Pension Funding Considerations

August 24, 2010

Pension Contribution Considerations

- AEP is considering a contribution to the qualified pension plan of $300 to $400 million by year-end 2010
  - In addition to the current $150 million ($12.5 million per month) currently being contributed
- Financing for the contribution would come from short-term debt
- The contribution could be made evenly over the remaining months of the year or in a single amount
  - Contributions made prior to September 15 can reduce the plan's PBGC premium for 2010
    - Premiums saved would be roughly 1% of contributed amount ($350 million contribution would save about $3.5 million)
- The contribution would reduce future pension expense and future required contributions
  - The contribution is expected to eliminate the mandatory pension funding that would be required in 2011, currently $345 million
  - Pension expense for 2010 would not be affected, but 2011 expense would be reduced by $24 to $32 million (pre-tax, pre-capitalization)
- A $350 mm contribution would improve the funded status of the plan from 71% to 78% (on the accounting liability)
- We would expect to recover the amount of the contribution in rates

Pension Funding Forecast

$ in millions

Pension Cash Flow	2010	2011	2012	2013
Pension Funding Base Case	$150	$345	$334	$325
Pension Funding Pro Forma	$500	$0	$310	$325
Incremental change	$350	($345)	($25)	$0

Pension Expense	2010	2011	2012	2013
Pension Expense Base Case	$141	$174	$191	$216
Pension Expense Pro Forma	$141	$146	$189	$216
Incremental change	$0	($28)	($2)	$0

- Contributions shown in 2011 to 2013 are the expected amount of mandatory contributions under the Pension Protection Act
- Additional voluntary contributions made in 2011 would reduce mandatory contributions in 2012

- Pension funding amounts shown above are for the Qualified plan only. Non-Qualified SERP plan benefits are an estimated $6 - $7 million per year
- Amounts could change with fluctuations in interest rates, asset returns and actuarial assumptions