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Credit Opinion: American Electric Power Company, Inc.

Global Credit Research - 03 Nov 2014

Columbus, Ohio, United States

Ratings

Category	Moody's Rating
Outlook	Stable
Senior Unsecured	Baa1
Jr Subordinate Shelf	(P)Baa2
Commercial Paper	P-2
AEP Texas North Company	
Outlook	Stable
Issuer Rating	Baa1
Appalachian Power Company	
Outlook	Stable
Issuer Rating	Baa1
Senior Unsecured	Baa1
Indiana Michigan Power Company	
Outlook	Stable
Issuer Rating	Baa1
Senior Unsecured	Baa1
Southwestern Electric Power Company	
Outlook	Stable
Issuer Rating	Baa2
Senior Unsecured	Baa2

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Key Indicators

[1]**American Electric Power Company, Inc.**

	9/30/2014(LTM)	12/31/2013	12/31/2012	12/31/2011	12/31/2010
CFO pre-WC + Interest / Interest	5.1x	5.0x	4.5x	4.3x	3.9x
CFO pre-WC / Debt	19.3%	19.2%	19.5%	18.4%	17.1%
CFO pre-WC - Dividends / Debt	14.7%	14.7%	15.2%	14.1%	13.1%
Debt / Capitalization	43.9%	44.6%	46.6%	47.8%	50.2%

[1] All ratios are based on 'Adjusted' financial data and incorporate Moody's Global Standard Adjustments for Non-Financial Corporations. Source: Moody's Financial Metrics

Note: For definitions of Moody's most common ratio terms please see the accompanying User's Guide.

Opinion

Rating Drivers

Diversity of regulatory jurisdictions and service territories provides strong credit foundation

Continued regulatory support, with timely and sufficient costs recoveries is credit positive

Substantial investments due to environmental mandates and regulated investments in transmission and distribution, despite weak demand growth is a risk

Financial metrics look pressured due to higher parent debt

Corporate Profile

American Electric Power Company, Inc. (AEP, Baa1 stable), headquartered in Columbus Ohio, is a large electric utility holding company with nine retail utility subsidiaries operating in eleven states representing approximately $27 billion rate base and serving about 5.3 million customers. The breakdown of megawatt hour (MWh) sales in 2013 was approximately 30% residential, 25% commercial, 28% industrial, 16% wholesale and 2% other. AEP owns or leases 37,600 megawatts (MW) of generating assets, 63% of which is coal/lignite fired.

SUMMARY RATING RATIONALE

AEP's Baa1 rating reflects the size and diversity of its regulatory jurisdictions and service territories, consolidated financial profile that includes a moderate amount of parent holding company debt and adequate liquidity and financial metrics that over the past several years have averaged high-teens CFO pre WC to debt. These positive factors are balanced against risks associated with a material increase in capital expenditures for mandated environmental requirements, an expectation for higher levels of parent holding company debt and residual execution risk in Ohio.

DETAILED RATING CONSIDERATIONS

DIVERSITY OF REGULATORY JURISDICTIONS AND SERVICE TERRITORIES PROVIDES STRONG FOUNDATION FOR CURRENT RATING

AEP's electric utility operations are diversified in terms of regulatory jurisdictions (eleven states) and service territory economies. The largest states ranked by rate base are Ohio, Virginia, West Virginia, Texas, Indiana and Oklahoma. These jurisdictions translate into diversity in revenues (by state and operating utility), cash flows, assets and customers. From a credit perspective, AEP's size and diversity are meaningful credit strengths as they provide the parent company with a degree of insulation from any unexpected negative developments occurring at one of its companies, state regulators or state economy's.

The benefit from AEP's service territory diversity has been seen during the past two years of tepid recovery from the recession in the US. AEP's western service territories, with their greater leverage to the energy economy have registered a much stronger recovery than those in the east, which have generally been more challenged due to Federal budget cuts, waning coal exports and slow industrial growth that is straining the Appalachian economies. Overall, AEP's retail sales volume in 2013 declined 1.6% across the board and industrial sales declined 4.5%.

CONTINUED REGULATORY SUPPORT, TIMELY AND SUFFICIENT COST RECOVERIES NEEDED

AEP will need timely and consistent long-term regulatory support because it will be in front of several commissions in the next 12-18 months regarding, among them, plant retirements, recovery of significant capital expenditures and other related costs.

For example, in January 2014 Public Service Company of Oklahoma (PSO, A3 stable) filed a request with the Corporation Commission of the State of Oklahoma (OCC) to increase annual base rated by $38 million, based upon a 10.5% return on common equity. In June 2014 a stipulation agreement was filed between PSO and the OCC. The stipulation recommended no overall change to the transmission rider or annual revenues, other than additional revenues through a advanced metering investments (AMI) rider which would provide PSO $7 million, $17 million and $27 million in revenues in 2015, 2016 and 2017 respectively. New depreciation rates are also recommended for advanced metering investments and existing meters and the stipulation recommends recovery of regulatory assets for 2013 storms and regulatory rate case expenses. An order is anticipated in the fourth quarter of 2014.

In March 2014, Appalachian Power Company (APCo, Baa1 stable) filed its biennial rate case with the Virginia

State Corporation Commission (Virginia SCC). APCo did not request an increase in base rates as its Virginia retail combined rate of return on common equity for 2012 and 2013 was within the statutory range (10.9%). The filing also included a request to decrease generation depreciation rates effective February 2015 and a request to amortize $7 million annually for two years beginning February 2015 related to IGCC and other deferred costs.

In August 2014, the Virginia SCC staff and intervenors filed testimony concluding that APCo's adjusted earned rate of return on common equity for 2012 and 2013 was above the allowed threshold. Staff recommendations included refunds to customers ranging from $15 million to $22 million, the write-off of certain APCo assets, including IGCC pre-construction costs and previously approved 2009 storm costs, totaling $27 million and $38 million in increased depreciation expense annually, retroactive to January 1, 2014, primarily related to accelerating depreciation on APCo generation assets to be retired in the second quarter of 2015. Hearings at the Virginia SCC were held in September 2014 and a decision is expected in November 2014.

Also in March 2014, APCo and Wheeling Power (WPCo, not rated) filed a request with the West Virginia Public Service Commission (WVPSC) for approval to transfer at net book value AGR's ownership of Mitchell Plant to WPCo. WPCO and APCo's (WV) customers rates would be impacted by addition of rate base to WPCo. On June 2, 2014 the Federal Energy Regulatory Commission (FERC) issued an order approving this request and an agreement was also reached in the West Virginia with a hearing held on October 21st. In the agreement 18% of Mitchell is excluded from rate base until no later than 2020.The transfer is expected by year end 2014.

Then, in June 2014, APCo filed a request with the WVPSC to increase annual rate bases by $226 million, based upon a 10.62% ROE to be effective in the second quarter of 2015. The filing included a request to increase generation and depreciation rates, requested recovery of $89 million over five years related to storm costs and the implementation of a rider of approximately $45 million to recover total vegetation management costs. Hearings are the WVPSC are scheduled for January 2015.

In August 2014, the Kentucky Public Service Commission (KPSC) issued an order initiating a review of Kentucky Power Company's (KPCo, Baa2 stable) fuel adjustment clause from November 2013 through April 2014. In October 2014, intervenors filed testimony that recommended the KPSC direct KPCo to modify its fuel allocation methodology and order a refund to customers of approximately $13 million, plus carrying charges at a weighted average cost of capital, related to the period January 1, 2014 through April 30, 2014. A hearing at the KPSC is scheduled for November 2014.

Ohio Power Company (OPCo, Baa1 stable) operated under an Electric Security Plan (ESP I) (March 2009 to 2011) and currently ESP II (June 2012 to May 2015), which provide a reasonable suit of recovery mechanism and cash flow stability through the Ohio transition into a full competitive generation market by June 2015. Under the ESPs, as of September 30, 2014, OPCo's net deferred fuel balance was $395 million, excluding unrecognized equity carrying costs and capacity deferral estimated at $463 million by the end of May 2015. OPCo also obtained approval from Public Utility Commission of Ohio (PUCO) to securitize $298 million of approved deferred distribution asset recovery rider costs.

In December 2013, OPCo filed an application with the PUCO to approve a new ESP III from June 2015 to May 2018. Full transition to auction based generation pricing will begin in June 2015. The proposal also includes a recommended auction schedule, an ROE of 10.65% on capital costs, the continuation and modification of certain existing riders, including the Distribution Investment Rider (DIR) and a purchased power agreement rider (PPA) for their 19.3% share of the Ohio Valley corporation (OVEC, Baa3 stable). In October 2014, OPCo filed a separate application with the PUCO to propose a new PPA for inclusion in the PPA rider, known as the expanded PPA which would include an additional 2,671 MW to be purchased from AEP Generation Resources (AGR, not rated) over the life of the respective generating units.

SUBSTANTIAL INVESTMENTS DUE TO ENVIRONMENTAL MANDATES AND REGUALTED INVESTMENTS IN T&D

AEP is still exposed to stringent environmental compliance requirements and has announced a capital investment program for 2014 through 2016 of approximately $11.7 billion. Approximately 96% of that amount will be spent in the regulated businesses as follows: generation $2.9 billion (25%), distribution $3.1 billion (27%), and transmission $5.2 billion (44%). Transmission and distribution (T&D) investments are expected to be recovered either through the transmission formula base rates or rate case activity, a credit positive.

AEP also has an important nuclear generation project underway at Indiana Michigan Power Company (I&M, Baa1, stable) to extend the life of the Cook nuclear plant. This project amounts to approximately $1.2 billion through 2018, excluding AFUDC. As of September 30, 2014, I&M has incurred costs of $492 million, including AFUDC. In July

2013 the Indiana Utility Regulatory Commission (IURC) approved recovery of all costs associated with this project with the exception of $23 million which I&M could seek recovery for in a subsequent base rate case. All approved costs will be recovered through an LCM rider which will be determined in semi-annual proceedings.

We estimate AEP's average projected total capital investments of $4.1 billion per year through 2016 is a slight increase compared to $3.7 billion in 2013, but a substantial increase from the $3.1 billion in 2012 and $2.7 billion in 2011. In the near term, environmental retrofits and transmission investments will be the largest drivers of the capital investments. We expect AEP will successfully obtain state-level and even federal-level extensions for Mercury and Air Toxics Standard (MATS) compliance, however if not successful the investment schedule may be accelerated and could stress intermediate term financial metrics.

FINANCIAL METRICS LOOK PRESSURED DUE TO HIGHER PARENT DEBT

AEP's cash flow financial metrics have been appropriate for the rating category. In 2012, the utility recorded a three-year average interest coverage ratio of 4.2x, CFO pre WC to debt of 18.3%, and total debt to capitalization of 48.2%; for 2013 key financial metrics were 4.6x, 19% and 46.3%, respectively; and for LTM Q3 2014 key financial metrics exhibited values of 4.8x, 19.5%, and 45.3%, respectively which are strong ratios compared to peers.

CFO pre WC has improved slightly to $4.13 billion for LTM Q3 2014, from approximately $4.08 billion in 2013, and $4.16 billion in 2012. Total adjusted debt has also increased slightly to $21.4 billion in LTM Q3 2014, from $21.2 billion in 2013, resulting in debt to book capitalization ratio of 43.9% as of LTM Q3 2014. We understand that the increase in parent debt will be refinanced at the utility affiliate levels in the near future, thus causing the percentage of parent debt to revert to historical levels (approximately 5%).

If it is indeed transitional, the increase in AEP holding company debt is not expected to have any implications for downward notching of AEP debt relative to its subsidiary ratings. However, if the parent company debt is higher than expected or it becomes evident that AGR's debt will be financed at the parent level (or based on parent support) on a permanent or quasi-permanent basis, AEP's ratings could become pressured. Especially given the increased share of unregulated generation and retail sales within AEP's overall business mix, which we currently see rising to around 25% of AEP's consolidated financial profile from historical of 11%.

Despite AEP's structural subordination relative to the debt of its subsidiaries, we do not notch AEP's rating down below the Baa1 senior unsecured rating that is assigned to the majority of its operating subsidiaries, based on the diversity and stability of subsidiaries' cash flows, in addition to the relatively acceptable debt level at the parent company of about 8% (around $1.3 billion) at year-end 2013.

AEP will likely continue to exhibit financial metrics within its rating category, such as an interest coverage ratio in the 4.5x-5.0x range, CFO pre WC to debt in the 15%-20% range, and debt to book capitalization in the 42%-47% range. Post-transition, AEP will need to produce financial metrics towards the higher end of its rating category range; however factors that could challenge AEP during this period include longer than anticipated regulatory lag to recover environmental and nuclear capex and on the unregulated side power prices materially lower than current forward curves (which would impact off-system sales that are expected to increase based on customer switching in Ohio).

Liquidity

AEP's liquidity is adequate. AEP has two syndicated credit facilities totaling $3.5 billion that were renewed and extended in February 2013. One is a $1.75 billion facility expiring June 2016, and the other is also a $1.75 billion facility expiring in July 2017 and both permit same-day borrowing and have a combined letter of credit sub-limit of $1.2 billion. AEP is not required to make a representation with respect to either material adverse change or material litigation in order to borrow under the facility. Default provisions exclude payment defaults and insolvency/bankruptcy of subsidiaries that are not significant subsidiaries per the SEC definition, however, based on the 2013 amendment AGR is effectively excluded as a significant subsidiary. The facilities contain a covenant requiring that AEP's consolidated debt to capitalization (as defined) not to exceed 67.5%. AEP states the actual ratio was 49.9% at 9/30/2014, indicating substantial headroom. In early November 2014, AEP will close a renewal and extension of both facilities for one year, with maturities of June 2017 and July 2018.

As of September 30, 2014, AEP had $194 million of cash on hand and approximately $2.9 billion of availability under its two syndicated revolving credit facilities after giving effect to $532 million of commercial paper outstanding and $76 million of issued letters of credit.

Including securitization bonds, put bonds and other amortizations, AEP has no debt maturities remaining in 2014 and about $1.8 billion in 2015. In June 2014 AEP increased its $700 million receivables securitization agreement to $750 million with an expiration of June 2016.

Over the next 24-months, Moody's estimates that AEP will generate roughly $4.0 billion annually in CFO Pre-WC, spend about $4.4 billion annually in capital investments, and pay about 1.1 billion in annual dividends. This will yield negative average free cash flow of average $1.5 billion per year, a credit negative that we think is unsustainable over the longer term horizon.

Rating Outlook

AEP's outlook is stable, reflecting its diversified regulatory jurisdictions and service territories, including expectations that those jurisdictions will remain supportive and not materially preventing recovery of prudently incurred costs. Also that AEP will exercise prudent financial management, leading to CFO pre WC to debt position close to the twenties appropriate for its regulated business mix.

What Could Change the Rating - Up

Ratings upgrades appear unlikely over the near term, primarily due to our view that the gradual change in business mix will impact the metrics threshold for maintaining its Baa1 unsecured rating. Nevertheless, ratings could be up for review, if AEP were successful in selling their unregulated operations and producing a stronger set of financial credit metrics on a sustainable basis, including interest coverage ratio above 4.5x and a ratio of CFO pre WC to debt above 22%.

What Could Change the Rating - Down

AEP's rating could be downgraded if a more contentious regulatory environment were to materialize in any key jurisdictions such as Ohio or the Appalachian region, impacting negatively material subsidiaries such as OPCo and/or APCo, or environmental and nuclear investments would not be recovered on a reasonably timely basis. All of which could result in weaker financial metrics or more volatile than expected through 2016, including a ratio CFO pre WC to debt in the mid-teens range and debt to book capitalization higher than 50%, on a sustainable basis.

Ratings could also be downgraded if concerns about structural subordination were heightened due to material additional permanent debt at the parent as percentage of total.

Rating Factors

American Electric Power Company, Inc.

Regulated Electric and Gas Utilities Industry Grid [1][2]	Current LTM 9/30/2014		[3]Moody's 12-18 Month Forward ViewAs of November 2014	
Factor 1 : Regulatory Framework (25%)	**Measure**	**Score**	**Measure**	**Score**
a) Legislative and Judicial Underpinnings of the Regulatory Framework	A	A	A	A
b) Consistency and Predictability of Regulation	Baa	Baa	Baa	Baa
Factor 2 : Ability to Recover Costs and Earn Returns (25%)				
a) Timeliness of Recovery of Operating and Capital Costs	Baa	Baa	Baa	Baa
b) Sufficiency of Rates and Returns	Baa	Baa	Baa	Baa
Factor 3 : Diversification (10%)				
a) Market Position	Baa	Baa	Baa	Baa
b) Generation and Fuel Diversity	Baa	Baa	Baa	Baa
Factor 4 : Financial Strength (40%)				
a) CFO pre-WC + Interest / Interest (3 Year Avg)	4.8x	A	4.5x-5.0x	A
b) CFO pre-WC / Debt (3 Year Avg)	19.5%	Baa	15%- 20%	Baa
c) CFO pre-WC - Dividends / Debt (3 Year	15.1%	Baa	10% - 15%	Baa

Avg)				
d) Debt / Capitalization (3 Year Avg)	45.3%	Baa	42% - 47%	Baa
Rating:				
Grid-Indicated Rating Before Notching Adjustment		Baa1		Baa1
HoldCo Structural Subordination Notching				
a) Indicated Rating from Grid		Baa1		Baa1
b) Actual Rating Assigned		Baa1		Baa1

[1] All ratios are based on 'Adjusted' financial data and incorporate Moody's Global Standard Adjustments for Non-Financial Corporations. [2] As of 9/30/2014(LTM); Source: Moody's Financial Metrics [3] This represents Moody's forward view; not the view of the issuer; and unless noted in the text, does not incorporate significant acquisitions and divestitures.

This publication does not announce a credit rating action. For any credit ratings referenced in this publication, please see the ratings tab on the issuer/entity page on http://www.moodys.com for the most updated credit rating action information and rating history.

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Credit Opinion: American Electric Power Company, Inc.

Global Credit Research - 14 Apr 2014

Columbus, Ohio, United States

Ratings

Category	Moody's Rating
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Key Indicators

[1]**American Electric Power Company, Inc.**

	12/31/2010	12/31/2011	12/31/2012	12/30/2013
CFO pre-WC + Interest / Interest	3.9x	4.3x	4.5x	5.0x
CFO pre-WC / Debt	17.1%	18.4%	19.5%	19.2%
CFO pre-WC - Dividends / Debt	13.1%	14.1%	15.2%	14.7%
Debt / Capitalization	50.2%	47.8%	46.6%	44.6%

[1] All ratios are based on 'Adjusted' financial data and incorporate Moody's Global Standard Adjustments for Non-Financial Corporations. Source: Moody's Financial Metrics

Note: For definitions of Moody's most common ratio terms please see the accompanying User's Guide.

Opinion

Rating Drivers

Diversity of regulatory jurisdictions and service territories provides strong foundation for current rating

Ohio Power's corporate separation completed

Substantial capex due to environmental mandates and regulated investments in transmission and distribution

Financial metrics look pressured due to higher parent debt and deregulated revenues

Corporate Profile

American Electric Power Company, Inc. (AEP, Baa1 stable), headquartered in Columbus, Ohio, is a large electric utility holding company with nine retail utility subsidiaries operating in eleven states representing approximately $24 billion rate base and serving about 5.3 million customers. The breakdown of megawatt hour (MWh) sales in 2013 was approximately 30% residential, 25% commercial, 28% industrial, 16% wholesale and 2% other. AEP owns or leases 37,600 megawatts (MW) of generating assets, 63% of which is coal/lignite fired.

SUMMARY RATING RATIONALE

AEP's Baa1 rating reflects the size and diversity of its regulatory jurisdictions and service territories, financial metrics that over the past several years have supported the rating, a consolidated financial profile that includes a moderate amount of parent holding company debt, and adequate liquidity. These positive factors are balanced against risks associated with the transition of Ohio's market into full competition by June 2015, an expectation for higher levels of parent debt, and a material increase in capital expenditures for mandated environmental requirements, including investments to extend the life of Cook nuclear plant, and regulated investments in transmission and distribution.

DETAILED RATING CONSIDERATIONS

DIVERSITY OF REGULATED CASH FLOWS AND SERVICE TERRITORY

AEP's electric utility operations are diversified in terms of regulatory jurisdictions (eleven states) and service territory economies. The largest states ranked by base rates are Ohio, Virginia, West Virginia, Texas, Indiana, and Oklahoma. These jurisdictions translate into diversity in revenues (by state and operating utility), cash flows, assets and customers. From a credit perspective, we view AEP's size and diversity as meaningful credit strengths, as they provide the parent company a degree of insulation from any unexpected negative development occurring at one of its companies, its state regulators or in one state's economy.

One benefit from the service territory diversity has been seen during the past two years of tepid recovery from the recession in the US. AEP's western service territories, with their greater leverage to the energy economy, have registered a much stronger recovery than those in the east, which have generally been more challenged due to Federal budget cuts, waning coal exports, and slow industrial growth that are placing strains on the Appalachian economies. Overall, AEP's retail sales volume in 2013 declined 1.6% across the board, and industrial sales declined 4.5%.

CONTINUED REGULATORY SUPPORT, TIMELY AND SUFFICIENT COST RECOVERIES NEEDED

AEP will need timely and consistent long-term credit regulatory support because it will be in front of several commissions in the next 12-18 months regarding, among them, the pending resolution of the transfer of Mitchell Plant to Wheeling Power Company (WPCo, not rated), plant retirements, recovery of significant capital expenditures and other related costs. AEP has secured some formula based rate cases during 2014 but more are needed.

In Oklahoma, a rate case was filed in January, requesting a $45 million increase in base rates based on a 10.5% ROE, and including riders for advanced metering costs and for transmission investments. In addition, AEP will be filing for rate increases in West Virginia and Kentucky in 2014. A significant component of those filings reflects the transfer of the Amos and Mitchell assets. In West Virginia, the filing is the result of a prior settlement on the expanded net energy charge (ENEC), and is expected to include Amos and potentially Mitchell in base rates filings. In Kentucky, rates can be implemented subject to a refund six-months after filing the case, expected no later than December 2014. In March, Appalachian Power Company (APCo, Baa1 stable) filed its biennial rate case in Virginia which included no increase in rates since APCO's rates are within the current earnings band.

We view the Ohio regulatory environment as reasonably supportive to credit quality. It has historically been AEP's most important jurisdiction. Ohio Power Company (OPCo Baa1, stable) is operating under ESP I (March 2009 to 2011) and ESP II (June 2012 to May 2015) which provide a reasonable suit of recovery mechanism and cash flow stability through the Ohio transition into a full competitive generation market by June 2015. Under the ESPs, there would be fuel deferral accrued balances of $445 million, and capacity deferral estimated at $463 million by the end of May 2015. OPCo also obtained approval from Public Utility Commission of Ohio (PUCO) to securitize $298 million of approved deferred distribution asset recovery rider costs. Some of the fuel and capacity deferrals related to these orders may also be securitized, since Ohio enacted securitization legislation in December 2011, a sign of positive political intervention. In December 2013, OPCo filed an application with the PUCO to approve a new ESP (ESP III) from June 2015 until May 2018 seeking a more prescriptive, transparent, and efficient ESP that includes full transition to auction based generation pricing beginning in June 2015.

OHIO POWER'S CORPORATE SEPARATION COMPLETED

On December 31, 2013, based on Federal Energy Regulatory Commission (FERC) and PUCO orders, OPCo transferred 11,650 MW of its generation assets and related liabilities, including pollution control bonds (PCRBs), at net book value to affiliate AEP Generation Resources Inc (AGR, not rated), thus becoming a fully regulated transmission and distribution utility (T&D).

As a result of the corporate separation, OPCo's net property plant and equipment (NPP&E) decreased from approximately $10 billion to $4.5 billion. OPCo redeemed approximately $1.6 billion of debt (in conjunction with the asset transfer), or roughly 40% of its total debt. Today, OPCO has about $2.7 billion of debt.

The corporate separation qualifies as a tax free acquisition of business under common control.

In 2013, OPCo also issued about $1.6 billion of debt to fund debt maturities, redeem PCRBs, and securitize distribution regulatory assets. As part of that issuance OPCo drew down a term loan facility of $1.0 billion due in May 2015 to execute the corporate separation. Subsequently OPCo assigned to affiliates AGR, APCo and Kentucky Power Company (KEPCo, Baa2 stable) intercompany notes related to that issuance.

The generation assets were transferred with the associated PCRBs which have also been allocated to the individual affiliates as follows: $86 million to APCo, $65 million to KPCo, and AGR assumed the obligations and rights to $721.2 million, of this amount $395.4 million are held in trust so when re-issued AGR will receive the proceeds.

In the case of APCo due to the transfer of 867 MW of Amos plant, NPP&E increased by $800 million, assumption of debt estimated at about $386 million, including assigned $300 million from AGR and $86 million PCRBs, at year-end 2013. There is also related deferred income taxes and other liabilities associated with the transfer. The difference between the assets and liabilities transferred is recorded as paid-in-capital of around $240 million.

The impact of the transfer of 780 MW Mitchell to KEPCo shows NPP&E increase of about $675million, plus the assumption of debt estimated at about $265 million, which includes $200 million assigned from AGR and $65MM PCRB -Mitchell note currently held in a trust, at year-end 2013. There is also related deferred income taxes and other liabilities associated with the transfer. The difference between the assets and liabilities transferred is recorded as paid-in-capital of around $375 million.

As of December 31, 2013, as part of the transfer AGR received NPP&E of approximately $5.6 billion, assumption of debt estimated at about $1.1 billion, including $211 million PCRBs and short-term debt of about $240 million. As in the case of APCo and KEPCo, it also received associated non-current liabilities (about $1.7 billion) and assets. AGR' fleet is now around 11,191 MW of which 2,523 MW will be retired by June 2015. AEP has announced that AGR would be capitalized with a combination of about 65%-70% equity and 35%-30% debt that is either borrowed by AEP and on-lent to AGR, or guaranteed by AEP.

AGR is housed by AEP Energy Supply LLC (not rated) the unregulated business arm of AEP, and operates within the PJM system and is required to offer all of its available generation to the PJM Reliability Pricing Model auction. Through May 2015, AGR will provide generation capacity to OPCo for switched and non-switched generation customers.

SUBSTANTIAL CAPEX DUE TO ENVIRONMENTAL MANDATES AND REGUALTED INVESTMENTS IN T&D

AEP is still exposed to stringent environmental compliance requirements. It has announced a capital investment program for 2014 through 2016 of approximately $10.6 billion, of which approximately 95% of that amount will be spent in the regulated businesses as follows: generation $2.8 billion (26.5%), distribution $3.3 billion (31.1%), and transmission $4.5 billion (42.4%). Transmission and distribution (T&D) investments are expected to be recovered either through the transmission formula base rates or rate case activity, a credit positive.

AEP's average projected total capex of $3.8 billion per year through 2016 is essentially flat compared to $3.7 billion in 2013, but a substantial increase from the $3.1 billion in 2012, and $2.7 billion in 2011. In the near term, environmental retrofits and transmission investments will be the largest drivers of the capital investments. We expect AEP will successfully obtain state-level and even federal-level extensions for Mercury and Air Toxics Standard (MATS) compliance. But if AEP is not successful, the investment schedule may be accelerated, which could stress intermediate term metrics.

AEP's 2014 environmental capex is expected to be allocated to regulated T&D around $2.65 billion and about $600 million in environmental mandates. Another important capex investment is at Indiana Michigan Power Company (I&M, Baa1, stable) to extend the life of the Cook nuclear plant. This amounts to approximately $1.2 billion through 2018, excluding AFUDC. As of December 2013, I&M has incurred costs of $380 million, including AFUDC. We expect that AEP's subsidiaries will be successful in obtaining reasonably timely recovery of capital and operating expenditures associated with environmental compliance and plant upgrades.

FINANCIAL METRICS LOOK PRESSURED DUE TO HIGHER PARENT DEBT AND DEREGUALTED REVENUES

As of year-end 2013, on a consolidated basis AEP reported long-term debt of $16.8 billion compared to $15.6 billion as of year-end 2012, before adjusting for unfunded pensions and operating leases. We understand that the increase in parent debt will be refinanced at the utility affiliate levels in the near future, thus causing the percentage of parent debt to revert to historical levels (approximately 5%). If it is indeed transitional, the increase in AEP holding company debt is not expected to have any implications for downward notching of AEP debt relative to its subsidiary ratings. However, if the parent company debt is higher than expected or it became evident that AGR's debt will be financed at the parent level (or based on parent support) on a permanent or quasi-permanent basis, AEP's ratings could become pressured. Especially given the increased share of unregulated generation and retail sales within AEP's overall business mix, which we currently see rising to around 25% of AEP's consolidated financial profile from historical of 11%.

As of year-end 2013, AEP's financial metrics, including the ratio of CFO Pre-WC plus interest / interest and the ratio of CFO Pre-WC to debt were 5.0x and 19% respectively compared to year-end 2012 of 4.5x and 19.5%. Adjusted Debt to book capitalization decreased by year-end to 44.6% compared to 46.6% at year-end 2012. AEP has announced capital investments and equity contribution through 2016 of around $3.8 billion a year and plan to maintain a dividend payout ratio at 60-70% to be in line with peers in the market. On a consolidated basis as of December 31, 2013, AEP generated approximately $4.3 billion in CFO pre-WC, made approximately $3.8 billion in capital investments, and paid $954 million in dividends, resulting in about $454 million of negative free cash flow.

Prospectively, AEP's metrics are likely to weaken between 2014 through 2018, as the interest coverage, CFO Pre-WC, and RFC to debt ratios average 4.5x, 16%, and 12.5% respectively. Still, these ratios are towards the lower end of the mid-Baa range.

Post-transition, AEP will need to produce financial metrics towards the higher end of its rating category range given the higher risk nature of its unregulated operations. Factors that could challenge AEP during this period include, among others, longer than anticipated regulatory lag to recover environmental and nuclear capex, adverse rulings from the Ohio Supreme Court on ESP's elements currently being reviewed and West Virginia's regulators concerning remaining 50% transfer of Mitchell to WPCo, and on the unregulated side power prices materially lower than current forward curves (which would impact off-system sales that are expected to increase based on customer switching in Ohio).

Despite AEP's structural subordination relative to the debt of its subsidiaries, we do not notch AEP's rating down below the Baa1 senior unsecured rating that is assigned to the majority of its operating subsidiaries, based on the diversity and stability of subsidiaries' cash flows, in addition to the relatively acceptable debt level at the parent company of about 8% (around $1.3 billion) at year-end 2013.

Liquidity

AEP's liquidity is adequate. AEP has two syndicated credit facilities totaling $3.5 billion that were renewed and extended in mid-2011. One is a $1.75 billion facility expiring June 2016, and the other is also a $1.75 billion facility (upsized from $1.5 billion) expiring in July 2017, permit same-day borrowing and have a combined letter of credit sub-limit of $1.2 billion. AEP is not required to make a representation with respect to either material adverse change or material litigation in order to borrow under the facility. Default provisions exclude payment defaults and insolvency/bankruptcy of subsidiaries that are not significant subsidiaries per the SEC definition, however, base on the new amendment AGR is effectively excluded as a significant subsidiary. The facilities contain a covenant requiring that AEP's consolidated debt to capitalization (as defined) not to exceed 67.5%. AEP states the actual ratio was 50.4% at 12/31/2013, indicating substantial headroom.

Including securitization bonds, put bonds and other amortizations, AEP has debt maturities of $1.4 billion in 2014, and about $2.7 billion in 2015. AEP amended its $700 million receivable securitization agreement to extend $385 million amount through June 2014, and remaining $315million through June 2015.

As of 12/31/2013, AEP had $118 million of cash on hand and approximately $3.4 billion of availability under its two syndicated revolving credit facilities after giving effect to $57 million of commercial paper outstanding and $170 million of issued letters of credit.

Over the next two years, Moody's estimates that AEP will generate roughly $4 billion annually in CFO Pre-WC, spend about $3.9 billion annually in capital investments, and pay about 1 billion in annual dividends. This will yield negative average free cash flow of average $900 million per year, a credit negative that we think is unsustainable over the longer term horizon.

Rating Outlook

The credit rating and stable outlook reflects AEP's diversified regulatory jurisdictions and service territory of its portfolio of utility subsidiaries. We believe AEP will continue to demonstrate a reasonable approach towards its financial policies through this period, particularly with respect to the transition in Ohio and expected environmental and nuclear spending, leading to CFO Pre-WC to debt that will be appropriate for its evolving business mix.

What Could Change the Rating - Up

Ratings upgrades appear unlikely over the near term, primarily due to our view that the gradual change in business mix will impact the metrics threshold for maintaining its Baa1 unsecured rating. Nevertheless, ratings could be upgraded, if AEP were successful in producing a stronger set of financial credit metrics on a sustainable basis, including a ratio of CFO Pre-WC plus interest of at least 5.0x, a ratio of CFO Pre-WC to debt above 22% average and debt to capitalization below 45%.

What Could Change the Rating - Down

AEP's rating could be downgraded if a more contentious regulatory environment were to materialize in any key jurisdictions; for instance, if regulatory decisions impacting any material subsidiary challenged our assumption that environmental and nuclear capex costs will be recovered on a reasonably timely basis. Ratings could also be downgraded if concerns about structural subordination were heightened due to material additional permanent debt at the parent as percentage of total, or if the ratings of its larger subsidiaries (which are mostly in the Baa1 rating) were downgraded. In addition, ratings could be downgraded if AEP's financial metrics were weaker or more volatile than expected through 2016, including a ratio CFO Pre-WC to debt in the mid-teens range and debt to book capitalization higher than 50%.

Rating Factors

American Electric Power Company, Inc.

Regulated Electric and Gas Utilities Industry Grid [1][2]	**Current 12/30/2013**		**[3]Moody's 12-18 Month Forward ViewAs of April 2014**	
Factor 1 : Regulatory Framework (25%)	**Measure**	**Score**	**Measure**	**Score**
a) Legislative and Judicial Underpinnings of the Regulatory Framework	A	A	A	A
b) Consistency and Predictability of Regulation	Baa	Baa	Baa	Baa
Factor 2 : Ability to Recover Costs and Earn Returns (25%)				
a) Timeliness of Recovery of Operating and Capital Costs	Baa	Baa	Baa	Baa

b) Sufficiency of Rates and Returns	Baa	Baa	Baa	Baa
Factor 3 : Diversification (10%)				
a) Market Position	Baa	Baa	Baa	Baa
b) Generation and Fuel Diversity	Baa	Baa	Baa	Baa
Factor 4 : Financial Strength (40%)				
a) CFO pre-WC + Interest / Interest (3 Year Avg)	4.6x	A	4.7x - 5x	Baa
b) CFO pre-WC / Debt (3 Year Avg)	19.0%	Baa	14% - 18%	Baa
c) CFO pre-WC - Dividends / Debt (3 Year Avg)	14.7%	Baa	10% - 12%	Baa
d) Debt / Capitalization (3 Year Avg)	46.3%	Baa	42% - 45%	Baa
Rating:				
Grid-Indicated Rating Before Notching Adjustment		Baa2		Baa3
HoldCo Structural Subordination Notching				
a) Indicated Rating from Grid		Baa2		Baa1
b) Actual Rating Assigned		Baa2		Baa1

[1] All ratios are based on 'Adjusted' financial data and incorporate Moody's Global Standard Adjustments for Non-Financial Corporations. [2] As of 12/30/2013(L); Source: Moody's Financial Metrics [3] This represents Moody's forward view; not the view of the issuer; and unless noted in the text, does not incorporate significant acquisitions and divestitures.

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MOODY'S
INVESTORS SERVICE

Credit Opinion: American Electric Power Company, Inc.

Global Credit Research - 17 Oct 2013

Columbus, Ohio, United States

Ratings

Category	Moody's Rating
Outlook	Stable
Senior Unsecured	Baa2
Jr Subordinate Shelf	(P)Baa3
Commercial Paper	P-2
AEP Texas North Company	
Outlook	Positive
Issuer Rating	Baa2
Appalachian Power Company	
Outlook	Stable
Issuer Rating	Baa2
Senior Unsecured	Baa2
Indiana Michigan Power Company	
Outlook	Stable
Issuer Rating	Baa2
Senior Unsecured	Baa2
Southwestern Electric Power Company	
Outlook	Positive
Issuer Rating	Baa3
Senior Unsecured	Baa3

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Key Indicators

[1]**American Electric Power Company, Inc.**

	LTM 6/30/2013	2012	2011	2010
(CFO Pre-W/C + Interest) / Interest Expense	4.4x	4.5x	4.3x	3.9x
(CFO Pre-W/C) / Debt	19%	19%	18%	17%
(CFO Pre-W/C - Dividends) / Debt	14%	15%	14%	13%
Debt / Book Capitalization	46%	47%	48%	50%

[1] All ratios calculated in accordance with the Global Regulated Electric Utilities Rating Methodology using Moody's standard adjustments.

Note: For definitions of Moody's most common ratio terms please see the accompanying User's Guide.

Opinion

Rating Drivers

Credit strength underpinned by portfolio of regulated utility businesses across multiple state regulatory jurisdictions

Financial ratios will be stressed over next two years, but adequate liquidity reserves sufficient to mitigate weakness

Ohio's deregulation initiatives elevates overall business risk, for at least a few more years

Heavy investment into FERC regulated transmission businesses will lower business risk profile longer term, a credit positive

Corporate Profile

American Electric Power Company, Inc. (AEP, Baa2 stable), headquartered in Columbus, Ohio, is a large electric utility holding company with rate-regulated utility subsidiaries operating in 11 states. AEP currently owns or leases approximately 38,000 megawatts (MW) of generating assets, primarily coal fired and provides electricity service to over 5 million customers. The breakdown of its 213,362 GWH hour sales in 2012 was approximately 28% residential, 24% commercial, 28% industrial, 20% wholesale and 1% other.

SUMMARY RATING RATIONALE

AEP's Baa2 senior unsecured rating reflects the size and diversity of its 10 rate-regulated electric utility subsidiaries operating across 11 different states and regulatory jurisdictions. Over the next few years, these regulated businesses will produce stable financial credit metrics, which include a ratio of cash flow to debt in the mid to high teen's range, debt to capitalization in the high 50% - low 60% range and a dividend payout ratio of less than 80%. In addition, AEP is also investing heavily in low risk electric transmission assets, which are regulated by the FERC, a material credit positive.

AEP's principal rating constraint is the execution risk associated with Ohio's electric deregulation initiatives, which directly impacts one of AEP's biggest subsidiaries, the vertically integrated electric utility, Ohio Power (Baa1 stable). Ohio Power will assume the role of being a transmission and distribution-only utility, which will increase AEP's revenues from T&D utilities to roughly 25% in 2015 from almost 10% in 2012. But these positive credit benefits will be overwhelmed by the risks associated with managing a small, regionally concentrated, coal-heavy generation fleet in the greater Marcellus-Utica regions in the western PJM market. The unregulated generation business is challenged because market conditions appear unfavorable for a sustained period of time.

AEP's utility subsidiaries are well positioned within their rating category, and are likely to be swept up in any large rating recalibrations associated with Moody's evolving view of regulatory supportiveness for the sector. But the risks related to the Ohio transition, and managing the unregulated generation business might prove sufficient for an exception at the holding company, in effect, widening the notching between the parent and its subsidiaries. On the other hand, it would be unlikely for Moody's to widen the typical notching between the parent and the sub with a mid-teen's ratio of total holding company debt as a percentage of total consolidated debt. As noted in our publish Request for Comment regarding this issue, any final rating implications would be a function of the rating committee process.

DETAILED RATING CONSIDERATIONS

SIZE AND DIVERSITY OF RATE REGULATED BUSINESSES IS A CREDIT POSITIVE

AEP has roughly $18 billion in regulated utility rate base, which is diversified across 11 state regulatory jurisdictions and service territory economies. Once the Ohio transition is fully resolved, AEP's rate base will be split approximately one-third T&D only and two-thirds vertically integrated plus a small but growing investment in FERC transmission assets. Combined, these businesses should generate almost $14 billion in revenue, $1.0 billion in net income and $3.0 billion in cash flow. If we assume the unregulated businesses generate no cash flow, and AEP's roughly $22 .0 billion of debt had to be serviced only by the regulated operations, the ratio of cash flow to debt would be about 14%. At this level, we think AEP has sufficient financial cushion to manage through any temporary financial volatility associated with the unregulated generation business over the next 3 to 5 years.

MAINTAINING THE FINANCIAL PROFILE IS KEY TO MAINTAINING RATINGS

AEP's key financial credit ratios should be somewhat stable and predictable over the next few years, in part due to the size of the regulated utility operations. On a consolidated AEP level, and including the unregulated businesses, we project AEP's revenues to grow at about 1.5% per year. If we also assume the average EBITDA margin can be defended in the low-30% range and CFO can stay near the $4.0 billion level, AEP's longer-term ratio of CFO to debt will remain in the mid-teen's range. But if we assume the unregulated businesses are ultimately divested or exited, then a mid-teen's ratio of CFO to debt might eventually be viewed as more appropriate at a higher rating, because the overall risk and financial volatility would have been removed or materially reduced.

OHIO COMPETITIVE GENERATION WILL DRIVE A CHANGE IN BUSINESS MIX AT THE PARENT

Ohio's decision to move all of the state's utilities to competitive generation by 2015 will change AEP's business mix, at least temporarily. Today, we think AEP's unregulated businesses - its generation as well as the river barge operations - represent about 20% of AEP's consolidated financial profile. Our split of the businesses indicates about 10% of AEP's consolidated revenues and capital expenditures are associated with the unregulated operations; with about 20% of EBITDA, CFO, debt, equity and assets.

For now, we view AEP's new unregulated merchant power company, AEP Generation Resources (AGR, not rated) as non-core, and will likely be divested over the next 3-5 years. We also view AEP as an experienced operator of generation assets, and we think AEP's board of directors can still remember the volatility that unregulated generation businesses can bring to a company's liquidity profile and going concern aspirations, if mismanaged. As a result, we think AEP will manage its unregulated generation business in a conservative manner, which in turn, makes them more valuable to a more aggressive peer.

Nevertheless, we do not see AEP's final transition in Ohio as representative of a material risk factor that rises to the level of being an outlier when compared to comparably rated peers, such as: Duke Energy (Baa1 stable, with about 15% unregulated); Dominion Resources (Baa2 stable, with about 30% unregulated); Southern Company (Baa1 stable, with about 15% unregulated) and Xcel Energy (Baa1 stable, with about 5% unregulated).

CONSTRUCTIVE REGULATORY OUTCOMES IN OHIO AFTER SOME BUMPS IN 2012

Ultimately, we think the regulatory framework for Ohio Power will be supportive over the long-term, and that Ohio Power will be authorized to recover its prudently incurred costs and investments in a timely manner, through a transparent rate making process and in relatively amenable and organized proceedings. After a somewhat bumpy ride over the last 12- 18 months, we think AEP, Ohio Power, the PUCO, its staff and major interveners are all in general agreement as to how the final leg of the deregulation initiatives will be implemented, and what that means for rates to consumers. As a result, we expect to see more efficient and timely regulatory proceedings for Ohio Power, a credit positive.

SUBSTANTIAL RETIREMENTS AND CAPEX DUE TO ENVIRONMENTAL MANDATES

AEP is still exposed to increasingly stringent environmental compliance costs. The company retired Conesville Unit 3 (165 MW) in late 2012 and has announced retirements of 5,476 MW of coal fired generation in 2013-2016, with the largest portion taking place at Ohio Power, Appalachian Power Company (APCo, Baa2 stable), and Kentucky Power Company (KPCO, Baa2 stable). The primary driver is the Mercury and Air Toxics Standard (MATS) - long-expected, with final rules announced in February 2012. AEP has announced that the plants will be retired by or during 2016, but we believe most of the retirements will occur in early 2015, unless they would cause capacity constraints.

AEP's projected total capex of $3.6 billion in 2013 and $3.8 billion in each of 2014 and 2015 represents a substantial increase over the $2.8 billion in 2011 and $3.1 billion in 2012. In the near term, environmental retrofits and transmission will be the largest drivers of the increase.

AEP's February 2013 forecast for environmental capital expenditure for MATS and other expected mandates is $4-5 billion from 2012-2020 (excluding an allowance for funds used during construction, or AFUDC), a $2-3 billion reduction from its previously published forecast, with all but about $770 million at the regulated subsidiaries. The primary driver to the reduction in environmental capex is the recently approved modification to AEP's October 2007 Consent Decree, a document mapping out the steps AEP will take to meet federally mandated emission standards. Under the modified Consent Decree, which the US District Court of the Southern District of Ohio approved in February 2013, AEP moved up the date of its emissions reductions at both its 1,300 MW Rockport units in exchange for the right to install dry sorbent injection (DSI) pollution control systems, rather than the previously approved, more costly, flue-gas desulfurization (FGD) system. Both DSI systems must be installed by April 2015, and can be used through 2025 for Unit 1 and 2028 for Unit 2. The modified Consent Decree also provides for the retirement or refueling of its 500 MW Tanners Creek Unit 4 (AEP will be retiring the plant), and the retrofit, retirement, repowering, or refueling of its 800 MW Big Sandy Unit 2 (AEP plans to retire the unit). Finally, AEP agreed to cease burning coal and retire or refuel its 585 MW Muskingum Unit 5 plant (AEP will be retiring the plant). All retrofits, retirements, repowering, and refueling listed above must be completed by the end of 2015.

The largest portion of AEP's environmental capex is expected to be spent at Southwestern Electric Power Company (Baa3 positive) and OPCo ($0.8 - 1.1 billion, before the separation). Of the $4-5 billion, AEP forecasts about $ 544 million in 2013 and $760 million in 2014, with the bulk of the remainder in 2015-2016. This schedule presumes that AEP will be successful in obtaining state-level and potentially even federal-level extensions for MATS compliance. If AEP is not successful, the schedule may be accelerated, which could stress intermediate term metrics.

The Donald C. Cook Nuclear Power Plant Life Cycle Management Project (LCM Project) was a condition to the NRC's extension of the two Cook units' licenses from 2014 and 2017, respectively, to 2034 and 2037, respectively. Current project cost estimates fall in the $1.2 billion range excluding AFUDC, to be spent through 2018 for various required capital upgrades. The Cook plant is owned by Indiana & Michigan Power (I&M, Baa2 stable). In the spring of 2012, I&M filed a petition with its regulators seeking approval for the LCM Project, for which the utility had spent $176 million as of 12/31/12. In July 2013, the IURC approved the project and I&M has filed its first rider. In January 2013, the Michigan regulator approved $850 million of costs to be deferred through 2018 (with a return on CWIP). The primary differences relative to the proposed budget were due to an approximately $140 million net reduction in the project contingency (additional costs above the contingency would require state regulatory approval) and a determination that approximately $180 million of 2011-2012 costs could not be included, as they were outside the six year statutory limit on approval to defer costs. Rate treatment to recover the 2011-2012 costs will be determined in a conventional rate case.

Overall, our projections for capex in the next several years have decreased slightly . We expect that AEP's subsidiaries will be successful in obtaining reasonably timely recovery for the capital and operating expenditures associated with environmental compliance and plant upgrades.

Based on all of these assumptions, total parent level debt could increase to $3.0 billion from $1.1 billion at 12/31/12 and to about 13% of consolidated debt from about 5% at 12/31/12. If AGR debt were subsequently refinanced on a stand-alone basis, parent level debt would decrease to $2.0 billion and about 8% of total. The increase in AEP holding company debt could have implications for notching relative to the average of its subsidiaries' ratings. If the parent company debt were higher than expected or it became evident that AGR debt will be financed at the parent level on a permanent basis, AEP's ratings could be pressured, especially given the increasing share of unregulated generation and retail sales in its overall business mix.

HOLDING COMPANY NOTCHING CONSIDERATIONS

Despite AEP's structural subordination relative to the debt of its subsidiaries, we do not notch AEP's rating down below the Baa2 senior unsecured rating that is assigned to the majority of its operating subsidiaries, based on the diversity and stability of those regulated subsidiaries' cash flows, in addition to the relatively modest debt level at the parent company. Structural subordination pressure on the rating could increase if parent level debt materially increased on a permanent basis or if there were downgrades at material subsidiaries. Conversely, rating upgrades at material subsidiaries would benefit credit positioning of AEP.

Liquidity

We consider AEP's liquidity to be adequate. AEP has two syndicated revolving credit facilities totaling $3.5 billion that were upsized and extended in February 2013. One is a $1.75 billion facility (upsized from $1.5 billion) expiring June 2016. The other is a $1.75 billion facility expiring in July 2017. The facilities permit same-day borrowing and have a combined letter of credit sub-limit of $1.35 billion. The facilities contain a covenant requiring that AEP's consolidated debt to capitalization (as defined) will not exceed 67.5%. As of 6/30/13, AEP was well within compliance, with an actual ratio of 51.6%. AEP is not required to make a representation with respect to either material adverse change or material litigation in order to borrow under the facility. Default provisions exclude payment defaults and insolvency/bankruptcy of subsidiaries that are not significant subsidiaries per the SEC definition (in general, this would exclude subsidiaries representing less than 10% of assets or income. The prior exclusion for AEP Texas Central and Southwestern Electric Power Company were eliminated, but AEP's unregulated generating company will also be excluded. Contemporaneous with the extension of the credit facilities, AEP also put in place a $1 billion delayed draw term loan facility due in May 2015, of which $800 million was undrawn at 6/30/13. In June 2012, AEP renewed its $700 million accounts receivable securitization (down from $750 million), of which only the $315 million multi-year portion is included as an available source in Moody's liquidity testing.

As of 6/30/13, AEP had $117 million of cash on hand and approximately $3.3 billion of availability under its two syndicated revolving credit facilities and term credit facility after giving effect to $850 million of commercial paper outstanding, $120 million of issued letters of credit, and a $200 million drawing on the term bank facility .

On a consolidated basis for the 12 months ended 6/30/13, AEP generated approximately $3.9 billion in cash from operations, made approximately $3.6 billion in capital investments and net asset purchases and paid about $927 million in dividends, resulting in roughly $63 million of negative free cash flow. Including securitization bonds, put-able bonds and other amortizations, AEP has debt maturities of approximately $1.79 billion in 2013, and $995 million in 2014 . Over the next two years, we estimate that AEP will generate roughly $4.1 billion annually in cash from operations, spend about $3.8 billion annually in capital expenditures and pay approximately $925-950 million in dividends annually, yielding negative free cash flow of about $650 million per year. We expect the shortfall to be funded primarily with term loan drawings and debt issuances at the various operating subsidiaries.

Rating Outlook

The stable rating outlook reflects the solid credit profiles of AEP's diverse portfolio of regulated electric utility operating subsidiaries. We believe AEP will continue to demonstrate a reasonably conservative approach towards its financial policies through this period, particularly with respect to the transition in Ohio and expected environmental and nuclear spending, leading to cash flow generation in relation to debt that will be appropriate for its evolving business mix.

AEP's utility subsidiaries are well positioned within their rating category, and are likely to be swept up in any large rating recalibrations associated with Moody's evolving view of regulatory supportiveness for the sector. But the risks related to the Ohio transition, and managing the unregulated generation business might prove sufficient for an exception at the holding company, in effect, widening the notching between the parent and its subsidiaries. On the other hand, it would be unlikely for Moody's to widen the typical notching between the parent and the sub with a mid-teen's ratio of total holding company debt as a percentage of total consolidated debt. As noted in our publish Request for Comment regarding this issue, any final rating implications would be a function of the rating committee process.

What Could Change the Rating - Up

Ratings upgrades could occur if there were ratings upgrades at AEP's larger operating utilities; if the company were to materially lower its overall business risk profile, perhaps through an exit of its non-core, unregulated businesses and/or AEP were successful in producing a stronger set of key financial credit metrics on a sustainable basis, including a ratio of CFO Pre-WC plus interest of at least 4.5x, a ratio of CFO Pre-WC to debt in the low 20% range and debt to capitalization of around 45%, AEP's rating could be upgraded.

What Could Change the Rating - Down

AEP's rating could be downgraded if a more contentious regulatory or political environment were to materialize in either Ohio or other important jurisdictions, such as Virginia; for instance, if regulatory decisions for any material subsidiary challenged our assumption that environmental and nuclear capex costs will be recovered on a reasonably timely basis. Ratings could also be downgraded if concerns about structural subordination were heightened due to material additional permanent debt at the parent as a percentage of total, or if the ratings of its larger subsidiaries (which are mostly in the Baa2/Baa1 range) were downgraded. In addition, ratings could be downgraded if AEP's financial metrics were weaker or more volatile than expected during the transition period, including a ratio CFO Pre-WC to debt in the low teens range.

Rating Factors

American Electric Power Company, Inc.

Regulated Electric and Gas Utilities Industry [1][2]	**6/30/2013**		**Moody's 12-18 month Forward View* As of October 2013**

	Measure	Score	Measure	Score
Factor 1: Regulatory Framework (25%)	Measure	Score	Measure	Score
a) Regulatory Framework		Baa		Baa
Factor 2: Ability To Recover Costs And Earn Returns (25%)				
a) Ability To Recover Costs And Earn Returns		Baa		Baa
Factor 3: Diversification (10%)				
a) Market Position (5%)		A		A
b) Generation and Fuel Diversity (5%)		B		B
Factor 4: Financial Strength, Liquidity And Key Financial Metrics (40%)				
a) Liquidity (10%)		Baa		Baa
b) CFO pre-WC + Interest/ Interest (3 Year Avg) (7.5%)	4.5x	Baa	4.0 - 4.3x	Baa
c) CFO pre-WC / Debt (3 Year Avg) (7.5%)	19%	Baa	15 - 18%	Baa
d) CFO pre-WC - Dividends / Debt (3 Year Avg) (7.5%)	15%	Baa	11 - 14%	Baa
e) Debt/Capitalization (3 Year Avg) (7.5%)	48%	Baa	45 - 49%	Baa
Rating:				
a) Indicated Rating from Grid		Baa2		Baa2
b) Actual Rating Assigned		Baa2		Baa2

* THIS REPRESENTS MOODY'S FORWARD VIEW; NOT THE VIEW OF THE ISSUER; AND UNLESS NOTED IN THE TEXT DOES NOT INCORPORATE SIGNIFICANT ACQUISITIONS OR DIVESTITURES

[1] All ratios are calculated using Moody's Standard Adjustments. [2] As of 6/30/13; Source: Moody's Financial Metrics

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Credit Opinion: American Electric Power Company, Inc.

Global Credit Research - 17 Apr 2013

Columbus, Ohio, United States

Ratings

Category	Moody's Rating
Outlook	Stable
Senior Unsecured	Baa2
Jr Subordinate Shelf	(P)Baa3
Commercial Paper	P-2
AEP Texas North Company	
Outlook	Stable
Issuer Rating	Baa2
Appalachian Power Company	
Outlook	Stable
Issuer Rating	Baa2
Senior Unsecured	Baa2
Indiana Michigan Power Company	
Outlook	Stable
Issuer Rating	Baa2
Senior Unsecured	Baa2
Southwestern Electric Power Company	
Outlook	Stable
Issuer Rating	Baa3
Senior Unsecured	Baa3

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Key Indicators

[1]American Electric Power Company, Inc.

	2012	2011	2010	2009
(CFO Pre-W/C + Interest) / Interest Expense	4.5x	4.3x	3.9x	4.0x
(CFO Pre-W/C) / Debt	19%	18%	17%	18%
(CFO Pre-W/C - Dividends) / Debt	15%	14%	13%	14%
Debt / Book Capitalization	47%	48%	50%	53%

[1] All ratios calculated in accordance with the Global Regulated Electric Utilities Rating Methodology using Moody's standard adjustments.

Note: For definitions of Moody's most common ratio terms please see the accompanying User's Guide.

Opinion

Rating Drivers

Two significant transitions - environmental compliance and Ohio restructuring

Ohio orders provide reasonable cash flow stability in a multi-year transition

Diversity of regulatory environments and service territories provides strong foundation to investment grade credit rating

Financial metrics currently appropriate but could be pressured with a higher percentage of deregulated revenues

Near-term liquidity profile appears adequate

Corporate Profile

American Electric Power Company, Inc. (AEP, Baa2 senior unsecured, stable outlook), headquartered in Columbus, Ohio, is a large electric utility holding company with rate-regulated utility subsidiaries operating in 11 states. AEP owns or leases approximately 38,000 megawatts (MW) of generating assets, primarily coal fired. The breakdown of megawatt hour (MWh) sales in 2012 was approximately 27% residential, 24% commercial, 28% industrial, 20% wholesale (with a substantial portion under cost-based long-term contracts) and 1% other .

SUMMARY RATING RATIONALE

AEP's Baa2 senior unsecured rating is based on the size and diversity associated with owning and operating 10 rate-regulated electric utilities across 11 states, financial metrics that over the past several years have supported the rating, a consolidated financial profile that is balanced and includes a very moderate amount of parent holding company debt, and adequate liquidity. These positive factors are balanced against risks associated with a transition to deregulated generation in Ohio by June 2015, an expectation of higher levels of parent level debt on a transitional basis, a change in business mix that will increase the financial metrics threshold for the current rating over time, and material increases in capital expenditures to meet environmental mandates and extend the life of the Cook nuclear plant.

DETAILED RATING CONSIDERATIONS

OHIO COMPETITIVE GENERATION WILL DRIVE A CHANGE IN BUSINESS MIX AT THE PARENT

Ohio's decision to move all of the state's utilities to competitive generation by the middle of the current decade will change AEP's business mix. AEP has estimated that the assets of its unregulated businesses will increase from 5% of total to about 14% after the Ohio transition is complete. We believe the range of cash flow from unregulated operations could be in the 13-18% range. While this percentage is not out of line with AEP's peers, those companies have mostly been taking steps to decrease their unregulated businesses, and the differential between the ratings of their holding company debt and the average rating of their utility operating company debt is higher than for AEP.

In 2012, AEP's separately reporting regulated subsidiaries represented 92.3% of its consolidated gross margin. The remaining 7.7% is primarily from AEP's unregulated river barge operations, its rapidly growing regulated transmission business under AEP Transmission Holding Company, LLC, its unregulated retail energy business (small but growing, especially within Ohio), and a currently very small unregulated generation portfolio that will grow with the expected transition of approximately 8,900 MW of capacity to unregulated status in 2015 .

It is our expectation that, post-transition, growth investments at AEP will be mostly in regulated businesses, and that the regulated percentage of the business mix will increase over time.

CONSTRUCTIVE REGULATORY OUTCOMES IN OHIO AFTER SOME BUMPS IN 2012

Ohio has historically been AEP's most important jurisdiction, and Ohio Power Company (OPCo, senior unsecured Baa1, stable) represented almost 30% of AEP's consolidated gross margin in 2012. Although the regulatory process included a period of uncertainty after a previously approved Electric Security Plan (ESP) for 2012 to mid-2015 was reversed, OPCo received four orders from the Public Utilities Commission of Ohio (PUCO) that should provide reasonable stability of cash flows during a transition to full competitive generation by June 2015. The new orders, some of which have been appealed to the Supreme Court of Ohio, addressed OPCo's capacity charges and fuel deferrals accrued under the prior ESP. PUCO also approved a new ESP, including cost of service for June 2012 through May 2015, that eliminated some barriers for customers to switch electric suppliers that had been a point of contention in the prior, reversed ESP. PUCO also approved OPCo's requested plan for corporate separation and the transfer of capacity to affiliates. Some of the deferrals related to these orders may be securitized - Ohio enacted securitization legislation in December 2011.

The July 2012 capacity order set a price of about $189 per megawatt per day (MW-day) for the capacity that OPCo maintains for customers who switch suppliers during the transition period. Competitive retail electric suppliers (CRES providers) will pay AEP the adjusted PJM auction-based rate, and the difference between what is received (from CRES providers and from a rate mechanism in the new ESP described below) and what is accrued will create a capacity deferral asset that is to be recovered in rates after June 2015 over a three year period or as determined by PUCO at the time of the related filing.

Under the new ESP, approved in August 2012, OPCo's rates for providing its portion of Standard Service will be based on a frozen non-fuel generation charge and a fuel adjustment clause reflecting actual costs. OPCo will procure an increasing percentage of Standard Service energy through a competitive bid, and Standard Service will be fully competitive (energy and capacity) by June 2015. The new ESP provides additional cash to OPCo via a Retail Stability Rider (RSR) - a charge on each MWh delivered (regardless of supplier), equal to approximately $190 million per year. Of this charge, OPCo will apply approximately $47 million per year towards reducing the capacity deferral. The remainder of the RSR will be transferred to AEP's new competitive generation subsidiary. As part of the new ESP , PUCO determined that corporate separation into an Ohio wires company (OPCo will retain that business) and a competitive generation company is in the public interest. Among other things, this separation is based on PUCO's understanding that plants will be transferred at book value.

We have historically viewed the Ohio regulatory environment as reasonably supportive, leading to a Factor 1 scoring in the Baa range for OPCo. Events surrounding PUCO's February 2012 revocation of a December 2011 order approving an ESP-related Stipulation Agreement had caused concerns that OPCo's regulatory framework might be heading toward less consistency and greater unpredictability, that PUCO might want to "reserve" market capacity for use in Ohio, and that communication between the utility and regulator was sub-optimal at a time when many sensitive decisions needed to be made regarding the transition to market. The orders in the second half of 2012 have alleviated many of these concerns and appear to give OPCo and AEP a reasonable transition period to market-based generation in Ohio. During the transition, it will be important to see that OPCo is continuing on its expected path of lower business and regulatory risk, since its metrics will weaken.

SUBSTANTIAL RETIREMENTS AND CAPEX DUE TO ENVIRONMENTAL MANDATES AND SIZABLE LIFE CYCLE MANAGEMENT PROJECT AT NUCLEAR PLANT

AEP retired Conesville Unit 3 (165 MW) in late 2012 and has announced retirements of 5,476 MW of coal fired generation (14% of total capacity) in 2013-2016, with the largest portion taking place at Ohio Power Company (OPCo, Baa1 senior unsecured, stable outlook, about 1,923 MW), Appalachian Power Company (APCo, Baa2 senior unsecured, stable outlook, about 1,270 MW), and Kentucky Power Company (KPCO, Baa2 senior unsecured, stable outlook, about 800 MW) . The primary driver is the Mercury and Air Toxics Standard (MATS) - long-expected, with final rules announced in February 2012. AEP has announced that the plants will be retired by or during 2016, but we believe most of the retirements will occur in early 2015, unless they would cause local/regional capacity constraints.

AEP's projected total capex of $3.6 billion in 2013 and $3.8 billion in each of 2014 and 2015 represents a substantial increase over unadjusted capex of $2.8 billion in 2011 and $3.1 billion in 2012. In the near term, environmental retrofits and transmission will be the largest drivers of the increase.

AEP's February 2013 forecast for environmental capital expenditure for MATS and other expected mandates is $4-5 billion from 2013-2020 (excluding allowance for funds used during construction, or AFUDC), a $2-3 billion reduction from its previously published forecast, with all but about $770 million at the regulated subsidiaries. The primary driver to the reduction in environmental capex is the recently approved modification to AEP's October 2007 Consent Decree, a document mapping out the steps AEP will take to meet federally mandated emission standards. Under the modified Consent Decree, which the U.S. District Court of the Southern District of Ohio approved in February 2013, AEP moved up the date of its emissions reductions at both its 1,300 MW Rockport units in exchange for the right to install dry sorbent injection (DSI) pollution control systems, rather than the previously approved, more costly, flue-gas desulfurization (FGD) system. Both DSI systems must be installed by April 2015, and can be used through 2025 for Unit 1 and 2028 for Unit 2. The modified Consent Decree also provides for the retirement or refueling of its 500 MW Tanners Creek Unit 4, and the retrofit, retirement, repowering, or refueling of its 800 MW Big Sandy Unit 2 (AEP plans to retire the unit). Finally, AEP agreed to cease burning coal and retire or refuel its 585 MW Muskingum Unit 5 plant. All retrofits, retirements, repowering, and refueling listed above must be completed by the end of 2015.

The largest portion of AEP's environmental capex is expected to be spent at Southwestern Electric Power Company (Baa3, stable outlook, $1.4 - 1.8 billion) and OPCo ($0.8 - 1.1 billion) . Of the $4-5 billion, AEP forecasts about $ 544 million in 2013 and $760 million in 2014, with the bulk of the remainder in 2015-2016. This schedule presumes that AEP will be successful in obtaining state-level and potentially even federal-level extensions for MATS compliance. If AEP is not successful, the schedule may be accelerated, which could stress intermediate term metrics.

The Donald C. Cook Nuclear Power Plant Life Cycle Management Project (LCM Project) was a condition to the NRC's extension of the two Cook units' licenses from 2014 and 2017, respectively, to 2034 and 2037, respectively. Current project cost estimates fall in the $1.2 billion range excluding AFUDC, to be spent through 2018 for various required capital upgrades. The Cook plant is owned by Indiana & Michigan Power (I&M, senior unsecured Baa2, stable). In the spring of 2012, I&M filed a petition with its regulators seeking approval for the LCM Project, for which the utility had spent $176 million as of 12/31/12. Once approved, I&M expects to recover the Indiana portion of these costs through a rider. In January 2013, the Michigan regulator approved $850 million of costs to be deferred through 2018 (with a return on CWIP). The primary differences relative to the proposed budget were due to an approximately $140 million net reduction in the project contingency (additional costs above the contingency would require state regulatory approval) and a determination that approximately $180 million of 2011-2012 costs could not be included, as they were outside the six year statutory limit on approval to defer costs. Rate treatment to recover the 2011-2012 costs will be determined in a conventional rate case.

Overall, we have decreased our projections for AEP's capex over the next several years. We expect that AEP's subsidiaries will be successful in obtaining reasonably timely recovery for the capital and operating expenditures associated with environmental compliance and plant upgrades.

DIVERSITY OF RATE REGULATED CASH FLOWS

AEP's electric utility operations are diversified in terms of regulatory jurisdictions (11 states) and service territory economies. The eastern utilities are a bit more than twice as large as the western utilities in terms of gross margin contribution. The largest states ranked by utility gross margin are Ohio, Indiana, Texas, Virginia, West Virginia, Indiana, and Oklahoma. These jurisdictions translate into quite good diversity in revenues (by state and operating utility), cash flows, assets and customers. From a credit perspective, we view AEP's size and diversity as meaningful credit strengths, as they provide the parent company a degree of insulation from any unexpected negative development occurring at one of its companies, with one of its state regulators or in one state's economy. During the past two years of tepid recovery from the recession in the US, AEP's western service territories, with their greater leverage to the energy economy, have registered a much stronger recovery than those in the east, which have generally been more challenged. Overall, AEP's (non-normalized) KWh sales fell 1.1% in 2012, after increasing 4.9% in 2011 and 5.3% in 2010 but falling 11.2% in 2009. Retail sales in 2012 declined across the board, with residential sales registering the steepest decline (4.3%), due to milder weather and conservation.

In light of the asset transfers and substantial planned capex, continued regulatory support will be important to AEP's rating.

PARENT LEVEL DEBT WILL INCREASE IN THE INTERMEDIATE TERM

OPCo's corporate separation and divestiture plan, which was approved by PUCO on 10/17/12, includes the transfer of certain units at the Amos and Mitchell coal fired plants totaling 2,400 MW to utility affiliates APCo and KPCo at net book value (approximately $2 billion). The remainder of OPCo's generation assets will be transferred at book value (approximately $3.1 billion of capitalization net of deferred taxes and certain items) to AEP's new unregulated subsidiary, AEP Generation Resources Inc (AGR). Initially, AGR is expected to be capitalized with a combination of about 60-65% equity and 35-40% debt that is either guaranteed by AEP or borrowed by AEP and on-lent to AGR. After these transactions, AEP on a stand-alone basis will have about $1.1 billion of additional parent level debt . Parent debt will increase to about $2.2 billion from $1.1 billion at 12/31/12 and to about 10% of consolidated debt from about 5% at 12/31/12.

Debt at the parent could be higher if the transfer of the Amos and Mitchell plants were not approved, although this is not our current expectation. APCo and KPCo have made filings at their respective state commissions and at FERC requesting permission to purchase the Amos and Mitchell assets at book value. State commission hearings are scheduled for May through mid-July while FERC hearings are expected for later in the year. We expect that those hearings will include a robust discussion of whether book value is the appropriate price for the capacity that APCO and KPCO will acquire. AEP's goal is to have all necessary approvals in place in time to effectuate the asset transfers on 12/31/13. APCo and KPCo are both short of capacity and are located in coal-friendly states -

Virginia, West Virginia and Kentucky. If the assets were not transferred to APCO and KPCO, they would remain at AGR, in which case we estimate that there would be an additional $1 billion of debt at the parent or guaranteed by the parent. Under this scenario, total parent level debt could increase to about $3.0 billion and to about 15% of consolidated debt.

It is our understanding that the expected increase in parent debt will be an interim financing solution that will be refinanced at AGR on a stand-alone basis in the near-to-intermediate term, causing the percentage of parent to total debt to revert to around 5%. If it is indeed transitional, the increase in AEP holding company debt is not expected to have implications for downward notching of AEP debt relative to the average of its subsidiaries' ratings. However, if the parent company debt is higher than expected or it became evident that AGR debt will be financed at the parent level (or based on parent support) on a permanent or quasi-permanent basis, AEP's ratings could be pressured, especially given the increased share of unregulated generation and retail sales in its overall business mix.

MAINTAINING THE FINANCIAL PROFILE IS KEY TO MAINTAINING RATINGS

AEP's financial metrics in 2009 through 2012 were significantly higher than those registered in 2007-2008. The ratio of CFO Pre-WC plus interest to interest and the ratio of CFO Pre-WC to debt improved from 3.4x and 13.5%, respectively, in 2008 to 3.9x and 17.1%, respectively in 2010, 4.3x and 18.4%, respectively in 2011, and 4.5x and 19.5%, respectively for 12/31/12. Recent cash flow metrics are robust for the rating category (CFO Pre-WC to debt for a mid-Baa utility typically ranges from 16-19%), but some of this improvement can be attributed to utilization of bonus depreciation. Debt/Capitalization also decreased to 46.6% at 12/31/12 from 58.1% at 12/31/08, due in part to a total of $2.0 billion in equity issuances in 2009-2012. Prospectively, AEP's metrics are likely to weaken toward the lower end of the mid-Baa range in the near term with the expiration of bonus depreciation and a plan to increase the dividend payout ratio to 60-70% from 50-60% over time. Post-transition, AEP will need to demonstrate metrics that are toward the higher end of its rating category given the impact of an expansion of its unregulated merchant operations on its overall business profile. Factors that could challenge AEP during this period include adverse rulings from the Ohio Supreme Court on elements of the new ESP currently being reviewed by the court, adverse rulings from state regulators concerning the transfer of the Amos and Mitchell plants, higher than anticipated regulatory lag in the recovery of environmental and nuclear capex or in other rate matters, and power prices materially lower than current forward curves (which would impact off-system sales that are expected to increase based on customer switching in Ohio).

HOLDING COMPANY NOTCHING CONSIDERATIONS

Despite AEP's structural subordination relative to the debt of its subsidiaries, we do not notch AEP's rating down below the Baa2 senior unsecured rating that is assigned to the majority of its operating subsidiaries, based on the diversity and stability of those subsidiaries' cash flows, in addition to the relatively modest debt level at the parent company (about 5% at 12/31/12). Structural subordination pressure on the rating could increase if parent level debt materially increased on a permanent basis or if there were downgrades at material subsidiaries. Conversely, rating upgrades at material subsidiaries would benefit credit positioning of AEP.

Liquidity

We consider AEP's liquidity to be adequate based on its two syndicated revolving credit facilities totaling $3.5 billion that were upsized and extended in January 2013. The first revolver is a $1.75 billion facility (upsized from $1.5 billion) expiring June 2016, and the other is a $1.75 billion facility expiring in July 2017. Both revolving facilities permit same-day borrowing and have a combined letter of credit sub-limit of $1.35 billion. They contain a covenant requiring that AEP's consolidated debt to capitalization (as defined) will not exceed 67.5% (AEP states it is in compliance with the covenant as of 12/31/12). AEP is not required to make a representation with respect to either material adverse change or material litigation in order to borrow under the facility. Default provisions exclude payment defaults and insolvency/bankruptcy of subsidiaries that are not significant subsidiaries per the SEC definition (in general, this would exclude subsidiaries representing less than 10% of assets or income, but AEP Texas Central and Southwestern Electric Power Company are also effectively excluded as significant subsidiaries due to definitional adjustments in the credit facilities). Also in January 2013, AEP put into place a $1 billion delayed draw term loan facility due in May 2015, and the full amount of this facility remains undrawn. AEP has stated that the purpose of the facility is to fund certain maturities at OPCo during the transition to competitive generation. In June 2012, AEP renewed its $700 million accounts receivable securitization (down from $750 million), of which only the $315 million multi-year portion is included as an available source in Moody's liquidity testing.

As of 12/31/12, AEP had $279 million of cash on hand and approximately $2.8 billion of availability under its two syndicated revolving credit facilities after giving effect to $321 million of commercial paper outstanding and $131 million of issued letters of credit .

On a consolidated basis for the 12 months ended 12/31/12, AEP generated approximately $4.1 billion in cash from operations, made approximately $3.0 billion in capital investments and net asset purchases and paid about $916 million in dividends, resulting in roughly $180 million of positive free cash flow . Including securitization bonds, put-able bonds and other amortizations, AEP has debt maturities of approximately $1.79 billion in 2013, and $995 million in 2014 . Over the next two years, we estimate that AEP will generate roughly $4.1 billion annually in cash from operations, spend about $3.9 billion annually in capital expenditures and pay approximately $925-950 million in dividends annually, yielding negative free cash flow of about $750 million per year.

Rating Outlook

The stable rating outlook reflects the good credit profiles of AEP's diverse portfolio of electric utility operating subsidiaries. We believe AEP will continue to demonstrate a reasonably conservative approach towards its financial policies through this period, particularly with respect to the transition in Ohio and expected environmental and nuclear spending, leading to cash flow generation in relation to debt that will be appropriate for its evolving business mix.

What Could Change the Rating - Up

Ratings upgrades appear unlikely over the near term, primarily due to our view that the gradual change in business mix will ratchet upwards the metrics threshold for maintaining the Baa2 unsecured rating. Nevertheless, if there were ratings upgrades at AEP's larger operating utilities and/or AEP were successful in producing a stronger set of key financial credit metrics on a sustainable basis, including a ratio of CFO Pre-WC plus interest of at least 4.5x, a ratio of CFO Pre-WC to debt in the low 20% range and debt to capitalization of around 45%,ratings could be upgraded.

What Could Change the Rating - Down

AEP's rating could be downgraded if a more contentious regulatory / political environment were to materialize in Ohio or other important jurisdictions; for instance, if regulatory decisions for any material subsidiary challenged our assumption that environmental and nuclear capex costs will be recovered on a reasonably timely basis. Ratings could also be downgraded if concerns about structural subordination were heightened due to material additional permanent debt at the parent as percentage of total, or if the ratings of its larger subsidiaries (which are mostly in the Baa2/Baa1 range) were downgraded. In addition, ratings could be downgraded if AEP's financial metrics were weaker or more volatile than expected during the transition period, including a ratio CFO Pre-WC to debt in the low teens range.

Rating Factors

American Electric Power Company, Inc.

Regulated Electric and Gas Utilities Industry [1][2]	**Current 12/31/2012**		**Moody's 12-18 month Forward View* As of April 2013**	
Factor 1: Regulatory Framework (25%)	**Measure**	**Score**	**Measure**	**Score**
a) Regulatory Framework		Baa		Baa
Factor 2: Ability To Recover Costs And Earn Returns (25%)				
a) Ability To Recover Costs And Earn Returns		Baa		Baa
Factor 3: Diversification (10%)				
a) Market Position (5%)		A		A
b) Generation and Fuel Diversity (5%)		B		B
Factor 4: Financial Strength, Liquidity And Key Financial Metrics (40%)				

a) Liquidity (10%)		Baa		Baa
b) CFO pre-WC + Interest/ Interest (3 Year Avg) (7.5%)	4.2x	Baa	3.9 - 4.3x	Baa
c) CFO pre-WC / Debt (3 Year Avg) (7.5%)	18%	Baa	15 - 18%	Baa
d) CFO pre-WC - Dividends / Debt (3 Year Avg) (7.5%)	14%	Baa	11 - 14%	Baa
e) Debt/Capitalization (3 Year Avg) (7.5%)	48%	Baa	45 - 49%	Baa
Rating:				
a) Indicated Rating from Grid		Baa2		Baa2
b) Actual Rating Assigned		Baa2		Baa2

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[1] All ratios are calculated using Moody's Standard Adjustments. [2] As of 12/31/12; Source: Moody's Financial Metrics

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