COMMONWEALTH OF KENTUCKY
BEFORE THE
PUBLIC SERVICE COMMISSION OF KENTUCKY

IN THE MATTER OF:

APPLICATION OF KENTUCKY POWER)
COMPANY FOR APPROVAL OF A STIPULATION)
AND SETTLEMENT AGREEMENT RESOLVING) P.S.C. CASE No. 04-____
STATE REGULATORY MATTERS)

STIPULATION AND SETTLEMENT AGREEMENT AMONG KENTUCKY POWER COMPANY, KENTUCKY INDUSTRIAL UTILITY CUSTOMERS, INC. AND OFFICE OF ATTORNEY GENERAL, OFFICE OF RATE INTERVENTION

This Stipulation and Settlement Agreement is made as of October 20, 2004, by and among the Kentucky Office of Attorney General, Office of Rate Intervention ("KOAG"); Kentucky Industrial Utility Customers, Inc. ("KIUC")[1] (the KOAG and KIUC are collectively referred to herein as the "Kentucky Parties"); and Kentucky Power Company ("Kentucky Power.") These entities are sometimes individually referred to herein as a "Party" or collectively as "Parties".

WITNESSETH:

WHEREAS, on December 20, 2001 the Parties and the Public Service Commission of Kentucky ("Kentucky PSC") entered into a Settlement Agreement to resolve two proceedings then pending before the Federal Energy Regulatory Commission ("FERC"): Docket No. EC01-130-000 and Docket No. ER01-2668-000;

WHEREAS, among the issues before FERC in Docket No. EC01-130-000 was a Section 203 Application by American Electric Power Service Corporation to transfer certain jurisdictional assets among American Electric Power Company, Inc. ("AEP") subsidiaries in connection with AEP's proposed restructuring plan;

WHEREAS, in the negotiations leading to the December 20, 2001 Settlement Agreement the Parties addressed state regulatory issues including:

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[1] KIUC consists of AK Steel Corporation; Air Products & Chemicals, Inc.; Marathon Ashland Petroleum LLC; Calgon Carbon; and Specialty Metals Corporation.

(a) Kentucky Power's need for additional capacity beyond the December 31, 2004 expiration of the Unit Power Supply Agreement ("UPSA") between American Electric Generating Company ("AEGCo") and Kentucky Power for 195 MW of Rockport Unit No. 1 and 195 MW of Rockport Unit No. 2;

(b) Resolution of Kentucky Power's claim against AK Steel Corporation for late payment charges claimed due then pending in P.S.C. Case No. 2000-428, *Kentucky Power Company d/b/a American Electric Power v. AK Steel Corporation*;

(c) The date for filing by Kentucky Power of its next Integrated Resource Plan pursuant to 807 KAR 5:058;

(d) The amendment of Kentucky Power's System Sales Clause to permit the offset against system sales revenues of the environmental costs currently allocated to Non-Associated Utilities in calculating Kentucky Power's environmental surcharge pursuant to KRS 278.183;

(e) The setting of Kentucky retail rates in connection with the extension of the UPSA for 195 MW of Rockport Unit No. 1 and 195 MW of Rockport Unit No. 2.

WHEREAS, as part of the December 20, 2001 Settlement Agreement the Parties agreed to a settlement of the state regulatory issues, subject to approval by the Kentucky PSC;

WHEREAS, as part of the December 20, 2001 Settlement Agreement the Parties and the Kentucky PSC agreed that extending the UPSA between AEGCo and Kentucky Power for 195 MW of Rockport Unit No. 1 for five years beyond its December 31, 2004 expiration date was in the best interest of Kentucky Power and its ratepayers;

WHEREAS, as a further part of the December 20, 2001 Settlement Agreement the Parties and the Kentucky PSC agreed that extending the UPSA between AEGCo and Kentucky Power for 195 MW of Rockport Unit No. 2 until the December 7, 2022 end of the lease agreement dated as of December 1, 1989 between Wilmington Trust Company as Lessor and AEGCo was in the best interest of Kentucky Power and its ratepayers;

WHEREAS, on December 17, 2002 the Kentucky PSC approved the December 20, 2001 Settlement Agreement, finding that the extension of the UPSA for Rockport Unit No. 1 and Rockport Unit No. 2 was in the best interest of Kentucky Power and its ratepayers;

WHEREAS, the corporate restructuring and transfer of assets was never consummated;

WHEREAS, the Commission in its March 29, 2004 and May 29, 2004 Orders in Administrative Case No. 387, *In the Matter of: A Review of the Capacity of Kentucky's*

Generation and Transmission System, directed Kentucky Power to continue to seek extensions of the UPSA for Rockport Unit No. 1 and Rockport Unit No. 2;

WHEREAS, the Parties believe that extension of the UPSA for 195 MW of Rockport Unit No. 1 and for 195 MW of Rockport Unit No. 2 is in the best interest of Kentucky Power's ratepayers and will enable Kentucky Power to secure long-term low-cost, coal-fired base load generation;

WHEREAS, the Parties agree that the additional revenues set out in Section III(a)(1) and Section III(a)(2) of this Stipulation and Settlement Agreement are fair, just and reasonable consideration for the extension of the UPSA for Rockport Unit No. 1 and Rockport Unit No. 2 and the resolution of the other matters considered herein, and that the rates imposed to recover the additional revenues are fair, just and reasonable rates;

WHEREAS, the Parties agree that the state regulatory issues that were the subject of the December 20, 2001 Settlement Agreement should be resolved;

WHEREAS, the Parties have engaged in good faith negotiations to resolve the matters set forth below;

NOW THEREFORE, the Parties have reached a settlement and agree as follows:

I. ROCKPORT UNIT NO. 1 CAPACITY

1. The UPSA between Kentucky Power and AEGCo for 195 MW of Rockport Unit No. 1 will be extended beyond the current expiration date, which is December 31, 2004. The UPSA for 195 MW of Rockport Unit No. 1 will be extended until the expiration of the lease agreement for Rockport Unit No. 2 between Wilmington Trust Company as Lessor and AEGCo, which expires December 7, 2022. All other terms and provisions of the existing UPSA will continue through December 7, 2022. Except as provided in Section VI(3) of this Stipulation and Settlement Agreement neither Kentucky Power nor any of its affiliates, nor any party to this Stipulation and Settlement Agreement will seek to have the UPSA terminated before its new expiration date of December 7, 2022.

II. ROCKPORT UNIT NO. 2 CAPACITY

1. The UPSA between Kentucky Power and AEGCo for 195 MW of Rockport Unit No. 2 will be extended until the expiration of the lease agreement for Rockport Unit No. 2 between Wilmington Trust Company as Lessor and AEGCo, which expires December 7, 2022. All other terms and provisions of the existing UPSA will continue through December 7, 2022. Except as provided in Section VI(3) of this Stipulation and Settlement Agreement neither Kentucky Power nor any of its affiliates, nor any party to this Stipulation and Settlement Agreement will seek to have the UPSA terminated before its new expiration date of December 7, 2022.

III. ADDITIONAL REVENUES

1. In consideration of the benefits conferred by the extension of the UPSA and other matters resolved herein, all Parties further agree not to oppose an application by Kentucky Power to the Kentucky PSC to amend its retail tariffs to permit Kentucky Power to collect additional retail revenues as follows:

(a) Kentucky Power shall collect $5.1 million in additional revenue each year of this Stipulation and Settlement Agreement for the five years beginning January 1 of 2005 through 2009;

(b) Kentucky Power shall collect a further increase in additional annual revenues of $1.1 million (yielding a combined total increase in annual revenue of $6.2 million) each year for the approximately thirteen years beginning January 1 of 2010 through December 7, 2022, except that the additional revenues for the year beginning January 1, 2022 shall be $5,792,329 (341/365 of $6.2 million.)

(c) Following approval of the retail rate adjustments set forth in Section III(1)(a) and Section III(1)(b) of this Stipulation and Settlement Agreement Kentucky Power will:

(i) implement those rate adjustments by revising its monthly System Sales Clause Schedule filed with the Kentucky PSC in the fashion illustrated on Exhibit 1 to this Stipulation and Settlement Agreement. The increased annual revenues will be generated by two different kWh rates. The first rate will be for all customers except the CIP-TOD tariff customers and the second kWh rate will be for the CIP-TOD tariff customers. The kWh rate to be applied to each of these two customer class groups shall be sufficient to generate that portion of the total increase in annual revenues required under this Stipulation and Settlement Agreement equal to the percentage of total annual revenues produced by each of the two customer class groups (CIP-TOD and all other tariffs) for the twelve months ending June 30, 2004 and for each twelve month period thereafter during which the revenues are collected through the system sales tracker.

(ii) calculate each calendar year during the period between January 1, 2005 and the effective date of the Company's next change in retail base rates a Balancing Adjustment Factor (BAF) in the same manner as the Company does for the current Net Merger Savings Credit tariff and include the factor in the combined System Sales Clause factor as shown on Exhibit 1 to this Stipulation and Settlement Agreement.

(d) In any retail rate case pursuant to KRS 278.190 or KRS 278.260 following approval by the Kentucky PSC of the retail rate adjustments set forth in

Section III(1)(a) and Section III(1)(b) of this Stipulation and Settlement Agreement the Parties agree that:

(i) the additional revenues collected by Kentucky Power from the retail rate adjustments set forth in Section III(1)(a) and Section III(1)(b) of this Stipulation and Settlement Agreement will not be considered by the Kentucky Public Service Commission in establishing Kentucky Power's retail base rates. In any such retail rate case Kentucky Power shall be permitted to exclude from the test year period the revenues collected pursuant to Section III(1)(a) and III(1)(b) of this Stipulation and Settlement Agreement;

(ii) Kentucky Power shall collect the additional revenues as set forth Section III(1)(a) and Section III(1)(b) of this Stipulation and Settlement Agreement in addition to such base retail rates established by the Kentucky PSC. The costs associated with the underlying Rockport Unit 1 and 2 UPSA will continue to be included in base rates;

(iii) Kentucky Power will develop, and the other Parties will not oppose, a new tariff that provides for the receipt by Kentucky Power of the additional revenues as described in Section III(1)(a) and III(1)(b) of this Stipulation and Settlement Agreement that will allow the Company to receive the additional revenue amount in addition to its base rates and other charges. Such new tariff will be consistent with the revenue allocation and rate design principles set forth in this Agreement. Such new tariff will include two different rates, one for CIP-TOD tariff customers and one for all other tariff customers. The allocation of the additional revenues to be collected from the CIP-TOD tariff customers and all other tariff customers will be based upon the total annual revenue of each of the two customer classes. Once the additional revenues have been allocated between the two customer classes based upon total annual Kentucky retail revenue, the additional revenue will be collected within the two customer classes (CIP-TOD and all other tariffs) on a kwh basis.

(e) In the first retail base rate case pursuant to KRS 278.190 or KRS 278.260 following approval by the Kentucky PSC of the retail rate adjustments set forth in Section III(1)(a) and Section III(1)(b) of this Stipulation and Settlement Agreement the Parties agree that the modification of the System Sales Clause under Section III(1)(c) of this Stipulation and Settlement Agreement to permit the receipt by Kentucky Power of the additional revenues shall be eliminated upon the implementation by the Kentucky PSC of the provisions of Section III(d) of this Stipulation and Settlement Agreement.

(f) This Stipulation and Settlement Agreement is made upon the express agreement by the Parties that the receipt by Kentucky Power of the additional revenues called for by Section III(1)(a) and III(1)(b) shall be accorded the ratemaking treatment set out in this Section III. In any proceeding affecting the rates of Kentucky Power during the extension of the UPSA under this Stipulation and Settlement Agreement, the provisions of this Section III are an express exception to Section VI(4) of this Stipulation and Settlement Agreement.

IV. INTEGRATED RESOURCE PLAN

1. The Parties agree that Kentucky Power will submit an Integrated Resource Plan ("IRP") to the Kentucky PSC no later than June 30, 2009. The filing shall reflect the resources available to Kentucky Power. The filing shall also reflect the resources available to Kentucky Power as a member of any pool arrangement that Kentucky Power expects to exist during the period reflected in the IRP. The Kentucky Public Service Commission will initiate a formal review of that IRP and issue an order setting forth its findings and conclusions.

2. Notwithstanding the provisions of Section IV(1) of this Stipulation and Settlement Agreement, within 120 days of filing with FERC an application to amend the AEP-East Interconnection Agreement to change the generation resources available to Kentucky Power under the AEP-East Interconnection Agreement the Parties and the appropriate members of the Staff of the Kentucky PSC shall meet and confer concerning the need for Kentucky Power to file an IRP prior to June 30, 2009. If after such discussions one or more of the Parties or the Staff of the Kentucky PSC in good faith requests that Kentucky Power make an IRP filing in conformity with Section IV(1) of this Stipulation and Settlement Agreement Kentucky Power shall do so within 90 days of receiving such request.

3. During the period of the extension of the Rockport UPSA required under this Stipulation and Settlement Agreement, Kentucky Power shall provide in connection with its annual filing pursuant to the Kentucky PSC's December 20, 2001 Order in Administrative Case No. 387 that information provided in Kentucky Power's Integrated Resource Plan concerning the combined load and resources of the parties to the AEP Interconnection Agreement and Kentucky Power.

V. ENVIRONMENTAL COSTS

1. All Parties agree not to oppose an application by Kentucky Power seeking approval by the Kentucky PSC for the environmental costs currently allocated to Non-Associated Utilities as required by the Kentucky Public Service Commission in Kentucky Power's environmental surcharge pursuant to KRS 278.183 to be reflected in Kentucky Power's monthly filing of the System Sales Clause Schedule as shown on Exhibit 2 to this Stipulation and Settlement Agreement. This change in the recovery of such environmental costs will occur on the effective date of the Kentucky PSC's order approving the terms of this Stipulation and Settlement Agreement. When Kentucky Power's base rates are next changed by order of the Kentucky PSC, the appropriate ratemaking treatment for the environmental costs allocated to Non-Associated Utilities may be addressed by the Kentucky Public Service Commission.

VI. PROCEDURAL TERMS

1. The parties will not oppose in proceedings before the Kentucky PSC or FERC or on appeal the issuance of an Order by the Kentucky PSC or FERC approving the terms of this Stipulation and Settlement Agreement.

2. The terms of this Stipulation and Settlement Agreement are expressly conditioned upon:

(a) the approval by the Kentucky PSC and by any court reviewing such action of the Stipulation and Settlement Agreement and all supporting or related tariff filings without any change or condition that is unacceptable to the Parties;

(b) the approval by FERC and by any court reviewing such action of the extension of the UPSA without any change or condition that is unacceptable to the Parties;

(c) the receipt without any change or condition that is unacceptable to the Parties of all approvals from or non-objections by FERC and any state regulatory bodies exercising jurisdiction over other AEP operating companies, and any court reviewing such action, required to implement the terms of this Stipulation and Settlement Agreement.

3. If at any time prior to the expiration of the extension of the UPSA under this Stipulation and Settlement Agreement the Kentucky PSC or its successor enters an Order that prevents Kentucky Power from charging rates consistent with the provisions of Sections III(1)(a), Section III(1)(b), III(1)(d)(i) and III(1)(d)(ii) of this Stipulation and Settlement Agreement Kentucky Power may, upon 120 days notice to the Commission and the parties to this Stipulation and Settlement Agreement, begin legal or regulatory proceedings necessary to terminate the extension of the UPSA and withdraw from all other obligations under this Agreement. During any such proceedings no Party to this Stipulation and Settlement Agreement shall make any arguments nor take any position inconsistent with the provisions of this Stipulation and Settlement Agreement. During the 120 day notice period the Kentucky PSC shall be authorized to cure any noncompliance with this Agreement.

4. This Stipulation and Settlement Agreement further is made upon the express understanding that it constitutes a negotiated settlement, and except as otherwise expressly provided for herein to effectuate this Stipulation and Settlement Agreement, no Party shall be deemed to have agreed to any ratemaking principle, precedent or policy, nor shall any party be deemed to have agreed or consented to any matter not expressly stated in this Stipulation and Settlement Agreement. Nothing in this Paragraph is intended to prevent the admission of this Stipulation and Settlement Agreement as evidence in any proceeding in which it is relevant.

5. In the event the conditions set forth in Section VI(2) of this Stipulation and Settlement Agreement are not satisfied the Parties, upon notice by any Party, shall meet with appropriate members of the Kentucky PSC Staff and in good faith discuss amendments of this Stipulation and Settlement Agreement, if any, that are satisfactory to the Parties. If, despite such good faith discussions, the Parties are unable to agree upon amendments within 30 days of the commencement of such discussions or such longer period as mutually agreed, then this Stipulation and Settlement Agreement shall become void and of no effect.

IN WITNESS WHEREOF, the Parties have caused this Stipulation and Settlement Agreement to be signed by their duly authorized officers and representatives as of the date first written above.

Agreed to and Accepted:

Kentucky Power Company

By: Errol K Wagner

Name: Errol K Wagner

Title: Assistant Secretary

Agreed to and Accepted:

Kentucky Industrial Utility Customers, Inc.

By: ________________

Name: Michael L. Kurtz

Title: Attorney

Agreed to and Accepted:

Office of Attorney General, Office of Rate Intervention

By: ____________________

Name: ELIZABETH BLACKFORD

Title: Assistant Attorney General

Exhibit 1

Exhibit 1 illustrates Page 1 of 2 of the revised monthly System Sales Clause Schedule that Kentucky Power will file with the Public Service Commission of Kentucky to collect $5.1 million in the first five years and $6.2 million in years six through eighteen in additional revenues in consideration of the agreements reached in this Stipulation and Settlement Agreement. Collecting $5.1 million in years 1-5 and $6.2 million in years 6-18 will result in Kentucky Power collecting approximately $106.1 over the 18-year period. The revised System Sales Clause Schedule includes three new lines.

Line 8, entitled "State Issues Settlement Factor," will be a fixed amount equal to $0.000847 for all customers except the CIP-TOD customers and $0.000500 for CIP-TOD customers. Line 9, entitled "State Issues Settlement BAF," will be calculated once a year until the Company's effective date of a change in base rates. The purpose of the BAF factor is to collect or refund any difference between the actual amount collected and $5.1 million or $6.2 million whichever is in effect. Line 10, entitled "Net System Sales Clause Factor - $ kWh," will be the combined result of line 7 "System Sales Clause Factor", line 8 "State Issues Settlement Factor" and line 9 "State Issues Settlement BAF".

Page 1 of 2 of the revised monthly System Sales Clause Schedule will be in the following format:

Kentucky Power Company

System Sales Clause Schedule
Case No. 9061 and
Stipulation and Settlement Agreement

Line No.				
1	Current Month (Tm) Net Revenue	(+)		
2	Base Month (Tb) Tariff Sheet No. 19-1 Net Revenue Level	(-)		
3	Increase (Decrease) of System Sales Net Revenue			
4	Customer 50% Sharing	(x)	50%	
5	Customer Share of Increase (Decrease) in System Sales Net Revenue			
6	Current Month (Sm) Sales Level	(/)		
7	System Sales Clause Factor - $/kWh*			
			All Other Customers	CIP-TOD Customers
8	State Issues Settlement Factor	(+)	$0.000847	$0.000500
9	States Issues Settlement BAF	(+)	$0.000000	$0.000000
10	Net System Sales Clause Factor - $ kWh	(=)	________	________

*This factor is a credit to the customer when current month net revenue levels exceed the base month; and a charge when current month net revenue levels are below the base month.

Effective Date for Billing:

Submitted by:

Signature

Title:

Date Submitted:

Exhibit 2

Exhibit 2 illustrates Page 2 of 2 of the revised monthly System Sales Clause Schedule that Kentucky Power will file with the Public Service Commission to reflect Kentucky Power's environmental surcharge pursuant to KRS 278.183 in accordance with Section V(1) of this Stipulation and Settlement Agreement. Specifically, on page 2 of 2 of the Schedule, Kentucky Power will add a new line (Line 6) entitled "Non-Associated Utilities Monthly Environmental Costs". Line 4 ("Sales for Resale Expense") and Line 5 ("Interchange-Delivered Expense") will be added to Line 6 ("Non-Associated Utilities Monthly Environmental Costs") to arrive at Line 7 ("Total System Sales Expenses"). "Total System Sales Revenues" (Line 3) less "Total System Sales Expenses" (Line 7) will determine "Total System Sales Net Revenue" (Line 8) for the current month. Line 8 will be carried over to Page 1 of 2 of the Schedule, Line 1("Current Month (Tm) Net Revenue Level"), to be used in calculating the monthly "System Sales Clause Factor - $ kWh" (Line 9) on that page. Page 2 of 2 of the revised monthly System Sales Clause Schedule will be in the following format:

Kentucky Power Company

System Sales Clause Net Revenue

Month Ended____________________

Line No.		CURRENT MONTH	PRIOR MO. TRUE-UP ADJUSTMENT	TOTAL
1	Sales for Resale Revenues			
2	Interchange-Delivered Revenues			
3	Total System Sales Revenues			
4	Sales for Resale Expenses			
5	Interchange-Delivered Expenses			
6	***Non-Associated Utilities Monthly Environmental Costs****			
7	Total System Sales Expenses			
8	Total System Sales Net Revenue			

*Source: ES Form 1.0, Line 3
ES Form 3.3, Line 4
Non-Associated Environmental Costs