FitchRatings

Corporates

Electric-Corporate / U.S.A.

American Electric Power Company, Inc.

Full Rating Report

Ratings

Long-Term IDR	BBB
Senior Unsecured	BBB
Short-Term IDR	F2
Commercial Paper	F2

IDR – Issuer Default Rating.

Rating Outlook

Negative

Financial Data

American Electric Power Company, Inc.

($ Mil.)	12/31/12	12/31/11
Revenue	14,638	14,858
EBITDA	4,777	4,661
FCF	(419)	(108)
Total Adjusted Debt	19,225	19,222
FFO	3,571	3,086
Capex	3,025	2,767
FFO/Debt (%)	18.57	16.05
EBITDA/Interest (x)	4.23	4.36

Related Research

Fitch Affirms AEP & Units; Outlook Negative for AEP, Kentucky Power, & Ohio Power Company (February 2013)

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Key Rating Drivers

Increased Business Risk Profile: American Electric Power Company, Inc.'s (AEP) risk profile will increase with the pending transfer of approximately 8,900 MW of generating capacity from its Ohio-based regulated subsidiary Ohio Power Company (OPCO, BBB+/Negative) to a higher risk competitive merchant generation status. Power prices are unlikely to recover over the intermediate term and AEP will likely earn lower profits after the end of the transition period.

Credit Metrics Pressured: Fitch Ratings expects 2015 FFO-based leverage and interest coverage ratio to be around 15% and 3.5x, respectively — levels modestly below Fitch's guidelines for the 'BBB' Issuer Default Rating (IDR). In the post-2015 restructuring period, Fitch expects some improvement as the transition process is complete. In addition, the corporate separation alters AEP's capital structure as debt at OPCO is replaced with debt issued at the parent or a nonregulated subsidiary, and will likely require greater liquidity support to more intensively hedged volume and commodity risk.

Supporting Merchant Generating Business: AEP will need to financially support its new independent power generation business by providing cash collateral for its electricity trading and fuel needs and selling its output through long-term sale agreements and in PJM-operated wholesale electricity market. Fitch expects low electricity prices in the PJM, at least over the rating horizon. AEP plans to keep low debt at the new venture, which has higher risk profile due to the merchant nature of the business and lack of long-term power sale contracts, resulting in exposure to the volatile wholesale electricity market.

Large Capex Program: AEP's regulated and nonregulated electric generation capacity is largely coal based and faces increased environmental investment. AEP is also committing significant capital to new transmission projects. These investments will strain credit metrics over the 2013–2015 rating horizon. Fitch expects average annual capex through 2015 to be between $3.6 billion and $3.8 billion, significantly higher than historical levels.

Uncertainty Over Long-Term Leverage: The corporate separation order in Ohio will alter the capital structure at AEP with expected less-than-proportional debt retirement at OPCO, and additional debt at AEP and the newly formed independent generating business. New environmental regulations, lower capacity utilization factor, and a low electricity commodity price environment will adversely affect long-term performance of these assets.

Transferring Capacity to Regulated Subsidiaries: State regulatory approval of the transfer of more than 2,400 MW to AEP's two regulated subsidiaries — Kentucky Power Company (KPCO, BBB–/Negative) and Appalachian Power Company (APCO, BBB–/Stable) — at the net book value in a low power plant pricing environment is a strategy execution risk.

Rating Sensitivities

Negative Rating Actions: A sustainable decline in FFO-to-debt and FFO-to-interest ratios to below 3.5x and 16%, respectively, will result in a negative rating action.

Positive Rating Actions: A rating upgrade is unlikely at this time.

Financial Overview

Liquidity and Debt Structure

AEP has strong liquidity, with approximately $3.7 billion of total liquidity available under its respective credit agreements at March 31, 2013. The total liquidity includes $179 million of cash and cash equivalents, and $3.5 billion is available under $4.5 billion in consolidated revolving credit facilities, of which $1.75 billion is maturing in June 2016 and additional $1.75 billion will mature in June 2017. The remaining $1.0 billion in the credit facility established to fund OPCO maturities will expire in 2015. The current level of liquidity is sufficient to meets is short-term debt obligations — $1.8 billion due in 2013.

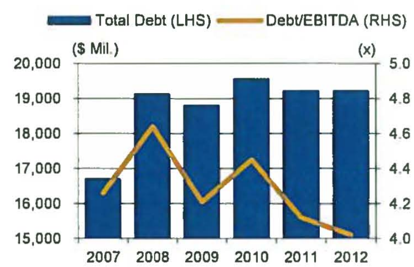
Debt Maturities and Liquidity

($ Mil., At Dec. 31, 2012)

Debt Maturities	
2013	1,792
2014	995
2015	1,405
2016	939
2017	1,724
Cash and Cash Equivalents	279
Undrawn Committed Facilities	2,798
Total Liquidity	**3,077**

Source: Company reports, Fitch analysis.

Total Debt and Leverage



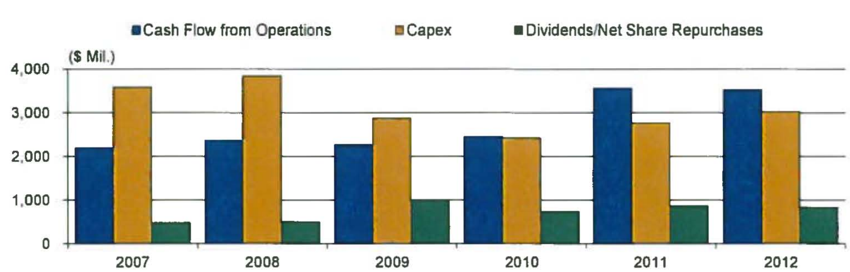
Source: Company reports, Fitch.

Cash Flow Analysis

Extension of the federal bonus depreciation rules helped consolidated cash flow from operations over the last two years, primarily by reducing the cash tax expenses at the utility level. Fitch financial models recognize the benefits from bonus depreciation on cash flows, but Fitch bases its financial forecasts and rating assignments on normalized depreciation and tax schedules.

Capex is set to increase with the implementation of more stringent environmental regulations for the coal plants and the dividend payout ratio over historical levels. The company will spend approximately $3.6 billion–$3.8 billion annually in capex on a consolidated level, of which

CFO and Cash Uses



Source: Company reports, Fitch.

Related Criteria

Corporate Rating Methodology (August 2012)

Short-Term Ratings Criteria for Non-Financial Corporates (August 2012)

Rating North American Utilities, Power, Gas, and Water Companies (May 2011) approximately $700 million will be spent on new transmission rate base annually. Fitch expects negative FCF will largely be debt financed.

Peer and Sector Analysis

Peer Group

Issuer	Country
BBB+	
Duke Energy Corporation	United States
BBB	
PPL Corporation	United States
BBB–	
FirstEnergy Corp.	United States

Source: Fitch.

Issuer Rating History

Date	LT IDR (FC)	Outlook/ Watch
Feb. 22, 2013	BBB	Negative
Feb. 27, 2012	BBB	Stable
Feb. 28, 2011	BBB	Stable
Jan. 26, 2010	BBB	Stable
Nov. 10, 2008	BBB	Stable
April 17, 2007	BBB	Stable
April 24, 2006	BBB	Stable
Dec. 6, 2005	BBB	Stable
March 11, 2003	BBB	Stable
Oct. 9, 2001	BBB+	Stable
June 1, 2000	BBB+	Stable

LT IDR – Long-term Issuer Default Rating.
FC – Foreign currency.
Source: Fitch.

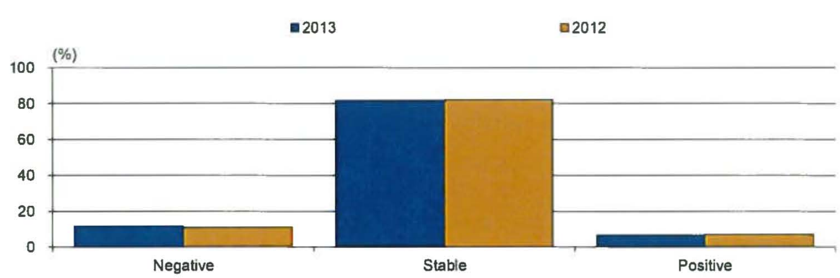
Peer Group Analysis

	American Electric Power Company, Inc.	Duke Energy Corporation	PPL Corporation	FirstEnergy Corp.
LTM as of	12/31/12	12/31/12	12/31/12	12/31/12
Long-Term IDR	BBB	BBB+	BBB	BBB–
Outlook	Negative	Stable	Stable	Stable
Financial Statistics ($ Mil.)				
Revenue	14,638	19,624	12,286	15,213
EBITDA	4,777	6,236	4,209	3,720
FCF	(419)	(2,009)	(1,191)	(1,655)
Total Adjusted Debt	19,225	39,264	17,760	19,652
Funds Flow from Operations	3,571	5,040	3,057	2,236
Capex	(3,025)	(5,501)	(3,120)	(3,004)
Credit Metrics (x)				
EBITDA/Gross Interest Coverage	4.23	4.17	4.15	3.54
Debt/FFO	5.38	7.79	5.81	8.79
Debt/EBITDA	4.02	6.30	4.22	5.28
FFO Interest Coverage	4.16	4.37	4.01	3.13
Capex/Depreciation (%)	172.96	230.75	283.64	201.07

IDR – Issuer Default Rating.
Source: Company reports, Fitch.

Fitch expects credit metrics for AEP to decline further with the implementation of the corporate separation order in Ohio, a large construction program at its utility subsidiaries, and a higher dividend payout ratio, reflecting the Negative Outlook. Duke Energy Corporation's IDR benefits from 2012 rate increases in the Carolinas, a 2013 rate increase in Florida, and a positive settlement for its integrated gasification combined cycle (IGCC) facility in Indiana, but credit metrics will remain aligned to its IDR even during increased environmental-related capital spending. PPL Corporation's IDR reflects the transition to a more stable and low-risk business profile and strong metrics for its current IDR. Environmental-related capex will remain a challenge over the rating horizon. First Energy Corporation's IDR was downgraded, reflecting regulatory changes in Ohio and additional risk from reliance on a more volatile merchant generation business for its cash flow needs.

Sector Outlook Distribution



Source: Fitch.

The Rating Outlook for AEP is Negative, reflecting regulatory changes in Ohio that will increase business and financial risk for AEP on a consolidated basis. Fitch's outlook for utility parent companies (UPC) is stable. UPCs with significant merchant generation operations and regulated utilities with significant wholesale sales will continue to face a challenging environment, with most regional power markets suffering from excess capacity and weak power prices.

Key Rating Issues

Corporate Separation Order in Ohio

In October 2012, the Ohio State Public Utility Commission (PUCO) approved OPCO's corporate separation order, under which it will transfer its generating assets at net book value to AEP Generating Resources Company (AEP Gen), a subsidiary of AEP. The transfer of largely coal-fired generating assets in a low electricity commodity price environment with increasing environmental compliance costs to AEP's nonregulated business will increased the business risk at AEP.

Ohio Plant Transfers and Termination of Interconnection Agreement

The AEP East Company received the Federal Energy Regulatory Commission's (FERC) approval in April 2013 for full separation of OPCO's generating assets from its distribution and transmission operations. The approval includes transfer of about 8,900 MW of generating capacity to AEP Gen. The company has also requested termination of an interconnection agreement and approval of a power coordination agreement between its subsidiaries APCO, Indiana Michigan Power Company (IMPCO), and KPCO, where each subsidiary will be responsible for acquiring its own power needs. KPCO's need for additional generating resources will be satisfied by the transfer of about 800 MW of capacity from OPCO.

Ohio Electric Security Plan

In January 2013, the PUCO upheld its August 2012 order, including implementation of retail stability rider (RSR). The PUCO issued a regulatory order in August 2012 adopting OPCO's modified new electric security plan (ESP) through May 2015. The ESP allowed the continuation of the fuel adjustment clause, adopted a 12% earnings threshold for significantly excessive earnings test (SEET), and established a nonbypassable distribution investment rider (DIR) with certain caps. The DIR is capped at $366 million through May 2015. As part of the ESP decision, the PUCO ordered OPCO to conduct an initial energy-only auction for 60% of the standard service offer (SSO) load with delivery beginning in June 2014 through May 2015.

Ohio Customer Choice

Retail competition was introduced in Ohio as part of the market restructuring. About 51% of its retail load had switched as of December 2012, representing approximately $235 million in gross margin from the loss of retail customers under the Ohio Customer Choice program. However, the financial impact was muted, as the lost margins are partially recoverable by collection of capacity revenue, off-system sales, deferral of unrecovered capacity, and RSR.

Securitization of Regulatory Assets in West Virginia and Ohio

West Virginia passed securitization legislation in March 2012 allowing the West Virginia Public Service Commission (WVPSC) to establish framework to securitize certain deferred expanded net energy charge (ENEC) balances and other ENEC-related assets. AEP's West Virginia subsidiaries have approximately $470 million in ENEC deferred balances. Intervenors recommended securitization of $370 million in January 2013, and company management is in settlement discussions with intervenors. The company's Ohio-based utility filed with the PUCO in August 2012 to approve a deferred asset recovery rider balance of about $287 million. Securitization of these assets will improve consolidated cash flows.

Organizational Structure

Organizational Structure — American Electric Power Co., Inc.
($ Mil., As of Dec. 31, 2012)

American Electric Power, Inc.
IDR: BBB

2.950% Sr. Unsecured Notes due 12/15/22	550
1.650% Sr. Unsecured Notes due 12/15/17	300

Appalachian Power Co.
IDR: BBB–

Floating Rate Sr. Unsecured Notes due 8/16/13	275
4.950% Sr. Unsecured Notes due 2/1/15	200
3.400% Sr. Unsecured Notes due 5/24/15	300
5.000% Sr. Unsecured Notes due 6/1/17	250
7.950% Sr. Unsecured Notes due 1/15/20	350
4.600% Sr. Unsecured Notes due 3/30/21	350
5.950% Sr. Unsecured Notes due 5/15/33	200
5.800% Sr. Unsecured Notes due 10/1/35	250
6.375% Sr. Unsecured Notes due 4/1/36	250
6.700% Sr. Unsecured Notes due 8/15/37	250
7.000% Sr. Unsecured Notes due 4/1/38	500
4.850% Pollution Control Bonds due 5/1/19	30
4.850% Pollution Control Bonds due 5/1/19	40
4.625% Pollution Control Bonds due 11/1/21	18
2.000% Pollution Control Bonds due 10/1/22	100
Floating Rate Pollution Control Bonds due 2/1/36	50
Floating Rate Pollution Control Bonds due 2/1/36	75
5.375% Pollution Control Bonds due 12/1/38	50
Adjustable Pollution Control Bonds due 1/1/41	65
Floating Rate Pollution Control Bonds due 12/1/42	54
Floating Rate Pollution Control Bonds due 12/1/42	50
Other Long-term Debt due 2026	2

Ohio Power Co.
IDR: BBB

5.500% Sr. Unsecured Notes due 2/15/13	250
5.500% Sr. Unsecured Notes due 3/1/13	250
5.750% Sr. Unsecured Notes due 9/1/13	250
4.850% Sr. Unsecured Notes due 1/15/14	225
6.000% Sr. Unsecured Notes due 6/1/16	350
6.050% Sr. Unsecured Notes due 5/1/18	350
5.375% Sr. Unsecured Notes due 10/1/21	500
6.600% Sr. Unsecured Notes due 2/15/33	250
6.600% Sr. Unsecured Notes due 3/1/33	250
6.375% Sr. Unsecured Notes due 7/15/33	225
5.850% Sr. Unsecured Notes due 10/1/35	250
Floating Rate Pollution Control Bonds due 7/1/14	50
5.150% Pollution Control Bonds due 5/1/26	50
2.875% Pollution Control Bonds due 12/1/27	39
4.900% Pollution Control Bonds due 6/1/37	65
3.875% Pollution Control Bonds due 12/1/38	60
5.800% Pollution Control Bonds due 12/1/38	32
Floating Rate Pollution Control Bonds due 6/1/41	79
5.100% Pollution Control Bonds due 11/1/42	56
3.125% Pollution Control Bonds due 6/1/43	86

AEP Texas Central Co.
IDR: BBB+

6.650% Sr. Unsecured Notes due 2/15/33	275
5.625% Pollution Control Bonds due 10/1/17	41
4.450% Pollution Control Bonds due 6/1/20	6
6.300% Pollution Control Bonds due 11/1/29	101
4.400% Pollution Control Bonds due 5/1/30	112
5.200% Pollution Control Bonds due 5/1/30	60
4.550% Pollution Control Bonds due 5/1/30	50
6.250% Securitization Bond due 1/15/16	192
4.980% Securitization Bond due 7/1/13	75
5.980% Securitization Bond due 7/15/13	67
5.090% Securitization Bond due 7/1/15	250
5.170% Securitization Bond due 1/1/18	437
5.306% Securitization Bond due 7/1/20	495
2.845% Securitization Bond due 2024	312
0.880% Securitization Bond due 2017	273
1.976% Securitization Bond due 2020	180

Southwestern Electric Power Co.
IDR: BBB–

5.375% Sr. Unsecured Notes due 4/15/15	100
4.900% Sr. Unsecured Notes due 7/1/15	150
5.550% Sr. Unsecured Notes due 1/15/17	250
5.875% Sr. Unsecured Notes due 3/1/18	300
6.450% Sr. Unsecured Notes due 1/15/19	400
3.550% Sr. Unsecured Notes due 2022	275
6.200% Sr. Unsecured Notes due 3/15/40	350
4.950% Pollution Control Bonds due 3/1/18	82
3.250% Pollution Control Bonds due 1/1/19	54
4.580% Notes Payable due 2032	63
6.370% Notes Payable due 10/31/24	25

AEP Texas North Co.
IDR: BBB+

5.500% Sr. Unsecured Notes due 3/1/13	225
5.890% Sr. Unsecured Notes due 4/1/18	30
6.760% Sr. Unsecured Notes due 4/1/38	70
4.500% Unsecured Debt due 2059	1
4.450% Pollution Control Bonds due 6/1/20	44

Indiana Michigan Power Co.
IDR: BBB–

5.050% Sr. Unsecured Notes due 11/15/14	175
5.650% Sr. Unsecured Notes due 12/1/15	125
7.000% Sr. Unsecured Notes due 3/15/19	475
6.050% Sr. Unsecured Notes due 3/15/37	400
Floating Rate Pollution Control Bonds due 10/1/19	25
Floating Rate Pollution Control Bonds due 11/1/21	52
5.250% Pollution Control Bonds due 4/1/25	40
6.250% Pollution Control Bonds due 6/1/25	50
6.250% Pollution Control Bonds due 6/1/25	50
6.250% Pollution Control Bonds due 6/1/25	50
1.913%–5.440% Notes Payable due 2013–2016	224
Other Long-Term Debt due 2015–2025	130

Public Service Co. of Oklahoma
IDR: BBB

6.150% Sr. Unsecured Notes due 8/1/16	150
5.150% Sr. Unsecured Notes due 12/1/19	250
4.400% Sr. Unsecured Notes due 2/1/21	250
6.625% Sr. Unsecured Notes due 11/15/37	250
5.250% Pollution Control Bonds due 6/1/14	34
4.450% Pollution Control Bonds due 6/1/20	13
3.000% Notes Payable due 12/1/25	7

Kentucky Power Co.
IDR: BBB–

6.000% Sr. Unsecured Notes due 9/15/17	325
7.250% Sr. Unsecured Notes due 6/18/21	40
8.030% Sr. Unsecured Notes due 6/18/29	30
5.625% Sr. Unsecured Notes due 12/1/32	75
8.130% Sr. Unsecured Notes due 6/18/39	60

Other Subsidiaries

AEP Generating Co.	NR
Trent Wind Farm LP	NR
AEP River Operations LLC	NR
Desert Sky Wind Farm	NR
DCC Fuel	NR
Sabine Mining Co.	NR

IDR – Issuer Default Rating. NR – Not rated. Note: Issuances in italics are securitization bonds not included in Fitch's analysis.
Source: Company filings, Bloomberg, and Fitch.

Definitions

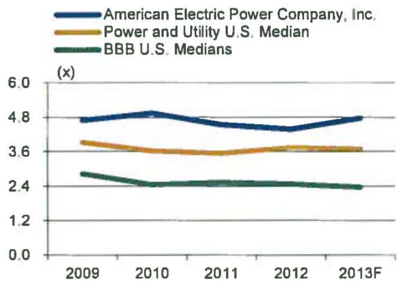
- Leverage: Gross debt plus lease adjustment minus equity credit for hybrid instruments plus preferred stock divided by FFO plus gross interest paid plus preferred dividends plus rental expense.
- Interest Coverage: FFO plus gross interest paid plus preferred dividends divided by gross interest paid plus preferred dividends.
- FFO/Debt: FFO divided by gross debt plus lease adjustment minus equity credit for hybrid instruments plus preferred stock.

Fitch's expectations are based on the agency's internally produced, conservative rating case forecasts. They do not represent the forecasts of rated issuers individually or in aggregate. Key Fitch forecasts assumptions include:

- Adjusted retail revenues 3%.
- Increased interest rate on new borrowings by 50 bps over the management assumption.
- Debt funded equity infusion in APCO and KPCO.
- $100 million in annual DRIP contributions was assumed.

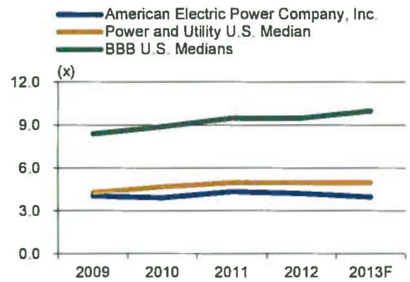
Key Metrics

Leverage: Total Adjusted Debt/ Op. EBITDAR



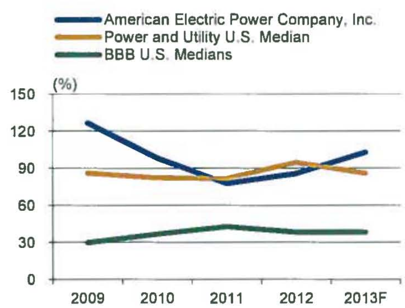
F – Forecast.
Source: Company reports, Fitch.

Interest Coverage: Op EBITDA/ Gross Interest Expense



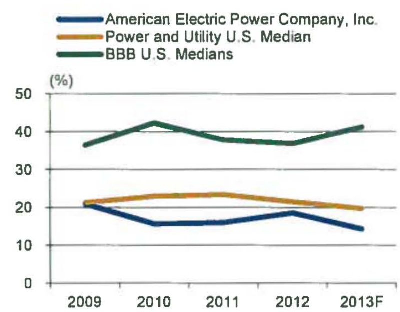
F – Forecast.
Source: Company reports, Fitch.

Capex/CFO



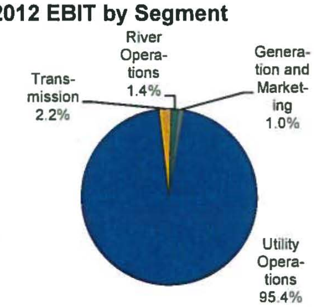
F – Forecast.
Source: Company reports, Fitch.

FFO/Debt



F – Forecast.
Source: Company reports, Fitch.

2012 EBIT by Segment



Source: Company data, Fitch.

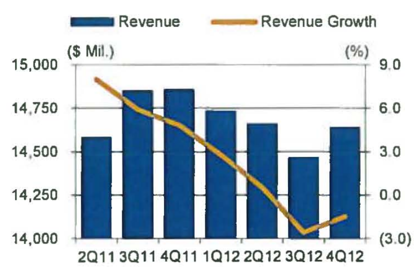
Company Profile

AEP is one of the largest investor-owned electric utility holding companies in the U.S. Its electric utility operating subsidiaries provide electricity generation, transmission, and distribution services to more than five million customers in Arkansas, Indiana, Kentucky, Louisiana, Michigan, Ohio, Oklahoma, Tennessee, Texas, Virginia, and West Virginia. The company owns and operates about 37,600 MW of generating capacity. The company also owns and operates a commodity transportation business with about 18 million tons of annual capacity.

AEP acquired BlueStar Energy Holdings, Inc. and its retail electricity supply business, BlueStar Energy Solutions, for $70 million in March 2012. The company operates as AEP Energy providing electricity to retail customers in Ohio, Illinois, and other nonregulated electricity retail markets.

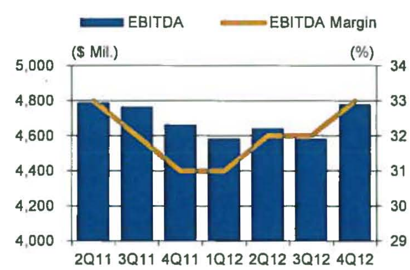
Business Trends

Revenue Dynamics



Source: Company reports, Fitch.

EBITDA Dynamics



Source: Company reports, Fitch.

Pension Analysis

Pension Analysis

(%)	2012	2011
PBO (Under)/Over Funded Status ($ Mil.)	(509)	(688)
Pension Funded Analysis	90.22	86.22
Estimated Pension Outflows/(FFO+Pension Contribution)	3.94	4.80

Source: Company reports, Fitch analysis.

Financial Summary — American Electric Power Company, Inc.

($ Mil., Fiscal Years Ended Dec. 31)	2008	2009	2010	2011	2012
Fundamental Ratios (x)					
FFO/Interest Expense	3.47	4.58	3.76	3.89	4.16
CFO/Interest Expense	3.17	3.06	3.20	4.33	4.12
FFO/Debt (%)	14.13	21.00	15.73	16.05	18.57
Operating EBIT/Interest Expense	2.35	2.57	2.44	2.80	2.68
Operating EBITDA/Interest Expense	3.76	4.06	3.94	4.36	4.23
Operating EBITDAR/(Interest Expense + Rent)	2.82	3.07	3.01	3.30	3.24
Debt/Operating EBITDA	4.64	4.21	4.45	4.12	4.02
Common Dividend Payout (%)	47.83	55.86	68.04	46.26	72.76
Internal Cash/Capital Expenditures (%)	45.80	55.19	71.07	102.03	88.16
Capital Expenditures/Depreciation (%)	249.35	175.46	145.38	165.99	172.96
Profitability					
Adjusted Revenues	14,193	13,238	14,173	14,858	14,638
Net Revenues	8,438	8,707	9,144	9,246	9,358
Operating and Maintenance Expense	3,925	3,825	4,274	4,104	4,077
Operating EBITDA	4,120	4,471	4,393	4,661	4,777
Depreciation and Amortization Expense	1,542	1,638	1,666	1,667	1,749
Operating EBIT	2,578	2,833	2,727	2,994	3,028
Gross Interest Expense	1,095	1,102	1,116	1,069	1,129
Net Income for Common	1,380	1,357	1,211	1,941	1,259
Operating and Maintenance Expense % of Net Revenues	46.52	43.93	46.74	44.39	43.57
Operating EBIT % of Net Revenues	30.55	32.54	29.82	32.38	32.36
Cash Flow					
Cash Flow from Operations	2,372	2,265	2,456	3,559	3,522
Change in Working Capital	(330)	(1,686)	(620)	473	(49)
Funds From Operations	2,702	3,951	3,076	3,086	3,571
Dividends	(666)	(761)	(827)	(900)	(916)
Capital Expenditures	(3,845)	(2,874)	(2,422)	(2,767)	(3,025)
FCF	(2,139)	(1,370)	(793)	(108)	(419)
Net Other Investment Cash Flow	155	20	11	156	(114)
Net Change in Debt	2,169	(442)	402	(104)	473
Net Equity Proceeds	159	1,728	93	28	83
Capital Structure					
Short-Term Debt	1,976	126	1,346	1,650	981
Long-Term Debt	17,151	18,683	18,212	17,572	18,244
Total Debt	**19,127**	**18,809**	**19,558**	**19,222**	**19,225**
Total Hybrid Equity and Minority Interest	31	31	30	1	—
Common Equity	10,693	13,140	13,622	14,664	15,237
Total Capital	**29,851**	**31,980**	**33,210**	**33,887**	**34,462**
Total Debt/Total Capital (%)	64.08	58.82	58.89	56.72	55.79
Total Hybrid Equity and Minority Interest/Total Capital (%)	0.10	0.10	0.09	—	—
Common Equity/Total Capital (%)	35.82	41.09	41.02	43.27	44.21

Source: Company reports, Fitch analysis.

The ratings above were solicited by, or on behalf of, the issuer, and therefore, Fitch has been compensated for the provision of the ratings.

FitchRatings

FITCH AFFIRMS AEP & SUBS; OUTLOOK REVISED TO STABLE FOR AEP, OHIO POWER, & KENTUCKY POWER

Fitch Ratings-New York-20 February 2014: Fitch Ratings has affirmed the ratings of American Electric Power Company (AEP) and its subsidiaries. Fitch has revised the Outlook to Stable from Negative for AEP and two of its subsidiaries - Ohio Power Company (OPCO), and Kentucky Power Company (KPCO). The Rating Outlook remains Stable for AEP's other operating subsidiaries. A complete list of rating actions is provided at the end of this release.

The revision of AEP's Outlook to Stable reflects successful completion of OPCO's transition to a wires-only company. The transition was achieved with lower than expected increase in AEP leverage. The regulator-approved transfer of 1,647 MWs of generation capacity at net book value to two of AEP's regulated subsidiaries has reduced the overall merchant risk for AEP. Fitch had expected the transfer of these assets at net book value to be challenging in the current depressed power pricing environment.

AEP management has publicly articulated a strategy for its competitive generating business that Fitch considers conservative. This mitigates, to some extent, the merchant risk and associated liquidity needs for AEP over Fitch's rating horizon. Fitch believes the consolidated business-risk profile for AEP will also improve with significant new investment in the transmission networks. The company plans to spend about $4.5 billion between 2014 and 2016 on the Federal Energy Regulatory Commission (FERC) regulated transmission networks which provides a contemporaneous return on investment. Current rate-base of regulated transmission companies is below $1 billion, excluding transmission related investment through Electric Transmission Texas, LLC (a joint venture) and integrated utilities.

For OPCO, the revision to a Stable Outlook reflects a moderate regulatory capital structure. The debt-to-regulatory capital ratio for OPCO remains moderate and the concurrent recovery of infrastructure investments through rate-riders also supports the Stable Outlook. Fitch had previously anticipated significantly higher regulatory debt-to-capital at OPCO due to lack of market support for the transfer price of generating assets.

The revision of KPCO's Outlook to Stable reflects the regulatory approval of its newly acquired generating capacity from an affiliate. In assigning the Negative Outlook, Fitch viewed regulatory approval of the new capacity critical for the assigned Issuer Default Rating (IDR), as KPCO's credit metrics would have deteriorated without any new cash flow with the retirement of its only baseload plant in 2015. Fitch's view was that the regulators may not approve the acquisition at the requested transfer price under the current power pricing environment and a long-term power purchase agreement -a viable alternative - would have further constrained the cash flows.

The Stable Outlook for other AEP subsidiaries reflects Fitch's view that subsidiary-level cash flows and regulatory capital structure would remain commensurate with their credit profiles. Fitch anticipates that each subsidiary would continue to timely file general rate increase application with the regulators and achieve constructive outcomes.

KEY RATING DRIVERS

Improving Business Risk Profile: Investment in the regulated transmission networks will help lower AEP's business risk profile. Fitch's assessment of the company's current risk profile also includes the expectation that AEP will conservatively manage its merchant generation business. Fitch believes power prices are unlikely to recover over the intermediate term. Long-term performance of these assets is expected to be affected by compliance with stricter environmental regulations, low capacity utilization, and a low electricity commodity price environment. A divesture of the competitive generation business, if undertaken by management, will be supportive of AEP's credit profile.

Large Capital Expenditure Program: Average capital expenditures are forecast to be about $3.8 billion annually through 2016, significantly higher than historical levels. Fitch expects capital expenditures to be funded with a combination of internal cash flow and debt. Negative free cash flow at the subsidiary levels will be financed with a mixture of cash flow from operations, debt, and equity infusion by the parent to maintain the regulatory capital structure. Regulated earnings from future investment in transmission networks provide offset to the lost earnings from the generation assets transferred by OPCO to the non-regulated affiliate.

Cash flow Diversity: AEP's earnings and cash flows are predominantly derived from eight regulated electric utilities in 11 separate but balanced regulatory jurisdictions and the FERC-regulated transmission networks. Liquidity is good and debt maturities remain manageable. Approximately 93% of AEP's consolidated EBITDA will be generated by its regulated businesses, including the FERC-regulated transmission networks.

Financial Metrics: AEP's historical credit metrics are in line with its current IDR. However, Fitch expects EBITDA-based credit measures to decline moderately through 2016 due to the absence of bonus depreciation-related cash tax benefit, continued depressed power prices, and high capital investment in the regulated rate-base. About 95% of new investment will be in the regulated businesses subject to either contemporaneous returns or a small regulatory recovery lag. Fitch forecasts EBITDA-based interest coverage to average between 5x and 5.5x and adjusted debt-to-EBITDA to be close to or slightly below 4x over the rating horizon.

OPCO: Fitch does not expect OPCO's credit metrics to be as robust as they have been historically given that deleveraging related to generating asset transfer has not been fully completed. Future cash flow will also be affected by the absence of bonus depreciation-related cash tax benefits. Fitch expects adjusted debt-to-EBITDA to decline slightly below 4x by 2016 and that EBITDA-based interest coverage, under Fitch's forecast, will be slightly higher than 4x for the same period. By 2016, these ratios will be within Fitch's rating guidelines for a wires-only, regulated utility.

KPCO: Beginning 2014, KPCO's credit metrics will benefit from a $44 million increase in its regulatory rates as partial compensation for its newly acquired coal plant. Fitch expects full recovery of the acquired plant-related non-fuel costs once its existing baseload capacity is retired in 2015. Fitch's expectations include adjusted debt-to-EBITDA-based leverage of 3.8x or lower by the end of 2016 and EBITDA-to-interest of 4.5x or higher for the same period. Fitch expectations are based on timely recovery of KPCO's ratebase-related investments.

Appalachian Power Company (APCO): APCO is an integrated utility with service territories in Virginia and West Virginia. Regulatory approval of 867MWs of new power generation capacity in 2013 and recovery of non-fuel costs should improve the company's credit protection measures. In affirming the IDR, Fitch expectations include adjusted debt-to-EBITDA of 3.8x or lower and EBITDA-to-interest staying above 4.3x over the rating horizon (2014-2016).

Indiana Michigan Power Company (IMPCO): A large capex over next three years, including life extension of its nuclear power plant for about $1.2 billion, will constrain the credit protection measures over the rating horizon. However, approval by the Indiana Utility Regulatory Commission to let IMPCO earn a contemporaneous return on its portion of the life extension costs is cash flow positive. Approval of the nuclear power plant life extension project by the Michigan Public Service Commission has also been a positive credit consideration in affirming the ratings. Fitch expects the company to timely file for regulatory rate increases to limit leverage and improve cash flow stability. Fitch expects adjusted debt-to-EBITDA will remain between 4x and 4.5x, but improve once it begins to earn cash returns on its rating period investments through increased regulated rates. EBITDA-to-interest over next three years will remain above 4x under Fitch's model.

Public Service Company of Oklahoma (PSO): With expected regulatory approval of the general rate increase request filed in January 2014, the company should achieve strong financial metrics that are within Fitch's guidelines for its current rating category. Adjusted debt-to-EBITDA and EBITDA-to-interest for PSO will remain between 3x and 3.5x and 5.3x and 5.9x, respectively, through 2016. Fitch expects PSO to maintain these measures through cost reduction and increased retail rates.

Southwestern Electric Power Company (SWEPCO): SWEPCO's future cash flow will benefit from approval recently approved general rate case in Texas and inclusion of its new generating capacity in Louisiana's formula base rate. Fitch expects adjusted debt to EBITDA and EBITDA to interest ratios to remain between 4x and 4.5x and 5.5x and 6.3x respectively over the rating horizon.

AEP Texas Central Company (AEPTC): AEPTC is an electric distribution company in Texas. Fitch expects EBITDA/interest expenses and adjusted debt/EBITDA to remain around 7x and 2.5x, respectively, over the rating horizon.

AEP Texas North Company (AEPTN): Like AEPTC, AEPTN benefits from a low risk profile and stable cash flows. Fitch expects EBITDA-to-interest expense to remain over 5.0x and adjusted debt-to-EBITDA to be between 3.2x and 3.5x, which are well within the current rating guidelines.

Strong Liquidity: AEP currently has approximately $3.5 billion of total liquidity available under its credit agreements, including $118 million of cash and cash equivalents. $1.75 billion of the consolidated revolving credit facilities will mature in July 2016, $1.75 billion will mature in July 2017, and the remaining $1 billion credit line established to fund OPCO maturities will expire in May 2015.

Manageable Maturities: Consolidated debt maturities over the next three years are manageable and include $1.140 billion in 2014, $2.145 million in 2015, and $1.105 billion in 2016. Maturing debt will be funded through a combination of internal cash flow and debt.

RATING SENSITIVITY:

Positive: An upgrade of AEP or any of its subsidiaries is considered unlikely given their current financial profile.

Negative: Future developments that may, individually or collectively, lead to negative rating action include:

--For AEP: Decline in EBITDA-based credit metrics on a sustainable basis with EBITDA/interest expenses declining below 4.3x and adjusted debt/EBITDA increasing to 3.5x or higher.

--For OPCO, AEPTN and APETC: Decline in the EBITDA-based credit metrics on a sustainable basis with EBITDA/interest expenses declining below 4.4x and adjusted debt/EBITDA increasing to 3.4x or higher.

--For all other rated operating subsidiaries: Decline in the EBITDA-based credit metrics on a sustainable basis with EBITDA/interest expenses declining below 3.9x and adjusted debt to EBITDA increasing to 3.8x or higher.

In addition, new environmental rules or significantly adverse changes to the regulatory framework of the individual regulated operating company could lead to a negative rating action. Significant increase in parent-level leverage to maintain a strong shareholder distribution policy remains a rating concern.

Fitch affirms the following ratings and revised the Rating Outlook to Stable from Negative:

American Electric Power Company
--Long-term IDR at 'BBB';
--Senior unsecured at 'BBB';
--Short-term IDR and commercial paper 'F2'.

Ohio Power Company (OPCO)
--Long-term IDR at 'BBB+';
--Senior unsecured and pollution control revenue bonds (PCRBs) at 'A-';
--Short-term IDR and commercial paper at 'F2'.

Kentucky Power Company (KPCO)
--Long-term IDR 'BBB-';
--Senior unsecured at 'BBB';

AEP Texas Central Company (AEPTC)
--Long-term IDR at 'BBB+';
--Senior unsecured and PCRBs at 'A-';
--Short-term IDR 'F2'.

AEP Texas North Company (AEPTN)
--Long-term IDR at 'BBB+';
--Senior unsecured at 'A-';
--Short-term IDR at 'F2'.

Appalachian Power Company (APCO)
--Long-term IDR at 'BBB-';
--Senior unsecured and PCRBs at 'BBB'.

Indiana Michigan Power Company (IMPC)
--Long-term IDR at 'BBB-';
--Senior unsecured and PCRBs at 'BBB'.

Public Service Company of Oklahoma (PSCO)
--Long-term IDR at 'BBB';
--Senior unsecured and PCRBs at 'BBB+';
-- Short-term IDR at 'F2'.

Southwestern Electric Power Company (SWEPCO)
--Long-term IDR at 'BBB-';
--Senior unsecured at 'BBB'.

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Additional information is available on www.fitchratings.com.

Applicable Criteria and Related Research:
--'Corporate Rating Methodology', dated Aug. 5, 2013.

Applicable Criteria and Related Research:
Corporate Rating Methodology: Including Short-Term Ratings and Parent and Subsidiary Linkage
http://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=715139