP Generation Resources Inc. ("AEP Generation Resources") (AEPSC, APCo, KPCo, and AEP Generation Resources collectively may be referred to as "AEP"), hereby submits for filing (i) the Sporn Plant Operating Agreement among APCo, AEP Generation Resources, and AEPSC ("Sporn Agreement"), and (ii) the Mitchell Plant Operating Agreement among APCo, KPCo, and AEPSC ("Mitchell Agreement"). **AEPSC respectfully requests that the Commission establish December 17, 2012 as the comment date for this filing. This extended comment period would allow interested parties extra time (an additional 26 days beyond what is set forth in 18 C.F.R. § 35.8) to comment on the filing.**

This filing includes the following documents in addition to the relevant Tariff Records:[1]

1. Attachment A – Clean Tariff Attachments for the Sporn Plant Operating Agreement (APCo Rate Schedule No. 302 and AEP Generation Resources Rate Schedule No. 302);
2. Attachment B - Clean Tariff Attachments for the Mitchell Plant Operating Agreement (APCo Rate Schedule No. 303 and KPCo Rate Schedule No. 303); and
3. Attachment C - Certificates of Concurrence signed on behalf of AEP Generation Resources and KPCo.

I. BACKGROUND

As described in detail in a Federal Power Act Section 203 application that AEPSC is submitting contemporaneously with this filing, the Public Utilities Commission of Ohio has approved a comprehensive restructuring of AEP's Ohio utility affiliate, Ohio Power Company ("Ohio Power").[2] Among other things, that restructuring provides for Ohio Power to separate its generation facilities from its transmission and distribution facilities. In a separate Section 203 application, APCo, KPCo, and AEP Generation Resources are seeking authority for (i) APCo to obtain from AEP Generation Resources Ohio Power's former interest in Unit No. 3 of the John E. Amos Plant and appurtenant interconnection facilities ("Amos Plant") (APCo already owns an interest in Amos Unit No. 3) and an 50% undivided interest in the Mitchell Power Generating Facility and appurtenant interconnection facilities ("Mitchell Plant"), and (ii) KPCo to obtain from AEP Generation Resources the remaining 50% undivided interest in the Mitchell Plant.

Once these transactions are consummated, AEP Generation Resources will operate the former Ohio Power generating facilities (other than Amos Unit No. 3, the Mitchell Plant, and the Philip Sporn Plant ("Sporn Plant")) as a standalone generating company. As discussed below, APCo will operate the Sporn Plant and the Mitchell Plant in accordance with the operating agreements that are the subject of this filing. APCo also will own and operate all the units at the Amos Plant. Therefore, as of the consummation of the transaction under which APCo will obtain Ohio Power's former interest in Amos Unit No. 3, the current operating agreement among APCo, Ohio Power, and AEPSC will be terminated.

The generating facilities covered by this filing are (i) four 150,000 kW coal-fired units (Sporn Unit Nos. 1-4) and one 450,000 kW coal-fired unit (Sporn Unit No. 5) at the Sporn Plant

---

[1] The same filing is being submitted in three Tariff IDs, so the relevant Tariff Records will vary with each of the three filings. Each of the three filings will include Attachments A through C for convenience of the reviewer.

[2] Prior to December 31, 2011, AEP had two Ohio utility affiliates, Ohio Power and Columbus Southern Power Company ("CSP"). On December 31, 2011, Ohio Power and CSP completed a reorganization transaction pursuant to which CSP was merged into Ohio Power. That transaction was approved by this Commission in an order issued on July 1, 2011, in Docket No. EC11-37. CSP's former generating resources are not at issue in this proceeding.

near New Haven, West Virginia and (ii) two 800,000 kW coal-fired units at the Mitchell Plant located in Moundsville, West Virginia. Under the current arrangements, APCo owns Sporn Unit Nos. 1 and 3, and Ohio Power owns Sporn Unit Nos. 2, 4, and 5. Sporn Unit No. 5 was retired on February 13, 2012. Because the plant is located in APCo's service territory, APCo has operated and maintained the Sporn Plant, including the units owned by Ohio Power, under the terms of an existing agreement between APCo and Ohio Power. Under the Ohio corporate separation plan noted above, AEP Generation Resources will obtain Sporn Unit Nos. 2, 4, and 5. APCo and AEP Generation Resources have agreed that APCo will continue to operate the Sporn Plant under the terms and conditions of the Sporn Agreement, which is discussed in more detail below.

Under the transactions described above, the Mitchell Plant ultimately will be transferred to APCo (which will acquire a 50% undivided interest) and KPCo (which will also acquire a 50% undivided interest). APCo and KPCo have agreed that APCo will operate the Mitchell Plant under the terms and conditions of the Mitchell Agreement, which is discussed in more detail below.

II. DISCUSSION

A. The Sporn Agreement

The Sporn Agreement supersedes the current operating agreement (which will be terminated), and sets out the terms under which APCo and AEPSC (as agent for APCo and AEP Generation Resources) will operate and maintain the Sporn Plant. Article One sets out APCo's and AEPSC's functions, including their obligations to operate and maintain the plant in accordance with good utility practices, to maintain the necessary books, records, and joint bank accounts for transactions involving the Sporn Plant, and to prepare statements detailing for AEP Generation Resources the monthly costs associated with operating and maintaining the plant. Article Two provides that each owner has the right to call on, at any and all times, the entire output of the Sporn Plant units that it owns. Article Three details each party's responsibilities and obligations for the costs of installing additional or replacement facilities at the plant, and specifies generally that the cost of facilities for jointly-owned property will be allocated in accordance with the ratio of each owner's ownership interest. Article Four discusses the owners' working capital requirements.

Article Five of the Sporn Agreement details the apportionment of the costs of operating and maintaining the Sporn Plant. That article provides for APCo and AEPSC to determine the operating and maintenance costs directly attributable to specific units, which will be allocated to the owner of those units, and the costs that are not directly attributable to specific units, which will be allocated 50% to each owner. Article Five further provides for AEPSC (subject to direction from the Operating Committee established pursuant to Article Six) to procure fuel for the Sporn Plant and to assess the associated fuel costs (including transportation and any carrying costs) to the respective owners. The article further provides that AEP Generation Resources may exercise an option to supply the fuel for one or more of the plants it owns, in which case AEP Generation Resources will still be allocated a portion of the fuel delivery and storage facility costs.

As just noted, Article Six provides for the establishment of an Operating Committee, consisting of representatives of each owner and AEPSC, as agent. Decisions by the Operating Committee must be agreed to by APCo and AEP Generation Resources. The Operating Committee's responsibilities include: (i) review and approval of annual budgets and operating plans, (ii) establishment of dispatch and unit commitment procedures, (iii) establishment of communication and coordination protocols, (iv) decisions on capital expenditures, (v) determinations on changes in unit capability and retirement(s), (vi) establishment of billing procedures, (vii) specification of fuel inspection and management procedures, and (viii) review and approval of changes to the Sporn Plant operating procedures, and plans to comply with environmental laws and other regulations, ordinances, and permits. The remaining articles include standard contract provisions addressing, among other things, compliance with regulatory requirements, limitations on liability, assignment, and dispute resolution.

B. The Mitchell Agreement

The Mitchell Agreement is similar to the Sporn Agreement. Like the Sporn Agreement, Article One of the Mitchell Agreement sets out APCo's and AEPSC's functions, including their obligations to operate and maintain the plant in accordance with good utility practices, to maintain the necessary books, records, and joint bank accounts for transactions involving the Mitchell Plant, and to prepare statements detailing for KPCo the monthly costs associated with operating and maintaining the plant. Article Two provides for the apportionment of capacity and energy between APCo and KPCo, and provides for APCo to accept, at all times, KPCo's share of the Mitchell Plant's total net capability into APCo's transmission facilities. Articles Three and Four of the Mitchell Agreement are substantially the same as Articles Three and Four of the Sporn Agreement.

Article Five provides for APCo and AEPSC to establish and maintain a sufficient coal pile to provide adequate fuel reserves for normal operations, and for the owners to make monthly investments in the common coal stock pile. APCo's and KPCo's respective shares of the investment in the common coal stock pile will be proportionate to their ownership shares in the Mitchell Plant. Article Six apportions the station costs, including fuel expenses, between APCo and KPCo. For example, APCo's and KPCo's respective shares of the monthly costs of the fuel consumed at the Mitchell Plant will be proportionate to their dispatch in each month. This article also apportions the monthly operating and maintenance costs in accordance with APCo's and KPCo's respective ownership interests.

Article Seven provides for the Operating Committee, which generally will have the same responsibilities as under Article Six of the Sporn Agreement. That article also sets out the unit commitment and dispatch provisions, including one owner's right to call on the Mitchell Plant capacity when the other owner has not committed its ownership interest in the plant. In addition, Article Seven includes provisions addressing emission allowances, as well as capital repairs and improvements. As with the Sporn Agreement, the remaining articles of the Mitchell Agreement include standard contract provisions addressing, among other things, compliance with regulatory requirements, limitations on liability, assignment, and dispute resolution.

III. GENERAL FILING INFORMATION

In compliance with the requirements of 18 C.F.R. § 35.13, AEPSC states as follows:

A. General Information – 18 C.F.R. § 35.13(b)

The documents provided with this filing include this Transmittal Letter and the materials listed above. The persons upon whom this filing has been served are set out below in Section IV. A description of and the reasons for the rate changes proposed are discussed in this Transmittal Letter. AEPSC further states that there are no costs in the agreements that have been alleged or judged in any administrative or judicial proceeding to be illegal, duplicative, or unnecessary costs that are demonstrably the product of discriminatory employment practices.

B. Cost of Service Information

AEPSC requests waiver of those provisions in Section 35.13 that would require AEPSC to submit cost-of-service data. Each of the joint operating agreements provides for the plant owners to pay the actual operating and maintenance costs, fuel and fuel handling expenses, and capital costs incurred for the installation of new or replacement facilities at the plants. The parties intend to comply with the affiliate pricing rules under Order No. 707 and will, if appropriate, request a waiver of those rules in a future proceeding.

C. Effective Date

AEPSC requests waiver of Section 35.3 to permit the Sporn Agreement and the Mitchell Agreement to become effective upon the closing of the Ohio restructuring transaction and the asset transfer transaction involving Amos Unit No. 3 and Mitchell, which are the subject of separate Section 203 applications that are being submitted contemporaneously with this filing. The parties anticipate that these closings will occur on or about December 31, 2013. The Tariff Records are thus being submitted with a January 1, 2014 proposed effective date.

IV. CORRESPONDENCE AND SERVICE

AEPSC requests that any correspondence or communications with respect to this filing be sent to the following:

Chad A. Heitmeyer
Regulatory Case Manager
American Electric Power
Service Corporation
1 Riverside Plaza
Columbus, OH 43215
(614) 716-3303
caheitmeyer@aep.com

John C. Crespo
Deputy General Counsel
Regulatory Services
American Electric Power
Service Corporation
1 Riverside Plaza
Columbus, OH 43215
(614) 716-3727
jccrespo@aep.com

Steptoe
STEPTOE & JOHNSON LLP

Steven J. Ross
Carol Gosain
Steptoe & Johnson LLP
1330 Connecticut Avenue, N.W.
Washington, DC 20036
(202) 429-6279
sross@steptoe.com
cgosain@steptoe.com

A copy of this filing will be served on the Kentucky Public Service Commission, the Public Service Commission of West Virginia, and the Virginia State Corporation Commission, and will be posted on AEP's website at:
http://www.aep.com/investors/currentRegulatoryactivity/regulatory/ferc.aspx

V. CONCLUSION

For the foregoing reasons, AEPSC respectfully requests that the Commission accept for filing, without condition or modification, the Sporn Agreement and the Mitchell Agreement. If you have any questions concerning this filing, please do not hesitate to contact the undersigned.

Respectfully submitted,

/s/
John C. Crespo
Deputy General Counsel – Regulatory Services
American Electric Power Service Corporation
1 Riverside Plaza
Columbus, OH 43215

Steven J. Ross
Carol Gosain
STEPTOE & JOHNSON LLP
1330 Connecticut Avenue, N.W.
Washington, DC 20036

Attorneys for
American Electric Power Service Corporation

Attachments

Attachment A

Sporn Plant Operating Agreement Among Appalachian Power Company, AEP Generation Resources Inc. and American Electric Power Service Corporation, as Agent

1. Tariff Record, APCo – Rate Schedule No. 302
2. Tariff Record, AEP Generation Resources Inc. – Rate Schedule No. 302

RATE SCHEDULE NO. 302

SPORN PLANT OPERATING AGREEMENT

APPALACHIAN POWER COMPANY

AEP GENERATION RESOURCES INC.

AND

AMERICAN ELECTRIC POWER SERVICE CORPORATION, AS AGENT

Tariff Submitter: **Appalachian Power Company**
FERC Program Name: **FERC FPA Electric Tariff**
Tariff Title: **APCo Rate Schedules and Service Agreements Tariffs**
Tariff Proposed Effective Date: **01/01/2014**
Tariff Record Title: **Sporn Plant Operating Agreement**
Option Code: **A**
Record Content Description: **Rate Schedule No. 302**

THIS SPORN PLANT OPERATING AGREEMENT ("Agreement") dated as of _____ is by and among Appalachian Power Company ("Appalachian"), a Virginia corporation qualified as a foreign corporation in West Virginia; AEP Generation Resources Inc. ("GenCo"), a Delaware corporation qualified as a foreign corporation in West Virginia (collectively hereinafter sometimes referred to as the "Owners"); and American Electric Power Service Corporation ("Agent"), a New York corporation qualified as a foreign corporation in West Virginia. Appalachian, GenCo and Agent may hereinafter be referred to individually as a "Party" and collectively as the "Parties".

WITNESSETH:

WHEREAS, Appalachian owns two operating 150,000 kilowatt generating units ("Sporn Unit Nos. 1 and 3") at the Philip Sporn Plant ("Sporn Plant") located along the Ohio River near New Haven, West Virginia, and GenCo has acquired from Ohio Power Company, and now owns, two operating 150,000 kilowatt generating units and one 450,000 kilowatt generating unit ("Sporn Unit Nos. 2, 4 and 5") at the Sporn Plant; and

WHEREAS, GenCo's Sporn Unit No. 5 was retired February 13, 2012; and

WHEREAS, the Owners desire that Appalachian operate and maintain the Sporn Plant in accordance with the provisions hereof, effective [January 1, 2014]; and

WHEREAS, the Owners are subsidiaries of American Electric Power Company, Inc., ("AEP") the parent company in an integrated public utility holding company system, and use the services of Agent (an affiliated company engaged solely in the business of furnishing essential services to the Owners and to other affiliated companies), as outlined in the service agreements between Agent and Appalachian Power Company and between Agent and AEP Generation Resources Inc.

NOW, THEREFORE, in consideration of the premises and for the purposes hereinabove recited, and in consideration of the mutual covenants hereinafter contained, the signatories agree as follows:

ARTICLE ONE

FUNCTIONS OF APPALACHIAN AND AGENT

1.1 Appalachian shall operate and maintain the Sporn Plant in accordance with good utility practice consistent with procedures employed by Appalachian at its other generating stations, and in conformity with the terms and conditions of this Agreement.

1.2 Appalachian shall keep all necessary books of record, books of account and memoranda of all transactions involving the Sporn Plant, and shall make computations and allocations on behalf of the Owners, as required under this Agreement. The books of record, books of account and memoranda shall be kept in such manner as to conform, where so required, to the Uniform System of Accounts prescribed by the Federal Energy Regulatory Commission ("FERC") for Public Utilities and Licensees ("Uniform System of Accounts"), and to the rules and regulations of other regulatory bodies having jurisdiction as they may from time to time be in effect.

1.3 The Owners may establish such joint bank accounts as may from time to time be appropriate.

1.4 As soon as practicable after the end of each month, Appalachian shall furnish to GenCo a statement setting forth the dollar amounts associated with the operation and maintenance of the Sporn Plant applicable to Appalachian and GenCo for such month in accordance

with the provisions of this Agreement. The Owners shall, on a timely basis, deposit sufficient dollar amounts in the appropriate bank accounts to cover their respective costs.

1.5 Appalachian may obtain such materials, labor and other services as it considers necessary in connection with the performance of the functions to be performed by it hereunder from such sources or through such persons as it may designate.

1.6 Agent, as directed by the Operating Committee and consistent with Agent's service agreements with Appalachian and GenCo, shall provide services necessary for the safe and efficient operation and maintenance of the Sporn Plant.

ARTICLE TWO

APPORTIONMENT OF CAPACITY AND ENERGY

2.1 Each Owner shall have the primary right to demand and use at any and all times the entire available kilowatt output capacity of the units it owns at the Sporn Plant and the electric energy associated with such capacity so demanded and used.

ARTICLE THREE

ADDITIONS, REPLACEMENTS AND RENEWALS

3.1 Installation of additional facilities or replacement of existing facilities with other facilities at the Sporn Plant may at any time or from time to time be made by either Owner on its side of the median line and the Owner making such installation or replacement shall pay the entire cost thereof and shall be vested with absolute title thereto; provided, however, that if the units of the Sporn Plant are being operated together as a single station at the time such installation or replacement is made, all features of such installation or

replacement which may affect the satisfactory, economical and/or safe operation of the Sporn Plant as a whole and all items which involve capital expenditures which cannot be performed under previously obtained authorizations from the other Owner shall be submitted in writing to the other Owner for approval by such Owner before such installation or replacement is made.

3.2 If any such installation or replacement requires structures or facilities to be installed upon the property of the other Owner, such other Owner shall grant any necessary easements for the structures or facilities which do not interfere with the use or development of its own units, and, if such structures or facilities are incorporated subsequently into an installation or replacement of its own, it shall purchase them at their book value. Each Owner shall be responsible for any liability or damage resulting from the installation or replacement of structures or facilities on the property of the other Owner.

3.3 The cost of new jointly-owned property and the costs incurred in installing any such new jointly-owned property that will serve all the Sporn Plant Units shall be apportioned between the Owners based upon the ratio of each Owner's capacity in the units it owns at the Sporn Plant to the sum of the capacity of all of the units at the Sporn Plant. Additions to existing jointly-owned property and replacements of sections of components of existing jointly-owned property shall be apportioned based upon the ratio of each Owner's capacity in the units it owns at the Sporn Plant to the sum of the capacity of all the units at the Sporn Plant.

3.4 The cost of new jointly-owned property and cost incurred in installing any such new jointly-owned property that will benefit less than all of the Sporn Units will be apportioned between the Owners based upon the ratio of each Owner's capacity in the

units it owns at the Sporn Plant which are benefited by the new jointly-owned property to the sum of the capacity in all units at the Sporn Plant which are benefited by the new jointly-owned property.

ARTICLE FOUR

WORKING CAPITAL REQUIREMENTS

4.1 Appalachian and GenCo shall periodically mutually determine the amount of funds required for use as working capital in meeting payrolls and other expenses incurred in the operation and maintenance of Sporn Plant and in buying materials and supplies (inclusive of fuel) for Sporn Plant.

4.2 Appalachian and GenCo shall from time to time provide their share of working capital requirements in respective amounts proportionate to the ratio of each Owner's capacity in the units it owns at the Sporn Plant to the sum of the capacity of all of the units at the Sporn Plant.

ARTICLE FIVE

APPORTIONMENT OF COST OF OPERATING AND MAINTAINING THE SPORN PLANT

5.1 The costs incurred during or accrued for each calendar month in operating the Sporn Plant, as shown by the cost statements described in Article One, shall be assigned between the Owners. Appalachian and Agent will, to the extent practicable, determine all Sporn Plant operating costs that are directly attributable to a specific unit for assignment to and payment by the Owner of that unit. The portion of the operating costs that benefit the entire Sporn Plant site which are to be allocated to GenCo but are not directly

attributable to a specific unit shall be equal to 50% of the total operating costs. The remaining portion of such non-attributable operating costs shall be allocated to Appalachian.

The Owners may, from time to time, amend the allocation formula to reflect retirement or decommissioning of a unit.

5.2 The costs incurred during or accrued for each calendar month in maintaining the Sporn Plant, as shown by the cost statements described in Article One, shall be assigned between the Owners. Appalachian and Agent will, to the extent practicable, determine all Sporn Plant maintenance costs that are directly attributable to a specific unit for assignment to and payment by the Owner of that unit. The portion of the maintenance costs that benefit the entire Sporn Plant site which are to be allocated to GenCo but are not directly attributable to a specific unit shall be equal to 50% of the total maintenance costs. The remaining portion of such non-attributable maintenance costs shall be allocated to Appalachian. The Owners may, from time to time, amend the allocation formula to reflect the retirement or decommissioning of a unit.

5.3 Agent, pursuant to direction from the Operating Committee (as defined in Article Six), shall continue to procure and deliver fuel to each of the operating generating units at the Sporn Plant. Except for any unit for which GenCo has exercised the option described in Section 5.3.1, each Owner will pay for the fuel costs of the units it owns at the Sporn Plant as determined in accordance with the last sentence of Section 5.3.2. Fuel costs will include the cost of the fuel itself, the cost of fuel transportation, and any carrying charges associated with fuel.

5.3.1 GenCo shall have the option, on six (6) months' notice to Appalachian and subject to no adverse impact on the operation of Appalachian's units, to supply the fuel necessary to operate one or more of the units it owns at the Sporn Plant. This option must be noticed at the same time as to all generating units at the Sporn Plant owned by GenCo that are served from the same physical fuel inventory. The option, once noticed, may not be revoked without Appalachian's consent.

(a) If it exercises the option described in this Section 5.3.1, GenCo shall have the right to use delivery and storage facilities, including rights of access, owned by Appalachian or Agent or under contract to Appalachian or Agent for the delivery to or storage of such fuel at the Sporn Plant, for use in connection with the unit(s) for which it has exercised such option. GenCo shall pay a monthly charge submitted by Appalachian reflecting the proportional cost of its use of fuel delivery and storage facilities in each month.

(b) In the event that GenCo exercises the option described in this Section 5.3.1 the Operating Committee will identify, and determine the appropriate allocation to GenCo of rights and obligations under, the applicable fuel supply contract(s), and any associated transportation contract(s), for fuel for the unit(s) as to which the option is exercised. Appalachian and Agent, as necessary, shall assign to GenCo, and GenCo shall accept assignment of, that portion of Appalachian's and Agents' rights

under such contracts which the Operating Committee has determined should be allocated to GenCo for fuel for the unit(s) as to which the option has been exercised. If GenCo exercises the option provided in this subsection, but for any reason the fuel supply that is GenCo's responsibility is not timely delivered to the subject generating unit(s), GenCo shall not have the right to commit or dispatch the units affected.

5.3.2. In the event that GenCo exercises the option to supply fuel described in Section 5.3.1 with respect to any unit, the specifications for the fuel(s) supplied for that unit will be established and, when appropriate, modified, by the Operating Committee. The Operating Committee will ensure that the specifications for the fuel to be supplied pursuant to the Section 5.3.1 option will have no adverse impact on the units owned by Appalachian. Fuel will be subject to inspection and certification procedures as the Operating Committee may decide. Fuel inventories at each unit that is the subject of the option, or at the Sporn Plant, may be physically commingled, but separate accounts will be maintained to reflect the fuel credited to each Owner and used by each Owner at each unit. The Operating Committee will develop procedures to avoid imbalances between the amount of fuel each Owner delivers and the amount of fuel each Owner uses, and shall take any steps necessary for the correction of any imbalance by settlement or payment as soon as feasible, but in no event shall imbalances be permitted to exist for more than six months without settlement or payment. The fuel costs of each Owner with respect to an individual unit will be equal to the sum of minimum load and

hourly average fuel costs (based on average heat rates at the unit's level of capacity utilization) associated with the Energy that each schedules from that unit.

5.3.3. In the event that GenCo exercises the option to supply fuel described in Section 5.3.1 with respect to any unit, Appalachian will assign to GenCo the fuel inventory, as of the date of the option takes effect, for the generating units affected by the exercise of the option.

ARTICLE SIX

OPERATING COMMITTEE

6.1 By written notice to each other, each of the Owners and Agent shall name one representative ("Operating Representative") and one alternate to act for it in matters pertaining to operating arrangements under this Agreement. For purposes of Sections 6.1 through 6.4 of this Agreement, Parties shall include the Owners and Agent. Any Party may change its Operating Representative or alternate at any time by written notice to the other Parties. The three Operating Representatives for the respective Parties, or their alternates, shall comprise the Operating Committee. All decisions, directives, or other actions by the Operating Committee must be by unanimous agreement of the Operating Representatives of the Owners. The Operating Representative of Agent, or of any third party that provides services in replacement of Agent, shall be free to express the views of Agent or such third party on any matter, but shall not have a vote on the Operating Committee. Except as otherwise provided in Sections 11.1, 11.2 and 11.3 with respect to a dispute referred to the Operating Committee by an Owner, the failure of the Owners' respective Operating Representatives to unanimously agree with respect to a matter

pending before the Operating Committee shall not be considered to be a dispute that would be subject to resolution under Article Eleven.

6.2 The Operating Committee shall have the following responsibilities.

a. Review and approval of an annual budget and annual operating plan, including determination of the emission allowances required to be acquired by the Owners.

b. Establishment and review of procedures and systems for dispatch, notification of dispatch, and unit commitment under this Agreement.

c. Establishment and monitoring of procedures for communication and coordination with respect to unit capacity availability, fuel-firing options, and scheduling of the generating capacity, including scheduling of outages for maintenance, repairs, equipment replacements, scheduled inspections, and other foreseeable cause of outages at any generating unit, as well as the return of any unit to availability following an unplanned outage.

d. Decisions on capital expenditures for facilities at the Sporn Plant owned jointly by the Owners.

e. Determinations as to changes in the unit capability of the units and decisions on unit retirement.

f. Establishment and modification of billing procedures under this Agreement.

g. Specification of fuels, oversight of fuel inspection and certification procedures, management of fuel inventories, and allocation of rights under fuel supply and transportation contracts in accordance with Section 5.3.1(b).

h. Establishment of, termination of, and approval of any change or amendment to the operating arrangements between Appalachian and Agent or any replacement third

party with respect to the Sporn Plant generating units; provided, however, that Agent or any replacement third party shall participate in discussions pursuant to Section 6.2.h only to the extent requested to do so by both Owners.

i. Review and approval of plans and procedures designed to insure compliance with any environmental law, regulation, ordinance or permit, including procedures for allocating and using emission allowances or for any programs that permit averaging at more than one unit for compliance.

j. Other duties as assigned by written agreement of the Owners.

6.3 The Operating Committee shall meet at least annually, and at such other times as any Party may reasonably request.

6.4 The Parties shall cooperate in providing to the Operating Committee the information it reasonably needs to carry out its duties, and to supplement or correct such information on a timely basis.

6.5 Appalachian and GenCo shall be individually responsible for any fees charged by FERC on the basis of the sales or transmission by each of capacity or energy at wholesale in interstate commerce.

6.6 Capital repairs and improvements for facilities at the Sporn Plant owned jointly by the Owners will be determined by the Operating Committee pursuant to the annual budgeting process set forth in Section 6.7. Expenditures that the Operating Committee determines have been or will be incurred exclusively for one Owner shall be assigned exclusively to that Owner.

6.7 At least 90 days before the start of each Operating Year, Appalachian and Agent shall submit to the Operating Committee a proposed annual budget with respect to the Sporn

Plant generating units, a proposed annual operating plan with respect to those generating units, and an estimate and schedule of costs to be incurred for major maintenance or replacement items with respect to those generating units during the next six-year period. The annual budget shall be presented on a month-by-month basis for each month during the next operating year, and shall include an operating budget, a capital budget, an estimate of the cost of any major repairs that are anticipated to occur during such operating year with respect to the Sporn Plant generating units, and an itemized estimate of all projected non-fuel variable operating expenses relating to the operation of those generating units during that operating year. The members of the Operating Committee will meet and work in good faith to agree upon the final annual budget and final annual operating plan. Once approved, the annual budget and annual operating plan shall remain in effect throughout the applicable operating year, subject to such changes, revisions, amendments, and updating as the Operating Committee may determine.

ARTICLE SEVEN

GOVERNMENTAL AUTHORITIES

This Agreement is subject to the regulatory powers of any State or Federal agency having jurisdiction.

ARTICLE EIGHT

LIMITATION OF LIABILITY

8.1 Notwithstanding anything in this Agreement to the contrary, neither of the Owners or Agent shall be liable under this Agreement for special, consequential, indirect, punitive

or exemplary damages, or for lost profits or business interruption damages, whether arising by statute, in tort or contract or otherwise.

ARTICLE NINE

MISCELLANEOUS

9.1 This Agreement shall inure to the benefit of and be binding upon the signatories hereto and their respective successors and assigns, but this Agreement may not be assigned by any signatory without the written consent of the others, which consent shall not be unreasonably withheld.

9.2 The interpretation and performance of this Agreement shall be in accordance with the laws of the State of Ohio, excluding conflict of laws principles that would require the application of the laws of a different jurisdiction.

9.3 This Agreement supercedes and replaces the Operating Agreement between Appalachian Power Company and Ohio Power Company, dated January 1, 1998, as of the date this Agreement becomes effective.

9.4 This Agreement supercedes all previous representations, understandings, negotiations, and agreements, either written or oral between the signatories or their representatives with respect to operation of the Sporn Plant, and constitutes the entire agreement of the signatories with respect to the operation of the Sporn Plant. Notwithstanding the foregoing, this Agreement does not supercede any previous agreements among any of the signatories allocating or transferring rights to capacity and associated energy, or ownership, of the Sporn Plant units.

9.5 Each Party shall designate in writing a representative to receive any and all notices required under this Agreement. Notices shall be in writing and shall be given to the representative designated to receive them, either by personal delivery, certified mail, facsimile, e-mail or any similar means, properly addressed to such representative at the address specified below:

APPALACHIAN POWER COMPANY

_____

_____

Attn:_____

Phone:_____

Facsimile:_____

Email:_____

AEP GENERATION RESOURCES INC.

_____

_____

Attn:_____

Phone:_____

Facsimile:_____

Email:_____

AMERICAN ELECTRIC POWER SERVICE CORPORATION

_____

_____

Attn:_____

Phone:_____

Facsimile:_____

Email:_____

All notices shall be effective upon receipt, or upon such later date following receipt as set forth in the notice. Any Party may, by written notice to the other Parties, change the representative or the address to which such notices are to be sent.

9.6 In the event that any of the provisions, or portions thereof, of this Agreement are held to be unenforceable or invalid by any court, the validity and enforceability of the remaining provisions, or portions thereof, shall not be affected.

9.7 This Agreement shall not be binding or effective until properly executed by each of the Parties hereto. This Agreement may be executed in any number of counterparts, each of which shall be deemed to be an original, and all of which, taken together, shall constitute but one and the same Agreement, which may be sufficiently evidenced by one counterpart.

ARTICLE TEN

EFFECTIVE DATE AND TERMINATION

Subject to FERC approval or acceptance for filing, this Agreement is effective at [January 1, 2014]. Subject to FERC approval or acceptance, if necessary, this Agreement may be terminated (a) upon not less than one year's written notice by either Owner; or (b) without notice

if FERC or any state commission with jurisdiction determines that performance hereunder conflicts with any rule, regulation or order of FERC or such state commission; or (c) at any time if either Appalachian or GenCo is no longer a direct or indirect wholly owned subsidiary of AEP; or (d) at any time by mutual agreement of Appalachian and GenCo to terminate this Agreement.

ARTICLE ELEVEN

DISPUTE RESOLUTION

11.1 If either Owner believes that a dispute has arisen as to the meaning or application of this Agreement, it shall present that matter to the Operating Committee in writing, and shall provide a copy of that writing to the other Owner.

11.2 If the Operating Committee is unable to reach agreement on any dispute within thirty (30) days after the dispute is presented to it, the matter shall be referred to the chief operating officers of the Owners for resolution in the manner that such individuals shall agree is appropriate; provided, however, that either Owner may invoke the arbitration provisions set forth in Section 11.3 at any time after the end of the thirty (30) day period provided for the Operating Committee to reach agreement if the Operating Committee has not reached agreement.

11.3 If the Owners are unable to resolve a dispute through the Operating Committee within thirty (30) days after the dispute is presented to the Operating Committee pursuant to Section 11.1, or through reference of the matter to the chief operating officers of the Owners pursuant to Section 11.2, either Owner may commence arbitration proceedings by providing written notice to the other Owner, detailing the nature of the dispute, designating the issue(s) to be arbitrated, identifying the provisions of this Agreement

under which the dispute arose, and setting forth such Owner's proposed resolution of such dispute.

11.3.1 Within ten (10) days of the date of the notice of arbitration, a representative of each Owner shall meet for the purpose of selecting an arbitrator. If the Owner's representatives are unable to agree on an arbitrator within fifteen (15) days of the date of the notice of arbitration, then an arbitrator shall be selected in accordance with the procedures of the American Arbitration Association ("AAA"). Whether the arbitrator is selected by the Owner's representatives or in accordance with the procedures of the AAA, the arbitrator shall have the qualifications and experience in the occupation, profession, or discipline relevant to the subject matter of the dispute.

11.3.2 Any arbitration proceeding shall be subject to the Federal Arbitration Act, 9 U.S.C. §§ 1 *et seq.* (1994), as it may be amended, or any successor enactment thereto, and shall be conducted in accordance with the commercial arbitration rules of the AAA in effect on the date of the notice to the extent not inconsistent with the provisions of this Article Eleven.

11.3.3 The arbitrator shall be bound by the provisions of this Agreement where applicable, and shall have no authority to modify any terms and conditions of this Agreement in any manner. The arbitrator shall render a decision resolving the dispute in an equitable manner, and may determine that monetary damages are due to an Owner or may issue a directive that an Owner take certain actions or refrain from taking certain actions, but shall not be authorized to order any other form of relief; provided, however, that nothing in this Article shall preclude

the arbitrator from rendering a decision that adopts the resolution of the dispute proposed by an Owner. Unless otherwise agreed to by the Owners, the arbitrator shall render a decision within one hundred twenty (120) days of appointment, and shall notify the Owners in writing of such decision and the reasons supporting such decision. The decision of the arbitrator shall be final and binding upon the Owners, and any award may be enforced in any court of competent jurisdiction.

11.3.4 The fees and expenses of the arbitrator shall be shared equally by the Owners, unless the arbitrator specifies a different allocation. All other expenses and costs of the arbitration proceeding shall be the responsibility of the Owner incurring such expenses and costs.

11.3.5 Unless otherwise agreed by the Owners, any arbitration proceedings shall be conducted in Columbus, Ohio.

11.3.6 Except as provided in this Article, the existence, contents, or results of any arbitration proceeding under this Article may not be disclosed without the prior written consent of the Owners, provided, however, that either Owner may make disclosures as may be required to fulfill regulatory obligations to any agencies having jurisdiction, and may inform its lenders, affiliates, auditors, and insurers, as necessary, under pledge of confidentiality, and may consult with expert consultants as required in connection with an arbitration proceeding under pledge of confidentiality.

11.3.7 Nothing in this Agreement shall be construed to preclude either Owner from filing a petition or complaint with FERC with respect to any claim over which

FERC has jurisdiction. In such case, the other Owner may request that FERC reject the petition or complaint or otherwise decline to exercise its jurisdiction. If FERC declines to act with respect to all or part of a claim, the portion of the claim not so accepted by FERC may be resolved through arbitration, as provided in this Article. To the extent that FERC asserts or accepts jurisdiction over all or part of a claim, the decisions, findings of fact, or orders of FERC shall be final and binding, subject to judicial review under the Federal Power Act, 16 U.S.C. § 791a *et seq., as amended from time to time,* and any arbitration proceedings that may have commenced prior to the assertion or acceptance of jurisdiction by FERC shall be stayed, pending the outcome of the FERC proceedings. The arbitrator shall have no authority to modify, and shall be conclusively bound by, any decisions, findings of fact, or orders of FERC; provided, however, that to the extent that any decisions, findings of fact, or orders of FERC do not provide a final or complete remedy to an Owner seeking relief, such Owner may proceed to arbitration under this Article to secure such a remedy, subject to any FERC decisions, findings, or orders.

11.4 The procedures set forth in this Article Eleven shall be the exclusive means for resolving disputes arising under this Agreement and shall survive this Agreement to the extent necessary to resolve any disputes pertaining to this Agreement. Except as provided in Sections 11.3 and 11.3.7, neither Owner shall have the right to bring any dispute for resolution by a court, agency, or other entity having jurisdiction over this Agreement, unless both Owners agree in writing to such procedure.

11.5 To the extent that a dispute involves the actions, inactions or responsibilities of Agent under this Agreement, the provisions of this Article shall be applicable to such dispute. For such purposes, Agent shall be treated as an Owner in applying the provisions of this Article.

IN WITNESS WHEREOF, the Parties hereto have caused this Agreement to be signed by their respective officers thereunto duly authorized, and their corporate seals to be hereunto affixed on the day and year first above written.

APPALACHIAN POWER COMPANY

BY _____

AEP GENERATION RESOURCES INC.

BY _____

AMERICAN ELECTRIC POWER SERVICE CORPORATION

BY _____

AEP GENERATION RESOURCES INC.

RATE SCHEDULE NO. 302

Joint Tariff Common Name: "Sporn Plant Operating Agreement"

Designated Filing Company: Appalachian Power Company (APCo)

Designated Filing Company Tariff Title: APCo Rate Schedules and Service Agreements Tariffs

Designated Filing Company Tariff Program: FPA (Cost Based)

Designated Filing Company Tariff Record Adopted by Reference (Record Content Description/Tariff Record Title): Rate Schedule No. 302, Sporn Plant Operating Agreement

No limitations: All versions of the agreement

Description of Tariff: Rate Schedule under which APCo, AEP Generation Resources Inc. and American Electric Power Service Corporation (in an agency role) will operate and maintain the Sporn Plant.

Attachment B

Mitchell Plant Operating Agreement Among Appalachian Power Company, Kentucky Power Company and American Electric Power Service Corporation, as Agent

1. Tariff Record, APCo – Rate Schedule No. 303
2. Tariff Record, KPCo – Rate Schedule No. 303

RATE SCHEDULE NO. 303

MITCHELL PLANT OPERATING AGREEMENT

APPALACHIAN POWER COMPANY

KENTUCKY POWER COMPANY

And

AMERICAN ELECTRIC POWER SERVICE CORPORATION, AS AGENT

Tariff Submitter: **Appalachian Power Company**
FERC Program Name: **FERC FPA Electric Tariff**
Tariff Title: **APCo Rate Schedules and Service Agreements Tariffs**
Tariff Proposed Effective Date: **01/01/2014**
Tariff Record Title: **Mitchell Plant Operating Agreement**
Option Code: **A**
Record Content Description: **Rate Schedule No. 303**

THIS MITCHELL PLANT OPERATING AGREEMENT ("Agreement"), dated _____ is by and among Appalachian Power Company ("Appalachian"), a Virginia corporation qualified as a foreign corporation in West Virginia; Kentucky Power Company, a Kentucky corporation qualified as a foreign corporation in West Virginia ("KPCo") (such two parties hereinafter sometimes referred to as the "Owners"); and American Electric Power Service Corporation ("Agent"), a New York corporation qualified as a foreign corporation in West Virginia. Appalachian, KPCo and Agent may hereinafter be referred to as a "Party" or collectively as the "Parties".

WITNESSETH:

WHEREAS, Appalachian and KPCo have acquired an undivided ownership interest in the Mitchell Power Generation Facility consisting of two 800MW generating units and associated plant, equipment and real estate, located in Moundsville, West Virginia, (the "Mitchell Plant"); and

WHEREAS, Appalachian now has an undivided 50% ownership interest in the Mitchell Plant and KPCo now has an undivided 50% ownership interest in the Mitchell Plant; and

WHEREAS, the Owners desire that Appalachian shall operate and maintain the Mitchell Plant in accordance with the provisions set forth herein; and

WHEREAS, the Owners are subsidiaries of American Electric Power Company, Inc., ("AEP") the parent company in an integrated public utility holding company system, and use the services of Agent, (an affiliated company engaged solely in the business of furnishing essential services to the Owners and to other affiliated companies), as outlined in the service agreements between Agent and Appalachian Power Company and between Agent and Kentucky Power Company.

NOW THEREFORE, in consideration of the premises and for the purposes hereinabove recited, and in consideration of the mutual covenants hereinafter contained, the signatories agree as follows:

ARTICLE ONE

FUNCTIONS OF APPALACHIAN AND AGENT

1.1 Appalachian shall operate and maintain the Mitchell Plant in accordance with good utility practice consistent with procedures employed by Appalachian at its other generating stations, and in conformity with the terms and conditions of this Agreement.

1.2 Appalachian shall keep all necessary books of record, books of account and memoranda of all transactions involving the Mitchell Plant, and shall make computations and allocations on behalf of the Owners, as required under this Agreement. The books of record, books of account and memoranda shall be kept in such manner as to conform, where so required, to the Uniform System of Accounts as prescribed by the Federal Energy Regulatory Commission ("FERC") for Public Utilities and Licensees ("Uniform System of Accounts"), and to the rules and regulations of other regulatory bodies having jurisdiction as they may from time to time be in effect.

1.3 The Owners shall establish such joint bank accounts as may from time to time be required or appropriate.

1.4 As soon as practicable after the end of the month, Appalachian shall furnish to KPCo a statement setting forth the dollar amounts associated with the operation and maintenance of the Mitchell Plant as allocated hereunder to Appalachian and KPCo for such month.

The Owners shall, on a timely basis, deposit sufficient dollar amounts in the appropriate bank accounts to cover their respective allocations of such costs.

1.5 Appalachian shall obtain such materials, labor and other services as it considers necessary in connection with the performance of the functions to be performed by it hereunder from such sources or through such persons as it may designate.

1.6 Agent, as directed by the Operating Committee and consistent with Agent's service agreements with Appalachian and KPCo, shall provide services necessary for the safe and efficient operation and maintenance of the Mitchell Plant.

ARTICLE TWO

APPORTIONMENT OF CAPACITY AND ENERGY

2.1 The Total Net Capability of the Mitchell Plant at the Mitchell Unit 1 and Unit 2 low-voltage busses, after taking into account auxiliary load demand, is 1,600,000 kilowatts. The Owners may from time to time modify the Total Net Capability of the Mitchell Plant as they may mutually agree.

2.2 The Total Net Generation of the Mitchell Plant during a given period, as determined by the requirements of Appalachian and KPCo, shall mean the electrical output of the Mitchell Plant generators during such period, measured in kilowatt hours by suitable instruments, reduced by the energy used by auxiliaries for the Mitchell Unit 1 and Unit 2 during such period.

2.3 In any hour, Appalachian and KPCo shall share the minimum load responsibility of Mitchell Unit 1 and Unit 2 in respective amounts proportionate to their ownership

interests in the Mitchell Plant at such time. Each Owner shall independently dispatch its share of the generating capacity between minimum and full load.

2.4 In any hour during which the Mitchell Units are out of service, the energy used by the out-of-service Units' auxiliaries during such hour shall be provided by Appalachian and KPCo in respective amounts proportionate to their ownership interests in the Mitchell Plant at such time.

2.5 Appalachian shall at all times accept KPCo's share of the Mitchell Plant Total Net Capability into its transmission system at the low-voltage busses of the Mitchell Plant, and shall deliver KPCo's share of energy used by the Mitchell Plant auxiliaries when the Units are out of service, as part of the energy interchange between and Appalachian and KPCo.

ARTICLE THREE

REPLACEMENTS, ADDITIONS, AND RETIREMENTS

3.1 Appalachian shall from time to time make or cause to be made any necessary additions to, replacements of, and retirements of capitalizable facilities associated with the Mitchell Plant as may be mutually agreed upon by the Owners.

3.2 The dollar amounts associated with any additions to, replacements of, or retirements of capitalizable facilities associated with the Mitchell Plant shall be allocated to Appalachian and KPCo in respective amounts proportionate to their ownership interests in the Mitchell Plant at the time such additions, replacements, or retirements are made.

ARTICLE FOUR

WORKING CAPITAL REQUIREMENTS

4.1 Appalachian and KPCo shall periodically mutually determine the amount of funds required for use as working capital in meeting payrolls and other expenses incurred in the operation and maintenance of the Mitchell Plant, and in buying materials and supplies (exclusive of fuel) for the Mitchell Plant.

4.2 Appalachian and KPCo shall from time to time provide their share of working capital requirements in respective amounts proportionate to their ownership interests at such time in the Mitchell Plant.

ARTICLE FIVE

INVESTMENT IN FUEL

5.1 Appalachian and Agent shall establish and maintain reserves of coal in stock pile for the Mitchell Plant of such quality and in such quantities as Appalachian and Agent shall determine to be required to provide adequate fuel reserves against interruptions of normal fuel supply.

5.2 The Owners shall make such monthly investments in the common coal stock pile associated with the Mitchell Plant as are necessary to maintain the number of tons in such coal stock pile, after taking into account the coal consumption from the common coal stock pile by Mitchell Unit 1 and Unit 2 during such month.

5.3 At any time, Appalachian's and KPCo's respective shares of the investment in the common coal stock pile shall be proportionate to their ownership interests at such time in the Mitchell Plant.

5.4 Fuel oil reserves and fuel oil charged to operation for the Mitchell Plant shall be owned and accounted for between the Owners in the same manner as coal.

ARTICLE SIX

APPORTIONMENT OF STATION COSTS

6.1 The allocation to the Owners of fuel expense associated with Mitchell Unit 1 and Unit 2 shall be determined by Appalachian and Agent as follows:

a. In any calendar month, the unit cost of coal received for the Mitchell Plant common coal stock pile shall be determined by dividing (i) the sum of the total delivered cost of coal received for the Mitchell Plant common coal stock pile during such month and the associated total coal storage costs, coal unloading costs and fuel handling costs incurred during such month by (ii) the total number of tons of coal delivered to the Mitchell Plant common coal stock pile during such month.

b. In any calendar month, the total cost of coal received for the Mitchell Plant common coal stock pile shall be determined by multiplying (i) the unit cost of coal received for such common coal stock pile for such month as determined by the provisions of Section 6.1(a) by (ii) the number of tons of coal received for such common stock pile during such month.

c. The number of tons of coal consumed by the Mitchell Plant in each calendar month from the Mitchell Plant common coal stock pile shall be determined and shall be converted into a dollar amount equal to the product of (i) the average cost per ton of coal associated with the Mitchell Plant in the Mitchell Plant coal stock

pile at the close of such month, and (ii) the number of tons of coal consumed by the Mitchell Plant from the Mitchell Plant common coal stock pile during such month. Such dollar amount shall be credited to the Mitchell Plant fuel in stock pile and charged to Mitchell Plant fuel consumed.

d. In each calendar month, Appalachian's and KPCo's respective shares of the Mitchell Plant fuel consumed expense as determined by the provisions of Section 6.1 (c) shall be proportionate to each Owner's dispatch of the Mitchell Plant in such month.

e. Fuel oil reserves will be owned and accounted for in the same manner as coal stock pile, and fuel oil consumed will be allocated to the Owners in the same manner as coal consumed.

6.2 For purposes of this Agreement, KPCo's Assigned Capacity in the Mitchell Plant shall be equal to 50% of the Total Net Capability, and Appalachian's Assigned Capacity shall be equal to 50% of the Total Net Capability.

6.3 For each calendar month, Appalachian and Agent will, to the extent practicable, determine all Mitchell Plant operations expenses and associated overheads, as accounted for under the FERC Uniform System of Accounts.

6.4 For each calendar month, Appalachian and Agent will, to the extent practicable, determine all Mitchell Plant maintenance expenses and associated overheads, as accounted for under the FERC Uniform System of Accounts.

6.5 In each calendar month, Appalachian's and KPCo's respective shares of operations and maintenance expenses associated with the Mitchell Plant, as determined in accordance with Sections 6.3 and 6.4, shall be proportionate to their respective ownership interests.

6.6 Each Owner shall bear the cost of all taxes attributable to its respective ownership interest in the Mitchell Plant.

ARTICLE SEVEN

OPERATING COMMITTEE AND OPERATIONS

7.1 By written notice to each other, the Owners and Agent each shall name one representative ("Operating Representative") and one alternate to act for it in matters pertaining to operating arrangements under this Agreement. Any Party may change its Operating Representative or alternate at any time by written notice to the other Parties. The Operating Representatives for the respective Parties, or their alternates, shall comprise the Operating Committee. All decisions, directives, or other actions by the Operating Committee must be by unanimous agreement of the Operating Representatives of Appalachian and KPCo. The Operating Representative of Agent, or of any third party that provides services in replacement of Agent, shall be free to express the views of Agent or such third party on any matter, but shall not have a vote on the Operating Committee. Except as otherwise provided in Sections 11.1, 11.2 and 11.3 with respect to a dispute referred to the Operating Committee by an Owner, the failure of the Owners' respective Operating Representatives to unanimously agree with respect to a matter pending before the Operating Committee shall not be considered to be a dispute that would be subject to resolution under Article Eleven.

7.2 The Operating Committee shall have the following responsibilities:

a. Review and approval of an annual budget and annual operating plan, including determination of the emission allowances required to be acquired by Appalachian and KPCo.

b. Establishment and review of procedures and systems for dispatch, notification of dispatch, and unit commitment under this Agreement, including any commitment of Called Capacity pursuant to Section 7.6.2.

c. Establishment and monitoring of procedures for communication and coordination with respect to the Mitchell Plant capacity availability, fuel-firing options, and scheduling of outages for maintenance, repairs, equipment replacements, scheduled inspections, and other foreseeable cause of outages, as well as the return to availability following an unplanned outage.

d. Decisions on capital expenditures, including unit upgrades and re-powering.

e. Determinations as to changes in the unit capability and decisions on unit retirement.

f. Establishment and modification of billing procedures under this Agreement.

g. Specification of fuels, oversight of fuel inspection and certification procedures, management of fuel inventories, and allocation of rights under fuel supply and transportation contracts.

h. Establishment of, termination of, and approval of any change or amendment to the operating arrangements between Appalachian and Agent or any replacement third party with respect to the Mitchell Plant generating units; provided, however, that Agent or any replacement third party shall participate in discussions pursuant to

this subsection 7.2.h only if and to the extent requested to do so by both Appalachian and KPCo.

i. Review and approval of plans and procedures designed to insure compliance with any environmental law, regulation, ordinance or permit, including procedures for allocating and using emission allowances or for any programs that permit averaging at more than one unit for compliance.

j. Other duties as assigned by agreement of Appalachian and KPCo.

7.3 The Operating Committee shall meet at least annually, and at such other times as any Party may reasonably request.

7.4 The Parties shall cooperate in providing to the Operating Committee the information it reasonably needs to carry out its duties, and to supplement or correct such information on a timely basis.

7.5 Appalachian and KPCo will each make an initial unit commitment one business day ahead of real-time dispatch.

7.6 For purposes of this Section and subsections of this Section, the terms "Party" or "Parties" refers only to Appalachian and KPCo, or both of them, as the case may be.

7.6.1 If Mitchell Unit 1 or Unit 2 is designated to be committed by both Parties, such unit will be brought on line or kept on line. If neither Party designates Mitchell Unit 1 or Unit 2 to be committed, such unit will remain off line or to be taken offline.

7.6.2 When a Mitchell Unit is designated to be committed by one Party, but designated not to be committed by the other Party, the unit will be brought on line or kept on line if the Party designating the unit for commitment undertakes to pay any

applicable start-up costs for the unit, as well as any applicable minimum running costs for the unit thereafter, in which event the unit shall be brought on line or kept on line, as the case may be. The Party so designating the unit to be committed shall have the right to schedule and dispatch up to all of the Available Capacity of the unit. Available Capacity means that portion of the Owners' aggregate Assigned Capacity that is currently capable of being dispatched. The Party exercising this right shall be referred to as the "Calling Party," and the capacity called by that Party in excess of its Assigned Capacity Percentage of the Available Capacity of that unit shall be referred to as its "Called Capacity." The other Party shall be referred to as the "Non-Calling Party". The Calling Party shall provide reasonable notice to the Non-Calling Party of its call, including any start-up or shut-down time for the Unit. For purposes of this Agreement, KPCo's Assigned Capacity Percentage shall be 50%, and Appalachian's Assigned Capacity Percentage shall be 50%.

7.6.3 The Non-Calling Party can reclaim any Called Capacity attributable to its Assigned Capacity share by giving the Calling Party notice equal to the normal start-up time for the unit. At the end of the notice period, the Non-Calling Party shall have the right to schedule and dispatch the recalled capacity. At that point, the Non-Calling Party shall resume its responsibility for its share of any applicable start-up costs for the unit and prospectively shall bear its responsibility for the costs associated with its Assigned Capacity from the unit.

7.6.4 If any capacity remains available but is not dispatched from a Party's Available Capacity committed as a result of the initial unit commitment, the other Party may

only schedule and dispatch such capacity pursuant to agreement with the non-dispatching Party.

7.7 Appalachian and KPCo shall be individually responsible for any fees charged by FERC on the basis of the sales or transmission by each of capacity or energy at wholesale in interstate commerce.

7.8 Emission Allowances. To the extent such assignment has not previously occurred, on or before the effective date of this Agreement, Appalachian and Agent will assign to KPCo a pro rata share of the remaining Emission Allowances for each vintage year of Emission Allowances, issued by the U.S. Environmental Protection Agency ("USEPA") pursuant to Title IV of the Clean Air Act Amendments of 1990 and any regulations thereunder, and any other emission allowance trading program created under the Clean Air Act and administered by USEPA or the State of West Virginia, including but not limited to the Clean Air Interstate Rule 40 CFR Parts 96 and 97, and any amendments thereto ("Emission Allowances"), that it has received from the Administrator of USEPA or the State of West Virginia with respect to the Mitchell Plant in the past and has not expended as of the date of assignment. In addition, Appalachian will assign to KPCo a pro rata share of such Emission Allowances which were purchased by Appalachian or Agent and held in any account for use at the Mitchell Plant. In each case, the number of such Emission Allowances to be assigned by Appalachian to KPCo will be determined by multiplying KPCo's Assigned Capacity Percentage, as specified in Section 7.6.2, by the total of such Emission Allowances that Appalachian or Agent has received or purchased for the Mitchell Plant and has not expended as of the date of assignment rounded to the nearest whole number. Emission Allowances received by Appalachian with respect to

the Mitchell Plant will be shared by the Appalachian and KPCo in accordance with the Assigned Capacity Percentage of each of them. To the extent that additional Emission Allowances are required for operation of the Mitchell Plant, Appalachian and KPCo will each be responsible for acquiring sufficient Emission Allowances to satisfy the Emission Allowances required because of its dispatch of energy from the Mitchell Plant, and the Emission Allowances required to satisfy the Emission Allowance surrender obligations attributable to the Mitchell Plant imposed under the Consent Decree between USEPA and Ohio Power Company entered on December 10, 2007, in Civil Action No. C2-99-1182 and consolidated cases by the U.S. District Court in the Southern District of Ohio. Agent will also determine the number and allocation of Emission Allowances to be supplied to any third-party unit operator under applicable designated representative agreements. On or before January 10 of each year, Agent shall determine and notify Appalachian and KPCo of the number of additional annual Emission Allowances consumed by each of them through December 31 of the previous year, and Appalachian and KPCo shall each transfer into the Mitchell Plant U.S. EPA Allowance Transfer System account that number of Emission Allowances with a small compliance margin by January 31 of that year. For seasonal Emission Allowance programs, Agent shall determine and notify Appalachian and KPCo of the number of additional seasonal Emission Allowances consumed by each of them during the applicable compliance period by the 10^{th} day of the first month following the end of the compliance period, and Appalachian and KPCo shall each transfer into the appropriate Mitchell Plant U.S. EPA Allowance Transfer System Account that number of Emission Allowances with a small compliance margin by the last day of the first month following the end of the compliance period. In the event that

Appalachian or KPCo fails to surrender the required number of Emission Allowances by January 31 or the last day of the first month following any seasonal compliance period, Agent shall purchase the required number of Emission Allowances, and Appalachian or KPCo, as the case may be, shall reimburse Agent for such purchases, with interest at the Federal Funds Rate (as published by the Board of Governors of the Federal Reserve System as from time to time in effect) running from the date of such purchases to the date of payment. The Operating Committee will develop procedures to be implemented after the end of each calendar year to account for the Emission Allowances required by the use of the Mitchell Plant by Appalachian and KPCo and to correct any imbalance between Emission Allowances supplied and Emission Allowances used through the end of the preceding year by settlement or payment.

7.9 Capital repairs and improvements to the Mitchell Plant will be determined by the Operating Committee pursuant to the annual budgeting process set forth in Section 7.10. Expenditures that the Operating Committee determines have been or will be incurred exclusively for one Owner shall be assigned exclusively to that Owner.

7.10 At least 90 days before the start of each operating year, Appalachian and Agent shall submit to the Operating Committee a proposed annual budget with respect to the Mitchell Plant, a proposed annual operating plan, and an estimate and schedule of costs to be incurred for major maintenance or replacement items during the next six-year period. The annual budget shall be presented on a month-by-month basis for each month during the next operating year, and shall include an operating budget, a capital budget, an estimate of the cost of any major repairs that are anticipated will occur during such operating year with respect to the Mitchell Plant, and an itemized estimate of all

projected non-fuel variable operating expenses relating to the operation of the Mitchell Plant during that operating year. The members of the Operating Committee will meet and work in good faith to agree upon the final annual budget and final annual operating plan. Once approved, the annual budget and annual operating plan shall remain in effect throughout the applicable operating year, subject to such changes, revisions, amendments, and updating as the Operating Committee may determine.

ARTICLE EIGHT

EFFECTIVE DATE AND TERM

8.1 Subject to FERC approval or acceptance for filing, the effective date of this Agreement shall be [January 1, 2014].

8.2 Subject to FERC approval or acceptance, if necessary, this Agreement shall remain in force until such time as (i) KPCo or Appalachian has divested itself of all or any portion of its ownership interest in the Mitchell Plant, other than assignment or other transfer of such ownership interests to another AEP affiliate; or (ii) either KPCo or Appalachian is no longer a direct or indirect wholly owned subsidiary of AEP; or (iii) KPCo and Appalachian may mutually agree to terminate this Agreement.

ARTICLE NINE

GENERAL

9.1 This Agreement shall inure to the benefit of and be binding upon the signatories hereto and their respective successors and assigns, but this Agreement may not be assigned by

any signatory without the written consent of the others, which consent shall not be unreasonably withheld.

9.2 This Agreement is subject to the regulatory authority of any State or Federal agency having jurisdiction.

9.3 The interpretation and performance of this Agreement shall be in accordance with the laws of the State of Ohio, excluding conflict of laws principles that would require the application of the laws of a different jurisdiction.

9.4 This Agreement supercedes all previous representations, understandings, negotiations, and agreements, either written or oral between the signatories or their representatives with respect to operation of the Mitchell Plant, and constitutes the entire agreement of the signatories with respect to the operation of the Plant. Notwithstanding the foregoing, this Agreement does not supercede any previous agreements among any of the signatories allocating or transferring rights to capacity and associated energy, or ownership, of the Mitchell Plant.

9.5 Each party shall designate in writing a representative to receive any and all notices required under this Agreement. Notices shall be in writing and shall be given to the representative designated to receive them, either by personal delivery, certified mail, facsimile, e-mail or any similar means, properly addressed to such representative at the address specified below:

APPALACHIAN POWER COMPANY

_____

_____

Attn:_____

Phone:_____

Facsimile:_____

Email:_____

KENTUCKY POWER COMPANY

_____

_____

Attn:_____

Phone:_____

Facsimile:_____

Email:_____

AMERICAN ELECTRIC POWER SERVICE CORPORATION

_____

_____

Attn:_____

Phone:_____

Facsimile:_____

Email:_____

All notices shall be effective upon receipt, or upon such later date following receipt as set forth in the notice. Any Party may, by written notice to the other Parties, change the representative or the address to which such notices are to be sent.

ARTICLE TEN

LIMITATION OF LIABILITY

10.1 Notwithstanding anything in this Agreement to the contrary, neither of the Owners or Agent shall be liable under this Agreement for special, consequential, indirect, punitive or exemplary damages, or for lost profits or business interruption damages, whether arising by statute, in tort or contract or otherwise.

ARTICLE ELEVEN

DISPUTE RESOLUTION

11.1 If either Owner believes that a dispute has arisen as to the meaning or application of this Agreement, it shall present that matter to the Operating Committee in writing, and shall provide a copy of that writing to the other Owner.

11.2 If the Operating Committee is unable to reach agreement on any dispute within thirty (30) days after the dispute is presented to it, the matter shall be referred to the chief operating officers of the Owners for resolution in the manner that such individuals shall agree is appropriate; provided, however, that either Owner involved in a dispute may invoke the arbitration provisions set forth in Section 11.3 at any time after the end of the thirty (30)day period provided for the Operating Committee to reach agreement if the Operating Committee has not reached agreement.

11.3 If the Owners are unable to resolve a dispute through the Operating Committee within thirty (30) days after the dispute is presented to the Operating Committee pursuant to Section 11.1, or through reference of the matter to the chief operating officers of the Owners pursuant to Section 11.2, either Owner may commence arbitration proceedings by providing written notice to the other Owner, detailing the nature of the dispute,

designating the issue(s) to be arbitrated, identifying the provisions of this Agreement under which the dispute arose, and setting forth such Owner's proposed resolution of such dispute.

11.3.1 Within ten (10) days of the date of the notice of arbitration, a representative of each Owner shall meet for the purpose of selecting an arbitrator. If the Owner's representatives are unable to agree on an arbitrator within fifteen (15) days of the date of the notice of arbitration, then an arbitrator shall be selected in accordance with the procedures of the American Arbitration Association ("AAA"). Whether the arbitrator is selected by the Owner's representatives or in accordance with the procedures of the AAA, the arbitrator shall have the qualifications and experience in the occupation, profession, or discipline relevant to the subject matter of the dispute.

11.3.2 Any arbitration proceeding shall be subject to the Federal Arbitration Act, 9 U.S.C. §§ 1 *et seq.* (1994), as it may be amended, or any successor enactment thereto, and shall be conducted in accordance with the commercial arbitration rules of the AAA in effect on the date of the notice to the extent not inconsistent with the provisions of this Article.

11.3.3 The arbitrator shall be bound by the provisions of this Agreement where applicable, and shall have no authority to modify any terms and conditions of this Agreement in any manner. The arbitrator shall render a decision resolving the dispute in an equitable manner, and may determine that monetary damages are due to an Owner or may issue a directive that an Owner take certain actions or refrain from taking certain actions, but shall not be authorized to order any other

form of relief; provided, however, that nothing in this Article shall preclude the arbitrator from rendering a decision that adopts the resolution of the dispute proposed by an Owner. Unless otherwise agreed to by the Owners, the arbitrator shall render a decision within one hundred twenty (120) days of appointment, and shall notify the Owners in writing of such decision and the reasons supporting such decision. The decision of the arbitrator shall be final and binding upon the Owners, and any award may be enforced in any court of competent jurisdiction.

11.3.4 The fees and expenses of the arbitrator shall be shared equally by the Owners, unless the arbitrator specifies a different allocation. All other expenses and costs of the arbitration proceeding shall be the responsibility of the Owner incurring such expenses and costs.

11.3.5 Unless otherwise agreed by the Owners, any arbitration proceedings shall be conducted in Columbus, Ohio.

11.3.6 Except as provided in this Article, the existence, contents, or results of any arbitration proceeding under this Article may not be disclosed without the prior written consent of the Owners, provided, however, that either Owner may make disclosures as may be required to fulfill regulatory obligations to any agencies having jurisdiction, and may inform its lenders, affiliates, auditors, and insurers, as necessary, under pledge of confidentiality, and may consult with expert consultants as required in connection with an arbitration proceeding under pledge of confidentiality.

11.3.7 Nothing in this Agreement shall be construed to preclude either Owner from filing a petition or complaint with FERC with respect to any claim over which FERC

has jurisdiction. In such case, the other Owner may request that FERC reject the petition or complaint or otherwise decline to exercise its jurisdiction. If FERC declines to act with respect to all or part of a claim, the portion of the claim not so accepted by FERC may be resolved through arbitration, as provided in this Article. To the extent that FERC asserts or accepts jurisdiction over all or part of a claim, the decisions, findings of fact, or orders of FERC shall be final and binding, subject to judicial review under the Federal Power Act, 16 U.S.C. § 791a *et seq.*, as amended from time to time, and any arbitration proceedings that may have commenced prior to the assertion or acceptance of jurisdiction by FERC shall be stayed, pending the outcome of the FERC proceedings. The arbitrator shall have no authority to modify, and shall be conclusively bound by, any decisions, findings of fact, or orders of FERC; provided, however, that to the extent that any decisions, findings of fact, or orders of FERC do not provide a final or complete remedy to an Owner seeking relief, such Owner may proceed to arbitration under this Article to secure such a remedy, subject to any FERC decisions, findings, or orders.

11.4 The procedures set forth in this Article shall be the exclusive means for resolving disputes arising under this Agreement and shall survive this Agreement to the extent necessary to resolve any disputes pertaining to this Agreement. Except as provided in Sections 11.3 and 11.3.7, neither Owner shall have the right to bring any dispute for resolution before a court, agency, or other entity having jurisdiction over this Agreement, unless both Owners agree in writing to such procedure.

11.5 To the extent that a dispute involves the actions, inactions or responsibilities of Agent under this Agreement, the provisions of this Article shall be applicable to such dispute. For such purposes, Agent shall be treated as an Owner in applying the provisions of this Article.

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

APPALACHIAN POWER COMPANY

BY:_____

Title:_____

KENTUCKY POWER COMPANY

BY:_____

Title:_____

AMERICAN ELECTRIC POWER SERVICE CORPORATION

BY:_____

Title:_____

KENTUCKY POWER COMPANY

RATE SCHEDULE NO. 303

Joint Tariff Common Name: "Mitchell Plant Operating Agreement"

Designated Filing Company: Appalachian Power Company (APCo)

Designated Filing Company Tariff Title: APCo Rate Schedules and Service Agreements Tariffs

Designated Filing Company Tariff Program: FPA (Cost Based)

Designated Filing Company Tariff Record Adopted by Reference (Record Content Description/Tariff Record Title): Rate Schedule No. 303, Mitchell Plant Operating Agreement.

No limitations: All versions of the agreement

Description of Tariff: Rate Schedule under which APCo, Kentucky Power Company, and American Electric Power Service Corporation (in an agency role) will operate and maintain the Mitchell Plant.

Attachment C

1. Certificate of Concurrence – AEP Generation Resources Inc. regarding the Sporn Plant Operating Agreement

2. Certificate of Concurrence – Kentucky Power Company regarding the Mitchell Plant Operating Agreement

CERTIFICATE OF CONCURRENCE

This is to certify that AEP Generation Resources Inc. (AEP Generation Resources), a Delaware corporation, assents to and concurs in the FERC FPA Electric Tariff described below, which Appalachian Power Company (APCo), the designated filing company, has filed in its "APCo Rate Schedules and Service Agreements Tariffs" database.

Name of Tariff Adopted by Reference: Sporn Plant Operating Agreement

APCO Tariff Record Adopted by Reference: Rate Schedule No. 302, Sporn Plant Operating Agreement

Description of Tariff: Rate Schedule under which APCo, AEP Generation Resources and American Electric Power Service Corporation (in an agency role) will operate and maintain the Sporn Plant.

By: /John C. Crespo/
John C. Crespo,
Deputy General Counsel – Regulatory Services
Dated: October 26, 2012

CERTIFICATE OF CONCURRENCE

This is to certify that Kentucky Power Company (KPCo), a Kentucky corporation, assents to and concurs in the FERC FPA Electric Tariff described below, which Appalachian Power Company (APCo), the designated filing company, has filed in its "APCo Rate Schedules and Service Agreements Tariffs" database.

Name of Tariff Adopted by Reference: Mitchell Plant Operating Agreement

APCO Tariff Record Adopted by Reference: Rate Schedule No. 303, Mitchell Plant Operating Agreement

Description of Tariff: Rate Schedule under which APCo, KPCo and American Electric Power Service Corporation (in an agency role) will operate and maintain the Mitchell Plant.

By: /John C. Crespo/
John C. Crespo,
Deputy General Counsel – Regulatory Services
Dated: October 26, 2012